

Determinants of Informal Workers' Readiness to Transition towards Formal Economy: Empirical Evidence from Nepal

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Abstract

The informal sector in Nepal plays a significant role, encompassing over 70% of the economically active population. However, informal workers face numerous challenges, including violence, exploitation, lack of rights, and inadequate protection against income loss due to sickness or old age. This study examines the readiness of informal business sectors in Kathmandu Valley to transition to formal business sectors. An analytical research design was used, involving 400 respondents from the informal sector. The study evaluated the readiness index based on legal and policy frameworks, socioeconomic status, employment, structuralism, and income status. The findings reveal that informal business owners are generally ready to transition to the formal sector. However, higher income from informal activities is negatively associated with the likelihood of transitioning, indicating that workers earning sufficiently from informal work are less inclined to move to the formal sector. The study suggests that formalizing vocational training, enhancing insurance and security measures, implementing legal policies, and addressing income disparities are crucial steps to encourage the transition of informal workers to the formal economy.

Keywords: Transition economy, Informal sector, Formal economy, Labor market, Logistic regression analysis

1. Introduction

Formal economy refers to all economic activities operating with the official legal framework that pays taxes on all generated income. Formal activities are the diversified set of economic activities, enterprises jobs, and workers that are regulated and protected by states. Workers in a formal economy have an organized system of employment with clear written rules and recruitments, agreements, and job responsibilities. This relationship is long run and maintained through formal contracts. From the government's perspective formal sector poses security, and business certainty, maintains a proper record system, easy to handle and monitor with minimal effort, countries around the world prefer a formal economy to prevail in their territory. From an economic point of view, a government can increase the tax base by incorporating many new enterprises and small businesses into its tax system; and regulating the system to the sector any government wants to want the informal economy to enter into the formal economy.

Despite it being undesired, the informal sector plays a key role in almost all of the economy. Informal economic behavior and arrangements include any invention or transaction of merchandise and services that is not recorded in official statistics and/or disregards principles recognized and regulated by the state. Informal economic activities operate on a small scale and with low capital, often traditional or easy technology, and engagement of family labor in an unorganized way (Hays 1993; Adhikari et al., 2021). Studies show that the nature and characteristics of the informal economy are completely different from country to country and differ from sector to sector (Chen, 2005;

Uruthirapathy & Kiggundu, 2018; Sharma & Adhikari, 2020). For countries, the informal sector is not only an engine of irregular jobs, but it is also gaining ground for the formal sector (Rauch, 1991; Welter et al., 2015). As Chambwera et al. (2011) this sector accounts for half of global employment and in poor developing countries over 90% population is engaged in this sector for their employment and livelihood. In Nepal, the informal economy accounts for over 70 percent of the economically active population (Adhikari, 2018). Ulrichs (2016) argued that the informal sector is the engine of jobs that helps to reduce work deficits. ILO (2014) also mentioned that, worldwide, those laborers who have lost their jobs in the formal economy enter to informal economy for their livelihoods because of a lack of alternatives. It is increasing illegal practices in many parts of the world, leading to an increase in illicit jobs in both informal and formal sectors (ILO, 2014).

Being informal is not easy (Thomas, 2001). In the informal economy, workers are prone to violence and are stripped of many of the fundamental rights at work (Brown & McGranahan, 2016). Decent Work deficits take the form of unemployment and underemployment, poor quality and unproductive jobs, unsafe work and insecure income, rights that are denied, and gender inequality. Many migrant workers are particularly vulnerable to exploitation, lack representation and voice, and inadequate protection from income loss during sickness, disability, and old age. It is a potential threat to the workers involved in an informal economy. Further, in informal staff the majority is deprived of secure work, edges for staff such as pension funds and treatment, social protection, and illustration or voice (Kudzai Ngundu, 2010). Though decent work deficits are most pronounced in the informal economy still people, especially in developing countries, are compelling to engage and be involved in this sector as they don't have basic livelihood options. If they are not engaged in this sector, they have difficulties to survive. In Nepal, workers in the informal sector often lack formal contract letters of appointment and legal provision of protection. Their job is characterized as verbal contract-based, irregular employment, uncertain wage rates with low income, long and uncertain working hours with many other attributes (ILO, Social Protection for People in the Informal Economy of Nepal, 2004).

Increasingly, transition to formality has emerged as a priority policy agenda in developed and developing countries, and new policy initiatives and approaches are taken in different regions that facilitate this transition through multiple pathways. The term 'informal' has already called for us to turn it into 'formal' form. For this, the state should first take an initiation. State such as Nepal, where more than 70% of the population is in the informal sector, structural labor force growth cannot be anticipated without placing it on structured frontiers. That is why as Chen and Chen (2004), appropriate legal frameworks should be in place to cover all informal markets.

