



NEPAL CAPACITY NEEDS ASSESSMENT & PARTNERSHIP MAPPING

Federalism at the Crossroads: An Assessment Guiding Smarter Investment in Nepal's Future

August 2025

WHAT IS THE CAPACITY NEEDS ASSESSMENT & PARTNERSHIP MAPPING ABOUT?

The assessment was commissioned at the request of the Ministry of Federal Affairs and General Administration (MoFAGA), carried out with the government and for the government.

This Capacity Assessment & Partnership Mapping:

- Is a diagnostic to identify systemic capacity gaps and coordination needs at federal, provincial, and local levels in Nepal during the consolidation of federalism.
- Was prepared in 2025 under the Provincial and Local Governance Strengthening Programme (PLGSP), with fieldwork in all seven provinces and inputs from 35 local governments.
- Covered all three levels of government.



MoFAGA LEADERSHIP

The exercise was supported and led by MoFAGA PLGSP Leadership in strategic collaboration with UNDP. Was developed by UNDP as Technical Partner in collaboration with Government of Nepal.



STRATEGIC PARTNERS

The PLGSP is supported by the European Union, the United Kingdom's Foreign, Commonwealth & Development Office, Norwegian Agency for Development Cooperation, and the Swiss Agency for Development and Cooperation.

ASSESSMENT OBJECTIVE & OVERALL STRUCTURE



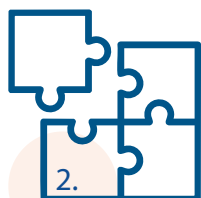
1.

The report's objective is to inform Nepal's federalism roadmap by highlighting capacity gaps, partnership dynamics, and reform priorities.



4.

Later sections detail federal capacity findings, provincial and local government results, and partnership mapping.



2.

It is organized into eight sections covering federal architecture, enablers and challenges, core functional systems, and cross-cutting governance issues.



5.

The report concludes with a sequenced "less-is-more" reform agenda focused on targeted, coordinated, and sustainable capacity building.



3.

Cross-cutting themes assessed include accountability, gender equality and social inclusion (GESI), digital governance, and climate resilience.



6.

Overall, it serves as a strategic guide for government and development partners to consolidate federalism in Nepal.

