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# **FISCAL FEDERALISM: An analysis of its initial implementation in Nepal**

**FEDERALISM IN NEPAL – VOLUME 6**



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## **About Sundar Santa Nepal**

This project aims to support the implementation of federalism and inclusive peace in Nepal by building understanding around evolving forms of marginalisation in the present context. It collaborates with provincial and local government representatives, civil society and the media, to draw lessons and best practices. The project is managed by International Alert and implemented through a consortium of Saferworld, BBC Media Action and local partners Samagra Jana Utthan Kendra, Jan Jagaran Club, Support-Nepal, United Youth Community Nepal, Mahuri Home and Nepal Madesh Foundation. It is funded by the Government of the United Kingdom through the Conflict Stability and Security Fund (CSSF).

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**Bhim Bhurtel**



# CONTENTS

<b>Abbreviations</b>	<b>4</b>
<b>Executive summary</b>	<b>5</b>
<b>1. Introduction</b>	<b>6</b>
<b>2. Objective of the review</b>	<b>7</b>
<b>3. Methodology</b>	<b>7</b>
<b>4. The country context</b>	<b>8</b>
<b>5. Fiscal federalism – the real foundation</b>	<b>9</b>
<b>6. Major findings</b>	<b>10</b>
Federalism as a vehicle for socio-economic transformation and effective governance	10
Lack of proper planning and strategic thinking hindered the implementation of fiscal federalism	13
The leadership capacity of the local elected governments matters	13
Private gain at public cost	14
Lack of sustainable revenue sources and suboptimal extraction capacity	14
Digital governance: technology plays a key role in enhancing effective governance	15
Emergence of new winners and losers	15
Anticipate anti-federalist narrative: future conflict dynamics	16
Lack of support system to bolster provincial/local representatives and civil servants	17
No clear transition plan for unbundling of roles and responsibilities	17
Shortfall of fiscal literacy among the stakeholders	18
Lack of proactive roles of oversight institutions and mechanisms	18
<b>7. Way forward</b>	<b>20</b>
Building transition plan and unbundling roles and responsibilities	20
Strengthening oversight institutions	20
Supporting elected representatives and civil servants	20
Supporting other civil society institutions	21
Regular periodical analysis	21
Recognising new winners and losers	21
A constructive role to be played by international donors and INGOs	21

<b>Case studies</b>	<b>22</b>
Case 1: Suboptimal taxation capacity	22
Case 2: Lack of knowledge, skills, information, planning and technological know-how	22
Case 3: Development has come to mean construction of roads	22
Case 4: Overlapping development projects	23
Case 5: Leadership capacity matters	23
Case 6: Reluctance to carry out judicial functions	24
<b>Annexes</b>	<b>25</b>
Annex 1: Reviewed documents and key informant interviews	25
Annex 2: Key informant interviews	26

## ABBREVIATIONS

<b>AG</b>	Auditor General
<b>CIAA</b>	Commission for Investigation of Abuse of Authority
<b>DPR</b>	Detailed Projects Reports
<b>ED</b>	Excise Duty
<b>FCGO</b>	Financial Comptroller General Office
<b>GDP</b>	Gross Domestic Product
<b>IRD</b>	Inland Revenue Department
<b>NNRFC</b>	National Natural Resources and Fiscal Commission
<b>NPC</b>	National Planning Commission
<b>NVC</b>	National Vigilance Centre
<b>PEFA</b>	Public Financial Management Accountability
<b>PLMBIS</b>	Provincial Line Ministry Budget Information System
<b>PPMC</b>	Public Procurement Monitoring Centre
<b>SuTRA</b>	Sub-national Treasury Regulatory Application
<b>VAT</b>	Value Added Tax

# EXECUTIVE SUMMARY

Nepal has adopted the process of annual budgeting by three spheres of government since 2018 as per the Constitution of Nepal 2015.<sup>1</sup> In that context, this report analyses the initial implementation of fiscal federalism in Nepal.

The methodology of assessment includes understanding the trends, direction and gaps in the implementation of fiscal federalism at the provincial and local levels. The tools adopted for the review are desk studies and key informant interviews with provincial and local government officials, civil society activists, media persons and academics in selected provinces. In addition, the study gleaned information from various official legal and public finance publications.

Results of the study show that, even though the federal government dispensing funding has resulted in substantial progress with regard to fiscal equalisation among provincial and local governments, these governments still suffer from a shortfall of sustainable and self-sufficient revenues for both recurrent and development expenditure, an issue that is not likely to be solved soon.

The federal government is efficient in economic stabilisation functions and has made major strides in enhancing efficiency in the distribution of funds and in reducing fiscal disparities among the provincial and local governments. Although the local governments are efficient in their allocation function, the allocated funds are not used effectively and efficiently to address the marginalised communities' needs. The provincial governments, on the other hand, are inefficient in their allocation function but are relatively efficient in their distribution functions to the local governments.

More importantly, the report finds that there are significant areas of weakness, such as lack of plans and strategic thinking to use public resources in the development of an inclusive economy, job creation, providing better healthcare and education, and combating poverty. The development focus of local and provincial governments is narrow, as their predominant involvement is in small-scale infrastructure development projects; and, despite recognising inequality and marginalisation as key conflict drivers, they do not prioritise socio-economic development to include 'excluded' citizens through their development plans, strategies and programmes. The study also finds that corruption, conflicts of interest and 'private gains at public costs' are 'unintended consequences' of the federal restructuring. These negative issues are widespread in the provincial and local governments.

Remedial actions are required to address these issues inherent in provincial and local governments. Efforts in envisioning and strategic thinking, and translating these visions and strategies into workable plans, programmes and projects are necessary to discharge the constitutionally mandated functions assigned to provincial and local governments.<sup>2</sup> To achieve this, supporting systems and institutions at the local and provincial levels need to be established, and knowledge, skills and financial resources invested to strengthen their service delivery capacities. Proactive whistle-blowers, watchdogs, interest groups, lobbying groups, litigating groups and civic engagement play a crucial part in holding provincial and local governments accountable to higher standards. Likewise, international development partners and INGOs will also be vital in the next five to six years, as they can play a major role in supporting local and provincial governments by providing innovative ideas, knowledge, skills, know-how and financial resources, enabling them to discharge their constitutionally mandated duties.

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1 Constitution of Nepal, 2015, Kathmandu: Nepal Law Commission, <http://www.lawcommission.gov.np/en/archives/category/documents/prevailing-law/constitution/constitution-of-nepal>, accessed 1 December 2019

2 Schedules 5 and 6 of the Constitution allocate the powers and functions of the federal and provincial governments, respectively. Schedule 7 sets out their concurrent powers and functions. Schedule 8 delineates the powers and functions of the local government. Schedule 9 consists of the concurrent jurisdiction of the federal, provincial and local governments. The stabilisation and distribution functions are allocated to federal government, and most of the public goods provisions and service delivery power and functions are vested in the provincial and local governments.

# 1. INTRODUCTION

Nepal's new Constitution, adopted in 2015, *set out a three-sphered governance structure – the federal government, seven provinces and 753 local units*. Adhering to the principles of fiscal federalism mandated by the Constitution, the federal government, as well as provincial and local governments, presented and implemented two fiscal years' budget. This report presents the results of the study undertaken to understand the progress made in implementing fiscal federalism.

