



Nepal

Capacity Needs Assessment for the Transition to Federalism

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*Prepared by the International Center for Public Policy in the Andrew Young School of Policy Studies at Georgia State University

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EXECUTIVE SUMMARY

INTRODUCTION

1. Implementing the shift to federalism in Nepal is a big task – one that only a few low-income countries around the world have attempted. It is especially challenging in Nepal where the administrative capacities of provincial and local governments to deliver and manage services are not yet well developed, and where the federal government has little experience with managing an intergovernmental system.

2. This research and analysis were carried out at the request of the Government of Nepal to assess challenges and opportunities in implementing the new federalism. The core work of this project (Federalism Capacity Needs Assessment, or FCNA) has two parts. The first is to examine and identify the gap between the needs and the capacity of provincial and local governments to manage their assigned service responsibilities under the new system. The second is to examine and assess the capacity of the federal government to regulate and manage the way the federalism transition is rolled out, and its capacity to manage the intergovernmental system thereafter. Both components use a broad definition of capacity, including organizational (physical and human) and institutional (laws and regulations) elements. Many important issues are not taken up in this project, e.g., a parallel analysis of service delivery needs and capacity, the gap between expectations of citizens and service delivery. In the sample survey results reported below, we take up only the administrative involvement of provincial and local governments with service delivery. This analysis does not address the issues facing individual provincial or local governments or make monetary estimates of the fiscal gaps on a sector-by-sector basis. The results of this work and the purpose of this analysis should help smooth the transition to the new federalism and help in identifying next steps in implementation. The analysis in this report covers the period to April 1, 2019, and so important initiatives enacted and completed after that time are not included.

IMPLEMENTATION ISSUES

3. Much has been accomplished since 2015. Elected PLGs are functioning, gender diverse and inclusive local assemblies are doing business along the lines suggested by the Constitution of Nepal, 2015 (2072), and budgets have been approved and audited. At the federal level, several framework laws have been passed, the NNRFC secretariat has implemented an intergovernmental transfer system, and the initial phase of staff adjustment at the provincial and local levels has been completed.

4. But there is much still to be done. Important national framework legislation has not yet come online, in part because such a profound paradigm shift in Nepal has resulted in complicated political economy considerations requiring time-consuming navigation and because a strong “champion” for pushing the devolution agenda is yet to emerge in this new structure. Implementation at the relatively nascent local level has also posed a challenge. There was a general push to get going with local self-governance even though elected provincial and local government officials, and many voters, were not yet familiar with their new powers and responsibilities. Finally, the transition to federalism has been constrained because it went forward without the benefit of a comprehensive implementation plan or a timetable for sequencing the introduction of

new policies.

DEVOLUTION OF GOVERNMENT EMPLOYMENT

5. The Constitution assigns important functional responsibilities to provincial and local governments and mandates that they have significant autonomy in deciding how services will be delivered. To date, the new system is characterized by a combination of devolution of some powers to PLGs and retention of others by the federal government.

6. A centerpiece of the Nepal strategy for implementing devolution would appear to be a shift of employees from the federal government service to those provincial and local governments where service responsibility is now assigned. MOFAGA carried out analyses to guide the number of employees to be put in place at each level of government and worked out a plan for individual assignments.

7. The civil service adjustment program will not result in completely filling the capacity-needs gap of subfederal governments in this initial level of employment devolution. Neither is it likely to provide enough initial management capacity, with the right skills, to meet the needs of provincial and local governments, especially in technical areas such as engineering and accounting.

PROVIDING A LEGAL FRAMEWORK FOR FEDERALISM

8. For Nepali federalism to be implemented successfully, a significant amount of framework legislation is required. This includes laws to assign expenditure, revenue, and public management responsibilities among the three spheres of government and to enable the issuance of necessary laws at the provincial and local government level. Much has been accomplished, but the time it has taken to pass or amend some national framework and operations legislation has contributed to a limited clarity in the division of responsibilities and powers of the different levels of government, uncertainties about operating procedures, and an inability of local and provincial governments to deliver on all of their new responsibilities. The Civil Servant Adjustment Act was passed in February 2019 and the federal civil service law that will empower provincial public service commissions to recruit and hire employees was still under review at the time of this writing. The passage of provincial and local laws is also a challenge because the legal training and background of staff at the PLGs level is so far limited.

INSTITUTIONAL AND ORGANIZATIONAL ARRANGEMENTS

9. The Constitution calls for the empowerment of three institutions that are particularly important to moving the implementation of federalism forward.

- Public service commissions are to be formed in each province. The powers of the provincial commissions will be set by provincial law, within the framework set by the federal law (which now has been passed). But the federal civil service legislation that will empower each provincial commission to recruit and hire is not yet in place.
- An Inter-Provincial Council (IPC) is provided for in the Constitution to settle disputes of a political nature between the federation and province and among provinces. The membership includes the Prime Minister, the Ministers of Home Affairs and Finance, and

the Chief Ministers of the Provinces. The inputs of the Inter-Provincial Council in planning for the remainder of the implementation of the federal system is important. Thus far, the IPC has had two formal meetings.

- The National Natural Resources and Fiscal Commission is charged with recommending/determining the distribution of revenues to provincial and local governments from the consolidated fund. A Secretariat to the Commission is functioning and has established an interim system of intergovernmental transfers. In March 2019, the President appointed a chair, but the full membership of the commission had not been nominated at the time of this writing.

CAPACITY BUILDING AND TRAINING

10. The expected staff level, including service delivery employees, in the seven provincial governments is about 21,000, and that in the 753 local governments is about 66,000. There are about 37,000 newly elected local government officers, and 550 elected provincial government officers. Retooling employees and management in Nepal and educating lawmakers about their new duties will be no small job, and it will be expensive.

11. There is no survey of public sector training needs in place in Nepal. That is to say, there is not yet a plan that lays out the kind of training and capacity building that is necessary for government officials in the federal system. Nor is there an estimate of how much it might cost to put such a capacity development system or an institutional arrangement in place to accommodate this level of training. The FCNA survey, which gives a picture of the magnitude of the needs for capacity development at the provincial and local level, is a step toward making such a plan.

PUBLIC FINANCIAL MANAGEMENT

12. The Government of Nepal is continuing the important process of developing a financial management system aimed at modernizing practices related to budget formulation and control as well as financial practices and reporting. The extension of PFM practices to PLGs is a high priority for the country.

13. Provincial and local governments in Nepal do not have easy access to financial information in a form necessary to plan and manage their budgets in an efficient way, yet expectations for their performance in this area are high. The Constitution and subsequent legislation call on PLGs to make estimates of expected revenues and expenditures at the beginning of each fiscal year, to carry out medium-term expenditure forecasts, and to obey a hard budget constraint.

14. The present state of public financial management practices by PLGs in Nepal may be four to five years away from being one that provides reasonable fiduciary guarantees and supports an acceptable level of service delivery. Procurement capacity is particularly weak. But there has been progress in the first two years of the new federalism, e.g., most local governments have a consolidated account, voted on a budget on time, executed the FY 2018 budget, and had their accounts audited. Projects underway since 2011 have led to successful implementation of the treasury single account, more transparent expenditure reporting, a revenue management information system, and an upgraded audit methodology. The SUTRA system is being rolled out, and the new round of work on PFM in Nepal will have more emphasis on PLGs and a goal of integrating budgeting processes across all levels of government. Still, much remains to be done.

SOCIAL INCLUSION AND EQUITY

15. In the 2017 elections, 38 percent of Assembly seats were won by women and 21 percent by Dalits. The Government of Nepal adopted “mainstreaming” gender equality and social inclusion by including it in all decisions about governance and government operations. In the 2017/2018 budget speech, about 36 percent of the total federal budget was classified as “gender responsive” and about 30 percent was classified as “gender neutral.”

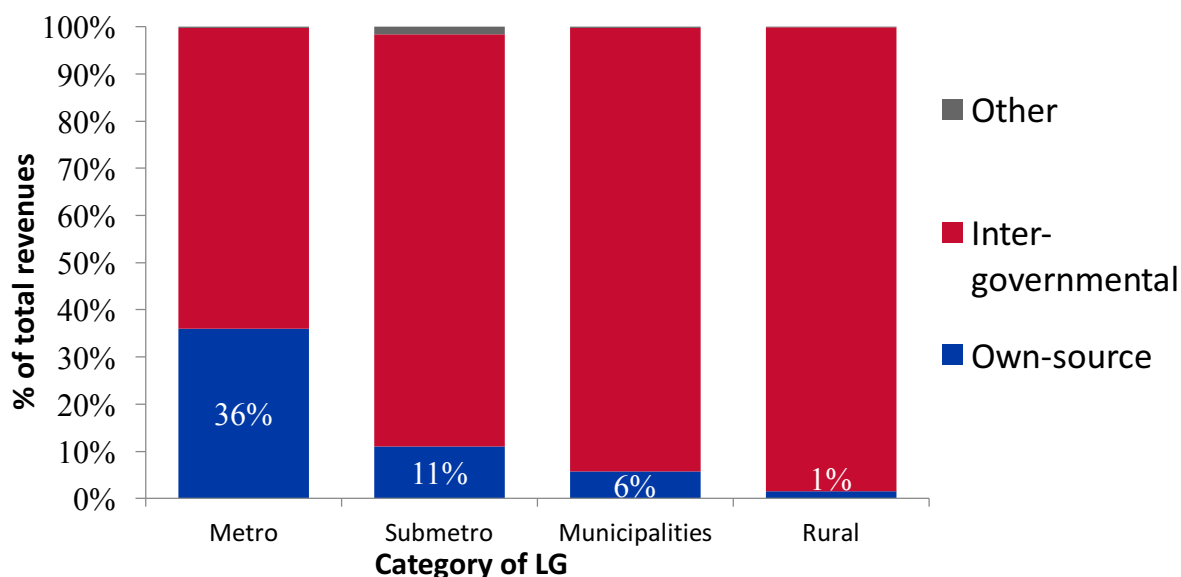
16. There has been considerable progress, but much remains to be done to continue to move the GESI agenda forward. Elected representation is important but, as MOFAGA notes, the absence of formal channels of participation in government decisions by the poor and disadvantaged is “the missing link” for ensuring inclusive local governance. Gender budgets are in place, but more concrete evidence is required to conclude that gender-based budgets in Nepal have been effective.

17. With respect to the implementation of federalism, two factors are in play that have the potential to influence gender balance. First, the provincial public service commissions could provide a new opportunity to rethink gender balance in hiring practices at the PLGs level. Second, time and public policies might help soften some barriers to more participation by women and minorities, e.g., it takes time for newly elected representatives to gain enough power to make a difference in governance, and an increased literacy rate can improve the competitiveness of women for better postings. Moreover, the social constraints that women face – child rearing, domestic chores, etc. – might be relaxed by the better proximity to the workplace that could come with the establishment of full-fledged local governments.

FISCAL CAPACITY

18. Provincial and local governments in Nepal are heavily dependent on intergovernmental transfers to finance their budgets (Figure ES-1). The Constitution makes room for locally raised revenues, and even borrowing, but outside the larger urban areas, neither of these are likely to soon become major sources of revenue.

Figure ES-1: Composition of Revenues by Category of LG, 2018



19. National revenue mobilization has been buoyant and GDP has been rising, so the level of intergovernmental transfers in the first two years of federalism has risen to meet PLGs needs. But an increased claim on federal revenues, attributable directly or indirectly to the transition to federalism, could come in the next few years. The costs of managing provincial and local governments and of delivering services will increase as the full complement of provincial and local government employees comes into place, training and capacity building will absorb significant revenues, the demands for better services at the local level will rise as voters' expectations rise, and the infrastructure deficit will need to be addressed.

20. The federal government and the Parliament, in consultation with the NNRFC Secretariat, has kept the intergovernmental grant system on track in its first two years. However, as federalism is more fully implemented, the system will need to be revisited to examine its impacts, consider reform options, and assess the increased claim on federal government revenues. The key agency in this work will be the NNRFC. Because the Constitution states that the recommendations of the NNRFC on grant levels and distributions are binding, a high priority will be to develop cooperative arrangements with Parliament, the federal government, and the IPC, among others.

21. There is an important place for PLGs taxation in Nepal's fiscal system, particularly for urban local governments and provincial governments. As GDP and economic activity increases, so too will the potential tax bases. The NNRFC might consider introducing incentives for increased use of local taxing and user-charge powers and providing technical assistance to put the basic infrastructure in place for local taxation.

CAPACITY NEEDS ASSESSMENT FOR PROVINCIAL AND LOCAL GOVERNMENTS

22. The FCNA project carried out field work to better understand the current state of operations and finances and to get a general sense of the capacities of PLGs to manage and deliver local public services. The capacity of all seven provincial governments was assessed through structured interviews carried out by international and local members of the study team. By contrast, for the local governments, the 300-question survey was administered to all 17 metropolitan and sub-metropolitan cities and a stratified random sample of 98 municipalities and rural municipalities.¹

23. While there are differences between levels and among units of PLGs, the survey results identify a number of capacity gaps that appear to be widespread. As pointed out above, PLGs generally have the basic capacity to "keep the lights on." This is commendable given that some of those government units were created from scratch within the past two years. However, when it comes to the quality of local management, a number of critical elements are missing in many, if not a majority, of jurisdictions. Five such areas emerge in the survey: 1) medium-term planning; 2) clear roles and responsibilities of individual staff; 3) procurement; 4) managing performance of organizational units and individuals; and 5) GESI.

¹ Under the previous system, there were problems with reporting compliance. Annual reports on financial status of local by the Local Body Fiscal Commission (LBFC) had to rely on data from less than half of DDCs and less than one third of VDCs (Pokharel 2009). The approach taken in this study is different because the selection of a large representative sample should assure that the average estimate of any indicator measured in the surveyed sample should be reasonably close to the national average of that indicator. The extent of disparity found among units in the sample results in this study should provide a reasonable estimate of the nationwide disparity.

Physical Infrastructure

24. More than one half of municipalities and rural municipalities rent at least some of their buildings. About 70 percent of metropolitan and sub-metropolitan cities felt that their building could accommodate an assembly meeting, but only 39 percent of municipalities and 61 percent of rural municipalities felt this to be the case.

25. On the other hand, most provincial governments are using rent-free buildings owned by other levels of government. Practically all provinces felt that their buildings could not accommodate an assembly meeting and many would have had difficulties accommodating a cabinet meeting. For provincial staff, their present office space seems adequate, but this advantage will dissipate as they become fully staffed.

26. There also were significant variations among local governments in terms of essential support services and office amenities. All metropolitan and sub-metropolitan cities were connected to the national power grid and had significant generator backup, but 11 percent of municipalities and 28 percent of rural municipalities, especially those in the mountainous ecological zone, were not connected to the national power grid. Metropolitan and sub-metropolitan cities, as well as most other local governments outside the mountainous ecological zone, were connected to the internet and had computers and printers in quantities adequate for the present staff counts. Provincial governments have better access to office amenities, public utilities and the internet, though there is some variation across the provinces.

27. All metropolitan and sub-metropolitan cities have reliable landline and cell service, but only about half of rural municipalities have landline telephone services that they find reliable. However, municipalities and rural municipalities depend more heavily on cell phones, which are commonly reported as unreliable in the mountainous ecological zone.

28. The situation in provincial governments is better, with all having internet connections and a sufficient number of computers. However, this will change as vacant positions become filled. No data management systems were available except those used for budget and accounting purposes.

Human Resources Management

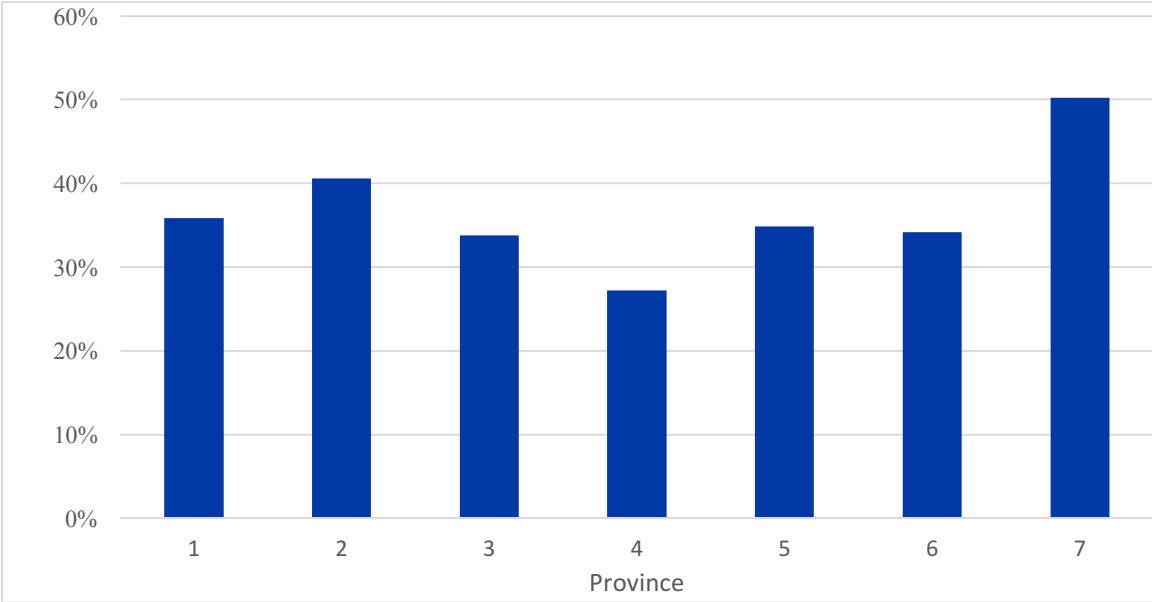
29. Seconded staff fill fewer than one half of positions in local government offices. More positions are filled with contractual staff and those carried over from the local government bodies that previously existed. However, the latter tend to be either general public administration or support staff. As a result, many high-skill technical positions, such as engineers, lawyers, and accountants, remain vacant. There is a particularly high vacancy rate for engineers: almost one half nationwide and over two thirds in sub-metropolitan cities. Surprisingly, vacancy rates increase with the level of urbanization.

30. About one half of local governments have written job descriptions available for all positions envisioned in their organizational structure, and only about 15 percent of non-metropolitan local cities do not have written job descriptions available for any positions. Less than one third of local governments report having their own laws/policies for managing their staff, in terms of leave approval, performance appraisal, reporting rules, etc. More than two thirds of local

governments follow staff performance review mechanisms compared to less than one fifth that never do. However, over 40 percent of municipalities and rural municipalities never practice sanctions for under-performance.

31. While the organizational structures are more or less uniform across provincial administrations, there are differences in vacancy rates, ranging from one quarter of approved positions to one half (Figure ES-2). Across provinces, this adds up to about 1,000 vacant positions in public administration (excluding service centers such as veterinarian clinics). On average, 15 percent of existing staff are contractual, used primarily for support roles such as office assistants and drivers, but a few are more skilled employees, such as computer operators.

Figure ES-2: Vacancy Rate by Province, Percent Approved Positions



32. Since all provincial administrations are currently staffed with civil servants seconded from the national government, they have not developed policy/guidelines for managing their staff, in terms of leave approval, performance appraisal, etc. Instead they follow federal policies. However, some provinces have developed their own policies for managing contractual staff. Most provinces have descriptions of roles and responsibilities for various sections within provincial ministries but not for individual positions, though many provinces are in the process of developing job descriptions for individual positions and already have so done for at least one ministry.

Public Financial Management

33. Most local governments have an annual capital budget that lists projects by sector and ward. However, most municipalities and rural municipalities have not prepared a local development plan. Most local governments have not received training on MTEF, although metropolitan and sub-metropolitan cities appear to have more experience in this area.

34. Public financial management practices are still developing in the 753 local governments. Just over one half of all local governments, but only one third of rural municipalities, report that

they use the Sub-national Treasury Regulatory Application (SUTRA) software to prepare budget estimates. Most rural municipalities use Excel.

35. The majority of local governments conduct internal audits, though rural municipalities are less likely to do so, and the executive board was least likely to receive the audit report in rural municipalities. The major finding of audit reports by local governments was expenditures made without project approval.

36. Over 80 percent of local governments have a functional procurement unit, but only 59 percent of metropolitan cities have an annual procurement master plan prepared according to the Federal Procurement Act. There also were significant variations among the other classes of local government. Nearly all local governments feel that they have the capacity to conduct all forms of procurement except international bidding, but only one half of municipalities and two thirds of rural municipalities say that they can assess vendor performance. By far the most commonly used procurement type is the users' committee, which accounts for over 80 percent of procurement contracts and 70 percent of capital budgets in all types of local governments, except metropolitan cities

37. Provincial governments appear to be further behind in multi-year planning and procurement. SUTRA was used by most provinces to prepare the 2018/2019 budget, but there was uncertainty about what budget format would be used in 2019/2020. While all provinces adopted their own procurement guidelines and standards, one half of them acknowledge having limited capacity for procurement. In particular, most provinces have limited mechanisms to assess the performance of suppliers. There are no mechanisms for appeals against decisions made in relation to procurement other than the general grievance responding systems and the federal anti-corruption body. Most provinces do not have any arrangements in place for internal audit (regulations, manuals, guidelines) and instead rely on federal legislation and guidelines.

Gender Equality and Social Inclusion

38. Surprisingly, 12 percent of metropolitan and sub-metropolitan cities, 28 percent of municipalities, and 18 percent of rural municipalities do not report having a gender and social inclusion policy in place. Only 12 percent of cities and less than 10 percent of other local governments regularly carry out GESI audits while 60 percent have never done so. However, most local governments and their underlying wards have a framework in place to insure women's participation in local government activities, and 94 percent of local governments report that they "act in an inclusive manner." All cities and 97 percent of other local governments report that they have an inclusive planning and budgeting process. Nearly all local governments say that women and Dalit members participate in assembly deliberations.

39. Almost all local governments offered counselling and awareness campaigns on gender-based violence, but two thirds or less offered legal assistance or compensation to support victims. Services to victims of gender-based violence of any kind were more often provided by cities.

40. At the time of the interviews, no provincial government reported having a comprehensive gender equality and social inclusion (GESI) policy. No province had a GESI strategy either. No province had a framework for promoting women's leadership in provincial governments or had conducted a GESI audit. However, some provinces had programs that target specific social groups,

such as children, senior citizens, and differently-abled individuals.

Accountability and Transparency

41. The results of the survey show that local governments tend to make their executive decisions public by using their websites and social media, with larger cities relying more on the former and other municipalities on the latter. Rural municipalities make heaviest use of notice boards. About 40 percent of municipalities and rural municipalities reported using community meetings for this purpose by comparison with only 10 percent in cities. Most local governments, large and small, inform citizens about the availability of public services through their citizen's charter and through their website. Communications are limited, particularly in the smaller and more rural areas where more than 40 percent of the respondent local governments had no local newspaper, local FM radio, or national TV coverage. Most local governments reported engaging with public institutions and civil society in making its budget.

42. Provincial governments use a variety of methods to make public the decisions of provincial assemblies, most commonly through their websites and press releases. There are also designated information officers in each ministry. However, no province has prepared a Provincial Government Citizen Guide informing residents how to access provincial services. While expenditure statements are published on the provincial government websites at least quarterly, not all provinces report revenues. No province publicizes its budget in a layman version ("Provincial Government Citizen Budget") and interviewed officials do not appear to be familiar with this concept. While most provinces have some mechanism for responding to citizen grievances, its utilization and response rates varies.

DEVELOPMENT PARTNER MAPPING FOR SUPPORTING FEDERALISM

43. Development partner assistance related to the implementation of federalism and the development of subnational governments has focused on capacity development, institutional development, and equity/social inclusion issues. There is good continuity in the work programs and there still is a significant pipeline of work. Counterparts in government have included several ministries, and more than 20 development partners have been involved.

44. Because the various development partners do things in such different ways and because they cover a wide range of issues, cooperation and coordination of their activities are important. The evidence reviewed in this report suggests that the development partners are working together in productive ways, with a sharing of ideas and resources, collaboration, joint field work, and co-funding of projects. An International Development Partners Group (IDPG) of development partner meets regularly and is well attended, with a specific Federalism Sector Working Group focusing on coordination and knowledge sharing in this space.

45. The development partners could usefully continue this assistance in the design and implementation of federalism. Some areas where the comparative advantages of development partners might be particularly helpful to the government are training and capacity development, public finance management, intergovernmental fiscal relations, and support for the development of a strategy for implementation planning.

RECOMMENDATIONS

46. The next critical step for Nepal is to develop and put into effect an implementation plan (roadmap), which features a sequenced federal and PLGs action plan: an implementation calendar with a well-defined and realistic timeline. It is important that the relevant stakeholders within the three tiers of government in Nepal own and operate such an implementation plan. Development partners can assist in developing required capacity and in laying out guidelines for making some of the most important decisions about the implementation plan, and perhaps by offering a prototype for implementation. The roadmap itself will be jointly determined and implemented by the three levels of government in Nepal. A prototype for implementation could include a timetable for implementation of each piece of the federalism, accompanied by legal and administrative requirements. These should be transparent and should be amended on a regular basis.

47. The reform program and supporting activities that might be part of Nepal's implementation plan are outlined below, and discussed in more detail in a blueprint for action presented in the recommendations section of this report:

- 1. A concrete action plan to complete the task of filling the needs-capacity gap in the staffing of provincial and local governments should be devised. A forum of governments (possibly the federal government, the IPC, and representatives of municipal-rural local governments) should come together to develop a plan that is affordable and has a reasonable timeline.*
- 2. The legal framework that empowers provincial and local governments to adequately deliver and manage services should be completed. There remains a queue of unfinished framework and operations legislation to be addressed.*
- 3. The full membership of the National Natural Resource and Finance Commission should be appointed and seated as soon as possible. Provisions should be made to support the Secretariat and a well-trained staff. The coordination of the roles of the NNRFC, the federal government, and the Parliament should be made clear.*
- 4. A national/provincial plan and an institutional arrangement for training and capacity-building should be adopted and begin functioning as soon as possible. The plan should include skill training for PLGs employees as well as technical assistance for procedures and methods of addressing administrative issues.*
- 5. The assignment of expenditure responsibilities to provincial and local governments should be revisited and made clearer in terms of which level of government should have responsibilities for which functions. To the extent possible, the number of concurrent functions should be reduced, and the functions that appear on more than one exclusive list should be eliminated.*
- 6. The government should update its PFM Reform Strategy and action plan to encompass the three levels of government. As the government's public finance management projects shift toward PLGs, training and capacity-building should be emphasized.*

7. *Gender equity and minority inclusion progress can benefit from the introduction of federalism with measures such as inclusive hiring practices, performance grants, and GESI budget practices that are sharpened and more effectively monitored.*
8. *A national database should be created for continuous monitoring and evaluation of the fiscal and economic performance of PLGs. The overall framework for data collection and dissemination needs to be redesigned in order to support decision making at all three levels of government. This is crucial for the success of the Fiscal Commission (and for fiscal planning in general).*
9. *Provincial and local governments can self-help the transition to federalism, even without actions by the federal government, by engaging in actions such as developing an inventory of training needs, implementing aggressive anti-corruption programs, and increasing revenue mobilization. Provincial and local governments should put in place a self-monitoring system to enable reporting their progress.*

LIST OF ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank
CAC	Citizen Awareness Center
CAPI	Computer Assisted Personal Interviewing
CIP	Capital Investment Plan
DDC	District Development Committee
DFID	Department for International Development, United Kingdom
DRCN	Democracy Resource Center Nepal
DRM	Disaster Risk Management
FCGO	Financial Comptroller General's Office
FCNA	Federalism Capacity Needs Assessment
HEZ	Himalayan Ecological Zone
GDC/GIZ	German Development Corporation/Deutsche Gesellschaft für Internationale Zusammenarbeit
GDP	Gross Domestic Product
GESI	Gender Equality and Social Inclusion
IDPG	International Development Partners Group
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
IPC	Inter-Provincial Council
IPFMRP	Integrated Public Finance Management Reform Program
IT	Information Technology
JICA	Japan International Cooperation Agency
LDTA	Local Development Training Academy

LGCDP	Local Governance and Community Development Programme
LGOA	Local Government Operation Act
LISA	Local Government Institutional Assessment
LMBIS	Line Ministry Budget Information System
MDTF	Multi-Development Partner Trust Fund
MOF	Ministry of Finance
MOFAGA	Ministry of Federal Affairs and General Administration
MTEF	Medium-Term Expenditure Framework
NASC	Nepal Administrative Staff College
NPSAS	National Public Sector Accounting Standards
NGO	Non-Governmental Organization
NNRFC	National Natural Resource and Fiscal Commission
O&M	Operations and Management
OPMCM	Office of the Prime Minister and Council of Ministers
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PLGs	Provincial and Local Governments
PLGSP	Provincial and Local Government Support Programme
PPSC	Provincial Public Service Commission
PREPARE	Project to Prepare the Public Administration for Federalism Reforms
SDC	Swiss Agency for Development and Cooperation
SDG	Sustainable Development Goals
SUTRA	Sub-National Treasury Regulatory Application
TEZ	Terai Ecological Zone
TOR	Terms of Reference

UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFPA	United Nations Population Fund
UNICEF	United Nations Children’s Fund
USAID	United States Agency for International Development
VAT	Value-Added Tax
WCF	Ward Citizen Forum
WHO	World Health Organization

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1. IMPLEMENTATION OF THE FEDERAL SYSTEM

I. INTRODUCTION AND THE SETTING

1.1 Nepal's move from a centralized unitary system of governance to a decentralized federal system calls for the newly created provincial and local governments to assume significant budget autonomy, take on the responsibility for delivering most local public services, and play an important role in development planning. The Constitution of Nepal, 2015 (2076) (Art. 59) gives PLGs broad powers in law making, budget formulation, planning and policy formulation, and implementation. The federal government will continue with the responsibility for provision of public goods that have primarily national benefits, but its focus will shift toward macro policy making, management, and monitoring of the new intergovernmental fiscal system, and setting and enforcing standards.

1.2 The Constitution features a federal structure of government, but not the hierarchical arrangement that is the case in many other federations. The Constitution calls on federal, provincial, and local governments to enjoy relations "...based on principles of cooperative, coexistence and coordination" (Art. 232). This suggests an intent of strong local (third tier) government autonomy with little direct control by the federal or provincial governments, though there is a provision for centralization to address matters of national importance and coordination.²

1.3 With the adoption of the Constitution, seven provinces were created. Following the Constitution guidelines and upon the recommendation of the Local Level Restructuring Commission, the government of Nepal restructured the existing boundaries of 3,157 Village Development Committees and 217 old and new municipalities into 753 municipalities (see Box 1 on the historical background). Provincial and local governments elections were held in 2017, and the new system is now in its second fiscal year of operations.

1.4 Our estimates are that PLGs will account for 34 percent of (budgeted) total government expenditures in FY 2019.³ This is well above the international average of about 20 percent for low- and middle-income countries (Bahl and Bird, 2018, p.46). On the revenue side, the system remains highly centralized with a relatively small contribution from PLGs taxes that is mostly centered in urban areas. About 53 percent of budgeted federal government tax collections is assigned to intergovernmental transfers.⁴

² There are, however, some hierarchical relationships in the Nepal system, and in some cases, these may infringe on the fiscal autonomy of subnational governments. Examples are the work rules for civil servants, concurrent competencies, laws that may be passed by the provincial governments, the provision for provincial grants to local governments, and conditions placed on the expenditure of federal intergovernmental transfers to local governments.

³ We calculate this percentage as the total intergovernmental transfers (including shared taxes and locally raised revenues) as the numerator and total government expenditures inclusive of intergovernmental transfers as the denominator. Data are taken from the budget estimates for FY 2019, revised estimates for FY 2018, and the Minister's budget speech (2018).

⁴ Tax sharing is included in this computation as an intergovernmental transfer.

Box 1: Historical Background on Decentralization in Nepal

Over the last century, Nepal has witnessed numerous initiatives to introduce some form of local government. However, most of these initiatives have been short-lived when it comes to genuine local self-government. Nevertheless, those reform initiatives produced a number of institutional arrangements, such as administrative division, that survived to this date. Thus, following the introduction of the partyless "guided" democracy in the 1962 Constitution, a four-tier system of development committees (Panchayats) was created, comprised of 4,000 village and town committees (Gaun Panchayat), 75 District committees (Jilla Panchayat), 14 Zonal committees (Anchal Panchayat), and the National committee (Rastriya Panchayat). At each tier, Panchayats were supposed to serve as working committees of the respective assemblies (Sabha). However, the latter mostly played advisory roles. Subsequently, five development regions were also created. However, since district offices of line ministries reported directly to their head offices in Kathmandu, zonal and regional tiers were not strong.

Following creation of the Ministry of Panchayat and Local Development in 1980 and enactment of the Decentralization Act of 1982, the role of the district level was strengthened by giving it responsibility for preparing and implementing annual and multi-year (periodic) plans. While this was essentially a top-down planning process, it allowed some user-level participation in project implementation and monitoring, in particular through the institution of User Committees.

The restoration of multiparty party democracy in the 1990 Constitution gave new impetus to local self-government. In particular, implementation of the constitutional promise of popular participation through decentralization, with amendments to the District Act, Village Act, and Municipality Act in 1991-92, allowed for local democratic elections to take place in 1992. The three Acts were later consolidated into the Local Self Governance Act (LSGA) of 1999. The previous Village Panchayats turned into 3,915 Village Development Committees (VDC), town Panchayats turned into 58 Municipalities, and the District Panchayats turned into the 75 District Development Committee (DDC). The zonal tier was abolished. This also led to creation of three national-level associations of local governments (still operating to this day): Association of District Development Committees in Nepal (ADDCN); National Association of Villages in Nepal (NAVIN); and Municipal Association of Nepal (MUAN).

The gradual implementation of the LSGA provisions was never completed due to the Maoist insurgency that started in 1996. The conflict disrupted local elections and led to the absence of elected local authorities after 2002. As an interim arrangement, the central government handed over the power of local authorities to respective secretaries: the Local Development Officer (LDO) in DDCs, Chief Executive Officer (CEO) in municipalities, and Village Secretary in VDCs, who were all central government employees. Districts and municipalities had other staff seconded from the central government. Unlike VDCs, municipalities had more or less similar organizational structure to that of DDCs with possible additional sections related to health, infrastructure, electricity etc. depending on the financial status of the municipalities. By contrast, most VDCs were run by a single secretary although in better resourced VDCs the secretary could have one to two locally recruited subordinates (especially in the Tarai zone and some hill districts). While each VDC was divided into 9 wards for planning purposes, there were not any administrative structures or capacity at the ward level. All in all, until 2017, subnational capacity and authority concentrated at the district level. However, after 2015, the new system of local government was created at the sub-district level, which had had very little capacity outside the old 58 municipalities. While the 2015 Constitution still features DDCs indirectly elected from representatives of constituent municipalities, so far this tier has not played a significant role. Furthermore, the district-level capacity that existed in the old deconcentrated line offices has been essentially disbanded and the staff absorbed by the 58 larger municipalities.

Source: Pokharel (2009); Kelly (2016)

1.5 The federal government and the Parliament have been active in introducing new legislation and administrative regulations, but there is not an overall, sequenced policy program to guide the implementation of federalism. A centerpiece of the government's current policy strategy would appear to be to control the net incremental cost of devolution. This is being done by transferring

“excess” central government employment and other assets to the PLGs and financing the resulting increase in provincial and local government budgets mostly with intergovernmental transfers. But empirical evidence, reported below, indicates that the current approach will leave the PLGs with a significant needs-capacity gap in employment and supporting facilities, suggesting that there will be additional claims on central government resources.

FCNA PROJECT DESCRIPTION AND OBJECTIVES

1.6 There is a good deal of uncertainty about the medium-term impacts of implementing the new federalism. As stated in the TOR for this work,

“The primary objective of the needs assessment study is to understand better the institutional, organizational and systemic needs of provincial and local government given their new functional assignments, and those of the federal government related to its responsibilities for managing the intergovernmental system.” (World Bank, 2018b, Annex A)

1.7 The core work of this project, the Federalism Capacity Needs Assessment (FCNA), is to identify the gap between the needs and the capacity of Nepal’s governments to deliver a functioning federalism that is guided by the Constitution, and helps with implementation planning.⁵ The needs and capacities of the PLGs examined here include the management of civil servants and their supporting services (equipment, office and meeting space, physical facilities, training, and the like).

1.8 The contributions of the federal government and the Parliament to the implementation of federalism are also examined. The TOR (World Bank, 2018b, Annex A) calls this out explicitly:

“The federal government has a responsibility to regulate and manage the way the federal transition is rolled out. At the federal level the assessment will focus on institutional arrangements and capacities to develop policy and legislation related to the intergovernmental systems.” Accordingly, this report addresses the efforts to put in place the institutional and organizational structures – including laws, regulations, and procedures– that are needed to implement and manage the intergovernmental system.

1.9 Part One of this report is concentrated on the background and on the implementation activities of the federal government, its agencies, and Parliament. Following this introduction to the project and the macroeconomic setting in which it is being undertaken, attention is turned in Section II to a discussion of the issues that have arisen during the initial rollout of federalism and that have led to some tensions between the federal and PLGs.

1.10 The focus in Section III is on the institutional, organizational, and legal challenges that may have contributed to slowing the development of the new intergovernmental system. The

⁵ Some of this gap can be measured empirically (e.g., employment), but some of it must be qualitative (e.g., physical facility needs).

devolution of federal government employment and the enactment of framework laws are the main subjects of this discussion and analysis.⁶ Underlying political economy issues are considered where relevant but are not the main focus of this analysis.

1.11 Some features of the federalism in the Constitution that make implementation especially complicated and that have implications for the capacity needs gap are examined in Section IV. These include the concurrency features of the expenditure assignment regime; the call to upgrade, modernize, and make uniform the financial management system used in all 760 provincial and local governments; a constitutional mandate that policies to improve social inclusion and gender equality be implemented, tracked, and graded; and the massive training and capacity development effort that lies ahead. These and other such special features that are called out in the Constitution can have very desirable outcomes but will be costly and take time to fully implement. We also consider the balance between the fiscal capacity of PLGs and the expenditure needs that they face. The major issues to be raised are whether that capacity will be sufficient to cover the expenditure needs of provincial and local governments during the period of implementation and whether this fiscal decentralization program can be accomplished without significantly compromising the fiscal autonomy of local governments.

1.12 The results of the country-wide survey of a large sample of provincial and local governments are reported in Part Two of this report. The basic source of new information for measuring the capacity-needs gap for provincial and local governments is a random sample field survey administered on 115 of the 753 local governments, and on all seven provincial governments. The goal of this survey is to help estimate the needs-capacity gaps that presently exist. The primary focus is on employment to support the basic management functions and on supporting facilities that are necessary for the PLGs to efficiently assume their new responsibilities. The survey addresses both provincial and local governments.⁷

1.13 Development partner activities that are supporting the implementation of the federalism in Nepal are reviewed in Part Three. The analysis focuses on the relevance of these activities to federalism, on the extent to which they have been coordinated adequately, and on what might be the next steps for the development partners in this area.

1.14 Part Four of this report concludes with some general observations about the estimated capacity-needs gap, discusses the difficult area of costing federalism, and makes some recommendations about how the federalism agenda might be moved forward.

Scope and Limitations

1.15 This FCNA is a first stocktaking of the rollout of the federal structure in Nepal. Though it is only a first step, it is meant to provide a basis for government actions and for future development partner assistance. Many issues are not taken up in this project. Arguably most important is the absence of a parallel analysis of service delivery needs and capacity. Nor do we address issues

⁶ As one of inputs to the assessment of capacity existing at the federal level, this study planned to conduct a survey amongst civil servants to better understand concerns, challenges, and appropriate incentives for their effective integration into provincial and local governments. However, this survey was postponed so as not to interfere with the ongoing process of adjustment of civil servants that started in December 2018.

⁷ Some of the findings from the survey are distributed throughout the report to support the discussion of issues.

related to the involvement of line ministries in the delivery of local and provincial government services, or the gap between expectations of citizens and service delivery. In the sample survey results reported below, we take up only the administrative involvement of provincial and local governments with service delivery. This analysis does not address the issues facing individual provincial or local governments. Size classes of local governments, and provincial locations and province characteristics are considered, but management issues facing individual PLGs are not studied.

1.16 Time and resource constraints limit what can be done with developing recommendations for actions. This report was tasked to focus on needs-capacity gaps and identify directions for addressing the issues. We do not provide enough detail here to enable drafting an action plan for a new initiative, e.g., the terms of reference or the composition of membership of a proposed new committee to lead the next round of implementation. In short, there is much room for follow on activities to this study, as was anticipated in the TOR for this project (World Bank (2018b, Annex A).

“This needs assessment will be a just in time exercise to develop a baseline that can be used to begin a series of interventions. In that sense, it will be a first step and the beginning of a continuous process of analysis that will be taken forward to drill down into different areas of needs at the local level.” (World Bank, 2018b, Annex A).

1.17 Finally, we note that our analysis does not take account of events after April 1, 2019. Many important actions may have taken place since then, but meeting deadlines forced us to establish a cutoff point.⁸

Capacity and Needs: Definitions

1.18 For purposes of this study, we take a broad view in defining capacity and estimating the needs capacity gap in the implementation of federalism. The project explores the determinants of this gap at both the federal and the provincial-local level.

1.19 Four dimensions of PLGs capacity are addressed in this analysis, as outlined in Table 1. First, a central question is the size of the gap between the number of PLGs employees needed to manage a program equivalent in amount to 34 percent of total government expenditures, and the number that is now in place at the PLGs level. An estimate of the present size of this gap is made, but the extent to which these employees have the skills to carry out their newly assigned duties in a satisfactory way is not yet known.

⁸ Some data received after the April 1, 2019 cutoff have been included where possible.

Table 1: Provincial and Local Government Capacity to Manage Assigned Responsibilities under the Nepali Federal System

Goal	Estimated Needs	Addressing Capacity-Needs Gap	Challenges
Adequate labor to manage governance at the SFG level	Estimated by federal O&M study	Transfer “excess” employees from federal to SFG level	Number and types of employees transferred do not yet fill the estimated gap
Adequately trained human capital at the SFG level	Not yet known	Training and capacity building; better recruiting	Program and institutional arrangements for training and capacity building have not yet been announced
Support SFG management employees with adequate facilities and equipment	Most standards will be set by individual SFGs	Existing capacity is estimated as part of FCNA survey	Establishing a financing plan adequate to cover the gap
Appropriate Processes and Management Tools in place at SFG level	Based on customized organizational structures: Job descriptions; HR policies; Manuals for Operation, PFM system improvements, tracking budget outcomes; FCNA	Extend PFM system to the PLGs level; provide adequate skills trainings	Developing a national plan for handoff to SFGs; Training and capacity development
Ability to Draft local laws in place	FCNA provides estimates of present capacity levels.	Transfer, second, or share qualified staff with local government units; capacity development through training; technical assistance from federal government	Developing a plan at the federal and provincial level to cover the needs-resources gap
Adequate revenues for SFGs to finance a share of their budgets	Expenditure needs are not yet clear; Capital facility planning is problematic	Review expenditure assignments; improve MTEF;	Provide incentives for local revenue mobilization; build a local data base for evaluating outcomes

1.20 Second is the question of whether the physical facilities and other supporting infrastructure is in place to allow PLGs employees to carry out their new duties. The FCNA survey provides information on the stock of buildings, equipment, and supporting services that are now in place.

1.21 A third dimension of capacity has to do with whether or not the processes necessary for good local government management are in place, e.g., budget execution and review, revenue mobilization management capabilities, capital facility planning, public financial management systems including procurement and strategic planning, etc.

1.22 Fourth is the capacity of PLGs to draft laws at acceptable levels, including laws to support local revenue mobilization. The FCNA survey provides some evidence of present levels of capacity to carry out this duty, but the full handoff of responsibilities to local governments has not yet been completed.

1.23 This analysis also considers the capacity of the federal government and its agencies, and the Parliament, to manage the intergovernmental system. In Table 2, we outline the capacity at the federal level for managing the intergovernmental system.

Table 2: Federal Government Capacity to Manage the Intergovernmental System

Goals	Needs to Implement and Manage Federalism	Challenges
Reducing the capacity-needs gap in SFG employment and supporting services to some acceptable level; maintaining adequate federal infrastructure to manage the system	Provide framework legislation and policy programs to address any remaining gap.	The federal O&M study suggests that further offloads are not feasible, and enabling legislation for local hires is not yet in place
Completing the legal structure necessary to fully implement the federal system	Enact remaining, necessary framework legislation	Gaining Parliamentary approval and drafting new laws
Improve PFM practices	Extend PFM program to PLGs level	Developing an implementation plan and a training plan for PFM
Effective capacity building and training	Provide leadership in development of capacity building programs and institutional arrangements	Development of a plan is still in progress
Providing an adequate fiscal capacity for SFGs	Public Expenditure Review; local revenue mobilization incentives; intergovernmental transfer review	Full membership of the NNRFC not yet in place; expenditure assignments need to be revisited; weak incentives for revenue mobilization by local governments

1.24 Two of the five areas considered here are part of the handoff of responsibilities as described in the constitution: completing the transfer of employees and seeing to the enactment of necessary framework legislation. Extending the PFM program to PLGs will require federal leadership for now, since it will take time and since some national uniformity in practices is involved. Capacity building and training require the federal government to provide leadership in developing the

framework, even though, as is likely, the job of implementation is handed off to PLGs. Fiscal policy management will be a shared responsibility in the future, though the likely senior partner will be the NNRFC because of the importance of transfers in the intergovernmental fiscal system.

MACROECONOMIC SETTING, SPENDING RATES AND FISCAL NEEDS

1.25 The level of taxation in Nepal was equivalent to about 21.7 percent of GDP in FY 2017/2018 and is projected (in the FY 2018/2019 budget) to further increase to 23.6 percent in 2019.⁹ This is high by comparison with the tax ratios in other countries in the region, e.g., India (16.8 percent), Pakistan (11.9 percent), Bangladesh (8.5 percent), and Thailand (17.0 percent).¹⁰

1.26 Data from Central Bureau of Statistics show the estimated increase in GDP for FY 2018/2019 in Nepal is about 7.1 percent, and this could make possible a real growth in the vertical shares of intergovernmental transfers. The FY 2018/2019 budget calls for intergovernmental transfers of 12.8 percent of GDP, by comparison to 10.9 percent in 2017/2018. The significant increase is due in part to the allocation of tax sharing grants in 2018/2019, which was not made in FY 2017/18.

1.27 A concern in Nepal is the inability of the government sector to spend the budget effectively. In FY 2018/2019, the expenditure disbursement rate for the federal government is 50 percent (April 2019 estimate).¹¹ But in the long run, as budgeting practices and expenditure efficiency improve, disbursement rates will likely rise and attention will be more focused on the underlying problem, i.e., the poor quality of public services and the infrastructure backlogs will overwhelm the resources available to cover their financing at “normal” levels.

FCNA Survey Results on Disbursement Rates

1.28 Actual local government expenditures have lagged budgeted amounts, with metropolitan and sub-metropolitan cities spending a smaller share of budgeted expenditures on both current account (70 percent in metropolitan and 79 in sub-metropolitan) and capital account (51 percent in metropolitan and 67 in sub-metropolitan) than municipalities (82 percent of current budget and 75 percent of capital budget) or rural municipalities (80 percent of both current and capital budgets). When those local governments with disbursement rates below 60 percent for capital spending were asked the reasons for underspending, the most common responses were that it was due to the absence of technical staff and to delays by user committees.

Service Level Deficiencies

⁹ Available budget data are revised estimates for 2017/2018 and estimates for 2018/2019.

¹⁰ The World Bank (May 2019) estimates that tax reform could increase this ratio to above 27 percent over the medium term.

¹¹ The disbursement rate for local governments in FY 2018, based on FCGO data, was about 82 percent for equalization grants and 94 percent for conditional funds.

1.29 The cost of transitioning to a fiscal federalism is a concern because there are so many other claims on central government revenues. Nepal is one of the poorest countries in South Asia. The HDI index ranks it 149 of 189 countries, and the gender inequality index ranks 118 of 189 (UNDP, 2018). The adult literacy rate is 71 percent for males and 45 percent for females. As might be expected in a low-income country, public services are provided at well below acceptable levels. About 58 percent of the urban population has access to piped water supply, only about one-third of toilets are connected to sewer systems, less than two-thirds of solid waste is collected, and the coverage of the storm drainage system is limited.¹² About one third of the country's population, mostly living in remote areas, has no access to electricity (World Bank, 2015).

1.30 By one estimate, the cost of moving the infrastructure deficiency to minimum standards of service would have been between 7 and 10 percent of GDP in 2016/2017.¹³ The Finance Minister's budget speech for 2018/2019 proposes significant spending for social and economic programs. However, this has raised some concern in light of the increase in the fiscal deficit to 5.7 percent of GDP in FY 2017/2018 and the additional budgetary claims that might be made by the implementation of federalism (IMF, 2018; World Bank, 2018).

II. IMPLEMENTATION ISSUES

1.31 Much has been accomplished in the first two years of transition to the federal system mandated in the Constitution. Much of the important framework legislation is now in place, an interim system of intergovernmental transfers is being used to distribute revenues to local governments, basic expenditure assignments to follow the Constitution are known, and the transfer of staff from the federal to provincial and local governments has begun. Elected provincial and local governments are carrying out assigned tasks, SFG Assemblies with mandated gender and minority representation are functioning according to rules laid out in the Constitution, and budgets for most local governments have been approved and audited.

1.32 But the transition to federalism has faced challenges, and criticisms and concerns have been regularly reported in the press. These have come from many places including Chief Ministers, provincial and local government officials, documents prepared by the Inter-Provincial Council (see Annex A), research prepared by think tanks (such as the Nepal Center for Contemporary Studies (2017), from the observations reported by The Democracy Resource Center (2018, 2019), and even from MOFAGA (2018, Chapter 3).

1.33 There are many potential explanations for the pace of implementation being slower than many representatives of PLGs had hoped for. The federal government and the Parliament have been slowed in getting the legal and institutional framework in place because the process of doing this devolution is a big job and possibly because the risks of failure and a further breakdown of public services was high enough that those responsible for the rollout may have chosen to err on the side of being overly cautious. Moreover, there no doubt was some foot-dragging because not all political leaders and senior bureaucrats interpret the required devolution in the same way, or agree with it, and the process has required a great deal of time-consuming political navigation.

¹² This information comes from a variety of sources that are summarized in World Bank (December, 2018a).

¹³ World Bank (December, 2018a).

1.34 Another factor that may have contributed to what some have seen as a slow start is the absence of a strong “champion” for the federalism envisioned in the Constitution, i.e., the person or the office that becomes the public face of federalism and is its strongest advocate. When the pace of implementation slows, the champion steps up to negotiate a way around the roadblocks. In various countries the champion has been a strong Minister or strong mayor, a collection of legislators, or even a head of state. Arguably, one might expect the provincial and locally elected political leaders to push the federalism agenda hardest.

1.35 It also is probably fair to say that the difficulties that would come with putting a new federal structure in place were underestimated. Provincial governments did not previously exist, local governments existed in a very different form, and neither level had adequate capacity to manage the delivery of local services. Nor did the federal government have much experience with guiding the implementation of a large-scale decentralization or with monitoring the performance of the provincial and local governments (see Box 1). Elected provincial and local government officials, and voters, are only now beginning to understand their new powers and responsibilities under a federal structure. At the time of the 2017 elections, about 40 percent of respondents in a national survey of perceptions about government said that they had not heard about the new constitution (NASC, 2018, p. 59).

1.36 The problems with implementation were partly due to inadequate preparation at all levels of government. But there was a popular demand to “get going” with local self-governance. Expectations on the part of some provincial and local government politicians and some citizen groups were probably too high, especially given the weak capacity of local governments to deliver services or manage their responsibilities. Gender and minority biases may have been more deep-seated than expected. Finally, there was no formal implementation plan or timetable in place to temper these expectations. The reactions of some elected PLGs politicians suggest that they believed their constituents were expecting better. On the other hand, a recent survey of perceptions of the population showed a sense of optimism that the reforms were going in the right direction (see Box 2).

1.37 Provincial and local governments took on their new responsibilities before many pieces of key legislation were passed and before necessary institutions, laws, regulations, and organizations required for autonomous PLGs governance were in place. The results were not good. The absence of a Local Government Operations Act (for more than three months after four fifths of local governments had already been formed in the May and June waves of the 2017 local elections) forced everyday governance to be carried out with federal directives and executive orders during an interim period. Civil service positions stayed vacant and project money did not get spent. This is far from what many citizens expected. (Centre for Contemporary Affairs, 2017).

1.38 During 2018, the Development Partners (2018) did field visits in all seven provinces to inform the provincial and local governments about the upcoming FCNA survey and to ask for their support. In the course of discussing the FCNA survey, the development partners were engaged in a “listening” exercise about early perceptions about the implementation of federalism. Again, the general tenor of this discussion was that expectations at the PLGs level were not being met.

