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“Formalization from Below”: Enhancing Social Security for Decent Work in Nepal

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Employment without Security: The Crisis of Nepal’s “Working Poor”

In the context of developing countries like Nepal, where unemployment insurance and comprehensive social protections are scarce, standard measures of open unemployment fail to capture the true scale of labour distress. Instead, the prevalence of informal employment serves as a more accurate indicator of economic vulnerability. According to the Nepal Labour Force Survey (NLFS) 2017/18, 84.6 percent of the total workforce is engaged in informal employment, with 22 percent of them working informally within the formal sector.¹ This means that only around 15 percent of the employed have access to social security. Informality is deeply gendered with 90.5 percent of employed women in informal employment compared to 81.1 percent of men.² These workers are typically hired without formal contracts, leaving them excluded from social security and denied essential benefits such as paid or sick leave.

Informality is associated with poverty and low income. Among those in informal employment, 18.04 per cent are poor [national poverty line at NPR 72,908], while this proportion is only 2.98 per cent among those in formal employment.³ Likewise, among the wage or salaried workers in informal employment, 51.31 per cent of workers earned wage below the minimum wage in 2018, with this proportion rising to 56.21 per cent in 2023.⁴ The proportion of female informal workers earning below the minimum wage was significantly higher: 75.68 per cent of female informal wage workers in 2018 earned below the minimum wage, rising to 77.25 per cent in 2023, while this proportion was 41.62 per cent in 2018 and 45.73 per cent in 2023 among the male informal wage workers.⁵ Therefore, workers in informal employment face significant wage disparities, forcing workers to endure low pay and precarious conditions without a reliable safety net.

Formalization of the economy remains a strategic priority for the Government of Nepal. To this end, the Ministry of Labour, Employment and Social Security (MoLESS) has implemented the National Action Plan on Formalization (2022–2025) and drafted the National Strategy on Formalization. These initiatives are central to the 16th Periodic Plan (FY 2024/25–2028/29) and the National Employment Policy, aligning with SDG Target 8.3.1 and ILO Recommendation No. 204 regarding the transition from the informal to the formal economy.

In this context, this policy brief examines informality from a labour perspective, outlining the current status of informal employment, with a specific focus on paid care work, particularly domestic workers. It analyses national policy priorities against the persistent implementation gaps

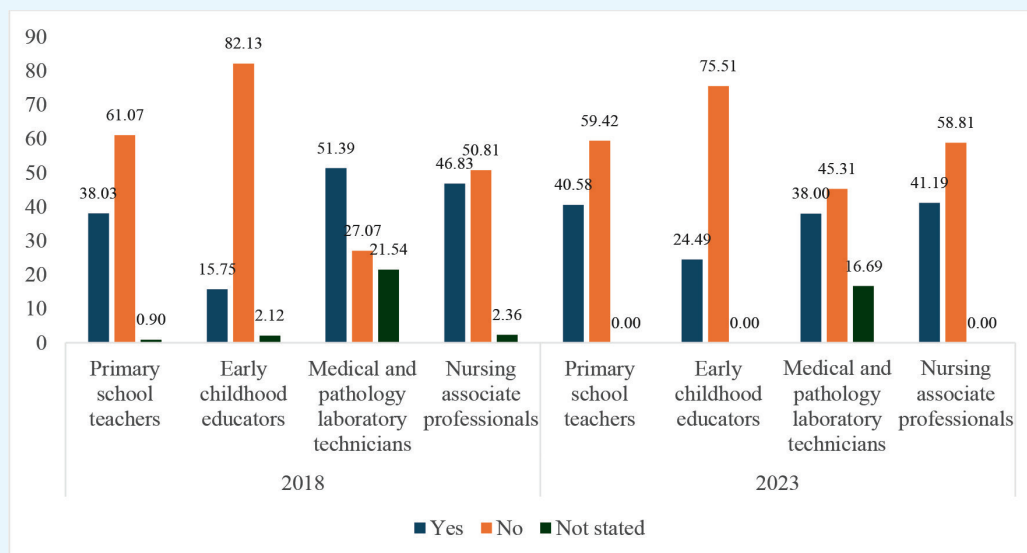
that prevent informal workers from accessing the contribution-based social security programme recently tailored to include them. The brief presents a call to action for “formalization from below,” arguing that formalization of the economy must prioritise the protection of labour over capital-centric models that focus primarily on enterprise registration. It argues that formalization should begin with the provision of legal recognition of informal workers achieved through labour registration at the local municipal level, followed by immediate extension of social security benefits. This approach aims to bridge the divide between the high-level policy formulation and the precarious reality of the informal workforce, supported by recommendations for financing social security to ensure their sustainable participation.

