

GOVERNANCE

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Nepal's re-entry to FATF Grey List raises Risks over Economic Stability

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The re-entry of Nepal into the Financial Action Task Force's (FATF) grey list marks a significant setback for the country's financial and regulatory landscape. This classification, which labels Nepal as a high-risk jurisdiction for money laundering and terrorist financing, poses substantial challenges for its international credibility and financial operations. Consequently, this could severely affect Nepal's international trade, banking transactions, and foreign investments, creating a ripple effect across the economy.

One immediate consequence is the potential rise in transaction costs for international remittances, which play a crucial role in Nepal's GDP. The financial institutions abroad will now be required to apply enhanced due diligence on transactions relating to Nepal, leading to delays and higher fees. The added scrutiny is likely to discourage foreign investors, as the grey list signals an unstable regulatory environment where financial crimes, such as money laundering and terrorism financing, are inadequately monitored and prosecuted.

Nepal's inability to enforce Anti-Money Laundering (AML) laws and effectively monitor high-risk sectors like real estate, casinos, and informal banking networks/cooperatives has been a significant concern. The FATF assessment has consistently highlighted that Nepal's institutions lack coordination, resources, and independence required to implement regulations effectively and combat financial crime.

Moreover, this is not the first time Nepal has been grey-listed by the FATF; Nepal was previously placed on the list in 2010 and removed in 2014. The Asia Pacific Group (APG) of the FATF, in its August 2023 report, has identified persistent weaknesses in Nepal's efforts to combat money laundering and terrorism financing, which has led to the country's re-listing. The FATF has issued seven recommendations to Nepal, including improving its understanding of money laundering and terrorist financing risks, strengthening financial institution supervision, identifying illegal money transfer networks, and ensuring compliance with international investment bans related to terrorism etc.

With this, Nepal's aspiration to graduate from Least Developed Country (LDC) status by 2026 appears uncertain, as the impending financial instability could hinder economic progress and international support. The country's credit rating and access to global financial institutions may also be affected, raising borrowing costs for the government and making it more difficult to secure loans for development projects. This could further strain Nepal's fiscal health, as it depends on external funding for key infrastructure and social programs.

Read more: [The Annapurna Post](#)

Governance Issues of the Week

1. The E-Governance Commission has officially released the E-Governance Blue Print, which outlines seven strategic pillars for digital transformation. It prioritizes drafting an E-Governance Act, restructuring the IT Department, establishing a Data Protection Authority, and launching data exchange programs over the next three years. It has also identified key challenges such as limited policy influence, gaps in transparency, lack of citizen service centers, and weak inter-agency coordination.

Read More: [Republica](#)

2. The government negotiation team has released a circular inviting protesting groups in Mukkumlung, Taplejung, for discussions. It states that the construction of the cable car has been temporarily halted and calls for dialogue to find a peaceful resolution. The government had previously invited the protesters for talks twice, but only one round took place without reaching an agreement. As tensions rose, local authorities enforced a ban on demonstrations in the region.

Read More: [Ujyaalo](#)

3. Health institutions in Karnali are facing a severe shortage of medical personnel, as out of 909 positions only 327 positions are permanently fulfilled. Despite the Provincial Health Service Act, 2078, mandating at least one health institution per ward, none of the 892 health institutions in the province have full staffing. Even the largest provincial hospital with 325 sanctioned posts has only 163 permanent employees.

Read More: [Ratopati](#)

4. The nomination process for the Vice Chancellor (VC) of Kathmandu University (KU) has faced prolonged delays, prompting candidates and university officials to seek the Prime Minister's intervention. Eight of the ten candidates have written to the Prime Minister, alleging that the selection committee, led by KU's founder and former VC Suresh Raj Sharma, is acting against its guidelines to favor a particular candidate.

Read More: [The Kathmandu Post](#)

5. The Armed Police Force (APF) Bill has received 64 amendment proposals aiming to revise and unify laws governing the force. Key propositions include renaming the Armed Police Force to the Armed Border Security Force, strengthening its chain of command, shifting operational controls from Chief District Officers (CDOs) to security committees to avoid jurisdiction to avoid conflict with Nepal Police.

Read More: [NayaPatrika](#)

6. The Karnali Province Government has implemented the ambitious "Chief Minister Digital Education" and "Model School Program" after three years. NPR 10 crore has been allocated to implement the program across 13 selected schools across various districts. The program had been included in policies and budgets for the past three fiscal years but was delayed due to political instability and bureaucratic hurdles.

Read More: [Shilapatra](#)

#SharedStrength is the collective initiative by Accountability Lab Nepal created in response to the crisis caused by the abrupt aid freeze on foreign aid by the US government. It brings together individuals, organizations, ideas, and resources. Our goal is to reimagine aid, prioritize the sustainability and resilience of organizations and support one another's advocacy efforts. Likewise, we are collecting crucial information and data for driving collective action. We urge you to participate in the impact assessment survey, regardless of how significantly you have been affected. Your input will provide us with a comprehensive understanding of the situation.

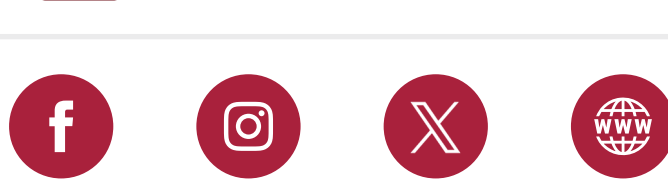
Take the survey here: <https://accountlab.typeform.com/to/JRSrLMLH>

(this should take less than 7 minutes!)



Nepal Governance Weekly is an analytical update of Nepal's current affairs based on media and real sources mining, to sensitize the communities on hot news on various governance issues from the perspective of accountability.

Presented by



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