

## Concept Note

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### PUBLIC

Project Number: 59303-001  
December 2025

# Proposed Programmatic Approach and Policy-Based Loan for Subprogram 1

## Nepal: Reforms to Accelerate Investment and Scale Employment Program (Cofinanced Under the Full Mutual Reliance Framework)

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**Asian Development Bank**

## **CURRENCY EQUIVALENTS** (as of 17 November 2025)

Currency unit	–	Nepalese rupee/s (NRe/NRs)
NRe1.00	=	\$0.0070
\$1.00	=	NRs141.9860

## **ABBREVIATIONS**

ADB	–	Asian Development Bank
FDI	–	foreign direct investment
FMRF	–	Full Mutual Reliance Framework
GDP	–	gross domestic product
ICT	–	information and communication technology
PPP	–	public–private partnership
TA	–	technical assistance

## **NOTES**

- (i) The fiscal year (FY) of the Government of Nepal ends on 15 July. “FY” before a calendar year denotes the year in which the fiscal year ends, e.g., FY2025 ends on 15 July 2025
- (ii) In this report, “\$” refers to United States dollars.

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## PROGRAM AT A GLANCE

1. Project Data			
<b>Project number</b>	59303-001	<b>Project name</b>	Reforms to Accelerate Investment and Scale Employment (Cofinanced Under the Full Mutual Reliance Framework) (Subprogram 1)
<b>Country</b>	Nepal	<b>Executing or implementing agency</b>	Ministry of Finance
<b>Borrower</b>	Nepal	<b>Geographical location</b>	Country
<b>Sector office</b>	Public Sector Management and Governance Sector Office	<b>Subsector(s)</b>	Industry and trade sector development
<b>Sector(s)</b>	✓ Industry and trade	<b>Portfolio at a Glance</b>	<a href="https://www.adb.org/Documents/LinkedDocs/?id=59303-001-CEI">https://www.adb.org/Documents/LinkedDocs/?id=59303-001-CEI</a>
<b>Country economic indicators</b>	<a href="https://www.adb.org/Documents/LinkedDocs/?id=59303-001-PortAtaGlance">https://www.adb.org/Documents/LinkedDocs/?id=59303-001-PortAtaGlance</a>	<b>Sustainable Development Goals</b>	SDG 8.10, 8.3 SDG 9.2 SDG 17.3
<b>Strategic Focus Area</b>	✓ Private sector development	<b>Lending modality</b>	Programmatic Approach Policy-Based Lending (Loan)
2. Financing			
<b>ADB Financing</b>		<b>Amount (\$ million)</b>	
Concessional ordinary capital resources loan		150.00	
<b>Cofinancing</b>		<b>Amount (\$ million)</b>	
World Bank - Programmatic Approach Policy-Based Lending (Loan) (Full ADB Administration)		150.00	
<b>Counterpart</b>		<b>Amount (\$ million)</b>	
None		0.00	
<b>Total</b>		<b>300.00</b>	
<b>Currency of ADB Financing:</b> US Dollar			
3. Climate Action			
<b>Absolute GHG emissions</b> (tCO <sub>2</sub> e per year)			
<b>Relative GHG emissions</b> (tCO <sub>2</sub> e per year)			
<b>Climate change risk on the project without adaptation measures</b>		Low	
<b>Disaster Risk Management, Environment and Nature</b>	Not Applicable		
4. Private Sector Development			
<b>Private capital mobilized (\$):</b>	0		
<b>PSD classification:</b>	Medium-PSD		
5. Safeguards			
<b>Category</b>	Environment: <input type="checkbox"/> A <input checked="" type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> FI		
	Involuntary resettlement: <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI		
	Indigenous peoples: <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI		
6. Gender Equality			
<b>Category</b>	<input type="checkbox"/> Gender equality objective (GEN) <input checked="" type="checkbox"/> Some gender elements (SGE)	<input type="checkbox"/> Effective gender mainstreaming (EGM) <input type="checkbox"/> Indirect gender benefits (IGB)	
7. Poverty Reduction and Inclusion			
<b>Category</b>	<input type="checkbox"/> Poverty reduction and inclusion focus (PIF) <input checked="" type="checkbox"/> Poverty reduction and inclusion elements (PIE) <input type="checkbox"/> Indirect poverty reduction and inclusion (IPI)		

**8. Regional Cooperation and Public Goods**

<b>Category</b>	<input type="checkbox"/> Pillar 1 <input checked="" type="checkbox"/> Pillar 2 <input type="checkbox"/> Pillar 3 <input type="checkbox"/> Not applicable
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**9. Digital Transformation**

<b>Category</b>	<input type="checkbox"/> Level 1 <input type="checkbox"/> Level 2 <input checked="" type="checkbox"/> Level 3 <input type="checkbox"/> Level 4 <input type="checkbox"/> Not applicable
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## PROGRAM CONCEPT NOTE

