NEPAL: THE STATE OF FEDERALISM REPORT

2025

Technical Support

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FOREWORD BY
MINISTRY OF FEDERAL AFFAIRS AND GENERAL ADMINISTRATION

Federalism in Nepal is more than an administrative reform—it is the foundation of an inclusive, equitable, and democratic state envisioned by our Constitution. The State of Federalism Report 2025 marks a milestone in this national transformation. Nearly a decade after the adoption of the federal constitution, the Government of Nepal continues to deepen the federal system through the transfer of power, resources, and responsibility to provincial and local levels. This report provides the first comprehensive baseline for assessing the progress of federalism and serves as a national reference point for tracking institutional, fiscal, and governance reforms over time.

The State of Federalism Report 2025 builds upon the Capacity Assessment of Provincial and Local Governments and Partnership Mapping (2025), the Provincial and Local Governance Strengthening Programme (PLGSP), and a range of other analytical and perception studies conducted both within and outside the framework of this initiative. It brings together quantitative and qualitative evidence to provide a clear picture of Nepal's evolving federal governance architecture—highlighting achievements, identifying bottlenecks, and charting the path forward. Importantly, it introduces a set of baseline indicators, including State of Federalism indicators aligned with international standards on governance, transparency, gender equality, and integrity. These indicators will guide subsequent reports in 2027 and 2029, providing a consistent framework for monitoring progress. We look forward to working closely with the Office of the Prime Minister and Council of Ministers (OPMCM), PLGSP, and development partners to build on this foundation. The planned follow-up assessments in 2027 and 2029 will further strengthen our ability to track progress, refine policies, and ensure that federalism delivers tangible benefits to citizens.

Federalism is a journey that demands patience, leadership, and continuous learning. While the core institutions of Nepal's three-tiered system are now in place, challenges persist in functional clarity, fiscal alignment, capacity development, and inter-governmental coordination. This report's recommendations—empowering provinces as the coordinating tier, professionalising the public service, and strengthening accountability—align closely with the Government's priorities. The Ministry of Federal Affairs and General Administration remains fully committed to translating these insights into concrete reforms that make governance more responsive, inclusive, and transparent.

Recent political developments in Nepal, including changes in coalitions and leadership transitions, have introduced short-term variability in governance. These are natural features of a growing democratic system and reflect the checks and balances inherent in federalism. Such events may have influenced the pace of reform implementation or the perception of progress in certain areas, particularly those captured in this baseline and the forthcoming 2027 midline report. However, they do not detract from Nepal's long-term trajectory towards a stable and mature federal democracy. The federal journey remains on course, and this report reaffirms the Government's resolve to strengthen the institutions that uphold it.

On behalf of the Ministry, I extend appreciation to all stakeholders who contributed to this important exercise—the provincial and local governments, development partners, and the United Nations Development Programme for its continued technical support. Federalism is a shared national project, and its success depends on collaboration, accountability, and sustained effort. Together, we will continue to build a federal system that delivers better governance, stronger institutions, and a fairer future for all Nepalese.

Dila Ram Panthi

National Programme Director and Chair, Technical Assistance Committee

Provincial and Local Governance Strengthening Programme (PLGSP)

Ministry of Federal Affairs and General Administration

FOREWORD BY
OFFICE OF THE PRIME MINISTER AND COUNCIL OF MINISTERS

It is my privilege to present the State of Federalism in Nepal 2025, the first comprehensive national baseline report assessing Nepal's progress in implementing federal governance nearly a decade after the promulgation of the Constitution. This report comes at a critical juncture, providing an evidence-based and system-wide understanding of how federalism is evolving across the country. It not only highlights achievements but also identifies key structural and operational challenges that require continued policy attention and coordinated action.

This important milestone has been made possible through the PLGSP. From my own perspective, this report represents a strategic step towards institutionalising a whole-of-government approach to monitoring federalism. By integrating data from federal, provincial, and local levels, as well as citizen perception surveys, it establishes a credible foundation for evidence-informed decision-making and reform prioritisation at the highest level of government.

The findings present a mixed yet encouraging picture. Nepal has successfully established the political architecture of federalism, with elected governments operational across all three tiers. Local governments, in particular, have demonstrated resilience and responsiveness, contributing to increased public trust. However, the report also underscores persistent challenges in administrative federalism, fiscal autonomy, and inter-governmental coordination. Addressing these issues will require stronger alignment across institutions, clearer delineation of roles, and enhanced capacity at province and local levels. At the same time, emerging progress in digital governance, gender inclusion, and citizen engagement provides strong signals of a system that is adapting and maturing.

For us, this report serves not only as a diagnostic tool but also as a strategic instrument to strengthen inter-governmental relations and improve policy coherence. It provides actionable insights that can inform the functioning of national coordination mechanisms, including the Inter-Province Council, National Coordination Council, and other federal forums. Importantly, it supports the government's broader reform agenda by aligning federalism performance with national priorities on service delivery, governance efficiency, and inclusive development.

Looking ahead, this report lays the groundwork for a sustained, institutionalised mechanism for assessing the State of Federalism in Nepal. We envision that this exercise will continue beyond PLGSP, with subsequent assessments in 2027 and 2029, eventually transitioning into a fully government-owned system. This will ensure continuity, strengthen accountability, and enable Nepal to track its federal transition through a structured and evidence-based approach.

Nepal's federal journey is unfolding in a dynamic and evolving context. As the system matures, sustained commitment, adaptive governance, and strong inter-governmental collaboration will be essential. This report marks a significant step in that direction. The Office of the Prime Minister and Council of Ministers remains committed to working closely with all stakeholders to ensure that federalism delivers on its promise of inclusive, accountable, and citizen-centric governance.

Dr. Bhishma Kumar Bhusal

Joint Secretary

Office of the Prime Minister and Council of Ministers

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We also wish to acknowledge the constructive engagement and support of our development partners, including from the Swiss Agency for Development and Cooperation (SDC), Nepal, Mr. Matthias Meier, Deputy Head of Mission, and Mr. Namit Wagley, State Building Advisor; from the Royal Norwegian Embassy, Mr. Tor Kristian Ånestad, Governance Programme Manager, and Ms. Shradha Rayamajhi, Programme Officer, Governance; from the European Union, Ms. Kaluwa Vergamota, Programme Officer for Governance Issues with a focus on federalism, Public Financial Management, and anti-corruption.

The United Nations Development Programme (UNDP), Nepal, provided strategic guidance and technical support throughout the process. We particularly recognise the contributions of Ms. Kyoko Yokosuka, Resident Representative, Mr. Julien Chevillard, Deputy Resident Representative, Ms. Binda Magar, Advisor Governance and Assistant Resident Representative, and Ms. Sewa Shrestha, Portfolio Analyst for Federalism. A special acknowledgement is reserved for Mr. Bikash Ranjan Dash, Federal Governance Specialist, who served as the principal custodian of this report from the UNDP side. His leadership in guiding the technical process, coordinating with national and international stakeholders, and ensuring the coherence, quality, and timely completion of the final document was central to its successful delivery.

This report was developed by the Government of Nepal, with technical assistance from UNDP with support from Geopolicity Inc., an international management consulting group specialising in public sector modernisation. The report was authored by Dr. Peter J. Middlebrook as a Lead Author.

Finally, we extend our heartfelt thanks to the Provincial and Local Governments of Nepal, as well as PLGSP technical assistance teams working in their respective provinces. Their many insights, practical experiences, and commitment to improving governance have greatly enriched the analysis and contributed to the strength and relevance of this report.

TABLE OF CONTENTS

TABLES

FIGURES

CHARTS

BOXES

ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank
CIAA	Commission for the Investigation of Abuse of Authority
ECN	Election Commission of Nepal
EU	European Union
FCDO	UK Foreign, Commonwealth & Development Office
ILO	International Labour Organization
IMF	International Monetary Fund
LDTA	Local Development Training Academy
MoEST	Ministry of Education, Science and Technology
MoF	Ministry of Finance
MoFAGA	Ministry of Federal Affairs and General Administration
MoHA	Ministry of Home Affairs
MoHP	Ministry of Health and Population
MoLCPA	Ministry of Land Management, Cooperatives and Poverty Alleviation
MoLJPA	Ministry of Law, Justice and Parliamentary Affairs
MoPIT	Ministry of Physical Infrastructure and Transport
MoUD	Ministry of Urban Development
MoWCSC	Ministry of Women, Children and Senior Citizen
MoYS	Ministry of Youth and Sports
MuAN	Municipal Association of Nepal
NARMIN	National Association of Rural Municipalities in Nepal
NASC	Nepal Administrative Staff College
NHRC	National Human Rights Commission
NNRFC	National Natural Resources and Fiscal Commission
NPC	National Planning Commission
OAG	Office of the Auditor General
OCMCM	Office of the Chief Minister and Council of Ministers
OPMCM	Office of the Prime Minister and Council of Ministers
PCGG	Provincial Centre for Good Governance
PLGSP	Provincial and Local Governance Strengthening Programme
PMEA&P	Provincial Ministry of Economic Affairs and Planning
PMoPIT	Provincial Ministry of Physical Infrastructure and Transport
PMSD	Provincial Ministry of Social Development
PPC	Provincial Planning Commissions
PRTA	Provincial Research and Training Academies
PSC	Public Service Commission
SDC	Swiss Agency for Development and Cooperation
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
USAID	United States Agency for International Development
World Bank	World Bank Group

Box 1. Notes on the state of federalism report

The State of Federalism in Nepal 2025 report has been prepared to establish a national baseline of federalism in order to assess performance and compliance with the federal Constitution, including progress under the PLGSP. It constitutes the first comprehensive, system-wide baseline of Nepal's federal transition and institutional performance, serving both as a diagnostic of current implementation and as a reference point for future assessments. The report integrates PLGSP programme indicators, which track institutional capacity, inter-governmental coordination, and service delivery across federal, provincial, and local levels, with a broader set of State of Federalism indicators that place Nepal's experience in comparative perspective. These extended indicators draw on internationally recognised benchmarks for governance, transparency, accountability, gender equality, and anti-corruption, ensuring that assessment of Nepal's federal system is grounded both in constitutional mandates and in internationally accepted governance standards.

The 2025 report draws directly from the Capacity Assessment of Provincial and Local Governments and Partnership Mapping Study (2025), which together provide the institutional and functional baselines for sub-national performance. It also incorporates relevant external data sources, including perception surveys conducted by independent research organisations and public opinion studies undertaken outside the framework of this contract, thereby ensuring triangulation between government and third-party evidence. As the first in a planned three-report series, this baseline will be followed by State of Federalism Reports in 2027 and 2029. The indicators and findings established here will serve as the reference against which progress will be measured over the next five years, enabling Nepal and its partners to monitor institutional maturity, policy coherence, and citizen satisfaction with the federal system.

Recent political developments in Nepal, including periodic changes in government and coalition reconfigurations, have introduced short-term uncertainty within the political sphere. These events, however, are characteristic of an evolving democratic system in transition. Such fluctuations are not uncommon in newly federalised states and, while they may influence the implementation pace of certain reforms or the interpretation of data in specific years (notably the 2027 midline), they do not detract from the overall trajectory of Nepal's federal transition. Rather, these episodes reflect the dynamic process of institutional adaptation and the natural checks and balances that emerge as power and representation are redistributed within a maturing federal democracy.

