

ILO Country Office for Nepal

Terms of Reference (TOR)

Sectoral diagnostics of informality in agriculture, forestry, fishing, and
aquaculture sector

April to August 2024

Background

ILO Recommendation No. 204 defines all economic activities by workers and economic units that are in law or in practice not covered or insufficiently covered by formal arrangements as part of the informal economy. Employment in the informal economy is characterized by denial of rights at work, absence of quality employment, poor social protection, absence of social dialogue, and unfair competition for formal firms.

2 billion people or 61.2 percent of the global workforce are in informal employment and 8 out of 10 economic units are informal. South Asia at 87 percent ranks above the global average but Nepal ranks among the top even within the region¹. Nepal's labour force is characterized by pervasive informality, with 84.6 percent employed in the informal economy², predominately working women and youth. Informal workers are exposed to vulnerability and poverty, this is particularly true in rural areas, where most of the population lives and where poverty is pervasive. Supporting formalization is a national priority for promoting decent quality employment, meeting national commitments to the sustainable development goals³, and reflected in the Nepal's 15th development plan⁴.

There have been major steps taken in facilitating formalization including extension of labour rights to all workers under the revised Labour Act (2017), and expansion of contribution based social security to informal sector and self-employed workers. The question that remained at the time was how we – i) develop a common national understanding on extent, nature, and drivers of informality in Nepal, and ii) adopt an integrated approach towards better supporting ongoing efforts to formalize.

The Ministry of Labour Employment and Social Security (MoLESS) initiated a discussion

¹ Based on harmonized definition

² Labour Force Survey. National Statistical Office, Government of Nepal. 2018

³ SDG 8.3, and target 8.3.1

⁴ share of employment in the formal sector

with social partners with support from the ILO to identify a systematic process to begin developing an integrated approach to formalization. An agreement was reached to follow provisions under ILO Recommendation No. 204 which asks to conduct a national diagnostic, a ten-step process that would start with awareness programmes and end with a national action plan on formalization. It also included a national diagnostics report approved by the Central Labour Advisory Council, highest national tripartite policy making body on labour and employment, with the recommendation to form a committee to develop an action plan to implement its recommendations.

The result was a first integrated national action plan on formalization, which served as a 6-month transitory plan (August 2022 to February 2023) that specified clear objectives and outputs together with activities that would help better target efforts. The plan identified the need for a complementary sectoral approach as necessary to tackle sectoral drivers of informality, while also tackling transversal drivers. This complementary approach would be guided by sectoral diagnostics of informality. Deliberations of the committee were held to identify potential sectors based on:

- Higher prevalence of informal employment in these sectors compared to the national average, based on findings and recommendations from the national diagnostics of informality.
- Concentration of more vulnerable forms of employment, specifically contributing family workers, own account workers, and daily wage workers.
- Prioritization of these sectors in national programmes and policies, based on their provision and a mapping conducted by the tripartite committee. An example is that new contributory schemes for informal sector and self-employed workers prioritizes agriculture, construction, and transportation sectors among others.

The result was the identification of **agriculture**⁵ as one of the priority sectors where a dedicated sectoral diagnostic of informality will be conducted. 21.5 percent of total employed in Nepal are engaged in the sector with more women (57 percent) than men⁶. Decent work deficits are significant, with over 97 percent of the labour force engaged in informal employment, 44 percent of forced labour, where workers receive lower wages compared to other sectors apart from private households.

A revised national action plan on formalization, approved by the Central Labour Advisory Council, has listed under Activity 1 the need to conduct sectoral diagnostics including on the agriculture sector. A formal request was sent to the ILO to provide technical assistance based on which this term of reference was developed. ILO Recommendation

⁵ More specifically agriculture, forestry, fishing and aquaculture sectors.

⁶ Labour Force Survey 2017/18

No. 204 will provide a normative framework as well as practical guidance for analysis which will draw on the learnings from the process of developing the national diagnostics, and its findings.

Objective

The diagnostics of factors, characteristics, causes and circumstances of informality in the agriculture forestry, fishing and aquaculture sector will inform the design and implementation of sector specific and related transversal approaches to facilitate the transition of workers and economic units to the formal economy. More specifically it will:

- Quantify the extent, nature, and composition of informality within the agriculture, forestry, fishing, and aquaculture sectors⁷ based on available data that is complemented by a short survey.
- Identify main drivers⁸ and incentives for formalization⁹, highlighting sector specific and transversal drivers.
- Identify main actors involved in formalization process in the sector and coordination mechanisms, if any
- Identify and assess current policy approach¹⁰, specific programmes and measures and where possible their impact on facilitating the transition to formality for informal economic units and workers (especially women) in agriculture, forestry, fishing, and aquaculture sectors.