1. Program Overview			
<b>Program number</b>	59303-001	<b>Program name</b>	Reforms to Accelerate Investment and Scale Employment in Nepal Program (Cofinanced Under the Full Mutual Reliance Framework) (Subprogram 1)
<b>Country and borrower</b>	Nepal	<b>Sector office</b>	Public Sector Management and Governance Sector Office, Sectors Department 3
<b>Modality</b>	Policy-based lending (PBL)	<b>PBL type or financing option</b>	Programmatic approach
2. The Proposal			
<b>Program description</b>	<p>The Reforms to Accelerate Investment and Scale Employment Program (Cofinanced Under the Full Mutual Reliance Framework) in Nepal will support the Government of Nepal's efforts to enhance the business environment and address constraints to private sector investment and quality job creation in Nepal. It aims to do so by strengthening crosscutting private sector enablers; improving access to productive inputs and skilled labor for firms; and facilitating investment, particularly in sectors with high development potential, including through strengthening links between the federal and subnational levels.</p> <p>The program is aligned with the government's Sixteenth Five-Year Plan, FY2025–FY2029,<sup>a</sup> which emphasizes enhancing productivity and employment through policy reform and investment. Its design is informed by the report of the High-Level Economic Reform Advisory Commission<sup>b</sup> on the business environment. The program will contribute to ADB's Strategy 2030<sup>c</sup> and its midterm review by addressing private sector development as a strategic priority.<sup>d</sup> The program is aligned with two priorities of ADB's country partnership strategy (CPS) for Nepal, 2025–2029: supporting the competitiveness and economic transformation of Nepal through improving the enabling environment for private sector development; and supporting youth employability, including through the strengthening of skills and technical and vocational education and training programs.<sup>e</sup> The program is also central to achieving job-creating growth, which is a critical development challenge targeted in the ADB's CPS and the World Bank Group's (WBG) country partnership framework (CPF) for Nepal. ADB's CPS and WBG's CPF were reconfirmed by the interim government appointed after the civil unrest and subsequent dissolution of Parliament in September 2025.</p> <p>The program was discussed with the government before the civil unrest. Support for the program was reconfirmed by the interim government. The aftermath of the protests has exposed the fragility of the country's trust in government, aggravated by a loss of confidence by the private sector and foreign investors. As such, the program's objectives of private sector development and growth are fully aligned with the country's emerging priorities and have wide support across the political spectrum. The government has provided written confirmation that the program will be cofinanced by the World Bank under the Full Mutual Reliance Framework (FMRF), with ADB serving as the lead lender and the World Bank as the trail lender. The program was selected for the FMRF with a single results framework because of the strategic relevance of private sector development to both institutions and high borrower engagement in this sector.<sup>f</sup></p>		
<b>Choice of modality</b>	<p>The PBL modality with a programmatic approach will support a sequence of reforms within a medium-term framework that allows for the gradual deepening and embedding of legal, regulatory, and institutional reforms. The program will include two subprograms in 2026 and 2028. The first subprogram will focus on establishing strategies, policies, and institutional frameworks, while the second subprogram will focus on reform implementation and institutionalization of. Country-focused and regional technical assistance (TA) programs will support the reform agenda.</p>		
3. Program Rationale			
<b>Background and development constraints</b>	<p><b>Country context.</b> Nepal is a landlocked lower middle-income country with a population of about 30 million, gross domestic product (GDP) of \$42.9 billion in FY2024, and gross national income per capita of \$1,470 (Atlas method) in 2024 (footnote E). Despite a multitude of shocks in the 30 years prior to 2025, including a decade-long civil war, two devastating earthquakes in 2015 and 2023, and the coronavirus disease (COVID-19) pandemic, Nepal's GDP growth has shown resilience, averaging 4.3% from FY1996 to FY2024. Nevertheless, Nepal's economic trajectory continues to structurally diverge from its regional peers, with neighboring India growing 6.1% per year and emerging and developing Asia growing 6.8% per year over the same period. Nepal's</p>		

economic structure has shifted from agriculture to services, bypassing the industry sector. Services accounted for the largest share of GDP in FY2024 (62.4%), followed by agriculture, forestry, and fishing (24.7%) and industry (12.9%). Economic growth has heavily depended on remittances from migrant workers, which was among the highest rates in the world at 25.3% of GDP in FY2024. Nepal's landlocked and mountainous geography raises costs of production and creates trade barriers. The country's terrain increases its vulnerability to disasters arising from natural hazards, whose impacts are being intensified by climate change.

**Employment challenge.** Nepal creates fewer jobs than needed for the 500,000 youth entering the workforce annually. Services and industry are not absorbing enough workers from agriculture, and labor productivity is below that of similar countries. The employment ratio fell by an average of 0.46 percentage points per year from 2000 to 2022. In FY2023, overall unemployment in the country was about 12.6%, while youth unemployment (ages 15–24) reached 22.7%. Spatial disparities between Kathmandu Valley and rural provinces reflect infrastructure and opportunity gaps. Gender gaps remain pronounced, with only 24.4% of working-age women participating in the labor force. Women in Nepal face employment challenges because of the burden of unpaid domestic work, cultural and social norms that limit opportunities, gender-based discrimination, and a lack of access to quality education and networks. Growing emigration reflects both the lack of well-paying domestic jobs, as well as an acute misalignment between vocational training and the needs of the domestic private sector that has led to a reliance on expatriate workers for skilled jobs in some sectors.

**Political context.** Limited job opportunities and slow growth, in part, fueled large-scale protests led by students and young citizens (Gen Z) in September 2025. The protests led to the resignation of the coalition government and the formation of an interim government on 12 September 2025. The emerging reform priorities of the country center around a strong economy creating quality jobs, efficient delivery of public services, and accountability and transparency. Delivering on this agenda on an urgent basis is critical for political stabilization in Nepal.