Arguments against the informal sector are that it is not organized and disrupts the market and labor in terms of work conditions and wages. It demands government support and initiatives to formalize the informal sector which can be done by providing skill training, awareness raising, and logistic support as needed by the people working in the informal sector (Sakamoto & Sung, 2018). A recent study made by Adhikari et al. (2021) shows that Nepalese entrepreneurs involved in informal sectors are ready to move towards the formal sector, but administrative problems are hindering them. Despite several talks, the informal sector-related study is always demanding and trying to create new avenues to integrate the sector into the formal sector. For this, proper assessment is required as mentioned by Adhikari et al. (2021) that helps to explore the entrepreneurs engaged in the informal business sector to move into the formal business sector. The informal part of the economy of Nepal is extremely large and rises relative to its tiny formal equivalent. In this light, this study aims to analyze the readiness of informal business sectors towards formal business sectors in Kathmandu Valley.

This study uses a binary logistic model to visualize the shift to the formal from the informal sector. The readiness Index considering legal and policy framework, socioeconomic status, employment status, structuralism status, and income status indicates business owners in informal sectors are ready to transfer to the formal sector. Also, the result from the logistic model indicates workers' readiness with their level of education, marital status, and work experience, but contradicts the income earning from the informal sector to transition towards the formal economy.

The further part of this paper is organized as; the second section includes methodology, followed by results, discussion, and finally conclusion in the last section.

2. Methods

2.1 Theoretical & Conceptual Debates

Despite its negative perceptions of non-compliance, illegality, social exploitation, and marginalization, the informal sector contributes significantly to the economy of developing countries (Darbi et al., 2018) thus several debates are going on about the movement of informal sectors toward the formal sector. In that sense, five major hypotheses tend

to inform theories on the movement of enterprises from the informal to the formal business sector, particularly: role theory, dual labor market theory, organizational theory, institutional theory, and the transaction cost theory. Firstly, the role theory explains roles by suggesting that persons are representatives of social positions and have beliefs about their actions and alternative men. In recent fieldwork, a minimum of five views could also be discriminated against practical, symbolic interactions, structural, structural, and psychological role theory of features. The proliferation of position research represents logical principles and developed concepts, and the study is checked on four specific theories: consensus, alignment, contrasting positions, and role-taking. Second, the dual labor market hypothesis asserts the prevalence of a major low-wage (secondary) economy in which there are no educational returns and no non-economic incentives for employees to seek higher-paying (primary) jobs through work coaching. Workers are essentially divided into two groups, according to twin market economists: those with low incomes, hazardous working conditions, precarious labor, and few possibilities for advancement (secondary jobs), and those with relatively high wages, safe working conditions, and opportunities for advancement to higher paying jobs (main occupations) (Doeringer and Plore, 2020).

Thirdly, the organizational theory fulfills different personal goals, programs, and operational strategies. Farmers' markets as a social structure that connects formal and informal economies are organizationally complex. The results reflect the diverse nature of farmers' markets for full-time growers, part-time farmers, and non-farmers, craftsmen, and artisans. The farmer markets accomplished social and economic purposes for all vendors. Likewise, the fourth theory deals with the institutions and their patterns of work. The regulatory system consists of both institutional frameworks, including codified rules and laws, and informal bodies, encompassing more tacit financial, economic, and interpersonal norms, and theorizing that a corporation's business environment consists of both a structured corruption atmosphere (FCE) and an informal corruption environment (ICE) and the fifth is transaction cost theory that describes how companies develop as a reaction to three transaction dimensions: property uncertainty, variability, and tempo. Regulation should inevitably follow vertical integration in the basic framework, but how regulation (or enforcement) is achieved in partnerships between non-integrated companies is much less obvious (Heide & George, 1992). The concept of competitive games partly addresses these shortcomings (Steer & Sen, 2010). Thus, organizational theory better manages an economy's circumstances and fortunate scenario as it analyses companies to identify the best ways to solve problems and think about improving productivity and efficiency. Once a company has an opportunity to grow it begins to grow and changes the economic balance by catapulting it forward. This development leads not only to changes in the organization's infrastructure but also in competing organizations and culture as a whole.

