



Informal Employment Trends in Nepal

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Abstract

The paper assessed both formal and informal employment trends based on panel data (1991-2022) estimated by ILO model. Various forms of employments (e.g., labour force participation, employment to population ratio, unemployment, wage and salaried workers, self-employed workers, contributing family workers, vulnerable employment and employment by economic classes, and contribution of informal economy to GDP) are presented and discussed statistically. Over the years, level of poverty is declined considerably. Indirect techniques such as MIMIC and DGE models were used to estimate the proportion of informal economy to GDP, suggesting Nepal is in the second position after Sri Lanka among the South Asian countries.

Keywords: Formal, employment, informal, poverty, vulnerable

1. Contextual Issues of the Study

Formal employment includes employees who perform tasks that fall under the category of “paid employment jobs”—those for which the incumbents have written or oral employment contracts—or implicit employment contracts—that provide them with a base salary independent of the unit for which they work—are considered employees (ILO, 1972) (7 in Figure 1).

If an employee’s employment relationship is not subject to national labor laws, income taxes, social security, or certain employment benefits (such as paid annual or sick leave, severance pay, advance notice of termination, etc.), then it is deemed to be informal. The underlying causes might be the failure to declare the employment or the workers; temporary or casual employment; employment with hours worked or

pay below a certain level (for social security contributions, for example); or the actual non-application of laws and regulations (Hart, 1973; ILO, 1972).

From informality perspective, there are three types of employment (informal employment, employment in the informal sector, and informal employment outside the informal sector) which are related to informal sectors as shown in Figure 1.

- i. Own-account workers employed in their own informal sector enterprises (3 in Figure 1),
- ii. Employers employed in their own informal sector enterprises (4 in Figure 1),
- iii. Contributing family workers, irrespective of whether they work in formal or informal sector enterprises (1 and 5 in Figure 1),
- iv. Members of informal producers' cooperatives (8 in Figure 1),
- v. Employees holding informal jobs in formal sector enterprises, informal sector enterprises, or as paid domestic workers employed by households (2, 6, 10 in Figure 1),
- vi. Own-account workers engaged in the production of goods exclusively for own final use by their household (9 in Figure 1),
- vii. Producers' cooperatives are considered informal if they are not formally established as legal entities (8 in Figure 1).
- viii. Activities of contributing family workers (5 in Figure 1) and employees (2 in Figure 1) in formal sectors are classified as informal if their economic units are part of the informal sector, and jobs are not protected or recognized legally by an employer.

Figure 1
Conceptual Framework for Tracking Informal Workers

Production units by type	Job by status in employment									
	Own-account workers		Employers		Contributing family workers		Employees		Members of producers' cooperatives	
	Informal	Formal	Informal	Formal	Informal	Formal	Informal	Formal	Informal	Formal
Formal sector enterprises		7		7	1		2	7		7
Informal sector enterprises (a)	3		4		5		6	7	8	
Households (b)	9						10	7		

As defined by the Fifteenth International Conference of Labour Statisticians (excluding households employing paid domestic workers).

(a) Households producing goods exclusively for their own final use and households employing paid domestic workers.

Note: Cells shaded in dark grey refer to jobs, which, by definition, do not exist in the type of production unit in question. Cells shaded in light grey refer to formal jobs. Un-shaded cells represent the various types of informal jobs.

Informal employment: Cells 1 to 6 and 8 to 10.

Employment in the informal sector: Cells 3 to 6, 8.

Informal employment outside the informal sector: Cells 1, 2, 9 and 10.

Based on the 2017/18 Labour Force Survey (GoN, 2019), about 62 percent of individuals aged 15+ were employed in informal sector (based on households) where the proportion of females (66.5 percent) is higher than that of counterpart males (59.7 percent) whereas the proportion of males (40.3 percent) is high as compared to corresponding females (33.5 percent) in the formal sector. In this context, the paper aims to assess the indicator of status in employment—which is used to identify people in vulnerable employment—distinguishes between three categories of the employed: (i) wage and salary earners; (ii) family workers who contribute; and (iii) self-employed workers, comprising self-employed workers who have employers as employers, self-employed workers who have own account workers as employers, and members of producers' cooperatives.

