

**Country Paper**  
**The Federal Democratic Republic of Nepal**  
**2026**

**Rethinking the Formal-Informal Divide:  
Securing Labour Rights and Dignity in  
Nepal's Informal Economy**

**Prepared by**  
**Sugat Bhattarai**



P.O Box 8130, 288 Gairidhara Marg, Gairidhara, Kathmandu, Nepal  
Phone: +977-1-4004976, 4004985  
Fax: +977 -1- 4004508, 4443494  
[saape.network@gmail.com](mailto:saape.network@gmail.com)

## Introduction

Nepal's labor economy is overwhelmingly characterized by informality, making informal employment the dominant mode of work and economic survival rather than a marginal exception. According to the Report on the Nepal Labour Force Survey (NLFS) 2017/18, a staggering 84.6% of the total workforce is engaged in informal employment. This sweeping statistic reveals the extent to which primary economic activity occurs entirely outside formal regulatory protections and state-mandated social safety nets. Crucially, this crisis is not confined to the unorganized margins of the economy, where approximately 22% of these workers are employed informally directly within formal sector enterprises. This means that only about 15% of all employed individuals in Nepal have reliable access to statutory social security. The vast majority remain structurally excluded from secure written contracts, guaranteed labor rights, occupational safety frameworks, and retirement pensions.

Rather than functioning as a temporary or residual sector awaiting modernization, the informal economy constitutes the structural foundation upon which much of Nepal's domestic market depends. Informality deeply permeates major economic sectors such as agriculture, construction, transport, street vending, and small-scale urban services, all of which act as structural shock absorbers for surplus labor. The persistence of high informality levels reflects the clear limitations of Nepal's formalization policies. Despite the historic rollout of statutory labor reforms, including the Labour Act 2017 and the Contribution-Based Social Security Act 2017, the actual reach of formal labor protections remains narrow.

The inability of current policy frameworks to absorb workers into secure, formal employment demonstrates deep structural constraints within the broader political economy. These constraints include low domestic industrialization, fragmented labor markets, a heavy reliance on subsistence self-employment, and weak state enforcement capacity. The gap between legal recognition and material implementation is especially evident in social security coverage. Millions of workers remain entirely outside contributory protection systems. This reveals that institutional formalization policies have largely benefited elite workers already integrated into secure corporate or civil service roles while leaving the broader, unorganized workforce completely untouched.

Importantly, the persistence of informality should not be interpreted simply as a governance failure or a temporary developmental lag. Informality has become structurally embedded within Nepal's political economy because it lowers labor costs for employers, transfers economic risks onto workers, and enables businesses to maintain operational flexibility during periods of economic instability. In this sense, informal labor is not external to capitalist accumulation but central to it. Formal enterprises frequently depend on unprotected labor arrangements to sustain profitability, particularly in low-productivity sectors where profit margins remain narrow. Consequently, informality functions not merely as an absence of regulation, but as an active labor regime that systematically reproduces precarious work and social inequality.

This paper argues that Nepal's existing formalization model remains excessively enterprise-centric, prioritizing business registration and investment facilitation while failing to adequately address labor insecurity itself. Genuine formalization cannot be reduced to the expansion of tax registration systems or corporate compliance procedures alone. Instead, labor formalization must begin with the recognition of workers as rights-bearing citizens entitled to social protection,

minimum wages, workplace dignity, and collective bargaining rights regardless of the legal status of their employers. In this context, the paper advances the idea of “formalization from below,” a labor-centered approach that emphasizes worker registration, localized social protection mechanisms, and universal labor guarantees as the foundation for decent work.

## **Sectoral Dependencies and Workplace Vulnerabilities**

To accurately analyze the roots of wage precarity and regulatory failure in Nepal, it is essential to examine the direct operational linkages between different parts of the economy. In practice, the formal corporate economy and informal labor arrangements are closely intertwined. Formal enterprises frequently utilize outsourcing, subcontracting, and unregulated labor classifications to maintain operational flexibility, lower overhead costs, and reduce long-term financial liabilities. By keeping specific labor arrangements unorganized or informal, companies and large estates legally bypass the costs of providing healthcare, paid leave, termination benefits, and statutory minimum wages. In Nepal, these labor practices create a distinct hierarchy of workplace vulnerability across different sectors:

