

NEPAL'S PUBLIC POLICY:

Through young lenses



SAMRIDDHI
FOUNDATION

Pro Found
PROSPERITY FOUNDATION

Preface

Nepal is going through a prolonged federal transition, and several policy issues are in flux. The second generation of reforms required for economic growth continues to be debated in public. There is also a visible divide between policymakers and the ultimate beneficiaries. Policymakers in Nepal belong mostly to the baby boomers or the millennial generation. The beneficiaries of policy changes implemented are the younger millennials, Generation Z, and Generation Alpha in the upcoming years. As a policy institute, we believe that the beneficiaries of the policies should have a say. Involving the younger millennials, early Gen Zs, and Gen Alphas in this debate is important.

Driven by this belief, Prosperity Foundation in partnership with the South Asia regional office of the Frederich Naumann Foundation for Freedom (FNF) conducted two rounds of fellowship programs in 2024. Its goal: to engage a younger generation of policy enthusiasts and analyze policies through their lens. A total of 16 young people participated in the program. This compendium of articles is a product of the engagement.

So, what are the younger millennials and Gen Z Nepali youth concerned about? Their concerns are as diverse as they are: from urban transport management to government use of funds; from federalism to the consequences of state marginalization; from the reintegration of migrants to the state of education and the management of state-owned enterprises. These are important topics that the coming generation wants to have meaningful conversations about.

On the issue of federalism, our fellow Prajwal Baral explores how the city of Bhaktapur has embraced the *Idea of Self-Governance* and the nuances contained therein. Similarly, Raju Sharma and Suresh Sapkota explore how local governments are dealing with

Editor:

Arpita Nepal

Authors:

Aashish Bhandari
Arpan Acharya
Ashansa Mulmi
Karisma Regmi
Prajwal Baral
Raju Sharma
Subhekshya Ghimire
Suresh Sapkota
Trilok Pratap Adhikari

Design & Layout:

Roshan Dhwoj Basnet

Published by:

Prosperity Foundation
Lalitpur, Nepal

E-mail: info@prosperity.org.np

Website: www.prosperity.org.np

© Prosperity Foundation

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, without prior permission. Enquiries concerning reproduction should be sent to Prosperity Foundation at the address above. You must not circulate this book in any other binding cover and you must impose this same condition to any acquirer.

Coasian Negotiations on Land Management in an area soon to be urbanized. Ashansha Mulmi and Subhekchhya Ghimire delve into *Urban Transport Issues within Kathmandu Valley* and explore how mass transit has been handled.

On the issue of governance in Nepal, Prosperity Foundation's Fellow Aashish Bhandari looks at the *Crowding-out Effects of Government Spending in Nepal*. Similarly, Sindhu Thapa and Anjila Shrestha examine the *Financial Viability of State-owned Enterprises in Nepal*.

Nepali youth are also concerned about our history and its effect on current realities. Our fellow Arpan Acharya looks at historical instances of *Marginalization by the State and its effect on the Maoist Revolution in Nepal*. Similarly, Trilok Pratap Adhikari approaches the issue of *Migration and Reintegration* through a sociological lens. Finally, Karishma Regmi examines the issue of *Education and Employment Outcomes* in Nepal by focusing on the employability of engineering graduates.

The compendium provides interesting insights into various policy issues in Nepal. It is especially important to emphasize that if we are to have a meaningful debate on the future of Nepal then the voices of the upcoming generation need to be included. This is our effort in doing so. We hope this collection will be of use to everyone.

Arpita Nepal

Inside..

<i>Idea of Self-Governance</i>	01
<i>Coasian Negotiations on Land Management</i>	15
<i>Urban Transport Issues within Kathmandu Valley</i>	29
<i>Crowding-out Effects of Government Spending in Nepal</i>	59
<i>Marginalization by the State and its effect on the Maoist Revolution in Nepal</i>	75
<i>Migration and Reintegration</i>	91
<i>Education and Employment Outcomes</i>	105



Idea of Self Governance: Case study of Bhaktapur

Prajwal Baral

Introduction

Bhaktapur, a city of Kathmandu valley is well known for its rich cultural history and historical monuments' having significant impact on economic and social life. Those historical monuments and cultural heritage marks the identity of the Bhaktapur. The residents of Bhaktapur describe its spirit or sense of place in terms of four interrelated place dimensions: the 'sense of sacrality', the 'sense of community', the 'sense of historicity', and the 'sense of serenity'.¹ Those four dimensions enshrined the characteristics of Bhaktapur as a community.

The city's social and cultural life is a vibrant tapestry, with daily activities, religious observances, and communal celebrations. From the early morning prayers echoing through the ancient temples to the festive

fun parades that fill the narrow streets, every aspect of life in Bhaktapur is imbued with cultural significance. With its rich cultural history, preservation of historical monuments, worship of deities, cultural festivals, Jatras, and Parvas, along with the role of Guthi as a vital part of the social fabric, are significant aspects of the social life in Bhaktapur municipality.

The ethnographies of Bhaktapur often tend to describe it as an integrated, homogenous, and territorially bounded community (Levy, 1990).² The population of Bhaktapur is predominantly composed with majority Newar ethnic group where most residents practice either Hindu or Buddhist religions. The status of community members is primarily distinguished by a traditional hierarchical caste system.³

1 Silva, Kapila D. "Bhaktapur, Nepal: Heritage values and conservation practices." *Cultural Landscapes of South Asia*. Routledge, 2016. 205-230.

2 Levy, Robert I. *Mesocosm: Hinduism and the organization of a traditional Newar city in Nepal*. University of California Press, 1990.

3 Hachhethu, Krishna. "Municipality Leadership and Governance A Case Study of Bhaktapur." *Nepal: Local Leadership and Governance*. New Delhi: Adroit Publishers (2004): 33-72.

Bhaktapur's unique blend of cultural practices, rituals, and festivals has created a tightly-knit community where the past and present seamlessly intertwine. Daily activities, rituals, and festivals are all interconnected, fostering a unified set of cultural values with shared traditions, beliefs, and practices reinforce a strong collective identity among its residents.

Earlier, Bhaktapur's primary source of livelihood was agriculture, with most of the people being peasants and reliance of agro based products, which were only self-sufficient.⁴ However, over the period of time traditionally known for agro based traditional Newar settlement, Bhaktapur is in the path of significant socio-economic change with more reliance upon the tourism sector as the source of livelihood and more cross cultural transmission in recent years. Nowadays they are changing their profession and occupation through employments, business and foreign employment.

Recent cross-cultural transmission and migration have led to greater integration of other communities in Bhaktapur. According to the latest census, the area has 18,987 households, with the Newar community being the largest ethnic group, comprising 74% (58,538) of the population and other significant groups include

Tamang (7.6%), Kshetri (5.5%), Brahman Hill (4.1%), Magar (1.6%), Biswakarma (0.9%), Foreigners (0.9%), Rai (0.7%), Musalman (0.5%), and Pariyar (0.4%).⁵ Economic opportunity, transportation facilities and access to the Kathmandu valley has been the major reason for the latest cross cultural transmission

Local Governance

Citizen participation in government is a fundamental mechanism for achieving sustainable development, ensuring accountability, transparency, good governance and empowering individuals. Participatory approach of governance in recent times means equal distribution of political power, a fairer distribution of resources, the decentralization of decision-making processes, the development of a wide and transparent exchange of knowledge and information, the establishment of collaborative partnerships, an emphasis on inter-institutional dialogue, and greater accountability.⁶

Centralized system of governance often struggles to address local needs effectively due to a lack of understanding and identification of specific problems at the local level with inadequate information for

4 Haaland, Ane. *Bhaktapur, a town changing*. Bhaktapur Development Project, 1982.

5 Census Report, 2021.

6 Fischer, Frank. "Participatory governance: From theory to practice." (2012).

formulating plans and policies as per local conditions, less adaptability to changing circumstances, underutilization of local resources, and weak social trust between local communities and central institutions. Therefore, there should be transfer of 'authority to plan, make decisions and manage public functions' from a higher level of government to any individual, organization or agency at a lower level.⁷

Thereby, Local governments, as the lowest level of governance, possess the ability to manage local affairs based on their understanding, interests, and expertise within the community. The responsibility of local government is not just to deliver certain services well but to steer a community to meet the full range of its needs. Networked community governance sets as its over-arching goal the meeting of community needs as defined by the community, within the context of the demands of a complex system of multi-level governance (Stoker 2004, 2005).

However, the outcomes of citizen participation depends on: (a) the characteristics of participation mechanisms; (b) the characteristics of the target organization, especially its capacity, structure, and commitment to the process; and (c) environmental characteristics, such

7 Rondinelli, Dennis A. "Government decentralization in comparative perspective: theory and practice in developing countries." *International review of administrative sciences* 47.2 (1981): 133-145.

as the size of the community, and the forms of government involved.⁸

Local governance in Nepal dates back to the third century to the long-standing tradition of community governance, popularly known as the panchayat.⁹ The Panchayat system of governance was a political strategy aimed at centralizing power within the central authority. Under this system, elected representatives had limited power, with most authority concentrated in the hands of the central government.

Conferring of power to local level is supported by need for (1) intimate local knowledge and variation, (2) intensity of local interest and enlistment of loyalty and cooperation, (3) small areas for easy impact of the citizen-consumers upon officials producers, (4) an accessible area of political education, (5) counterweight to the abuse of central power, and (6) the democratic value of a plurality of political experience and confidence.¹⁰

Formal Practice of Local governance is a

8 Pandeya, Ganesh Prasad. "Does citizen participation in local government decision-making contribute to strengthening local planning and accountability systems? An empirical assessment of stakeholders' perceptions in Nepal." *International Public Management Review* 16.1 (2015): 67-98.

9 Diagnostic Study of Local Governance in Federal Nepal 2017, *Asia Foundation Partnership on Subnational Governance in Nepal*.

10 Pradhan, Krishna Man. "Local government: Constitutional vision and present practice." *Research Nepal Journal of Development Studies (RNJDS)* 2.2 (2019): 109-128.

relatively new practice in Nepal, formally established only after the promulgation of the Decentralization Act of 1982 and Regulation in 1984 marking the period of decentralization and the devolution of power to local levels. However, despite this shift, tax collection and revenue generation remained largely centralized, leaving local authorities with limited fiscal autonomy.

Following the restoration of democracy in the late 1990s, and with the election of local representatives and formal adoption of the Local Self-Governance Act of 1999 significantly enhanced the role of local governments in political, economic, and administrative sectors. It pursued and implemented decentralization principles like; devolution of power and responsibilities in local levels that required for making local levels capable, building and development of institutional mechanism, people participation in local development activities.¹¹ The primary principle of LSGA was to make local government autonomous and independent in making development plans and in their effective implementation.

But the specific provisions of this Act do not provide the lower tiers of governing units with autonomous powers in regard to formulating and

implementing development activities.¹² Under the Local Self-Governance Act of 1999, there were ambiguities regarding the distribution of power and authority between different governing units, such as Village Development Committees (VDCs), Municipalities, and District Development Committees (DDCs). Despite its promises, the Act left uncertainties in the delineation of roles and responsibilities among these local bodies, leading to challenges in effective governance and coordination.¹³

Ambiguities in the Local Self-Governance Act of 1999, the Maoist insurgency, and the failure to adapt to changing conditions contributed to the decline of local governance in Nepal. With the promulgation of Interim Constitution and the restructuring of the state with federal characteristics marked a new era of power devolution in Nepal, aiming to distribute authority more effectively across different levels of government.¹⁴

Since establishment of federalism in 2015, Nepal has been practicing the power

11 Kharel, Suman. "Local governance and rural development practices in Nepal." *Nuta Journal* 6.1-2 (2019): 84-94.

12 Rai, Jailab Kumar, and Naya Sharma Paudel. "Discourses of local governance in Nepal: An analysis of legislation, constitutional processes and civil society demands." *Forest Action Discussion Paper Series* 11.1 (2011): 1-37.

13 Acharya, Keshav K., and John Scott. "A study of the capabilities and limitations of local governments in providing community services in Nepal." *Public Administration and Policy* 25.1 (2022): 64-77.

14 Diagnostic Study of Local Governance in Federal Nepal 2017, *Asia Foundation Partnership on Subnational Governance in Nepal*.

devolution system through constitutional provision, which was limited to delegation and deconcentration mechanisms in the past.¹⁵ The Constitution of 2015 mandates the transfer of political, administrative, and economic authority from the national level to sub-national levels, granting autonomy to lower tiers of government. It devolves 22 exclusive powers and 15 concurrent powers and responsibilities to local governments which aim to foster cooperation, coexistence, and coordination among the different levels of government.¹⁶

In Article 59 (1), the Constitution clearly mentions that the federal, provincial, and local levels shall make laws, adopt an annual budget and formulate and implement policies and plans on matters related to their respective competencies and fiscal powers. Provincial and local laws and policies, to exercise the concurrent powers, must be coherent with federal laws, policies, and standards as per Article 59 (2) of the Constitution. Annexure 8 of the Constitution specifies the areas related to the rights of local governments, outlining 22 distinct local rights and 12 types of tax authorities.

The Local Government Operation Act, 2074 (LGOA, 2017) , Inter-Governmental

15 Dhungana, Raj Kumar, and Keshav Kumar Acharya. "Local government's tax practices from a cooperative federalism perspective." *Nepal Public Policy Review* 1 (2021): 157-178.

16 Constution of Nepal , Schedule 6, 7 & 8.

Fiscal Arrangement Act, 2074 (2017) and the National Natural Resources and Fiscal Commission Act, 2074 (2017) delegates the power to the local level .The powers and functions of local governments include range of responsibilities, including the management of cooperatives, collection of local taxes (such as property taxes, rental taxes, entertainment taxes, and advertisement taxes), agriculture, local road construction and maintenance, provision of drinking water, and disaster management.¹⁷

Case Study of Bhaktapur

Financial Autonomy

For the effective administration of power devolved to the local level, the Constitution and law should provide for financial autonomy for revenue and expenditure as the dependence on the central government for fiscal needs can lead to the centralization of authority and undermine the self-determination or governance of people. The division of fiscal power among different tiers of government, and the functioning of local administration in the provision of local public goods to citizens, has been a longstanding issue in fiscal decentralization theory. (Buchanan, 1950; Musgrave, 1959; Oates, 1972; Samuelson,

17 Local Self Governance Act, 2074, annex 8.

1954).¹⁸ Constitution of 2015 has laid the foundation for fiscal federalism and has assigned expenditure responsibilities and revenue sources to central, provincial, and local governments.

Own source revenue (OSR) at the sub-national level is a crucial factor for the success of fiscal federalism in Nepal. In principle, the most important benefit from fiscal decentralization is the increased efficiency and increase in welfare gain resulting from moving governance closer to the people as local government has best interest of its constituents¹⁹. As in the early stages of Nepalese federalism, local governments have been working to identify their sources of revenue and generate more revenue for effective administration of local affairs.

Cultural heritage tourism is one vehicle through which localities can harness local culture and traditions to engage in and shape their developmental direction within broader global processes.²⁰ Bhaktapur, from the initial days of federalism, has done a commendable job in promoting

and enhancing its revenue sources. As an ancient city Bhaktapur heavily relies on the tourism sector for its internal revenue. Bhaktapur Municipality began levying a \$1 service charge on foreign visitors in 1993 which was raised \$10 in 2001.²¹ In the fiscal year 2023/24, Bhaktapur experienced a significant rise in tourism, welcoming 78,000 more visitors compared to the previous year.²² This influx has provided substantial economic benefits to the local community and has encouraged continued efforts in cultural preservation. According to the Tourist Information Center, Bhaktapur received a total of 245,593 tourists, marking a 46.49% increase from the previous year. As a result, the municipality collected over Rs 274.45 million in tourism fees, a notable increase from Rs 184 million in the prior year.²³

18 Buchanan, James M. "Federalism and fiscal equity." *The American Economic Review* 40.4 (1950): 583-599.

19 Oates, Wallace E. "Fiscal Federalism. New York: Harcourt Brace Jovanovich." *Polity IV Dataset* <http://www.bsos.umd.edu/cidcm/inscr/polity> (1972).

20 Dredge*, Dianne. "Development, economy and culture: Cultural heritage tourism planning, Liangzhu, China." *Asia Pacific Journal of Tourism Research* 9.4 (2004): 405-422.

21 Pradhananga, Gyanendra Dhar. "Cultural Heritage and Tourism in Bhaktapur" *The Kathmandu Post*, 2020 Feb. 19. <https://kathmandupost.com/columns/2020/02/19/cultural-heritage-and-tourism-in-bhaktapur>.

22 Tourist Information Center of Bhaktapur Municipality, 2023

23 Tourist Information Center of Bhaktapur Municipality, 2023

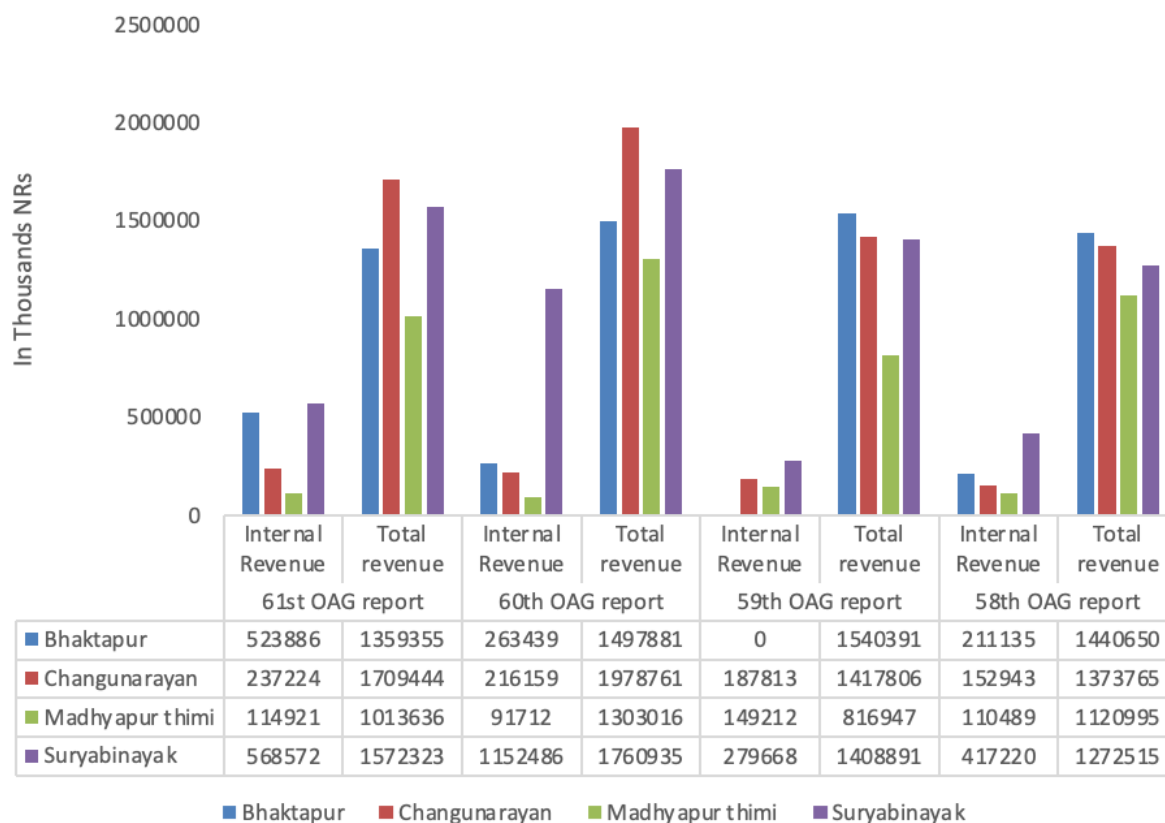


Fig.1: Revenue status of municipalities in Bhaktapur

Source: Report of the Office of Auditor General, Multiple years

The graph compares financial data, particularly focusing on internal and total revenue for different municipalities, including Bhaktapur, across three different fiscal years as per reports by the Office of the Auditor General (OAG) of Nepal (61st, 60th, and 59th OAG reports).

Just like other municipalities, Bhaktapur municipalities' internal revenue relies on property tax, house rent tax, house land registration fee, vehicle tax, service charge, tourism fee, advertisement tax, business tax, land tax and entertainment tax as

per the constitutional provision. However Bhaktapur has a strategic advantage due to its rich cultural heritage, which drives cultural tourism. In recent years, the municipality has made commendable progress in increasing its internal revenue, particularly through tourism. However, it still depends on external grants to ensure the smooth functioning of its administration.

Bhaktapur Municipality has shown

consistent growth in internal revenue, reflecting stable financial management and progress. In contrast, the other municipalities have experienced higher fluctuation rates in revenue, which undermines the effectiveness and sustainability of local governance. This inconsistency poses a challenge to maintaining the momentum of local development.

Decision Making Process

Decision-making plays a crucial role in governance. As the level of government closest to the public, local governments must be particularly inclusive, representative, and participatory, ensuring that all voices are heard and considered in the decision-making process.

Nepal's Constitution envisions a participatory form of local governance with several progressive provisions aimed at including and empowering marginalized groups, particularly women, Dalits (historically disadvantaged castes), and other disadvantaged communities, in the country's decision-making processes.²⁴ These measures reflect a commitment to ensuring equal participation and representation in governance, addressing past inequalities, and promoting social justice for all citizens.

24 Constitution of Nepal, Article 222.

In the case study of Bhaktapur, other than the constitutional provision it has included various informal practices for participatory form of governance and decision making. Our general view of state-citizen relations continues to assume a direct relationship between state officials, offices or institutions on the one hand, and individual citizens ? in the form of voters, petitioners, recipients of state services, applicants, complainants and defendants ? on the other hand.²⁵ However every society has its own form of informal institution that govern the society directly and indirectly that regulate social behaviors and helps state mechanism in formulation of plan and policies as per the general will of the public .

Every individual in societies have diverse interests, values, and perspectives which can be challenging for government authorities to accurately capture and represent the collective will of the people. Disintegrated individual will have conflicting or varied priorities. When this happens, forming a unified collective action can become difficult, especially for formal institutions like governments that rely on structured policies and regulations.

Thus in the case of Bhaktapur informal institutions, such as Guthi, Parva, and Jatra, which exists from the ancient time

25 Khan Mohmand, Shandana, and Snezana Mistic Mihajlovic. "Connecting citizens to the State: Informal local governance institutions in the Western Balkans." *IDS Bulletin* 45.5 (2014): 81-91.

plays a significant role in addressing this issue by fostering social cohesion. These cultural and community-based practices act as mechanisms through which individuals come together for shared purposes. For example:

1. **Guthi:** Traditionally, a guthi is a socio-religious institution in Nepal that organizes collective activities like the management of temples, festivals, and communal rituals. Through guthis, individuals contribute to and participate in collective decisions and actions that benefit the entire community. This allows people with different interests to unite around shared cultural or religious values.
2. **Parva (Festivals):** Festivals bring people together, reinforcing a sense of belonging and shared identity. During festivals, individuals engage in collective rituals and celebrations, which help create a sense of unity and common purpose. Parva fosters communication, interaction, and understanding among members of society, which strengthens social bonds.

The idea of “coming together” in Bhaktapur’s municipalities is deeply rooted in the informal institutions that operate independently of formal government

structures. These institutions, such as **guthi**, **jatra**, and various community organizations, play a significant role in uniting people and fostering a sense of collective responsibility and shared identity. These informal institutions help align individual interests with the collective will of society by creating a shared space for participation, dialogue, and collaboration. They provide a sense of unity and social order that may not always be achieved through formal governance alone. They are the backbone of Bhaktapur’s cultural and social cohesion, ensuring that the communities remains tightly knit and functions smoothly even without direct government intervention. Thus, while government authorities may struggle to represent a fragmented society, informal institutions enable communities to act collectively by fostering common values and goals.

Every policy decision, directly or indirectly, impacts the regional economy, in Bhaktapur that heavily rely on the tourism sector. To safeguard this vital industry, municipalities take care to avoid conflicting plans and policies that could negatively affect tourism, ensuring that local economic stability is maintained.

Key initiatives such as the **Safai Abhiyan** (Cleanliness Campaign), solid waste management programs, cultural

heritage preservation, and community-led reconstruction projects in Bhaktapur are prime examples of the collective action driven by the informal institutions in the municipality. These initiatives are not solely the result of formal government programs but are often led and sustained by the **guthi** system, local community groups, and traditional networks of cooperation.

On the other hand Bhaktapur municipality conducts various extensive consultation with sectorial parties and take due consideration of the recommendation prior to forming any plans. Consultation with business enterprises, local cottage industry tourism industry, and educational expert has been the major part of governance of Bhaktapur municipality.²⁶

Service Oriented Local Led Program

To foster a strong connection between the people and the government, local-level institutions play a crucial role as the most direct and accessible link to the general citizen. Local bodies are primarily responsible for delivering essential services, facilities, and a wide range of activities tailored to the needs of the community. Local programs and services help build trust and collaboration between citizens and their

government. In the case of Bhaktapur municipality a range of experiences shows that service oriented local led programs has been effectively executed and has been functioning properly.

Bhaktapur Municipality has taken significant steps to make education accessible and affordable for all its citizens, establishing Khwopa College, which is effectively managed and governed by the local government. It stands as Nepal's only community-based, service-oriented college. Upon its establishment, the municipality launched the "One House, One Graduate" campaign, aimed at ensuring that at least one member of every household earns a bachelor's degree.

Currently, the municipality operates seven educational institutions: Khwopa College, Khwopa Engineering College, Khwopa College of Engineering, Sarada Campus (for bachelor's level students), Khwopa Polytechnic Institute, Sarada Campus Secondary School (for 10+2 students), and Khwopa Secondary School. In Khwopa College alone, around 7,000 students are receiving quality education at an affordable cost, ensuring the municipality's commitment to educational empowerment to the local citizens.

Community schools under Bhaktapur Municipality have become more effective by incorporating the local language,

26 Plan and Policies review Book Swaran 2 edition , Bhaktapur Municipality

community-led curricula, and teachings on the region's rich cultural history. This approach not only enhances educational quality but also fosters a deeper connection to the local heritage and identity among students. The municipality is now preparing to establish a university, which will mark a significant milestone for both the local government and its residents. Bhaktapur municipality yearly sets aside money to lend to the poor and hardworking students by keeping their academic certificates as the mortgage. All those initiative will further strengthen the municipality's commitment to education and contribute to the long-term development of the community.

At the same time Bhakatapur municipality has done a commendable job in health sector while providing door to door health services by sending nurses and health volunteers to the households to enquire the townspeople about their health. Municipality has launched Ayurvedic health care services on July 16, 2017 with the aim of providing effective health services to the citizen. Municipality's health care centre charges comparatively cheaper fees for health services. To make health facilities more accessible and effective, the municipality has arranged doctors are well versed in Newari language. Patients express their problems in Newari and get medical advice in Newari making the service more effective.

Bhaktapur municipality has also been running skills development program for the general public to assist them in their livelihood initiatives. The municipality has been proactive in finding alternative income sources for its citizens by providing training and instruction in diverse sectors such as carpentry, photography, plumbing, and electricity. Likewise, to increase language proficiency that directly impact the economy of hospitality industry, the municipality is running language classes to make it more preferred destination for tourist. Elderly people do not need to go to the bank to get old age allowances; instead the bank comes to their yard.

Conclusion

Nepal's federalism is still in its early stages, leading to ambiguities in power distribution across different levels of government. This results in challenges such as inadequate legal frameworks, disputed authority overlaps, and limited local autonomy for administration. For effective local administration, it is essential that local governments have control over their income and expenditures, inclusive decision-making processes, and efficient service delivery for residents.

In the context of Bhaktapur municipality, there are mixed signals regarding local self-governance. While Bhaktapur still

relies on the central government for financial support, the municipality benefits significantly from cultural tourism, which strengthens its internal revenue. This income has enabled Bhaktapur to progress independently in development efforts without relying solely on central funds, although full fiscal autonomy remains constrained due to constitutional limitations.

The decision-making process in Bhaktapur municipality emphasizes inclusiveness, incorporating input from diverse sectors before finalizing plans and policies. Informal social institutions play a crucial role by channeling the voices of the people to the government, ensuring that local governance aligns with the will of the citizens. Consequently, the local government provides services that effectively reflect the community's needs and preferences.

Overall, Bhaktapur municipality serves as a model for effective local governance by integrating community input and delivering responsive services. With growing fiscal autonomy, it demonstrates how local governments can foster an inclusive, citizen-centered administration that meets the needs of its residents independently and sustainably.

Bibliography

- Constitution of Nepal
- Silva, Kapila D. "Bhaktapur, Nepal: Heritage values and conservation practices." *Cultural Landscapes of South Asia*. Routledge, 2016. 205-230.
- Levy, Robert I. *Mesocosm: Hinduism and the organization of a traditional Newar city in Nepal*. University of California Press, 1990
- Hachhethu, Krishna. "Municipality Leadership and Governance A Case Study of Bhaktapur." *Nepal: Local Leadership and Governance*. New Delhi: Adroit Publishers (2004): 33-72.
- Khan Mohmand, Shandana, and Snezana Misic Mihajlovic. "Connecting citizens to the State: Informal local governance institutions in the Western Balkans." *IDS Bulletin* 45.5 (2014): 81-91.
- Rondinelli, Dennis A. "Government decentralization in comparative perspective: theory and practice in developing countries." *International review of administrative sciences* 47.2 (1981): 133-145.
- Pandeya, Ganesh Prasad. "Does citizen

participation in local government decision-making contribute to strengthening local planning and accountability systems? An empirical assessment of stakeholders' perceptions in Nepal." *International Public Management Review* 16.1 (2015): 67-98.