Paid care work in Nepal

Demographic shifts, including smaller household size, increasing proportion of aging population, rapid urbanisation, and the huge migration of working-age adults, are likely to reduce the availability of unpaid family caregivers, increasing the demand for paid care and domestic workers. Therefore, paid care work will be an important source of employment, especially for women, in the coming decades as well.

Paid care work in Nepal includes diverse occupations within the service sector, including primary school teachers, early childhood educators, nursing professionals, and domestic workers. Despite their essential roles, there is a significant deficit of decent work among these workers. Even in sectors traditionally viewed as formal, such as health and education, there is considerable gap in the implementation of minimum wage,⁶ access to social security and paid leaves (see Figure 1 and Figure 2). These disparities are reflective of broader national trends, where only 15 percent of all employees are covered by social security and a mere 17.2 percent are entitled to paid sick leave.⁷

Figure 1 Entitlement to social security among care employees (in per cent) in 2018 and 2023

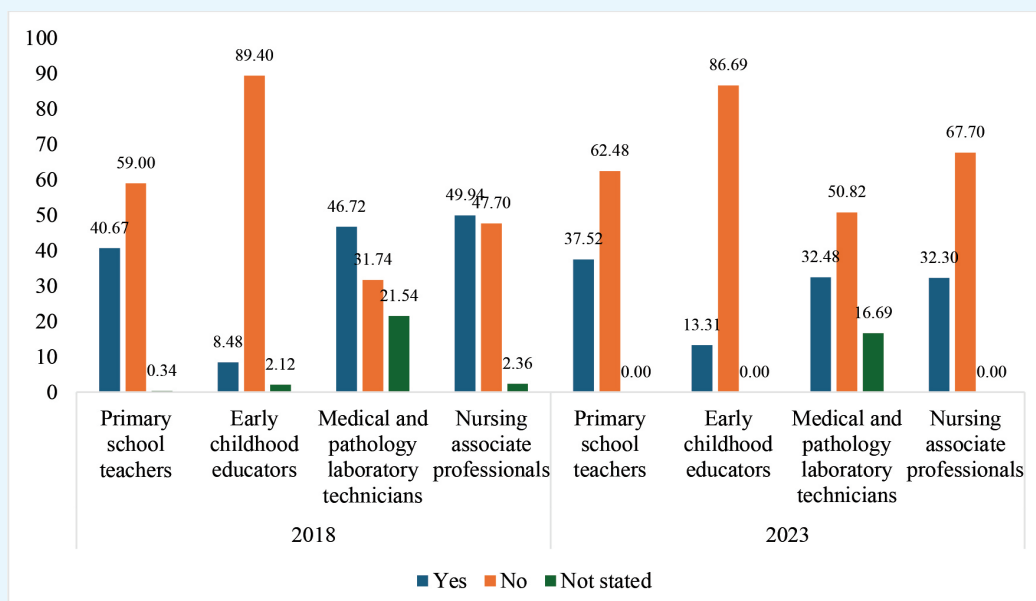


Source: Author’s estimation based on NLFS 2017/18 and NLSS 2022/23

In the case of domestic workers, a joint study by Women in Informal Employment: Globalizing and Organizing (WIEGO) and International Domestic Workers Federation (IDWF) (2020) estimated that 250,000 domestic workers perform paid care work in Nepal.⁸ However, this figure does not account for the many Nepali migrant domestic workers performing the similar type of work in the Gulf States, Hong Kong, Korea, Lebanon, and Israel. The paid domestic work sector, predominantly composed of women, is largely informal, with women often working in multiple places and consequently having multiple employers with varied time commitments. Likewise, except for cases where the outsourcing company is involved as an intermediate, the employment relationship in most cases is not bound by a written contract but is limited to a verbal agreement, making it challenging to

