International Labour Organization

ILO brief

ILO Brief

September 2026

Informality in Nepal's Construction Sector

Promoting enterprise formalization and extending social protection to construction workers

Key points

- Construction is one of Nepal's largest employers, yet employment in the sector remains overwhelmingly informal: it contributes more than 6 per cent of GDP and employs around one in seven workers, while 98 per cent of its workforce was informally employed in 2023.
- Enterprise and employment informality coexist across the value chain, including within registered firms, where an estimated 78 per cent of workers still held informal jobs in 2018.
- Temporary, project-based and subcontracted work creates distinctive barriers to formalization and access to contributory social security.
- Enterprise formalization and social protection are mutually reinforcing and should be pursued together, not in isolation.
- Public procurement can become a powerful lever for formalization by tying contracts and subcontracts to labour and social-security compliance.
- Social protection systems must be adapted to temporary employment, labour mobility and fluctuating earnings if coverage is to reach construction workers.
- The existing social security contribution mechanisms for informal-sector workers require urgent review and amendment
- Nepal needs to uphold the principle of non-discrimination and ensure that social security rights are equally accessible to foreign workers
- Women, who earn less and are concentrated in the lowest-paid work, need gender-responsive measures built into any formalization strategy.
- Integrated action across enterprise development, decent work, skills and social protection — consistent with ILO Recommendation No. 204 — is the pathway to sustainable formalization.

~98%	1 in 7	>6%	78%
of construction workers are in informal employment — the second highest of any sector	workers in Nepal are employed in construction	of GDP is contributed by the construction sector	of workers in formally registered construction enterprises are informally employed

NOTE *This brief synthesizes the sectoral diagnostic of informality in Nepal's construction sector, together with inputs provided by relevant stakeholders during a policy dialogue. It sets out why enterprise formalization and social protection must advance together, and offers an evidence-based agenda for policymakers, social partners and development actors.*

The construction sector at a glance

Indicator	Summary
Contribution to GDP	More than 6% (20-year average ~6.8%)
Share of national employment	Around 14% (2018) (second-largest non-agricultural employer)
Enterprise profile	Predominantly micro and small; 90.5% employ fewer than 10 people
Informal employment	97.5% (2018) rising to 98.2% (2023) — second highest of all sectors after domestic workers
Dominant employment pattern	Daily-wage, temporary and subcontracted work
Workers below minimum wage	**35.6% of all workers (vs 25.3% nationally); 66.4% of women (2018)**
Poverty among workers	**27.4% — the second highest of any sector (vs 20% nationally (2023)**
Core policy challenge	Formalizing enterprises while extending social protection

Sources: Nepal Labour Force Survey 2017/18; Nepal Living Standards Survey 2022/23; National Economic Census 2018.

Why this brief matters

The construction sector is one of Nepal's principal engines of economic growth and employment. It contributes more than 6 per cent of gross domestic product, employs approximately one in seven workers, and has strong backward linkages that stimulate demand across upstream industries such as cement, bricks, metals and transport. Yet despite this economic weight, the sector is defined by pervasive informality that affects enterprises and workers alike.

Many construction workers are employed without written contracts, without occupational safety and health (OSH) protection, and without contributions to the Social Security Fund (SSF). Critically, informality is not confined to unregistered firms: the National Economic Census 2018 found that 78.7 per cent of construction establishments were formally registered, yet survey data show that around 78 per cent of workers in formally registered units still held informal jobs. **Enterprise registration alone, therefore, does not guarantee decent work.**

This brief synthesizes the findings of the sectoral diagnostic and sets out policy options for promoting enterprise formalization while extending effective social protection to construction workers. Its central argument is that these two objectives are mutually reinforcing and must be pursued together as part of a broader strategy to build productive enterprises, decent work and inclusive growth.

Informality in construction: characteristics and drivers

Construction records the highest incidence of informal employment among Nepal's major sectors — 97.5 per cent in 2018, rising to 98.2 per cent in 2023. The dominance of temporary, project-based work, layered subcontracting and daily-wage employment contributes to very high levels of informality and weak compliance with labour law. In 2018, 90.5 per cent of firms employed fewer than 10 people and 42 per cent were home-based enterprises, often operating with limited managerial capacity, restricted access to finance and technology, and narrow margins. For many firms, the perceived costs of formal compliance outweigh the immediate business benefits, particularly where enforcement is weak.