- Pradhan, Krishna Man. "Local government: Constitutional vision and present practice." *Research Nepal Journal of Development Studies (RNJDS)* 2.2 (2019): 109-128.
- Kharel, Suman. "Local governance and rural development practices in Nepal." *Nuta Journal* 6.1-2 (2019): 84-94.
- Rai, Jailab Kumar, and Naya Sharma Paudel. "Discourses of local governance in Nepal: An analysis of legislation, constitutional processes and civil society demands." *Forest Action Discussion Paper Series* 11.1 (2011): 1-37.
- Acharya, Keshav K., and John Scott. "A study of the capabilities and limitations of local governments in providing community services in Nepal." *Public Administration and Policy* 25.1 (2022): 64-77.
- Pradhananga, Gyanendra Dhar. "Cultural Heritage and Tourism in Bhaktapur" The Kathmandu Post, 2020

Feb. 19. <https://kathmandupost.com/columns/2020/02/19/cultural-heritage-and-tourism-in-bhaktapur>.

- Oates, Wallace E. "Fiscal Federalism. New York: Harcourt Brace Jovanovich." Polity IV Dataset <http://www.bsos.umd.edu/cidcm/inscr/polity> (1972).



Coasian Negotiations on Land Management

Raju Sharma and Suresh Sapkota

1. Introduction

There is a renewed attention among local governments to promote entrepreneurship in their areas. Most local governments try to attract investments in their areas. There is new trend among local governments to organize investment summits and declare tax waivers and other subsidies to industries of specific nature¹. Local governments try to provide assurance to private sector. While these initiatives have enabled registration of businesses in Lumbini province, there are other areas where local governments are required to pay attention. Almost 86,904 industrial units are operating in the Lumbini province². The seemingly high number of business units in Lumbini province speaks volume of the economic opportunity in the province due to its location

1 <https://tdf.org.np/sites/default/files/2023-05/Enhancing-Municipal-Finance-in-Nepal.pdf>

2 Progress Report, Ministry of Industry, Forests and Environment Ministry, Lumbini Province 2019/20

and entrepreneurship culture among its citizens. However, there is an increasing instance of conflict between these businesses and local people who reside in areas adjoining the business premises. Among the well-established urban economies in Lumbini province (Butwal, Bhairahawa, Taulihawa, Nepalgunj, Ghorahi) there is a rise in the conflict between businesses and local people who reside in lands adjoining to these businesses premises. In these urban centers, market development occurred in those places where businesses were established. The establishment of businesses led to increase in population. As a result the price of the assets in the area has risen with the development of physical infrastructure likes roads, electricity and drainage. The population benefitted from the positive externalities created by the establishment of industries/businesses in the area.

Since past few years, there are increased negative externalities of these industrial

settlements and people who resided in areas adjoining the industry/business premises encounter problems related to traffic congestion, noise pollution, waste disposal, sound pollution, etc. Some of these citizens groups have been very vocal regarding this issue. These citizens who are neighbours to the businesses file complaint in the office of the local executive as well as to the court. Some of the citizens often obstruct the operation of the business. This has created a conflict between the residents and the businesses.

1.1 Diagnosing the source of conflict: Right to life and Right to enterprise

There are two rights which are at odds with each other- right to life and right to enterprise. While citizens have rights to live in peaceful community free from nuisances, the businessmen also have the rights to enterprise and livelihood in a legal way paying all the due taxes to the government. Any assembly of citizens in the streets is a better political force in Nepal than businesses (Shrestha, 2020). Businesses are at disadvantaged when it comes to negotiating with citizens regarding such conflicts. Businesses don't have any support from the government in these issues. They try to strike out a deal with these citizens groups by getting into the good books of these citizens. Most of the businessmen shared that no businesses can operate in Nepal if

the citizens (neighbours) are not taken into confidence. Citizens are also found to ask businesses to make donation to community events for the sake of operating the businesses. While these seem harmless, the demands from the citizens never end. Businesses supporting local community events and help building local infrastructure is more out of compulsion rather than willingness. There is increased trend of such demands from the citizens with the businesses. Demands from the citizens are increasing the costs of business operation. The increase in business operation costs might not be a bigger problem for big businesses but for majority of small businesses, the costs are substantial. Such entrepreneurs find it hard to negotiate with citizens on their demands and also do not possess capital to relocate their enterprise. As such, neither these enterprises are able to relocate nor are they able to operate freely in their own place. This trend has increased in the recent years as the price of land has substantially increased, it is difficult for majority of small businesses to relocate in other areas without any government support.

Additionally there is no government provision to deal with this issue explicitly. Local governments are capable of dealing with such issues related to land disputes between neighbours, waste disposal and land usage disputes etc. The local government can ask the enterprise to create a boundary wall, reduce and manage wastes, decrease noise pollution, and suggest remedial measures for traffic congestion. However, the local governments cannot ask businesses to shut down or relocate from their own premises as it goes against the

right to enterprise.

Given the importance of reducing conflicts between businesses and local people, it is imperative to bring together stakeholders (Government, businesses, citizens) to find ways to develop mechanism to address such conflicts. It is an opportunity to ignite discussion on ways to ensure partnership between public and private sector and facilitate the process of creating a bridge between public and private sector.

1.2 Purpose of the Paper

This paper will serve the purpose of informing other local governments in Nepal on developing a mechanism to address conflict between businesses and citizens, such that people are entitled to the right to a peaceful life and the right to enterprise. The paper will be useful for those local governments where markets are developing as consequences of increased population density.

1.3 Objectives

- To document the existing status of conflict handling mechanism between businesses and citizens
- To understand the perspective of businesses regarding addressing conflict between businesses and citizens and industry relocation
- To contribute to the development of mechanism to handle conflict between

businesses and citizens based on their physical location

2. Approach to the study

This paper adopts explorative research design. Most of the data/ information were collected using qualitative methods. Both primary and secondary sources of data were used. Primary data was collected by organizing focus group discussions (FGDs) with separate sets of stakeholders. Additionally, in-depth interviews were also conducted with 8 persons on various aspects of the major issues and status of industry relocation in Lumbini province. The stakeholder mapping exercise led to the finalization of stakeholders. Some of these stakeholders were invited for FGDs. They were asked to list out their experiences, gravity of the issue related to conflict between citizens (neighbours) and industries or businesses and wider industry relocation issue. Besides, interactions and informal meetings were also conducted with local people who were affected by the huge increase in business activities in their area and had filed a complaint in the local municipalities. These people provided a wealth of information on the various facets of the issue. Finally, a Public Private Dialogue was conducted to discuss about the experiences of different stakeholders and suggest way forwards to foster cooperation between the government and private sector such that issue of industry relocation and ways to address conflict between citizens (neighbours) and businesses are solved.

A. Focus Group Discussions

Altogether 3 FGDs were conducted with diverse sets of stakeholders. FGDs provided much needed information about the perspective of different sections of the private sectors as well as other stakeholders. Altogether 42 people participated in these FGDs. Following tables gives the detail of the stakeholders reached out through FGDs:

Table 2.1: Organizational representation of the stakeholders

Stakeholders	Organizations
Business Associations	Butwal Chamber of Commerce and Industry
	Rupendehi Industry Association
Journalists	All major publications
Academicians	All major colleges
Government Stakeholders	Ministry of Industry, Commerce and Supplies, Lumbini Province
	Butwal Municipality

B. Informal interactions and interviews:

Besides, FGDs informal interactions were conducted with 8 individuals and office bearers who provided detail information on the issues of addressing conflict between

neighbours and businesses and wider issue of industry relocation. Following sets of stakeholders were reached out through interviews and informal interactions.

Table 2.2: Individuals reached out through the study

Individuals	Sector	Number
Office bearers from Butwal municipality	Government	1
Rupendehi Commerce Association	Business Associations	1
NGOs federation, Lumbini Province	Civil society activists	1
College Lecturers	Academicians	1
Entrepreneurs	Business	4

C. Mini Survey:

Since the information on this issue is very less, researchers also conducted a survey amongst entrepreneurs to understand their views on the issue and how are they dealing with the issues. During the initial phase of the discussion, it was understood that there is severe lack of data on these issues. The local municipality, province ministry and even the business associations had no data on the number of businesses

which faced this problem and the status of the issue, although all institutions were aware about the sensitive nature of the issue and identified this as an important issue which needed policy intervention. As such, a mini survey was conducted among purposively selected sample of businessmen who were affected by the issue. An initial list of potential businesses who were facing the issue was identified from among the members of the business associations. A survey form was circulated among these members with request to provide information regarding how are they dealing with the issue, how it has affected their business and their expectation from governments in addressing the issue. 52 entrepreneurs provided information on the research questionnaires.

D. Public Private Dialogue (PPD):

Public Private Dialogue program was also conducted to share the findings of the FGDs and informal interactions as well as to jointly identify problems and propose solutions to the impending challenge of addressing conflict between neighbours and businesses and industry relocation. The program also provided opportunity to discuss about the sensibilities of the industry relocation and addressing conflict between neighbours and businesses. The Public Private Dialogue program was attended by 54 participants. The program was addressed by the Lumbini province planning commission vice chair, Industry

Secretary from Lumbini province industry ministry, and Province chairs of the all major business associations- mainly Federation of Nepalese Chambers of Commerce and Industry, Chamber of Industry and Federation of Small and Cottage Industry association. Selected participant from researchers, government officials, academia, civil society, entrepreneurs, journalists and businesses discussed about the issues and jointly recommended some of the ways for government to address the issue. During the program, the finding of the research was also shared.

3. Existing legal mechanism pertaining to the issue

There is serious lack of legal mechanism to deal with this issue. The local governments govern the businesses through directives on private firm registration, market inspection and market development which are based on the Industrial Enterprise Act 2020 of the Government of Nepal. The private firm registration act of some of the local government is silent on the issues of providing protection measures for businesses if they encounter conflict with neighbours³. All businesses are required to obtain permission from residents who live in the adjoining areas of businesses commonly called “sarjamin⁴” before

3 The private firm registrations Act of municipalities which have major urban markets in Lumbini province were studied. None of the Acts had remotely talked about ways to address conflict between businesses and citizens

4 Sarjamin- Nepali term for taking permission

they apply for registration of the businesses at the local level. Based on the nature and scale of businesses additional requirement such as Environmental Impact Assessment/ Initial Environmental Examination report must also be produced in order to get registered at the Provincial ministry along with details about the physical location of the businesses. An industry which is not required to carry out environmental impact assessment or initial environmental examination when making application for its registration, also has to make a self-declaration, accompanied by the reasons and grounds for not requiring to carry out such assessment or examination, that it will take necessary measures to mitigate possible adverse effects on the environment from the establishment and operation of the industry. Without permission from the neighbours, local government cannot issue registration certificates to businesses.

All local governments have set up a judicial committee to resolve small issues related to trespassing, waste disposal, water usage and drain management, and other disputes between neighbours. The judicial committee comes closest to being any an institutional mechanism to solving issues of conflict between neighbours and businesses. However, this committee is mandated to bring the conflicting parties into negotiation but it cannot shut down the businesses. At the province level, there is lack of legal mechanism to solve the dispute between citizens and businesses. Upon receiving complaint from citizens, the

from neighbours who share boundary with the business premises. Sarjain document is needed for registering business in Nepal.

concern department of the province ministry of Industry seeks clarification from the businesses and suggests corrective measures. Neither local governments nor province governments have set up any mechanism to address the issue of relocation of industry. Even the urban development planning process does not address relocation issues.

4. Status of the issue related to conflict between citizens and businesses and industry relocation

It was remarkable to discover that the issue was felt important by businesses and governments, but no real discussion had ever been carried out. The business community has been facing the issue for quite a long time and even has instances of physical obstruction in the business premises by some neighbors. While the magnitude of the issue varies, most of the small businesses (trading and manufacturing) agreed that they are dealing with the issue. One particular concern for the small businesses is that they would not have enough capital for relocation because of the soaring prices of the land in the area. The small businesses, considered as the lifeblood of the Nepalese economy, are hard hit by this conflict. These businesses try to please the community by contributing financial to community events. All of the businesses are required to take permission from people who have residences or land adjoining the businesses premises before

any businesses is set up. Without agreement from the neighbours, the ward office does not give permission to register the businesses. Citizens understand this compulsion of the businesses and often put conditions before businesses for the permission. The small business owners are forced to make financial contribution in community events, help build or repair roads and help build construct temples, busstands and other small community infrastructure. Neither local governments nor province governments can ask any businesses to shut down operation. The government needs to play a facilitating role in identifying areas where businesses can be relocated. The government response on this issue has been creating more and more industrial areas. The option to relocate to these industrial areas is more feasible for big manufacturing industries and not for trading businesses. Most of the businesses which are facing such conflict issue are trading in nature.

The following table shows the kinds of difficulties faced by selected businesses that are facing some conflict with neighbours. Citizens' asking financial contribution from businesses is the most common problems faced by these businesses followed by constant blame that business has led to traffic congestion in the area.

Table 4.1: Manifestation of the responses of neighbours with businesses

Reactions of neighbours	%
Physical threat and obstruction on business premises	2
Asking to relocate business somewhere else	14
Stopping company vehicles	12
Asking for contribution in community events	28
Dispute with staff saying business has made traffic congestion	26
Blame business for noise pollution	12
Asking companies to manage the wastes	6

There has been one complaint filed in the office of local municipality with demands to close down 6 operating businesses in ward 11 of Butwal municipality. The members of the judicial committee have tried to negotiate a deal with local citizens and the 6 businesses but the effort has not yielded any outcome. The citizens are adamant on closing these businesses in the area as they claim these businesses degrade the quality of life to which citizens are entitled to. On detail study of the case, it was revealed that the businesses have operated in the area for quite some time and are unwilling to relocate as most of these businesses are trading in nature and would lose their competitive edge upon relocation. For these trading businesses, access to market (population) and availability of human resources (staff) are important issues which

make them competitive. With relocation, they fear they would lose the competitive edge. Since majority of the businesses in urban centers are trading in nature, the issue of relocation becomes more sensitive as these businesses could lose their competitive edge, availability of qualified staff and market upon relocation. According to Lambooy 1995, ability to attract qualified staff and geographical distance from market determine competitiveness of small businesses. The activities of locally oriented firms have a relatively small spatial scope because people are in general not prepared to travel long distances for products of these small businesses of trading nature.

4.1 Drivers of conflict

The land and location of any businesses is an important factor. Businesses either operate by buying the land or undergo rental agreement. In both cases, businesses are required by law to take permissions from landowners adjoining the business premises commonly called “sarjamin” in Nepali. There are no conditions set for neighbours to either reject or grant the permission. It is up to the business owner to apply any means to take permission. When there were plenty of lands, this provision was not an issue. As the lands have become scarce (especially in urban centers), the importance of regulating the process of taking permission from neighbours is felt among business community. Under the present conditions, neighbours are given much power to decide the fate of small

businesses. Local people who live or have land adjoining the businesses premises are putting conditions to grant permission. One of the women entrepreneur said “it is not enough for us to buy land to build a factory. I have been asked to contribute Nrs eight hundred thousand for temple construction in exchange for the permission agreement among neighbours. She asked is this not extortion in the name of community infrastructure? Where is my right to enterprise?” Another entrepreneur who owns a brick factory said “we cannot operate our businesses without taking neighbours into confidence. Government has failed us to provide any protection in these issues. It lets us operate businesses but does not provide us any coverage while we deal with unnecessary demands from local people.” There should be some conditions for which neighbours cannot reject the permission. This is an area which needs regulation. There should be specific conditions under which permissions are required and others under which no permission can be granted. Additionally, the urban development plans of the government must also include a mechanism to fix the terms of “sarjamin” for a fixed period of time. If permission from neighbours is time bound, the businesses can make plans for relocation after the period of permission expires. For instance, if an entrepreneur undergoes a rental agreement of a land and takes “sarjamin” for a period of 15 years, it is clear for him to make alternative arrangement after the sarjamin period expires. The entrepreneurs will not face any demands for relocation or

disturbances for at least 15 years. At the moment, neighbours can grant permission this year and again file a complaint with the government in the following years.

4.2 Effect on the business community

All businesses are affected by this dispute between the neighbors and businesses. Based on the survey conducted among small businesses, it is astonishing to find out that all businesses are affected by the issue irrespective of their types and scale of operation. Majority of the businesses feel that businesses cannot operate without compromising with neighbours' demands. Businesses are made to comply with neighbours at the time of registration. One of the well-established furniture entrepreneurs said "while registering our business we are made to commit that we will shift our industry premises if in case neighbours get nuisance due to the business. There is no protection for businesses which face conflict with neighbours." The operational costs of businesses increase as dispute between businesses and neighbours increase. Majority of the small businesses are facing the brunt in comparison to small number of big businesses. Small businesses must be located close to market. They operate from places near urban areas because of the availability of public infrastructure. Because of the accessibility, their investment in human resources is limited to payment of salaries and insurance coverage only. Relocation will increase their

investment in human resources. If these small businesses must be relocated they will lose their competitive edge and their business operation costs increases which is detrimental to them. In such scenario, most of the small businesses have no choice but to try to please neighbours at any cost. Experts agree that a relocation over long distance has the most disruptive force on the businesses internal processes and its employees (Carter 1999) leading to higher employee turnover rates and dissatisfaction (Lawson and Angle 1998). According to the survey conducted as a part of the study, it was revealed that the production costs and marketing costs of these businesses will increase by 15% and 12 % respectively if these businesses have to be relocated. The following table shows the responses of effect of relocation among selected businesses.

Table 4.2: Effect on business if relocation is imposed

Effect on the enterprise after relocation	%
I have to close down my business if forced to relocate	12
My production costs will increase	26
My investments in raw materials procurement and storage will increase	14
My investments in human resources will increase	20
Increased time for staff to travel to and from business premises	10

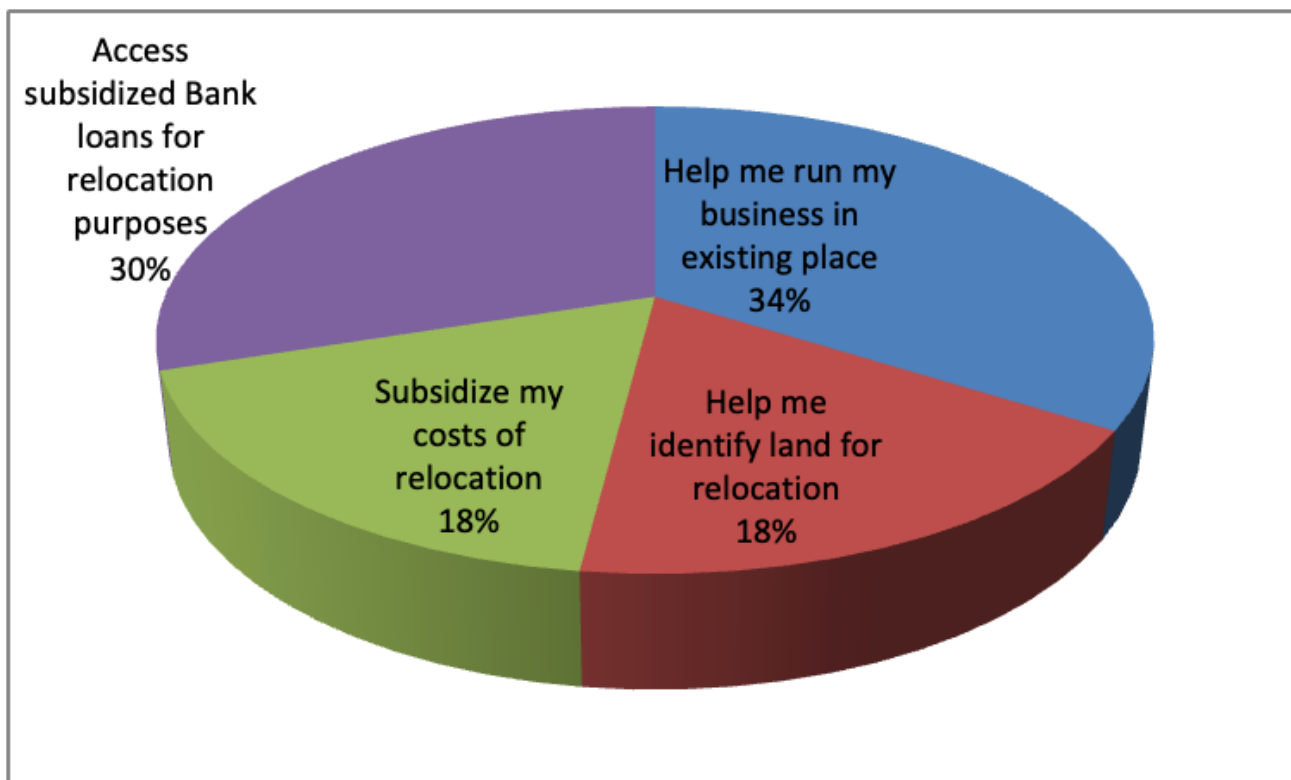
Costs of transportation and marketing will increase	18
---	----

4.3 Demands from the business community

There are two specific demands from the business community pertaining to the conflict between neighbours and businesses. The business community want the association of businesses at the province level (FNCCI, CNI and FNCSI) to conduct wider research on the number of businesses which are facing the problems of dispute with neighbours so that these business

association lobby with the government for some policy actions. Another demand from the selected businesses is related to allowing them to stay at their existing places or subsidizing their costs of relocation. The results of the survey among selected businesses revealed that most of the businesses demanded that they be supported to conduct their businesses in the existing place. The following figure shows the demands of the selected businesses in trying to solve dispute between neighbours and businesses.

Figure 4.1: Demands from the selected businesses



5. Conclusion

There is an urgent need to address the growing tension between small businesses and local people who reside in adjoining areas of industries/businesses. The conflict is not just limited to manufacturing enterprises but the trading businesses as well. The right to enterprise of businesses often come into conflict with right to secure and peaceful livelihood of local people. It is astonishing to find out that there is no realization of the sensitivity of the issue. The problem is severe in majority of urban centers in Lumbini province especially those urban centers which are known as industrial and trading hubs. People have been found to complain with local and province governments about the nuisance value in terms of pollution, traffic congestion, noise pollution etc. The existing legal mechanism at the local level and province level does not provide ways to solve the issue. The process of taking permission from neighbours who share boundary with business premises is unregulated with no conditions set whatsoever. The neighbours who share boundary with businesses, can and do make demands upon businesses. Even after taking permission from the neighbours, businesses are not sure until when will they be given opportunity to run businesses in the same place without facing any difficulty from local people. There is a need to assure businesses that after taking permission from neighbours under conditions set by law, they will not be asked to relocate for a period of time based on the period for which the permission is granted. All local governments must designate areas which can be allocated for

businesses. Permission to operate businesses should not be given in those areas which are not designated. The business community will obviously locate their businesses in designated areas only where they can freely operate their businesses. One of the most critical issues in creating an enabling environment to development of businesses is the assurance from the government that businesses are given protection from the unnecessary demands of local people or neighbours. This assurance will hugely contribute to encouraging businesses to make investments. For businesses which need relocation, government should also support them in relocations. Overall local governments must devise a policy for relocation such that businesses do not lose their competitiveness upon relocation. Businesses must also be allowed to operate in the premises after having taking permission from neighbours for a fixed period of time.

6. Recommendations

There is a clear need for an in-depth research on the magnitude of the problem emanating from the conflict between businesses and citizens who reside in the adjoining areas. Affected and affecting parties can sit together and search the way forward without involving security agency or any other government representatives. Affected party can be compensated by business and some understanding could be made. As the issue is very sensitive, the proposed solution should also be considered by taking into confidence perspective of the business community, government stakeholders and

affected citizens well. While there is a clear need for strict monitoring of businesses regarding their compliance with environmental issues, citizens should not be allowed to obstruct the operation of businesses. During the survey, stakeholders discussed various ways to address the issues of reducing the conflict between citizens and businesses. The recommendation section is constructed based on the recommendations suggested and agreed by various stakeholders during the PPD.

6.1 Setting strict criteria for “sarjamin”

There is an urgent need to control the neighbors who make extravagant demand upon small businesses to grant permission to operate the businesses in their areas. Citizens should not be allowed to curtail the right of businessmen to secure livelihood and enterprise. The existing provision for taking permission from neighbours should be upgraded with specific conditions under which permission cannot be denied and permission should remain valid for fixed period of time. Neighbours should not be allowed to obstruct businesses with demands for relocation when the “sarjamin” period is still in operation. At the same time, strict inspection of businesses with respect to creating boundary wall, waste disposal, and noise pollution should be regularly checked.

6.2 Categorizing the businesses

Government should categorize businesses based on their effect on the right to peaceful life. Those businesses which have the potential to affect local people’s right to peaceful life by creating public nuisances should not be allowed to operate in designated areas. Government should designate areas for businesses according to their potential effect on the public life. In designated areas only, businesses should be allowed to operate by taking permission from the neighbours for a fixed period of time. This effort of the government must be seconded by the establishment of industrial/business zone for industries. There are already documented cases of industries which can relocate as against industries which cannot be relocated. Most manufacturing businesses find it easy to relocate compared to trading businesses. In case of relocation issue of Lumbini area, effective coordination between government departments is clearly required. If government and other stakeholders actually want to relocate they need to design compensation package.

6.3 Assessing the negative effect of businesses

There is a need for devising scientific mechanism to assess the negative effect of the business operation in terms of creating public nuisance. Periodic inspection of effect of businesses in public life can be done by

institutionalizing an auditing framework for environmental safeguards, waste management and other public nuisance created by the presence of the businesses. Relocation should be mandatory for such businesses which have created public nuisances. Governments must support businesses to relocate with certain waivers in taxes or financial supports for relocations. In order to achieve this, a detailed study needs to be carried out by implementing an assessment of compensation means and alternative operating procedures for industry owners.

6.4 Broadening the scope of judicial committee

There should be a mechanism to settle dispute among businesses and local people at the local government level. The scope of judicial committee should be broadened to address conflict between businesses and local people. At the same time, business associations must create a public platform to discuss ways to address if any dispute arises between businesses and local people. The practice of Public Private Dialogue (PPD) should be institutionalized at local governments' level such that conflict between businesses and local people are discussed in such forums.

References

- Acharya, K. K. (2018). The capacity of Local Governments in Nepal: from government to governance and governability. *Asia Pacific Journal of Public Administration* , 186-197.
- Carter, J. 1999. The effects of firm relocation on firm performance- A literature review. In *European Science Association*. August 2005. Amsterdam the Netherlands
- Democracy Resource Center (2019). Budget Allocation and Implementation by Local Governments in Federal structure. Kathmandu: Democracy Resource Center
- IIDS. (2020). Fiscal Federalism in Nepal: Revenue potential of Province and local governments in Nepal. Kathmandu
- Lambooy, J.G. 1995. The role of small forms in economic development: The contribution of local firms to regional development. In *International Business Geography: Case studies of corporate firms*
- Lawson, R. and Angle, H. 1998. The Impact of Relocation on Employee Turnover and Job Satisfaction. In *Journal of Business Research*, 42(2).
- LGOA, 2017. Local Government Operation Act 2017. Government of Nepal

Nepal, G. 2024. Industrial Development in Nepal: Navigating Challenges and Harnessing Opportunities State, Society, and Development. State, Society, and Development: PMPD Perspectives Vol. 2, 2024

Roy, K. 2016. Lecture Notes delivered at the orientation program for senior government officials on federalization and Administrative Workshop, 12-13 December 2016

Shrestha, K. 2020. Labour Law Reformation in Nepal: Impact on the Labour Market. Nepal Law Journal Vol, 24

Samriddhi Foundation (2019) Public Private Partnerships: Relevance in the Federal Context.

Kathmandu: Samriddhi Foundation

World Bank (2019) Nepal Infrastructure Sector Assessment: Private sector Solutions to Public

Infrastructure. Kathmandu: World Bank



Urban Transport Issues within Kathmandu Valley *

Ashansa Mulmi
Subhekshya Ghimire

Introduction

Kathmandu is distinctly characterized by the constant clamor of road negotiations. Increasing number of vehicles has created a plethora of problems in the form of congestion, parking spaces, pollution etc. In hindsight, the solution seems pretty simple—to adapt public transportation for mass transits. Past efforts in transportation have struggled to sustain the system, with one of the key measures being road expansions. Unfortunately, these expansions have not provided much-needed relief. Road infrastructure in the country has expanded by 46.5% (as of 2022) in 10 years and promises of monorails in Kathmandu are yet to make it out of speeches. Meanwhile, public transportation mode—also the only mass transit medium—has been neglected. While the population of Nepal increased by a factor of 1.26 from 2001 to 2021, vehicle registrations skyrocketed by a factor of

16.76 during a similar timeframe. This disparity highlights a significant shift in transportation dynamics, indicating that vehicle ownership is becoming increasingly vital in the lives of Nepalis along with a backdrop of increasing living standard and income. On average, the public transport accounted for only 0.38% of total vehicles, cumulative of vehicle registrations since 2011 (Department of Road, DOTM), leaving personal vehicles to be the most favored mode of transportation as of now.

Public transportation system—comprising buses, minibuses, and tempos—is crucial for millions of residents. Buses are the most cost-effective transportation option for lightly used routes. While the flexibility of bus routes allows for easy adjustments, it poses challenges for major bus lines. These lines often lack stability, efficiency in accommodating large passenger volumes, and the sense of permanence and fixed routes that passengers prefer (Vuchic, 2002). Minibuses too are categorized as bus

* We sincerely acknowledge the research team at the Centre for Public Policy Research (CPPR) for their invaluable support in helping us complete this research.

NEPAL'S PUBLIC POLICY:

Through young lenses

vehicles, however, tempos are relatively scarce outside of South and Southeast Asia and are generally modified to one's needs. In Nepal they accommodate 10-14 people at a time operating similarly to the buses in terms of stops and routes.

These three modes of transportation are currently the foundation of the public transport system in Nepal. They are also the closest thing to a mass transit system that is in place for urban transportation in Kathmandu. However, the system is coupled with regulatory challenges, management issues etc. Rapid urbanization, population growth, and inadequate infrastructure have severely strained the transportation network, leading to congestion, pollution, and safety issues.

