

Labor and Market in Modern Sector Economy A Case of Three Western Tarai Districts

*Uma Kant Silwal**

Abstract

This study was an attempt to examine the industrial and business situation and analyze the demand and supply of labor in the modern sector economy in three western Tarai districts –Kailali, Banke and Rupandehi. The study followed interview and discussions with employers' communities and skill training providers including record observations.

The findings of study indicate that industrial and business activities of the study areas were slow and weak due to market disruption of consumers' products. However residential house construction in the study urban areas was rapidly increasing due to migration of people from the hill districts as well as Tarai rural areas. Both of these were the results of internal conflict in the country. There was domination of Indian labor force due to the low skill level in Nepali labor force. At the same time, Nepali workers were not preferred by the industrialists and enterprisers due to the unfavorable legal provision to employers regarding the hiring Nepali workers. It is, however, reveals that the supply of skilled labor force was inadequate against the demand. There was more demand for trained workers in mechanical, electrical, house-wiring, carpentry, auto-repairing whereas supply was towards more unskilled and semi-skilled labor and skill which has not high demand in market.

Introduction

Existing data show that employment and GDP contribution of different sectors of the economy during the last decade has declining role of agriculture sector in both employment and GDP contribution. There is a more than 15 percent point from 81.2 to 65.7 shift of Nepali labor force from agriculture to other sectors of economy during the period between 1991 to 2001 (CBS, 2003). There is a large increase in the proportion of employed population in non- agricultural sector. The percentage increase over this period declined in agriculture sector whereas it increased in manufacturing, construction, trade, restaurant and hotels in the country.

* Dr. Silwal is Associate Professor, Central Department of Rural Development, TU, Kirtipur

It is a clear indication that employment opportunities in the non-agriculture sector were expanding during the last census period. This situation has resulted mainly due to adoption of liberalized market economic policy by the government after the restoration of multi-party democracy in 1990. Whatever employment opportunities that have been increased, they are mainly in unorganized sector and service sectors (FHD, 2002).

Due to absence of standard policy guidelines, private sector skill training programmes are overlapping and are producing poor quality workforce. The government has not yet prepared a clear-cut policy or created mechanism to administer or monitor such skill training programmes (UNDP, 2004). It has been realized that inadequate training and skill acquisition are among the root causes of economic vulnerability, poverty and social exclusion of many women, the long-term unemployed, minority groups and indigenous populations.

But majority of vocational training graduates in construction, electrical and electronics trade were unemployed because of a lack of adequate skills to perform the tasks. This situation prevailed also due to the cheap Indian workers occupying most of the skilled jobs in plumbing, mechanics, carpentry, electrical and tailoring (Sharma, 2005). Inability to link vocational education with labor market needs was one of the main causes of failure of vocational education in Nepal (Belbase, 1999) and lack of relevance, quality and efficiency were the major causes of low employment of TEVT graduates (Sharma, 1999).

In this context, an attempt was made to study the industrial and business situation and analyze demand and supply of labor in the modern sector of economy in the three western Tarai Districts of Nepal

Methodology

This study was basically focused in the major industrial and business areas of Western Tarai such as, Dhangadi of Kailali, Nepalgunj of Banke and Bhairahawa and Butwal of Rupandehi districts. Interview and discussion techniques were followed in the field survey in addition to record observation of employers' community associations and training providers. Before conducting field survey a review of available documents was made to be informed about the broader context and to develop a general understanding and knowledge of the labor and market in the modern sector economy.

a) Interview

An interview was conducted with two different categories of respondents by using interview schedule. There were a) employers' communities, such as, representative industries and enterprises of different types, hotels and construction, and b) training providers, such as CTEVT schools and other schools affiliated to CTEVT, District Offices of Cottage and Small Scale Industries, Skill Development Training Centers and other technical training schools located in Dhangadi, Nepalgunj and Bhairahawa/Butwal.

Table: 1 Number of Respondents of Two Categories in the Study Districts

Types of respondents	Districts		
	Kailali	Banke	Rupandehi
Employers community	15	16	19
Training providers	4	3	4

Before selecting the respondents, list of industries, enterprises, hotels and training providers were obtained. The representatives from different sectors were selected in consultation with officials of Chamber of Commerce and Industries of each study area.