1. **Urban Gig Platforms (Digital Precarity):** Technology firms maximize operational flexibility by utilizing regulatory loopholes, misclassifying core workers as independent contractors to strip them of basic employee status and workplace protections.
2. **Tea Plantation Estates (Agrarian Precarity):** Formally registered agricultural operations use historical quota systems to tie compensation entirely to physical output rather than standard working hours, cutting payroll costs during low-yield cycles.
3. **Paid Care and Domestic Labor (Invisible Precarity):** Private households operate as unregulated workplaces, leveraging legislative gray zones to depress take-home pay far below statutory survival thresholds.

Ultimately, this landscape demonstrates that informality in Nepal is not simply a matter of compliance failure or a lack of business registration. It is an established economic dynamic where formal enterprises regularly draw upon an unprotected, highly flexible, and heavily utilized informal workforce to manage their operations.

In many cases, informality also serves as a mechanism for transferring broader macroeconomic instability directly onto workers. During periods of inflation, declining industrial growth, or market contraction, employers can rapidly reduce labor costs by cutting working hours, lowering wages, or terminating workers without compensation because informal arrangements rarely provide enforceable legal protections. As a result, informal workers effectively absorb the social costs of economic crisis. This dynamic became especially visible during and after the COVID-19 pandemic, when thousands of workers across urban service sectors lost employment overnight without severance protections, unemployment benefits, or access to emergency welfare support.

The crisis exposed how heavily Nepal's urban economy relies on a workforce that remains economically essential but institutionally invisible.

## **Methodology**

This paper utilizes a policy-grounded research design employing secondary data triangulation to analyze the intersection of informal labor and fiscal policy in Nepal. The study relies on three primary data layers:

- National quantitative datasets, specifically microdata trends from the Nepal Labour Force Survey (NLFS 2017/18) and the Nepal Living Standards Survey (NLSS IV 2022/23), to establish wage trajectories and poverty headcounts.
- Real-time administrative metrics extracted directly from the Social Security Fund (SSF) Monthly Progress Reports up to early 2026 and macro-fiscal data from the Office of the Auditor General.
- Targeted sectoral analysis of three qualitative case studies (gig platforms, tea plantations, and domestic work) drawing from institutional briefs to map specific legislative loopholes.

Beyond statistical analysis, the paper also adopts a structural political economy perspective to understand why informality persists despite decades of policy reform and legal modernization. Rather than viewing informal employment as a separate “traditional” sector isolated from the formal economy, the analysis treats formal and informal labor arrangements as interconnected components of a single economic system. This framework allows the paper to move beyond narrow compliance-based explanations and instead examine how labor precarity is actively reproduced through institutional arrangements, fiscal priorities, and uneven power relations between employers and workers.

## **Sectoral Realities and the Dynamics of Labor Exploitation**

### **The Realities of the Gig Economy**

The rapid growth of the digital gig economy represents a prominent shift in Nepal's urban labor market. Rather than modernizing labor relations, platform-based work has engineered a unique form of workplace precarity. Platform workers, such as ride-sharing drivers and delivery personnel, utilize their own assets and maintain flexible schedules, which superficially positions them as independent operators. Despite this apparent independence, they remain structurally and financially dependent on online platform monopolies. Algorithms dictate their compensation scales, control market access, and continuously monitor performance through automated, punitive rating systems.

Within the Labour Act 2017, there is zero legal recognition for this massive segment of the workforce, which modern international standards classify as "dependent contractors". These workers occupy a highly precarious middle ground: they bear all the financial risks of self-employment but possess the limited autonomy typical of subordinate employees. By leaving them

legally invisible, the formal platform economy directly extracts economic value from this flexible workforce while completely externalizing operational risks and bypassing statutory minimums.

The expansion of platform labor also reflects broader transformations occurring within Nepal's urban economy. High youth unemployment, declining industrial job creation, and the growth of app-based service sectors have pushed many workers into gig labor as a survival strategy rather than a genuine entrepreneurial choice. For many ride-share drivers and delivery workers, platform work represents one of the few immediately accessible sources of cash income in urban centers. However, because compensation is task-based and highly volatile, workers frequently endure excessively long working hours merely to sustain basic living costs. The burden of fuel costs, vehicle maintenance, accidents, insurance, and depreciation is transferred almost entirely onto workers themselves, while platform companies retain centralized control over pricing systems and commissions.

