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Strengthening Monitoring and Evaluation of Labor Law Compliance in Nepal

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FELLOW

Renisha Ghimire

Daayitwa Nepal Public Policy Fellow 2026

PUBLIC PARTNER

Mr. Janak Raj Sharma

Under Secretary, Ministry of Youth, Labor and Employment

MENTOR

Dr. Manda Tiwari

Nepali Academics in America (NACA)

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STRENGTHENING MONITORING AND EVALUATION OF LABOUR LAW COMPLIANCE IN NEPAL

An Evidence-Based Assessment of Inspection, Labour Audit, Complaint, and Data Systems

Renisha Ghimire

Daayitwa Nepal Public Policy Fellowship 2026

Public Partner: Ministry of Youth, Labour and Employment

Government of Nepal

Government Supervisor: Joint Secretary Baburam Bhandari

Research Mentor: Dr. Manda Tiwari

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Executive Summary

Nepal has established a constitutional, legal and institutional framework for protecting labour rights and regulating employment conditions. However, the mechanisms responsible for monitoring compliance remain fragmented and largely reactive. The central challenge is not the absence of laws or institutions, but the limited capacity to identify workplaces, plan inspections, verify compliance, follow up on violations and measure results.

This study, Strengthening Monitoring and Evaluation of Labour Law Compliance in Nepal, examines the institutional and operational arrangements for labour-law compliance monitoring, with particular attention to workplace coverage, labour inspection, labour audits, complaint handling and information systems. It draws on qualitative and quantitative research methods, including consultations with government institutions, labour offices, employers, workers, trade unions, the Social Security Fund, the Office of the Company Registrar and labour-law practitioners.

The findings identify five interconnected weaknesses. First, labour authorities lack a comprehensive and updated register of active workplaces, limiting their ability to determine the scale of coverage and plan inspections. Second, limited inspector numbers, resources and competing administrative responsibilities constrain proactive monitoring. Third, labour-audit submissions are not consistently verified and therefore cannot be treated as evidence of actual compliance. Fourth, inspection findings, corrective directions and follow-up actions are not systematically tracked through to verified resolution. Finally, relevant workplace information remains dispersed across government institutions and digital systems, limiting coordination and evidence-based decision-making.

The study recommends a phased, integrated strengthening of the existing system, rather than creating parallel institutions or relying on digitalisation alone. Key priorities include establishing a unified workplace information system, introducing transparent risk-based inspection planning, strengthening labour-audit verification, developing end-to-end corrective-action tracking, improving complaint handling, and assessing inspector capacity and resource requirements. These measures should be supported by common compliance indicators, regular performance reviews, clearer inter-agency responsibilities and appropriate digital tools.

Implementation should begin with institutional coordination, common definitions, data mapping and baseline assessments, followed by piloting improved monitoring processes in selected Labour and Employment Offices before expanding nationally. Existing systems, particularly ILMIS and Shram Sansar, should be assessed and strengthened to support these processes.

Ultimately, Nepal's labour compliance system must move beyond counting inspections, complaints and audit submissions to measuring whether workplaces comply with the law, violations are corrected and workers' rights are protected. A stronger monitoring system can improve both workplace protection and regulatory predictability, supporting decent work alongside productive and sustainable enterprises.

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Abbreviations and Acronyms

CA: Chartered Accountant

DoLOS: Department of Labour and Occupational Safety

DIFE: Department of Inspection for Factories and Establishments

FGD: Focus Group Discussion

GEFONT: General Federation of Nepalese Trade Unions

GSP+: Generalized Scheme of Preferences Plus

ILMIS: Integrated Labour Management Information System

ILO: International Labour Organization

IRD: Inland Revenue Department

KII: Key Informant Interview

LDC: Least Developed Country

LEO: Labour and Employment Office

LIMA: Labour Inspection Management Application

M&E: Monitoring and Evaluation

MSME: Micro, Small, and Medium Enterprise

MoYLE: Ministry of Youth, Labour and Employment

OCR: Office of the Company Registrar

OSH: Occupational Safety and Health

PAN: Permanent Account Number

SSF: Social Security Fund

VAT:Value Added Tax

Chapter 1

Introduction

1.1 Background

Effective labour law compliance is an essential precondition for safeguarding human capital, maintaining industrial peace, ensuring decent work, facilitating economic formalization, and preserving international trade competitiveness(International Labour Organization, 2026). In modern public administration, labour administration demands a dynamic, evidence-based monitoring and evaluation (M&E) system capable of verifying that statutory remuneration, legal working hours, occupational safety and health (OSH) protocols, non-discrimination standards, and social security mandates are actively executed on factory floors, construction sites, service establishments, and corporate offices(International Labour Organization, 2022). In developing economies like Nepal, a credible regulatory oversight framework serves as the primary mechanism preventing the systemic exploitation of vulnerable workers while simultaneously shielding compliant enterprises from unfair market competition driven by illicit labour cost-cutting.

The Federal Democratic Republic of Nepal has established an explicit constitutional and legislative blueprint to institutionalize labour protections. The Constitution of Nepal (2015) provides foundational commitments. Article 33 guarantees the right to employment while article 34 establishes the right to fair Labour practices, appropriate remuneration, Social Security, Trade unions formation and Collective bargaining. Article 51 Directs state policies to enhance domestic employment, guarantee basic labour rights, eliminate labour exploitation, promote safe foreign employment, and advance decent work.

To translate these constitutional principles into operational legal mandates, Nepal has enacted several statutory pillars:

- The Labour Act, 2017 (2074 BS): Codifies terms of employment, minimum wage protections, working hours, leave entitlements, OSH standards, collective bargaining mechanisms, inspection powers, and administrative penalties.
- The Labour Rules, 2018 (2075 BS): Details operational mechanics, procedural guidelines, and Schedule 10 requirements for mandatory annual enterprise Labour Auditing under Rule 56.
- The Contribution-based Social Security Act, 2017 (2074 BS): Establishes the legal framework for the national Social Security Fund (SSF) to protect workers against life-cycle risks through contributory schemes.

Despite this progressive statutory architecture, a profound structural gap exists between formal legal text and workplace reality. Public administrative systems have historically equated compliance with formal documentary submissions, treating corporate registrations, signed contracts, or submitted self-audit checklists as empirical proof of legal adherence. In practice, formal administrative visibility is highly fragmented: an enterprise may maintain formal compliance while completely concealing its actual workplace conditions, or participate in the SSF registry while under-reporting worker wages or delaying contribution timelines. Professor Krawiec (2003) quotes this as ‘Cosmetic compliance’ that serves merely as window dressing while masking underlying operational reality.

True regulatory effectiveness occurs only when the state's monitoring infrastructure possesses the operational capacity to identify active workplaces (International Labour Organization, 1947). The state must be equipped to independently cross-examine employer-submitted data rather than relying on passive, self-reported metrics (Weil, 2008). This diagnostic precision allows enforcement bodies to isolate hidden violations within complex corporate structures (Weil, 2014). Furthermore, compliance is only secured when the infrastructure can enforce swift corrective actions to create a credible deterrent (Ayres & Braithwaite, 1992), while maintaining unannounced follow-up loops to verify that improvements are genuinely sustained over time (Fine & Round, 2021).

This compliance deficit is amplified by the structural realities of Nepal's labour market. According to World Bank(2025) the total national workforce is estimated at approximately 8.3 million people, with an estimated 82 percent informal employment rate. The national economy is dominated by micro, small, and medium enterprises (MSMEs), sprawling informal establishments, agricultural units, temporary piece-rate arrangements, and third-party labour supply networks(Bajracharya & Shrestha, 2014). This structural informality renders the vast majority of working citizens invisible to standard, reactive enforcement tools that rely strictly on formal business registries or voluntary filings.

1.2 Problem Statement

The central policy problem in Nepal's labour administration is not the total absence of laws, regulatory institutions, or administrative procedures. Nepal already maintains inspection mechanisms, mandatory labour audits, dispute resolution channels, and digital platforms(Labour Act, 2017). Rather, the policy dilemma stems from the operational failure of existing monitoring arrangements to function as an integrated, outcome-oriented compliance system. Existing administrative mechanisms record institutional effort ("paper compliance") rather than verifying and enforcing actual workplace conditions experienced by citizens ("substantive compliance").

In practice, this creates two conflicting realities:

- **Formal Compliance:** High administrative activity metrics recorded on paper such as registered corporate renewals, filed self-audits, or logged inspection visits.
- **Substantive Non-Compliance:** Severe workplace deficits experienced daily on factory floors, construction sites, and informal establishments. For example, GEFONT(2024) report reveals even within formal enterprises(sample size -327 enterprises), only 60.1% of workers hold written employment contracts, 50.2% work beyond statutory daily hours (8 hours/day), 31.6% are denied mandatory rest breaks, and 29% suffer minimum wage underpayment**.**

If these regulatory deficiencies are left unaddressed, the government's fiscal commitments to enforce minimum wages and occupational safety standards will remain unrealized. Consequently, the structural degradation of workers' rights will accelerate, Labour market informality will harden, and the state will experience a systemic loss of regulatory authority, directly undermining national economic productivity and sustainable enterprise growth.

1.3 Research Objectives

The primary purpose of this study is to examine the structural and technological divergence between administrative reporting and physical enforcement within Nepal's labour monitoring architecture.

To achieve this, the study pursues the following specific objectives:

1. To evaluate the existing institutional, legal, and procedural arrangements governing labour law compliance within Nepal's federal framework.
2. To diagnose systemic breakdowns and enforcement gaps across the compliance process chain, mapping the transition from policy formulation to grassroots workplace enforcement.
3. To trace out the precise key performance indicators (KPIs) and operational parameters that must be integrated into a reformed monitoring and evaluation (M&E) framework to effectively shift Nepal's labour administration toward outcome-oriented compliance.

1.4 Research Questions

To address the research objectives systematically, the study addresses the following overarching research question: How can Nepal's labour monitoring mechanisms transform from a system of superficial "paper compliance" into an integrated framework that ensures substantive workplace protections?

To operationalize this main inquiry, the study seeks to answer the following specific sub-questions:

1. What are the foundational strengths and limitations of the current institutional, legal, and procedural structures tasked with governing labour law compliance in Nepal?
2. Where do the critical systemic breakdowns occur along the compliance process chain that allow paper compliance metrics to obscure substantive workplace violations?
3. What specific, measurable indicators must be constructed and embedded into a modernized national M&E framework to ensure compliance tracking reflects actual workplace conditions?

1.5 Significance of the Study

By diagnosing the structural disconnect between formal "paper compliance" and physical, factory-floor realities, this research fills a distinct gap in the literature regarding regulatory enforcement in developing national labour markets. It moves past generic policy commentary to analyze how institutional tracking mechanisms can be insulated against superficial reporting, thereby providing public administration scholars with an empirical model of regulatory mechanics in Nepal.

Beyond its academic contributions, the study offers immediate practical utility to state actors navigating a confluence of macroeconomic and geopolitical deadlines. For the Ministry of Youth, Labour, and Employment (MoYLE) and the Department of Labour and Occupational Safety (DoLOS), this research provides the foundational substantive framework required before operationalizing Point 42 of the Government Policies and Programmes for Fiscal Year 2083/84, which mandates the deployment of a Digital Labour Inspection System(Ministry of Finance, 2025a). Furthermore, it supplies the verifiable data architecture necessary to enforce Budget Clause 61-j, which structurally binds inspector performance allowances to verified digital logs(Ministry of Finance, 2025b).

