On the back of the earthquake that struck Nepal in 2015, economic growth declined from 5.9 per cent in 2013/14 to 2.7 per cent in 2014/15 and 0.6 per cent in 2015/16. In terms of the impact on the labour market, estimates suggest that 5.6 million workers were affected by the earthquake, impacting livelihoods and reducing incomes. Despite the slight dip in out-migration in 2015, the lack of decent work opportunities at home continues to push people to seek employment abroad, continuing Nepal’s growing reliance on remittances for growth. Considering the enormous challenge of job creation at home, Nepal could use the earthquake as an opportunity to create decent work. Nepal’s development strategy for job creation could be driven by: i) public efforts at retaining would-be migrants for reconstruction, while attracting skilled Nepali workers from the Gulf Cooperation Council (GCC) countries and Malaysia; ii) industrial policy to revive manufacturing and exports for job growth, with a push towards better public infrastructure; and iii) better promotion of the tourism sector for employment creation.

The 2015 earthquake resulted in $7 billion in losses, affecting 8 million lives

The 7.6-magnitude earthquake and more than 300 aftershocks claimed close to 9,000 lives and more than 20,000 injuries. Estimates suggest that eight million people, close to one-third of the total population, were affected by the earthquake. The devastation was widespread as 14 out of 75 districts were badly hit, while 17 others were partially affected. Furthermore, private and public infrastructure was severely damaged, crippling lives and hampering delivery of public services.

### Overview

On the back of the earthquake that struck Nepal in 2015, economic growth declined from 5.9 per cent in 2013/14 to 2.7 per cent in 2014/15 and 0.6 per cent in 2015/16. In terms of the impact on the labour market, estimates suggest that 5.6 million workers were affected by the earthquake, impacting livelihoods and reducing incomes. Despite the slight dip in out-migration in 2015, the lack of decent work opportunities at home continues to push people to seek employment abroad, continuing Nepal’s growing reliance on remittances for growth. Considering the enormous challenge of job creation at home, Nepal could use the earthquake as an opportunity to create decent work. Nepal’s development strategy for job creation could be driven by: i) public efforts at retaining would-be migrants for reconstruction, while attracting skilled Nepali workers from the Gulf Cooperation Council (GCC) countries and Malaysia; ii) industrial policy to revive manufacturing and exports for job growth, with a push towards better public infrastructure; and iii) better promotion of the tourism sector for employment creation.

### The 2015 earthquake resulted in $7 billion in losses, affecting 8 million lives

The 7.6-magnitude earthquake and more than 300 aftershocks claimed close to 9,000 lives and more than 20,000 injuries. Estimates suggest that eight million people, close to one-third of the total population, were affected by the earthquake. The devastation was widespread as 14 out of 75 districts were badly hit, while 17 others were partially affected. Furthermore, private and public infrastructure was severely damaged, crippling lives and hampering delivery of public services.

### Table 1: Key economic and labour market indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2001/14</th>
<th>2015/16</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP growth rate (%)</td>
<td>6.0</td>
<td>0.6</td>
</tr>
<tr>
<td>GDP per capita (US$)</td>
<td>725</td>
<td>752</td>
</tr>
<tr>
<td>Gross national savings (% of GDP)</td>
<td>45.7</td>
<td>43.0</td>
</tr>
<tr>
<td>Gross fixed capital formation (% of GDP)</td>
<td>23.5</td>
<td>25.0</td>
</tr>
<tr>
<td>Exports of goods and services (% of GDP)</td>
<td>11.5</td>
<td>10.7</td>
</tr>
<tr>
<td>Imports of goods and services (% of GDP)</td>
<td>40.8</td>
<td>39.4</td>
</tr>
<tr>
<td>Workers’ remittances (% of GDP)</td>
<td>27.7</td>
<td>32.1</td>
</tr>
<tr>
<td>Employment (thousand)</td>
<td>9,463</td>
<td>11,779</td>
</tr>
<tr>
<td>Unemployment (thousand)</td>
<td>178</td>
<td>253</td>
</tr>
<tr>
<td>Labour force participation rate (%)</td>
<td>85.8</td>
<td>83.4</td>
</tr>
<tr>
<td>Unemployment rate (%)</td>
<td>1.8</td>
<td>2.1</td>
</tr>
<tr>
<td>Share of employment in manufacturing (%)</td>
<td>5.8</td>
<td>6.6</td>
</tr>
<tr>
<td>Share of employment in agriculture and forestry (%)</td>
<td>76.0</td>
<td>73.9</td>
</tr>
<tr>
<td>Share of paid employees in total employment (%)</td>
<td>16.0</td>
<td>16.9</td>
</tr>
<tr>
<td>Youth unemployment rate, aged 15-24 (%)</td>
<td>2.4</td>
<td>3.5</td>
</tr>
<tr>
<td>Poverty head count rate (%)</td>
<td>30.9</td>
<td>25.2</td>
</tr>
<tr>
<td>Gini coefficient</td>
<td>0.41</td>
<td>0.33</td>
</tr>
</tbody>
</table>