### **The Quota System in Tea Plantations**

Traditional agricultural sectors employ deeply entrenched structural mechanisms to depress wages, which is highly evident among Nepal's tea plantation workers. Large, industrial tea estates operate as formal, legally registered corporate entities, yet their underlying labor relations are heavily informalized. Workers are uniformly subjected to a "piece-rate" system, where daily compensation is tied strictly to rigid crop-plucking weight quotas.

This payment structure effectively insulates plantation owners from statutory minimum wage laws; during off-seasons, extreme weather, or poor harvest cycles, workers fail to meet corporate quotas and are paid sub-minimum wages for full days of intensive physical labor. Lacking written contracts and formal oversight, these workers face high rates of working poverty within fully formalized corporate chains.

The plantation economy additionally demonstrates how historical labor hierarchies continue to shape present-day labor relations in Nepal. Tea estates often rely on geographically isolated communities with limited economic alternatives, weakening workers' bargaining capacity and reinforcing long-term dependence on plantation management. Women constitute a significant proportion of plantation laborers, particularly in tea-plucking activities, yet they remain concentrated in low-paying and labor-intensive roles with limited opportunities for upward mobility. This combination of gendered labor segmentation, geographic isolation, and quota-based payment systems creates a deeply unequal labor structure where formal business operations coexist with highly informalized working conditions.

#### **CASE STUDY: Nepal's Tea Industry and the Structural Logic of Informality**

Nepal's tea sector illustrates how informality persists even within globally integrated and formally registered industries. Although orthodox tea from eastern Nepal is internationally marketed as a premium export commodity, much of the labor sustaining the industry remains precarious, underpaid, and weakly protected. The tea value chain reveals how economic value is concentrated among exporters, intermediaries, and global brands while workers and

smallholder producers absorb the risks of low prices, unstable markets, and weak institutional support.

Tea workers frequently experience low wages, seasonal insecurity, poor housing conditions, and limited access to social protection. According to the report *Beyond the Cup: Unpacking Nepal's Tea Supply Chain and the Challenges for Workers and Smallholders*, workers in tea estates often earn around NPR 5,550 fortnightly despite the existence of statutory wage provisions, while many lack access to insurance and contributory social security schemes. Temporary and informal employment arrangements are also replacing permanent labor positions across plantations.

The burden of market volatility is similarly transferred onto smallholder farmers. Although tea cultivation was once viewed as a profitable alternative to subsistence agriculture, declining farm-gate prices, rising input costs, and global oversupply have made tea farming increasingly unsustainable for many producers. Farmers remain structurally disadvantaged within the value chain because Nepal lacks strong auction systems, transparent pricing mechanisms, and internationally recognized certification infrastructure. As a result, producers are often dependent on a limited number of powerful buyers during price negotiations.

The tea sector also demonstrates how informality intersects with gender inequality. Women are concentrated primarily in labor-intensive plucking work, while men dominate factory-based processing activities. Mechanization and the increasing use of plucking machines risk further marginalizing women workers who may face barriers in accessing or operating such equipment. At the same time, labor shortages driven by migration and the declining attractiveness of plantation work have intensified pressures toward mechanized production, often at the expense of tea quality and worker livelihoods.

Importantly, the tea industry reveals that formal registration alone does not guarantee decent work. Large estates, exporters, and factories may operate within formal legal structures, yet labor relations throughout the supply chain remain heavily informalized through temporary work, weak enforcement, and limited bargaining power for workers and farmers. In this sense, Nepal's tea economy reflects a broader pattern within the national labor market: the coexistence of formalized enterprise structures alongside deeply precarious labor conditions.

At the same time, the emergence of tea cooperatives presents an alternative model of "formalization from below." Cooperatives in Jhapa and Ilam have attempted to improve bargaining power, collective marketing, traceability, and profit-sharing among smallholder farmers. Some cooperative models have also strengthened democratic decision-making and enabled producers to move further up the value chain through processing and branding initiatives. However, these cooperatives continue to face institutional disadvantages, including limited access to concessional finance, certification systems, and market support compared to larger private enterprises.

