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AI Governance In Nepal: Opportunities and Challenges for Scaling AI Adoption

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KEY TAKEAWAY

Nepal has ambitious AI policy goals, but its success will depend on stronger infrastructure, institutional capacity, and coordinated efforts to move from isolated pilot projects to large-scale implementation across the federal system.

> ***"Nepal's ability to scale AI adoption will depend on whether the three levels of government can develop effective partnerships with universities, private firms, NGOs, and development partners, creating pathways that connect research and innovation to public sector implementation and long-term institutional adoption."***

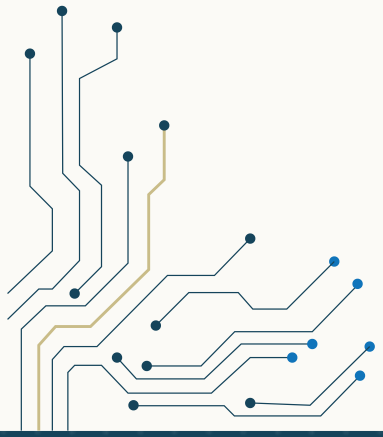
THE ISSUE

The AI Landscape in Federal Nepal

Following the adoption of the 2015 Constitution, Nepal transitioned from a unitary to a federal system, redistributing authority and responsibilities among federal, provincial, and local governments. At the same time, Nepal recognizes the potential of artificial intelligence (AI) to improve public service delivery and enhance economic growth. This commitment is reflected in recent policy initiatives, such as the National Artificial Intelligence Policy (2025), and in the finance minister's May 2023 budget speech, which included substantial references to AI. The question is no longer whether Nepal should use AI, **but *how* to implement it effectively within a federal system**.

A defining feature of AI governance in Nepal is the **potential for collaboration between policy authority and innovation capacity across different levels of government**. While formal authority over policy and service delivery is distributed among different levels of government, the capacity to develop and deploy AI is dispersed among multiple actors However, most AI initiatives in Nepal are led by technology firms, research organizations, and international development partners rather than government entities. Universities contribute research and technical expertise, startups develop AI-enabled solutions, private firms provide digital infrastructure and services, and development partners offer funding, support experimentation, and build capacity. Within the Nepal federal system, the subnational levels have opportunities to partner with these non-state actors and accelerate the use of AI in the public sector. However, many AI-driven development initiatives at the subnational level remain limited to pilot projects and isolated experiments which reflects broader **challenges in institutional capacity, coordination, and scaling**. At the same time, the enabling environment is underdeveloped, with a shortage of skilled human capital, AI infrastructure, computing capacity, data centers, high-speed internet connectivity, and access to high-quality datasets. Equally important are investments in human capital through AI education, research, commercialization, and access to finance. Several studies indicate that Nepal currently lacks such an enabling environment

These issues are particularly significant within Nepal's federal system, as **AI governance is not only about technological readiness, but also about how non-state actors interact across levels of government and how these interactions shape AI adoption**. In this context, this policy brief examines how Nepal's federalism influences AI governance by analyzing the **relation between national policy ambition, infrastructure, and institutional readiness and coordination between state and non-state actors**.



THE FINDINGS

The analysis of the governance of AI in Nepal's federal system highlights three key findings.

1. AI is Becoming a National Priority in Nepal

Nepal's efforts to become an AI-ready country are very recent, but AI has rapidly become a national development priority. This commitment is visible in Nepal's National AI policy (2025), which provides strategic direction for developing AI talent, promoting research and startups, and encouraging the use of AI across sectors such as agriculture, health, education, and digital innovation. The policy also proposes a multilevel governance structure that includes the creation of an AI regulation Council for AI policy and standards, a National AI at the center, and AI excellence centers in provinces. Complementing the AI policy, Nepal has also adopted a supporting digital governance framework, including the National Cyber Security Policy (2023) and the Data Center and Cloud Service (Operation and Management) Directive (2025), which begin to establish the regulatory and institutional foundations for AI development, secure digital infrastructure, and cloud-based services.

Additionally, Nepal's FY 2083/84 (2026/27) budget allocates a range of investments to build the country's AI ecosystem. The budget proposes a plan to support AI research, innovation, and digital infrastructure. Beyond the ecosystem, the budget also highlights the possibilities of using AI within public administration through the planned introduction of an AI-based e-assessment system for revenue investigation and auditing, as well as in areas such as law enforcement (including police investigation) and forensic labs. Largely, these measures reflect a shift from policy formulation to the practical development of AI infrastructure, talent development, innovation support, and public-sector applications.