B) Focus group Discussion

In order to get insight into the labor and market situation, focus group discussions were held in each study area. The participants of focus group discussion were the officials of different employers' organization, such as, Chamber of Commerce and Industries, Hotel Association, Federation of Cottage and Small Scale Industries, Contractors' Associations, skill training experts, and businessmen. A set of focus group discussion questioning routes was prepared in advance.

Findings

a) Industrial and Business Situation

The major industries in Kailali were related to food processing (rice mills, *dal* mills, flour mills and oil mills), *Kattha*, *Khadsari*, rosin and turpentine, wood and furniture, and stone crushing. Some 60 small and medium industries and 19 large industries were registered and renewed in Kailali Chamber of Commerce and Industries. A sugar mill in Kailali was closed recently due to insurgency and conflict. Industry owners admitted that industries were not running in full capacity due to disturbance of market for the products.

As recorded at District Office of Cottage and Small Scale Industries, Kailali, there were altogether 1046 cottage and small-scale industries in the district. As mentioned in the scheme of industry at the time of registration, a total of 9,157 people were employed in those industries. The officials however indicated that all the industries registered and renewed might not be in operation.

Hotel and restaurant business, however, was increasing due to the influx of population from hill districts and rural areas of Kailali. Any record of hotel and restaurant could not be collected since hotel organization of Kailali did not have good records. However, officials of hotel organization indicated that there were about 300 hotels and restaurants running in Dhangadi municipality.

According to current record of Kailali Chamber of Commerce and Industries, there were 2064 business enterprise members in Dhangadi which include 93 non-Nepali members.

The private house constructions in Dhangadi municipality were increasing rapidly due to the migration and displacement of people from outside. According to house construction approval record of Dhangadi municipality, the number of houses construction increased by 155 percent in the last 5 years period (from 253 in 2057 BS to 546 in 2061 BS). The annual house construction rate in Dhangadi municipality increased by 31 percent. As a result of increased house construction, there was an increased demand for brick production. A significant portion of the labor force was engaged in brick making.

The city of Nepalgunj in Banke district has been a major business and trade center of Mid-West and Far West development regions for decades. Nepalgunj has socio-economic linkages with all districts of these two regions. A number of government, non-government and international agencies have been established there to deliver socio-economic services in the districts of Mid-West and Far-West regions. Medicinal herbs, livestock, agricultural products and industrial products like, rosin and turpentine, *Kattha* and *Kachha*, and metal sheets were produced in Nepalgunj and exported to India. Various consumption goods were imported and supplied to the hill districts from this center.

After the establishment of Nepalgunj Industrial Estate in 1974, a number of agriculture and forest based industries and several other industries have been established in Nepalgunj. There were 71 small, medium and large industries registered with Nepalgunj Chamber of Commerce and Industries, which included 23 industries running in Nepalgunj Industrial Estate. It was found during the survey that 250 cottage and small industries were recorded in the Federation of Cottage and Small Industries, Nepalgunj. However, except food processing industries, all other types of industries were not in a position to run in full capacity due to disturbance in the market of the products due to the Maoist conflict.

A recent survey conducted by the Nepalgunj Hotel Organization recorded 600 small and big hotels and restaurants running in the urban areas of Banke. In addition to it, 804 business members were registered in Nepalgunj Chamber of Commerce and Industries. The CCI officials estimated that the number of business enterprises of various sizes running without registering with CCI was much higher.

Like in Dhangadi, house construction in Nepalgunj was increasing rapidly due to the migration and displacement of people from hill districts and rural Banke and Bardia. Actual record of house construction approval could not be collected from Nepalgunj Municipality during the field survey since Nepalgunj Municipality building was blasted by the rebels and most of the office records were damaged. When the researcher visited Nepalgunj Municipality office, its staff were working in the courtyard of the damaged buildings with some damaged tables and chairs. However, as estimated by the engineer of municipality, there has been an increase of house construction rate by 25 percent approximately every year in municipality area. A nearby town called Kohalpur had also seen a rapid increase in the construction of residential buildings. Thus, in Banke, the booming construction sector was employing a significant number of workers.

Rupandehi is an economically advanced district of Western Tarai. With two municipalities - Siddharthanagar and Butwal, several types of industries have been established in this district.

Some 288 small and medium industries and hotels, and 63 large industries were registered with the Siddharthanagar Chamber of Commerce and Industries. Similarly, some 200 industries were registered with Butwal Chamber of Commerce and Industries including 50 industries in Butwal Industrial Estate, which was established in 1976. In addition to it, 190 hotels and restaurants were registered in Butwal Hotel Organization. As recorded in Siddharthanagar Chamber of Commerce and Industries, there were 1438 business enterprises.