ASSESSMENT METHOD

Federal level

Key informant interviews, focus groups, and policy document reviews

Provincial level

Structured surveys and field consultations across all 7 provinces



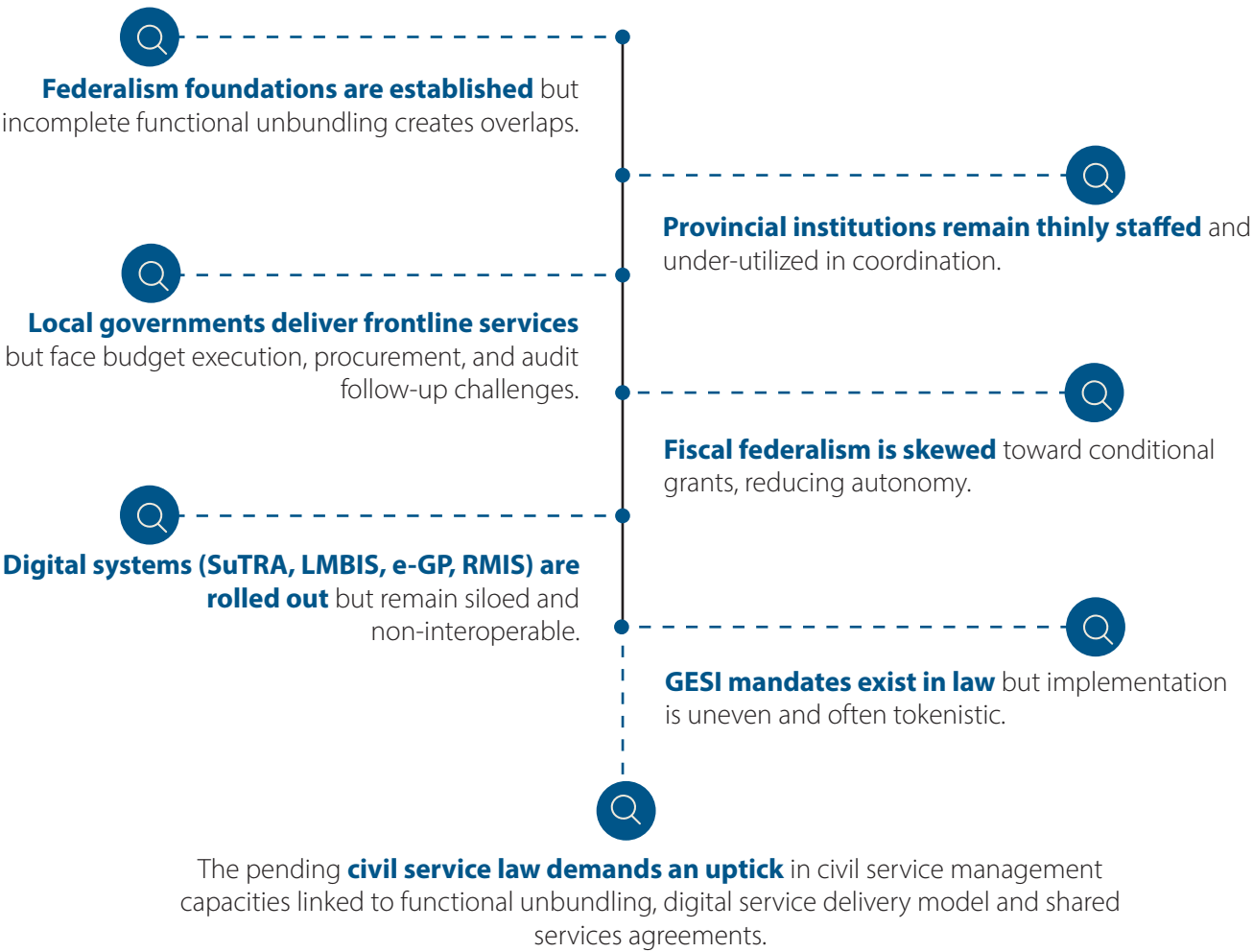
Local government level

Questionnaires and case studies in 35 municipalities and rural municipalities

Partnership mapping

Desk review and analysis of development partner programs and coordination frameworks in Nepal

OVERVIEW OF ASSESSMENT FINDINGS



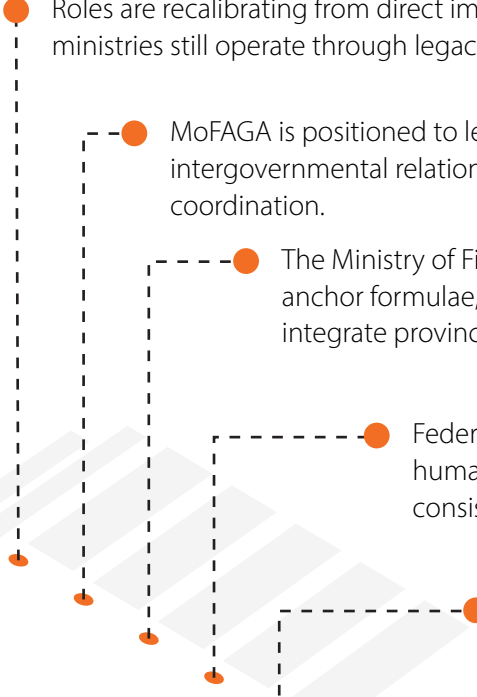
STATUS OF FEDERAL STRUCTURES & FUNCTIONS

- Elected bodies are operational at all three levels, with assemblies approving plans and budgets and exercising oversight through committees.
- Provincial structures are established - ministries, secretariat functions, attorney offices, audit committees - yet staffing and standard operating procedures are still maturing.
- Local governments manage frontline services in education, health, local roads, water supply, and vital registration, while provinces handle regional networks and standards in many sectors.
- Intergovernmental forums exist - National Coordination Council and Inter-Provincial Council at the apex, provincial coordination platforms with local governments - but meet irregularly and need stronger mandates.
- Functional unbundling has progressed sector by sector, though concurrent powers remain a source of overlap that requires updated secondary legislation and clear joint protocols.