Two important contexts motivate this study. First, after two and a half centuries of a 'unitary' and 'centralised' system of governance, two years of implementation of federalism have started to generate some evidence of the workings of fiscal federalism in Nepal. Thus, the time is right to undertake a brief review to understand the evolving trend and the direction of political federalism and its financial counterpart, fiscal federalism. Second, for almost two decades, development activities were either halted or carried out sub-optimally, mostly due to uncertainty triggered by the decade-long armed struggle that started in 1996, which was followed by another decade-long transition marked by a slow, painful and protracted process to reach a compromise among the political actors regarding the principles of the Constitution. As a result, local government bodies did not have elected representatives for almost 17 years, and hence civil servants were responsible for discharging the duties and functions that would have fallen to locally elected representatives. The Interim Constitution envisioned the federal restructuring in 2007; however, the model of federalism was to be finalised by the Constituent Assembly of the country. Finally, in 2015, political settlement was achieved, and the lengthy phase of political transition gave way to a new model of governance after the promulgation of the new Constitution. Consequently, following the local and general election held in 2017, Nepal has entered into a new phase to implement the Constitution, which aspires to provide citizens with "efficient public service and development delivery" and "effective, transparent and accountable governance" through the "peace dividend" and "federalism dividend".



## 2. OBJECTIVE OF THE REVIEW

The review has four primary purposes. The first is to assess the status of implementation of federal restructuring, mostly at the provincial and local levels, through the lens of fiscal federalism. Second, it attempts to assess the hindrances that provincial and local levels have encountered in achieving the goals envisioned by the Constitution in terms of performance, planning, budgeting and public financial management. Third, the study tries to identify the political economy aspect of future conflict dynamics at the provincial and local levels. Finally, it attempts to carve out roles that state and non-state actors, including donors, NGOs and INGOs, can play to strengthen federalism, thereby minimising the likelihood of the next cycle of conflict in Nepal in the future.

## 3. METHODOLOGY

This study is largely based on quantitative and qualitative information obtained from both primary and secondary sources (see Annex 1 for details). The fiscal federalism provisions of the Constitution of Nepal, along with the National Natural Resources and Fiscal Commission Act, 2017,<sup>3</sup> the Intergovernmental Fiscal Arrangement Act, 2017<sup>4</sup> and the Local Government Operation Act, 2017<sup>5</sup> provide the framework for assessing the extent of progress made in the course of implementing fiscal federalism in Nepal. Furthermore, 'budget' and 'annual policy and programme' promulgated by the federal government; the 'annual financial statement' of three provinces;<sup>6</sup> and the 'annual financial statement' of a few local governments<sup>7</sup> were reviewed to gauge the state of fiscal federalism in Nepal.

In addition, key informant interviews were conducted with high-ranking officials from the federal as well as the provincial and local governments to glean valuable insights into the progress of the implementation of fiscal federalism, as well as the challenges encountered.

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3 National Natural Resources and Fiscal Commission (NNRFC), National Natural Resources and Fiscal Commission Act, 2017, [https://www.nnrfc.gov.np/uploads/resources/2018-02-21/Natural\\_Resources\\_and\\_Financial\\_Commission\\_Act,\\_2074.pdf](https://www.nnrfc.gov.np/uploads/resources/2018-02-21/Natural_Resources_and_Financial_Commission_Act,_2074.pdf), accessed 2 December 2019

4 NNRFC, Intergovernmental Fiscal Arrangement Act, 2017, [https://www.nnrfc.gov.np/uploads/resources/2018-05-09/Intergovernmental\\_Fiscal\\_Arrangement\\_act1.pdf](https://www.nnrfc.gov.np/uploads/resources/2018-05-09/Intergovernmental_Fiscal_Arrangement_act1.pdf), accessed 2 December 2019

5 NNRFC, Local Government Operation Act, 2017, [https://www.nnrfc.gov.np/uploads/resources/2018-02-21/Local\\_Government\\_Operations\\_Act,\\_2074.pdf](https://www.nnrfc.gov.np/uploads/resources/2018-02-21/Local_Government_Operations_Act,_2074.pdf), accessed 2 December 2019

6 Province 2, Province 5 and Sudurpaschim Province were covered by the review.

7 The local governments covered by this review included Rapti-Sonari Rural Municipality, Nepalgunj Sub-Metropolis, Banke, Kailali and Parsa.

## 4. THE COUNTRY CONTEXT

Compromises made by the political parties to start the constitution-building process led to the Interim Constitution (2007), which paved the way for federalism in Nepal. The Interim Constitution, which was seen as a way to address many of the political, social and economic challenges and issues that plagued the nation at the time, was an outcome of the Comprehensive Peace Accord signed between the government and the Communist Party Nepal (Maoist) on 20 November 2006. The Accord identified the unequal representation of women and various other castes, ethnic and cultural groups, including marginal and vulnerable communities, in the political sphere as a major catalyst for conflict in Nepal.

In addition, the fiscal disparity prevalent in Nepal was one of the causes of past conflict. While some regions that were affluent in terms of resources and endowments witnessed notable socio-economic development, other regions were deprived of both fiscal resources and socio-economic development. Moreover, there was no efficient distribution of fiscal resources throughout the country to support nationwide development efforts. These vertical, horizontal and spatial disparities among different geographical areas are exacerbated by the government's poor capital budget absorption capacity. The projected capital budget for the last 30 years was about 9.5% of annual Gross Domestic Product (GDP), while actual spending was less than 4.5% of GDP.<sup>8</sup>

Against this backdrop, Nepal adopted the Federal Constitution on 20 September 2015. The preamble of the Constitution of Nepal envisions "ending all forms of discrimination and oppression created by the feudalistic, autocratic, *centralised*, *unitary* system of governance ... resolving to build an egalitarian society founded on the proportional inclusive and participatory principles in order to ensure economic equality, prosperity and social justice, by eliminating discrimination based on class, caste, region, language, religion and gender and all forms of caste-based untouchability".<sup>9</sup> Hence, the Constitution envisages federal restructuring as a means to address the aforementioned political, social and economic issues by delegating sovereignty among all three spheres of government based on the 'self-rule' and 'shared-rule'. Articles 56–60 and schedules 5–9 delineate the power, function and jurisdictions of the federal, provincial and local governments.<sup>10</sup>

The local election was held in three phases (14 May, 28 June and 18 September 2017), and the provincial and federal parliamentary elections were held in two phases (26 November and 7 December 2017). With all three spheres of government firmly in place, the federal Constitution, and consequently fiscal federalism, is now in full effect.

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8 Economic Survey (Various issues), Ministry of Finance, Kathmandu: Government of Nepal

9 Constitution of Nepal, 2015, Op. cit.

10 See footnote 2.

## 5. FISCAL FEDERALISM – THE REAL FOUNDATION

Nepal's federal system is built on the understanding that the discrimination, marginalisation and exclusion of minority groups, and the prime source of conflict, emanated from the 'centralised' and 'unitary' system of governance. Moreover, Nepal's fiscal federalism upholds Richard Musgrave's<sup>11</sup> theory that a federal system of government can be efficient and effective at solving problems that governments face today, such as the just distribution of income, efficient and effective allocation of resources, and economic stability. Specifically, the federal government can support economic stability and just distribution of income through fiscal equalisation, but allocation of fiscal resources should be the responsibility of provincial and local governments.