2. Scientific Understanding of Informal Economy

Government of Nepal has published various employment trends using census data (NSO, 2023). From informality perspective,

four main schools of thought or theoretical models on the nature and structure of the informal economy have emerged from various debates on the subject across the literature (Chen, 2004; Chen, 2012; Williams and Lansky, 2013; Williams and Round, 2010). Based on the ideas of British economist Lewis (Slot, 2010), the Dualistic or Modernized School holds that informality is a residue of pre-modern economies and will disappear as economies modernize (Slack and Jensen, 2010).

According to structuralism or globalization theory, formal firms' attempts to lower labor costs and boost (international) competitiveness, their response to government regulation of the economy (such as tax and social laws), the process of industrialization (such as subcontracting chains) and flexibilization (Castells and Portes, 1989), and other factors are all responsible for the persistence and growth of informal production relations (Chen, 2004). People who consciously choose to work informally in order to avoid the expenses, time, and effort of official registration are considered to be part of the informal economy by the neoliberal or legalist school (Chen, 2004; Chen, 2012).

According to Williams and Martinez (2014) and Williams and Round (2010), rational economic agents choosing to freely leave the formal sector is seen as the reason behind the expansion of the informal market, rather than a result of involuntary exclusion (cf. structuralist school). For non-financial reasons, this post-modern viewpoint or post-structuralist theory claims that own-account informal work is done for and by family members, neighbors, friends, and acquaintances (Williams & Lansky, 2013; Williams et al., 2012; Williams, 2010). Although there are informal economic activities, the majority of information about them is found indirectly in the literature on organized crime (Shapland et al., 2003), migrant workers in agriculture and horticulture (Albrecht, 2003), and street selling (Bhowmik, 2005, 2010; Williams & Gurtoo, 2012). Prostitution and sex work are not typically associated with the informal economy, though they are (Daalder, 2007). The current economic situation in Nepal is characterized by a dominant primary sector, sluggish growth, and a widespread state of deprivation (Khatri et al., 2023)

3. Sources of Data

Data drawn from the labor force are compiled by the ILO from labor force surveys, censuses, and establishment censuses and surveys (WB, 2023) then they are analyzed thematically.

4. Results and Discussions

4.1. Formal employment trends

All forms of employment that pay income taxes, have regular hours and earnings, and grant employment rights are considered category of formal employment. The percentage of the 15–64 age group that is economically active is known as the labor force participation rate. This group consists of all individuals who provide labor for the production of goods and services during a certain time frame. The percentage of a nation's population that is employed is known as the employment to population ratio. People of working age who, within a brief reference period, engaged in any activity to produce goods or provide services for pay or profit are considered to be employed. This definition applies to both those who were at work during the reference period (i.e., who worked for at least an hour) and those who were not at work because of working-time arrangements or temporary absences from jobs. The working-age population is often defined as those who are 15 years of age or older. The percentage of the labor force that is unemployed yet looking for work is known as the unemployment rate.

As shown in Table 1, women's employment and labor force participation rates are often lower than men's and are not comparable for last 30 years (1991-2022). Both Labour force participation and employment for females has been increasing slightly but unemployment remained more or less same since 1991. This is because women's activities are not always viewed as economically significant due to social, legal, cultural, and demographic trends and norms. Like many low-income countries Nepal has large numbers of unpaid women who work on farms or in other family businesses. Other women work from home or in close proximity to their houses, juggling job and family obligations during the day.

Table 1

Labour Force Participation (LFP), Employment to Population Ratio (EPR) and Unemployment Rate (UER) (1991-2020)