The tea sector therefore highlights a central contradiction within Nepal's development model: while export-oriented industries are promoted as engines of growth, the workers and smallholders sustaining these industries remain trapped within insecure and unequal labor arrangements. The persistence of informality within a globally connected commodity chain

demonstrates that labor precarity in Nepal is not simply a byproduct of underdevelopment, but a structural feature of how value is organized and distributed across the economy.

### **The Legislative Gaps in Paid Care and Domestic Labor**

Demographic shifts within Nepal, including shrinking household sizes, an aging population, rapid urbanization, and the large-scale international migration of working-age adults, have drastically reduced the availability of unpaid family caregivers. This has fueled an unprecedented domestic market demand for paid care and domestic workers. However, this critical sector faces a massive deficit of decent work. Even in institutional care sectors traditionally viewed as formal, such as health and education (including primary school teachers, nursing associate professionals, and early childhood educators), significant implementation gaps persist regarding basic entitlements. Statistical trends reveal that across these professions, large majorities of workers are routinely denied basic access to employer-backed social security and paid sick leave.

For individual domestic care workers, the situation is even more unregulated. Except for rare cases where a formal outsourcing agency acts as an intermediary, the employment relationship is bound entirely by unwritten verbal agreements, rendering wage enforcement nearly impossible. Furthermore, the Labour Act 2017 contains an explicit loophole under Section 88, which legally permits employers to deduct the costs of food, shelter, or educational assistance directly from a worker's cash remuneration. Because the state has failed to fix a specific minimum wage for domestic work, these unchecked deductions make it impossible to verify if live-in domestic workers are receiving the legal minimum wage. Consequently, a deep disparity has emerged: while live-out domestic workers can sometimes leverage multiple employers to earn market rates, live-in domestic workers remain trapped in blurred operational boundaries where they receive little more than subsistence benefits.

The informal care economy also reveals the deeply gendered character of labor precarity in Nepal. Women are disproportionately concentrated in low-paid and socially undervalued forms of care work because patriarchal social norms continue to treat caregiving as a “natural” extension of women’s domestic responsibilities rather than skilled labor deserving of full economic recognition. As a result, domestic workers often face multiple layers of vulnerability simultaneously, including low wages, excessive working hours, workplace harassment, and social invisibility. Many migrant domestic workers from rural areas additionally experience restrictions on mobility, isolation from support networks, and dependence on employers for shelter and food, making resistance to exploitation especially difficult.

### **Policy Frameworks and Gaps in Social Security**

#### **The Financial Barriers to Enrollment**

The Constitution of Nepal 2015, under Article 34, explicitly guarantees that every laborer possesses the fundamental right to appropriate remuneration and contributory social security. To operationalize this directive, the state enacted the Contribution-Based Social Security Act 2017.

To include unorganized segments, the state introduced procedures allowing informal and self-employed workers to voluntarily enroll in the Social Security Fund (SSF). Theoretically, the mechanism requires the informal worker to contribute 11% of the basic minimum wage, while the government tiers provide a matching 9.37% co-contribution.

However, a regressive structural clause within the operating procedures stipulates that if federal, provincial, or local governments fail to provide their expected financial share, the individual worker must bear the combined, staggering contribution rate of 20.37% alone. This design flaw shifts the entire financial burden onto the most precarious segments of the population. For a population already earning below the statutory minimum wage, demanding a fifth of their monthly survival income to enter a state fund is economically impossible.

This reveals a broader contradiction at the center of Nepal's social protection model. Although the constitutional framework recognizes social security as a labor right, the practical implementation model treats it largely as an individualized financial responsibility. The voluntary and contribution-heavy structure assumes stable income flows and predictable earnings, conditions that simply do not exist for most informal workers. Seasonal employment, irregular wages, and chronic underemployment make regular monthly contributions unrealistic for large segments of the workforce. Consequently, the contributory framework unintentionally reproduces exclusion by privileging workers who already possess relatively stable incomes.

### **The Statistics of the Working Poor**

The direct link between informal employment and severe poverty in Nepal remains definitive. Data indicates that 18.04% of individuals engaged in informal labor live below the national poverty line, compared to a mere 2.98% of workers in the secure formal sector. For wage-earning informal laborers, the situation is increasingly acute: more than half (51.31%) earned wages below the legal minimum in 2018, and this proportion of the working poor climbed to 56.21% by 2023.