1.39 Decentralization under the new federal structure is only in its second full fiscal year of operations, and in fairness, it needs to be said that such sweeping changes as are mandated in the Constitution will take much more time to implement. However, there seems to be general agreement that the basic functioning of PLGs could benefit greatly from the issuance of necessary national framework legislation, a faster rate of transfers of essential employees, and the appointment of institutions needed for effective implementation of plans and budget.

1.40 There is no objective way to grade the current state of federalism in Nepal because there is no schedule for implementing the needed policies that are laid out in the Constitution. Nor is there a sequencing or a timetable by which each action is scheduled to take place. Had such a “roadmap” been in place, there would be a more systematic process for an intergovernmental debate about whether and how the transition to federalism could have been speeded up (or slowed down). Similarly, there was no dedicated committee in Parliament to provide oversight and allow parliamentary debate. Such an informed debate could have helped with managing expectations.

1.41 There is some indication that the communications among the three levels of government has improved. The first formal meeting of the Inter-Province Council (attended by the Prime Minister and chief ministers of all seven provinces) was held in December 2018 and concluded with a “common understanding.” The federal government assured the provinces that it would legislate important laws promptly and extend all necessary cooperation (DRCN, 2019, p. 32). The detailed Federalism Implementation Action Plan (Inter-Provincial Council, 2018) is included as Annex A to this report.

FCNA Survey Evidence on Political Governance

1.42 The FCNA survey results (reported more fully in Part Two of this report) show that provincial and local governments are settling in and taking up their responsibilities. Elected leadership is in place with significant and legally mandated representation of women and Dalits on the councils at both the provincial and local levels. Provincial and local assemblies are well attended and active. After taking care of the housekeeping rules, provincial governments have been passing thematic laws (mostly concerned with social development) and issuing regulations (mostly concerned with land management, agriculture, and cooperatives), as is described in Figure 1.

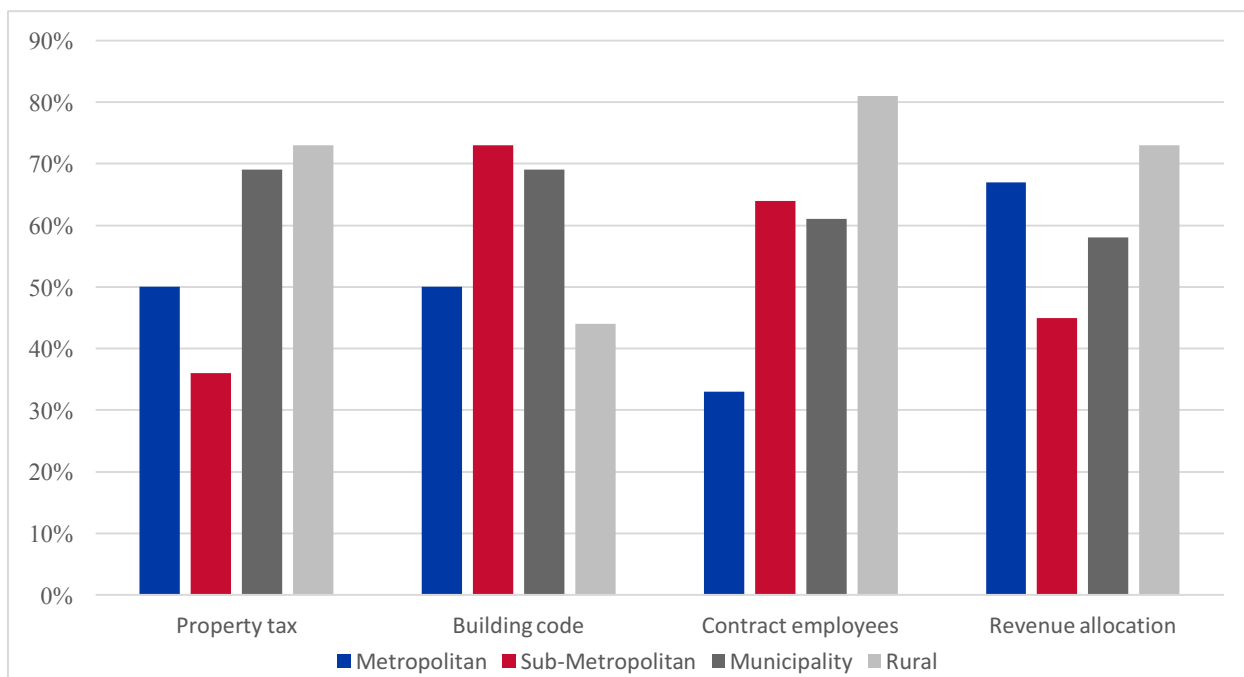
Box 2: Perceptions of Governance Reform in Nepal

A sample survey of 12,920 Nepalis about their perceptions of the progress with the reforms is overwhelmingly positive and gives a sense of optimism that things are moving in the right direction. Almost four fifths of respondents believe that Nepal is heading the right way. Those with no formal education (85 percent), residents in rural municipalities (82 percent) and the youngest age group (18-24 years) are the most optimistic, with 92 percent anticipating future improvements. Nevertheless, only a small minority of respondents rate things as “very good”. This shows that whilst Nepalis are optimistic overall, there is a sense that more could be done.

Only one quarter of the population of even the most concerned groups – including groups who consistently report negative experiences throughout the survey – feel that improvement is not underway. The 16 percent of respondents who feel that Nepal is headed in the wrong direction, and those who least expect improvement, are those with more education and wealth. Politics topped the concerns among those who feel pessimistic, with a majority feeling that political leaders are not doing well.

Source: NASC, Chapter 7 (2018).

Figure 1. Adoption of Thematic Laws and Regulations (Percent of Local Government Units)



Source: Estimated by the study team based on a representative survey of local governments.

1.43 Many local governments are dispatching their duties in a competent manner. The assembly meetings seem to be taking place with about the same frequency in all local governments, and the meetings are reported to be well attended. The literacy rate of assembly members is over 90 percent, though it is quite a bit lower in some smaller local governments. Female and Dalit members are reported to participate in the assembly deliberations. Most provincial and local governments have a capital budget that lists projects by sector and wards, and budgets were approved on time.

1.44 For all provincial and local governments in Nepal, implementation of the federal system is in an early stage. However, with respect to some of their responsibilities, municipalities and rural municipalities particularly have lagged behind cities. About 20 percent of all local governments report a failure to implement some “model laws” because of a limited capacity for customization, only a quarter of local governments have all model laws approved, and the rest claim it to be either a low priority or not relevant.

1.45 Municipalities and rural municipalities are less likely to use SUTRA. The survey showed that nearly 90 percent of local governments approved their budgets on time, but the share of rural municipalities was less. Less than one half of the municipalities and rural municipalities have prepared procurement regulations consistent with the Federal Procurement Act.

III. THE FEDERAL GOVERNMENT, THE PARLIAMENT, AND THE IMPLEMENTATION OF FEDERALISM

1.46 The Federal government in Nepal, and the Parliament, play an important role in implementing and sustaining federalism. A major responsibility is to enable and assist the legal and institutional development of the provincial and local governments during the implementation phase. These start-up responsibilities of the Federal government include:

- Creating the legal framework for the relocation and reassignment of civil servants to PLGs;
- Drafting and passing enabling legislation for provincial public service commissions, and for the authorization for PPSCs to hire on behalf of provincial and local governments;
- Providing enough capacity for provincial and local governments to deliver a prescribed minimum level of their assigned public service responsibilities (In this case, “enough capacity” means staff, supporting assets, staff knowledge about processes, and fiscal capacity.);
- Passing the sectoral laws required to enable PLGs service delivery programs, by clarifying the division of responsibilities among these levels of government and defining service delivery norms and standards for the provincial and local governments;
- Issuing sectoral guidelines based on the standards of the laws to be followed by the provincial and local governments, and providing support to them on how to integrate these guidelines into their plans and policies;
- Clarifying the objectives of each of the intergovernmental transfers, and advising on their use;
- Providing technical assistance, where necessary, to assist PLGs in assuming their new service delivery and management responsibilities (In particular, the drafting of model laws is important.); and
- Implementing a capacity development program to provide skills training and technical assistance to all levels of government.
- The federal government also is mandated to put in place a process and relevant institutions for oversight, monitoring, and evaluation of the new system, and capacity development. This will be tricky because the vision in the Constitution seems to call for the federal, provincial, and local governments to operate mostly as spheres of governance – with defined powers and responsibilities – rather than as hierarchical tiers. Still, there are a number of areas where federal government leadership is needed, including, for example, the following:
- Passing of laws related to the concurrent responsibilities (Schedules 7 and 9) and clarifying the responsibilities of each level of government following the principle of subsidiary and the intergovernmental coordination mechanism (Art. 235);
- Creating a monitoring and evaluation system along with an administrative unit charged with assessing the performance of the intergovernmental fiscal system;
- Completing the appointment of members, and providing for staffing of constitutionally required organizations and commissions, which are charged with developing plans for an adequate and equitable distribution of resources among the PLGs, and safeguards to protect the access to public services by all citizens;
- Taking stock and monitoring of all new laws passed by PLGs,
- Serving, with provincial governments, to resolve conflicts among PLGs jurisdictions; and

- Identifying regulations, ordinances and laws that are necessary to implement various provisions in the Constitution and to provide for smooth operations of the provincial and local governments.

1.47 The success of the federalism regime in Nepal will depend partly on how well these start-up responsibilities are fulfilled. The discussion below is about how these issues have been addressed, about the challenges in implementation, and about what might be the next steps.

EMPLOYMENT AT THE PROVINCIAL AND LOCAL GOVERNMENT LEVEL: MOFAGA ESTIMATES AND IMPLICATIONS¹⁴

1.48 The Constitution of Nepal specifies a new, more decentralized assignment of expenditure responsibilities to each sphere of government, which in turn requires a significant redistribution of government employment from the federal to the provincial and local government levels. This is a major and difficult job that only a few middle- and lower-income countries have even attempted (see Box 3).

1.49 Presently, the Government of Nepal’s civil servants number 89,825 individuals, which also include the health personnel.¹⁵ The rank-wise and gender composition of the civil servants is shown in Table 3. Total government employment is much broader, including, for example, teachers, police, and permanent employees of local governments. Because these are not classified as civil service employees, none are included in Table 3. However, when all employees (except teachers) are considered, it is estimated that total government employment is 126,852 (about one government worker for every 230 persons in Nepal).

1.50 The transition to the new federal system requires the “adjustment” of these 89,825 civil service employees, i.e., some will be physically relocated and become employees of either a provincial government or a local government, and some will remain at the federal government level.¹⁶ The wage and salary of those assigned to the PLGs level will be paid by their respective PLGs, but their pension and other non-wage benefits will continue to be paid at the federal level.

¹⁴ The data reported in the employment tables in this section of the report are based on data provided by MOFAGA and by the Office of Civil Personnel Records during the January-March period in 2019.

¹⁵ This employee count includes those who were filling a position as of February 5th, 2019. These data do not include teachers or police.

¹⁶ The transition management clause of the Constitution (Article 302 (2)), allowed the Government of Nepal to “integrate” civil servants existing at the time of commencement of the Constitution into the provincial and local levels when making “necessary provisions to provide services at provincial and local level.” This was implemented in the Employees Adjustment Act 2074 BS (2017) through the process of adjustment of all existing civil servants defined as “installation of the employees in the federal, provincial or local level service.” While initially being envisioned to be completed within six months of determining the total number of positions at each of three levels of governments by the federal O&M Committee, adjustment was put on hold by the new Cabinet formed after the first parliamentary election. The adjustment was completed under the terms of the Civil Servant Adjustment Act passed by the parliament on February 15, 2019 to replace the Employees Adjustment Act of 2017.

Box 3: Indonesia's Big Bang Decentralization Reform

In 2001, Indonesia implemented a major fiscal decentralization that led to an increase in the expenditure share of subnational governments, from a pre-reform level of 15 percent of total government expenditures to a post-reform level of about 40 percent. This was accomplished by transferring over two million central government civil servants (almost two thirds of the central government workforce) to the regional governments. In addition, provincial and local level offices of the central government and more than 16,000 schools, hospitals, health centers, etc. were transferred to the regions. Most functions of government were decentralized, with the exceptions of national defense, international relations, justice, police, national development planning, religion, and finance, which remained with the central government. Local governments were not given any significant taxing powers but were financed mostly by unconditional grants from a 26 percent share of domestic tax revenue collections.

The transition to a decentralized system in Indonesia was not perfectly smooth. The assignment of expenditure responsibilities in the new Constitution was murky, with the role of provinces being especially unclear, and there was significant dissention coming from the natural-resource-rich regions. However, the transition was somewhat easier in Indonesia than in Nepal (a) because provincial and local governments already existed, so local government service delivery was handed over more easily, and (b) because of the significant deconcentration of national government employment that was already in place, which meant there was less reliance on forced relocation of central employees from the national capital.

Sources: Hofman and Kaiser (2004); Directorate of Fiscal Balance (2012)

Table 3: The Government of Nepal's Civil Service, as of February 5th, 2019

		Actual			Percent	
		Male	Female	Total	Male	Female
Gazetted	Special Class	64	3	67	96	4
	1st Class	521	38	559	93	7
	2nd Class	3,337	260	3,597	93	7
	3rd Class	9,935	1,663	11,598	86	14
	<i>Gazetted Total</i>	13,857	1,964	15,821	88	12
Non-Gazetted	1st Class	15,242	2,938	18,180	84	16
	2nd Class	9,308	2,698	12,006	78	22
	Others	757	68	825	92	8
	<i>Non-Gazetted Total</i>	25,307	5,704	31,011	82	18
	Health ^a	14,547	13,050	27,597	53	47
	Various Others	13,996	1,400	15,396	91	9
Grand Total		67,707	22,118	89,825	75	25

a. Health sector civil servants are categorized separately in the government's records. The health sector data includes both gazetted and non-gazetted civil servants.

Source: Compiled with data provided by the Department of Civil Personnel Records, Government of Nepal

Downsizing the Number of Federal Government Employees

1.51 The number of employees to be devolved from the federal level has been determined in two ways. The first, which follows the new assignments of expenditure responsibility, is for the

federal government to close certain offices and transfer all employees in those departments to the provincial and local governments. Most of these are service delivery workers, many of whom are already working at the provincial and local government level on a secondment basis. This is the largest component of “adjusted” employees. The second approach is to reduce the number of remaining federal civil service employees to accommodate the management needs of provincial and local governments. To do this, MOFAGA conducted an operations and management (O&M) survey of each federal government ministry in order to establish federal employment needs.¹⁷ The difference between the number “needed” by the federal ministry and the number of present employees are the redundant employees who can be potentially “adjusted” to the provincial and local government level. These public management, or public administration employees, are the special concern in this FCNA study.

1.52 These two approaches to employment devolution have led to a proposed reduction in civil servant employment of the federal government by 41,335 or about 46 percent of total civil service employment. For those departments to be retained by the federal government, the O&M survey for civil servants led to a proposal for the retention of 48,490 civil service positions.¹⁸ As compared to the 51,420 similar existing positions, this is a decrease of 2,930 positions. It is equivalent to a 6-percent reduction in the number of civil service positions that the federal government will retain in their ministries. This means that less than 3,000 public administration/public management employees can be potentially reallocated to provincial and local government posts in addition to those that are already serving in a seconded capacity at various PLGs offices and service centers. The results of the O&M analysis are shown in Table 4, by ministry.

Table 4: Operations and Management Results by Federal Ministry, as of July 2018

Ministry of Office	Existing positions^a	Proposed Positions	Gap (pos. is surplus)
President's Office	68	68	0
Vice President's Office	31	27	4
Office of Prime Minister	1,388	1,313	75
Ministry of Finance	4,289	3,868	421
Ministry of Industry, Commerce & Supplies	999	758	241
Ministry of Energy, Water Resource & Irrigation	1,048	904	144
Ministry of Law, Justice & Parliamentary Affairs	146	146	0
Ministry of Agriculture, Land Management & Cooperative	8,744	8,130	614
Ministry of Drinking Water	250	116	134
Home Ministry	4,461	4,240	221
Ministry of Foreign Affairs	392	387	5
Ministry of Physical Infrastructure and Transportation	2,081	2,148	-67

¹⁷ The O&M survey method used for the federal government relied on a request for needed employment from each Ministry, accompanied by “expert judgement” by MOFAGA officials. At the subnational level, the approach was similar but relied more heavily on expert judgement by MOFAGA officials.

¹⁸ The O&M study originally produced an estimate of 45,858 employee positions to be retained by the federal government. That estimate was subsequently increased to 48,490. This new proposed number is used in the remainder of this report. However, Table 2 is based on the original estimate.

Ministry of Women Children and Senior Citizen	131	105	26
Ministry of Youth & Sports	66	56	10
Ministry of Defense	98	98	0
Ministry of Forests and Environment	2,892	2,651	241
Ministry of Urban Development	345	377	-32
Ministry of Education	584	597	-13
Ministry of Labour Employment & Social Security	368	381	-13
Ministry of Culture, Tourism & Civil Aviation	305	213	92
Ministry of Federal Affairs & General Administration	425	364	61
Ministry of Communication and IT	9,865	6,562	3,303
Ministry of Health & Population	2,874	2,698	176
Commission for the Investigation of Abuse of Authority	820	580	240
Civil Service Commission	420	399	21
Election Commission of Nepal	744	671	73
Various Commissions	829	999	-170
Judiciary	5,135	5,135	0
Judicial Council Secretariat	33	33	0
Public Attorney	1,255	1,374	-119
Federal Parliament Secretariat	334	334	0
Province Chief Minister's Offices	0	126	-126
Total	51,420	45,858	5,562

a. Existing positions in this column are positions similar to those proposed in the federal O&M. It does not include those positions whose functions were previously the responsibility of the federal government but have now been directly transferred to sub-national governments, such as many health and agriculture sector positions. The education sector is not included.

Source: Compiled from data supplied from MOFAGA, Government of Nepal

1.53 There is no good, objective way of judging whether a total reduction of 46 percent of the federal civil service employment (or one third of the total government workforce, excluding teachers) is too much or too little. By comparison with MOFAGA's estimate of the "needed" employment increase to manage PLGs, it would appear to be too little (see below). The other possible yardstick, international comparisons, is not very helpful in this regard because the assignment of expenditure responsibilities and the classification of employees differs across countries. In fact, no two countries can be fairly compared on this matter – there are far too many other variables in play. Moreover, the federal O&M employment needs analysis was subjective and based on expert judgement, and so it is difficult to evaluate. Also, no easily accessible information is available on the credentials of each of the employees who would be "adjusted," so it is not possible to comment on the potential mismatch between the needs of the PLGs and the skills of their new employees.

Provincial and Local Government Employment Needs

1.54 An interim O&M survey was conducted by the federal government for the provincial and local governments.¹⁹ The results for the province O&M are presented in Table 5. The proposal based on this survey is for 21,399 employees across the seven provincial governments, including their service delivery units.²⁰ The province level of government is new in Nepal and has no legacy staff, but it does have some locally contracted support staff, like drivers, office assistants, and data processing personnel. The provinces' management operations are currently conducted by deputed federal civil servants.

1.55 Municipalities and rural municipalities were grouped by population size. O&M surveys were carried out on the basis of local government size classifications (rural, municipality, metropolitan, etc.) rather than individual O&Ms, as were carried out for each provincial government. The total employment needs of all local governments were calculated by multiplying the needs for each local government class by the number of local governments in that class.

Table 5: Provincial Governments Operations and Management Analysis, as of July 2018

Province	Proposed Provincial Government Positions	Current Count of Local Governments
Province 1	3,628	137
Province 2	3,132	136
Province 3	3,555	119
Province 4 Gandaki	2,414	85
Province 5	3,821	109
Province 6 Karnali	2,236	79
Province 7 Sudur Paschim	2,613	88
Total	21,399	753

Source: MOFAGA, Government of Nepal

1.56 The results are shown in Table 6. Across the 753 local governments, 33,262 civil service/public administration positions are proposed, based on the O&M analysis.²¹ This number includes positions at the municipal offices (local government headquarters) and all associated ward offices. However, it does not include agriculture, livestock, and health positions. With these, the total proposed positions for local governments (including service delivery) are 66,750.²² As we report in the next section, based on the survey data, we estimate the existing local government employment, not counting service delivery and DDC, to be about 45,000,

¹⁹ The provincial and local governments also have the authority to carry out their own O&M surveys to determine their staffing needs. However, without provincial public service commissions in place, they would have to rely on the federal civil service commission to carry out recruitment.

²⁰ The MOFAGA O&M for Province Governments is as of July 17th, 2018. At the subnational level, the approach used was expert judgement by MOFAGA officials.

²¹ However, the interim organograms that were provided to local governments at the time of elections envisioned a total of 37,257 positions across all local governments including wards but excluding service delivery centers and DDC. Our survey finds that local government still use those initial organograms for hiring decisions.

²² Teachers are excluded.

including 18,000 seconded, 8,000 legacy, and 19,000 contract staff. This is despite significant vacancies for high skill staff like engineers and accountants.

Table 6: Operations and Management Analysis by Category of Local Government, July 2018

	At Municipal Office	In the Ward	Total at Local Government
Kathmandu	173	163	336
Metropolitan city	650	994	1,644
Sub-metropolitan city	1,045	1170	2,215
Municipality with 50,000 or more residents	3,230	2338	5,568
Municipality with at least 50,000 residents	4,887	3900	8,787
Rural Municipality	8,280	6432	14,712
Total excluding health, agriculture & livestock	18,265	14,997	33,262
Agriculture			3,012
Livestock			4,712
Health			25,764
Grand Total			66,750

Source: Compiled from data provided by MOFAGA, Government of Nepal

1.57 The “needed” civil service positions identified in the O&Ms of all three tiers of government are compared with the MOFAGA counts of existing (pre-adjustment) levels in Table 7. The results show a significant gap. If the federal government offloads the proposed 41,335 “excess” civil service positions to provincial and local governments, it will still leave the PLGs short by 46,814 “needed” employees.²³

Table 7. Positions Gap

	Existing	Proposed	Gap (Positive Is Surplus)
Local		66,750	-66,750
Province	-	21,399	-21,399
Federal	89,825	48,490	41,335
Total	89,825	136,639	-46,814

Sources: Column (1) data provided by Department of Civil Personnel Records in 2019, column (2) are estimates based on MOFAGA Organization and management Survey

²³ The data in Table 7 require some explanation. For example, in row 3, Federal “existing” employees are positions that are filled. Rows 1 and 2, proposed employment for provincial and local governments, are a proposed number of positions.

1.58 The important questions became how (and when) this very significant gap in employment needs would be covered, and how long the transition would take.

1.59 To fill these positions and assist with the adjustment of civil service across the three levels of government, the government fielded a questionnaire asking all civil servants to identify and rank their preferred level of service. Based on the response to this questionnaire, staff were assigned to either the federal, province or local government, considering the individual's skills and the needs at vacant positions.²⁴ This civil service adjustment exercise across the three levels of government was completed on March 28, 2019.

1.60 Individual employees have been assigned their new posts, and their physical relocation was taking place at the time of this writing. A summary of the current status (March 2019) of the civil service adjustment is presented in Table 8.

Table 8: Human Resource Adjustment: Assignments at the Three Levels of Government

		Adjusted Employees
Local	From Civil Service	31,710
	Legacy	12,097
Local Total		43,807
Province		13,821
Federal		39,960
Reserve Pool		2,443
Total		100,031

Source: Compiled from data provided by MOFAGA, Government of Nepal

1.61 A total of 39,960 employees have been assigned to the federal government, 13,821 have been assigned to province governments, and 31,710 to the local governments.²⁵ In the case of local governments, 12,097 legacy staff²⁶ have also been assigned positions. Thus, the total adjusted staff at the municipal and rural municipalities level is 43,807. An additional 2,443 civil service employees have not yet been assigned positions and form a reserve pool.²⁷ The unfilled employment gap as of March 2019 is 39,051. If the reserve pool is assigned to provincial and local governments, the net employment deficit across the three levels of government would be 36,608, and it is largest at the provincial level when measured relative to the total number of proposed

²⁴ MOFAGA requested civil servants to submit their preferred level of government service. Of the approximately 77,000 civil servants who responded, 46 percent chose federal, 18 percent province, and 36 percent local.

²⁵ The federal and subnational governments also hire workers on a contractual basis to perform operational tasks. Such individuals are hired directly by ministries at the federal level, and they are not a part of the civil service. MOFAGA estimates that there are about 10,000 contractual workers on the federal government payroll, and about another 10,000 at the provincial and local level. (The FCNA survey estimates are that there are about 20,000 positions filled with contractual employees at the local level.) However, these employees are unlikely to meet the qualifications to fill civil service management positions since many (most) are drivers, messengers, cleaners, computer operators, etc.

²⁶ Legacy staff at the local governments are permanent employees hired directly by previous VDCs and nagarpalikas but have been retained by and adjusted to successor local governments.

²⁷ The reserve pool of civil service employees is those who have not been assigned to any position during the adjustment process. They will also be assigned positions to fill the remaining gaps taking into account their skills, expertise, and other non-professional attributes.

positions. This gap includes both service delivery personnel and public administration/public management personnel. These results are described in Table 9.

Table 9: Interim Post Adjustment Human Resource Gap at Three Levels of Government

	Proposed	Adjustment	Post-Adjustment Gap	Reserve Pool	Final Gap
Local	66,750	43,807	-22,943		
Province	21,399	13,821	-7,578		
Federal	48,490	39,960	-8,530		
Total	136,639	97,588	-39,051	2,443	-36,608

Source: Compiled from data provided by MOFAGA, Government of Nepal, and team calculations

Issues to be Resolved and Post-Adjustment Survey

1.62 The MOFAGA program for employee adjustment leaves several issues to be resolved.

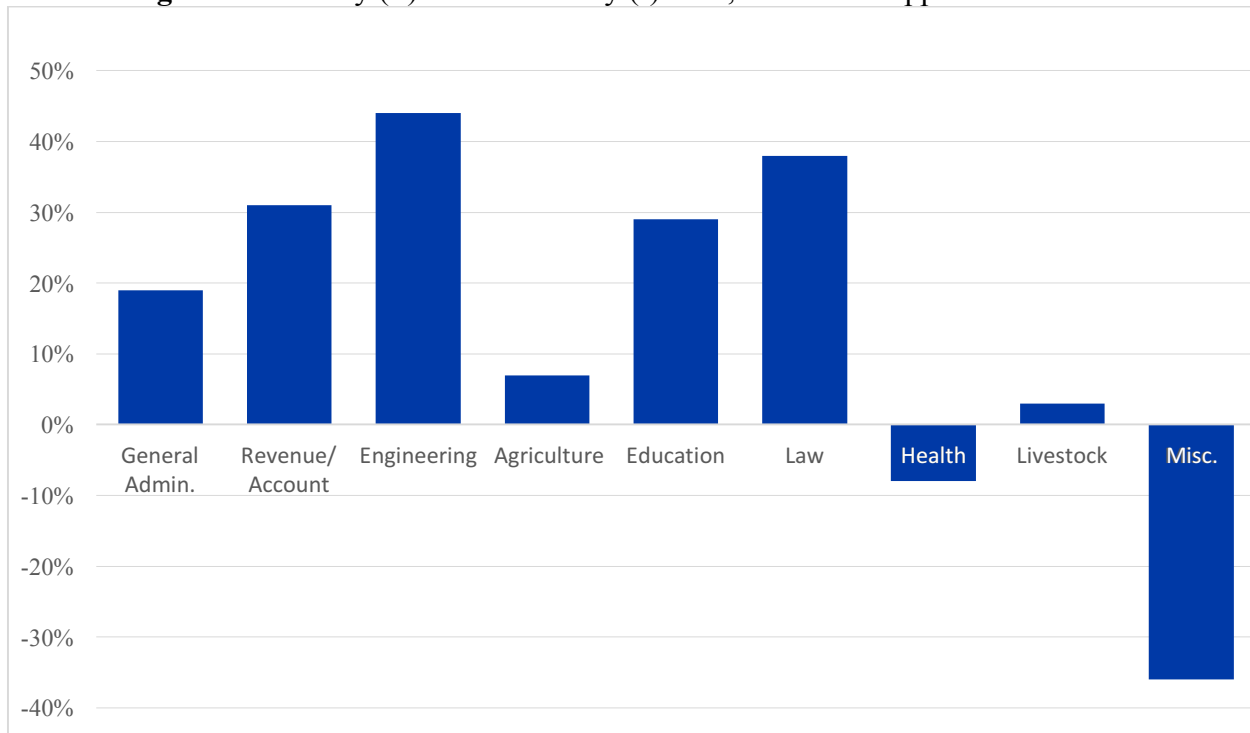
1. Though the process was not yet complete at the time of this writing, it appears that the civil service adjustment program will not fill the capacity-needs gap at the PLGs level.²⁸ The total number of positions offloaded by the federal government appears to be well less than MOFAGA's estimate of the number needed to provide an adequate staffing for provincial and local governments (see Tables 8 and 9). As of March 2019, the estimated gap in both public administration/public management personnel and service delivery personnel is about 36,600 positions. One option for addressing this shortfall is for the provincial and local governments to carry out their own O&M surveys and recruit additional provincial and local government employees through the provincial public service commissions. A local O&M study could give a more realistic estimate of employment needs, though it is not clear how an incentive would be introduced to cause local governments not to overstate the number of staff needed. As of the time of this writing, the Federal/Provincial and Local Act that will enable this hiring is not yet in place.
2. Another option for addressing the employment gap is for the federal government to make deeper cuts in its civil service employment, by initiating another program of federal to PLGs transfers, based on a new study.
3. Neither does it appear that the public administration/public management employees necessary to manage provincial and local government operations will be transferred in sufficient numbers. While the data available will not allow a precise estimate and the adjustment of employees that is still underway, the information available from the MOFAGA and FCNA survey suggest that a large number of unfilled public administration/public management positions will remain.²⁹

²⁸ The Ministry of Health suspended the staff adjustment process because it was thought to be too disruptive of the delivery of health services (Kathmandu Post, April 22, 2019).

²⁹ It should be noted that the policy of the Government of Nepal is to outsource services of technical staffs such as engineers, sub-engineers, and JTA from the market until those positions are fulfilled by permanent staffs.

- It is yet to be seen whether the skills of the relocated federal bureaucrats and the legacy employees of the local governments will fit the needs of the PLGs. The needed positions at the PLGs level sometimes have requirements for specific skill sets, e.g., accounting, IT skills, engineers, surveyors, or specific sector expertise. Data reported while the employment readjustment was still underway suggests a significant mismatch with respect to skill needs (see Figure 2).

Figure 2. Vacancy (+) or Redundancy (-) Rate, Percent of Approved Positions



Source: Estimated by the study team based on a representative survey of local governments.

- Only 2,930 civil servants working in federal government ministries were declared redundant, and the remainder of those to be adjusted are service delivery personnel working primarily in health and agriculture. The “needs” for public administration/public management positions at the local government level alone, based on the MOFAGA survey, are 33,262. This suggests that there will be post adjustment mismatches to be dealt with. It is not clear what options the provincial and local governments have to address these skill mismatches. According to federal government officials, the expectation is that local governments will do their own O&M survey after the initial round of relocations are in place.³⁰ But it is not yet clear whether budget will be adequate to the new employee skill sets. The employment adjustment strategy will not likely be accomplished in one year. It appears that MOFAGA’s interim O&M-based adjustment program was meant to start the process which would be taken up by a subsequent O&M survey done by the provincial and local governments. The Inter-Provincial Council

³⁰ Meetings of World Bank team and MOFAGA officials on December 7, 2018, and during the January-March period of 2019.

(2018) has included contingencies in its action plan to accommodate a failure of the federal government to complete the employment relocation during this fiscal year (see Annex A). Whether additional federal ministry personnel will be adjusted to provincial or local governments, or whether a new program will be designed, or whether provincial and local governments will be given the power to hire through their PPSCs is unclear.

6. Federal bureaucrats are being transferred to the PLGs with salary packages and postings specified, and additional employees likely will be hired by the provincial and local governments. Funding will be primarily from federal grants, with vertical shares that are mostly decided as part of the annual budget process. It is not clear that a financing plan is in place to assure the budget support for these employment increases.
7. Since the new provincial civil service laws are still being drafted, it is not yet clear how gender balance and representation of disadvantaged groups will be addressed in the new employment structure at the PLGs level. The reassignment of civil servants and service delivery personnel positions will represent a significant churning in employment, as more than 50,000 new employees will be added to provincial and local government employment rolls (civil service and service delivery) and a large number will be offloaded from the federal government employment. The present civil service employment balance at the federal level is 75 percent male and 25 percent female. If health sector field workers are excluded, the balance is 85 percent male and 15 percent female. Of total employment in gazetted positions, 88 percent are male.

Box 4: Significant and Recent Achievements on Human Resources Capacity in Nepal

A major “win” in the transition to federalism was the staffing of LGs by devolving all front-line staff in education, health, agriculture and administration. The Government reorganized the civil service, by re-allocating, adjusting, and transferring civil servants under public services into the federal, provincial and local levels. Although the process is still incomplete, it has allowed LGs to have key officials and staff in place to support implementation of federalism.

Organizational structures have been uniformed across provincial administrations. Some provinces have updated their organizational structures, and some are in the process of updating. Recruitment of deficit staff at LG has started by the FPSC. Recent deployment of senior level Joint Secretaries from the federal government to provinces as Secretaries was intended to further strengthen human resources capacity and effective implementation of federalism at sub-national level. Majority of sub-national staff have received training on federal affairs.

PROVIDING A LEGAL FRAMEWORK FOR FEDERALISM

1.63 For Nepali federalism to be implemented successfully and governed by rule of law, a significant amount of framework legislation is required. This includes laws to assign expenditure, revenue, and public administration responsibilities to the three spheres of government and to enable the issuance of necessary laws at the provincial and local government levels. Until these laws are in place, there will be a limited clarity in the division of responsibilities and powers of the different levels of government, uncertainties about operating procedures, and failure of local and provincial governments to deliver on their new responsibilities.

1.64 It should be noted that a great deal has been accomplished. Key pieces of legislation have been enacted. The Local Government Operations Act, 2017; The Intergovernmental Fiscal Arrangement Act, 2017; and the National Natural Resource and Fiscal Commission Act, 2017 are all now in effect. During the past three years, all 339 existing Acts of Parliament have been reviewed.³¹ More recently, the Staff Adjustment Act has been passed by replacing the Ordinance that was issued in December 2018. This provides a legal basis for establishing the needed management infrastructure for provincial and local governments. Significant progress has been made in drafting amendments to the Local Government Operations Act, the Public Procurement Act of 2007, and the sectoral Laws.

The Queue of Unfinished Business

1.65 An Act determining the roles and responsibilities of the provincial public service commission (PPSC) is now in place. This has paved way for the provincial governments to prepare their legislations to establish PPSCs within the framework given by the federal law. However, the Federal/Provincial and Local Act that will govern the staff management including appointment, promotion, dismissal, etc. has not been passed. The Parliament, by making this framework law, will determine the basis and criteria to guide the provincial governments on issues such as meritocracy, fairness, and impartiality in the HR management. Until this framework legislation is passed, it will not be possible for PLGs to hire through provincial service commissions. (Art. 57, Art. 244(3)).

1.66 Still not issued but potentially of great importance to the full implementation of federalism are 16 laws that form a kind of bill of rights for Nepali citizens (Art. 18-48). They include, for example, rights to environmental protection, safe motherhood, health care, housing, rights of children and disabled people, social security, employment, and more. The Constitution guarantees these rights, which means that all three levels of government are accountable for protecting these rights. The implications for federalism are suggested by reference to just three of these draft laws.

- The Right to Health Care. All Nepali citizens have a right to free health care, with eligible services defined in the law. The law explicitly states that the cost burdens will be borne by the governments involved. In the case of provision of health care services, the burden will fall heavily on municipalities and rural municipalities. The inspection and regulation of health care institutions also falls on the governments providing the service. There is no mention of an additional compensating federal grant for these expenditures.
- The Right to Employment. All citizens have a right to employment. Dismissal rules for all employees are strict, possibly limiting the budgetary autonomy of staff decisions by PLGs. Provincial and local governments are given responsibility for providing employment exchanges supporting unemployment benefit programs and providing labor market data. No earmarked transfers to support these costs are mentioned in the draft act.
- The Right to Housing. All citizens are entitled to “appropriate” housing, which is defined in the Act. Landlords are subject to strict eviction laws, also defined in the Act. In qualified instances, provincial and local governments must provide shelter for homeless persons. There is no special intergovernmental transfer assistance for the provision of these services.

³¹ Meetings with Ministry of Law, Justice and Parliamentary Affairs, December 7, 2018, and March 7, 2019

1.67 The Ministry of Law reports that significant progress is being made and that the Parliament is moving closer to putting the full legal framework for federalism in place.³² The government still has a daunting task to complete work on the remaining 35 laws (out of 200) that need to be amended or redrafted. Their priority now is to complete amendments to the 35 laws by the recess of the present session of the Parliament. The schedule is for work on the remaining priority laws and on the 150 laws in need of amendment to be completed before the end of fiscal year 2019.

1.68 The Inter-Provincial Council (2018 and Annex A of this study) has identified another 15 laws that are necessary to properly initiate and carry out provincial government operations. The Office of the Prime Minister and Council of Ministers (OPMCM) is responsible for preparing a law on coordination among the three tiers of government (Art. 235) and the Ministry of Law is the nodal ministry involved. It has already been drafted by the OPMCM and is now being reviewed by the Ministry. The draft law has also a provision to establish a secretariat of the Inter-Provincial Council at the OPMCM. The draft law is likely to be tabled in the Parliament's budget session.

1.69 Several other key pieces of legislation are under preparation or review at the federal level, including the sectoral laws that must be enacted to clarify the powers and responsibilities of the various levels of government. A federal organic law on the operation of local and provincial governments has been issued as an interim measure.

1.70 The Justice system will referee the practice of federalism in Nepal to make sure it stays the course set by the Constitution. While the Constitution of Nepal frames the new responsibilities of provincial and local governments, it does not (and should not) include a great deal of detail about implementation or about the underlying procedures. The Constitution is clear that provincial and local governments should have significant autonomy in deciding how they will govern themselves. The need is to both develop the laws and regulations necessary for implementing the new system and to provide for continuing revision to the intergovernmental fiscal system as it develops. This will include, importantly, draft laws for the formation of the provincial civil service commission, various policy and criteria legislation, and the laws/implementing regulations governing the imposition of local taxes, charges, and borrowing (Inter-Provincial Council (2018 and Annex A).

1.71 A second area of importance relates to oversight of the new laws being developed by the provincial and local governments. In principle, provincial and local governments may issue their own laws, subject to agreement with the Constitution. In the case of disputes over Constitutional status, the exact channel for settlement is unclear but this is a role that can be played in some cases by the Constitutional Bench of the Supreme Court (Art. 137).

1.72 Because the legal training of staff at the PLGs level is limited, technical assistance may be necessary in drafting new legislation. DRCN (2019) reports that from its sample of 45 local governments that over 100 new laws have been passed but few have been accompanied by implementing regulations. The DRCN survey also reports that most provincial assemblies face backlogs of thematic legislations tabled by their ministries. The model laws prepared by the federal government have been helpful but may not have been properly "customized" in some local legislation. The FCNA survey reports that only 19 percent of rural municipalities customized each and every model law before adoption while another 65 percent customized some but not all model

³² Meetings with the Ministry of Law, Justice and Parliamentary Affairs, December 7, 2018, and March 7, 2019

laws. The federal government (Ministry of Law and MOFAGA) will continue to provide important capacity-building and technical assistance by enhancing the ability of PLGs leaders in drafting legislation and by continuing to provide model legislation. All laws should be appropriately registered, and according to the FCNA survey, most local governments now publish their own gazettes.

Box 5. Summary of Significant Achievements on Legal Framework for Federalism

Successful transition to federalism in Nepal requires significant amount of framework legislation. To-date, substantial progress has been made in setting up the legal framework needed for effective transition to federalism in Nepal, although additional improvements are needed in key areas.

Key pieces of legislation have been enacted, notably: (i) the Local Government Operations Act, 2017; (ii) the Intergovernmental Fiscal Arrangement Act, 2017; (iii) the National Natural Resource and Fiscal Commission Act, 2017; (iv) Staff Adjustment Act; and (v) an Act determining the bases and criteria on roles and responsibilities of the provincial public service commission (PPSC). The latter has paved way for the provincial governments to prepare their legislations to establish PPSCs within the framework given by the federal law.

Numerous existing laws have been reviewed and have been either amended or replaced to reflect federalism requirements. The Constitution guarantees fundamental citizen rights. The Civil Code Procedure Act 2074 and Criminal Code Act 2074 revised, replacing the Civil Code Act 2020. All 339 existing Acts of Parliament have been reviewed. The Staff Adjustment Act has been passed, replacing the December 2018 Ordinance. Significant progress has been made in drafting amendments to the Local Government Operations Act, the Public Procurement Act, 2007, and the sectoral Laws. As cooperatives has been taken as one of the pillars for economic development, Cooperative Act also has been amended.

Several drafts of laws/bills are tabled in Parliament (House of Representative and national assembly). Intergovernmental Coordination Bill (ICB), as per the Article 235, among others. The ICB represents an important milestone in outlining the process, aimed at providing mechanism for the implementation of concurring powers, that will ultimately contribute to strengthening inter-governmental relations and smooth implementation of federalism. Several other bills such as The Police Adjustment Bill and Financial Procedure and Fiscal Responsibility Bill, Federal Civil Service Bill are under review in Parliament.

Model laws and guidelines. Several ministries have issued model laws and guidelines to guide local governments and provinces in enacting their own laws and regulations. Approximately 34 model laws/guidelines have been issued by MoFAGA. The MOF has issued 7 model laws³³. Most LGs have adopted these model laws and guidelines, with some modifications.

INSTITUTIONAL AND ORGANIZATIONAL ARRANGEMENTS

1.73 The federal government is called on by the Constitution to establish/develop a number of institutions and organizations. Several are commissions with appointed members whose mandate is to make a part of the federalist system function more efficiently. In other cases, the entities will function as an additional check on whether the government is using its power to adopt policies and deliver services that are in line with goals expressed in the Constitution. In yet other cases, these

³³ (1) Provincial Finance Procedure Model Act; (2) Local Government Financial Procedure Model Act; (3) Provincial Tax and Non-Tax Revenue Collection Model Act; (4) Local Government Tax and Non-Tax Revenue Collection Model Act; (5) Provincial Revenue Distribution Model Act; (6) Appropriation Model Bill and (7) Provincial Finance Model Bill

organizational arrangements have to do with provisions on how the government should be managed.

Provincial Public Service Commissions

1.74 The Constitution calls for the formation of public service commissions in each province (Art. 244). The powers of the provincial commissions are set by the provincial law, as noted above. The framework legislation for the PPSCs is now in the parliament. However, the federal/provincial and local civil service act necessary to empower the provincial public service commission to hire on behalf of PLGs is not yet in place. The powers of the public service commissions are related to a key feature of decentralization, the degree of autonomy that will be given to PLGs to hire, fire and promote its employees. Particularly the power to determine the rate of compensation of provincial and local government employees is an important component of local autonomy, and if granted, would elevate the importance of PLGs in the economy. In 2018, the compensation of federal employees was reported in the federal budget as being equivalent to about 10.1 percent of total government expenditures in Nepal and 2.8 percent of GDP in 2018. Once the federal system is fully implemented, the employee compensation share at the PLGs level will likely be larger.

Inter-Provincial Council

1.75 An Inter-Provincial Council is provided for in the Constitution, to “... settle disputes of political nature between the Federation and Province and among the provinces” (Art. 234).³⁴ The membership includes the Prime Minister, the Ministers of Home Affairs and Finance, and the Chief Ministers of the Provinces. The involvement of the Inter-Provincial Council in planning the remainder of the implementation of the federal system is crucial.

1.76 At its first formal meeting, the Council laid out a “federalism implementation Action Plan,” which identified 29 actions that the federal government needed to take in order to allow a smooth transition to the federal governance structure (Interprovincial Council, 2018 and Annex A). The federal government agreed to cooperate with the Inter-Provincial Council and to expedite the passage of necessary laws. However, there has not been further action on the IPC proposal, and the Council itself has met sparingly.

Fiscal Commission (NNRFC)

1.77 The National Natural Resources and Fiscal Commission (NNRFC) is a constitutional body (Art. 250) charged with recommending/determining the distribution of revenues to PLGs from the consolidated fund (Art. 251 and NNRFC Act, 2017). The commission members have a (non-renewable) six-year appointment. The relatively long tenure of commission members is important because about 75 percent of intergovernmental fiscal transfers is decided each year as part of the annual budget.

1.78 The Fiscal Commission is a key component of the intergovernmental fiscal system in Nepal, as it is, for example, in India, Pakistan, and Australia (see Box 6). Its formation is meant to give the government of Nepal a permanent and objective body for managing the distribution of

³⁴ Coordination among the federation, provinces, and local levels will be according to federal law (Art. 235).

Box 6: Grants Commissions and Intergovernmental Transfers

Several countries have established formal commissions to recommend the size of the vertical share of intergovernmental transfers and the methods of distributing this vertical share among local governments. Australia, India, Pakistan, and South Africa are among the countries that take this approach. However, the working arrangements undertaken and the impact of these grants commissions vary.

Australia's grants commission, established in 1933, recommends the distribution of the national sales tax among the five states and two territories. It is a permanent body with three members appointed by the Federal government, and though it operates within the National Treasury, it has a separate budget and is not bound by national policies. Its annual reports to Parliament are discussed widely and are influential. However, its recommendations are not binding.

The Indian Finance Commission was created by the Constitution in 1951, with a mandate to recommend the vertical and horizontal sharing rates for state governments. The Commission is appointed by the President every fifth year and dissolves after making its recommendations. The five members usually are recognized experts in intergovernmental fiscal relations and are supported by staff during their term. The recommendations of the Finance Commission have generally been accepted by Congress, but they are not binding.

Pakistan's National Fiscal Commission is a permanent body that has much the same mandate as India's finance Commission and also makes recommendations every fifth year. However, its success has been limited by the Constitutional provision that all four provinces must agree on the proposed distribution formula for intergovernmental transfers. It is not surprising that consensus has been hard to reach. The membership of the commission is more politically-based (versus technically-based) than is the case in India.

The various approaches have strengths and weaknesses. The NFC in Pakistan has failed to reach consensus on some occasions and the final decision on formulae reverted to the federal government. The Indian Finance Commission is successful in having its recommendations accepted by Congress but has not been able to adequately influence state-local fiscal relations. The South African Commission is an important voice in intergovernmental fiscal policy but tends to sometimes get crowded out by an active fiscal decentralization research unit in the national treasury. The Nepal commission is the only one of these whose recommendations are binding. The implementation of such a mandate is uncharted territory.

Sources: Bahl and Cyan (2009); Mathur (2012) for India; Ghaus-Pasha and Pasha (2015) for Pakistan; Commonwealth Grants Commission (2015) for Australia.

intergovernmental transfers, guiding local revenue mobilization, and generally tracking the performance of the intergovernmental fiscal system.

1.79 At the time of this writing, a Secretariat to the Commission is functioning and has succeeded in establishing a system of intergovernmental transfers to initiate local government financing.

1.80 On March 21, 2019, upon the recommendation of the Constitutional Council and hearing by the Parliament, the President appointed a chair for the Fiscal Commission, but the full membership of the commission has not been nominated (Himalaya Times, March 21, 2019).

Other Commissions

1.81 The Constitution has mandated the federal and provincial governments to pass laws to form other commissions to provide advice and facilitate intergovernmental coordination. Particularly important is the Commission for the Investigation of the Abuse of Authority, which has broad powers to investigate corruption by public officials. The Chief Commissioner and four other commissioners are appointed by the President

upon recommendation of the Constitutional Council. (Art. 238, 239). This commission is especially important in countries like Nepal where PLGs are only now being formed, and where the safeguards against corruption (including nepotism) are not yet fully in place and tested.

1.82 Several other commissions mandated by the Constitution of Nepal have not yet been appointed. These commissions can play an important role in enhancing equity and social inclusion by providing important information to the public debate and by keeping the issues visible.

1.83 On March 21, 2019, upon the recommendation of the Constitutional Council and hearing by the Parliament Committee, the President appointed chairs for the Inclusive Commission (Art. 258), the Madheshi Commission (Art. 262), the Tharu Commission (Art. 263), and the Muslim Commission (Art. 264). (Himalaya Times, March 21, 2019). Chairs for the Women’s Commission (Art., 252), the National Dalit Commission (Art. 255), and the Indigenous Nationalities Commission were nominated shortly thereafter. However, at the time of this writing, members of these commissions have not been nominated.

THE NEED FOR AN IMPLEMENTATION PLAN (ROADMAP)

1.84 Nepal began implementing its federalism without a sequenced plan or a detailed timeline for introducing various elements of the federalism. Nor did it have an action plan to guide the handoff of responsibilities and assets from the federal to the PLGs.³⁵ As noted above, there were missteps in sequencing, delays in finishing the necessary enabling legislation, miscalculations about how long the federal employee adjustments (and relocations) would take, and a learning curve that was too steep for many provincial and local governments to handle. Predictably, the progress with implementation has not been satisfactory to many stakeholders.

1.85 A strategy of going slow in order to be risk averse and perhaps being overly paternal, does not seem to be the way forward. Neither does a strategy of putting out the hottest fires and leaving everything else in the queue.

1.86 A better approach would be to put a reasoned implementation plan in place and allow it to be adjusted as the process goes forward. The plan might be summarized with an implementation calendar that is transparent and is changed as frequently as required. If this were to be done, and if it were made widely available, it could form a basis for grading the progress with the overall federalization process. It also could be used to better manage expectations at the PLGs level. Such a roadmap is not a substitute for good public policy, but it might lead to more confidence in the government’s leadership in bringing federalism online.

1.87 The responsibility for developing the implementation plan should not be the product of a particular level of government or a single ministry. A “Roadmap Committee” could be entrusted to design the implementation plan and then dissolve. Ideally, the committee should have representation from major stakeholders, and it should have technical staff. For example, it could be a body chaired by the Prime Minister, with members from MOFAGA, the Inter-Provincial Council, the local government associations, and a distinguished Nepal intergovernmental fiscal expert from outside government. There are many options. A natural home for the committee might be the Inter-Provincial Council, or it might be established under the Intergovernmental Coordination Bill (Art. 235), if this idea could get buy-in from the other important stakeholders.

³⁵ One version of such an action plan was issued in December 2018 by the Inter-Provincial Council (2018). See Annex A to this report.

1.88 Once the roadmap is in place and accepted by the Committee, its management and regular upgrading could be turned over to another body for tracking and updating. Some ideas about how such a committee might operate might be gained from Box 7, which reports on this approach in Kenya.

Box 7: Kenya's Transition Authority

Like Nepal, Kenya also had a substantial amount of power and resources assigned by a new Constitution of 2010 to an entirely new level of government. Thus, Kenya's previous eight provinces and over 280 districts were replaced by 47 new counties. However, unlike Nepal's Constitution of 2015, Kenya's Constitution provided that "Parliament shall, by legislation, make provision for the phased transfer, over a period of not more than three years from the date of the first election of county assemblies, from the national government to county governments of the functions assigned to them." Furthermore, the transitional clauses of the Constitution explicitly "permit the asymmetrical devolution of powers to ensure that functions are devolved promptly to counties that have the capacity to perform them but that no county is given functions it cannot perform." Therefore, The Transition to Devolved Government Act (TDGA) of 2012 established a Transition Authority (TA) to facilitate and co-ordinate the transition to devolved system of government. While not explicitly called for in the Constitution, the Authority was created in the implementing legislation as a mechanism to ensure that the Commission for the Implementation of the Constitution performs its role in monitoring and overseeing the effective implementation of the devolved system of government effectively. The time-limited nature of the Transition Authority distinguishes it from permanent constitutional bodies, like the Commission for Revenue Allocation, which is analogous to Nepal's Fiscal Commission.

The Authority's members were competitively sourced and approved by Parliament and envisioned by TDGA to serve until three years after the first general election under the new Constitution or upon the full transition to county governments, whichever happens earlier. Then it would be dissolved. This statutory status provided this body certain independence from the executives at both national and subnational levels, who repeatedly tried to get rid of this constraint on their powers. Thus, the national government eliminated the Transition Authority's independent budget vote so that the authority would be treated as a sub-department in the parent Ministry of Devolution. Notwithstanding its limited funding, the Authority managed to oversee the transition process with the support of development partners like UNDP and the World Bank for the envisioned three-year term. However, when the Authority proposed to extend its terms for an additional three years to take care of unfinished business (e.g., inventory of assets and liabilities), the national government was only willing to support a one year extension while the County Governors strongly opposed any move to extend the Authority's term, accusing it of most of the problems facing the Counties. After the one-year extension, all residual matters were handed over to the Inter-Governmental Relations and Technical Committee (IGRTC).