Fiscal federalism is also the economic and financial counterpart of the political and administrative federal structure in any country, and it carries out the country's extractive and distributive functions.<sup>12</sup> The regulatory, compliance and symbolic functions of the state are also indirectly enacted by fiscal federalism. In Nepal, fiscal federalism is based on the canon that "single penny expense is not levied without the consent of parliament". To adhere to this norm, Nepal's Constitution has clear provisions with regard to the financial procedures of the federal, provincial and local governments.<sup>13</sup> Lastly, all the state functions are carried out by the existing 'public administration' at all tiers of government, and there is no other agency for achieving the country's economic development and social justices envisioned in the Constitution. Fiscal federalism is, therefore, the real foundation of both political and administrative federalism.

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11 R.A. Musgrave and P.B. Musgrave, *Public finance in theory and practice*, 5th ed., New York: McGraw-Hill, 1989

12 According to political scientist Gabriel A. Almond, the modern welfare state performs the extraction, distribution, regulatory, compliance and symbolic functions. The extraction function means to impose taxes. The distribution function implies the distribution of fiscal resources. The regulatory function means performing the regulations; the compliance function means to enforce the Constitution, law and legislation; and the symbolic function means representing the country's symbolic capacity within the country and in the international community.

13 The Constitution has clearly provisioned for the taxation and expenditure of all three tiers of government, and states that no tax is to be levied, no loan raised and no cost incurred except in accordance with the law. Articles 115–125 of the Constitution set out the federal financial procedure, Articles 203–213 the provincial financial procedure, and Articles 228–230 the local financial procedure.

## 6. MAJOR FINDINGS

### Federalism as a vehicle for socio-economic transformation and effective governance

Two years after the formation of all three spheres of government, Nepal is the most fiscally decentralised country in South Asia and is among the most fiscally decentralised countries in the world. Fiscal transfer<sup>14</sup> to the provincial and local governments in Nepal is leapfrogging. When Nepal introduced the Local Self Governance Act in 1999, fiscal transfers to local bodies made up just 5–6% of total government revenue. In FY 2018/19, the provincial and local governments received 40% of the federal government's total revenue; the planned amount for FY 2019/20 is 48%.

**Table 1: Source of finance for federal, provincial and local governments**

Federal	Province	Local
Revenue	Revenue (own)	Revenue (own)
Foreign grants	Federal grants	Federal grants
Foreign loan	Federal loan	Provincial grants
Domestic borrowing	Foreign loan	Federal loan
Printing currency (Occasionally)	Domestic loan	Domestic borrowing

Source: National Natural Resources and Fiscal Commission (NNRFC), 2019

Before the federal restructuring, fiscal transfers were not rules-based and financial resources were disproportionately distributed to the local bodies.<sup>15</sup> Although local bodies were responsible for appropriation requests regarding the amount of fiscal transfer that they needed, the Ministry of Finance and the National Planning Commission (NPC) had the final say in deciding the size of grant that they received. As a result, local bodies suffered a chronic lack of financial resources. Following the federal restructuring, fiscal transfers to provincial and local governments have become rules-based, transparent and proportionate. The provincial and local governments now receive revenue-sharing grants, fiscal equalisation grants, conditional grants and a portion of natural resources royalties, in line with the recommendation of the National Natural Resources and Fiscal Commission (NNRFC), a permanent constitutional body responsible for the grant design in Nepal. The NNRFC provides annual recommendations to the Ministry of Finance on the revenue and resource sharing model (see Table 2), as per the constitutionally mandated rules codified in the National Natural Resources and Fiscal Commission Act, 2017 and the Intergovernmental Fiscal Arrangement Act, 2017.

<sup>14</sup> Fiscal transfer is the amount of financial resources that the federal government provides to the provincial and local governments.

<sup>15</sup> Before federal restructuring, the Municipalities, Village Development Committee and District Development Committee were known as local bodies; now they are referred to as local governments.

The provincial and local governments also receive complementary and special grants administered by the NPC. Thus, fiscal transfers to different provinces and local governments, owing to their disparate characteristics, differ substantially in terms of grant size. These fiscal transfers provide additional financial resources to provincial and local governments to implement their infrastructure and socio-economic development projects and programmes. The current fiscal transfer mechanism is, therefore, expected to be a game-changer because of its efficiency and effectiveness in the provision of public goods and efficient public service delivery.

**Table 2: Revenue and natural resources sharing model, Intergovernmental Fiscal Arrangement Act, 2017**

Description	Federal	Provincial	Local
Value Added Tax (VAT)	70%	15%	15%
Excise Duty (ED)	70%	15%	15%
Natural Resources Royalty*	50%	25%	25%

Source: NNRFC, 2019

\*NNRFC recommends annually and this is a model for FY 2018/19.

Although the fiscal decentralisation in Nepal has, to a large extent, mitigated the problem of scarcity of resources for the local bodies (see Table 3) and the crisis of fiscal de-equalisation has now been largely addressed, there is still a lack of proper knowledge, skills and willingness to efficiently use fiscal resources in development programmes and projects. Fiscal transfer remains a necessary condition, but it is not sufficient for socio-economic transformation in Nepal.

**Table 3: Structure of federal revenue sharing in FY 2018/19**

Revenue sources	Amount (in billion NPR)	Expenditure	Amount (in billion NPR)	Fiscal transfer to provincial and local governments (in billion NPR)		
				Categories	Province	Local
<b>Revenue</b>	831	<b>Recurrent</b>	845	<b>Revenue sharing</b>	57	57
<b>Foreign aid</b>	312	<b>Capital</b>	314	<b>Fiscal equalisation grants</b>	50	85
	253.2			<b>Conditional grants</b>	63	110
	<b>Loan</b>			58.8	<b>Complementary and special grants</b>	20
<b>Domestic borrowing</b>	172	<b>Financial services</b>	156	<b>Revenue foregone</b>	51	
<b>Total</b>	<b>1315</b>		<b>1315</b>	<b>Total transfer</b>	<b>442</b>	

Source: NNRFC, 2019

One of the criticisms against the current level of fiscal transfer is that, while the grant amount may look substantial, it is grossly inadequate when viewed in per capita terms. For instance, in FY 2018/19, per capita conditional grant received by local governments was a mere NPR 4,147 and per capita fiscal equalisation grant just NPR 3,217 (see Tables 4 and 5).

In addition, using the fiscal transfer mechanism, the federal government transfers salaries and benefits for teachers and health sector civil servants to local governments under the conditional grants heading. However, as per the legal provisions, conditional grants should be used for funding infrastructure projects that are of national importance. Thus, the present conditional grant design by the federal government is in violation of the Constitution and the Intergovernmental Fiscal Arrangement Act, 2017.