Crucially, the findings serve as a strategic goal for Nepal's international trade diplomacy and global commitments. The ILO's supervisory mechanisms continue to urge closer alignment between Nepal's labour laws, administrative practice, and international labour standards, especially concerning child labour, inspection, and data collection(Application of International Labour Standards, 2026). Similarly, Nepal's National Action Plan on Business and Human Rights(2023) emphasizes strengthening labour-rights monitoring, fair recruitment, and access to justice, reflecting a growing policy recognition that private-sector actors must also be held accountable for workers' rights.

The realization of these matters becomes extremely important as the state prepares for its deferred Least Developed Country (LDC) (Post Report, 2026) graduation in November 2029. Securing EU GSP+ status is vital to our economy during the transition to bargain in international trade negotiations. However, it also requires realization of 27 international conventions concerning human rights, **Labour rights,** environmental protection and good governance(Mainali, 2026). In the absence of domestic enforcement, this offers the operational framework needed to satisfy the binding mandates of ILO Convention No. 81 (Labour Inspection), which enters into full force on August 7, 2027(International Labour Organization, 2026).

Finally, the study provides a balanced, evidence-based baseline for social partners within the industrial relations ecosystem. For employer organizations, it outlines a transparent, risk-based monitoring matrix that ensures regulatory predictability and safeguards compliant enterprises from unfair informal cost-cutting. For trade unions, it provides rigorous empirical validation to strengthen their advocacy for substantive workplace protections. In doing so, the study ensures that the macro-level employment generation targets of the Employment Promotion Decade (FY 2083/84–2092/93 BS)(Ratopati, 2026) translate into dignified, secure, and legally protected work at the grassroots level.

1.6 Overview of the Report

Chapter 2 sets out the policy, legal and institutional framework. Chapter 3 describes the research methodology, sources and limitations. Chapter 4 presents the findings of the assessment of existing monitoring arrangements, covering workplace information, inspection capacity, labour audit, complaint handling and enforcement follow-up, social security coordination and digital systems. Chapter 5

analyses the findings and explains why the existing system requires strengthening. Chapter 6 presents guiding principles, policy options, recommended measures, an implementation roadmap and accountability arrangements. Chapter 7 offers concluding observations.

Chapter 2

Policy, Legal and Institutional Framework

2.1 Legal Basis for Labour Compliance Monitoring

Nepal's labour-law framework establishes obligations for employers and workers, provides for the administration of labour laws, and assigns inspection and enforcement functions to designated authorities. The Labour Act, 2017 is the principal legislation governing employment relations and workplace compliance. Its Chapter XV, particularly Sections 93–100, sets out the institutional arrangements and procedures for labour inspection, reporting, corrective action and labour audits.

Table 2.1: Principal legal provisions governing labour compliance monitoring

Legal provision	**statutory requirement or arrangement**	**Relevance to compliance monitoring**
Labour Act, 2017, Section 93	Provides for the establishment and jurisdiction of Labour Offices and the appointment of labour inspectors.	Establishes the administrative structure through which labour inspection is undertaken.
Section 94	Sets out the functions and powers of Labour Offices, including monitoring compliance with statutory employment conditions, inspecting workplaces, examining relevant records, obtaining information and directing corrective action where violations are identified.	Provides the principal legal basis for workplace monitoring, information collection and administrative intervention.
Section 95	Sets out the functions of labour inspectors, including inspection-related responsibilities and arrangements concerning occupational safety and health expertise.	Defines the role of inspectors in carrying out the monitoring functions assigned under the Act.
Section 96	Establishes requirements concerning the conduct of inspectors, including identification, confidentiality and safeguards against unnecessary disruption of workplace operations. It also provides for accountability in cases of misconduct or failure to perform duties.	Supports the integrity, impartiality and accountability of inspection activities.
Section 97	Requires employers, workers and trade unions to provide necessary assistance to labour inspectors.	Establishes a statutory basis for cooperation during inspections.

Section 98	Requires the preparation of an inspection report within the prescribed period following completion of an inspection, subject to applicable directions.	Provides for the formal documentation of inspection activities and findings.
Section 99	Authorises the Labour Office to issue directions for improvement or to stop activities contrary to law, and provides for appeal to the Labour Court.	Establishes the administrative corrective-action and appeal mechanism.
Section 100	Requires enterprises to prepare labour audit reports and make them available to the Labour Office or inspector during inspection or when demanded.	Introduces enterprise-level reporting as a source of information for labour compliance monitoring.

Source: Labour Act, 2017, Chapter XV.

The provisions establish a statutory basis for monitoring that extends beyond the inspection of workplaces. Labour Offices are authorised to obtain information, examine relevant documents, assess compliance and issue directions within the scope of the Act. The framework also recognises the responsibilities of employers, workers and trade unions in facilitating inspection. Inspection reports and corrective directions provide formal records of administrative action, while the appeal provision establishes a channel for reviewing decisions.

The statutory framework therefore provides for several distinct functions: identifying and examining potential violations, documenting inspection findings, requiring corrective action and reviewing decisions. These functions form the legal basis for the assessment of how inspection and enforcement are administered in practice.

➢ **Existing Labour Compliance Monitoring Arrangements**

Labour compliance information in Nepal is generated through several administrative processes. These include workplace inspections, complaint handling, enterprise labour audits, social security administration, enterprise registration and digital labour administration. Although these mechanisms contribute to labour governance, they differ in their purpose, legal basis, coverage and type of information generated.

Table 2.2: Existing labour compliance monitoring arrangements

Mechanism	**Basis or responsible institution**	**Main function**	**Information or output generated**
Labour inspection	Labour Act, 2017, Sections 93–99; Labour Offices and inspectors	Examination of workplace conditions, employment records and compliance with applicable legal requirements.	Inspection reports, identified violations and directions for improvement or cessation of unlawful activities.
Complaint handling	Labour Offices and applicable labour	Receipt and handling of complaints and disputes	Complaint records, mediation outcomes,

	dispute-resolution procedures	in accordance with the relevant legal procedures.	decisions and related administrative records.
Labour audit	Labour Act, 2017, Section 100; Labour Rules, 2018, Rule 56	Preparation of periodic enterprise-level labour audit reports.	Self-reported information on enterprise compliance.
Digital labour administration	Department of Labour and Occupational Safety and other relevant authorities	Use of digital platforms for selected labour administration, information submission and service functions.	Digitally submitted information, administrative records and service-related data.
Tripartite consultation	Central Labour Advisory Council under Sections 102–103 of the Labour Act	Consultation and advice on labour policy and related matters.	Policy advice and recommendations.
Decent Work Country Programme monitoring	ILO and national constituents under the Nepal Decent Work Country Programme 2023–2027	Monitoring progress against agreed programme priorities and results.	Programme-level progress and results information.

These mechanisms perform complementary but distinct functions. The Labour Act provides a sequence of administrative functions through which inspection findings may lead to corrective action. It is an exercise of statutory authority. The process is summarised below.

Table 2.3: Statutory inspection and corrective-action process

Stage	**Relevant provision**	**Statutory function or output**
Inspection and information gathering	Sections 94–97	Labour Offices and inspectors exercise the inspection and information-gathering powers provided by law; relevant parties are required to provide necessary assistance.
Inspection reporting	Section 98	An inspection report is prepared within the period prescribed by the Act, subject to applicable directions.
Administrative direction	Section 99(1)	Following examination of the report, the Labour Office may direct improvements or order the cessation of activities contrary to law.
Appeal	Sections 99(2)–(3)	An appeal may be made to the Labour Court within the statutory period, and the Court's decision is final.

Source: Labour Act, 2017.

The provisions therefore identify the formal steps available to the inspection authority. The extent to which inspection findings are subsequently monitored, corrective actions are verified and repeat violations are recorded is a matter for examination in the findings and analysis chapters.

➢ **Complaint Handling and Dispute Resolution**

Complaint handling is another route through which information about potential labour-law violations reaches the responsible authorities. The Labour Act provides procedures for addressing individual labour disputes, including discussion with the employer and the involvement of the Labour Office where the dispute remains unresolved. The applicable procedures distinguish between the initial resolution process and subsequent administrative action.

Complaint handling and workplace inspection should be understood as related but separate functions. A complaint may provide information that leads to administrative attention or inspection, but the receipt or resolution of a complaint does not necessarily establish the compliance status of the workplace as a whole. Complaint records can therefore contribute to monitoring when they are maintained in a way that supports the identification of recurring issues, workplaces with repeated complaints and the outcomes of administrative action.

➢ **Labour Audit Requirements**

Labour audit is a separate statutory mechanism intended to generate information on enterprise-level compliance. Section 100 of the Labour Act requires enterprises to prepare labour audit reports and make them available to the Labour Office or inspector during inspection or when demanded. Rule 56 of the Labour Rules, 2018 provides further requirements concerning the conduct and timing of the audit.

Table 2.4: Labour audit requirements

Provision	Requirement	Monitoring relevance
Labour Act, 2017, Section 100	Enterprises are required to prepare labour audit reports and provide them to the Labour Office or inspector during inspection or when demanded.	Establishes labour audit as a source of enterprise-level compliance information.
Labour Rules, 2018, Rule 56	Provides for an annual labour audit to be completed by the end of Poush, in accordance with prescribed standards. The audit may be conducted by a management-level employee of the enterprise or another person or institution associated with the labour sector, as provided by the Rule.	Specifies the periodicity and arrangements for preparing labour audit reports.

Source: Labour Act, 2017; Labour Rules, 2018.

Labour audit and labour inspection serve related but different purposes. Labour audit places responsibility on enterprises to prepare periodic reports on their compliance, whereas inspection provides a statutory mechanism for the competent authority to examine workplace conditions and relevant records. A labour audit report is therefore a source of compliance information; it is not, by itself, confirmation that the reported conditions have been independently verified.

➢ **Digital Labour Administration and Information Systems**

Digital systems provide an additional channel for the administration and management of labour-related information. The Department of Labour and Occupational Safety operates the Integrated Labour Management Information System (ILMIS), while Shram Sansar provides a digital platform for

labour-related services and information. These systems form part of the existing digital administration environment.

Table 2.5: Digital systems relevant to labour administration

System	General administrative purpose	Potential relevance to compliance monitoring
Integrated Labour Management Information System (ILMIS)	Supports the management of labour-related administrative information and records.	May provide a basis for organising inspection records, complaints and other administrative information.
Shram Sansar	Provides a digital platform for labour-related information and services.	May support access to labour services and the submission or exchange of relevant information.
Social Security Fund information systems	Support registration, contribution administration and related services.	Provide information relevant to social security enrolment and contribution compliance.
Company registration systems	Maintain company registration and renewal records.	May provide enterprise identification information that can be relevant to workplace coverage.
Tax administration systems	Maintain tax registration and related records.	May provide additional administrative information for identifying registered businesses.

The existence of these systems does not, on its own, establish that the information they contain is routinely exchanged or integrated. Their respective mandates and administrative purposes differ. Their contribution to a stronger monitoring system depends on the availability, reliability and appropriate use of relevant information, as well as clear procedures governing access and coordination. The actual functionality, coverage and use of these systems are examined further in the findings chapter.

2.2 Other Relevant Legal Instruments

Labour compliance also involves obligations arising from legislation beyond the Labour Act. These laws govern particular aspects of employment, workplace rights and social protection. Their implementation may involve different institutions and administrative records.