By having the overall responsibility of overseeing the implementation of devolution under the new Constitution, Kenya's Transition Authority was leading all aspects of devolution, that is all "three Fs" as they are known in Nepal (functions, functionaries, and finance). Thus, by law, the Transition Authority was mandated to facilitate the analysis (unbundling and costing) and the phased transfer of the functions assigned in the Constitution to county governments. In particular, the Authority was receiving and evaluating requests from each county government to hand over specific functions. Concerning the second "F" (functionaries), the Transition Authority was mandated to oversee the Assumption of Office procedures of the Governors, and facilitation for other elected and appointed leaders in taking up their roles and responsibilities. As far as the third "F" is concerned (finance), the Authority's role included ensuring provision of interim offices, housing, security, and relevant legislation. Preceding the swearing-in ceremonies for all 47 counties, the TA had already developed preliminary tools to prepare for county assemblies' successful initialization, e.g., by developing Interim Standing Orders, Speaker's Rules, Oath Books, the Mace, Speakers' Chairs, permanent County Coordinators, and Interim County Transition Teams.

Source: Prepared by authors based on a review of Kenya's legislation and press

Box 8: Summary of Significant Achievements on Institutional Framework of Federalism in Nepal

The roll-out of federalism must be supported by adequate institutional framework to attain optimal results. The federal government is called on by the Constitution to establish or develop several institutions and organizations. Several are commissions with appointed members whose mandate is to support in making federal system functioning more efficiently. In other cases, the entities will function as an additional check on the powers of government. In yet other cases, these organizational arrangements have to do with provisions on how the government should be managed. To date, significant progress has been achieved in this area of the reform since 2017.

Provincial Public Service Commission (PPSC). Provincial governments have started establishing their PPSC. Province 2 and 5 have formed their commissions and appointed chairperson. The Federal Civil Service Act is still under discussion in the Parliament. Along with the Federal Civil Service Act, and framework and standards for provincial civil service and local service, the provinces and LGs, will be able to enact their own civil service act, which will empower the PPSC to hire, fire and promote their employees. As PPSCs are either not established or not fully functional, the Federal Government has tasked the Public Service Commission to process the recruitment of about 10,000 staffs for local governments.

Inter-Provincial Council (IPC). The IPC has been created and is operational. Its mandate includes settlement of political disputes between the federal and provincial governments or between provincial governments. The IPC convened its inaugural meeting in December 2018, which provided a platform for the Prime Minister and Chief Ministers to discuss immediate challenges affecting implementation of federalism. The meeting resulted in the formation of a task force to propose measures for addressing federalism implementation issues raised by the chief ministers. The task force is headed by the Federal Home Minister, and consists of federal ministers of MOF, MoFAGA, and chief ministers of Provinces 2 and 5 as members, and the Chief secretary of the federal government its secretary. The Council has met three times as of date. At its second meeting, the Council laid out a “federalism implementation Action Plan,” which identified 29 actions that the federal government needed to take to allow a smooth transition to the federal governance structure. The federal government agreed to cooperate with the Inter-Provincial Council and to expedite the passage of necessary laws.

National Natural Resources and Fiscal Commission (NNRFC). The NNRFC is operational under the leadership of a constitutionally-appointed Chair. Its mandate includes recommending/determining the distribution of revenues to provincial and local governments from the national consolidated fund. The NNRFC is a key component of the intergovernmental fiscal system in Nepal. Its formation is meant to give the government of Nepal a permanent and professional body for managing the distribution of intergovernmental transfers, guiding local revenue mobilization, and generally tracking the performance of the intergovernmental fiscal system.

Significant progress has been made in setting up key other Commissions. The Constitution provides for creation of the following commissions: (i) Commission for the Investigation of the Abuse of Authority, (ii) National Inclusive Commission, (iii) Commission for Indigenous Nationalities (iv) Madheshi Commission; (v); Tharu Commission, (vi) Muslim Commission, (vii) National Women’s Commission, (viii) National Dalit Commission. All the new commissions have established and four of the commissions, namely, Tharu, Muslim, Madhesi and National Inclusive commission have chair or a member in the Commission.

Intergovernmental Fiscal Council (IFC) has been established. The IFC convened 4 times since its creation. Chaired by the Finance Minister and attended by Finance ministers of all seven provinces. The IFC provides important platform to discuss emerging issues such as revenue mobilization at provincial and local levels; budget formulation and endorsement; fiscal authority; and bookkeeping, and human resource management; budget implementation, resource management, and problems in project implementation at provincial and local levels

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THE CAPACITY TO MONITOR AND EVALUATE FEDERALISM

1.89 In a decentralized country with a significant degree of provincial and local government fiscal autonomy, a national monitoring of the performance of the intergovernmental fiscal system is essential. This is especially the case in a country where most of the revenue capacity of the PLGs takes the form of intergovernmental transfers from the federal government. Monitoring and evaluation will enable the federal government and the NNRFC to check itself on the extent to which the objectives of the intergovernmental transfer system – particularly equalization – are being fulfilled. It also gives the government the opportunity to look beyond annual budgets and to provide some vision about how (or whether) the fiscal system might be used to stimulate a better allocation of resources within the country. Such a monitoring and evaluation activity is needed and is called for by The Constitution (Art. 60, 251) and the Intergovernmental Fiscal Arrangement Act, 2017)³⁶.

Federalization Cell

1.90 International experience suggests that decentralization has benefitted from monitoring and evaluation. Some successful countries have tracked the progress of decentralization; continuously looked for ways to make their decentralized public sector structure work better; and engaged in incremental reforms until the different pieces of the decentralized system converged on the overall goals (Bahl and Bird, 2018; Boex et al., 2018) (see Box 9).

1.91 The government of Nepal can benefit from investing in a federalization cell with a mandate to do continuous evaluation of the intergovernmental system. Such a cell might find a home in the office of the Prime Minister.

1.92 However, the NNRFC also has a broad mandate to lead thinking in this area, including to track the performance of all local governments in the country, evaluate the success of the equalization grants, initiate enhancements of the database on local government finances, and generally grade the success of Nepal’s fiscal federalism (Art. 251). The importance of the NNRFC is emphasized in the Constitution by making its recommendations about intergovernmental transfers binding on government (Art. 60 (3)). But the existing secretariat has limited staff with research experience in intergovernmental fiscal relations and limited data on which it can draw. Clearly, the NNRFC must have access to a federalization cell.

³⁶ Constitution has made specific provision for Monitoring and facilitation of developmental activities, coordination for balance development of the district. According to constitutional provisions in Article 220 there will be district council and will constitute among the elected Mayors and deputy of all Rural/Municipality with the district. The role and functions are also provision (Article 220(7)). The Local Government Operation Act 2074 (clause 92-96) also has stipulated activities of District Council through the district Coordination Committee.

1.93 The Ministry of Finance also needs a fiscal analysis cell since its mandate is to provide leadership in evaluating fiscal policies that are in the best interest of the country, and its responsibilities go well beyond the mandate of the NNRFC. These include tax policy and administration, expenditure and subsidy policy, the debt regime, and evaluation of the impacts of

Box 9: How to Monitor and Evaluate Fiscal Decentralization

Low- and middle-income countries with significant degrees of fiscal decentralization – some federal and some unitary – rely on internal research units to track the fiscal performance of their subnational governments. South Africa relies on an intergovernmental finance unit in the National Treasury Department and an independent constitutional body which has a similar mandate to continuously monitor the performance of local government finances. Indonesia’s fiscal analysis unit is housed in the Ministry of Finance. Both the South African and the Indonesian cells rely on a database to track the fiscal statistics related to subnational governments. Colombia’s fiscal support division in the Ministry of Finance has assembled a good database and carries out regular analysis of subnational government finances.

Nepal’s Constitution calls for a permanent Fiscal Commission (NNRFC) to carry out regular monitoring and evaluation. The Constitution also calls for the Fiscal Commission to be independent of government in recommending the arrangements for vertical and horizontal sharing arrangements for intergovernmental fiscal transfers. This suggests that the NNRFC would need to have a separate fiscal decentralization cell than that of the Ministry of Finance. An alternative, but more difficult, arrangement would be a single decentralization cell that would serve both offices.

Source: Bahl and Bird (2018)

the NNRFC recommendations. The Inter-Provincial Council also has a stake in monitoring and evaluation, with a particular focus on sub-provincial governments. Finally, the proposed new capacity building arrangements for policy analysis might also bring the Provincial governments into this circle. The government of Nepal has much work to do in deciding on the process by which it will continuously monitor and adjust its fiscal system and where it will place the federalization cells. A reasonable case can be made for a single federalization cell that can provide objective evidence on demand to each agency, and to issue regular reports on the state of fiscal

federalism in Nepal.

The Need for a Database

1.94 Federalism will call for significant changes in the national database. While national and regional statistics remain crucial, there is need for a new focus on statistics to measure population characteristics, economy, infrastructure, etc. within the boundaries of PLGs jurisdictions. The federal government is in the best position for ensuring that data from all three levels of government are reported accurately and in a comparable way and for working with the national census in developing social and economic indicators that can be used to benchmark the needs for local public services and taxable capacity.

1.95 The need for this database will call out two efforts. The first is a rethinking of the national system for gathering and reporting data, including defining the data to be collected, standards, methods of collection, verification, etc. Until this is done, important needs such as measuring the well-being of the population of individual provincial and local governments, or the performance of their economies, or the adequacy of their infrastructure will not be possible. A roadblock to doing this correctly is that PLGs are given constitutional powers to report statistics (Schedules 6 and 9) and this may give rise to parallel systems.

1.96 The second needed database is a census of government finance. This compendium would record and update the fiscal statistics of all 760 PLGs. It could be structured to guarantee uniformity and so would require central leadership. The core elements of such a database are now being put in place. A uniform system of PLGs accounts is being phased in. External audits of the final accounts of all local governments can provide an essential piece of information for evaluation of performance and measurement of fiscal disparities, as the initial offering of FCGO data have recently shown. Both budget information and final financial accounts for all 753 municipalities and seven provincial governments is a realistic possibility once a nationwide PFM system and a uniform budget and accounting system is in place. The coverage of tax bases and collection efficiencies can be identified.

1.97 On the expenditure side of budgets, a census of government finance can include information about budget choices of PLGs, public service outcomes, and arguably cost differences. Other more qualitative measures of local government performance can be gathered directly from provincial and local governments, e.g., the timeliness of preparing final accounts, expenditure disbursement rates, completion of capital projects, progress with domestic revenue mobilization initiatives, reaching milestones in the public financial management system, social inclusion measures, etc. Other information might be developed from periodic surveys.

1.98 A major stumbling block in developing a database on local government finances will be the difficulty of linking the social and economic characteristics of regions to the boundaries of the PLGs jurisdictions.³⁷ Population data are available, but analysts and government policy makers will want to drill deeper, for example, to study the greater public servicing needs of heavier concentrations of poor families or the taxable capacity advantages of some local governments over others, etc. However, much of the “research data” and socioeconomic data are not available below the district level.

1.99 The data system that is now in place in Nepal requires some interpolation to match fiscal and other characteristics of local governments. While this is necessary now, it does not give a precise enough measure of the characteristics of a local government to guide the distribution of revenue sharing transfers or to identify fiscal health.

1.100 A good database on PLGs finance, intergovernmental fiscal flows and the economic-population structure in Nepal can greatly help the monitoring of federalism. Examples of the kinds of questions that might be studied (and factored into public policy) with such a database include:

- Evaluation of fiscal equalization programs and identification of SFGs in need,
- Measurement of the creditworthiness of local governments,
- Evaluation of expenditure outcomes
- Evaluation of PFM systems,
- Identification of fiscal health and fiscal performance of local governments, and
- Development and evaluation of formulae developed by the NNRFC.

³⁷ This may be a bigger challenge than one might expect. The FCNA survey indicates that only about half of all local governments have prepared a profile that includes important economic and demographic data.

1.101 Another value of such a database is the transparency that it can provide in assessing the progress with federalism. Such a database could be used intensively by all levels of government, as well as by the non-governmental research community to provide a continuous analysis and tracking of the impacts of federalism in Nepal.

1.102 There is no good substitute for a professionally developed and well-thought-out data system, i.e., a comprehensive census of PLGs finances. Clearly, that needs to be the long-run goal, and there are strong arguments for central government leadership. However, Nepal's federalism is in a formative stage, and monitoring and evaluation cannot wait. The comprehensive database may need to be developed in stages. At least a fiscal system based on local government accounts and performance, with whatever socioeconomic links are possible, can allow some important monitoring and evaluation to go forward. But starting small does not mean that the full system should not be designed early, so as to inform the data mining exercises that come next.

BARRIERS TO A FASTER IMPLEMENTATION OF FEDERALISM

1.103 Considerable progress has been made in implementing the federal system in Nepal. All elected provincial and local governments are in place and functioning. New laws and regulations have taken their lead from the Constitution, and important strides have been made with respect to gender equality and social inclusion. The federalism is also functioning in that all provincial and most local governments have passed budgets and had their books audited, and local governments seem to be doing business in a way that is consistent with the constitution. One recent nationwide survey has found that most people in Nepal like the direction in which the country is heading (NASC, 2018).

1.104 However, in a democratic country undergoing a complete overhaul of its governmental system, there is understandably some anxiety about the speed of the transition to federalism. Stakeholders have criticized the federal government for being slow in firming up the legal and institutional foundations for federalism. The queue of pending legislation remains considerable: some laws already need revisiting; some tangible assets and central government service units have not yet been passed to the provincial and local governments; the adjustment of civil servants has gotten tangled; some important commissions remain without membership; and an institutional arrangement (and budget) for training and capacity building has not yet been set up.

1.105 The underlying reasons for the current pace of implementing federalism are not so easily identified. It could well be that the federal government did not have the capacity to handle the workload involved in setting up the implementation in a timelier manner.

1.106 Another explanation is that the job of implementation is too big to be handled in two years, and many of the problems will be resolved with time. The required learning curves have also been a problem – federalism was new to the entire system, including the Parliament, the governments, and the voters.

1.107 A third explanation for the pace of implementation is a combination of the complicated process of getting a law passed and an institution established and a cautious approach by the federal government to devolving spending powers to PLGs that have not had such powers before.

1.108 Finally, the stronger the political opposition to implementing a particular feature of federalism, the longer will the timeline be drawn out. The devolution of decision-making powers that comes with federalism is rarely embraced to the same extent by all decision makers, in Nepal and other decentralizing countries. The shift of powers to PLGs will lead necessarily to losses in control by some central ministries and will weaken the position of some officials. Politics is always a plausible explanation for delays in implementing new public policies.

1.109 Probably all of the above are to some extent correct explanations for the pace at which the necessary legislation and institutions for implementing the fiscal federalism have come online. To some extent, this is inevitable in a democratic country. However, with the benefit of hindsight, one could argue that if a well-sequenced implementation plan and a more realistic timeline had been in place, some of the anxiety might have been avoided. Such a plan would have tracked progress on a real time basis, measured it against well-defined benchmarks, and made the bottlenecks to moving forward transparent to all.

IV. THE CONSTITUTION AND THE CAPACITY-NEEDS GAPS

1.110 Nepal's choice to govern under a federal system was driven heavily by nation building.

“Embracing the sovereign right of the people and the right to autonomy and self-rule, by maintaining Nepal's independence, sovereignty, geographical integrity, national unity, freedom and dignity.” (Preamble to the Constitution).

1.111 If all citizens could identify more closely with the country, and if all social groups could be equally treated and included in governance, future conflicts would be less likely and the benefits of economic growth could be more equally shared. The Nepali version of federalism fits these goals by moving government decisions closer to the people and emphasizing social inclusion and equity. The fiscal decentralization component is meant to improve citizen satisfaction with governance by giving them more voice in decision making and better access to the package of services that they want.

1.112 However, it is important to note that the federalism that is laid out in the Constitution of Nepal is a governance choice that is difficult to implement and administer. It requires tooling up an entirely new PLGs sector and educating citizens about a new way of doing things, and it is filled with reinforcements and checks and balances to insure the kind of social inclusion that is so important to its objectives.³⁸ It will require more effort from bureaucrats and more from civil society to administer it, and more analysis to monitor it and evaluate its performance.

1.113 The set-up cost for the new federalism is high, though it will be spread over a number of years. Creating 753 new municipalities and seven new provincial governments and endowing them with significant service delivery responsibilities requires a large amount of human capital and

³⁸ Pradhan and Roy (2018) argue that the greater representation of local institutions is itself a public good, potentially strengthening the engagement of marginalized communities with the state. This is clearly true, but it comes with a transaction cost.

supporting infrastructure. Further disaggregating this governance to a large number of underlying ward units complicates matters even further.

1.114 The sheer magnitude of Nepal's expenditure decentralization also complicates matters. Provincial and local governments would go from almost no expenditure responsibility³⁹ to responsibility for about 34 percent of all government expenditures. About 80,000 provincial and local government staff, and about 35,000 elected local officials would be candidates for various training programs. The learning curve for all three levels of government, and for their assemblies, is necessarily steep. Particularly the bureaucrats who will be responsible for the management of PLGs have much to learn.⁴⁰ Some public service levels almost certainly will suffer in the short run transition period.

1.115 The Constitution of Nepal lays down some mandates for achieving the goals it prescribes. Some of these mandates already have been picked up in the practice by local governments, including special provisions for formulating and monitoring budget allocations. Here again, there is heightened pressure on the capacity of the PLGs because some of the provisions require special administrative efforts. Prominent among these mandates are the ones related to social inclusion in governance and in access to services, the concurrent approach to expenditure assignments which has raised major issues about shared jurisdiction, the appointment of special commissions to further the demands of disadvantaged groups, and the need for national uniformity in the public finance and management system. As is discussed below, these Constitutional mandates have consequences for the capacity-needs gap of PLGs.

1.116 There also are some difficult policy tradeoffs to be dealt with, concerning the autonomy of PLGs. On the one hand, there is the provision in the Constitution for PLGs to choose their own public service package. On the other hand, the Constitution denies them direct access to the most productive tax bases, which forces them into reliance on more narrow-based taxes and charges, and intergovernmental transfers. Some intergovernmental transfers carry conditions about how the grant money may be spent. The vertical and horizontal sharing of these transfers will be determined as part of the federal budget process with binding recommendations from the NNRFC (whose membership is approved by elected officials).

1.117 None of this is to say that federalism was the wrong choice for Nepal, but it is to emphasize that it is costly to properly implement, and it might take longer than had been hoped to complete the implementation. These costs will pale against the welfare gains from achieving peace, making governance inclusive, and getting government decision-making closer to the people, but they are costs that need to be addressed.

EXPENDITURE ASSIGNMENT

1.118 A key piece of the legal framework that guides government expenditure policy is the assignment of responsibilities and powers to each sphere of government (i.e., "who is responsible for what and with what degree of autonomy?"). From these assignments, financing and

³⁹ Of the 6 percent of budget transfers that went to VDCs, DDCs, and municipalities, 4 percent took the form of unconditional block grants that were used for small-scale capital projects.

⁴⁰ Alternatively, it might be said that they have much to "unlearn" because many come with a unitary mindset and a culture of dependency on higher-level governments.

accountability arrangements will follow. But making expenditure assignments to each level of government is no easy matter and seems to be a problem in all low- and middle-income countries. Because the division of expenditure responsibilities involves economic, social, administrative, and political issues, it is not often arrived at without controversy. It is inevitably a political issue because responsibility for spending programs carries with it the power not only to affect the well-being of various population groups but also to control the bureaucracy and resources needed to deliver public services (Bahl and Bird, 2018, p.74). In the case of Nepal, framing of the constitutional clauses by the Constitutional Assembly was guided by the power-sharing arrangement that followed from the Comprehensive Peace Agreement of 2006.

1.119 Expenditure assignment in Nepal is a particularly complex matter. While most countries reform their assignments by marginal tweaks to the existing system, Nepal started with a clean slate and created an entirely new regime with three tiers of government and significant PLGs autonomy. Few countries have tried this (see Box 3). The background work of assigning expenditure responsibilities was done by two thematic committees of the Constituent Assembly elected in 2008. Their vision for the future role of PLGs might have been shaped by the previous decentralization reform that produced the assignment of functions in the Local Self Governance Act of 1999.

1.120 The Constitution of Nepal lays out a set of exclusive competencies for the federal, provincial, and local levels of government (in Schedule 5, 6, and 8, respectively), concurrent lists for provincial-federal sharing of responsibility and provisions for sharing between the local and higher levels (in Schedules 7 and 9 respectively). But these assignment lists are too aggregated to be an instruction for implementation, and so an “unbundling” exercise was carried out.

1.121 Ideally, where the constitutional clauses are vague or unclear, functional assignments should be further clarified and elaborated in subsequent legislation, both organic and sectoral, thus filling the gaps and eliminating ambiguity in the formal assignment and breaking down concurrent responsibilities in sub-activities that can be exclusively assigned to one level. In general, this approach was also followed in the background studies for the unbundling exercise, with technical assistance from international development partners.⁴¹ Those background studies were done in the correct way in Nepal, i.e., they identified economic efficiency, economic development, administrative effectiveness, and equity as criteria to inform the normative assignments.⁴² However, besides these technical inputs, political considerations also played a role in shaping the “Unbundling Report,” as should be expected in a democratic country. A total of 800 sub-functions were included in the exclusive and concurrent lists, which were synthesized in the integrated report approved by cabinet.⁴³

1.122 Nepal made a choice to emphasize moving governance and spending autonomy closer to the people, even if it meant sacrificing economies of scale and came at a cost of not emphasizing the choice of projects with areawide benefits. The Local Level Restructuring Commission ultimately proposed 753 local governments whereas others had suggested between 300 and 500.

⁴¹ See also Project to Prepare the Public Administration for Federalism Reforms (UNDP and MOFAGA, 2015).

⁴² For a discussion of the principles used in the Nepal exercise, see Sharma (February 2015).

⁴³ “Unbundling/Detailing of List of Exclusive and Concurrent Powers of the Federation, the State and the Local Level Provisioned in the Schedule 5, 6, 7, 8, 9 of the Constitution of Nepal,” Report prepared by the Federalism Implementation and Administration Restructuring Coordination Committee (February 2017).

In the chosen administrative division, municipalities have an average population of 51,000 inhabitants while rural municipalities have an average population of 23,000 inhabitants, both are well above the minimum efficient scale. International experience suggests that economies of scale in the delivery of local services are mostly exhausted at an average size of 10,000 inhabitants, even though there are some special services, such as urban transit and solid waste utilization, where economies of scale improve up to the population of 100,000 inhabitants (Lago-Peña and Martinez-Vazquez, 2013). This is another reason why the present assignments of expenditure responsibility require yet another look.

1.123 Almost every low- and middle-income country in the world seems to be plagued by murky expenditure assignments, and Nepal is no exception. Main contributors to this problem are a failure to unbundle properly, a lengthy list of concurrent assignments, and politics. In Nepal, the murkiness comes from sub-functions that seem to appear on both the exclusive and concurrent lists, from a long list of concurrent responsibilities, and from the complexity that comes with unbundling to 800 sub-functions. Generally, disaggregation of public services in each sector should only go as far as necessary to achieve exclusivity in assignments. A priori, one cannot know how many sub-functions would have to be parsed out in each sector.

1.124 However, it appears that achieving exclusivity in functional assignments was not an explicit goal set for the five thematic working groups supporting the unbundling exercise. This might explain why the working groups focused on the technical task of enumerating all possible sub-functions in each sector as opposed to making a judgement on exclusive assignment of some sub-functions within each function from the concurrent lists in the Constitution (Schedules 7 and 9). Instead of serving as a blueprint for elaboration of functional assignments in organic and sectoral laws across the level of government, the unbundling exercise was guided by the imperative to design the organizational structure at different levels of government as per the decision of the Federalism Implementation and Administration Restructuring Steering Committee of September 6, 2016 (2073/5/21). One can imagine that the implications for reallocation of personnel were weighing heavily on the minds of representatives of line ministries in the working groups, possibly outweighing the aforementioned normative criteria set for this exercise.

1.125 Nevertheless, the unbundling exercise did inform delineation of functions in subsequent legislation. Thus, the Local Government Operation Act of 2017 follows the unbundling report in defining the roles of legislative and executive bodies at the local level. By contrast, for the provincial level, the cabinet issued only a template for business allocation rules aimed to help each provincial government issue their own legislation defining the roles of various provincial bodies within the scope of authority given to them in the Constitution.

1.126 Even though representatives of line ministries were included in the working groups tasked with the unbundling exercise, reportedly the resulting unbundling was not adhered to in some sectoral legislation drafted thereafter. Thus, to the dismay of local government officials, the federal education bill authorizes the federal government to hire teachers.⁴⁴

1.127 To the extent this murkiness results in regional disputes, intergovernmental disputes, or unserved areas, it will lay a new responsibility on an already weak capacity of PLGs to manage

⁴⁴“Local units want revision in federal bills,” *Kathmandu Post*, March 5, 2019.

and deliver services. To the extent such problems must be resolved by amended federal government laws, and/or by negotiation through the Inter-Provincial Council, it will put another claim on the workload of governments⁴⁵.

Box 10: Significant and Recent Achievements on Capacity Building for Federalism in Nepal

The transition to a federal structure significantly increases the need to provide training for government officials at all levels, because the assignment of responsibility for service delivery and PFM has changed dramatically. It also may require a different institutional arrangement to deliver this training and capacity building, because provincial and LGs in the new federal regime have significant control over how they deliver their services and manage their systems.

Provincial and Local Governance Support Program (PLGSP). In August 2019, the Government of Nepal announced the four-year national flagship program, namely PLGSP with the budget of US\$130 million on institutional capacity development of all spheres of governments, more specifically the sub national governments. It is expected to be the main vehicle through which capacity gaps will be addressed. During the program period, PLGSP is expected to provide various levels of training to elected representatives and staffs and support to address the capacity gap areas. It is envisaged that the program will strengthen provincial and local governance systems, procedures and intergovernmental relationships, to maximize benefits in terms of cooperative federalism and enhance the capacity of provincial and LGs to deliver services and effectively manage development processes.

Local Development Training Academy (LDTA). The Government has amended the LDTA Act to allow transfer of LDTA assets and properties to the provinces to establish the provincial level training units under the leadership of provincial government. Gandaki Province has already passed an act to establish a provincial level training academy. At present, the LDTA is mandated to train elected and staff members of LGs and to ensure quality control of capacity development efforts across the country.

Framework for monitoring the progress of fiscal federalism. The Government and USAID are collaborating to establish a framework for monitoring the progress of fiscal federalism in Nepal. This work previously concentrated at the federal level. Now, it focuses on the implementation of SUTRA and training of LGs on the preparation of financial reports. FCGO is providing PFM training support to LGs. PPMO is providing training to LGs on procurement. NPC has initiated capacity building for PLGs on preparation of MTEF. The NPC has issued MTEF guidelines to PLGs. MTEF guidelines are already being used at federal level.

Provincial Coordination Council (PCC). All provinces have created their PCCs to improve provincial and LGs coordination. Each province held at least two council meetings so far.

Nepal Administrative Staff College (NASC) and other Sectoral Training Academy. The NASC ACT has been amended to address the need for capacity building at all level of government. NASC has revised its training curriculum and training plan to accommodate the training needs of federal, provincial and LG staff. NASC is working towards establishing ‘Center for Federalism Studies at NASC to enhance capacity building for civil servants and elected representatives at all levels of government. Different training institutes in forestry, agriculture, revenue management, cooperatives and other sectors are providing various levels of general and specific training to government officials.

⁴⁵ According to the Constitution (Art. 234), the IPC is charged with settling federal-provincial and inter-provincial disputes of a “political nature.”

PUBLIC FINANCIAL MANAGEMENT: NEEDS AND CAPACITY

1.128 Provincial and local governments are responsible for making one-third of all government expenditures in Nepal, and soon they will employ upwards of 80,000 workers. They have some powers of taxation and even some authority to borrow. The government of Nepal, with assistance from development partners, is continuing a process of developing a financial management system aimed at modernizing practices related to budget formulation and control, budget execution (including treasury management, revenue management, and computerized accounting systems) and financial reporting (See Annex C). Until recently, the focus has been on the federal government. The extension of PFM practices to PLGs is a high priority for Nepal, but the design and implementation of such a program will take time, will require a great deal of capacity building and training, and will draw scarce human resources away from other management and service delivery activities.

PFM Needs and Capacity at the Provincial and Local Governments Level

1.129 The Constitution gives PLGs in Nepal more budget making autonomy than is the case in most low-income countries. Moreover, they also have specified taxing and even borrowing powers at their disposal (though it may be some time before the borrowing powers are of significant fiscal consequence). Both PLGs have powers to carry out capital projects. The pending civil service legislation will empower PLGs to take some (yet unknown) degree of control over hiring, firing, and compensating their employees.

1.130 Provincial and local governments in Nepal do not have easy access to financial information in a form necessary to plan and manage their budgets in an efficient way. Yet expectations and mandated requirements for their fiscal efficiency and service delivery management are high. The Constitution and subsequent legislation call on PLGs to make estimates of expected revenues and expenditures at the beginning of each fiscal year, to carry out medium term expenditure forecasts, and to obey a hard budget constraint (Intergovernmental Fiscal Arrangement Act Art. 207). The FCNA survey results show that most municipalities and rural municipalities have not prepared a local development plan. Most local government officers have not received any training on MTEF, though metropolitan and sub-metropolitan cities appear to have more experienced staff. Most local governments do have an annual capital budget that lists projects by sector and ward.

1.131 The intergovernmental fiscal regime under which PLGs operate will have impacts on their budget execution, preparation, and review. The flow of funds to PLGs is set by annual government budget allocations for total grants, and the distribution among these jurisdictions is set mostly by formula (equalization grants and tax sharing grants) and cost reimbursements (the distribution formula is based partly on the need to cover costs for ongoing projects and salaries).

1.132 While this arrangement has been more or less stable in FY 2018 and 2019 and a margin of safety has been provided by carryover of unspent funds and increased grants, this could change. Especially in these early stages of implementing the federal system, there is a potential for PLGs financial planning to become complicated by uncertainties in revenue flows, the extent of local government autonomy in fiscal matters, and employee management responsibilities and powers. This may be further complicated by connectivity, hardware, space, and other constraints.

1.133 For the foreseeable future, most of the financing of PLGs public services will come from intergovernmental transfers. Some will take the form of equalization grants that give PLGs significant autonomy, but others will carry conditionalities that are monitored on a regular basis. The formal appointment of the National Natural Resource Fiscal Commission membership will set the stage for changes in the structure and conditions of grants. Depending on the conditions imposed, the methods used in determining vertical sharing arrangements, the frequency of change in the system, and national macroeconomic performance, determining the revenue envelope at the local government level could become more difficult and the level of uncertainty could rise.

1.134 The present state of public financial management practices by PLGs in Nepal may be four to five years away from being one that provides reasonable fiduciary guarantees and supports an acceptable level of service delivery. But progress in the first two years of the new fiscal federalism has been good, e.g., most local governments have a consolidated account, voted on a budget on time, executed the FY 2018 budget, had their accounts audited by the Auditor General, and have an assigned accountant in place (deputed from FCGO). Still, much remains to be done, including a need to study the sustainability of the good performance in 2018.

FCNA Survey Evidence on PFM Practices

1.135 Public financial management practices are still developing at the PLGs level. About 57 percent of all types of municipalities, but only 34 percent of rural municipalities, report that they use the SUTRA software to prepare budget estimates. Most smaller local governments use Excel. When asked why they did not use SUTRA,⁴⁶ the dominant answer was the lack of trained staff. When those not using SUTRA were asked whether they are prepared to use it for budget 2076/2077: all cities, 75 percent of municipalities, and 48 percent of rural municipalities said that they were.

1.136 Most local governments conducted internal audits, though rural municipalities were less likely to do so, and the executive board was least likely to receive the audit report in rural municipalities. The major finding of audit reports by local governments was expenditures made without project approval.

1.137 Over 80 percent of local governments have a functional procurement unit, but less than one half of municipalities and rural municipalities have prepared regulations according to the Act. Only 59 percent of metropolitan cities, and less than one third of other local governments have an annual procurement master plan. Nearly all local governments feel that they have the capacity to conduct all forms of procurement, except international bidding (which is limited to one third of cities and one tenth of other local governments). However, only one half of municipalities and two thirds of rural municipalities say that they assess vendor performance.

⁴⁶ The Sub-national Treasury Regulatory Application (SUTRA) is a planning, budgeting and accounting software developed under the leadership of Public Expenditure and Financial Accountability (PEFA) Secretariat based on the decision of Ministry of Finance (MoF). It is a web based system developed for facilitating and implementing a structured financial management procedure of the sub-national government based on the Unified Charts of Accounts 2017 approved by the Auditor General, and on related OAG accounting and reporting formats. This system is reported to be used in more than 200 local governments, but the FCNA survey estimates that it is used in 340 local municipal and rural local governments.

1.138 Provincial governments appear to be further behind in multi-year planning and procurement. SUTRA was used by most provinces to prepare the 2018/2019 budget, but there was uncertainty about what budget format would be used in 2019/2020.

Needs at the Federal Government Level

1.139 Access to accurate and timely financial information from PLGs is required to carry out constitutional responsibilities under the new federalism regime. It falls to federal government agencies (and the NNRFC) to monitor the performance of the 760 PLGs units. Among the activities that higher-level governments (mostly the federal government) have responsibility for are:

- preparing consolidated financial statements,
- tracking the flow of funds and monitoring expenditure disbursement rates,
- auditing budget outcomes,
- evaluating levels of fiscal disparities across jurisdictions in order to monitor the effectiveness of equalization grants,
- clarifying the objectives of the various transfers,
- tracking revenue performance,
- evaluating the service outcomes,
- data governance,
- evaluating the impact of various components of the intergovernmental transfer formulae on spending patterns,
- tracking the compliance with federal grant conditions,
- evaluating the impact of various components of the intergovernmental transfer formulae on spending patterns, and
- tracking the compliance with federal grant conditions.

1.140 The financial information available for the federal (or provincial) governments to deliver on these responsibilities is improving, but it is well less than what is needed. There is no database comparable to a census of PLGs finance, nor is there a way to link the budget outcomes of local jurisdictions to many of the important socioeconomic characteristics of their populations. The NNRFC, which will soon have responsibility for regular tracking of the intergovernmental fiscal system, will not have an adequate database with which to work.

Capacity Development

1.141 The government of Nepal has made significant strides in developing its national government PFM system. It has set up a Public Expenditure and Financial Accountability (PEFA) Secretariat, carried out an assessment, and established a PFM steering committee (Ministry of Finance, 2018). The PFM agenda is a high priority for the government of Nepal as well as for the development partners who are assisting in this area. Projects underway since 2011 have led to successful implementation of the treasury single account, more transparent expenditure reporting, a revenue management information system, and an upgraded audit methodology.

1.142 The new round of work on PFM in Nepal will have more emphasis on PLGs, and a goal of integrating budgeting processes across all levels of government. The project will lead to a strengthening of financial reporting for better decision making and transparency; improving internal controls; cultivating good cash management practices; reducing the accumulation of

Box 11: Significant and Recent Achievements on Public Financial Management, Accountability & Transparency in Nepal

The Government of Nepal has made significant strides in developing its national government PFM system. It has set up a Public Expenditure and Financial Accountability (PEFA) Secretariat, carried out PEFA assessment, and established a PFM steering committee. There has been a successful implementation of the treasury single account, a transparent expenditure reporting system, a revenue management information system and an upgraded audit system. The extension of PFM practices to PLGs is a high priority for the country.

Treasury Regulatory Application (SUTRA). The roll-out of SUTRA since 2017 has now reached LGs. SUTRA is a planning, budgeting and accounting software developed under the leadership of PEFA Secretariat based on the decision of MOF. The tool supports implementation of a structured financial management procedure for PLGs based on the Unified Charts of Accounts. The Financial Controller General's Office (FCGO) was able to generate reports from SUTRA for all LGs. For reporting on financial information, Provinces use a combination of tools, including Revenue Management Information System (RMIS); Treasury Single Account System (TAS); and Computerize Government Accounting System (CGAS)

Consolidated Accounts. Provincial Consolidated fund has been established in each Province and Local Consolidated Fund has been established in all LGs in accordance with the Constitution. The federal Government only disburses into these consolidated funds.

Fiscal discipline and control.

- (a) Most LGs have tabled their budget in their assembly and approved on time and executed the 2018 fiscal year budget.
- (b) All accounts of the LGs and Provinces are audited in a timely manner.
- (c) Single treasury account is under implementation at PLGs level.
- (d) There is more transparent expenditure reporting system of PLGs.
- (e) Revenue management information system is in place at PLGs, but not used by all PLGs
- (f) Audit methodology has been upgraded.
- (g) The FCGO has developed a software to capture LGs revenue and expenditure data. District treasury controller's office enters the financial information in the software.
- (h) The federal Government has mandated trimestral reporting by PLGs as a condition for the disbursement of federal transfers to PLGs.
- (i) The MOF has integrated all its PFM systems into the PFM Information System (PFMIS) and provided access for all its federal ministries to the PFMIS.
- (j) The MOF has issued guidance to the federal ministries to guide their preparation of the draft three-year MTEFs for the Fiscal Year 2019 budget cycle.
- (k) NNRFC and MOF has issued circulars to LGs to guide their preparation of the annual budgets, to be part of the Local Government Development Plan.
- (l) MOF has implemented measures to improve its budget execution, such as: (a) the issuance of a decree requiring all new externally-funded and national priority projects to have secured project filter clearance to obtain budgetary funds; (b) the adoption of the System for Automatic Spending Authorization and Program Approval; and (c) the adoption of a system of payments by account payee only. MOF has established the Revenue Management Information System at the federal level.

Risk-based auditing. The Auditor General Office has started risk-based auditing. Citizen Participatory Auditing-Nepal is the first pilot country to implement this tool, which is increasingly important in the federal context.

Procurement. Nearly all LGs have a functional procurement unit and have the capacity to conduct all forms of procurement, except international bidding in some local governments. Overall, 57% of LGs can use e-bidding,

with usage more common in cities (76%) than municipalities (58%) or rural municipalities (49%). Almost all LGs (97 percent) have a list of vendors. All provinces adopted their own procurement guidelines and standards.

1.143 payment arrears; facilitating the timely implementation of the budget; and achieving efficiency gains from automation of PFM systems. An early activity of the new effort will be the development of a framework for an integrated approach to PFM for all three levels of government.

SOCIAL INCLUSION AND EQUITY

1.144 The Constitution in 2015 and the introduction of a new federal system of governance gives Nepal a chance to renew its commitments to social inclusion and gender equality, i.e., the guarantee of equal treatment of all citizens regardless of their personal characteristics (Preamble and Art. 18). The devolution of responsibility for 34 percent of all government expenditures to autonomous local governments has caused some rethinking about how the governments should be promoting gender equality and social inclusion in their policymaking, planning and service delivery.

New Issues Related to Federalism

1.145 During the last decade, a number of steps were taken at the federal government level to promote GESI policies. Most sectoral ministries established dedicated units with specially trained staff to monitor the results of new programs. The initial results of these efforts seem promising: “Both targeted and GESI-responsive mainstream interventions have increased access to services, enhanced voice and even begun to address discriminatory mindsets” (GESI Working Group, 2017, chapter 3).

1.146 But the setting in which GESI programs will go forward has changed. While the new federal system continues to charge the central ministries with oversight and setting national policies, the exact meaning of these responsibilities has not yet been clarified and tested. Moreover, the Constitution endows provincial and local governments with significant responsibilities and autonomy to determine and implement their budgets, to elect their own officials, and to set many of their own policies. The commitment to GESI is enshrined in the Constitution, but the way in which GESI policies will be designed and implemented may differ from place to place and success could be seriously affected by local preferences and resource availability.

1.147 The two main issues to be considered in this study are the approaches used to give voice in governance to women and minorities in making budgetary decisions, and the resource allocation practices that are needed to provide equal access to public services. Upgrading the capacity of vulnerable and excluded populations to take advantage of opportunities provided is another issue that is taken up at some length in the GESI Working Group (2017).

The Role of Women and Minorities in Governance

1.148 The Constitution calls for legislation to achieve the goal of equal voice in government by guaranteeing a prescribed number of legislative seats according to gender and ethnic background. In the 2017 elections, 38 percent of Assembly seats were won by women, and 21 percent by Dalits. This was in no small part due to the requirement by the election commission that women ought to

be at least 40 percent of the nominees and that the chief and deputy chief of a local government ought to be “gender even.”⁴⁷

1.149 Some observers have argued that this representation of minorities is welcome because it has given women and minorities a more significant formal involvement in governance. But other observers argue that it may not yet be a meaningful involvement. Post-election analyses suggest that few would have won office were it not for the mandate about representation (Democracy Resource Center, 2017). Manandhur-Gurung (2018, p.1) summarizes the election outcomes as follows:

“... 91% of the deputy positions – deputy mayors and vice chairpersons in municipalities and wards – were won by women, men won 98% of the chief positions. Women were nominated for the chief position in only 190 of the 753 positions as heads of local units. Reserved quotas appear to be the only way Nepali women seem to be able to receive proportional nomination. For example, in the non-quota positions as ward members, of the 13,484 positions across Nepal, only 2% were won by women ...”

1.150 Neither has more balanced gender representation in governance given women and minorities the effective champion that was hoped for. As many have by now observed, greater political representation, per se, does not guarantee better results in terms of the access to public services by minorities. For women or ethnic minorities to play a stronger role in advocating for services to address the needs of the disadvantaged, they must also play a stronger role in the government service. At present only 25 percent of civil service employment (and 12 percent of gazetted positions) is female (Table 1). It also should be noted that in 1993, only 11 percent of all civil servants in Nepal were women (Bishwokarma, 2016, as reported in Manandhur-Gurung, 2018).⁴⁸

1.151 On a positive note, there are factors in play that have the potential to influence a better gender balance. First, there will be a new federal civil service law, now under discussion in Parliament and hopefully to be enacted in the near future. The 1993 Amendment to the Act included a provision for reservation of posts for women, and while it did result in an increase, it has not been effective in overcoming gender disparities (see Table 1). The new federalism regime also will include civil service commissions in each province, but until the necessary federal and provincial laws are passed, disposition about things such as reserving job positions to favor women and minorities, undertaking GESI-responsive recruitment strategies, or adopting work rules and benefits that might favor women and minorities will not be known.

1.152 Second, time and public policies might help remove some barriers to gender equality in the public service. It takes time for newly elected representatives to gain enough power to make a difference in governance. An increased literacy rate for women can have a positive effect by increasing the competitiveness of women for better postings while not compromising job skill requirements. Federalism may also be a positive factor. The social constraints that women face –

⁴⁷ This means that if a political party nominated a man for the Mayor position, it must nominate a woman for the Deputy Mayor position (Manandhur-Gurung, 2018).

⁴⁸ These statistics exclude teachers and health workers.

child rearing, domestic chores, etc. – might be relaxed by the better proximity to the workplace that could come with the establishment of full-fledged local governments.

1.153 Discrimination against minorities and against women is deep seated in Nepal (GESI Working Group, 2017; Tamang, 2000). Attitudes toward women and towards minorities in the public sector workplace is a significant barrier to be overcome.⁴⁹ In the short run, it must be addressed by special legislation, changing rules in the workplace and careful monitoring of compliance with these initiatives. This is another claim on the resources of governments to meet basic needs.⁵⁰ Still, there is a difference between being employed by government and having an impact on governance. DRCN (2019, p.18) outlines a part of the problem with some anecdotal evidence based on interviews at the local government level:

“A general sentiment expressed by Dalit and women members was that they were not informed about key meetings and decisions, and that their roles were limited to signing documents and minutes brought to them...women Vice-Chairpersons or Deputy Mayors also said that their authority was undermined by male members of the local executive bodies.”

1.154 MOFAGA (2018, p.8) also notes that the absence of formal channels of participation in government decisions by the poor and disadvantaged is “the missing link” for ensuring inclusive local governance. One answer to this problem is for disadvantaged representatives to be more involved in trainings, policy discussions, and relevant central ministry and provincial government oversight bodies.

Gender Budgeting

1.155 The government of Nepal has called for “mainstreaming” gender equality and social inclusion by including it in all decisions about governance and government operations, systems and their operations (MOFAGA, 2018, p.22; Picard, 2017). In terms of the budget, this means adopting a broad definition of gender-responsive budgeting that spans the full process from assessing the situation to be addressed, through devising policy and programs, allocating budgets, and implementing and reviewing implementation and its impact (Budlender, 2008). The long-term goal is for gender and social inclusion to become “a category of analysis” in the budget process and in budget performance (Louis Berger Associates, 2018, p.20). If properly done, gender analyses of government budgets can be used for improved targeting of public services.

1.156 In fact, Nepal has long been active in gender responsive budget practices. The Ministry of Finance in Nepal formed an inter-ministerial “gender-responsive budget committee” that prepares and monitors budget allocations and public expenditures from a gender perspective. In 2012 it issued guidelines requiring all ministries to classify budgets so that gender responsiveness could

⁴⁹ Lumping together women and minorities in this discussion of discrimination paints with too broad a brush. Attitudes faced by women (gender-related, has to do with physical bodies, household chores, etc.) are different from those faced by minorities (language, prejudices of race/ethnicity), and overlap regarding women of minority ethnicity is not taken into account (Manandhur Gurung, 2018).

⁵⁰ The Asian Development Bank (2010) pointed to part of the social inclusion problem as being the weak capacity of governments to monitor, i.e., the key agencies are not adequately equipped to operate in three different areas (gender equality, children, and social welfare).

be tracked. Every year the total budget request from each ministry includes detail on programs classified into “directly responsive,” “indirectly responsive,” and “neutral” on the basis of the potential benefits to women under each program. The classification into these groups is subjective, but it is done each year and included in the annual budget speech of the Minister of Finance. For the 2017/2018 budget speech, about 36 percent of the total budget was classified as directly gender responsive and about 30 percent was classified as gender neutral. The very fact that it is part of the annual budget address of the Minister of Finance gives gender budgeting some creditability.

1.157 However, there is little concrete evidence that the results of gender-based budgets in Nepal have been effective (Louis Berger, 2018). The weighting of factors that identify gender-responsive programs is subjective and may reflect the extent to which officials want to present a good picture, as well as their understanding of gender (Budlender, 2008). Nepal may not be all that out of step with the success rate in other, similar countries. The international experience seems to be that gender budgeting is a step in the direction of increasing awareness of budgetary effects on gender equality, but the effectiveness of gender budgets in achieving desired outcomes in low-income countries is limited and remains a challenge (Chakraborty, 2016).

1.158 Clearly, it will require some work for GESI policy implementation to take hold in the newly decentralized fiscal system in Nepal. While the guidelines for gender budgeting in Nepal introduce a set of indicators to guide the process, there is no convincing documentation to show how these indicators have been used and to what effect (Louis Berger, 2018). There have been training programs for government officers, but there is little reason to believe that the new cadre of budget officials at the local government level have any training in this area. Even if gender-responsive budgeting is undertaken at the local government level, it may not be done in a uniform way across local governments, i.e., the 760 PLGs may have very different priorities for approaching the problems and very different capacities to achieve good results. Anyway, the more crucial question is expenditure tracking, i.e., how much of the gender budget is spent as planned.

FCNA Survey Evidence on GESI

1.159 Surprisingly, 12 percent of metropolitan and sub-metropolitan cities, 28 percent of municipalities, and 18 percent of rural municipalities do not report having a gender and social inclusion policy in place. Only 12 percent of cities and less than 10 percent of other local governments regularly carry out GESI audits while 60 percent never do. However, most local governments and wards have a framework in place to ensure women’s participation in local government activities, 94 percent of local governments “act in an inclusive manner,” and all metropolitan and sub-metropolitan cities and 97 percent of other local governments report inclusive planning and budgeting process. Nearly all local governments say that women and Dalit members participate in assembly deliberations.

1.160 Interesting information from the FCNA survey came in response to the request to enumerate the ways in which local governments provide services in case of gender-based violence. Almost all offered counselling and awareness campaigns, but two thirds or less offered legal assistance or compensation to support victims. Services to victims of gender-based violence of any kind were more often provided by cities.

ACCOUNTABILITY

1.161 “Governance from below” is the big paradigm shift that the Constitution introduced. The creation of 760 provincial and local level governments brings elected PLGs officials closer to the people and creates a potential for a stronger accountability to voters. This is one of the fundamental features of decentralization, but it is difficult to implement effectively.⁵¹ Five features that Nepal has embraced in its new system to strengthen the accountability of government officials to voters are (a) elections, (b) assignment of important expenditure responsibilities, (c) citizen participation, (d) transparency, and (e) tax assignment.

Box 12: Significant and Recent Achievements on Gender Equality and Social Inclusion (GESI) in Nepal

Legislative backing and implementation of GESI. The Constitution calls for legislation to promote equal voice in government by guaranteeing a prescribed number of legislative seats according to gender and ethnic background. In the 2017 elections, 38% of Assembly seats were won by women and 21% by Dalits. This has given women and minorities significant formal involvement in governance. Women won 91% of the deputy positions (deputy mayors and vice chairpersons) in municipalities and wards, while men won 98% of the chief positions. At present 25% of civil service employment is female compared to 11% in 1993.

Executive actions on GESI. The Government called for “mainstreaming” gender equality and social inclusion by including it in all decisions about governance and government operations, systems and their operations. For the 2017/2018 budget speech, about 36% of the total budget was classified as directly gender responsive and about 30 percent was classified as gender neutral. The very fact that it is part of the annual budget address of the Minister of Finance gives gender budgeting some creditability. The guidelines for gender budgeting have been introduced and provides a set of indicators to guide implementation of GESI policy. There have been training programs for government officers on gender-responsive budgeting.

National Women Commission. The National Women Commission has established an integrated platform for a comprehensive response system to coordinate expansion of access to services for gender-based violence prevention and response.

1.162 Imperfect as the process is, open elections are probably the best available way to make PLGs politicians accountable to the local population (Bahl and Bird, 2018). The Constitution of Nepal provides for PLGs elections every five years. Presumably, local officials will be re-elected depending partly on the package of services provided and partly on the tax price charged. The turnout in the first election of PLGs governments was high (over 70 percent) and suggests a great deal of interest in local governance. If this level of interest continues, it can bode well for the prospects that voters will hold elected officials accountable for their actions.

1.163 On the other hand, there is evidence that a great number of voters are not well educated on the issues (Democracy Resource Centre, 2017). The NASC Survey of perceptions (2018, p.58) found that 60 percent of Nepalis “have heard about the

2015 (2072) Constitution but two fifths (40 percent) have not.” There is also a significant disparity between the education of men and women. The adult literacy rate in Nepal is 71 percent for males and 45 percent for females. Raising the literacy rate, erasing such disparities, and educating the

⁵¹ For a discussion of how to remove some of the constraints to downward accountability, see Yilmaz, Beris, and Serrano-Berthet (2010).

population on civic matters and civic duties is important but is also another drain on the already limited capacity of local governments.

1.164 A second way by which accountability of local government officials has been enhanced in Nepal is by assigning important expenditure responsibilities to the local governments, i.e., services that have important effects on everyday life. Giving local governments some control over the delivery of such services – primary education and basic health services are examples – makes local citizens more likely to take the elected assembly to task for results. Local governments now have responsibility for important functions, but it is not yet clear how much capacity or control they will have over the way in which services are delivered.⁵²

1.165 Accountability can also be enhanced if voters are part of the process of deciding on the allocations made in the annual budget and on other recurrent fiscal matters. Many local governments have taken steps in this direction by providing for public budget hearings. Moreover, the budgets themselves are developed with significant input from the ward level. But budget hearings are only successful if the local population chooses to be involved. Though the ward system in Nepal does function as a grassroots budget unit, and ward budgets are in place, it is not clear that there is strong participation by women or minority populations in the budget process (Box 13). The NASC survey (2018, p 35) found that just under one third of Nepalis (29 percent) say they have attended one or more meetings of any social organization, committee, or community forum in the past year.

1.166 In theory, the decentralization of budget decisions to Ward governments should bring government closer to the people and improve accountability. The FCNA survey seems to show that all levels of local government think that there is a clear allocation of responsibility to the wards. If anything, there is less certainty about responsibilities of ward chairs in the cities. Some problems that hamper management and service delivery at the ward level are space, access to electricity, and internet connectivity. Ward offices are able to carry out and monitor some functions, though schools and health reports have only been partially provided to ward offices in the past year. Most ward committees meet monthly and most announce their meetings.

1.167 Finally, there are questions about the tradeoffs involved in ward involvement in local governance. While the existence of ward level budgets potentially moves voters closer to what they might perceive as their local government, it has drawbacks. For one, it focuses interest on smaller capital projects and away from those that might capture economies of scale or confer area wide benefits. And though wards are not formally local governments in Nepal, city assemblies are made up of elected ward members whose primary concern may be the well-being of their wards. The mayor and deputy mayor in some municipalities may be in a minority in pushing for services with areawide benefits.