Based on the theory discussed in the earlier part of this section still, some issues seem to remain unaddressed such as; whether long-term or political factors impact the decision of owners to formalize their business or not (Richbell, Watts, & Wardle, 2006). In other terms, motivations are the factors for formalization that may include, among other items, business owners' dreams and desire to grow their businesses. There are challenges to contend with if the owner/manager decides to formalize (USAID, 2005). Also, USAID (2005) depicted that challenges include regulatory, bureaucratic, and tax issues amongst others. It is further suggested that an informal business' ability to successfully resolve such obstacles would rely on some of the owner's and/or managers' context variables (Vuvor & Ackah, 2011). At the end of the day, a firm's managers with the potential ability to overcome obstacles will progress to a formal corporate structure (Scott, 2017). Companies whose shareholders or administrators lack the necessary qualities, on the other hand, may remain in informal sectors due to their inability to cope with the circumstances (OECD, 1996). Entrepreneurial focus, strategic orientation, educational level, and networking skills are some of the characteristics that help owners overcome problems. If all other factors are equal, 'master' companies will gain from formalization benefits, while, among other things, improved job creation, tax contributions, and donations to social responsibility will benefit society as a whole. If a company fails to graduate, it will continue to produce only a minimum level of income for its shareholders while avoiding taxes and other obligations (Dzansi & Tasssin-Njike, 2014).

The informal economy's characteristics are mostly negative by definition (Alderslade, Talmage, & Freeman, 2006). It has the potential to lock people and organizations in a cycle of poor productivity and poverty (Mehrotra & Biggeri, 2002). The cost of casual employment is high for businesses, people, and the environment, according to a comprehensive national strategy for pushing improvements in formality (Adams, Silva, & Razmara, 2013). From the perspective of disadvantaged labor, the disadvantages of working in the informal economy far outweigh the benefits (Williams, 2016). Because they are not recognized, registered, regulated, or protected under labor and social protection regulations, they are unable to enjoy, exercise, or defend their fundamental rights. They have little or no collective representation in front of employers or government bodies because they are not generally organized.

Employees and consumers in the informal economy are linked to the global economy in a variety of ways, which has an impact on the degree of insecurity among economic units and workers in the informal economy, as well as the functioning and capability of actors in the informal economy, and the transitional paths to formalization (Stuart, Samman, & Hunt, 2018). As a result, changes in domestic aggregate demand decreases in credit flow, drops in international commerce, and other aspects of the economic crisis have a significant impact on informal economic activity, as they do on others. Workers in the informal economy, on the other hand, have few options for dealing with the crisis-induced drop in household income, and they require immediate assistance and social protection benefits (ILO, 2014).

2.2 Empirical framework

For the empirical framework, a binary logistic model was used for data analysis. We use a binary logistic model to visualize the shift to the formal from the informal sector. The binary logistic model is based on a latent variable that continues. The study used the binary logistic model to investigate and determine the effect of the descriptive variables of education, age, sex, marital status, occupation, work experience, motivation, and working environment on the income of individuals and the impact of each variable on the probability of individuals (Mohammadi, Torabi, & Dogani, 2015).

The binary logistic model was chosen for empirical analysis of the study to discover the significant variables that determine the readiness of the informal business sector to transition to the formal business sector. The model is given as:

$$Y = \alpha + \beta_1 \text{ income} + \beta_2 \text{ age} + \beta_3 \text{ sex} + \beta_4 \text{ education} + \beta_5 \text{ marital status} + \beta_6 \text{ occupation} + \beta_7 \text{ work experience} + \beta_8 \text{ motivation} + \beta_9 \text{ work environment} + E$$

Where, Y= Probability of the outcomes, $\beta_1 \dots \beta_9$ = Coefficient and E = error

The hypothesis used for the study below is:

H₀₁: Age has no significant relationship with income.

H₀₂: Sex has no significant relationship with income.

H₀₃: Education level has no significant relationship with income.

H₀₄: Marital status has no significant relationship with income.

H₀₅: Occupation has no significant relationship with income.

H₀₆: Work experience has no significant relationship with income.

H₀₇: Motivation has no significant relationship with income.

H₀₈: The working environment has no significant relationship with income.

Table 1 showcases various variables (dependent and independent) used in this study.