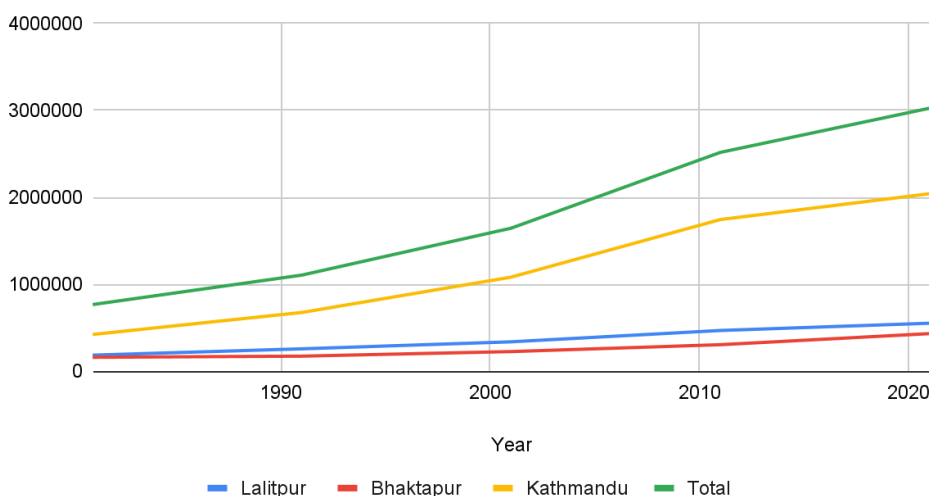
Data indicates that between 2000/01 and

2022/23 Nepal registered approximately 173 vehicles per thousand people. Notably, passenger vehicles make up the majority of this figure, with around 159 passenger vehicles per thousand inhabitants.

Statistics show that nearly 75% of households in Nepal own at least one vehicle, translating to about 0.75 vehicles per household. This suggests that vehicle ownership is becoming increasingly common. The predominance of passenger vehicles underscores the need for effective public transportation solutions to accommodate the rising demand and to address urban mobility challenges in the country.

The goal of an efficient public transportation system should be to maximize the use of urban space while ensuring organized and

Population of Kathmandu Valley



Source: National Statistics Office

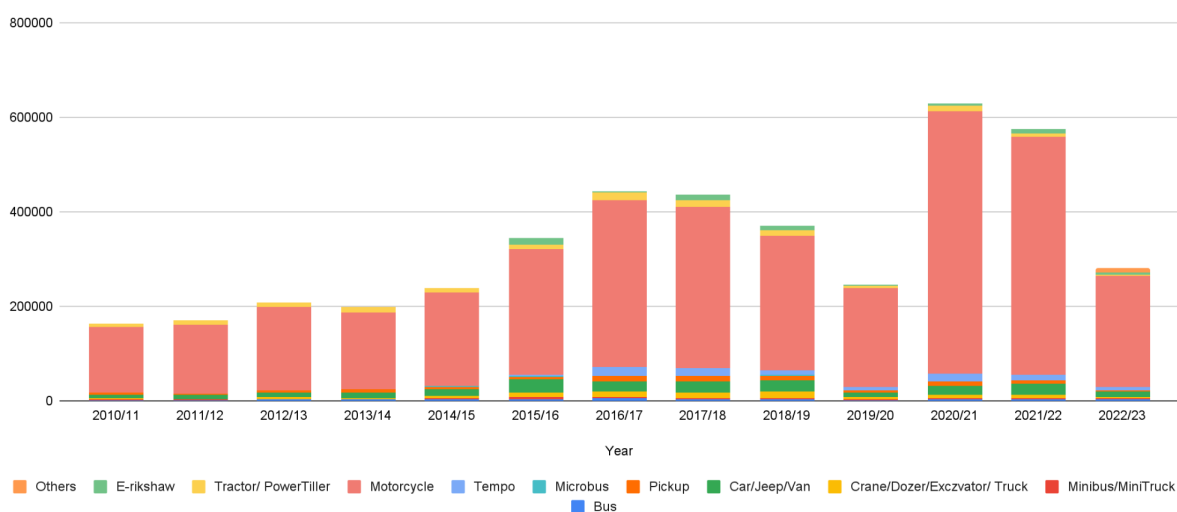
affordable mobility. Improved accessibility to public transport is associated with better job opportunities, enhancing the likelihood of being employed and working full-time (Johnson et al., 2017, Kawabata, 2003). However, a major concern is that despite rapid urbanization, the share of public transportation remains stagnant and the options are still insufficient to offer comfortable, and hassle-free commutes.

Status Quo

Nepal’s transportation sector is predominantly dominated by privately owned vehicles. Motorcycles are the most popular means of transportation followed by cars and jeeps. Heavy reliance on personal transport has created complex challenges, including severe traffic congestion and air pollution.

The graph illustrates annual registration of various vehicle types in Nepal from the fiscal year 2010/11 to 2022/23. Throughout the graph, motorcycles consistently dominate the vehicle share, peaking at 55% of total registrations in 2021/22, indicating a strong preference for this mode of transport due to its affordability and maneuverability in congested urban areas. The shares of buses and minibuses remain low. Challenges such as overcrowding, accessibility, and time inefficiency have hindered their growth and use compared to personal vehicles. Meanwhile, the rise of e-rickshaws indicates a growing acceptance of alternative transport options for short distances but are relevant only outside of Kathmandu valley. The comparatively low share of traditional public transport vehicles coupled with the increasing dominance of motorcycles, also massively used for ride sharing services, underscores a

Number of vehicles registered in Nepal annually



Source: DOTM (Retrieved from NRBs database of Nepalese Economy)

fundamental reality regarding urban mobility preferences.

Public transportation options are limited and most of these services are privately run and invested. A notable exception is Sajha Yatayat, with majority of shares held by the government entities and run in a cooperative model.¹ However, its reach and impact are relatively small compared to the private sector.

To manage operational costs and risks, many vehicle owners join transport committees. They pay a daily or monthly fee to the committees that act as intermediaries, handling tasks like insurance, permits, bookkeeping and taxes on behalf of their members. Over time, these committees have evolved into powerful associations—cartels—that wield significant influence over the sector. Unfortunately, these associations have often been criticized for anti-competitive practices, creating barriers for new entrants and hindering service quality.

According to Aryal et al., the current public transport in Kathmandu is of poor quality, resulting in longer travel times compared

to private transport. Due to the public transport's unreliability and inefficiency, there has been a significant increase in the use of two-wheelers, especially motorbikes and scooters, which poses both a significant challenge to sustainable urban mobility. Further, these issues are exacerbated by the limited capacity and authority of the regulatory body, insufficient resources, weak policy enforcement, and low stakeholder engagement. On the demand side, Aryal et.al found that 73% of their respondents were in favor of changing the current transport policy and wished for a shift to public transport, which means that most commuters were in favor of the proposed mode of transport, MRT. Even the popularity of ride sharing apps is a testimony to the demand for accessible and reliable transportation service.

In developing nations, inadequate transport infrastructure and inefficient transport services are identified as significant obstacles to socio-economic development and social integration (UN-ESCAP: Thoopal, R. K., 2000). Hence, this research paper aims to assess the current state of public transportation in Bagmati Province, by analyzing the policies put in place to identify the core issues and suggest policy interventions that enhance efficiency and accessibility. Various studies have been conducted to assess commuters' satisfaction with public transportation

1 Sajha's share investment structure consists of 82.18% from various ministries and departments of the Nepal Government, 4.24% from Kathmandu Metropolitan City, 3.11% from Lalitpur Metropolitan City, 0.24% from Godavari Municipality, 0.11% from Mahalakshmi Municipality, 0.03% from other institutions, and 0.009% from individuals.

and the infrastructural inadequacies, but there is a significant gap of policy analysis. Therefore, this paper attempts to figure out if the ineffective transportation stems from policy inconsistencies.

Despite being privately run, public transportation in Nepal is subject to extensive government regulation. The sector is completely reliant on private investments with close to no subsidies as practiced by most countries. Yet, heavy regulatory oversight is persistent, encompassing price fixing which serves as a hurdle to innovation.

The result is a public transportation system plagued by issues such as inefficient fares, inefficient routes, and a lack of accountability. In recent years, ride-sharing services have emerged as a potential disruptor, offering a more convenient and accessible alternative for commuters. While these services have brought some relief, they have also introduced new challenges, necessitating a careful balance between regulation and innovation.

History of the Transport Syndicate

1. How the cartel formed

The establishment of Purbanchal

Motors in 1974 marked the beginning of transportation entrepreneurs' associations. This gave rise to the emergence of more associations including Prithvi Highway Syndicate in Pokhara, Arniko Yatayat in Kathmandu, Seti Mahakali in the Western region, Paschim Nepal in Butwal, and Narayani Yatayat in Hetauda. In 1982, all these associations came together and collectively lobbied the government to create the first national federation, known as the Federation of Nepalese National Transport Entrepreneurs (FNANTE). This federation was officially registered on August 23, 1982.

The Vehicle and Transport Management Act of 1992, established to regulate the industry, introduced provisions that, in practice, contributed to the consolidation of power among existing associations. While the act outlined regulations governing the operation of public transportation vehicles, insurance for passengers and drivers, as well as the issuance of route permits and fare fixation, a critical clause became a double-edged sword. The requirement for new entrants to seek permission from established associations to register and obtain route permit created a significant entry barrier, tilting the competitive landscape in favor of the existing players. This provision not only undermined the spirit of fair competition but also entrenched the influence of cartels, perpetuating a system

where the approval of these associations became a prerequisite for participating in the transportation sector.

The appeal of these associations is further heightened by the historical context, where they provided crucial assistance and financial support to political parties. This historical connection, coupled with the economic advantages, has deepened the ties between cartels and policy makers, solidifying the cartels' influence in the transportation industry and shaping its dynamics over time.

2. Need for the cartel

The cartel primarily sustains itself by providing financial support to its member transport companies, most of which are small-scale entrepreneurs. It imposes a monthly “trip fee” ranging from NPR 12,000 to 20,000², in exchange for which it offers insurance coverage, maintenance services, and staff monitoring. This financial support allows the member companies to reduce their operating costs, leading to higher returns on investment.

According to Nepal, 2015, “most transport entrepreneurs have made relatively small investments owning only a few vehicles”. This limited investment restricts their capacity to scale their operations as doing

2 Average fees reported by bus operators based on authors' survey

so would increase their per-unit operating costs and lower their profit-margins. This financial strain makes it difficult for them to compete independently in the market, leading them to seek the support of the cartel. By offering lower costs and achieving economies of scale, the cartel solidifies its position in the industry and strengthens its bargaining power.

3. Effects on the customers

These systems incentivize inefficiency and discourage companies from offering high-quality services within an open and healthy competitive environment. The group most severely affected by this situation is the consumers, who face a series of challenges from overcrowding, pollution, uncertain commute timing, inter alia. Consumers would greatly benefit from lower prices, reduced overcrowding in buses, and shorter waiting times. These advantages can be realized when the public transport industry embraces healthy competition, providing consumers with safer, more efficient, and cost-effective transportation options.

4. Actions taken to dissolve/ against the cartel

The budget speech of 2009/10 and 2010/11, explicitly labeled the transport syndication system as ‘unlawful’ and declared that the

registration of associations enforcing this system would be revoked. These measures indicate the government's commitment to combating non-competitive practices within the transportation sector and ensuring fair pricing and competition for the benefit of consumers.

The battle against these syndicates started in April 2018 with the issuance of the Transport Management Directive, which aimed to disrupt transportation monopolies. New regulations required public transport committees to register under the Companies Act of 2006. The amendment removed the need for committee recommendations for route permits indefinitely. Once converted into companies, these organizations would be held accountable for their accounts and balance sheets.

The government's decision faced massive protests and strikes from transport entrepreneurs gathered under the Federation of Nepalese National Transport Entrepreneurs Association. The government did not yield to this pressure tactic and announced that it would no longer renew the registrations of transport business committees and associations. The Ministry of Physical Infrastructure and Transport planned to take control of the movable and immovable assets of the syndicates and committees. The government also made several arrests and, in coordination with

agencies like the Ministry of Finance and Nepal Rastra Bank, froze the associations' accounts and assets. Additionally, route permits for companies that were protesting were revoked, putting further pressure on the transport federation, which eventually prompted them to back down. Subsequently, new bus companies, including Mayur Yatayat, City Metro, Mahanagar Yatayat, Shiva Darshan, Madhya Upatyaka, and Annapurna, were granted 'direct permits' by the government and commenced their services (Nepal Live, 2018).

Although these measures taken by the government are notable, there have been suspicions regarding the government's commitment to tackling transport syndicates due to questionable transfers of bureaucrats involved in recent efforts to dismantle these monopolies.³

3 Rup Narayan Bhattarai, former director general of the Department of Transport Management, renowned for his crackdown on syndicates in public transport, has been transferred to the Ministry of Physical Infrastructure & Transport (MoPIT) not long after taking action against the syndicate. (The Kathmandu Post, 2018)

A Tale as old as time: Why Does the Cartel Prevail in the Public Transportation Sector?

Nepal adopted economic liberalization in the 1990s with the vision of a free-market environment that encouraged competition, improved efficiency, and ensured consumer welfare. Despite adopting free-market policies, monopolistic practices continue to dominate the public transportation sector through transport syndicates. The cartel holds great influence over market outcomes, preventing competition and stifling efficiency. Ironically, while operators form alliances to maintain their influence, the government itself heavily regulates the market, rendering both parties non-adherent to free-market principles. This persistent situation raises a crucial question: Why does the transport syndicate persist?

In a nutshell, the syndicate persists because it provides a safety net for operators in an environment lacking regulatory support. As a result, collaboration replaces competition. So far, the focus has been just on how to dismantle the cartel. But it is equally important to ask why the cartel continues to thrive and whether the cartel is important for the industry to stay afloat. Critics argue that the syndicate harms

the industry by restricting competition, and they are correct. However, this issue stems from a deeper problem - the complex and restrictive regulatory framework governing the sector. The framework has created an environment that discourages better competition and better service. Simply blaming the syndicate ignores the root cause behind its persistence and monopolistic hold.

It would be unfair for readers to assume that the authors are trying to manipulate them into believing the cartel is, in fact, good. This is not the intention of the paper.

One of the key reasons for the persistence of the transport cartel lies in its political clout. Transport syndicates are often alleged to be closely allied with political parties, and many operators leverage these relationships to maintain their power. It is then not surprising to see operators protesting and obstructing daily services to express their dissatisfaction freely. These strikes and lock-outs are used as pressure tactics to compel the government to meet their demands rather than promoting a competitive and fair market.⁴ The bargaining power of syndicates is further

⁴ Transport entrepreneurs, part of FNNTEA, ceased offering long-route bus services in protest of the government's decision to halt the renewal of their permits and encourage new entrants to obtain route permits. Additionally, a newly operating bus from a new company, Mayur Yatayat, was set on fire during the protest. (Online Khabar, 2018)

reinforced through unlawful methods, such as threats and intimidation against non-member operators. In several instances, operators attempting to challenge the cartel still face harassment or physical threats.⁵ This raises important questions about the power the cartel holds, who continues to support them, and why are regulators not successful in breaking them.

A complicated relationship dynamic has also stemmed from a clear disconnect between service providers and regulators in Bagmati's public transportation sector. The government seeks to regulate the industry to appear responsible to a public that often vilifies private operators for prioritizing profit over public welfare. On the other side, service providers are focused on earning a sustainable income despite heavy regulations. However, neither side has found a common ground. The service providers receive little to no support from regulators, while the regulators struggle to gain cooperation from the operators.

Over the past five years, service providers have organized numerous protests and riots to resist various government policies. One recurring issue is the rising cost of fuel paired with stagnant transportation fares. Service providers are unable to charge fares that reflect their profit margins, which disincentivizes them from improving

5 As per the study's informants.

service quality or investing in new fleets. It may seem if the industry were allowed to set prices freely, the cartel's stronghold would likely skew pricing in its favor. Yet, considering the presence of non-member competitors, there would still be an opportunity for price competition, allowing consumers to choose from different operators. Without true price competition, operators have little motivation to enhance service quality.

Operators are mandated to charge no fares for elderly passengers and to offer discounted fares for students. From a social perspective, this policy appears beneficial, as it may increase social welfare. However, from a business standpoint, it is unfair since operators' revenues gets significantly reduced without any compensation from the government to offset this loss. Every policy should involve trade-offs, but in this case, it seems like a zero-sum game.

Bajracharya (2022) illustrates the dichotomy of regulatory disconnect in the transportation sector. According to his account, "*the Nepal Police have observed numerous instances of public buses operating without proper route permits*". The 2018 amendment to the Transport Management Directive was intended to simplify the process of obtaining route permits by removing the influence of syndicate members. However, an informant

from Mayur Yatayat reports that under the federal structure, it remains difficult to secure new route permits now. This is partly due to new rules requiring vehicles to be under 20 years old, as well as continued harassment from syndicate members along various routes. Despite legal reforms, neither the regulators nor the syndicate seem to have changed their ways. He also discusses the regulation “*mandating the removal of vehicles older than 20 years, aimed at reducing pollution*”. This is a policy that has been poorly enforced. Older vehicles continue to operate, while the financial burden of purchasing new vehicles without sufficient profit incentives discourages service providers from making such investments. Additionally, there is no government support to reduce costs, whether for acquiring new vehicles or ensuring their long-term operation. This raises an important question: Who truly benefits from these regulations and practices?

The Case of Mayur Yatayat: Resistance Against the Cartel

Mayur Yatayat, launched in 2017, is one of the few transport companies in Nepal that operates independently of the syndicate. From the start, it directly challenged the dominance of transport cartels but its initial success was short-lived. In 2018, after the government revised the transport directive, syndicates fought back with intimidation and violence. They organized strikes, damaged vehicles, and even attacked drivers and passengers, all in an attempt to force Mayur out of the market. Despite having insured vehicles, these disruptions caused serious setbacks.

Mayur Yatayat’s struggles highlight how the regulatory system not only enables cartel practices to thrive but also fails to support new businesses. According to Mayur’s insider, the current fare structure also poses a challenge, as it fails to sustain the company’s operations independently. While the country claims to support market competition, independent operators face far more than just typical business hurdles when trying to challenge the syndicates’ control. Today, when Mayur applies for new route permits, they encounter heavy opposition from syndicates and little assistance from the government. Cartels commonly use threats and violence to maintain their grip on the market. Without firm legal enforcement from the authorities, these practices continue unchecked.

A weak regulatory framework further complicates matters, especially following the decentralization of transport management. As power shifted to provincial governments, enforcement has become inconsistent and independent companies such as Mayur, fail to receive any support from the regulators. The informant also claims decentralization has allowed provincial governments to protect syndicate interests rather than enforce fair competition. As a result, the transport sector remains fragmented and poorly regulated, making survival difficult for independent operators.

The Supreme Court had declared the transport cartel illegal in 2018. However, in 2024, after a writ was filed by the Koshi Bus Traders Association and the Eastern Transport Traders Association, the court overturned the government's attempt to abolish transport committees. The court ruled that only the chief district officer had the authority to disband these committees, a step that had not been taken as the decision was made by the council of ministers. This ruling has effectively restored the syndicates' control over the market (Online Khabar, 2024). Although the court's decision is legally justified and entrepreneurs are happy, it raises concerns about the long-term impact on competition and efficiency in the transportation sector.

At this time, it is crucial for regulators to question if focusing solely on removing the cartel will improve the efficiency and competitiveness of the industry. While tackling anti-competitive practices is important, it is equally important to assess the structural foundation of the industry. Without addressing underlying issues of regulatory inconsistencies and market dynamics, efforts to eliminate the cartel will simply shift the inefficiencies rather than solving them.

On fares determined by the government

“If we don't cram up the bus, how can we get our money's worth for the petrol? If you are picky you should buy your own vehicle instead.”, one hears this from the bus driver's assistant as they board a crowded bus, in Kathmandu. This pressing plea, although maybe a marketing trick, emphasizes the economic limits that bus operators are confronted with. It is unclear if this is due to actual economic limitations or an attempt to fill seats. However, one evident contributing reason to the problem is the government's fare policy, which we shall discuss next.

As per the theory of public goods, urban public buses are considered quasi-public goods, possessing characteristics of both public welfare and profitability (Gwilliam, 2008). To maximize overall social welfare, bus fares should balance fairness and efficiency through price regulation. Additionally, to offset the financial losses faced by bus companies due to this price control, the government typically offers fiscal subsidies to support their sustainability and growth (Fei, S, 2016). Nepal seems to have handed over the sector to private operators, stifling them with regulatory oversights and blaming them for the chaos in the market.

Fair competition in the public transportation sector of Nepal is a distant concept. The formidable presence of cartels pose a significant barrier to entry and market forces are not allowed to function organically. The price determination adds on to this problem as price based competition is not possible. Government mandated pricing policies in the transport industry have significant implications for market dynamics and economic efficiency. One of the primary effects is the impact on the financial sustainability of transport businesses. When operators are required to provide services at fares below their marginal costs, they struggle to cover their operating costs and investments. This can result in financial losses, which would cause the ripple effect of deteriorated quality and reduced investment discourages new entrants to the market. The operators start cramping the vehicles to cover up for their losses. The MVTM act 2049 in chapter 6 clause 102 states that taking passengers excess of seats is prohibited. Yet, this is very far from reality. Albeit, controlled fares are not the only reason for this situation, it, however, exacerbates the problem. If the market is left alone to autonomously determine fares, it invites innovative producers who can offer better quality at higher prices or just offer a low priced transportation for those who value the prices more than quality. The scenario currently is that as the prices are stagnant,

the services are equally bad.

Aryal et al. found that commuters are eager to switch to a new public transport system with shorter waiting times and cheaper fares. However, the study fails to acknowledge that commuters expect improved service without increased costs. The probability of respondents using the service drops by 54% when fares are set at NPR 60, by 45% when set at NPR 45, and by 28% when set at NPR 30. This indicates that higher fares would deter commuters which could be a way to reduce overcrowding. With fewer passengers using public transport unless necessary, the system would likely become more efficient and manageable, addressing issues of congestion. Moreover, higher fares increase the revenue base of operators, incentivizing them to improve service.

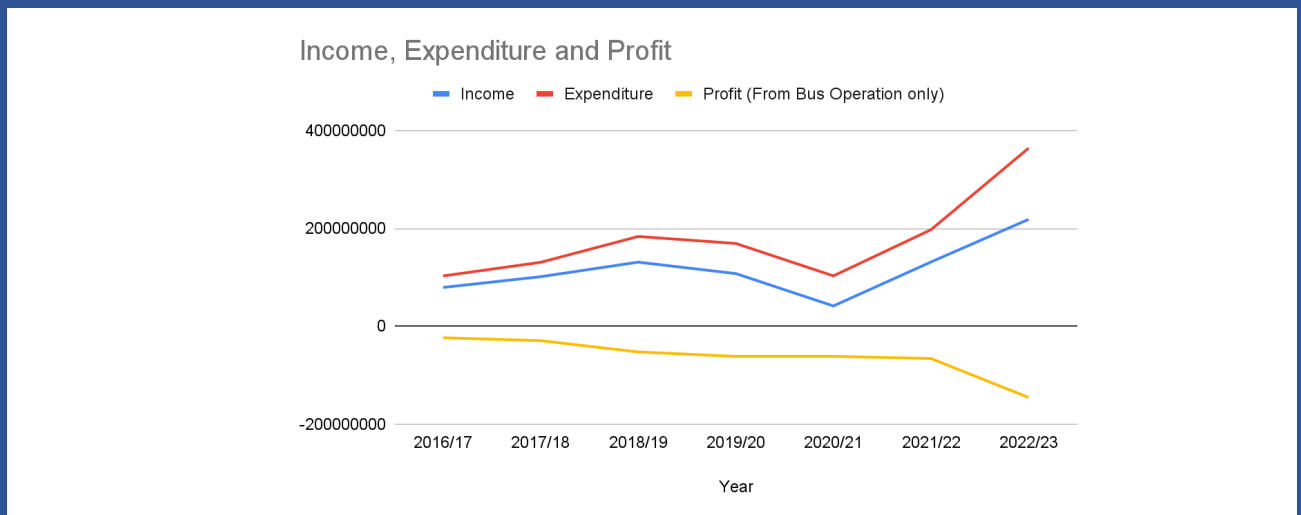
The Bagmati province transport management act has a provision that concession on fare is to be provided to students, elderly and handicapped when they present a proof of it with an ID card. Those public transport vehicles who offer these discounts are to be given a tax cut of 60% on their annual vehicle tax, also stipulated by the same act. While the idea of concession is driven with good intentions, the commuters are often seen complaining about the operators not abiding by the rule.

A look at Sajha

Sajha Yatayat has always been a symbol of public transportation in Nepal. Its iconic green buses are synonymous with affordability and convenience, an idea well captured by the company's motto "Sajha busma jo pani chaddacha" which translates to "Anyone can travel in Sajha buses." Sentimentally, they have an upper hand as compared to other operators. It's also been able to distinguish itself in respect that it is run in a co-operative model with shares held by both the federal and local governments.

Here, we look at Sajha as an industry representative as it is the only operator in Nepal to publicly publish its financial reports. By the year 2079/80 Sajha had 111 buses operating in local routes of Kathmandu, Lalitpur and Bhaktapur, along with two long routes, Kathmandu- Baglung and Kathmandu-Bhairawaha. As Sajha has the massive public support as well as the government and bureaucracy in its side, we believe Sajha has it comparatively easy in regards to regulations and operations. Aside from transportation services, Sajha also dabbles in property rentals, fuel stations, advertisements, etc.

However, isolating all other businesses and examining the financial health of Sajha's bus operation paints a dismal picture even for the sector pioneer itself. Despite expanding its fleet and service routes, the company has consistently struggled to turn a profit from its bus operations. The situation has worsened in recent years, with losses mounting significantly since the fiscal year 2078/79.



Source: Yearly audit reports of Sajha Yatayat Cooperative Ltd

It is suggested by the yearly reports that Sajha has added buses into its fleet but income increment has not been forthcoming.

In the 2079/80 audit report, the low income from bus operation is attributed to free transport for people who have attained the age of seventy and lower charges for students. As students make up for the largest portion of their commuters, their incomes are slashed by the discount amounts they have to give up. While this meets their social responsibility, it comes at a cost of their profit model.

Conversations with bus operators and owners revealed that most of the bus operators are unaware about the tax cut they can receive. As most individual bus owners are associated with a transport committee, all of their taxation duties, insurance works, and book keeping is managed by the committee itself. Thus, they seemed less bothered about the tax they have to pay and the benefit they are receiving.⁶

This instance highlights a concerning problem in the incentive mechanism for the operators. While the cost they are incurring in form of concessions is clearly visible, the benefit they are to receive remains rather elusive. What operators primarily perceive is the financing gap they face, attributing this challenge to government-imposed regulations and the demands of commuters.

When the finance gap is not met, service providers resort to different measures to cover their costs and earn profits, in this case, it is the burgeoning practice of overcrowding vehicles. In theory, if public transport cannot be subsidized to compensate for reduced revenue, then financial sustainability of the public transport service should take precedence over price or fare regulation (UN-ESCAP). When prices are kept artificially low, demand will exceed supply resulting in

overcrowded and deteriorating services. Tangible incentives are needed if provisions as such are to be ensured while also not burdening the producers.

Ride Sharing Apps - A way forward?

Public transportation in Bagmati province has struggled to keep pace with the growing demand for efficient and reliable mobility. Amidst these challenges, ride-sharing apps have surfaced as a promising alternative, offering commuters greater flexibility and convenience.

A few years ago, travelers and commuters faced a significant gap, having to choose between an affordable-but-crowded vehicle or a costly taxi with nothing in between. Recognizing this market potential, Tootle emerged in 2017 as a faster and convenient alternative. Eventually, other service providers such as Pathao, InDrive, inter alia, seized this opportunity. Along with providing a hassle free service, the ride sharing market also grabbed another market segment, that is the demand for commute during night-time; currently, no other public transportation provides night-time transportation services. However, this solution has not come without challenges. This raises the question: can ride-sharing apps be the ultimate solution to the public

6 Based on authors' field visits

transportation problem?

In 2020, taxi operators from the Nepal Metre Taxi Association filed a writ against Tootle and Pathao at Patan High Court. However, the court directed the government to regulate ride-sharing services by introducing necessary policies. By November, the DoTM declared ride-sharing service providers illegal. Following this, the Traffic Police began cracking down on the ride-sharing service providers. Moreover, the department warned it would initiate legal action if the service providers continued to use private motorbikes to transport passengers (The Himalayan Times, 2020).

Section 12 of the Motor Vehicles and Transport Management Act, 1993, (see Annex) states that a vehicle registered for one purpose cannot be used for another purpose. Based on this, the Federation of Nepali National Transport Entrepreneurs submitted a memorandum to the Ministry of Home Affairs, demanding an end to passengers being carried on private vehicles as it is against the law. In March 2023, the Ministry of Home Affairs directed all district administration offices to stop private vehicles from carrying passengers. This circular was issued at the request of transportation entrepreneurs. Likewise, the Kathmandu Valley Traffic Police Office fined riders providing mobility services

in privately registered vehicles (Ghimire, 2023).

In 2022, Bagmati province declared ride-sharing services legitimate, overriding this act. The province's Transport Management Act 13 (04) states that "Four-wheelers and two-wheelers with a registration certificate for non-commercial purposes will be able to transport passengers by completing the prescribed procedure and insuring passengers for the prescribed fare on their route". However, the province is yet to release the guidelines.

Recently, in February 2024, the federal government made strides to support the ride sharing businesses by listing them as a service-oriented industry under the Industrial Enterprises Act 2020.

Yet, despite these efforts, challenges persist. According to Nepal's constitution, provincial autonomy includes managing public transportation within their territories. Consequently, Bagmati province adopted relevant transportation regulations. However, laws must maintain consistency across all levels of government. Currently, the MVTM Act does not validate ride-sharing apps, which keeps the bargaining power of entities such as the FNNTEA and taxi associations high. Without a federal act reform, provincial governments lack the support to independently enact public transportation laws. Moreover, the ongoing

tussle between the federal government and Bagmati Province will only complicate their coordination further.