In recent years, some big industries like cement are also established but these cement industries run with labor and raw materials both imported from India. However, the expansion of industrial units was rapid in 25-kilometre range from Butwal to Siddharthanagar. The two sides of Butwal-Bhairahawa road were developing as economic corridor with the establishment of several production and service industries. The development of industrial corridor has been proposed at the east side of Tinaw River. The development of export promotion zone in Bhairahawa has been initiated by the government, which has acquired 50 Bigaha (35 ha. approx) of land for this purpose.

The pace of development of both export promotion zone and industrial corridor was very slow. Due to present conflict situation, industrial production and development activities was slow and weak. Some industries, like Gorkha Biscuits, Viswas Garment, Tribeni Distillery, Kausalya Iron, rice mills have closed down and many others were going to be closed down in near future. This happened due to the disturbance in marketing network of industrial products. Traders of hill villages were displaced due to imposition of forced donation of the rebels and a large number of consumers migrated to India or other urban centers of the country.

The residential construction work, however, was booming similar to Kailali and Banke. Due to security problem as a result of conflict in the country, people went to purchase a piece of land in a safe area where they could live. House construction approval number in Butwal Municipality office increased from 581 in 2058 BS to 1417 in 2062 BS. In Siddharthanagar municipality also about 700 house construction approvals were given every year. In addition to it, the house construction in four VDCs, like, Shankarnagar, Karahiya, Madhbaliya and Padsari, between Butwal and Siddharthanagar, from where highway passes through were increasing rapidly. Thus, the labor absorptive capacity in the construction sector was very high.

b) Labor Market

Traditionally, modern sector economy of Kailali heavily employed Indian labor force. Various industries based on agriculture and forest products were established by importing technology, machines, plants and skilled machine operators from India. Most of the skilled industrial labor force working in almost all the industries was from India. Even the hotels and restaurants were run by the Indian people. The trading of agricultural produces, like, paddy, rice, oilseeds, lentils are also under the control of Indian traders. The construction labor force was also imported from India. All types of construction labor force, like, mason, plumber, electrician, bar bender, shuttered, painter and even unskilled labor force are from India.

With the initiation of development activities in the district, a number of government and non-government agencies have started to provide skill training in different trades. This has contributed to the growth of skilled local labor force in the district. In addition, another development in the district was the training of Kamaiyas. After setting Kamaiya free in Mid-West and Far-west Tarai in 2002, a number of skill training programmes were conducted for freed Kamaiyas in the district. The Kamaiyas were being trained in a variety of skills.

During the field survey, many employers indicated that Nepali labor force was replacing the Indian labor force in many areas of employment. The representatives of Construction Contractors' Association stated that the Nepali labor force had been competing with the Indians in many skills of construction sector. However, the level of skill of Nepali labor force still remained low and the present level of skill could not replace all the Indian skilled labor in a short time.

Nepalgunj of Banke being the main commercial town bordering India, it has been a centre of a number of agriculture and forest based industries which were established in this town by Indian investors or in their collaboration. Similar to Kailali, technology and technical manpower to operate the industries were imported from India. As a result, there was a strong traditional domination of Indian labor force. Like in Kailali, most of the skill workers were imported from India. After reinstatement of democracy in 1990, a number of government, non-government and international agencies established their offices in Nepalgunj and started to provide variety of skill training to the local people. In 1994, the government established Bheri Technical School in Nepalgunj to prepare the basic and middle level technical manpower. There were also other government institutions like, District Office of Cottage and Small Scale Industries, and Vocational Education and Skill Development Training Centre conducting training. Besides, a number of NGOs and development agencies were providing skill training in Banke.

Despite efforts made for training of local skills there was still a significant proportion of Indian Labor force working in different industries and enterprises as reported by local stakeholders. The respondents admitted that Nepali labor force had only basic level training in many trades and could not displace Indian skilled workers.

In Rupandehi, industrialization and agricultural modernization was rapidly developing during the last decade. After the establishment of Butwal Technical Institute, a significant number of young people were trained in a variety of skills. In addition, the skill trainings were provided by various government, non-government and international agencies in a number of trades. Further, establishment of Butwal Industrial Estate was one of the reasons for increasing technical labor force in Rupandehi district. The trend of change in occupational structure of the districts was clearly discernible when the 1991 and 2001 census figures compared.