Working conditions reflect the sector's transient structure. Nearly all informal jobs are temporary (99.8 per cent), and 81.9 per cent of informal workers were paid daily in 2018 (Figure 1). Earnings are insecure and often below the legal minimum: 35.6 per cent of all construction workers earned less than the minimum wage in 2018, compared with a national average of 25.3 per cent (Figure 2). Hazardous worksites, limited OSH protection and the absence of employment-injury insurance leave workers exposed to injury, income shocks and poverty. In 2023, 27.4 per cent of construction workers lived in poverty, the second-highest poverty rate after mining and quarrying.

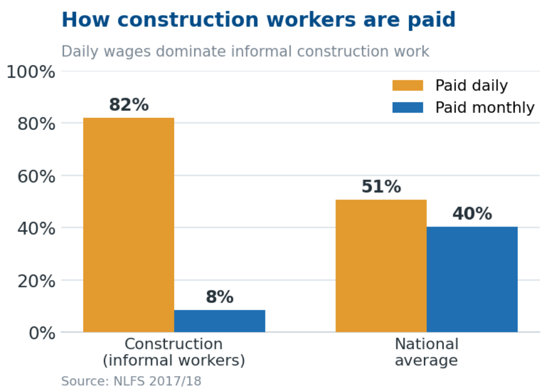

Figure 1. *Daily-wage payment is the norm for informal construction workers.*

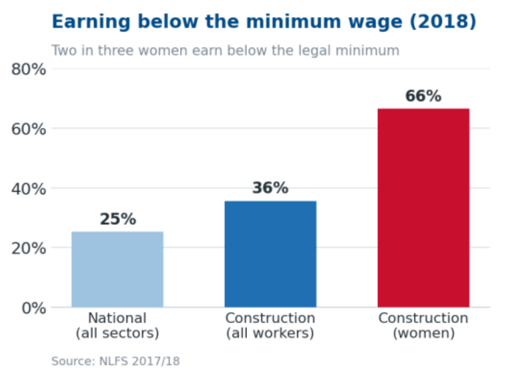

Figure 2. *Below-minimum-wage earning is highest among women in construction.*

Women are markedly underrepresented and disadvantaged. They make up only 10.5 per cent of the workforce, own just 5.1 per cent of enterprises, and are concentrated in the lowest-paid occupations. Two-thirds (66.4 per cent) of women in the sector earned below the minimum wage (Figure 2). Even within the same occupation — building-construction labourer — women earned an average of NPR 13,946 per month, compared with NPR 16,780 for men (Figure 3). Gender-responsive measures are therefore essential to any credible formalization strategy.

Persistent informality also depresses productivity. Limited investment in skills, technology and OSH reduces efficiency and competitiveness, reinforcing a vicious cycle in which low productivity sustains informality and informality suppresses productivity. Only 9.2 per cent of construction employees have vocational training — yet trained workers are far more likely to hold formal jobs and earn significantly more, underscoring skills as a lever for formalization.

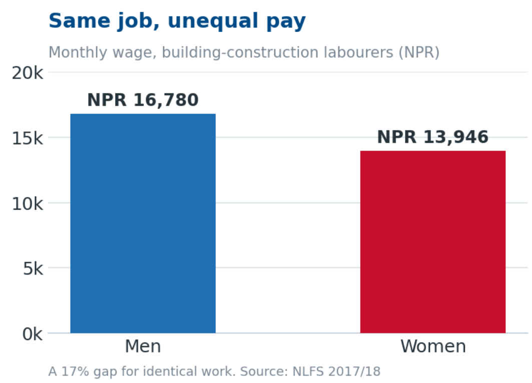

Figure 3. *Women earn ~17% less than men for identical work in the sector.*

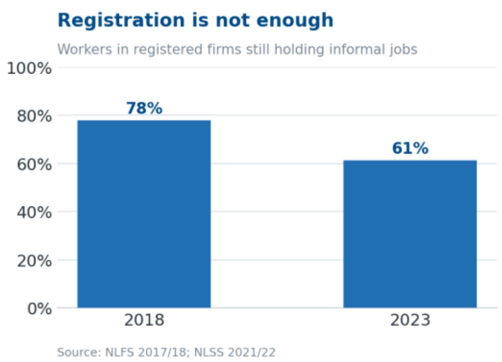

Figure 4. *Even inside registered firms, most workers held informal jobs.*

Box 1. Characteristics of informality in the construction sector

- Informality affects both enterprises and workers — and persists inside registered firms.
- Temporary and daily-wage employment predominates (99.8% of informal jobs are on temporary contracts).
- Layered subcontracting fragments employment relationships and obscures the employer of record.
- Occupational risks are high while OSH protection and injury insurance remain limited.
- Micro and small enterprises dominate (90.5% of firms employ fewer than 10 people).
- Low productivity and limited investment in skills and technology reinforce informality.

