WHAT IS THE FEDERALISM CAPACITY NEEDS ASSESSMENT (FCNA) ABOUT?

The FCNA was commissioned at the request of the government, carried out with the government and for the government.

The FCNA:
- Is an assessment to identify the gaps between the needs and the capacity at all levels of government in Nepal for the transition to federalism.
- Was conducted during September 2018 and July 2019 by the Georgia State University and Nepal Administrative Staff College.
- Was facilitated by the World Bank and UNDP under the guidance of the government of Nepal.

- Covered all 3 levels of government—Federal, Province and Local.
- Assesses capacity in terms of:
  - Organizational, including human capacity
  - Institutional and regulatory (laws and regulations)
  - Physical infrastructure

Assessment Methods
- Federal level: informant interviews and desk reviews
- Province level: questionnaires administered in all 7 provinces
- Local government level: questionnaires administered in 115 local governments.
- Donor mapping: a desk review of the donor operations in Nepal was conducted.

Partners
The final report benefited from technical inputs from DFID, Embassy of Norway, and Swiss Agency for Development and Cooperation.
TIMELINE OF THE FCNA PROCESS

1. March 21, 2017 Request for assistance received from MoF
2. Sept. 17, 2018 Launching workshop
3. Dec. 29, 2018 Govt. endorsement of questionnaires & sample LGs
4. Field data collection Feb. 11 to March 2, 2019
5. May 3, 2019 Submission of draft report to Govt.
6. August 27, 2019 Submission of final report to the Govt.

FCNA FINDINGS

SIGNIFICANT ACHIEVEMENTS

ESTABLISHMENT OF PROVINCIAL AND LOCAL GOVERNMENTS

The creation of political and administrative structure of Provincial and Local Governments (PLGs) have been essentially completed. The PLGs constituted since the elections are functioning and accounted for almost 34% of the national expenditure in 2018/19. Nearly all assemblies of Local Governments (LGs) (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. Approximately 90% of LGs reported the assembly meetings always had an agenda circulated prior to the meeting. In 2019, the Government launched the Provincial and Local Governance Support Program (PLGSP) to build the capacity for PLGs.

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.
- Key pieces of legislation have been enacted, notably:
  - Local Government Operations Act, 2017;
  - Intergovernmental Fiscal Arrangement Act, 2017;
  - National Natural Resource and Fiscal Commission Act, 2017;
  - Staff Adjustment Act; and
  - Act determining the bases and criteria on roles and responsibilities of the Provincial Public Service Commission.
- Approximately 34 model laws/guidelines have been issued by MoFAGA. The MOF has issued 7 model laws. Most LGs have adopted these model laws and guidelines, with some modifications.

CAPACITY GAPS

- The transition to federalism increases the need for systematic capacity building for elected officials and civil servants at all levels.
- Capacity building cost is huge.
- There is a lack of a comprehensive strategy for capacity building.

There have been delays in enacting the relevant laws for implementing Federalism:

- Federal Civil Service Bill
- Police Management Bill
- Intergovernmental Coordination Bill
- Financial Procedure Bill
- Sectoral laws with respect to concurrent powers
## Significant Achievements

### Institutional Framework for Federalism

The roll-out of federalism must be supported by adequate institutional framework to attain optimal results. Key institutions established so far include the (1) Inter-Provincial Council, (2) Provincial Coordination Council, (3) National Natural Resources and Fiscal Commission, (4) Intergovernmental Fiscal Council, and (5) Office of Auditor General. Other key commissions established in accordance with the Constitution include: (i) Commission for the Investigation of the Abuse of Authority, (ii) National Human Rights Commission, (iii) Public Service Commission (iv) National Inclusive Commission, (v) Madheshi Commission; (vi) Tharu Commission, (vi) Muslim Commission.

### Public Financial Management, Accountability & Transparency

Significant progress has been made in developing Public Financial Management (PFM) system in Nepal. The Public Expenditure and Financial Accountability (PEFA) Secretariat has been maintained. Treasury single account is under implementation, and a transparent expenditure reporting system and revenue management information system have been introduced. The extension of PFM practices to PLGs is a high priority for the country.

### Gender Equality and Social Inclusion (GESI)

The Constitution guarantees inclusive representation of women in all state organs and 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.

### Fiscal Capacity and Local Government Revenues Mobilization

To meet their constitutionally mandated responsibilities, PLGs require adequate discretion to shape expenditure budgets to fit local preferences. In 2018/19, the PLGs accounted for about 34% of national expenditures. Most PLGs collect own-source revenues, and own-revenue collection rate was 72% among LGs in 2018.

### Administrative Infrastructure and Connectivity

Measurable progress was made in building the administrative infrastructure and connectivity at PLG level. Most PLGs are in the process of building their administrative infrastructure and connectivity. Most ministries in all provinces have access to electricity, telephone and internet. Nearly 54% of LGs owned at least some of their buildings and about 70% of cities felt that their building could accommodate an assembly meeting. 82% of the LGs are connected to the national grid. Nearly all LGs centers were accessible by road and about 47% of LG have office building construction going on. Provinces have enough computers (one per essential staff).

