

The land development boom  
in Kathmandu valley





INTERNATIONAL  
LAND  
COALITION

#### Our Mission

A global alliance of civil society and intergovernmental organisations working together to promote secure and equitable access to and control over land for poor women and men through advocacy, dialogue, knowledge sharing and capacity building.

#### Our Vision

Secure and equitable access to and control over land reduces poverty and contributes to identity, dignity and inclusion.



The College of Development Studies [CDS] is committed towards attaining the MDGs through capacity enhancement of individuals and institutions. It believes that successes in attaining the planned targets and MDGs are based upon how best links are established between educational institutions and local bodies in order to ensure that grassroots get benefited from human resources development programs. Furthermore, the CDS also firmly believes that only a professional, who is able to cope with contemporary national and international developmental issues and arrest them in terms of policy analysis, planning, implementation and monitoring will be able to make a significant impact in development endeavors at both national and local levels.

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# The land development boom in Kathmandu Valley

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ILC would appreciate receiving copies of any publication using this study as a source.

# Foreword

The International Land Coalition (ILC) was established by civil society and multilateral organisations who were convinced that secure access to land and natural resources is central to the ability of women and men to get out of, and stay out of, hunger and poverty.

In 2008, at the same time as the food price crisis pushed the number of hungry over the one billion mark, members of ILC launched a global research project to better understand the implications of the growing wave of international large-scale investments in land. Small-scale producers have always faced competition for the land on which their livelihoods depend. It is evident, however, that changes in demand for food, energy and natural resources, alongside liberalisation of trade regimes, are making the competition for land increasingly global and increasingly unequal.

Starting with a scoping study by ILC member Agter, the Commercial Pressures on Land research project has brought together more than 30 partners, ranging from NGOs in affected regions whose perspectives and voices are closest to most affected land users, to international research institutes whose contribution provides a global analysis on selected key themes. The study process enabled organisations with little previous experience in undertaking such research projects, but with much to contribute, to participate in the global study and have their voices heard. Support to the planning and writing of each study was provided by ILC member CIRAD.

ILC believes that in an era of increasingly globalised land use and governance, it is more important than ever that the voices and interests of all stakeholders – and in particular local land users - are represented in the search for solutions to achieve equitable and secure access to land.

This report is one of the 28 being published as a part of the global study. The full list of studies, and information on other initiatives by ILC relating to Commercial Pressures on Land, is available for download on the International Land Coalition website at [www.landcoalition.org/cplstudies](http://www.landcoalition.org/cplstudies).

I extend my thanks to all organisations that have been a part of this unique research project. We will continue to work for opportunities for these studies, and the diverse perspectives they represent, to contribute to informed decision-making. The implications of choices on how land and natural resources should be used, and for whom, are stark. In an increasingly resource-constrained and polarised world, choices made today on land tenure and ownership will shape the economies, societies and opportunities of tomorrow's generations, and thus need to be carefully considered.

**Madiodio Niasse**

Director, International Land Coalition Secretariat

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# List of abbreviations

ADO	Agriculture Development Office
CBS	Central Bureau of Statistics
CPA	Comprehensive Peace Agreement
CPM/M	Communist Party of Nepal (Maoist)
DDC	District Development Committee
DoLRM	Development of Land Reform and Management
FCM	Federation of Canadian Municipalities
IASC	Inter Agency Standing Committee
HFA	Halcrow Fox and Associates
ILC	International Land Coalition
KVTDC	Kathmandu Valley Town Development Committee
MCTCA	Ministry of Culture, Tourism and Civil Aviation
MoEST	Ministry of Environment, Science and Technology
MoPE	Ministry of Population and Environment
MuAN	Municipal Association of Nepal
NLHDA	Nepal Land and Housing Development Association
NLSS	National Living Standard Survey
VDC	Village Development Committee
WFP	World Food Program
WB	World Bank



# Summary

Kathmandu Valley has been subject to a rapid process of urbanisation. Particularly noteworthy in recent years has been the spiraling price of land, with an associated boom in the real estate sector and land speculation. The drivers of this boom include: rural to urban migration, which in turn is driven by the relative economic development of the city and the displacement of large numbers of people by conflict in rural areas; capital flows, including remittances from Gurkhas and other emigrant workers, asset transfers from other, less secure regions of Nepal, and credit provided by domestic financial institutions; and weak governance, including ineffective planning and land management and the weakness of government in the face of the real estate sector lobby.

The impacts of these commercial pressures on land in the Valley include declining food production, with implications for food security; widespread unregulated and unplanned development; effective forced acquisition of lands as developers disrupt infrastructure for other farmers; and social pressures on traditional farming communities. Attempts to reign in the boom and to regulate land development have had mixed success. While the central bank has imposed restrictions on mortgage lending, the Department of Land Reform and Management has succumbed to pressure from the real estate sector lobby to relax ceiling limits on land ownership in the Valley. A Kathmandu Valley Town Development Plan was proposed in 2002, but so far has not been implemented.



# 1 Introduction

The city of Kathmandu has undergone a rapid process of growth in recent decades. Increasing urbanisation has been driven by its growing importance within Nepal's economy, as a centre of government, industry and tourism, and which has drawn increasing numbers of migrants from rural areas. This trend has been exacerbated by the Maoist insurgency in large areas of Nepal. This has led to displacement of people from rural areas and a favouring of the Kathmandu area as a safe haven for both living and investing.

The process of rapid urbanisation has had dramatic consequences on Kathmandu Valley, a broad river basin approximately 40 km across, with the city of Kathmandu at its centre. The processes and impacts that have taken place are similar to those in many peri-urban areas under conditions of rapid urban growth. Not only have increasing areas of fertile farmland been converted to residential and other urban land uses, but increasing demand for land for development, combined with a ready supply of financial capital from remittances, credit and transfers of savings from less secure rural areas, has resulted in huge increases in the price of land. In the context of weak governance structures, speculative activity and poorly controlled development has become rife, with various negative consequences.

In the context of Nepal's ongoing political transition, there has been little effective policy response, though some proposals have been tabled.