enforce employers' commitments regarding remuneration and benefits. In addition, paid domestic care work is observed to be associated with cases of labour rights abuses. The majority of paid domestic workers are women who have migrated from rural areas, who often face gender-based violence and sexual harassment while working in the informal care economy under poor working conditions and for low wages.⁹

Figure 2 Entitlement to sick leave among care employees (in per cent) in 2018 and 2023



Source: Author's estimation based on NLFS 2017/18 and NLSS 2022/23

The Implementation Gap: The Divide between Policy Guarantees and Practice

The Constitution of Nepal 2015, under Article 34, explicitly guarantees that “every labourer shall have the right to appropriate remuneration, facilities and contributory social security”. This mandate is further reinforced by the Constitution’s directive policies, which guide the state to “guarantee social security, while ensuring the basic rights of all labourers, in consonance with the concept of decent labour”.

The current Sixteenth Periodic Plan (FY 2024/25–2028/29) identifies “productive employment, decent jobs and sustainable social security” as a primary sector for structural transformation.¹⁰ Most notably, the plan, in alignment with SDG 8 (decent work and economic growth), sets an ambitious target to expand the reach of basic social security and protection schemes, aiming to increase the covered population from the baseline of 32 percent to 60 percent.

The Government of Nepal enacted the Contribution-based Social Security Act 2017 to operationalise the constitutional requirements on workers’ social security. This Act facilitates the implementation of social security schemes through a contributory model involving employees and employers, with the state providing support in specific instances. Currently, the Social Security Fund (SSF) has operationalised contributory schemes that cover medical care, maternity, employment injury, invalidity, dependent family, sickness, and old-age benefits, covering seven of the nine minimum standards established by ILO Convention no. 102 (the other two that SSF does not cover are “unemployment benefit” and “family benefit”). Importantly, with the aim of incorporating workers in informal employment into the social security scheme, the government enacted the Social Security Schemes Operational Directives, 2018, allowing informal workers and the self-employed to voluntarily participate in the Social Security Fund (SSF) by making contributions for at least three months a year.¹¹ Specifically, the Informal and Self-Employed Sector Social Security Scheme Operating Procedures, 2022¹² require workers in informal employment to contribute 11 per cent of the basic minimum monthly wage (NPR 1,339), while the federal, provincial, or local government contributes 9.37 per cent (NPR 1,140), enabling them to enrol in the SSF.¹³ Notably, the provision requiring coordination among the three tiers of government to deposit partial contributions on behalf of informal workers aims to incentivise formalisation, recognising the irregular nature of work and low incomes in informal employment.

The implementation of social security policies in Nepal, however, faces two primary obstacles: the state's constrained financial capacity to complement informal workers' contribution to the Social Security Fund, and the systemic difficulty of integrating the workers in informal employment into the contributory social security framework. Current state finances are under significant strain, with the government operating under a treasury deficit and relying on loans to cover basic operational costs, as the debt-to-GDP ratio has surpassed 43 percent. While a 1 percent Social Security Tax (SST) is levied on the lowest wage/ salary income slabs specifically to finance social security, these funds have not been utilized for their intended purpose.

The Informal and Self-Employed Sector Social Security Scheme Operating Procedures (2022) has envisioned the regular state contribution of 9.37 percent of the basic monthly minimum wage to the Social Security Fund (SSF) for informal workers' enrollment in the contributory social security framework. However, the procedures stipulate that if federal, provincial, or local governments do not provide the expected 9.37 percent co-contribution, the worker must bear the combined contribution of 20.37 percent themselves [11 percent plus 9.37 percent]. This significantly increases the informal workers' cost of joining the contributory social security framework.