**Fiscal situation.** The fiscal deficit was 2.0% of GDP in FY2025 with expenditure at 19.7% of GDP and revenue (including grants) at 17.7% of GDP.<sup>9</sup> Consistently low capital budget allocations and spending are constraining economic growth, with capital expenditure decreasing to 3.1% of GDP in FY2024 while recurrent expenditure increased to 16.2% of GDP. The central government's tax revenue-to-GDP ratio declined to 16.2% in FY2024, while public debt rose from 27.2% of GDP in FY2019 to 42.6% of GDP in FY2024. Total public debt is evenly distributed between domestic and external sources of financing. Nepal's risk of external and public debt distress is considered low based on an International Monetary Fund (IMF)–World Bank debt sustainability analysis. The cost of external debt remains low, with external debt service to revenue averaging 3.7% from FY2019 to FY2024 because of high levels of concessional borrowing. Nepal is implementing an IMF Extended Credit Facility program to improve revenue collection, spending efficiency, financial regulation, fiscal transparency, governance, and anticorruption efforts.<sup>10</sup> Overall, ADB deems the macroeconomic policy direction as appropriate.

**Limited private sector investment.** Nepal's gross fixed capital formation, a key indicator to evaluate a country's investment performance, was 24% of GDP in FY2024, down from 34% in FY2019. Of this, the private sector invested about 15% of GDP, but this was behind private investment levels in regional peers such as Bangladesh (24% of GDP) and India (26% of GDP).<sup>11</sup> Nepal also has the lowest level of net foreign direct investment (FDI) inflows relative to GDP across the region and among peers, averaging 0.3% of GDP from FY2020 to FY2024. The electricity sector accounts for one-third of the FDI stock, while the employment-intensive agriculture sector accounts for only 0.1%.

**Private sector development challenges.** Nepal needs more and better investment to drive growth and create jobs, but private sector participation is limited because of a weak business environment. This is because of complex regulations; slow government processes; limited access to land, skilled labor, and capital; and weak investment support—especially in sectors like agribusiness and information and communication technology (ICT) where the country has comparative advantages. The country scored 59.3% on its regulatory framework compared with an average of 62.3% for all lower middle-income economies in the 2024 World Bank Business Ready Report.<sup>12</sup> The weak enabling environment deters private investment, reduces the government's ability to mobilize non-tariff revenue to reinvest in social and physical infrastructure, and encourages outmigration of the labor force, perpetuating a vicious cycle. Nepal is expected

to graduate from least developed country status in 2026, which could reduce its preferential market access and exacerbate challenges to the competitiveness of the manufacturing sector.

**Cumbersome business approval processes.** A major challenge for Nepal's private sector is the lengthy business registration process, which takes about 14 days for domestic firms and 23 days for foreign firms (footnote I). It takes a further 60 days to obtain a building permit, and 210 days to obtain environmental permits. A One Stop Service Center (OSSC), established at the Department of Industry, was operationalized in 2019 through directives under the Foreign Investment and Technology Transfer Act, 2019. The OSSC is intended to host representatives from 14 agencies in nine facilitation units, but as of 2025, only seven are functional. Many officers lack authority to approve complex cases, causing delays as documents return to parent ministries. An online portal exists for tracking and some submissions, but a fully integrated virtual OSSC is not in place. Key backend systems, including land registration and utility connections, remain poorly integrated, resulting in inefficiencies and unpredictable processing times.

**Tax uncertainty.** Nepal's frequent tax rate changes, often made without private sector input, cause uncertainty and limit investment. The absence of a dedicated tax policy unit capable of conducting comprehensive analysis of the implications of tax policy changes on the private sector and the wider economy has led to a prevalence of tax policies that raise input costs, reduce export competitiveness, and further disincentivize private investment. Outdated and overlapping laws also complicate compliance and enforcement. Complexities in tax laws are aggravated by issues in tax administration, such as onerous filing requirements and limited uptake of e-payment options. Advance rulings have the potential to increase some certainty in application, but Nepal does not publicly publish information on advance rulings, which forces duplicative requests for rulings on the same issue. When disputes arise, the absence of alternative dispute resolution mechanisms prevents faster resolution of cases than at the revenue tribunal and criminal courts, adding to the uncertainty and discouraging private sector investment.

**Slow capital budget execution.** Enhancing public investment is crucial for Nepal to tackle infrastructure gaps in transport, energy, water, sanitation, urbanization, and irrigation while stimulating economic activity and job creation. A major challenge impacting public investment delivery is weak capital expenditure execution, which averaged 56% of budgeted amounts during FY2020–FY2024. This has contributed to a considerable decline in Nepal's public capital stock to about 50% of GDP in 2019. Factors behind this include (i) weak budget planning and slow processes for approving budget reallocations (virements) between projects, which averaged 24% of the capital budget in FY2019–FY2024; (ii) delays in project readiness, including land acquisition and tree-cutting clearances; and (iii) inefficient procurement processes. Virements require Ministry of Finance (MOF) approval for inter-project and inter-ministry transfers, while within-project flexibility is hampered by capacity and procedural issues, and restrictions in the first quarter and last month cause delays and rushed spending. Forest census and tree-cutting clearances for infrastructure projects in Nepal can take up to 24 months, mainly because of complex regulations and inefficient, insufficiently digitalized processes. Additional delays arise from the need to reapply after minor project changes. Subnational governments lack the capacity to develop, implement, and finance capital projects, including through public–private partnerships (PPPs).