Table 2.6: Other legislation relevant to labour compliance

Legal instrument	Area governed	Relevance to compliance monitoring
Contribution-based Social	Social security registration,	Provides the legal basis for social security administration and generates information relevant to

Security Act, 2017	contributions and benefits.	employer and worker enrolment and contribution compliance.
Trade Union Act, 1992	Registration and administration of trade unions and related matters.	Provides the legal framework for trade union registration and activities relevant to workers' representation.
Child Labour (Prohibition and Regulation) Act, 2000	Prohibition and regulation of child labour.	Establishes legal protections that may require identification, inspection and enforcement action.
Sexual Harassment at Workplace (Prevention) Act, 2015	Prevention of sexual harassment in workplaces and procedures for addressing complaints.	Establishes workplace protection obligations and complaint-related responsibilities.

These laws establish obligations in different areas and should not be treated as components of a single inspection mandate. In particular, social security administration, trade union registration and workplace complaint procedures operate through distinct legal and institutional arrangements. Their relevance to labour compliance monitoring lies in the information they generate and the coordination required where their responsibilities intersect with those of labour administration.

2.3 Constitutional Allocation and Institutional Responsibilities

The Constitution of Nepal, 2015 provides the basis for the distribution of governmental responsibilities across federal, provincial and local levels. Article 57 and the associated Schedules identify areas of exclusive and concurrent authority. Labour-related responsibilities are therefore situated within a broader system of intergovernmental governance. Schedule 7, Item 11 includes social security and employment, trade unions, settlement of industrial disputes, labour rights and related matters within the concurrent powers of the Federation and Provinces. Schedule 9, Item 10 includes social security and poverty alleviation within the concurrent powers of all three levels of government. These allocations provide a basis for coordination, but do not mean that each level has identical statutory responsibilities or general authority to undertake labour inspection.

Table 2.7: Constitutional provisions relevant to labour administration

Constitutional provision	**Allocation**	**Relevance to labour governance**
Article 57	Distributes state powers among the Federation, Provinces and Local Levels through the constitutional Schedules.	Establishes the constitutional basis for the allocation of governmental responsibilities.

Schedule 7, Item 11	Includes social security and employment, trade unions, settlement of industrial disputes, labour rights and related matters within the concurrent powers of the Federation and Provinces.	Provides the basis for federal-provincial responsibilities and coordination in relevant labour matters.
Schedule 9, Item 10	Includes social security and poverty alleviation within the concurrent powers of the Federation, Provinces and Local Levels.	Establishes a shared constitutional responsibility in areas connected to social protection.

Source: Constitution of Nepal, 2015.

Within this constitutional arrangement, the implementation of labour laws depends on the respective mandates of federal institutions and the supporting roles of provincial and local governments. The following table summarises the principal institutions relevant to labour compliance monitoring and the nature of their responsibilities.

Table 2.8: Institutional responsibilities relevant to labour compliance monitoring

Institution	**Principal responsibility**	**Relevance to the monitoring system**
Ministry of Youth, Labour and Employment	National policy direction and administration of the labour sector.	Provides policy leadership and oversight of labour governance.
Department of Labour and Occupational Safety	Administration and technical oversight of labour inspection and related labour functions.	Provides an institutional link between national policy and the work of Labour and Employment Offices.
Labour and Employment Offices(11)	Exercise the functions and powers assigned under the Labour Act.	Serve as the frontline administrative institutions for workplace inspection, information collection and action within their statutory authority.
Social Security Fund	Administration of social security registration, contributions and benefits.	Holds information relevant to employer and worker enrolment and contribution compliance.
Office of the Company Registrar	Registration and administration of companies under the applicable company law.	Maintains enterprise registration information that may support the identification of registered businesses.

Inland Revenue Department	Administration of tax registration and related revenue functions.	Holds tax-related registration information that may provide an additional reference for identifying enterprises.
Provincial governments	Exercise responsibilities assigned under the Constitution and applicable laws.	Have a role in relevant labour-related matters within their assigned jurisdiction and in coordination with federal institutions.
Local governments	Exercise local responsibilities under the Constitution and applicable laws.	Maintain local business and administrative information and may support coordination, referrals and local-level information sharing within their authority. Look after small Labour disputes under their judicial committee.
Employers and enterprises	Fulfil statutory employment, workplace safety, record-keeping and reporting obligations.	Serve as the primary duty-bearers for workplace compliance and the source of enterprise-level records and information.
Workers and trade unions	Exercise and represent labour rights under applicable laws.	Provide workplace-level information, raise complaints and participate in relevant labour processes.

The institutional framework involves organisations with different mandates and information systems. The usefulness of these arrangements for compliance monitoring consequently depends, in part, on whether relevant information can be accessed and shared through appropriate institutional procedures.

2.4 International Standards

International labour standards provide guidance on the organisation and operation of labour inspection systems. The ILO Labour Inspection Convention, 1947 (No. 81), sets out principles concerning inspection functions, institutional arrangements, inspectors' status, inspection powers and reporting. The ILO Guidelines on General Principles of Labour Inspection (2022) provide further practical guidance on the development and management of inspection systems.

Nepal ratified Convention No. 81 on 7 August 2026. The Convention is scheduled to enter into force for Nepal on 7 August 2027. Nepal has also ratified Convention No. 98 on the Right to Organise and Collective Bargaining, while Convention No. 87 on Freedom of Association and Protection of the Right to Organise has not been ratified. These instruments address different aspects of labour rights and should be considered according to their respective legal status and subject matter.

Table 2.9: Relevant ILO standards and guidance

Standard or guidance	**Main provisions or areas covered**	**Relevance to labour compliance monitoring**
Labour Inspection Convention,	Defines the principal functions of labour inspection, including enforcement of legal provisions relating to conditions of work and	Provides a benchmark for the functions and scope of labour inspection.

1947 (No. 81), Article 3	worker protection, technical information and advice, and notification of deficiencies not specifically covered by existing law.	
Article 4	Addresses the placement of labour inspection under the supervision and control of a central authority, subject to the Convention's provisions.	Provides guidance on institutional oversight and coordination.
Article 6	Addresses the status and conditions of service of public inspectors to support stability and independence from improper external influence.	Provides a benchmark for inspector independence and professional status.
Article 10	Requires a sufficient number of inspectors to secure the effective discharge of inspection duties, taking account of relevant factors.	Provides a basis for assessing inspection staffing and workload.
Article 11	Addresses the provision of appropriate offices, transport and facilities necessary for inspection duties.	Provides a benchmark for operational resources and logistics.
Article 12	Establishes inspection powers, including entry to workplaces and examination of relevant conditions and records, subject to the Convention's requirements.	Provides a benchmark for the legal powers and practical ability of inspectors to examine workplaces.
Article 15	Establishes duties concerning confidentiality, impartiality and the avoidance of direct or indirect interests in undertakings under inspection.	Supports inspection integrity and public confidence.
Articles 20–21	Require the publication of an annual general report on the work of the inspection services and specify the information to be included.	Provides a benchmark for systematic reporting and public accountability.
ILO Guidelines on General Principles of Labour Inspection (2022)	Covers the scope and functions of inspection; institutional structure; policy, planning and monitoring; inspectors' status and careers; powers and methods; and enforcement.	Provides practical guidance for strengthening inspection organisation, management and performance.

Source: ILO Labour Inspection Convention, 1947 (No. 81); ILO Guidelines on General Principles of Labour Inspection (2022)

The ILO framework is relevant not only to the legal powers of inspectors but also to the institutional conditions required for effective inspection. Adequate staffing, professional independence, operational facilities, systematic planning and regular reporting are all part of a functioning inspection system.

These standards provide useful reference points for examining whether Nepal's existing arrangements are supported by the institutional capacity and administrative systems required to carry out their statutory functions.

➢ **ILO Strategic Compliance Planning Approach**

In addition to its international standards, the ILO has developed a Strategic Compliance Planning (SCP) Approach to help labour inspectorates move beyond predominantly reactive and routine inspection practices. The approach recognises that the number and diversity of workplaces often exceed the inspection capacity available to public authorities. It therefore promotes targeted, proactive and coordinated interventions based on an assessment of compliance problems, their underlying causes and the stakeholders who can influence workplace behaviour. The ILO approach consists of six interconnected steps, which guide inspectorates from an assessment of their institutional capacity to the development and implementation of a strategic compliance plan.

Table 2.10: ILO SCP step

Step	Component	Main activity
1	Explore the labour inspectorate	Assess the inspectorate's mandate, available resources, and existing enforcement and compliance information.
2	Explore issues and targets	Identify and prioritise significant compliance problems, sectors and workplace targets.
3	Explore influences	Examine the underlying causes of non-compliance and the factors that encourage or discourage compliance.
4	Explore stakeholders	Identify relevant stakeholders, assess their influence and determine how they can contribute to improved compliance.
5	Explore interventions	Identify, prioritise and map appropriate interventions, including inspection, enforcement, guidance, awareness and stakeholder engagement.
6	Operationalise the Strategic Compliance Plan	Translate the selected interventions into an implementable plan, identifying responsibilities, resources, timeframes and expected results.

Source: ILO, Approach to Strategic Compliance Planning for Labour Inspectorates, 2017.

The approach treats compliance as an outcome influenced by more than the presence or frequency of inspections. It encourages inspectorates to understand why violations occur and to select interventions accordingly. For example, deliberate non-compliance may require enforcement, whereas lack of awareness, limited administrative capacity or uncertainty about legal requirements may require guidance, information and capacity-building alongside inspection. The approach also encourages engagement with employers, workers and other institutions where their participation can contribute to sustained compliance. The approach has been applied in different national contexts. In Indonesia, the ILO supported labour inspectors in developing strategic compliance workplans, including provincial-level plans following changes in the distribution of labour inspection responsibilities. In Türkiye, a pilot in the metal sector combined sectoral analysis, consultation with social partners,

province-level guidance, strategic communication and inspection within a coordinated compliance framework. These experiences demonstrate how strategic compliance planning can be adapted to particular sectors and institutional arrangements rather than applied as a uniform inspection model.

For Nepal, the approach provides a useful reference for linking inspection priorities to available information, institutional capacity and the underlying causes of non-compliance. It could support the development of risk-informed inspection plans and a broader approach that combines enforcement with preventive and corrective interventions. Its application would, however, require adaptation to Nepal's legal mandates, federal structure, administrative resources and existing labour information systems.

➢ **International Supervisory and Programme Frameworks**

The ILO also operates supervisory procedures through which the implementation of ratified conventions and broader labour standards is examined. These include the Committee of Experts on the Application of Conventions and Recommendations and the Conference Committee on the Application of Standards(ILO, 2024). The Committee on Freedom of Association also examines complaints concerning freedom-of-association principles, including in circumstances where the relevant conventions have not been ratified(ILO, 2006). These mechanisms provide international oversight and accountability, but they do not replace national institutions responsible for routine workplace inspection and enforcement.

At the programme level, the Nepal Decent Work Country Programme 2023–2027 provides a framework for cooperation between the ILO and national constituents around agreed priorities, including employment, rights at work and social dialogue(ILO, 2024). Its monitoring arrangements concern programme implementation and results rather than the day-to-day administration of statutory labour inspection.