Table 1: Variables and Expected Sign of Variables

Variables	Description	Value	Expected sign
1. Income	Income from the informal sector	High = 1, Moderate = 2, Low = 3	±
2. Age	Age of the respondent	Continuous	±
3. Sex	Sex of the respondent	Female = 0 Male = 1	+
4. Education Level	The education level of the respondent	Primary = 0, Secondary=1, Higher Secondary = 1, Bachelors = 1, Masters and above = 1	+
5. Marital status	Marital status of the respondent	Married = 1 Others= 0	±
6. Occupation	Occupation of the respondent	Agriculture = 0, Business = 1, Service = 1, Industrial worker = 1, Others = 1	+
7. Work experience	Experience of the respondents	In years	+
8. Motivation	Respondents motivation	Yes=1 No=0	+
9. Working environment	The working environment of respondents	Yes=1 No=0	+

2.3 Study Area and Population

Kathmandu Valley is considered an area of study for this research. It is the country's capital and is located in the country's central region. It lies at an average elevation of roughly 1,300 meters (4,265 feet) above sea level and is found at latitudes 27° 32' 13" and 27° 49' 10" north and longitudes 85° 11' 31" and 85° 31' 38" east (Paudel et al., 2020). For many informal micro-entrepreneurs, Kathmandu has become a land of opportunity. There are three main informal sector areas inside the Valley which are Bhaktapur, Lalitpur, and Kathmandu itself. According to (an NEST) representative, street vendors alone registered in the Kathmandu Valley 30,000 (about 3 percent of the economically active population) Nepal's Central Bureau of Statistics (CBS) regular data collection system does not cover the informal sector that consists of households with at least some market output. The informal sector details were revised with the data collected through the Nepal Labor Force Survey (2008). The NLFS (2008) reports that the informal sector hires above 11 million people aged 15 years and older, with a share of around 96.2 percent of the total workforce. However, this also indicates that more than 76 percent of this overall informally employing community is active in the agricultural sector and that about 24 percent are working in the informal non-agricultural sector. Based on the estimation of the value added per worker and the total number of informally employed people, the informal sector's share of total GDP is calculated at around 51.47 percent. The importance of the informal sector to Nepal's overall economy is therefore highly significant (Suwal & Pant, 2009).

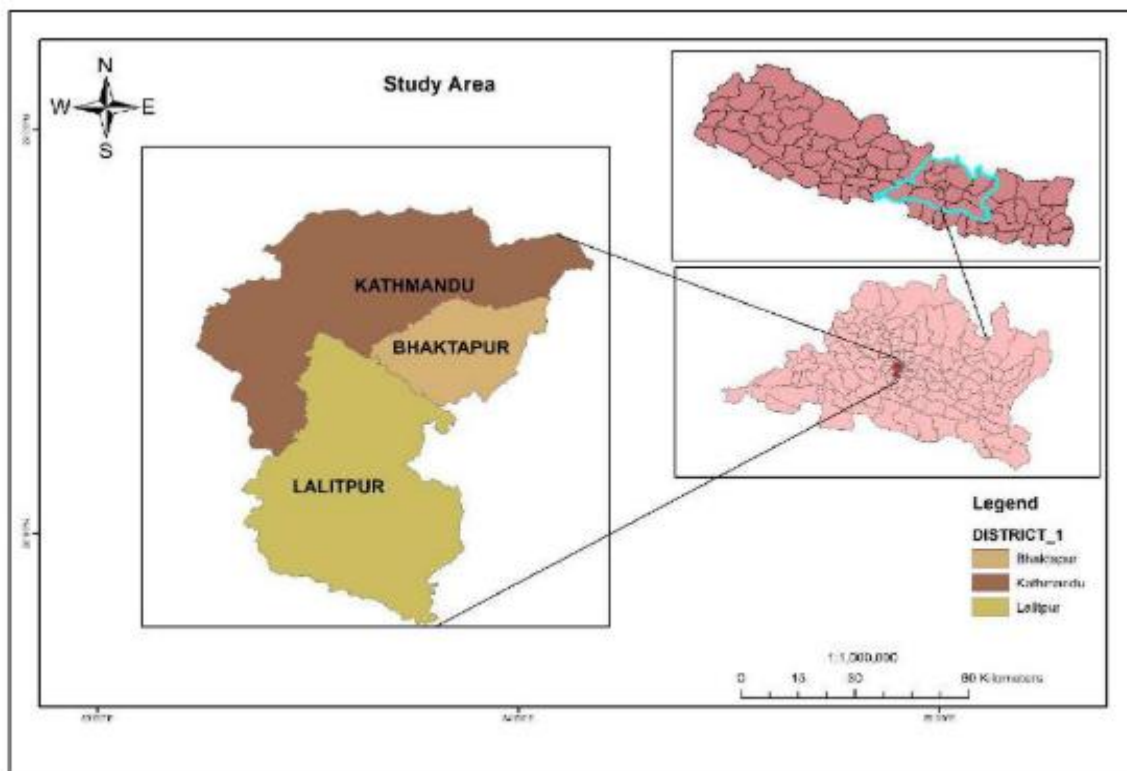


Figure 1: Map of Kathmandu Valley

The purpose of this study is to examine entrepreneurs' perspectives on informal business with a high degree of informal practice experience and expertise, and the target demographic is informal business entrepreneurs in the Kathmandu Valley. This study uses stratified random sampling was adopted. Due to the large variation within the population of interest, a stratified random sampling strategy was adopted in this study. According to Wilson (2014), stratified random sampling is frequently utilized when there is a lot of variance within a population and each stratum needs to be effectively represented. As a result, using this sample strategy to verify that each stratum or category of interest was adequately represented seemed appropriate. The demographic under consideration in this study is Kathmandu Valley's informal sector entrepreneurs.

