

GOVERNANCE

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Nepal's Budget Preparation: Calls for a Strategic Development Priorities

The government is moving ahead with an ambitious budget plan for the next fiscal year 2082/83, despite the current fiscal reality being far from satisfactory. The National Planning Commission (NPC) has set a budget ceiling of NPR 1.9 trillion for the upcoming fiscal year. However, past trends in budget execution, particularly in development spending, indicate a significant gap between budgetary allocations and actual expenditure.

As of mid-February, only 20.1 percent of the development budget has been utilized, marking a 1.84 percent decline compared to the previous year. In fiscal year 2080/81, the government allocated NPR 302 billion for development projects, yet only 63.47 percent of that amount was spent. There were similar patterns in the previous years as well, demonstrating inefficiencies in capital expenditure. In Nepal, there has always been a practice to rush development spending toward the end of the fiscal year, which results in execution of the projects with compromised quality and inefficiencies.

Given this challenge in the development budget, the Ministry of Finance has decided to review capital expenditure for the remaining fiscal period. The government plans to halt projects that have not yet entered the implementation phase and are low in priority, ensuring that only well-prepared and ongoing projects will receive funding. It plans to prioritize national pride projects, pending projects on which certain work has started, and those with clear financial obligation.

Experts argue that the government's inability to allocate budgets on time, coupled with a fragmented approach to project distribution, has led to persistently low capital expenditure. The lack of proper planning and scattered project implementation has resulted in annual underspending, creating bottlenecks in infrastructure development and economic progress. In response, the NPC has recommended that the budget for the next fiscal year be focused on priority and near-completion projects to optimize resource use.

In addition to that, the commission has also proposed a new classification system for budget allocation, prioritizing projects based on specific criteria. Projects requiring minimal funding and those with faster completion rates will be given the highest priority, while large-scale projects with relatively quick completion timelines will be placed in the second tier. This structured approach aims to ensure that financial resources are channeled into projects that yield tangible economic benefits.

The NPC has set an economic growth target of 6.6% under the 16th periodic plan, aligning with the proposed budget ceiling. However, achieving this target necessitates a robust fiscal strategy, efficient expenditure mechanisms, and realistic economic planning, that ends the pattern of delayed fund allocation, rushed-year end spending and fragmentation in project implementation. Now that the donors priorities are also shifting, this could also impact funding for various projects. Given these constraints, Nepal must reassess its development priorities, emphasizing sustainable economic growth, efficient public spending, and institutional reforms to enhance project execution. Only with a more strategic and accountable approach can the government bridge the gap between budgetary aspirations and actual economic progress.

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Governance Issues of the Week

1. MCC has been suspended: The suspension of Millennium Challenge Corporation (MCC) payments marks a significant setback for Nepal's Infrastructure development, especially in energy transmission and road connectivity. The Nepal Compact includes a 315-km for a 400kV transmission line, Road infrastructure upgrades, where \$500 million is funded by the MCC while \$197 million is funded by the Nepal Government. Given the five year timeframe for project completion began in August 2023, any prolonged disruption could escalate costs, delay benefits and reduce confidence among investors.

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2. Comprehensive dialogue between Nepal and Japan's foreign minister: Japan's Minister of State for Foreign Affairs, Miyaji Takuma met his Nepali counterpart, in Muscat, Oman during the 8th Indian Ocean Conference. Nepal has requested assistance for the reconstruction of the BP highway, damaged by the September 2024 floods, alongside cooperation to connect Japan with the Gautam Buddha International Airport and Pokhara International Airport.

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3. Solududhkunda Municipality requests a refueling station to improve flight regularity: Solududhkunda Municipality has requested Nepal Oil Corporation to establish a refuelling centre at Phaplu Airport to support tourism and flight reliability. The municipality is coordinating with airlines to set up the facility, aiming to make Phaplu a central air travel hub. Limited flight operations have impacted tourism in lower Solukhumbu and caused difficulties for emergency evacuations. Chief Administrative Officer, Tukti Sherpa emphasized that a refuelling centre would ensure regular flights boosting tourism and local travel.

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4. Budget to repair flood damages appropriated: The Ministry of Finance has approved NPR 18.88 billion to rebuild roads and bridges damaged by floods and landslides. The funding covers 26 projects, including 13 roads and 13 bridges. NPR 8.5 billion has been allocated for the reconstruction of BP highway, while NPR 600 million has been allocated for the rebuilding of Mechi Highway. Khurkot-Milty Road has been allocated NPR 4 billion. Thankot-Chitlang has been allocated NPR 250 million, Kirnetar-Jafe NPR 450 million and Temal-siduretar has been allotted NPR 450 million.

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5. 12 ministries score failing marks: The government's half-yearly performance is far below expectations, with 12 ministries unable to meet even 35% of their targets. The Prime Minister's Office itself achieved only 28.5% of the target. Out of 23 assigned activities, the PM's office completed only 3, while 2 didn't even begin. The national vigilance centre scored 0%, while the ministry of Physical Infrastructure and Women's Ministry scored 15.8% and 21.4%, respectively. The Ministry of Law, Justice, and Parliamentary Affairs completed 100% of both activities and milestones. The Ministry of Culture and tourism had completed 80.5% of the target. The Defence Ministry and Home Ministry have a 59% and 52.6% completion rate, respectively.

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6. Sudurpashcim records slight decrease in Human rights violations: 1,081 incidents of human rights violations and excesses have been reported in Sudurpashcim in 2024. It is reported that 1,999 people across the province were affected by human rights violations and atrocities in 2024. The number of human rights violation victims has decreased by 102 people compared to 2023.

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