2.5 Comparative Practices in Labour Compliance Monitoring

Selected country experiences provide practical examples of how labour administrations organise inspection information, plan compliance interventions and monitor enforcement outcomes. The experiences of Bangladesh, Viet Nam and Sri Lanka are relevant to Nepal because they illustrate three complementary aspects of labour compliance monitoring: digital inspection management, information-informed inspection planning, and institutional performance monitoring. These examples are presented as references rather than models that can be transferred directly, as their application depends on each country's legal framework, administrative structure and institutional capacity.

1. **Bangladesh: Integrated Digital Inspection Management**

Bangladesh's Labour Inspection Management Application (LIMA), operated by the Department of Inspection for Factories and Establishments (DIFE), provides an example of using a digital platform to support the administration of labour inspection(ILO, 2018). The system brings together enterprise registration and licensing information with inspection planning, scheduling, workplace checklists, inspection reporting, corrective-action planning and follow-up visits. It also includes occupational safety and health-related information, such as workplace accidents, injuries and occupational diseases.

An important feature of LIMA is its ability to connect different stages of inspection administration. Enterprise information provides a basis for identifying establishments, while inspection records document workplace visits, findings and subsequent administrative action. The system also supports case management and the recording of corrective measures, allowing inspection activities to be documented beyond the initial workplace visit. The ILO reported that LIMA was rolled out across DIFE's 23 field offices for inspection and licensing functions from January 2019(ILO, 2020).

For Nepal, Bangladesh's experience demonstrates the potential value of connecting workplace identification, inspection records and corrective-action follow-up through a common information system. Rather than maintaining separate records for enterprise registration, inspection findings and subsequent action, a structured digital system could enable labour authorities to track the administrative history of an establishment. This would require reliable enterprise information, consistent reporting

formats and procedures for updating inspection and follow-up records. Digitalisation alone, however, would not ensure effective monitoring without regular use, data verification and institutional responsibility for maintaining the information(ILO, 2020).

2. Viet Nam: Inspection Planning Informed by Administrative Information(Das, 2019)

Viet Nam provides an example of using administrative information to inform labour inspection planning. Its inspection arrangements have incorporated information from provincial labour departments, including the number of employers, complaints and denunciations, and enterprise self-assessment results from previous years(ILO, 2025). Such information can help authorities identify workplaces and compliance issues requiring closer attention when preparing annual inspection plans. Enterprise self-assessment is an important feature of this arrangement. Employers submit information on their compliance, which can be considered alongside complaints and other administrative records. Reports indicating serious violations, as well as cases where required information has not been submitted, may inform subsequent inspection priorities. Self-assessment therefore functions as an information source for planning rather than a substitute for independent inspection and verification(ILO, 2025).

The relevance for Nepal lies in the potential to use multiple administrative sources when determining inspection priorities. Labour audit reports, workplace complaints, previous inspection findings and relevant social security records could contribute to identifying establishments or sectors requiring further examination. However, self-reported information must be assessed for reliability and verified where necessary. Viet Nam's experience also highlights the importance of coordination between central and provincial institutions in preparing and implementing inspection plans.

3. Sri Lanka: Institutional Planning and Performance Monitoring

Sri Lanka offers an example of strengthening labour administration through dedicated institutional planning and performance-monitoring functions. The Department of Labour has a Planning, Research, Training and Publication Division responsible for preparing departmental strategic and annual action plans, coordinating implementation across divisions and regional offices, reviewing progress against targets, identifying staff training requirements and preparing performance reports. It also collects administrative information and contributes to the Department's annual reporting(Department of Labour, Srilanka, 2026). This arrangement demonstrates that effective labour administration requires functions beyond the conduct of individual inspections. Departmental planning can translate national priorities into annual activities, while performance reviews provide a basis for examining implementation across administrative units. The inclusion of research, training and publication functions also supports institutional learning and the development of staff capacity.

For Nepal, this experience highlights the value of strengthening planning and performance-monitoring functions within the labour administration. A dedicated institutional arrangement could support the preparation of annual inspection priorities, common reporting formats, performance indicators and periodic reviews of Labour and Employment Offices. Such functions would complement frontline inspection responsibilities by helping the Department assess not only the number of inspections conducted but also the progress and results of planned activities.

➢ **Relevance of Comparative Practices to Nepal**

These experiences illustrate complementary approaches to strengthening labour compliance monitoring. They point to the need to strengthen the connections between workplace identification, compliance information, inspection planning, verification and enforcement follow-up. They also suggest that inspection priorities should be informed by the nature and severity of compliance risks, rather than determined solely by routine administrative schedules or the availability of complaints. A strengthened monitoring system would therefore require both improved information management and stronger institutional arrangements for planning and evaluating compliance interventions. The specific arrangements would need to reflect Nepal's legal mandates, federal structure, available resources and existing administrative systems.

Chapter 3

Research Methodology and Scope

3.1 Research Approach

This study adopts both qualitative and quantitative research approaches, with qualitative inquiry as the dominant component and quantitative information used to complement and contextualise the assessment. The qualitative component draws on a review of legal and policy documents, institutional information and stakeholder consultations. It examines how existing monitoring mechanisms operate, how relevant institutions perform their respective functions, and what challenges arise in workplace identification, inspection, labour audit, complaint handling, enforcement follow-up and information management.

The quantitative component uses available secondary statistics and administrative information to provide context on Nepal's labour market, institutional capacity and existing compliance monitoring arrangements. It is primarily descriptive and does not involve a nationally representative survey or independent measurement of the prevalence of labour-law violations.

3.2 Sources and Methods of Data Collection

The research draws on four main sources of information:

- **Legal and policy review:** Relevant constitutional provisions, legislation, rules, government policies, institutional mandates and administrative arrangements were reviewed to establish the formal responsibilities and procedures governing labour compliance monitoring. Relevant ILO conventions, guidelines and comparative practices were also examined as reference points.
- **Administrative and institutional information:** Available information relating to labour inspection, enterprise registration, and digital labour systems was examined to understand the types of records generated by relevant institutions and their potential contribution to compliance monitoring.
- **Secondary data:** Published statistics, institutional reports and relevant research were reviewed to establish the broader labour-market context and identify documented compliance concerns. Quantitative information was interpreted in accordance with the scope and limitations of its original sources.
- **Stakeholder consultations:** Key informant interviews and focus group discussions were conducted to understand institutional practices, operational constraints and the experiences of workers and employers. Consultations were guided by the responsibilities and experiences of each stakeholder group.

3.3 Stakeholder Consultations

The study conducted consultations with stakeholders involved in, affected by or connected to labour-law compliance monitoring. These included public institutions, workers, trade union representatives, employers and labour-law practitioners.

The institutional consultations focused on workplace information, inspection responsibilities, staffing and operational capacity, enterprise records, social security administration, complaint handling and the use of administrative information. Discussions with workers and trade union representatives explored workplace experiences relating to wages, working hours, occupational safety and health, social security, labour-supply arrangements and grievance mechanisms. Employer interviews examined compliance requirements, administrative processes, enterprise capacity, regulatory predictability and productivity. Labour-law practitioners provided perspectives on the implementation of legal requirements, particularly labour audits and compliance documentation.

The consultations were semi-structured, allowing common issues to be explored across stakeholder groups while accommodating differences in their roles and experiences. Findings are presented thematically in Chapter 4 rather than as separate summaries of individual interviews.

3.4 Analytical Framework

The research examines labour compliance monitoring as a connected process rather than a collection of independent administrative activities. It assesses whether information generated at one stage can inform decisions and action at subsequent stages. The assessment is organised around seven dimensions:

Table 3.1: Analytical Framework

Dimension	**Focus of assessment**
Workplace information and identification	Availability and reliability of information on active workplaces and establishments.
Labour inspection and institutional capacity	Inspection planning, staffing, resources and operational arrangements.
Labour audit and compliance verification	Quality of employer-reported information and arrangements for independent verification.
Complaint handling and enforcement follow-up	Complaint records, administrative action, corrective measures and verification of compliance.
Social security monitoring and coordination	Relevance of enrolment and contribution information and coordination between institutions.
Digital systems and information management	Use of existing platforms and administrative records for monitoring, information exchange and performance assessment.
Worker and employer perspectives	Experiences, concerns and practical constraints affecting compliance and enforcement.

Across these dimensions, the study considers five questions: what the legal and institutional arrangements require; what information is available; how the mechanisms operate in practice; where implementation gaps arise; and what improvements are required.

This framework distinguishes between the existence of a mechanism and its effectiveness as a monitoring instrument. For example, the submission of a labour audit is distinguished from the accuracy of its contents and independent verification of reported compliance. Similarly, inspection activity is assessed separately from corrective action, follow-up and sustained improvements in workplace conditions.

3.5 Scope of the Assessment

The study focuses on the institutional, administrative and operational arrangements through which applicable labour laws are monitored and enforced in Nepal. It examines the responsibilities of the Ministry of Youth, Labour and Employment, the Department of Labour and Occupational Safety,

Labour and Employment Offices and other institutions whose functions or administrative information are relevant to labour compliance monitoring.

The assessment covers workplace identification, inspection planning and implementation, labour audits, complaint handling, enforcement and corrective-action follow-up, social security information, institutional coordination and the use of digital systems. It also considers the perspectives of workers, trade unions and employers.

The study does not assess the adequacy of every substantive provision of labour law or determine the national prevalence of workplace violations. The assessment of the informal sector is limited to the issues identified through stakeholder consultations and available secondary information It does not constitute a comprehensive performance evaluation of all Labour and Employment Offices, nor a technical audit of the architecture, cybersecurity or interoperability of ILMIS, Shram Sansar and other government platforms. The examination of digital systems is limited to their administrative purposes, available information and potential relevance to a strengthened monitoring framework.

3.6 Limitations

The research has several limitations that should be considered when interpreting its findings.

First, stakeholder consultations provide institutional and experiential insights but are not nationally representative. The findings identify reported practices and recurring concerns rather than establish the prevalence of particular violations across Nepal.

Second, administrative information is maintained by different institutions for different purposes. The study could not independently verify the completeness, accuracy or consistency of all relevant records. Institutional estimates and stakeholder accounts are therefore identified as such and are not presented as definitive national statistics.

Third, some findings concerning workplace conditions and administrative practices are based on participants' reported experiences. Although these accounts provide important insights into implementation challenges, they are not equivalent to direct observation or independent verification of every reported instance.

Finally, the study was conducted within the timeframe and resources of the Daayitwa Nepal Public Policy Fellowship 2026. This constrained the extent of stakeholder engagement, administrative data analysis and technical examination of digital platforms.

These limitations define the appropriate interpretation of the research: it provides an evidence-based institutional and operational assessment, drawing on documentary review, available quantitative information and stakeholder perspectives. It is intended to inform policy development and identify areas requiring further administrative assessment.

Chapter 4. Findings

The Existing Labour Law Compliance Monitoring System

The research examined six components of Nepal's labour-law compliance monitoring system. Evidence was drawn from institutional consultations, worker and employer discussions, administrative records and secondary sources.

4.1 Workplace Information and Identification

Labour and Employment Offices (LEOs) do not maintain comprehensive, regularly updated registers of active workplaces in their jurisdictions. Relevant information is held separately across government agencies, but these records are not yet realized in the Labour inspection arena.