## **Objectives of the study**

The primary goal of this study was to document and analyse the current trends in commercial pressures on land in Kathmandu Valley, as well as their existing and anticipated impacts on environment, societies and development objectives. The case study was conducted in greater Kathmandu which covered the three districts of the valley. Specific objectives of the study were to:

- generate both qualitative and quantitative information on commercial pressures on land in Kathmandu Valley order to permit a clearer understanding of both the causes of current trends and the effects on vulnerable land users and the sustainable management of land and natural resources;
- assess how societies, and especially local communities, currently respond to negative and positive impacts of commercial pressures;
- identify appropriate policy and practice responses at local, national and international levels to mitigate or prevent negative impacts and to enhance positive ones.

## **Methodology**

The research method was composed of two main aspects. The first was a desk review to collate available secondary information on the history and contemporary trends of the issue, including from the published reports and other information sources of Agriculture Development Offices (ADOs), Forest Offices, parks, Housing and Physical Planning Offices, municipalities, District Development Committees (DDCs), real estate agencies, housing companies, financial institutions and so on.

Secondly, this review was complemented by a survey of key stakeholders, including real estate agents, government agencies, brick factories, labourers, local farmers including the indigenous Jyapu farmers of the valley, land brokers and housing companies, and other Kathmandu valley dwellers from the core and rural areas.

The survey took the form of interviews designed to validate secondary sources of information as well as to illicit personal views and to furnish a picture of the real life situation of individuals and households in key affected groups. To provide a general overview, interviews were conducted with 30 passers-by (mainly farmers) at the major road corridors entering into Kathmandu valley and in locations where major urbanisation processes were under-way. A further 13 interviews were conducted with Jyapu indigenous farmers and elderly people who were encountered working in their fields in the greater city area. Short interviews were also conducted with 40 labourers working in stone quarries in nearby forest areas and involved in sand excavation on river beds and open fields.

A semi-structured interview methodology was followed, with a check-list providing guidance to interviewers. Discussions were recorded and documented. The field work was undertaken within January and February, 2010.

## **The structure of the case study**

This study is composed of five sections including this introduction. The following section describes in more detail the trends of pressure on land in Kathmandu Valley before examining the key drivers of these trends. The third section, examines the impact of these trends on urban development, peri-urban communities, farming systems and the environment. Section 4 describes the policy background and response to the issue, including the issue of land reform in Nepal, measures to curtail the real estate credit boom, and proposals for better management and planning of the urbanisation process. The final section draws conclusions on the opportunities and problems posed by the real estate boom in Kathmandu Valley, briefly putting forward policy recommendations that build on the suggestions of different stakeholders recorded during the study.

## 2 Commercial pressures on land in Kathmandu Valley

### Background: the growth of Kathmandu

The transformation and rapid modernization in Nepal started with the collapse of Rana regime in 1951 and with the flow of international aid after late 1950s. Modern houses began transforming the traditional landscape of Kathmandu Valley. During the 1970s, the expansion of the government bureaucracy, the expansion of trade and tourism, and the establishment of carpet industries led to an increase in employment opportunities in Kathmandu. Urbanisation gained further momentum during this period and low-density urban expansion spread to outlying well-drained tars with easy road access. The Ring Road of 27.6 km, which was constructed in the mid 70s, gave further impetus to urban expansion, as more areas were made accessible.

The urban area in the valley increased from 3 percent in 1967 to 13 percent in 2000 whereas the shrubs and forest lands decreased from 43 percent to 25 percent in the corresponding years (Thapa and Murayama, 2009). The agricultural land changed to urban lands in the valley floor whereas much of the shrubs and forest lands were transformed into agricultural land in surrounding rural areas (see Figure 1). The findings showed the landscape in the city fringes getting more fragmented in later years.

The valley's urban area during 1980s and 1990s increased from 3,096 to 8,378 ha, and 5,282 ha of fertile agricultural land was lost due to urbanisation (MoPE, 1999). It was estimated that over half of the valley's 'A' grade land, or 43 percent of existing agricultural land, would have lost due to urban sprawl by 2010 (HFA, 1991; MoPE, 1999). Current population growth for the Kathmandu Valley is estimated at over 4 per cent per year and was projected to grow from 1.6 million in 2001 to 2.5 million in 2020 (CBS, 2001; KVTDC 2002).

### **The development of the land market**

The fact that there is little government control over land and housing in Kathmandu, and the absence of any real land-acquisition laws in practice, means that the state, in real terms, has very little control over the land market. Most of the land is in private ownership. The absence of appropriate public sector interventions in this sector, combined with high cost of land and low purchasing power, has led to rapidly widening gap between

housing demand and supply. It was estimated that 430,000 new units would be required in urban areas during 1992 -2008.