## Capacity Gaps

### Institutional Framework for Federalism

There is a need for inter-ministerial coordination mechanisms for the development of policy and the administration of the subnational systems.

**Pending Institutions:** Commission for Indigenous Nationalities, National Women’s Commission, and National Dalit Commission.

### Public Financial Management, Accountability & Transparency

The standardization of PFM software is needed and the extension of PFM practices to PLGs need to be prioritized.

### Gender Equality and Social Inclusion (GESI)

There are limited mechanisms for effective implementation and monitoring of GESI activities in PLGs programs, for example, there is a need to have expenditure tracking linked to gender-responsive budgeting.

### Fiscal Capacity and Local Government Revenues Mobilization

Under the present intergovernmental fiscal structure, there are no significant incentives to induce provincial or local governments’ revenue collection efforts. In addition, expenditure needs of PLGs are not yet clear.

### Administrative Infrastructure and Connectivity

- There is limited funding for infrastructure spending at PLG level.
- There is a lack of a long-term approach to assets management, including infrastructure.
- Most PLGs have only paper-based assets inventory system.
- There are no existing procedures for data collection on O&M costs.
- There is a lack of a system for monitoring and recording maintenance work performed.
RECOMMENDATIONS

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<th>Action</th>
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<td>Develop a federalism implementation roadmap</td>
<td>The roadmap could articulate reform priorities and sequencing of actions, and ultimately help to improve implementation of the reform process. It will also enhance the confidence of citizens in the implementation of federalism.</td>
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<td>Adopt the critical outstanding legislations</td>
<td>To create the enabling environment for effective roll-out of federalism, the enactment of the following legislations is necessary: Federal Civil Service bill, Police Management bill; Intergovernmental coordination bill; Financial procedure bill; Sectoral laws with respect to concurrent powers.</td>
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<td>Develop a communications strategy for the implementation of federalism</td>
<td>The communications strategy would support dissemination of information: (i) promote shared understanding of the reform process, its purposes and benefits; (ii) provide opportunities for citizens to appreciate the benefits of the reform, as well as its implementation challenges; and (iii) meet the growing need for transparency in the implementation of federalism.</td>
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<td>Develop a comprehensive capacity improvement strategy &amp; program</td>
<td>This would focus on: (i) deepening the understanding of the elected officials on the principles and mechanisms of federalism; (ii) ensuring that PLGs have necessary staff with the required skills in areas such as public financial management, procurement, public investment management, and citizen engagement; (iii) supporting national training institutes to provide formal training for public officials on federalism; and (iv) developing mechanisms and processes to boost coordination between and/or among PLGs and the federal government.</td>
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<td>Develop a physical infrastructure &amp; facility improvement plan (PIFIP)</td>
<td>The PIFIP would identify government priorities for improving the infrastructure capacities of PLGs to ensure that PLGs have adequate funding to secure administrative facilities with required quality and quantity in a timely manner.</td>
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<td>Setting up the required institutional structures for federalism</td>
<td>Federalization cell can be set up to support the implementation of federalism. The cell could also be mandated to do continuous evaluation of the intergovernmental system for the Government in strong coordination with the PLGs. The Office of the Prime Minister and Council of Ministers could be the institutional home for this with direct involvement of PLGs.</td>
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<td>Develop a solid and modernized M&amp;E system</td>
<td>A solid and modernized Monitoring and Evaluation (M&amp;E) system is needed to support systematic assessment of the performance of federalism against targets. This needs to include the establishment of a federalization cell and development of a system to evaluate the fiscal performance of PLGs. The ensuing report from the proposed M&amp;E system could be jointly reviewed at the intergovernmental coordination meetings held at both the federal and provincial levels.</td>
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SIGNIFICANT ACHIEVEMENTS

- Operation and Management (O&M) surveys were conducted to establish Federal Government and PLGs’ employment needs. The O&M supported the reorganization, reallocation, and the adjustment of the civil service.
- Transferring civil servants under public services into the Federal Government and PLGs allowed PLGs to have key officials and staff in place to support the implementation of federalism.
- The Public Service Commission has already begun the recruitment of deficit staff at LG level.
- The deployment of senior level Joint Secretaries from the Federal Government to provinces as Secretaries was intended to further strengthen HR capacity and effective implementation of federalism at PLG level.
- The majority of PLGs have received training in federal affairs.

CAPACITY GAPS

- 50% of the human resource capacity needs of PLGs are yet to be filled.
- 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.

MONITORING AND EVALUATION

- The Constitution has made specific provision for monitoring and facilitation of developmental activities.
- The Constitution assigned monitoring functions to: 1. The Parliamentary Committee as provided for in law 2. The District assemblies through the District Coordination Committee
- There is limited clarity on the responsibility concerning the M&E of service delivery and PLGs performance.
- There is a lack of M&E systems and database for performance.