Table 4.1: Sources of workplace information and their limitations

Institution / source	Information available
Office of Company Registrar	Company registration and renewal- shows workplace population(however it does not reflect active Labour population)
Inland Revenue Department	PAN/VAT and tax records- workplace population and taxpayers population(is very sensitive information)
Local governments	Business registration, licences and business categories(most accurate but all local governments do not have a comprehensive digital data base)
Social Security Fund	Registered employers, enrolled workers and contributions(only has those contributors who have registered in SSF)

The Biratnagar and Kathmandu Labour and Employment Office reported that it does not ask for establishment information from other agencies and relies partly on databases shared by DoLOS or random datasets.

Finding: Nepal lacks a reliable national picture of active workplaces, making it difficult to establish the inspection universe or calculate actual inspection coverage.

4.2 Labour Inspection and Institutional Capacity

According to DoLOS, Nepal's labour inspection system operates through 11 Labour and Employment Offices covering all 77 districts under DoLOS. However, staffing and operational resources remain limited relative to the scale of the workforce and geographical responsibilities.

Table 4.2: Selected indicators of labour inspection capacity

Indicator	Available information
Labour and Employment Offices	11

Districts/state covered	77/7
Estimated labour inspectors	18
Estimated workforce	8.3 million
Illustrative ILO benchmark	1:40,000(Rodríguez, 2020)

The ratio is indicative rather than a statutory staffing requirement. It nevertheless illustrates the significant gap between available inspection capacity and the scale of employment.

Institutional example: Biratnagar Labour and Employment Office

- Covers ten districts.
- Has two labour inspectors.
- Inspectors also handle complaints, mediation and administrative responsibilities.
- Limited transport and operational resources constrain field visits.

Administrative figures for FY 2082/83(Department of Labour and Occupational Safety, 2024) of DoLOS indicate approximately 3,800 general establishment inspections, with reported target achievement of around 77% of DoLOS annual target. Child labour inspection activities reportedly exceeded their annual target. These figures measure activities, not the proportion of unique workplaces covered.

Consultations further indicated that inspection is often complaint-driven or undertaken through periodic area visits. A consistent risk-based approach using sectoral hazards, previous violations, workplace size and complaint history was not evident.

Finding: Limited staffing, competing responsibilities and the absence of systematic risk-based planning constrain proactive workplace monitoring.

4.3 Labour Audit and Compliance Verification

Section 100 of the Labour Act, 2017, and Rule 56 of the Labour Rules, 2018, provide for annual labour audits. The mechanism is intended to generate information on employers' compliance with statutory labour obligations.

Table 4.3: Labour-audit submissions, FY 2082/83

Submission channel	**Number**
DoLOS central directorate	476
Labour and Employment Offices	3,303
Total	3,779

Source: Annual progress report for the fiscal year 2082/83, Department of Labour and Occupational Safety, 2024

The total number of active establishments required to submit audits is not reliably established. Labour-law practitioners consulted for this research estimated that submissions in Kathmandu and other high-density commercial jurisdictions may represent less than 2% of registered enterprises. This is a practitioner estimate, not a verified national submission rate.

Table 4.4: Key issues identified through consultations

Issue	Evidence from consultations
Submission coverage	Practitioners reported very low submission relative to the number of enterprises
Report quality	Some reports are late or lack supporting documents
Audit preparation	Employers may rely on internal administrative staff or external practitioners with inconsistencies
Verification	Labour offices claimed do not consistently cross-check declarations against workplace records or worker accounts
Enforcement	Limited verification and deterrence weaken the value of the reporting requirement

Employers, particularly SMEs, also highlighted the administrative burden of preparing labour-audit documentation.

Finding: Labour-audit submission is not equivalent to verified compliance. The mechanism's effectiveness is limited by incomplete coverage, inconsistent reporting and weak independent verification.

4.4 Complaint Handling, Enforcement and Follow-up

Labour offices provide channels for grievance registration, mediation and enforcement of labour-related decisions. However, the available administrative figures do not establish whether the underlying workplace violations have been corrected.

Table 4.5: Selected complaint and enforcement figures, FY 2082/83

Indicator	Recorded number
Individual grievances / claims registered	1,231
Labour disputes resolved through LEO mediation	761
Labour Court verdicts received for enforcement	183
Verdicts formally executed	101

Execution as a share of recorded verdicts	55.2%

Source: Annual progress report for the fiscal year 2082/83, Department of Labour and Occupational Safety, 2024

Worker and trade union consultations identified concerns relating to minimum wages, working hours, occupational safety, social security, labour suppliers and retaliation against workers raising complaints. Workers also reported concerns about dismissal and delays in accessing remedies.

The corrective-action tracking gap

1. Inspection identifies a violation
2. Employer receives an improvement order
3. Compliance deadline is established
4. Follow-up inspection verifies corrective action
5. Case is closed or escalated

Research finding: this sequence is not consistently documented and tracked as a single process.

Finding: Complaint resolution and enforcement records do not consistently establish whether violations have been corrected or whether repeat violations have been prevented.

4.5 Institutional Coordination

Several institutions hold information relevant to labour-law compliance, but this is yet to be realized.

Table 4.6: Potential coordination areas

Institution	**Relevant function / information**
DoLOS and LEOs	Inspection, complaints, labour audits and enforcement
SSF	Employer registration, worker enrolment and contributions
Local governments	Business registration, licensing and local dispute mechanisms through their judicial committees

SSF records can help identify declared employers and enrolled workers. However, enrollment does not prove that all workers are covered or that other labour obligations are fulfilled.

Consultations also highlighted coordination difficulties arising from institutional and ministerial separation. Local-level labour desks and referral mechanisms were not found to be consistently connected with DoLOS information systems.

Finding: Relevant information exists across government institutions, but the absence of routine data-sharing arrangements limits coordinated workplace identification and compliance verification.

4.6 Digital Systems and Compliance Measurement

DoLOS operates the Integrated Labour Management Information System (ILMIS), while Shram Sansar provides a broader platform for labour-related information and services. These systems provide an existing foundation for digital labour administration.

However, consultations identified limitations in how information is structured and used.

Table 4.7: Digital monitoring gaps

Existing function	Limitation identified
Digital storage of inspection records	Scanned documents are not consistently structured for analysis
Labour-audit submissions	No linkage with independent verification
Complaint records	Limited end-to-end tracking of corrective action
Occupational safety records	Information is not fully integrated with broader workplace compliance records
Enterprise information	Limited interoperability
Administrative reporting	Greater emphasis on activity counts than verified outcomes

A key distinction emerging from the research is between measuring institutional activity and measuring actual compliance.

Table 4.8: Activity indicators versus compliance outcomes

Activity indicators	Outcome indicators
Number of inspections conducted	Percentage of identified workplaces inspected
Number of labour audits submitted	Percentage of audits independently verified
Number of complaints registered	Percentage of complaints resulting in verified remedies
Number of improvement orders issued	Percentage of orders complied with within deadlines
Number of cases processed	Reduction in repeat violations

Finding: Digital systems currently provide administrative information, but they do not yet support a fully integrated, outcome-oriented compliance monitoring process.

Table 4.9: Summary of Key Findings

Monitoring component	Main finding	Consequence

Workplace identification	No comprehensive register of active workplaces	Coverage cannot be reliably measured
Labour inspection	Limited staff and reactive inspection practices	Insufficient proactive monitoring
Labour audit	Low reported submission and weak verification	Compliance declarations remain difficult to validate
Complaints and enforcement	Corrective actions are not consistently tracked to closure	Case resolution does not necessarily mean compliance so potential risk of repetitive violation
Institutional coordination	Relevant information is dispersed across agencies	Incomplete information for inspection and verification
Digital systems	Limited integration and outcome measurement	Administrative activity is easier to measure than compliance improvement

The evidence establishes that Nepal has legal provisions, responsible institutions and operational monitoring activities. The central weakness is that these mechanisms do not yet function as a connected system capable of identifying workplaces, verifying compliance, tracking corrective action and measuring outcomes.

Chapter 5

Analysis and Discussion: Needs For Strengthening

This chapter interprets the findings. It asks why the gaps arise, how they reinforce one another, and what they imply for the design of a strengthened monitoring and evaluation (M&E) framework. The analysis draws on the findings of Chapter 4, the legal and international framework of Chapter 2, and the comparative experiences of Bangladesh, Viet Nam and Sri Lanka.

5.1 Compliance Monitoring as a Chain, and Where It Breaks

Effective compliance monitoring can be understood as a chain(Baldwin & Black, 2008) of connected steps: identifying workplaces, planning inspections according to risk(OECD, 2021), examining workplaces and records, directing corrective action, verifying that correction has occurred, and measuring whether compliance is sustained(ILO, 2022a). Each step depends on the one before it. A weakness early in the chain, such as not knowing which workplaces exist, limits what later steps can achieve however well they are performed(Gallo & Thinyane, 2021).

Table 5.1: Compliance Monitoring Chain

Step in the chain	**Condition found in practice**	**Effect on the system**
1. Identify workplaces	No comprehensive, regularly updated register of active workplaces	Inspection universe and coverage cannot be established
2. Plan inspections	Complaint-driven or periodic area visits; no consistent risk-based method	Scarce capacity is not directed to highest-risk workplaces
3. Inspect and examine	18 estimated inspectors; competing duties; limited transport	Proactive monitoring is limited
4. Direct correction	Directions issued, but not tracked as one process	Orders cannot be linked to results
5. Verify correction	Follow-up verification and case closure not consistently documented- not systematically provided in procedure	Resolution is mistaken for compliance

6. Measure outcomes	Reporting emphasises activity counts	Improvement in workplace conditions cannot be shown

The pattern is that the early links (identification and planning) and the late links (verification and measurement) are the weakest. The middle of the chain, where inspections and directions occur, is the most visible and therefore the most reported(Fernández & Radoslavova, 2022). This explains why the system can appear active while its effect on workplace conditions remains uncertain.

5.2 Analysis of Underlying Causes

5.2.1 Absence of an inspection universe

The central weakness is that no authority holds a reliable picture of the active workplaces in its jurisdiction. The Labour and Employment Offices (LEOs) consulted reported that they do not routinely request updated establishment information from other agencies and rely partly on databases shared by the Department of Labour and Occupational Safety (DoLOS) or on irregular datasets. Meanwhile, relevant information exists elsewhere: company registration and renewal at the Office of the Company Registrar (OCR), PAN and VAT records at the Inland Revenue Department (IRD), business registration and licences at local governments, and employer and worker registration at the Social Security Fund (SSF).

These sources were created for different purposes. Company registration does not show whether a business is operating; tax registration does not show the number of workers; social-security enrollment shows declared employers and workers rather than all workers. They are therefore useful as partial references to be reconciled, not as substitutes for a labour-specific register. Without a defined inspection universe, three things become impossible: calculating inspection coverage, determining the share of enterprises that should submit labour audits, and targeting inspections by risk. The absence of a register is therefore not one gap among many but a constraint on the whole system.

5.2.2 A mismatch between mandate and capacity

The Labour Act assigns wide functions to Labour Offices and inspectors: monitoring, inspection, examination of records, directions, and handling of disputes. Against this, the evidence shows an estimated 18 inspectors across 11 LEOs for a workforce of about 8.3 million. The Biratnagar office, for example, covers ten districts with two inspectors who also handle complaints, mediation and administrative tasks, with limited transport. Even allowing for the fact that the ILO reference ratio used in this report (1:40,000) is illustrative rather than binding, the gap is substantial: the stated workforce would imply roughly 200 inspectors at that ratio, compared with an estimated 18. These figures are estimates, and the actual requirement depends on workload, geography and the share of the workforce in formal establishments. The point is the scale of the gap, not a precise staffing target.