EXECUTIVE SUMMARY

BACKGROUND

Nepal's transition from a unitary state to a federal democratic republic under the 2015 Constitution represents a profound reordering of state power. The aim was to bring governance closer to citizens, rebalance authority between the centre and the periphery, and institutionalise inclusion as a pillar of national unity. A decade later, federalism is embedded across the country's seven provinces and 753 local governments, marking one of the most comprehensive devolution exercises in South Asia. The State of Federalism Report 2025 provides the first empirical baseline (See Annex 1 for the full baseline) for assessing this transformation, capturing the structures, performance, and perceptions that define the new system.

- Federalism is operational in all tiers, with elected governments functioning nationwide.
- The constitutional principles of self-rule, shared rule, and cooperation have been institutionalised through laws, policies, and digital governance systems.
- Citizen satisfaction exceeds 50 percent at the local level, and Nepal leads the region in political inclusion, with women holding 41 percent of local seats.
- Nepal's federalism has therefore moved beyond its formative stage. The coming decade must convert these institutional structures into stronger systems of performance, coherence, and accountability—ensuring that federalism delivers tangible, equitable results for citizens.

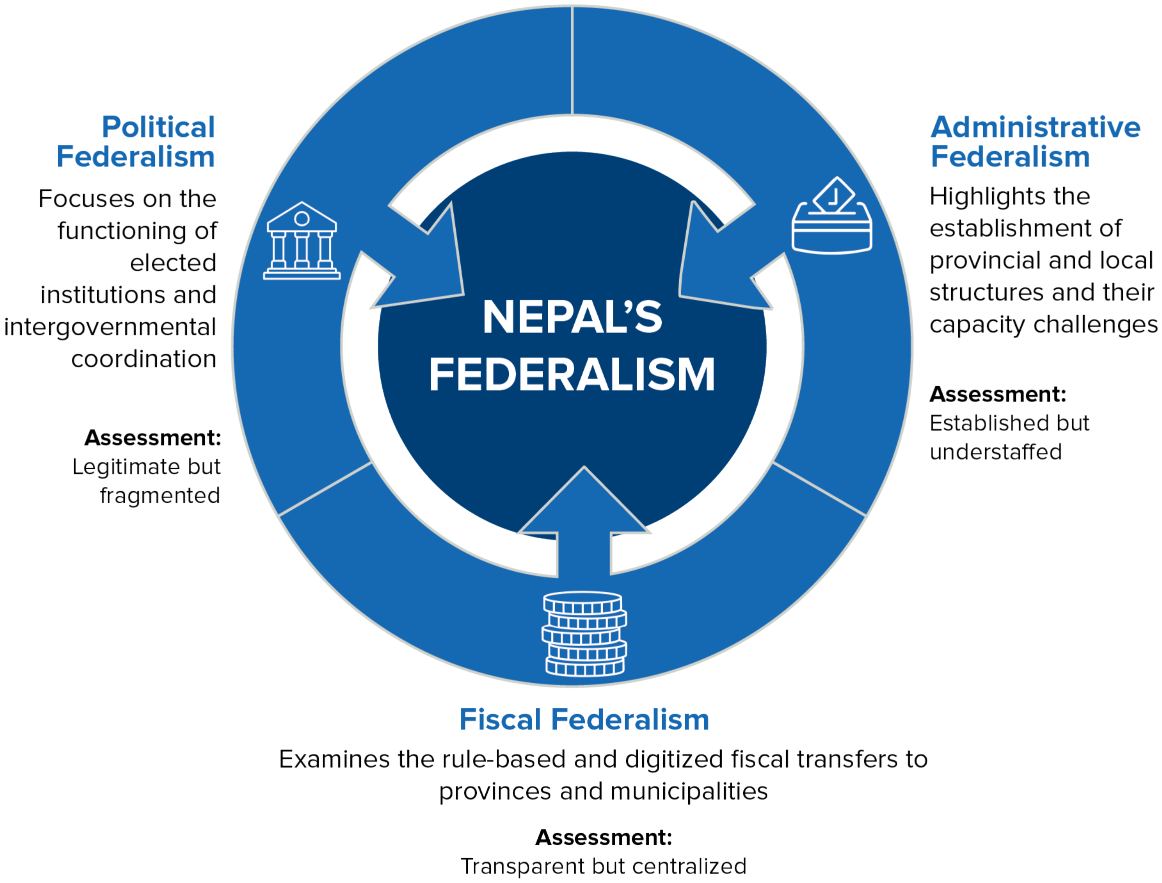
The findings of the 2025 Survey of the Nepali People broadly reinforce this overall picture of a functioning federal system. Citizens clearly recognise and interact with all three tiers of government, confirming that federalism is operational and visible nationwide. Trust remains strongest at the local level, where municipalities and ward offices are perceived as the most responsive and accessible state institutions, supporting the principle of self-rule in practice. While confidence in federal and provincial tiers is lower, citizens overwhelmingly associate improvements in roads, drinking water, health services, and electricity with local governance, aligning with the intent of devolved service delivery. The survey also highlights declining experiences of linguistic and caste-based exclusion, further validating Nepal's commitment to inclusion as a constitutional pillar. Although national optimism has fallen sharply, the public continues to reward local-level government performance, demonstrating that the foundations of federalism are not only established in law but are being experienced by citizens in meaningful, day-to-day ways (Kathmandu University 2025).

STATE OF FEDERALISM

The 2025 baseline confirms that Nepal's federal system is structurally solid but unevenly functional. Political institutions are mature and representative, fiscal systems are transparent yet still centralised, and administrative devolution remains incomplete. The federal structure is legally entrenched and democratically legitimate, but its coordination mechanisms and resource systems continue to evolve.

- **Political Federalism:** Elected institutions are functioning at all three levels; inclusion is strong; however, inter-governmental councils meet irregularly and legal gaps remain in education and civil service acts.
- **Fiscal Federalism:** Fiscal transfers are rule-based and digitised, but provinces and municipalities depend on federal grants for over 90 percent of their budgets.
- **Administrative Federalism:** Provincial and local structures are fully established; digital systems are in use, yet staffing and technical capacity are critically weak, with only 38 percent of sanctioned provincial posts filled.

Figure 1. A snapshot of Nepal's federalism



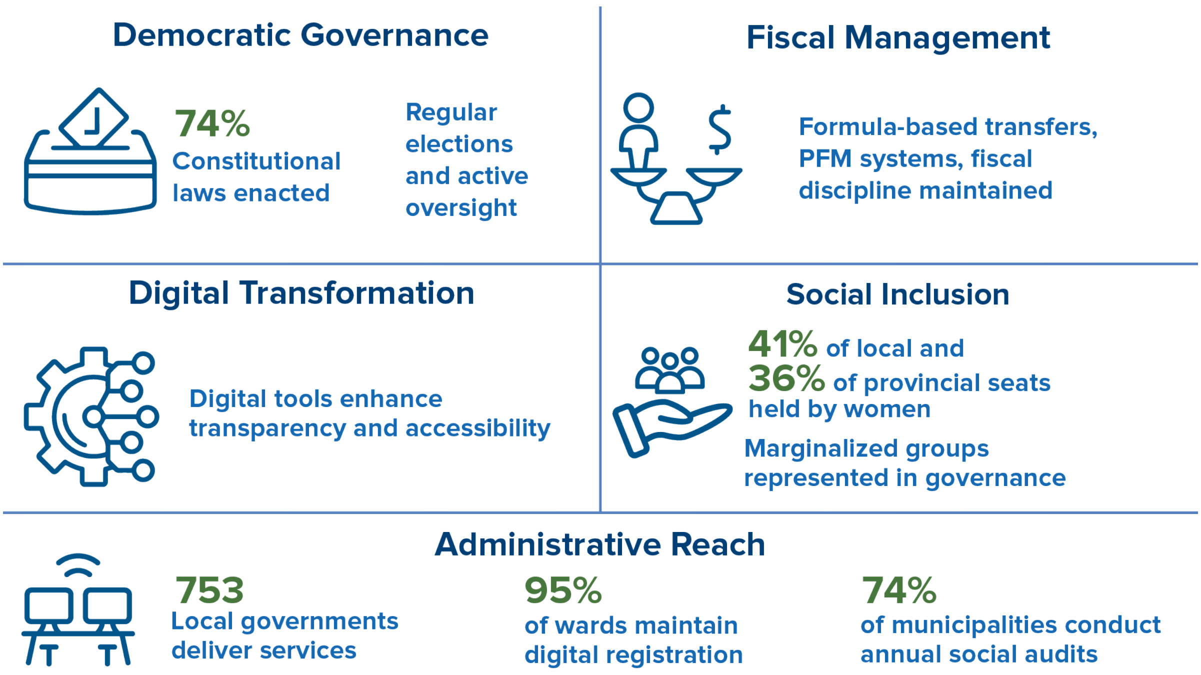
In sum, Nepal's federalism has taken deep institutional root but remains a work in progress. The country has built the architecture of a federal state; the next task is to refine its mechanics—clarifying roles, aligning fiscal and administrative authority, and ensuring that each tier of government can perform effectively within its constitutional domain.

SUMMARY OF ACHIEVEMENTS

The first decade of federalism has yielded substantial, measurable progress. Democratic representation has expanded, fiscal systems have become more transparent, and local governance has taken on unprecedented responsibilities for service delivery and inclusion. Federalism has strengthened the social contract by enhancing citizen participation and embedding equality at the heart of public life.

- **Democratic Governance:** 74 percent of constitutional laws have been enacted; all tiers have held regular elections; and oversight committees and local councils are operational.
- **Fiscal Management:** Predictable, formula-based transfers are in place; PFM systems such as SuTRA and CGAS are used nationwide; and fiscal discipline has preserved macroeconomic stability.
- **Administrative Reach:** 753 local governments deliver essential services; 95 percent of wards maintain digital civil registration; and 74 percent of municipalities conduct annual social audits.
- **Social Inclusion:** Women hold 41 percent of local and 36 percent of provincial seats, and marginalised groups have guaranteed representation in every ward.
- **Digital Transformation:** The use of digital governance tools has improved transparency, reduced discretion, and made financial data publicly accessible.

Figure 2. Nepal's federal journey: a decade of progress



Taken together, these achievements signify that Nepal's federal architecture is functioning and delivering. The foundations of democratic inclusion and fiscal accountability are secure; the next phase must focus on performance—improving the quality of spending, the professionalism of service delivery, and the consistency of results across provinces and municipalities.

SUMMARY OF CHALLENGES

Despite evident success, Nepal's federal transition remains constrained by unresolved structural and functional bottlenecks. Federalism has created the scaffolding of a new state, but the system still suffers from legislative delays, uneven fiscal capacity, and gaps in administrative performance. These weaknesses risk reinforcing dependence on the centre and widening disparities between stronger and weaker provinces.