Beyond financial constraints, a fundamental implementation gap exists regarding the incorporation of the workers in informal employment into the contributory Social Security Fund (SSF). The workers in informal employment often lack regular income and fixed employers, and hence, making regular contributions to the scheme is challenging to receive the uninterrupted coverage due to which its attraction among the informal workers is minimal. The current SSF enrollment data underscores this massive disparity in coverage: as on 26 February 2026, out of 2,833,908 total contributors, the vast majority – 2,150,054 individuals – are migrant workers in foreign employment for whom enrollment is mandatory; only 682,182 workers engaged in formal employment are currently contributing; and most strikingly, the reach into the informal and the self-employed workers is negligible, with only 855 informal workers and 817 self-employed individuals currently enrolled.¹⁴

The problem is further compounded by the possibility of an affordability challenge in joining the contribution-based SSF. Between 2018 and 2023, the mean real wages of informal workers eroded from NPR 585 to NPR 546.¹⁵ Furthermore, while 52 percent of informal workers earned less than the current minimum wage in 2018, this proportion rose to 56 percent in 2023.¹⁶ Such low earnings demonstrate that for the majority of Nepal's informal workforce, voluntary participation in a contribution-based scheme is economically challenging without significant state intervention and the actual utilization of collected social security taxes.

Nevertheless, efforts have been made in recent times to integrate informal workers, including domestic workers, into SSF (see Box 1 for the challenges in integrating domestic workers into the SSF). On October 4, 2023, the Social Security Fund issued correspondence to 753 local governments (in 77 districts) of the country, urging them to facilitate the inclusion of the workers in informal employment into the SSF through labour registration and through making partial contributions on behalf of the workers. It is the responsibility of the local government to register informal workers and recommend them to the SSF. Accordingly, numerous municipality and village councils have already entered into agreements with the SSF to implement provisions for incorporating informal sector workers into the Fund (see Box 2 for the efforts made by Budhanilkantha Municipality towards registration of informal workers). However, the registration drive is yet to expand nation-wide.

Bridging the Policy Gaps

Advancements in technology have catalysed the rise of new forms of work, especially in urban areas, that fall outside the ambit of traditional employer-employee relationship. Platform workers, such as drivers for Pathao and InDrive or delivery personnel, use their own vehicles, maintain flexible schedules, and are compensated on a per-task basis. Despite this apparent independence, they remain structurally dependent on online platforms to access customers, while algorithms dictate compensations and monitor performance through automated rating systems. Within

the Labour Act 2017, there is no recognition of this group, labelled as “dependent contractors” following the 18th International Classification of Status in Employment (ICSE-18) manual.¹⁷ These workers occupy a precarious middle ground: they bear the financial risks of self-employment but possess the limited autonomy typical of employees, and the lack of legal recognition leaves them unprotected.

The Labour Act 2017 contains specific, albeit limited, provisions for domestic workers under Section 88. While the Act empowers the government to establish a separate minimum remuneration for this sector, this authority is yet to be exercised in practice. Furthermore, Section 88(3) legally permits employers who provide food, shelter, or educational assistance to deduct the costs of these services directly from the worker’s remuneration. This provision creates a legal loophole that complicates the enforcement of fair pay. Because the government has not fixed a specific minimum wage for domestic work, these allowed deductions make it nearly impossible to verify if live-in domestic workers are receiving the national minimum wage. Consequently, a disparity has emerged within the sector: live-out workers, who often serve multiple employers, frequently earn above the minimum threshold; in contrast, live-in domestic workers, whose roles are characterised by blurred boundaries between labour and personal time, often receive only subsistence benefits such as food, transportation allowances, and occasional gifts.