Capacity constraints also shape inspection behaviour(Weil, 2014). When inspectors are responsible for complaints, mediation and administration as well, inspection naturally becomes reactive: complaints arrive and must be handled, while planned proactive inspection competes with them for the same time. This explains the consultation finding that inspection is often complaint-driven or based on periodic area visits. Complaint-driven inspection also has a structural bias: it reaches workplaces where workers are able and willing to complain, and may miss workplaces where fear of retaliation, informality or lack of awareness suppress complaints, which are often the workplaces of greatest concern(Amengual & Fine, 2017).

5.2.3 Measuring effort rather than results

Administrative reporting emphasises counts: approximately 3,800 general establishment inspections in FY 2082/83, reported achievement of about 77 percent of the annual target, and labour-audit submissions of 3,779. These figures are useful for management but say little about effect. They do not reveal how many unique workplaces were inspected, how many violations were found, whether orders

were complied with, or whether conditions improved. Targets expressed as numbers of inspections encourage the system to maximise the number of visits, not the proportion of the workplace population covered or the share of violations corrected.

This matters for current reform proposals. The Government Policies and Programmes for FY 2083/84 refer to a Digital Labour Inspection System, and Budget Clause 61-j links inspector performance allowances to verified digital logs. Verified logs are a sound principle, since they allow activity to be checked. But if the logged items are only visits, the incentive will favour volume over quality. The design of what is logged, and of the indicators on which allowances rest, therefore determines whether digitalisation improves outcomes or simply produces more accurate counts of the same activity.

5.2.4 Labour audit: a self-report without a verification step

Section 100 of the Labour Act and Rule 56 of the Labour Rules make labour audit an annual, enterprise-prepared report. As Chapter 2 noted, the audit is a source of information rather than independent confirmation of compliance. The findings show that this limitation is not offset in practice by a verification step. Submissions in FY 2082/83 totalled 3,779 (476 through the DoLOS central directorate and 3,303 through LEOs), while practitioners estimated that in high-density commercial jurisdictions such as Kathmandu submissions may represent less than 2 percent of registered enterprises. This is a practitioner estimate and not a verified rate, and the true denominator is unknown precisely because of the register gap described above.

The audit mechanism has two simultaneous problems. First, coverage is low, so most enterprises do not enter the system. Second, where reports are submitted, quality varies, reports are sometimes late or lack supporting documents, and labour offices do not consistently cross-check declarations against workplace records or worker accounts. The result is an uneven burden: enterprises that submit, particularly small and medium enterprises that find preparation burdensome, bear the cost of reporting, while non-submitters face little consequence and submitted reports are rarely tested(Piore & Schrank, 2018). This weakens both the information value of the audit and its deterrent effect, nd it may penalise compliant enterprises. Viet Nam's practice of treating self-assessment as one input to inspection planning, with non-submission and serious-violation reports as risk signals, suggests a more productive role for the audit than currently exists in Nepal.

5.2.5 The break between enforcement and verified correction

The statutory sequence of inspection, report, direction and appeal in Sections 94–99 is clear. What is not established in practice is the step after direction: setting a compliance deadline, conducting a follow-up check and closing or escalating the case. Because this sequence is not documented and tracked as a single process, the system cannot say whether a direction was followed, whether a violation recurred, or which workplaces are repeat offenders.

The complaint and enforcement figures illustrate the same difficulty. In FY 2082/83, 1,231 individual grievances or claims were registered and 761 disputes were resolved through LEO mediation. Of 183 Labour Court verdicts received for enforcement, 101 (55.2 percent) were formally executed. These numbers show that the channels are used, but they do not establish whether the underlying workplace conditions changed. A mediated settlement may resolve an individual dispute without correcting a practice that affects other workers. Unexecuted verdicts, in turn, indicate a gap between legal decision and practical remedy that weakens confidence in the system, particularly where workers report fear of retaliation and delays in obtaining remedies.

5.2.6 Fragmented information and institutional separation

Information relevant to compliance is dispersed across ministries and levels of government, and consultations highlighted difficulties arising from institutional and ministerial separation. Local-level labour desks and referral mechanisms were not found to be consistently connected with DoLOS information systems. The constitutional allocation of concurrent powers (Schedule 7, Item 11, and Schedule 9, Item 10) provides a basis for coordination but does not itself create a data-sharing

arrangement, and, as Chapter 2 emphasised, it does not give every level of government a general power to inspect.

The obstacle is therefore less the absence of information than the absence of agreed purposes, formats and procedures for sharing it. Information-sharing also raises legitimate concerns about confidentiality, proportionality and the use of tax or social-security records for labour enforcement. These concerns are best addressed by purpose-specific arrangements that specify what is shared, with whom, for what use and under what safeguards, and not by open-ended integration or by leaving each institution to act alone.

5.2.7 Digital systems that store information but do not structure it

The Integrated Labour Management Information System (ILMIS) and Shram Sansar provide a foundation, but the consultations indicate that inspection records are often stored as scanned documents that cannot be readily analysed, labour-audit submissions are not linked to verification, complaint records do not track corrective action to completion, occupational safety records are not integrated with wider compliance records, and enterprise information has limited interoperability. Digitisation has therefore captured documents rather than data. Furthermore, it is repetitive work and time consuming too.

Bangladesh's Labour Inspection Management Application is instructive here. Its value lies in connecting enterprise information, inspection planning, checklists, reports, corrective-action plans and follow-up visits within a single case record, not in the fact of being digital. This study did not technically audit ILMIS, so it cannot say how far existing platforms could be extended. It can say that the principal deficit is in data structure and process design, which suggests that assessing and adapting existing platforms should precede any new procurement.

5.2.8 The limits of registry-based tools in an informal labour market

About 82 percent of Nepal's workforce is estimated to be in informal employment, and the economy is dominated by micro, small and medium enterprises, temporary piece-rate arrangements and third-party labour supply. Registry-based tools, including a workplace register and labour audits, reach only enterprises that appear in some official record. A strengthened system based only on registered establishments could increase the visibility of formal enterprises while leaving most workers outside its reach. It reinforces the ILO strategic compliance view that inspection is one intervention among several and should be matched to the cause of non-compliance, whether deliberate evasion or lack of awareness and capacity.

5.3 Worker and Employer Perspectives

The consultations show that workers and employers experience the compliance system differently, but their concerns point to common system requirements.

Table 5.2 Stakeholder Perspectives

Stakeholder concern	Reported by	Corresponding system requirement
Wages, working hours, OSH, social security, labour-supply arrangements	Workers and trade unions	Risk-based inspection reaching high-risk workplaces; verification of records against worker accounts
Retaliation and delay in accessing remedies	Workers and trade unions	Protected complaint channels; tracked case timelines; verified remedies

Predictability of requirements and clear guidance	Employers	Published risk criteria, standard templates, guidance and advisory support
Administrative burden of labour audit, particularly for SMEs	Employers	Simplified, proportionate reporting; use of reported data in planning to avoid duplicate requests
Unfair competition from non-compliant enterprises	Employers (implicit in consultations on predictability and proportionality)	Coverage of non-reporting enterprises; credible enforcement against repeat violators
Frontline officials also reported duplication of work, particularly where field-level information must subsequently be entered or uploaded through separate administrative processes.	LEO Staffs	Providing on field tools like tablet or mobile for data tracking

These perspectives are not inherently opposed. Employers want predictability and proportionality; workers want credible enforcement and access to remedies. A transparent, risk-based system delivers both: it concentrates enforcement on high-risk and repeat violators and reduces unnecessary burden on compliant enterprises.

5.4 Root Causes and Their Interaction

The gaps identified in Chapter 4 can be traced to five root causes, which reinforce one another.

Table 5.3: Root causes

Root cause	**How it appears**	**Reinforcing effect**
No common workplace identification	No register; unknown audit denominator; unmeasured coverage	Prevents risk targeting and verification
Limited capacity relative to mandate	Few inspectors; multiple duties; limited transport	Drives reactive, complaint-led work
Activity-based performance measurement	Counts of inspections, audits and cases	Rewards volume, hides non-correction

Process not designed end to end	No tracked path from violation to verified correction	Resolution is treated as compliance; repeat violations are invisible
Fragmented information and systems	Dispersed records; scanned documents; limited interoperability	Prevents use of existing data for planning and verification

For example, without a register (cause 1) the system cannot target inspection by risk, so capacity (cause 2) is spent reactively; activity measures (cause 3) then record the visits as success; and because follow-up is not tracked (cause 4) and records are not structured (cause 5), there is no information from which to learn. This circularity explains why adding inspections or adding a digital platform alone is unlikely to produce the intended change, and why the reforms must be sequenced and connected.

5.5 International Context

ILO Labour Inspection Convention, 1947 (No. 81) provides benchmarks directly relevant to the weaknesses found here: a sufficient number of inspectors (Article 10), adequate offices, transport and facilities (Article 11), effective powers of entry and examination (Article 12), and an annual published report on inspection work (Articles 20–21). The weaknesses in staffing, transport and outcome reporting identified in this study are therefore likely to become more visible once the Convention is in force and subject to ILO supervisory review. The period before entry into force is an opportunity to establish baseline data and reporting formats.

5.6 Interpretive Lenses from the Literature

Five strands of regulatory literature help explain the pattern of findings. They are used here to interpret the evidence.

Table 5.4: Literature and its relevance to Nepal

Lens	**Core idea**	**Relevance to Nepal's findings**
Responsive regulation(Ayres & Braithwaite, 1992)	Enforcement is most effective when it is graduated: guidance and support for enterprises that are willing but lack capacity, and credible escalation for serious, repeated or deliberate violations	Employers, especially SMEs, stress clarity and proportionality, while workers stress effective enforcement; one design can answer both
Strategic, risk-based enforcement (Black & Baldwin, 2010)	Limited inspection capacity should be directed by assessed risk and by the causes of non-compliance	Inspection is largely complaint-driven or area-based; no consistent risk method is evident
Fissured workplaces(Weil, 2008)	Subcontracting, labour supply and non-standard arrangements spread responsibility across several parties and make the real employer harder to identify	Unions raised labour-supplier arrangements; a register built only on registered enterprises may miss these relationships

Institutional capacity and street-level implementation(Lipsky, 1980)	Front-line officials adapt under workload pressure, favouring tasks that are urgent, visible and easy to count	Inspectors who also handle complaints, mediation and administration naturally prioritise reactive and countable work
Technology acceptance(Davis , 1989)	Digital tools succeed where users find them useful and easy to use, and where processes and data definitions are redesigned, not simply digitised	Inspector and employer uptake of any digital system will shape results; scanned documents show digitisation without process redesign

5.7 Implications for Reform Design

The analysis points to six design implications that carry into Chapter 6:

1. Start with the foundation: a defined workplace universe and common definitions, before more inspections or new software.
2. Use scarce capacity strategically: move from complaint-led and area-based visits to transparent risk-informed planning, while retaining capacity for complaints and follow-up.
3. Treat self-reported information as a signal, not as proof: audits should inform risk and be verified on a sample or risk basis.
4. Close the loop: every violation should be tracked from identification to verified correction or escalation.
5. Measure outcomes: indicators should show coverage, correction and sustained compliance, not only activity.
6. Share information lawfully and for stated purposes, and use digital tools to support these processes instead of replacing them.