- **Incomplete Legal Framework:** Critical enabling laws—especially those governing education, health, and civil service—remain pending, hindering the full exercise of devolved powers.
- **Fiscal Dependence:** Over 90 percent of sub-national budgets rely on federal grants; own-source revenue remains limited to 6–8 percent.
- **Capacity Gaps:** Chronic staff shortages and uneven skills constrain planning, budgeting, and service delivery.
- **Coordination Failures:** Inter-governmental councils convene irregularly, leaving disputes unresolved and provincial roles underutilised.
- **Accountability Deficits:** Internal audits are compliance-based; only about 30 percent of audit irregularities are resolved annually; and citizen participation in budgeting remains inconsistent.

Overall, Nepal's federalism stands on a strong institutional foundation but an uneven functional footing. The next stage must close these gaps—by completing the legislative framework, strengthening coordination, and professionalising provincial and local administrations—to ensure that the federal project achieves both stability and impact.

SUMMARY OF NATIONAL ASSEMBLY RECOMMENDATIONS

Annex 2 provides a consolidated set of coherent, non-overlapping thematic recommendations derived from the ninety-nine directives issued by the National Assembly's Federalism Implementation Study and Monitoring Parliamentary Special Committee. These consolidated themes are also integrated throughout the report to guide the next generation of federalism reforms and the strengthening of inter-governmental practices across Nepal. They translate a wide range of detailed recommendations into a structured set of outcome-focused priorities that reflect the political, administrative and fiscal architecture required to anchor a mature federal system.

Taken together, the recommendations follow a clear reform trajectory, beginning with the need for constitutional and functional clarity, stronger political inclusion and more effective parliamentary oversight. They then move into the core systems of administrative federalism, including civil service restructuring, rationalisation of institutions, and the creation of predictable coordination mechanisms among federal, provincial and local governments. The fiscal agenda emphasises enhanced own source revenue mobilisation, transparent and rules based grants, sustainable borrowing practices and greater alignment between plans, budgets and project selection. The recommendations also underline the importance of citizen centred service delivery, improved natural resource governance, integrated data systems and more consistent public participation in law making and oversight. Overall, the flow of reforms points towards a more coherent, capable and accountable federal system that aligns authority with resources, strengthens collaboration across tiers and delivers measurable improvements in service delivery, equity and development outcomes nationwide.

PUBLIC PERCEPTION SURVEY RESULTS

The Survey of the Nepali People 2025 provides the clearest nationwide picture of how federalism is experienced by citizens. The findings add an essential layer of insight to the baseline assessment.

- **National sentiment is at its lowest in the survey series:** Only 23.7 percent believe the country is heading in the right direction, down from 65.6 percent in 2020.
- **Local confidence remains comparatively strong:** 54.4 percent say their locality is improving, even as optimism about the country collapses.
- **Local governments remain the most trusted tier:** 68.6 percent trust their municipality/rural municipality; 75.9 percent trust wards.[1]
- **Trust declines sharply with higher tiers:** Provincial trust stands at 45.5 percent, and federal trust at 52.7 percent. Political parties remain the least trusted institution (30.5 percent).
- **Reasons for optimism are service-driven:** Roads, drinking water, health services, and electricity improvements anchor positive views.
- **Inclusion outcomes are uneven:** Language and caste-based barriers have dropped below 6 percent, but gender-based challenges persist, particularly for women in the Terai.
- **Participation is widespread but shallow:** 74 percent of municipalities conduct public hearings, but only 29 percent follow up on citizen feedback or integrate it into planning.

Together, these perception findings highlight a critical insight: federalism is judged not by its architecture, but by the proximity, visibility, and reliability of services. Citizens reward responsive, localised service delivery but express sharp frustration with national-level performance, coordination, and political leadership.

[1] Findings from oversight and accountability institutions further reinforce this pattern. Evidence from the Commission for the Investigation of Abuse of Authority and the Office of the Auditor General indicates that the most visible and directly experienced interface of government for citizens is at the local level, where

RECOMMENDATIONS

Nepal's second decade of federalism will determine whether the system matures into a cohesive, high-performing model of governance. The strategic agenda now is to move from construction to consolidation, from rules to results. This requires political will, administrative professionalism, and fiscal realism.

- **Legal Consolidation:** Finalise and harmonise outstanding laws, particularly the Federal Civil Service, Education, and Health Acts.
- **Functional Clarity:** Complete functional unbundling to eliminate overlapping mandates and align responsibilities with resources. Establish high-level Administration Reform Commission under the Prime Minister.
- **Fiscal Deepening:** Expand unconditional transfers, revise the equalisation formula, and strengthen local tax systems to reduce dependence on federal funding.
- **Administrative Professionalisation:** Empower Provincial Public Service Commissions, establish clear career paths, and incentivise postings in remote areas.
- **Governance and Integrity:** Make public administration clean, competent, corruption-free and accessible. Institutionalise annual performance reviews, risk-based audits, e-procurement, and digital grievance systems. Scale 'Hello Sarkar'-type grievance systems at all tiers.
- **Inclusive Leadership:** Mentor women and minority representatives, embed gender and inclusion analysis in budgeting, and enhance participatory decision-making.

If pursued systematically, these measures will shift Nepal's federalism from a structural achievement to a functional success—creating a government that is decentralised yet cohesive, inclusive yet efficient, and nationally unified through performance rather than prescription.

The report recommends that the federal and provincial governments adopt formal decentralisation and delegation plans that specify which centrally retained functions will be delegated to provinces and local levels over time, as proposed by the NA Special Committee. Moreover, the consolidated reform roadmap proposed in this chapter is designed to operationalise the 'Federalism Implementation Action Plan 2079' endorsed by the Government following NA Special Committee recommendations (NA Rec 9).

HIGH LEVEL OVERVIEW OF STATE OF FEDERALISM INDICATORS

The table below provides a high-level summary of select indicators that reflect the state of federalism in Nepal, drawing on both quantitative data and citizen perceptions presented in the State of Federalism Report. The indicators are grouped thematically to capture key dimensions of Nepal's federal transition—including legal foundations, inter-governmental coordination, service delivery, fiscal governance, inclusion, digital systems, global positioning, and public trust.

Taken together, the data suggest that Nepal has made meaningful structural progress in institutionalising federalism: legal reforms are largely in place, basic inter-governmental mechanisms are functioning, and foundational systems—such as digital platforms and capacity development frameworks—are being built. However, execution gaps persist across all tiers of government. Decision-making remains fragmented, staffing and fiscal autonomy are limited, and uptake of national systems at the provincial and local levels is uneven. Citizen trust is highest in local governments, underscoring the importance of proximity and responsiveness in a federal system. Trust in political parties and the federal tier is notably low, reflecting deeper political and accountability challenges.

Overall, the indicators show that Nepal's federalism is structurally sound but functionally uneven—delivering progress where systems are supported by local ownership and visible service delivery, while lagging where coordination, enforcement, and institutional trust are weaker. Continued gains will depend not just on systems and laws, but on strengthening vertical coherence, accountability, and citizen engagement across all tiers.

Table 1. Summary of State of Federalism Report indicators

THEME	INDICATOR	LATEST VERIFIED VALUE[2]	INTERPRETATION / IMPLICATION
Legal foundations of federalism	Federal acts/regulations enacted in line with the Constitution	83	Shows strong progress in legal anchoring of federalism.
	Provincial legislation aligned to Schedule 6, 7, 9	102–150 per province	Indicates active sub-national lawmaking within constitutional competencies.
Inter-governmental coordination	Core inter-governmental meetings held (IPC, NCC, NDAC, ACC, IGFC)	6 total	Reflects establishment of structured mechanisms for vertical coordination.
	IGM decision implementation (ACC fully implemented; others partial)	Mixed	Coordination exists but enforcement and follow-through are weak.
	% of Provincial IGM decisions fully implemented	11%–100%	Wide variation; reflects strength of provincial participation in IGR.
	Functional provincial coordination mechanisms	66%–100%	Indicates how well provinces are structurally engaging with local governments.
Public service delivery and capacity	Provincial civil service positions filled	38%	Major capacity gaps persist; hinders devolved function execution.
	Number of provincial officials trained	Varies by province	Indicates uneven rollout of training and human resource readiness.
	Audit irregularities resolved at sub-national level	29.8%	Points to weak enforcement and follow-up in local financial accountability.
	Citizen satisfaction with local services	57%	Public perceptions suggest moderate delivery success under federalism.
	Local government capital budget execution rate	80–90%	Execution capacity at the local level is functional but not yet optimal.
	Number of LGs using civic monitoring tools	33+	Civic engagement in monitoring is emerging but not yet system-wide.

[2] Date of latest verification: Indicators reflect the latest verified baseline status based on administrative records, assessments, and monitoring data available as of **FY 2024/25**, unless otherwise specified.

THEME	INDICATOR	LATEST VERIFIED VALUE[2]	INTERPRETATION / IMPLICATION
Fiscal federalism	Provincial own-source revenue share	20.7%	Provinces remain highly dependent on inter-governmental transfers.
Fiscal federalism	OBS Public Participation (out of 100)	31	Public role in budget formation remains limited.
	OBS Budget Oversight (out of 100)	46	Legislative and audit oversight are underdeveloped.
	OBS Transparency (Open Budget Index, out of 100)	50	Mid-level transparency; access to financial info is partial and delayed.
Equity, inclusion and gender	Number of GESI-targeted federal laws or directives	17 laws, 5 directives	Strong legislative commitment to inclusion and rights.
	Global Gender Gap Index Score	0.659	Nepal shows gender progress in leadership but lags in economic parity.
	Global Gender Gap Index Rank	116th out of 146	Gender inequality remains a persistent structural challenge.
Digital governance and systems	ICT platforms developed by the federal government	39	Indicates strong federal push for digital infrastructure.
	Number of PLGs using federal ICT platforms	7	Uptake by local levels remains low; systems are underused.
	Real-time digital platforms linking provinces and LGs	100	Provinces have widely adopted interfacing systems (e.g. GIOMS, LISA).
	LGs using e-GP, CGAS, and PAMS with audit trails	100	Reflects successful deployment of federal financial automation tools.
	EGDI Score (E-Government Development Index)	0.5781	Mid-level capacity; digital maturity still trailing peers globally.
	EGDI Global Rank (Nepal)	119th out of 193	Highlights slow progression in service automation and citizen-centric digital delivery.
Global performance and competitiveness	SDG Global Index Score (Nepal)	68.6 / 100	On track in several goals but still faces structural bottlenecks.
	SDG Global Rank (Nepal)	85th out of 167	Mid-range performance globally; needs acceleration on governance, climate, and equity.

THEME	INDICATOR	LATEST VERIFIED VALUE[2]	INTERPRETATION / IMPLICATION
Global performance and competitiveness	Rule of Law Index Score	0.52	Legal frameworks are present but enforcement remains fragile.
	Rule of Law Global Rank (Nepal)	69th out of 142	Mid-tier globally; institutions are functioning but not consistently.
	Corruption Perceptions Index (CPI) Score	34 / 100	Trust in institutions remains low due to governance lapses.
	Human Development Index (HDI) Score	0.602	Medium development; advances in health and education but economic base remains shallow.
	World Bank Business Ready Economy Ranking (Nepal)	108th out of 180	Regulatory environment is improving but remains overly complex and slow.
Public perception and engagement	Trust in local governments	67%	Local governments are the most trusted tier among the public, especially in rural areas.
	Trust in provincial governments	53%	Moderate confidence; seen as weaker than local governments in accessibility and service.
	Trust in federal government	48%	Indicates limited perceived proximity or effectiveness of federal structures.
	Trust in political parties	26%	Extremely low trust; reflects public disengagement or disillusionment with party politics.
	Factors driving LG trust (e.g., service delivery, proximity)	Top drivers: access, visibility, responsiveness	People value closeness and service more than structure or mandates.
	Perceived improvements in accountability of LGs since federalism	54%	Suggests federalism is delivering some perceived gains in downward accountability.