The sectoral diagnostics will also enable stakeholders to reach a consensus on existing situation through a participatory process, and with evidence, provide the baseline for monitoring formalization progress in. It will further allow stakeholders to take collective action to better facilitate transition towards formality for economic units and workers here.

Scope of Work

1) Develop an inception report that includes

- Proposed structure for the diagnostic report.
- List of identified sources of information, including list of key stakeholders, draft questionnaires for key interviews and focus group discussions.
- Methodology¹¹ used to collect information.

A review of key literature on formalization of the informal economy, with a focus on agriculture, forestry, fishing and aquaculture sectors in coordination with the ILO and members of the tripartite committee on formalization is expected at this stage. The [diagnostic report on the extent, nature, circumstances, causes, factors and nature of](#)

⁷ Extending to aquaculture, noting recommendations of [technical meeting on aquaculture](#) in 2021 and its conclusions.

⁸ This means main obstacles that different types of economic units face to comply to all legal requirements of formalization (including aspects of awareness, complexity, education, financial costs, time costs and such)

⁹ The perceived benefits to formalize (e.g. access to services, credit, social security...), from the perspective of formal and informal economic units and workers in the specified sector.

¹⁰ In particular to identify gaps, lack of clarity on roles, responsibilities or processes, duplications or overlap of obligations and/or mandates from relevant authorities

¹¹ The methodological approach will be ILO's "Methodological note for Diagnosis of informality", available [\[here\]](#).

[informality in Nepal](#) will be the starting point for the review. Inception report should also identify how the research would distinguish between subsistence agriculture, forestry, fishing and aquaculture and those activities oriented to the market (generating income and profit), and deal with the implications in terms of the meaning of transition to formality (including the reduction of decent work deficits).

2) **Conduct a national workshop** to present and receive feedback on proposed structure, methodology, and scope from tripartite committee members¹². Incorporate feedback and finalize inception report. This workshop will be organized by the service provider but conducted with the technical oversight and backstopping from the ILO. Inception report will be finalized after comments have been incorporated in the report.

3) **Develop a draft diagnostic report** that covers:

a. *An updated assessment of the labour market and economic situation* based on secondary data that provides:

- Updated information about the labour market at large: labour force participation; unemployment and under-employment; status in employment; sectors; occupations; employment by type of contracts, working conditions (wages/earnings, hours worked, access to social security, access to occupational safety and health, etc.), employment by size of enterprises.
- Updated economic and employment growth analysis¹³: GDP level and growth total and by selected sector; productivity, job creation in the formal economy / in the informal economy, regulation of financial markets¹⁴ etc.
- Details on income levels across different sectors and geographical areas.
- Contrasts macro situation with specific reference to trends in the agriculture, forestry, fishing, and aquaculture sectors.

b. *Establish a quantitative sector-specific profile¹⁵ of the informal economy workers and economic units, with priority gender and social inclusion lens*, using secondary data which answers:

- How many workers and how many economic units are present and what are the prevalent forms of informality in the sector? – this is about the prevalence of informality of employment and of economic units in the selected sector, including in comparison to the overall prevalence of informality in the country and between sectors. The assessment of the extent of informality will also highlight, as relevant, different levels of informality/formality of economic units (different levels of compliance with registrations and obligations¹⁶) and of workers (registration as workers and different levels of social and labour protections)

¹² Applicants should budget for a 45-person workshop at a standard hotel in Kathmandu, factoring in Lunch with two times tea cookies, transportation costs for each participant, stationary and other costs required.

¹³ Framed in the context of Nepal's imminent graduation from a least developed country in 2026.

¹⁴ With reference to selected sectors

¹⁵ Guidance on the dimensions of informality to assess and related indicators and sources can be found in [Contextualizing informality: The Informal Economy Indicator Framework](#)

¹⁶ Can refer to registration at different levels (including tax, social security, municipal registration, licenses) and also maintaining formal account books.