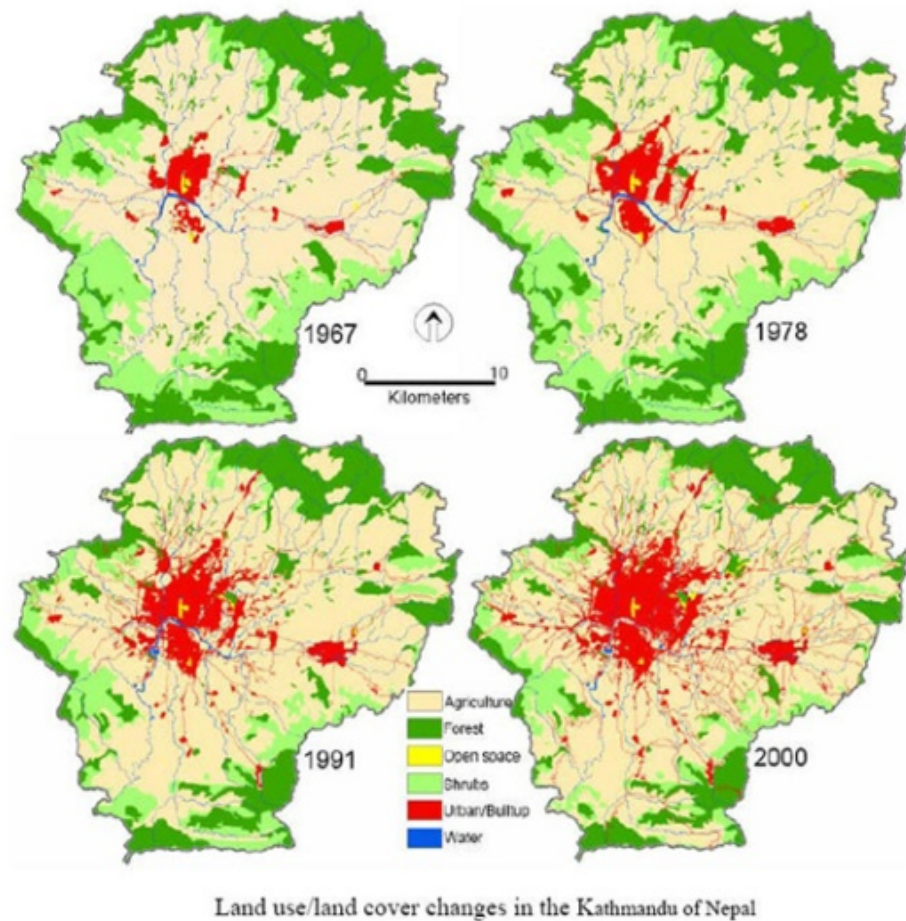
In order to facilitate planned development through an adequate supply of serviced plots for housing, a positive approach called the Land Pooling Scheme was initiated in 1988 in the Kathmandu Valley. Up to 2001, the scheme managed to implement 11 projects after hard negotiations with the landowners (Joshi and Sangachhen, 2000; Karki, 2003). These created 7632 serviced plots covering 247 ha. The government pooled additional agricultural land for the same purposes in several other places in the following period to 2009. However, no review has been made so far as to what extent they were able to meet the overall planning objectives. Nonetheless, it seem clear from the development of the private land market, that this scheme has had little impact in meeting the demand for housing.

Initially, only some private land brokers and individual house builders were active, but in the recent years, as many as 150 real estate agencies and 11 housing companies have emerged as the main agents involved in land acquisitions, pooling and housing.<sup>1</sup>

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<sup>1</sup> For an overview of the real estate market, see [www.1ropani.com](http://www.1ropani.com)

**Figure 1: Land use changes in Kathmandu Valley**



Source: Thapa and Murayama (2009)

A major set of actors in the land market are the land brokers who operate at local level without a license, and who designate particular areas of land for subdivision and advertise them in the newspapers. Such a land plotting system has intensified incredibly in the valley over the last 10 years, though there is no accurate data of how many such groups are currently involved. Nevertheless, the plotting system has been developed in such a way that one can see throughout the valley the denuded and cleared-up crop fields and the unscientifically leveled hill-tops and filled-up lowlands. In the name of plotting, they demarcate roads, open space, gardens and small plots of land for houses. None of the land of any type has yet been left untouched – steep land, fertile crop field, fragile areas, water source areas, or river banks. In some of the places, land has been sold for sand excavation and once this is done the land been leveled and eventually plotted for sale at higher prices. People are often cheated when the plans shown in the advertisement and the actual on-site situation vary drastically. There is no restriction on land subdivision except that the minimum size of a plot should be 80m<sup>2</sup>.

In addition to the land mafia, brokers, real estate agencies and housing companies, many farmers were found to be highly motivated to consolidate their farm land, plot it and sell it for housing. They are another important actor in the land market. In this case, several land owners (farmers) apply to the land revenue office for consolidation, plot the consolidated land, advertise by local means and sell it.

## **The real estate boom**

The private real estate sector in Kathmandu valley has boomed in recent years, and the immediate driver of this boom has been an enormous rise in land prices within the valley. A growth of 300 % from 2003 to 2008 has been widely reported:

“Nepal may not be the obvious next property hotspot but the mountainous country between India and China is experiencing a mini real estate boom as wealthy Nepalese real estate investors seek a safe for their money. Government figures show the number of new apartments built in Kathmandu rose more than three-fold last year to 3,385 from 1,088 in 2007, as high land prices and poorly enforced planning laws made building upwards more attractive. According to the Nepal Land and Housing Association, land prices have risen by 300 percent since 2003. There has also been an increase in the number of estate agents in Kathmandu city. Current trend of loans in realty sector attest the fast increasing money flow on land transactions” (1ropani.com, 2009).

The real estate boom was confined to the Kathmandu Valley for many years. But recently land and housing ownership transfer records of the government have highlighted that almost all major cities outside the Valley have started to register boom in business as banks and financial institutions continue investing aggressively in the sector and more people shift their property away from bordering areas due to security concerns.

Because of better opportunities, public and private services and security situation, the capital city has remained the most preferred destination for residence and for doing business. In the last fiscal year, some 185,000 people and firms bought new land and housing in the Valley (Manisharma, 2009b). Pokhara, a city in western Nepal, has also been attracting substantial number of migrants. But this trend is changing fast, as stated by the Department of Land Reforms and Management (DoLRM). As prices in Kathmandu and Pokhara have skyrocketed beyond many consumers' reach, more people are buying land and houses in the inner-Tarai plains adjacent to Indian border. For instance, Sunsari, in eastern Nepal, climbed up the ladder to record the second highest level of transactions after Kathmandu in fiscal year 2008/09, with 42,965 instances of land and housing ownership transfers.



## Drivers of the boom

Commercial pressures on land in Kathmandu Valley are being driven by three overarching factors. They are:

- Rural to urban migration, which in turn is driven by the economic development of the city relative to the countryside, the cultural attraction of the city, and the displacement of large numbers of people by conflict in rural areas.
- Capital flows, including remittances from Gurkhas and other emigrant workers, asset transfers from other, less secure regions of Nepal, and credit provided by domestic financial institutions.
- Weak governance, including ineffective planning and land management and the weakness of government in the face of the real estate sector lobby.