Furthermore, macroeconomic pressures have eroded what little purchasing power these workers possess. Between 2018 and 2023, the mean real daily wages of informal workers eroded from NPR 585 down to NPR 546, representing a stark drop in living standards and a severe loss of purchasing power amid unchecked inflation.

These trends demonstrate that employment alone no longer guarantees economic security. A growing share of Nepal's labor force now falls within the category of the "working poor" — individuals who remain employed yet continue to experience chronic insecurity, debt vulnerability, and inadequate living standards. This condition fundamentally challenges development narratives that prioritize employment generation without sufficiently addressing labor quality, wage adequacy, and social protection. In Nepal's context, labor market expansion has frequently occurred through highly precarious forms of employment that provide income without dignity, security, or upward mobility.

The consequences of low and unstable incomes extend beyond individual workers and shape broader patterns of household vulnerability. For many informal workers, inadequate earnings constrain their ability to meet essential needs, including adequate nutrition, healthcare, education for children, housing, and care responsibilities within the household. Income insecurity also limits

households' capacity to absorb economic shocks, forcing many to rely on debt, reduce consumption, withdraw children from school, postpone medical treatment, or engage in additional precarious forms of work. In this sense, informality is not merely a labor market characteristic but a condition that reproduces poverty and insecurity across households and generations.

The persistence of working poverty therefore raises questions not only about employment opportunities but also about the sustainability of social reproduction where the ability of workers and their families to maintain and renew their labor power over time. Without adequate wages, employment security, and social protection, workers are often unable to secure the conditions necessary for a dignified life. This underscores the importance of labor formalization and comprehensive social protection policies, not simply as mechanisms for regulating employment, but as essential instruments for ensuring decent living standards, reducing household vulnerability, and enabling workers and their families to live and work with dignity.

### **Current Enrollment Figures**

The actual enrollment data from the Social Security Fund exposes the complete failure of this voluntary framework to reach the domestic unorganized workforce. As of February 26, 2026, the fund reported a total of 2,833,908 contributors. However, the vast majority, 2,150,054 individuals are migrant workers in foreign employment for whom enrollment is legally mandatory.

Another 682,182 contributors belong to the formal domestic economy. Most strikingly, the reach into the massive domestic informal and self-employed sectors is completely negligible, with a mere 855 informal workers and 817 self-employed individuals enrolled across the entire nation.

These enrollment figures expose the profound disconnect between policy ambition and institutional reality. While the state publicly promotes the expansion of universal social protection, the architecture of implementation remains inaccessible to the very populations most in need of protection. The near-total absence of informal worker enrollment demonstrates that the existing framework cannot succeed through voluntarism alone. Without substantial state subsidies, labor registration campaigns, simplified enrollment procedures, and localized institutional support, contributory systems will continue to exclude the majority workforce.

## **Economic Analysis and Budgetary Priorities**

### **Fragmented Social Protection Spending**

Nepal's macro-fiscal landscape is currently constrained by a national debt-to-GDP ratio that exceeds 43%, fueling an aggressive state narrative of fiscal austerity and expenditure reduction. However, public finance records reveal that the state's failure to build a universal safety net is not driven by an absolute deficit of revenue, but rather by extreme institutional fragmentation. The state's planning targets, spanning from the Fifteenth Plan to the current Sixteenth Periodic Plan (FY 2024/25–2028/29), explicitly state intentions to scale up social protection to cover 60% of the population.

Yet, the execution is severely bottlenecked. In the 2023/24 fiscal year, the federal government spent a massive NPR 181.67 billion on various social protection programs, accounting for 13.04% of total actual federal expenditure. Unfortunately, a study by the National Planning Commission

reports that this budget is scattered across more than 80 separate, uncoordinated social security schemes managed by 18 independent federal agencies. This extreme fragmentation leads to extensive administrative duplication, high leakage, and immense public waste, preventing the state from establishing a cohesive social protection floor.

### **Underutilization of the Social Security Tax**

Crucially, a dedicated funding mechanism already exists within Nepal's fiscal structure that could solve this crisis: the 1% Social Security Tax (SST). This tax is automatically levied on the income of every formally employed worker in the country.