Sources: Indicators in this table are compiled from administrative records and validated datasets drawn from the Constitution of Nepal (2015); MoFAGA administrative data; UNDP–MoFAGA Capacity Assessment and Partnership Mapping (2025); PLGSP indicator sheets (2023–2025); Office of the Auditor General annual reports; PEFA Assessment (2024); and records of inter-governmental coordination mechanisms (IPC, NCC, ACC, IGFC).

STRUCTURE OF THE STATE OF FEDERALISM REPORT

The report is structured into eight substantive sections.

- **Section 1. Introduction:** Sets out the rationale, objectives, and methodology of the 2025 Federal Baseline Study. It explains how the assessment was undertaken, its relationship with the PLGSP, and its role in establishing the first national baseline for tracking Nepal's federal transition. For details on methodology and data sources—including the multi-phase design and validation process—see Section 1.3 and Annex 2.
- **Section 2. Three-Tier Federal Structure:** Describes how the 2015 Constitution reconfigured Nepal's governance into a federal democratic republic with three constitutionally distinct tiers. It traces the evolution from a unitary to a devolved system, mapping the political-economic setting, functional organisation, and division of powers across tiers. Readers seeking the overview of political, fiscal, and administrative federalism should refer to Sub-sections 2.6–2.8 and Table 4 for functional assignments.
- **Section 3. Framework and Analytical Approach:** Explains the revised Federalism Indicator Framework used to benchmark political, fiscal, administrative, and participatory dimensions. It details the methodological principles, indicator design, and data validation procedures adopted to ensure empirical credibility and comparability across the 2025, 2027, and 2029 reporting cycles. See Sub-sections 3.1–3.4 for indicator dimensions, data collection tools, and mitigation measures.
- **Section 4. Political Federalism:** Assesses how constitutional authority and democratic representation are exercised across the three tiers. It covers legislative progress, inter-governmental coordination, inclusiveness, and accountability, culminating in a Political Federalism Scorecard (Table 10–11). Readers should consult this section for the legislative balance sheet of federalism and the integration of GESI within political institutions.
- **Section 5. Fiscal Federalism:** Examines the financial architecture underpinning federalism—revenue assignment, inter-governmental transfers, budget execution, and public financial management (PFM). It synthesises findings from PEFA 2024, the World Bank Fiscal Federalism Update (2024), and the MoFAGA Capacity Assessment (2025), with consolidated indicators in Tables 12–13. This section provides the baseline for fiscal autonomy, equity, and accountability.
- **Section 6. Administrative Federalism:** Evaluates institutional organisation, staffing, and service delivery at provincial and local levels, highlighting digital transformation and performance management. It includes the Administrative Federalism Scorecard (Tables 14–15) and draws from PLGSP and MoFAGA datasets to measure efficiency, transparency, and citizen access. For HR structures and digital integration, see Sub-sections 6.2–6.3.
- **Section 7. Public Perceptions and Citizen Engagement:** Presents nationwide survey findings on citizen trust, service satisfaction, inclusion, and participatory governance. Drawing on MoFAGA 2025, NASC 2018, and Asia Foundation 2022,

it analyses how federalism has reshaped state–citizen relations. See Sub-sections 7.1–7.3 for disaggregated data on trust levels, GESI outcomes, and participatory mechanisms.

- **Section 8. Provincial and Local Government Profiles:** Provides comparative analyses of Nepal's seven provinces and selected municipalities, summarising institutional strengths, fiscal capacity, and governance performance. It includes provincial case studies and LISA-based variations across urban and rural jurisdictions. For specific provincial diagnostics, refer to Table 16 and Sub-section 8.1; for local innovations and technology adoption, see 8.2–8.4.
- **Section 9. Cross-Cutting Trends and Analysis:** Synthesises overarching patterns across tiers and dimensions, linking political, fiscal, and administrative findings. It situates Nepal's performance in regional and global context, referencing indices such as the Open Budget Survey (2023), Rule of Law Index (2023), SDG Index (2025), and CPI (2023). Comparative insights appear in Sub-sections 9.4–9.5, while 9.6–9.7 discuss Nepal's overall standing in its federal transition.
- **Section 10. Summary of Achievements:** Summarises the major accomplishments of Nepal's first decade under federalism across political, fiscal, and administrative pillars. It presents consolidated achievements in Tables 21–23 and highlights the progress to be tracked in the 2027 and 2029 reports. This section serves as a bridge between analytical findings and forward-looking strategy.
- **Section 11. Policy Recommendations and Strategic Directions:** Outlines a comprehensive reform agenda for consolidating federalism, focusing on legal completion, fiscal decentralisation, professionalisation of the civil service, and enhanced inter-governmental coordination. Tables 24–25 provide detailed strategic measures under political, fiscal, and administrative headings. For actionable next steps, see Sub-section 11.1 Strengthening Federalism Institutions and Coordination Mechanism and the concluding roadmap.

Figure 3. Federalism at a glance

OUTCOME 1: FEDERAL GOVERNANCE

- Federal laws enacted to operationalise the Constitution: 74 percent completed (111 of 151).
- Functionality of Inter-governmental Mechanisms: IPC met only three times since 2017, NCC revived in 2023 but irregular.
- Implementation rate of inter-governmental decisions: Most IPC, NCC, NDAC decisions remain only partially implemented.
- Federal digital systems created: 39 federal ICT platforms designed to support PLGs.
- Audit and oversight performance: Only about 30 percent of audit irregularities resolved annually.

OUTCOME 2: PROVINCIAL GOVERNANCE

- Provincial staffing levels: 38 percent of approved civil service posts filled (major constraint).
- Provincial IGM decision implementation: Ranges from 11 percent to 100 percent across provinces.
- Provincial coordination mechanisms functional: 66 to 100 percent across provinces.
- Provincial legislation enacted: 102 to 150 provincial laws per province aligned with Schedules 6, 7 and 9.
- Provincial training uptake: Thousands trained, but uneven coverage (e.g. Lumbini 1,895 trained; others <100).

OUTCOME 3: LOCAL GOVERNANCE

- LISA institutional performance: 38.4 percent of municipalities rated “good”; 44 percent “satisfactory.”
- Citizen satisfaction with local services: 57 percent satisfied nationally.
- Local capital budget execution: Typically 80 to 90 percent (higher than federal and provincial).
- Digital service delivery: 95 percent ward coverage for digital civil registration; 98 percent LGs use SuTRA.
- Local accountability systems: 74 percent conduct public hearings; only 29 percent conduct both hearings and full social audits

GENDER & SOCIAL INCLUSION

- Women hold 41 percent of all local elected positions.
- Women hold 36 percent of Provincial Assembly seats.
- Women hold about one third of Federal Parliament seats.
- Only 13 percent of Mayors and Chairs are women.
- 0 percent female Chief Ministers across all seven provinces.
- 17 federal laws and 5 directives explicitly promote GESI.
- Over 80 percent of municipalities have formal GESI guidelines or strategies
- All local governments apply mandatory GESI budget tagging procedures

GLOBAL STANDING

- Human Development Index (HDI): 0.602
- SDG Index Score: 68.6 / 100
- SDG Global Rank: 85 of 167 countries
- Rule of Law Index Score: 0.52
- Rule of Law Global Rank: 69 of 142 countries
- Corruption Perceptions Index (CPI): 34 / 100
- Global Gender Gap Index Score: 0.659
- Global Gender Gap Rank: 116 of 146 countries
- EGDI (E-Government Development Index): 0.5781
- EGDI Global Rank: 119 of 193 countries

1 INTRODUCTION

This Introduction outlines the rationale, objectives, and methodology of the 2025 Federal Baseline Study, undertaken to assess Nepal's progress in implementing federalism nearly a decade after the 2015 Constitution. It situates the study within the broader institutional and policy context, describes its scope and data sources, and explains the structure of the State of Federalism Report 2025, which presents the first comprehensive baseline of Nepal's federal governance system.

The transition from a unitary to a federal system remains a work in progress. International experience shows that it can take decades to establish institutions, practices, and norms that make federal governance both functional and resilient. Nepal is in the early stages of this process. The State of Federalism Report is intended to provide an independent view of progress towards building a three-tier federal system that functions effectively across horizontal and vertical dimensions, with clear checks and balances and robust inter-governmental relations.

This 2025 report serves as the first in a series. It establishes the baseline against which future assessments, including a 2027 State of Federalism Report and a 2029 State of Federalism Report – will measure progress. Taken together, these periodic reviews will provide a clear and empirical view of how far Nepal's federal system has advanced, supported both by government reforms and by international programmes such as the PLGSP.

This chapter builds on the Performance Indicators developed under the PLGSP to track progress in strengthening Nepal's federal governance system. The PLGSP indicators have provided a structured way of measuring the functionality of federal, provincial, and local governments, as well as their capacity to deliver inclusive services. Because this is a State of Federalism assessment, the scope of analysis has been widened beyond programmatic indicators to capture broader governance trends. The chapter therefore examines:

- Inter-governmental coordination, including the effectiveness of federal–provincial–local mechanisms and the inclusiveness of participation.
- Vertical and horizontal policy and planning practices, with attention to how decisions are formulated, communicated, and implemented across tiers of government.
- The adoption of international governance, competitiveness, gender equality, and social inclusion standards, enabling Nepal's federal transition to be assessed not

only against its constitutional mandates but also in a comparative regional and global context.

This framing allows the report to situate Nepal's federal journey within the wider South and Southeast Asia region, drawing on benchmarks from international indices such as the Open Budget Survey, Rule of Law Index, Human Development Index, and Global Gender Gap Index. In doing so, the chapter highlights both domestic institutional performance and Nepal's relative position in the evolving global landscape of governance.

1.1 BACKGROUND AND OBJECTIVES OF THE FEDERAL BASELINE STUDY

Nepal's transition from a unitary state to a federal republic, formalised by the 2015 Constitution, represents a transformative shift in governance. The new federal structure established three tiers of government – federal, provincial (7 provinces), and local (753 municipalities) – with the aim of devolving authority and bringing government "closer to the people," especially to historically marginalised groups and regions. Over the past several years, the country has made significant strides in operationalising this system, setting up federal and sub-national institutions and enacting key legislation (such as the Local Government Operation Act 2017 and the Federation, Province and Local Level [Coordination and Inter-relation] Act, 2020) to clarify the roles and responsibilities across levels of government.