⁵² A good example is the Federal Civil Servants Bill, which would give the federal government the power to appoint the chief secretaries of provinces, secretaries of provincial ministries, and chief administrative officials of local governments.

Box 13: Wards

Outside the old 58 municipalities, wards had not existed in their present form before 2015. In the old system, the subnational administrative structure was based at the district level. While there were central government employees assigned to serve as secretaries at each of the 3,915 VDCs, they often operated from a district center. The notion of wards might have been used for planning purposes, but there were no administrative structures in place. While the present-day wards were created with the LGOA of 2015, they amalgamated different institutions and practices, summarized immediately below, that had existed at different geographic scales before 2015.

In terms of administrative structure, current wards can be seen an equivalent of the previous VDCs. Indeed, in 2017, wards were typically created by splitting a former VDC into two-three new wards with former VDC secretaries continuing their work as ward secretaries. It also meant that at least one in three wards initially had no staff or office building. To the extent that current 6,743 wards took over administrative functions (like collecting revenues and issuing certificates) from the previous 3,963 VDCs and municipalities, this means doubling of administrative costs while making these services more accessible for local residents. At the same time, given that each of the current 6,743 wards has the same representative structure with a five-member committee as the previous 36,000 wards had, it achieves consolidation of the representative and planning bodies.

Current wards also assumed the role previously played by the Ward Citizen Forums (WCF) in the 14-step planning process instituted by MoLD under the LGCDP in 2009. That process was supposed to start with the issuance of budget ceilings and guidelines by the National Planning Commission, to be disseminated all the way down to the settlement level, where public discussions were to be held to identify proposals for projects, which were ranked and forwarded from the settlement level to wards to villages and ultimately district levels. While WCFs only had advisory functions, in the absence of local elections they were expected to voice local level issues, develop suggestions, and prioritize/monitor projects in order to increase government accountability.

Section 12 of the LGOA assigned all these powers to the current ward committees. The ward committees participate in drafting and implementing projects within their wards. They are also responsible for maintaining and updating vital statistics at the ward level, monitoring development projects, municipal services, local markets, and industries in the ward, providing recommendations for citizenship and land ownership certificates.

Sources: The Carter Center (2014); LGOA

1.168 A related issue is the extensive use of user committees in identifying and carrying out small scale capital projects at the local government level (Box 14). Because local governments have not yet assumed many of their responsibilities as stipulated in the Constitution and LGOA, their de facto activities remain very much confined to funding and implementing small scale local level projects (primarily, local road projects) largely at the ward level. Even in major metropolitan cities like Kathmandu and Pokhara, the role of LGs is limited to solid waste management and maintenance of small local urban roads and drainage systems, while major road projects and water systems are run by the central agencies and ministries. While this model “works” in the interim, its accountability features are uncertain, and it drives capital spending away from projects with citywide benefits (World Bank, 2018c).

Box 14: User Committees

Building on the practices going back to the 1950s, the existing institution of User Committees (UCs) was codified in the LSGA of 1999, which promoted involvement of local residents in implementing and monitoring of projects. First, LSGA required that UCs should be given priority in implementing projects costing below NPR 1 million (later raised to NPR 6 million). Second, it encouraged cost-sharing. User committees were found to have contributed between 10 to 20 percent of the construction costs and assumed all of the maintenance costs of completed projects, with remote communities contributing less and mostly in the form of labor. LSGA also required a mandatory social audit of the completed projects before the final payment.

The expectation was that user groups not only would directly benefit economically from the project but also would foster a greater sense of ownership among project beneficiaries. Among all user groups, candidates for the 7–10-member executive committee and a parallel 3–4-member monitoring committee were to be selected by public consensus. In situations where a consensus could not be reached, key positions would be decided by an election. Monitoring committees were supposed to ensure project specifications were adhered to, and they signed off at different stages of project implementation before installments could be released to the executive committees. At the close of a project, public hearings were held, outlining budget expenditures and project assessments.

According to the implementing guidelines, user groups were neither allowed to use heavy machinery nor to subcontract the work. A project was deemed complete once a public report had been created by the monitoring committee and a public audit had been conducted detailing all the expenditures and the work completed.

In the absence of local elections, this mechanism might have brought some degree of transparency and downward accountability under the all-party mechanism. However, reportedly it was not very effective in preventing corruption. There were reports of user committee chairmen colluding with local party leaders and VDC secretaries to inflate project costs (especially non-labor inputs) and siphon off project funds. Some of these diverted funds were in turn used to bribe VDC and DDC technicians to get the final approval of the project works. Reportedly, even the beneficiaries' contribution might have been partially paid with diverted funds. Fewer problems were reported with smaller user committees implementing smaller scale projects at the ward or village level compared to larger user committees dealing with more substantial projects such as road construction and electrification.

Sources: Pokharel (2009); Panta (2016); The Carter Center (2014).

1.169 Transparency is an important issue in evaluating accountability. Public budget hearings are a way to better inform the population about government programs and to gain their participation. FCNA finds that local governments in many municipalities make significant efforts to disseminate information to the public. Nearly all appointed information officers at the municipal offices, most used websites, others published information on notice boards at ward and municipal offices, and others used newspapers, radio, and television.

1.170 The effectiveness of transparency in governance is also dependent on the interest of the local population. The evidence on local interest is mixed. It is true that election turnouts were high and important services were devolved to local governments. But the poor quality of public services in Nepal might cause us to expect a strong grassroots demand for improvements. In fact, there is no evidence of much contact between the local government offices and the general public. Less than one third of respondents in the NASC survey (2018, p.100) reported using a public service (visited a government office) in the six months prior to the survey in 2018. Just over one third had not used any public service (visited a government office) in more than two years. The vast majority of those surveyed responded that admitting a child into a government school and making vital

registrations is easy. But establishing utility connections, such as electricity or water connections or transferring land ownership, are more difficult services to access. Interestingly, respondents in the NASC survey thought local governments to be trustworthy but had the opposite view of political parties.

1.171 Finally, accountability to the local population is enhanced if local government assemblies are allowed to impose taxes on their constituents. The Constitution makes provision for this, and local revenue mobilization accounts for nearly one-third of revenues in Nepal's largest urban areas.

1.172 Many of the right provisions for accountability are embedded in the Nepal federal system but implementing these so that they will be effective will continue to be a major task of PLGs. With elections only every fifth year, making local officials accountable will require an even more significant effort by voters to better understand and regularly make use of their powers. What we probably can say about accountability in the Nepal system is that it requires voters to get on a steep learning curve about their guaranteed rights, and it requires a framework in which they can exercise these rights.⁵³ For those who are illiterate, access to information about what their government is doing is the most limited of all. MOFAGA (2018, p.11) phrases it as “the link between citizens and their newly elected local governments for meaningful participation and accountability [being] missing.”

1.173 The results of the FCNA survey show that local governments tend to make their executive decisions public by using their website and social media; cities rely more on the former while other areas on the latter form of electronic communication. Rural municipalities make heaviest use of notice boards. Only about 40 percent of small municipalities and rural municipalities reported using community meetings for this purpose, while for metropolitan and sub-metropolitan cities this proportion is only 10 percent. Most local governments, large and small, inform citizens about the availability of public services through their “citizen’s charter and through their website.” Communications are limited, particularly in the smaller and more rural areas where more than 40 percent of the respondent municipalities had no local newspaper, local FM radio, or national TV coverage.

1.174 Nearly all local governments make budget information and assembly decisions available to the public. Most local governments reported engaging with public institutions and civil society in making its budget.

CAPACITY BUILDING AND TRAINING

1.175 The transition to a federal structure significantly increases the need to provide training for government officials at all levels, because the assignment of responsibility for service delivery and public management has changed dramatically. It also may require a different institutional arrangement to deliver this training and capacity building because provincial and local governments in the new federal regime have significant control over how they deliver their services and manage their systems. The Constitution does not give specific instructions on how capacity development should be carried out or paid for, and neither governments nor the Parliament have announced a specific plan.

⁵³ For an extensive discussion of the progress with social mobilization efforts in Nepal, see Webster, 2018.

Capacity Development Needs

1.176 As indicated by the FCNA survey results presented in this report, and further informed by discussions with provincial and local government officials, PLGs have significant limitations in their capacity to deliver services and to manage service delivery. In particular, the survey results reveal a low capacity of thematic sectors and wards to monitor the performance of service delivery. While for roads, the capacity is higher than for many other sectors, still less than one half of local governments have adequate capacity to monitor performance of service delivery.

1.177 Some of these limitations are due to the still-incomplete infrastructure of federalism. The necessary laws and some supporting institutions that are mandated in the Constitution have not yet come online, the federal government employment relocations to PLGs are not yet complete, and there is some confusion about the powers and functions of PLGs. The result is that many provincial and local government officials, and many in the political leadership of PLGs, are either not in place or not very far along in learning their new jobs.

1.178 Filling the gap between needs and present capacity to deliver and manage services will require a continuing effort. Upgrading the capacity of provincial and local government employees to a level that will allow them to carry out their newly assigned duties will not result from one-off training programs.⁵⁴ In fact, the capacity development needed goes well beyond skill training of employees that are posted at the provincial and local government levels. It will require training and technical assistance to assess and modify regional and local policies, training for PLGs elected leaders to understand their new powers and responsibilities, the development of management and administrative procedures, and perhaps most of all, both skill and context training of PLGs officers.

1.179 The potential number of clients for training and other capacity development activities is very large. The expected staff level in the seven provincial governments is about 21,000 and that in the 753 local governments is about 66,000.⁵⁵ In total, there are about 37,000 newly elected municipal and rural local government officers. Retooling employees and management in Nepal will be no small job, and it will be expensive.

1.180 All of these employees and elected officials are candidates for programs designed to upgrade skills and methods. Not only will they need to master a new skill set, but they will need to become familiar with PLGs operations and in many cases, with a new environment. Similarly, the legacy employees of local governments, civil society, a plethora of commission and committee members, and the population at large will need to better understand (and accept) their roles in the new federal government structure. In a broader definition of training needs, even local government associations might be included (MOFAGA, 2018a).

1.181 Nor is the federal government experienced with its new tasks of monitoring and evaluating the performance of PLGs governments and setting standards. Capacity development will need to address federal government employees, both line ministries and MOFAGA, as they continue to

⁵⁴ MOFAGA (2018a, p.1) takes a broad view of what this entails: “Capacity Development is the process by which individuals, institutions, organizations and societies develop abilities to perform functions, solve problems as well as set and achieve goals.”

⁵⁵ About half of these are service delivery personnel who will presumably rely on their former line ministries for training and other capacity building needs.

hand off service delivery responsibilities to the local governments and as they begin to take up the tasks of monitoring and evaluation.

1.182 There is no survey of public sector training needs in place in Nepal. That is to say, there is not a plan that lays out the kind of training and capacity building necessary for service delivery and public management at all three levels of governments. Nor is there an estimate of how much it might cost to put such a capacity development system in place to accommodate this level of training. What has been (correctly) recognized, however, is that both federal and provincial-local governments must partner in developing this plan. MOFAGA has noted that PLGSP is the main vehicle through which capacity development will be addressed.

Institutional Arrangements

1.183 There has not been a formal announcement of the institutional arrangements for capacity building and training for government officers and elected officials. It is not the mission in this FCNA project to recommend an optimal training and capacity building institution, but some comments might be offered on the pros and cons of alternative approaches.

1.184 The Constitutional mandate for autonomous local governments would seem to point toward a decentralized approach to training and capacity building. The decision seems already to have been made to place more responsibility for training and capacity development at the provincial government level.⁵⁶ The Local Development Training Academy Act has been amended to allow the federal government to transfer LDTA assets and properties to the provincial governments to establish the provincial level training units.⁵⁷ At present, the LDTA is mandated to train elected and staff members of local government and to ensure quality control of capacity development efforts across the country (MOFAGA, 2018, p.61).

Advantages and Challenges to Consider

1.185 The idea of provincial government leadership in capacity development has merit. Most importantly, it is in step with the vision for provincial and local government autonomy as set out in the constitution. The decentralization of capacity development can allow each province to focus its training on areas where needs are perceived as greatest, and it can bring more local context to capacity development. A more decentralized unit also might provide more of the “lighthouse effects” that come with reporting on the service delivery experiences from several provinces, especially if the seven provincial training and capacity development institutes could be part of an informal exchange mechanism that would enable peer learning.

1.186 There also are a number of challenges to be addressed, including the following:

⁵⁶ MOFAGA (2018, p.38) argues that a reworking of the present arrangements is necessary, and commissioned background analyses to explore options. At least two (complementary) proposals for reorganization of subnational capacity development were under consideration by a committee formed under the Chair of the Secretary of MOFAGA (2018, p.61; 2018a).

⁵⁷ Gandaki Province has already passed an act to establish a provincial level training academy.

1. Training and capacity building for responsibilities where national uniformity is required, e.g., budget format and reporting, etc., might benefit from a more centralized approach which is better able to capture economies of scale and specialization.
2. Decentralization could result in an uneven implementation of capacity development programs across provinces. Some provinces (and municipalities) can afford to finance better training than others, and this could contribute to larger disparities in the quality of service delivery.⁵⁸
3. Provincial government-led centers might shift the centerpiece of training and capacity development away from local governments, where the assignment to deliver most services rests. This danger might be mitigated if local governments could identify their training needs. MOFAGA (2018, Annex 4) has developed a self-assessment tool (LISA) that provides local governments with a checklist to evaluate ten different aspects of a government's performance. This could be used to effectively identify training needs.
4. Does the public administration/management profession in Nepal have the technical capacity to support seven provincial centers? Would the functions of the new provincial centers duplicate those of institutions like NASC, Judicial Academy, universities, and others? How would the provincial centers access the talent to lead the capacity building?

The Special Case of PFM

1.187 MOFAGA does not lay out the details of a proposed program for capacity development in the area of public financial management. One possible approach is to address PFM with a separate institutional arrangement. At present, PFM training seems to be a piecemeal effort carried out by several providers in an uncoordinated way. The case for bringing PFM training together under a single, specialized program might be a strong one. Provincial and local governments financial management practices require uniformity and system-wide approaches, for example, in budget reporting and formats and accounting systems. Because of the need for national uniformity and because of economies of scale in training arrangements, capacity development in this area might be more efficiently carried out if centralized.

1.188 Another view is that responsibility for content should be centrally owned, but under a decentralized model, delivery could be assigned to the provincial centers. Otherwise, the central model could lead to a proliferation of training venues sponsored by central ministries and agencies, etc.

*Cost and Management*⁵⁹

1.189 The capacity development for PLGs staff and elected officials will be an expensive matter, no matter what institutional approach is taken, and it will require ongoing revenue support. It seems

⁵⁸ The MOFAGA proposal (2018) would provide for subsidies for local governments where affordability is a problem.

⁵⁹ In this section, we refer to all general training and capacity development, other than that delivered by line ministries and public financial management.

reasonable to project that funding for such a large undertaking would come from several sources: direct earmarked allocations from the federal budget, charges to PLGs for demand-driven capacity development programs (MOFAGA, 2018), and development partners. Other than in large cities, most local governments in Nepal do not raise substantial funding from their own sources, therefore much of the financing will come from intergovernmental transfers.⁶⁰

Timing Issues

1.190 The learning curve for PLGs, particularly municipal/rural local governments where service delivery responsibility resides, must necessarily be steep. There are two reasons for this. The first is that a weak capacity to manage PLGs and a slow pace of getting the framework for federalism in place will translate into continued weak service delivery. The longer this situation continues, the more entrenched bad management practices will become and the more difficult it will be to implement reforms. Perhaps the greater concern is that voters will steadily lose confidence in the ability of the government to deliver on the Constitution's promise of better public services. The second reason why the learning curve must be steep is that the stakes in improving local government expenditure efficiency are higher. In 2019, federalism will enter its third year⁶¹ and PLGs will have (budgeted) funds equivalent to 12.9 percent of GDP to spend. It will also have control of an estimated 65 percent of all government employees.

REVENUE ASSIGNMENTS AND GRANTS MANAGEMENT

1.191 A crucial issue for this needs-capacity assessment is whether PLGs have the fiscal capacity to meet the expenditure responsibilities assigned to them and whether they will have adequate discretion to shape expenditure budgets to fit local preferences. The Constitution makes room for locally raised revenues and even borrowing, but neither of these are likely to soon become important sources of revenue for any but the large cities.⁶² At least for the foreseeable future, financing in a great majority of PLGs expenditures will come largely from intergovernmental transfers. Getting the level and structure of transfers “right” will continue to be a high priority, and this will be no small job.

INTERGOVERNMENTAL TRANSFERS

1.192 The revenue envelope of PLGs is determined by the federal government (presently based on recommendations by the NNRFC Secretariat) through its distribution of intergovernmental transfers.⁶³ After the NNRFC is officially seated, the revenue envelope of PLGs will be determined by NNRFC recommendations and revenue mobilization efforts of the PLGs.

1.193 Intergovernmental transfer systems in all countries have a vertical sharing dimension, and a horizontal sharing dimension (Bahl and Bird, 2018, Chapter 7). Countries determine the vertical share (the divisible pool) by law as a prescribed share of national tax collections and/or by a

⁶⁰ On average, metropolitan local governments cover about 36 percent of their own budget from local sources.

⁶¹ In fact, all levels of government did not become operational until 2018.

⁶² In most municipalities, own-source revenue account for less than 10 percent of their budgets. However, in some metropolitan municipalities, own sources account for between 40-50 percent of their budgets (51 percent in Kathmandu).

⁶³ The Nepal system of intergovernmental transfers is reviewed in Boex, et. al., 2018, and in NNRFC, 2018.

discretionary decision by Parliament as part of the annual budget process (see Box 15). Nepal uses both approaches and is generally in step with the international practice.

Box 15: Vertical Sharing and Intergovernmental Transfers

Some low- and middle-income countries share revenues from all domestic taxes with subnational governments. For example, Indonesia shares 26 percent of national tax collections with local governments, Pakistan’s sharing rate is 57.5 percent, India’s is 42 percent, and Mexico’s is 40 percent. Other countries share revenues from particular taxes with specific sharing rates attached to those taxes, e.g., 50 percent for value added taxes in China and 10 percent in Peru. The great advantage of shared taxes from the vantage of local governments is that it can give them access to a productive and income-elastic tax base. Shared taxes tend to be distributed as unconditional grants.

The budgetary approach to vertical sharing is more often used to support conditional grant programs. This gives the federal /central government the advantage of earmarking the money for a particular purpose. For example, the large rural employment programs and urban development grants in India are conditional grants where the vertical shares are decided as part of the budgetary process. From the point of view of the local government, the disadvantage is that the amount of the grant may be re-contracted each fiscal year and is subject to political manipulation. Moreover, local governments lose some control over how the money is spent.

Nepal uses both methods of vertical sharing, as do most low- and middle-income countries. However, the general trend in decentralized low- and middle-income countries seems to be in the direction of more use of unconditional grants whereas in Nepal the share of conditional grants has risen.

Sources: Bahl and Bird (2018); Martinez-Vazquez and Searle (2007)

1.194 In Nepal, the Intergovernmental Fiscal Arrangement Act mandates placing the revenues collected from excise taxes and VAT on domestic goods into a divisible pool to be shared as follows: 70 percent to the Government of Nepal, 15 percent to the Provincial governments, and 15 percent to the local governments. The provincial and local governments shares are distributed among recipient governments by formula.⁶⁴ In effect, this is an entitlement where PLGs have a specified claim against central tax collections.

1.195 At present, the NNRFC secretariat and the federal government may recommend that Parliament vote an additional amount for the vertical share of PLGs during the annual budget process. These discretionary amounts fund the other transfers in the system,

including the equalization and conditional grants. The total vertical shares in Nepal (tax sharing and discretionary budget transfers) were 10.9 percent of GDP in 2018 and 12.9 percent in 2019 (the first two years of federalism) with about 60 percent of the total amount designated for the 753 local level governments in 2019 (Table 10).

Table 10: Intergovernmental Transfers: Vertical Shares

		Amount (in NPR mn)^a	Percent Distribution	Percent of GDP
2018	Local	245,556	98.2	6.8
	Provincial	4,412	1.8	4.1
	Total	249,968	100	10.9

⁶⁴ This tax sharing entitlement was allocated for the first time in FY 2018/2019. As used in Nepal, it is a direct claim against national tax collections rather than a transfer from the consolidated fund. It is not explicitly provided for in the Constitution. Note also that because of this feature, the national budget does not classify the tax sharing grant as an intergovernmental transfer to subnational governments.

2019 (budget)	Local	262,173	59.2	7.6
	Provincial	180,554	40.8	5.3
	Total	442,727	100	12.9
a. Includes tax sharing grants of Rs114 240 million for 2019.				

Source: Government of Nepal, Budget Speech FY 2018/2019

Box 16: How Grants Are Distributed Among Subnational Governments

The methods used to distribute grants among eligible subnational governments vary widely among low-income countries. Some return taxes to the jurisdiction where they were collected (China), some reimburse certain costs (Mexico), some make use of relatively simple formulae (Philippines), and some make use of more complicated formulae (Ethiopia). Some countries simply place the grant revenues where they want them. Many countries mix these approaches and many use different allocation methods for each grant.

Virtually all decentralized countries have equalization grants, ostensibly to reduce unwanted fiscal disparities. In most countries, and in Nepal, this is done by allocating more revenues to subnational governments that show a larger gap between fiscal capacity and expenditure needs. Research on the effectiveness of equalization grants is not so optimistic about the success of these grants in achieving their objectives.

Nepal’s horizontal sharing arrangements – a combination of cost reimbursement and formula-based grants – are in step with good international practice and have the good features of being transparent and being driven by expenditure needs. The formulae, however, tend toward being more complicated than are used in most countries, and the success with equalization transfers is yet to be tested.

Sources: Bahl and Bird, Chapter 7 (2018); Boex and Martinez-Vazquez (2006); Martinez-Vazquez and Searle (2007)

1.196 The horizontal share of an intergovernmental transfer is the distribution of the divisible pool among the individual local and provincial governments (see Box 16). In Nepal, these distribution arrangements vary by grant program. Tax sharing and equalization grants are distributed by two different formulae, but both are based on indicators of expenditure needs and both are unconditional transfers. Equalization grants target the disparity between expenditure needs and revenue potential, and the VAT/Excise tax sharing grants target fiscal imbalance more generally.⁶⁵ The formulae were developed by the NNRFC secretariat and are under regular review and continuing efforts to assess expenditure needs and revenue potential of PLGs.

1.197 Conditional grants, on the other hand, are payments to PLGs to implement (previously) federal programs according to national standards, the state of infrastructure, and to comply with national and international commitments and obligations. These transfers are more focused on the functions in schedules 7

and 9 in the Constitution. Some of these conditional grants are more in the nature of cost reimbursement grants because they are used to guarantee the cost of salaries of transferred central government employees (mostly education and health) and to cover the costs of legacy projects from the former centralized regime. Less important in the present system are special and matching

⁶⁵ Note that the equalization formula for 2019 weighted the gap between expenditure needs and revenue capacity more heavily than in the previous year, suggesting that the bias in favor of smaller local governments might be lessened.

grants that are distributed to defray part of the cost of local implementation of special projects of the federal government.

1.198 Transfers in the 2019 budget are planned for about 30 percent for equalization grants, and about 26 percent for tax sharing grants, both of which are distributed without conditions attached as to how the money must be spent. Conditional grants take up about 39 percent of total grant funding (Table 11). There also is provision in the constitution for provincial government grants to local governments.⁶⁶

Table 11: Intergovernmental Transfers, 2018 and 2019, by Percent Distribution

	Description	FY 2018	FY 2019 (budget)^a
Local Governments	Equalization Grants	63.4%	32.5
	Conditional grants	36.6%	41.9
	Complementary Grants		1.9
	Special Grants		1.9
	Tax Sharing Grants		21.8
	Total	100	100
Provincial Governments	Equalization grants	100	27.9
	Conditional grants		35.0
	Complementary grants		2.8
	Special Grants		2.8
	Tax Sharing grants		31.6
	Total	100	100
All Governments	Equalization grants	64.5%	30.6
	Conditional grants	35.5%	39.1
	Complementary grants		2.3
	Special grants		2.3
	Tax Sharing Grants		25.8
	Total	100	100
Exhibit: Total Grants to PLG as a Percent of GDP		10.9	12.9
a. Includes tax sharing grants of Rs114 240 million for 2019, distributed in equal amounts to provinces and local governments.			

Source: Government of Nepal, Budget Speech FY 2018/2019

⁶⁶ The methods used to distribute transfers varies from province to province.

Will the Vertical Share of Federal Grants Increase?

1.199 In FY 2018/2019, the federal government has budgeted (revised estimates) for an amount equivalent to 35 percent of all national tax collections to PLGs as transfers through the grant system. This is down slightly from the 38 percent in the 2018 budget.

1.200 Revenue mobilization has been buoyant, deficits have been manageable, and GDP has been rising, so the level of transfers in the first two years of federalism was affordable. If the tax collection-GDP ratio rises to 29 percent from its present level of 24.0 percent, as some have suggested (World Bank, 2018), and if the target annual rate of GDP growth of 8 percent is achieved,⁶⁷ there may be some room for increased allocations to the PLGs in the next few years. But if transfers cannot be sustained at this level, then the question arises as to how the increasing needs of PLGs will be accommodated.

1.201 An increased claim on federal revenues attributable to the transition to fiscal federalism, could come about for several reasons.

- The number of positions that the federal government is directing to the PLGs level is less than the MOFAGA estimates of the number needed by provincial and local governments (see Table 7). Those civil service employees who do relocate will be paid a premium, thereby adding to the cost of PLGs services. The continued setup costs facing provincial and local governments will be significant. Adequate office space, equipment, internet connectivity, computers, vehicles, and the like will impose additional costs.⁶⁸
- Given the need for capacity development and training of local and provincial employees (about 80,000 employees) and elected PLGs officials (about 37,550), it might be expected that significant revenues will be required for this purpose.⁶⁹ Before adjustment, many employees received relevant training and experience from prior secondment. However, the FCNA survey responses indicate that over 8,000 local staff have not attended any relevant training since local election. This represents almost one fifth of all staff currently present in public administration positions at local governments.
- There will be a continuing pressure to improve the presently low quality and coverage of services and to initiate public works projects. For example, one study has estimated that the national government is providing local governments with only between 30-50 percent of the funds needed to provide elementary/secondary education according to the quality standards the government has in place, thereby creating a large unfunded liability (Louis Berger, 2018a).

Federal Grants and Local Autonomy

1.202 The Constitution of Nepal guards local fiscal autonomy but also leaves the door open for the federal government to rearrange the fiscal structure to address national priorities and coordination (Art. 235). In Nepal, as in most low- and middle-income countries, this will lead to extended policy discussions about how to balance local self-governance and national (and

⁶⁷ Budget Speech of 2018/2019 (paragraph 267, p.49).

⁶⁸ These setup activities are reviewed in Inter-Province Council (2018) and in Part Two of this report, but no costing amounts have been presented.

⁶⁹ There are about 550 elected officials at the provincial government level.

regional) priorities. In this regard, an important fiscal issue is likely to arise in FY 2020 (and beyond). If the cost of newly transferred (and hired) employees is covered with conditional grants, it will place a further limit on the spending autonomy of PLGs. If it is financed with unconditional grants, the coverage of salaries may not be guaranteed. The situation in the 2019 budget year is that conditional grants account for about 40 percent of the amount received by PLGs.

FISCAL PLANNING AND THE FISCAL COMMISSION

1.203 The federal government, in consultation with the NNRFC Secretariat, has kept the grant system on track in its first two years in spite of the limitations of the data necessary to populate its formulae and to evaluate the impacts. But as federalism moves into its next years, the intergovernmental transfer system will need to be revisited to examine its impacts and consider reform options that are in step with the intent of the Constitution.

1.204 The Constitution makes it clear that recommendations about the development of the intergovernmental transfer system is the responsibility of the NNRFC (Art. 250) and that these recommendations are binding (Art. 60). The experience in India and Australia (where the recommendations are not binding) shows that a grants commission can work very well if it is properly staffed and if it is structured so as not to be dominated by political interests (see Box 6 on Grants Commissions). The government of Nepal has appointed the Chair of the NNRFC but has not yet appointed the membership.

1.205 In Nepal, the success with the Fiscal Commission will also depend on (a) the latitude and resources given to investigate and research the important issues, (b) the constraints imposed on reaching a decision, (c) the willingness of the government of Nepal to appoint Commission members with strong technical expertise as well as good political acumen, and (d) a charge to think beyond political objectives. The wording in the Constitution is favorable on the first two of these issues and gives the government latitude to correctly address the third and fourth. There is no question but that the commissioners will need political skills, but the experience in other countries that have fiscal commissions suggests that appointing members that have expertise on the main technical issues is very important.

1.206 There is no such thing as a “best” intergovernmental transfer system. Everything depends on what a country is trying to accomplish. It follows that the place to start will be with the fundamental question of what goals the intergovernmental transfer system is meant to achieve. This will prompt the Commission to develop a longer-term approach to structuring intergovernmental transfers that is both in step with the Constitution and that can be continued without major reform once the initial transition period is over. The following are some of the important activities that NNRFC might consider, and some of the issues that it might try to resolve:

- Chair a national discussion about Nepal’s objectives for its intergovernmental transfer system. This might include “hearings” in each of the provinces and might involve close working relationships with the Inter-Governmental Fiscal Council, the local government associations, Provincial Coordination Councils, and relevant federal ministries.
- Request expert advice from international agencies on major questions to be addressed.
- Involve national think tanks in the policy dialogue and invite written analyses.
- Raise a number of relevant questions for the discussion, for example,
 - How should conditional grants be used?

- What are the impacts of the present system of intergovernmental transfers?
- What is the objective of equalization grants, i.e., how much of the gap between revenue potential and expenditure needs should be covered by intergovernmental transfers? Evaluate the success of the present equalization formulae in achieving this objective.
- How can the distribution formulae be made simpler, and what attributes would be more appropriate to include in the formulae?
- Investigate unwanted side effects of the intergovernmental transfer system, such as possible biases against certain types of governments, or certain fiscal decisions, and consider incentives that might be used to address such problems.
- Produce an annual or biennial report on “The State of Provincial and Local Government Finances in Nepal.”

1.207 The Secretariat of the Fiscal Commission must have a level of staffing and technical capacity adequate to carrying out the research, evaluation, and monitoring tasks laid out in the Constitution. As part of this activity, a high priority should be placed on the development of a database to begin evaluation of the impacts of the present system, particularly the equalization grants. The development of the fiscal decentralization regimes in Indonesia, Kenya, and South Africa are examples of how monitoring and evaluation can enhance the success with putting such programs in place (see Boxes 6, 7, and 9).

1.208 A key question for the Fiscal Commission to continuously ask and answer is whether the intergovernmental transfer system is in step with the provisions of the Constitution that urge both fiscal autonomy and equalization for PLGs. Among the issues to be investigated are the extent to which local government expenditures are mandated vs. discretionary under the current system,⁷⁰ what kind of fiscal disparities have emerged in the first two years of operation, whether the present formula-based system is unduly complicated and whether it gives biased results that are in step with its objectives, and what implicit incentives are imbedded in the present system. These issues are outlined in Box 17.

⁷⁰ For example, local government fiscal autonomy can be limited by conditional grants, civil service rules that limit discretion of subnational governments to hire and fire their employees, and central government-determined compensation rates and work rules for local government employees.

Box 17: Formula Allocations

Some have argued that the present system of formula-based equalization and conditional transfers is biased in favor of smaller (population) local governments and against more urbanized local governments. This is in part due to the weight given to population in the distribution formula and to the inclusion of a lump sum component to take account of fixed costs. We use data from FCGO to study this argument. (It should be noted that tax-sharing grants are not included in this analysis.)

Equalization Grants

The Constitution has labelled one category of intergovernmental transfers “equalization transfers,” and has defined equalization in terms of the gap between revenue potential and expenditure needs. But the Constitution stops short of defining the exact equalization formula to be used. Typically, an equalization grant is thought of as being one that reduces the gap between a jurisdiction’s expenditure needs and its capacity to finance those needs, both measured at “normal” levels of effort. It would be distributed in such a way as to fund local governments to a point where disparities in this gap are reduced to some minimum acceptable level (Bahl and Bird, 2018, Chapter 7). This is also the approach taken in Nepal. Equalization grants tend to focus on those functions identified in schedules 6 and 8 of the Constitution. The practice in Nepal would appear to use population size, land area and certain cost, poverty or development-related indicators as measures of this needs-resources gap and to distribute grants. In Box Table 1, we show that the average per capita expenditures of metropolitan and sub-metropolitan local governments are lower than those of other local governments in the system. We test this relationship further with a (log-linear) regression analysis on 753 local governments which shows (Box Table 2) that local governments with smaller populations, larger land areas, and more wards receive significantly larger per capita equalization transfers. Note that this result may be perfectly consistent with the goals of equalization implied by the Constitution and defined by the NNRFC secretariat.

Box Table 1: Grants in FY 2017/2018, by Type of Local Government (unweighted average)

	Per capita equalization grants received	Equalization grant utilization rate	Per capita conditional grant revenue	Conditional grants’ return rate
Metropolitan city	2,088	92.38%	1,565	2.24%
Sub-metropolitan city	3,178	82.09%	1,888	5.31%
Municipality	5,228	81.28%	3,320	3.36%
Rural municipality	8,919	82.13%	4,741	4.37%
All municipalities	7,428	81.90%	4,153	4.00%

Box Table 2: Regression Analysis by Category of Intergovernmental Grants

	Per capita equalization grants received	Per capita conditional grant revenue	Per capita total grant revenue
Intercept	6.170*** (0.032)	6.032*** (0.111)	6.456*** (0.042)
Metropolitan or sub-metropolitan status	0.011 (0.011)	-0.103*** (0.040)	-0.034** (0.015)
Population size	-0.609*** (0.007)	-0.656*** (0.023)	-0.636*** (0.009)
Land area	0.129*** (0.004)	0.118*** (0.015)	0.121*** (0.006)
Number of wards	0.009*** (0.001)	0.023*** (0.002)	0.014*** (0.001)
Adjusted R Square	0.967	0.694	0.943

Note: Except for the number of wards and the dummy for metropolitan and sub-metropolitan municipalities, all variables are expressed in logarithms. Therefore, coefficients at such variables reflect percentage difference in grants per capita associated with percentage differences in the independent variables. The coefficient at the number of wards reflects percentage difference in grants per capita associated with having one additional ward in a municipality. The coefficient at the (sub-)metropolitan city reflect percentage difference in grants per capita relative to the average amount in other local governments. Estimation is by ordinary least squares. Standard errors are in parentheses; asterisks indicate significance at the one percent (***) and five percent (**) levels

Box 17: Formula Allocations, continued

Conditional Grants

We have carried out the same analysis for conditional grants, which are distributed to cover the costs of transferred local functions, the costs of maintaining national standards, and costs associated with legacy projects. Again, the average values for per capita conditional grants are higher for local governments with a smaller population (Box Table 1). The regression analysis (Box Table 2) shows a bias in favor of local governments with a smaller population, and also shows that even after the population size effect is taken account of, there is a further dampening effect of the per capita conditional grant received by metropolitan and sub-metropolitan local governments, receiving about 10 percent less per capita than other municipalities with the same population, land area, and number of wards. In part, however, this result reflects the large number of legacy projects in smaller municipalities that will be completed during the transition period.

Total Grants

The results for per capita total grants show, as expected, a bias in favor of local governments with smaller populations and show that even if population size and land area are taken into account, metropolitan and sub-metropolitan local governments receive a 3.4 percent smaller per capita amount of revenue from intergovernmental transfers (Box Tables 1 and 2).

One cannot draw normative conclusions from this analysis. Clearly, there is a bias in the distribution against larger and more urbanized local governments. But this might not be unfair. If the distribution formula includes indicators that fairly reflect disparities in fiscal capacity and fiscal needs, the resulting allocation of grants among local governments may be in step with objectives for the transfer system. Particularly if indicators of physical and human development indeed reflect lower expenditure needs and higher revenue potentials, then the anti-urban bias might be justified. It is therefore not peculiar that the equalization grant, while explicitly taking into account indicators of physical and human development, disadvantages metropolitan and sub-metropolitan local governments compared to other municipalities of similar population and land area. Finally, there is also the question of changes in the system that are taking place, including the completion of legacy projects in smaller areas and changes to the distribution formula that have been taking place.

Source: Prepared by the study team based on FCGO data

1.209 The Constitution appears to leave open some decisions about how the NNRFC will function, though it is clear about limiting the terms of the members to six years with no possibility of reappointment (Art. 250, 251). Within these constitutional constraints, the international experience can be useful to helping the NNRFC design its operations. One option is the Indian model where the commission sits every fifth year, makes a one-time recommendation, and then dissolves. This has the advantage of offering some continuity in the intergovernmental transfer system and lessens the annual disruptions in fiscal planning. The other model is a permanent sitting commission that makes recommendations every year on the vertical and horizontal sharing arrangements for intergovernmental transfers. This has the advantage of allowing the commission to regularly tune the system and allows the secretariat to stay on top of the necessary analysis. The Nepal system has elements of both approaches in that it features a permanent commission, but its members have finite terms of service.

1.210 The NNRFC in Nepal will have more influence over intergovernmental transfers than is the case in the other countries reviewed in Box 6.

“The amount of the fiscal transfer, the province and the local level entities are to receive, shall be as recommended by the National Natural Resources and Fiscal Commission” [Art. 60 (3)].

1.211 This feature of binding recommendations is almost certain to be a contentious issue in the future. If the NNRFC mandates the level and distribution of intergovernmental transfers to PLGs, it dramatically limits the authority of Parliament to make decisions about the level at which local governments will be financed and about the degree of equalization among PLGs. It also limits the ability of the Ministry of Finance to shape the national budget envelope.

LOCALLY RAISED REVENUES

1.212 Schedules 6 and 8 in the Constitution of Nepal, and the Intergovernmental Financial Management Act describe and elaborate on the exclusive and concurrent lists of revenue instruments available to provincial and local governments. Three characteristics of this limited discretionary revenue-raising power of PLGs might be remarked on.

1.213 First, it is not at all unusual for PLGs in low-income countries to be given only limited taxing powers and for the right to tax the more broad-based consumption, income, and international trade taxes to be reserved for the central governments. In some decentralized federations in low- and middle-income countries, the share of taxes raised by PLGs is relatively small, e.g., India and Pakistan (see Box 18).

Box 18: Local Government Revenues Mobilization Should Be Encouraged

Local government revenue mobilization has been a tough sell in low- and middle-income countries everywhere, and especially in Asia. In developing countries, the share of subnational government taxes is equivalent to about 2.5 percent of GDP. In part, this is because subnational governments tend to be left with taxes and charges that are unpopular, difficult to administer, or narrow enough in base that they do not have very great revenue potential. Moreover, elected local officials are usually much more comfortable championing additional grant money than imposing taxes on their constituents.

In fact, some revenue sources with good potential have been assigned to the local governments by the Constitution. Property tax revenues raise an amount equivalent to only about 0.5 percent of GDP in low- and middle-income countries, largely because of low valuation rates and low collection rates. Motor vehicle taxes are potentially productive but the most lucrative tax base (motor fuels) is off limits to most local governments (and taxpayer resistance is often fierce). User charges, though they have great potential, rarely recover full costs.

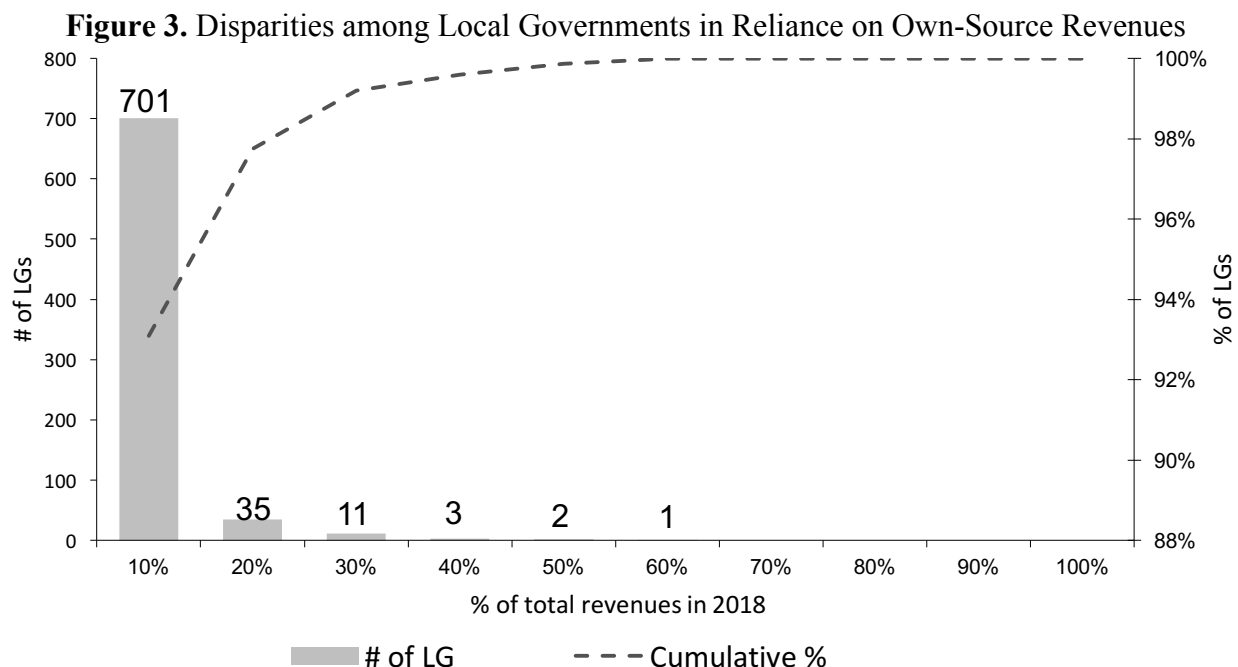
There are a few success stories with local revenue mobilization in developing countries, but where this happens, it tends to be the case in more urban or more advanced low- and middle-income countries such as South Africa, Brazil, Colombia, and Argentina. Still, there are relatively good prospects that land and property taxes, motor vehicle taxes, and user charges can have considerable potential for success.

Sources: Bird (2000); Smoke (2014); Martinez-Vazquez and Timofeev (2010)

1.214 Second, it is unusual in poor countries for PLGs to be given significant power to structure the rate and bases of PLGs taxes. Within some constraints (no poaching on tax bases reserved for another sphere of government) and a constitutional interstate commerce clause (Art. 236), the local governments in Nepal may pass their own tax laws and (apparently) have some rate and base setting discretion. However, the detail of these laws and the amount of autonomy that the local governments will actually carry remain to be tested. The FACN survey reports that one-third of local governments have not yet passed their acts on integrated property tax or revenue allocation.

The Constitution empowers the NNRFC to make recommendations concerning the mobilization of revenues by provincial and local governments (Art. 251 (g)).

1.215 Third, while PLGs will not have access to broad-based national taxes, some of the local sources that have been assigned to them have good revenue potential, especially in the more urbanized areas. These include taxes on real property and real property transfers, taxes on motor vehicles, certain user charges, and even business taxes. Particularly in the case of land and property taxes, some developing countries have made good strides in the direction of improving their revenue potential.⁷¹



Source: Prepared by the study team based on FCGO data

1.216 In most municipalities, own sources account for less than one tenth of their total revenues (Figure 3). However, metropolitan cities on average raise one third of their revenue from own sources (Tables 12, 13). By contrast, sub-metropolitan cities can only raise on average one tenth of total revenues from own sources. Even among metropolitan cities, there are huge disparities in the contribution of own sources revenues ranging from only 16 percent in Bharatpur and Birgunj to 51 percent in Kathmandu. Similarly, among sub-metropolitan cities, there are large disparities in the contribution of own sources revenues ranging from only 4 percent in Jitpur Simara to 20 percent in Butwal. Furthermore, while rural municipalities raise on average only one percent of total revenues from own sources, there are a few where this share is over one third (e.g., Khumbupasanglahmu in Solukhumbu district).

⁷¹ Franzsen and McCluskey, 2017; Smolka, 2013.

Table 12: Composition of Revenue in FY 2017/2018, by Type of Local Government
(Rs/person)

	Tax	Non-tax	Other OSR	Equalization Grant (federal)	Conditional Grant (federal)	Other grants	Total
Metropolitan city	1,349	496	10	1,813	1,364	95	5,127
Sub-metropolitan city	392	261	98	3,164	1,798	240	5,953
Municipality	232	231	22	4,698	2,824	114	8,123
Rural municipality	66	92	10	6,760	3,668	54	10,651
All LGs	283	206	21	5,105	2,942	98	8,654

Source: Prepared by the study team based on FCGO data

Table 13: Composition of Revenue in Cities, FY 2017/2018, Rs/person)

Name	Tax	Non-tax	Other OSR	Equalization Grant (federal)	Conditional Grant (federal)	Other grants	Total
Biratnagar	926	170	116	2,271	1,464	0	4,946
Birgunj	543	216	0	2,461	1,524	0	4,744
Bharatpur	1,004	13	0	2,569	2,078	613	6,278
Kathmandu	1,253	844	0	1,142	879	8	4,126
Lalitpur	1,300	944	0	1,739	1,094	171	5,248
Pokhara Lekhnath	2,574	0	0	2,344	2,097	0	7,015
All Metropolitan cities	1,349	496	10	1,813	1,364	95	5,127
Itahari	775	12	0	2,765	1,665	67	5,283
Dharan	252	523	741	2,981	1,422	1,323	7,243
Kalaiya	0	402	0	3,321	1,982	0	5,705
Jitpur Simara	0	221	0	3,829	1,787	0	5,837
Janakpur	312	0	0	2,708	1,653	145	4,818
Hetauda	522	586	8	3,077	2,533	66	6,792
Nepalgunj	368	434	106	3,047	1,679	0	5,635
Ghorahi	395	0	3	3,670	2,077	0	6,145
Tulsipur	405	6	157	3,630	1,860	0	6,058
Butwal	847	445	85	2,670	1,354	1,053	6,454
Dhangadhi	322	305	0	3,261	1,698	7	5,594
All Sub-Metropolitan cities	392	261	98	3,164	1,798	240	5,953

Source: Prepared by the study team based on FCGO data

1.217 There is a place for local government taxation in Nepal's fiscal system, particularly for urban local governments and provincial governments⁷². It is estimated that urban areas account for about 62 percent of gross domestic product (GDP), their economies are growing faster than those in the rest of the country, and the incidence of poverty in urban areas has decreased significantly during the last decade.⁷³ As GDP and economic activity increases, so too will the potential tax bases. Though there are problems to be addressed, the expenditure delivery systems in the urban local governments are stronger, as indicated by the FCNA survey results. However, some sub-metropolitan cities have larger gaps in terms of staffing, training and thematic legislation than an average rural municipality.

1.218 The stimulation of local government revenue mobilization in the urban areas could relieve some of the pressure on intergovernmental transfers. Such a policy could be growth enhancing if

⁷² The FCNA survey results highlight that: (i) most LGs distinguish between tax and non-tax sources of revenues in their accounting for revenues, and most have studied their revenue structure, though rural municipalities have lagged in this area; (ii) the rate of collections of own-source revenues against the budget estimates, for all municipalities, is about 72 percent; and (iii) 79% of LGs have studied local revenue sources

⁷³ Muzzini and Aparicio, 2013 as reported in World Bank, 2018.

the urban local governments are more efficient in their spending patterns and budget management, and if public investments in urban areas are more productive than those in rural areas and smaller municipalities.

1.219 Under the present intergovernmental fiscal structure, there are few significant incentives to induce provincial or local government officials to be aggressive about imposing taxes. In fact, there are notable disincentives, including the reticence of elected local officials to impose taxes on their constituents. NNRFC might consider introducing incentives for increased use of local taxing and user charge powers. This could include, for example, performance grant distributions that would penalize urban local governments that did not reach “threshold” levels of local taxation. In this regard, local taxes might be viewed as a kind of general user charge for the provision of higher levels of public services in higher income areas. It would have the added advantage of enhancing accountability.

1.220 The FCNA survey results highlight some of the important considerations surrounding tax revenue mobilization by local governments in Nepal. Most local governments distinguish between tax and non-tax sources of revenues in their accounting for revenues, and most have studied their revenue structure, though rural municipalities have lagged behind in this area. Most local governments did not respond that they used a (computerized) revenue management system.

1.221 The rate of collections of own-source revenues against the budget estimates, for all municipalities, is about 72 percent. Only 35 percent of the metropolitan and sub-metropolitan cities think the revenue collection process is client friendly and municipalities and rural municipalities are even more negative. All metropolitan and sub-metropolitan cities have commercial banks but only 13 percent of rural municipalities do. Much of the revenue is collected in cash, e.g., 53 percent in the cities. Most metropolitan and sub-metropolitan cities make daily deposits of these collections, but about one half of the municipalities do not. Most local governments do not have a revenue improvement action plan.

Box 19: Significant and Recent Achievement on Political Governance and Administration in Nepal

The Functioning of Local Governments. The creation of political and administrative structure of subnational governments have been essentially completed. LG Assemblies and executives were elected. Nepalis are now represented and empowered. Approximately 36,639 representatives including chairperson, vice-chair person and ward chair persons and council members were elected in the 753 LGs. Women and disadvantaged people are now represented. Every Mayor / Deputy Mayor; every local assembly has women. Every LG has representation for disadvantaged communities. The FCNA survey results show that provincial and LGs are settling in and taking up their responsibilities. Elected leadership is in place with significant and legally mandated representation of women and Dalits on the councils at both the provincial and local levels. Many LGs are dispatching their duties in a competent manner. Nearly all assemblies (96%) have passed regulations on the operation of the assembly and attendance at the most recent LG assembly meetings was about 90% across the board. About 89% of LGs reported the assembly meetings always had an agenda circulated prior to the meeting.

Box 19: Political Governance and Administration, continued

The Executive Council. The LG executive council has met in all LGs, with an average of 14.5 meetings per LG. More 70% of LGs “always” prepared and shared agendas in advance of the meetings. Most assemblies have created the eight committee types surveyed, with at least 88% having created judicial, legislation, resource projection, revenue, and budget committees.

Local Assembly. The assembly meetings are taking place with about the same frequency in all LGs, and the meetings are reported to be well attended. Provincial governments have been passing thematic laws (mostly concerned with social development) and issuing regulations (mostly concerned with land management, agriculture, and cooperatives). The literacy rate of assembly members is over 90 percent. Female and Dalit members are reported to participate in the assembly deliberations. Most SGNs have a capital budget that lists projects by sector and wards, and budgets were approved on time.

Judicial Committee. Almost LGs have formed a Judicial Committee and more than three quarters (77 %) of LGs have prepared manuals or guidelines for the committee. About 71 % of deputy mayors have had training on judicial affairs.

Sectoral Committee. Almost all LGs have formed the sectoral committee with responsibilities allocated among Ward Chairs. These Committees have taken responsibilities of major social, economic and infrastructure sectors at local level.

Planning and Budgeting. At least 80% of LGs have sector-specific plans for education, health, agriculture, roads, drinking water and disaster preparedness. At least 90% of LGs completed all seven steps in the planning process and given budget ceilings to wards. Nearly all (88%) of LG included both federal and provincial Conditional Grants in their budget plans. Around 90% of LGs did not have to make any changes to the approved budgets because of changes to Conditional Grants. About 77 % of local governments distinguish tax and non-tax sources of revenue in their budget estimates. Nearly all (96%) of LGs have an annual investment plan. For those local governments that have a multi-year development plan, in 80% of cases it is the basis for their annual capital budget. In about 90% of LGs capital investment plans are broken down by sectors and wards.

Ward Administration. Almost all LGs reported there was a clear allocation of authority between the LGs and the wards. The ward chairs were clear about their roles in 82% of all LGs, and 93% of LGs reported that wards are involved with monitoring LG services.

Disaster risks management (DRM). Many LGs (77%) have incorporated DRM into their organizational structures. In Provinces 1 and 5, 67% and 72% of LGs respectively have established written cooperative agreements with other LGs to address common DRM issues.

Education. Nearly all (98%) LGs have incorporated education into their organizational structure and 95% have teacher/staff salaries and wages in their budgets, while 70% have a capital investment plan in place. Nearly all LGs (92%) have schools in their annual operation and maintenance plan and have a capital investment plan for the education sector (95%).

Basic Health Services. Nearly all (97%) of LGs have the health services function incorporated into their organizational structure. Almost all LGs (91%) own the health services infrastructure. Overall, 71% of LGs include health-related infrastructure in their asset records, though it is much more likely in cities (94 %) and the HEZ (88%). Almost all LGs (93%) include salaries and wages of health workers in their budgets, and 84% include health centers in their O&M plans. About 82% of LGs have a capital investment plan for health services, while 84% monitor the performance of their health services sector.