Together, these initiatives position AI as an essential instrument for economic transformation, enhanced public service delivery, digital innovation, and employment generation. However, although policy direction is increasingly clear, translating these ambitions into practice will require adequate infrastructure, investment, institutional capacity, and coordination across Nepal's federal system. Political leadership, financing, and institutional initiatives currently remain concentrated at the federal level. **Central leadership is necessary to establish national standards and strategic control, but successful implementation of AI ultimately depends on the subnational level**, which exercises constitutional authority over several development sectors.

The extent to which national commitments are translated into practical application across the federal system will largely determine the success of Nepal's AI agenda. However, **national commitment alone does not guarantee AI readiness**. Translating policy ambition into implementation requires addressing the underlying infrastructure, digital capacity, and territorial inequalities that shape Nepal's ability to develop and deploy AI.

THE FINDINGS

2. Opportunities and Structural Constraints of AI Readiness in Nepal

Despite growing a strong political commitment, several major infrastructure constraints limit Nepal's AI readiness. AI systems require extensive digital infrastructure, including computing capacity, data centers, reliable electricity, cloud services, and high-speed connectivity to implement AI effectively. Among these, data centers are particularly critical, as they provide the computational power needed to train and operate AI models. These data centers require significant amounts of electricity. As Nepal has abundant renewable hydropower resources, it has a comparative advantage in attracting investment in AI infrastructure, particularly data centers.

> **"Disparities in human development and economic resources exist across provinces and municipalities. Those with lower levels of socioeconomic development face greater constraints building the institutional, technical, and human capacities required for effective AI adoption."**

Recognizing these opportunities, the FY 2083/84 budget proposes establishing a Sovereign AI Compute center that leverages Nepal's renewable hydropower resources. Moreover, to attract foreign investment in AI, the budget also proposes amendments to the Foreign Investment and Technology Transfer Act (FITTA) that replace the prior-approval requirement for profit repatriation with a prior-notification-based system to expedite the investment process. These proposals represent important enabling measures, but they remain proposals rather than enacted reforms. Their impact will depend on parliamentary approval, detailed implementation rules, and the government's ability to attract public and private investments. **Data centers require not only abundant electricity but also reliable power transmission, regulatory certainty, water resources for cooling systems, and substantial private investment**. Nepal, however, lacks many of these enabling conditions, which limit its ability to translate its hydropower advantage into a competitive AI ecosystem. While the regulatory environment for AI and data centers is still evolving, investment incentives remain very limited.

Furthermore, Nepal's existing data centers are heavily concentrated in Kathmandu, and **infrastructure constraints are further compounded by uneven territorial development**. Substantial disparities in human development and economic resources exist across provinces and municipalities , and these inequalities are likely to reflect in AI readiness across a country's federal system. Provinces with lower levels of socioeconomic development face **greater constraints building the institutional,**

THE FINDINGS

technical, and human capacities required for effective AI adoption. Beyond physical infrastructure, AI also depends on the availability of standardized, interoperable, and well-governed data. Similar disparities exist across Nepal's federal system and sectors, limiting the availability and quality of data needed to support AI applications in the public sector.

These infrastructure and data constraints are compounded by broader digital readiness gaps. While broadband penetration exceeds 100 percent due to more than one subscription per user, leading to a significant expansion of connectivity, substantial disparities in internet quality persist between urban and rural areas, and between mountain and plain regions. Moreover, cloud computing infrastructure, essential for scalable AI deployment, is limited, which constrains the ability of both public and private sectors to adopt AI solutions at scale.

Despite comparative advantage and opportunities, AI readiness in Nepal remains constrained by infrastructure limitations, territorial inequality, and gaps in the digital ecosystem across the federal system. These constraints, however, do not imply an absence of AI innovation and adoption. Rather, **recent AI use cases demonstrate that innovation is already taking place at the subnational level**.