**Table 4: Per capita conditional grants received by local government in FY 2018/19**

Type of local government	Province 1	Province 2	Province 3	Province 4	Province 5	Province 6	Province 7	National Average
Rural Municipality	5396	3070	5938	7359	4220	6998	6021	5244
Municipality	4202	3022	3683	5954	3578	5419	4300	3951
Sub Metropolis	2156	2521	3451	-	2586	-	2404	2569
Metropolis	2012	2251	1455	2909	-	-	-	1828
Province Average	4459	2963	3647	5977	3755	6202	4883	4147

Source: Financial Comptroller General Office (FCGO), Ministry of Finance, Kathmandu, 2019

**Table 5: Per capita fiscal equalisation grants received by local government in FY 2018/19**

Type of local government	Province 1	Province 2	Province 3	Province 4	Province 5	Province 6	Province 7	National Average
Rural Municipality	4200	3521	4790	4832	3382	5366	4448	4186
Municipality	3000	2905	2994	3144	2693	3640	3207	3005
Sub Metropolis	1997	2152	2030	-	2042	-	1807	2039
Metropolis	1567	1769	1023	1484	-	-	-	1223
Province Average	3361	2969	2887	3516	2937	4501	3621	3217

Source: FCGO, 2019

## Lack of proper planning and strategic thinking hindered the implementation of fiscal federalism

While the provincial and local governments have been receiving ample funds from the federal government, and concomitantly have been able to increase tax revenues at the provincial and local levels, the majority of provincial and local governments lack vision, planning and strategy to efficiently and effectively mobilise and channel the funds to meet overall socio-economic development goals. Currently, development activities at the provincial and local government levels are largely concentrated on the construction and maintenance of roads, and other unplanned small-scale infrastructure development projects. Moreover, the House of Representatives and provincial Legislative Assemblies have also been spending their development budgets on such small-scale infrastructure development projects.

Besides the evident lack of vision and strategic planning at all tiers of government, there is a paucity of benchmark statistics at the provincial and local levels. In the absence of quality statistical data, politicians and policy-makers are unable to develop effective strategies and prioritise development areas and activities. Therefore, it is essential for the provincial and local governments to invest in proper planning and strategy development if they are to meet their constitutional mandate.

Fiscal federalism is only a means for the government, through the creation of equal and equitable opportunities, to enable its citizens to exploit their full potential. Similarly, fiscal decentralisation is a necessary condition, but it is not sufficient for successful implementation of rights provisions under the Constitution, and Nepal's international legal obligations.<sup>16</sup> In addition, Nepal's Constitution envisages the creation of a more egalitarian society, and it guides political leaders and policy-makers to achieve this through social and economic policies that can be developed by reducing social, regional, spatial and income inequality, and through creating a dynamic, tolerant, just and liberal society that embraces all Nepali citizens. In particular, the Constitution envisions levelling the playing field for the disadvantaged and marginalised communities. However, the provincial and local governments have not been able to effectively align their policies, legislations, planning and implementation with the constitutional vision to ensure fundamental rights of the citizens.<sup>17</sup>

## The leadership capacity of the local elected governments matters

After the enactment of the federal constitution, much of the political power and functions that were previously bestowed on Singha Durbar, the Office of Prime Minister and the Council of Ministers, has now been transferred to the local governments. Consequently, the people now have high expectations of their elected representatives' ability to deliver quality services and public goods within their jurisdictions. However, not all elected representatives possess the necessary skills and experience to ensure efficient and effective governance at the local level. It is thus imperative that the elected leaders are able to develop their capacity in terms of effective law-making, policy-making, planning and budgeting, and financial management, so that they can stand as an autonomous local government as envisioned in the Constitution.

16 Nepal has signed and ratified more than 24 international human rights instruments, including the six core conventions of human rights to date.

17 The Constitution of Nepal adopted the obligation of the fifth-generation United Nations human rights instrument as the fundamental rights of the citizens, such as the right to transparent and accountable governance and the right to a clean environment.

## Private gain at public cost

A number of informants perceived that current practices could be seen as 'private gain at public cost' and 'conflict of interest', which could fall under policy corruption. When the amount of financial resources transferred to local governments increased, these unintended consequences resulted.

'Conflict of interest' arises when a public official with discretionary power in public affairs acts in their own interest rather than that of the public, resulting in a private gain at the public's expense. Therefore, in the majority of the corruption literature, conflict of interest can be seen as *sui generis*, a case of corruption. However, corruption cannot take place if a public official performs their duty without a quid pro quo while making their decision. A conflict of interest exists when an individual has the opportunity to exploit their position for personal earning, and it generally occurs when procurements of the goods and services or the contracts are made. In addition, if a public official performs their statutory and legal responsibilities in return for their wages, salaries and entitlements as per the rules and regulations, and there is no private gain besides these wages and salaries, there will be no corruption.

After receiving thousands of complaints of corruption committed by elected provincial and local government officials and civil servants, on 1 December 2019, the statutory anti-corruption body, i.e. the Commission for Investigation of Abuse of Authority (CIAA), issued advice to the provincial and local government officials to comply with the due process in the course of delivery of public services, project implementation and public procurements and the appointment of employees at the local level. The CIAA stated categorically that elected officials and civil servants had committed corruption and that the conflicts of interest are widespread in the course of implementation of the infrastructure development projects, the public procurement and appointments of employees at the local and provincial levels.<sup>18</sup> The CIAA also criticised provincial and local governments for not complying with the provincial and local financial procedures contained in the Constitution.

In addition, the CIAA has also pointed out that the irregularity in using public funds, corruption, bribery, conflict of interest and private gain from public cost are also policy corruption. Although there are no systematic studies undertaken on the policy corruption at the provincial and local levels, it can nonetheless be inferred that there is a positive correlation between the amount of fiscal transfer and the amount of policy-level corruption.

## Lack of sustainable revenue sources and suboptimal extraction capacity

The provincial and local governments do not have sustainable revenue sources. At present, intergovernmental fiscal transfer from the federal government is the only source of finance for both provincial and local governments. More than 80% of provincial budgetary resources come from the federal government, and more than 85% of public finance of local governments is sourced from the federal and provincial governments. The provincial extraction is about 20% of the total revenue, and the local extraction is about 15% of the total income of the local governments.<sup>19</sup> While the provincial and local governments lack access to sustainable revenue sources, both tiers of government are also suffering from a suboptimal extractive capacity of the existing sources of revenue. According to some estimates, NRP 51 billion in total revenue has been lost since the federal government handed over the tax jurisdiction to the provincial and local governments.<sup>20</sup>

18 Commission for Investigation of Abuse of Authority (CIAA), <http://www.ciaa.gov.np/singlePublications/107>, 10 December 2019

19 Financial Statement of the FCGO, the Provincial Treasury Controller Office and the financial statement of local governments

20 Estimated by the NNRF for FY 2018/19



## Digital governance: technology plays a key role in enhancing effective governance

Technology plays a crucial role in effective and efficient governance at all tiers of government. To this end, the Financial Comptroller General Office (FCGO) has been supporting the provincial and local governments by providing Sub-national Treasury Regulatory Application (SuTRA) software to help in planning, budgeting, accounting and reporting. SuTRA is applied to harmonise public financial management under the Public Financial Management Accountability (PEFA) framework, aimed at improving the results of development cooperation as part of the global aid effectiveness agenda. The software ensures uniformity of public financial management and reporting standards set by the PEFA Secretariat in the revenue and expenditures of all provincial and local governments. More importantly, the software is expected to help minimise fiduciary risk and abuse of power in financial matters.

Similarly, the federal government has been supporting the provincial governments through the Provincial Line Ministry Budget Information System (PLMBIS) for programming, planning and budgeting at the provincial level. PLMBIS is a web-based system developed for the line ministry of the federal government to prepare an annual work plan and budget proposal. Bearing in mind the inefficiency and shortcomings of the programming, planning and budgeting of the provincial governments in FY 2018/19, the Ministry of Finance has made PLMBIS available to them.