The study covered all categories of the Informal sector, including self-employment, casual labor, and unregulated employees, according to the working definition of the Informal sector stated in section 2. As a result, the population boundary is defined as all informal sector entrepreneurs in Kathmandu Valley who have at least one employee and are the owner/manager of a business involved in manufacturing/processing, services, or retail. Nonetheless, due to the informality of such a sector in Kathmandu Valley and the lack of credible records/databases from which to draw information, determining the total population estimate proved difficult.

2.4 Sources and Nature of Data

For the analysis of data, both primary and secondary sources are used. The characteristics of the informal business sector, as well as its typologies, have been properly structured according to the type and goal of the study, as has the desired demographic and sample design. The survey questionnaire was created after a thorough assessment of the literature and well-known publications on the topic. To determine the survey's relevance, several experts, including the study supervisor, were requested to assess the quality and importance of the suggested questionnaire. Secondary data was also used to confirm the study's findings. National Planning Commission (NPC) report, Ministry of Local Development (MoLD), population census, Nepal Labor Force Survey (NLFS), International Labor Organization (ILO) standards based on the United Nations 1993 System of National Accounts (SNA), Central Bureau of Statistics (CBS): Survey of Small Manufacturing Establishments 1999/2000), Federation of Nepalese Chamber of Commerce and Industries (FNCCI).

Considering the nature of the study, we depended primarily on the primary data, since there are no such detailed data available for the informal sector in Nepal. Since the activities of the informal sector are found in rural and urban settings, we included both of these in our study. Throughout Nepal, the informal sector is split into two main parts: the urban informal sector, and the rural informal sector. Non-agricultural business activities in Nepal's rural area are conventional and minimal, but a greater proportion of the population lives in this field, while non-agricultural small business activities in the urban informal sector are diverse and new in comparison with rural activities. We want to quantify the results and therefore we would use appropriate techniques for this purpose.

The study is based largely on primary data that was obtained by using a structured interview schedule. The sample size for the study was calculated using the formula: $n = z^2pq/l^2$ (Adhikari et al., 2021). Where n_0 represents the sample size required for the investigation, z represents the standard tabular value for a 5% level of significance ($z = 1.96$), and p represents the prevalence or proportion of an event 50 percent = 0.50. (More et al., 2012), As a result, $P=0.5$ and $q= 1-p, = 0.5$, Allowable error to be accepted (e) = 5%. So, total population $n_0 = z^2pq/l^2 = (1.96)^2 0.50.5 / (0.05)^2 = 384.16$, Non-response error 5%, i.e. $384.16 * 5 / 100 = 19.208$. As a result, the sample size for this investigation was $(384.16 + 19.208) = 403.368 (403)$.

Key informant interview was facilitated following the preparation of the survey questionnaire based on literature reviews to determine whether the current research has covered informal sector challenges in Kathmandu Valley. The KII was done with an expert in the related field and the methodology was designed based on their recommendations. For data collection from entrepreneurs in the relevant businesses, a detailed questionnaire has been created and planned. Each interview begins with a summary of the study and the objectives of the research effort. To address the advanced problems of empirical research and the hypotheses controlling this study, the data is tagged, cleansed, and exposed to a series of statistical techniques. In this regard, the statistical analysis performed in this study was categorized into: descriptive statistics and inferential statistics based on multiple latent structures using binary logit. Data analysis is carried out using STATA software, and data entry and test tabulation are carried out using Microsoft Excel. Below is information on how each of the operations is carried out.