Nepal has yet to ratify critical international instruments, specifically ILO Conventions C189 (Domestic Workers) and C190 (Violence and Harassment), which are essential for protecting domestic workers from systemic exploitation. Consequently, the substantive protections championed by these conventions are not yet fully integrated into the Labour Act 2017. The International Labour Organization (ILO) Convention No. 189, also known as the Domestic Workers Convention, was adopted in 2011 to enhance the working and living conditions of domestic workers globally. It recognises domestic workers as employees entitled to equal rights, including fair terms of employment, reasonable working hours, and rest days. The Convention emphasises minimum age standards, social security access, and the right to form trade unions. Likewise, ILO Convention No. 190 on Violence and Harassment in the World of Work was adopted in 2019 with the objective of addressing and preventing violence and harassment in the world of work. Ratifying countries must commit to aligning their laws with these provisions. Although the Government of Nepal (GoN) endorsed the passage of C189 in the International Labour Conference in 2011, it has not ratified the Convention (Pemba Lama, personal communication, 17 December 2023). The GoN has also not ratified the C190. The reason often provided for non-ratification is that the state is still studying the implications of ratification, particularly amidst resource constraints to meet the obligations outlined in the Convention (ibid.).

Box 1 Challenges in Integrating Domestic Workers into Contributory Social Security Fund

The incorporation of domestic workers into the Social Security Fund (SSF) faces several obstacles, the important one being an affordability barrier where meagre salaries, often falling below the national minimum wage, leave workers unable to sustain the mandatory 11 percent monthly deduction. This financial burden is compounded by the provision that if federal, provincial, or local governments do not provide the expected 9.37 percent co-contribution, the worker must bear the entire 20.37 percent contribution alone, a cost that typically exceeds their total savings.

This constraint is further exacerbated by the provision in Labour Act 2017, which permits employers to deduct the costs of food and shelter from a worker’s remuneration in the case of live-in domestic workers. This provision posits much challenge for live-in domestic workers to secure the surplus income necessary for fund their participation in the SSF.

While domestic workers hired through outsourcing agencies often benefit from matching employer contributions and formal documentation, those recruited through informal networks frequently lack the written contracts or labour registration document required for SSF. In the recent times, although municipal labour desks are intended to facilitate registration, local governments often prioritise the registration of permanent resident workers, effectively excluding migrant domestic workers in urban centres from being legally acknowledged as “workers” and accessing the possible benefits from SSF.

Box 2 Registration of Informal Workers: Budhanilkantha Municipality's Experience

Budhanilkantha Municipality has pioneered a local-level model for worker formalization by establishing a dedicated Labour Desk under the Budhanilkantha Municipality Labour Desk Operation Procedure 2021. This initiative aims to systematically collect and update data on the status, number, and skills of formal, informal, and self-employed workers residing within the municipality.

The number of informal workers registered in the municipality has reached 1,932. In FY 2024/25, the municipality conducted a **registration campaign** that could successfully register **1,400 informal workers in a single fiscal year**. The registration process is **free of cost** and results in the issuance of **official identity cards**, which serve as a critical first step for workers to be legally acknowledged by the state.

Besides keeping an updated database of resident workers and providing skill verification, a central objective of the Labour Desk is to facilitate workers' enrolment in the contribution-based Social Security Fund (SSF). The desk is also mandated to monitor the implementation of the minimum wage and serve as a platform for social dialogue to resolve labour-related grievances. The desk is managed by a Steering Committee led by the Deputy Mayor, with representation from ward officials (including a 50 percent female quota), trade unions, and business associations.

While the Labor Desk Operation Procedure, 2021 primarily focuses on registration and does not detail the municipality's role as an intermediary for industry placement or the local government's co-contributions to support worker participation in the Social Security Fund (SSF), the initiative nevertheless offers a scalable blueprint for "formalization from below," demonstrating how municipal labour desks can effectively bridge the gap between precarious informal employment and the national social protection framework.

Source: Kedarnath Kumar Khadka, Economic Development Division, Budhanilkantha Municipality, personal communication, December 13, 2025.