While many officials at the federal, provincial and local levels consider SuTRA and PLMBIS helpful for overall programming, planning, budgeting, accounting and reporting, a former government official, on the condition of anonymity, argued that technology such as software could unintentionally limit powers and functions of provincial and local governments as well as encroach on their ability to work independently on financial matters. The SuTRA and PLMBIS software support seems to limit the local and provincial governments' sovereign power to take decisions on financial matters, as well as planning and policy, as the software is run centrally.

## Emergence of new winners and losers

Federalism in Nepal is expected to better serve vulnerable, marginalised and excluded citizens. Citizens, especially those who are not part of the national mainstream and thus may identify themselves as second-class citizens in their own country, are expected to reap the federalism dividends. Although some analysts argue that the enactment of the Constitution has transformed marginalised people into winners, and traditionally privileged people into losers, it is important to remember that federalism is not supposed to generate winners and losers; instead, it should be a win-win game. However, the early experience of federalisation in Nepal suggests that the old unitary and centralised state was not the primary systemic contributor to widespread marginalisation and the exclusion of minority groups. Instead, it was the mind-set of the ruling class that led to divisions and the alienation of minority groups. Preliminary analysis found several similarities in the policy, planning, public service delivery and development thinking between the 'old unitary and centralised state' and the 'new federal democratic republic' at all three spheres of government.

The majority of ordinary citizens do not feel that they are any better off in the federal state than they were in the unitary state; rather, the implementation of federalism has only added new problems. The experiences of Sudan tell a similar story. Despite the Wealth Sharing Agreement signed in 2007, South Sudan revolted and declared its independence in 2011, largely because South Sudan believed that the Wealth Sharing Agreement was against their interest.<sup>21</sup>

21 A.S. Yasin, How effective fiscal federalism in conflict resolution in Sudan, African Economic Conference, African Development Bank, 2008, <https://www.afdb.org/fileadmin/uploads/afdb/Documents/Knowledge/30754228-EN-2.4.3-YASIN-FINAL-DRAFT.PDF>, accessed 1 December 2019

Given the experience up to now, federalism in Nepal is likely to have new winners and new losers in political games at the provincial and local levels. Civil servants at the local level, political leaders at the provincial and local levels, and their aides, along with local contractors, are likely to emerge as winners because they seem to be the ultimate beneficiaries of fiscal resources and federal dividends. Meanwhile, ordinary taxpayers, the marginalised and the excluded communities/groups are likely to emerge as the possible losers. Overall, there is a danger that federalism in Nepal will turn out to be the same old zero-sum game that could trigger another cycle of conflict.

## Anticipate anti-federalist narrative: future conflict dynamics

The provincial governments are far less efficient and effective in capital budget absorption in comparison to the local governments. While local governments' capital spending rate reached 95% of the total planned capital expenditures in the last fiscal year, the rate was just 30% at the provincial level (see Table 6). The provincial governments are new and are unfamiliar with the federal governance system. The elected officials and the newly 'adjusted' civil servants of the provincial governments largely spent the first year coming to understand the federal system, and their roles and responsibilities assigned by the Constitution.

**Table 6: Budget burn rate of provincial governments for the first four months of 2019/20**

Name of Province	Total budget (in NPR billion)	Recurrent expenditure (in NPR billion)	Capital spending (in NPR billion)
Province 1	44.95	1.74	1.01
Province 2	39.62	0.16	0.73
Province 3	49.62	0.61	1.40
Province 4	34.29	1.50	0.66
Province 5	38.75	1.40	1.29
Province 6	34.90	0.07	0.48
Province 7	29.44	0.46	0.82

Source: Financial Statement, FCGO, 2019

Although provincial governments can blame their underperformance on the lack of adequate civil servants, and delays in the drafting of necessary laws and policies by the federal government, they will nonetheless have to be responsible and accountable. While provincial governments had to develop human resources and physical infrastructures from scratch, the local governments were able to build upon and scale their already existing human resources and physical infrastructures.

The grievances of the provincial governments at the inter-state council meeting, chaired by the Prime Minister and to the NNRFC's recommendation for the design of the grant, always focus on revenue sharing, fiscal equalisation

grants and conditional grants, even though the provincial governments have poor capital spending capacity. On the other hand, the provincial governments have the least interest in complementary and special grants administered by the NPC due to the high prerequisites and numerous technical as well as compliance requirements.<sup>22</sup> The NPC provides these complementary and special grants to the provincial and local governments for development projects that can create jobs, expand agriculture extension services, provide better health and education services, and for other public goods provisions assigned by the Constitution.

Federalism in Nepal relies on the effectiveness and efficiency of provincial governments because the provincial arrangement is one of the vital conflict-resolution measures adopted in the Constitution of Nepal. The failure of provincial government is the failure of the current federal structure in the country. The voices who oppose the existence of provincial governments are still in the minority. If provincial governments do not enhance their capacity, efficiency and effectiveness, and their performance and impact is not visible to ordinary citizens, the discourse of the 'provincial tier being the unnecessary fifth wheel of a vehicle' will be powerful. Such anti-federalism narratives could play a critical role in future conflict dynamics. Thus, to keep federalism alive, provincial governments have to be strengthened, and their functioning scaled up.

## **Lack of support system to bolster provincial/local representatives and civil servants**

The limited experience of planning officers in project planning in, provincial and local governments means that there is an urgent need for direct support for the capacity building of the elected representatives in the provincial and local governments, and of civil servants on better planning, programming and budgeting to enhance their allocation function. For example, the study found that none of the provincial and local governments assessed has Detailed Projects Reports (DPR) of their proposed projects, primarily due to the lack of knowledge, skills and human resources. The demands articulated by citizens are very high at the local and provincial levels, but the local and provincial governments' capacity to meet these demands seems very low. The local and provincial governments should be directly supported in terms of knowledge, skills and institutions to enhance their productive capacity so that they can meet these demands. Therefore, in addition to government units delivering services, local and provincial governments need expertise and organisations at the local level, who can conduct supporting functions, such as undertaking research, and providing legal advisory services or technical input to planning and policy-making.

## **No clear transition plan for unbundling of roles and responsibilities**

The federal government lacks clear plans for the transition from the centralised and unitary structure of the country to federalism. This lack of plans and strategies is evidenced by the issues with civil service adjustments, frequent transfer of the chief administrative officer in local governments and the shortage of civil servants at the provincial level.

The federal government's inability to formulate clear plans for easing the transition into federalism is especially evident in its failure to carry out the unbundling of roles and responsibilities. Currently, there are overlapping roles

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<sup>22</sup> In order to receive complementary and special grants from the NPC, provincial governments need to have a sound project with clearly defined objectives, and proper planning and activities, along with a detailed project report. After the completion of the project, the outcome and the impact of the project should be aligned with the national development priority of the federal government.

and responsibilities among all three levels of government, which has created confusion and conflicts. The precise allocation of these functions is crucial for effective implementation of federal restructuring. A well-formulated unbundling precisely delineates functions and responsibilities, eliminating inefficiencies of each layer and helping to prevent conflicts among different governments. Furthermore, it fosters greater transparency and accountability among all tiers of government.

In addition to these disputes between different levels of government, there is also widespread conflict between the mayor and deputy mayor in municipalities or the chair and vice-chair in rural municipalities. Tensions arise largely because of ambiguities surrounding these representatives' roles, powers and functions, which points to a need for clear unbundling of officials' roles and responsibilities at this level as well. This could also mitigate risks of jurisdiction encroachment caused by other invisible variables, such as gender and social norms, caste and ethnic identity, and religion among others.