The following parts of this section will examine each of these driving forces in turn.

## Rural to urban migration

One cannot imagine today that Kathmandu Valley some 35 years ago was a place of natural beauty, calm and quiet. Water in the river was drinkable; people used to bathe where people today even dislike to pass by the rivers. Elderly people do not want to recall the conditions of their time; they seem to be so frustrated today by the crowdedness of the city.

Key to understanding why this has happened is to understand the increasing demand for land due to increasing population. The rapid growth of urbanisation in the valley has been guided by the following factors:

- Concentration of political and economic power resulting in a concentration of employment opportunities in the capital.
- Availability in the city of basic services such as water, roads, electricity, and telephones.
- Location of an international airport and tourist centres.
- Push factors in rural areas such as natural disasters, unemployment, social stigma and insecurity.

## Economic opportunities in the capital

A main driver for the increase in land investments in the Valley is a process of capital-centric development. As a capital city, Kathmandu is naturally the political and administrative centre of the country. It is also the hub for tourism, finance, industry, education, transportation, health care, and sports. Kathmandu Valley is home to about 30 percent of the total urban population of Nepal. The IUCN and the National Planning Commission (MoPE, 1999) estimated that about 74 % of workers in certain industries in the valley are

migrants. The Municipal Association of Nepal (MuAN) predicts that the Tarai plan adjoining the Indian border, Kathmandu Valley, and Pokhara, the mid western hill city, will continue to see maximum urbanisation in the foreseeable future (FCM/MuAN, 2002).

Kathmandu Valley is the gateway to Nepal for tourists and their main destination as the valley has the only international airport in the country through which 90 percent of tourists enter. The valley's rich cultural heritage and its the seven designated world heritage sites have contributed to tourism promotion. Tourists began visiting Nepal only after late 1950s, and numbers have gradually increased. The figures for 2005 was 375,398 visitors (MoCTCA, 2006). The tourism sector has contributed to the economic development of the city and has also directly increased pressures on land through the construction of resorts and rest houses.

The growing middle class in the valley is demanding new modern facilities such as houses in the suburbs for which an aggressive market is supplying easy access to financing.

An approximate figure of 38 percent of all industries in Nepal are located in Kathmandu Valley. The records indicates that the valley has 14,791 industries (ICIMOD, 2007). Among these are over 500 brick kilns, over 200 stone quarries and crushers, and 70 industries with boilers (MoEST, 2006). According to one estimate, the Kathmandu City's economic output is worth more than Rs.170 billion/year in which trade accounted 21 percent, manufacturing 19 percent, agriculture 9 percent, education 6 percent, transport 6 percent and hotels and restaurants 5 percent. Tourism is also a key component of the city's economy (Pant and Dangol, 2009). It shows the pressure on agriculture land not only in core city area but also in fringe and rural areas of the valley.

One area of rapid growth is construction and natural resource extraction for building materials. There is brisk business for providers of construction materials from hillsides and river banks of Nepal, especially sand and stone. In 1999, quarries covered over 84 ha of forest land in the valley (MoPE 1999), a figure which has increased tremendously in recent years. Stone quarrying is found to have intensified particularly in southern part of the valley. Godawari marble, the biggest quarrying firm in the valley, has a leased area of 3.88 sq. km where the marble deposit/reserve is estimated at 0.625 million m<sup>3</sup>, and employs about 500 workers (325 direct and 180 persons indirect). This is only the largest of more than 92 stone quarrying factories officially registered that cover 12 Village Development Committees (VDCs) of Lalitpur district alone. Brick-making is also a major industry in peri-urban areas, providing both employment and additional competition for agricultural land. However, it was found that in the Lalitpur district of the valley, brick factories are also being replaced by land plotting for housing because land prices have risen so high in comparison with the land rent that can be obtained from brick kilns.

Road building has been another driver of growth at the urban fringe. Total road length by 2001 exceeded over 1,319 km compared to 820 km in 1981 (ICIMOD, 2007). Bhaktapur city, some 19 km away from Kathmandu, is now linked by a highway to Kathmandu and

also the Chinese border. As a result, a built-up corridor has developed between the two cities. The Ring Road of 27.6 km, which was constructed in the mid 1970s, gave further impetus to urban expansion, as more areas were made accessible.

### **Push factors in rural areas – poverty and conflict**

Extreme poverty, the lack of economic opportunities, and, more recently, the insurgency in rural areas, has caused many people, especially the young, to migrate to cities in search of opportunities for employment, education, health, and security.

There has also been a huge influx of internally displaced people to the valley due to the insurgency in large parts of Nepal. Civil conflict emerged in 1996, triggered by increasing inequalities and exclusion of the poor in rural areas, and by the armed rebellion of the Communist Party of Nepal (Maoist) (CPN/M). The decade long conflict brought about a socio-political crisis. During this period, economic activities were disrupted by frequent work stoppages, or bandhs, closures of businesses, extortion and threats.

More than 500,000 people were displaced from their village of origin during the insurgency period. Urban areas, especially Kathmandu Valley, have had to bear the influx of these people. While farmland in conflict affected villages has sometimes been left uncultivated, the displacement of people has simultaneously put more pressure on peri-urban farmlands.

# Capital flows: remittances, savings and credit

Another important driver of the dramatic rise in land prices in Kathmandu Valley and other urban areas in Nepal is the flow of capital into this market. Given the insurgency in extensive rural areas and the uncertain and disrupted economic climate in Nepal, urban and peri-urban real estate is seen as a safe haven for savings, as well as potentially a fast route to riches. Potential investment opportunities elsewhere in the country, or in other economic sectors in the cities, are limited.

One source of capital inflows into Kathmandu Valley real estate has thus been capital flight from rural areas affected by the insurgency. Another source of capital has been the remittances of emigrant workers, and also from Gurkha soldiers.