**Regulatory barriers to foreign investment.** Nepal's FDI environment, including investment from its diaspora, is held back by complicated entry and registration steps, inconsistent regulations between key investment laws, and excessive documentation demands. Nepal maintains a restrictive NRs500 million ceiling for automatic route FDI approvals and has a negative list that includes primary agriculture. There is also regulatory confusion on FDI entry, with contradictory laws in place for approval processes for projects below NRs6 billion. Several other restrictions present operational challenges. For example, repatriating salaries for expatriates and dividends require multiple approvals and are subject to outdated Nepal Rastra Bank (NRB) directives.

**Limited land availability.** Land scarcity limits private sector growth in Nepal, as affordable industrial land is hard to find. The country's outdated and fragmented land laws, along with unclear roles and weak enforcement, complicate management. Poor land use planning hinders coordinated development and capital projects. Land acquisition is also hampered by the lack of consistent and transparent valuation methodology. These factors make land arrangement for projects slow and expensive, with the process often taking 2–3 years, delaying capital projects, impacting growth, and reducing the availability of land for industrial use. The government strengthened the legal framework with the introduction of the Land Use Regulation in 2022, which

	<p>outlined detailed procedures that clarified the roles and responsibilities of each level of government in implementing land use programs, including the preparation of land use plans. However, a federal land use plan required by the regulation to guide subnational authorities in formulating their respective land use plans has not yet been developed. Coordination between national and subnational authorities on land use and zoning also needs significant strengthening.</p> <p><b>Skills gap.</b> In the four decades prior to 2025, Nepal has expanded education access, with skills training covering 10%–11% of the population—higher than in Bangladesh, India, or Pakistan. Yet impacts remain limited. Firms in the country still rank workforce quality among the top barriers. Curricula are outdated, industries have little input, and many trainees in technical and vocational education and training program specialize in low-demand trades. Programs run by multiple ministries and local governments remain fragmented. On-the-job training that has the potential to ease school-to-job transitions is underdeveloped because of financing constraints and restricted capacity, with only 14% of the firms included in the World Bank Enterprise Survey providing formal training.<sup>k</sup> There is limited formal recognition of prior learning, which affects the employability of returnee migrants. Nepal also has a significant gender gap in skills, particularly in the science, technology, engineering, and mathematics (STEM) fields. Improved training could boost productivity, lower unemployment, and encourage entrepreneurship.</p> <p><b>Inadequate investment promotion and facilitation.</b> Investment Board Nepal (IBN) is mandated by the Private Public Partnership and Investment Act, 2019 to (i) promote and facilitate national private investment and (ii) develop and manage FDI projects of NRs6 billion or above, particularly under the PPP modality. IBN's directorate for investment promotion has not yet adequately delivered on its mandate. Federalism has provided new constitutional powers on investment promotion and the local business environment to lower tiers of government, but the human and financial capacity to implement these mandates remains limited. Public–private dialogues hosted by IBN are mostly episodic, with investment summits occurring with a gap of a few years.</p> <p><b>Sector issues.</b> The agribusiness, ICT, and tourism sectors each present growth and job creation opportunities but are constrained by policy and implementation issues. Despite 61.4% of the working-age population engaged in the agriculture sector, Nepal's agribusiness sector is held back, in part by the lack of geographical indication protection for its origin-linked products. Developing geographical indication and national enhancing intellectual property authorities in Nepal could better certify, protect, and promote origin-linked products, boosting their value and export potential. The ICT sector in Nepal has emerged as a driver of economic growth and exports, contributing an average of 0.3 percentage points to economic growth in the decade prior to 2025. Further, private investment in the ICT sector from 2017 to 2023 has created 6,746 jobs.<sup>l</sup> However, local firms report inadequate cybersecurity protection, an inadequate data protection framework, and weak intellectual property rights protection as impeding them from moving up the value chain with foreign firms. Tourism is Nepal's fourth largest employer and provides jobs for 371,140 people, or 11.5% of people engaged in all industries in 2023. The direct contribution of travel and tourism to Nepal's GDP was 2.1% in 2022, and when considering broader impacts from investment, the supply chain, and induced income, tourism's total contribution was 6.1% of GDP. However, the sector is held back by poor connectivity, civil aviation issues, and weak destination development that is hampered by the lack of effective intergovernmental coordination between federal, provincial, and local governments.</p>
	<p><b>Sector Assessment (Summary): Industry and Trade</b></p> <p><b>Reform areas, ADB's value addition, and sustainability</b></p> <p><b>Government's reform agenda.</b> The program is anchored on the government's reform program set out in the Sixteenth Five-Year Plan, FY2025–FY2029, which lays out the priorities for (i) enhancing production, productivity, and competitiveness; and (ii) productive employment, decent jobs, and sustainable social security. The program will also support the implementation of the High-Level Economic Advisory Commission Report (footnote B). The interim government is committed to these agendas. Comprehensive reforms are needed to vitalize private sector-led growth. The first subprogram will establish foundational measures and key enablers, while subprogram 2 will focus on the institutionalization of reforms to ensure their effective implementation. Reforms are prioritized and sequenced to address the development constraints identified in Nepal, and will center around the following three key reform areas that are critical for private sector development and job creation:</p> <p><b>Reform Area 1: Enabling environment for private sector development strengthened.</b> This reform area will prioritize reforms to reduce the regulatory burden and increase predictability to incentivize private investment and job creation. First, to simplify processes and reduce the</p>