### Figure 1: GDP per capita, 2015 (current $) and average annual GDP growth, 2000-15 (per cent)


According to the Post Disaster Needs Assessment (PDNA) Report, the earthquake and the after-shocks completely damaged more than 500,000 private houses and partially damaged another 270,000 houses (14 per cent of all houses in Nepal). Likewise, close to 1,000 government buildings were destroyed and another 3,000...
partially damaged. According to the Ministry of Education, more than 7,000 classrooms were completely destroyed. The sheer scale of the disaster, the worst since 1934, has had an enormous economic and labour market impact on the country – $7 billion in damages and losses, affecting 5.6 million workers. This has further impoverished a nation with average annual income of $732 in 2015, higher than only Afghanistan among South Asian countries (figure 1).

**Remittances have doubled in little over 5 years, boosting savings but investment is stagnant**

On the heels of a massive increase in labour migration abroad, remittances flowing into Nepal as a share of GDP doubled from 14.9 per cent in 2005/06 to 32.1 per cent in 2015/16 (figure 2). Close to 50 per cent of Nepalis rely on financial help from relatives abroad, among the highest rates in the region. The top-five destinations for Nepali migrant workers are Malaysia (40.9 per cent), Saudi Arabia (22.9 per cent), Qatar (20.3 per cent), United Arab Emirates (11.2 per cent) and Kuwait (2.1 per cent).

**Exports and manufacturing have faltered, showing signs of “premature deindustrialization”**

Alongside declining investment, the export sector in Nepal has continued to be of little of significance to economic growth. In fact, exports as a share of GDP declined from 17.7 per cent in 2001/02 to 8.9 per cent in 2010/11 and 10.7 per cent in 2015/16. Moreover, exports as a share of GDP in Nepal are the lowest in the region, considerably less than in neighbouring Bangladesh (22.9 per cent), China (31.3 per cent) and India (24.6 per cent).

The decline in Nepal’s export sector comes on the back of the lack of growth in manufacturing. The gross value added of the manufacturing sector as a share of GDP (in constant 2000/01 prices) declined from 8.2 per cent in 2001/02 to 6.3 per cent in 2013/14. Recent global evidence from developing economies point towards the risks of automation and technological advancement leading to “premature deindustrialization”. However, in Nepal it is in fact the lack investment in industry and manufacturing that has led to this phenomenon.

**Most employment is in low productivity sectors in rural areas, incidence of informality remains high, while child labour is prevalent**

According to the last labour force survey (LFS), which was conducted in 2008 when the population was 23.5 million compared to 26.5 million in 2011, the labour force comprised of 12 million people with a participation rate of 83.4 per cent at the national level – 87.5 per cent for men and 80.1 per cent for women. The employment rates were also quite high – 85.5 per cent for men and 78.5 per cent for women. However, there were considerable differences between rural and urban areas. For example, in rural areas there were fewer men (4.7 million) in the labour force than women (5.6 million). Most of the ‘missing men’ from rural areas were in the GCC countries (and Malaysia) for work. Meanwhile, the difference between male and female employment and unemployment were largely an urban phenomenon – in rural areas the gap was negligible.

