

Nepal GOVERNANCE WEEKLY

Nepal falls short in reviving from the FATF grey list

The Financial Action Task Force (FATF), a global task force governing illicit financial flows of countries around the world, has [listed](#) Nepal under its “grey list” since early 2025. This categorization denotes Nepal’s deficiency in strategizing measures in enhancing due diligence and action plans to mitigate the discrepancies of its financial institutions and fiscal arrangements. Despite the FATF providing 2-year terms for reform from Nepal with a detailed action plan, upgrading from this status remains alarmingly difficult, as the FATF agencies have now warned Nepal of being downgraded instead to the blacklist.

In a recent meeting with the Ministry of Finance, the Asia/Pacific Group on Money Laundering (APG) has raised inadequate regulation, irregular reporting, and dysfunctional implementation as the grounds for the lack of progress in Nepal. The government had previously demonstrated its commitment to a fifteen-point action plan, including several agendas focused on strengthening financial transparency and regulatory accountability of its money laundering (ML) regime.

The action plan involves recognizing ML and terrorist financing risks and improving risk-based supervision in sectors like banks, cooperatives, casinos, and real estate to ultimately enhance the capacity and coordination of competent authorities and conduct independent and effective investigations and prosecutions. It also aims to effectively identify and [sanction](#) illegal Hundi operators while addressing gaps in the targeted frameworks on terrorist financing and proliferation.

Although the government is hoping for recovery from the list with its new efforts on good governance and compliance, Nepal is already set to face the following challenges under the greylist:-

- Increased regulatory scrutiny from international financial partners.
- Increase of external borrowing costs for banks and financial institutions.
- Rigorous trade finance requirements, including third-country bank guarantees for trade letters of credit.
- Potential reduction in development assistance and stricter conditions on multilateral or bilateral lending.
- Delays and heightened compliance burdens in cross-border financial transactions.

Additionally, the APG’s warning to Nepal regarding potential blacklisting is even more alarming, as it could lead to classifying Nepal as a high-risk jurisdiction, posing restricted access to foreign currencies and deterring pathways and corresponding relations for foreign investment and development financing. [Read more](#)

Weekly Snapshot



• **Two Bills tabled on behalf of the PM:** Law Minister Sobita Gautam has presented the “House of Representatives Members Election (First Amendment) Bill, 2083” to revise the proportional representation framework for closed-list candidates. The bill proposes that parliamentary proportional representation be aligned with the 2021 national census data in order to better fulfill the constitutional principle of inclusive and proportional representation. Similarly, “Voter List (1st Amendment) Bill, 2083” was also tabled to maintain arrangements of voter registry introduced by previous ordinances. [Read More](#)

Government rethinks strategy for community schools: Due to decreasing student enrollment, the Ministry of Education is planning to merge thousands of community schools, particularly in hilly and himalayan regions of Nepal. The government remarks that the number of schools and student population is largely disproportionate and has affected the implementation of new educational programs. Alternative measures are also thought of to avoid student disruption and improve the overall quality of education in community schools. [Read More](#)



• **Tea exports to India relaxed:** The Tea Board of India has removed the mandatory testing requirement for tea exported from Nepal effective from May 1st, 2026. This move is expected to reduce export costs and delays for Nepali tea producers. While Nepal remains heavily dependent on India as its primary tea export market, around 90% of Orthodox tea and nearly half CTC tea are sold there. Although random quality testing provisions are retained, the easing is expected to improve market access and boost exports for Nepal. [Read More](#)

• **4.16 billion earned from carbon trade:** Nepal has earned Rs. 4.16 billion through carbon trading, according to the Alternative Energy Trading Center. Between 2009 and 2025, eight projects, including household biogas plants, water mills, and small-scale hydropower initiatives, helped reduce around 6.68 million tons of carbon emissions. Earlier, Nepal carried out carbon trading under the Kyoto Protocol framework. Following its phase-out, the country has shifted to the Gold Standard system. [Read More](#)



CPN-UML returns 35 million worth of VIP treatment fees: The costs pertaining to foreign medical treatment of former president Dr. Rambaran Yadav, former PM KP Sharma Oli and former PM Jhala Nath Khanal were allegedly all reimbursed through CPN-UML accounts. As they were found to violate the provisions of Nepal’s Public Health Act, the CIAA has expedited investigations into the misuse of state funds by various entities which were claimed during the leaders’ tenures. This probed the parties to make hurried returns. [Read More](#)

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