STRATEGIC ENABLERS & SYSTEMIC CHALLENGES

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- **Legal alignment is incomplete**
Several sector laws and a comprehensive civil service framework for sub-national tiers are pending or require harmonization to remove overlaps.
 - **Intergovernmental relations are under-institutionalized**
Apex bodies convene infrequently, sector standards are sometimes issued without provincial consultation, and reporting lines can bypass provinces.
 - **Capacity is uneven**
Provinces and remote municipalities face high vacancy rates in technical posts, limited legal drafting capacity, and constrained data capabilities.
 - **Fiscal space is tight**
Own-source revenues are modest, vertical and horizontal imbalances persist, and predictable, performance-linked grants will be needed to sustain service delivery while improving incentives.
 - **Change management is a binding constraint**
Unitary habits endure in postings, approvals, and program design; leadership development and incentive reform will be pivotal to embed a federalism mindset.

FEDERAL CAPACITY ASSESSMENT RESULTS

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- Roles are recalibrating from direct implementation to policy, regulation, and support functions, yet several ministries still operate through legacy vertical projects that bypass provinces.
 - MoFAGA is positioned to lead federalism implementation, but needs reinforced capability in intergovernmental relations, legal harmonization, civil service policy, monitoring, and partner coordination.
 - The Ministry of Finance and the National Natural Resources and Fiscal Commission will anchor formulae, performance-linked grants, and medium-term fiscal frameworks that integrate provincial and local perspectives.
 - Federal oversight bodies - Auditor General, anti-corruption commission, human rights institutions - require resourcing and clear protocols to operate consistently at sub-national level.
 - Apex intergovernmental councils will set cadence for joint decision-making; standing technical groups can convert decisions into sector operating procedures and templates.

PROVINCIAL AND LOCAL GOVERNMENT ASSESSMENT RESULTS

- Provincial administrations are established but under-resourced, with subject ministries thinly staffed and needing core policy, planning, Public Financial Management (PFM), human resource, legal, and monitoring and evaluation functions operationalized through standard manuals and processes.
- Municipalities deliver the most visible services and are strong in community proximity and responsiveness, yet weaknesses persist in procurement planning, asset maintenance, audit follow-up, and use of performance data.
- Staffing pipelines remain fragile, with persistent vacancies in technical posts such as engineers, accountants, and sector officers; pooled provincial-level support and incentives for remote postings will be critical.
- Fiscal execution is uneven, as many municipalities underspend capital budgets due to late procurement, weak project design, and cash management issues; targeted coaching and standard procurement calendars can improve absorption.
- Provinces are not yet fully playing their coordinating role, leaving vertical gaps in coherence and limited engagement with municipalities.
- Gender Equality and Social Inclusion (GESI) are unevenly applied, with some jurisdictions leading in gender-responsive budgeting and others lagging behind; stronger provincial oversight and targeted support are needed.
- Digital uptake is highly uneven with lack of interoperability a major challenge and with leading municipalities piloting e-permitting, digital tax, and grievance portals, while others remain offline; structured replication and provincial facilitation will accelerate diffusion.
- Peer learning has proven effective, as innovations from model municipalities and provinces can be replicated more systematically through provincial training centers.

PARTNERSHIP MAPPING & COORDINATION RESULTS

- The PLGSP platform will continue as the primary government-led coordination and capacity vehicle at scale, with space for thematic windows aligned to national priorities.
- Donor projects should converge on common standards - data definitions, reporting templates, and interoperability requirements - to avoid parallel systems and one-off pilots.
- Geographic balance matters - partnership mapping should steer under-served provinces additional support while tapering duplication in better-served areas.
- Joint results frameworks with a small set of indicators - PFM quality, service access, inclusion outcomes, and coordination cadence - will allow collective accountability without heavy reporting burdens.
- Government systems first - greater use of on-budget or on-system approaches, with safeguards, will build durable institutions rather than project islands.

RECOMMENDATIONS