Year	LFP			EPR			UER		
	Both	Male	Female	Both	Male	Female	Both	Male	Female
1991	41.37	61.14	21.08	27.72	55.11	13.68	10.57	9.87	12.66
1992	41.33	60.92	21.21	27.73	54.95	13.83	10.51	9.81	12.58
1993	41.32	60.74	21.37	27.75	54.78	14.00	10.50	9.80	12.56
1994	41.34	60.59	21.56	27.74	54.58	14.17	10.64	9.93	12.68
1995	41.38	60.50	21.77	27.90	54.58	14.43	10.50	9.79	12.51
1996	41.34	60.48	21.75	27.74	54.52	14.32	10.56	9.85	12.56
1997	41.31	60.50	21.76	27.65	54.54	14.25	10.56	9.85	12.55
1998	41.29	60.52	21.78	27.62	54.59	14.23	10.50	9.80	12.47
1999	41.29	60.53	21.85	27.56	54.57	14.23	10.55	9.85	12.50
2000	41.29	60.51	21.97	27.51	54.52	14.28	10.60	9.90	12.55
2001	41.22	60.51	21.94	27.24	54.54	14.04	10.57	9.87	12.49
2002	41.15	60.48	21.95	27.00	54.60	13.87	10.42	9.73	12.32
2003	41.06	60.42	21.99	26.61	54.47	13.67	10.54	9.84	12.42
2004	40.94	60.30	22.06	26.23	54.35	13.52	10.56	9.86	12.42
2005	40.81	60.09	22.18	25.86	54.19	13.44	10.52	9.82	12.36
2006	40.73	59.78	22.54	25.63	53.92	13.63	10.52	9.80	12.32
2007	40.62	59.47	22.84	25.33	53.65	13.72	10.51	9.79	12.28
2008	40.48	59.15	23.08	24.92	53.32	13.69	10.59	9.86	12.34
2009	40.34	58.79	23.33	24.55	53.03	13.67	10.54	9.81	12.25
2010	40.19	58.37	23.64	24.17	52.64	13.67	10.55	9.80	12.22
2011	40.04	57.90	23.97	23.90	52.25	13.80	10.50	9.75	12.14
2012	39.93	57.36	24.48	23.74	51.76	14.14	10.53	9.76	12.13
2013	39.85	56.73	25.10	23.68	51.22	14.64	10.50	9.72	12.05
2014	39.77	56.05	25.73	23.58	50.57	15.13	10.58	9.77	12.09
2015	39.67	55.32	26.30	23.50	49.95	15.55	10.51	9.70	11.98
2016	39.80	54.78	27.03	23.69	49.53	16.12	10.40	9.58	11.83
2017	39.92	54.36	27.61	23.66	49.02	16.39	10.66	9.82	12.06
2018	40.05	54.11	28.06	23.68	48.82	16.56	10.62	9.77	12.03
2019	40.19	54.04	28.38	23.66	48.78	16.56	10.60	9.73	12.01
2020	39.81	53.46	28.08	22.00	46.93	15.16	13.08	12.22	14.48
2021	39.67	52.78	28.25	22.43	46.84	15.36	12.22	11.24	13.82
2022	40.05	53.11	28.60	23.07	47.69	15.81	11.12	10.21	12.60

Source: ILO Estimates, WB, 2023

Paradoxically, large unemployment rates can arise in nations with low rates of poverty and high levels of economic growth, whereas low unemployment rates can conceal significant poverty in a nation. People in nations without welfare or unemployment benefits struggle to make ends meet through precarious work. Workers in nations with strong safety nets may afford to wait for attractive or appropriate jobs. However, persistently high unemployment (11.12 percent in 2022: see Table 1) is a sign of severe inefficiencies in the distribution of resources. Throughout the years (1991-2022), unemployment remained constant except the period of Covid-19 pandemic (2019-2020) where unemployment was increased.

Wage and salaried workers: Workers who hold jobs classified as “paid employment jobs,” where the incumbents have explicit (written or oral) or implicit employment contracts that provide them with a base salary that is not directly based on the unit’s revenue, are known as wage and salaried workers, or employees.

Self-employed worker: People who work for themselves, with one or more partners, or in cooperatives and who have occupations that fall within the definition of “self-employment jobs” are considered self-employed workers. that is, employment where compensation is directly based on the profits made from the production of products and services.

4.2. Informal employment trends

As shown in Table 2, the proportion of wage and salaried workers has increased slightly since 2000.

Table 2

Wage & Salaried Workers (WSW), Self-Employed Workers (SEW), and Contributing Family Workers (CFW), (1991-2021)