Strengthening the Revenue Base: Taxation and Programme Integration

With negligible enrolment – currently totalling only 855 informal workers and 817 self-employed individuals – and irregular contribution patterns¹⁹ despite the existing policy interventions, it is evident that the integration of informal workers into a contributory framework will falter without significant state support. However, the state faces substantial constraints in co-financing these schemes. The national treasury is under severe strain, with revenue collection failing to meet targeted budgets and the government resorting to internal and external debt. Despite these fiscal hurdles, there are viable pathways for the state to support the informal workers' integration into the SSF: progressive taxation and a single-door channelling of the existing spread-out social security programmes.

The country could implement progressive taxation on a wider tax base. Specifically, local governments can bring the wealth and income of higher-earning groups under the tax bracket to co-finance contributions for informal workers, thereby strengthening the state's revenue base for social security. While the local governments have been levying property taxes and rental income, bringing more wealth (property) under the tax bracket and imposing progressive taxation rates (rather than the current flat rate) could generate additional revenue to finance the social security programmes.

Another approach could be the integration of social security programmes currently spread across federal, provincial, and local tiers. In FY 2023/24, the federal government spent 181.67 billion Nepali rupee on different social security programmes, accounting for 13.04 percent of actual federal expenditure.²⁰ In this context, a study by the National Planning Commission reports that 18 different federal government agencies manage more than 80 separate social security schemes, many of which are further topped-up by subnational governments.²¹ This fragmentation leads to extensive duplication. By integrating these resources into a one-door mechanism, the state could maximise limited funds to universalise social security. In addition, as stated earlier, utilizing the 1 percent Social Security Tax (SST) for its actual purpose would further provide support in building a robust, sustainable safety net for all citizens.

Calls to Action

While nearly 50 percent of non-agricultural enterprises are registered,²² the proportion of informal employment in Nepal remains staggering at 84.6 percent. This disparity indicates that while capital-centric strategies, such as tax exemptions, financial rewards, and procedural simplification, may successfully formalize economic units, they fail to formalize the workforce itself. In other words, merely formalizing enterprises/ establishments does not guarantee protections for the workers, nor does it ensure a complete transition to a formal economy. To achieve the objectives of the 16th Periodic Plan and SDG 8.3.1, Nepal must emphasize the formalization of workers; therefore, this policy brief advocates for “formalization from below,” a labour-centric approach arguing that formalization must begin with the legal recognition of workers through their integration into the social security programmes. To address the associated barriers, this policy brief presents the following calls to action:

On policy reforms

- Amend the Labour Act 2017 to include and define “dependent contractors/ platform workers,” such as those in the ride-sharing and delivery sectors, to legally recognise them as workers and provide protections.
- Reform provisions in the Labour Act 2017 that allow employers to deduct costs for food and shelter from a worker’s remuneration, which currently obscures the enforcement of the minimum wage for live-in domestic workers.
- Ratify ILO Conventions C189 (related to decent work for domestic workers) and C190 (related to workplace violence and harassment) to align national legislation with global rights-based frameworks.
- Align all national formalization strategies with ILO Recommendation No. 204, thereby ensuring that the transition is rights-based and gives due consideration to labour rights, social protection, and decent work.
- Institutionalise the 5R framework (Recognize, Reduce, Redistribute, Reward, and Represent) in national care and gender policies to transform care work into decent work.

On labour registration

- Establish dedicated labour desks in all local units to systematically register informal workers and issue official identity cards. Ensure that municipal registration programs do not discriminate based on permanent residency, allowing migrant domestic workers in urban centres to be legally recognised and enrolled in social protection.

On fiscal reforms

- Integrate the 80+ separate social security programs currently spread across several federal line ministries and agencies into a single, efficient framework to enhance allocative efficiency and eliminate duplication.
- Direct the 1 percent Social Security Tax toward its “actual purpose” by subsidising the 9.37 percent matching SSF contribution for informal workers who cannot afford the full 20.37 percent contribution rate.
- Empower local governments to utilize progressive taxation on wealth and income targeting the high net worth groups with the purpose of co-financing social security for the working poor within their jurisdictions.

Endnotes

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- 14 *Social Security Fund (2026).* Government of Nepal. <https://ssf.gov.np/>. Accessed on 06 March 2026.
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- 16 *Ibid.*
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