Similarly, Bagmati Province, yet to publish the official guidelines, has introduced the Urban Area Public Transport (Management) Authority Act, 2022 (see Annex). According to this act, under sub-section 5 of Section 2, an authority is to be established which will be responsible for creating and enforcing regulations that includes providing route permits, and promoting e-services for fare payments. However, this act also grants the decision-making authority to determine fares. Considering the diverse operational methods of different service providers like Pathao and InDrive, the method of price fixing becomes a significant issue. Further, it must be asked whether fare determination by the provincial government is once again the way forward?

The current transit situation reflects the drawback of government-fixed fares; why would a service provider bring in new fleets, increasing their own costs, to a market where they cannot even set their own profit margins? Furthermore, how has government fare-fixing boosted competition amongst the public transport providers? Yet, the authority persists with a method that stifles competition. Presently, commuters can choose among different ride-sharing apps, which maintains a

competitive business model. However, with the government planning to impose even more regulations, Bagmati Province seems destined to repeat the same mistakes.

Ride-sharing modality of public transportation has indeed shown promising results in the province, but its full potential is hindered by regulatory inconsistencies and governmental disputes. Ironically, most taxi operators are registered with both ride sharing apps and often function within the ride-sharing market. It remains to be seen whether ride-sharing will emerge as a success or face the same fate as other forms of commute services in the long run.

Bad Blood: A never-ending tussle between Federal and Provincial

In October 2018, the Bagmati Province government initiated legal action against the Federal government, alleging the latter of overstepping its power over public transport management. The writ was filed at the constitutional bench of the Supreme Court against the argument that the Urban Area Public Transport (Management) Authority Act, 2022 (previously titled, Kathmandu Valley Urban Area Public Transport (Management) Authority Act) violated the Bagmati Province's constitutional power. This Act allows the

federal government to set up an authority that will manage public transport in three important districts—Kathmandu, Bhaktapur, and Lalitpur, within the Kathmandu Valley, which fall under the jurisdiction of the Bagmati Province.

The Constitution of Nepal mandates coordination with all three tiers of government for federal legislative actions, a protocol allegedly neglected in this instance. Further, Section 4 of the Federation, Province and Local Government (Coordination and Interrelations) Act 2020 stipulates that the federal government may not encroach upon the management of public transport in any parts within a province.

The Bagmati provincial government argued that failure to halt the execution of the 2022 Authority Act could result in the federal government absorbing provincial transport offices, jeopardizing a significant portion of the province's revenue. According to the province, out of the total transport revenue of 12.53 billion rupees for the Bagmati Province, the provincial government derived 88.77 percent (11.12 billion rupees) from the Kathmandu Valley (The Himalayan Times, 2023).

Route Management

Stop spacing, line spacing and network

design determine the spatial properties of public transport provision (Horcher and Tirachini, 2021). Nepal's route deciding, permitting and managing ideal however seems to pay no regard to anything that transport economics has to say. The criteria for making routes is very bleak (See Annex), which resembles a heavily politicized process rather than an economic one.

From a welfare economics perspective, ideally, every possible route should be serviced by public transportation. But, that is not very economical. Transport operators have reported significant requests from ward offices and political leaders to service specific routes, often those with a higher concentration of voters. This coupled with the criteria for route selection points towards a system that runs in an ad-hoc nature with no long term strategies.

In the case of assigning the route permit to operators, historically, cartels have had much influence. There was a persistent barrier to entry as the new operators had to be present with a recommendation from FNTTEA. After 2018, the rule was scrapped and the power to grant permits fell solely upon the DOTM. Section 77 of the MVTMA hands a discretionary power to the DOTM to deny route permits, leaving room for the cartels to still assert their influence with heavy lobbying. A discrepancy was found between the experiences of the companies

who operated as committees before—members of the cartel—and the transport service that started out as a private company. The latter one reported on having difficulties getting route permits while the former had no such complaints. This goes on to justify that even though it's out of the paper, the influence of cartels still exists.

As the fares are equal everywhere inside the valley, it's not just about getting the route permit but also about which permit you get. When private operators select their route, each and everyone wants a route with high demand. This is bound to create routes with high supply density and leave some with low supply.

Another significant challenge stemming from inadequate route planning is the congestion experienced in urban areas. Bus stops are often located near busy crossroads and squares, which can be convenient for passengers but creates headaches for other drivers and increases the risk of accidents. Regular two-wheeler riders and drivers in Kathmandu frequently testify to the dangers posed by buses, particularly due to their tendency to cause rear-end collisions as they maneuver for space at bus stops and depart in hurry to beat the competition. This chaotic queuing system, coupled with intense competition among vehicles for limited road space, contributes to congestion not only within the public transport network but also exacerbates

traffic conditions overall. As buses compete for access to stops, they disrupt the flow of other vehicles, further entrenching the cycle of congestion and making urban mobility increasingly challenging for everyone on the road.

Recommendations

Challenges	Recommendation
Government Mandated Fare	<ul style="list-style-type: none"> ● Fare Policy Reform: <ul style="list-style-type: none"> ○ Reassess fare control policies to allow for dynamic pricing based on operational costs, introducing a tiered fare system for peak and off-peak hours that adjusts with the market. ○ Authorities should consistently update fares to align with the needs of service providers, especially if prices are not determined by a free market. Regular fare adjustments would ensure a fair balance for both operators and commuters.
Regulatory inconsistencies between federal and provincial levels	<ul style="list-style-type: none"> ● Establish clear coordination mechanisms between federal and provincial governments to unify transportation regulations in regards to authority jurisdiction, authority hierarchy to ensure there is no gray area.
Cumbersome Route Permitting Process	<ul style="list-style-type: none"> ● Streamlined Permitting: Simplify the route permit application process with clear criteria that prioritize demand and community needs, reducing cartel influence. ● Introduce a competitive route fee structure: Increase fees for routes with high demand while offering reduced fees or other incentives for routes with lower demand to encourage balanced service distribution across the region.
Resistance to New Initiatives: Ride Sharing Services	<ul style="list-style-type: none"> ● Federal Reform of MVTM Act: Amend the Motor Vehicles and Transport Management Act to legalize ride-sharing services, ensuring consistency with provincial laws. ● Flexible Pricing Models: Allow ride-sharing service providers to set fares independently rather than imposing fixed rates, which could stifle competition and hinder innovation.

Lack of Data Driven
Decision Making

- **Data Collection System:** Use traffic cameras, timely changes to any variables used in vehicle maintenance and vehicle registration data to inform route planning, fare adjustments, traffic management, and service improvements. Expedite DoTM data digitization with the already allocated budget support.
- **Ticketing System:** Implement an integrated ticketing system to gather real-time data on ridership patterns, fare trends, and peak usage times. This data will inform route optimization, fare adjustments, and capacity planning for a more efficient and user-centered transit system.
- **Provincial Data Integration:** Create a unified data platform that consolidates provincial data while preserving regional specifics to enable both coordinated and localized decision-making.
- **Incorporate social metrics:** Collect transit usage and social data—such as public reliance, vehicle-to-population ratios, and decommissioned vehicle records—to enhance socially responsive decision-making. Incorporate available data for added value.

Invisible Incentives

- Enhance communication on available tax cuts and benefits for operators providing concessions.

References

- Aryal, T. R., Ichihashi, M., & Kaneko, S. (2022). *How Strong is Demand for Public Transport Service in Nepal? A Case Study of Kathmandu Using a Choice-Based Conjoint Experiment*. Retrieved from <https://doi.org/10.21203/rs.3.rs-1544355/v1>
- Bajracharya, S.N. (2022). *The 2018 Amendment in Transport Management Directive and its Impact*. (2018). Nepal Economic Forum. Retrieved from <https://nepaleconomicforum.org/reports/nefsearch-on-the-2018-amendment-in-transport-management-directive-and-its-impact/>
- Clean Energy Nepal. (2014). *Public transportation in Kathmandu Valley: Restructuring and reforming the system*. Retrieved from <https://www.cen.org.np/public/uploads/doc/public-transportation-in-kv-maya-factsheet-4-60b9e4406ee31.pdf>
- Fei, S. (2016). *Parking versus public transport subsidies: Case study of Nanjing, China*. *Transp. Lett.* 8, 90–97.
- Ghimire, R. (2023, May 29). 7 years on, ride-sharing services in Nepal continue to suffer absence of regulation. *Online Khabar*. Retrieved from <https://english.onlinekhabar.com/ride-sharing-services-nep-suffer.html>
- Gwilliam, K. (2008). *A review of issues in transit economics*. *Res. Transp. Econ.*, 23, 4–22. Retrieved from <https://ideas.repec.org/a/eee/retrec/v23y2008i1p4-22.html>
- Hörcher, D., & Tirachini, A. (2021). A review of public transport economics. *Economics of transportation*, 25, 100196.
- Kamat, R.K. (2023, October 31). Bagmati province sues federal govt for ‘encroaching upon’ provincial powers. *The Himalayan Times*. Retrieved from <https://thehimalayantimes.com/kathmandu/bagmati-province-sues-federal-govt-for-encroaching-upon-provincial-powers>
- Kawabata, M. (2003). *Job access and employment among low-skilled autoless workers in US metropolitan areas*. *Environment and planning A*, 35(9), 1651-1668. Retrieved from <http://www.reconnectingamerica.org/assets/Uploads/20020114urbanpubtrsysts/Vuchic.pdf>
- Lohani, M. (2018, May 4). Explainer: What is the ‘syndicate’ controversy all about? *Online Khabar*. Retrieved from <https://english.onlinekhabar.com/explainer-what-is-the-syndicate-controversy-all-about.html>
- Nepal, A. (2020). *Regulatory Reform in Transportation Services: Volume I. Understanding Why Cartels Exist and Sustain in Public Transportation Services*. Retrieved from <https://samridhi.org/publications/regulatory->

[reform-in-transportation-services-volume-i-understanding-why-cartels-exist-and-sustain-in-public-transportation-services/](#)

(n.d.). Retrieved from https://www.unescap.org/sites/default/files/pricing_fulltext.pdf

Nepal Live. (2018, July 21). Government's decision not to renew the Transport Committee. *Nepal Live*. Retrieved from <https://nepallive.com/story/28672>

Online Khabar. (2024, September 11). The Supreme Court overruled the decision of the Council of Ministers not to renew the Transport Committee. *Online Khabar*. Retrieved from <https://www.onlinekhabar.com/2024/09/1537988/the-supreme-court-overruled-the-decision-of-the-council-of-ministers-not-to-renew-the-transport-committee>

The Himalayan Times, (2020, February 14). Regulate ride-sharing services: Patan High Court. *The Himalayan Times*. Retrieved from <https://thehimalayantimes.com/business/regulate-ride-sharing-services-patan-high-court>

The Kathmandu Post. (2018, May 19). Ministry transfers official who crushed bus cartels. *The Kathmandu Post*. Retrieved from <https://kathmandupost.com/national/2018/05/19/ministry-transfers-official-who-crushed-bus-cartels>

UN-ESCAP, Asian Institute of Transport Development Economic and Social Commission for Asia and the Pacific. *Sustainable Transport Pricing and Charges: Principles and Issues*.

Annex

Functions, duties and powers of DOTM

The functions, duties and powers of the Department shall be as follows:

- (a) To determine policies as required on operation of the transport service upon conducting, or causing to be conducted, study and research works on financial and technical aspects thereof, for operation of the transport service in an organized and effective manner;
- (b) To give necessary direction to the persons, firms, companies or organizations related with the transport service for the systematic management and development of transport;
- (c) To prescribe the priority of the carriage of goods as per necessity, and give necessary direction to the persons, firms, companies or organizations related with the transport service for the carriage of goods in accordance with that priority;
- (d) To determine routes, as per necessity, for the operation of the transport service, having regard to the pressure of passengers and determine the fares of public motor vehicles plying on the routes;
- (e) To make arrangements for installing traffic signals at public places in accordance with

international practices;

- (f) To determine speed and weight of a motor vehicle and the number of passengers to be seated in a motor vehicle;
- (g) To prepare and determine necessary criteria of tests to be conducted on mechanical condition and status of motor vehicles;
- (h) To prescribe subjects and methods of examination to be given to drivers; and (i) To perform such other functions as may be necessary for the consolidation of the transport service.

Functions, duties and powers of transport management committee

The functions, duties and powers of the transport management committee shall be as follows:

- (a) To engage public motor vehicles in operating the transport service in order to operate the transport service within its area in an uninterrupted manner;
- (b) In the event of necessity, to fix a route for a certain period at a place where a route is not fixed within its area for the operation of the transport service on that route, to fix a temporary route and make a recommendation to the Department for the fixation of

fares of the public motor vehicles plying on that route;

- (c) To inspect, or cause to be inspected, whether the public motor vehicles are operating the transport service within its area upon obtaining the route permit and have renewed the permit from time to time;
- (d) To inspect, or cause to be inspected, from time to time, whether the public motor vehicles plying within its area have undergone the road tests from time to time and whether they have provided the regular transport service subject to this Act or the Rules framed here under;
- (e) To conduct study on matters including the pressure of passengers and the number of motor vehicles within its area, and if it appears necessary to operate the transport service at any place, to make recommendation to the Department for the determination of a route at that place; and
- (f) To perform such other functions as may be necessary for the smooth operation of transport service within its area.

well reflected in the legislative pieces discussed below.

1. Nepal Transport Management Act, 1965

In 1965, Nepal introduced its first major piece of legislation governing the public transportation sector—Nepal Transport Management Act. This act was designed to bring order and structure to the growing transportation industry. It aimed to regulate emerging transportation entrepreneurs by establishing the Zonal Syndicate Office. Under this act, transport entrepreneurs were required to register with the office to receive a route permit. Additionally, vehicles were organized in a queue system, ensuring that all vehicles had an opportunity to earn revenue without fierce competition. This emphasis on complementarity rather than competition was integral to the corporatist ideology of the Panchayat State at that time (Lawoti, 2007).

2. Motor Vehicle and Transport Management Act, 1993

In 2001, the Nepal Transport Management Act of 1965 was repealed, marking a significant transition in the governance of the transportation sector. The Motor Vehicle and Transport Management Act of 1993 prevailed as the governing legislative piece. This act remains in force today and entrusts the Department of Transport Management (DoTM) and the Transport Management Committee with the responsibility of overseeing the operation

Nepal's Transport Regulatory History

Nepal's evolving needs and priorities have determined the evolution of policies in the country. The changes in Nepal's transportation system over the years are

of public transportation in Nepal.

Under this act, private operators seeking to operate in specific routes are required to obtain route permits from the DOTM, who is obliged to grant the permit, provided that all the necessary due processes are fulfilled. Section 77 of the act states that the authorities may refuse to grant route permits. This discretionary power has acted as a barrier to entry into the public transportation sector. Section 74 states that the department decides the appropriate routes and the information regarding it is published after which the operators may apply.

Section 8 states that the private vehicles cannot be used to transport passengers. Section 154 also states that a transport committee will be formed consisting of representatives from CDO, police, transport business representative, and labor representative.

Furthermore, this act stipulates that the government set fares for public vehicles, making it illegal to charge fares other than those determined by the Department. This legislative piece is the overarching work that shadows the whole industry in an attempt to ensure fair practices for the producers and the consumers.

3. Motor Vehicle and Transport Management Rule, 1997

The Motor Vehicle and Transport Management Rule of 1997 complements the primary legislation in the transportation industry. It further expands the due process and other important requirements for the

sector. These laws increase road safety and limit the likelihood of accidents on Nepal's roads by establishing clear norms and regulations for vehicle registration, licensing, and traffic management.

4. National Transport Policy, 2001

The National Transport Policy, passed in 2001, embodies a forward looking vision for Nepal's transportation system. It aspires to provide a dependable, cost-effective, safe, and long-term transportation network that promotes Nepal's economic, social, cultural, and tourism growth. The policy supports private sector participation in extending and sustaining the transportation system, as well as international and domestic private sector investment in transportation infrastructure via various approaches.

In addition, the strategy calls for the study and eventual privatization of government-owned transportation businesses, with the goal of reducing reliance on government subsidies.

5. Transport Management Directive, 2003

Withholding the objectives of Vehicle and Transport Administration Act, 2049 and Vehicle and Transport Administration Regulations, 2054, this directive aims to reduce accidents and ensure the transport system is simple and affordable for the common people. It aims to make the transport system friendly and efficient in order to provide transport facilities in an organized and transparent manner.

The directive was amended in 2018 to provide efficient services from the department of transport. Another major change was enacted to eliminate the problems seen in public transport. Under the new directive, those planning to get route permits for public vehicles no longer have to bring recommendations from the existing private transport committees registered at the district administration offices. They are now provisioned to get permits after being registered with the Company Registrar's Office.

6. Urban Area Public Transport (Management) Authority Act, 2022

In 2022, Nepal introduced the Urban Area Public Transport (Management) Authority Act, which focuses on providing easy access to public transport in urban areas. Its prime focus is for the advancement of Urban Transportation in Nepal. The act aims to make public transportation accessible, affordable, and efficient, overseeing the management of an integrated transport system. This marks a significant step towards improving urban public transportation services.

The lack of a clear government policy for promoting public transport remains a significant challenge. The absence of an active body responsible for implementing the Urban Area Public Transport (Management) Authority Act, 2022 raises concerns about the prioritization and development of public transportation in the country. As 97 percent of the population relies on public transport, the need for well-defined policies, proper infrastructure, and increased investment becomes paramount.

These legislative milestones represent Nepal's commitment to fostering a safe, reliable, and efficient transportation system that serves the needs of its people and supports the country's development and growth.

Vehicle imports were on the rise due to an expanded road network and increased incomes allowing more people to own automobiles. Automobile registrations surpassed all previous records in 2014-15. [From - The Kathmandu Post, 2015](#)

Distinction of Routes in Nepal Long Route: Greater than or equal to 250 Kms Medium Route: 100 to 250 Kms Short route: 25 to 100 Kms Local Route: Less than 25 Kms
--

Roles of the Department of Transport Management

The functions, duties and powers of the Department are as follows:

- a. To determine policies for the systematic management and development of the transport sector.
- b. To determine routes, as per necessity, for the operation of the transport service.
- c. To make arrangements in accordance with international practices.
- d. To prepare and determine necessary criteria for tests and operation of motor vehicles.
- e. To prescribe subjects and methods of examination.

Roles of the Transport management committee

There is a provision for a transport management committee consisting of the following members in order to systematically operate the public motor vehicles plying in each area:

The functions, duties and powers of the transport management committee are as follows:

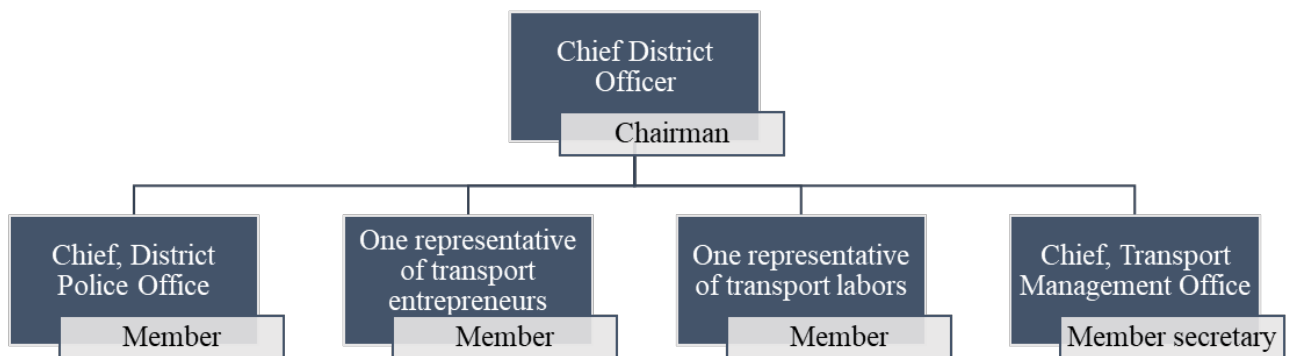
- a. Ensure a favorable environment for the transport sector to operate.
- b. Regulate and warrant the compliance of the legislation in place.
- c. Administrative responsibilities.
- d. Conduct studies and recommend the department regarding various issues including the fare rates and routes.

- (a) Roads recommended by the Traffic Management Committee,
- (b) In case of completion of road construction by the road authority and the letter of completion received by the DOTM,
- (c) As deemed necessary by the Department.

To decide the road, the department has a committee with six members who conducted a ground inspection of the road and recommended it:

The Assessment and Recommendation Committee includes:-

- (a) C.D.E (Highway)/Director (Based on Seniority) Coordinator
- (b) C.D.E (Highway)/Director Member
- (c) Mechanical Engineer, Department



Route Management

How are routes made in Nepal?

The department of transport management is responsible for determining the route as follows:

- (d) Representative Officer, Traffic police Directorate Member
- (e) Representative Officer, Road authority Member
- (f) The Engineer, Road Safety

Branch, Department of
Transport Management Member
Secretary

The department demands for details of the roads to determine the roads regularly with the road authorities.

After the road (route) is determined, the details of the road are kept in the records department and its list is made available to the general public.

According to section 74 of the Motor Vehicle and Transport Management Act, after the road has been determined, the road license has to be given.

[From - Directive](#)

How is the road permit given?

The department decides the appropriate routes and the information regarding it is published after which the operators may apply. Private operators seeking to operate in specific routes are required to obtain route permits from the DOTM, who is obliged to grant the permit, provided that all the necessary due processes are fulfilled.

Section 77 of the act (1993) states that the authorities may refuse to grant route permits. This [discretionary power](#) has acted as a barrier to entry into the public transportation sector.

If it is necessary for any public motor vehicle to use any route for the operation of transport service, the manager or owner of the motor vehicle has to make an application, in the prescribed format, and

accompanied by the prescribed fees, to the competent authority for a route permit.

In issuing a route permit to any public motor vehicle, the competent authority examines whether the following matters have been satisfied by the owner or manager of such a public motor vehicle, and shall issue the route permit to such a public motor vehicle only if such matters have been satisfied:

- (a) Insurance coverage of the driver, conductor, security personnel and other employees engaged in the motor vehicle and third party insurance,
- (b) Road test of the motor vehicle, and
- (c) Renewal of the registration certificate.

From: [Transport management directive](#)

Fare Regulation

Determination of the rate of fares:

The rate of fares to be collected by a passenger and cargo public motor vehicle operating the transport service on any route are to be as prescribed by the department.

Among the factors affecting the operation of public transport is the market price of petroleum products changes that have occurred. Other factors affecting the operation of public transport annually are also taken into account. If there is significant fluctuation in prices or adjustment of rent to the Government of Nepal and if an order is received to change the rate, it is changed according to the rate prescribed by the Transport Management Department.

A committee may be formed to adjust the rent rate:

Director (Technical), Department of Transport Management — Coordinator

CDE, Department of Transport Management — Member

Director (Administrative), Department of Transport Management — Member

Mechanical Engineer, Department of Transport Management — Member

Stakeholders concerned with adjusting fares for public transport can also be included in the committee. Transport professionals, representatives of consumer groups and other representatives that are required can be invited accordingly. The committee considers the changes in the price of petroleum products and other indicators of fares. A market study and analysis report based on the changes should be given to the department.

While calculating the rent rate, the following indicators are taken as the main basis:

1. Book value of public transport vehicles (taking details from market survey)
2. Administrative expenses including salaries of public transport workers (Based on on the information provided by the relevant businessmen in the tax office)
3. Revenues and duties to be paid to the Government of Nepal

4. Expenses related to vehicle maintenance (taking details from market survey)
5. Vehicle insurance amount
6. Batteries, Fuel, Tires, Lubricants (taking details from market survey)
7. Depreciation (State Line Method)
8. Overhead related expenses (based on the details received at the tax office)
9. The profit to be earned by the operator for operating the vehicle
10. Current interest rate based on the book value of the vehicle

Based on the report given by the committee, the Ministry of Physical Infrastructure and Transport and the director general will have to take the necessary decision after taking the theoretical approval. The fare adjusted according to the decision is then published for public information. It will be the duty of all concerned to comply with that decision.

The maximum weight of accompanied personal luggage of a passenger permitted to be carried free of charge and the maximum weight of additional accompanied personal luggage allowed on payment of fares and the rate of such fares are as prescribed.

No one should collect fares in excess of the rate of fares determined pursuant to the one prescribed by the government.

From: [DOTM working directive](#)



Crowding out effects of government spending in Nepal

Aashish Bhandari

1. Introduction

The relationship between public and private investment has always remained a topic of interest among economists and policy-makers (Chen et al, 2005; Turan, 2014; Herath, 2012; Chobanov et al., 2009; Scully, 1989; and Martins et al., 2014). Government spending can impact private investment positively and negatively. On one hand, it facilitates provisions of public goods and ensures the safety of property rights which is foundation for efficient operation of market economy (Aschauer, 1989). On the contrary, larger government sizes have disincentive effects and are often detrimental to economy (Chobanov et al., 2009). The “Crowding-out” effect is one of the negative impacts of large government size, which refers to the phenomenon in which increasing public sector spending supplants private sector spending (Cebula, 1985; Giovanni, 2003; Bernheim, 1989).

The Neo-Classical school of thought argues budget deficits caused by increased government spending cause increases in interest rates, which results in private sector borrowing less and their subsequent “crowding-out”. This causes an adverse causal chain, reducing economic growth (Cebula, 1985; Giovanni, 2003; Bernheim,

1989). On the contrary, Kensiyanans argue that there is little to no increase in interest rate and increase in output due to government spending, resulting in crowding in and not crowding out (Aschauer, 1989). The “Multiplier” concept rooted in this theory, asserts that any increase in public investment will have a larger stimulative effect on the economy. (Jahan et al., 2014).

There is a third view that explores the effect of government spending on private investment is Ricardian Equivalence Theorem, which adopts a rational expectations approach (Gümüş, 2004). It suggests that consumer demand remains unchanged when the government increases its debt-financed spending because public increases their saving anticipating potential future tax increases to fund debt repayment. Therefore, the interest rates and private investment remains unchanged and there is no crowding-in or crowding-out effect of fiscal spending. (Barro, 1978; 1981).

Various studies have been carried out using different models to test the crowding-out hypothesis. One of the earliest survey literature on crowding-out effect by Spencer et al. (1975) reported controversy in this concept on theoretical and empirical fronts. Buiter (1977) developed a comprehensive taxonomy on crowding-out and provided a

full employment model for study of types and degrees of direct crowding-out. Despite the attention that the topic has garnered over the years, there is no consensus on the subject matter (Hyder, 2001; Furceri et al., 2011). When estimating the relationship between public investment and private investment in a sample of 25 countries, Atukeren (2005) noted both crowding-in and crowding-out effects that varied by country.

This paper is motivated by a spate of new literature that finds that the relationship between public and private investment is country specific (Oyieke 2011; Hüseyin et al. 2014; Njuru et al., 2014; Omitogun, 2018; Ebghaei, 2021; Serin et al., 2023). Moreover, in recent years, the share of public spending as measured through capital expenditure that the Government of Nepal undertakes has been deemed inadequate and recommendations to increase spending have followed (Paudel, 2021; World Bank, 2021). Given this latter context and given the puzzling reality of public spending and its effects on private spending, this paper investigates the relationship in the context of Nepal. The motivation here remains to inform policymakers if a focus on public spending is justified or not.

2. Setting the Stage

The restoration of democracy and introduction of liberal policies in the 1990s is often viewed as a milestone in Nepalese economic reform which provided much-needed opportunities for the growth of the private sector. The constitution of 2015 and every period plans after the 8th plan has underscored the participation and strengthening of private sector to boost national economy. Despite the period of armed conflict and subsequent transition,

private sector remained resilient, albeit the growth in relation to those of neighboring countries was poor (ADB, 2013). According to MoF (2024), the total investment in the fiscal year 2022/23 is estimated to be NPR 1754.16 billion (32.6% of GDP) and total fixed investment NPR 1356.56 billion (25.2% of GDP). Of the total fixed investment, the investment of government, private, and public institutions is estimated to be 20.8 percent, 76.9 percent, and 2.4 percent respectively.

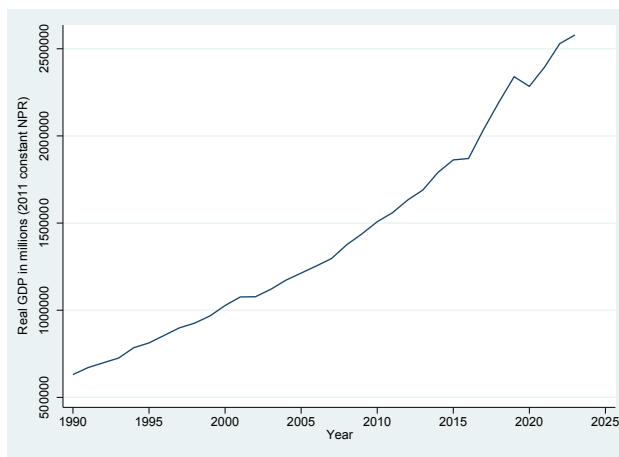


Figure 1. Real Gross Domestic Product (GDP) of Nepal in millions (2011 constant NPR) (Source: World Bank)

Figure 1 shows the real GDP in millions NPR deflated at 2011 value. The growth was fairly constant until 2015 when it remained stagnant and then grew rapidly until 2019. After the setback in 2020, the economy has been regaining momentum.

Likewise, Figure 2 shows trend of gross fixed capital formation by private sector at 2011 constant prices. After 2015, there is a steep rise indicating active role of private sector during the post-earthquake reconstruction period. However, the growth was limited till 2019. Following the onset of COVID pandemic and subsequent Russia-Ukraine war, private fixed capital formation is in

decreasing trend. Likewise, the trend of Gross fixed capital formation and Gross fixed capital formation by private sector in terms of percentage of GDP is provided in Figure 3. As highlighted by the figure, private fixed capital formation as % of GDP reached its highest in 2019.