There was a decline of farm fish workers by more than 27 percent. There is a large shift of labor force from this group to other groups. This larger occupational shift of labor force is due to the rapid industrialization in Rupandehi district. However, there were still a significant number of Indian labor force working in various industries of the district as reported by

were a significant number of food processing industries in Banke. The awareness in food processing, packaging and preserving is increasing since Nepalgunj is a leading economic and business center of Mid-west and Far west development regions. Similarly, plumbing was also one important skill in Nepalgunj. In discussion with representatives of Construction Contractors' Association in Nepalgunj, they reported that there were over 80 percent labor forces with skill in plumbing trade from India. So training in plumbing trade for Nepali labor force would be important to replace the Indian labor force in future.

During the field survey, it was found that a significant number of Indian workers were employed in metal industry including metal furniture, metal fabrication and grill making. Similarly, furniture making and building construction activity were increasing. In discussion with community leaders and industrialists, it was reported that 70 percent of total carpenters and grill makers working in Nepalgunj were Indians. So the demand for skill types in carpentry and welding appeared to be high although these appear in fifth and sixth ranks.

The supply of labor force in Banke was similar to Kailali. In Banke also, the unskilled helper type labor force and semi-skilled ones are in extensive supply. Due to migration of labor population from hill districts and rural Banke, the supply of labor force was high in Nepalgunj. Similarly, as a result of organizing a number of skill training programs by several agencies in the district, a significant number of laborers have received training in a variety of trades but these trainings were of only basic level. This was the reason why semi-skilled labor force was available in Banke.

In Rupandehi the high demand for skill types was similar to Kailali and Banke. General electrical and general mechanical appeared in first and second rank. This was due to the similar nature of economic activities in these districts. At the same time, various modern economic activities were concentrated in these three districts. Such activities tend to have high demand for skills like mechanical and electrical trades.

Unlike low demand in Kailali and Banke, in Rupandehi demand for carpentry and masonry was high as they appeared in third and fourth priority areas. During the discussion with the representatives of Construction Contractors' Association it was revealed that more than 90 percent of carpenters and masons working in Rupandehi were the Indians. The other skill types in demand in Rupandehi were plumbing, off-season vegetable farming, and welding.

The supply scenario of labor force in Rupandehi is comparable to that of Kailali and Banke. The unskilled helper type labor force and semi-skilled laborers in different trades were available in Rupandehi. This situation was also due to the same reason as noted in case of Kailali and Banke. Migration of unskilled labor force from hill districts and rural Rupandehi on the one hand and only basic level training in various trades to many workers on the other resulted in supply of such labor in this district.

Regarding the supply of labor force, it was similar to all survey areas that un-skilled labor force was extensively available in this district. This was due to the migration of untrained labor force from rural area. Second to this, the skill in tailoring was available in the local market. This was because many women in urban area attended the training in tailoring which was not adequate for garment industries.

community leaders and training providers. There were some industries, like, cement factory, which exclusively employed Indian labor.

C) Demand and Supply of Labor in Modern Sector

In order to collect the information on demand for and supply of labor in the modern sector of three study areas, industrialists, enterprises, and training providers were interviewed and discussed. They were asked to identify different types of skills that were in local demand and available skills in the local market. During the field survey, all the above-mentioned stakeholders including chamber of commerce and industries, hotel associations, construction contractors associations were interviewed and consulted. The findings of the survey on supply of and demand for labor in the local market as reported by different respondent groups are presented below. This demand and supply situation analysis has been made exclusively in the context of Nepali laborers force. Wherever Indian laborers were employed in specific skills areas it was considered that there would be high demand for Nepali laborers.

In general, the supply of skilled labor was inadequate against the demand. There was more demand for trained workers in mechanical, electrical, house wiring, carpentry, auto-repairing, masonry and plumbing trades, whereas the supply was towards more unskilled labor, semi-skilled workers, tailoring, painting, hair-cutting, room boy, nursery and goat raising trades. This mismatch of demand and supply of skilled labor was observed in all the three districts surveyed.