## **Shortfall of fiscal literacy among the stakeholders**

A good understanding of fiscal federalism is crucial for elected representatives to take fiscal decisions, for civil servants to implement budgetary decisions made by the elected representatives and for ordinary citizens to understand how taxes and public expenditure provisions affect their lives. However, the key informant interviews indicate that there is a severe lack of understanding regarding fiscal federalism among all the different stakeholders. For instance, in many cases, the elected representatives were even incognisant of the types of grants that they were receiving from the federal government.

This severe shortfall of 'fiscal literacy' among the elected representatives at the provincial and local tiers, and in the 'permanent government' at the local and provincial levels, has triggered mistrust between elected local governments and the 'permanent government'. The elected officials accuse the civil servants of showing a disinclination to implement policies and decisions by citing laws and procedures as obstacles. In contrast, the civil servants blame the elected representatives for not complying with laws and standard operating procedures of the local and provincial governments.

## **Lack of proactive roles of oversight institutions and mechanisms**

At this political juncture in the country, the oversight institutions must play a proactive and productive role in the regulatory and compliance functions of the provincial and local governments. Chief among them are the Public Account Committee of the provincial parliaments, the CIAA, the National Vigilance Centre (NVC), the Public Procurement Monitoring Centre (PPMC) and the Auditor General (AG)'s Office. However, the CIAA, AG, NVC and PPMC lack human resources as well as other physical resources to carry out their functions effectively. The Public Account Committee at the provincial level was found to be either dysfunctional or far less effective in the areas covered by the study. Furthermore, the study observed a severe lack of legislative oversight bodies in local governments. In addition, the provincial and local governments lack independent ombudsmen bodies, which could act as important oversight institutions to hold these subnational governments accountable. Thus, they should also be supported and encouraged to develop local and provincial laws and regulations, and agencies for upholding transparency and accountability.

The role of whistle-blowers, watchdogs, interest groups, litigating groups, lobbying groups, media, and public intellectual and civic engagement is critical to combat corruption and conflicts of interest; to rectify dilatory activities of provincial and local governments; and to hold them accountable and responsible to their citizens. The whistle-blower plays a crucial role in the democratic system as an internal mechanism within the government for supplying confidential information on violation of laws, irregularities, violation of workplace codes of conduct, corruption and conflicts of interest. In addition, as local governments lack opposition parties, as in the other legislative bodies, whistle-blowers can function as opposition parties, as well as serving as a Public Account Committee at the local level.

Similarly, interest groups, litigating groups and lobbying groups are any organisation of citizens that engage with the political process to protect and promote their policy goals. The marginalised, indigenous people and women's organisations can play a crucial role in policy and planning, and budgeting, as well as the implementation of plans and programmes at the provincial level. They can lobby for a policy statement, and ensure that the programming and planning align with the policy and provide an adequate budget for the plans and programmes that interest them. These groups can contribute to educating citizens at the local and provincial levels, as well as work for public mobilisation for specific policy goals.

In addition, the role of media is essential in a democratic system of governance, as it provide citizens with information about what their governments are doing. Accordingly, the media functions as an observer of the activities of governments at all levels and fearlessly exposes wrongdoings of the elected and the 'permanent government' at the provincial and local levels. Furthermore, the media represents citizens' voices and articulates the public interests of society to the government.

Likewise, public intellectuals play a crucial role as they can exert considerable influence at the provincial and local levels through their writings and speeches on wrongdoings of government officials. They can also help educate elected officials and civil servants in different disciplinary and professional fields through discussions, seminars and symposiums. Similarly, civic engagement, such as citizen action groups and non-membership citizens' movements, can also play a vital part in fostering responsible and accountable governance in the democracy.

However, the study found a severely diminished role for these groups and a virtually absent support system for these kinds of activism at the provincial and local levels. Thus, the promotion, protection and capacity building of these groups is necessary to deliver the benefits of federalism to ordinary citizens.

## 7. WAY FORWARD

Based on the findings of the study, the report recommends the following for ensuring the effective implementation of federalism.

### **Building transition plan and unbundling roles and responsibilities**

The results of this study suggest that Nepal has not yet witnessed the fully fledged implementation of federalism. Thus, the next two and a half years should be used to complete the transition from a unitary state to federalism on all fronts, including laws, regulations, policies, institutions, organisations, physical resources and human resources. Moreover, a time-bound federalism transition plan should be put in place, and tasks contained in the plan should be accomplished within that timeframe. Similarly, unbundling the roles and responsibilities of all three spheres of government, and detailing of schedule 7 (the concurrent list of federal and provincial powers and functions) and schedule 9 (the concurrent list of federal, provincial and local government powers and functions) of the Constitution should be completed to ensure the fully fledged operation of federalism in the future. In addition, the unbundling of the roles and responsibilities of the mayor and deputy mayor in municipalities and the chair and vice-chair in rural municipalities should be carried out for frictionless functioning of local governments.

### **Strengthening oversight institutions**

The findings suggest that the strengthening and capacity building of oversight institutions is vital to make provincial and local governments more effective, transparent and accountable to the electorates. Consequently, the oversight institutions such as the Public Account Committee of the provincial parliaments, CIAA, NVC, AG Office and PPMC should be made more efficient. It would also be useful to introduce provisions for establishing a Public Account Committee at the local level. Likewise, the provincial and local governments should create an independent ombudsman to oversee their duties and functions to ensure that the irregularities of the provincial and local governments do not go unchecked.

### **Supporting elected representatives and civil servants**

An unprecedented amount of public financial resources has been flowing to the local and provincial governments. However, these governments lack the skilled staff to develop programmes and projects that could optimise the use of the available funds. In the absence of vision, planning and strategic thinking, the local and provincial governments have been spending haphazardly on projects that offer incentives to both the elected officials and bureaucrats, such as the construction of roads and physical infrastructures, while ignoring transformative projects.

Supporting institutions in capacity building of elected representatives in the subnational governments and the civil servants aiding them can mitigate the human resources constraints currently affecting the provincial and local governments. This could be instrumental in the efficient allocation of fiscal resources and effective

public service delivery, and play an active role in achieving the constitutional objectives and providing federalism dividends to the people.

## Supporting other civil society institutions

Proactive whistle-blowers, watchdogs, interest groups, litigating groups, lobbying groups, the media, academics and civil society organisations are indispensable in the effective functioning of the provincial and local governments. The promotion of whistle-blowers from within the government is a valid way to discover any wrongdoing by elected representatives and civil servants. Similarly, strengthening watchdogs, interest groups, litigating groups, lobbying groups, media, public intellectuals and civic engagement increases accountability and, therefore, can contribute to making federalism a workable solution.

## Regular periodical analysis

A regular and periodic study, particularly regarding the direction of development and evolution of federalism practices, is essential. This helps politicians, policy-makers and decision-makers to learn from past mistakes and come up with better policy decisions and programme designs. As well as enhancing the functioning of federalism, the critical analysis also plays a crucial role in anticipating the dynamics of future conflicts in the country.

## Recognising new winners and losers

A haphazard federalism runs a substantial risk of creating a handful of winners but many losers, which may result in the widening of the gap between the privileged and the marginalised citizens. In that scenario, poor and weaker sections of society will be increasingly marginalised, and their development capacities will be impaired; as a result, their vulnerabilities will also increase. More importantly, this may contribute to a new conflict in the future. Thus, there is a need to acknowledge the possibility of creating winners and losers and to act to mitigate such occurrences.