A fully devolved governance framework is now in place, guaranteeing provincial and local governments constitutional political, fiscal, and administrative powers to legislate, raise revenues, plan budgets, and manage local service delivery within their jurisdictions. However, federalisation remains an ongoing process. Important functions and resources are still being gradually transferred, and capacity gaps persist at sub-national levels, meaning that certain decision-making and fiscal controls continue to be centralised in practice. International experience suggests that federal systems can take decades to mature; accordingly, Nepal's federal journey will

The aim of the new federal structure is to devolve authority and bring government 'closer to the people,' especially to historically marginalised groups and regions.

depend on sustained capacity building, political will, and refinement of inter-governmental arrangements in line with the spirit of cooperative federalism.

In this context, nearly a decade since the new Constitution, the Government of Nepal has launched a PLGSP Federal Baseline Study to take stock of progress and outstanding gaps in Nepal's federal transition. The Federal Baseline Study is a comprehensive assessment initiative designed to establish benchmark measures of Nepal's state of federalism in 2025, against which future progress can be evaluated. The primary objective of this baselining exercise is to gather robust quantitative and qualitative data that capture the current status of institutional and organisational capacity, inter-governmental coordination mechanisms, fiscal devolution, service delivery performance, and governance behaviours across the three tiers of government. By creating this evidence-based baseline, policymakers and development partners will be better equipped to track progress, identify bottlenecks, and implement corrective measures in the federal system. Ultimately, the baseline will inform decision-making and support reforms that strengthen Nepal's federal governance over time, ensuring that devolution delivers improved development outcomes and responsive, inclusive services for citizens.

1.2 SCOPE, COVERAGE, AND INSTITUTIONAL CONTEXT

Scope and coverage:

The federalism baseline study provides a comprehensive framework for assessing the implementation of federalism across Nepal's political, fiscal, and administrative dimensions. It evaluates a broad range of governance aspects – from legislative and policy arrangements to public financial management, service delivery, and accountability mechanisms – thereby furnishing a holistic picture of how federalism is functioning in practice. The assessment is nationwide in scope, covering all tiers of government and all geographic regions of the country. Data collection was conducted across all 7 provinces and a representative sample of local governments, ensuring that the study reflects the diverse contexts and realities of Nepal's 753 local government units.

The baseline encompasses both quantitative indicators and qualitative insights, with particular focus on cross-cutting themes of inclusiveness, equity, accountability, and inter-governmental cooperation. This means that, in addition to measuring institutional capacities and service delivery outputs, the study examines how federalism is addressing issues of gender equality and social inclusion (GESI), local empowerment, and citizen satisfaction. By establishing common indicators and a reference point, the baseline enables comparative analysis across provinces and over time, forming the foundation for three "State of Federalism in Nepal" reports to be produced over a five-year cycle.

Institutional context:

The Federal Baseline Study has been undertaken as a joint initiative of the Government of Nepal and its development partners, anchored in existing government programmes and systems. It was commissioned in early 2025 by PLGSP with technical assistance from the United Nations Development Programme (UNDP). The PLGSP, launched in

2019 and extended through 2029, is a nationally led programme aimed at strengthening federalism by enhancing the institutional and operational capacities of provincial and local governments. The baseline exercise is closely aligned with the PLGSP's objectives and results framework – indeed, the study reviews and refines the indicators defined in the PLGSP Programme Document, ensuring that baseline data directly feed into the PLGSP's monitoring and evaluation system.

Throughout its implementation, the assessment has been carried out in close coordination with key government counterparts, notably the Ministry of Federal Affairs and General Administration (MoFAGA) as the lead ministry for federal affairs and general administration, as well as the Office of the Prime Minister and Council of Ministers (OPMCM) and provincial authorities. A broad stakeholder engagement approach was adopted to secure buy-in and validation from across the government: this included consultation and oversight by a technical steering committee and input from sector ministries, provincial governments, local government associations, and development partners.

By situating the baseline study within existing institutional structures and ensuring government ownership, the exercise supports the long-term consolidation of Nepal's federal governance system and the institutionalisation of a regular federalism monitoring process. The study's findings and data are expected to inform evidence-based policy decisions and help guide future capacity building efforts under the Government's federalism reform agenda.

1.3 METHODOLOGY OVERVIEW AND DATA SOURCES

The Federal Baseline Study employed a rigorous, four-phased methodological approach to ensure clarity, inclusiveness, and policy relevance in establishing the baseline. This evidence-based approach combined extensive desk research with nationwide field data collection and stakeholder engagement. Each phase of the methodology played a critical role in defining and operationalised the baseline, as outlined below:

- **Phase 1 – Inception and Planning:** Laid the groundwork for the assessment. Key activities included an in-depth review of relevant documents (e.g. PLGSP programme documents, past assessments, legal frameworks, and international best practices) and preliminary consultations with stakeholders to refine the study design. During this phase, the team identified data needs, refined the initial list of indicators (both quantitative metrics and qualitative measures of governance behaviour such as responsiveness and inclusion), and prepared a detailed Inception Report outlining the methodology, stakeholder engagement plan, data collection tools, and sampling strategy. This ensured a common understanding of objectives and a well-defined roadmap agreed upon by all parties at the outset.
- **Phase 2 – Indicator Selection and Framework Design:** Focused on building a robust baseline measurement framework. The team reviewed and updated existing PLGSP indicators and introduced new indicators as needed to fill gaps. For each indicator, methodological notes were developed to clearly define its

rationale, data sources, and calculation method. In parallel, the appropriate data collection instruments were designed – including structured perception survey questionnaires, key informant interview (KII) guides, focus group discussion (FGD) protocols, and case study templates. The draft indicator framework and tools were then validated through consultative workshops with stakeholders (MoFAGA, UNDP, provincial representatives, and other development partners), incorporating feedback to ensure the framework's relevance and feasibility. This participatory design process helped secure stakeholder buy-in and refined the methodology prior to full rollout.

- **Phase 3 – Data Collection:** A nationwide data-gathering effort was implemented using a combination of primary and secondary data sources. Secondary data were compiled from government administrative records, official reports, and prior studies to provide contextual and objective measures. Primary data collection was carried out through a large-scale field survey and qualitative research across all provinces. A structured perception survey, designed and implemented in collaboration with Kathmandu University, covered a sample of over 1,000 respondents at a 95 percent confidence level and captured citizen and stakeholder perceptions of governance performance.[3] In addition, dozens of key informant interviews and focus group discussions were conducted with officials, community representatives, and experts, alongside direct field observations in selected municipalities. A stratified random sampling approach ensured national representativeness, with attention to inclusivity across gender, ethnic, and geographic groups. Data collection was undertaken in coordination with provincial and local authorities, following standard protocols and ethical guidelines.
- **Phase 4 – Data Analysis, Validation, and Reporting:** In this final phase, collected data were rigorously analysed and triangulated to establish credible baseline values for each indicator. Quantitative data from surveys and administrative sources were cross-verified with qualitative evidence from interviews and group discussions to ensure consistency and accuracy of conclusions. The data and preliminary findings presented in this report were subjected to technical review and validation by the relevant government authorities responsible for federal, provincial, and local governance, including through verification against administrative records and programme data. This validation process helped confirm key results, address inconsistencies, and strengthen confidence in the baseline status reflected in the report.

[3] The 2025 Survey of the Nepali People was implemented as a nationwide, face-to-face household survey conducted by Kathmandu University, School of Arts in partnership with Inter Disciplinary Analysts (IDA). A multi-stage random sampling approach was used, whereby wards, households, and respondents were selected through random methods. Within each selected household, eligible respondents were identified using the Kish Grid system to ensure unbiased selection. Respondents were required to be 18 years of age or older and to have resided in the household for at least six months. To support gender balance, approximately six male and six female respondents were targeted in each selected ward. The total sample size was 12,500 respondents, providing a confidence level exceeding 95%. Interviews were conducted in a conversational manner by trained enumerators and lasted approximately 50 minutes. The survey collected data on public perceptions of governance, including national and local conditions, service delivery, socio-economic development, infrastructure, access to information, security, dispute resolution, and political participation. All responses were recorded anonymously, with strict confidentiality protocols applied, and results were aggregated for analysis.

Following validation, the team refined the analysis and compiled this Nepal State of Federalism 2025 Report, which communicates the baseline findings and analysis in a structured format. This phase also included planning for continuity: as part of a rolling assessment process, it is envisaged that two subsequent State of Federalism reports in 2027 and 2029, will be produced to update the baselines and track progress over time.

The assessment's data sources were diverse, leveraging both desk research and field research. Key sources included: official government data (e.g. budget and expenditure data, audit reports, civil service records), legal and policy documents, and prior analytical studies on Nepal's federalism, for historical and contextual baseline information. These were complemented by the extensive primary data generated through the nationwide perception survey and stakeholder interviews, which provided ground-level evidence on governance performance and citizen experience. All data were analysed using an evidence-based approach, with results being cross-checked across sources to ensure reliability.

The methodology incorporated quality assurance measures at each stage, from tool pretesting and enumerator training to data cleaning and stakeholder validation of findings, thereby strengthening the credibility of the baseline. By combining quantitative metrics with qualitative narratives, the study generated a nuanced baseline that captures not only current performance levels but also the underlying factors shaping gaps and achievements. Details on quantitative sample sizes and qualitative consultations, disaggregated by federal and provincial levels, are presented in a summary table in the methodology section. This robust methodological foundation provides an objective reference point for monitoring Nepal's federal governance progress in the coming years.

1.4 STRUCTURE OF THE REPORT

This State of Federalism Report 2025 is organised into ten main sections, moving from context and analysis to conclusions and recommendations. Following this introductory section, which outlines the background, objectives, scope, and methodology of the study, the report is structured as follows:

- **Section 2: Structure of Federalism in Nepal –** Summarises Nepal's shift from a unitary to a federal system, describing the constitutional allocation of powers, roles of the three tiers of government, and key inter-governmental mechanisms. It highlights how political, fiscal, and administrative responsibilities are distributed and identifies institutional features defining Nepal's federal architecture.
- **Section 3: Framework and Analytical Approach –** Explains the revised Federalism Indicator Framework used for the baseline, outlining the dimensions, subdimensions, and methodological principles that guided the analysis. It presents the data collection tools, validation processes, and limitations encountered, providing transparency on how results were generated.
- **Section 4: Political Federalism –** Reviews Nepal's political governance under federalism, focusing on legislative and policy reforms, inter-governmental coordination, role clarity, and the inclusion of Gender Equality and Social Inclusion

(GESI) in political institutions. It highlights progress in decentralisation as well as areas requiring reform.

- **Section 5: Fiscal Federalism –** Assesses revenue assignments, fiscal transfers, and expenditure management across tiers. It examines the degree of fiscal autonomy, local revenue performance, and challenges such as dependency on conditional grants and weak capital budget absorption.
- **Section 6: Administrative Federalism –** Evaluates the organisation and performance of public administration at provincial and local levels. Topics include human resource deployment, service delivery capacity, and transparency measures such as digital governance and financial reporting.
- **Section 7: Public Perceptions and Citizen Engagement –** Presents survey findings on trust, satisfaction, and inclusion. It explores whether citizens perceive improved governance and services under federalism and how participatory mechanisms such as social audits and public hearings enhance accountability.
- **Section 8: Provincial and Local Government Profiles –** Summarises performance variations among provinces and municipalities, highlighting innovative practices and persistent challenges. Comparative indicators and case studies illustrate how different jurisdictions are adapting to federal responsibilities.
- **Section 9: Cross-cutting Trends and Analysis –** Synthesises overarching findings across political, fiscal, and administrative dimensions. It identifies systemic gaps, capacity constraints, and opportunities, showing how interlinked reforms in policy, finance, and administration shape the overall trajectory of federalism.
- **Section 10: Policy Recommendations and Strategic Directions –** Concludes with actionable measures to strengthen federalism. It proposes reforms in coordination, fiscal management, and institutional capacity, and outlines a roadmap for follow-up assessments in 2027 and 2029 to update the baseline and sustain progress monitoring.