KEY POLICY MESSAGE

Reducing informality in construction requires integrated action that simultaneously promotes enterprise formalization, formal employment, OSH, skills development and expanded social-protection coverage. Formalization should be framed as a pathway to higher productivity, better jobs and sustainable enterprise development — not as a compliance burden.

Challenge 1 — Barriers to enterprise formalization

Enterprise formalization is central to improving productivity, creating decent work and expanding social protection. But formalization means more than business registration: it requires compliance with labour law, OSH standards and social-security obligations. The diagnostic shows that although most firms are registered, informal business practices and informal employment remain widespread within them (Figure 4).

High compliance costs and weak incentives deter many micro and small contractors from operating formally. Registration brings taxation, administrative reporting and labour-compliance costs, while the commercial benefits are not always visible for firms working in small local markets. Multi-layered taxation across federal, provincial and local tiers compounds the burden. Meanwhile, extensive subcontracting — the Public Procurement Regulations permit up to 25 per cent of works to be subcontracted but are silent on whether subcontractors must be formal entities or engage workers formally — obscures employer responsibility, weakens accountability and makes labour inspection difficult.

Weak enforcement further erodes incentives. Limited labour-inspection capacity, fragmented institutional responsibilities and inconsistent monitoring allow informal practices to persist, creating unfair competition for firms that do comply. Restricted access to finance, technology and business-development services constrains growth, while shortages of certified skills hold back productivity and the transition to formal employment. The Construction Business Act (1999) merely classifies firms for public tendering; it and the procurement framework do not reach private construction or activity-level labour practices, leaving large parts of the sector outside regulatory coverage.

Box 2. Barriers to enterprise formalization

- High administrative and compliance costs, and multi-layered taxation.
- Limited or poorly designed incentives for registration and compliance.
- Extensive subcontracting and fragmented, activity-level production.
- Weak labour inspection, enforcement and inter-agency coordination.
- Restricted access to finance, technology and business-development services.
- Skills shortages, low productivity and gaps in the legal framework (private construction largely uncovered).

KEY POLICY MESSAGE

Enterprise formalization should be promoted through a balanced approach that combines *simplified regulation, stronger incentives, effective enforcement and better access to business support. Incentive-driven measures — not punitive ones — are most likely to bring unregistered contractors into the formal economy.*

Challenge 2 — Extending social protection to construction workers

Universal social protection is essential for decent work, poverty reduction and productivity. Yet construction workers — highly exposed to occupational risk, unstable employment and fluctuating incomes — remain largely outside effective coverage because informal employment is so pervasive. Temporary and project-based work is the principal barrier: workers move frequently between employers and sites, making registration, contribution collection and continuity of coverage difficult under conventional social-insurance rules.

Because so many workers in registered firms remain informally employed, enterprise registration alone does not secure access to the SSF or statutory protection — stronger labour compliance is the missing link. Construction is also among the most hazardous sectors, yet informal workers routinely lack OSH protection, personal protective equipment and employment-injury insurance. Irregular earnings, mobility and limited awareness of rights and procedures further depress participation in contributory schemes.

Nepal has laid important legal foundations. The Constitution of Nepal, 2015 (2072 BS), guarantees contributory social security as a fundamental right of all workers. The Contribution-based Social Security Act, 2017 (2074 BS), also opened participation to informal-sector and self-employed workers, while the 2023 operating procedure allows informal sector workers' voluntary enrolment with a government co-contribution. The challenge now lies in design and delivery: contribution mechanisms must be adapted to the realities of construction employment through simplified enrolment, flexible contributions and portable benefits that follow workers across employers and projects.

Box 3. Main barriers to social-protection coverage

- Temporary and daily-wage employment with no continuous employment relationship.
- Frequent changes of employer and worksite that disrupt contribution continuity.
- Informality within registered enterprises, leaving workers outside the SSF.
- High occupational-injury risk with limited OSH and injury insurance.
- Irregular earnings and contribution gaps that are hard to reconcile with fixed schedules.
- Limited awareness of social-security rights, benefits and enrolment procedures.