## A constructive role to be played by international donors and INGOs

International donors and INGOs' roles are crucial, particularly in the next five to six years, for a smooth transition, capacity building, and strengthening elected representatives and civil service providers in the provincial and local governments. They can play a vital part in supplying knowledge, skills and education to the local and provincial officials. In addition, they can support civil society organisations, pressure groups, watchdogs, litigating groups, the media and academia by providing financial resources, innovative ideas, knowledge and skills for holding provincial and local government officials accountable. Creative ideas such as the Budget Analysis Group (known as BAG) at federal level, the Provincial Budget Analysis Group (known as PBAG) at the provincial level and the Local Budget Analysis Group (known as LBAG) may also be useful.

# CASE STUDIES

## Case 1: Suboptimal taxation capacity

The local and provincial governments do not yet have sustainable revenue sources to meet their recurrent and capital expenditures. One of the reasons for this is the suboptimal extractive capacities of subnational governments in their taxation functions.

The Local Government Operation Act, 2017 allows local governments to impose Integrated Wealth and Property Tax, Land Tax, House Rent Tax, Local Business Tax, Parking Tax and Recycle Material, Herbal and Animal Tax within their territory. However, tax receipts for these taxes substantially decreased after these taxation functions transferred from the federal to local governments. For example, the Inland Revenue Department (IRD) collected NPR 3.20 million in 'house rent tax' in FY 2017/18 in Kalaiya Sub-Metropolis. However, after Kalaiya Sub-Metropolis obtained taxation powers, it received only NPR 320,000, equivalent to just 10% of the amount collected by the IRD. According to an estimate by the NNRFC, total revenue loss in FY 2018/19, after the transfer of tax jurisdictions from federal to subnational governments, was a significant NPR 51 billion. A hefty reduction in the amounts of tax collected by subnational governments after they have been handed the powers to do so indicates the suboptimal extraction capacities of the local governments within their jurisdiction of taxation.

## Case 2: Lack of knowledge, skills, information, planning and technological know-how

The NPC published a notice in a national daily newspaper on 23 September 2019, requesting online applications from provincial and local governments for complementary and special grants for the upcoming fiscal year (2020/21). The deadline for the online proposal submission was set at 5pm on 23 October 2019. All the relevant information regarding the grants application procedures was posted on the NPC website, and information could also be obtained by telephone and email. Applying for the grants entailed a simple process of requesting user ID and password by email and uploading project proposal documents. However, Rapti-Sonari Rural Municipality had trouble finishing its online application within the set deadline. This shows a lack of knowledge, skills, information, planning and technological know-how in the local government.

## Case 3: Development has come to mean construction of roads

The Council of Ministers in Province 2 is comprised of one chief minister and six ministers. The ministries include Physical Infrastructure Development; Economic Affairs and Planning; Internal Affairs and Law; Land Management, Agriculture and Cooperative Development; Social Development and Industry; and Industry, Tourism, Forest and Environment. Although there are six ministries overseeing a wide array of portfolios, all the ministries, including the office of the chief minister, were involved in road constructions in FY 2018/19, the exclusive domain of the Ministry for Physical Infrastructure Development. During our consultations with a member of the Economic Affairs Committee and the Public Account Committee of the Legislative Assembly of Province 2, he mentioned two



reasons for ministries' overwhelming interest in road construction. First, electorates demand visible development, and the road is the most noticeable development work at the local level. Second, there are direct and indirect incentives from road-construction activities. For instance, they can offer development projects to their relatives and party cadres. Likewise, they can also provide benefits to their election campaign financiers indirectly by allocating road-construction projects in their areas, which would augment the real-estate prices in these areas.

## Case 4: Overlapping development projects

The study found that, owing to an absence of strong coordinating agencies coupled with multiple sources of funding, duplication of projects is widespread at the local level, with funds from different sources flowing to the same development project. For example, a road-construction project at Kailari Rural Municipality has been receiving financing from three different sources, despite the rural municipality allocating adequate funding. As well as the rural municipality's funds, the Provincial Treasury Comptroller Office and the District Treasury Comptroller Office are also channelling funds to the same road project in the form of constituency development funds. Such duplication of projects results in a wastage of scarce financial resources, as well as the increased likelihood of fiduciary risk.

## Case 5: Leadership capacity matters

On 26 September 2019, Tilottama Municipality, a local government in Rupandehi district of Province 5, hosted the Tilottama Investment Summit, a first-of-its-kind summit hosted by the local government in Nepal. Delegates from federal, provincial and local governments, the private sector, foreign investors and experts on various topics participated in the summit. Basudev Ghimire, the mayor of the Tilottama Municipality, shared matters related to the municipality's development priorities and investment opportunities, including incentives provided to investors in the municipality. According to his statement, the city has developed a project bank, which contains a showcase project with a finalised detailed project report. Furthermore, the city has devised many incentives for potential investors, such as tax exemption, supply of lease land in the Special Economic Zone and basic utilities. In addition, the city has developed an access road to the industrial sites, which are equipped with necessary utility facilities, such as electricity, water and other essential services.

The summit was organised to attract investment required to accomplish the initiatives laid out in Tilottama's five-year integrated municipal urban development plan and 15-year strategic municipal development plan by strategically engaging the private sector, cooperatives and the public sector. The municipality has currently proposed 22 projects from its project bank of 200 projects identified as important for the development of Tilottama city. In particular, the summit aimed to attract investments for the projects that include Tilottama agro-products collection and processing centre, Dhakrebas tourism development area, a meat processing centre, a city college, a modern bus park, an industrial corridor, a business hub and a metro rail service. The summit succeeded in obtaining an investment commitment worth NPR 15 billion, a little short of its NPR 22 billion target. A recent news report suggests that the private sector has started constructing manufacturing plants worth 20% of the pledged amount in the city, within just a month of making the commitments. The case of Tilottama Investment Summit indicates that the leadership capacity of local governments can play a crucial role in the development of local bodies.

## Case 6: Reluctance to carry out judicial functions

Since federal restructuring, local governments are responsible for discharging several judicial functions at the local level. The Constitution of Nepal and its supporting laws, such as the Local Government Operation Act, 2017, the Domestic Violence (Offence and Punishment) Act, 2009 and the Caste-based Discrimination and Untouchability Offence and Punishment Act, 2011, delegate several quasi-judicial functions to the local bodies. For instance, the Local Government Operation Act, 2017 makes provision for a judicial committee, chaired by the deputy mayor/vice-chair of the local government, to dispatch the judicial functions of local bodies. However, the local governments have not been allocating adequate budget – in some instances not a single penny has been allocated – for infrastructure, human resources and the day-to-day running costs of the committee. Consequently, most of the local governments visited had no separate office space for the judicial committee.

The elected local representatives are either unaware of this provision or are reluctant to discharge the judicial functions assigned to them by the prevailing laws. One of the reasons for not allocating budget to the judicial committee is the conflict prevalent between the mayor and the deputy mayor of the municipality or the chair and the vice-chair of the rural municipality. For example, in Kalaiya Sub-Metropolis of Bara district, there was no courtroom where the judicial committee could conduct hearings. Similarly, the study also found that the annual municipal budget had not allocated any funds for the judicial committee in the last fiscal year or the current fiscal year.