However, a further important reason for the inflation of land prices has been the expansion of credit, with individuals and firms taking on loans to buy land and houses in the valley. According to figures reported by the Nepal Rastra Bank (the central bank), between January 2007 and January 2009, real estate loans increased from Rs. 2.48 billion to Rs. 24.76 billion, while loans for residential construction increased from Rs. 16 billion to nearly Rs. 35 billion (Table 1).

**Table 1: The growth of credit in the real estate sector**

	Value of loans (Rs. billion)		
	July 2007	July 2008	July 2009
<b>Residential construction</b>	16.38	26.41	34.95
<b>Real estate</b>	2.48	10.73	24.76

Source: Manisharma, 2009a.

## Weak governance

Kathmandu Valley is divided into three districts: Kathmandu, Bhaktapur and part of Lalitpur. The urban area of greater Kathmandu itself is largely covered by five municipalities spread over the three districts. The rest of the valley is divided into administrative units called Village Development Committees (VDCs), of which there are 57 spread over the three districts. Each district is governed by a District Development Committee made up of VDCs and municipalities.

The political power structure in Kathmandu valley is still dominated by the VDCs. Under this power structure, the development context is dominated by rural development issues (and thus the interests of numerous small landowners) which are usually supported by the District Development Committees (DDCs). The numerous VDCs easily outnumber the representation of the five municipalities which are concerned more with urban development issues. Since the existing planning system does not recognize Kathmandu Valley as a single entity, it is virtually impossible to enforce development control tools that can address both rural and urban areas.

The growth of settlements in the Valley is generally spontaneous, and there is very little planning intervention on the part of government. The government does not have the financial resources to acquire huge parcels of land where planned urban development can be promoted and the current constitutional provision does not allow the government to impose restrictions on the use of private property. Therefore, the government has little influence except over the provision of infrastructure. This tool, however, has been grossly misused in Kathmandu, mainly due to political patronage.

At the national level, political leadership in Nepal has been in a state of turmoil, with the armed insurgency, the overthrow of multi-party democracy, and the latter process to draw up a new constitution. All these factors have contributed to a governance deficit in the context of which commercial pressures on land in Kathmandu Valley have not received the attention they deserve.

# 3 Impacts

The real estate boom in Kathmandu Valley has created winners and losers. The winners include rural landowners who have been able to sell land for inflated prices, as well as successful speculators and other actors in the real estate sector. The losers are perhaps more numerous. They include all those who must pay inflated prices for housing, including rent, or who suffer from increased food security from the loss of fertile agricultural land. They also include all city inhabitants who must suffer from poor planning and insufficient infrastructure, and the inefficiency and pollution to which this contributes, and the members of farming families and communities torn apart by the temptations of instant wealth. Furthermore, losers may in the end include all those who may lose savings in the event of a possible bursting of the bubble.

This section examines in particular the impacts of the boom on farming communities, public land management and food security.

## Impacts on farming communities

The Kathmandu Valley farming community known collectively as Jyapu practiced indigenous agricultural methods resulting in good crop yield. According to a report by FAO (1994), these communities produced the greatest share of fresh vegetables for the Kathmandu market, and are known for their good practical skills and expertise in intensive traditional agriculture, especially vegetable production. The Jyapu cultivate around 1,000 to 2,500 sq. meters of land per family. They do not use oxen or bulls for ploughing, but simple tools. Every bit of land is used efficiently. Black clay, compost, and human excrement are traditional sources of manure. They rarely keep cattle as other farmers do and transport goods with a piece of equipment like a balance called a kharpan. They are skilled at inter-cropping which helps control crop diseases and pests as well as crop rotation, and harvest three crops annually. The farming practices of indigenous Jyapu have been changing over time now. The economically active population above 10 years of age constitutes 40.3 % of the total population of the valley districts, which is less than the country average. Agriculture in the valley is the second most important sector and is characterized now by very intensive farming - use of fertilizers, irrigation, human labor, and terracing of farmland.

As part of the study, a number of farmers from Jyapu communities in New Naikap, Tinthana, Syuchatar of the south west of the fringe area of Kathmandu Valley were visited. All respondent farmers were the vegetables growers. All of them had sold some of their land, reportedly under pressure from their families. They own cement houses built after selling land.

## **The decline of farming**

Their responses describe many of the impacts of urbanisation and rising real estate prices on farming systems and communities. One key issue was the economic predicament of farmers. They face competition for labor from the city, particularly from booming industries like construction, yet also competition from food imports. One farmer complained that no one wants to take up the farming occupation now, that labor costs are high and farming unprofitable. Many complained of falling earnings, falling soil productivity and the loss of traditional crops. One blamed this on pollution from water and solid wastes.

A key consequence of the difficulties faced by farmers is that the younger generation tends to prefer to get out of the profession. One respondent stated that name Jyapu is linked with the farming occupation, and that the younger generation now dislike to be recognized as Jyapu. Another respondent stated that all households were subject to conflict between old and new generations over whether to sell land. Young people typically push for the sale of land whilst older family members want to retain the land for agriculture, seeing the land as a sustainable means of earning. One farmer said that the living standards of Jyapu farmers were rising because of the sale of land, but that he doubted the sustainability of livelihoods.

Interviews with local residents in Lubhu and Lele VDCs in the fringe area of the valley revealed not only that many agricultural lands are being transformed into settlement areas but also that the remaining land available for agriculture is becoming fragmented. Landownership is accorded considerable social status nowadays in the valley, not because the land is highly productive but because of its high nominal value. According to the respondents, this has had a negative effect on community life. Unlike in the past, when society was characterized by interdependence between the people and community, increasing wealth from rising land prices has meant that many no longer feel obliged to do anything for the community or the neighbours. Landowners have become self-sufficient because they have easy access to financial services to meet their demands, undermining community ties of reciprocity and mutual help.

## **Adoption of new occupations**

Despite these conflicts and difficulties, many members of farming communities have benefited economically from the rising market value of land. As prices began to rise, the majority of the farmers in the core city area began to sell their land at comparatively high prices. With the money they made out of selling land they bought taxis, built modern houses or deposited money in banks to earn interest. This process in fact helped raise the income of many small farmers during the time. Many farmers from the urban fringe and from the rural parts of Kathmandu Valley have benefited from the sale of their agricultural land, particularly when they were able to sell marginal, non-irrigated, sloping land not suitable for intensive agriculture.