KEY POLICY MESSAGE

Extending social protection in construction requires adapting social-security systems to temporary employment, labour mobility and irregular earnings, while strengthening labour compliance and OSH. Enterprise formalization and social protection must advance together to support decent work and sustainable transitions to formality.

Towards an integrated approach

Reducing informality sustainably requires recognizing the close relationship between enterprise formalization, labour-market governance and social protection. Enterprise registration alone cannot ensure decent work, and extending social protection without improving enterprise compliance is unlikely to achieve durable coverage. Policy must therefore address enterprises and workers simultaneously.

Enterprise formalization should be supported through simplified registration, better access to finance and business-development services, and stronger incentives anchored in public procurement — with compliance obligations flowing down contracting and subcontracting chains. Social protection should be extended by adapting registration and contribution mechanisms to temporary work, mobility and irregular earnings, backed by simplified enrolment, portable benefits and stronger injury protection. Labour-market governance should be reinforced through risk-based inspection, better coordination among labour administration, the SSF and local governments, and improved labour-market information systems. Partnerships among government, employers' and workers' organizations, local governments and training institutions — together with skills certification, recognition of prior learning and awareness campaigns — are essential to support transitions to formality while raising productivity.

Box 4. An integrated pathway to formality

- Enterprise registration → compliance with labour law → written employment contracts
- Social Security Fund registration → OSH compliance → skills development and certification
- Higher productivity and competitiveness → decent work and sustainable enterprise growth

KEY POLICY MESSAGE

Enterprise formalization, labour rights, OSH, skills development and social protection should be pursued through a single, coordinated policy framework. An integrated approach can raise productivity, promote decent work environment, strengthen enterprise resilience and progressively move Nepal's construction sector from the informal to the formal economy.

Box 5. Construction Sector Perspectives on Social Protection: Key Issues Raised by Federation of Contractors' Associations of Nepal (FCAN)

- Workers have limited awareness of their social security rights and benefits. As a result, many are reluctant to contribute 11% of their wages to the Social Security Fund (SSF).
- Although they are Nepali citizens, a significant number of construction workers do not possess citizenship certificates. Consequently, they are unable to open bank accounts, which are required for SSF enrolment.
- Construction work is largely seasonal, and workers frequently move from one employer to another. The existing social security schemes are not adequately tailored to the specific nature and employment patterns of construction workers.
- Many construction workers have limited digital literacy, making it difficult for them to register with the SSF and make contributions through the digital system.
- The construction sector also employs foreign workers, mostly from India. The applicable legal and social security provisions concerning these workers are perceived as insufficiently clear.
- Contractors engage workers either directly or through subcontractors. Contractors consider it difficult to assume responsibility for the social security enrolment and contributions of workers hired and managed by subcontractors.
- There is a perception that the Government has yet to ensure comparable social security coverage for all categories of its own employees, raising concerns among contractors about making SSF participation mandatory for the private sector.
- Contractors perceive a lack of adequate government incentives to encourage SSF enrolment and compliance in the private sector.
- There are also concerns regarding the delivery of social security benefits. For example, workers may face difficulties obtaining prescribed medicines from SSF-accredited health institutions.
- The construction sector has limited representation and participation in labour and social security policy dialogue and formulation processes.
- There is insufficient integration between the social security card/system and other government identification documents and systems, such as the citizenship certificate and National Identity Card.
- Women are disproportionately represented in low-skilled and low-paid work, contributing to the gender pay gap.

Priority recommendations

The following priority actions translate the diagnostic into an operational agenda. They are framed for government at all three tiers, employers' and workers' organizations, and development partners, and are consistent with the ILO Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204).