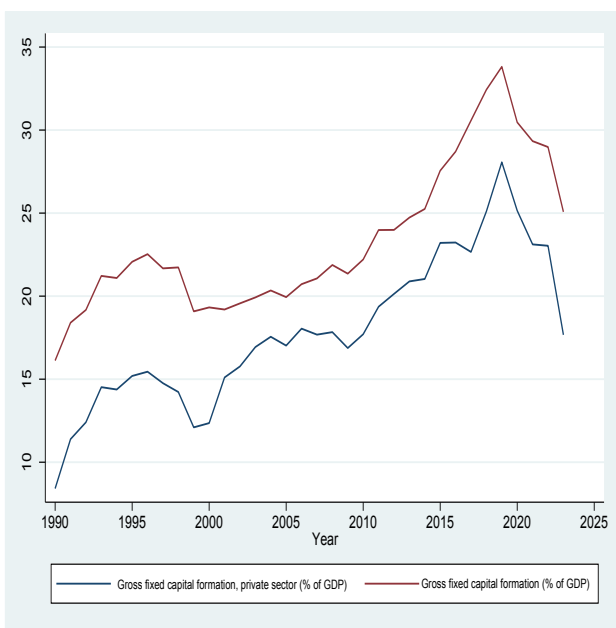


Figure 2. Gross fixed capital formation in total and by private sector (% of GDP) (Source: World Bank)

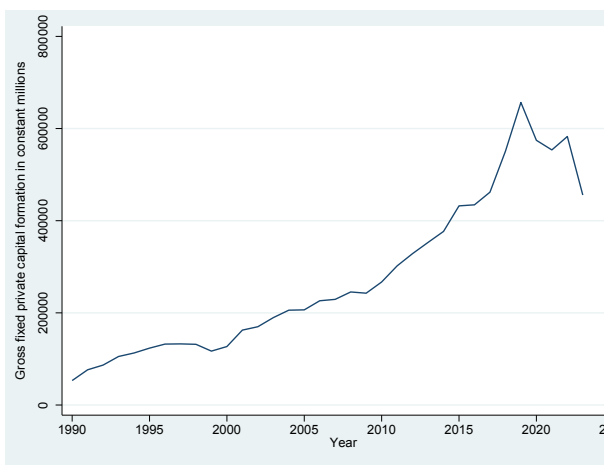


Figure 2. Gross fixed capital formation in total and by private sector (% of GDP) (Source: World Bank)

Similarly, Figure 4 shows the trend of total government expenditure, recurrent expenditure, and capital expenditure from FY 1989/90 to FY 2022/23 period. The trend line shows an uneven trend in government spending. A notable increase in total government expenditures can be seen post 2015 period, which could be attributed to earthquake in 2015. After reduced expenditure in 2019 and 2020, there is an even trend in rise of total expenditures. Recurrent expenditure also shows a similar trend. However, capital expenditure has remained fairly constant throughout the timeframe. Following a sharp fall in post-2010 period, there was a brief period of growth in capital expenditure in the late 2010s, after which it is constant and comprises a small portion of government expenditure.

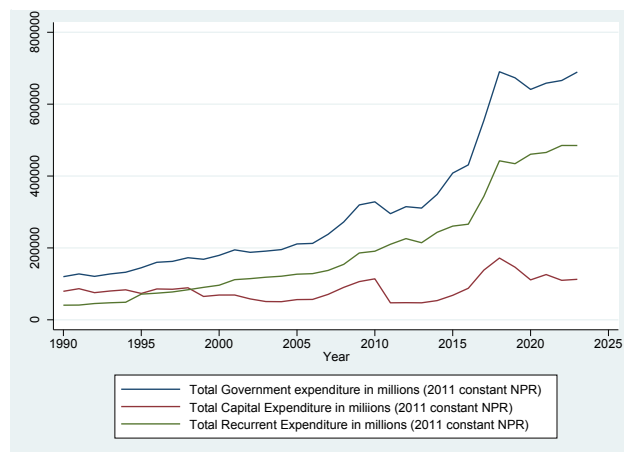


Figure 4. Composition of government expenditures in millions (2011 constant NPR) (Source: NRB)

Analyzing the trend of private fixed capital formation with capital and recurrent expenditures of government in Figure 5, we find private fixed capital formation and recurrent expenditure show similar trend, but the same is not true for capital expenditure. For a brief period post 2016, decreasing recurrent and capital

expenditures can be seen with sharply rising private fixed capital formation.

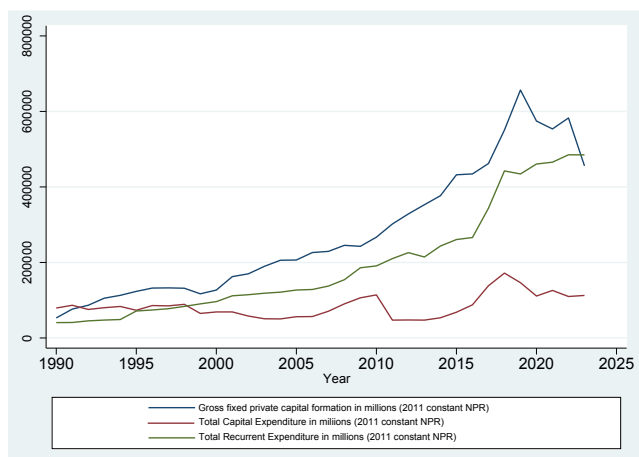


Figure 5: Private capital formation vs Government expenditures (2011 constant NPR)

Figure 6 shows trend of other key macroeconomic variables like Domestic credit provided to private sector by financial corporations, Outstanding debt of government of Nepal, and Total trade (Imports + Exports) value deflated at 2011 prices.

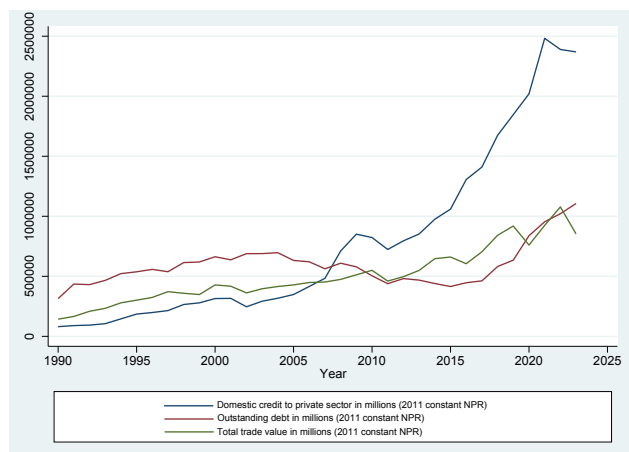


Figure 6. Other economic indicators (Source: World bank and NRB)

Likewise, Figure 7 shows the trend of Inflation and GDP growth rate over the study period. The trend lines above present

an interesting picture of the relationship between government expenditure, private fixed capital formation, and other economic indicators. This paper aims to examine the dynamics of this relationship between government expenditure and other variables with private fixed capital formation, to explore the crowding-out effect. Most importantly, we investigate whether this relationship has changed over time. Acknowledging the turbulent period post-2015, characterized by earthquake reconstruction and the Covid pandemic period, we will study whether public investment has been more or less complementary to private investment compared to earlier times. To examine the effect of each cause influencing private investment, a series of regression analyses will be carried out to draw the inference.

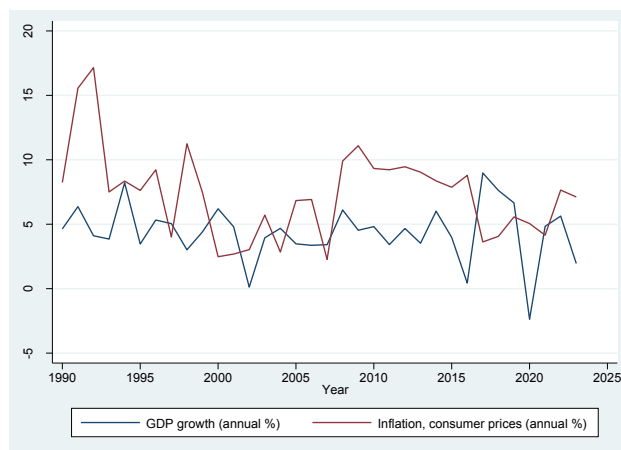


Figure 7. GDP growth and Inflation at consumer prices (Source: World Bank)

3. Data and Methodology

The study will investigate the effect of different components of government expenditure on private investment using annual data covering from 1990 to 2023. Following the literature, firstly data was

collected for different variables and their relation was ascertained. The correlation matrix is provided in Table 1.

Table 1. Correlation Matrix

Variables (Source)	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
(1) PRIVCAP	1.000								
(2) GDP	0.973	1.000							
(3) GROWTH	-0.041	-0.074	1.000						
(4) INF	-0.263	-0.265	0.026	1.000					
(5) GOVEXP	0.965	0.970	-0.014	-0.257	1.000				
(6) CAPEX	0.582	0.540	0.295	-0.109	0.708	1.000			
(7) RECEX	0.967	0.982	-0.066	-0.267	0.993	0.634	1.000		
(8) DEBT	0.435	0.536	-0.240	-0.363	0.542	0.292	0.582	1.000	
(9) TRADE	0.956	0.972	0.023	-0.328	0.957	0.589	0.964	0.597	1.000
(10) CREDIT	0.939	0.968	-0.074	-0.213	0.979	0.638	0.985	0.621	0.955

Where, PRIVCAP refers to the Gross Fixed Capital Formation by Private sector, our dependent variable and a proxy of Private investment. Independent variables include GDP (Real GDP), GROWTH (GDP growth rate, annual %), INF (Inflation at consumer prices, annual %), GOVEXP (Total government expenditure), CAPEX (Total government capital expenditure), RECEX (Total government recurrent expenditure), DEBT (Outstanding total debt of the government of Nepal), Total trade value (Imports + Exports), CREDIT (Domestic credit to private sector). PRIVCAP,

GDP, GOVEXP, CAPEX, RECEX, DEBT, TRADE and CREDIT are all expressed in local currency unit (NPR) and deflated using GDP deflator value by World Bank

at 2011 prices. GOVEXP, CAPEX, RECEX, DEBT and CREDIT data were taken from Ministry of Finance (MoF), Nepal and Nepal Rastra Bank (NRB). Since the fiscal year in Nepal ends in July, the ending year of the fiscal year was taken as year unit and the expenditure data of each fiscal year was assigned as expenditure in that particular year. For example, expenditures in FY 1989/90 were assigned as expenditures in 1990 and the amount was deflated with GDP deflator value for 1990. This also helps to consider potential lags and delayed effects of government expenditure on private investment.

In Table 1, we see a high correlation between potential independent variables. Due to the risk of severe multicollinearity, several independent variables were omitted and the final model takes the form of pooled regression, similar to one Abrams

and Schitz (1978), Ahmed and Miller (2000) and Behar and Mok (2019). The model is as follows:

$$PRIVCAP = \beta_1 + \beta_2 CAPEX + \beta_3 RECEX + \beta_4 GROWTH + \beta_5 INF + u_t \quad (1)$$

The coefficient β_2 and β_3 measures the impact of government capital expenditure and recurrent expenditure on private fixed capital formation. β_4 captures the induced accelerator effect of GDP growth on private capital formation. Likewise, the impact of inflation is captured by the coefficient β_5 .

4. Empirical Results

4.1 Regression results

The results of the basic pooled regression model using the Ordinary Least Squares estimator are presented in Table 2. The coefficient estimates in the table suggest

that recurrent expenditure has a positive and significant effect on private fixed capital formation, confirming the crowding-in hypothesis. Conversely, capital expenditure has a negative coefficient. However, since it is insignificant, we cannot conclude the crowding-out effect of capital expenditures. Likewise, both GDP growth and Inflation are statistically insignificant to private fixed capital formation

4.1.1 Residual Diagnostics

1. **Multicollinearity:** The values of Variance Inflation Factor (VIF) of CAPEX, RECEX, GROWTH, and INF are 2.08, 2.02, 1.24, and 1.09 respectively. Since the VIF values are all below the generally accepted threshold of 10, we can conclude that multicollinearity is not a severe problem in the model.
2. **Heteroskedasticity:** The Breusch-

Table 2. Regression results

PRIVCAP	Coef.	Std. Err.	t-value	p-value	[95% Conf. Interval]		Sig
CAPEX	-.447	.374	-1.20	0.242	-1.211	.318	
RECEX	1.211	.078	15.60	0.000	1.052	1.37	***
INF	-7857057.3	2.398e+09	-0.00	0.997	-4.912e+09	4.896e+09	
GROWTH	3.848e+09	3.994e+09	0.96	0.343	-4.320e+09	1.202e+10	
Constant	6.073e+10	3.166e+10	1.92	0.065	-4.016e+09	1.255e+11	*
R-squared		0.939		Number of obs.		34	
F-test		110.930		Prob > F		0.000	
Adjusted R-squared		0.9302		Root MSE		4.5e+10	

*** p<.01, ** p<.05, * p<.1

Pagan/Cook-Weisberg test is utilized to examine whether the variance of the residuals in a regression model is constant, which is an indication of homoscedasticity. The null hypothesis (H0) for this test asserts that the variance of the residuals remains constant, implying the absence of heteroskedasticity.

In the test results, the chi-square statistic is 23.81 with a p-value of 0.0000. Since the p-value is significantly lower than standard significance levels (e.g., 0.05, 0.01), the null hypothesis is rejected. This outcome indicates that heteroskedasticity is present in the model.

3. **Autocorrelation:** While conducting The Durbin-Watson (DW) d-statistic tests for autocorrelation, it gave a statistic of approximately 0.86, which is much lower than 2. It indicates positive autocorrelation in the residuals.

4.2 Model Readjustment

Since the model suffers from both autocorrelation and heteroskedasticity, the assumptions of OLS are violated. To handle both autocorrelation and heteroskedasticity, we use the Prais-Winsten method with robust standard errors.

Prais-Winsten method is a form of Feasible Generalized Least Squares (FGLS) that accounts for AR (1) autocorrelation by transforming the data. (Johnston, 1971). In an AR (1) model, the error term u_t at time t is correlated with error term from the previous period u_{t-1} . This relationship can be modeled as:

$$u_t = \rho u_{t-1} + \epsilon_t$$

Where, ρ is the autocorrelation coefficient and ϵ_t is the white noise term.

The Prais-Winsten method transforms the variables in the model to account for this autocorrelation in a given process:

$$y_1^* = \sqrt{1 - \rho^2} y_1$$

$$X_1^* = \sqrt{1 - \rho^2} X_1$$

Where y_1 and X_1 are the dependent and independent variables at time $t=1$, and ρ is the estimated autocorrelation coefficient. Similarly, for all subsequent periods, the Prais-Winsten transformation is as follows.

$$y_t^* = y_t - \rho y_{t-1}$$

$$X_t^* = X_t - \rho X_{t-1}$$

Where $t=2,3,4,\dots,n$.

Similarly, Robust Standard errors, also known as Huber-White Standard errors adjust for the heteroskedasticity in the model (Hayes & Cai, 2007). This combination ensures:

- **Efficient coefficients:** By correcting for first-order autocorrelation, the Prais-Winsten method provides more efficient coefficient estimates.
- **Valid inference:** Robust standard errors ensure that hypothesis testing is valid in the presence of heteroskedasticity.

We can write the final model with Prais-Winsten and Robust standard Errors like:

$$\text{Transformed PRIVCAP} = \beta_1 + \beta_2 \text{Transformed CAPEX} + \beta_3 \text{Transformed RECEX} + \beta_4 \text{Transformed GROWTH} + \beta_5 \text{Transformed INF} + \epsilon_t \quad (2)$$

The results from the Prais-Winsten AR (1) regression with robust standard errors are provided in Table 3. There is a significant and positive impact of recurrent expenditure (RECEX) on private fixed capital formation, indicating a crowding-in effect, similar to one reported by Njuru et.al (2014) in Kenya, Hyder (2001) in Pakistan and Ramirez (2000) in Latin America. In contrast, capital expenditure (CAPEX), economic growth (GROWTH), and inflation (INF) do not show statistically significant effects on private fixed capital formation similar to findings by Hüseyin et al. (2014) in Turkey, Wang (2005) in Canada and Serin et al. (2023) in Turkey. The final Durbin-Watson statistic confirms

that autocorrelation has been adequately addressed, and robust standard errors ensure reliable results even in the presence of heteroskedasticity. In summary, the model highlights recurrent expenditure as the primary driver of private capital investment, while other factors like capital expenditure, growth, and inflation appear less influential. The negative coefficient of capital expenditure suggests a crowding-out effect, but the relationship is insignificant.

4.3 Test for Structural Break

After performing OLS regression with robust standard errors, tests to ascertain whether the coefficients in a time-series regression vary over the periods by any particular break date were carried out. The motivation for it comes from Bahal et.al. (2018), where differing relationships

Table 3. Prais-Winsten AR (1) regression with robust standard errors

PRIVCAP	Coef.	Semirobust Std. Err.	t-value	p-value	[95% Conf. Interval]		Sig
CAPEX	-.423	.3	-1.41	.169	-1.038	.191	
RECEX	1.029	.175	5.90	0	.672	1.386	***
INF	1.234e+09	8.883e+08	1.39	.175	-5.832e+08	3.050e+09	
GROWTH	3.532e+09	2.605e+09	1.36	.186	-1.796e+09	8.859e+09	
Constant	7.467e+10	3.041e+10	2.46	.02	1.248e+10	1.369e+11	**
<hr/>							
R-squared	0.564		Number of obs.	34			
F-test	14.139		Prob > F	0.000			
ρ	.7405662		Root MSE	3.8e+10			
<hr/>							
Durbin–Watson statistic (original) = 0.856871							
Durbin–Watson statistic (transformed) = 1.752502							
<hr/>							
*** p<.01, ** p<.05, * p<.1							

were noted in differing periods of time. I hypothesize that given the earthquake in 2015 and the reconstruction efforts undertaken thereafter by the Government of Nepal, there is difference in relationship before and after this period. The Supremum Wald statistic is used to test the significant change in relationship between the dependent and independent variables over time. The null hypothesis (H0) assumes that there is no structural break in the model over the time period examined (1990 to 2023). We calculated the test value to be 67.76, indicating that difference between the pre-break and post-break estimates is large. An extremely small p-value indicates null hypothesis is rejected at a convenient significance level. So, there is strong evidence that a structural break occurred in 2016, which validates our observation from the trendline earlier.

The sample, following the results, has been split into two periods: before and after 2016 and separate regressions for both sub-periods are undertaken to see how the relationships between variables have changed. For the sample period ≤ 2015 ,

the regression with the original model showed autocorrelation. To adjust that, the Prais-Winsten regression with robust standard errors as shown in Equation 2 has been used. The results of regression are provided in Table 4. Recurrent expenditure positively impacts private capital formation at a 1% level of significance for the sub-period, suggesting strong crowding-in effect. Capital expenditure, Inflation and GDP growth are, however, insignificant.

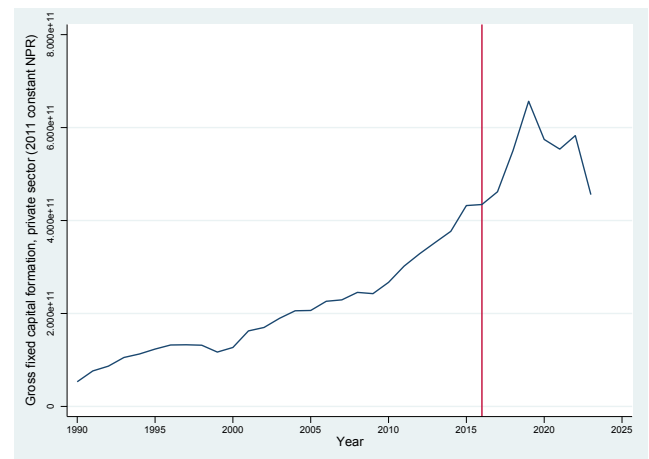


Figure 8. Break in the trend of private capital formation

Table 4. Prais-Winsten AR (1) regression with robust standard errors for year ≤ 2015

PRIVCAP	Coef.	Semirobust Std. Err.	t-value	p-value	[95% Conf. Interval]		Sig
CAPEX	-.155	.339	-0.46	.651	-.859	.549	
RECEX	1.463	.138	10.60	0	1.176	1.75	***
INF	-47120713	7.763e+08	-0.06	.952	-1.662e+09	1.567e+09	
GROWTH	9.487e+08	1.666e+09	0.57	.575	-2.516e+09	4.413e+09	
Constant	2.194e+10	3.213e+10	0.68	.502	-4.488e+10	8.876e+10	
R-squared		0.891	Number of obs.		26		
F-test		57.008	Prob > F		0.000		
ρ		0.52305	Root MSE		1.9e+10		
Durbin-Watson statistic (original) = 1.025603							
Durbin-Watson statistic (transformed) = 1.801869							
*** $p < .01$, ** $p < .05$, * $p < .1$							

Likewise, in the sample period ≥ 2016 with the original model none of the independent variables were found to be significant. But capital expenditure seems to have a positive relation with private capital formation.

Table 5. Regression with robust standard errors for year ≥ 2016

PRIVCAP	Coef.	Semirobust Std. Err.	t-value	p-value	[95% Conf. Interval]		Sig
CAPEX	1.394	2.122	0.66	.558	-5.359	8.147	
RECEX	.469	.347	1.35	.27	-.636	1.573	
INF	6.122e+09	2.183e+10	0.28	.797	-6.334e+10	7.558e+10	
GROWTH	-1.918e+09	8.004e+09	-0.24	.826	-2.739e+10	2.355e+10	
Constant	1.335e+11	3.733e+11	0.36	.744	-1.054e+12	1.322e+12	
R-squared		0.411	Number of obs.		8		
F-test		10.749	Prob > F		0.040		
ρ		0.52305	Root MSE		9.0e+10		
Durbin–Watson statistic (original) = 1.7299							
*** $p < .01$, ** $p < .05$, * $p < .1$							

Table 6 provides the summary of coefficients from all periods. It is shown that capital expenditure has a significant shift across the breakpoint. Capital expenditure showed crowding-out for the overall period, but when two separate regressions are undertaken, this relationship becomes insignificant, to that extent capital expenditure in Nepal

does not crowd in private investment but nor does it show evidence of crowding-out. Similarly, recurrent expenditure is no longer a significant driver of private capital formation post-2016 period, though it still has a positive impact. The impact of inflation and GDP growth has also reversed over time.

Table 6. Summary of coefficients

PRIVCAP	1990-2023		1990-2015		2016-2023	
	Coefficients	Significance	Coefficients	Significance	Coefficients	Significance
CAPEX	-.423		-.155		1.394	
RECEX	1.029	***	1.463	***	.469	
INF	1.234e+09		-47120713		6.122e+09	
GROWTH	3.532e+09		9.487e+08		-1.918e+09	

It is evident that a structural break exists in the relationship of PRIVCAP with CAPEX, RECEX, INF, and GROWTH. Given the exogenous shocks i.e. Earthquake in 2015, Trade blockade in 2016 and the covid-19 pandemic in 2020, it is not possible to ascertain whether or not public investment in Nepal crowds in or crowds-out private sector investment. Although different regressions for different time periods have been undertaken, the results are far from conclusive, it shows that the effect is dependent on time periods which in turn are dependent on the exogenous shocks.

5. Summary and Conclusion

The study investigates the effect of government expenditure on private sector investment in Nepal from 1990 to 2023 period using the pooled regression approach and tests the potential structural breaks in the relationship between private fixed capital formation with explanatory variables within the study period. Over the study period, it was found that the government's recurrent expenditure has a significantly positive relationship with private investment. Capital expenditure showed a crowding-out effect by negatively influencing private investment, but it was insignificant. This relationship, however, depends on the time periods and the exogenous shocks that occurred. What follows, thus, is the sensitivity of this relationship to factors beyond control. Increasing government spending, therefore, in the current context and in light of the evidence so far would not be a prudent decision. With that being said, there are a few caveats to note. This paper does not investigate sector specific effects of government investment. Studies have shown that the relationship also depends

on the sector (Morales, 2002; Shore et al., 2000; Levine et al, 2014). Similarly, in this paper, I hypothesized that there is a break before and after 2016, but such breaks can also exist for other time periods and an analysis to that effect remains a potential study area.

6. References

- ADB. (2013). Country Partnership Strategy, Nepal 2013-2017. Retrieved from https://www.adb.org/sites/default/files/institutional-document/34001/cps-nep-2013-2017_0.pdf
- Ahmed, H., & Miller, S. M. (2000). Crowding-out and crowding-in effects of the components of government expenditure. *Contemporary Economic Policy*, 18(1), 124-133.
- Asante, Y. (2000). Determinants of private investment behaviour. AERC Research paper 100.
- Aschauer, D. A. (1989). Is Public Expenditure Productive? *Journal of Monetary Economics*, 23, 177-200.
- Aschauer, D. A., & Greenwood, J. (1985). Macroeconomic Effects of Fiscal Policy. *Carnegie-Rochester Conference Series on Public Policy*, (pp. 91-138).
- Atukeren, E. (2005). Interactions Between Public and Private Investment : Evidence from Developing Countries. *Kyklos*, 58(3), 307-330.
- Bahal, G., Raissi, M., & Tulin, V. (2018). Crowding-out or crowding-in?

- Public and private investment in India. *World Development*, 109, 323-333. Retrieved from <https://doi.org/10.1016/j.worlddev.2018.05.004>
- Bahal, G., Raissi, M., & Tulin, V. (2018). Crowding-out or crowding-out? Public and private investment in India. *World Development*, 109, 323-333. Retrieved from <https://doi.org/10.1016/j.worlddev.2018.05.004>
- Barro, R. J. (1978). Comments from an unreconstructed Ricardian. *Journal of Monetary Economics*, 4.
- Barro, R. J. (1981). The Ricardian Approach to Budget Deficit. *Journal of Economic Perspectives*, 3, 37-54.
- Barry, F. G., & Devereux, M. B. (1992). Crowding Out Effects of Government Spending. *The Economic and Social Review*, 23(2), 199-221.
- Basar, S., & Termurlenk, M. S. (2007). Investigating Crowding-Out Effect of Government Spending for Turkey: A Structural VAR Approach. *İktisadi ve İdari Bilimler Dergisi*, 21(2), 95-104.
- Behar, A., & Mok, J. (2019). Does public-sector employment fully crowd out private-sector employment?. *Review of Development Economics*, 23(4), 1891-1925.
- Bernheim, B. D. (1989). A Neoclassical Perspective on Budget Deficits. *The Journal of Economic Perspectives*, 3(2), 55-72. Retrieved from <http://www.jstor.org/stable/1942669>
- Buiter, W. H. (1977). CROWDING OUT AND THE EFFECTIVENESS OF FISCAL POLICY. *Journal of Public Economics*, 7, 309-328.
- Cebula, R. (1985). Crowding Out and Fiscal Policy in the USA: A note on recent experience. *Public Finance*, 40(1), 133-136.
- Chen, S.-T., & Lee, C.-C. (2005). Government size and economic growth in Taiwan: A threshold regression approach. *Journal of Policy Modeling*, 27(9), 1051-1066.
- Chobanov, D., & Mladenova, A. (2009). What is the optimum size of government? *Institute for Market Economics*, 1-47.
- Chobanov, D., & Mladenova, A. (2009). What is the optimum size of government? *Institute for Market Economics, Bulgaria*, 1-47. Retrieved from <https://ime.bg/uploads/OptimalSizeOfGovernment.pdf>
- Ebghaei, F. (2021). Investigating Crowding-Out Effect Of Government Expenditures: Evidence From Turkey. *İzmir İktisat Dergisi*, 36(4), 867-879. Retrieved from <https://doi.org/10.24988/ije.792077>
- Frey, B. S., & Oberholzer-Gee, F. (1997). The Cost of Price Incentives: An Empirical Analysis of Motivation Crowding-Out. *American Economic Review*, 87(4), 746-755.
- Furceri, D., & Sousa, R. M. (2011). The Impact of Government Spending on the Private Sector: Crowding-out versus Crowding-in Effects. *Kyklos*, 64(4), 516-533. doi:10.1111/j.1467-6435.2011.00518.x

- Giovanni, G. (2003). Useful government spending, direct crowding-out and fiscal policy interdependence. *Journal of International Money and Finance*, Elsevier, 22(1), 87-103.
- Gümüş, E. (2004). Crowding-out hypothesis versus Ricardian equivalence proposition: Evidence from literature. *Eskişehir Osmangazi Üniversitesi Sosyal Bilimler Dergisi*, 4(2), 21-36.
- Hatano, T. (2010). Crowding-in Effect of Public Investment on Private Investment. *Public Policy Review*, 6(1), 105-120. Retrieved from <https://econpapers.repec.org/RePEc:mof:journl:ppr007e>
- Hayes, A. F., & Cai, L. (2007). Using heteroskedasticity-consistent standard error estimators in OLS regression: An introduction and software implementation. *Behavior Research Methods*, 39(4), 709-722. Retrieved from <https://link.springer.com/article/10.3758/BF03192961>
- Herath, S. (2012). Size of government and economic growth: A nonlinear analysis. *Economic annals*, 57(194), 7-30.
- Hüseyin, Ş., & Kaya, A. (2014). Crowding-out or crowding-in? Analyzing the effects of government spending on private investment in turkey. *Panoeconomicus*, 61(6), 631-651. doi:10.2298/PAN1406631S
- Hyder, K. (2001). Crowding-out Hypothesis in a Vector Error Correction Framework: A Case Study of Pakistan. *The Pakistan Development Review*, 40(4), 633-650.
- Jahan, S., Mahmud, A. S., & Papageorgiou, C. (2014). What is Keynesian Economics? *Finance and Development*, 51(3). Retrieved from <https://www.imf.org/external/pubs/ft/fandd/2014/09/basics.htm>
- Johnston, J. (1971). *Econometric Methods* (2 ed.). California: McGraw-Hill.
- Khan, R., & Gill, A. (2009). Crowding Out Effect of Public Borrowing: A Case of Pakistan. *Munich Personal RePEc Archive*(16292). Retrieved from <https://mpra.ub.uni-muenchen.de/16292/>
- Kharel, K. R., Poudel, O., Upadhyaya, Y. M., & Nepal, P. (2024). Effect of Private Sector Credit on Economic Growth in Nepal. *Financial Markets, Institutions and Risks*, 8(1), 142-157. doi:[http://doi.org/10.61093/fmir.8\(1\).142-157.2024](http://doi.org/10.61093/fmir.8(1).142-157.2024)
- Kulkarni, K. G., & Balderas, J. U. (1998). An Empirical Study of the Crowding-Out Hypothesis: A Case of Mexico. *Prajnan*, XXVII(3).
- Kulkarni, K. G., & Erickson, E. L. (1993). Is Crowding -out Hypothesis Evident in LDCs ? A Case of India. *Prajnan*, 22(1), 11-23.
- Levine, K., & Mason, N. M. (2014). Do input subsidies crowd in or crowd out other soil fertility management practices? Evidence from Zambia.
- Mahmoudzadeh, M., Sadeghi, S., & Sadeghi, S. (2013). Fiscal Spending and Crowding out Effect: A Comparison between Developed and Developing