3. Results

3.1 Socio-Demographic Analysis

In this study, as suggested by Bergman & Strulovici (1970) age, sex, marital status, education, occupation, income, and working experience is considered under socio-demographic analysis. Among 400 respondents, surveyed from various locations of Kathmandu Valley, most of them are male (79%) and 21% are female. One of the most important characteristics of workers in the informal economy is their age. This study observed that the maximum number (41%) of respondents involved in the informal sector were from the age group 20-29 years. Similarly, another age group involved in the informal sector is 30-39 years (27%) and 40-49 years (14%). It indicates that in Nepal, people in the active labor force are involved massively in the informal sector. It is not a good message because, in the long run, it may hamper the future of young youth. Hence, causes unemployment and poverty. It is observed that a total of 70% of the respondents are married and the rest 30% are unmarried. The study suggests that the involvement of married ones in informal business is not a good message because if their business collapses, or closes, due to changes in government policy, municipal rules, expansion of roads and removal of informal business, other pressure, etc. then they will be unable to earn which means their family, child education, health condition and living standard will get affected (David, Ulrich, Zelezeck, & Majoe, 2012).

37.25% of respondents involved in this sector hold education up to the secondary level. However, according to Medina & Suthers (2008), secondary-level education is not enough for mature thinking and strong business activities because the higher the education level, the higher be thinking capacity and business development and promotion. Another interesting finding of the study is that people who received a higher level of education have not been involved in the informal sector. It indicates people with a high level of education prefer the informal sector. Thus, to control or manage the informal sector, the promotion of education is vital (Skills, 2012). Street sellers and home-based workers (such as dependent subcontractors, independent own account producers, and unpaid workers in family businesses) are frequent types of jobs in the informal sector. From this study, it was found that the majority of respondents (225) were found involved in business and a minority of respondents were found engaged in agriculture and industrial work.

Further income from informal sectors was found to be vulnerable as 142 respondents earned 20,000- 29,000 NRs. which is not sufficient enough for them. That means just to survive they are being involved in this sector. More than 35.5% of individuals are involved in this sector in comparison to the National Standard which means below 30000 is just money to survive a family. Also, it was found that only a minimum i.e. 9 respondents were found to be involved themselves in the informal sector for the long term. Those who work for a long time automatically leave the informal sector. They seem involved in the informal sector just for their livelihood in the short run. In the long run, they are not very interested in such a sector because of its uncertainty (Weiss, Klein, & Grauenhorst, 2014).

3.2 Status of Informal Sector in Kathmandu Valley

The reason for the involvement of people is determined by the percentage of people being familiar with the informal sector and the source from which they have come to know about it. This section is in the form of a Yes/ No question where people have stated their opinion and 100% of respondents stated that persons being familiar with informal sectors also involves them in the informal sector. In that sense, figure 2 illustrates almost 100% of respondents i.e. 399 have said that if barriers to transition to the formal economy could be eliminated then entrepreneurial potential and creativity could flourish. Furthermore, all 399 respondents believed that decent work shortages are particularly severe in the informal economy.

Almost every respondent has agreed on the statement decent jobs should be promoted in a formal economy by employers. Respondents also stated that employers should encourage the formal economy to create excellent jobs. The vast majority of respondents agree that the growth of decent jobs in the formal economy should be encouraged, with only one respondent disagreeing as a small response.

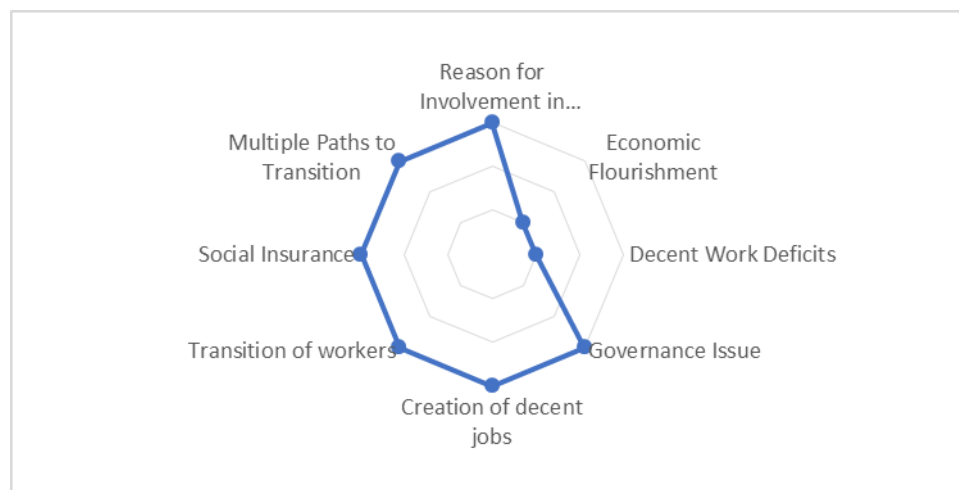


Figure 2: Status of Informal Sector in Kathmandu Valley

As seen in the figure, most of the respondents agreed that it is critical to facilitate worker and economic unit migrations from the informal to the formal economy. This assertion is supported by none of the responders. Similarly, only one respondent is unsure whether or not it is necessary to support worker and economic unit transitions from the informal to the formal economy. As a result, for the vast majority of workers, Social Security will be their only source of guaranteed retirement income that is not susceptible to investment risk or market fluctuations. The majority of respondents (about 100 percent) agreed that there are numerous paths to transition from the informal to the formal sector depending on the individual country's environment and preference, while only one person said no to the statement.