Nepal's AI Ecosystem



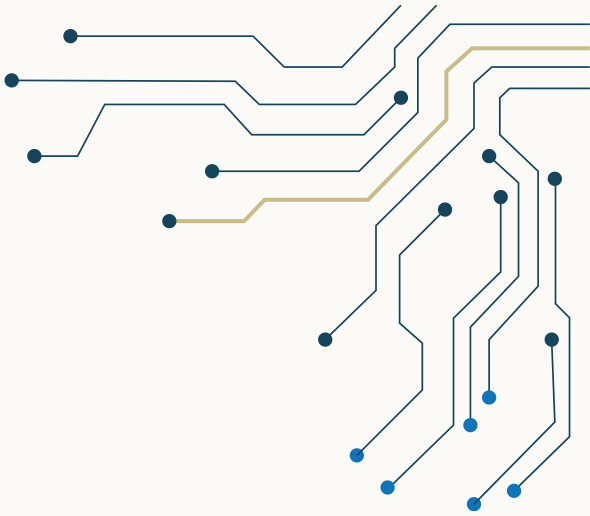
THE FINDINGS

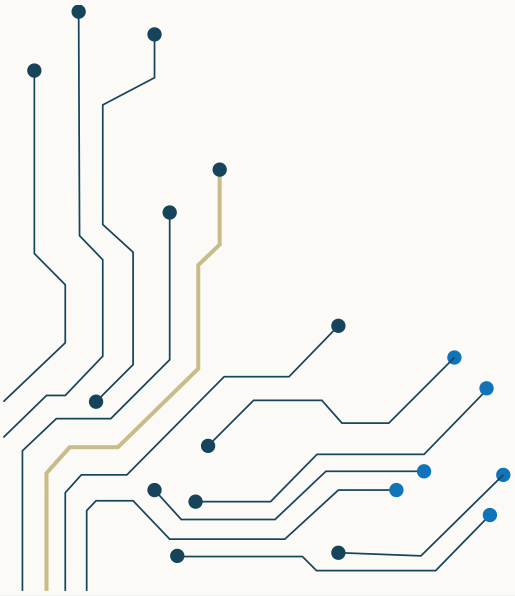
3. Governance Beyond Government: AI Use for Development and Service Delivery

Nepal's federal constitution assigns municipalities substantial authority over core public services, including agriculture, local infrastructure, education, health, and disaster management. These constitutional responsibilities make local governments natural laboratories for AI-driven innovation, as they are responsible for delivering many of the public services where AI can generate tangible improvement. Rather than being driven solely by centrally designed programs, **AI adoption in Nepal is emerging through locally identified problem-solving initiatives**.

Several municipalities have begun introducing AI functions on a small scale to address local issues. For instance, some use AI-powered chatbots to provide information on public services, permits, taxes, and grievance mechanisms. Others have used AI functions, such as predictive analytics and data-driven support, in the agriculture sector, mainly for yield prediction, seasonal forecasting, planting, pest detection, demand forecasting, market linkage, and disaster preparedness. Similarly, Kathmandu Metropolitan City has explored the use of AI in the traffic management system.

These initiatives at the local level are usually implemented in collaboration with technology firms, start-ups, telecommunications providers, and digital service companies, all of which are becoming important sources of technical expertise and implementation capacity. Nepal's federal system enables governments at different levels to partner with the private sector and development partners to design and implement AI solutions tailored to local needs. Hackathons have emerged as an important platform that brings together universities, think tanks, businesses, and development organizations to co-develop AI solutions for sectors such as agriculture, disaster management, e-governance, and public service delivery.





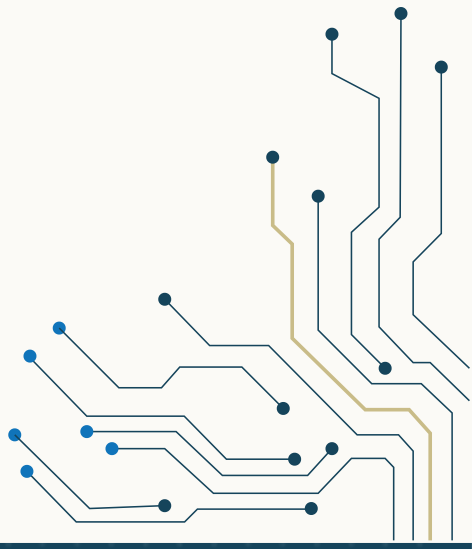
THE FINDINGS

Despite the emergence of these promising innovations, most AI initiatives in the public sector remain fragmented and largely confined to pilot projects. Innovations generated through hackathons and other collaborative initiatives are rarely integrated into mainstream government programs or scaled across jurisdictions. As a result, **knowledge production, policy development, and implementation remain disconnected**. Although private companies are adopting AI-driven solutions to maximize sales, and banks are using it for financial purposes, its use in the public sector is very limited and fragmented. Successful pilot projects are seldom shared or integrated into large-scale public-sector programs.

Consequently, the principal governance challenge is not the absence of innovation but the lack of institutional mechanisms that connect public and private actors and enable AI solutions to scale across Nepal's federal system. Federalism creates opportunities for localized experimentation and context-specific AI applications. However, these capacities are constrained by weak institutional arrangements for identifying, evaluating, and integrating emerging innovations into government programs.

Nepal's ability to scale AI adoption will depend on whether the three levels of government can develop effective partnerships with universities, private firms, NGOs, and development partners, creating pathways that connect research and innovation to public sector implementation and long-term institutional adoption.