Box 19: Political Governance and Administration, continued

Social Development. At least 95% of LGs have incorporated the governmental functions regarding vital registration, women, children, senior citizens, and social welfare into their organizational structures. Sports have been incorporated by 84% of LGs and 81% of youth. Most (89%) LGs include spending for social development in their budgets.

Economic Development. At least 85% of LGs incorporated cooperatives into their organizational structure, 70% have incorporated local market management, 56% micro-enterprises, and 55% economic data collection. Economic development plans were in place in 63% of LGs. Most LGs partner with the federal government and provinces on economic development in a variety of ways, with most (89%) doing so through budget allocations and a large portion (71%) sharing information. At least 76% LGs work with federal and provinces on economic growth, poverty alleviation, and SDG localization through the national plan, while 61% work through the provincial plan and 74% have their own plan.

Agriculture. A large proportion of LGs indicated that key agricultural functions/offices were transferred to them and incorporated into their organizational structure. LGs are more likely to work with federal and provincial governments through allocations in the federal government, with 77% using this method, while 68% used information sharing.

Roads. Nearly all (97%) of LGs have incorporated local roads into their organizational structure, and 85% have incorporated rural roads. Most LGs (82%) work with the federal and provinces through the federal budget allocation, while 78% use provincial budget allocations, 66 percent joint partnerships, and 62 percent information sharing. Although 70% of LGs have prepared a road inventory, 81% have road maintenance in their O&M plans and 73% have prepared an annual maintenance plan.

Gender Equality and Social Inclusion (GESI). At least 80% of LGs have GESI policies, including those for children, senior citizens, and the differently-abled, and for ensuring women's participation in LG activities. Nearly all LGs have included GESI in their budgets and through inclusiveness that encourages the participation of women, senior citizens, and ethnic and disadvantage groups.

Engaging citizens and non-government actors. Local governments engage outside organizations in budget preparation at generally high but varying rates, with local business chambers and civil society/NGOs the highest at 83% of LGs. Fewer LGs engage community associations or other public institutions (76% and 64%, respectively). Most LGs (83%) have a grievance redress mechanism. These LGs use designated officials and complaint boxes most often (86% and 83%, respectively), followed by public hearings (75%), social media (64%), social audits (61%), and complaint registers (51%). Nearly 70% of LGs conducted a social audit for the recent fiscal year.

Capacity building for federalism is also strongly supported by Local Government Associations (Association of District Coordination Committees of Nepal (ADCCN), Municipal Association Nepal (MuAN) and National Association of Rural Municipalities (NARMIN). This involves orientation for elected representatives on their role and responsibility.

2. THE NEEDS CAPACITY GAP FOR PROVINCIAL AND LOCAL

GOVERNMENTS

ASSESSMENT RESULTS

2.1 The project carried out field work to better understand the current state of operations and finances and to get a general sense of capacities of both provincial and local governments. Given the small number of provinces, their existing capacity was assessed through interviews carried out by international and local members of the study team in all seven provinces. By contrast for the local tier, a sample survey approach was used to indicate capacity needs.⁷⁴

I. THE NEEDS CAPACITY GAP FOR PROVINCIAL GOVERNMENTS

ASSESSMENT METHODOLOGY

2.2 Provincial governments are new in Nepal, even more so than local governments, which built on existing VDCs and municipalities and had their elections held six months before provincial assemblies were elected in December 2017. The Provinces are governed by elected Assemblies. While they are an independent tier of PLGs, there are some hierarchical relationships with local governments. These include at least provincial grants to local governments and eventually provincial service commissions to handle recruitment of both provincial and local staff. This suggests that provincial governments need capacity to manage and monitor their intra-provincial intergovernmental relations as well as some capacity to manage their own service delivery responsibilities and revenue collections.

2.3 The population range of the seven provincial governments is shown in Table 14.

Table 14: Population of the Provinces of Nepal

Province	Population	Number of LGs
Province 1	5,064,175	137
Province 2	6,028,371	136
Province 3	6,040,691	119
Province 4 Gandaki	2,614,823	85
Province 5	4,924,135	109
Province 6 Karnali	1,706,419	79
Province 7 Sudur Paschim	2,760,179	88
Total	29,138,793	753

Source: MOFAGA, Government of Nepal

2.4 The analysis of provincial government capacity was carried out as follows. First, key types of the core administrative capacity were identified for provincial governments to attain the basic levels of administration and to maintain accountable and effective service delivery. These were

⁷⁴ A fuller discussion of the research methods used in the survey is described in NASC (2019).

primarily derived from the roles and scopes of responsibilities laid out for the provincial tier in the Constitution and further elaborated in the Unbundling Report, subsequently operationalized through various guidelines, such as the business allocation rules (model) of the province. Because, at the time of the assessment, all provinces followed the same interim organizational structure with six ministries and two secretariats for the legislative and executive branches respectively, data collections covered each of those eight offices in each province.

2.5 Given the small number of provinces, the existing capacity was assessed through field visits carried out by international and local members of the study team to all seven provinces. These field visits relied on semi-structured face-to-face interviews with various provincial officials (both elected and appointed), thus allowing for gathering qualitative data and probing and expanding on issues. Before the field visits, an interview guide had been developed listing the key questions for the interview related to various kinds of capacity covered in the TOR. When records on existing physical and human resources were not readily available during the interview, they were subsequently provided to the team by phone or in a written form.

2.6 The following are some of the key areas:

1. Is the administrative infrastructure that supports provincial governments adequate? This includes buildings and office space, IT, other communications and transport.
2. Is the legal framework in place (Acts, rules and regulations, guidelines, etc.)? Are administrative and operating procedures in place to support the execution of provincial government functions, procurement, and the like? Is an approved organization structure in place?
3. Which positions in the interim organizational structure were filled with seconded and locally contracted staff at the time of the interview? Are there job descriptions for units and individual positions within each unit?
4. Provincial and local financial management and practices were examined including budget preparation and execution, financial reporting and local revenue mobilization.
5. Procurement systems were examined in terms of whether a procurement officer is in place, whether the process is transparent, whether there is a mechanism to assess suppliers and payment history.
6. The availability of the operations and maintenance plan, and a capital budget, and provision for performance monitoring were examined.
7. Some aspects of accountability were examined, including whether systems are in place for prioritizing services, whether service levels are monitored and whether grievance procedures are in place.
8. We also attempted to assess social inclusion policies in terms of procedures to guide these. Gender equity and social inclusion are highly valued principles of the Constitution of Nepal. The team examined certain GESI structures and processes that are in place in the provincial governments for institutionalizing inclusion, including what is planned for furthering the role of women and protected classes in governance. The responses might reflect the extent interviewees (from the Office of the Chief Minister) were aware of such procedures. Given the frequent turnover of seconded staff, it is possible that some interviewees were not aware of some procedures formally in place but not followed in practice. Since GESI should be embedded in key processes, it was our deliberate choice not to approach it as a program by directing these questions to thematic sections.

ASSESSMENT RESULTS

2.7 Overall, there are many commonalities across provinces in terms of existing capacities and need gaps. After all, all provincial administrations were set up recently by the federal government using the same interim organizational structure and staffed with civil servants seconded from the federal level. Despite these similarities, the interplay of the common arrangements with diverse settings of different provinces led to idiosyncratic gaps in a few specific areas. Immediately below we provide more details on those specific gaps.⁷⁵

Administrative Infrastructure

2.8 To understand the physical and hardware needs of provincial governments, in each province we took stock of existing assets, including office space, transportation, IT equipment, software and application, and communication systems. The adequacy of existing infrastructure was assessed in terms of the ability of provincial governments to discharge their functions in their current locations.⁷⁶

2.9 With a few exceptions, provincial governments do not own their office space. In most cases, they are allowed to use existing federal (or in a few cases municipal) buildings without having to pay any rent. Given the current vacancy levels (which range between one quarter and one half of approved positions), the existing office space is generally sufficient and adequate for the existing staff. On average, there are fewer than two employees per room. However, in Provinces 5 and 6 one half of the ministries have office space below required size or quality. In Province 5, one ministry has to rent office space for one half of its staff, as well as a meeting hall from a hotel when required. The availability or size of meeting rooms is an issue in a number of ministries in Provinces 2, 3 and 5. In particular, more than one half of provinces do not have adequate space to accommodate meetings of provincial assemblies or cabinets.

2.10 Almost without exception, beyond the ground floor, provincial offices are not accessible for differently-abled individuals. Only in Province 5 is the situation different, with higher floors accessible with an elevator in one building shared between the Office of the Chief Minister and the Ministry of Finance.

2.11 Each province has between 30-50 four-wheel vehicles (sedans, vans, jeeps) and 50-90 two-wheel vehicles (motorcycles and scooters), with Province 6 having the least and Province 5 having the most. This translates into roughly one car and two motorcycles/scooters per seven existing employees.

2.12 Generally, most ministries in all provinces have access to electricity, telephone and internet. However, Province 4 experiences frequent blackouts. In Province 2, three ministries do not have functioning landline phone connectivity, some due to road construction.

2.13 Currently, provincial governments do not practice a long-term (lifecycle) approach in determining asset operations, maintenance, renewal, and development strategies. To begin with,

⁷⁵ Since the interviews with provincial officials took place in the span of three months from December 2018 to March 2019, some differences in responses reflect different time passed since provincial elections.

⁷⁶ In some provinces, a final decision about the location of the capital has not yet been taken.

they do not even have ownership titles for the buildings that they are currently occupying. While they have paper-based systems to keep an inventory of other assets, they do not record data that could be used for scheduling or recording maintenance work performed and needed. However, a few ministries in some provinces (e.g., Province 6) have started to digitize their asset inventories. There are no procedures in place to collect data on operating and maintenance costs for major asset items. There is no on-going preventative maintenance program that would provide information for scheduling of maintenance for major asset items. There is no system in place for monitoring and recording maintenance work performed and needed. They do not have a system or formal procedures for prioritization of preventive maintenance.

2.14 Beyond asset management, while provincial governments have a sufficient number of computers (one per essential staff),⁷⁷ those computers are not linked into a network that would allow staff access and manage integrated data systems. The only exceptions are the systems used for budgeting and accounting, such as NPSAS and SUTRA.

Legal Framework

2.15 While all provincial assemblies have been in place for over a year, they still face a backlog of thematic legislation tabled by various provincial ministries. In each provincial assembly, about one third of members are female while the number of Dalit members ranges from two in Province 3 to eight in Province 5. All provincial assemblies passed a regulation on the management and operation of the Assembly and formed a number of committees, ranging from four committees in Provinces 6 and 7 to eight committees in Province 2. Several assembly committees are chaired by women in some provinces (e.g., Provinces 6 and 7).

2.16 Provincial assemblies are functioning and dispatching their duties in a competent manner. Thus, in the last 12 months, the numbers of days that provincial assemblies were in session ranged from 33 days in Province 2 to 74 days in Province 1. In the last meeting, attendance ranged from 53 percent in Province 3 to 95 percent in Province 7. Female and Dalit members participate in the deliberations of provincial assemblies and their committees.

2.17 All in all, since election, provincial assemblies passed on average 20 laws, with the number ranging from 16 laws in Province 2 to 28 laws in Province 3. Most of the thematic laws concerned social development while most of regulations concerned land management, agriculture and cooperatives.

Administrative and Operating Systems and Procedures

2.18 Since provincial administrations were created from scratch in 2017, they have been following the uniform interim organizational structure developed for them by the federal government. Not a single province has yet conducted its own operations and management (O&M) survey to develop its own organizational structure. However, in Provinces 5, 6 and 7, provincial

⁷⁷ In Province 7, we were told that each assembly member requested a laptop from the secretariat. In addition to computers used by provincial staff, there might be a need for dedicated units to be made available to assembly members.

ministries proposed modifications to the interim organogram without undertaking a formal O&M study.

2.19 In each province, the cabinet met between 30-45 times in the course of the last year. Agendas for cabinet meetings were generally circulated one day ahead of the meeting. In each province, the executives established between 3-5 committees.

2.20 In each province, the Inter-Provincial Council met at least once in the last two years but nowhere more than two times.

Human Resource Management and Development

2.21 While the organizational structures have been more or less uniform across provincial administrations in the interim period, there are differences in vacancy rates, ranging from one quarter of approved positions in Province 4 to one half in Province 7. Across provinces, this adds up to about 1,000 vacant positions in public administration (that is, excluding service centers, such as veterinarian clinics). On average, 15 percent of existing staff are contracted, primarily for support roles, such as office assistants and drivers, but a few are more skilled employees, such as computer operators.

2.22 Since all provincial administrations are currently staffed with civil servants seconded from the national government, they have not developed policy/guidelines for managing their staff, in terms of leave approval, performance appraisal, etc. Instead they have to follow the federal policies. However, some provinces developed their own policies for managing contractual staff (e.g., Province 5).

2.23 Only Province 1 has job descriptions developed for all positions in all provincial ministries. Most provinces have descriptions of roles and responsibilities for various sections within provincial ministries but not for individual positions. However, many provinces are planning or are in the process of developing job descriptions for individual positions and already have it done for at least one ministry in each province, except Province 4.

Provincial Financial Management System and Procedures

2.24 At the time of the field visits, not a single province had a multi-year development plan ready, although most provinces had set the process in motion by forming a dedicated commission. Those provinces further ahead in this process held some public consultations at the district level. In all cases, the planning horizon is five years. With the exception of Province 3, provinces do not have any sector-specific plans either. All provinces have an annual investment plan, which are broken down by ministry.

2.25 For FY 2019/20, most provinces did not start preparing budget estimates until February 2019. As of March 2019, most provinces had not set budget ceilings for their ministries nor communicated to local governments the proposed amounts of conditional grants from the provincial budget. While SUTRA was used by most provinces to prepare the 2018/19 budget, at the time of the interviews, provinces were not sure which software and budget format to use for FY 2019/20. Province 1 was transitioning to the Nepal Public Sector Accounting Standards

(NPSAS). Province 3 was planning to use LMBIS. Provinces 5 and 6 were waiting for guidelines from the federal government.

2.26 While most provinces have a section dedicated to revenue collection, it is often understaffed and has to deal with other tasks. Furthermore, district land revenue offices collect the land transfer fee, and there appears to be dual subordination of these offices to both federal and provincial authorities.

2.27 Most provinces do not have any arrangements in place for internal audit (regulations, manuals, guidelines) and instead rely on federal legislation and guidelines.

Procurement and Contract Management

2.28 All provinces adopted their own procurement guidelines and standards. However, some seconded civil servants are more comfortable following the federal procedures. Half of provinces acknowledge having limited capacity for procurement. In particular, most provinces lack mechanisms to assess suppliers and their performance. There are no mechanisms for appeals against decisions made in relation to procurement other than the general grievance responding systems.

Gender Equality and Social Inclusion

2.29 No province has a comprehensive gender equality and social inclusion (GESI) policy. No province has a GESI strategy either. No province has a framework for promoting women's leadership in provincial governments. No province has ever conducted a GESI audit. However, some provinces have programs that target specific social groups, such as children, senior citizens, and differently-abled individuals.

Accountability and Transparency

2.30 Provinces use a variety of methods to make public the decisions of provincial assemblies, most commonly through their websites and press releases. There are also designated Information Officers in each Ministry. No province has prepared a Provincial Government Citizen Guide informing residents how to access provincial services. While expenditure statements are published on the provincial government websites at least quarterly,⁷⁸ not all provinces report revenues. No province publicizes its budget in a layman version ("Provincial Government Citizen Budget") and interviewed officials do not appear to be familiar with this concept. While most provinces have some mechanism for responding to citizen grievances, its utilization and response rates varies.

II. THE NEEDS CAPACITY GAP FOR LOCAL GOVERNMENTS

ASSESSMENT METHODOLOGY

⁷⁸ The quarterly statements were produced by the Provincial Account Comptroller Office, setup by FCGO as its deconcentrated branch in each province to perform the treasury execution of budgets for provincial government in the interim period. Just like any other federal agency, Provincial Account Comptrollers are using the centralized Treasury Single Account (TSA) software.

2.31 The capacity of the 753 local governments to carry out their constitutionally mandated responsibilities was determined by examining a sample of 115 local governments using a detailed questionnaire. The questionnaire was administered on a face-to-face basis by trained enumerators recruited by NASC. The sample included all metropolitan and sub-metropolitan cities, as well as 98 units drawn from other types of local governments using stratified random sampling. Responses were captured using a phone app – CAPI – and uploaded to a NASC central database.

2.32 The sampling frame for selecting the 98 sites was the 736 local governments, including 276 municipalities and 460 rural municipalities (see Annex B for more details). The stratifications were by the seven provinces and by municipality/rural. The sample size for each subgroup was proportional to the share of that subgroup in the total list of all local governments excluding cities. Eventually, 36 municipalities and 62 rural municipalities were selected, with at least 10 local governments selected per province.

2.33 The questionnaire included more than 300 questions, many with multiple parts, divided into 21 categories (see Annex B for a complete list of questions). The questions were developed by the research team with input from NASC, Nepali government officials, and development partners. The questionnaire covered a wide range of local government activities, including: physical infrastructure, such as building, IT equipment, and vehicles; political governance issues, including the make-up of executive and legislative (assemblies) bodies; judicial practices; human resource management; finance and planning, including tax and revenues and financial management processes; procurement; ward administration; land administration; disaster risk management; education; health services; social and economic development; agriculture; environment; water and sanitation; roads; gender equality and social inclusion; and accountability and transparency.

ASSESSMENT RESULTS

2.34 Capacity was examined using all local governments in the sample, and then by the seven provinces; metropolitan/sub-metropolitan city, municipality and rural municipality; and by three ecological zones: Himalayan, Hilly, and Terai. Capacity varied substantially across provinces and type of municipality and zones.⁷⁹ However, some patterns have emerged that tell the story of differentiated local government capacity. Not all of the more than 300 questions are addressed in this summary; questions were selected based on their contribution to the overall story of local government capacity.

Physical Infrastructure

2.35 More than one half (54 percent) of local governments owned at least some of their buildings, including 17 percent that rented additional space, and 4 percent that were temporarily using other public buildings. Out of those who did not own any buildings, over 80 percent had to rent at least some of the office space. Differences in ownership are most evident by type of

⁷⁹ Using a survey for the assessment of nationwide capacity gaps can be scientifically justified with the large sample size (“the law of large numbers”). However, given that only about ten local governments are sampled per province, one should disregard small differences observed among provinces as those could represent merely a sampling error. Findings of large differences among provinces can inform geographic targeting of relevant interventions.

municipality, with all cities owning buildings, while only 38 percent of rural municipalities owned buildings (see Table 15).

2.36 About 70 percent of cities felt that their building could accommodate an assembly meeting, but only 39 percent of municipalities and 61 percent of rural municipalities felt this to be the case.

2.37 Almost half of local governments (47 percent) have office building construction going on, a portion that is approximated across most comparisons, except in the Himalayan ecological zone (HEZ) where only 24 percent of local governments had construction projects and Province 6, with only 10 percent of local governments reporting construction. Surprisingly, construction takes place in less than one half of local governments without any building but in more than half of local governments that already own some building. As might be expected, cities have much higher room counts for their buildings – 63 on average – than municipalities (17) or rural municipalities (14). For a reference, cities also have larger staff, on average 369, than municipalities (68) or rural municipalities (44). Thus, more urbanized local governments appear to have more crowded offices. Few local governments have accommodations for the differently-abled, with only one HEZ local government having accommodations and only 5 percent of local governments in Province 2 having them.

Table 15: Owned vs. Rented Local Government Buildings, Average Rooms

	Buildings Owned	Buildings Rented	Average Number of Rooms
Cities	100%	18%	63
Municipalities	61%	56%	17
Rural	38%	64%	14
All	54%	54%	22

Source: Estimated by the study team based on a representative survey of local governments.

2.38 Most local governments (82 percent) are connected to the national grid; although Province 6 has only 20 percent connected to the grid, all local governments have solar power in that province. Of the HEZ local governments, only 35 percent were connected to the national grid, with a greater reliance on solar (82 percent). Eighty-nine percent of all local governments have a back-up electrical system.

2.39 Local governments averaged 44 desktop computers and 17 laptops, with cities, and Terai ecological zones (TEZ) and Province 2 having more than their counterparts. Cities averaged 47 laptops and 199 desktops, compared to 14 and 24, respectively, for municipalities and 11 and 12 respectively for rural municipalities (see Table 16). Substantial differences were noted by ecological zone as well: TEZ local governments averaged 16 laptops and 68 desktops, compared to 14 and 13 for HEZ and 20 and 31 for the Hilly zone. Thus, unlike office space, the number of computers seems to be more aligned with the staff count, at least when compared across different types of local governments in terms of urbanization. Province 2 local governments averaged 103 desktops, about twice the next highest province’s number. The distribution for printers was similar, with cities averaging 96 per local government, while municipalities had 21 on average and rural municipalities 12.

Table 16: Average IT Equipment by LG Type

	Laptop Computers	Desktop Computers	Printers
Cities	47	199	96
Municipalities	14	24	21
Rural	11	12	8

Source: Estimated by the study team based on a representative survey of local governments.

2.40 Internet connectivity was high across Provinces 1-5, with at least 75 percent of local governments reporting a “functioning internet connection.” (Table 17). However, only half of local governments in Provinces 6 and 7 were connected, and only 41 percent of HEZ local governments, compared to 80 percent for Hilly and 90 percent for Terai. Nearly all (98 percent) local governments have access to cellular telephone networks, with 68 percent calling it reliable and another 25 percent calling it “somewhat reliable.” Only 10 percent of Province 6 local governments called their cellular connection reliable, while HEZ had 24 percent with reliable cellular connections and 51 percent of rural municipalities.

Table 17: Percent of Local Governments with Internet Connections and Reliable Cellular Connections, by Province

Province	Able to Connect to Internet	Reliable Cellular Access
Province 1	86	71
Province 2	90	81
Province 3	80	75
Province 4 Gandaki	75	83
Province 5	89	78
Province 6 Karnali	50	10
Province 7 Sudur Paschim	50	50

Source: Estimated by the study team based on a representative survey of local governments.

2.41 Nearly all local government centers were accessible by road, with only Provinces 6 and 7 reporting 10 percent or less without such access. One half of local governments have blacktopped roads to their centers, with about one quarter of HEZ local governments and rural municipalities having blacktop roads. Provinces 2 and 6 had the lowest portion of local governments with blacktopped roads: 26 percent and 20 percent, respectively.

Political Governance

2.42 Mayors/Chairs are male in 97 percent of local governments, and deputy mayors/vice chairs are female in 92 percent of local governments. Just over one third – 38 percent – of assembly members are female, 21 percent are Dalits. There is little variation in these proportions across provinces, ecological zones or local government type. Further, nearly all (93 percent) of local governments reported that female members “always” participate in deliberations and 94 percent reported that Dalits “always” participated.

2.43 Nearly all assemblies (96 percent) have passed regulations on the operation of the assembly and attendance at the most recent local government assembly meeting was about 90 percent across the board. Eighty-nine percent of local governments reported that the assembly meetings always had an agenda circulated prior to the meeting, with only 4 percent saying an agenda was never provided prior to the meeting. While 90 percent of assembly members are literate, eight local governments have assemblies where less than half the members are literate. Provinces 2 and 6 had the lowest literacy rate among their assemblies, with 76 percent and 68 percent rates, respectively.

2.44 Most assemblies have created the eight committee types surveyed, with at least 88 percent having created judicial, legislation, resource projection, revenue, and budget committees. However, local governments in Province 5 have created the fewest committees, with only one-half having account and revenue committees and 61 percent having legislation, social affairs, administrative, resource projection, and budget committees.

2.45 About 20 percent of local governments, with the same proportion across all types, have reported a failure to implement some “model laws” because of a limited capacity for customization while only a quarter of local government having all model laws approved, with the rest claiming some model laws to be either low priority or not relevant (Table 18). In particular, less than half of all cities adopted a property tax act. Only half of metropolitan cities adopted a building code. Only 19 percent of rural municipalities customized each and every model law before adoption while another 65 percent customized some but not all model laws.

Table 18: Share of Local Governments that Adopted Thematic Legislation, by Function

	Metropolitan	Sub-Metropolitan	Municipality	Rural Municipality
Revenue Allocation	67%	45%	58%	73%
Financial Act	100%	100%	100%	98%
Business Allocation				
Regulation	67%	91%	83%	95%
Operation Regulation	67%	100%	92%	97%
Education	83%	82%	94%	94%
Market Monitoring	33%	82%	72%	55%
FM Radio'	33%	73%	56%	40%
Cooperative	67%	82%	86%	85%
Judicial Procedures	83%	91%	72%	95%
Agribusiness Promotion	67%	64%	56%	69%
Disaster Risk Management	50%	55%	67%	89%
Contract Licensing	67%	64%	78%	82%
Integrated Property Tax	50%	36%	69%	73%
Small Enterprises	17%	0%	25%	40%
Hiring Contract Employees	33%	64%	61%	81%
Local Energy Development	17%	9%	17%	11%
User Committee	33%	91%	86%	92%
Building Code	50%	73%	69%	44%
Other	50%	18%	56%	42%

Source: Estimated by the study team based on a representative survey of local governments.

2.46 In almost one half (48 percent) of local governments, assembly committees have never received status reports from their respective thematic local government sections, with another 27 percent getting them “sometimes.” While only 12 percent of city assemblies never received status reports, the figure was over 50 percent for municipalities and rural municipalities (see Table 19, below). Three-quarters of HEZ local assemblies never received status reports and in Province 6, 90 percent of local assemblies reported never getting status reports.

Table 19: Percent of Local Assemblies “Never” Getting Thematic Section Status Reports, by Type of LGs and Ecological Zone

Cities	12%		HEZ	76%
Municipalities	53%		Hilly Zone	47%
Rural	56%		TEZ	40%

Source: Estimated by the study team based on a representative survey of local governments.

2.47 Local governments were asked about the main 25 functions assigned in the Constitution to local government and whether they have been reflected in the organizational structure of local governments. At least 88 percent of local governments have created sub-government units for education, health, agriculture, environment, vital registration, and development and planning. On the other hand, less than one quarter of local governments have created governmental units for FM radio, alternative energies, forest/biodiversity, language/culture, and transportation. In general, local governments in the HEZ, rural municipalities and local governments in Province 6 had accommodated fewer constitutionally assigned functions in their organizational structure than their comparable cohorts.

2.48 The local government executive council has met in all local governments, with an average of 14.5 meetings per local government. More than three quarters of local governments “always” prepared and shared agendas in advance of the meetings, though less often in HEZ, rural municipalities and especially in Province 6, where agendas were prepared and shared “always” in only 30 percent cases.

2.49 More than half (57 percent) of local governments reported no disputes between ward chairs and mayors, though Province 6 has more disputes than other provinces, particularly around the devolution of authority and office location.

Judicial Practice

2.50 Only one local government has not formed a Judicial Committee. More than three quarters (77 percent) of local governments have prepared manuals or guidelines for the committee, with Provinces 2 and 7 lagging behind the others with 57 percent and 58 percent of local governments having prepared guidelines, respectively.

2.51 Very few deputy mayors, only 5 percent, have had any legal education. While 71 percent of deputy mayors have had training on judicial affairs, deputy mayors in Provinces 6 and 7 were less likely to have had training or legal experience than they were in other provinces.

2.52 Land disputes are the most common type of case registered to Judicial Committees, with an average of 15 cases per local government; only 14 percent of local governments have not had any land disputes (Table 20). Land disputes were, by far, more common in TEZ than other ecological zones, with an average of 27 cases per local government compared to seven in the Hilly zone and three in the HEZ. In fact, TEZ local governments were much more likely to have cases registered to the Judicial Committee than other ecological zones. Cities were also much more likely to have cases registered than were municipalities and rural municipalities. Cases were more likely to be settled by mediation in the TEZ local governments as well. One must note that municipalities and Terai local governments also tend to have a larger population size.

Table 20: Average Number of Cases Registered to Judicial Committee by Ecological Zone and LG Type

Case Type	HEZ	Hilly Zone	TEZ	Cities	Municipalities	Rural
Domestic Violence	3.6	5.5	13.8	19.2	8.3	6.1
Land Dispute	3.4	7.3	27	24.6	17.6	10.8
Loans	2.2	4.5	10.2	13.2	8.6	3.5
Public Property	0.8	1.1	7	9.3	3.5	2
Environment	0.2	0.3	1.2	1.8	1.1	0.2
Neighborhood Dispute	2.1	2.5	5.6	8.5	4	2.2
Violence/Verbal Abuse	1.6	2.6	3.6	3.4	2.9	2.7

Source: Estimated by the study team based on a representative survey of local governments.

Human Resource Management and Development

2.53 Table 21 shows that nationwide local governments have a shortage of human resources of about 5,500 compared to the number of positions envisioned in local government organizational structures (approved positions).⁸⁰ However, the magnitude of the shortage is somewhat masked by the 3,300 surplus in the “miscellaneous” category, which are mostly unskilled workers like cleaners, office assistants, and drivers. Two thirds of them are contract staff rather than permanent employees. The shortage of high-skill staff is even more striking as is shown in Table 22, which indicates the percent of vacancies by service group and type of municipality. One can see a particularly high vacancy rate for engineers: almost one half nationwide and over two thirds in sub-metropolitan cities. Surprisingly, vacancy rates increase with the level of urbanization. While small in absolute numbers, there is a surplus of health and livestock professionals, especially in metropolitan cities.

Table 21: Approved and Filled Positions Across 753 Local Governments

	Approved positions	Filled positions	Out of which	Adjusted	Deputed	Contract	LB Staff	Gap
General Admin.	20,043	16,232		145	7,746	4,825	3,517	3,811
Revenue/Account	2,714	1,880		5	1,443	139	293	834
Engineering	8,338	4,650		16	1,062	2,653	919	3,688

⁸⁰ Nationwide counts were derived from the sample using proportions of different strata in the total universe of all local governments.

Agriculture	1,890	1,750		3	796	839	111	140
Education	1,777	1,263		6	964	248	45	514
Law	307	190		0	29	112	49	117
Health	4,680	5,038		5	3,448	1,400	185	-358
Livestock	2,021	1,967		7	953	855	151	55
Misc.	9,004	12,268		21	1,777	7,980	2,490	-3,263
Total	50,774	45,237		208	18,217	19,052	7,760	5,537
Total w/o Misc.	41,770	32,970		187	16,441	11,072	5,270	8,800

Source: Estimated by the study team based on a representative survey of local governments.

Table 22: Vacancy (+) or Redundancy (-) Rate for Approved Positions, by LG Type

Category	Metropolitan	Sub-Metropolitan	Municipality	Rural Municipality	Total
General Admin.	21%	42%	21%	12%	19%
Revenue/Account	57%	50%	18%	34%	31%
Engineering	64%	74%	40%	35%	44%
Agriculture	20%	39%	11%	5%	7%
Education	59%	40%	30%	26%	29%
Law	30%	45%	58%	13%	38%
Health	-24%	-81%	4%	-12%	-8%
Livestock	-43%	7%	-2%	5%	3%
Misc.	-27%	-101%	-24%	-53%	-36%
Total	14%	34%	14%	4%	11%
Total w/o Misc.	55%	92%	29%	16%	27%

Source: Estimated by the study team based on a representative survey of local governments.

2.54 One should note that these numbers capture actually present staff, whether inherited from the defunct local bodies, seconded from the national civil service or, still very rare at the time of the survey, adjusted from the national into PLGs civil service. These numbers will not change as some of the presently seconded staff choose to adjust into PLGs civil service. The adjustment process can reduce vacancies only if it makes some civil servants reallocate from federal duty stations to PLGs ones.

2.55 According to Table 23, out of all local functions listed in LGOA, forestry and law are two that suffer most often from the lack of staff. In addition, there are shortages of technical expertise specific to different types of municipalities. Thus, rural municipalities have more acute challenges in the education and infrastructure sections. By contrast, for cities, more pressing needs are in IT, land/building, planning, and waste management.

Table 23: Proportion of Local Governments that See Services Disrupted/Lacking Due to Insufficient Staff, by Function

	Metropolitan	Sub-Metropolitan	Municipality	Rural Municipality	All LGs
Administration	33%	91%	81%	71%	74%

Plan	67%	91%	72%	76%	76%
Information & Technology	67%	73%	44%	53%	53%
Account	33%	64%	61%	61%	60%
Land/Building	67%	64%	61%	66%	64%
Forest	50%	100%	100%	93%	93%
Education	33%	73%	58%	81%	70%
Health	33%	73%	47%	45%	48%
Agriculture	17%	73%	61%	65%	62%
Infrastructure Development	50%	73%	58%	77%	70%
Law	67%	82%	83%	89%	85%
Environment	50%	73%	72%	66%	68%
Waste Management	67%	64%	61%	61%	62%
Other	0%	9%	17%	11%	12%

Source: Estimated by the study team based on a representative survey of local governments.

2.56 Only about one half of local governments have written job descriptions available for all positions envisioned in their organizational structure. Furthermore, about 15 percent of local governments other than cities do not have written job descriptions available for any positions.

2.57 Fewer than one third of local governments report having their own laws/policies for managing their staff, in terms of leave approval, performance appraisal, reporting relation, etc. There is a direct relationship to the level of urbanization with one half of cities having their own laws/policies compared to one quarter of rural municipalities (Table 24). More than two thirds of local governments follow staff performance review mechanisms compared to less than one fifth that never do. However, over 40 percent of local governments other than cities never practice sanctions for under-performance.

Table 24: Reliance on Law/Policy/Regulation/Guidelines in Managing Staff (Percent of Local Governments)

	Own Law	Provincial	Federal
Metropolitan	50%	17%	83%
Sub-metropolitan	36%	18%	91%
Municipality	31%	8%	100%
Rural Municipality	24%	6%	95%
All Local Governments	29%	9%	96%

Source: Estimated by the study team based on a representative survey of local governments.

2.58 Only one half of local governments prepared capacity building plans for either employees or elected officials, although two thirds of cities did. Over 8,000 local staff have not attended any training since election. This represents almost one fifth of all staff present in local governments, but for sub-metropolitan cities this represents over one third of their existing staff (Table 25).

Table 25: Estimated Number of Staff Not Participated in Any Training on a Relevant Subject After Formation of Local Government

Province	Metropolitan	Sub-metropolitan	Municipality	Rural Municipality	Grand Total
Province 1	0	0	981	499	1,480
Province 2	12	36	562	229	839
Province 3	320	140	649	1,021	2,130
Province 4 Gandaki	40	0	321	210	571
Province 5	0	309	328	394	1,031
Province 6 Karnali	0	0	342	964	1,306
Province 7 Sudur Paschim	0	170	520	332	1,021
Total	372	655	3,695	3,621	8,343
Percent of present staff	8.37%	35.85%	19.63%	17.97%	18.44%

Source: Estimated by the study team based on a representative survey of local governments.

Planning, Finance and Development

2.59 Just over one half of local governments prepared a data profile for their territory with another one third in the process of preparing such a profile. Where such a profile is prepared, it typically includes information on all relevant sectors, except energy and communication, which are included in two thirds of the cases.

2.60 Only one quarter of local governments have a multi-year development plan, and this proportion ranges from one tenth in Provinces 4 and 6 to one half in Province 1 (Table 26). Where such a plan exists, planning almost always involved public consultations. Less than one fifth of local governments received any training on MTEF, with the proportion ranging from zero in Provinces 4 and 6 to one quarter in Provinces 2 and 7. A higher proportion of cities received some MTEF training (29 percent). In most cases, MOFAGA was the most common source of training.

Table 26: Periodic Development Plans Prepared, by Province and LG Type (Percent of LGs)

Province	Metropolitan	Sub-Metropolitan	Municipality	Rural	All types
Province 1	100%	100%	33%	50%	52%
Province 2	100%	0%	20%	25%	23%
Province 3	67%	0%	33%	10%	25%
Province 4 Gandaki	0%		0%	13%	8%
Province 5		50%	75%	10%	33%
Province 6 Karnali			0%	14%	10%
Province 7 Sudur Paschim		100%	0%	14%	17%
All Provinces	67%	45%	25%	21%	27%

Source: Estimated by the study team based on a representative survey of local governments.

2.61 At least 80 percent of local governments have sector-specific plans for education, health, agriculture, roads, drinking water and disaster preparedness; only 38 percent of local governments have plans for land use, and 54 percent have plans for communications.

2.62 At least 90 percent of local governments have completed all seven steps in the planning process and given budget ceilings to wards. However, this proportion was lower for rural municipalities (85 percent) and those in the HEZ (71 percent).

2.63 Nearly all (96 percent) of local governments have an annual investment plan. However, this proportion was a little lower for Himalayan local governments (88 percent). For those local governments that have a multi-year development plan, in 80 percent of cases it is the basis for their annual capital budget. Surprisingly, 44 percent of local governments that do not have a multi-year development plan also claim it to be the basis for their annual capital budget.

2.64 In about 90 percent of local governments, capital investment plans are broken down by sectors and wards. However, only 64 percent have prepared a project bank.

2.65 Less than 44 percent of local governments used the SUTRA to prepare budget estimates, while 68 percent used Excel. In particular, only 6 percent of Himalayan local governments used SUTRA with the rest relying on Excel. Of those that did not use SUTRA, the most cited reason (42 percent) was the lack of trained staff. Out of those who did not use SUTRA last year, 60 percent are ready to use SUTRA for next budget estimates.

2.66 In just under half of local governments (49 percent), budget estimates followed the SUTRA format, while 30 percent followed the federal format and 5 percent followed FMIS.

2.67 Nearly all (88 percent) of local governments included both federal and provincial Conditional Grants in their budget plans. Around 90 percent of local governments did not have to make any changes to the approved budgets as a result of changes to Conditional Grants. The remaining 10 percent of local governments, mostly rural, had to increase their expenditures due to increases in Conditional Grants, in particular in health and agriculture. Based on field observations, this can be related to handover of service facilities from the national government in the course of a fiscal year.

2.68 About three-quarters (77 percent) of local governments distinguish tax and non-tax sources of revenue in their budget estimates.

2.69 While all cities approved their budgets on time, nearly 10 percent of other local governments did not. Ninety-four percent of local governments forwarded their budgets to the federal or provincial governments after approval.

2.70 Seventy-nine percent of local governments have studied local revenue sources, with this proportion being lower for rural municipalities (less than 75 percent) and higher for municipalities (more than 85 percent). Only one quarter of local governments have revenue improvement action plans, although for cities this proportion is one half. On average, local governments collected 72

percent of estimated revenues, with this proportion ranging from 40 percent in Province 2 to 95 percent on Province 4. In 57 percent of local governments, actual revenue collection was off by more than 25 percent, with this proportion being higher for rural municipalities (more than 60 percent) and lower for municipalities (less than one half). For those places where the revenue collection was off by more than 25 percent, the most common reasons cited were unrealistic estimations (62 percent of cases) and limited personnel (51 percent of cases). The most common revenue management system used is Excel (37 percent), followed by government-developed software (23 percent), with the rest using development partners' or their own software.

2.71 The revenue collection process was reported to be client-friendly “to a large extent” by 15 percent of local governments, “to some extent” by 53 percent, “to less extent” by 23 percent, and “not at all” by 9 percent. Even though 93 percent of local governments reported a commercial bank branch on their territory, two thirds (66 percent) collect revenue all in cash. Only about one half of local governments that collect at least some of their revenues by cash always deposit the funds daily. Two thirds of local governments reported using Excel for budget execution, while only one-half use SUTRA. 58 percent of local governments reconciled their accounts monthly, while 21 percent did them quarterly, 10 percent did them semi-annually, and 9 percent annually; the remaining (3 local governments) never did them. Nearly all (98 percent) did payroll monthly, and all local governments deposited salaries directly into bank accounts of their staff.

2.72 Only 13 percent of local governments, all of them rural municipalities and in Terai zone, have received domestic loans. Nearly all local governments submit financial reports to the assembly (92 percent), 80 percent provide them to the FG, 59 percent submit them to PGs, while four prepared but did not submit them.

Table 27: Current Budget Execution in FY 2018/19 (Percent of Plan)

Province	Metropolitan	Sub-Metropolitan	Municipality	Rural	All types
Province 1	42	89	81	76	77
Province 2	71	61	71	61	66
Province 3	73	94	98	85	87
Province 4 Gandaki	87		94	90	91
Province 5		82	73	89	84
Province 6 Karnali			84	76	78
Province 7 Sudur Paschim		88	89	83	86
All Provinces	70	79	82	80	80

Source: Estimated by the study team based on a representative survey of local governments.

2.73 Local governments spent, on average, 80 percent of their recurrent budgets and 75 percent of their capital budgets (Tables 27 and 28). Surprisingly, absorption rates were lower in cities: 76 percent and 61 percent for recurrent and capital budgets respectively. When those local governments with disbursement rates below 60 percent for capital spending were asked the reasons for underspending, over one half responded that it was due to absence of technical staff while delays by user committees and conflict/obstruction were reported in more than a third of cases.

Table 28: Capital Budget Execution in FY 2018/19 (Percent of Plan)

Province	Metropolitan	Sub-Metropolitan	Municipality	Rural	All types
Province 1	30	92	82	84	82
Province 2	60	36	59	53	54
Province 3	47	86	78	84	77
Province 4 Gandaki	74		84	85	84
Province 5		68	76	89	81
Province 6 Karnali			84	72	75
Province 7 Sudur Paschim		90	85	85	85
All Provinces	51	67	75	80	76

Source: Estimated by the study team based on a representative survey of local governments.

2.74 More than one half (58 percent) of local governments use federal guidelines for internal audits, while 10 percent had developed their own guidelines; the remaining local governments had no guidelines. While all cities have conducted an internal audit, about one fifth of other municipalities have not. Local governments that did not most often cited “no provision of an internal auditor” as their reason. In every local government that did an internal audit, some form of “misappropriation” was found. Other common findings include “over payment” (28 percent) and improper property management (26 percent). Of those that did the audit, 85 percent report that it was received by the Executive Board.

Local Procurement and Contract Management

2.75 Less than one half of local governments (46 percent) have prepared procurement regulations, though most (83 percent) have a unit in their organizational structure designated to handle procurement. The highest proportion of local governments with procurement regulations at 82 percent is among metropolitan and sub-metropolitan cities, but only 42 percent of municipalities and 38 percent of rural municipalities have them. Province 4 has the smallest portion of local governments with procurement regulations, at 17 percent, while Provinces 1 and 2 have the lowest portion of their local governments with a designated unit, at 67 percent and 68 percent respectively (see Table 29).

Table 29: Percent of Local Governments with Procurement Regulations and Functional Procurement Unit in Place, by Province

Province	Regulations	Functional Unit
Province 1	33%	67%
Province 2	73%	68%
Province 3	55%	95%
Province 4 Gandaki	17%	83%
Province 5	39%	94%
Province 6 Karnali	60%	90%

Province 7 Sudur Paschim	33%	92%
All Provinces	46%	83%

Source: Estimated by the study team based on a representative survey of local governments.

2.76 Just over one-third of local governments have created a procurement master plan, with only 6 percent of HEZ local governments having such a plan. At 22 percent and 33 percent respectively, municipalities and rural municipalities were much less likely than cities, at 59 percent, to have a procurement master plan.

2.77 While very few local governments (14 percent) have the capacity to conduct international bidding, at least 94 percent have the capacity for national bidding, sealed quotations, direct procurement, and a user's committee.

Table 30: Reliance on User Committees

	Percent of Contracts	Percent of Capital Budgets
Metropolitan	61%	41%
Sub-metropolitan	91%	72%
Municipality	87%	76%
Rural Municipality	84%	84%
All Local Governments	84%	78%

Source: Estimated by the study team based on a representative survey of local governments.

2.78 By far the most commonly used procurement type is the users' committee which accounts for over 80 percent of procurement contracts and 70 percent of capital budgets in all types of local governments, except metropolitan cities (Table 30). At the same time, "Delayed by users' committee" is the most common reason reported by cities for low execution of their capital budgets. However, only 30 percent of local governments have a mechanism to avoid conflict of interest in forming their user committees, with only 10 percent of local governments in Province 6 having this mechanism and no local governments in Province 7 with it (Table 31). One quarter of local governments have an appeal mechanism for procurement decisions, with only 17 percent of local governments in Province 7 and 8 percent of local governments in Province 4 having an appeals mechanism.

Table 31: Percent of Local Governments with Procurement Mechanisms in Place, by Province

Province	Conflict of Interest	Appeals	Dispute Settlement
Province 1	43%	24%	24%
Province 2	36%	41%	27%
Province 3	25%	15%	25%
Province 4 Gandaki	33%	8%	8%
Province 5	44%	33%	6%
Province 6 Karnali	10%	30%	10%
Province 7 Sudur Paschim	0%	17%	8%

All Provinces	30%	25%	17%
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Source: Estimated by the study team based on a representative survey of local governments.

2.79 Overall, 57 percent of local governments can use e-bidding, with usage more common in cities (76 percent) than municipalities (58 percent) or rural municipalities (49 percent). Only 5 percent of local governments in Province 2 have the capacity for e-bidding, with no other province having less than the overall average. While almost all local governments (97 percent) have a list of vendors, only 60 percent performed vendor assessments. Only 17 percent of local governments in Province 7 have evaluated vendors.

Ward Administration

2.80 Only one local government reported that there was not a clear allocation of authority between the local government and the wards. The ward chairs were clear about their roles in 82 percent of all local governments, but the comparable statistic was only 65 percent in cities.

2.81 Most local governments (60 percent) reported that their ward offices do not have landlines and 10 percent reported wards not having access to a mobile network. Cities were most likely to have one or the other for their wards, and rural municipalities the least likely.

2.82 Only 24 percent of local governments can provide online vital and civil registration services “always.” However, 78 percent of local governments reported that wards were “fully able” to provide recommendations and certifications, 58 percent were able to do a ward-level plan and the same portion to do regulation/monitoring work. Thirty-eight percent of local governments reported that their wards could do ward-level data management. Province 3 reported the highest portion of local governments with wards that have the capacity for ward-level planning, data management, development works, regulation and monitoring, and recommendations and certifications (see Table 32). Province 5 local governments have less ward-level capacity for data management and development work, Province 7 local governments have less ward-level capacity for ward planning and data management.

Table 32: Portion of Local Governments Reporting that Wards Could Perform Selected Functions, by Province

Province	Ward Plan	Data Management	Development	Regulation & Monitoring	Recommendation & Certification
Province 1	67%	33%	67%	57%	76%
Province 2	59%	36%	41%	50%	77%
Province 3	80%	60%	60%	75%	90%
Province 4 Gandaki	50%	33%	50%	50%	83%
Province 5	44%	28%	22%	50%	78%
Province 6 Karnali	50%	40%	50%	60%	80%

Province 7 Sudur Paschim	42%	33%	42%	58%	58%
All Provinces	58%	38%	48%	57%	78%

Source: Estimated by the study team based on a representative survey of local governments.

2.83 Ninety-three percent of local governments reported that wards are involved with monitoring local government services. Forty-five percent of local governments reported that schools had not provided any reports of school activities to wards, with another 30 percent reporting that they provide only some reports. The lack of reports was highest in Provinces 4 and 7, each having only 8 percent of their local governments having wards receiving reports of school activities in the past 12 months.

2.84 Eighty-eight percent of local governments reported that their wards meet at least monthly, with 69 percent reporting the wards announced their meetings ahead of time. Province 7 had the fewest local governments with wards that held monthly meetings (58 percent) and announced them ahead of time (33 percent).

Settlement Development and Land Administration

2.85 Only 17 percent of local governments have a settlement/urban master plan in place; nearly all the local governments that have a plan created it with public participation. Local governments in the TEZ were twice as likely to have such a plan as were local governments in the other two ecological zones (24 percent to 12 percent). In addition, 40 percent of local governments do not have a land use plan, including more than half of HEZ local governments (Table 33). Another 26 percent never use their land use plan when issuing building permits, though 20 percent always use it.

Table 33: Percent of Local Governments with No Master Plan and No Land Use Plan, by Ecological Zone and LG Type

	No Master Plan	No Land Use Plan
HEZ	88%	53%
Hilly Zone	88%	39%
TEZ	76%	37%
Cities	76%	29%
Municipalities	83%	25%
Rural	85%	43%
All Local Governments	83%	40%

Source: Estimated by the study team based on a representative survey of local governments.

2.86 Of the 64 local governments that issue building permits, 94 percent apply building codes when issuing them, and 59 percent always conduct inspections of permitted building activities. Only 13 percent of local governments have the capacity to discharge their authority in distributing

land ownership records. The reasons that were given for the lack of capacity were: did not have authority transferred (94 percent); lack of human resources (49 percent); lack of physical infrastructure (40 percent); and lack of knowledge (30 percent).

2.87 Only 17 percent of local governments have a capital investment plan for land administration, including none in Provinces 6 and 7. One third of local governments overall have a budgetary allocation for physical infrastructure of land administration, with 55 percent of local governments in Provinces 2 and 3 having one, but only 10 percent in Province 6.

2.88 In general, local governments are not prepared for measuring the outcome and performance of urban settlement development and land administration, as seen in Table 34. Only 6 percent of local governments have sufficient personnel capacity to conduct performance measurement, with none of the local governments in Provinces 1, 3, and 6 having sufficient personnel. In fact, almost one third of local governments have no capacity in the personnel area. Only 5 percent of local governments have the resources for performance measurement, 30 percent have no resources for it, and Provinces 2, 6, and 7 having no local governments with sufficient resources. Seventeen percent of local governments reported having the technical knowledge, 25 percent have no technical knowledge, with Provinces 6 and 7 having no local governments with sufficient technical knowledge. Only 10 percent have the physical infrastructure while 34 percent have no capacity in physical structure for performance measurement of land administration. Provinces 4 and 6 have no local governments with sufficient capacity in this area.

Table 34: Percent of Local Governments with “Adequate Capacity” and “No Capacity” for Measuring Outcomes and Performance of the Urban Settlement and Land Administration Sector, by Capacity Area and Province

Province	Personnel/Skills		Resources		Knowledge		Physical Infrastructure	
	Adequate	None	Adequate	None	Adequate	None	Adequate	None
Province 1	0%	14%	5%	29%	14%	29%	10%	43%
Province 2	9%	23%	0%	5%	18%	14%	5%	14%
Province 3	0%	30%	15%	25%	20%	30%	15%	35%
Province 4 Gandaki	8%	33%	8%	42%	17%	25%	0%	33%
Province 5	11%	33%	6%	39%	33%	17%	22%	33%
Province 6 Karnali	0%	70%	0%	40%	0%	40%	0%	50%
Province 7 Sudur Paschim	17%	50%	0%	50%	0%	33%	8%	42%
All Provinces	6%	32%	5%	30%	17%	25%	10%	34%

Source: Estimated by the study team based on a representative survey of local governments.

Disaster Risk Management

2.89 More than three quarters of local governments (77 percent) have incorporated disaster risk management (DRM) into their organizational structures, with Province 2 having the lowest portion with 55 percent.

2.90 Only 32 percent of local governments have a fire brigade, with a substantial difference in local governments by type of municipality: 94 percent of cities have a fire brigade, while 42 percent of municipalities and 7 percent of rural municipalities having one. No local governments in Province 6 have a fire brigade. Just over one quarter of local governments (27 percent) have a functional local emergency operations center, with substantial differences across local governments. In the HEZ, only 6 percent have a center, compared to 35 percent in the Hilly Zone. 15 percent of rural municipalities have a center compared to 53 percent for cities (see Table 35). No local governments in Province 6 have a center, while 14 percent of Province 2 local governments and 17 percent of Province 7 local governments have a center.

Table 35: Portion of Local Governments with Fire Brigade and Emergency Operations Center, by Ecological Zone

	Fire Brigade	Emergency Operations Center
HEZ	6%	6%
Hilly Zone	27%	35%
TEZ	43%	24%

Source: Estimated by the study team based on a representative survey of local governments.

2.91 While 30 percent of local governments have established written cooperative agreements with other local governments to address common issues relation to DRM, the differences across provinces are sharp. In Provinces 1 and 5, 67 percent and 72 percent of local governments, respectively have established written agreements; Province 2 has no local government with a written agreement and only 5 percent of Province 3 local governments have written agreements.

2.92 Just under half (49 percent) of all local governments have a disaster risk reduction plan, though only 27 percent of Province 2 local governments have one. Only three of the surveyed 115 local governments have “adequate” emergency preparedness measures in place, while 18 percent have no measures in place; 20 percent have their emergency fund only.

2.93 Much like the Land Administration sector, local governments overall have little capacity to measure outcomes and performance of the DRM sector, with only 3 percent having “enough” personnel skills, 5 percent having enough resources, 18 percent having enough knowledge and less than 1 percent having sufficient infrastructure capacity. No Province 6 local governments have enough in any of the categories to measure DRM performance, and Provinces 2, 4, and 7 have no local governments with enough capacity in two of the four categories.

Education

2.94 Nearly all (98 percent) local governments have incorporated education into their organizational structure. Funding for education comes from Conditional Grants (97 percent of

local governments), Equalization Grants (56 percent), revenue sharing (23 percent), Complementary Grants (10 percent) and their own sources (47 percent).