Despite being explicitly designed to fund protections for the nation's most vulnerable populations, these accumulated revenues have been left completely underutilized by the central treasury. Instead of being channeled to subsidize the high SSF enrollment premiums of informal laborers, the funds sit idle while the formal economy continues to accumulate wealth through an unprotected informal labor pool.

The current fiscal debate in Nepal often frames universal social protection as financially unrealistic. However, this perspective overlooks the broader developmental costs of widespread labor insecurity. Weak social protection contributes to declining household consumption, indebtedness, poor health outcomes, and reduced productivity, all of which generate long-term economic burdens. Informality also narrows the state's effective tax base because unstable incomes and insecure work limit workers' ability to participate consistently within formal fiscal systems. In this sense, expanding social protection should not be viewed solely as a welfare expenditure but as a long-term economic investment in labor stability, productivity, and domestic demand.

### **Toward “Formalization from Below”**

The continued dominance of informal employment despite decades of enterprise registration drives demonstrates the limitations of Nepal's existing formalization strategy. Nearly half of all non-agricultural enterprises may now be formally registered, yet the overwhelming majority of workers remain excluded from labor protections and social security systems. This contradiction illustrates that formalizing businesses alone does not automatically formalize labor relations.

A more transformative approach requires shifting the focus from enterprises to workers themselves. The framework of “formalization from below” proposes that formalization should begin with the legal recognition and social protection of workers regardless of whether their employment arrangements fit traditional industrial models. Rather than waiting for full corporate compliance or industrial expansion, the state can immediately reduce labor precarity through worker registration, municipal labor desks, universal identification systems, and subsidized social security mechanisms.

Local governments can play a particularly important role in this transition. The experience of Budhanilkantha Municipality demonstrates how municipal labor desks can function as decentralized institutions for worker registration, labor rights monitoring, and social security facilitation. Such localized systems are especially important in Nepal because informal workers

often operate outside conventional industrial zones and formal employment databases. By integrating labor governance at the municipal level, the state can establish more direct relationships with workers who have historically remained administratively invisible.

This model also aligns more closely with international labor standards, including ILO Recommendation 204 on the transition from the informal to the formal economy. Rather than criminalizing or marginalizing informal workers, Recommendation 204 emphasizes the progressive extension of rights, protections, and social guarantees. However, formalization from below should not be understood merely as a technical process of integrating workers into administrative systems or expanding regulatory oversight. It represents one important pathway toward transforming the structural conditions that reproduce labor insecurity and exclusion.

By securing legal recognition, access to social protection, and institutional visibility, worker-centered formalization can strengthen workers' bargaining power and improve their ability to claim rights and protections. Yet the objective extends beyond formal status itself. Formalization should be evaluated by its capacity to reduce vulnerability, improve the quality of work, and enable workers and their households to sustain dignified and secure livelihoods over time. In this sense, the ultimate goal is not simply a larger formal economy, but a labor regime in which economic security, social protection, and decent living conditions are guaranteed for all workers regardless of their employment arrangements.

A labor-centered approach therefore recognizes that formalization is a means toward broader social and economic transformation. Its success should be measured not by the number of enterprises registered or workers enrolled in databases, but by whether it expands human dignity, strengthens livelihood security, and enables the sustainable reproduction of life and labor across generations.

## **Strategic Interventions and Policy Recommendations**

To transition Nepal's workforce from a state of vulnerability to genuine decent work, the state must abandon its enterprise-centric model of formalization and adopt a practical approach focused on localized support and resource integration:

- **Establish a Universal "One-Door" Social Protection System:** In alignment with the goals of the Sixteenth Plan, the government must consolidate all 80+ fragmented, inefficient social safety net schemes managed by 18 separate line ministries into a single, integrated institutional mechanism to eliminate administrative waste and guarantee basic social protection to workers.
- **Deploy the 1% Social Security Tax as a Cross-Subsidy:** The central treasury must immediately unlock the underutilized 1% SST revenues. These funds should be systematically channeled into the SSF to co-finance and automatically subsidize the 9.37% matching contribution for low-wage informal, agricultural, and gig workers who cannot afford the full contribution rates.
- **Close Legislative Loopholes in the Labour Act 2017:** The state must amend existing labor laws to legally define platform gig workers as "dependent contractors" under international

standards, forcing digital platforms to contribute to their safety nets. Furthermore, provisions allowing arbitrary wage deductions for live-in domestic workers must be repealed to enforce the statutory minimum wage.