- Countries. *Institutions and Economics*, 5(1), 31-40.
- Martins, S., & Veiga, F. J. (2014). Government size, composition of public expenditure, and economic development. *International tax and public finance*, Springer, 578-597.
- MoF. (2024). *Economic Survey 2022/23*. Ministry of Finance, Government of Nepal. Retrieved from <https://www.mof.gov.np/site/publication-detail/3344>
- Morales-Ramos, E. (2002). Defence R&D expenditure: The crowding-out hypothesis. *Defence and Peace Economics*, 13(5), 365-383.
- Musgrave, R. A., & Musgrave, P. B. (1989). *Public Finance in Theory and Practice* (Fifth ed.). McGraw-Hill Book Company.
- Njuru, S. G., Ombuki, C., Wawire, N., & Okeri, S. (2014). Impact of Government Expenditure on Private Investment in Kenya. *Research Journal of Economics*, 2(8), 1-19.
- Omitogun, O. (2018). Investigating the Crowding Out effect of Government expenditure on Private Investment. *Journal of Competitiveness*, 10(4), 136-150.
- Oyieke, S. O. (2011). Government Capital Spending and Financing and its Impact on Private Investment in Kenya: 1964-2006. *AERC Research Paper* 236, 40.
- Paudel, R. C. (2023). Capital expenditure and economic growth: A disaggregated analysis for Nepal. *Cogent Economics & Finance*, 11(1). <https://doi.org/10.1080/23322039.2023.2191449>
- Ramirez, M. D. (2000). The Impact of Public Investment on Private Investment Spending in Latin America: 1980-95. *Atlantic Economic Journal*, Springer, 28(2), 210-225. doi:10.1007/BF02298362
- Scully, G. W. (1989). The size of the state, economic growth and the efficient utilization of national resources. *Public choice*, 63(2), 149-164.
- Serin, S. C., & Demit, M. (2023). Does Public Debt and Investments Create Crowding-out Effect in Turkey? Evidence from ARDL Approach. *Sosyoekonomi*, 31(55), 151-172. doi:10.17233/sosyoekonomi.2023.01.08
- Shore-Sheppard, L., Buchmueller, T. C., & Jensen, G. A. (2000). Medicaid and crowding out of private insurance: a re-examination using firm level data. *Journal of Health Economics*, 19(1), 61-91.
- Spencer, R. W., & Carlson, K. M. (1975, December). *Crowding Out and Its Critics*. Federal Reserve Bank of St. Louis. Retrieved from https://files.stlouisfed.org/files/htdocs/publications/review/75/12/Crowding_Dec1975.pdf
- Turan, T. (2014). Optimal size of Government in Turkey. *International Journal of Economics and Financial Issues*, 4(2), 286-294.
- Wang, B. (2005). Effects of government expenditure on private investment:

Canadian empirical evidence.
Empirical Economics, 30(2), 493-
504. doi:10.1007/s00181-005-0245-
9

Weck-Hannemann, H., & Sutter, M. (2004).
An Experimental Test of the Public
Goods Crowding Out Hypothesis
when Taxation Is Endogenous.
FinanzArchiv, 60(1), 94.
doi:10.1628/001522104774102815

World Bank (2021), Nepal Public
Expenditure Review, retrieved from
[https://documents1.worldbank.org/
curated/en/099835012032119520/
pdf/P17208601e4d9102009d990f1
76775b9f18.pdf](https://documents1.worldbank.org/curated/en/099835012032119520/pdf/P17208601e4d9102009d990f176775b9f18.pdf)



Marginalization by the State and its effect on the Maoist Revolution in Nepal

Arpan Acharya

Introduction

Conflict research has been getting a lot of attention in recent years. Some scholars argue that revolutions occur due to the self-serving motives of insurgent leaders who stand to gain more from the revolution (citation). However, others challenge this view. Skoc-pol (1979) argues that revolutions are shaped by broad political and economic conditions rather than just the actions of individuals. According to this perspective, when a state becomes weak due to political or economic crises, it creates a situation where revolutionary forces can either emerge or become more powerful. While these broader structural factors are crucial, the question of individual participation in revolution adds another layer of complexity. Revolution is considered as a public good, people often refrain from participating in revolutions unless they believe their contribution can make meaningful change (Tullock, 1971). Still, Revolutions continue to occur, with people frequently joining even when they are not sure of the success of the revolution.

This makes me think about the possibility that individuals may participate because they are driven by a perceived opportunity

of personal gain from a successful revolution. Or, they may be marginalized to a point where revolution becomes their only viable option. A happy person with protected property rights, not subject to arbitrary treatment by the government, and living in a stable and prosperous environment would probably not join a revolution, reluctant to jeopardize their current stability and prosperity.

Nepal experienced a decade-long civil unrest that began in a small hilly area of the mid-western region and spread throughout the country. Researchers investigated various causes that could have contributed to the conflict. This study investigates state marginalization as a cause of Maoist insurgency. The political change of Nepal in 1990 raised expectations of social progress and equality in the country. The expectation never reached and the fruits of political change were enjoyed only in the urban centres and central periphery. The living conditions of most of the people were poor throughout the country.

These deep-rooted grievances provoked the possibility of radical movement in the country. On 04 February 1996, the Communist Party of Nepal (Maoist) submitted a 40-point demand to the Government which included social, economic and political agendas. It warned that an armed revolt would start if the demands were not met¹. After a week, on 13 February 1996, the Communist Party of Nepal (Maoist) launched an armed revolt from the Western hills which later spread to much of the country. The decade-long internal conflict between the state and the Maoist left over 14000 casualties. Figure 1 shows the district-wise count of casualties during this decade-long insurgency.

Communists were willing to work with the King, others, more radical, sought to end the Panchayat regime and establish an elected constituent assembly. The split was a key factor leading to conflict. After the introduction of the Panchayat system in 1960, radical Communist factions pushed for an end to the regime and the creation of an elected constituent assembly. These radicals formed the Fourth Convention in 1974, which eventually became the foundation of the Maoist group. The movement experienced further fragmentation in 1983 and 1994. The 1994 split was crucial: the Nepali Election Commission only recognized the faction led by Nirmal

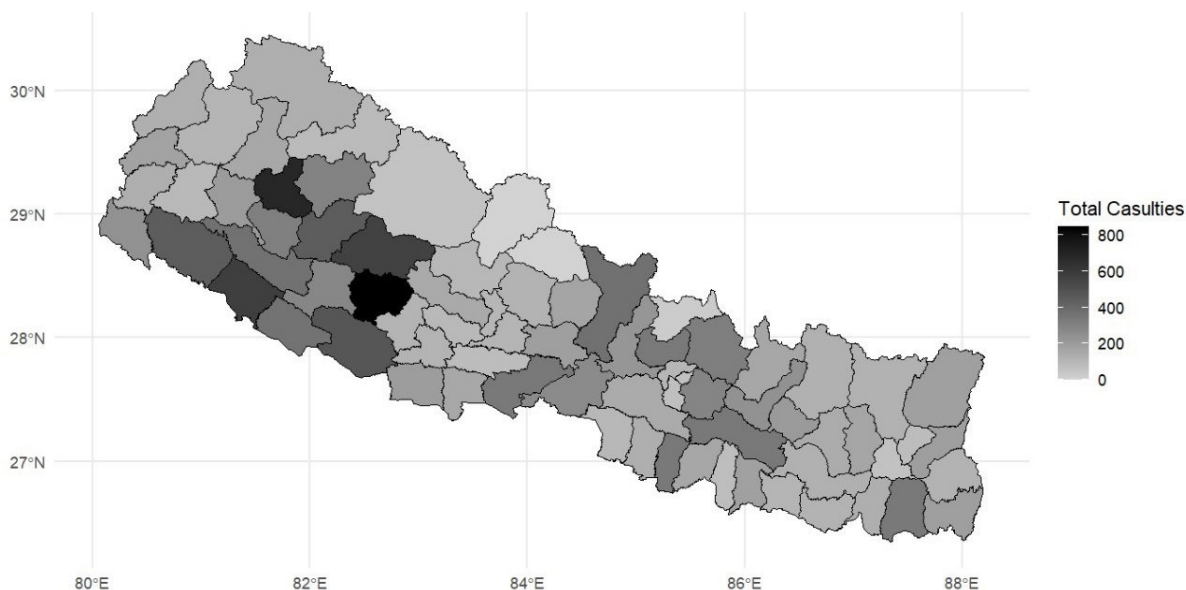


Figure 1: District-wise casualties in Nepal. This figure shows that the darker districts experienced more casualties

The Maoist insurgency in Nepal emerged from deep divisions within the Communist movement after the Panchayat system was introduced in 1960. While some

Lama, denying official status to the faction led by Pushpakamal Dahal (Comrade Prachanda). This denial led Prachanda’s group to boycott the elections and pursue an armed struggle, ultimately launching the Maoist “people’s war” in

1 Maoists’ 40-point demand can be referred here <https://www.satp.org/satporgtp/countries/nepal/document/papers/40points.htm>

1996². Even before the formal beginning of “people’s war” in February 1996, there were efforts from government-side to repress any form of insurgent activities.

The government considered Maoist insurgency as a law and order problem and started “Operation Romeo” in Rolpa and Rukum area. This operation involved torture and arrest of Maoist militants

The lack of an effective response from the government allowed the Maoists’ insurgency to spread like wildfire on the mid-western hills. There had been several attempts at peace talks between the two parties, but none of them provided any tangible agreement. On January 29, 2003 government and Maoists announced a ceasefire which the Maoists withdrew after slow progress on their demand of a new Constituent assembly. By that time government had declared a nationwide state of emergency and brought the Police and the Armed Police Force under the operational command of the Royal Nepal Army (RNA) under “Unified Command”.

After deployment of RNA in 2002, the violence escalated in the country and there has been violation of human rights both from the insurgents and the government. This study seeks to quantitatively explore the various factors that led to the decade-long Maoist revolution in Nepal, focusing particularly on why the conflict erupted

in the mid-Western hills and if there is any relationship between the state’s discrimination against certain groups that caused variance in conflict intensity across the nation.

Traditional theory suggests that when groups are marginalized from power, they can create organized and ideological challenges to authority (Clapham, 1996). Insurgents typically presented themselves as reformist alternative and pushed their ideologies in people (Reno, 2002). In this regard, scholars have examined demography, diversity, geographical endowment, greed, economic cleavages, government type and regime changes, and even history and international insecurities as a cause of civil war.

The increasing presence of more people in a state is one of the widely recognized causes of civil war. The log of total population is significant and positive predictor of conflict in many studies (Blimes, 2006; Collier & Hoeffler, 2002, 2004a; Elbadawi & Sambanis, 2002; Fearon, 2005; Fearon & Laitin, 2003; Gleditsch, 2007; Jusu, 2005; Lujala et al., 2005; Miguel et al., 2004; Regan & Norton, 2005; Reynal-Querol, 2005; Ross, 2006; Salehyan & Gleditsch, 2006; Sambanis, 2001; Suzuki, 2007; Thyne, 2006) and some studies have found no significant relationship (De Soysa, 2002; De Soysa & Neumayer, 2003; Reynal-Querol, 2002). The onset of civil war in Nepal from the Rapti Valley hills doesn’t fit into the idea of the civil war being ignited by the presence of more people in a state. Some other studies have also examined the notion that population growth and fertility rate a risk factors for civil war but found no significant relationship between them (Abouharb, 2005; Collier

2 For details refer “Day of the Maoist”, Deepak Thapa, published on Himal May 2001, page 4-21 https://himalaya.socanth.cam.ac.uk/collections/journals/hsa/pdf/HSA_14_05_2001.pdf

& Hoeffler, 2004a, 2004b; Urdal, 2005).

Another branch of study deals with diversity, be it ethnic diversity or religious diversity, as an important factor explaining civil wars. The theory suggests that when there is a dominant ethnic majority alongside a sizeable minority, the risk of conflict increases (Collier et al., 2003). Christenson (2001) found that when the second largest ethnic group is 10–30 percent of the largest group, the risk of civil war onset is significantly ($p < .05$) higher. Blimes (2006) found that as the size of the largest ethnic group increases, so too does the risk of civil war. Collier & Hoeffler (2004a) examined two different explanations, “greed” and “grievance” as a cause of onset of civil war. While grievances were traditionally seen as the main reason for rebellion, their study found more support for the idea that civil war is driven by “greed”. The opportunity to profit from seizing control of valuable resources or power is the main factor that motivates people to join the movement.

Another branch of research focuses on geographic and environmental factors in civil war. Fearon & Laitin (2003) found that politically weak government and rough, mountainous terrain provides ideal ground for the conflict to happen. They have used per capita income as a proxy for the strength of central government. The idea that some areas within a country are more prone to conflict than other is studied using the concept of ‘spatial contagion’, which means conflict spreads from one region to another. Buhaug & Rød (2006) found strong evidence to support this while Fox (2004) found no such evidence. Regarding cross border conflicts, it has been found that having a neighbour at war makes a state more prone to

civil war (Salehyan & Gleditsch, 2006; Sambanis, 2001). It is also found that larger countries have more territorial (separatist) than revolutionary conflicts (Buhaug & Rød, 2006). Regarding the economic causes of civil war, it is found that high income nations are less likely to experience civil wars than low-income nations. This may not necessarily be the same on the sub-national level. On sub-national level, it has been found that road density significantly affects the probability of conflict (Abouharb, 2005).

The causes and consequences of civil war in Nepal is also studied a lot. Adhikari (2013) used multivariate analysis to explain variation in forced migration across districts caused by the conflict. Do & Iyer (2010) found that conflict intensity is higher in poorer districts and geographical factors are not significantly associated with the onset of conflict. The geographical factors only contribute to the intensity of violence once the conflict has started. NEPAL (2006) found that an exchange of violence between government and opposition forces that depends on the political and geographical opportunities for violence. In another paper, Nepal et al. (2011) found that greater inequality escalated the killings by insurgents. A significant research gap exists in Nepal, as there are very few studies exploring the role of state marginalization in the intensity of conflict within the country. The aim is to examine whether state marginalization and a discriminatory approach by the government played a role in fueling the conflict from the mid-western hills of the country.

Scholars offer various explanations for the causes of civil war, but it's important to recognize that differences between countries make it nearly impossible to

generalize these findings. With this in mind, a key question from the decade-long insurgency in Nepal is: why was conflict intensity higher in some regions of the country, and did state marginalization of certain groups contribute to this disparity? This research specifically aims to determine whether state marginalization was a driving factor behind the Maoist insurgency in the country.

Data and Methodology

The country was, at that time, divided into 75 districts and these districts are the unit of my analysis. The data

for counts of killings by the government and by the Maoist insurgents in each districts are obtained from Informal Sector Service Center (INSEC), a human rights Non-governmental organization in Nepal. The data for total casualties include combatants from both the sides as well as the civilians killed in ‘crossfire’.

The data for various socio-economic variables are obtained for Census 2001. It was the tenth population enumeration in Nepal and is the largest statistical operation in the country. The Census recorded data from all the main towns and villages of each district of Nepal by working with Village Development

Table 1: Summary Statistics

	count	mean	Var	min	max
Total Casualties	70	219.3429	23641.16	60	845
maoisttotal	70	80.11429	3141.929	5	267
govtot	70	129.7571	12418.3	18	561
Area covered per school	70	48.86995	6200.468	.8246347	628.3333
Average distance to government provided facilities	70	131.4974	25198.98	14.23051	928.2222
Log population density	70	5.138147	.9016138	1.94591	7.915348
Percentage people who cant read and write	70	.4140759	.0121414	.1793115	.6813728
Percentage of Households with access to electricity	70	.3139646	.0487831	.0066675	.9738443
Percentage of Households involved in economic activity	70	.1759178	.0047384	.0564936	.4067642
Percentage of weak house	70	.2700185	.0455605	.0043083	.8230688
Percentage of people who have no land, livestock or poultry	70	.1282162	.0164019	.0130037	.7570427
Ethnic Homogeneity	70	69.54857	240.4938	36	91
Average distance to nearest healthpost	70	77.96046	2743.645	11.48485	272.0313
Average distance to nearest primary school	70	24.99439	195.2883	6.293532	93.25581
Average distance to nearest krishi center	70	291.5373	208322.6	24.37313	2681.25
Average distance to nearest paved road	70	687.5264	1005594	8.716418	4826.939
Average years of education district wise	70	2.448465	1.288984	.5714286	6.116451
Observations	70				

Committees and Municipalities at district level. The data from the number of secondary school infrastructures for the year 2003 was taken from Statistical Year Book 2015 provided by Central Bureau of Statistics. The data for access to facilities is taken from the first round of Nepal Living Standard Survey (1995/96). The data consisted of 3388 households. This sample was divided into four strata based on the geographic and ecological regions of the country. A two stage stratified sampling procedure was used to select the sample for the NLSS. The primary sampling unit is the ward, which is the smallest administrative unit in the 1991 Population Census. The average distance to facilities like primary school, health post etc. are collected as an mean distance (in taken) by the households to reach the nearest facility. The description of the variables and their sources are presented in the appendix.

Negative binomial model is used to estimate the total casualties predicted by state marginalization. Distance to facilities like healthpost, primary school etc. are used as a proxy for marginalization and appropriate controls like education, income are used.

The form of the model equation for negative binomial regression is the same as that for Poisson regression. The log of the outcome is predicted with a linear combination of the predictors:

$$\log(\text{conflict}) = \beta_0 + \beta_1(\text{control}_1) + \beta_2(\text{control}_2) + \beta_3(\text{control}_3) + \dots$$

This implies:

$$\begin{aligned} \text{conflict} &= \exp(\beta_0 + \beta_1(\text{control}_1) + \beta_2(\text{control}_2) + \beta_3(\text{control}_3) + \dots) \\ &= \exp(\beta_0) \times \exp(\beta_1(\text{control}_1)) \times \exp(\beta_2(\text{control}_2)) \times \dots \end{aligned}$$

Evidence and Implications

The analysis begins by examining the trend of Maoist insurgency over time. The conflict, which began as a small rebellion in the mid-western hills, escalated into a nationwide conflict in no time. This conflict impacted over 14,000 people directly and million more indirectly. The count of total casualties peaked in the year 2002, where the government inflicted violence was way larger than that of maoist. During 2003, there was a seven- month cease-fire, which is shown in the figure as the casualties by both the parties declined sharply.

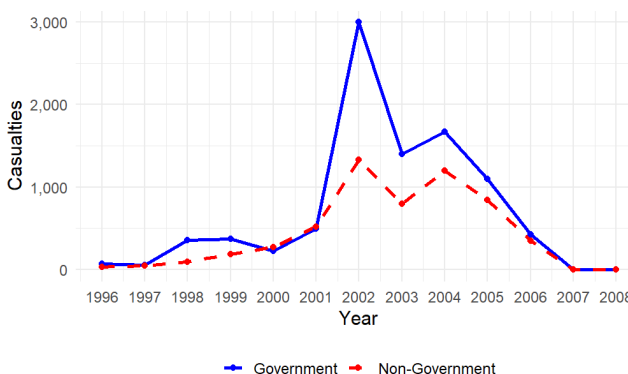


Figure 2: Year wise casualties in Nepal by government and the maoists.

Table 2: Negative Binomial Regression Results: Maoist-Inflicted Casualties vs. Distance to Facilities

	(1) Total Casualties	(2) Total Casualties	(3) Total Casualties	(4) Total Casualties
Total Casualties				
Area covered per school	0.010** (0.004)	0.011** (0.005)	0.009* (0.005)	0.008* (0.005)
Average distance to government provided facilities	0.001 (0.001)	0.001 (0.001)	0.001 (0.001)	0.001 (0.001)
Average years of education district wise	-0.190*** (0.061)		-0.182** (0.074)	-0.225*** (0.072)
Percentage people who cant read and write		0.584 (1.078)		
Hill	0.671* (0.360)	0.663* (0.401)	0.672* (0.364)	0.776** (0.377)
Terai	0.901** (0.390)	1.020** (0.425)	0.924** (0.397)	1.004** (0.394)
Log population density			-0.040 (0.123)	-0.115 (0.127)
Percentage of weak house				-0.249 (0.471)
Percentage of Households involved in economic activity				1.683 (1.556)
Constant	4.708*** (0.551)	3.864*** (0.462)	4.918*** (0.774)	5.124*** (0.815)
/				
lnalpha	-1.479*** (0.101)	-1.393*** (0.106)	-1.480*** (0.099)	-1.507*** (0.101)
Observations	69	69	69	69

Standard errors in parentheses
 Clustered standard errors by subregion
 * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 2 summarizes the relationship between state marginalization, as measured by total area covered by a secondary school, and total number of casualties. The four models examine the relationship between total casualties and the area covered per school, with different control. Model (1) and (2) provides a baseline relationship with minimal controls. Model (1) uses ‘Average years of education district wise’, obtained from first round of Nepal Living Standard Survey (NLSS-I) as a variable that denotes the variance across educational

level across district where as, Model(2) uses the percentage of people who cannot read and write as a proxy for education. Years of education better captures the effect of education on casualties whereas the percentage of people who can read and write is a taken from Census data and is highly accurate. The information from NLSS-I might not be representative of the entire district unlike the information from Census. Model (3) and Model (4) adds social and demographic control to the baseline model.

The total area covered by a secondary school can serve as a proxy for state marginalization because, in regions where the area covered by a secondary school is large, it implies that schools are fewer and farther between which makes access to education more difficult. This can be a sign of state neglect and a failure to provide basic services that contributes to the feeling of marginalization among people. In addition this variable also indicates that state has not invested adequately in infrastructures of these areas which also exacerbates the sense of marginalization among the people. Across all four models, the coefficient is positive and when controlling for social and demographic factors, the coefficient is statistically significant. It means that, a larger area covered per school is associated with more casualties. In other words, the places where there has been relatively less state-side attention in schools and educational infrastructures is more prone to conflict.

Average distance to government-provided facilities is added as a control to ensure that the observed relationship between state marginalization and conflict is not confounded by differences in access to other forms of government presence. This also helps to offset the limitation of 'area covered per school' which might include a larger portion of people clustered in a certain village/city center. Average distance to government provided facilities includes the district-wise average of average time taken by people to reach the nearest primary

school, hospital, paved road and krishi centre. The relationship with total casualties is seen very small and insignificant, meaning it does not appear to have significant effect on the number of casualties inflicted by Maoists. 'Years of education' has a significant and negative relationship with total casualties across all three models, meaning districts with well educated citizens tend to experience fewer casualties. Educated people, in general, tend to be more aware, have higher income, and enjoy better living standards. A high value for this variable indicates that the district is already better positioned in terms of access to technology, infrastructure, and human capital. On one hand, this relationship suggests that education acts as a shield against conflict; on the other, it reveals potential state discrimination, where a dual standard of human capital is being produced. In Model(2), percentage of people who can read and write is used as a substitute for years of education. Increase in percentage of illiterate person increases the conflict intensity but the relationship is not statistically significant. Hereafter, years of education is used instead, as it offers better variability across districts. Ecological belts are also controlled using dummy variables (Hill and Terai). The base category is the Mountain Region (omitted). Terai region was exposed to greater violence compared to the mountain and the hill region.

The relationship between state marginalization and violence remains positive and significant after controlling

for log population density, percentage of weak house and percentage of households involved in economic activity as. Although these control variables are not statistically significant, they do influence the coefficient of state marginalization, indicating that while they may not predict violence independently, they contribute to the overall model. The overall robustness of the model is maintained, meaning that the impact of state marginalization, as measured by area covered by a school, is significant and resilient to the inclusion of additional covariates.

In Table 3, the relationship between the distance to government-provided facilities and Maoist side casualties is studied using the same Negative binomial regression as in the previous table. The focus here is solely on the violence perpetrated by the Maoists because the state's use of force is viewed primarily as a response to the Maoist threat. This perspective suggests that state violence is a reactionary measure and not necessarily linked to the underlying marginalization of the population. Models (1) through (4) in Table 3 focus on different variables that measure the distance to different

Table 3: Negative Binomial Regression Results: Maoist-Inflicted Casualties vs. Distance to Facilities

	(1)	(2)	(3)	(4)
	maoisttotal	maoisttotal	maoisttotal	maoisttotal
maoisttotal				
Average distance to nearest healthpost	-0.001 (0.002)			
Average distance to nearest krishi center		0.000 (0.000)		
Average distance to nearest primary school			-0.006 (0.006)	
Average distance to nearest paved road				-0.000 (0.000)
Log population density	-0.300* (0.169)	-0.276 (0.168)	-0.315* (0.170)	-0.308* (0.166)
Percentage of Households involved in economic activity	-3.064** (1.395)	-2.574** (1.259)	-2.990** (1.349)	-2.781** (1.409)
Percentage of people who have no land, livestock or poultry	1.578** (0.737)	1.471** (0.725)	1.567** (0.740)	1.437** (0.727)
Ethnic Homogeneity	0.021*** (0.005)	0.022*** (0.005)	0.022*** (0.005)	0.020*** (0.005)
Hill	0.432 (0.328)	0.457 (0.353)	0.461 (0.335)	0.338 (0.284)
Terai	1.521*** (0.328)	1.569*** (0.369)	1.576*** (0.352)	1.365*** (0.313)
Constant	4.121*** (0.882)	3.762*** (0.730)	4.138*** (0.826)	4.307*** (0.926)
/				
lnalpha	-1.138*** (0.201)	-1.134*** (0.192)	-1.144*** (0.200)	-1.153*** (0.203)
Observations	70	70	70	70

Standard errors in parentheses
 Clustered standard errors by subregion
 * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

government- provided services: the nearest health post, Krishi center (agricultural center), primary school, and paved roads. Differences in the time required to access these services proxies for marginalization imposed by the state. People who are farther from these services may feel neglected by the state, which can contribute to feelings of exclusion and that in turn leads to an increased risk of conflict or violence.

In Table 3, none of the average distances to facilities show significant relationship with Maoist-inflicted casualties. One reason could be the way these distances to facilities are measured. The average distance is calculated from the district-wise average of the time taken for people to visit the nearest facilities. However, this measurement might not be representative of the entire district. Since the sample used to calculate these averages is not diverse or comprehensive enough, it might have failed to capture the true variation in access to these facilities across different parts of the districts. Additionally, the use of averages might overshadow the experiences of marginalized groups within the district, who could have significant difference in access to these services compared to the district average. In order to better understand the impact of marginalization from the perspective of distance to facilities, alternative measures of marginalization should be explored. These could include disparities in development expenditures, inadequate representation in government, detailed

data on access to services at a more localized level, or indicators that assess both the quality and availability of these services. Given the challenges in obtaining these datasets and the limitations of existing data, which may be outdated or of poor quality, I have left this aspect open for further research.

Control variables: log population density, percentage of households involved in economic activity, percentage of people without land, livestock, or poultry, and ethnic homogeneity are significant and play crucial roles in explaining the model. Log population density and the percentage of households involved in economic activity are negatively correlated with the Maoist violence. Increase in percentage of people with no land, livestock and poultry, similarly, increases the violence. It is obvious that conflict is less likely to occur if people are engaged in some form of economic activity and have their own land or livestock (given by the significant relationship between Percentage of households involved in economic activity and percentage of people with no land, livestock and poultry). The results from adding the ecological belt dummy is same as the previous table which shows that Terai region experience higher violence. The finding that ethnic homogeneity has a positive and significant relationship with Maoist violence is quite surprising. Given that the Maoists advocated for the rights of ethnic minorities, one would expect ethnic homogeneity to be negatively related to violence. However, the way

this variable was created in the study may have influenced the result. In this study, ethnic homogeneity was defined as the sum of the percentage of the top four ethnic groups in a district, which may not accurately reflect true ethnic homogeneity. Nonetheless, since ethnic homogeneity is a key factor affecting violence, including this imperfectly constructed variable still enhances the model's predictive power.

The study of conflict in Nepal helps me understand various factors that influence conflict intensity in Nepal. The findings suggest that areas with less state investment in educational infrastructure are more prone to conflict. This finding aligns with the broader theory that state neglect and the resultant feelings of marginalization help to intensify the conflict. The average distance to government-provided facilities such as health posts and primary schools did not significantly correlate with the total number of casualties. This may be due to how the variables were measured in this study, or it could suggest that access to state facilities does not necessarily intensify conflict. The finding that ethnic homogeneity positively correlates with conflict is consistent to the findings by Collier et al. (2003) which suggests that having an ethnic majority alongside a small minority significantly increases the risk of conflict.