Finally, the report is supplemented by a set of Annexes, which contain supporting technical information and documentation.

The annexes include a summary of the detailed assessment methodology and tools (e.g. the complete indicator matrix with definitions and data sources, and notes on sampling strategy), the survey instruments and interview guides used during data collection, a summary of stakeholder consultations undertaken, a glossary of key terms and abbreviations, and a list of references. These annexes provide transparency and additional depth for readers interested in the technical underpinnings of the study, and they serve as a resource for any future replication or follow-up studies. Together, the main report and annexes constitute a comprehensive account of the Federal Baseline Study, offering both high-level insights and detailed documentation to inform policy discourse on Nepal's federalism process.

2 THE STRUCTURE OF FEDERALISM IN NEPAL

The federal structure of Nepal was fundamentally reconfigured with the adoption of the **Constitution of Nepal (2015)**, which established the country as a federal democratic republic and replaced the earlier unitary system. Under this framework, three tiers of government operate in tandem: the federal government, seven provincial governments, and 753 local governments. The constitutional schedules set out the distribution of exclusive and concurrent powers across these tiers, assigning certain functions to the federal level, others to provinces or local governments, and others to shared jurisdiction (Constitution of Nepal, 2015; Watts, 2011; The Asia Foundation, 2020; SNG-WOFI, 2025).

Each tier is tasked with its own legislative, executive and fiscal responsibilities. At the federal level lies the overarching national policy-setting and coordination role. The provincial governments function as an intermediate tier, with defined jurisdictional powers and responsibility for key service delivery domains. Local governments, structured as metropolises, municipalities or rural municipalities, operate closest to citizens and are empowered to manage local-level planning, service delivery and inclusive governance (Democracy Resource Centre Nepal, 2023).

Despite the clear constitutional design, the shift to federalism in practice has revealed significant overlaps in jurisdiction, coordination challenges and capacity gaps – especially in areas where the exclusive or concurrent powers have not yet been fully clarified or are subject to national legislation (The Asia Foundation, 2020; Bahl et al., 2020). This three-tiered architecture offers a foundation, but the implementation of inter-governmental relations and fiscal arrangements remains an evolving process as Nepal's federal journey advances.

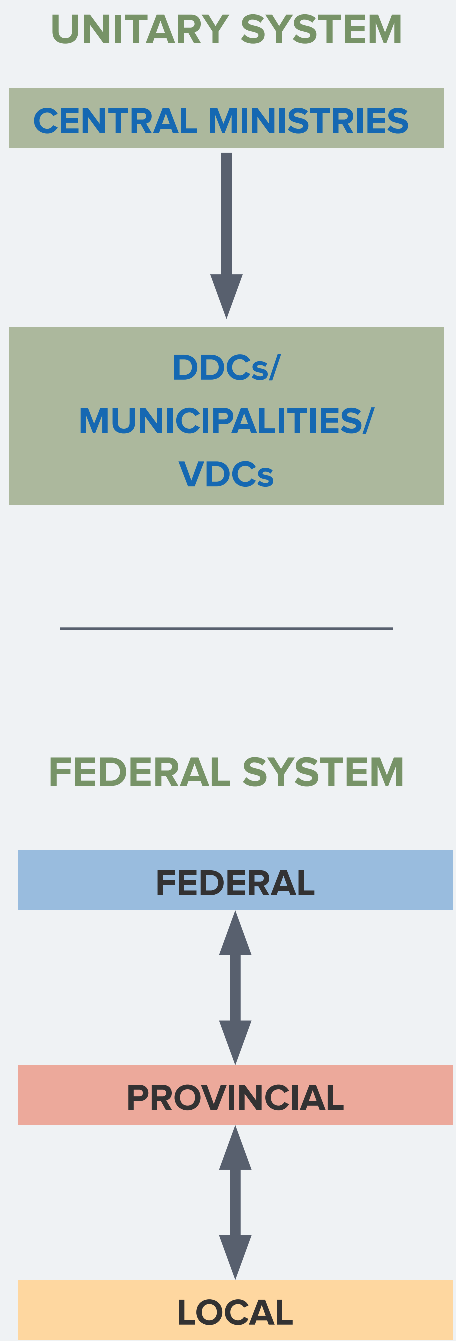
Public perceptions from the 2025 Survey of the Nepali People further illuminate how this three-tier structure is

While the Constitution established three tiers of government, federalism's legitimacy is increasingly evaluated through citizens' day-to-day experiences with services delivered closer to their communities.

functioning in practice. Citizens express markedly higher trust in local governments and ward offices compared with provincial and federal tiers, reflecting a belief that services delivered closer to communities are more accessible, responsive and accountable. While only 23.7 percent of Nepalese believe the country is moving in the right direction, more than half report improvements in their own localities, underscoring the critical role of local governments in shaping public confidence. At the provincial level, trust varies sharply across regions, mirroring differences in administrative capacity and service performance. Trust in federal institutions has declined most steeply, driven by concerns over national direction, perceived inefficiency and weak responsiveness. These perception trends indicate that federalism's legitimacy is increasingly being evaluated through citizens' day-to-day experiences with each tier, reinforcing the need for clearer functional assignments, stronger coordination mechanisms and more equitable service delivery across provinces and local units (Kathmandu University 2025).

2.1 PRE-FEDERAL HISTORY

Nepal's transition from a unitary to a federal system marked a decisive step towards devolution of power and a fundamental transformation in its governance architecture. Before 2015, local governments functioned within a highly centralised administrative structure, with direct reporting lines to the central ministries. The promulgation of the 2015 Constitution redefined this arrangement by introducing provinces as an intermediary tier, redistributing authority and responsibility across three levels of government—federal, provincial, and local. This restructuring established a new balance of power aimed at enhancing inclusiveness, accountability, and citizen participation. While the shift towards devolution has advanced political and fiscal autonomy, it



has also generated complex structural, legal, and institutional challenges, particularly in clarifying functions and strengthening coordination among the three tiers.

- **Pre-Federalism Structure:** Until 2015, Nepal functioned under a unitary system of governance. Local bodies such as District Development Committees (DDCs), Village Development Committees (VDCs), and Municipalities reported directly to central government authorities. This structure fostered a formalised and consistent mode of central-local coordination, with a clear hierarchical chain of command and oversight rooted firmly in the central bureaucracy.

- **Local Development Tradition:** Nepal's tradition of local development predates the federal transition by several decades and has evolved through successive waves of decentralisation. Early community development programmes and local administration reforms laid the foundations for sub-national service delivery well before the enactment of the Local Self Governance Act (1999), which formalised decentralised planning and participatory development at the community level. While the Act strengthened local autonomy in principle, Nepal's unitary system of governance meant that central ministries continued to exert significant influence over local bodies through fiscal transfers, operational directives, and administrative oversight. As a result, key aspects of local development and service delivery remained centrally guided, even within an ostensibly decentralised framework.

- **Federal Transition and Provincial Introduction:** The 2015 Constitution marked a fundamental shift by introducing provinces as a new constitutional tier of government. While this aimed to rebalance power and bring governance closer to the people, it naturally disrupted preexisting unitary coordination structures that had functioned through direct centre-local relationships. The introduction of provincial institutions has been vital to an improved governance system, but at the same time it has led to confusion over roles and responsibilities, generating functional overlaps, unclear mandates, and competition between federal, provincial, and local levels.

- **Challenges of Inter-governmental Coordination:** The transition towards a devolved federal model continues to be constrained by legacy administrative practices and fragmented coordination. Federal institutions frequently engage directly with local governments, bypassing provincial authorities and weakening the intended vertical coherence of the federal system. Although the Inter-governmental Fiscal Arrangement Act and the Local Government Operation Act of 2017 were designed to clarify roles across the three tiers, implementation has been partial and uneven. Functional unbundling remains incomplete, leaving overlapping mandates and legal ambiguities. The mechanisms established to promote inter-governmental cooperation—such as the National Coordination Council (NCC), Inter-Provincial Council (IPC), Provincial Coordination Council (PCC), and Provincial Development Action Committees (PDACs)—have not yet evolved into empowered coordination platforms. They lack permanent secretariats, follow-up systems, and clearly defined mandates, resulting in ad hoc communication, duplication, and slow dispute resolution. Strengthening these bodies, supported by a facilitative MoFAGA role and a permanent inter-governmental affairs structure, is therefore essential to achieving coherence, accountability, and trust across all levels of Nepal's federal system.

Given Nepal's longstanding tradition of a centralised, direct central-to-local governance model, the shift to federalism following the 2015 Constitution—and its operationalisation from 2017 to 2018—represents not just a structural transition but a deep institutional and cultural realignment. However, this transition continues to be hindered by entrenched mindsets, particularly among senior and older civil servants whose careers were shaped within the unitary system. Their reluctance or inability to embrace new inter-governmental roles, devolved authorities, and collaborative planning frameworks poses a significant barrier to effective federalism. A deliberate and sustained mindset reset—anchored in leadership development, incentive reform, and generational change—will be critical to consolidating the gains of federalism and realising its transformative potential.

2.2 MODERN DAY FEDERALISM

Although the promulgation of the 2015 Constitution marked a historic step towards devolution, Nepal's federal system continues to operate within the constraints of its unitary legacy. Political and fiscal devolution have advanced, yet the absence of meaningful administrative transformation has left the country functioning as a hybrid model—federal in design but still centralised in practice. This reality underscores the importance of completing the functional unbundling process, which determines how responsibilities and resources are shared across tiers of government. Unless approached strategically and sequenced over time, full administrative devolution may take another decade or more to achieve. Having established the foundational structures of federalism, Nepal must now recalibrate its approach—focusing not on resolving every capacity shortfall, but on a smaller number of transformative reforms that yield broad, system-wide impact and create momentum across all levels of government.

A successful transition from unitary to federal governance demands more than institutional restructuring; it requires a sustained whole-of-government and whole-of-society effort. Federalism cannot be consolidated through isolated interventions or short-term programmes alone. Instead, it depends on coordinated action between political institutions, civil society, and citizens to embed accountability, strengthen inter-governmental collaboration, and build shared ownership of the federal

Nepal's federal system continues to operate within the constraints of its unitary legacy...federal in design but still centralised in practice.