1. **Make procurement a formalization lever.** Amend the public-procurement framework so that contracts and subcontracts require registered contractors, formal employment arrangements and SSF enrolment, promoting formal-to-formal subcontracting and establishing oversight to track subcontracting chains.
2. **Simplify registration and rationalize taxation.** Introduce single-window registration and a single-window tax approach across federal, provincial and local tiers to cut the compliance burden on micro and small contractors.
3. **Provide incentives for formalization of economic units and employment relationships.** Offer targeted financial and non-financial incentives — including tax relief and improved access to public contracts, credit and infrastructure — especially for micro and small enterprises.
4. **Improve access to finance, technology and business advisory services.** Expand access to appropriate financial products, technology and business-development support, particularly for micro and small enterprises.
5. **Expand skills development and competency certification.** Scale up demand-driven vocational training, recognition of prior learning and competency certification to improve productivity and workers' access to formal employment.
6. **Prioritize OSH and employment-injury protection.** Embed OSH compliance and injury insurance as core conditions of formal work and of public contracts, with enforcement and worker awareness.
7. **Invest in sector-specific skills.** Map skill requirements, expand targeted vocational training and competency certification (including recognition of prior learning), and upskill women and youth to widen access to formal jobs and higher earnings.
8. **Extend the legal framework to private construction.** Amend the Construction Business Act and related laws to cover private construction and activity-level labour practices, mandating registered entities and monitored labour engagement.
9. **Strengthen inspection and coordination.** Build labour-inspection capacity, establish an inter-agency task force for consistent enforcement, and improve labour-market information systems, allowing a transitional period for informal units.
10. **Embed gender equity.** Introduce gender-responsive measures, including pay-equity monitoring, targeted training, and support for women-owned enterprises and women workers.
11. **Localize formalization.** Empower local governments, sectoral associations, trade unions and NGOs to run registration drives, awareness campaigns and localized incentives, coordinated through a strong multi-stakeholder mechanism.
12. **Adapt social security to construction work.** Redesign SSF registration and contribution mechanisms for temporary, mobile and irregular-income workers through simplified enrolment, flexible contributions and portable benefits, while sustaining government co-contributions to support the transition to formality.
13. **Simplify worker registration and enrolment in the Social Security Fund (SSF),** including through digital and worker-initiated enrolment mechanisms.
14. **Ensure portability of benefits and records across employers and projects.**
15. **Raise awareness among workers and employers** about workers' social security entitlements and benefits, while highlighting the advantages for employers of enrolling their employees with the SSF, including the transfer to the SSF of employers' unlimited liability for contingencies covered by the scheme.
16. **Strengthen coordination** among the labour administration, the SSF and local governments**.**
17. **Review and strengthen existing contribution mechanisms for informal-sector workers by introducing greater flexibility in contribution rates and payment frequency.** Consider matching-contribution arrangements in place of fixed government subsidies and establish mechanisms for federal and provincial governments to provide conditional grants to local governments to finance government co-contributions for informal-sector workers.
18. **Uphold the principle of non-discrimination and comply with international instruments** by ensuring access to social security rights for foreign workers, particularly those from India.

Conclusion

Nepal's construction sector is essential to economic growth, employment and infrastructure — yet it remains one of the country's most informal, with informality affecting enterprises and workers alike. Sustainable progress requires integrated measures that simultaneously promote enterprise formalization, decent work and universal social protection.

The diagnostic makes clear that enterprise registration alone is insufficient. Formal firms must also comply with labour law, provide written contracts, ensure OSH and register eligible workers with the SSF; and social protection must accommodate the temporary employment, mobility and fluctuating earnings that define construction work. Framed as a pathway to higher productivity, better competitiveness and improved working conditions — supported by simplified procedures, stronger incentives, effective inspection, skills development and coordinated action across government and social partners — formalization can become an engine of inclusive growth. An integrated approach consistent with ILO Recommendation No. 204 can help Nepal strengthen productive enterprises, secure workers' rights and social protection, and advance a just transition to the formal economy.

Selected references

Central Bureau of Statistics. Nepal Labour Force Survey 2017/18.

National Statistics Office. Nepal Living Standards Survey (NLSS IV) 2021/22.

Central Bureau of Statistics. National Economic Census 2018.

Government of Nepal. Labour Act, 2017 and Labour Rules, 2018.

Government of Nepal. Contribution-based Social Security Act, 2017; Informal Sector and Self-employed Persons Social Security Scheme Operating Procedure, 2023.

Government of Nepal. Public Procurement Act, 2007 and Public Procurement Regulations, 2008; Construction Business Act, 1999.

International Labour Organization. Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204).

International Labour Organization. Extending Social Security Coverage to Workers in the Informal Economy: Lessons from International Experience, 2021

Sectoral Diagnostics of Informality in the Construction Sector (ILO diagnostic report) (unpublished).

ILO. *Informality in Nepal's construction sector promoting enterprise formalization and extending social protection to construction workers*, ILO brief, Geneva: International Labour Office, 2026. © ILO. https://doi.org/10.54394/00035326

Contact information

International Labour Organization
Country Office for Nepal
Dhobighat, Nayabato
Lalitpur, Kathmandu

Tel: +977 1 5970 424
Fax: +977 1 5450 714
E: kathmandu@ilo.org
W: www.ilo.org/Nepal