Some of the Jyapu farmers who were interviewed had sold their land somewhere in 1995 and migrated to a nearby town where they bought land at a low price and invested in

transportation. They became businessmen, rather than farmers. The exodus from farming has accelerated. Money from selling land has been used for other income generating activities such as setting up grocery stores, house building or manufacturing, or has simply funded more luxurious lifestyles compared to the past. Jyapu women have lessened their farming activities; they often get rent from houses built from selling land. Some of them have bought land outside the city area and have started poultry farming, restaurants or other businesses, but in the core city area the majority have gone for renting houses. After selling land, many former farmers have opted for foreign employment, leaving the family behind. It is often seen that following sale of land in the urban area, one house at least is built for the family. When the husband is either busy or not available due to foreign employment, the wife takes care of the family and of farming on the remaining land.

### **Forced sales and conflicts**

Some cases can be observed of conflict between the brokers and farmers, and among farmers too, in which certain landowners may be left with no choice but to sell land. For example, brokers, sometimes in partnership with some local farmers and leaders, may buy land for plotting, and by leveling and the construction of a boundary wall, block access, drainage or sources of irrigation for adjacent land. In this way, brokers can ensure the availability for sale of the adjacent land.

In other cases, a land broker may purchase a hill top or steep marginal land for plotting or for the excavation of sand. Such activity can lead to the landslides that damage adjacent agricultural land and again compels farmers to sell the land. Such unplanned and poorly regulated development has led to environmental damage affecting whole communities such as forest and water depletion and landslides. Such cases have been occurred in Kathmandu Valley, prompting communities to file court cases against the land brokers. Conflict cases can also be seen through land encroachment of community forest area for the purpose of stone quarrying and the demarcation of land by brokers and developers.



# Unregulated development

Weak governance combined with the intense demand for land in the valley has led to widespread examples of poor planning and the mismanagement of the valley's land resources. One example is land speculation whereby land is left idle because it is merely being used as a speculative investment. This trend has been detrimental to the organic growth of the city and proper expansion of basic services to the people. There are several areas within the existing Ring Road where developed plots are lying vacant, yet nonetheless there is tremendous pressure for housing even in suburban areas beyond the road. Under-utilisation of land in the downtown area is a hurdle to planned growth. Land speculation is prevalent at both individual and institutional levels. Land brokers and housing development companies hold huge parcels of land in urban fringe areas for speculative purposes.

Another issue that arises from the inability of the city to meet the demand for housing in a planned way is the emergence of informal settlements on public lands. Both land brokers and squatters have encroached public lands, in most cases with the tacit backing of political parties. Encroachment has been of land such as river banks, forest areas and open public land.

The fertile area along the river side has been permanently occupied by the squatters and landless migrants and has been converted into a slum area. On the positive side, some of this land occupied by landless household has been surveyed and they have now obtained land certificates in their name.

Vegetable farming by the landless can be noticed along the river side on unused public land.

# Impact on food security

The UN World Food Programme (WFP) places Nepal among the countries of greatest concern because of its extreme levels of food insecurity and vulnerable populations, high inflationary pressures and its substantial reliance on food and fuel imports. One estimate is that 40 % of Nepal's population is undernourished (WB/CBS/WFP, 2006).

WFP estimates that in recent months the number of Nepalese struggling with food security has doubled to nearly 6.4 million people as a result of price increases and supply reduction in food commodities. Approximately 2.5 million people of rural Nepal are in immediate need of food assistance; an additional 3.9 million are at risk of food insecurity due to increasing food prices (WFP, 2008). Forty two out of 75 districts were food deficient in 2007 and drought and other natural disasters resulted into a 13 percent deficit of national cereal production (IASC, 2008). The Nepal Living Standard Survey (NLSS) showed that the share of food in total expenditure of the average Nepali household is about 59 percent where as it is about 65 percent for those who are living below poverty line (CBS, 2005).

In this context, the large-scale conversion of the most fertile land in the centre of the valley to non-farm uses cannot but contribute to the food insecurity of Katmandu's inhabitants. One study found that the cropped area of food grains in Lalitpur district alone decreased by over 40 % during 10 years between 1998-99 and 2008-09, leading to a reduction in the total cropped area (ADO, 2010), although the cropped area for vegetables and fruit crops increased threefold. A considerable amount of land area has been converted to residential and other purposes and this has led Lalitpur to become a food importing district. Kathmandu residents are becoming more reliant on outside supplies of cereals and vegetables. The valley as a whole now has to import over 90 % of vegetables and other food items from outside the valley, signifying ever increasing threats to food security for the city.

## 4 Policy responses

The real estate boom in Kathmadu Valley has not taken place in a policy vacuum but in the context of land reform legislation that is currently under review and that directly affects the activities of land brokers and developers. There are also ongoing attempts to influence the situation through reining in the expansion of credit, and proposals for improved systems of planning and land management.

### Land reform in Nepal

The first Land Act was enacted in 1964 to improve the rights of tenants and small farmers. Despite of adoption of rules and regulation for safeguarding tenants, the practical implementation of this act has lagged because of procedural inefficiency and a lack of political commitment. Corruption and malpractices at different levels reduced the value of the Act.

After the advent of multi-party democracy in the 1990s, a fourth amendment (1997) was made to the Land Act to eliminate dual ownership and the termination of rights of unregistered tenants. In 2001, the government proposed to further reduce the land ceilings that were fixed by the 1964 Act.(Table 2). These proposals would have significantly reduced the land that can be held by a single individual, particularly in Kathmandu Valley and the Tarai plains. The rationale was to reduce the support that the Maoists were receiving from marginal farmers. However, the proposal was ruled to be in contravention of rights to property.