However, reforms must build on existing mandates by strengthening the administration of current provisions in the Labour Act, 2017 such as inspections, directions, appeals, and labour audits before introducing new powers or institutions. The success of this system should be judged by outcomes rather than activity, ensuring that violations are corrected and compliance is sustained. To achieve this efficiently, enforcement must be risk-based and proportionate, targeting higher-risk workplaces while keeping requirements for small and low-risk enterprises within their capacity. Furthermore, authorities should verify rather than just collect data, checking submitted information for reliability where necessary. Any information sharing must be done lawfully and for specific purposes, backed by clear legal bases, strict access limits, and security safeguards. The rollout should also be sequenced and tested, starting with baselines, moving through pilots, and expanding only after proven success. Throughout this process, the framework must treat workers and employers fairly by protecting statutory rights and maintaining predictable expectations, while utilizing digital systems purely as enablers by evaluating existing platforms before procuring new ones.

Chapter 6

Policy Options and Recommendations.

6.1 Policy Options

Five options were considered. They are assessed qualitatively against effectiveness in improving verified compliance, feasibility within existing institutions, cost and resource implications, and risk. No cost estimates were prepared as part of this study.

Table 6.1: Policy Options

Option	Description	Strengths	Limitations
0. Status quo	Continue current inspection, audit and complaint practices	No transition cost; no disruption	Does not address the gaps in Chapter 4; coverage and outcomes remain unmeasurable; exposure under Convention No. 81 reporting
1. Institutional strengthening only	Increase inspectors, transport and training without changing processes or systems	Addresses a clear capacity gap; consistent with Convention No. 81 Articles 10–11	Additional inspectors would still work without a workplace universe, risk method or follow-up tracking; high recurrent cost
2. Digital-first	Procure or build a new end-to-end Digital Labour Inspection System as the main reform	Responds directly to the policy commitment on digital inspection; can structure data	Risks digitising unreliable data and unchanged processes; procurement and adoption risk; does not address staffing or definitions

3. Phased integrated reform (preferred)	Combine a workplace register, risk-based planning, audit verification, corrective-action tracking, information-sharing, capacity strengthening and an indicator framework, with digital tools adapted from existing platforms	Addresses the root causes together; builds on existing mandates; allows testing before scale	Requires coordination across institutions; benefits appear over time; needs sustained leadership
4. Stakeholder-led compliance	Rely mainly on social partner participation, voluntary compliance, third-party audits or supply-chain mechanisms	Extends reach beyond state capacity; engages employers and workers	Cannot replace statutory inspection and enforcement; uneven reach, especially in informal and non-export sectors

The preferred policy direction is Option 3, with elements of Option 4 incorporated as complementary measures. Options 1 and 2 are not rejected as components, since capacity and digital tools are both needed, but neither is sufficient as a stand-alone response to the connected nature of the weaknesses found.

6.2 Recommended Measures

Eleven measures are proposed. Recommendation 9 is a cross-cutting digital enabling measure. For each, the lead institution is indicated as a proposal for consideration by the responsible authorities.

Recommendation 1: Establish a Unified National Workplace Register Supported by Formal Information-Sharing Agreements

Rationale: Without a clearly defined workplace universe or routine inter-institutional data exchange, it is impossible to accurately measure coverage, target compliance risks, or conduct effective audits.

Proposed Actions:

- Conduct a comprehensive legal review of data-protection, confidentiality, laws across all partner institutions to determine what can lawfully be shared.
- Adopt a universal definition of an "establishment" and create a shared data dictionary with standardized status categories (e.g., active, inactive, closed, unverified).
- Identify a common linking identifier or data-matching method to bridge records across different agency databases.
- Conclude formal Memoranda of Understanding (MoUs) between the leads and data providers, strictly outlining role-based access, data retention rules, audit trails, and the prohibition of secondary data use.
- Restrict data exchange to the minimum necessary information, prioritizing "matching and flagging" (e.g., verifying if an employer is registered) over high-risk bulk data transfers.
- Build the initial register by reconciling existing agency datasets in pilot jurisdictions. Test the Office of the Company Registrar (OCR) company renewal process as an entry point for data collection, and deploy local governments and Labour Employment Officers (LEOs) to physically verify a sample of workplace operating statuses.

- Record core risk assessment characteristics (sector, size, location, SSF status) and actively track operational changes like relocations, closures, and ownership transfers, ensuring a clear distinction between a registered legal entity and an active physical workplace.
- Maintain a standing coordination mechanism with a designated, named focal point inside every participating institution.

Lead: MoYLE and DoLOS, in close coordination with SSF, OCR, IRD, and participating local governments.

Recommendation 2: Adopt Transparent Risk-Based Inspection Planning

Rationale: Capacity is limited and inspection is largely reactive. The ILO Strategic Compliance Planning approach provides a reference method.

Proposed actions:

- Develop a risk-scoring method using factors such as sectoral hazard, workplace size, previous violations, complaint history, labour-audit non-submission or inconsistencies, and discrepancies in social-security records.
- Group workplaces into risk tiers and prepare an annual inspection plan for each LEO, reserving a defined share of capacity for complaint-triggered and follow-up inspections.
- Publish the general criteria used for risk selection, so that employers know what influences inspection priority and the method is open to review, while protecting individual scoring details.
- Provide for documented exceptions and supervisory review to limit discretion and the risk of selective targeting.
- Review the method annually using inspection outcomes, and add sector or issue campaigns (for example child labour or construction safety) where evidence indicates.

Lead: DoLOS, with LEOs as implementers.

Recommendation 3: Strengthen Labour-Audit Quality Assessment and Verification

Rationale: Audit submission is not verified compliance.

Proposed actions:

- Introduce a standard structured reporting template based on Schedule 10 of the Labour Rules, designed for data capture and not only for document submission.
- Apply basic completeness and consistency checks on submission, for example against SSF enrolment and wage information where lawful.
- Treat non-submission and material inconsistencies as risk indicators within inspection planning, as in Viet Nam.
- Provide guidance for preparers, and review whether Rule 56 should be clarified regarding who may conduct the audit and to what standard. Any legal change should follow consultation with employer organisations, trade unions and practitioners.

Lead: DoLOS and LEOs, in consultation with employer organisations and practitioners.

Note: adding more questions to the existing audit format would not by itself solve the verification problem. The priority is a checking step, not a longer form.

Recommendation 4: Introduce End-to-End Violation and Corrective-Action Tracking

Rationale: Resolution is currently not documented as verified correction.

Proposed actions:

- Assign a unique case identifier to each identified violation, linked to the workplace record, and track it through defined stages: identified, direction issued, deadline set, follow-up inspection, closed as corrected, or escalated.
- Standardise violation categories (for example wages, working hours, OSH, social security, child labour, contracts) so that records can be analysed.
- Require a follow-up check, in person or by documentary verification according to risk, before a case is closed as corrected.
- Flag repeat violations at the workplace level and use them as a risk factor in inspection planning.
- Link the tracking record to the Section 99 direction and appeal process, and to the follow-up of Labour Court verdicts, including the proportion executed (55.2 percent in FY 2082/83), so that unexecuted decisions are visible to management.

Lead: DoLOS, with LEOs; Labour Court execution coordination to be agreed with the relevant judicial and administrative authorities.

Recommendation 5: Improve Complaint Handling and Worker Participation

Rationale: Complaints are an important source of information, but retaliation, delay and unlinked records limit their use.

Proposed actions:

- Use a common complaint intake format that captures workplace identification, type of issue and number of workers affected, so that complaints can be linked to the register and to inspection planning.
- Set and monitor standard timelines for acknowledgment, mediation and referral, and report on these.
- Provide confidential channels and procedures that reduce the risk of retaliation, and record retaliation allegations as a distinct category.
- Provide complainants with feedback on the outcome, and record whether the underlying practice was corrected, not only whether the individual dispute was settled.
- Establish referral protocols between local-level labour desks and LEOs, within each level of government's existing authority.
- Involve trade unions and worker representatives in inspections as provided in Section 97, and consult employer organisations and trade unions on inspection priorities through the Central Labour Advisory Council.

Lead: LEOs and DoLOS, with local governments, trade unions and employer organisations.

Recommendation 6: Strengthen Inspector Capacity

Rationale: Staffing, transport and competing duties limit proactive work, and Convention No. 81 sets benchmarks on number, status and facilities.

Proposed actions:

- Conduct a workload-based staffing assessment for each LEO, taking account of workplace numbers once the register is available, distances, and non-inspection duties, and use it to plan phased recruitment and deployment. The illustrative 1:40,000 ratio should be treated as a reference point and not as a target.
- Separate or protect inspection time from complaint and administrative duties where possible, for example through dedicated inspection days or roles.

- Provide transport and field-operation resources, in line with Article 11.
- Provide training on risk-based planning, evidence collection, OSH, use of digital tools, and conduct, and consider specialised OSH expertise as contemplated in Section 95.
- Design inspector performance allowances under Budget Clause 61-j around verified logs of quality indicators, including follow-up completion and case closure, and not only the number of visits, to avoid rewarding volume alone.

Lead: MoYLE and DoLOS, in coordination with the responsible public service and finance authorities.

Recommendation 7: Adopt a National Labour-Compliance Indicator Framework

Rationale: Activity counts do not show compliance. An agreed set of indicators, with defined sources and baselines, is a precondition for evaluation.

Table 6.2: Indicator Framework

Level	**Indicator**	**Definition**	**Data source**	**Frequency**
Coverage	Share of identified workplaces inspected	Unique workplaces inspected in the year divided by workplaces in the register	Register; inspection records	Annual
Coverage	Register coverage ratio	Workplaces in register as an estimated share of expected workplaces	Register; labour-force and enterprise surveys	Annual
Quality	Share of submitted labour audits independently verified	Verified audits divided by audits submitted	Audit and verification records	Annual
Quality	Audit submission rate	Audits submitted divided by establishments required to submit	Audit records; register	Annual
Process	Share of improvement orders with a follow-up check by the deadline	Orders followed up divided by orders issued	Case tracking records	Quarterly
Process	Complaint timeliness	Complaints acknowledged and resolved within standard timelines	Complaint records	Quarterly

Outcome	Share of orders complied with within deadlines	Verified-compliant cases divided by orders issued	Case tracking records	Quarterly
Outcome	Share of complaints resulting in verified remedy	Complaints with verified remedy divided by complaints registered	Complaint and case records	Annual
Outcome	Repeat violation rate	Workplaces with a repeat violation of the same type within a set period	Case records	Annual
Outcome	Execution rate of Labour Court verdicts	Verdicts executed divided by verdicts received	Court and LEO records	Annual
Conditions	Selected workplace conditions	For example, written contracts, hours worked, minimum-wage compliance, SSF enrolment among inspected workplaces	Inspection checklists; periodic survey	Annual; survey every 3–5 years
Input	Inspectors and resources per workplace or worker	Inspectors, vehicles and budget relative to the register or workforce	Administrative records	Annual

Lead: DoLOS, with MoYLE oversight and consultation with social partners.

Recommendation 8: Establish Periodic Performance Review and Public Reporting

Rationale: Planning, performance monitoring and reporting functions are needed alongside inspection.

Proposed actions:

- Assign planning, monitoring and reporting responsibility to a designated unit within DoLOS, with common reporting formats for all LEOs.
- Hold quarterly performance reviews of LEOs against both activity and outcome indicators, and discuss results with the Ministry.
- Publish an annual report on the work of the inspection services, including coverage, follow-up and outcome indicators, with the limitations of the data stated.
- Present the annual report for discussion in the Central Labour Advisory Council.
- Commission an independent evaluation after the pilot and consolidation phases to assess whether the indicators are improving and the reforms are working as intended.