3.3 Readiness Index

How Question Asked This section includes a readiness index that depicts the informal sector's preparation for the formal sector. The readiness index was developed considering the following factors into consideration: legal and policy framework, Socioeconomic status, employment status, structuralism status, and Income status.

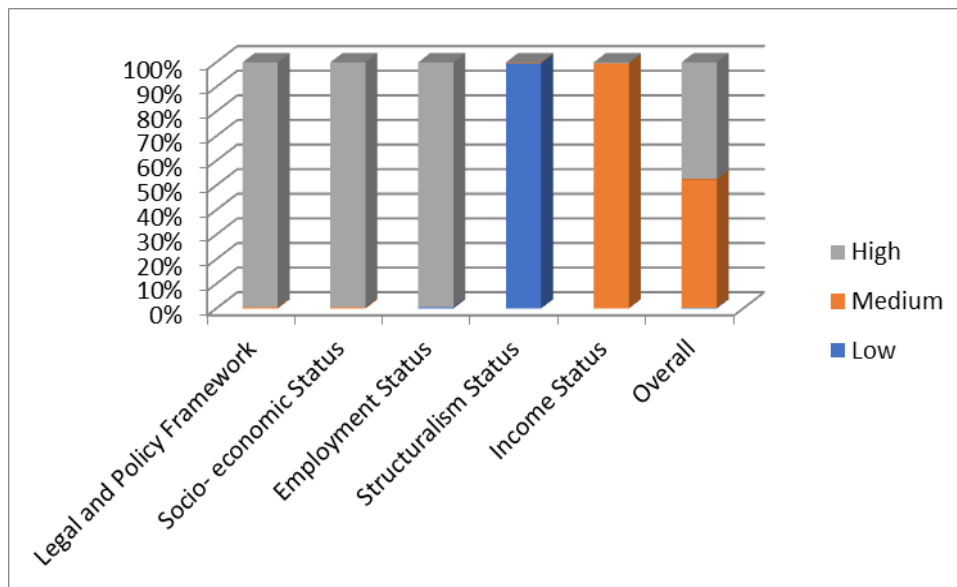


Figure 3: Readiness Index

Finally, the overall readiness index was also developed. From the perspective of legal and policy framework, socioeconomic status, and employment status readiness index was found to be high whereas, readiness for structuralism status was found to be low and income status was found to be medium. The overall readiness level of the informal sector was also determined and examined using the readiness index in this study. Among the total respondents, 0.25 percent of respondents believe there is low readiness in the informal sector, whereas 54 percent believe that there is moderate readiness in the informal sector, and finally 45.75 percent believe that there is high readiness in the informal sector.

3.4 Econometric Analysis

The binary model estimates the determinants of workers' readiness to transition towards a formal economy. Before final estimation, the available data were cross-checked using pre and post-estimation tests. The Pre-test consists of specification error to find out the mode appropriateness, goodness of fit to identify normal distribution of sample data, and other diagnostic testing including count R^2 ; and found that all the variables and samples provide meaningful results. Further, we perform a post-estimation test – Multicollinearity and Heteroscedasticity. The test result of Multicollinearity (Mean VIF = 1.52) and Heteroscedasticity (Prob>Chi² = 0.0018), indicates that the dataset has only the issue of Heteroscedasticity. As a result, in our final regression, we estimate a robust standard error test to solve the problem of Heteroscedasticity in our dataset. The final results are presented in Table 3.

Final Logistic Regression Estimation:

The regression result (Table 2) indicates that informal workers' level of education, marital status, and work experience are positively associated with their readiness to transition toward a formal economy. The positive sign of the marginal effect of these three variables indicates that the probability of shifting workers engaged in the informal sector towards the formal economy increases with the upgrade of their family's education level, marital status of the workers, and long-time work experience in the informal sector. More in detail, if workers involved in the informal economy have a higher level of education their readiness towards the formal economy is three times higher compared to those having less education. Similarly, the readiness of married workers is 2.75 higher compared to unmarried ones, and long-year work experience with 1.06 times higher compared to less work experience. On the other hand, income-earning status is found to be negatively associated with the transition towards a formal economy, meaning that informal workers have a lower probability of transition towards a formal economy if their income level is sufficiently high from the involvement in informal sector activities.