**Table 2: Land Ceilings as per the Land Act, 1964, and as proposed in 2001**

<b>Regional category</b>	<b>Ceiling provision, Land Act, 1964 (basic provision + additional areas for housing)</b>	<b>Ceiling provision, as proposed in 2001 (basic provision + additional areas for housing)</b>
Hills and mountain areas	80 + 16 Ropani (4.87 ha)	70 + 5 Ropani (3.75 ha)
Kathmandu Valley	50 + 8 Ropani (2.94 ha)	25 + 5 Ropani (1.5 ha)
Tarai and Inner Tarai (plains)	25 + 3 Bighas (19.23 ha)	10 + 5 bigha (7.43 ha)

Subsequently, in 2005, the government initiated a “land bank” policy, a “market-led” land reform program designed to match “willing sellers and willing buyers”. With support from the World Bank, the program provided credit, payable in 15 years, to poor landless and marginal farmers to buy land. A criticism of this policy leveled by land rights activists was that it benefited principally landlords that had been displaced from villages because of the conflict, instead of poor and landless people. After the political changes in 2006, this program was formally stopped. Since then, the issue of land reform has been even more at the forefront of the political agenda because it was a key demand and promise of the Maoists and other protesting parties that there will be better land tenure conditions in the country and that those landless and marginal farmers will have better access to land and natural resources.

The Maoists have always stated that they are fighting for just land distribution through a “revolutionary” land reform program. It has been claimed that this agenda had attracted many landless people to the CPN/M. The Comprehensive Peace Agreement (CPA) (November 2006, between 7 political parties to end the armed conflict) also emphasized land reform. Item 3.6 of the agreement proposes “to follow the policy of implementing scientific land reform by ending the feudal relations in land ownership”. Item 3.10 states “to arrange land and socio-economic securities for socio-economically disadvantaged groups like squatters (sukumbasis), bonded labor (Kamaiyas), Haliyas, Harawu-Churawas and the like”.

The Interim Constitution formed in 2006 and updated in 2007 has its base in the CPA. It also has provisions for land reform. Item 19(3) is a clear statement of this. Items 3.3 (f) and 3.3 (i) are the same as Items 3.6 and 3.10 of the CPA. But the interim constitution has a detailed item on rights to property also. It says that (a) every citizen has a right to acquire, own, sell and use the property according to existing laws (b) except for public interest, the state has no right to confiscate or acquire the land of the citizens. But this does not apply to the property that has not been acquired rightfully and, (c) that the state will pay compensation if it acquires the land of a citizen for public interest or for scientific land reform. The compensation amount, its basis and the procedure of acquiring the land will be determined according to the law.

The Interim Constitution of 2007 has a provision of scientific land reform. As per the Interim Three Year Plan of the government (2008-2010) this is meant to entail:

- ending the feudal relationship existing in land ownership and land relations;
- implementing land ceilings for social justice and productivity;
- land rights to those who use labour and skills on land;
- providing landless farmers with land for shelter;
- determining the rights to farmers cultivating *guthi*, *ailani* (public land), and *parti* (barren) land;
- making land records, land administration and land-related services scientific and efficient;

- preparing a national land policy that encompasses all land-related issues and implementing that policy; and
- co-ordinating programs in agriculture, irrigation and physical development to increase the production and productivity of land.

There are various issues that are still not solved. Among these is the controversy over compensation to landlords for the expropriation of land in surplus of ceiling provisions. There is a skepticism over the CPN/M's policy on land reform. Landowners are mainly concerned with what will be the ceiling of the land, and whether they will be paid compensation for the land that is above the ceiling. One of the leaders of the CPN/M in an interview had said that a study will determine what ceiling will be, and it will be different for the Himal, Pahad (Hills) and Tarai (Bhattarai, 2008). But because of the Maoists coming to power, a spree of land divisions and transfers has taken place in recent times. There is again no comprehensive study to this effect. However, reports about this issue come regularly in the media. Despite the agreement among parties, Maoists cadres (even elected members of parliament) have refused to return land they had seized in the past in the name of revolutionary land reform.

## Attempts to regulate land developers

The Land Reform Act is controversial in the context of the real estate boom in Kathmandu Valley because of the limits it places on the land that can be held by speculators and land developers. In late 2009, the Department of Land Reforms and Management (DoLRM) started investigations into land holdings in excess of ceiling provisions by land developers in the major cities of Nepal. The Industrial Enterprise Act allows firms, including construction firms, to hold land in excess of the ceiling, with special government permission. However, large land developers were not found to be using this facility. According to the Land Tax Act, local Land Tax Offices and Land Reform Offices, are responsible for the control of unauthorized landholding by individuals or firms, but according to the DoLRM, they had been failing to carry out this role (Manisharma, 2009c)

In January 2010, the DoLRM instructed all Land Tax Offices not to register ownership in the name of the housing companies, unless they can produce certification from Land Reform Offices that their landholdings do not exceed the ceiling. In response, the Nepal Land and Housing Developers' Association (NLHDA) called an assembly of members to protest the decision. They decided to defy DoLRM directives, bringing the registration of transactions to halt. They also threatened that the situation would jeopardise their ability to repay bank loans (Manisharma, 2010a).

Eventually, the DoLRM announced in February 2010 that private land developers and housing companies and public limited land development and housing companies will be able to obtain permission to hold land up to ceiling of 300 and 600 ropanis respectively, or more with cabinet approval. The NLHDA welcomed the move as a necessary clarification of the provisions of the Land Reform Act and the Industrial Enterprise Act (Manisharma, 2010b).

## Attempts to rein in the boom through credit restrictions

The real estate boom in Nepali cities, and particularly in Kathmandu Valley, has prompted concerns that it could amount to an investment bubble. The implosion of such a bubble could potentially undermine the solvency of financial institutions with extensive exposure to real estate-backed debt. For this reason the central bank of Nepal has set a cap on real estate loan exposure for commercial banks of 40 % by the end of this fiscal year and 25 % in three years time. Mortgages are also only permitted up to 60 % of real estate values.