2.95 Teacher management is the issue that more local governments (58 percent) have had differences in understanding with the provincial and federal governments, followed by school merging (33 percent of local governments), school management committees (33 percent), school approval/monitoring (29 percent), finance (29 percent), infrastructure development (22 percent) and examinations (21 percent). Province 3 was the most likely to have differences, Province 6 the least likely.

2.96 Less than 3 percent of local governments have a written agreement with other local governments to address common educational issues, though 69 percent use practical coordination. Two thirds of local governments own their schools, one half own the resource centers and 38 percent own the libraries. HEZ local governments were much more likely to own the schools and resource centers than were local governments in the other ecological zones.

2.97 Overall, 43 percent of local governments have education infrastructure in their asset records, though this is true for only 8 percent of local governments in Province 4. Half of local governments have education information in their citizen charters, with cities more likely than other local governments to do so (see Table 36). A higher portion of cities have a school sector development plan, but a lower portion have a capital investment plan for education.

Table 36: Portion of Local Governments with Selected Information Developed, by LG Type

	Infrastructure in Asset Record	Information in Citizen Charter	Development Plan	Capital Investment Plan
Cities	53%	76%	71%	59%
Municipalities	33%	42%	58%	75%
Rural	44%	46%	64%	70%

Source: Estimated by the study team based on a representative survey of local governments.

2.98 Nearly all (95 percent) local governments have teacher/staff salaries and wages in their budgets, while 70 percent have a capital investment plan in place. Nearly all local governments have schools in their annual operation and maintenance plan (92 percent) and have a capital investment plan for the education sector (95 percent).

2.99 Like in other sectors, capacity for monitoring school performance is lacking, with only 17 percent of local governments having adequate personnel capacity for monitoring school performance, 5 percent having adequate resources for monitoring, 27 percent having adequate technical knowledge and 8 percent having adequate infrastructure. No local government in Province 6 has adequate infrastructure for monitoring education performance in any of the four categories, while TEZ local governments were more likely to have adequate monitoring capacity than other ecological zones.

Basic Health Services

2.100 Nearly all (97 percent) of local governments have the health services function incorporated into their organizational structure. Funding for health services comes from Conditional Grants (99 percent of local governments), Equalization Grants (65 percent), Complementary Grants (10 percent), Special Grants (4 percent), and revenue sharing (16 percent).

2.101 Regarding the issues for which local governments have the differences in understanding with the provincial or federal governments, 36 percent have differences on staff management, 20 percent on procurement of medicines, 18 percent on finance, 16 percent on equipment procurement, and 11 percent on service center merging. However, it should be noted that 60 percent of local governments have differences in the “other” category, including Province 6 where *all* local governments have differences on “other” issues, and none had differences in the categories already described.

2.102 Almost all local governments (91 percent) own the health services infrastructure, half own the labs and 21 percent own the training centers. Overall, 71 percent of local governments include health-related infrastructure in their asset records, though it is much more likely in cities (94 percent) and the HEZ (88 percent). Fifty-three percent of local governments include health information in their citizen charter, with few differences across province, zones, or types of municipalities. Almost all local governments (93 percent) include salaries and wages of health workers in their budgets, and 84 percent include health centers in their O&M plans. Eighty-two percent of local governments have a capital investment plan for health services.

2.103 While 84 percent of local governments monitor the performance of their health services sector, only 28 percent have adequate capacity in personnel/skills, 6 percent have adequate capacity in regard to resources, 38 percent have the adequate technical knowledge to monitor, and 8 percent have the adequate infrastructure (see Table 37). Capacity for monitoring health services is generally higher in TEZ local governments, and much lower in Province 7.

Table 37: Portion of Local Governments that have “Adequate” Capacity for Monitoring the Performance of Health Centers, by Capacity Area and Province

Province	Personnel	Resources	Knowledge	Physical Infrastructure
Province 1	24%	5%	24%	5%
Province 2	36%	5%	55%	9%
Province 3	30%	10%	50%	20%
Province 4 Gandaki	25%	0%	33%	8%
Province 5	39%	17%	61%	6%
Province 6 Karnali	20%	0%	20%	0%
Province 7 Sudur Paschim	8%	0%	0%	0%
All Provinces	28%	6%	38%	8%

Source: Estimated by the study team based on a representative survey of local governments.

Social Development

2.104 At least 95 percent of local governments have incorporated the governmental functions regarding vital registration, women, children, senior citizens, and social welfare into their organizational structures. Sports have been incorporated by 84 percent of local governments and 81 percent of youth. Only unemployment records have low incorporation, with only 6 percent reporting inclusion.

2.105 Local government financing sources used for social development include Equalization Grants (79 percent), Complementary Grants (16 percent), and Special Grants (13 percent), with 61 percent using their own sources and 42 percent using revenue sharing.

2.106 The portion of local governments that included information about social development functions in their Citizens' Charters:

- social security: 88 percent
- vital registration: 90 percent
- women: 74 percent
- children: 74 percent
- youth: 61 percent
- senior citizens: 75 percent
- differently abled: 72 percent
- sports: 60 percent
- unemployment records: 7 percent

2.107 Most (89 percent) local governments include spending for social development in their budgets. Sixty-two percent of local governments monitor performance in this sector.

Economic Development

2.108 Eighty-nine percent of local governments have incorporated cooperatives into their organizational structure, 70 percent have incorporated local market management, 56 percent micro-enterprises, and 55 percent economic data collection (Table 38). Economic development plans were in place in 63 percent of local governments; of those with a plan, one quarter are fully coherent with the national plan. Local governments in the Himalayan Ecological Zone (HEZ) were more likely to have micro-enterprise and economic data collection functions incorporated into their organizational structures. Terai Ecological Zone local governments had a higher proportion of local governments with local economic development plans in place.

Table 38: Percent of Local Governments with Economic Development Functions Incorporated into their Organizational Structures, by Ecological Zone

	HEZ	Hilly Zone	TEZ	All
Cooperatives	82%	90%	90%	89%
Local Market Management	71%	65%	73%	70%
Microenterprise	82%	57%	45%	56%
Economic Data Collected	76%	55%	47%	55%
Local Economic Development Plan	59%	55%	73%	63%

Source: Estimated by the study team based on a representative survey of local governments.

2.109 Local governments partner with the federal government and provincial governments on economic development in a variety of ways, with most (89 percent) doing so through budget allocations and a large portion (71 percent) sharing information. Less use joint partnerships (47 percent) or through the receiving of experts from federal and provincial governments (20 percent). Cooperation agreements and joint partnerships were more often used in HEZ local governments and by Province 5. Partnering through budget allocations were used much less in Province 6, with only 60 percent of local governments using this method.

2.110 About three quarters of local governments (76 percent) work with federal and provincial governments on economic growth, poverty alleviation, and SDG localization through the national plan, while 61 percent work through the provincial plan and 74 percent have their own plan. Province 6 local governments were less likely to work with the federal and provincial governments on these issues using any of these methods, with only 40 percent using the national plan and 30 percent the provisional plan. When working with other local governments on economic growth, poverty alleviation, and SDG localization, 44 percent work through the national plan, 38 percent through the provincial plan, and half through partnerships.

2.111 Local governments reporting using the following sources of funding for the economic development sector: complementary and conditional grants are used by 90 percent of local governments; revenue-sharing by 79 percent; local government’s own source by 78 percent; equalization grants by 43 percent; and special grants by 25 percent. Provinces 2, 6, and 7 were less likely to use equalization grants and their own source.

2.112 Less than 5 percent of local governments reported running into any conflict with authorities of the federal or provincial governments over economic development decisions.

2.113 Sixty-three percent of local governments have a capital investment plan, with only one third of Province 4’s local governments having one. Ninety-two percent of local governments have included economic development in their budgets.

2.114 Regarding monitoring economic development performance: 14 percent have adequate personnel capacity while 8 percent have no capacity; 7 percent have adequate resource capacity while 10 percent have no capacity; 23 percent have adequate capacity for subject knowledge while 4 percent have no capacity; and 10 percent have adequate capacity for physical infrastructure while 9 percent have no capacity. No local governments in Province 6 have adequate capacity in regard to resources, subject knowledge, or physical infrastructure.

Agriculture

2.115 The portion of local governments that have had the following agricultural functions/offices transferred to them and incorporated into their organizational structure can be seen in Table 39.

Table 39: Percent of Local Governments that have Selected Agriculture Functions Transferred to Them and Incorporated into Their Organizational Structure

Function	Transferred	Incorporated
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Agriculture	85%	95%
Agricultural Production	69%	76%
Livestock	69%	72%
Fisheries	34%	35%
Agricultural Extension	63%	62%
Horticulture	55%	62%
Agricultural Roads	43%	49%
Irrigation	66%	71%

Source: Estimated by the study team based on a representative survey of local governments.

2.116 Cities were much more likely than other local governments to have livestock and fisheries transferred to them, though less likely to have agricultural roads transferred. Province 6 has no local governments with fisheries transferred or incorporated into their organizational structure.

2.117 Local governments use a variety of budget sources for agriculture, with 83 percent using Conditional Grants, 76 percent using Equalization Grants, and 61 percent using their own funding. Special Grants were used by only 13 percent, Complementary Grants by only 9 percent, and revenue-sharing by 25 percent.

2.118 Differences in understanding on agricultural issues are most prevalent in the “Other” category, with 65 percent reporting such differences. The portion of local governments having differences on staff management is 21 percent, on facilities 26 percent, on merging/expansion and transferring 22 percent, and only 2 percent of local governments have differences in regard to resource allocation. Differences are somewhat more common with cities.

2.119 Local governments are more likely to work with federal and provincial governments through allocations in the federal government, with 77 percent using this method, while 68 percent used information sharing. One half of local governments use allocation in the provincial budget, 36 percent use joint partnerships, 24 percent using cooperation agreements, and 22 percent use the receipt of experts.

2.120 Local governments are more likely to work with other local governments to address common issues through partnerships (50 percent of local governments), the national plan (32 percent), and provincial plans (19 percent), though 30 percent of local governments have no arrangements for working with other local governments. Thirty-one percent of municipalities work through the provincial plans with other local governments, while only 6 percent and 16 percent of cities and rural municipalities respectively. Local governments in Province 6 work with other local governments through partnerships only.

2.121 The portion of local governments that own all agricultural services infrastructure: 28 percent; some agricultural services infrastructure: 37 percent; and no agricultural services infrastructure: 35 percent. Rural municipalities are more likely to own agricultural services infrastructure, while TEZ local governments are less likely. No local governments in Province 7 own agricultural services infrastructure, and only 5 percent of them in Province 2 do so.

2.122 Fifty-eight percent of local governments have agricultural services infrastructure in their asset record; 86 percent have agricultural services salaries in their budgets; 75 percent include agriculture services in their annual O&M plan; 70 percent have agriculture services in the capital investment plan (CIP); 83 percent have capital spending for agriculture in their budget; and 76 percent monitor performance in the agricultural sector.

2.123 Regarding monitoring the agricultural sector’s performance, only 11 percent have adequate personnel capacity, 7 percent have adequate resources, 29 percent adequate knowhow, and 5 percent adequate physical infrastructure.

Environment

2.124 The portion of local governments that have incorporated environmental functions into their organizational structure can be seen in Table 40.

Table 40: Percent of Local Governments Having Incorporated Selected Environmental Functions into Their Organizational Structure

Environmental Sector	Incorporated
Forest	66%
Biodiversity	52%
Watershed	52%
Wildlife	37%
Mines & Minerals	27%
Soil Conservation	60%
Waste Management	77%
Community Parks	49%
Environmental Management	76%

Source: Estimated by the study team based on a representative survey of local governments.

2.125 In general, municipalities and local governments in Province 4 have incorporated these functions less often, and cities and local governments in Province 1 more often. About one third of local governments have an environment and bio-diversity conservation plan, with local governments in Province 1 being most likely to have a plan (57 percent) and HEZ local governments less likely (18 percent).

2.126 Local governments use Equalization Grants most often (76 percent of local governments) for funding the environmental sector, followed by own source (56 percent), Conditional Grants (50 percent), revenue sharing (39 percent), and Complementary Grants (17 percent). Province 2 local governments are much less likely to use Equalization Grants, with only 41 percent using them, and revenue sharing (23 percent).

2.127 Two thirds of local governments work on environmental management with the federal and provincial governments through the federal budget allocation, while 56 percent work through information sharing, 42 percent through provisional government allocation, 28 percent through joint partnerships, 19 percent through cooperation agreements, and 12 percent by receiving

experts. Province 6 local governments are much less likely (10 percent of local governments) to use provisional government allocations to work on environmental management, and Province 2 local governments to use cooperative agreements (5 percent of local governments).

2.128 When working with other local governments on environmental management, partnerships are the most common method (43 percent), followed by the national plan (37 percent), and the provincial plan (22 percent). Nearly one third of local governments have no cooperative agreements with other local governments.

2.129 Seventy percent of local governments include environmental services in the annual O&M budgets, and 46 percent of local governments have a capital investment plan for environment. Three quarters of local governments include capital spending for the environment in their budgets, while 40 percent of local governments monitor performance and outcomes in the environmental sector.

2.130 Regarding monitoring the environmental sector’s performance, the portion of local governments with “Adequate” and “No Capacity” are described in Table 41. In general, capacity for monitoring performance in this sector is low. Further, no local governments have adequate resource capacity in Provinces 1, 2, 4, 5, and 6, while no local governments in Provinces 1, 2, and 6 also have adequate knowhow capacity. No local governments in Provinces 2, 4, and 6 have adequate personnel.

Table 41: Percent of Local Governments with “Adequate” and “No Capacity” for Monitoring Performance in the Environmental Sector

Personnel/Skills		Resources		Knowledge		Physical Infrastructure	
Adequate	None	Adequate	None	Adequate	None	Adequate	None
6%	34%	5%	24%	16%	15%	6%	31%

Source: Estimated by the study team based on a representative survey of local governments.

Drinking Water and Sanitation

2.131 One half of local governments have had drinking water functions transferred to them, 56 percent have had sanitation transferred, 37 percent have had sewage management transferred, and 37 percent have had none of these functions transferred to them (see Table 42). At least half of local governments in Provinces 3, 4, 6, and 7 have had none of these functions transferred to them.

Table 42: Drinking Water and Sanitation Functions Transferred and Incorporated into Local Governments, by Province

Province	Transferred				Incorporated		
	Drinking Water	Sanitation	Sewage Mgmt.	None	Drinking Water	Sanitation	Sewage Mgmt.
Province 1	62%	76%	48%	19%	90%	90%	52%
Province 2	68%	86%	68%	9%	77%	100%	73%
Province 3	30%	25%	25%	60%	80%	85%	35%
Province 4 Gandaki	50%	50%	42%	50%	75%	83%	75%
Province 5	44%	50%	33%	44%	83%	94%	61%
Province 6 Karnali	40%	30%	0%	50%	90%	60%	30%
Province 7 Sudur Paschim	42%	50%	17%	50%	83%	75%	25%
All Provinces	50%	56%	37%	37%	83%	87%	52%

Source: Estimated by the study team based on a representative survey of local governments.

2.132 These functions have more often found their way into local governments' organizational structures, with 83 percent having drinking water and 87 percent having sanitation incorporated into their organizations. However, only 53 percent of cities incorporated drinking water, and only 18 percent of HEZ local governments have incorporated sewage management.

2.133 Most local governments (70 percent) work with the federal and provincial governments on water and sanitation through federal budget allocations, while smaller portions work through information sharing (49 percent), joint partnerships (46 percent), and provincial government budget allocations.

2.134 Local governments primarily use Complementary Grants (71 percent) for funding drinking water and sanitation, but many use their own source (62 percent), Conditional Grants (58 percent) and revenue sharing (45 percent).

2.135 Most local governments (70 percent) manage their own landfills to deal with solid waste, with many fewer, less than one quarter, using partnerships with other governments or the private sector. Most local governments (80 percent) have only dumping at their waste management sites, particularly those in the TEZ. Few local governments have segregation of waste or waste processing at their collection centers, including none of the local governments in Provinces 1, 2, 6, and 7. Reflecting this, 62 percent of local governments have dumping sites, 19 percent have limited infrastructure landfill, and only 7 percent have a sanitary landfill. Only 24 percent of local governments report having adequate capacity to manage solid waste.

2.136 Nearly all local governments (90 percent) have drinking water and sanitation included in their O&M budgets, and 87 percent have included them in their overall budgets. However, only 60 percent have a capital investment plan for this sector.

2.137 Just over one half (55 percent) of local governments are monitoring performance and outcomes for this sector. However, their capacity for monitoring is low, with only 11 percent having adequate personnel, 7 percent adequate resources, 19 percent adequate knowhow, and 6 percent have an adequate infrastructure.

Roads

2.138 Nearly all (97 percent) of local governments have incorporated local roads into their organizational structure, and 85 percent have incorporated rural roads. While nearly two thirds (63 percent) have incorporated agricultural roads, the portion of local governments varies significantly across provinces; one third or less of the local governments in Provinces 4, 6, and 7 have incorporated them.

2.139 Most local governments (82 percent) work with the federal and provincial governments through the federal budget allocation, while 78 percent use provincial budget allocations, 66 percent joint partnerships, and 62 percent information sharing. In working with other local governments, cooperative arrangements work through the national plan (50 percent), the provincial plan (40 percent), and partnerships (39 percent).

2.140 The most common budget source for the local road sector is Complementary Grants, with 86 percent of local governments using them, while 63 percent use revenue sharing, 58 percent Conditional Grants, and 17 percent Special Grants. Fifty-nine percent of local governments use their own sources for local roads.

2.141 Although 70 percent of local governments have prepared a road inventory, 81 percent have road maintenance in their O&M plans and 73 percent have prepared an annual maintenance plan. Only 15 percent have a Municipal Transport Master Plan, and one quarter have a road safety plan. Nearly two thirds (63 percent) of local governments have a Capital Investment Plan for local roads, and 96 percent have capital spending for roads in their budgets. However, there are noteworthy differences in road sector capacity by ecological zone. Fewer local governments in the Himalayan ecological zone have master plans, road inventories, road safety and transportation plans, and the roads sector included in their capital budget than do local governments in other zones (Table 43).

Table 43: Portion of Local Governments with Selected Road Sector Planning Indicators, by Ecological Zone

	Master Plan	Road Inventory	Road Safety Plan	Roads in Capital Budget
HEZ	0%	53%	6%	82%
Hilly Zone	18%	57%	16%	100%
TEZ	16%	69%	39%	96%

Source: Estimated by the study team based on a representative survey of local governments.

2.142 Regarding monitoring road sector performance, capacity is higher than for many other sectors, though still less than one half of local governments have adequate capacity. For personnel capacity, 21 percent of local governments have adequate capacity, 13 percent have adequate resource capacity, 37 percent have adequate knowhow, and 11 percent have adequate physical

infrastructure. One half or more of the local governments in Provinces 3, 5, and 6 have adequate knowhow to monitor performance in the road sector.

Gender Equality and Social Inclusion

2.143 At least 80 percent of local governments have gender equality and social inclusion (GESI) policies, including those for children, senior citizens, and the differently-abled, as well as for ensuring women's participation in local government activities. However, 60 percent of local governments have never conducted a GESI audit.

2.144 Nearly all local governments have included GESI in their budgets and through inclusiveness that encourages the participation of women, senior citizens, and ethnic and disadvantage groups.

2.145 To combat gender-based violence, nearly all have awareness campaigns, four fifths provide counseling services, and two thirds provide monitoring. More than one half provide legal services and special programs, with 30 percent providing compensation to support victims. While only 2 percent of local governments reported having none of these programs, 10 percent local governments in Province 6 have no programs. Provinces 2 and 7 are much less likely to have enacted legislation against gender-based violence, Provinces 2 and 6 to have legal support for victims, and Provinces 2, 4, and 7 to have victim compensation.

Accountability and Transparency

2.146 Local governments use a variety of methods to make their executive decisions public, with the most common being through a website (70 percent of local governments), notice boards (59 percent), social media (59 percent), newspapers (46 percent), public announcements (44 percent), and radio/TV (41 percent). There were some ecological zone differences, such as HEZ local governments being less likely to use websites (59 percent) and more likely to use notice boards (82 percent). Websites are also the common method used to inform citizens about services provided by the local government, with 81 percent of local governments using them. Using the Citizen Charters was the next most common (73 percent), followed by social media (66 percent), and advertisements (59 percent).

2.147 The frequency of making public income and expenditure statements varied greatly, with 26 percent doing so semi-annually, 23 percent monthly, 18 percent quarterly and 15 percent annually. Seventeen percent of local governments never make their income and expenditure statements public.

2.148 While nearly all local governments use the federal act to implement Right to Information, only 8 percent receive requests for information "frequently," with cities more likely to get frequent requests. Nearly all local governments (92 percent) have a designated information officer that is made public.

2.149 Budgets, plans, assembly decisions, and executive decisions are made public by more than 90 percent of local governments, with 82 percent providing details about activities and performance of thematic sections. Nearly all local governments have websites that provide the following details: contact of officials (94 percent); policies, plans, and programs (94 percent);

updates of local government activities (90 percent); laws and regulations (90 percent); and budget information (92 percent).

2.150 Local governments engage outside organizations in budget preparation at generally high but varying rates, with local business chambers and civil society/NGOs the highest at 83 percent of local governments. Fewer local governments engage community associations or other public institutions (76 percent and 64 percent, respectively). Province 2 is less likely than other provinces to engage outside organizations, and Hilly Zone local governments are more likely.

2.151 Most local governments (83 percent) have a grievance responding mechanism. These local governments use designated officials and complaint boxes most often (86 percent and 83 percent, respectively), followed by public hearings (75 percent), social media (64 percent), social audits (61 percent), and complaint registers (51 percent). In the 96 (out of 115 sampled) local governments that have a grievance responding system, the average number of complaints registered was 16, with a wide variance (0 to 356); the average number of complaints addressed was nine.

2.152 Three quarters of local governments conducted a social audit for the recent fiscal year. The most common reason for not conducting a social audit was “limited personnel,” cited by 57 percent of those not conducting the audit.

3. DEVELOPMENT PARTNER SUPPORT FOR THE DESIGN AND IMPLEMENTATION OF FEDERALISM

I. INTRODUCTION

3.1 The design and implementation of the new federal system in Nepal is a big and complicated job. Few countries have taken on such a wholesale governance reform and so there is limited international experience from which to take lessons. The reform involves almost all government ministries and almost all facets of governance. The transition is complex, and its cost implications are still uncertain. The Government of Nepal has benefitted from development partner contributions of funding and technical assistance. This assistance, coming from a number of international agencies and bilateral development partners, has varied widely in the forms it has taken and the objectives it has targeted. In some cases, it has been directly related to the implementation of federalism in Nepal, but in others it has been more indirectly related.

3.2 Some of the supporting development partner projects have very specific short-term goals that are completed in less than two years. Others are more comprehensive programs and involve longer multiyear commitments. Some programs are administered through contractors, some are directly led by development partner staff, and some are administered directly by government agencies. Some of these programs can make immediate contributions to policy, administration, and service delivery while others contribute to the government's knowledge bank for the continuing development of federalism. All projects have designated government counterparts and take direction from those counterparts. The 50 projects summarized in the Development partner matrix presented in Annex C⁸¹ total about USD 1.2 billion, and the programs discussed below involve 22 development partners.

3.3 In this brief review, development partner assistance is summarized around the major issues related to the federalism theme of this (FCNA) project. The decision about what to include as a "fiscal federalism-related" project is admittedly arbitrary. The goal is to give a sense of the range and the potential contribution of development partner involvement in the design and implementation of federalism, discuss the methods by which these programs are coordinated by government or by the development partners themselves, and suggest areas that may be candidates for further assistance based on this capacity-needs analysis.

3.4 In taking the broad view, we list here several projects that are directly involved in assisting the rollout of the new federal system, such as legislative support and public finance management activities at the provincial and local government level. But we also list development partner activities that address strengthening the capacity of PLGs to deliver services, and sector work that will yield benefits to PLGs when devolution moves to its next level.

3.5 The time frame of the mapping shown in Annex C is about a decade, but the timeline on projects reported differs from development partner to development partner, and the reporting is in varying degrees of detail. The information presented in Annex C identifies projects by

⁸¹ The intent in this report is to discuss those projects that are related to needs and capacity building for fiscal federalism. In a few cases the connection to federalism is more indirect. The development partners for each activity mentioned in this review and in Annex C, are not always fully identified because of the common practices of sharing resources and contracting.

development partner but does not always include information about the institution that administered the project. Many of the projects reviewed are still ongoing, some have been completed, and yet others are still in the pipeline.

II. PROJECT REVIEW

3.6 The recommendations for action in these development partner projects seem clear enough and mostly on point. Implementation by the government is well underway in some areas, but there has not been sufficient time or follow-up to reach a general conclusion about ex-post impacts of the development partner support. This discussion, therefore, is more a review of contributions to the design and implementation of federalism than it is an evaluation.

3.7 The specific projects undertaken by development partners are spread widely across a range of topics having to do directly and indirectly with the rollout of federalism and with strengthening the local government institutions that are central to devolution. This discussion groups the projects into six areas, all of which are called out in the Constitution. As some reviewers have noted, many of these projects would have gone forward even in the absence of the federalism initiative. The groupings include:

- developing the architecture and implementation strategy for federalism,
- improving service delivery,
- improving financial management and planning,
- addressing social inclusion and equity,
- providing for capacity building and training, and
- building review and evaluation into the decentralized system.

3.8 Many (most) projects involve more than one of these areas, so the grouping here also is arbitrary in that respect. Still, it does give some idea of the very wide range of issues that the development partners are working on, and the relevance of this work to supporting the transition to fiscal federalism.

DEVELOPING THE ARCHITECTURE AND IMPLEMENTATION STRATEGY

3.9 The basic structure of the Nepal federal system of governance is laid out in the Constitution. In Nepal, as in most countries, the Constitution provides general directions but does not offer much detail about the design or the implementation of the system. It is left to the governments, and ultimately to the voters, to sort out the detail about how federalism will work and how it should be implemented. Nepal's development partners have provided significant support in this area, based on international expertise and analysis of the Nepal context. In some cases, the assistance has involved background work on the design of the overall system of federalism and governance. In other cases, it has been to support the government's work on specific pieces of the federalism architecture, such as provisions for accountability and evaluation, an efficient system of financial management (ADB, DFID, and USAID), or parliamentary support for implementing federalism (UNDP).

3.10 The government drafted key legislation to support the implementation of federalism, including the Intergovernmental Fiscal Arrangement Act and National Natural Resources and Fiscal Commission Act. World Bank budgetary assistance was supportive of the government's

work in preparing this and other key legislation. This program has also provided supportive budgetary support in the area of public finance management. The government's PFM programs have led to all provincial and local governments establishing a consolidated single account, developing and implementing formula grants, and submitting their accounts to the Auditor General. The Federal Treasury has published the FY 2018 budget execution report, including detailed revenue and expenditure data from sub-national governments for the first time. Major regulations and guidelines have been approved, including the Internal Control Guidelines (2019) and Gender Responsive Budgeting Guidelines for Provinces (2019).

3.11 The UNDP's Parliamentary Support Project has conducted a needs assessment of the seven provincial assemblies and governments to assess the situation of the implementation of federalism in the provinces and ascertain the needs of provincial assemblies. The main needs and demands of the provincial assemblies were categorized in the areas of law-making (where they require expertise in legislation drafting), capacity building and targeted trainings for members of the assemblies and ministers and enhancing the assemblies' infrastructure. To that extent, the project has placed a priority on providing immediate support to law-making and training. On the law-making side, activities include recommendations about a comprehensive mapping of laws that are to be formulated by line ministries in the provinces and creating a pool of technical and legal experts to support legal drafting. UNDP provided technical assistance in supporting the drafting of the Intergovernmental Fiscal Management Act and the Local Government Operations Act.

3.12 A recent and important case of development partner assistance (DFID, SDC, Norway, the EU) is the Provincial and Local Government Support Programme (PLGSP) which MOFAGA announced in December of 2018. The program document (MOFAGA, 2018) lays out a vision for the implementation of capacity building for federalism in Nepal that would be carried out over a four-year period. It will be the main vehicle through which capacity gaps will be addressed. The primary focus is on capacity development of local governments and on provincial government's role in the areas of coordination and cooperative federalism.

3.13 A Project to Prepare the Public Administration for Federalism Reforms (UNDP and MOFAGA, 2015) aimed to help relevant government institutions restructure the public administration along federal lines. This project, referred to as "PREPARE," was launched in March 2013. One of the key outputs of the project was a government-led public service reform strategy for the shift towards an inclusive federal structure and further capacity building of government institutions and parliamentarians. That component also included technical support for the assignment of expenditure responsibilities to the three levels of government. The goal was to assign all public expenditure responsibilities to the most appropriate level of government. The underlying research for this task was based on the best principles of accountability, equity, and technical efficiency, and was also based on consultations with major stakeholders. The analysis involved an extensive "unbundling" of expenditure responsibilities into subfunctions. This analysis was one of the inputs utilized by the five thematic working groups established under the Federalism Implementation and Administration Restructuring Coordination Committee. The final integrated list of expenditure assignments proposed by the five working groups was approved by the cabinet in 2017.

3.14 Development partners have also contributed background work on the revenue structure. UNDP, UNICEF, USAID, and the World Bank all have assisted the Fiscal Commission Secretariat

with “Best Practices,” formulae design, and discussions of the success of Fiscal Commissions in other countries. This assistance has supported the development of a formula allocation approach for intergovernmental transfers and assisted by providing training in intergovernmental fiscal analysis.

3.15 UNCDF supported local governments in increasing revenue mobilization and preparing revenue improvement plans. Results of these actions by government included an increase in the integrated property tax and internal revenues of some municipalities. Orientation trainings on property taxation and house/land tax also may have contributed to this increase.

3.16 Development partners have also been active in analysis of the democracy aspects of federalism. The election results in 2018 were monitored by domestic and international election observation groups sponsored by DFID and the embassies of Denmark and Switzerland.

SERVICE DELIVERY

3.17 Other development partner projects have focused on service delivery. In some cases, the goal is to improve access to public services by improving the management capacity to deliver services, and in others it addresses training and program development. Some projects have taken a national approach, some have focused on individual functions, and some have focused on individual provinces.

3.18 The link to federalism is the Constitutional mandate to assign important functions to the PLGs level of government. Education has been a main target for this support. Responsibility for primary education was shifted to local governments in 2017 with the transfer of deconcentrated federal employees to the local level. In addition to the transfers of management responsibility, the significant backlog in unmet needs was also addressed. Development partners have made contributions in the areas of planning and implementation. Working primarily with the Ministry of Education, the focus has been on designing education sector development plans in support of national educational priorities, such as curriculum reform, teacher policies, information and communication technologies in education, and monitoring of education progress at the national level (UNESCO and UNICEF), and on curriculum development to improve access to education services (Finland).

3.19 Health sector programs, which also have been transferred to local governments, have included assistance to service delivery and planning at the local level (GDC/GIZ), capacity building on local health delivery systems (UNICEF), and emergency risk management interventions at the local level (WHO). USAID has carried out extensive reviews of the district-level budgeting and budget execution processes in the health and education sectors.

3.20 Some development partners have been involved more directly in assisting government with local service delivery, in some cases even by financing the construction and/or maintenance of facilities (World Bank, GDZ/GIZ, Finland, and UNICEF). As the service delivery mandate for PLGs has expanded, so has development partner interest in provincial and local governments with projects in climate change and disaster resilience (DFID), renewable energy projects at the local level (GIZ/GDZ), and food security (UNWFP, Finland).

Public Financial Management and Planning

3.21 The PFM Multi Development Partner Trust Fund (MDTF) was established in December 2010 with the overall aim of strengthening PFM systems and processes, enhancing accountability and oversight of PFM process by civil society and deepening the knowledge of PFM practices in Nepal. It is currently administered by the World Bank with funding from DFID, Norway, Australia, USAID, EU, and the Swiss Confederation.

3.22 The MDTF is supporting Nepal's transition to federalism through the Integrated Public Finance Management Reform Program (IPFMRP). The focus is on three priority outcomes: (1) strengthened efficiency and results orientation of the budget cycle at the national and sub-national level, as evidenced by improvements in the capital budget execution rate and tax collection, improved tax administration processes, and efficient PFM related IT systems; (2) increased professional capacity of key PFM Stakeholders including an increased number of internationally accredited staff in areas of PFM, improved capacity-building institutions, and enhanced capacity of the PEFA Secretariat to design, manage and coordinate PFM reform; and (3) enhanced accountability in public financial management via a strengthened external audit function, increased transparency and citizen participation in the budget process, and increased involvement of relevant Parliamentary committees and oversight bodies.

3.23 The main components of IPFMRP that will focus on PLGs are budgeting processes, financial reporting, internal controls, cash management, and efficiency gains from automation of PFM systems. Under these components IPFMRP activities will provide trainings and workshops for PFM processes, fiscal reporting, auditing, public procurement, and citizen engagement as well as capacity building of training institutions. In addition, support to PLGs will also extend to assessment of revenue management and revenue-raising possibilities and framing local government procurement regulations.

3.24 USAID is contributing to establishing a framework for monitoring the progress of fiscal federalism in Nepal. This work has previously concentrated on the federal level. However, USAID has been working in coordination with the FCGO to support the implementation of SUTRA and training in the preparation of financial reports for local governments for 2017/2018.

3.25 An ABD programme on PFM (SPMP), which focused on PLGs PFM, supported the PETS and PEFA assessments.

Gender Equity and Social Inclusion

3.26 Gender equity and social inclusion has a long history in Nepal, beginning with concerns for women's rights dating back to the early 1970s. The Constitution in 2015 was a major step forward in its forceful declaration of equal rights for all Nepalis and its safeguards designed to protect these rights. The international development partners have accepted the challenge to become active partners in helping the government achieve its GESI objectives. In fact, it is mandatory for most development partners to address women's and minority rights as part of their portfolio (GESI working Group, 2017).

3.27 In 2017, a working group of the development partners took on the task of developing "... a shared conceptual framework of gender equality and social inclusion/exclusion." This was done

to strengthen its communication with the Government of Nepal and to help reconcile some of the differences among the development partners in their views on social inclusion and exclusion and on policies to promote the constitutional mandate. The resulting publication, *A Common Framework for Gender Equality & Social Inclusion*, has become a resource for those working in this area. It was financially supported by SDC and USAID. At present, the co-chairs of the working group are UN Women and USAID.

3.28 The development partners have taken a range of different approaches to the question, though most have focused on some combination of systems, policies, and institutions. Approaches include developing skills that can enhance possibilities for gainful employment, strengthening institutions that can help vulnerable populations gain a stronger place in society, and removing institutions that serve as barriers against equal access to public services and voice in governance. The GESI Working Group has made special note of the contribution of DFID, which includes better understanding based on data, context, and evidence.

3.29 Development partners have addressed the GESI concern, though their approaches and project design has differed. In some cases, projects have been more directly focused on disadvantaged populations or on women. For example, Norway has sponsored research on indexing regional disparities in the well-being of minorities. The question of voice in government decisions is taken up in leadership training in GESI and in training packages developed for elected members from disadvantaged groups (UN Women, USAID). Related programs are focused on enhancing the capacity to reform laws to be more gender responsive and to develop gender responsive budgeting (USAID, Louis Berger Associates, 2018).

3.30 Development of the capacity to ensure access to local public services by disadvantaged groups and to guarantee child rights is a major emphasis in some specific projects (UNFPA) and a common part of the general programs for the roll out of the federal structure (DFID, UNDP, and World Bank). Other projects have focused more specifically on advancing the economic empowerment of women, monitoring gender equality commitments, and establishing and strengthening the linkages between the normative and operational aspects of gender equality and women's empowerment (Finland and UN Women). USAID and UN Women have worked on gender budgeting in Nepal.

Capacity Building and Training

3.31 The roles of the three spheres of government in Nepal have changed under the new federal regime. The federal government will become less involved in delivering services and more involved in setting standards and regulating and monitoring intergovernmental policy and service delivery. The provincial and local governments will be more directly involved in service delivery, with the local governments taking on the much greater responsibility. All of this will call for new skills. None of the three levels of government have much experience with these new responsibilities.

3.32 To address these changes, development partners have been involved in supporting government efforts to prepare ministries, governments, and employees to assume their new duties. Most projects in the development partner matrix (Annex C) include some form of capacity building. Prominent among these are the support for the LGCDP II project which focuses heavily

on capacity building (DFID, Norway, SDC, and UNDP) and the PFM projects which have the goal of putting an efficient, automated system in place for all local governments (World Bank, DFID, and USAID). Some capacity building projects are more focused on single issues, such as on health sector issues (Australia, GDC, and GIZ), children's rights (UNICEF), and local development (JICA).

3.33 The governments in Nepal do not have a training strategy in place, i.e., a plan that describes the numbers of people to be trained, the skill developments required, the management techniques needed, etc. Background thinking to support GON work on these issues has been carried out in connection with PLGSP (DFID, SDC, Norway, EU, and UN), and by GIZ (MOFAGA, 2018a). The Government of Nepal has already moved to decentralize its training and capacity development activities, but a new institutional arrangement has not yet been announced.

3.34 The Local Governance and Community Development Programme (LGCDP) has been a major program over a decade supporting the government of Nepal to bring the government closer to the citizens. The objective of the program was to empower citizens and community organizations to actively participate and assert their rights in local governance. Accordingly, the program established more than 44,341 grassroots institutions: 31,301 ward citizen forums (WCFs) and 13,040 community awareness centers (CACs). WCFs had 775,405 members (46.4 percent of whom were female) while success of CACs was shown by their 352,418 members (88 percent of whom were female) by the end of the program's life. All these processes were supported by a total of 4,711 social mobilizers (65 percent of whom were female) serving across the nation. Through these outputs, the program was able to engage around 4.5 percent of the population, including women even from disadvantaged communities. As a result, citizen participation in the planning process reached to over 1.2 million in 2016/17. CACs contributions also included the organization of 352,418 people (88 percent of whom were women) living under the poverty line.

PROGRAM REVIEW AND PERFORMANCE EVALUATION

3.35 It is crucial that governments in Nepal be able to track the impacts of federalism on service delivery and equity. The dramatic change in governance and government finance that Nepal is going through will almost certainly call for short- and mid-term corrections, and background research and monitoring are necessary to make the correct adjustments. Some of these adjustments are already under discussion, though careful monitoring is not yet taking place. For example, expenditure assignments may not be as clear as are hoped, existing fiscal disparities might call for an adjustment in the intergovernmental transfer system, access to services by disadvantaged groups may not be promoted by local budget practices, gender balance issue interventions may not be on track, etc. While there seems to be general agreement that the performance of the new system and its impacts need to be evaluated and monitored, programs to address these needs are only now getting underway.

3.36 The development partners are active, directly and indirectly, in this area. Development partners have been involved with analytic work to assist in estimating the impact of federalism on the economy and population and to begin monitoring its performance. They also have been active in developing the basics of an information system that would support program evaluation.

3.37 In fact, most development partner activity on federalism is evidence-based, and often provides new information about the impact of local governance and on the quality of life in local areas. A good example is the PLGSP program supported by several development partners (DFID, SDC, Norway, and UNDP). Some other project work is more focused on specific issues. For example, a major issue in the implementation of fiscal federalism is a paucity of information about the balance between the employment and support needs for managing public service delivery and the existing capacity. The joint World Bank and UNDP capacity needs assessment (this report) provides new information about the gap between basic management needs and present levels of resources for provincial and local governments. Earlier pre-testing of approaches to capacity-needs assessments were sponsored by DFID.

3.38 Some very useful research has done a stock-taking of the progress with the implementation in terms of both the ability of the central government to adequately roll out the reform and the ability of the PLGs to absorb the reform. A development partner-financed study examined the extent to which adequate institutional, legal, and fiscal frameworks were in place, used some case studies to provide insights into how analysis of the success of the implementation of federalism might be assessed, and raised some questions about whether local governments are facilitating the inclusive environment that fiscal federalism has promised (Australian Aid, The Asia Foundation).

III. EVALUATION: COOPERATION AND COLLABORATIONS

3.39 The development partners have supported government policy and practice in the period of transition to federalism in Nepal. Their programs have stayed focused on areas where need is great (capacity development, institutional development, and equity/social inclusion issues), and their counterparts in government have included several ministries. They have also supported the work of nonprofit think tanks, training centers, and individual scholars. The development partners have taken their lead directly from Nepal's Constitution and from their government counterparts in shaping the program design and in coordination of their activities. There is good continuity in the work programs and there still is a significant pipeline of work related to the implementation of fiscal federalism. However, only a part of this work has been directly related to the rollout of the federal system, and there remain significant issues that need to be addressed in the implementation of the federal system.

3.40 Development partners have preferences as to how they like to work, and this reflects (among other things) what they see as their comparative advantages in providing technical assistance. Some prefer national projects while others prefer a focus on a specific province. Some development partners have mandates to work only in certain subject matter areas while others have a broader mandate. In Nepal, this has led to assistance in a range of areas related to governance at PLGs levels, as noted above.

3.41 Some development partner-financed programs have been implemented directly by government ministries. Some development partners are dependent on home office staff or resident missions to carry out the work, and others make use of domestic and foreign consultants. Some of the larger programs have been financed by several development partners, with an assigned lead charged with carrying out the work. But in the end, the leadership of the projects and the accountability of development partners is to the governments of Nepal.

3.42 Because the development partners do things in such different ways, and because they cover such a wide range of issues, cooperation and coordination of their activities are important. Ideally, the projects should learn from each other, share resources and expertise, and come together to understand (and deliver) what government wants from this body of technical assistance. It is difficult to grade the level of coordination and cooperation among the development partners, in part because the implementation activities are still in full swing and in part because so much of the coordination takes place on an informal basis. Moreover, some of the contributions by development partners are to help build a framework for the long-run development of federalism, and the impact of these efforts may not be felt for years.

3.43 Development partners coordinate with each other in a framework set by the government. The evidence reviewed in this report and the direct observations made by project staff suggest that the development partners are working together in productive ways. There appears to be healthy competition among the development partners, but there also is a good deal of sharing ideas and resources, and collaboration. Certainly, a structure has been set in place for DPs to coordinate and collaborate. For example, the initial report of a project may be reviewed by other development partners, a seminar presented by a development partner-financed project usually draws attendance from other development partners, or a sample survey might draw development partners and their funding together. Joint field work is not uncommon, and co-funding of a project by several development partners is not at all uncommon. An International Development Partners Group (IDPG) meets regularly and is well attended. An example from this World Bank-led project on needs assessment (FCNA) is instructive: MOFAGA (LGCDP) used the UNDP conduit to augment the project budget to allow the sample survey to cover a larger number of local governments, and the development partners joined in field trips to all seven provinces to help initiate the project.

IV. ISSUES AND FUTURE DIRECTIONS

3.44 A good rhetorical question on which to end this discussion of development partner involvement in designing and implementing federalism is “what might be done next to continue supporting the transition to federalism?” Based on the work in this project, three ideas might be considered.

3.45 The first is simply to stay the course. Development partners are making important contributions in supporting the government with the development and implementation of federalism as envisioned in the Constitution. The pipeline shown in Annex C is evidence that the intention is for this activity to continue and deepen. Things seem to be on track for a continued productive partnership. However, the focus might now shift to activities that are more directly supportive of goal of successfully implementing the federal system.

3.46 Second, it is probably a good time for the development partners to extend their survey of contributions from what has been done to a deeper probing into what has been learned from their past body of research and practice. The results of this could be of great help to government in designing the future contributions necessary to smooth and hasten the transition to fiscal federalism.

3.47 This kind of review and dissemination of findings, together with international experience, could lead to important assistance to government as it addresses some of the important gaps in the

implementation strategy for federalism. The following are some specific examples of areas where development partner assistance could be supportive of government programming of implementation activities:

- Resolving the issue of keeping fiscal and service level disparities among local governments within some acceptable boundaries and stimulating improved public services in urban areas.
- Putting some conditionality into GESI budgeting practices and instituting hard monitoring checks to ensure that gender responsive budgeting comes closer to achieving its targets.
- Resolving the problems of overlapping expenditure responsibilities at the provincial-local government level.
- Assisting the government of Nepal in establishing a training and development strategy that can address the vast job of retooling the public administration system to assume their new roles in the federalist system.

3.48 Third, there are some new areas where assistance from development partners could be particularly helpful to the government and that might be candidates for external funding and technical support. These include:⁸²

- The governments of Nepal, the national and PLGs Parliaments, and the public need a roadmap for implementing the federal system and a detailed action plan. This is long overdue, and its absence has contributed to slow transition to federalism.
- A federalization cell, with a well-trained staff capable of monitoring and evaluation, needs to be created and supported. This is especially important given the need to support the crucial role that the NNRFC will play in Nepal's intergovernmental fiscal system. An executive course for NNRFC Commission members that focused on international experience also could be of great benefit to the commission.
- A strong database for evaluation and monitoring of PLGs finance should be created, and provision for its regular update needs to be made. This is an essential investment for the government of Nepal and could be an important part of the long-run development of federalism in Nepal.
- The government needs to settle on a capacity-building and -training approach to begin reducing the gap between needs and capacity to implement federalism. The demand for training and capacity development will be great, and development partners could bring valuable experience to the design and implementation.
- There will almost certainly be additional capacity enhancements for provincial and local governments. This will be part of the full transfer of responsibility for education and health workers, the hiring of additional civil service management personal, and questions related to how much of PLGs budgets can be financed by locally raised revenues. Development partners by now have a deep knowledge of many of these areas in Nepal, as well as a broad international experience to share, and could provide helpful support to government.
- The mobilization of revenues by most provincial and local governments in Nepal is at a very low level. However, the Constitution gives them autonomous revenue raising powers, and the federal government may decide to push them to use these powers. Getting urban local governments further up the learning curve for revenue mobilization is

⁸² This agenda is elaborated further in the recommendations section of this report.

an area where the development partners have experience and could be supportive of government policy actions.

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4. CONCLUSIONS AND NEXT STEPS TOWARD BALANCING CAPACITY AND NEEDS

I. INTRODUCTION

4.1 There has been significant progress with Nepal's transition to a federal system. Many of the necessary framework laws are in place, an interim intergovernmental transfer system is being used, basic expenditure assignments have been made, and the devolution of staff to the provincial and local government levels is underway. Local government elections were successful, officers are in place, and provincial and local governments are functioning. Assemblies are meeting regularly, laws and regulations are being developed, budgets were passed, financials have been audited, and there seems to be a feeling in the general population that things are moving in the right direction. But, as the FCNA survey shows, provincial and local governments are still at a very early stage of learning to manage and deliver public services, and they are undercapitalized in terms of both human and physical capital. The transition to the new federalism in Nepal is far from complete, and there is still much to be done.

4.2 Service delivery and local government management have been slower to develop than some had hoped, in part because provincial and local governments have not yet received their full quota of relocated federal employees, important civil service legislation has not yet been passed, and the capacity of local governments to manage functions is still at a low level.⁸³ There does not appear to have been a general stock-taking of training and capacity building needs, and no formal institutional arrangement for capacity development has been announced. Public financial management practices are improving, but a fully functional system may still be four to five years away. Perhaps most important, there is no implementation plan (roadmap) in place. Such a plan might have helped control expectations and that might have led to a better sequencing of policies and administrative procedures that needed to be put in place.

4.3 There are important underlying questions still to be answered. These include:

1. the length of time that will be taken to fill the needs-capacity gap for PLGs,
2. the level of provincial and local government services for which the federal government is willing to provide budgetary support,
3. the degree of fiscal and service level inequality among provincial and local governments that will be accepted, and
4. the autonomy that provincial and local governments will have in making their budget decisions.

II. CAPACITY-NEEDS ASSESSMENT: CONCLUSIONS

4.4 All three levels of government in Nepal have weaknesses in their capacity to fully implement or absorb the new responsibilities assigned to them. To have expected otherwise in a two-year period was unrealistic. The federal government has not been able to fully set up the legal and institutional infrastructure to transfer services or employment to the PLGs in a timely manner. The provincial and local governments are not yet fully equipped to take on their new service delivery and public management responsibilities, and voters and elected political leaders are still

⁸³ See also World Bank (2018c)

coming to understand their new powers. To be sure, federalism can work in Nepal. However, it may be time for the governments to take a step back, plan the implementation more carefully, and put a more realistically-timed and better-sequenced implementation plan in place.

4.5 This FCNA study has led us to five general conclusions. First, the employment readjustment approach taken by the federal government is not likely to provide enough management or service delivery employment to fill the needs of provincial and local governments.⁸⁴ Only about 3,000 federal ministry employees (i.e., public administration/public management employees) were designated for transfer to provincial and local governments. MOFAGA's estimates are that the need for these management personnel at the provincial and local government level is much greater.

4.6 Second, the provincial and local governments are not yet fully empowered to successfully implement federalism. At the time of this writing the federal civil service legislation necessary for provincial civil service commissions to take up their recruitment and hiring duties is still under review.

4.7 Third, the sample survey results from this study show that while local governments are functioning, it is at a fairly low level. Much of the staff is not well trained in their new duties, important procedures are not yet in place, public finance management practices are not very advanced, the management of service delivery personnel is weak, and physical facilities are not adequate. For many indicators of good local government management practices, there is a wide disparity between the metropolitan and sub-metropolitan cities and the municipalities and rural municipalities.

4.8 Fourth, despite the significant deficits in the skill level of many provincial and local government staff, a new institutional arrangement for capacity building and training has not yet emerged. This is an important problem because many local government staff members are new to their assigned jobs, and many have not been able to take advantage of skill and management training.

4.9 Fifth, NNRFC, when officially constituted, could become one of the most important institutions in Nepal. By setting the vertical and horizontal shares of intergovernmental transfers, it will set the budget constraint and fiscal capacity for every provincial and local government in the country. This mission is clearly laid out in the Constitution.

III. THE COSTS AND BENEFITS OF FEDERALISM

4.10 Was the election of a federal system by Nepal a good economic decision? Many will focus on the considerable costs, and some might argue that federalism is a form of government that Nepal cannot afford. Others, certainly including those who drafted the Constitution, will focus on the benefits and might say that it is a form of government that Nepal cannot afford to be without. Unfortunately, neither the costs nor the benefits are easily measured or compared. Moreover, the costs will be frontloaded and highly visible, but the benefits will be long term and only indirectly

⁸⁴ The physical relocation of federal civil servants was still underway at the time of this writing.

realized (e.g., in the form of higher incomes or better schools, or less civil unrest). We cannot offer a cost-benefit analysis here, but we can suggest some of the important factors to be considered.

THE COSTS OF FEDERALISM

4.11 The discussion of the cost of federalism might begin with two questions: what cost and whose cost? It is one thing to estimate the short run cost of the transition, i.e., the set-up cost incurred to create the new local government system. Intuition alone tells us there will be significant costs of duplicating management services in the move to establish 760 PLGs units of government, and possibly giving up on some economies of scale in service delivery. The long run costs of maintaining the new federal system might also be expensive as the federal government takes on the task of monitoring and regulating the system, and as PLGs deepen their service delivery duties and use their newfound autonomy in different ways. There is also the question of how the burden of paying for federalism will be distributed, i.e., will it be partly paid by those PLGs that benefit most, or will it be paid by taxpayers in general?

4.12 Unfortunately, the cost of transitioning to a federal system in Nepal cannot be estimated reasonably with the data now available. We can only make some rough approximations of some of the direct costs. For example, in 2019, the federal government will transfer grant amounts equivalent to about 13 percent of GDP to PLGs. This amount, less the reduction in federal ministry budgets to compensate for devolution of responsibility for services, and less the amount of grants paid to local governments under the previous system, is a rough first approximation of the cost. But, as we outline in Table 44, and in the discussion below, these estimates are only suggestive.

Table 44: Estimating the Costs of Transitioning to Federalism

Cost Item	Cost Amount	Challenges
Government employment	Net number of new employees hired, and compensation rates	The federal government will resist offloading too many employees, and the new local governments will inflate their employment needs
Supporting Services, e.g., buildings, transportation, IT equipment, supplies, etc.	Could be costly especially where present physical infrastructure is weak. The choices made about new local government infrastructure will be made partly by the autonomous local governments.	Will the distribution of new intergovernmental transfers need to be more equalizing in order to bring building and equipment standards in poorer places up to some norms?
Capacity development and the establishment of Provincial Training Facilities	The demand for training will be great because of the reassignment of functions, and the great number of newly hired employees, and	A national capacity development and training plan is not yet in place.

	because of newly elected political leaders.	
Outyear costs	Equalization to address fiscal disparities.	Intergovernmental transfer reform; local government revenue mobilization.

Government Employment

4.13 The initial plan was for the federal government to transfer service delivery personnel to provincial and local governments, depending on where responsibility for delivering public services is assigned. It would also offload “excess” civil servants from ministries because decentralization will have shifted some management responsibilities to the lower level of government. In the short run, the cost would be relatively small because these “adjusted” employees are already on the payroll and no incremental costs other than promotion and relocation raises are implied.