Year	WSW			SEW			CFW		
	Both	Male	Female	Both	Male	Female	Both	Male	Female
1991	15.35	22.67	7.54	0.91	1.48	0.31	49.83	31.41	69.49
1992	15.36	22.65	7.49	0.91	1.47	0.30	49.80	31.44	69.63
1993	15.37	22.64	7.44	0.91	1.47	0.30	49.75	31.47	69.72
1994	15.36	22.72	7.27	0.91	1.47	0.30	49.70	31.34	69.89
1995	15.40	22.77	7.26	0.92	1.48	0.30	49.61	31.27	69.89
1996	15.43	22.91	7.21	0.92	1.48	0.30	49.51	31.01	69.84
1997	15.48	23.11	7.19	0.92	1.49	0.29	49.38	30.67	69.73
1998	15.57	23.30	7.27	0.92	1.50	0.30	49.22	30.32	69.49
1999	15.66	23.57	7.29	0.92	1.51	0.29	49.01	29.87	69.28
2000	15.75	23.92	7.19	0.92	1.52	0.29	48.77	29.32	69.12
2001	15.88	24.23	7.17	0.92	1.52	0.29	48.47	28.83	68.98
2002	16.13	24.41	7.49	0.92	1.53	0.29	48.13	28.56	68.56
2003	16.31	24.74	7.53	0.93	1.55	0.29	47.77	28.09	68.27
2004	16.50	25.12	7.53	0.94	1.56	0.29	47.38	27.58	67.99
2005	16.73	25.49	7.63	0.94	1.57	0.29	46.96	27.12	67.59
2006	16.99	25.87	7.75	0.95	1.58	0.29	46.51	26.68	67.16
2007	17.27	26.28	7.87	0.96	1.60	0.29	46.03	26.24	66.64
2008	17.50	26.83	7.80	0.97	1.63	0.29	45.50	25.64	66.14
2009	17.78	27.43	7.87	0.99	1.66	0.30	44.94	25.01	65.42
2010	18.08	28.13	7.95	0.99	1.68	0.30	44.35	24.25	64.61
2011	18.42	28.97	8.20	0.99	1.68	0.31	43.73	23.35	63.49
2012	18.75	29.97	8.40	0.99	1.72	0.32	43.06	22.31	62.22
2013	19.13	31.03	8.71	1.00	1.76	0.33	42.36	21.29	60.81
2014	19.47	32.23	8.84	1.01	1.81	0.35	41.59	20.19	59.42
2015	19.91	33.32	9.18	1.03	1.87	0.36	40.81	19.30	58.02
2016	20.51	34.05	9.84	1.03	1.88	0.37	40.03	18.78	56.77
2017	20.87	35.13	9.75	1.05	1.92	0.37	39.12	17.91	55.69
2018	21.32	36.05	9.79	1.06	1.92	0.38	38.20	17.15	54.67
2019	21.83	36.91	9.94	1.07	1.94	0.38	37.24	16.47	53.63
2020	20.95	35.26	9.25	1.01	1.86	0.32	37.86	17.06	54.85
2021	21.67	36.38	9.68	1.08	1.97	0.34	37.56	16.64	54.62

Sources: ILO Estimates (WB, 2023)

The proportion of wage and salaried workers has increased by six percent for both sexes for the 30 years of period. The proportion of contributing family workers has been declining for both sexes (see Table 2). There is no big change for self-employed workers (SEW). It is limited to one digit increment. Contributing family workers are declining for both sexes.

Contributing Family Workers: Employees who work in market-oriented

establishments run by family members who live in the same household and hold “self-employment jobs” as own-account employees are considered contributing family workers. As shown in Table 2, the proportion of contributing family workers has been declining slightly during the period of 1991-2021.

4.3. Vulnerable employment

The combination of own account workers and contributing family workers'

employment status categories is known as vulnerable employment. Since they are less likely to have formal employment contracts, they are also more likely to lack respectable working conditions, sufficient social security, and a "voice" through the active representation of trade unions and other related groups. Poor pay, low productivity, and challenging working circumstances that compromise employees' basic rights are frequently signs of vulnerable employment (ILO, 1993).

Overall vulnerable employment has started decline since 2000. Labour force participation rate has remained same during 1991-2022.

4.4. Employment by economic classes

Throughout the literature various economic classes have been defined based on income (ILO, 2023; UNDP, 1990; World Bank, 2023; among others). The paper has adopted ILO classification of employment by economic class (ILO, 2023) based on following four criteria.

1. Class 1: Extremely Poor (Consumption < US\$ 1.90 PPP)

2. Class 2: Moderately Poor (Consumption =< US\$ 1.90 and > US\$ 3.20 PPP)

3. Class 3: Near Poor (Consumption =<US\$ 3.20 and <US\$ 5.50 PPP)

4. Class 4: Non-Poor (Consumption => US\$ 5.50 PPP)

Class 1 is defined in accordance with the SDGs' criteria for extreme poverty, but Class 2 is in line with the commonly accepted worldwide standard for determining moderate poverty. In order to quantify people who are not impoverished but are extremely susceptible to falling into it, Class 3 refers to as "near poor" workers. Compared to those in lower classes, Class 4 workers are the emerging consumer class; they are more likely than those in lower social classes to have better levels of education and access to high-quality healthcare. They can also purchase non-essential products and services, including certain foreign consumer goods.

