



NEPAL'S FEDERAL JOURNEY AT A DECISIVE MOMENT

State of Federalism Report 2025

Federalism in Nepal is no longer an experiment. Nearly a decade after the promulgation of the 2015 Constitution, the federal system is firmly embedded across the country. Elections have been held twice at all three tiers. Federal, provincial, and local institutions are operational nationwide. Citizens now interact daily with municipalities, provincial administrations, and federal agencies. The central question is no longer whether federalism exists, but whether it is delivering governance that is effective, equitable, and trusted.

The State of Federalism Report 2025 provides the first comprehensive national baseline of Nepal's federal transition. It offers a rigorous, evidence-based assessment of how political, fiscal, and administrative federalism are functioning in practice, and how citizens experience the system on the ground.

Purpose of this report

- Provides a comprehensive diagnostic of current performance levels.
- Establishes a baseline for comparative measurement in 2027 and 2029.
- Serves as a strategic platform for dialogue between the government, Parliament, sub-national levels, development partners, and citizens.

Why this report matters now

Nepal's federal transition has entered a decisive consolidation phase. The institutional architecture is largely in place, but performance is uneven. Public expectations are rising faster than administrative capacity. National optimism has fallen sharply, while trust in local governments remains comparatively strong.

These signals point to both opportunity and risk. Federalism is delivering where services are visible and responsive. It is underperforming where coordination is weak, capacity is thin, and accountability is diffuse.

The State of Federalism Report 2025 responds to this moment by grounding debate in evidence rather than ideology. It combines administrative data, institutional capacity assessments, and nationwide public perception surveys. It aligns national indicators with international governance benchmarks, placing Nepal's experience in regional and global context. The result is a shared factual foundation for reform.

Federalism at a glance: what the baseline shows

The 2025 baseline confirms that Nepal's federal system is structurally sound but functionally uneven. The state has successfully built institutions. The challenge now is to make them perform consistently across all regions and sectors.

Key baseline findings



Political

- Elected governments operate at federal, provincial, and local levels nationwide
- Around three quarters of constitutionally required laws have been enacted
- Nepal leads South Asia in political inclusion, with women holding 41 percent of local elected seats
- Intergovernmental coordination bodies exist, but meet irregularly and resolve few disputes



Fiscal

- Intergovernmental transfers are rule-based, transparent, and digitized
- Provinces and local governments depend on federal transfers for over 90 percent of their budgets
- Public financial management systems are standardized nationwide
- Capital budget execution remains weak, delaying infrastructure and service expansion



Administrative

- All provincial and local administrative structures are operational
- Digital systems for budgeting, accounting, and civil registration are widely adopted
- Only around one third of sanctioned provincial civil service posts are filled, creating major delivery bottlenecks

Taken together, these findings show that Nepal has built the scaffolding of a federal state. The next task is to strengthen the machinery that converts structure into results.

Citizens' verdict: federalism judged by delivery

A defining strength of the State of Federalism Report 2025 is its integration of citizen perspectives. Nationwide survey results reveal a clear and consistent pattern: confidence in government declines as one moves up the federal hierarchy.

Local governments are the most trusted tier of the state. Citizens associate improvements in roads, drinking water, health services, and electricity primarily with municipal and ward-level action. More than half of respondents report that conditions in their locality are improving, even as optimism about the country as a whole has dropped below one quarter. This divergence carries a powerful message. Federalism is not judged by constitutional text or institutional design. It is judged by proximity, visibility, and reliability of services.

Key perception insights



Trust is highest in ward offices and municipalities, and lowest in political parties.



Local governments are seen as more accessible and responsive than provincial or federal institutions.



Reasons for optimism are overwhelmingly service-driven rather than political



Gender-based barriers persist, particularly for women in the Terai, despite strong representational gains

Citizens are clear about what federalism must deliver: practical improvements in daily life.

Achievements worth recognizing

The report documents substantial achievements that deserve recognition and protection.