Lead: DoLOS and MoYLE; Central Labour Advisory Council for tripartite review.

Recommendation 9 (Cross-Cutting): Digital Enablement

Rationale: Digital systems hold information but do not yet structure it for monitoring. The Digital Labour Inspection System referred to in the FY 2083/84 Policies and Programmes offers the means to carry out Recommendations 1 to 8, provided it follows process design and not the other way round.

Proposed actions:

- Before procurement, carry out a technical assessment of ILMIS and Shram Sansar covering data structure, interoperability, security, user adoption and the cost of extending them.
- Define functional requirements from the processes in Recommendations 1 to 5, including the workplace register, risk scoring, mobile checklists, case tracking and indicator dashboards.
- Capture inspection data as structured fields, with scanned documents as attachments rather than the primary record.
- Adopt a modular approach, beginning with the modules needed for the pilot (register, case tracking, risk scoring), and expand after testing.
- Build in role-based access, audit trails, data protection and back-up, and plan for connectivity limits in remote districts, including offline data capture.
- Provide training, help support and an owner responsible for data quality at each LEO.
- Consider Digital governance safeguards before rolling out.

Lead: DoLOS and MoYLE, with technical support from the responsible government digital agencies.

Recommendation 10: Adopt Responsive and Proportionate Enforcement

Rationale: The evidence shows two different problems: enterprises, especially small ones, that lack capacity or clarity, and enterprises that evade deliberately or repeatedly. A single approach serves neither well.

Proposed actions:

- Define an enforcement ladder in guidance: advice and compliance assistance for first-time and low-severity findings, formal directions under Section 99 with deadlines for clear violations, and escalation, penalties or court referral for serious, repeated or deliberate violations.
- Record the response chosen and the reason in the case record, so that proportionality can be reviewed.
- Provide plain-language guidance, checklists and a helpline or advisory desk for micro, small and medium enterprises, and publish the labour-audit template and risk criteria in advance.
- Work with employer associations to disseminate guidance on new requirements and to deliver training, while keeping enforcement with the Labour Offices.
- Make sure that repeated or deliberate violations move up the ladder, so that compliant enterprises are not placed at a disadvantage.

Lead: DoLOS and LEOs, with employer associations and trade unions.

Recommendation 11: Clarify Federal, Provincial and Inter-Agency Roles

Rationale: Constitutional allocations create concurrent responsibilities but do not give every level of government a general power to inspect, and institutional separation was cited as a coordination obstacle.

Proposed actions:

- Prepare a mandate map showing, for each institution, its legal function in labour inspection, complaints, registration, social security and information, and where its responsibilities intersect with those of labour administration.
- Confirm current institutional allocations before finalising coordination arrangements.
- Define referral protocols so that local-government labour desks and Judicial Committees refer labour matters to the competent labour authority with a standard referral record.

- Avoid duplication of inspection powers: local governments contribute business information, awareness and referrals within their existing authority.

Lead: MoYLE, with provincial and local governments and the relevant agencies.

6.3 Implementation Roadmap

The roadmap is phased so that each step produces the foundation for the next. Time periods are indicative and depend on resources and approvals.

Table 6.3: Implementation Roadmap

Phase	Indicative period	Principal activities	Expected outputs
1. Foundation	First 6 months	Agree definitions of establishment, violation, case status and risk factors; map data sources; legal review of data sharing; assess ILMIS and Shram Sansar; draft indicator definitions and baselines; staffing and workload assessment; select pilot LEOs	Approved definitions and indicator set; data-sharing protocols in draft; technical assessment; pilot plan
2. Pilot	Months 6–18	Build a pilot register for selected LEO jurisdictions (for example Biratnagar and Kathmandu, which took part in the consultations); apply risk-based planning; pilot structured audit template and sample verification; operate case tracking with follow-up; train pilot inspectors	Working pilot register; first risk-based inspection plans; verified-audit and corrective-action data; lessons report
3. Consolidation and scale	Months 18–36	Adjust methods based on pilot results; extend to all 11 LEOs; deploy digital modules; begin quarterly performance reviews; publish first annual inspection report; begin phased recruitment	National coverage of core processes; first public report; baseline outcome indicators
4. Institutionalisation	From month 36	Consider legal and regulatory amendments (for example Rule 56 and Schedule 10, data-sharing provisions); independent evaluation; periodic national survey; continuous improvement	Updated regulations; evaluation findings; sustained reporting

Because Convention No. 81 is scheduled to enter into force on 7 August 2027, Phase 1 and the early part of Phase 2 would fall before or around that date. Priority should therefore be given to outputs that support reporting under the Convention: baseline staffing and workload data, a defined inspection reporting format, and the first coverage and follow-up indicators. Some actions require little additional cost and can start immediately, including agreeing definitions, designing the audit template, setting complaint timelines, and starting the follow-up record for new directions in pilot offices.

Table 6.4: Risks and Mitigation

Risk	Description	Mitigation
Poor data quality	Source records are incomplete or inconsistent, so the register and risk scores are unreliable	Pilot first; document limitations; local verification samples; track and improve data-quality indicators
Privacy and misuse of data	Shared data used beyond agreed purposes, or breached	Purpose-specific protocols, data minimisation, role-based access, audit trails, legal review
Capacity overload	New requirements add to already stretched inspectors	Phased roll-out; protected inspection time; recruitment; training; avoid duplicate reporting
Perceived targeting or burden on enterprises	Employers see risk-based selection as arbitrary or audit changes as extra cost	Publish general criteria; simplified templates for small enterprises; consultation with employer organisations; guidance alongside enforcement
Discretion and integrity	Selective enforcement or improper influence	Documented exceptions, supervisory review, conduct rules (Section 96, Article 15), rotation and audit of selection
Digital project failure	Procurement delays, low adoption, systems that do not match processes	Assess existing platforms; modular design; user involvement; training; clear data owners
Distorted incentives	Allowances or targets reward volume or easy cases	Include quality and outcome measures in performance indicators; review indicators regularly
Informality displacement	Reforms reach only registered enterprises	State coverage limits; use local-government data, sector campaigns and worker reporting; periodic survey
Institutional resistance or turnover	Weak coordination across agencies; loss of leadership	Written protocols; Ministry-led coordination; focal points; inclusion in annual workplans
Resource constraints	Funding is insufficient for staffing and systems	Prioritise low-cost actions first; cost each phase; seek phased funding and technical support

6.4 Resource Considerations

This study did not prepare a cost estimate, and the figures that would inform one (for example staffing requirements per office, system extension costs) require further work. The reforms differ in their cost profile. Definitions, templates, protocols, case-tracking procedures and performance reviews depend mainly on staff time and management attention. Recruitment, transport, training and digital development involve recurrent and capital costs. A phased budget linked to the roadmap, with costs for each phase prepared during Phase 1, would allow decision makers to compare the cost of the reforms with the cost of the current gaps in coverage and enforcement.

Chapter 7

Conclusion

7.1 Summary of the Report

This study examined how Nepal can strengthen the monitoring and evaluation of labour-law compliance. It found that Nepal has a constitutional and statutory framework, institutions with defined mandates, and operating inspection, labour-audit, complaint and digital mechanisms. The central weakness is that these mechanisms do not yet function as a connected system that can identify workplaces, plan inspections by risk, verify employer-reported information, track violations to verify correction and measure whether compliance improves.

The evidence indicates that this is the consequence of five related conditions: the absence of a reliable workplace universe; a mismatch between inspection mandate and capacity; performance measurement based on activity; a process that is not designed or recorded end to end; and fragmented information and systems. Because these conditions reinforce one another, they are unlikely to be resolved by a single measure such as more inspections or a new software platform.

7.2 The Way Forward

The report recommends a phased reform combining institutional strengthening, risk-based inspection, structured case management, digital enablement and stakeholder participation. It proposes eleven measures, including a cross-cutting digital measure: a national workplace register, risk-based inspection planning, verification of labour audits, corrective-action tracking, improved complaint handling and worker participation, inspector capacity, an outcome-oriented indicator framework, periodic performance review and public reporting, responsive and proportionate enforcement, clarified federal and inter-agency roles, and attention to labour-supply arrangements and hard-to-reach workplaces. These build on the Labour Act, 2017 and the Labour Rules, 2018, and do not depend on new powers or new institutions, although some regulatory clarification may be advisable later.

Definitions, baselines and data-sharing arrangements come first; pilots test the methods; expansion follows evidence. This approach is consistent with the ILO's strategic compliance planning guidance, draws on lessons from Bangladesh, Viet Nam and Sri Lanka without treating them as transferable models, and responds to the timing created by the entry into force of Convention No. 81 in August 2027 and the policy commitment to a Digital Labour Inspection System.

The system should serve workers and employers alike. Workers need credible enforcement and effective remedies; employers need predictable, proportionate and clear requirements, and protection from competition by non-compliant enterprises. A transparent, risk-based and outcome-focused framework serves both. Progress should ultimately be judged not by the number of inspections conducted or reports submitted, but by whether identified violations are corrected, whether compliance is sustained, and whether workplace conditions improve.

7.3 Limits of the Study and Areas for Further Work

The findings rest on a documentary review, available administrative and secondary data, and a limited number of consultations, and they do not measure national prevalence of violations. Further work is needed in five areas: a representative survey of workplace compliance to provide baseline outcome measures; a technical assessment of ILMIS, Shram Sansar and related systems; a costing of the staffing and system requirements; a study of proportionate approaches to compliance for micro and small enterprises and for informal and labour-supply arrangements; and an evaluation of the pilots to test and refine the risk-scoring method and indicators.

With these limits in mind, the study offers an evidence-based direction for policy: to move from recording institutional effort toward verifying workplace compliance, in stages that Nepal's institutions can test, adapt and sustain.

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Annex 1. Stakeholder Consultation and Participant Profile

Stakeholder group / institution	Role in labour-law compliance	Position/Role	Consultation method	No. of participants	Location	Key area explored
MoYLE	Policy and oversight	Officer level	KII	2	Kathmandu	Policy, coordination and M&E
DoLOS	Inspection and enforcement	Department Head	KII	3	Kathmandu	Inspection, enforcement and monitoring
Labour & Employment Offices	Frontline implementation	Officer level	KII	2	Kathmandu/Biratnagar	Inspection, complaints and follow-up
Social Security Fund	Social security compliance	Officer level	KII	1	Kathmandu	Contribution and compliance data
Office of Company Registrar	Enterprise administration	Officer level	KII	1	Kathmandu	Enterprise data and possible compliance integration
Employers	Regulated entities	Business owners	KII	4	Biratnagar	Compliance practice and administrative burden
Employers' associations	Employers Prespective	Representatives	FGD	6	Biratnagar	

Trade unions	Worker representation	Representatives	FGD	14	Biratnagar	Worker experience, enforcement and access to remedy
Labour-law practitioners	Legal/practical perspective	Lawyers, CA	KII	4	Kathmandu	Implementation, audits and enforcement
IRD	Digital system in practice under IRD and feasibility	Officer level	KII	1	Kathmandu	Feasibility of connection
ILO	ILO work	Consultant	KII	1	Kathmandu	Current progressions
Retired professionals	Advisory	consultants	KII	1	Kathmandu	Lessons to be learned