- Which workers (and economic units) are the most represented the sector? – the distribution of informal and formal jobs and economic units by sociodemographic (sex, level of education, region, caste/ethnic group, age etc.), employment-related characteristics (employment status, occupations, type and duration of contract, etc.) and characteristics of the economic units (size, economic performance, etc.) and sociodemographic characteristics of the owner(s). This allows to identify largest groups in numbers but also those that are overrepresented in the informal economy compared to their representation in the formal economy within the selected sectors. This is also about the identification of the prevalent forms of informality regarding groups for whom informality and formalization have a different meaning and as a result call for different policy responses (mix of formalization of jobs and formalization of economic units for instance); refers notably to the composition of informal employment according to the type of production unit (formal sector, informal sector and household own-use community sector) and status in employment.
- Who are the workers and economy units the most exposed to the risk of informality within the sector and compared to other sectors? Adopting a workers' perspective, this includes indicators such as the share of informal employment in total employment for different groups according to their socio-demographic and employment related features. From an economic unit perspective, this covers differences in the incidence of informality depending on characteristics of economic units (including economic performance indicators) and socio-demographic and economic features of the owner. This third block of indicators allows the identification of some of the drivers associated with socio-demographic and employment related and economic unit features that will be complemented in point c). They also support the definition of priority groups.
- What are the working conditions and living conditions among workers in informal employment compared to those in formal employment? What about productivity and factors constraining or enhancing the development and sustainability of informal economic units versus formal ones - identify the main decent work deficits that informal workers are facing compared to formal workers (current differentials in wages and income, availability of social security, access to training and retraining, representation, occupational health and safety, etc.) within these sectors. As far as economic units are concerned, this includes the level of productivity and the identification of some of the main obstacles or opportunities for them to develop, be sustainable and to provide a living and decent working conditions for the owner and employees. This analysis would also cover the main constraints perceived by business owners (such as, access to raw material, markets, technology, health and safety etc.).
- Which, how many and what proportion of workers call primarily for:

- i. formal recognition of their employment relationship and employment arrangements linked to effective social and labour protection?
- ii. formalization of their economic units (focusing on dependent contractors and independent workers), bringing them under regulation, with the advantages and obligations that this entails with legal requirements?
- iii. formalization of their jobs and, as a necessary condition, of the economic units that employ them,
- iv. reduction in their decent work deficits and a move to another status in employment in the case of contributing family workers?
- v. Do workers in informal employment benefit from a certain level of protection (at the individual and household level)?, vi) is formality in the sectors linked to adequate levels of protection?, and vi) Which are the workers and units with the potential to formalize in the short term? And by contrast, which are the workers (and units) for which formalization is realistically not the best option in the short term but for whom measures are required to create enabling conditions for (sustainable) formalization in the long term?
- What is the risk that formal economic units and workers in the sector informalize and why?

The profile should include a geographical picture at provincial¹⁷ and selected municipal levels, considering data availability¹⁸.

The analysis should also identify, i) any gaps in existing data to addressing the questions above, ii) outline areas on sector specific predominant forms of informality and/or any sub sector within the agriculture, forestry, fishing, and aquaculture sectors that merits further inquiry using a primary survey. A questionnaire should be developed accordingly, addressing these issues, shared with the ILO and tripartite committee on formalization members.

A **light survey** will then be carried out. This is not expected to be representative, rather complementary to the main analysis using secondary data. Applicants are encouraged to suggest an indicative stratification based on sector specific characteristics¹⁹ in their proposals, with appropriate budget headings.

- c. *Review of the legal frameworks and their application for workers and economic units in the agriculture, forestry, fishing and aquaculture sectors which:*
 - Builds on and updates as appropriate the overall review of the legal and regulatory frameworks and its application as available in the national diagnostic of informality

¹⁷ Specifically in Madhesh, Sudurpaschim, and Karnali provinces

¹⁸ Applicants are free to suggest in their applications.

¹⁹ This could be taken from existing data sets such as, Labour Force Survey 2017/18, National Agriculture Census 2021/22, and National Economic Census 2019.

and more updated recent studies. It will also review how existing framework limits or enhances the transition to formality (creation of formal jobs; transition from informal to formal jobs; and preservation of formal jobs), generally and more specifically in the in the context of selected sectors that extends to:

- Inventory of what is in place and what are the gaps within the legal framework.
- Assessment of legal provisions and the adequacy of the regulatory framework
- Assessment of enforcement systems, including labour, social security and tax inspections and the effective implementation of legal provisions
- The degree of transparency and accountability of public institutions and the associated trusts from informal workers and economic units
- The assessment of ability of social transfers to secure income or of the adequacy of compliance modalities.