Table 2: Final Regression

VARIABLES	(1) Logit Coeff	(2) Odds ratio	(3) Marginal effects
Income	-5.59e-05*** (1.21e-05)	1.000*** (1.21e-05)	-1.13e-05*** (2.23e-06)
Age	-0.0208 (0.0178)	0.979 (0.0174)	-0.00421 (0.00360)
Sex	-0.124 (0.291)	0.884 (0.257)	-0.0251 (0.0591)
Education Level	1.075*** (0.370)	2.929*** (1.085)	0.218*** (0.0723)
Marital Status	1.015*** (0.319)	2.758*** (0.880)	0.206*** (0.0618)
Work Experience	0.0623** (0.0246)	1.064** (0.0262)	0.0126*** (0.00487)
Motivation	-0.248 (0.280)	0.781 (0.219)	-0.0502 (0.0566)
Working Environment	0.00845 (0.297)	1.008 (0.300)	0.00171 (0.0602)
Constant	-0.375 (0.743)	0.687 (0.511)	
Observations	399	399	399

Robust standard errors in parentheses

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

4. Discussion and Conclusion

In Nepal, the informal economy is largely outside rules and laws. The 2048 Labor Act seems to have little meaning for workers in the informal economy, other than as a conceptual structure. Data and figures related to the protection of workers' rights in the informal sector are very case-specific and segregated, if available at all. There seems to be no holistic study available. On the government side, little has been done to resolve the concerns of informal workers, which is in line with the absence of legislation addressing the informal economy and contrasts with the formal economy. Considering the large number of informally working Nepalese employees, this leaves most staff vulnerable.

A deep-rooted problem is the informal economy, especially undeclared labor. Kathmandu Valley's recent halt in the transition from the informal to the formal sector demonstrates the informal economy's great resilience (Parajuli, 2015). Therefore, policies aimed at the transition to formality and the reduction of undeclared work require long-term engagement and ongoing efforts by all stakeholders. Above all, the political will to change the current situation should be solid. A national plan for ensuring comprehensive social security should be established to effectively tackle the informal economy (ILO, 2019). Two goals should be met by such a plan. First, the national plan should strive to gradually expand social security coverage to the informal economy's currently uncovered population (Angelini & Hirose, 2004). Second, by strengthening the compliance and contribution selection of the social security systems, the national strategy should resolve the problem of undeclared jobs. Taking into account current coverage gaps, target group requirements, gender concerns, budget limitations, and implementation capacities, the strategy should formulate and prioritize its course of action and outline a short- and long-term implementation plan (Government of Nepal, 2018). From the overall study, we found that there is a need to examine not only the informal business sector but also it is necessary to have a deeper knowledge of the impact of the informal sector and its transition to formality (ILO, 2009). It is probably not too far from the mark to suggest that most micro-enterprise systems currently represent those people who have already taken measures to formalize their enterprises (or are willing to consider them).

Based on the conclusion derived from the study following recommendations are put forward this study: Launch a research agenda and action plan to examine and introduce policies that help small informal companies boost their efficiency while promoting modernization by large informal actors, Start a kind of realistic public-private conversation that can expose aspects of a public-private bargain that boosts both public efficiency and public finance private donations. Such a dialogue must involve players from the informal economy in the face of this shared need for change and not be limited to voters based on maintaining the status quo. Similarly concerned authorities should continue to establish staff training and business service systems to improve the ability of disadvantaged stakeholders and improve the efficiency of the smallest businesses along the spectrum (as mentioned above), but not to formalize

or tax them. Implement the requisite incentives and reform packages to promote the progressive formalization of large or sophisticated informal enterprises.

Examine trade policies for elements that encourage illicit trade and seek changes in governance, such as cross-checks between customs and tax authorities, which can make trading networks more open and better integrate emerging countries with the global economy. At the same time, attention should be given to the effect of informal trade on the income of poor border regions, and alternative sources of income should be considered. To promote greater regional policy cooperation, regional integration efforts should be mobilized to avoid the kinds of distortions that set the stage for smuggling between member countries. Poverty eradication strategies targeting women-headed households should be developed at the government and municipal levels. The social policy system supporting the integration of social and economic development should guide such strategies. The government and the municipality should make the registration of enterprises in the informal economy simpler. To encourage individuals to register their informal enterprises, Citizens should be informed and educated about the registration process, and incentives should be provided to encourage them to register. In alliances, states, local municipalities, and non-governmental organizations can collaborate to provide skills creation and training in business management and entrepreneurship skills, as well as other skills to improve the human resources of households.

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