Table 2. Three tiers of government - federal, provincial, and local

LEVEL OF GOVERNMENT	LEGISLATURE	EXECUTIVE	JUDICIARY
Federal	**Federal Parliament** » House of Representatives (275 members, 5-year term » National Assembly (59 members, 6-year term; one-third renewed every two years)	**Council of Ministers** » Headed by the Prime Minister Up to 25 ministers including the Prime Minister » Supported by the Attorney General	**Courts** » Supreme Court High Court District Court Specialised courts
Provincial	**Provincial Assembly** » Members: twice the number of representatives elected to the federal House of Representatives from the province » 5-year term	**Provincial Council of Ministers** » Headed by the Chief Minister Up to 20% of total members of the Provincial Assembly	**Provincial Judiciary** » Administered through the High Court system (not separately listed)
Local	**Municipal Assembly** » Consists of: – Mayor (Chairperson) – Deputy Mayor (Vice-Chairperson) – Ward Chairpersons – Four members elected per ward – Additional members from Dalit or minority communities » 5-year term	**Municipal Executive** » Headed by the Mayor and Deputy Mayor Includes: Ward Chairpersons, four (or five) women members, and two (or three) members from Dalit or minority groups » 5-year term	**Judicial Committees** » Established at the local level to resolve minor disputes and promote access to justice

vision. Only through such an integrated and participatory approach can Nepal ensure that its federal architecture becomes not just a legal framework, but a living system of governance that delivers inclusiveness, efficiency, and equity for all.

At the heart of Nepal's federal system lies not only the vertical division of power across the federal, provincial, and local tiers, but also the horizontal balance of authority between the legislature, the executive, and the judiciary. These checks and balances, enshrined in the 2015 Constitution, are designed to prevent the concentration of power and to ensure that governance remains transparent, accountable, and rule-based at every level. The vitality of inter-governmental relations—both vertically between tiers and horizontally across institutions, depends on this equilibrium. Effective coordination between levels of government must therefore go hand in hand with the independence and mutual accountability of each branch. Together, these vertical and horizontal mechanisms form the core architecture of Nepal's federal democracy, providing the institutional safeguards necessary for legitimacy, stability, and the long-term success of the federal project.

Recent events in Nepal, including the nationwide protests following the temporary suspension of social media platforms and the subsequent change in government, serve as a reminder that transparency, accountability, and civic engagement are the lifeblood of any federal democracy. Such crises, while disruptive, are also signs of institutional maturation—evidence of a society demanding greater responsibility from its leaders and responsiveness from its institutions. These developments underscore the importance of maintaining both top-down accountability between the legislature and the executive, and bottom-up accountability between citizens and their local governments. The State of Federalism Report 2025 is thus a timely contribution to this evolving process, offering a data-driven foundation for building a more open, interoperable, and resilient system of governance.

2.3 POLITICAL-ECONOMIC SETTING

In the decade since the 2015 Constitution, Nepal's transition from a unitary to a federal system has unfolded through the interplay of political, fiscal, and administrative reforms, shaped by both institutional design and the agency of actors within it. Political and fiscal devolution have advanced relatively quickly, redistributing authority and enabling provincial and local governments to plan and manage resources with greater autonomy. Administrative federalism, however, has lagged behind, with the transfer of civil service systems, staffing powers, and operational control still incomplete. This slow pace reflects both political caution and the challenge of preserving the state's legitimacy and cohesion while redistributing power. The introduction of the provincial tier into what was previously a two-level system has further increased institutional complexity, demanding stronger inter-governmental coordination to ensure coherence and functionality. Each tier operates with constitutional autonomy but remains interdependent under the principles of cooperative federalism. Sustaining Nepal's federal model therefore requires not only clear legal mandates and functional unbundling, but also the institutionalisation of mechanisms for joint planning, accountability, and collaboration that link national vision with provincial and local realities.

- **Federal Government (Central Government):** Responsible for national policymaking, defence, international relations, and overall governance coordination.
- **Provincial Governments:** Comprising seven provinces established under the 2015 Constitution, each with its own government mandated to oversee regional governance, enact provincial laws, and deliver sectoral services, serving as the intermediary link between federal and local levels.

- **Local Governments:** Nepal has 753 local governments, including Metropolitan Cities, Sub-Metropolitan Cities, Municipalities, and Rural Municipalities, responsible for grassroots governance, local planning, and service delivery closest to citizens.

Nepal's federal transition emerged not from gradual reform but as a crisis-led response to the deep-rooted grievances of its civil conflict, making power-sharing and symbolic inclusion central to national legitimacy. Political decentralisation was introduced rapidly to stabilise the post-conflict environment, yet fiscal and administrative devolution have advanced unevenly, producing mismatched authority and capacity across tiers. The creation of 753 local governments—around 25 per million people, far denser than most federations—was intended to promote inclusion and representation in a geographically diverse country. However, this institutional density has imposed significant fiscal and administrative burdens, with risks of duplication, fragmented service delivery, and escalating costs. The absence of clear functional assignments and harmonised laws has compounded inefficiencies and coordination gaps, particularly between provincial and local levels, while continued central control over civil service systems, budgets, and coercive power limits genuine sub-national autonomy.

The introduction of the provincial tier corrected the previous "missing middle" in governance but has required the construction of new inter-governmental mechanisms to manage vertical and horizontal coordination. Yet provinces and local governments still face severe capacity deficits, constraining their ability to fulfil devolved mandates effectively. Political parties remain highly centralised, reinforcing top-down control and inhibiting genuine local decision-making. Although symbolic inclusion through constitutional quotas has advanced gender and social representation, operational inclusion—ensuring equitable access to services and influence in governance—remains incomplete. The success of Nepal's federalism now depends less on constitutional design and more on building durable systems of inter-governmental cooperation, joint policy-making, and accountability that translate devolution into meaningful local empowerment.

2.4 ECONOMIC TRAJECTORY

Economic outcomes reflect the underlying capability of governance. Since the COVID-19 pandemic, Nepal's macroeconomic and fiscal performance has demonstrated that the country's federal governance system has been able to preserve stability, manage shocks, and maintain a trajectory of recovery. The government's fiscal discipline, prudent monetary stance, and effective coordination among tiers of government have collectively underpinned these results. Indicators across growth, inflation, debt, trade, and reserves all suggest that post-pandemic management has been broadly successful, serving as a proxy measure of institutional maturity and coherence within the federal system (International Monetary Fund, 2025).

From a governance perspective, Nepal's federal arrangements have not only absorbed global and domestic shocks but have sustained growth momentum and financial stability. The fiscal transfer system has functioned predictably, the Nepal Rastra Bank has anchored inflation expectations near its 5 percent target, and external reserves have reached record highs. These trends reinforce that federalism—when coupled with sound fiscal management and policy discipline—can deliver economic resilience. The data that follow, drawn from the IMF Sixth Review under the Extended Credit Facility Arrangement (International Monetary Fund, 2025), provide a detailed overview of Nepal's macroeconomic, fiscal, external, and financial sector performance, highlighting that stability and recovery since COVID have been among the strongest in the region.

Macroeconomic growth and prices

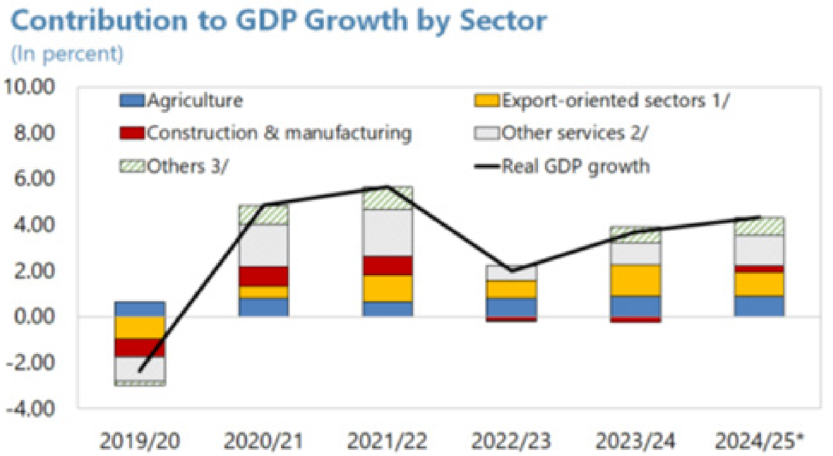
Nepal's macroeconomic performance over the past decade—particularly since the adoption of federalism in 2015—has been broadly positive, reflecting resilience and stability in governance. Between FY2015/16 and FY2018/19, annual GDP growth averaged around 6.5 percent, driven by post-earthquake reconstruction, hydropower expansion, and strong remittance-fuelled consumption (International Monetary Fund, 2025). The pandemic caused a sharp contraction to –2.4 percent in FY2019/20, but growth rebounded to 4.2 percent in FY2020/21 and has since remained stable. In FY2023/24, real GDP expanded by 3.7 percent, supported by construction, manufacturing, hydropower generation, and a strong agricultural harvest. Growth is estimated at 4.3 percent in FY2024/25 and projected to rise to 5.2 percent in FY2025/26 as public investment accelerates and domestic demand strengthens (International Monetary Fund, 2025).

Chart 1 shows that Nepal's GDP growth has become more broad-based since 2020, with agriculture, construction and manufacturing, and services all contributing positively. After the sharp rebound in FY2020/21, growth stabilised in the range of 3–5 percent. The composition indicates a gradual shift from agriculture to construction, manufacturing, and export-oriented sectors such as hydropower and tourism. The projected data for FY2024/25 suggest that growth will continue to be driven by non-agricultural sectors, reflecting structural diversification of the economy and improved capital investment execution (International Monetary Fund, 2025). In terms of trends, sectoral diversification is improving, with construction, manufacturing, and services driving medium-term growth. The trend is positive, reflecting a more balanced and resilient growth structure.

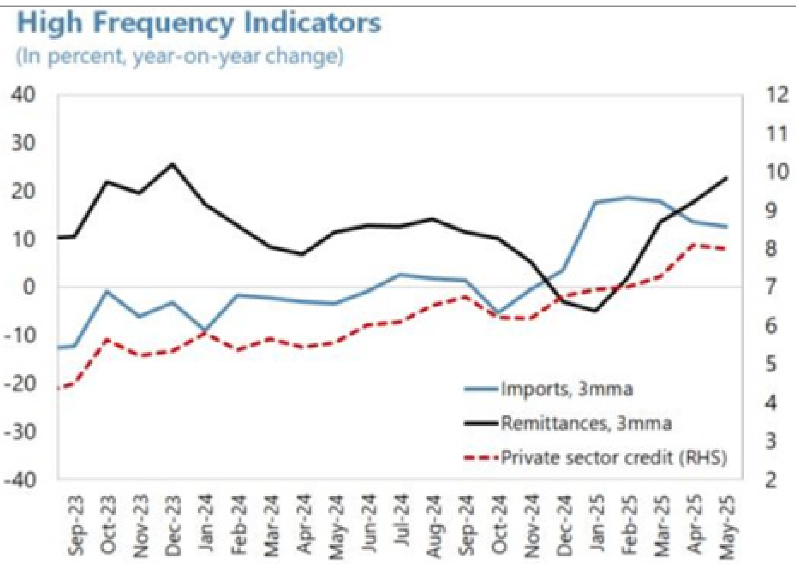
Chart 1 also tracks short-term movements in imports, remittances, and private-sector credit growth. Imports (blue line) have recovered steadily since mid-2024, indicating rising domestic demand after the slowdown of 2022–23. Remittances (red dotted line) remain strong,

Nepal's federal arrangements have not only absorbed global and domestic shocks but have sustained growth momentum and financial stability, reinforcing that federalism–when coupled with sound fiscal management and policy discipline–can deliver economic resilience.