- **Ratify International Labor Protections:** Nepal should ratify ILO Convention C189 on Domestic Workers and Convention C190 on Violence and Harassment in the World of Work to strengthen protections for workers concentrated in highly informal and gendered sectors.
- **Scale Up Municipal "Labor Desks" Nationwide:** Federal and provincial governments should provide statutory backing to scale up the pioneering model established by Budhanilkantha Municipality. By establishing dedicated municipal labor desks, local governments can systematically register informal workers, issue official identity cards free of cost, and act as direct intermediaries to facilitate access to the national SSF without residency discrimination.
- **Expand Municipal Labor Governance:** Large sections of informal labor remain outside state databases, labor inspections, and social security systems because labor governance in Nepal remains overly centralized and disconnected from local realities. The emerging experience of municipal labor desks demonstrates the potential for localized labor governance rooted in direct engagement with workers. These structures should be expanded nationwide with statutory backing, dedicated funding, and integration into social security enrollment systems. Local governments must become active institutions for worker registration, labor rights enforcement, dispute resolution, and social protection facilitation.
- **Strengthen Freedom of Association and Collective Bargaining:** Formalization efforts must extend beyond social security enrollment and legal recognition to include the expansion of workers' collective power. Informal workers, gig workers, domestic workers, home-based workers, and other non-standard workers should be guaranteed the right to organize, form unions, and engage in collective bargaining regardless of their employment status. These rights must be supported through stronger labor inspection systems, effective grievance mechanisms, and improved enforcement of labor standards. Without collective representation, formalization risks becoming an administrative exercise that registers workers without substantially improving their bargaining position within the labor market.
- **Integrate the Care Economy into Social Protection Policy:** Social protection should be understood not only as income security but also as support for the social reproduction of households. Low-income workers often face significant unpaid care responsibilities for children, older persons, and family members requiring support, with these burdens falling disproportionately on women. Public investment in childcare centers, eldercare services, community care facilities, maternity protections, and other care infrastructure should therefore be recognized as a core component of labor and social protection policy. Expanding care services would reduce household vulnerability, increase labor force participation, improve income security, and strengthen the long-term sustainability of workers' livelihoods.

- **Reframe Informality as a Political Question:** Nepal's labor crisis is not simply a technical issue of weak implementation capacity. It reflects a broader economic model that depends on maintaining large sections of the workforce in conditions of insecurity, low wages, and weak bargaining power. As long as informality continues to subsidize economic growth through cheap and disposable labor, partial reforms alone will remain insufficient. A worker-centered transition therefore requires not only extending social protection and institutional recognition, but also redistributing economic power through stronger labor rights, collective bargaining, and public investment in the systems that sustain workers' lives and livelihoods. Informal workers are not peripheral to Nepal's economy; they constitute its foundation. The objective of formalization should therefore be broader than administrative inclusion. It should be to create the conditions under which workers and their households can secure dignified livelihoods, exercise meaningful economic agency, and sustainably reproduce life and labor across generations.

## **Conclusion**

Nepal's labor crisis is not defined simply by unemployment, but by the widespread normalization of insecure, low-paid, and unprotected work. Informality has become the dominant labor regime across both traditional and emerging sectors of the economy, shaping the everyday realities of millions of workers. From gig economy drivers and plantation laborers to domestic workers and urban service employees, large sections of the workforce remain excluded from meaningful labor rights, adequate wages, collective representation, and social security protections despite their central role in sustaining the national economy.

The persistence of this condition reveals the limitations of policy frameworks that equate formalization primarily with enterprise registration while neglecting labor protection itself. Genuine labor formalization requires more than administrative modernization or market liberalization. It demands a structural shift toward worker-centered governance capable of extending social protection, enforcing labor standards, strengthening freedom of association and collective bargaining, and guaranteeing economic security regardless of employment classification.