The legal culture of informality			
Internal legal culture	Law in books	Why are some groups of workers/units not covered by the law?	Extent of legal coverage
		Why do some groups of workers/units covered by the law not have adequate level of protection?	Level legal protection
	Law in practice	Why are some groups of workers/units covered by the law not protected in practice?	Level of Compliance
External Legal Culture	Legal Consciousness	How do informal workers/units experience and think about the law?	Level of Acceptance

Source: ILO

d. *Identification of the main drivers of informality and incentives for formalization in addition to drivers identified as part of the legal and regulatory framework (under c) above):* this would identify sector specific drivers of informality, while taking cue from the transversal drivers identified in the national diagnostics of informality. The analysis would include three components:

- Analysis of the effect of the economic environment, drawing on the analysis conducted in *a.* and *b.* for example, inability of the economy to create jobs, economic crisis, and economic restructuring, flexibilization of formal jobs etc.
- Analysis of micro level determinants of informality such as the level of education, poverty, voice and representation, access to credit, to services or to markets, role of cooperatives and collectives (member-based organizations, producer cooperatives), exclusion/positive discrimination of certain population and groups, caste, and cultural factors (for example domestic work, *haliya* and *kamiyas*). This analysis

complements the identification of some of the drivers associated to socio-demographic and employment features covered under b). Some of those additional micro level determinants can also be quantified which complements the quantitative assessment.

- Identify the incentives²⁰ and disincentives for formalization (and informalization) for economic units as well as workers. Examples may include existing or potential incentives such as public procurement, tax-incentives, lower interest rates, sectoral initiatives to facilitate access to new business opportunities, promote trade, financial support, disincentives to formalization (such as, earnings lost to income tax payments upon formalization), and barriers to formalize such as multiple and tedious registration process beyond labour (example registration of company, land, access to road/infrastructure needed etc.)²¹

Guiding questions related to assessment of legal and regulatory frameworks and its application can be covered as:

- e. *Mapping of actors and coordination mechanism(s), if any:* incorporating main actors who are active in the formalization process within the sector as well those who are non-specific to sectors while covering, i) Main domains of intervention, objectives, and priorities, ii) their visions on informality, the main perceived causes and consequences and interest in the formalization process, iii) main responsibilities, scope of actions and resources (financial and technical). Also looking to: i) identify whether there is a formalized coordination mechanism in place at national/provincial/municipal level or otherwise some informal coordination mechanism between the different actors, programmes, and policies, ii) assess the institutional framework and operational modalities, which actors are involved and what their responsibilities are as part of it; iii) identify factors in the current institutional setting that represent constraints and obstacles to effective coordination, iv) identify opportunities to fill those gaps and provide elements that could help to recommend possible options given the context and the different existing possible options for organizational arrangements.
- f. *Identification and assessment of current policy approaches to reduce decent work deficits in the informal economy and facilitate the transition to formality:*

Building on and updating the general assessment of policies, measures, and interventions to take account of the latest developments and focusing on policies, measures, and interventions — whether cross-cutting or sector-specific — relevant to the sector:

- Assess if, and how, the reduction of decent work deficits in the informal economy and the transition to formality are part of main national and provincial strategic policy frameworks such as national development plans,

²⁰ See DCED (2021). Dealing with Firm Informality (Figure 4) for inspiration on drivers of formality for enterprises.

²¹ Guidance can be taken from ongoing ILO assessments on formalization of economic units.

poverty reduction strategies, budgets, sector-specific strategies and policies or subject of policies.

- Identify and map existing policy measures, including deterrence measures (penalties and measures to improve detection) or measures to enhance compliance (curative measures, preventive measures and measures that foster commitment to formality) and, if possible, financial resources invested
- Get a better understanding of the main approach(es) opted on reduction of decent work deficits in the informal economy and to formalization and/or prevention of informalization.
- Identify possible shifts in the type of policies adopted (& reasons);
- Collect evidence (and any evaluations) when available on the effectiveness (existence and perceived) of each measure aiming at facilitating the transition of workers and economic units from informal to formal economy; promoting the creation; preservation and sustainability of enterprises and decent jobs in the formal economy; and/or preventing informalization.
- Additionally consider, in particular in relation to workers and economic units in agriculture, forestry, fishing and aquaculture:
 - How adequate are these formalization policies? How adequate are the policies aiming at reducing decent work deficits in the informal economy?
 - How are these policies translated into programmes?
 - How effective are these programmes in facilitating the transition to formality and reducing decent work deficits in the informal economy?

Particular attention will be paid throughout to women workers and economic units owned by women.