The findings are also consistent with some researches that have discussed the importance of geography (Fearon & Laitin, 2003) but surprisingly population density is seen as negatively related to conflict intensity unlike other studies (Collier & Hoeffler, 2002, 2004a; Elbadawi & Sambanis, 2002; Fearon & Laitin,

2003; Sambanis, 2001). The red zones of the conflict, as termed in Robert (2003), were heavily forested, mountainous areas and far from the district road linkage. So, population density being negatively related to conflict intensity is not a surprising finding. Given the nature of the variable used in this study, there was no significant relationship between access to services and conflict intensity. But the state's discriminatory practices have been highlighted in Molnar (1981). She notes that even though health posts had been opened in the red zone, the government had been unable to find a health assistant willing to be posted there. In the same study, Molnar (1981) notes that the opening of a high school (reportedly the first school of the 'Rolpa' district) was constructed with community labor and materials, financed by contributions collected by cultural events and the government had merely contributed to it. Robert (2003) highlights that the ban on hashish was a significant factor contributing to the onset of conflict. While it is challenging to quantify the extent of the local population's dependence on hashish and its broader impact, the government's discriminatory practices were evident. Hashish was an important cash crop in the Rukum, Rolpa, and some parts of Salyan and Surkhet, where it was used to fill the income gap to pay for salt and food that were not sufficiently produced.

Policy Recommendation

The conflict in Nepal happened because of the coming together of many factors. There may not be a single cause standing out as the primary driver. This study underscores that while

state marginalization is not the sole cause of conflict, it is a factor not to be looked upon. The view of people regarding Maoist insurgency might be different from reality. Most people view it as a terrorist act that took the lives of thousands of Nepali citizens. Undoubtedly, a lot of people died during the ten-year conflict, but the crucial question, in this case, is whether the leaders of the rebellion started it solely for their benefit or whether the situation in the conflict-ridden area was so bad that people became tired of the status quo and rebelled against it. If the latter is the case, have the problems been resolved to prevent a recurrence of a similar event? This is an important policy question because the conflict ended a long time ago, and although there has been some discussion time and again concerning the implications of this conflict, the root causes are mostly overlooked.

This study finds inadequate or discriminatory expenditure in educational infrastructure to be significantly correlated with conflict intensity. The fact that the state's resources have not reached people living in rural areas is concerning because this exclusion brings a feeling of marginalization among people which acts as a catalyst to conflict. Conflict is negatively associated with people's economic situation. The ban of hashish in the country had severe consequences for the people in the mid-western hills. As highlighted by, Robert (2003), hashish was a source of income for people in these areas. While implementing a policy such as this, the state should consider the unintended consequences of the policy. Hashish was a traditional know-how of

the people and they couldn't switch to other cash crops so easily because of the climate and vegetation of those areas. This single policy might have pushed a lot of people into poverty. While implementing such policies, the state has to be very careful so that it doesn't hinder the economic freedom of people.

Data accessibility prevents this paper's findings from being very compelling. While it can be argued that state marginalization caused conflict in the country, establishing a causal relationship is impossible. The government should concentrate on gathering information about conflicts in addition to making the current datasets easily accessible. Even though the conflict happened many years ago and its study might not seem unimportant in present, in-depth research could help avoid the conflict in the future. Improved data availability increases the scope of this study to establish the causal relationship between the factors that caused conflict in Nepal.

Appendix

Table 4: Description of Variables and Sources

Variable	Description	Source
Total Casualties	Sum of total killed, disabled, and lost because of conflict as reported in INSEC database	INSEC
maoisttotal	Total number of casualties inflicted by maoist	INSEC
govtotal	Total number of casualties inflicted by the government (obtained from Statistical Year Book 2015, CBS)	INSEC
Area covered per school	Total district area divided by the number of secondary schools in the district (both obtained from Census 2001)	Statistical Year Book 2015, CBS
Average distance to nearest primary school	Average of average distance taken by people to reach the nearest primary school	NLSS-I
Average distance to nearest hospital	Average of average distance taken by people to reach the nearest hospital	NLSS-I
Average distance to nearest krishi center	Average of average distance taken by people to reach the nearest agricultural centre	NLSS-I
Average distance to nearest paved road	Average of average distance taken by people to reach the nearest paved road	NLSS-I
Average distance to government provided facilities	Average of average distance taken by people to reach the nearest hospital, primary school, krishi centre, and paved road	NLSS-I
Log population density	Log of district-wise population per unit area	Census 2001
Percentage of people who have no land, livestock or poultry	Percentage of households who have no agricultural land, livestock, or poultry	Census 2001
Ethnic Homogeneity	Sum of percentage population of top four ethnic groups. Higher value means district is more likely to be ethnically homogenous	Census 2001
Percentage people who can't read and write	Percentage of people who cannot read and write	Census 2001
Percentage of Households with access to electricity	Percentage of households in district with access to electricity	Census 2001
Percentage of Households involved in Economic Activity	Percentage of households with at least one member involved in economic activity	Census 2001
Percentage of weak house	Percentage of households with weak house structure	Census 2001

References

Abouharb, M. R. (2005). *Economic liberalization and its impact on civil war, 1870–2000*.

State University of New York at Binghamton.

Adhikari, P. (2013). Conflict-induced displacement, understanding the causes of flight.

American Journal of Political Science, 57(1), 82–89.

Blimes, R. J. (2006). The indirect effect of ethnic heterogeneity on the likelihood of civil war onset. *Journal of Conflict Resolution*, 50(4), 536–547.

Buhaug, H., & Rød, J. K. (2006). Local determinants of african civil wars, 1970–2001.

Political geography, 25(3), 315–335.

Christenson, M. A. S. (2001). *Civil war, macro-social contexts, and intervening mechanisms: Identifying structural linkages*. The Ohio State University.

Clapham, C. S. (1996). *Africa and the international system: The politics of state survival*.

Cambridge University Press.

Collier, P., et al. (2003). *Breaking the conflict trap: Civil war and development policy*

(Vol. 41181). World Bank Publications.

Collier, P., & Hoeffler, A. (2002). On the incidence of civil war in africa. *Journal of conflict resolution*, 46(1), 13–28.

Collier, P., & Hoeffler, A. (2004a). Greed and grievance in civil war. *Oxford economic papers*, 56(4), 563–595.

Collier, P., & Hoeffler, A. (2004b). Murder by numbers: Socio-economic determinants of homicide and civil war.

De Soysa, I. (2002). Paradise is a bazaar? greed, creed, and governance in civil war, 1989-99. *Journal of peace research*, 39(4), 395–416.

De Soysa, I., & Neumayer, E. (2003). Natural resources and civil war: Another look with new data. *Unpublished Manuscript*.

Do, Q.-T., & Iyer, L. (2010). Geography, poverty and conflict in nepal. *Journal of peace research*, 47(6), 735–748.

Elbadawi, I., & Sambanis, N. (2002). How much war will we see? explaining the prevalence of civil war. *Journal of conflict resolution*, 46(3), 307–334.

Fearon, J. D. (2005). Primary commodity exports and civil war. *Journal of conflict Res- olution*, 49(4), 483–507.

Fearon, J. D., & Laitin, D. D. (2003). Ethnicity, insurgency, and civil war. *American political science review*, 97(1), 75–90.

Fox, J. (2004). The rise of religious

- nationalism and conflict: Ethnic conflict and revolutionary wars, 1945-2001. *Journal of peace Research*, 41(6), 715–731.
- Gleditsch, K. S. (2007). Transnational dimensions of civil war. *Journal of peace research*, 44(3), 293–309.
- Jusu, A. R. (2005). *Problems in sub-saharan african economic development: An analysis of the economic causes of civil wars*. New School University.
- Lujala, P., Gleditsch, N. P., & Gilmore, E. (2005). A diamond curse? civil war and a lootable resource. *Journal of conflict resolution*, 49(4), 538–562.
- Miguel, E., Satyanath, S., & Sergenti, E. (2004). Economic shocks and civil conflict: An instrumental variables approach. *Journal of political Economy*, 112(4), 725–753.
- Molnar, A. (1981). Economic strategies and ecological constraints: Case of the kham magar of north west nepal. *Asian highland societies: In anthropological perspectives*, 20– 51.
- NEPAL, M. (2006). Opportunity, democracy, and the exchange of political violence. *Journal of Conflict Resolution*, 50(1), 108–128.
- Nepal, M., Bohara, A. K., & Gawande, K. (2011). More inequality, more killings: The maoist insurgency in nepal. *American Journal of Political Science*, 55(4), 886–906.
- Regan, P. M., & Norton, D. (2005). Greed, grievance, and mobilization in civil wars. *Journal of Conflict Resolution*, 49(3), 319–336.
- Reno, W. (2002). Armed rebellion in collapsed states. *Japanese Journal of Southeast Asian Studies*, 39(4), 584–603.
- Reynal-Querol, M. (2002). Ethnicity, political systems, and civil wars. *Journal of conflict resolution*, 46(1), 29–54.
- Reynal-Querol, M. (2005). Does democracy preempt civil wars? *European Journal of Political Economy*, 21(2), 445–465.
- Robert, G. (2003). *Sowing the wind... history and dynamics of the maoist revolt in nepal's rapti hills* [Includes maps of Nepal]. Mercy Corps International,
- Ross, M. (2006). Is democracy good for the poor? *American journal of political science*, 50(4), 860–874.
- Salehyan, I., & Gleditsch, K. S. (2006). Refugees and the spread of civil war. *International organization*, 60(2), 335–366.
- Sambanis, N. (2001). Do ethnic and nonethnic civil wars have the same causes? a theoretical and empirical inquiry (part 1). *Journal of conflict resolution*, 45(3), 259– 282.
- Skocpol, T. (1979). *States and social revolutions: A comparative analysis of france, russia and china*. Cambridge

University Press.

Suzuki, S. (2007). Major arms imports and the onset of civil and ethnic wars in the postcolonial world, 1956–1998: A preliminary reassessment. *The Social Science Journal*, 44(1), 99–111.

Thyne, C. L. (2006). Abc's, 123's, and the golden rule: The pacifying effect of education on civil war, 1980–1999. *International Studies Quarterly*, 50(4), 733–754.

Tullock, G. (1971). The paradox of revolution. *Public Choice*, 11, 89–99. Retrieved September 6, 2024, from <http://www.jstor.org/stable/30022655>

Urdal, H. (2005). People vs. malthus: Population pressure, environmental degradation, and armed conflict revisited. *Journal of Peace Research*, 42(4), 417–434.



Migration and Reintegration

Trilok Pratap Adhikari

Introduction

The International Organization for Migration (IOM) defines labor migrants as moving persons from their home state to another state for employment. Migration has been a crucial part of Nepal's economy, with remittances accounting for a significant portion of the national GDP. According to the Nepal Labor Migration Report 2022, around four hundred thousand people took permits for foreign employment in 2022. Among them, a significant proportion, 53.4 % come under the age of 25-34, and 32% under the age of 18-24. This younger age group of 18-24 is fresh to the market; most are trying to acquire new skills for their future career.

In Nepal's context, the formal labor migration is concentrated in the Gulf Cooperation Council (GCC) countries such as UAE, Saudi Arabia, and Malaysia, where low skill jobs are prevalent. Other major choices of labor migrants include South Korea and Japan, usually known for their opportunities in skill development and high-paying jobs. Developed countries like the U.S.A, Australia, and Europe, are also favored for the same reasons. However, migration to these countries is not straightforward, it is often complicated by visa and work permit requirements.

Additionally, most of these destination countries restrict the permanent integration of migrant workers into host societies. Eventually, the labor migrants have to return, particularly, as work permits are denied after the age of 50 (MoLESS, 2020).

This nature signifies the importance of reintegration of migrants in Nepal's context. Usually, the anticipation is that once migration goals like higher income and sufficient savings are successfully achieved, migrants return to their families in their country of origin (Fleischer, A. (n.d.)). However, the challenge lies in absorbing the capital, knowledge, and skills brought back by the returnees and facilitating their reintegration into the country while minimizing their vulnerability and helping them find stability and opportunity (CESLAM).

Reintegration is a process, which consists of the 're-inclusion' and 're-incorporation' of migrant workers in their home societies, including the re-establishment of economic and psychosocial ties in their country of origin (IOM, 2017). The Government of Nepal (GoN) has recognized that sustainable reintegration requires harnessing both the social and financial remittances earned by migrant workers abroad in productive sectors of the economy (MOLESS, 2020). According to the IOM's Reintegration

Handbook, the reintegration of labor migrants is based on three dimensions: economic, social, and psychological.

- The Economic dimension covers aspects of reintegration that contribute to re-entering economic life and sustained livelihoods.
- The Social dimension addresses returning migrants' access to public services and infrastructure in their countries of origin, including access to health, education, housing, justice, and social protection schemes.
- The Psychosocial dimension encompasses the reinsertion of returning migrants into personal support networks (friends, relatives, neighbors) and civil society structures (associations, self-help groups, other organizations, and civic life generally). (IOM's Reintegration Handbook)

Despite these three foundations, reintegration remains a challenging process for many returnees. They decide to return to their home country, from which they originally migrated, due to lack of opportunities. They must also encounter problems like finding jobs that match the skills they acquired abroad. Such economic, social and psychological issues, highlight the critical need for proper support from the government, which can aid returnees in their reintegration journey eventually leading to successful transition to leverage their potential contributions to Nepal's economy and society.

If not addressed, the failure of reintegration can be severe, leading to re-migration. One of the returnee migrants of the sample study of this paper, faced a significant loss after establishing a business and was

compelled to re-migrate to repay the loans that he had taken. Economic sustainability for these migrant workers is possible by successfully reintegrating and earning enough to maintain the same lifestyle. If failed, one has no option but to re-migrate.

These challenges and potential solutions associated with successful reintegration, highlight the necessity for a comprehensive strategy addressing social, legal, and economic hurdles. Effective policy interventions, combined with individual assistance initiatives, can facilitate long term reintegration, optimizing the economic benefits for the domestic economy.

Overview of Returnee Migrant of Nepal

Nepal witnessed such challenges, when it welcomed back 183,875 returnees in 2020/21, followed by an even larger influx 4,50,087 in 2021/22 (MoLESS, 2022). This sudden rise was primarily triggered by the pandemic as most labor migrants returned home amidst the crisis. The large-scale return highlighted the pressing need for sustainable reintegration into Nepal's labor market, which has struggled to absorb the increased number of returnees. According to the findings of (Paudel, D. P., & Paudel, T. (2022), the agricultural sector, in particular, became a key avenue for reintegration, offering opportunities that required fewer financial resources, skills, and technology. Agriculture became a prime sector that absorbed both the labor force and skills of returnees for creating income and employment, making it the most viable option.

The sudden return of so many migrants revealed gaps in pre-migration planning and reintegration strategies. According to

the ILO (2015), planning for return and reintegration should start before migration and continue throughout employment abroad. However, most migrants had no plans for their return or even when they wanted to return (ILO,2015). In general, Nepali migrants return at the end of their employment contract, which typically lasts between one to five years. This lack of preparedness leads to significant challenges while reintegrating into the already struggling domestic market.

Upon the migrants' return, their choice of mode of reintegration is based on two factors, first their savings, which may lead them to pursue an entrepreneurial journey, second, their acquired skills leading them to find a suitable job. But, the factors like shortage of employment opportunities and a lack of government support caused by ongoing political instability make it difficult for the returnees. Many face a mismatch between the skills acquired abroad and the limited job openings at home. If they are unable to succeed in either choice, they have no option but to re-migrate to maintain the economic sustainability.

All of these reflect the broader reality for many Nepali migrants: the same conditions that forced them to seek opportunities abroad - limited job opportunities and political instability, are often the same barriers they face upon their return. Working abroad can provide a valuable chance to acquire skills and resources, particularly for those wanting to start their own business but these may not always result in seamless transition as entering entrepreneurial activities can be tricky unless you properly plan and understand the domestic market. Without proper planning, the cycle of migration and re-migration is likely to continue without a sustainable livelihood for migrants back home.

Rationale

There have been several studies on returnee migrants in Nepal. Most of them are regarding the remittance sent back by the labor migrants. The survey regarding the reintegration in the Nepali market is lacking due to the lack of available data and proper tracking of labor migrant's journeys by the respective government authority. This study tries to cover the stories of returnee migrants who successfully engage in the Nepali job market or entrepreneurial activities. This paper aims to determine what factors contribute to reintegration and find ways to smoothen it.

Objectives

- To find the reintegrated returnee labor migrants and analyze their migration stories
- To find the parameters for successful reintegration and find the key components that are stopping them from re-migration
- To find what made them migrate in the first place and what pulled them to reintegrate into their home country
- To discover how skills acquired abroad helped them start their entrepreneurial journey and find employment in Nepal.

Methodology

The study follows the qualitative exploratory research methodology, where the case study of reintegrated returnee labor migrants is conducted to find the answers to the research

question asked. While interacting with the reintegrated migrants, face-to-face interviews were conducted to collect the required information. The interview lasted from an hour to a whole day, exploring the day-to-day activities of their business. It varied depending on the level of busyness in different sectors. Migrants involved in entrepreneurial activities gave permission to spend the whole day with them, while those employed in firms were unable to do so.

Sampling

It was tough to find successfully reintegrated returnee labor migrants as the respective ministry or organization did not have the exact information about the returnee migrants. The data was collected through the mouth-to-mouth method from friends and relatives. The snowball method under purposive sampling was used to collect the data through key informant interviews with returning migrants. The paper aims to study the cases in depth, telling the story of every reintegrated returnee labor migrant. The study primarily selects sample cases through purposeful sampling. These cases contain the information required to analyze the reintegration process and what accounts for successful reintegration.

Limitations

This study only covers the returnee migrants who have reintegrated around Kathmandu Valley, which consists of Kathmandu, Lalitpur, and Bhaktapur districts. This study does not show the overall reintegration stories of the regional parts of Nepal. It might be easy to reintegrate around Kathmandu compared to other regional parts of

Nepal due to easy access to resources and the vast consumption population in Kathmandu Valley.

Successful reintegration is a very complex term. With uncertainty involved in the future¹, those who participated in these case studies might not account for successful reintegration, as they could face job loss or business failure for various reasons. There is always an option to re-migrate again for the financial stability of the individual and the family.

Overview of Case Studies

Interviews were conducted with about 20 returnee migrants who had settled in Kathmandu; some were employed by different organizations, while others had successfully operated their own businesses. The average length of time spent overseas for the reintegrated returnee migrants interviewed was between two and seven years, with the smallest being one and a half years and the longest being 10 years. Three types of migration destinations may be distinguished from the case studies of returnee migrants: low-skill, semi-skill, and high-skill. Every category has unique requirements for education, family backgrounds, and abilities, which influence returnees' reintegration and migratory experiences.

1. Migration Destinations with Low Skill Levels

Gulf nations like Dubai, Saudi Arabia, and Malaysia are the main representatives of the first category,

1 Uncertainty involved in the future, like COVID-19 and natural calamities, cannot escape businesses.

which includes low-skill migration destinations. In general, migrants traveling to these nations needed little to no training or pre-migration skills. They took on employment that entailed simple duties like dishwashers, construction workers, cleaners, and security guards. Many of these migrants had only a basic education, and their educational backgrounds were often low. In several cases, people have not completed the 10th grade (SLC). Migration decisions were significantly influenced by family status as well. Being the youngest in the family, many migrants from this group came from middle-class or lower-class homes. Due to financial pressures, they sought work abroad despite having little training and expertise.

2. Migration Destinations with Semi Skill Levels

South Korea, Japan, and other semi-skilled migration destinations fall under the second category. Pre-migration training and abilities, such as language proficiency exams and specialized job-related skills required for positions in manufacturing, agriculture, or the culinary industry (e.g., chef positions), were mandatory for migrants to obtain at these destinations. Many of the migrants in this category had completed the 10th or 12th grade of SLC, indicating that their educational backgrounds were moderate. They were prepared for mid-skilled work overseas with this degree of education and job-specific training. This category included a wide range of family backgrounds, many of which were middle-class

migrants. Improving skill sets that would result in more stable and lucrative employment possibilities was frequently the driving force behind migration.

3. Migration Destinations with High Skill Levels

High-skilled migration destinations, such as wealthy nations like the US, UK, Australia, and Canada, make up the third category. Advanced talents, frequently supported by higher educational credentials, were necessary for migrants to these nations. These positions required extensive technical knowledge or professional credentials, requiring a high level of investment and preparation. This group of migrants had far better educational attainment; many had at least a bachelor's degree or technical credentials, and some were even working toward a master's degree. Although there were differences in family status, a significant percentage came from middle-class to wealthy families. In order to invest in commercial ventures or get permanent residency for their families, these migrants frequently sought long-term settlement or economic advancement.

Comparative Analysis of the Categories

The reintegration experiences of the above mentioned categories vary significantly. This section uses tables and figures to illustrate the differences and similarities across the categories.

Demographics and Migration Pattern

The demographic composition of the study sample is summarized in Table 1, showing distribution of returnee migrants by destination.

Migration Destination	No of Returnee Migrants
Gulf Countries (Dubai, Saudi, Malaysia)	10
South Korea	3
Japan	2
Isreal	1
US	1
Australia	1
Canada	1
UK	1
Total	20

Table 1 List of Case Studies

Around 50 percent of the returnee migrants were from the Gulf countries, followed by South Korea, Japan, Israel, the US, Australia, Canada, and the UK with 15 percent, 10 percent, 5 percent, 5 percent, 5 percent, 5 percent, and 5 percent, respectively. This highlights a strong preference for low-skill labor migration.

Gender and Family Dynamics

Figure 1 reveals the gender distribution among returnees, highlighting the challenge of finding female returnees. The interviewed female migrants cited safety

concerns and family responsibilities, such as marriage and childcare, as reasons for returning. Additionally, marital status influenced the decision making process for their return. Figure 2 illustrates the composition marital status. The study of the sample found that married immigrants, particularly from semi-skill and high-skill categories, often returned to Nepal for family-related reasons.

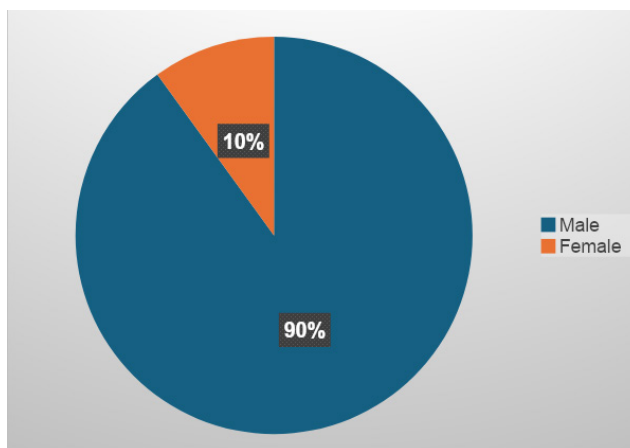


Figure 1 Ratio of Male Female among the returnees

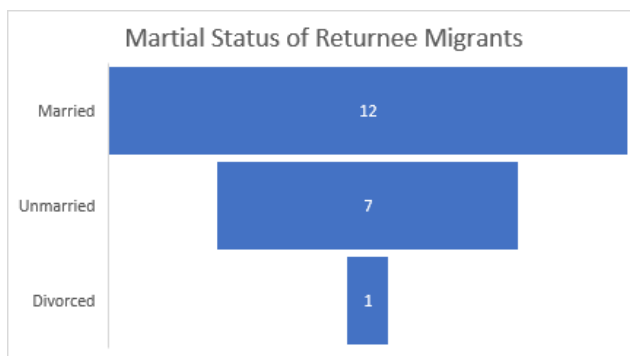


Figure 2 Marital Status of the Migrants

Education level

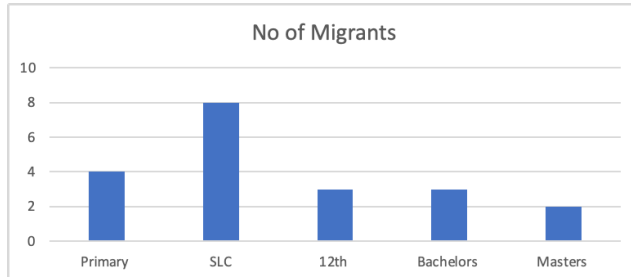


Figure 3 Education Level of the Migrants

The figure illustrates the educational attainment of the sample study. The level of education was more common among those migrating to semi-skill and high-skill destinations, and it was one of the key factors in shaping the reintegration experience showcasing higher chance of success

Job Categories and Skills Acquired

Category of Labors	Destination	Skills Acquired
Unskilled (Elementary Jobs)	Gulf Countries	None to minimal pre-departure skills
Skilled	South Korea/ Japan	Agriculture, manufacturing, culinary, language proficiency
Skilled and Well Educated	Developed Countries (US, UK, Canada, Australia)	Advanced technical/ professional skills

Table 2 Countries migrants returned from by job categories

The study of the sample found that most laborers who migrated to Gulf countries

had not gained particular skills or training before migrating. Most migrants migrating to the Gulf countries stated they worked elementary jobs.² In the case of South Korea and Japan, the laborers had to take the language and training test before migrating, and worked in agriculture farms and manufacturing factories or as chefs in hotels, learning a skill set valid for a lifetime. Furthermore, in the case of well-developed countries like the US and Australia, the laborers needed stronger documentation and high fees to pay the respective overseas job consultants.

Key Observations

Understanding Economic Realities

According to De Silva, et al, (2022), economic reintegration or reintegrating return migrants into the domestic labor market is a vital leg of the whole migration phenomenon. Economic factors play a significant role in the decision making process for migrants, both when choosing to leave the country and returning back. The money factor, the pursuit of higher living standards abroad, is the primary driver of migration, particularly for permanent settlement in the first place. That is why they are in search of countries that give them the highest earnings regardless of work. For instance, 1,64,716 people from Nepal filled out the EPS examination to work in South Korea in 2024 in hopes of earning higher income there. Despite having a low pass rate of about 6.2%, the potential financial reward justifies the investment in time and money for those who clear it.

2 Elementary Jobs in the Gulf Countries include general labor, cleaning staff, and security, which do not have any skill advantage when they want to reintegrate back into their home country.

However, this might not always result in positive yields, the realities of working conditions often prompt them to return back. In case of Gulf countries, migrants leave Nepal with minimal skill, ending up in elementary jobs. Seven out of ten interviewees migrating to Gulf countries had experience of migrating twice or thrice before finally settling in Nepal. They stated that all the paperwork was done with the help of their relatives and their role was limited to providing money. Due to lack of prior individual research and planning in acquiring skill, they could not apply for more permanent jobs, rather kept rotating in elementary jobs. Expressing their regret, they also mentioned that proficiency in some particular skill would have increased their income by two to three times more than what they were earning there.

In cross country comparison, their earnings were lower than that of countries like South Korea or highly developed countries. It was enough to cover the daily expenses, but they were pretty short regarding saving and investment, making it the ultimate reason to return back. In the case of countries like South Korea it was the rigid and high pressure work environment that encouraged them to return back, despite earning relatively better. Successful reintegration of these returnees would be heavily influenced by their savings, investment, and entrepreneurial skills. (De Silva, W. I., De Silva, T., & De Silva, R, 2022b).

The responses from the category of developed countries differed significantly though. Two out of the five from the category stated that the opportunity in the booming educational consultancy market in Nepal brought them back. Economic sustainability was a key measure for successful reintegration in this paper. Sixteen out of the twenty interviewed returnees met this criterion.

For the other four, success was defined by social factors.

Dual role of Family and Safety Concerns

Family and safety concerns play a dual role in migration and reintegration experiences of the returnees, shaping their choices in different, contrasting ways. According to (Bresena, K. D., & Drishti, E. (2022), family plays a vital role in making migration decisions, influencing everything from reasons for migration to the logistics of when and where to go, whom to ask help from, and how to invest remittance. Family pressure is one of the significant factors driving initial migration particularly for the younger siblings in the family. Four out of ten returnees from the gulf countries were the youngest in their family and given the basic education skills, they were actually forced to migrate there by their family members so that they could support their household. Rather than seeking individual goals they were pressured to leave by authority figures in their extended family (Fleischer, A. (2007). They mentioned that they returned as soon as they had saved some money to invest here in Nepal. Conversely, growing up in a society where everyone wanted to live close to their family and relatives, family can be a powerful motivation for the return of migrants. For instance, one returnee from the U.S.A. mentioned that being close to family and relatives was a sole reason for his return despite having sound financial benefits there in the U.S.A. Rest of the interviewees also agreed that family was indeed a significant pull factor in making them return to their home country.

Safety concerns are another critical consideration that shapes the migration experience of females in particular. In

one notable case, a lady chose to migrate to Israel during the Maoist Revolution because of safety reasons. Her statement reads as, “My village was not safe for the age group of 15-30 like us. We were even forced to join the revolution but I did not want to take part, so I ran to Kathmandu. One of my relatives managed foreign employment for me, and I took that as an opportunity. Now, when I look back, I think that I made the right choice. I acquired enough skill there, which ultimately helped my reintegration process.” This decision contrasts sharply with the current trend among female migrants who often return to Nepal due to safety and security challenges abroad. This dynamic illustrates that the motivations behind migration and return are multifaceted, with family expectation and safety concerns often playing dual and contradictory roles shaping the choices of the migrants.

Mental Pressure and Fulfillment from Family Proximity

Mental health has been an important topic of discussion in recent times. Each migrant interviewed acknowledged experiencing greater psychological and physical pressure while working abroad. Having to endure 14-15 work hours while working abroad, away from your family many shared experiencing heightened psychological stress. They experienced difficulty in communicating with other colleagues and their employer. The pursuit of economic benefits came at the expense of personal well-being, dealing with loneliness especially in Gulf countries. They shared that gradually migrants from India and Pakistan became their friends over the fact that they could communicate with one another in Hindi, leading them to share each other’s happiness and sorrows. Upon returning back, they experienced the stark difference of not having to follow

such long working hours here. They found their productivity being raised along with the satisfaction living with their family, kids and friends. However, there was a different notable case, a returnee from Australia mentioned that, initially, he was motivated to work as many hours as possible due to higher hourly wages abroad, but with different pay structures here, he found himself preferring to finish early and quickly head back home.

Disincentive and Re-migration Dilemma

A significant challenge faced by returnee migrants is the mismatch between skills they acquired abroad and the job opportunities in Nepali market. One returnee from the UK highlighted this issue, noting that the technology and machinery he used in the hospitality industry there were not available here in Nepal, making his skills less relevant and limiting his opportunities. This kind of mismatch creates a major disincentive for returnees to stay in Nepal, as they struggle to find employment that values their experience. Almost all interviewed returnees said that they returned with great confidence believing that they would be highly valued by employers. Some even shared stories of friends who had to re-migrate in search of jobs that matched their skill.