> ***"The principal governance challenge is not the absence of innovation but the lack of institutional mechanisms that connect public and private actors and enable AI solutions to scale across Nepal's federal system."***



POLICY LESSONS

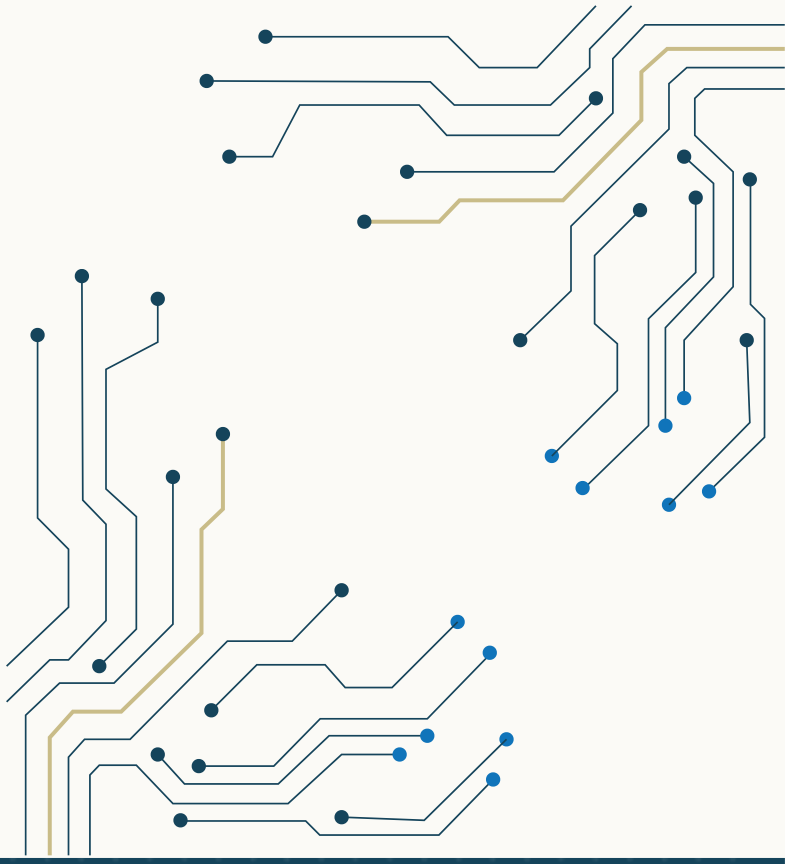
The following recommendations are made for policymakers seeking to strengthen governance of AI in Nepal's federal system:

1. **Strengthen the Enabling Environment for AI Infrastructure Investment**

The FY 2083/84 budget takes an important first step by proposing a Sovereign AI Compute Center and related investment reforms. These measures improve regulatory predictability and could make Nepal more attractive to domestic and foreign investments. However, these proposals are not yet institutionalized, and their effectiveness will depend on timely implementation through parliamentary amendments, regulatory directives, and coordinated administrative actions across relevant agencies. To mobilize private capital at scale, the **government should provide targeted incentives for AI infrastructure and data center investment**. The government should provide **long-term regulatory certainty** for AI governance, cloud services, and cybersecurity, while considering targeted fiscal incentives and investment facilitation measures for AI infrastructure and data centers. This may include incentives for AI computing equipment and preferential electricity tariffs for green data centers, implemented through appropriate energy policies and mechanisms to encourage geographically distributed investment beyond Kathmandu. Provincial governments should be empowered to establish AI research and innovation centers, as recommended in Nepal's National AI policy, to support regional AI development and workforce capacity. These measures would enable Nepal to capitalize on its renewable hydropower advantage and reduce regional inequalities in AI readiness.

2. **Develop Context-Specific Strategies to Strengthen AI Readiness**

AI readiness varies considerably across Nepal's provinces and municipalities due to differences in infrastructure, institutional capacity, and human development. The federal government should therefore **adopt a differentiated approach that focuses on support for the areas with lower digital readiness**. Federal investment should emphasize expanding broadband connectivity, developing interoperable government data systems, cloud services, and AI skills development. Such support would reduce territorial inequalities and enable more balanced use of AI across Nepal's federal system.



POLICY LESSONS

3. **Transform Municipal AI Pilots into National Learning**

Federalism provides subnational levels with opportunities to experiment with an AI solution adapted to local needs. However, successful innovations remain isolated and rarely integrated into government programs. The government should establish intergovernmental coordination mechanisms throughout all levels of government, involving universities, technology firms, and development partners. Such mechanisms should facilitate policy coordination, data sharing, peer learning, and joint investment planning while observing subnational autonomy. Moreover, establishing a national repository of AI pilots, peer learning platforms, and dedicated implementation funding would enable effective solutions to spread across provinces and municipalities. Institutionalizing public-private partnerships within a framework would help bridge the current divide between research policy, and implementation and transform localized experimentation into scalable public-sector innovation.

> ***"Federalism creates opportunities for localized experimentation and context-specific AI applications. However, these capacities are constrained by weak institutional arrangements for identifying, evaluating, and integrating emerging innovations into government programs."***

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