regulatory burden, the government will implement amendments to the Industrial Enterprises Act, 2020 that streamline business approvals. In the medium-term, the government will improve the efficacy of the OSSC, including through digitalization. Second, the government will seek to increase predictability of tax policy and tax administration through the publication of advance rulings and regular updating of tax manuals to clarify its approach. In the medium term, the program will support faster resolution of tax disputes by establishing an alternative dispute mechanism and promote evidence-based policy by establishing a new tax policy unit. Third, the government will strengthen the execution of public investment to support private sector growth by improving public procurement legislation and regulations to address onerous termination clauses and inflexible variation rules; clarifying rules on budget virements; and enhancing national and subnational government capacity to finance and implement local capital projects. Fourth, the government will amend the Foreign Investment and Technology Transfer Act to simplify FDI entry and operations by expanding eligible industries, permitting project loans from foreign finance institutions, and easing foreign investment repatriation.

**Reform Area 2: Access to productive inputs improved.** This reform area seeks to improve access to land, labor, and capital needed by private businesses to increase competitiveness and create quality jobs. First, to improve industrial land access, the government will enhance land use planning, develop mechanisms for guiding subnational authorities, and establish a national public asset management policy. The program will also simplify and digitize forest and environmental clearance processes, and use Geographic Information System mapping to accelerate private sector project implementation. Second, to improve access to capital and promote foreign investment, the NRB will amend the Foreign Investment and Foreign Loan Management Bylaws to allow more attractive terms for foreign lenders, enable hybrid financing instruments such as mezzanine finance and risk-sharing facilities, and improve collateral and security arrangements. Further, the government will approve and implement the recommendations of the national risk assessment on anti-money laundering/combatting the financing of terrorism provisions to support Nepal's efforts to exit the Financial Action Task Force gray list and access foreign borrowing on better terms. The program will also support the government in enhancing the financial transparency of the corporate sector. Third, the government will strengthen the alignment of skills in the labor force with demand from the private sector by establishing a modular, competency-based qualification system embedded in the National Qualifications Framework that allows for the recognition of prior learning, including for returnee migrants, and a transition to a decentralized and digitalized provider-level assessment and certification system. The government will also approve guidelines on work-based training for the National Academy of Vocational Training that enable greater private sector participation in skills development through a cost-sharing apprenticeship model and joint curriculum development that will explore gender-inclusive content.

**Reform Area 3: Investment facilitation, including sector growth engines, enhanced.** This reform area seeks to enhance domestic and foreign investment facilitation by leveraging Nepal's comparative advantages and promoting growth and value chain development in sectors with high employment potential. First, the program will enhance investment promotion and facilitation and PPP capabilities in IBN and subnational authorities by developing a PPP framework for local governments and pilot testing the framework in at least one province. Second, to promote agricultural exports, the government will submit the Intellectual Property Act to Parliament to enable the designation of geographic indication in the agribusiness sector and undertake geographic indication and mapping of important agricultural products. In the medium term, the government will create a framework for warehouse receipt financing to let smallholders and agribusinesses use stored goods as collateral, increasing credit access and improving value chains. These programs will also promote credit, value chain, and market access specifically for women smallholder farmers. Third, to promote investment in the ICT sector, the government will strengthen the regulatory environment around cybersecurity, data hosting on the cloud, and data protection. Fourth, to support the employment-generating tourism sector, the program will update the civil aviation policy to strengthen safety standards and enable market-based pricing and develop a gender-responsive destination management framework for subnational governments.

**ADB's value addition and sustainability.** ADB's long-standing partnership with Nepal in strengthening private sector development, public sector management, and institutional capacity provide a strong foundation to implement reforms to the business environment and investment climate under the proposed PBL. Earlier ADB support has helped modernize the country's electricity infrastructure,<sup>m</sup> promote sustainable investment across sectors,<sup>n</sup> develop a resilient agriculture sector,<sup>o</sup> strengthen trade facilitation,<sup>p</sup> and improve public sector management to