About two-third of total population was extremely poor in 1991 and it was declined to 5 percent in 2021. However, moderate poor was increased until 2012 and started declined slightly (Table 3).

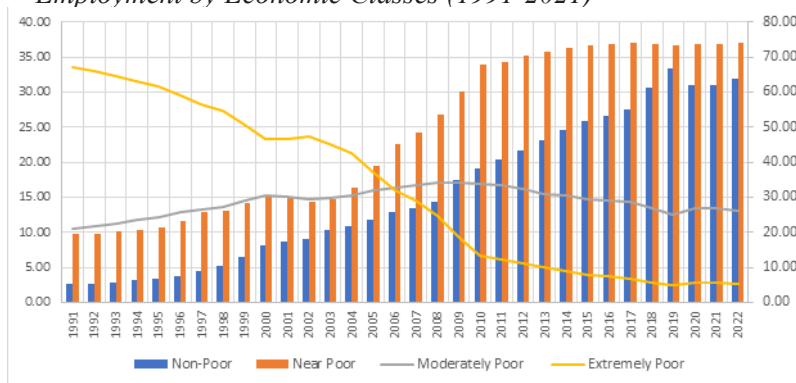
Table 3

Vulnerable Employment and Employment by Economic Classes

Year	Vulnerable Employment			Employment by Economic Classes			
	Both	Male	Female	Non-Poor	Near Poor	Moderately Poor	Extremely Poor
1991	83.74	75.85	92.15	2.60	9.70	20.90	66.90
1992	83.73	75.88	92.21	2.70	9.80	21.60	65.90
1993	83.72	75.89	92.26	2.90	10.10	22.50	64.50
1994	83.73	75.81	92.43	3.20	10.40	23.50	62.90
1995	83.68	75.76	92.44	3.30	10.70	24.40	61.60
1996	83.65	75.60	92.49	3.70	11.60	25.80	58.90
1997	83.60	75.40	92.52	4.40	12.90	26.40	56.30
1998	83.51	75.19	92.44	5.10	13.00	27.20	54.60
1999	83.42	74.92	92.42	6.40	14.20	28.90	50.60
2000	83.33	74.56	92.51	8.10	15.00	30.40	46.50
2001	83.20	74.25	92.54	8.60	14.90	30.00	46.60
2002	82.95	74.06	92.22	9.00	14.40	29.40	47.20
2003	82.76	73.71	92.18	10.40	14.70	29.60	45.30
2004	82.56	73.32	92.18	10.80	16.40	30.40	42.40
2005	82.32	72.94	92.08	11.80	19.50	31.80	36.90
2006	82.06	72.55	91.96	12.80	22.50	32.80	31.90
2007	81.77	72.11	91.84	13.40	24.20	33.50	28.90
2008	81.53	71.54	91.91	14.40	26.70	34.10	24.80
2009	81.23	70.91	91.83	17.40	30.10	34.10	18.30
2010	80.93	70.20	91.75	19.10	33.90	33.70	13.30
2011	80.59	69.35	91.49	20.30	34.20	33.30	12.20
2012	80.26	68.31	91.28	21.70	35.10	32.20	11.00
2013	79.87	67.21	90.96	23.20	35.80	31.00	10.00
2014	79.52	65.96	90.81	24.50	36.20	30.60	8.80
2015	79.06	64.82	90.46	25.90	36.70	29.40	8.00
2016	78.46	64.07	89.80	26.60	36.80	28.90	7.60
2017	78.07	62.96	89.88	27.50	37.00	28.60	6.90
2018	77.62	62.03	89.83	30.70	36.90	26.80	5.60
2019	77.10	61.16	89.68	33.30	36.70	25.10	4.90
2020	78.04	62.88	90.42	30.90	36.80	26.70	5.60
2021	77.25	61.65	89.98	30.90	36.80	26.70	5.60
2022	-	-	-	31.90	37.00	26.10	5.10

Source: ILO (2023)

Figure 2
Employment by Economic Classes (1991-2021)