4.14 However, the total number of positions offloaded by the federal government is well less than MOFAGA’s estimate of the number needed to provide an adequate staffing for provincial and local government management. As of March 2019, the gap in both civil service and service delivery personnel is estimated to be about 36,000 positions. This is roughly equivalent to 30 percent of current federal government employment (excluding teachers). The 2019 budget shows compensation of federal employees to account for about 3 percent of GDP. From this we can make a rough estimate that the annual recurring government labor cost will be at least 1 percent of GDP higher than at present. This is no more than a very rough first approximation.

Office Services and Physical Infrastructure

4.15 The FCNA survey of local governments found wide variation in existing space and facilities across provincial and local governments. Among the important concerns in some smaller municipalities were such basic support services as office space and meeting rooms, power connections, cellular service reliability, and internet connectivity. Relatively few local governments have local area networks available other than the accounting and budgeting systems. The stock of equipment such as computers, printers, motor vehicles, and other transport modes also varies widely but seems to roughly follow staff size. Buildings are a more difficult matter. Making an estimate of the longer-run cost of adequate space for 760 PLGs is not easily done. Details on the current stock of adequate space are not readily available from the asset management records of the local and provincial governments, much of the space is rented, and there is the underlying question of who will pay for the new construction and what standards will be imposed.

4.16 The implications of the survey findings are that a backlog of costs to provide adequate connectivity and equipment will need to be met. But more precise estimates of this cost will depend on the number of new employees that are hired, the structure of public finance management upgrades, and the like. Most important of all, Nepal’s federal structure allows the PLGs autonomy to decide on how to spend their budgets and how much infrastructure to purchase. If Federalism works in Nepal, they will make different choices from one another.

Training and Capacity Building

4.17 The creation of 760 new PLGs with a major overhaul in the assignment of functional responsibilities has created a potentially huge demand for capacity-building and training. The number of possible clients is quite large. Even disregarding employees who deliver services, provincial and local governments will have over 50,000 staff who will be candidates for training. Above this, there are about 37,000 newly elected provincial and local government officers.

4.18 Government is still in process of deciding on the institutional arrangements for doing this training. There apparently will be more of a commitment to a decentralized approach than in the past, as evidenced by changes in the LDTA Act which was amended to allow the transfer of LDTA assets and properties to provincial governments. The development of a training and capacity building facility will be costly as it almost certainly will involve upgrades to the overall infrastructure including curriculum development, physical facilities, more faculty, IT training, a wider variety of course offerings, and the like. If training and capacity building are decentralized, the approaches and costs will vary by provinces, depending on affordability and demand, but the amounts involved could be significant.

Outyear Costs

4.19 After the transition is complete there will be outyear costs to manage the federal structure. One of the significant costs will be equalizing the system to keep disparities in the quality of public services within the boundaries laid out by Nepal's federalism plan. Whether and how this will be done will depend on the degree to which the government supports an equalization system (on the expenditure side of the budget) and on the policies adopted by the NNRFC for intergovernmental finance. This transition cost is uncertain in amount, because it will depend on policies that will be put in place by the government and by the NNRFC, but it could be significant in amount.

THE BENEFITS OF FEDERALISM

4.20 Implementing a federal system will turn out to be costly, but the shift to a federal structure might produce long term benefits that far outstrip these costs. The Constitution designed the new federal structure with the primary goal of nation building. The idea was to build a more cohesive society, with greater equality and more participation in governance. The plan was to end the conflict and to reduce the potential for future conflict. The Nepalese people and their economy could gain significantly if Federalism contributes to achieving these goals.

4.21 Five potentially major benefits of federalism can be identified, though measuring these benefits comparing them directly to costs cannot be done.

1. The avoidance of conflict would be a major benefit. One study reported that the civil war in Nepal was responsible for a cost equivalent to about 3 percent of GDP (Ra and Singh, 2005). This estimate is similar to the results obtained from international comparative analysis in other conflict countries (Collier, 1997). Such measures of the cost of conflict are important to consider, even if accurate measurement is not possible.
2. Increased productivity of disadvantaged population that results from more education of minorities, more job opportunities for minorities, more public services directed to minority needs and less discrimination can increase the stock of wealth in a country. A

World Bank study estimates that gender equality alone would be consistent with 14 percent increase in the worldwide wealth of nations (Wodon, et.al., 2018).

3. More voice in government decisions about what services will be provided could result in the local population getting more of the services they want from government. This suggests more accountability of public officials, and a greater willingness to pay taxes by local populations. These welfare gains can be real enough to the people in Nepal, but they cannot be given a monetary value.

IV. RECOMMENDATIONS

4.22 The results of this capacity needs analysis point toward nine recommendations that could move the implementation of federalism forward.

4.23 First, the governments in Nepal (federal, provincial, and local) should decide how to complete the task of filling the needs-capacity gap to implement the federalism envisioned in the Constitution. A forum of governments (possibly the federal government, the IPC, and representatives of municipal-rural local governments) should come together to develop a plan for filling this gap. That plan should be affordable and have a reasonable timeline. There is some urgency in moving forward with this.⁸⁵ In making the decision, the questions that need to be answered include:

1. Will all the “needed” positions at the provincial and local government level (as estimated by the MOFAGA O&M survey) be filled, and on what timeline? Will additional federal civil service employees be relocated to PLGs? Or, will provincial and local governments be asked to undertake their own O&M studies, and to recruit new employees through their PPSCs?
2. How will mismatches between local government needs and the skills brought by newly assigned local government employees be dealt with?
3. Will the transfer of non-employment assets of the central governments (as outlined in the Inter-Provincial Council (2018) Action plan) be completed in FY 2019?
4. By how much will the revenue envelope of provincial and local governments, i.e., intergovernmental transfers, be expanded to accommodate the hiring of new employees, the training of new officers, and the upgrading of basic facilities?

4.24 Second, the Parliament, (supported by the Ministry of Law and MOFAGA) must complete the legal framework that empowers provincial and local governments to adequately deliver and manage services. There remains a queue of unfinished framework and operations legislation to be addressed.

⁸⁵ The Public Service Commission’s vacancy notice issued on May 29 to recruit 9,161 employees for 515 local governments was challenged in the courts on two grounds; (i) whether the commission has the constitutional authority to start recruitment of staff for local governments and (ii) whether it ensured 45 percent reservation for the various marginalized group as per the Civil Service Act. The Supreme Court refused to issue an interim order to stop the recruitment citing Section 12 (5) of Employees Adjustment Act which states that the federal government can request the commission to start the recruitment process for filling vacant posts until Provincial Public Service Commissions are in place. Although the court allowed the continuation of the recruitment, it said it will make a ruling on the constitutionality of it in the final verdict. The PSC reported that it has received a total of 440,163 applications from 256,235 applicants.

4.25 Third, the long-term success of the National Natural Resource and Fiscal Commission will be greatly helped if the members have strong competency in the field of intergovernmental fiscal relations. Provision should be made to support the Commission with a Secretariat and a well-trained fiscal decentralization cell, created and staffed to focus on design, evaluation and monitoring of the intergovernmental fiscal system. The binding powers of the NNRFC to set the level and distribution of intergovernmental transfers (Art. 60) underlines the need to work out a coordination plan for the NNRFC, the federal government, and the Parliament.

4.26 Fourth, a national-provincial plan and an institutional arrangement for training and capacity- building should be adopted and the new facility should begin functioning as soon as possible. The plan should include skill training for PLGs employees as well as providing technical assistance for procedures and methods of addressing administrative issues. Establishing training priorities are important and should be coordinated with the implementation roadmap.

4.27 Fifth, the assignment of expenditure responsibilities should be revisited and made clearer in terms of which level of government should have responsibilities for which functions. The expenditure responsibilities of provincial and local governments are murky and need another look. A window of opportunity for revisiting the unbundling exercise could be in the drafting and amending of the national sectoral laws that were flagged by the Ministry of Law as noncompliant with the new Constitution. To the extent possible, the number of concurrent functions should be reduced, and the functions that appear on more than one exclusive list should be eliminated. Resolving this issue now will be far less costly than doing it after delivery systems get entrenched.

4.28 Sixth, the government should update its PFM Reform Strategy and Action Plan to encompass the three levels of government. As the government's public finance management projects shift toward PLGs, training and capacity-building should be emphasized. An independent and upgraded public finance management academy dedicated to developing this training could be of great value to Nepal.

4.29 Seventh, gender equity and minority inclusion programs can benefit from the introduction of federalism if these programs are effectively planned and if they are introduced with the right timing. The distribution of intergovernmental transfers might also indirectly favor this objective, depending on the conditions they carry. GESI budget practices could be sharpened and should be more effectively monitored. Measures such as performance grants to reward successful GESI budgets could be considered.

4.30 Eighth, a database should be created for continuing evaluation of the performance of PLGs. The data base should bring together information about the fiscal performance of PLGs and their population characteristics, economic structures, and infrastructure stocks. This is crucial for the success of the Fiscal Commission (and for fiscal planning in general). It will enable a regular tracking of fiscal equalization across PLGs and would allow for evidence-based evaluations of the potential of reforms that the government might consider.

4.31 Ninth, provincial and local governments have a significant role to play in moving the successful implementation of federalism forward and have the autonomy to take independent actions. Much can be done even without actions by the federal government. Examples include developing an inventory of training needs, aggressively guarding against corruption including

nepotism, pushing for more transparency in governance and for more community involvement, mobilizing revenues through tax and nontax sources, and backfilling in the case of missing parts of the local economic development strategy such as a local development plan or a gender plan. Provincial and local governments should put in place a self-monitoring system to enable reporting their progress.

V. AN ACTION PLAN FOR IMPLEMENTING FEDERALISM

4.32 The most important recommendation for government to consider is to move forward with an implementation plan for completing the transition to a federal structure.

4.33 One approach would be to put an implementation plan in place and allow it to be adjusted as the process goes forward. This could form a basis for monitoring the progress with the overall federalism process.

4.34 The responsibility for developing the implementation plan should not be with a particular level of government or a single ministry. A “Roadmap Committee” could be entrusted to design the implementation plan. Ideally, the committee should have representation from major stakeholders, and it should have technical staff. For example, it could be a body chaired by the Prime Minister, with members from MOFAGA, the Inter-Provincial Council, the local government associations, and a distinguished intergovernmental fiscal expert from outside government. A natural home for the committee might be the Inter-Provincial Council, or it might be established under the Intergovernmental Coordination Bill (Art. 235), if this idea could get buy-in from the other important stakeholders. Once the roadmap is in place and accepted by the Committee, its’ management and regular upgrading could be turned over to another body for tracking and updating.

4.35 Drawing on the discussions in the previous section of the policy note and Federalism Capacity Needs Assessment Report, the table below provides a blueprint for a roadmap. The roadmap itself should be prepared through a consultative process with all stakeholders and owned by the government. The table below is intended to stimulate discussions for a federalism implementation roadmap by proposing ideas around three Fs (Functions, Funds, and Functionaries) and organizational & institutional arrangements.

Table 45: Potential Outline for a Nepali Federalism Roadmap

Issue	Description	Method of address in implementation plan	Sequencing concerns
Functions			
Concurrent responsibilities	Clarify concurrent expenditure assignments	Review unbundling exercise for concurrent assignments	Capacity of SFGs to assume service delivery responsibilities is essential.
Recommendations:			
<ul style="list-style-type: none"> • Review all the relevant sectoral legislations to make sure that functional assignment is clear • Design a capacity improvement plan for PLGs in these areas 			

<p>Devolution of service delivery responsibility</p>	<p>How exactly will devolved functions and functionaries be handed off from line ministries? What flow of resources will take place? Will there be a breakdown in service delivery for essential functions? What budget and management autonomy will be given to local governments?</p>	<p>Plan for a slower phased in transition. Clarify the shift of management responsibility and reporting lines Design capacity building interventions</p>	<p>Will the establishment of a contingency fund be necessary? An assessment of provincial capacity and needs to assume service delivery from line ministry must be undertaken before services are devolved Clarity on assignment of responsibility for management of health and education personnel must be put in place before devolution</p>
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Recommendations:

- Establish systems and tools to implement the Local Service Delivery Arrangements Act of 2018
- Establish communication channels between sector ministries and PLGs to address service delivery issues
- Review all the relevant sectoral legislations to make sure that functional complies with the constitutional mandate, for example:
 - Draft a Disaster Risk Reduction & Management Act clarifying role of federal and PLGs
 - Review Town Development Act of 1988
 - Revise Public Procurement Act
 - Review the Forestry Act
 - Review Water Resource Act 1992
- Transfer five regional emergency centers to provincial governments

<p>Monitoring and evaluation (M&E)</p>	<p>Where will responsibility for M&E of service delivery and local government performance in general be placed?</p>	<p>Design development interventions for M&E Clarify lines of responsibility and reporting Allocate adequate funding for M&E function</p>	<p>Systems for monitoring and evaluation are not yet in place Database adequate to support M&E not in place Training programs for M&E not yet established</p>
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Recommendations:

- Establish a federalization cell to do continuous evaluation of the intergovernmental systems

<ul style="list-style-type: none"> • Design a capacity building program for federal ministries on M&E • Design self-assessment evaluation tools for PLGs 			
Institution- alization of self- assessment for service delivery	Identification of institutional and organizational weaknesses for service delivery at the local level	There are existing tools, such as LISA, to identify service delivery weakness, which can be deployed immediately	Make sure LISA assessment is available to all local governments
Recommendation: Make sure that local governments' reports of LISA assessments are uniform			
Funds			
NNRFC and inter-governmental fiscal transfers	Dispute over how the duties and responsibilities of NNRFC will be interpreted	Clarity on the binding nature of recommendations Technical training of the secretariat staff	Commission is not fully staffed Initial review of the intergovernmental transfer system has not yet been done Need for stronger oversight of the NNRFC by the Parliament
Recommendations: <ul style="list-style-type: none"> • Appointment of commissioners • Staffing the NNRFC secretariat • Design study tours to other federal countries to improve the technical capacity of the NNRFC • Begin to develop an adequate data base to support the work of the NNRFC • Establish an ongoing training program for NNRFC secretariat 			
Provincial and local government revenue mobilization	PLGs adopt distortive taxes PLGs need to be encouraged to adopt new taxes PLGs need to improve local tax and revenue administration	Capacity building and training Build incentives into grant programs Technical assistance in drafting new legislation including model laws	Capacity building and training program not yet in place Strong incentives in the legislation to promote increased local revenue mobilization are not in place No monitoring in place
Recommendations: <ul style="list-style-type: none"> • Review the use of intergovernmental transfers to incentivize own source revenue collection • Improve the capacities of PLGs to administer tax bases, establish databases, and collect taxes • Establish monitoring system for revenue collection 			

<ul style="list-style-type: none"> • Clarify tax assignment for shared taxes • Establish divisible fund to share the natural resource royalties 			
Funds for investments	Underdeveloped domestic capital market limits PLGs' ability to raise financing for investments.	Capitalization of domestic intermediaries (such as Town Development Fund)	Improve financial management capacities of PLGs before promoting access to capital markets
Recommendations:			
<ul style="list-style-type: none"> • Improve the capacity of PLGs across public investment management cycle • Improve transparency of PLGs finances • Strengthen the legal and institutional framework for PPPs • Review Town Development Act (1988) and update it based on the provisions of the Constitution 			
Public Financial Management	Time delays in extending PFM programs to the PLGs sector Limited capacity to absorb PFM improvements	Design technical assistance, capacity building and training programs for PLGs	Capacity building and training plan not yet in place
Recommendations:			
<ul style="list-style-type: none"> • Strengthen the capacity of PLGs • Identify projects and programs to be transferred to PLGs • Prepare a plan to transfer them • Preparation and implementation of an expenditure reporting system for PLGs by OAG 			
Accounting and reporting	Ensure comparability and accuracy in financial reporting Periodicity of external audits	Design capacity building and training programs for PLGs Provide incentives for compliance	Capacity building and training program not in place
Recommendation: Strengthen the capacity of provincial and local governments			
Alignment of plans	The linkages between various planning instruments are very weak.	Annual plans prepared by PLGs are not aligned with medium term plans prepared by sector ministries.	Medium-term plans prepared with the involvement of PLGs first, then, annual plans prepared by PLGs.
Recommendations:			
<ul style="list-style-type: none"> • Promote citizen engagement and participation in medium term plans • Involve provincial and local governments in the preparation of medium-term plans 			
Standard-ization of PFM software	Proliferation of PFM software (SUTRA, EazyTech, Shangrila); Proliferation of PFM software at the provincial level (NPSAS, LMBIS)	Identification of the best software in terms of coverage (planning, budgeting, accounting etc.) and user-friendliness to roll out	Familiarization of local governments with the selected software

		across local governments	
Recommendations:			
<ul style="list-style-type: none"> • Training of local government finance officials on the selected software • Ensure the Budgeting and Accounting Software used by all governments are interlinked between budgeting and reporting and across all three tiers 			
Procurement	Current system promotes fragmentation of large contracts; A majority of projects procured by user committees without a formal tendering process	The quality of public works is low as projects less than \$100K are managed by user committees	The informal nature of procurement coupled with the absence of monitoring system undermines transparency and accountability across the procurement cycle.
Recommendations:			
<ul style="list-style-type: none"> • Establish standard procurement documents (contract, tender documents, etc.) • Make sure that user committees comply with procurement guidelines and use official procurement documents • Revise Public Procurement Act • Prepare sample Public Procurement Rules for PLGs 			
Functionaries			
Devolution of functionaries	Needs at each level not properly estimated Unfilled gap at PLGs levels Unqualified employees devolved	Understand incentives structures for readjustment Design a program for redeploying federal staff at PLGs levels by addressing incentives Allow provincial governments to recruit through Provincial Civil Service Commissions	Provincial Civil Service Commission legislation is not complete
Recommendations:			
<ul style="list-style-type: none"> • Finalize current staff profile assessments and development of model organizational structures for local governments as mandated by the Local Service Delivery Arrangements Act of 2018 • Establish an institutional framework for making deputed staff (federal staff adjusted to PLGs levels) accountable to PLGs • Review the financing system for recurrent expenditures: there is a need for a financing plan for the sustainability of PLGs wage bill 			

<ul style="list-style-type: none"> • Draft a law for that forms the basis of establishing the Province Civil Service Commission • Draft the Civil Service Act that sets the basis for the formation of the Province Civil Service • Provide provinces with a draft Province Civil Service Law • Draft laws that set the criteria for the formation and terms of service for Local Service 			
Identification of human capacity needs at the PLGs level	The provincial and local governments have the legal authority to carry out their own O&M surveys to determine their staffing needs. However, they don't have the capacity to do so.	Work with PLGs to design an O&M survey similar to the one conducted by MOFAGA	Finalization of model organizational structures for PLGs
<p>Recommendations:</p> <ul style="list-style-type: none"> • Help provincial and local governments to carry out their own O&M surveys • Draft law for that forms the basis of establishing the Province Civil Service Commission • Draft the Civil Service Act that sets the basis for the formation of the Province Civil Service • Provide provinces with a draft Province Civil Service Law • Draft laws that set the criteria for the formation and terms of service for Local Service 			
Misalignment employment profile at the federal level	Sector ministries' institutional inheritance is out-of-sync with their new federal mandate.	Sector ministries are under-capacitated with respect to their federal mandate (policy-setting & monitoring and evaluation) and over-capacitated with respect to implementation functions for which they are no longer responsible.	Improve the capacity of sector ministries vis-à-vis their new federal mandates
<p>Recommendation: Equip sector ministries to undertake their new federal mandates on policy-setting & monitoring and evaluation</p>			
Organizational and Institutional			
Gender Equality and Social Inclusion (GESI)	Many PLGs do not have a GESI plan M&E on progress is not adequate Training and monitoring of GESI budget practices is limited	Improve GESI budget practices Establish Provincial Civil Service Commission and hiring/management rules	PCSCs management rules and authorization for hiring is not in place External monitoring of GESI outcomes not yet in place

	Clarify GESI extensions to new hiring		
Recommendations:			
<ul style="list-style-type: none"> Promote local civil society for the engagement with socially excluded groups and to disseminate information on rights Establish a monitoring system with local civil society on GESI plan Put in place legislation to enable PCSC hiring and management practices 			
Investment accountability	Capital expenditures are too heavily biased in favor of small projects with neighborhood benefits Borrowing practices not yet established	Conditional grants to stimulate investments with areawide benefits Adopt local government revenue mobilization improvements	Structure of intergovernmental transfers to stimulate capital spending Incentives to increase user charges Institute formal borrowing practices
Recommendations:			
<ul style="list-style-type: none"> Promote local associations Use social mobilizers (drawing from LGCDP experience) Use Citizen Awareness Centers effectively Amend domestic debt law to allow PLGs to raise domestic debt 			
Institutional framework for inter-governmental coordination	Confusion over roles and responsibilities of federal, provincial, and local governments in certain areas Monitoring of PLGs' performance	Need clarity in responsibility for certain services Consider a more phased-in assumption of responsibilities for PLGs	No arrangement for a phased in responsibility and autonomy is in place No provision for monitoring performance is in place
Recommendation: Inter-Provincial Council (mandated by the Constitution) and Inter-Governmental Finance Council (mandated by the Intergovernmental Fiscal Arrangement Act) are the only two institutional coordination mechanisms established so far. There is a need for inter-ministerial coordination mechanisms with respect to the development of policy and the administration of the PLGs systems. In the absence of intergovernmental coordination mechanisms, different administration tools and systems (in case of PFM, for example, SUTRA and MARS systems) are being promoted.			
User committees and civil society involvement	Confused continued role for user committees Who will represent the interests of local governments?	Redefine capital investment planning	The role of civil society has not been addressed in detail
Recommendation: Use local civil society effectively as a stakeholder.			
Database	Inadequate accurate data to track fiscal performance of PLGs	Develop a data base that integrates fiscal and socioeconomic data	A plan to do this at the national level does not appear to be developing quickly

	Inadequate data to populate and evaluate intergovernmental transfer programs	Produce the data on a timely basis	
Recommendation: Appoint a Committee of experts to prepare a proposal for the content of a data base that could serve the goals of monitoring the performance and entitlements of PLGs.			
Local government preparedness	FCNA survey produced a significant list of needs for PLGs to effectively implement federalism	Action plan for follow up on these	No mechanism for follow up is in place
Recommendations:			
<ul style="list-style-type: none"> • Empower a task force to put an action plan in place • Consider a more phased in implementation of federalism, based on readiness 			
Legislative Actions	Important pieces of legislation for implementing federalism are not in place	Enact all required legislation for implementing Federalism	Key issues are PPSC legislation, bill of rights, some sectoral laws; others
Recommendations: Review Parliament’s priorities and timeline for new legislation regarding:			
<ul style="list-style-type: none"> • Draft a new law for private firm registration and commercial enterprise regulations • Prepare a sample inter-provincial trade management law for the provinces • Prepare a sample law for consumer protection and market monitoring for PLGs • Draft a new law for the operation of stone, sand collection & crusher industries • Draft new laws for land use and management • Review the Land Acquisition Act 2034 (1977) and Immovable Property Requisition Act 2013 (1956) in the context of federalism • Draft a new law relating to management of starters and unmanaged settlers • Draft laws relating to Nepal police - their functions, supervision and coordination with provincial police • Draft the province police integration law • Draft a new law setting criteria for recruitment, training, uniform and security of provincial police • Draft a domestic security law that also defines the CDO’s roles at the federal and province levels • Review acts relating to prisons • Review laws regulating license issuance for FM radio and TV stations • Review the Forestry Act • Review Water Resources Act 			

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ANNEX A: INTER-PROVINCIAL COUNCIL ACTION PLAN

Unofficial Translation

Chapter 2 Federalism Implementation Facilitation Action Plan The First Inter-Provincial Council Meeting, December 9, 2018

S.N.	Topic/area of problem	Solution measures/activities	Responsible Agency	Deadline	Monitoring Agency	
1.	Organization and Structure	a) To review the number and structure of the provincial ministries and organizational structure of their subordinate agencies after surveying the new organization and management based on the rights and the functions of the provinces.	Ministry of Federal Affairs and General Administration, Chief Minister and the Office of the Council of Ministers	Chaitra 2075 (Mid-April 2019)	Office of the Prime Minister and Council of Ministers	
		Remarks on Measure 1 a): Ministry of Federal Affairs and General Administration to facilitate the Chief Minister and the Office of the Council of Ministers. After the staffing adjustment is completed by mid-January, the provinces to determine the organizational structure and positions as per their need and suitability.				
		b) Hand over the remaining organizational structures as per the rights and functions of the province to the provincial governments.	Related federal ministries	Magh 2075 (Mid-February 2019)	Office of the Prime Minister and Council of Ministers	
		c) Nepal Rashtra Bank to establish its offices in each of the provinces	Nepal Rastra Bank	Chaitra 2075 (Mid-March 2019)	Ministry of Finance	
		d) Banks and Financial Institutions to establish their contact offices at the province level	Ministry of Finance, Nepal Rashtra Bank	Poush 2076 (Mid-January 2020)	Nepal Rashtra Bank	
		e) Scrap the remaining regional offices and directorates of the federal agencies and transfer the physical assets (Building, vehicles) of the scrapped as well as to be scrapped offices to the provincial governments.	Related federal ministries	Poush 2075 (Mid-January 2019) for those which can be scrapped immediately and Fagun 2075 (Mid-March 2019) for those which need to be scrapped through an Act.	Office of the Prime Minister and Council of Ministers	
		f) Review the Town Development Act, 2045 (1988) and scrap the Town Development Committee	Ministry of Urban Development	21 st Fagun 2075 (5 March 2019)	Office of the Prime Minister and Council of Ministers	
g) Transfer the existing five regional emergency operation centers and regional emergency warehouses to the provincial governments as provincial emergency operation center and provincial emergency warehouse and keep them under the jurisdiction of provincial governments. The federal government to make provision for	Ministry of Home Affairs, Chief Minister and the Office of the Council of Ministers, Province Ministry of Internal Affairs and Law	Magh 2075 (Mid-February 2019)	Office of the Prime Minister and Council of Ministers			

		constructing similar structures in the additional two provinces.			
2	Education Development and Coordination	Establish an Education Development and Coordination office as per the need.	Ministry of Home Affairs, Ministry of Federal Affairs and General Administration, Ministry of Education, Science, and Technology	Poush 2075 (Mid-January 2019)	Office of the Prime Minister and Council of Ministers
3.	Human Resource	a) Conclude the staff adjustment process	Ministry of Federal Affairs and General Administration, federal ministries that operate service groups	Poush 2075 (Mid-January 2019)	Office of the Prime Minister and Council of Ministers
		b) Only in case of all positions not being fulfilled even after the adjustment process and the Central Pool provision, hire staffs for approved technical positions on a contract basis with establishing criteria and the provision that they will be automatically removed after the positions are fulfilled permanently.	Office of the Chief Minister and the Council of Ministers	Magh 2075 (Mid-February 2019)	Office of the Prime Minister and Council of Ministers
		c) Ministry of Federal Affairs and General Administration to prepare sample criteria for this purpose and send to the provinces.	Ministry of Federal Affairs and General Administration	Magh 2075 (Mid-February 2019)	Office of the Prime Minister and Council of Ministers
		d) After the adjustment process is completed, to fulfill the vacancies of the Province, vacancy fulfillment process to be carried forward by the Civil Service Commission on the request of the Provincial Government. Office of the Chief Minister and the Council of Ministers to fill the demand requisition form for the vacant positions and send to the Ministry of Federal Affairs and General Administration.	Ministry of Federal Affairs and General Administration	Magh 2075 (Mid-February 2019)	
4.	Assets and infrastructure	a) Provide the building or land or other physical assets being used by the ministries/agencies of Provincial government to the Provincial government	Office of the Prime Minister and Council of Ministers, Related federal ministries, Office of the Chief Minister and the Council of Ministers	Fagun 2075 (Mid-March 2019)	Office of the Prime Minister and Council of Ministers
		b) Provide the government land except for the land with Government of Nepal's structure or where government structure shall be built, to the provincial government as demanded by the provincial council of ministers for constructing its office	Office of the Prime Minister and Council of Ministers, Related federal ministries, Office of the Chief Minister and Council of Ministers	Chaitra 2075 (Mid-April 2019)	Office of the Prime Minister and Council of Ministers
		c) On the recommendation of the related Office of the Chief Minister and Council of Ministers, the Government of Nepal to provide the land, building, and other physical assets of scrapped district-level federal offices to the provincial and local government on the basis of need and suitability for the purpose of government office only.	Office of the Prime Minister and Council of Ministers, Related federal ministries, Office of the Chief Minister and Council of Ministers	Chaitra 2075 (Mid-April 2019)	Office of the Prime Minister and Council of Ministers

5.	Law	a)	Draft a law to amend some Nepali laws to amend and scrap the laws that conflict with the constitutional provisions and to revise and amend the laws to align them with the constitution as per the provision made by the Article 304 of the Constitution of Nepal.	Ministry of Law, Justice, and Parliamentary Affairs	21 st Fagun 2075 (5 th March 2019)	
		b)	Draft laws related to the inter-coordination between the federal, provincial, and the local level.	Office of the Prime Minister and Council of Ministers, Ministry of Law, Justice, and Parliamentary Affairs	Fagun 2075 (Mid-March 2019)	
		c)	In consultation with the provincial and local level, with regards to the topic of list of common rights, draft laws clarifying the rights of all the three levels regarding education, electricity, irrigation, water resources, forest, communications, industry, tourism, transport, environment, agriculture and animals and birds in the first phase based on the priority.	Thematic federal ministries, Ministry of Law, Justice, and Parliamentary Affairs, Office of the Chief Minister and Council of Ministers	Chaitra 2075 (Mid-April 2019)	Office of the Prime Minister and Council of Ministers
		d)	Draft federal law related to Guthi	Ministry of Land Management, Cooperatives, and Poverty Alleviation	21 st Fagun 2075 (5 th March 2019)	Office of the Prime Minister and Council of Ministers
		e)	Draft law regarding land use	Ministry of Land Management, Cooperatives, and Poverty Alleviation	Chaitra 2075 (Mid-April 2019)	Office of the Prime Minister and Council of Ministers
		f)	Amend the existing law related to public procurement in the context of federalism and incorporating other necessary topics as well.	Office of the Prime Minister and Council of Ministers	Fagun 2075 (Mid-March 2019)	Office of the Prime Minister and Council of Ministers
		g)	Draft law related to the function, supervision, and coordination of Nepal Police and Provincial Police.	Ministry of Home Affairs, Ministry of Law, Justice, and Parliamentary Affairs	Fagun 2075 (Mid-March 2019)	Office of the Prime Minister and Council of Ministers
		h)	Draft law related to the federal Police.	Ministry of Home Affairs, Ministry of Law, Justice, and Parliamentary Affairs	Fagun 2075 (Mid-March 2019)	Office of the Prime Minister and Council of Ministers
		i)	Draft a federal law related to domestic security incorporating topics including the determination of the federal and provincial level roles of the Chief District Officer.	Ministry of Home Affairs, Ministry of Law, Justice, and Parliamentary Affairs	Fagun 2075 (Mid-March 2019)	Office of the Prime Minister and Council of Ministers
		j)	On request of the Province, provide the sample draft of the laws needed for the province.	Related federal ministries and Ministry of Law, Justice, and Parliamentary Affairs	Within 3 months of receiving the request	Office of the Prime Minister and Council of Ministers
		k)	On request of the Province, maintain coordination between the Nepal Law Commission and the Provincial Government and make expertise available to the Provincial Government for drafting the laws needed for the province.	Ministry of Law, Justice, and Parliamentary Affairs, Nepal Law Commission	As per the need	Office of the Prime Minister and Council of Ministers

		l) Amend the inter-government finance management related act with incorporating topics including the time for budget submission by the province and the local level.	Ministry of Finance, Ministry of Law, Justice, and Parliamentary Affairs	Chaitra 2075 (Mid-April 2019)	Office of the Prime Minister and Council of Ministers
		m) Amend the Disaster Risk Reduction and Management Act clarifying the structure and roles of the Provincial Government and the Local level.	Ministry of Home Affairs	Baisakh 2076 (Mid-May 2019)	Office of the Prime Minister and Council of Ministers
		n) Draft the provincial police integration law.	Ministry of Home Affairs	Fagun 2075 (Mod-March 2019)	Office of the Prime Minister and Council of Ministers
6.	Criteria/ Procedures	a) Draft law on basis and criteria for the formation of Provincial Civil Service Commission.	Office of the Prime Minister and Council of Ministers	Fagun 2075 (Mid-March 2019)	
		b) Draft law for the basis and criteria related to the recruitment selection, educational qualification, training, uniform, and security etc. of the Provincial Police.	Ministry of Home Affairs	Fagun 2075 (Mid-March 2019)	Office of the Prime Minister and Council of Ministers
		c) Draft a Federal Civil Service Act incorporating topics including the basis and criteria for the formation and terms of service of the Provincial Civil Service.	Ministry of Federal Affairs and General Administration	Fagun 2075 (Mid-March 2019)	Office of the Prime Minister and Council of Ministers
		d) Draft a sample law regarding Provincial Civil Service and make it available to the Province.	Ministry of Federal Affairs and General Administration, Ministry of Law, Justice, and Parliamentary Affairs	Chaitra 2075 (Mid-April 2019)	Office of the Prime Minister and Council of Ministers
		e) Draft laws related to the basis and criteria for the formation and terms of service for Local Service.	Ministry of Federal Affairs and General Administration	Chaitra 2075 (Mid-April 2019)	Office of the Prime Minister and Council of Ministers
		f) Draft the policy and criteria related to Integrated Settlement Development.	Ministry of Urban Development, Ministry of Land Management, Cooperatives, and Poverty Alleviation	Fagun 2075 (Mid-March 2019)	Office of the Prime Minister and Council of Ministers
		g) Draft the policy and criteria related to the operation of financial institutions on the provincial level.	Ministry of Finance, Nepal Rashtra Bank	Fagun 2075 (Mid-March 2019)	Office of the Prime Minister and Council of Ministers
		h) Related federal ministries to draft the policies and criteria related to the topics related to the list of common rights.	Related federal ministries	Fagun 2075 (Mid-March 2019)	
7.	Tax and Revenue	a) Implement the Nepal Government's Cabinet's decision regarding taxes made on 3 rd December 2018.	Office of the Prime Minister and Council of Ministers, Ministry of Finance, Ministry of Federal Affairs and General Administration, Provincial Government and Local Level	Immediately	Ministry of Finance
		b) Clarify about the taxes under the jurisdiction of the two or three levels.	Ministry of Finance, Ministry of Law, Justice, and Parliamentary Affairs	Jeth 2076 (Mid-June 2019) for topics that need to be clarified by formulating or reviewing the law	Office of the Prime Minister and Council of Ministers

				and Chaitra 2075 (Mid-April 2019) for topics that need to be clarified through policies and criteria.	
8.	Natural Resources	a) Form the National Natural Resources and Finance Council	Constitutional Council, Office of the Prime Minister and Council of Ministers	Poush 2075 (Mid-January 2019)	
		b) Draft law on the distribution of the benefit gained from the utilization of natural resources as per the Article 59(4) of the Constitution.	Office of the Prime Minister and Council of Ministers, National Natural Resource and Finance Commission, Ministry of Finance, Ministry of Federal Affairs and General Administration	Chaitra 2075 (Mid-April 2019)	Office of the Prime Minister and Council of Ministers
		c) Establish a divisible fund for the sharing of the royalty received from the natural resources.	Ministry of Finance	Poush 2075 (Mid-January 2019)	Office of the Prime Minister and Council of Ministers
		d) Draft a law regarding the criteria for the operation of the stone, aggregate, sand collection and distribution and crusher industries.	Ministry of Federal Affairs and General Administration, Ministry of Physical Infrastructure and Transport, Ministry of Forest and Environment, Ministry of Industry, Commerce, and Supply	Fagun 2075 (Mid-March 2019)	Office of the Prime Minister and Council of Ministers
9.	Budget and Expenses	a) Hand over all the projects and programs that were transferred to the province and local level through the federal budget of the current fiscal year and are ascertained to be completed by the related level along with all the records of detailed project report, financials, physical status, and contract management.	All the related federal ministries	Poush 2075 (Mid-January 2019)	Office of the Prime Minister and Council of Ministers
		b) For the projects being implemented under the multi-year contracts, prepare the following details and send them to the related agency: Project period, cost, details of the expenses till date and physical progress, and Expenses of the current fiscal year till date, the amount that can be spent by the end of the fiscal year (Mid-July) and the physical progress.	Infrastructure related federal ministries	Poush 2075 (Mid-January 2019)	Office of the Prime Minister and Council of Ministers
		c) Determine the total budget required and the budget required in the current fiscal year for the multi-year projects and programs handed over by the federal level and carry out budget management based on priority and availability of resources.	Ministry of Finance	As per the need	Office of the Prime Minister and Council of Ministers

		d) Determine the number and cost of the projects and programs who financial liability had already been created before the handover and carry out budget management based on the work progress through conditional grants annually.	Ministry of Finance	Magh 2075 (Mid-February 2019)	Office of the Prime Minister and Council of Ministers
		e) i. If there is a need to send additional funds as the authority and release from the federal ministry due to the changes in the structure and scope after the Province has passed the budget, carry out the activity. ii. Province and local level to incorporate thus received funds and amend the income and expenses and the laws related to it.	Related federal ministry, Province's Ministry of economic affairs and planning	Poush 2075 (Mid-January 2019) Fagun 2075 (Mid-March 2019)	Office of the Prime Minister and Council of Ministers
		f) When the federal level has to complete the project operated with foreign assistance and other necessary projects that were handed over to the provincial and local level by the Government of Nepal, carry out the process in agreement of the related province and local level.	Related federal ministries	Immediately	Office of the Prime Minister and Council of Ministers, Ministry of Finance
		g) i. Make a provision allowing the province and local levels to procure the medicines that are listed in the Basic Health Service 2075 package and meet the quality standard as per their approved budget based on the criteria approved by the Ministry of Health and Population and the provisions made in the Public Procurement Facilitation Guidelines until the provision is made for a structural procurement. ii. Ministry of Health and Population to procure all kinds of vaccines and other medicines and make them available to the province and local level.	Ministry of Health and Population, Ministry of Finance, Office of the Chief Minister and Council of Ministers	Poush 2075 (Mid-January 2019)	Office of the Prime Minister and Council of Ministers
		h) Direct the attention of related agencies with regards to the issues where the implementation has been done without passing the budget of the current fiscal year to date.	Ministry of Federal Affairs and General Administration, Office of the Chief Minister and Council of Ministers	Poush 2075 (Mid-January 2019)	Office of the Prime Minister and Council of Ministers
		i) Hand over all the documents and records related to the physical aspects and planning of the projects operated with the assistance of development partners and completed already that fall under the function of the province and local level to the related province and local level.	Related federal ministries	Immediately	Office of the Prime Minister and Council of Ministers
10.	Internal loan	Amend the internal debt related law and prepare the procedures for the debt raised by the province and the local level.	Ministry of Finance	Fagun 2075 (Mid-March 2019)	Office of the Prime Minister and Council of Ministers
11.	Accounting and Financial Audit	a) Prepare expenditure reporting system for the province and local level and implement it.	Office of the Auditor General	Magh 2075 (Mid-February 2019)	Ministry of Finance
		b) Make the necessary modifications to the Budget and Accounting Software currently being used at the federal, provincial, and local level and maintain interlinkage	Ministry of Finance, Office of the Auditor General	Chaitra 2075 (Mid-April 2019)	Office of the Prime Minister and Council of Ministers

		between the budget and reporting system of all the level from the upcoming fiscal year.			
		c) Update the account/books related to the offices, programs, and projects that were previously under the federal level and have now been handed over to the province and local level and appoint the related responsible officer to carry out the financial audit of these offices, programs, and projects for the last year.	Related federal ministries, province, and local level	Continuously	Ministry of Finance
		d) Establish an information system allowing province and local level to report on the issues that fall under the scope of the thematic ministry and implement the same.	Related federal ministries, Ministry of Federal Affairs and General Administration, Office of the Chief Minister and Council of Ministers	Start immediately and continue	Related federal ministries
		Remarks on 11.d): Office of the Prime Minister and Council of Ministers			
12.	Plan and programs	a) Province and local levels to formulate periodic plans remaining within the framework of the national plans.	National Planning Commission, Province's Ministry of Economic Affairs and Planning and local levels	Chaitra 2075 (Mid-April 2019)	Office of the Prime Minister and Council of Ministers, National Planning Commission
		Remarks on 12.a): While preparing their periodic plans and medium-term expenditure structure, for plans and programs beyond their capacity, the local level should provide them to the province level. Similarly, while preparing their periodic plans and medium-term expenditure structure, for plans and programs beyond their capacity, the province level should prepare a separate project bank of such plans and programs and provide it to the National Planning Commission.			
		b) Province and local level to prepare a medium-term expenditure structure from fiscal year 2076/077 to fiscal year 2078/079.	Province's Ministry of Economic Affairs and Planning and local levels	Jeth 2076 (Mid-June 2019)	National Planning Commission
		c) Categorize the projects based on whose responsibility they fall under – federal, provincial, and local level.	National Planning Commission, federal ministries related to infrastructure	Baisakh 2076 (Mid-May 2019)	Office of the Prime Minister and Council of Ministers
13.	Foreign Relations	Prepare guidelines on the diplomatic courtesy, code of conduct to be followed by the province and local level.	Ministry of Foreign Affairs	Magh 2075 (Mid-February 2019)	Office of the Prime Minister and Council of Ministers
14.	Foreign Visits	Prepare a procedure regarding the foreign visits of the officials and staffs of the provincial government and local levels.	Office of the Prime Minister and Council of Ministers, Ministry of Federal Affairs and General Administration	Magh 2075 (Mid-February 2019)	Office of the Prime Minister and Council of Ministers
15.	Development Assistance	Revise the Development Assistance Policy incorporating topics including the development assistance mobilized at the provincial government and local level.	Ministry of Finance	Magh 2075 (Mid-February 2019)	Office of the Prime Minister and Council of Ministers
16.	Inter-government	a) Establish an interim management and contact office of the Province Chiefs and Chief Minister's residence in the Kathmandu valley.	Ministry of Urban Development	Chaitra 2075 (Mid-April 2019)	Office of the Prime Minister and Council of Ministers

	coordination and relation	b) Complete the construction of the residence of the Province Chief and Chief Minister in the Kathmandu valley.	Ministry of Urban Development	Chaitra 2077 (Mid-April 2021)	Office of the Prime Minister and Council of Ministers
		c) Establish the Secretariat of the inter-province council at the Office of the Prime Minister and Council of Ministers	Office of the Prime Minister and Council of Ministers	Immediately	
		d) Prepare procedures regarding the meeting of the inter-province council.	Meeting of the Inter-province council	Poush 2075 (Mid-January 2019)	Office of the Prime Minister and Council of Ministers
17.	Comm-unications	Amend the laws to allow issuing of license and regulation of FM radio and television broadcasting at the province and local level.	Ministry of Communications and Information Technology.	Fagun 2075 (Mid-March 2019)	Office of the Prime Minister and Council of Ministers
18.	Order of Precedence	Review the order of precedence	Ministry of Home Affairs	Poush 2075 (Mid-January 2019)	Office of the Prime Minister and Council of Ministers
19.	Public Procurement	a) Province and local level also to abide by the provisions made by the Federal Public Procurement Act while carrying out procurement activities.	Federal, Province and Local Level	Immediately	Public Procurement Monitoring Office
		b) Prepare a sample draft of the Public Procurement Rules for the Province and Local Level and make it available to them	Ministry of Federal Affairs and General Administration	Chaitra 2075 (Mid-April 2019)	
20.	Prison Management	Review the Prison related Act and clarify the role of the Province level.	Ministry of Home Affairs	Chaitra 2076 (Mid-April 2020)	Office of the Prime Minister and Council of Ministers
21.	Squatters	Draft a federal law regarding the basis and criteria for the management of the squatters and unmanaged settlers.	Ministry of Land Management, Cooperatives and Poverty Alleviation, Ministry of Home Affairs	Fagun 2075 (Mid-March 2019)	Office of the Prime Minister and Council of Ministers
22.	Land Acquisition	Review the Land Acquisition Act 2034 (1977) and Immovable Property Requisition Act 2013 (1956) in the context of federalism.	Ministry of Home Affairs, Ministry of Land Management, Cooperatives and Poverty Alleviation	Fagun 2075 (Mid-March 2019)	Office of the Prime Minister and Council of Ministers
23.	Investigation and registration of forest-related cases	Make a provision allowing the Division Forest Officer to use the authority of the District Forest Officer as per the Forest Act 2049 (1992) for the interim management until the amendment of the existing forest act.	Ministry of Forest and Environment	Immediately	Office of the Prime Minister and Council of Ministers
24.	Management of very important persons' (VIPs) security	Review the procedures on VIP security	Ministry of Home Affairs	Poush 2075 (Mid-January 2019)	Office of the Prime Minister and Council of Ministers
25.	Public Holidays	Except the public holidays declared by the Government of Nepal, the provincial government can allow up to 6 days of additional holidays as per the religion, culture, and traditions.	Ministry of Home Affairs	Poush 2075 (Mid-January 2019)	Office of the Prime Minister and Council of Ministers

		Make provision for having the federal offices also closed in addition to the federal ministries, departments and central level agencies during these additional public holidays. However, with regards to the peace and security and other essential service providing offices, make provision for smooth operation by providing substitute leave to the staff.			
26.	Autonomous institutions established by law	Review the Acts of the commissions, committees, boards, authority, academy, fund, center etc. formed by a separate Act and clarify the roles of the Provincial government and local levels.	All the related federal ministries	Fagun 2075 (Mid-March 2019)	
27.	International and inter-provincial trade	a) Draft a new law regarding the private firm registration and commercial enterprise regulation.	Ministry of Industry, Commerce, and Supply	Chaitra 2075 (Mid-April 2019)	
		b) Draft a new law regarding the partnership.	Ministry of Industry, Commerce, and Supply	Chaitra 2075 (Mid-April 2019)	
		c) Prepare a draft of the sample law regarding the commercial enterprise regulation and management for the inter-provincial trade for the province and make it available to them.	Ministry of Industry, Commerce, and Supply	Baisakh 2075 (Mid-May 2019)	
28.	Consumer Protection Related	Prepare a draft of the sample law for the consumer protection and market monitoring at the provincial government and local level and make it available to them.	Ministry of Industry, Commerce, and Supply, Ministry of Federal Affairs and General Administration, Ministry of Law, Justice, and Parliamentary Affairs	Chaitra 2075 (Mid-May 2019)	
29.	Structures like children home, rehabilitation center, rescue home, and old age home	All the government children homes, rehabilitation centers, rescue homes, old age homes operated in various districts to be operated and managed by the local level. Make provision for all such structures operated by the private sector and social organizations to be operated with the approval from the local level and to be monitored by the provincial government.	Ministry of Women, Children, and Senior Citizens, Province Government, Local level	Fagun 2075 (Mid-March 2019)	

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ANNEX B: SURVEY SAMPLE AND QUESTIONNAIRE

The Sample Frame. The questionnaire was administered through a combination of a complete census of all metropolitan and sub-metropolitan cities and a representative sample of other types of local governments. In the latter case, the sampling frame, which is the list of all 736 local government units excluding metropolitan and sub-metropolitan cities, was stratified by province (1-7) and type (rural/municipality). This divided the sampling frame into 14 nonoverlapping subgroups formed from the values of the Province and Type variables. Samples were then selected independently within each subgroup (stratum). Sample size for each subgroup was proportional to the share of that subgroup in the total list of all local government units, excluding metropolitan and sub-metropolitan cities. In the course of data gathering, two municipalities initially drawn from the rural strata of Province 6 (Dolpo Buddha and Chharka Tangsong, both from Dolpa District) turned out to be inaccessible for enumerates due to inclement weather. They were replaced with two comparable municipalities (Guras from Dailekh District and Shiwalyaya from Jajarkot District) from the same strata.

Strata of Local Government Units, Excluding Cities

Province	Municipalities			Rural			Total		
	Units	%	Sampled units	Units	%	Sampled units	Units	%	Sampled units
Province 1	46	6	6	88	12	12	134	18	18
Province 2	73	10	10	59	8	8	132	18	18
Province 3	41	6	6	74	10	10	115	16	16
Province 4 Gandaki	26	4	3	58	8	8	84	11	11
Province 5	32	4	4	73	10	10	105	14	14
Province 6 Karnali	25	3	3	54	7	7	79	11	10
Province 7 Sudur Paschim	33	4	4	54	7	7	87	12	11

QN¹	Section 1: Identification Information								
101	Province								
102	District								
103	Ecological belt								
104	Urban (Nagarpalika)								
105	Rural (Gaupalika)								
106	In which ward this LG HQ is located?								
107	How many wards does this LG have?								
108	Does this District Headquarter fall under this LG?								
Total	276	38	36	460	63	62	736	100	98

¹ QN: Question number

QN	Section 2: Physical Infrastructure								
201	What is the ownership status of Local Government (LG) office building? (Photo of office building with name of LG visible)								
202	If rented, what is the monthly rate?								
203	Is there any under construction office buildings?								
204	If under construction, are there budget allocations for constructing in the current fiscal year?								
205	If under construction, what is the estimated total cost for it?								
206	If under construction, when will it be completed?								
207	If planned for construction, has land acquisition been completed?								
208	Are there any government owned building(s) in the local territory that would be sufficient if transferred to the LG?								
209	How many rooms does LG building have in total?								
210	How many meeting rooms does it have?								
211	Can any of those rooms/halls accommodate assembly meetings? (Photo of meeting hall)								
212	Is this building accessible for differently-abled people (wheel-chair accessible)?								
213	How many wards have office buildings available (owned, rented, etc.)? (<i>Put number</i>)								
214	Does the LG office building have an electricity supply? (if there is, please specify)								
215	Is there any power backup system?								
216	How many pieces of operational IT hardware does the LG office have? Write in number. Exclude that are not functional)								
217	Does LG office have a functioning internet connection?								
218	Does LG have local area network (LAN) system among its computer?								
219	Does the LG office have landline telephone network?								
220	Does the LG office have access to cellular telephone network?								
221	If yes, how reliable is this?								
223	Does the LG have an inventory of its assets?								
224	What type of asset management system do you have?								
225	Is your LG center accessible to road transportation?								

226	If yes, type of road?
227	If no, how many hours does it take to reach district headquarter on foot?
228	How many vehicles does the LG have? (Write in number)
229	How many of those vehicles have been acquired after the local election?
230	How long does it take to reach the nearest bus station from the LG centre on foot?
231	How long does it take to get to the district HQ using nearest land transport during the dry season?
232	How long does it take to get to the Provincial capital using nearest land transport during the dry season?

QN **Section 3: Political Governance**

301	What gender is the Mayor/chair?
302	What gender is the Deputy Mayor/vice chair?
303	Total number of members in the Assembly?
304	Number of female members in the Assembly?
305	Number of Dalit members in the Assembly?
306	Has the assembly passed a regulation on the management and operation of the Assembly?
307	How many meetings of Assembly held after the election?
308	How many days in total was the LG Assembly meeting after the election?
309	How many members were present at the last LG Assembly meeting?
310	Is Assembly meeting agenda circulated before the meeting?
311	If yes, how many days in advance?
312	How many members of LG Assembly can read/write?
313	Does the assembly take meeting minutes?
314	Are the following committees formed within the LG Assembly? (Select that all apply)
315	If yes, how many meetings of the following committees held since election? (Write in number)
316	Do Assembly committees receive status reports from respective thematic sections of the LG?
317	If submitted, do Assembly committees discuss status reports received from respective thematic sections of the LG?
319	Were there adequate deliberations on draft acts or regulations held in the legislative committee before they were approved?
320	Do female members participate in the Assembly deliberations?
321	Do Dalit members participate in the Assembly deliberations?
322	How many trainings have Mayor/Chair/Deputy Mayor/Vice-Chair received on functions/duties since local election?
323	How many of the assembly members received at least one training/orientation on functions/duties since local election?
324	How many training/orientation events were attended by ward chairs on functions/duties since local election?

325	Were the following laws/regulations approved by the LG? (Select that all apply)
326	If any model law/regulation provided by Federal Government was not passed by LG, what was the reasons for that?
327	Has LG Assembly customized model laws/regulation as per LG need?
328	What was the reasons for not customizing some model laws?
329	Are there any laws formulated other than model laws? If yes, name them.
330	If yes, how did the local government prepare new laws/regulations?
331	Has the LG started to publish its own Gazette?
332	If yes, how regularly is the Gazette published?
333	If not, what are the reasons for not publishing?
334	When the Mayor/Chair remain absent in office, do they delegate authority to somebody else?
335	Is there any written delegation of authority among Mayor/Deputy-Mayor/Ward Chair
336	Is there any written delegation of authority among Ward committee members?
337	Are there citizen complaints about service delivery disruption due to the absence of Mayor/Chair /Deputy Mayor/Vice-Chair/Ward Chair?
338	Did the LG Executive submit the budget by the 10 th of Ashad for FY 2075/76?
339	If not submitted by 10 th of Ashad, what were the reasons?
340	Did Assembly approve budget for FY 2075/76 by end of Ashad?
341	If not approved by the end of Ashad, what were the reasons?
342	If financial and allocation act is not approved, how does this LG collect tax?