expand the fiscal space for productive investments by national and subnational governments.<sup>9</sup> This program will build on reforms implemented under ADB's Green, Resilient, and Inclusive Development Program to promote sustainable investment opportunities; the Strengthening Public Financial Management and Devolved Service Delivery program to promote national and subnational public financial management; and complementary World Bank and International Finance Corporation engagements that have focused on strengthening the finance sector, the business environment, fiscal management, and private sector financing. The program will address upstream and midstream barriers to micro, small, and medium-sized enterprise (MSME) development, digital transformation, and PPP projects in the energy sector that could open opportunities for further ADB support. For instance, reforms to ease investment repatriation, increase access to finance through mezzanine financing, and implement a virtual OSSC will support MSMEs, including in the agribusiness and ICT sectors. Likewise, addressing cybersecurity and data protection related legal gaps can create opportunities for further digital projects, while the proposed subnational PPP framework could foster PPPs in the energy sector. The program will also contribute to regional cooperation and integration by strengthening the export potential and tourism connectivity of Nepal. To leverage this experience and support the delivery of policy actions, ADB and the World Bank will mobilize TA resources for government of Nepal. Proposed ADB TA activities will (i) evaluate the technical requirements for the OSSC platform and propose recommendations to improve implementation and integration across government agencies; (ii) evaluate the investment facilitation capabilities of the Office of the Investment Board Nepal (OIBN) and develop recommendations for strengthening; (iii) support the development of the implementing rules and regulations for the recently passed ordinances; (iv) develop approaches to enhancing the capacity of subnational governments on PPPs in selected sectors; (v) support the development of a federal land use plan (aligning with land use classification); (vi) strengthen the public–private dialogue for generating and sustaining reforms; (vii) develop a framework for agribusiness enablers (e.g. geographical indication); and (viii) digitalize forest clearance processes. Complementary World Bank TA to support the program could include (i) support to the Ministry of Industry, Commerce and Supplies and the NRB on reforming regulations related to FDI entry, operations, and exit; (ii) support to the NRB and MOF on actions related to finance sector intermediation; (iii) support to the Ministry of Forests and Environment on reforming select environmental regulations related to streamlining the process of tree cutting clearance; (iv) support to the MOF on establishing a tax policy unit and reform of virement policies; (v) support to Inland Revenue Department on tax administration reform; and (vi) support to government, across ministries, on the introduction of a warehouse receipt financing framework. The program supports reforms prioritized by the previous government, with demonstrated interim government support and ownership. Sustainability is a cornerstone of the programmatic approach, including stakeholder engagement to build broad-based support and a post-program partnership framework to sustain reform implementation.

**ADB and WBG experience and lessons.** The program builds on the extensive experience and best practices of ADB and WBG, as well as those of other development partners, in business environment and investment climate reform. ADB's country assistance program review for Nepal, 2020–2024, identified two lessons that are relevant for this program.<sup>10</sup> First, the government and development partners should coordinate to divide responsibilities and develop a comprehensive, integrated program for reforms. The program responds to this recommendation by proposing an integrated cofinanced program with the World Bank under the FMRF. Second, there should be a focus on private sector development and investments, with reform initiatives implemented through PBLs and TA projects. The program responds to this recommendation by proposing a PBL modality with accompanying TA to implement private sector development reforms that could eventually foster the creation of downstream investment projects. Lessons arising from other recent ADB public sector management projects in Nepal include the need for (i) active stakeholder consultations, particularly with private sector representatives during program inception and implementation; (ii) strong partnerships with development partners; (iii) strong commitment and appropriate selection of executing and implementing agencies, along with a clear implementation arrangement; and (iv) sequencing of reforms with pilot testing in key areas, including digitization, before scaling up.<sup>11</sup> Lessons gained from ADB's extensive experience in business environment and investment climate reform in Bangladesh, Pakistan, and Sri Lanka underscore the importance of establishing strong institutional arrangements for accelerating private investment and FDI with beneficial spillover effects on job creation and local economies. Lessons learned from World Bank engagement in Nepal underscore the importance of (i) anchoring the program on the most impactful policy actions; and (ii) focusing on implementing regulations and operational actions to maximize the impact of policy and legislative changes. Lessons from ADB-supported upstream

	<p>PPP work over the decade since 2025 have revealed that key gaps remain in the pipeline of bankable projects. ADB's agro-finance projects have also shown that MSME growth is limited because of ecosystem gaps.</p> <p><b>Development partner coordination.</b> The program will be implemented under the FMRF, with ADB serving as the lead lender and the World Bank as the trail lender. This cofinancing option enables Nepal to only apply ADB's operational and Accountability Mechanism policy requirements. The cofinancing arrangement through the FMRF also increases the efficiency, impact, and responsiveness of development financing by applying a single results framework, coordinating TA, and pooling financial resources. ADB and WBG will jointly design the program and support the implementation of policy actions under both subprograms. The program will also coordinate with the Foreign, Commonwealth &amp; Development Office of the United Kingdom, which has been providing long-standing TA and capacity building to OIBN, and the Food and Agriculture Organization of the United Nations on geographical indication for agribusiness, as well as other key development partners. ADB liaises closely with the IMF on a regular basis to discuss the macro-fiscal outlook and priorities and requirements for budget and balance-of-payment support.</p>
<b>Expected outcome of the reform</b>	<p>The program's development impact is to foster an enabling business environment to allow job-generating businesses and industries to grow. The expected outcome is to improve legal, regulatory, and institutional frameworks to make the country's enabling environment more conducive for businesses. The program's theory of change is that promoting an enabling environment that is more business-friendly, such as by reducing compliance costs, increasing investor confidence, and improving sector coordination, complemented by active investment promotion and facilitation in sectors with high development impacts, will catalyze private investment. This will support an economic transition to higher value-added products and services, leading to higher growth and the creation of quality employment opportunities. Leading indicators on investment mobilization and sector effects will be monitored given aggregate job creation typically materializes over the long term.</p>
<b>Development financing needs and budget support</b>	<p>The development financing needs of the federal government, based on the projected fiscal deficit for FY2026, are estimated at \$4.3 billion. About 39.5% of the need, or \$1.7 billion, is projected to be raised through external financing (foreign loans), while the rest will be funded through foreign grants and domestic borrowing. The government has requested a concessional loan of \$150 million from ADB's ordinary capital resources to finance subprogram 1 for inclusion in the 2025–26 budget, which accounts for 9% of the foreign loans in FY2026. Subprogram 2 will finance \$150 million in FY2028. The World Bank will also provide cofinancing of \$150 million for subprogram 1 and a further \$150 million for subprogram 2. The loans will provide the fiscal space to implement the reforms identified by the program at a time when revenue collection has been unstable and the inflow of foreign grants has slowed.</p>
<b>Implementation arrangements</b>	<p>The MOF's Foreign Aid Coordination Division (FACD) is the executing agency of the program. The implementing agencies will be the Ministry of Agriculture and Livestock Development; the Ministry of Communication and Information Technology; the Ministry of Culture, Tourism and Civil Aviation; the Ministry of Education Science and Technology; the MOF; the Ministry of Industry, Commerce and Supplies; the Ministry of Labor, Employment and Social Security; the Ministry of Land Management, Cooperatives and Poverty Alleviation; the National Planning Commission; the NRB; the OIBN; and the Public Procurement Monitoring Office. A project steering committee, chaired by the head of the FACD, will oversee and coordinate program implementation across the implementing agencies. Subprogram 1 will be implemented from January 2025 to April 2026, and subprogram 2 from May 2026 to April 2028. A single disbursement under each subprogram is expected, with proceeds to be disbursed following ADB's <i>Loan Disbursement Handbook</i> (2022, as amended from time to time).</p>
<b>4. Technical Assistance</b>	
<b>Technical assistance description</b>	<p>The proposed TA, with an estimated amount of \$750,000 financed by ADB's Technical Assistance Special Fund (TASF 8), will be approved together with the program concept note. The TA is designed to deliver targeted support that complements the broader reform program by strengthening the institutional and technical capacity to implement several policy actions. Expected outputs include the establishment of a fully functional virtual OSSC, the creation of a federal land use plan, and a mechanism to support its use for subnational planning. In addition, the TA will support the assessment and strengthening of the OIBN's investment facilitation capacity, the development of a subnational PPP framework, and the institutionalization of public-private dialogue mechanisms. By providing expert advisory support, capacity building, and</p>