Nepal has undertaken one of the most ambitious decentralization processes in South Asia. In less than a decade, it has established seven provinces and 753 local governments, transferred major service delivery responsibilities, and embedded inclusion as a constitutional principle.

Key achievements

Democratic consolidation

- Regular elections at all three tiers
- Functioning local councils and provincial assemblies
- Expanded access to justice through local judicial committees



Fiscal transparency and stability

- Nationwide use of standardized financial management systems
- Improved budget disclosure and audit coverage
- Preservation of macro-fiscal stability during periods of shock



Inclusion and representation

- Guaranteed representation of women, Dalits, and marginalized groups in elected bodies
- Institutionalization of gender-responsive budgeting across all tiers
- Declining experiences of caste- and language-based exclusion in public services



Digital transformation

- Near-universal digital civil registration
- Automated budgeting and accounting systems at subnational level
- Improved public access to government information



These gains form a strong foundation for the next phase of federal consolidation.

Where the system still falls short

The baseline is equally clear about the constraints holding federalism back.

Key challenges



Incomplete legal and functional clarity

- Pending or partially implemented sectoral laws (education, administration)
- Overlapping mandates in shared functions causing duplication and unclear accountability



Weak intergovernmental coordination

- Irregular meetings of national councils and inter-provincial forums
- Decisions rarely tracked or implemented
- Provinces often bypassed, weakening the three-tier system



Severe capacity gaps

- High vacancy rates in provincial and local civil services
- Shortage of technical staff (engineers, accountants, planners)
- Uneven training and weak performance management



Fiscal dependence and execution gaps

- Limited own-source revenue at subnational levels
- Heavy reliance on conditional grants limiting local discretion
- Chronic under-execution of capital budgets delaying development

These are not failures of federalism as a concept. They are symptoms of an unfinished transition.

A strategic agenda for the next decade

The State of Federalism Report 2025 does not argue for revisiting the decision to federalize. It argues for making federalism work better.

The strategic direction emerging from the evidence is clear. Nepal must move from institution-building to performance delivery. This requires coordinated reform across political, fiscal, and administrative domains.

Priority areas and key actions



Completing the legal framework

- Finalize pending federal and sectoral laws
- Harmonize legislation across tiers to reduce overlap and uncertainty



Strengthening intergovernmental coordination

- Institutionalize regular meetings of coordination councils
- Establish permanent secretariats and follow-up mechanisms
- Empower provinces as the primary coordinating tier



Professionalizing subnational administration

- Fully operationalize provincial public service commissions
- Address critical staffing gaps through targeted recruitment and incentives
- Invest in continuous, practice-oriented capacity development



Deepening fiscal autonomy and accountability

- Increase the share of unconditional and equalization grants
- Strengthen local revenue systems without burdening the poor
- Link part of fiscal transfers to performance and service outcomes



Embedding citizen accountability

- Expand participatory planning, social audits, and grievance mechanisms
- Improve communication using channels citizens actually trust
- Ensure inclusion translates into influence and tangible outcomes

A shared reference point for collective action

The State of Federalism Report 2025 is not a verdict. It is a tool for collective learning and course correction. By establishing a clear national baseline, it enables:

- Government to prioritize reforms based on evidence
- Parliament to strengthen oversight of federal implementation
- Provinces and municipalities to benchmark performance and learn from peers
- Development partners to align support with nationally identified gaps
- Citizens to hold institutions accountable for results

Federalism is a long-term project. International experience shows that it takes decades to mature. Nepal has moved faster than most, under demanding political, economic, and geographic conditions.

This report shows that the foundations are in place. The task ahead is to align authority with capacity, resources with responsibility, and institutions with citizens' expectations.

The State of Federalism Report 2025 invites all stakeholders to engage with this evidence, not to debate the existence of federalism, but to shape its future as a system that delivers effective governance, equitable development, and renewed public trust.