# ANNEXES

## Annex 1: Reviewed documents and key informant interviews

The Financial Comptroller General's Office (FCGO) in Kathmandu, the Secretary of the Economic Affairs and Planning and the Vice-Chairman of Policy and Planning Commission of Province 2 were interviewed. Similarly, key informant interviews were also conducted with the Chief Treasury Comptroller Officer and the Provincial Treasury Controller Office of Provinces 2, 5 and Sudurpaschim-7.<sup>23</sup> We consulted with Chief Administrative Officers, Account Officers and Planning Officers of the local governments in three provinces.

The review team also carried out key informant interviews with the elected representatives, such as the Minister for Economic Affairs and Planning of Sudurpaschim, members of the Legislative Assembly of Province 2 and Sudurpaschim, the mayor and deputy mayor of municipalities, the chair and vice-chair of rural municipalities, the ward chair and ward members of municipalities and rural municipalities, and local political activists, civil society activists, media people, public intellectuals, academics and ordinary citizens in Provinces 2, 5 and Sudurpaschim.

Fiscal federalism provisions included in the Constitution of Nepal, and the legal requirements of the National Natural Resources and Fiscal Commission Act, 2017, the Intergovernmental Fiscal Arrangement Act, 2017 and the Local Government Operation Act, 2017, are some of the major secondary sources. Other sources include the Annual Policy and Programme documents, including the budget of the federal government, along with the Annual Financial Statement of the Financial Comptroller General's Office (FCGO) and the Annual Financial Statement of the State Treasury Comptroller Office of Provinces 2, 5 and 7 (Sudurpaschim).<sup>24</sup> The policy and programme and the budget of the governments of Provinces 2, 5 and Sudurpaschim, as well as the Annual Financial Statement of Rapti-Sonari Rural Municipality, Nepalgunj Sub-Metropolis, Banke, Kailari Rural Municipality, Kalaiya Sub-Metropolis, Bara and Bahudhar Mai Municipality, Pasra, were also briefly studied.

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23 Federal restructuring of Nepal consists of one federal, seven provinces and 753 local governments. The Constitution vested the power to the provincial Legislative Assembly for the nomenclature of the province. The Constitution assigns the number from one to seven until Legislative Assemblies name the provinces. Until now, only Province 4 has been named as Gandaki and Province 7 as Sudurpaschim.

24 See footnote 18.

## Annex 2: Key informant interviews

Date	Name of person
22/10/2019	Yum Lal Oli, Account Officer, Rapti-Sonari Rural Municipality, Banke
22/10/2019	Kanchha Tharu, Chairman, Ward No. 4, Rapti-Sonari Rural Municipality, Banke
22/10/2019	Balananda Paudel, Planning Officer, Rapti-Sonari Rural Municipality, Banke
22/10/2019	Dhani Kumari Khatri, Vice Chairwoman, Rapti-Sonari Rural Municipality, Banke
23/10/2019	Buddhisagar Subedi, Ward Chairman, Ward No. 12, Nepalgunj Sub-Metropolis, Banke
23/10/2019	Nandalal Baishya, Civil Society Activist, Nepalgunj Sub-Metropolis, Banke
23/10/2019	Jagdish Balmiki, Civil Society Activist, Nepalgunj Sub-Metropolis, Banke
23/10/2019	Gitadevi Rana, Civil Society Activist, Nepalgunj Sub-Metropolis, Banke
23/10/2019	Abhishek Mishra, Civil Society Activist, Nepalgunj Sub-Metropolis, Banke
23/10/2019	Sunil Singh Hamal, Ward Chairman, Ward No. 4, Nepalgunj Sub-Metropolis, Banke
23/10/2019	Uma Thapa Magar, Deputy Mayor, Nepalgunj Sub-Metropolis, Banke
23/10/2019	Lokendra Rawal, Account Officer, Nepalgunj Sub-Metropolis, Banke
23/10/2019	Lahuram Chaudhari, Chairman, Rapti-Sonari Rural Municipality, Banke
23/10/2019	Birendra Manjhi, Chief Administrative Officer, Rapti-Sonari Rural Municipality, Banke
24/10/2019	Jhpad Bahadur Bohara, Minister for Economic Affairs and Planning, Sudurpaschim Province
24/10/2019	Goma Acharya, Central Member, Nepal Women's Association
24/10/2019	Purna Joshi, Member of Provincial Parliament, Sudurpaschim Province
24/10/2019	Basudev Joshi, Chief Provincial Comptroller, Sudurpaschim Province
24/10/2019	Dil Bahadur Chatyal, Correspondent, Nagarik National Daily
24/10/2019	Govinda Upadhya, Lecturer, Economics, Dhangadhi, Kailali
25/10/2019	Laxmi Satgauwa Tharu, Vice-Chairwoman, Kailari Rural Municipality, Kailali
25/10/2019	Lajuram Tharu, Chairman, Kailari Rural Municipality, Kailali
25/10/2019	Santosh Kumar Chaudhari, Planning Officer, Kailari Rural Municipality, Kailali
25/10/2019	Dipendra Chaudhary, Account Officer, Kailari Rural Municipality, Kailali
25/10/2019	Sitaram Chaudhary, Civil Society Activist, Kailari Rural Municipality, Kailali
07/11/2019	Bhogendra Jha, Vice-Chairman, Policy and Planning Commission, Province 2
07/11/2019	Manoj Jha, Acting Chief Provincial Comptroller, Province 2
07/11/2019	Chameli Devi Das, Member of Provincial Parliament, Province 2
07/11/2019	Shiva Chandra Chaudhary, Member of Provincial Parliament, Province 2
08/11/2019	Shyam Sundar Shashi, Correspondent, Kantipur National Daily
08/11/2019	Prem Kumar Shrestha, Secretary, Ministry of Economic Affairs, Province 2
09/11/2019	Amar Kishore Singh, Ward Chairman, Ward No. 3, Chireswar Municipality, Dhanusha
10/11/2019	Ramatullah Kawari, Local Political Activist, Chireswar Municipality, Dhanusha
10/11/2019	Satya Narayan Yadav, Local Political Activist, Chireswar Municipality, Dhanusha
10/11/2019	Bichen Shah, Local Political Activist, Chireswar Municipality, Dhanusha
10/11/2019	Pramila Sada, Women's and Dalit Rights Activist, Chireswar Municipality, Dhanusha
11/11/2019	Rajes Ray Yadav, Mayor, Kalaiya Sub-Metropolis, Bara
11/11/2019	Sunil Yadav, Account Officer, Kalaiya Sub-Metropolis, Bara
11/11/2019	Mahantha Mahato, Ward Member, Ward No. 9, Kalaiya Sub-Metropolis, Bara
11/11/2019	Rahima Khatun, Deputy Mayor, Kalaiya Sub-Metropolis, Bara
12/11/2019	Nitindra Prasad Shah Teli, Mayor, Bahudhar Mai Municipality, Parsa
12/11/2019	Gayatri Devi Yadav, Deputy Mayor, Bahudhar Mai Municipality, Parsa
12/11/2019	Upendra Kumar Shah, Accountant, Bahudhar Mai Municipality, Parsa
12/11/2019	Prakash Maharjan, Chief Administrative Officer, Bahudhar Mai Municipality, Parsa
12/11/2019	Rabindra Kumar Gupta, Ward Chairman, Ward No. 9, Bahudhar Mai Municipality, Parsa







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