	knowledge products, the TA will add value by ensuring that reforms are effectively executed. ADB's TA will be coordinated with complementary TA from WBG.
	<a href="#">Technical Assistance Report</a>
<b>5. Due Diligence</b>	
<b>Due diligence requirements</b>	Due diligence will include a risk assessment, mitigation plan, safeguards, and sector and thematic assessments. No specific integrity due diligence is expected. The proposed program safeguard categorization is tentatively <i>B</i> for environment and <i>C</i> for involuntary resettlement and Indigenous Peoples under ADB's Safeguard Policy Statement (2009). Changes proposed to the Industrial Enterprises Act and the simplification of the forest clearance process may weaken the environmental regulatory system. Downstream impacts may also stem from the preparation of federal and subnational land use planning, pilot testing of PPPs, and tourism planning. Policy actions are not expected to result in or lead to involuntary resettlement or affect Indigenous Peoples. Environmental and social assessment of the policy matrix will be conducted on a subprogram basis to confirm the categorization of each subprogram. The proposed gender categorization is <i>some gender elements</i> .
<b>Risks and mitigating measures</b>	Program implementation risks arise from continued political uncertainty, external shocks, and internal capacity and governance constraints. Nepal faces political instability following the social unrest and dissolution of Parliament in September 2025. General elections are due on 6 March 2026. ADB will rely on the interim government to ensure continuity of reforms following the elections. Post election, the team will maintain close links to ensure continued buy-in by stakeholders at the technical level. External shocks such as global inflation, supply chain disruptions (including geopolitical tensions), and trade disputes can quickly restrain the private sector and reduce economic growth. Disasters caused by natural hazards, exacerbated by climate change, can also increase economic and fiscal pressures in Nepal. ADB will monitor political and economic developments on an ongoing basis and respond promptly in coordination with other development partners. The risk from capacity weaknesses in government agencies will be mitigated by providing coordinated ADB and WBG TA, while the programmatic approach will allow sequencing of reforms to avoid overburdening public administration. Wider governance risks will be addressed through the risk assessment and management plan under ADB's CPS for Nepal.
<b>6. Stakeholder Engagement</b>	
	The program design involved consultations with a wide range of stakeholders from national government agencies and subnational governments, development partners, and a broad set of representatives from the private sector, including from the agribusiness, aviation, construction, energy, garment, hospitality, ICT, insurance, legal, medical, tourism, and venture capital sectors. The program will continue to conduct national and sector-specific stakeholder consultations as appropriate during the implementation of reforms.
<b>7. Program Category</b>	<input type="checkbox"/> Track 1 (No-objection procedure) <input checked="" type="checkbox"/> Track 2 (Board discussion)
<b>8. Resource Requirements</b>	
	The program will require an estimated 40 staff person-months, 45 individual consultant person-months, and 24 person-months of international consulting services through a firm from subprogram 1 to the completion of post-subprogram 2 partnership activities. The attached TA from ADB, alongside complementary World Bank TA, will support program implementation, the processing of subprogram 2, and post-partnership activities.
<b>9. Key Issues</b>	
	Program delivery may be impacted by delays in government formation after the general election. Government commitment and effective interagency coordination will be critical for successful program implementation. This commitment and necessary coordination will be confirmed during the fact-finding mission. ADB will engage closely with the project steering committee to support and monitor reform implementation.
<b>10. Indicative Timeline</b>	
<b>Milestone</b>	<b>Expected Completion Date</b>
Concept note clearance	28 November 2025
Fact-finding mission	27 March 2026
Loan negotiation	30 April 2026
ADB approval	12 June 2026
Loan signing	26 June 2026