These measures have created a credit squeeze that has prompted interest rates to double to around 17 % on some loans, as banks cut back on lending to finance real estate purchases. The measures have again become the focus of protest by the NLHDA which has demanded a range of policy changes, including a delay on the capping of real estate loan exposure and mortgages at 80% of value (Republica, 2010).

## Towards a coordinated planning approach for Kathmandu Valley

A range of national and local institutions are involved in urban development activities in Kathmandu Valley. Apart from the Kathmandu, Lalitpur, Bhaktapur, Madhyapur Thimi and Kirtipur municipalities, there are several central government agencies working in the valley. They are the Department of Land Reform and Management, the Department of Housing and Construction, the Kathmandu Valley Town Development Committee (KVTDC) under the Ministry of Physical Planning and Construction, the Department of Roads, the Water Supply and Sewerage Corporation, the Village Development Committees and the District Development Committees. Local communities, civil society organizations and non-governmental organizations similarly play a role in valley development activities.

There is a lack of cooperation and coordination between these institutions for effective planning and implementation of urban infrastructure development activities within Kathmandu Metropolitan City and Kathmandu Valley. However, this does not mean that there has been no attempt to develop a coordinated approach to land management and planning in the area. A long-term development concept for the valley was approved by the government in 2002. It proposed the following policies which can be taken as guiding principles for ensuring the planned development of the city and valley as a whole:

- A valley wide apex body – Kathmandu Valley Development Authority – to be formed with proportionate representation of local bodies.
- Job opportunities shall be decentralized so that people can settle in any location of the valley.
- Delineation of rural and urban boundaries so that separate planning standards can be enforced in rural and urban areas.
- Investments need be channeled to confined sectors so that densification, development of new towns and allocation of future land can be delineated.
- A system of planning permissions and environmental impact assessment shall be introduced.
- Tourism-related activities shall be promoted and polluting industries shall be relocated to other towns outside Kathmandu.
- Bhaktapur and other traditional settlements to be declared cultural towns.
- Kathmandu to be declared a single administrative entity.
- Protection of public parks and watershed areas.
- Development of cottage industries.
- Relocation of security establishments to fringe areas.

Unfortunately, despite of the efforts made for the implementation of the Kathmandu Valley Town Development Plan, no actions have yet been taken. The anticipated apex body, the Kathmandu Valley Development Authority, has not been formed and no programs of any kind have been implemented.

# 5 Conclusions and recommendations

Kathmandu Valley is an example of a peri-urban area that has come under enormous pressure from urbanisation. In particular, the lands of the valley have come under pressure from the rapid growth of the urban area, including from migrants attracted by economic development skewed towards the city, or from persons displaced by conflict. Commercial pressures have also come from inflows of remittances, capital flight from rural areas and a dramatic expansion of credit. In the context of weak governance, in which authority over the valley is divided between numerous different administrative areas and government agencies, these pressures have led to huge rises in land values, land speculation and uncontrolled urban development.

While many have been winners in this real estate boom, particularly speculators and former land owners and actors in the real estate sector, such speculative gains are matched by the high prices and rents residents must pay, and by the potential speculative losses that may occur should the boom turn to bust. Negative impacts can also be seen in the divisions created within families and communities, in conflicts arising between land owners and developers and in the public costs of poorly controlled, environmentally damaging development.

The commercial pressure on the lands of the Kathmandu Valley thus present opportunities for some and costs to others. Yet the large capital inflows that have helped create this problem should really be an opportunity. Such a supply of capital, particularly from remittances, could be seen as an opportunity for worthwhile and productive investment in the development of Kathmandu. Instead, the speculative bubble that has arisen is a waste of this opportunity.

Remedying this situation will be difficult, particularly as the current market for land has created a powerful lobby group representing the interests of land owners and developers in the valley and in other urban areas. Nonetheless, we put forward a series of recommendations that would help address the the impacts of the pressure on land in this case:

1. Agricultural land has been converted into residential land at a rapid rate. An appropriate housing program should aim to safeguard fertile agricultural land and shift construction to less fertile areas.
2. A two-pronged strategy is needed: to adopt and strictly follow improved standards for new development; and to gradually reduce the over exploitation of natural resources.
3. With particular regard to Kathmandu Valley, the government should:
  - a) Revisit and enforce its long term concept designed in 2002.



- b) Formulate an urban land use management policy, with land categorization for different purposes.
  - c) Develop land zoning, particularly for the zoning of agricultural land.
  - d) Streamline the issuance of land purchase, and construction permissions, with a clear framework.
  - e) Involve local communities and consider indigenous groups in the planning process.
  - f) Take measures and plan for environmental conservation.
  - g) Plans for an outer Ring Road should take into account adverse environmental impacts and the possibility of uncontrolled urban sprawl.
4. The real estate boom is a mix of logic and speculation. The bubble has been created by speculation and when it bursts it threatens also to bring down needed activities of urban development. To mitigate this, the government should gradually increase the minimum duration of land ownership so as to deter speculative land holding. All such measures need to be gradual in order to trigger the bursting of the bubble.
  5. Classifications of the real estate and property developers are required to regulate their transactions and guard against current malpractices.
  6. The urbanisation trend in Kathmandu Valley can be expected to continue. If rational planning and development strategies are not formulated and implemented effectively, its growth will create severe consequences. Policies are required for the sustainable development of the valley at both valley-wide and local levels. While valley-wide strategies require addressing trunk infrastructures for drainage, water, road, solid waste management, and so on, the local level strategies require the development of local-level infrastructures. Cooperation and coordination between national and local institutions will be essential in promoting and implementing activities in an effective manner.
  7. Kathmandu Metropolitan City being the national capital means that the role of central and local bodies are equally important, however their specific role, responsibilities, and authority and accountability should be clearly defined. Kathmandu Metropolitan City has taken a lead role to coordinate with various national institution and international funding agencies and cities to promote and implement urban development activities in a planned and sustainable manner within the Kathmandu metropolitan area.

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This report is part of a wider initiative on Commercial Pressures on Land (CPL). If you would like further information on the initiative and on the collaborating partners, please feel free to contact the International Land Coalition.

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