- 4) **Submit first draft of the diagnostics report** to the ILO and update based on comments and feedback.
- 5) **Conduct a national tripartite meeting** to present updated draft diagnostics report to members of tripartite committee on formalization and sector specific stakeholders²².
- 6) **Conduct validation workshops** with sectoral stakeholders in Sudurpaschim, Madhesh and Karnali provinces²³
- 7) **Conduct national validation workshop** with national sector specific stakeholders.

²² Applicants should budget for 45 participant meeting in Kathmandu, at representative hotel used by Government/UN agencies.

²³ At least one in each province, based in provincial capital but inviting stakeholders, including provincial government representatives and officials from nearby municipalities [for example in Sudurpaschim (if held in Dhangadhi, inviting Godawari, Chure, Jorayal, Belauri Dipayal Silgadhi municipalities), in Karnali (if held in Birendranagar, inviting Narayan, Dullu, Bhairabi, Mahabu), in Madhesh held in Birgunj (inviting in municipality members from Pakhmainpur, and Janakpur) might be needed. Budgeting should account for travel/stay of 5 members of the national tripartite committee members to each of these provincial workshops. These workshops are part of the consensus building process and will be conducted under technical leadership and oversight from the ILO.

- 8) **Submit the final report to the ILO** following ILO house style manual. A summary brief (in Nepali and English) together with presentation on key findings and recommendations is also required.

Key Deliverables

- 1) Inception report
- 2) Draft diagnostics report, with finalized data collection tools.
- 3) Final report, approved by the tripartite committee on formalization²⁴. Together with a power point presentation on report findings and recommendations, and a separate 10-page summary paper (in Nepali and English). These should all follow ILO house style manual.

Note all deliverables will require technical approval from the ILO team before they are accepted.

Timeline

The duration of the contract is expected to be 5 months from **April to 30 August 2024**.

Deliverable	Expected Deliverable Deadline
Deliverable 1: Inception report	03 April 2024
Deliverable 2: Draft diagnostics report, with finalized data collection tools.	03 June 2024
Deliverable 3: Final report, approved by the tripartite committee on formalization ²⁵ . Together with a power point presentation on report findings and recommendations, and a separate 10-page summary paper (in Nepali and English).	30 August 2024

Payment schedule

- 30% payment will be released on submission of initial inception report.
- 30% payment will be released upon receipt of the draft report.
- 40% payment will be done upon submission of the final reports and remaining deliverables.

Reporting Lines

The selected institution will report to a designated National Project Coordinator at the ILO Country Office for Nepal. Regular technical supervision will be provided by:

- Senior Programme Officer, ILO CO Nepal
- Specialist on Local Strategies for Decent Work, ILO CO Nepal

²⁴ The reports and their recommendations should represent prevailing consensus and be accepted by relevant sectoral government ministries.

²⁵ The reports and their recommendations should represent prevailing consensus and be accepted by relevant sectoral government ministries.

- Technical Expert on Inclusive Growth, ILO CO Nepal
- Labour Market Specialist, INWORK, ILO
- Specialist, Enterprise Formalization, ILO
- Specialist on Rural Economy and Related Sectors, ILO

The Labour Relations and Social Security Division will be overseeing work from the side of Ministry of Labour Employment and Social Security (MoLESS). Members of the formalization committee, headed by MoLESS will provide technical comments.

Qualification and Expertise

Applying institutions should have a good track record conducting socio economic research. More specifically the proposed research team should have:

- Demonstrable understanding of the informal economy and labour market in Nepal, particularly decent work deficits and related vulnerabilities.
- Specific knowledge and experience related to agriculture, forestry, fishing and aquaculture sectors.
- Strong ability to analyze and integrate diverse and complex quantitative and qualitative data from various sources.
- Significant expertise conducting legal and policy analysis together with expertise in governance, and relevant sectoral policy analysis is advisable.
- Strong track record in conducting similar research work with appropriate educational background.
- Previous experience working closely with the ILO's tripartite constituents, and specifically government agencies preferred.

Submission instructions

Institutions are invited to submit their technical and financial proposals separately to ktm_procurement@ilo.org by 17:30hrs on Friday, 15 March 2024. Subject heading should mention "Sectoral Diagnostics - Agriculture".

All submissions require a technical proposal (containing organizational profile, team member details, previous experience, and such) and a financial proposal (with each detail on each possible expense heading). These should be organized and submitted in detail as per provisions listed in the request for proposals sheet.