11. Team Composition	
<b>a. ADB Program Team</b>	
<b>Team Leaders</b>	Ashish Narain, Principal Public Sector Economist, Public Sector Management and Governance Sector Office, Sectors Department 3 (SD3-PSMG) Anjan Panday, Principal Programs Officer, Office of the Director General, South Asia Department (SARD) Nicholas James Wintle, Public Management Specialist, SD3-PSMG
<b>Team Members</b>	Sara Fatima Azfar; Senior Partnerships Specialist; Strategic Partnership Division; Strategy, Policy, and Partnerships Department Pei Trojani Chan, Financial Control Specialist, Loan and Treasury Accounting Section, Controller's Department Ketevan Chkhidze, Gender Specialist, Gender Equality Division, Climate Change and Sustainable Development Department (CCSD) Jan Hansen, Principal Economist, Nepal Resident Mission, SARD Deewas Khadka; Financial Management Office; Financial Management Division (PFFM); Procurement, Portfolio, and Financial Management Department (PPFD) Mischa Lentz, Principal Investment Specialist (Climate Finance), Private Sector Transaction Support Division, Private Sector Operations Department Emma Marsden, Principal Safeguards Specialist (Environment), Office of Safeguards (OSFG) Lyailya Nazarbekova, Principal Counsel, Office of the General Counsel Krishna Pathak, Senior Public Management Officer, SD3-PSMG Julitta Ponniah, Principal Financial Management Specialist, PFFM, PPFD Arun Rana; Principal Project Officer; Agriculture, Food, Nature, and Rural Development Sector Office; Sectors Department 2 Laxmi Prasad Subedi, Lead Safeguards Officer (Social), OSFG
<b>b. Advising Departments</b>	Navina Sanchez Ibrahim; Senior Climate Change Specialist (Just Transition); Climate Change, Resilience, and Environment Cluster; CCSD Ma. Fatima Denise Carabeo, Financing Partnerships Analyst, Partner Funds Division (CCPF), CCSD Rajeev Singh, Principal Financing Partnerships Specialist, CCPF, CCSD Hyun Chol Park, Senior Financial Control Specialist, Loan and Grant Disbursement Section, Controller's Department
<b>c. Peer Reviewers</b>	Nyda Mukhtar, Public Management Specialist, SD3-PSMG So Seyama, Public Sector Specialist, SD3-PSMG ERMR/ERDI. Review documents and provide technical advice.

<sup>a</sup> Government of Nepal, National Planning Commission. 2024. [The Sixteenth Five-Year Plan \(Fiscal Year 2024/25–2028/29\).](#)

<sup>b</sup> High-Level Economic Reform Advisory Commission. 2025. [Report on Economic Reform Recommendations for Nepal.](#) [in Nepalese], (Ministry of Finance 2025).

<sup>c</sup> ADB. 2018. [Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific.](#)

<sup>d</sup> ADB. 2024. [Strategy 2030 Midterm Review: An Evolution Approach for the Asian Development Bank.](#)

<sup>e</sup> ADB. 2025. [Country Partnership Strategy: Nepal, 2025–2029—A Partnership for Private Sector-Led Growth, Youth Employment, and Resilience.](#)

<sup>f</sup> ADB and World Bank. 2024. [Asian Development Bank and World Bank: Full Mutual Reliance Framework.](#)

<sup>g</sup> ADB. 2025. Nepal. In [Asian Development Outlook, April 2025.](#) pp. 167–172.

<sup>h</sup> IMF. 2022. [IMF Executive Board Approves US\\$395.9 Million ECF Arrangement for Nepal.](#) Press release. 13 January.

<sup>i</sup> World Bank. 2025. [World Development Indicators](#) (accessed 15 September 2025).

<sup>j</sup> World Bank. 2024. [Business Ready: Economy Profile—Nepal.](#)

<sup>k</sup> World Bank. 2023. [Enterprise Surveys: Nepal 2023 Country Profile.](#)

<sup>l</sup> World Bank. 2025. [Nepal Country Economic Memorandum: Unlocking Nepal's Growth Potential.](#)

<sup>m</sup> ADB. 2020. [Nepal: Electricity Grid Modernization Project.](#)

<sup>n</sup> ADB. 2024. [Nepal: Green, Resilient, and Inclusive Development Program \(Subprogram 1\).](#)

<sup>o</sup> ADB. 2024. [Nepal: Irrigation Modernization Enhancement Project.](#)

<sup>p</sup> ADB. 2021. [Nepal: Implementation Support to the South Asia Subregional Economic Cooperation Customs and Logistics Reforms Program.](#)

<sup>q</sup> ADB. 2023. [Nepal: Strengthening Public Financial Management and Devolved Service Delivery Program \(Subprogram 1\).](#)

<sup>r</sup> ADB. 2024. [Country Assistance Program Review: Nepal, 2020–2024.](#)

<sup>s</sup> ADB. 2018. *Technical Assistance Completion Report: Strengthening Public Management Program in Nepal*; ADB. 2019. *Technical Assistance Completion Report: Strengthening Subnational Public Management in Nepal*; and ADB. 2021. *Completion Report: Capital Market and Infrastructure Capacity Support Project in Nepal*.