Nepal GOVERNANCE WEEKLY

Governance Decisiveness, Responsiveness, and the Equity Tax

When the government introduced a 3% Equity Tax on private education and healthcare services, along with a 5% tax on electricity through the FY 2083/84 budget, it became one of the most debated fiscal measures of the week. Soon after the levies came into effect on 17 July 2026, they were met with strong resistance from stakeholders across the education, healthcare, and energy sectors, who argued that the raised tax rates would pass additional costs on to the consumers.

After revealing the budget, the Finance Minister defended the tax measures, remarking that the government did not intend to withdraw the taxes but was willing to consider adjustments where necessary. The taxes, as mentioned, were introduced to promote public "co-investment" by mobilizing additional resources for national priorities, including expanding quality education and healthcare in remote and underserved areas, strengthening health insurance coverage, supporting Dalit, marginalized, and economically disadvantaged children, and financing large-scale development initiatives.

However, the government's position shifted within days. Following widespread public criticism after 20 July, the Prime Minister had announced, after consultations with the Finance Minister, that the taxes will be withdrawn. He stated that the government did not wish to impose additional financial burdens on citizens or undermine the public trust it had pledged to uphold. Officials have continued to emphasize that while the objectives behind the proposal remain important, the government chose to prioritize public concerns over immediate implementation.

Rather than introducing the new levies, the government announced that it would instead focus on enforcing existing legal obligations requiring private hospitals to reserve 10 percent of their beds for free treatment and private schools to allocate 10 percent of their seats as scholarships for students from marginalized communities. The Prime Minister also reiterated that the government remains prepared to review, amend, or withdraw other decisions whenever they are found to be inconsistent with the broader public interest.

The swift reversal has generated discussion not only about the proposed taxes themselves but also about the government's broader approach to policymaking. For some, the decision reflects a willingness to respond quickly to public concerns and remain flexible when policies receive widespread opposition. For others, it has highlighted the need for undertaking broader consultations and impact assessments before such major fiscal measures are formally announced, particularly when they are likely to affect large sections of the population.

The episode also raises a broader governance question: how should governments balance decisiveness with responsiveness? While the decision reflects a willingness to respond to public concerns, it also leaves open the question of how the needs of the marginalized communities that the levy was originally intended to support will be addressed. Whether those commitments are pursued through alternative measures or revisited in future policy discussions will be an important test of the government's broader equity agenda. Ultimately, the challenge lies not only in responding to public sentiment but also in ensuring that policymaking remains inclusive and solution-oriented with its long-term objectives.

Weekly Snapshot

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Government Pledges Speedy Public Procurement: The Nepal government has updated its public procurement rules to speed up construction projects and improve quality of procurement. The government plans to use an "average bidding" system to disqualify unrealistic low bids, shorten the bidding deadlines and lighten the penalties for contractors who quit mid-project. While officials believe these reforms will simplify procedures and resolve chronic delays, risks of decreased accountability and disproportionate benefit by the contractors also persist. Read More

Hope Rises for Voting Rights of Nepalis Abroad: The proposed Election Commission Chief led group of commissioners have presented a strategic roadmap promising to secure the voting rights for the expat Nepalis. The roadmap is said to trace the Commission's commitment to expand the government's electorate and secure and regulate the electronic voting system in Nepal. Feasibility studies to introduce voting machines and other IT infrastructure and strict enforcement measures for deregistration of inactive political parties are also mentioned. Read More

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Investor Confidence over Nepal declines: Foreign Direct Investment (FDI) commitments to Nepal dropped by 10% to Rs.58 billion last fiscal year, largely attributed to political instability, policy uncertainty, and institutional weaknesses. While agriculture and tourism attracted most pledges, the gap between committed and realized investments remains wide. But with the FDI inflows doubled to Rs22.82 billion, experts conclude that driving the country towards consistent policies and simpler regulations can significantly increase the overall investor confidence in the current year. Read More

Cybercrime in Dhading surges: Cybercrime complaints in Dhading have rapidly risen more than sixfold in three years, with 114 cases reported this year. Frauds involving fake overseas jobs and lottery scams and parcel scams have led to increased risks of private network evasion. The police have also warned the public to heighten password security and remain cautious while sharing their digital footprint. Rampant digital adoption combined with poor digital literacy has surged exploitation on platforms like WhatsApp, TikTok, and digital wallets. Read More

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13 local Governments stocks in Budget Holiday: Thirteen local-level governments across Madhesh, Lumbini, and Koshi face a "budget holiday" after missing statutory deadlines. Eight municipalities failed to present budgets, and five could not enter theirs into the financial software (Sutra). Consequently, they are legally barred from collecting taxes or spending on essential services like salaries, health, and education for the time being. These delays stem from political disputes among elected officials and absent administrative officers. Read More.

Nepal Governance Weekly is an analytical update of Nepal's current affairs based on media and real sources mining, to sensitize the communities on hot news on various political, economic, governance, and policy issues from the perspective of accountability.

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