At the same time, labor vulnerability cannot be understood solely as a problem of labor market exclusion. Low and insecure incomes shape broader patterns of household vulnerability, limiting workers' ability to secure adequate food, healthcare, education, housing, and care for their families. The challenge of informality is therefore inseparable from the challenge of social reproduction where the ability of workers and their households can sustain dignified livelihoods over time. Policies that expand social protection, strengthen labor rights, and invest in care infrastructure are not simply welfare measures, rather they are essential foundations for the reproduction of life and labor itself.

A transition toward "formalization from below" offers one important pathway toward this broader transformation. By prioritizing worker registration, localized labor governance, social protection, and legal recognition, it can help reduce the administrative invisibility that has historically excluded informal workers from state protection. Yet formalization should not be understood as an end in itself. The objective is not merely to integrate workers into formal systems, but to transform the conditions that reproduce insecurity, poverty, and exclusion in the first place.

Ultimately, Nepal's labor crisis is also a question of power. Persistent informality is sustained not only by institutional gaps but by unequal power relations between labor and capital, weak bargaining power among workers, fragmented forms of organization, and development models that continue to rely on cheap and insecure labor. Addressing these structural realities requires moving beyond narrow technical solutions toward a worker-centered development strategy that combines social protection, labor rights, collective representation, and economic democracy.

Informal workers are not peripheral to Nepal's economy but they constitute its core foundation. The measure of successful formalization should therefore not be the number of enterprises registered or workers enrolled in administrative systems, but whether workers and their households are able to live with dignity, security, and meaningful economic agency. The ultimate goal is a labor regime in which rights, protections, and decent living conditions are guaranteed to all workers, enabling the sustainable reproduction of life and labor across generations.

## References

- Bhul, B. (2025). The gig economy revolution in Nepal: Analyzing challenges and opportunities for digital governance. *Prashasan: The Nepalese Journal of Public Administration*, 57(1), 137–157.
- Central Bureau of Statistics. (2019). Report on the Nepal labour force survey 2017/18. Government of Nepal.
- Kunwor, A. B. (2025). Between rights and reality: "Access to social protection for informal workers in Nepal". *Kathmandu Bar Journal*, 4(2), 168–182.
- Moser, C. O. N. (1978). Informal sector or petty commodity production: Dualism or dependence in urban development? *World Development*, 6(9-10), 1041–1064.
- National Planning Commission. (2020). The fifteenth plan (fiscal year 2019/20 - 2023/24). Government of Nepal.
- National Planning Commission. (2023). Integrated national social security structure, 2080. Government of Nepal.
- National Planning Commission. (2025). The sixteenth plan (fiscal year 2024/25 - 2028/29). Government of Nepal.
- National Statistics Office. (2024). Statistical report of the Nepal living standards survey (NLSS IV) 2022/23. Government of Nepal.
- Office of the Auditor General. (2025). Sixty-second annual report. Government of Nepal.
- Portes, A., Castells, M., & Benton, L. A. (Eds.). (1989). *The informal economy: Studies in advanced and less developed countries*. Johns Hopkins University Press.
- Portes, A., & Haller, W. (2010). The informal economy. In N. J. Smelser & R. Swedberg (Eds.), *The handbook of economic sociology* (2nd ed., pp. 403–426). Princeton University Press.
- Saumya Chakrabarti, & Anirban Kundu. (2009). Formal-informal sectors' conflict: A structuralist framework for India. *Journal of Economic Development*, 34(2), 27–67.
- Shrestha, S., Katigbak, M., & Bartolome, E. J. (2024). Reimagining tax systems and care work: Studies from Nepal and the Philippines. *Asian Peoples' Movement on Debt and Development*.
- Silpakar, S. (2023). Transforming the informal sector: Best practices on social protection, technology, and livelihood diversification in the Hindu Kush Himalaya. ICIMOD Working Paper. ICIMOD.
- Social Security Fund. (2026). Monthly progress report: February 2026. Ministry of Labour, Employment and Social Security, Government of Nepal.
- South Asia Alliance for Poverty Eradication. (2026). Thematic brief: "Formalization from below": Enhancing social security for decent work in Nepal. LDC Watch/SAAPE.
- Thapa-Parajuli, R. (2025). Parental informal occupation does not significantly deter children's school performance: A case study of peri-urban Kathmandu, Nepal. *Societies*, 13(4), 95–112.