In Kailali, general mechanical and general electrical trades were in much demand as reported by the highest number of respondents. These trades could be widely absorbed in a variety of sectors of economic activities. A significant number of Indian labor force was working in these trades. House wiring and carpentry trades were in the third and fourth rank order of priority as reported by the respondents. Due to expansion of electrification in settlements of urban areas as well as in the rural areas, this trade could have more demand in this district. Similarly, the demand for furniture in the urban areas is increasing. So, the skill in carpentry was in high demand in Kailali.

There were a number of skill types, like food processing, electronic repairing, veterinary technician, and plumbing which fall in lower priority. In Kailali, unskilled helper type labor and semi-skilled labor in different trades were available mostly. These types of labor force could not get employment in the market. The available skills, in areas like tailoring and painting were ranked in third and fourth order. There did not have much demand in the market. The other available skill types as ranked in lower order could not meet the demand of the market.

In Banke, the nature of demand and supply of different types of skills was not much different from Kailali. The general electrical and general mechanical trades were in high demand in Banke also. Due to similar nature of economic activity and domination of Indian labor force, like in Kailali, these trades were in high demand in Banke. However, the demand for skill in food processing and plumbing was in third and fourth rank order of priority. There

During the field survey, it was found that industrial and other economic activities were stagnant. The market network of industrial products was disturbed in the consumption areas since the traders and consumers fled from the villages due to conflict. Hence, the industries were not running in full capacities that could employ more labor force.

Regarding the issue of hiring Nepali or foreign labor force, especially in three surveyed Tarai districts, employers' community admitted their compulsion to hire foreign labors in industries and enterprises. They expressed that Nepali labor force was not competent compared to Indian labor force. They further pointed out various reasons for not preferring Nepali laborers, such as, Nepali laborers demanded high pay even with low skill level. They also complained about the existing labor act which is not favorable for industries and entrepreneurs to employ Nepali laborers. However, many employers were positive towards employing Nepali laborers if they were adequately trained and competent in skill to perform the job well.

Regarding the skill training, a number of governments, non-government and international institutions are providing training in a variety of trades in all study districts. TTPs, community leaders and employers' community say that training programs in various trades were only at the basic or introductory level. Furthermore, same persons got training in a number of trades since most of the institutions and organizations, except institutions under CTEVT, provided training free of cost. Some of the institutions also provide training allowance and or tiffin allowance to the trainees. It was interesting to note that many people attended various training programmes with the view to only receive training without any aim of getting job and in many cases only for tiffin allowance (Rs. 16 per day). Many of such trained persons remain unemployed in their area of training.

Conclusion

It has been clearly indicated from the study that Indian labor force was dominant in the modern sector economy of Western Tarai districts. This was happened due to incompetent level of Nepali labor force including unsuitable Labor Act for employer's community. Efforts, therefore, should be made in skill areas having sufficient demand for employment in the market. Employers' community should be consulted to identify the required level of skill types and training duration prior to organizing the training programmes. All the trainees should be compulsorily attached with an enterprise or industry for 1-3 months in order to have an on-the-experience. This will help the trainees to have work experience on the job.

There was complain by most of industrialists and entrepreneurs about unfavorable legal provision to employers regarding the hiring Nepali labor force. This was one of the crucial factors to have reluctance to provide job to them. Revision of legal provision, in consultation with stakeholders is felt urgent.

REFERENCES

- Belbase, L.N. (1999). 'National Vocational Training Centre: In Retrospect.' *TEVT Development Journal*, vol.4. Kathmandu. Pp 41-45.

- CBS (1993). *Population Census, 1991*. Kathmandu: Central Bureau of Statistics.
- CBS (1999) *Nepal Labor Force Survey, 1998/99. Statistical Report*. Kathmandu: Central Bureau of Statistics.
- CBS (2003). *Population Census, 2001*. Kathmandu: Central Bureau of Statistics.
- FHD (2002). *Study of Explore Linkage between Training and Employment*. Kathmandu: Foundation for Human Development.
- NPC (2002). *Tenth Five Year Plan 2002-07*. Kathmandu: National Planning Commission.
- Sharma, S.R. (2005). 'New Direction for Skill Training'. *TEVT Development Journal*, Vol. 1(9). Kathmandu. Pp. 109-125.
- Sharma, T.N. (1999). *The Role of Technical Education and Vocational Training in the Broader Perspective of Nepal's Employment and Training System*. Unpublished Ph.D. Dissertation. SIU, USA.
- UNDP (2004). *Nepal Human Development Report 2004. Empowerment and Poverty Reduction*. Kathmandu: United Nations Development Programme.