4.5. Contribution of informal economy to GDP in Nepal

Before presenting data on contribution of informal economy to GDP, various techniques for estimating informal economy are summarized (Elgin et al., 2021; Sim, 2017) briefly as:

1. Model-based measures
 - i. Multiple indicators multiple causes (MIMIC) model
 - ii. Dynamic general equilibrium (DGE) model
2. Survey-based measures: There are two surveys (labour force surveys and firm opinion surveys).
 - i. Labour force surveys
 - a. Self-employment (% of total employment)
 - b. Labour force with pension (% of labour force)
 - c. Informal employment (% of total employment; International Labour Organization; harmonized series)
 - d. Employment outside of the formal sector ((% of total employment; International Labour Organization; harmonized series)
 - i. Firm opinion surveys
 - a. World Bank enterprises surveys: There are four enterprises surveys:
 - Percent of firms competing against unregistered or informal firms.
 - Percent of firms formally registered when they started operations in the country.
 - Number of years firm operated without formal registration.
 - Percent of firms identifying practices of

competitors in the informal sector as a constraint.

- b. World Economic Forum (WEF) executive opinion survey.

3. Household surveys

Household survey may report perceptions of the extent of informality in an economy or opinions on informal economic activities. The World Values Survey (WVS) stand out in terms of their extensive country and year coverage; others household surveys mainly focus on European economies.

Table 4 presents a comparison of contribution of informal economy to GDP among South Asian countries based on values generated by MIMIC and DGE models

Table 4

Values of MIMIC and DGE (1990-2018) for South Asia

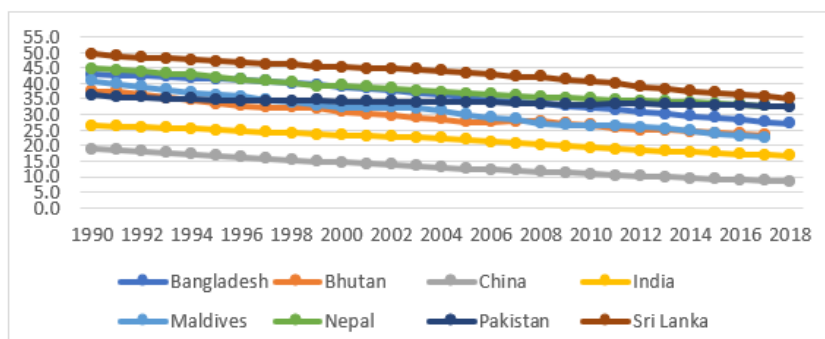
Name of Country	MIMIC (% of GDP)				DGE (% of GDP)			
	1993	2000	2010	2018	1990	2000	2010	2018
Bangladesh	36.7	35.6	35.5	34.7	43.0	39.0	32.2	27.0
Bhutan	29.4	29.4	28.2	26.6	37.5	30.9	26.5	23.2*
China	12.7	13.1	11.7	11.2	18.9	14.5	10.8	8.6
India	22.9	23.1	21.2	19.7	26.3	23.4	19.3	16.7
Maldives	31.7	30.7	30.3	29.3	40.8	32.4	26.3	22.6*
Nepal	37.5	36.8	36.6	35.4	44.9	39.4	35.0	32.8*
Pakistan	38.2	36.8	35.6	34.2	36.2	34.2	33.3	32.4
Sri Lanka	45.5	44.6	41.9	40.2	49.4	45.3	40.8	35.1

Source: Elgin et al. (2021), * Reference Year: 2017

Data on MIMIC and DGE are not available for Afghanistan. For both models, Sri Lanka has the highest proportion of GDP informal economy, and followed by Nepal from 1990s to date. Trends of South Asian countries including China is presented graphically in Figure 3.

Figure 3

Percentage of Informal Economy to GDP Based on DGE Model (1990-2018)



5. Conclusion

The paper examined the trends of various forms of employment based on ILO modelled estimates. Like other countries, the job gap is particularly large for women, although both men and women are facing unemployment rate. The percentage of Nepalese informal workers' contribution to GDP declined from 44.9 percent in 1990 to 32.8 percent in 2018. For the purpose of promoting social justice, several elements of the informal employment connection are absent while comparing to formal employment. Comparing the jobs to their formal employment equivalents, for instance, the informal are far less likely to grant access to social protection systems.

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