The agricultural sector employed most workers (73.9 per cent) in Nepal. Furthermore, women workers were more likely to be employed in agriculture than men – 84.3 per cent compared to 62.2 per cent. Also according to the 2008 LFS, wage employment accounted for 16.9 per cent of total employment while self-employment accounted for 83.1 per cent. Informal employment within non-agricultural employment stood at 69.7 per cent in 2008;
including agriculture, it was 96.2 per cent. Most of the agricultural sector consisted of subsistence farming with very low productivity. Lastly, the incidence of child labour was quite high in Nepal. 11 per cent of boys and 15 per cent of girls aged 5-9 were already in the labour force, and the comparable ratios were 47.2 per cent of boys and 58.7 per cent of girls aged 10-14.

**Labour migration continues to increase as Nepalis are attracted by the prospects of better income despite the risks**

In 2011, 1.9 million Nepalis lived abroad, around 8.3 per cent of the total population.\(^7\) In 2013/14, 519,638 labour permits were granted by the Government of Nepal for workers who wanted to leave their home to work abroad (figure 3).\(^8\) In 2008/09, the number of labour permits granted was 219,965, suggesting an increase of more than double in merely five years. A lack of decent employment opportunities, particularly in rural areas of Nepal, and the prospects of higher earnings abroad entice Nepalis to migrate for work. According to the Department of Foreign Employment, on average the salary of Nepali migrant workers ranges from $190 to $900; the highest salary is found in the Republic of Korea, while the lower salaries are found in the GCC countries.

**Figure 3: Rapid rise in labour permits issued to migrant workers from Nepal, 1994-2014**

![Figure 3](image-url)

Note: Reflects annual total figures.
Source: Department of Foreign Employment, Ministry of Labour and Employment, Government of Nepal.

As highlighted by the plight of construction workers in the GCC countries, Nepali migrants face enormous risks when they engage in foreign employment. Besides not being paid on time, working in difficult conditions, being exposed to harassment and abuse such as passports being taken away by employers, Nepali migrants have been dying in ever greater numbers than before. According to the Government of Nepal, 726 migrants died abroad in 2013, which was an increase of 100 persons over the previous year. Furthermore, Amnesty International has indicated that many of the deaths were due to cardiac arrest, which is odd given that the young men that go to the GCC countries tend to be between 20 and 44 years of age.\(^9\)

**The earthquake pushed an estimated 2.5–3.5 per cent of Nepalis into poverty, reversing the downward trend over the last two decades**

Due in part to the rapid growth in remittances, poverty rates in Nepal have declined since the 1990s, despite slow growth and the intervening years of insurgency. Data from the National Living Standards Survey (NLSS) reveal that the poverty rate fell from 41.8 per cent in 1995/96 to 30.8 per cent in 2003/04, before dropping to 25.2 per cent in 2010/11.\(^10\) As expected, there is considerable variation in poverty rates across regions and groups. Poverty is lower in urban areas (15.5 per cent) versus rural areas (27.4 per cent).

However in the aftermath of the earthquake in 2015, estimates suggest that 2.5 per cent to 3.5 per cent of Nepalis fell into poverty in 2015/16, which translates into 700,000 additional poor.\(^11\) Most of the increase in poverty will take place in rural areas – Central hills and mountains – which include the 14 hard-hit districts by the earthquake.