QN Section 4: Political Governance

401	How many committees, sub-committees and task forces have been constituted by the executive?
402	If any, list them.
403	Functions into any division/section/units? (Select that all apply)
404	How many times the meeting of this LG Executive held in the last fiscal year?
405	Are the agenda prepared and shared in advanced?
406	If yes, how many days in advance was agenda sent for last meeting?
407	Are the decisions of the meeting made publicly available?
408	Is there any dispute (issue) between the Ward Chair and Mayor/Chair of LG in the following area? (Select that all apply)
409	Has the LG following committees formed?
410	If yes, do the committees have a ToR/regulation?

QN Section 5: Judicial Practice

501	Has the LG Judicial Committee been established?
502	If so, when was it established?
503	Has the Judicial Committee prepared any manuals/guidelines? (If yes, collect copy)

504	Have the Deputy Mayor/Vice Chair and members received any training on judicial affairs?
505	Does Deputy Mayor/Vice Chair have any legal education and/or experience? (Select that all apply)
506	Has the LG appointed any legal advisor for Judicial Committee?
507	Is there system of registering all complaints that arrive to Judicial Committee?
508	What are the numbers of cases registered to Judicial Committee after its formation? (Write in numbers)
509	Of the cases registered, how many have been settled by verdict?
510	Of the cases registered, how many have been settled by mediation?
511	Does the Judicial Committee have a list of registered mediators?
512	Has the Judicial Committee referred cases to registered mediators since Committee was established?
513	How many cases submitted to the LG Judicial Committee have been forwarded/referred to the Courts?
514	Is there adequate space for Judicial Committee in the LG?
515	How many Wards in this LG have Mediation Centre?

QN Section 6: Human Resource Management and Development

601	Input staff provisioned and working at LG office
602	Which are the areas where you see that the rural/municipal functions are disrupted/lacking for lack of sufficient staff? (Select that all apply)
603	Are written job descriptions available for positions envisioned in the organogram?
604	What type of law/policy/regulation/guidelines are in place in managing the staff, in terms of leave approval, performance appraisal, reporting relation etc.? (Select all that apply)
605	Does LG follow staff performance review mechanisms?
606	If yes, is there any practice of sanction for under-performance?
607	Has LG prepared capacity building plan for employees?
608	Has LG prepared capacity building plan for elected members?
609	What amount and percentage of total annual budget of LG allocated for enhancing the capacity of elected representatives and LG's staff in current fiscal year?
610	How many LG's staff have not participated in at least one training on a relevant subject after formation of LG?
611	How long has the present CAO been serving in this LG?
612	What was total attendance day of CAO in FY 2074/75?
613	How many CAOs have served after the local election?

QN Section 7: Planning, Finance and Development

701	Has LG prepared a LG profile?
702	If yes, does the profile have following data? (Select all that apply)
703	Does the LG have a periodic development plan?

704	If yes, when was the current plan prepared?
705	Was the public consulted at any stage of the periodic planning process?
706	Has the LG received any training on developing Medium Term Expenditure Framework (MTEF) as per Art. 16 of the Inter-Governmental Fiscal Management Act (IGFMA)?
707	Does the LG have an annual investment plan [annual capital budget] for FY 2075/76?
708	Is the local government annual capital budget based on the periodic plan/MTEF?
709	Does the annual investment plan list investment projects by sector (education, health, roads, etc.)?
710	Does the LG annual investment plan list investment projects by Wards?
711	Has this LG prepared project bank?
712	Does this LG have any sector-specific plans for the following? (Select all that apply)
713	When does this LG receive the guidelines and ceiling for the equalization grants from the federal government for FI 2075/76?
714	When does this provincial government receive the guidelines and ceiling for the equalization grants from the federal government for FI 2075/76?
715	For FY 20756/77, have you started the annual planning process?
716	Did the LG follow the seven steps planning process as given in the planning guideline for FY 2075/76? (Select all that apply)
717	Does this LG give budget ceiling to the wards?
718	What type of budget format followed? (Select all that apply)
719	Is any software used to prepare budget estimates?
720	If not using SUTRA for budgeting, why? (Select all that apply)
721	Are you prepared to use SUTRA to prepare budget estimates for FY 2076/77?
722	Did the LG budget include the conditional grants received from the FG and PG into its annual budget plan?
723	Does LG make any changes to the approved budgets for each line item in the conditional grant amounts?
724	For FY 2018/19, did the budget estimates distinguish tax and non-tax sources of revenue?
725	For FY 2018/19, Approved Budget forwarded to FG/PG after approval?
726	When was the last LG received the following transfers for FY 2075/76?
727	Has the LG studied the local revenue sources?
728	For FY 2074/75, what percentage of the initially estimated own revenue was actually collected?
729	If the revenue collection less or more by 25% of the estimation, what were the reasons?
730	Has LG used any (computerized) revenue management system?
731	Is revenue collection processes and procedures client-friendly? (Collect SoP if available)
732	Is there a branch of any commercial bank or development banks at this LG?
733	Does this LG collect any revenue in cash?
734	If this LG collects revenue in cash, do you deposit in the bank account on a daily basis?

735	Is the Internal Audit Section functioning as required in LGOA?
736	Does this LG have a Revenue Improvement Action Plan (RIAP)? (If yes, collect copy)
737	Does this LG use computerized financial management system used for budget execution?
738	Is account reconciliation performed regularly?
739	Is the payroll (staff payment) processed on a monthly basis?
740	If not, what is the reason for not processing on monthly basis?
741	Is staff salary deposited directly in their bank accounts?
742	If no, what are the reasons?
743	Has your local government received any internal loan?
744	Are financial reports prepared and submitted to following? (Select all that apply)
745	If not prepared yet, what are the reasons? (Select all that apply)
746	Has your LG faced any issues receiving approval by the federal authorities for getting support from development partners?
747	For FY 2074/75, what percentage of the total budget was spent?
748	If execution of the capital budget was below 60%, why? (Select all that apply)
749	For first trimester of FY 2075/76, what percentage of the total capital budget was spent?
750	For FY 2074/75, when was the final financial statement prepared? (Obtain copy or link to the website where it was posted)
751	Does this LG have any regulations/manuals/ guidelines for internal audit?
752	Did the LG conduct internal audit for FY 2074/75?
753	If internal audit was not conducted, what were the reasons? (Select all that apply)
754	If yes, was the audit report received by Executive board?
755	When was the last final audit for this LG conducted?
756	What were the major findings of the audit report? (Select all that apply) (Collect audit report)
757	What was the percentage of beruju (misappropriation) shown in the last audit against total expenditure? (Refer to last audit report)
758	When was the latest report of audit was presented at account committee?
759	Does account committee ever presented auditing report at assembly meetings?

QN Section 8: Local Procurement and Contract Management

801	Has this LG prepared procurement regulations according to federal Public Procurement Act?
802	Does this LG have Procurement Unit functional?
803	Does this LG have formed Procurement Evaluation Committee for this fiscal year?
804	Has this LG prepared annual procurement master/plan for FY 2075/76?
805	If yes, was the procurement plan published?
806	If not prepared, what was the major reason?
807	Does this LG have capacity to conduct procurement through following process? (Select all that apply)

808	In FY 2074/75, how many procurement contracts were awarded to carry out developmental works by type of procurement? (Put '00' not done)
809	Is there practice of e-bidding in this LG?
810	Does this LG have pre-listing of potential vendors?
811	Does this LG assess vendors' performance?
812	In FY 2074/75, what percentage of the total capital budget was mobilized through user committees?
813	In FY 2074/75, how many user committees were engaged in this LG?
814	Is there any mechanism to avoid conflict of interest in forming user committee?
815	Is there any mechanism at this LG for appeals against decisions made in relation to procurement?
816	Is there dispute settlement mechanism in place for procurement issues?
817	Are contractors/vendors paid as stipulated in contract?

QN Section 9: Ward Administration

901	Is there clear allocation of authority/responsibility for Wards in LG business allocation?
902	Are the Ward Chairs clear about their roles and responsibilities?
903	How many Wards have office space in their territory?
904	How many Ward offices have access to a regular electricity supply?
905	How many Ward offices have access to telephone network
906	How many Ward offices have access to internet network?
907	How many Wards of this LG have Citizen Charter in place
908	Do Ward offices provide online vital & civil registration services?
909	Are the Wards of this LG able to do following functions?
910	Are Ward offices involved in monitoring of LG services (education, health, etc.)?
911	Have schools provided the Ward offices reports of school activities in the past 12 months?
912	Have Health Posts/Centres provided reports of their activities to Ward Office in the past 12 months?
913	How many Ward Committees meet at least monthly?
914	How many Ward Committees announce their meetings ahead of time?

QN Section 10: (Urban) Settlement Development and Land Administration

1001	Does this LG have a settlement/urban plan (master plan) in place?
1002	If yes, was participatory process (public hearing/notice) followed for approving/modifying the municipal (spatial / land use / master) plan?
1003	Does this LG enforce land use plan when issuing building permit?
1004	Does this LG issue building permits in all wards?
1005	Does this LG apply building code when issuing building permits?
1006	Does this LG regularly conduct inspections of permitted building construction activities

1007	If never conducts inspection, what were reasons? (Select all that apply)
1008	Are there any unresolved issues between this LG and with Federal/Provincial authorities in the area of urban development, settlement development and construction permits?
1009	Do you have capacity to discharge your authority in distributing of land ownership records?
1010	If no, where are the deficiencies?
1016	Does urban/settlement and land administration sector have capital investment plan?
1017	Is there any budgetary allocation/management for the physical infrastructure of urban settlement and land administration system?
1019	Are there any following capacity indicators to measure the outcome and performance of urban settlement development and land administration?

QN Section 11: Disaster Risk Management

1101	Is function of disaster risk management incorporated in the organizational structure of this LG?
1102	Does this LG have any fire brigade?
1103	Has LG established cooperation agreement with other LGs to address common issues on disaster risk management?
1104	Has the LG developed a Disaster Risk Reduction Plan?
1105	Does this LG have emergency preparedness measures (stockpiles, equipment, etc.) in place?
1106	Is Local Emergency Operation Center in functional?
1112	Does disaster risk management sector have capital investment plan?
1113	Is there any budgetary allocation/management for the physical infrastructure of disaster risk management sector?
1115	Are there any following capacity indicators to measure the outcome and performance of disaster risk management sector?

QN Section 12: Education

1201	Is the function of Education incorporated in the organizational structure of this LG?
1202	What are the sources of budget for education in FY 2074/75? (Select all that apply) (Collect copy of financial statements)
1203	Are there any differences in understanding between this LG and federal/provincial government over following issues? (Select that all apply)
1204	Has this LG established cooperation arrangements with other LGs to address common issues in education?
1205	Are facilities related to education property of this LG? (Select all that apply)
1206	Are infrastructures related to education (schools, etc.) included in the asset record of this LG?
1207	Is information related to education included in citizen charter of the LG?
1208	Is salary/wages for school teachers/staff included in the budget of this LG?
1209	Is there school sector development plan in place?

1210	Is there capital investment plan for education in place?
1211	Are schools included in the annual operation and maintenance plan of this LG?
1212	Does LG monitor performance and outcomes of the schools?
1213	Does this LG have capacity to monitor performance of schools?

QN **Section 13: Basic Health Services**

1301	Is the function of health services incorporated in the organizational structure of this LG?
1302	What are the sources of budget for basic health services in FY 2074/75? (Select all that apply) (Collect copy of financial statements)
1303	Are there any differences in understanding between this LG and federal/provincial government over following issues? (Select all that apply)
1304	Has this LG established cooperation arrangements with other LGs to address common issues in health services?
1305	Are facilities related to health are property of this LG? (Select all that apply)
1306	Are infrastructures related to health (health facilities etc.) included in the asset record of this LG?
1307	Is information related to health included in citizen charter of the LG?
1308	Is salary/wages for health staff included in the budget of this LG?
1309	Is there health services development plan in place?
1310	Are health centres included in the annual operation and maintenance plan of this LG?
1311	Is there capital investment plan for health services in place?
1312	Does LG monitor performance and outcomes of the health services?
1313	Does this LG have following capacity to monitor performance of health centres? (Select all that apply)

QN **Section 14: Social Development (Other than Education and Health)**

1401	Are following functions incorporated in the organizational structure of this LG? (Select all that apply)
1402	What are sources of budget for social development in FY 2074/75 what percentage by sources? (Select all that apply) (Collect copy of financial statements)
1403	Has this LG included information about following functions in Citizen Charter? (Select all that apply)
1404	Has this LG established cooperation arrangements with other LGs to address common issues in this sector? (Select all that apply)
1405	Is there a capital investment plan (CIP) for social development in the following sector?
1406	Does this LG have capital investment plan (CIP) for social development sector?
1407	Is capital spending for social development included in the budget of this LG?
1408	Does this LG monitor performance and outcomes of social development sector?

QN **Section 15: Economic Development**

1501	Are the following functions incorporated in organization structure of this LG? (Select all that apply)
1502	Does this LG have a local economic development plan in place?
1503	If yes, are they coherent with national development plan?
1504	How does this LG partner with federal and provincial governments on economic development? (Select all that apply) (Read out each option)
1505	How does this LG work with federal and provincial governments on economic growth, poverty alleviation, SDG localization?
1506	How does this LG work with other LGs on economic growth, poverty alleviation, SDG localization?
1507	What are the sources of budget for economic development in FY 2075/76? (Select all that apply) (Collect copy of financial statements)
1508	Has this LG run into any conflict with federal/provincial authorities over your decisions in economic development? (Select all that apply)
1509	Does this LG have identified local products with competitive advantages?
1510	If yes, does this LG have plan to promote it?
1511	Does this LG have capital investment plan (CIP) for economic development?
1512	Is capital spending for economic development included in the budget of this LG?
1513	Does this LG have following capacity to monitor performance on economic development? (Select all that apply)

QN **Section 16: Agriculture**

1601	Have the following functions/offices related to agriculture been transferred to this LG? (Select all that apply)
1602	Are the following functions related to agriculture incorporated in organization structure of this LG? (Select all that apply)
1603	What are the sources of budget for agriculture sector in FY 2075/76? (Select all that apply) (Collect copy of financial statements)
1604	Are there any differences in understanding between this LG and federal/provincial government over following issues? (Select all that apply)
1604	How does this LG work with federal and provincial on agriculture?
1606	Does this LG have cooperation arrangements with other LGs to address common issues in this sector?
1607	Are facilities related to agriculture property of this LG?
1608	Are facilities related to agriculture in the asset record of the municipality?
1609	Is the salary/wage for agriculture related staff included in the budget of this LG?
1610	Are the facilities related to agriculture included in the annual operation and maintenance plan of this LG?
1611	Does this LG have capital investment plan (CIP) for agriculture sector?
1612	Is capital spending for agriculture included in the budget of this LG?
1614	Does this LG monitor performance and outcomes of agriculture sector?
1615	Does this LG have following capacity to monitor performance on agriculture sector? (Select all that apply)

QN Section 17: Environment

1701	Are functions related to environment incorporated in the organizational structure of this LG? (Select all that apply)
1702	Does this LG conduct EIA/IEE for development projects?
1703	If yes, how many EIA/IEE conducted in FY 2074/75?
1704	Has this LG prepared environment and bio-diversity conservation plan?
1705	What are the sources of budget for environment sector in FY 2074/75? (Select all that apply) (Collect copy of financial statements)
1706	How does this LG work with federal and provincial on environment management?
1707	Does this LG have cooperation arrangements with other LGs to address common issues on environment management?
1708	Are the facilities related to environment included in the annual operation and maintenance plan of this LG?
1709	Does this LG have capital investment plan (CIP) for environment sector?
1710	Is capital spending for environment included in the budget of this LG?
1711	Does this LG monitor performance and outcomes of environment sector?
1712	Does this LG have following capacity to monitor performance on environment sector? (Select all that apply)

QN Section 18: Drinking Water and Sanitation

1801	Have functions related to drinking water and sanitation been transferred to the LG? (Select all that apply)
1802	Are functions related to drinking water and sanitation incorporated in the organizational structure of this LG? (Select all that apply)
1803	How does this LG work with federal and provincial on drinking water and sanitation?
1804	Does this LG have cooperation arrangements with other LGs to address common issues on drinking water and sanitation?
1805	What are the sources of budget for drinking water and sanitation sector in FY 2075/76? (Select all that apply) (Collect copy of financial statements)
1806	How does this LG manage the solid waste? (Select all that apply)
1807	Does LG adopt following practices in Solid Waste Management?
1808	What type of dumping site does LG have?
1809	Does this LG have following capacity to manage solid waste?
1810	Are the facilities related to drinking water and sanitation included in the annual operation and maintenance plan of this LG?
1811	Does this LG do the following for drinking water facility?
1812	Does this LG have capital investment plan (CIP) for drinking water and sanitation sector?
1813	Does this LG monitor performance and outcomes of drinking water and sanitation sector?
1814	Does this LG have following capacity to monitor performance on drinking water and sanitation? (Select all that apply)

<u>QN</u>	<u>Section 19: Roads</u>
1901	Are functions related to local roads incorporated in the organizational structure of this LG?
1902	How does this LG work with federal and provincial on local road?
1903	Does this LG have cooperation arrangements with other LGs to address common issues on local road?
1904	What are the sources of budget for local road sector in FY 2075/76? (Select all that apply) (Collect copy of financial statements)
1905	Does the LG have its Municipal Transport Master Plan?
1906	Has the LG prepared its road inventory?
1907	Has the LG prepared its Annual Maintenance Plan and made expenses accordingly?
1908	Has this LG prepared road safety and transportation plan?
1909	Are the facilities related to local road included in the annual operation and maintenance plan of this LG?
1910	Does this LG have capital investment plan (CIP) for local road sector?
1911	Is capital spending for local road included in the budget of this LG?
1912	Does this LG have following capacity to monitor performance on local road? (Select all that apply)

<u>QN</u>	<u>Section 20: Gender Equality and Social Inclusion (GESI)</u>
2001	Does this LG have social inclusion policies for the following? (Select all that apply) (Collect a copy)
2002	Does this LG conduct a GESI audit?
2003	Does this LG have a framework for ensuring women's participation in LG activities?
2004	Does this LG prepare plans and budgets in an inclusive manner including women, children, senior citizens, ethnic group and disadvantaged groups?
2005	Does this LG prepare ward-level plans and budgets in an inclusive manner including women, children, senior citizens, ethnic group and disadvantaged groups?
2006	Do ward-level committees act in an inclusive manner, encouraging participation by all constituents, including women, children, senior citizens, ethnic group and disadvantaged groups?
2007	Do LG committees act in an inclusive manner, encouraging participation by all constituents, including women, children, senior citizens, ethnic group and disadvantaged groups?
2008	How does this LG provide services against gender based violence? (Select all that apply)

<u>QN</u>	<u>Section 21: Accountability and Transparency</u>
2101	How does this LG make its executive decisions public? (Select all that apply)
2102	How does this LG ensure implementation of Citizen Charter? (Select all that apply) (Collect a copy)
2103	How does this LG inform citizens about services that it provides? (Select all that apply)

2104	Does this LG have following means of communication?
2105	How does this LG make income and expenditure statement public?
2106	How does this LG implement Right to Information (RTI)?
2107	How frequently has this LG received request for information according to RTI Act?
2108	Has this LG designated information officer and made public?
2109	Are the information related to following affairs accessible to public?
2110	Does the publicly accessible information provide any detail on activities and performance of thematic sections?
2111	Does the website of this LG have following details?
2112	For FY 2075/76, did this LG engage following groups in the preparation of its budget?
2113	For FY 2074/75, how many public hearing/consultation meetings did this LG hold?
2114	Does this LG display infrastructure project details above Rs 5 lakhs on hoarding board in public place?
2115	Does LG have grievance responding mechanism?
2116	If yes, does this LG have following mechanisms? (Select all that apply)
2117	How many complaints related to LG functions were registered and addressed in this LG in FY 2074/75?
2118	Did this LG conduct a Social Audit for FY 2074/75?
2119	If not done, what were the reasons?
2120	How many social mobilisers has this LG employed to reach out to citizens, including disadvantaged groups?

ANNEX C: DEVELOPMENT PARTNER MAPPING – FEDERALIZATION

SUPPORT

(As of December 21, 2018)

Development Partners	Activity Type (Strategic/ Policy/ Operational)	Amount	Activities	Implementation period	Counterparts		Contact Point
					Name	Intervention level/ Geographic focus	
Department of Foreign Affairs and Trade (DFAT), Australia	Strategic/ Policy/ Operational	AUD 20 m	<ul style="list-style-type: none"> More informed and inclusive subnational governance reform, policy discourse, and decision making at and between the local, provincial, and national levels. Better equipped stakeholders to support the transition to federalism through elections, policy making, and implementation of structural and governance changes, and to ensure changes do not lead to escalated conflict or violence, widely benefiting society, including women and marginalized groups. Enhanced local government capacity for effective basic service delivery and economic governance that benefits all, including women and marginalized groups. 	2017 – 2021	The Asia Foundation	Federal, Provincial and Local	Kamakshi.yaktumba@dfat.gov.au
DFID	Operational	GBP 1.7 m	Support to development programming coherence at local government level, including advising on local government policy and practice (e.g. through knowledge hub)	2017 – 2019	MOFAGA	National, with pilot activities in Humla	g-rannamets@dfid.gov.uk
		GBP 3.5 m	Technical Assistance to assess fiduciary and corruption risks in major sectors and all government levels; capacity building and institutional strengthening will include reforms such as design of financial management systems for the new local governments; sector-specific financial management reform plans; design and roll out of standardized internal financial controls.	2017 – 2021	PEFA Secretariat/ MOF	Sectoral and all levels of government	D-nepal@dfid.gov.uk
	Policy	GBP 3.49 m	Policy and political economy work on Climate Change and Disaster Resilience, engaging at federal, provincial, and local levels	Aug 2017 – Aug 2022	MoHA Ministry of Forest and Environment	Federal, Provincial and local	P-Ranjit@dfid.gov.uk

Development Partners	Activity Type (Strategic/ Policy/ Operational)	Amount	Activities	Implementation period	Counterparts		Contact Point
					Name	Intervention level/ Geographic focus	
EU	Operational	EUR 0.383m	Support to strengthen the NHRC capacity to protect and promote human rights through an effective implementation and monitoring of the UPR recommendations, which are also reflected in the National Human Rights Action Plan (NHRAP).	2018 – 2021	National Human Rights Commission of Nepal	Countrywide coverage	Shiva Bhandari Shiv.BHANDARI@ec.europa.eu
Finland (Gender)	Policy/ Operational	EUR 4 m	<ul style="list-style-type: none"> Advancing Women's Economic Empowerment (AWEE): Ensuring Nepal's Equitable and Sustainable Development Capacity development of selected local bodies to localize GRB Develop leadership capacity of networks of excluded women in Nepal 	Mar 2015 – Mar 2019	UN Women/ Ministry of Women, Children and Senior Citizens	Federal & Local	Kati Bhoose Kati.Bhoose@formin.fi Indra Gurung Indra.Gurung@formin.fi
Finland (Education)	Policy (Technical Assistance)	EUR 1.7 m	<ul style="list-style-type: none"> Technical Assistance for Competence-Based Soft Skills Development in School Education in Nepal Develop capacity of MOEST and its implementing agencies to apply gender, inclusion and competence-based soft skills in policy, curriculum and learning materials development and implementation 	May 2016 – Apr 2019	Ministry of Education, Science and Technology and its implementing agencies	Federal & Local	Kati Bhoose Kati.Bhoose@formin.fi Indra Gurung Indra.Gurung@formin.fi
Finland (Water Resources)	Strategic/ Operational	EUR 35 m (Finland 15 m, EU 20 m)	<ul style="list-style-type: none"> Construct and maintain community managed water supply and adopt appropriate WASH technologies and sanitation and hygiene behavior; Improved and sustainable nutrition, food security and sustainable income at community level through water resource-based livelihoods development; including development of micro hydro schemes Increased resilience to disasters and climate change as well as promotion of climate change mitigation and adaptation; Government of Nepal institutionalized capacity (mainly Gaunpalika level) to continue integrated water resources planning and support to communities in implementing and maintaining WASH and livelihood activities. 	Mar 2016 – Feb 2022	Ministry of federal Affairs and General Administration	Local 8 districts in Province 7 and 2 in Province 6	Jari Laukka Jari.laukka@formin.fi
Finland (WASH)	Strategic/ Operational	EUR 15.2 m	<ul style="list-style-type: none"> Water supply Sanitation Institutional capacity building 	Sep 2013 – Jun 2019	Ministry of Federal Affairs and Local Development (MoFALD)	Local 14 districts in province 4 and 5	Jari Laukka Jari.laukka@formin.fi

Development Partners	Activity Type (Strategic/ Policy/ Operational)	Amount	Activities	Implementation period	Counterparts		Contact Point
					Name	Intervention level/ Geographic focus	
GDC/ GIZ	Strategic/ Policy/ Operational	EUR 6 m (as part of the health program S2HSP)	<ul style="list-style-type: none"> Governance in Health component: technical advice at national and local level on policies, legislation (relevant acts), strategies, R&R, definition of minimum standards as well as the implementation of the federalized system in selected municipalities, e.g., strengthening evidence-based and needs-oriented decision-making and planning processes, focus on health system management (HR, waste, service delivery, cooperation with the private sector); and knowledge management (disseminating experiences) Introduction of e-reporting (health) – decentralized health information system (HIS) -and promoting the use of data generated through improved HIS. Human resources: capacity development measures targeting decision-makers, health managers and technical staff (medical and non-medical) 	2016 – Jun 2020	MoH, selected municipalities, MoFALD	Federal (ministries); selected municipalities in potentially provinces 3,4,6 plus 1 Province (TBD as soon as TA is requested by the authorities)	Wz-2@kath.auswaertiges-amt.de (German Embassy, Florens Vogt) Paul.Rueckert@giz.de
	Strategic	EUR 3.5 m as part of the Local Municipal Capacity Development Project	<ul style="list-style-type: none"> Support to the national and provincial level key stakeholders on capacity development strategy/road map for municipalities Capacity development support to nine selected municipalities in developing administrative and service delivery modules for nation-wide application 	Until Jun 2019	MoFALD and selected municipalities	MoFALD, stakeholders with nationwide responsibilities; and 9 selected municipalities [Duhabi (Province 1); Kabilas (Province 2); Nuwakot and Bidur (Province 3); Beshisahar (Province 4); Nepalgunj & Banskadhi (Province 5); Bheriganga (Province 6); and Ghodaghodi (Province 7)	Wz-1@kath.auswaertiges-amt.de (German Embassy, Dr. Claudia Hiepe) Sanjeev.pokharel@giz.de
	Strategic, Operational	EUR 5 m	<ul style="list-style-type: none"> Support municipalities and provinces in establishing and developing structures and capacities for the integration of renewable energies in sub-national development plans and their implementation. 	Oct 2016 – Sep 2019	Alternative Energy Promotion Centre (AEPC), Provincial	Federal, Provincial – Province 1 and 7, local (14 Rural Municipalities)	Wz-2@kath.auswaertiges-amt.de (German Embassy, Florens Vogt)

Development Partners	Activity Type (Strategic/ Policy/ Operational)	Amount	Activities	Implementation period	Counterparts		Contact Point
					Name	Intervention level/ Geographic focus	
			<ul style="list-style-type: none"> Support municipalities and provinces in developing sub-national renewable energy promotion programs, corresponding policies and implementation procedures, and in the formulation of periodic and annual energy plans. Support AEPC in adapting to the federal context (CD, Organizational Structure, national energy data bank, etc.) 		Ministry of Infrastructure Development (MoPID), 14 rural and urban municipalities	s in Province 1 and 7)	Christian.liedtke@giz.de
GDC/ KfW	Operational	EUR 7.5 m	Providing grants/loans to infrastructure and social projects in urban municipalities around the country	Until 2019	Town Development Fund	Federal	Wz-1@kath.auswaertiges-amt.de (German Embassy, Dr. Claudia Hiepe) shanker.pandey@kfw.de (Local) morten.koch@kfw.de (HQ)
JICA	Operational	JPY 445 m	Improving local governance training through capacity enhancement on research and analysis specially to enhance capacities of Local Development & Local Development Training Academy (LDTA)	Jan 2016 – Dec 2019	MOFAGA LDTA	Federal, Provincial and Local levels	Noriko Matsuda Matsuda.Noriko@jica.go.jp
	Policy /Operational	JPY 400 m	<ul style="list-style-type: none"> Strengthening Community Mediation Capacity for the Peaceful and Harmonious Society 	Jan 2010 – Sep 2018 (to be followed up)	MOFAGA	Federal and Local levels	Nama Raj Adhikari adhikarinamaraj.np@jica.go.jp
UN Women	Operational / Policy	USD 0.508 m	<ul style="list-style-type: none"> Capacity development and leadership training on GESI and Governance, including Pilot Initiative in Province 7), Gender Responsive Budgeting and EVAW at national and sub-national level, NAP on UNSC 1325 and 1820 with civil servants, judiciary, parliamentarians, and civil society groups. Develop a training package on GESI in governance including aspects of leadership, for elected women and representatives of other socially excluded groups (with the IDPG GESI WG).; Support to Government of Nepal and civil society for reporting to the 71st session of the CEDAW Committee; Support to the National Human Rights Commission (NHRC) for conducting a National Inquiry on Chhaupadi. 	Jan 2017 – Dec 2018	Nepal Administrative Staff College, NWC, NHRC NJA, MoPR, LDTA, 1325 Action Group, SABAH, SAATHI, WHR, Search for Common Ground/FA YA Nepal, Forum for Women, Law and	Federal, Province 7	Anders Magnusson anders.magnusson@unwomen.org Gitanjali Singh Gitanjali.singh@unwomen.org

Development Partners	Activity Type (Strategic/ Policy/ Operational)	Amount	Activities	Implementation period	Counterparts		Contact Point
					Name	Intervention level/ Geographic focus	
					Development		
UNCDF, UNDP, UNV, DFID, Norway and SDC	Policy/ Strategic	USD 1 m	<ul style="list-style-type: none"> Comprehensive capacity need assessment of the local governments, Development and piloting of framework for Local Government Institutional Self- Assessment system local governments Support the Provincial Governments to get ready to implement PLGSP Support Local governments to establish and promote e- governance system 	Jan – Jun 2019	Ministry of Federal Affairs and General Administration	Federal, Provincial and Local	kalpana.sarkar@undp.org
	Policy	USD 0.6 m	<ul style="list-style-type: none"> SDG localization, Capacity building of provinces for SDG based planning, budgeting and M&E and statistics system 	July 2018 – Dec 2019	National Planning Commission, Central Bureau of Statistics	Federal and provincial	dharma.swarnakar@undp.org
	Operational	USD 7 m	<ul style="list-style-type: none"> Capacity building of 18 local governments of province 3 for cooperative management and agriculture value chain 	Jun 2018 – Dec 2023	Ministry of Land Management, Cooperatives and Poverty Alleviation	Local government	dharma.swarnakar@undp.org
	Capacity support	USD. 0.404 m	<ul style="list-style-type: none"> Supporting National Human Rights Commission (NHRC) to establish province offices Integrating human rights into the work of judicial committee Support to the local government to integrate human rights Organize dialogues on HRBA to law making process 	2018 – 2019	National Human Rights Commission	Federal, Province and Local level	Tek.tamata@undp.org
UNDP	Strategic / Policy	USD 0.5 m (out of the total project budget of USD 5.5 million)	<ul style="list-style-type: none"> Strengthened legal, institutional, policy, planning, and information environment ensures increased Renewable Energy investment and utilization 	Jul 2014 – Jul 2019	Alternative Energy Promotion Centre	Federal, Provincial and Local	Shanti Karanjit Shanti.karanjit@undp.org
UNDP, Australia	Policy/ Operational	USD 1 m	<ul style="list-style-type: none"> Support central and local governments to institutionalize Micro Enterprise Development (MED) through MEDEP providing Technical Assistance to implement Micro Enterprise Development for Poverty Alleviation (MEDPA). 	Oct 2018 – Sep 2020	Ministry of Industry, Commerce and Supplies	Federal, provincial and local	Nabina.shrestha@undp.org

Development Partners	Activity Type (Strategic/ Policy/ Operational)	Amount	Activities	Implementation period	Counterparts		Contact Point
					Name	Intervention level/ Geographic focus	
UNDP, DFID	Policy	USD 1.6 m	<ul style="list-style-type: none"> Study/ Review of Aid management in federal structure Capacity building of provincial government on aid management, Development Cooperation policy, Aid mobilization guidelines. 	Jul 2017 – Dec 2019	Ministry of Finance	Federal	dharma.swarnakar@undp.org
UNDP, EU, Norway	Policy/ Operational	USD 1.6 m	<ul style="list-style-type: none"> Strengthen the institutional capacity of the Election Commission, Increase the participation in electoral processes, especially of disadvantaged groups. Political empowerment of CSOs at different tiers of the government 	2018 – 2019	Election Commission	Federal, provincial and local governments	Tek.tamata@undp.org
UNDP, Norway	Strategic/ Policy	USD 5.9 m	<ul style="list-style-type: none"> Enhance the capacity of federal and provincial Parliaments to be effective and participatory Enhance the capacity of parliamentary secretariats to be capable and innovative in their support to MPs and committees Enhance the capacity of the Federal Parliament and Provincial Assemblies to be open, interactive and accountable with citizens Enhance the capacity of women MPs and MPs from disadvantaged groups for their meaningful participation in parliamentary debate 	Sep 2015 – Dec 2022	Parliament Secretariat	Federal and Provincial	Kalpana.sarkar@undp.org
	Policy/ Operational	USD 4.6 m	<ul style="list-style-type: none"> Supporting Government of Nepal in reviewing and drafting the laws in line with constitution Supporting for the implementation of integrated legal aid system Strengthening the capacity of judicial committee, and Supporting for the implementation of civil and criminal codes Promoting rule of law for economic growth 	2018 – 2022	Ministry of Law, Justice and Parliamentary Affairs Office of the Attorney General, and Nepal Bar Association	Federal, province and local level	Tek.tamata@undp.org
UNESCO	Strategic/ Policy/ Operational	USD 0.5 m	Support effective delivery of education services in federal structure	Apr 2013 – Dec 2018	Ministry of Education	Federal, Provincial and Local	Balaram Timalina (b.timalina@unesco.org), Aagat Awasthi (a.awasthi@unesco.org)
UNFPA	Strategic/ Policy	USD 5.4 m	Support federal, provincial, and local governments in capacity strengthening around production, analysis and use of socio-demographic data and statistics from population census, surveys and CRVS for inclusive planning and monitoring of periodic and annual development plans focusing on social sector Sustainable Development Goals: contribute toward	Jan 2018 – Dec 2022	MOPE, MOH, NPC/CBS, MOFALD	Federal, Province 2, 5 and 7	Bijay Thapa (bthapa@unfpa.org), tamang@unfpa.org

Development Partners	Activity Type (Strategic/ Policy/ Operational)	Amount	Activities	Implementation period	Counterparts		Contact Point
					Name	Intervention level/ Geographic focus	
			strengthening of good governance, transparency and accountability particularly at sub-national levels.				
	Policy/ Operational	USD 25 m	Capacity building of federal, provincial, and local governments and right-holders to ensure universal availability, access and utilization of gender-sensitive and youth-friendly sexual and reproductive health services and protection from gender-based violence and harmful practices, particularly for women, adolescent girls and youth: contribute toward health sector devolution, governance, and system strengthening	Jan 2018 – Dec 2022	MOPE, MOH, NPC/CBS, MOFALD, MOE, MWCSW and MOYS	Federal, Province 2, 5 and 7	Latika Maskey Pradhan maskeypradhan@unfpa.org Sudha Pant pant@unfpa.org
UNICEF (Education)	Policy/ Operational	USD 0.1 m Contract managed by UNICEF	Support to federalization, transition plan for School Sector Development Plan (SSDP), capacity building (Federalization Workshop), including support as Development Partners Focal Point (for LEG)	2017 – 2018	Ministry of Education, Other Ministries, Local Bodies	Federal, Provincial and Local	Purushottam Acharya pacharya@unicef.org
	Operational	USD 10 m Direct support to government treasury, financial support to partners	Implementing SSDP programs through local levels (Early Childhood Development - ECD, Basic Education, Out of School Children, non-formal education - NFE, Safe Schools, Gender and Equity, Adolescents, WASH in Schools)	2017 – 2022	Ministry of Education, Other Ministries, Local Bodies	Federal, Provincial and Local	Marilyn Hoar mhoar@unicef.org
UNICEF Health and Nutrition	Operational	USD 20 m	Support local governance and health systems strengthening by building capacity of local bodies (provincial, DCC and Palika level) on evidence-based health and Multisector Nutrition Planning, budgeting, and implementation monitoring for improved quality and evidence-based maternal, new born, child and adolescent health (MNCAH) and Nutrition service delivery in selected Palikas in Province 1,2,3,4,5 6,7.	Mar/Apr 2018 – Mar 2021	Ministry of Health, MOFALD, National Planning Commission	Provincial, DCC and Local Government in Province 1,2,3,4,5 6,7	
	Operational	USD 5 m	Support local governance and health systems strengthening by building capacity of local bodies (provincial, DCC and Palika level) on evidence-based health and nutrition planning, budgeting, and implementation monitoring for improved quality and evidence-based MNCAH and Nutrition service delivery in selected strategic Palikas in all Provinces with special focus in Province 2,6,7.	Mar/Apr 2018 – Mar 2021	Ministry of Health	Provincial, DCC and Local Government in Province 2,6,7	Midori Sato, Chief Health msato@unicef.org Stanley Chitekwe, Chief Nutrition schitekwe@unicef.org

Development Partners	Activity Type (Strategic/ Policy/ Operational)	Amount	Activities	Implementation period	Counterparts		Contact Point
					Name	Intervention level/ Geographic focus	
	Operational	USD 1 m	Support effective management and operation of cold chain systems (for immunization program in selected province (2,6,7))	Jan 2018 – Dec 2020	Ministry of Health	Federal, Provincial and Local Government in Province 2,6,7	Midori Sato, Chief Health msato@unicef.org
UNICEF (Planning and Monitoring)	Operational	USD 0.4 m	Capacity building of federal, provincial, and local governments on child rights: technical support to develop profile, annual and strategic plan of local governments; and establishment of child friendly learning centers	2018 – 2022	MOFALD	Federal, Provincial and Local	Amadou Seck aseck@unicef.org
UNICEF (WASH)	Policy/Operational	USD 10.8 m for 2021–2022	Support to Government in water supply and water quality, sanitation and hygiene, esp. ODF and WASH in institutions and system strengthening of WASH sector including WASH cluster mechanism.	2018 – 2022	Ministry of Water Supply	Federal, Provincial and Local	Tameez Ahmad tahmad@unicef.org
UN WFP/ NeKSAP (DFID, CGIAR/ CIMMYT, German Federal Foreign Office)	Strategic/Policy/Operational	USD 1.7 m (approx..)	Provide technical assistance to the Government of Nepal on strengthening the capacity and institutionalization of Nepal Food Security Monitoring System (NeKSAP) in the Government structure(s) for: (a) collecting and analyzing the information on household food security, emerging crises, markets and nutrition from across Nepal and effectively communicate the results to decision makers to achieve coordinated and timely action to prevent human suffering due to food insecurity, (b) linking evidence-based food security information to the planning process, and (c) reducing human suffering caused by climate-related hazards through the operationalization of scientific information for forecast based preparedness.	Jan 2017 – Jun 2020	Ministry of Agricultural Development, National Planning Commission, Central Bureau of Statistics, Department of Hydrology and Meteorology, and Ministry of Home Affairs.	Federal, Provincial and Local Governments, across the country.	Celeste.Sununtasuk@wfp.org
USAID - Niti Samba (Policy Dialogue)	Policy	USD 20 m	Support the development of transparent and inclusive government and political institutions in Nepal: ECN, Legislative Parliament, Political Parties & NRA	2017 – 2022	ECN, Legislative Parliament, Political Parties and NRA	Federal, Provincial and Local	Ramesh Adhikari raadhikari@usaid.gov Angelina Allen-Mpyisi ampyisi@usaid.gov
USAID - Public Financial Management Support Project	Strategic/Operational	USD 14 m	<ul style="list-style-type: none"> Enhance transparency and accountability of the PFM systems of GON ministries and agencies Support the GON's capacity building priorities, aligning closely with and leveraging other PFM reform programming Activities include: GON budget planning and execution capacity support; Improved procurement capacity and control environment at the 	2016 – 2021	Ministries of Finance, Health, Education and NRA (implemented through Louis Berger Group)	Federal and Local	Krishna Pathak kpathak@usaid.gov Noor Pant npant@usaid.gov

Development Partners	Activity Type (Strategic/ Policy/ Operational)	Amount	Activities	Implementation period	Counterparts		Contact Point
					Name	Intervention level/ Geographic focus	
(PFMS P)			Ministries of Health and Education; and National Reconstruction Authority financial management functions strengthened.				
USAID - Support to Federalism	Policy/ Operational	USD 15 m (tentative)	Support more inclusive and effective governance in Nepal by promoting a sustained peaceful political environment, improved accountability of selected institutions, increased civic participation and advocacy in governance, and improved policy and performance	2018 – 2023	Municipalities with possible provincial/ national policy engagement (TBD)	Local and TBD Provincial/Federal	Ramesh Adhikari raadhikari@usaid.gov Reshma Thapar rthapa@usaid.gov
WHO	Strategic/ Policy	USD 1.4 m (approx.)	Support to federal MoHP for required technical guidance to provincial and municipal authorities to plan, prioritize, implement and evaluate emergency risk management interventions (which includes establishment of HEOCs at provincial level and capacity building for their management of additional hub hospitals)	Jan 2018 – Dec 2019	Ministry of Health and Population, Health Emergency Operation Center (HEOC) and Epidemiology and Disease Control Division (EDCD)	Federal and provinces	Dr. Reuben Samuel samuelt@who.int
	Technical Assistance	USD 1.2 m (approx.)	Technical support in conducting surveillance for vaccine preventable diseases (Polio, Neonatal Tetanus, Measles Rubella, Japanese Encephalitis) through network of 11 field-based surveillance offices	Jan 2018 – Dec 2019	Ministry of Health and Population, Family Welfare Division (EDCD)	Federal and provinces	Dr. Anindya Bose bosea@who.int
		USD 1.5 m (approx.)	Provide strategic guidance and support for scale up of response to communicable diseases including TB/HIV and Malaria with particular focus on diseases targeted for elimination (at sub-national level) such as Malaria, Kala Azar and Lymphatic Filariasis	To be determined	Ministry of Health and Population, NTC, EDCC & NCASC	Federal and provinces	Dr. Lungten Wangchuk wangchukl@who.int
WB administered MDTF : Ausaid, EU, DFID, Norway	Policy/ Operational	USD 10 m	Just-in-time support to Central Government for operationalizing sub-national PFM (a component of total USD 10 m)	Jan 2018 – Dec 2021	Financial Comptroller General Office and PEFA Secretariat	Federal	Jiwanka Wickramasinghe/ Franck Bessette jwickramasinghe@worldbank.org fbessette@worldbank.org

Development Partners	Activity Type (Strategic/ Policy/ Operational)	Amount	Activities	Implementation period	Counterparts		Contact Point
					Name	Intervention level/ Geographic focus	
y, Switzerland, USAID	Operational	USD 4.5 m	Capacity building for sub-national audit (USD 2.6 m of total USD 4.5 m)	Jan 2018 – Dec 2021	Office of the Auditor General	Federal	Akmal Minallah aminallah@worldbank.org Yogesh Bom Malla ymalla@worldbank.org
	Operational	USD 4 m	Developing procurement guidelines/ documents for municipalities (a component of total USD 4 m)	Jan 2018 – Dec 2020	Public Procurement Monitoring Office	Federal	Zafrul Islam zislam@worldbank.org Shambhu Uprety suprety1@worldbank.org
World Bank	Operational	USD 150 m	Strengthening Systems for Social Protections & Civil Registration (SSSPCR) – lending operation to support Department of Civil Registration (DOCR); includes strengthening capacity of local levels through provision of IT equipment and two staff in each local body.	Jul 2017 – Nov 2021	Ministry of Home Affairs	Federal Nationwide coverage	Jasmine Rajbhandary rajbhandary@worldbank.org
		USD 80 m	Livestock Sector Innovation Project. Capacity Enhancement Needs Assessment (CENA) of MoALD and its key agencies, which will be carried out in the first year of project implementation. The CENA outcomes will be subject to a prioritization process to select specific capacity building activities, in concertation with capacity building efforts funded through government sources and/or other development partners.	Dec 2017 – Jun 2023	Ministry of Agriculture and livestock Development	Central, Provincial and Local	Purna Chhetri, Pierre Gerber pchetri@worldbank.org , pgerber@worldbank.org
	Policy	USD 150 m	Supporting policy reforms including federalism regarding fiscal and PFM	First operation in programmatic series of two DPCs (2018 – 2019)	Ministry of Finance	Federal	Kene Ezemenari/ Franck Besette kezenenari@worldbank.org fbesette@worldbank.org
	Strategic/policy	USD 0.2 m	Analysis of and Support to Health Service Delivery at Sub-national Levels	Jul 2018 – Dec 2019	Ministry of Health and Population	Across nation in a sample of 20 local governments	mbhattarai@worldbank.org khurt@worldbank.org

PIPELINE

Development Partners	Activity Type (Strategic/ Policy/ Operational)	Amount & Implementation Modality	Activities	Implementation period	Counterparts		Contact Point
					Name	Intervention level/ Geographic focus	
ADB - Strengthening Subnational Public Management Program	Strategy/ Policy/ Operational	USD 50 m (tentative)	Supporting policy and institutional reforms to operationalize fiscal federalism.	To be determined	Ministry of Finance	Federal, Provincial, and Local	rshrestha@adb.org
DFID – Local Infrastructure Services Programme (LISP)	Strategic/ Policy/ Operational	GBP 95m (tentative)	Support the delivery of effective capital investment and infrastructure by rural local governments, to strengthen planning, delivery, economic development, access to services and resilience to disasters and climate change	2019 – 2025 (tentative)	MOFAGA	Mainly Local	S-baidya@dfid.gov.uk d-nepal@dfid.gov.uk
EU	Operational	EUR 1.4 m	European Instrument for Democracy and Human Rights, Country Based Support Scheme for Nepal for 2018-2019	2019 – 2021	Primarily civil society organizations together with National Human Rights Institutions	Yet to be finalized	Shiva Bhandari Shiv.BHANDARI@ec.europa.eu
European Union (Agriculture)	Policy/ Operational	EUR 40 m Budget support and Technical Assistance	Budget Support for the implementation of the Agriculture Development Strategy. Technical assistance to support Ministry of agriculture, particularly with the deployment of one 7 experts at provincial level to support local administration	2018 – 2022	Ministry of Agriculture and Livestock Development (MoALD)	Federal and Provincial levels	Stephane David Stephane.david@eeas.europa.eu
European Union (Education)	Policy/ Operational	EUR 64.4 m Budget support and Technical Assistance implemented by ADB	Budget Support for the implementation of the School Sector Development Programme (SSPD). Technical assistance to support Ministry of Education, Science and Technology (MoEST)	2017 – 2023	MoEST	Federal, Provincial and Local	Joan Casanova Juan-jose.casanov-arasa@eeas.europa.eu

Development Partners	Activity Type (Strategic/ Policy/ Operational)	Amount & Implementation Modality	Activities	Implementation period	Counterparts		Contact Point
					Name	Intervention level/ Geographic focus	
European Union (Education/CSO)	Operational	EUR 0.6 m Grant implemented by Search for Common Ground	"Hamro Sikshya": Strengthening Civil Society Organisations' role in Governance and Accountability of Nepal's Education Sector in Province 2	2016 – 2019	Education and Development and Coordination Unit and Rural Municipalities	Provincial and Local levels in Province 2	Joan Casanova Jose.Casanova-arasa@eeas.europa.eu
		EUR 0.7 m Grant implemented by World Onlus	Local CSOs promoting Equity and Quality in Early Childhood and Basic Education in Kapilbastu District.	2015 – 2020	Education and Development and Coordination Unit and Rural Municipalities	Provincial and Local levels in Province 5	
European Union (Sustainable Rural Development)	Operational	EUR 1.5 m grant implemented by Practical Action	Building capacity of 45 CSOs to promote inclusive and sustainable growth and increase income of 7,000 households from agriculture and forest-based enterprises. Including supporting LA in formulation of related policies at the local level.	2016 – 2019	Ministry of Agriculture and Livestock Development (MoALD)	Provincial and Local levels in Province 6 (Bajhang, Bajura, Jumla, Kalikot and Mugu Districts)	Natalija Waldhuber natalija.waldhuber@eeas.europa.eu
Finland (Gender)	Policy/Operational	EUR 4 m	<ul style="list-style-type: none"> Support to implement components of UN Women Nepal Country Office Strategic Note and Annual Work Plan (2018-2022) Develop capacity of key government officials to formulate/reform gender responsive laws and plans (including NAP on UNSCRS 1325&1820 and DRR) Enhance governance capacity of key duty bearers (federal, provincial, and local levels) to implement and monitor gender responsive laws, policies, budgets, provision of essential quality services including on EAW to advance women's human rights and promote inclusive governance and access to justice Develop leadership capacity, voice and agency of excluded groups to demand accountability and transparency for inclusive governance and access to justice at federal and local levels Advance Planet 50:50 Nepal Enhance technical capacity of key line ministries and selected local governments to develop and implement 	Dec 2018 – Dec 2022 (tentative)	UN Women/ Ministry of Women, Children and Senior Citizens	Federal, Provincial and Local	Kati Bhose Kati.Bhose@formin.fi Indra Gurung Indra.Gurung@formin.fi Kamana Gurung Kamana.Gurung@formin.fi

Development Partners	Activity Type (Strategic/ Policy/ Operational)	Amount & Implementation Modality	Activities	Implementation period	Counterparts		Contact Point
					Name	Intervention level/ Geographic focus	
			gender responsive macroeconomic policies and sectoral policies (agriculture, energy, labor, industry and DRR) <ul style="list-style-type: none"> Test and adopt substantive equality approach to women's economic empowerment in selected sectors (agriculture & industry) 				
Finland (WASH Sustainability)	Policy/Operational	EUR 9 m (Tentative)	<ul style="list-style-type: none"> Sustainability of drinking water supply systems Menstrual Health Hygiene Capacity building 	2019 –	Ministry of Federal Affairs and Local Development (MoFALD)	Local/Karnali Province (Tentative, still not finalized)	Jari Laukka Jari.laukka@formin.fi
Provincial and Local Government Support Programme (EU, DFID, SDC, Norway, UNDP)	Strategic/Operational	USD 130 m	Support government of Nepal in managing the transition to subnational governance under federal set up and capacity building at the level of institutions and functionaries in the new governance structures	Jul 2019 – Jul 2023	MOFAGA and Provincial Governments	Federal, Provincial and Local	Prakash.regmi@eda.admin.ch/pratigya.banskota@eda.admin.ch
SDC's State Support Programme (SSP)	Operational/policy	CHF 10 m/year	The program has the overall objective to support state 1 government to assume its responsibilities to deliver as per the constitution of Nepal	Mid 2019 – Mid 2030	State 1 government (OCMCM)	State	aman.jonchhe@eda.admin.ch/prakash.regmi@eda.admin.ch
WHO	Strategic/Policy	USD 0.5 m (tentative as additional funds may be obtained)	Provide technical assistance to strengthen health systems governance and management at central and province level, including capacity building activities	Jan 2019 – Dec 2019	Ministry of Health, Policy Planning and International Cooperation Division	Federal	Ms. Kimat Adhikari adhikarik@who.int
World Bank	Policy	USD 100 m	Supporting policy reforms including federalism regarding fiscal and PFM	Second operation in a programmatic series of two	Ministry of Finance	Federal	Kene Ezemenari/ Franck Bessette kezemenari@worldbank.org

Development Partners	Activity Type (Strategic/ Policy/ Operational)	Amount & Implementation Modality	Activities	Implementation period	Counterparts		Contact Point
					Name	Intervention level/ Geographic focus	
				ent Policy Credits (2019 – 2020)			fbesette@worldbank.org
	Operational	USD 150 million	Support local governance and institutional development, and provide financing for infrastructure for improved service delivery in selected strategic urban areas	Mar 2019 – Jun 2024	Ministry of Urban Development	Federal, Provincial and Local Government in Eastern, Central and Western clusters	Yoonhee Kim ykim3@worldbank.org

ANNEX D: REFERENCES

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