This challenge usually prompts returnees to pursue their own entrepreneurial ventures. But that option also comes with its own challenges. Those who returned back with such ambition mentioned that understanding the local business environment requires significant effort and time, which can be discouraging for the returnees, especially when compared to the financial benefits they had been reaping abroad. In such situations, planning with

family and friends before returning home helped the returnees get updated job market information in their home country. (Baniya, S. & Kathmandu University School of Education, 2021).

The dilemma of re-migration is constant among the returnees, since the future is uncertain for everyone. One returnee from Qatar shared his experience of building a successful business upon his return, even earning more than what he was earning in Qatar. He recalled his initial days of struggle, often working 16 hours in a day which prepared him for the hard work needed to establish his local business. Despite the difficulties, he now earns stable income and has no plans to re-migrate. However, not all stories are positive. Another returnee from UAE shared his experience of a failed business that left him in debt. Faced with financial difficulties, he felt compelled to re-migrate, working abroad for another five years to repay his loans before returning to Nepal to start over.

This complex situation makes it difficult to define successful reintegration. Most returnees wish to settle in Nepal once they can comfortably sustain themselves on their local income. But when their income in Nepal falls short of maintaining the desired standard of living, they come across a difficult choice whether to re-migrate again. The inability to find stability and opportunity in their country of origin means migrant workers become compelled to seek remigration, not as an informed choice, but out of desperation. (Bhattarai, S, et al (2024). Upon asking about the choice of re-migration, this sentiment was expressed by a returnee from Japan, "I am getting lucrative offers from Nepali restaurants in Japan but I have declined them as I earn decent here and want to see my child grow. I want to be there for him whenever

he needs me; I know how children without their parents get affected. But at the same time, when my income becomes insufficient for my children, I have no option but to migrate again for better employment opportunities."

Overall Perception of Successful Reintegration

Every reintegrated migrant had different views regarding what constitutes successful reintegration, citing the uncertainty of the future and the possibility of re-migration. Their views were influenced by factors like family background, marital status, and education level. However, all participants in the study agreed that they had successfully reintegrated at the time of survey, which included achieving financial stability and maintaining an active social life in the community.

This study comprehensively examined a few cases by interviewing returnees to gain insights into the broader experiences of returnee migrants. Twenty returnee migrants were interviewed, and their employment journey was closely analyzed. In this context, reintegration for returnee migrants was defined as being self-employed, engaging in entrepreneurial activities, or working for an organization. All participants were earning well and actively involved in community and social activities³, though opinions on what exactly it meant differed among the cases.

Time for reintegration was a critical factor for every returnee, with most needing at least six months to one year to study the market and decide on their business ventures. One returnee from Dubai said,

3 Socially active in this context means spending time with family and friends and participating in community events.

“I was baffled at first; I returned to Nepal wanting to do something here, but it took me a whole year to study the market and local people before I could invest in a restaurant. I thought, ‘what if I fail and waste time and resources?’ Otherwise, I would have continued earning abroad.” Planning and execution are as important as the initial research. A returnee from Qatar shared, “Nepal is full of opportunities, and capturing the untouched market is as challenging as it is opportunistic. I took the risk of investing in a Turkish restaurant, which was new to Kathmandu’s market, and now it’s doing great.”

One common factor among all the returnees engaged in the entrepreneurial activities was that they managed to survive through the Covid pandemic. Those involved in agriculture were less affected, but those in the hospitality sector were hit hard. Many had to pay the rent for almost a year and a half without any income. One returnee from Malaysia recalled, “I was depressed with all the loans weighing me down and business shut down. My partner asked for their share of money from the businesses, and I had no choice left but to sell my ancestral land. I am glad my business is back on track now, and I am proud that I did not give up during Covid”.

From agriculture and restaurants to consultancies, those who could sustain themselves during the pandemic have since recovered and are now running steadily. Almost every returnee from the Gulf countries, South Korea and Japan, highlighted that hard work and dedication are significant components of making any business successful. A returnee from South Korea shared, “I learned a great deal from Korean people; they are very hardworking and have a ‘never give up’ attitude, which is often missing among Nepalese. Their work ethic is very high, and so is productivity

and these principles helped me while reintegrating in the local market. I even passed on these values to my employees.”

Conclusion

The study highlights the intricate process of reintegrating returnee migrants in Nepal, emphasizing on critical economic, social, and psychological factors that influence their smooth transition back into society. While migration may not be a choice for everyone, returning to the home country is a dream for most migrants, particularly those who migrate to countries that do not allow for permanent integration. Most migrants who moved to developed countries like the USA, Australia, Canada, and the UK aim to get permanent residency so that they can eventually bring their family members over, attracted by the higher quality of life. The first generation that migrates thinks about the better lifestyle of the upcoming generation. They seek and prioritize a better lifestyle for the next generation. In contrast, migrants in the Gulf and other Asian countries, where permanent integration is not an option, often have no choice but to return to Nepal.

Strong pre-migration planning and support are essential for overcoming the challenges of the domestic environment in Nepal. The study found that family support plays a crucial role in helping returnees start their own business. Hard work, dedication, thorough market study, and sound investment were identified as the major factors that make any business successful. Many returnees had to rely on bank loans with high interest to start their business. Returnees from South Korea, the USA, and the UK often had some savings, but they also chose to take loans from banks for reinvestment.

Although economic and social factors were the primary factors influencing reintegration decisions, all case studies emphasized the role of psychological factors like sound mental health too. The returnees reported being happier working in Nepal than in their previous destination countries. Many expressed their opinion that local government support particularly in getting access to loan, along with training programs would actually encourage others to return back too. The findings of this study suggest that at the time of research, all participants had successfully reintegrated. The study did not account for any potential future uncertainties that might affect their long term success in reintegration, nevertheless, at the time of study all participants reported being well off.

References

- Bresena, K. D., & Drishti, E. (2022). *The (big) Role of Family Constellations in Return Migration and Transnationalism*. <https://www.econstor.eu/handle/10419/261796>
- Faridi, R., & Fazli, R. F. (2020). Economic Reintegration of Return Migrants from Gulf Cooperation Council (GCC) Countries to India: A Case of Uttar Pradesh [Journal-article]. *Journal of West Asian Studies*, 32, 37–39. <https://www.researchgate.net/publication/363151101>
- Fleischer, A. (n.d.). The role of the family for return migration, reintegration, and re-emigration in Armenia.
- De Silva, W. I., De Silva, T., & De Silva, R. (2022). DETERMINANTS FOR LABOUR MARKET REINTEGRATION OF RETURNED MALE LABOUR MIGRANTS IN SRI LANKA. In *The Demographer* (pp. 37–40) [Journal-article].
- International Organization for Migration, Fonseca, A., Hart, L., & Klink, S. (2015). Reintegration. International Organization for Migration.
- Fleischer, A. (2007). Family, obligations, and migration: The role of kinship in Cameroon. *Demographic Research*, 16, 413–440. <https://www.jstor.org/stable/26347939>
- Baniya, S. & Kathmandu University School of Education. (2021). USE OF ACQUIRED SKILLS BY RETURNEE LABOR MIGRANTS IN THE HOME COUNTRY: A SURVEY IN NEPAL (Kathmandu University School of Education, M. N. Parajuli, & T. Poudel, Eds.) [Thesis]. Kathmandu University School of Education. <https://kusoede.edu.np>
- Bhattarai, S., Baniya, J., Shrestha, S., Thapa, P., Neupane, R., Tumsa, D., Nepali, S., Mademba, S., & Pravasi Nepali Coordination Committee (P NCC). (2024). Understanding Reintegration and Remigration of Nepali Labour Migrants. In Pravasi Nepali Coordination Committee (P NCC): Vol. No 3 (p. 2) [Policy Brief]. <https://www.pncc.org.np>
- Nepal Labour Migration Report 2020 [Report]. Government of Nepal, Ministry of Labour, Employment and Social Security. <https://www.moless.gov.np>
- Nepal Labour Migration Report 2022. In Nepal Labour Migration Report 2022 [Report]. https://moless.gov.np/storage/files/post_files/

[Nepal%20Labour%20Migration%20Report 2022.pdf](#)

IOM. (1 C.E.). REINTEGRATION HANDBOOK. In REINTEGRATION HANDBOOK (p. 5). https://www.iom.int/sites/g/files/tmzbd1486/files/documents/atip_levant/iom-reintegrationhandbook-module_1-an-iintegrated-approach-to-reintegration.pdf

Bhattarai, S., Kharel, A., & Tumsa, D. (2023). Returnee Migrant Workers in Nepal. In Policy Brief. <https://www.ceslam.org>

Understanding Reintegration and Remigration of Nepali Labour Migrants. (n.d.). <https://www.ceslam.org/policy-briefs/understanding-reintegration-and-remigration-of-nepali-labour-migrants>

Central Bureau of Statistics & International Labour Organization. (2017). Nepal Labour Force Survey (NLFS), 2017/18.

Graviano, N., Götzelmann, A., Nozarian, N., Wadud, A. J., & International Organization for Migration. (2017). Towards an INTEGRATED APPROACH TO REINTEGRATION in the context of return. International Organization for Migration.

Paudel, D. P., & Paudel, T. (2022). Returnee Migrants' Reintegration into Agriculture in Nepal after COVID-19 Pandemic. *The Third Pole Journal of Geography Education*, 97–108. <https://doi.org/10.3126/ttp.v22i01.52575>



Education and Employment Outcomes: A Case of Nepal

Karisma Regmi

Introduction

Does education matter? The debate has not settled yet. There is one body of literature that argues that education has a positive relationship with the economic growth of the country because investment in education is investment in generation of human capital. Delgado et al (2014) argue that education is important given they correlate with higher levels of productivity. Education and health outcomes have also been linked with each other. Studies have found education to be a good predictor of mortality rates across countries, although there are variations between countries (Kunst and Mackenbach, 1994; Cutler and Lleras-Muney 2014; Gathmann, Jorges and Reinhold, 2012). Finally, education is also seen as a mechanism to overcome inherited disadvantages and contribute to upward social mobility (Holmlund and Nybom, 2023).

On the flip side, the role of education in economic growth, higher wages, productivity or improved outcomes of the student is not straightforward. The relationship between education and outcomes in terms of either human capital or improved labor market

outcomes is both non-linear (Kalaitzidakis et al. 2001; Durlauf et al. 2001; Minier, 2007) and even insignificant depending on the methodology one adopts (Liu and Stengos, 1999; Nonneman and Vanhoudt, 1996; Temple, 2001). In addition, returns on investment vary significantly across different contexts and population, while education is positively correlated with health outcomes and economic outcomes, these effects vary by geography (Cutler et al, 2015).

Studies undertaken to inform the effect of education on economic outcomes in Nepal so far, conclude that there is a positive relationship between the two (Adhikari, KC and Bhatta, 2019). But the returns on education, as measured through labor market outcomes (the log of hourly wages) are lower than the South Asian average (Dunusinghe, 2021). In recent years, a spate of opinion pieces has argued that opportunities in Nepal remain limited, and the education system does not prepare graduates for the labor market (Bhusal, 2024; Bhardwaj, 2019; Thebe, 2016), yet so far, an investigation of this phenomenon has not been undertaken.

Given this context, this paper analyses the

employability of engineering graduates in Nepal. This paper focuses on engineering because there is a recognized shortage of engineers worldwide and in Nepal (Sharma et al, 2022; Sharma, 2023), as well as concerns of a supply and demand side mismatch (Pahari, 2011). It approaches this investigation by exploring the curriculum of engineering, the skills attained by graduates and the labor market demands. It does so using qualitative methodologies, i.e. semi-structured interviews with students, recent graduates, faculty members and employers. Interviews have only been conducted in Kathmandu, to that extent the author accepts that the findings may not be generalized but proceeds with the assumption that concerns shared are similar across Nepal.

Understanding employability

Employability is navigating to fulfilling and satisfying roles within the same job or in different jobs if needed (Hillard and Pollard, 1998). The concept itself is broad, and this definition encompasses a range of attributes including knowledge, skills, and attitudes that are essential for navigating the labor market. Knight and Yorke (2001) further elaborate on this by introducing the concept of “capability,” which emphasizes not just the possession of skills but also the ability to deploy them effectively in various contexts.

Employability encompasses several key components—assets, deployment and context—that collectively enhance an individual’s attractiveness in the labor market. Firstly, assets refer to the knowledge, skills, and attitudes that a person possesses, which can be categorized into baseline assets (basic skills and personal attributes), intermediate assets (occupational skills and key personal

attributes), and high-level assets (skills that contribute to organizational performance) (Hillage & Pollard, 1998; Institute for Employment Studies (IES, 1998). Secondly, deployment involves how effectively individuals utilize their assets in various contexts, including their ability to adapt and apply their skills to meet job requirements (IES, 1998). Lastly, the context within which individuals seek employment—such as personal circumstances and the prevailing labor market conditions—plays a significant role in shaping their employability outcomes (IES, 1998). Together, these components highlight that employability is not solely about having qualifications but also about effectively leveraging them in a competitive job market.

In recent years, the focus has also been on embedding the idea of employability into the curriculum. The reasoning that follows for this is the mismatch between what is demanded by employers and what is supplied by education institutions. Brown et al (2003) note that employers frequently perceive that university education focuses too much on theoretical knowledge which often leaves a graduate with no knowledge of competencies that an employer seeks.

In Nepal’s case the idea of employability is perceived in a narrow sense. The National Education Policy (Ministry of Education, Science and Technology, 2076 *v.s.*), currently in effect, proceeds from the assumption that Nepal’s education system suffers from lack of physical infrastructure, inadequate number of teachers and difference in pass rates between community and private schools. Employability thus is seen as a result of inadequate physical infrastructure. A section of the policy reads:

“Despite policy-level efforts made so far, qualitative and quantitative

challenges relating to employment persist; this reflects lack of proper employment in Nepal's labour market. The following are the major challenges in the labour market:

- (a) Inadequate (infra)structural transformation and diversity,*
- (b) Lack of productive employment (low productivity, low wages and poor working conditions),*
- (c) Weak education standard and inadequate skill development; use of and search for foreign employment; and diverse barriers for the youth and other social groups.*
- (d) Lack of a labour market information system and labour administration."*

Furthermore, the policy does not note a mismatch between the current curricula and what is demanded by employers. Surprisingly, the only fault that the policy finds with the curricula is the non-gendered nature of it, to that an extent a section from the policy reads:

"The current training curriculum and training programmes will be reviewed to make them gender sensitive."

As opposed to the Ministry of Education, Science and Technology, the National Planning commission (2021) does note a mismatch between curricula and demands of the employers. It further notes that a strategy to revise the curricula based on the demands of employers must be undertaken within five years.

Given the lack of a comprehensive approach to employability in Nepal, I adopt the employability framework provided by McQuaid and Lindsay (2013) because it is the most comprehensive framework available so far. Owing to limitation of resources, I focus only on individual factors of employability and selectively ascertain whether the current education system prepares its graduates for employment by focusing on the individual factors. My goal here is not to understand the entirety of the individual factors, but rather to understand those factors that can be provided by the education system. These include the job specific qualifications and core competencies such as the courses undertaken, and managerial skillset. Other individual factors such as personal competencies i.e. diligence, proactivity, verbal presentation, and essential attributes such as social skills, honesty and integrity, given their relationship with other factors outside of the education system are not dealt with here.

Setting the stage

The total number of engineering graduates enrolled in the higher education Nepal in the year 2021/22 was 5.21% (30,216). Tribhuvan University (14,664 students enrolled) and the Kathmandu University (2,310 students enrolled) remain the most popular destinations for students. Enrollment of students has also been declining in recent years, between 2021/22 and 2016/17 the number of students enrolled in engineering courses dropped by 2.34 percentage points.

Both universities offer a variety of programs. In addition to providing the courses offered by Tribhuvan university, Kathmandu university provides additional courses. Table-1 below provides a list of

Name of Program	Kathmandu University	Tribhuvan University
Bachelor of Engineering (Computer Engineering)	Yes	Yes
Bachelor of Information Technology (BIT)	Yes	Yes
Bachelor of Science (Computer Science)	Yes	Yes
Bachelor of Engineering in Electrical and Electronics Engineering	Yes	Yes
Bachelor in Mechanical Engineering(BME)	Yes	Yes
Bachelor in Agriculture Engineering(BAE)	Yes	Yes
Bachelor in Industrial Engineering(BIE)	Yes	Yes
Bachelor in Geometrics Engineering(BGE)	Yes	Yes
Bachelor in Automobile Engineering Engineering(BA)	Yes	No
Bachelor in Heritage Conservation (BHC)	Yes	No
Bachelor of Architecture (B.Arch)	Yes	Yes
Bachelor of Technology in Artificial Intelligence	Yes	No
Bachelor of Engineering in Mining Engineering	Yes	No

Table 1: Courses offered by Tribhuvan and Kathmandu University

Source: Prepared by the Author

programs.

Although both universities, today, adopt a semester system, there are some fundamental differences worth noting. In Tribhuvan University, the Curriculum development center is responsible for designing the curriculum, in Kathmandu University the academic council on the recommendation of the subject committee designs and implements the curriculum. A final paper-based examination with a total weight of 60 per cent is conducted by the Tribhuvan university, whereas the Kathmandu university has varying rules depending on the subject matter. For instance, for a course designated as a practical course, the university has a

theory-based examination and a practical examination (usually a viva) both of 25 per cent weights. These subtle differences highlight that the outlook towards education is different in both universities and as a result student experiences can also vary.

Findings

Employers in Nepal are of the opinion that the current curriculum does not match their expectations. In fact, this problem is not entirely unique to Nepal but is more pronounced in the Information and Technology sector given its fast-changing nature. The CEO of a reputed technology

company notes that the current curriculum offers some form of foundational knowledge but remains outdated. Reflecting on the curriculum during student years and now as an employer, the CEO notes:

“I believe in the value of each subject we were studying, even though we read it twenty years ago. Each subject gave the foundational basis for further updates. As an employer, we wish that some part of programming or specific programming language currently used by industries in Nepal is included in the curriculum. This we see as a gap.”

A hiring manager for another reputable IT firm echoed the concerns and also questioned if the current methodology of paper-based examination prepared the students for the job-market. The concern is not just about the curriculum but rather also about the approach to education and how we test the knowledge of students.

“There are no resources in Nepal. The students are taught the old course in old format study. It is not up to industry standards. Development skills and mathematical skills are clearly lacking. They (students) have the theoretical knowledge, but no technical/practical knowledge. Students learning BIM are asked to write code in paper at the boards level! Nepali graduates lack the soft skills. In my view, the approach to education is the problem.”

These concerns were further substantiated by hiring a manager for another reputed firm who noted that there is dearth of human resources at the higher level. The manager states that hiring people for a junior level position is not hard, they can be hired and trained, whereas when it comes to senior

level staff, ones that require a specific set of engineering skills, the pool gets smaller.

Teachers too share similar concerns. Unlike the industry leaders, they argue that the problem does not necessarily lie with the curriculum and some blame must also fall on the industry. An incumbent dean of computer engineering faculty noted that:

“In the context of rapid technology advancement, it is hard to catch up with the speed of skills needed by employers. However, the industries in Nepal are also not mature. Collaboration between the three entities: academic institutions, industries, and students has just begun, for instance BYD has collaborated with universities, as has airbus. Industries must also remain open to collaborations and once such collaborations materialize the curriculum can be modified”.

But in addition to the problem of curriculum design and whether it is aligned with the labor market, teachers in Nepal also argue that the current method of selecting teachers is also at fault. Remaining cognizant of the gaps in the curriculum, they argue that dynamic methodologies of teaching and dynamic curriculum in any given university can only be fostered if the selection method of teachers is designed to bring in a pool of well-versed teachers. Instead, the current mechanism of paper-based tests for teacher selection as well as additional burdens of Bachelor in Education qualification placed on secondary and higher secondary school discourages qualified individuals from taking up a teaching position. An ex-dean of the department of science aptly captures this sentiment

“The unnecessary addition of B.Ed. in the teacher’s qualification by

the government discourages people from applying to teaching jobs. Any teacher who wants to do teaching should not have to go through an additional year of training. The teachers should be allowed to teach and learn from it.”

Students on the other hand have different experiences based on the university they attended. A graduate of biotechnology from Kathmandu university notes

“Biotech course of KU had hands on practice and lab works. The study was on par with graduate courses in the US.”

On the other hand, a graduate of computer engineering from the Tribhuvan university stated

“I see no relevancy of the courses I was taught; it did provide me with a foundational understanding, but it is not something of use to me on a day-to-day basis on my job”

The difference became clearer when asked “What percentage of learnings have you used on your job?”. The Tribhuvan university graduate noted that only 50 per cent of what was learned was used, whereas the Kathmandu University graduate noted that almost all the learnings were used. This should not, however, imply that one university is better than the other. There are stark differences between the program of study. While the Bio-Technology graduate noted that almost all of the learnings were used, a computer engineering graduate from Kathmandu University noted that only 4 per cent of what was learned was useful.

Nearly all graduates interviewed expressed that the courses did not prepare them for

the work environment. In addition to the curriculum not meeting the expectations of the employer, graduates noted that they faced problems in acclimatizing the work environment in so far as they lacked certain managerial skills such as coordination, teamwork and supervision. When asked about the positions that exist in a civil engineering firm, the owner noted that the positions were Project Manager, Field Supervisor, Field in-charge, and design inspector. These typologies highlight that engineers are expected to take up managerial roles as well. The typologies are similar in the IT sector job as well. Owners of firms that came from engineering backgrounds noted that the studies did not impart them with managerial knowledge, and it took them about 4-5 years of trial and error to learn more.

Colleges today are more aware of these challenges than they were before. A representative from Thapathali campus said that they have agreed to include a 3-credit course on entrepreneurship realizing the need not just managerial skills but also skills that allow students to establish their own ventures. Beside standalone courses, graduates today are more skilled to undertake managerial roles because colleges have made provisions for “group-based project assignments”. Recent graduates from both Kathmandu University and Tribhuvan University appreciate these assignments in so far as they allow them to put into work their theoretical knowledge as well as familiarize them with a team based working environment.

At the same time, Nepali graduates have begun compensating for a curriculum-industry mismatch on their own. Several graduates interviewed noted that they have started taking online courses and earning certifications. These have helped them secure jobs and match the expectations of

employers as well. Given the fast-changing nature of the IT sector, the phenomenon was more prevalent amongst graduates of the discipline.

Other than this, employers have adopted a probationary period approach. Several hiring managers remarked that interviews and educational qualifications were no longer an adequate measure of a person's knowledge, to that extent, the practice has been to offer a 3–4-month probationary role and train them. The problem, however, is that this mechanism is costly for the employers and there is no guarantee of a graduate continuing with the firm after they have received the required training.

Changing the curriculum to address the gaps is not easy. As teachers from both Kathmandu University and Tribhuvan University noted there is a bureaucratic procedure to redesign the curriculum, often this means that a curriculum is changed once every 5 years or so. Then there is also the issue of the supply of teachers and the bureaucratic nature in which universities operate. A representative from Thapathali campus put it as follows:

“The relevant college has no role in recruiting the teachers, it is done by the TU service commission and evaluations are based on metrics designed by them not by the relevant college offering the course. The campus needs 109, teachers. Today we only have 65 and of them 17 are on sabbatical. We operate in a highly politicized and bureaucratic structure. Even if the college wanted to meet the demands of the industry, we simply cannot because we face several constraints.”

Conclusion

Today the engineering education system of Nepal is better equipped to prepare students for the job market, yet it remains inadequate. University education in Nepal operates in a highly politicized and bureaucratic environment, as the study noted there are gaps in the curriculum design but a simplistic recommendation of matching curriculum to the industry cannot be offered given the political economy realities of university administration. This study set out to answer if the current engineering education result in employability of graduates. The simple answer is no, but there are two things worth noting here: first the results cannot be generalized across all universities and across all courses. There are deviations, and the source of these deviations are worth exploring in the future. Second, in answering the question certain nuances concerning university administration have become known which require further investigation. On the positive side, students are undertaking certification courses offered for free to highlight their skills. Universities are also taking steps to fill the gaps to the best of their ability, but this change is not happening at a fast enough pace.

References

- Adhikari, P., Kishor, K. C., & Bhatta, S. R. (2019). Does Education and Experience Matter in the Distribution of Wages in Nepal? A Quantile Regression Approach. *Economic Journal of Development Issues*, 1-14.
- Bhardwaj, N. (July 5, 2019). "Education and Employment," *The Rising Nepal*.
- Bhushal, L. N. (January 5, 2024). "Creating Domestic Employment", *The Rising Nepal*. <https://risingnepaldaily.com/news/37184>
- Brown, P., Hesketh, A., & Williams, S. (2003). Employability in a knowledge-driven economy. *Journal of education and work*, 16(2), 107-126.
- Carnevale, A. P., Rose, S. J., & Cheah, B. (2011). The college payoff: Education, occupations, lifetime earnings. Georgetown University Center on Education and the Workforce.
- Culyer, D., & Muney, A.L. (2014). Education and Health: Insights from International Comparisons. In: Culyer Anthony J., editor. *Encyclopedia of Health Economics*. Vol. 1. San Diego: Elsevier; pp. 232–245
- Cutler, D. M., & Lleras-Muney, A. (2006). Education and health: Evaluating theories and evidence. NBER Working Paper No. 12352. National Bureau of Economic Research.
- Delgado, M.S., Henderson, D.J., & Parmeter, C. F. (2014). Does education matter for economic growth?. *Oxford Bulletin of Economics and Statistics*, 76(3), 334-359.
- Dunusinghe, P. (2021). Returns to Education: The Case of Nepal. *Journal of Economics*, 9(1), 1-13.
- Durlauf, S. N., Kourtellos, A. and Minkin, A. (2001). 'The local Solow growth model', *European Economic Review*, Vol. 45, pp. 928-960.
- Gathmann, C., Jürges, H., Reinhold S., Compulsory Schooling and Mortality in 20th Century Europe. *Social Science and Medicine*, Special issue on Educational Attainment and Adult Health: Contextualizing Causality. 2012
- Hillage, J., & Pollard, E. (1998). *Employability: Developing a framework for policy analysis*. Department for Education and Employment.
- Hillage, J., & Pollard, E. (1998). *Employability: Developing a framework for policy analysis*. Department for Education and Employment
- Holmlund, H., & Nybom, M. (2023). Education and social mobility (No. 2023: 18). IFAU Working Paper.
- Institute for Employment Studies. (1998). *Employability: Developing a framework for policy analysis*. Retrieved from <https://www.employment-studies.co.uk/report-summaries/report-summary-employability-developing-framework-policy-analysis>
- Jackson, D. (2016). Developing graduate employability through work-integrated learning: A review of the

- literature. *Higher Education*, 72(4), 637-654.
- Jackson, D. (2016). Developing graduate employability through work-integrated learning: A review of the literature. *Higher Education*, 72(4), 637-654.
- Kalaitzidakis, P., Mamuneas, T. P., Savvides, A. and Stengos, T. (2001). 'Measures of human capital and nonlinearities in economic growth', *Journal of Economic Growth*, Vol. 6, pp. 229-254
- Knight, P., & Yorke, M. (2001). Employability through the curriculum. *Tertiary Education and Management*, 7(3), 255-276.
- Kunst, A. E., & Mackenbach, J. P. (1994). The size of mortality differences associated with educational level in nine industrialized countries. *American journal of public health*, 84(6), 932-937.
- Lee, S., Eklund, J., & Klaesson, J. (2022). Understanding graduate employability: A systematic literature review. *Education + Training*, 64(5), 765-785.
- Liu, Z. and Stengos, T. (1999). 'Non-linearities in cross country growth regressions: a semiparametric approach', *Journal of Applied Econometrics*, Vol. 14, pp. 527-538.
- McQuaid, R. W., & Lindsay, C. (2013). The concept of employability. In *Employability and local labour markets* (pp. 6-28). Routledge.
- Minier, J. (2007). 'Nonlinearities and robustness in growth regressions', *American Economic Review: Papers and Proceedings*, Vol. 97, pp. 388-392.
- Ministry of Education, Science and Technology (2076 *v.s.*), *Education Policy, 2076*, Kathmandu. Retrieved from <https://ugcnepal.edu.np/uploads/web-uploadsfiles/National%20Education%20Policy%2C%202076.pdf>
- National Planning Commission (2021), *Employment Recovery Strategies and Plan of Action*. Kathmandu. Retrieved from <https://npc.gov.np/images/category/230105114413Employment%20Recovery%20Strategies%20and%20Plan%20of%20Action.pdf>
- Nonneman, W. and Vanhoudt, P. (1996). 'A further augmentation of the Solow model and the empirics of economic growth for OECD countries', *Quarterly Journal of Economics*, Vol. 11, pp. 43-953.
- OECD. (2018). *Preparing for the future: The role of education*. Organisation for Economic Co-operation and Development.
- Pahari, R. B. (2009). Competency level of engineering graduates and quality of engineering education in Nepal. *Journal of the Institute of Engineering*. 7(1), 1-11.
- Pritchett, L. (2001). Where has all the education gone? *World Bank Policy Research Working Paper No. 2040*. World Bank.
- Sharma, A. & Bhattarai, P. C., Onwuegbuzie, A. (2022). Quest of employability of

engineering students: an explanatory sequential mixed methods research study. *Quality & Quantity*.

Sharma, A. (2023). Employability of engineering graduates in Nepal: Employers' perspectives. *Journal of Management and Development Studies*, 26-38.

Temple, J. R. W.(2001). 'Generalizations that aren't? Evidence on education and growth', *European Economic Review*, Vol. 45, pp. 905-918.

Thapa, A., & Izawa, M. (2024). Returns to education in Nepal: an analysis of educational attainment, employability and social mobility. *Education Economics*, 32(5), 649–664.

Thebe, S. (February, 2016). "Young, Educated and Unemployed", *Nepali Times*. <https://archive.nepalitimes.com/regular-columns/GUEST-COLUMN/young-educated-unemployed,664>