**To create decent work, first there is a need to attract migrants to "rebuild Nepal", leveraging increased access to finance**

A lack of adequate employment opportunities at home and chronic political instability have led young men and women of the most productive age groups to look for economic opportunities abroad. The difference in monthly income between the GCC destinations and Nepal is sizeable enough that people take debts and endure hardships to find employment abroad. However, given the risks to lives and separation from family (particularly after the earthquake), the pay gap is not insurmountable. The newly established National Reconstruction Authority (NRA) could introduce public reconstruction programmes to keep would-be migrants at home. Furthermore, given that there are fewer men than women in rural parts of Nepal, it will be imperative for any rebuilding efforts to put in place a programme to attract young men abroad to return home. These men tend to be better skilled due to their experience in the construction sector in GCC countries.
Due to the steady inflow of remittances, the number of banks and financial institutions has increased tremendously in the last ten years, extending to even some of the most remote parts of the country. Currently, there are 1,245 branches of commercial banks throughout Nepal. According to the NLSS, between 2003/04 and 2010/11, there was an increase of 12 percentage points in the share of households needing less than 30 minutes to reach the nearest financial institution. Furthermore, there has been a reduction in lending rates for firms in Nepal, which could also benefit would-be migrant workers who decide to stay home and start their own business. Here the ILO could provide much needed help in promoting entrepreneurship for creating decent work.

**Second, the country needs new industrial policy to promote manufacturing and export sectors**

As noted earlier, exports as a share of GDP have declined since the early 2000s, in sharp contrast to other countries in the region. This comes despite the progress made in financial development. For example, the inflation-adjusted lending rate in Nepal is below zero. Firms are not willing to expand and grow despite the low cost of capital, which is mainly due to the political instability in the country. Given the scale of reconstruction efforts needed in Nepal, it is important to use this opportunity to revive the manufacturing sector which has been in decline since the early 2000s and put in place a new industrial policy for development. This will help reverse the trend in “premature deindustrialization” and generate formal employment opportunities.

Meanwhile, given the damage to the hydropower projects due to the earthquake – 14 are reported to have been damaged resulting in a loss of 150 MW of electricity – it is important to continue investing in realizing the full potential of hydropower in Nepal. Currently, the Nepal Electricity Authority (NEA) distributes 564 MW, which includes 210 MW imported from India. Given that more than 75 per cent of enterprises in Nepal report a lack of (or unreliability of) electricity as a major constraint to firm growth – compared to only 32 per cent of the firms in India, for example – it is absolutely vital to continue making investments in hydropower. This could form the cornerstone of industrial progress in Nepal.

**Third, the tourism sector needs a revival for job creation and growth**

Given the enormous potential it brings to the country, the receipts from tourism remain low. According to the World Travel and Tourism Council, tourism contributed only 4.3 per cent of Nepal’s GDP in 2012, lower than the world average of 5.2 per cent. For example, in countries such as Thailand and the Lao People’s Democratic Republic, tourism contributed 7.3 per cent and 5.3 per cent of GDP, respectively. Given the number of World Heritage Sites and the concentration of high mountains (eight out of the ten tallest mountains in the world), Nepal has untapped potential for revenue generation through better development of the tourism sector.

Currently, nearly a million people in Nepal are directly or indirectly employed through tourism, although this could be much higher had the sector been better developed. Nepal could use the earthquake as an opportunity to rebuild and develop some of the most visited trekking routes in the Himalayas, which would prove crucial for rural households that have been affected by the earthquake.

**For further information please contact**

ILO Country Office for Nepal  
P.O. Box No. 8971  
Dhobighat - Nayabato, Lalitpur  
Kathmandu, Nepal  
Email: KATHMANDU@ilo.org  
Tel.: + 977 1 5555 777, 5550 691  
Fax: + 977 1 5550 714

---

1. This update was prepared by Sameer Khatiwada, Employment Specialist, of the Decent Work Technical Support Team for East and South-East Asia and the Pacific, with contributions from Richard Howard, Richard Horne, Phu Huynh, Georgia Thebault and Sher Verick.
3. The GCC countries include Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates (UAE).
5. CBS: Nepal in Figures 2015, op. cit.
8. A large majority (94.4 per cent) were men and only 5.6 per cent were women.
10. The poverty line is based on the cost of basic needs approach, which provides a level of expenditure required by an individual to fulfill his/her basic needs in terms of both food and non-food items. See: Nepal CBS: Poverty in Nepal 2010-11 (Kathmandu, 2011).