Chart 1. Growth outcomes, remittance and private sector credit trends



Note: 2024/25 GDP is an estimate.
1/ Electricity, gas, steam and air conditioning supply; Transportation & storage; Accomodation and food service activities; Information and communication. 2/ Financial and insurance activities; Real estate activities; Professional, scientific and technical activities; Administrative and support service activities; Public administration and defense; compulsory social security; Education; Human health and social work activities; Arts, entertainment and recreation; Other service activities; Activities of households as employers; Wholesale and retail trade. 3/ Mining and quarrying; Water supply; sewerage, waste management and remediation activities; Indirect taxes less subsidies.
Sources: Nepali authorities; and IMF staff calculations and estimates.



Sources: Nepal authorities; and IMF staff calculations.

sustaining household consumption, while private-sector credit growth (black line) has accelerated through early 2025, signalling renewed business confidence and investment appetite. High-frequency indicators suggest a moderate recovery in real-sector activity, with stronger credit flows, firm remittances, and growing import demand pointing to expanding domestic economic activity and a stable macroeconomic environment (International Monetary Fund, 2025).

From a governance perspective, this steady recovery illustrates how federal institutions have been able to maintain macroeconomic coherence despite multiple shocks—pandemic disruptions, supply-chain interruptions, and a challenging regional trade environment. The alignment between federal fiscal policy, provincial capital planning, and central bank prudence has helped sustain stability. The overall trend for economic growth since federalisation can therefore be assessed as positive, with Nepal maintaining one of the more stable growth paths among South Asian economies.

Inflation and price stability

Inflation trends since federalisation have also reflected the strength of macro-governance institutions. Following moderate inflation averaging 6 percent between FY2015/16 and FY2019/20, price pressures peaked at 7.7 percent in FY2022/23 due to global commodity shocks and the lingering effects of COVID-19 on supply chains (International Monetary Fund, 2025). Since then, headline inflation has declined steadily, reaching 5.4 percent in FY2023/24 and 4.2 percent in FY2024/25, close to the Nepal Rastra Bank's medium-term target of 5 percent. Monetary coordination between the federal and provincial levels has remained effective, ensuring price stability despite external shocks. This moderation in inflation reflects sound monetary management and fiscal prudence - indicators of robust governance capacity at the macro level. Stable prices have helped protect real household incomes and maintain consumer confidence. The overall trend in inflation since 2015 is therefore positive, with sustained improvements in policy consistency and inflation targeting contributing to macroeconomic credibility.

External accounts and trade balance

Nepal's external position has strengthened markedly since the COVID-19 downturn, another indicator of effective economic management under federal governance. The current account deficit, which reached –12.1 percent of GDP in FY2021/22, has shifted to a surplus of 3.9 percent of GDP in both FY2023/24 and FY2024/25, supported by a strong rebound in remittances and tourism, coupled with moderated import demand (International Monetary Fund, 2025). Remittances now account for approximately 26.7 percent of GDP, up from 22 percent a decade ago, helping stabilise the balance of payments and sustain consumption. Trade diversification remains a challenge, with imports still far outweighing exports, but the overall external environment has stabilised under prudent exchange rate management and foreign reserve accumulation. Gross official reserves reached USD 17.6 billion in June 2025, equivalent to 10.9 months of imports (International Monetary Fund, 2025). The overall trend in external performance is strongly positive, marking a significant improvement in external stability and resilience since the pandemic.

Fiscal performance and public debt

Fiscal outcomes over the past decade reflect both discipline and the constraints of a maturing federal system. Government revenue has risen steadily from around 19 percent of GDP in FY2015/16 to 21 percent in FY2018/19, before moderating to 19.6 percent in FY2024/25 due to post-pandemic slowdowns (International Monetary Fund, 2025). Expenditure has been maintained near 22.5 percent of GDP, with recurrent spending comprising roughly four-fifths of the total and capital spending persistently under-executed. Despite this, fiscal deficits have narrowed to 2.9 percent of GDP in FY2024/25 from peaks of 7 percent in FY2020/21, showing successful fiscal consolidation.

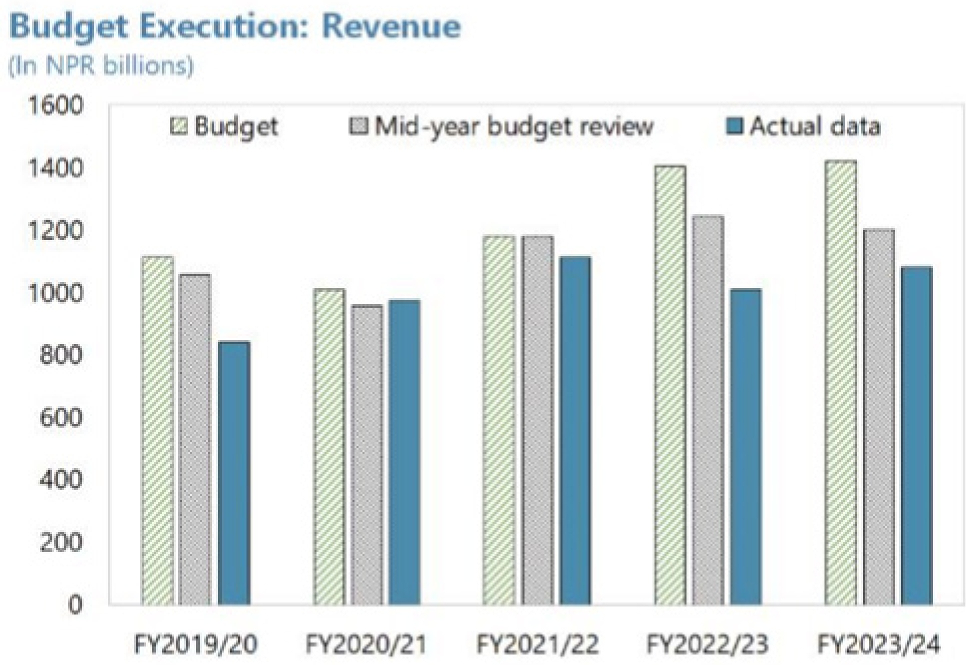
Public debt has remained sustainable, rising from 26 percent of GDP a decade ago to 48.3 percent in FY2023/24, and projected to peak at 49.5 percent in FY2025/26 before gradually declining (International Monetary Fund, 2025). Federal and provincial fiscal frameworks have generally upheld spending discipline, aligning with IMF-supported fiscal rules. The overall fiscal trend is moderately positive, indicating that Nepal's governance systems have managed debt prudently while maintaining essential public expenditure.

Public investment and capital spending

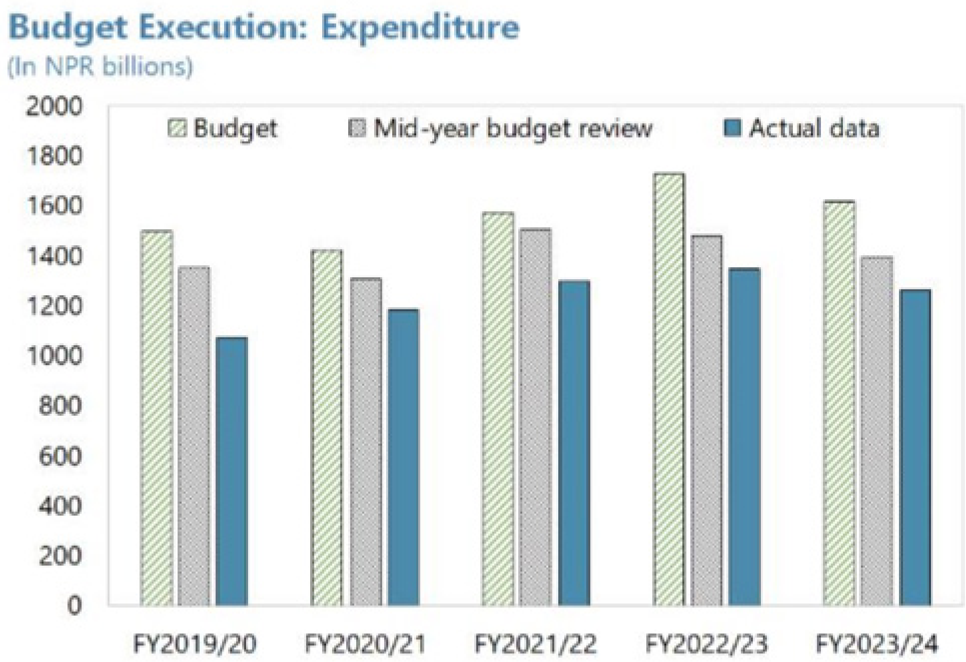
Capital investment execution remains a consistent weakness in Nepal's fiscal management, despite growing allocations. Capital spending averaged 5 percent of GDP between FY2015/16 and FY2019/20 but fell to 3.4 percent in FY2023/24, well below planned targets (International Monetary Fund, 2025). Persistent challenges include delays in project preparation, procurement inefficiencies, and weak coordination between federal and provincial authorities. Reforms to the National Project Bank, early procurement initiation, and capacity building in provincial infrastructure planning are intended to raise execution to 6 percent of GDP by FY2025/26. Although investment execution remains below potential, the underlying reform agenda is advancing. Governance mechanisms for project selection and oversight have strengthened, suggesting that capital spending could accelerate over the medium term. The overall trend for public investment performance remains flat, reflecting ongoing structural bottlenecks that constrain infrastructure delivery.

Chart 2 shows a persistent gap between budget targets, mid-year revisions, and actual outcomes for both revenue and expenditure between FY2019/20 and FY2023/24. Actual collections and spending consistently fell short of planned levels, reflecting weak revenue mobilisation and under-execution of capital projects. Although revenue performance has improved modestly since FY2020/21, expenditure execution has remained subdued, indicating structural challenges in fiscal planning, procurement, and budget credibility (International Monetary Fund, 2025).

Chart 2. Budget execution performance: revenue and expenditure trends (FY2019/20–FY2023/24)



Sources: FCGO and MOF. Note: Fiscal year begins mid-July.



Sources: FCGO and MOF. Note: Fiscal year begins mid-July.

Social and employment outcomes

Macroeconomic stability has supported gradual improvements in living standards, though employment generation and productivity remain constrained. Poverty rates declined from 25 percent in 2016 to 17 percent by 2024, driven by remittance inflows and expanded social protection schemes (International Monetary Fund, 2025). The government's child grant and midday meal programmes have improved social inclusion, while fiscal decentralisation has enhanced local delivery of education and health services.

Nevertheless, underemployment and youth migration remain persistent, highlighting the limits of consumption-led growth. Employment creation through infrastructure investment and hydropower expansion is emerging but has yet to absorb the labour surplus. Overall, the social outcome trend is moderately positive, showing incremental progress in inclusion and welfare consistent with stable macroeconomic governance.

Summary of trends

Table 3 presents a consolidated overview of Nepal's macroeconomic and fiscal performance since FY2020/21, illustrating how sound economic governance has sustained growth, stability, and resilience despite external and domestic pressures. The data show that, over the post-COVID period, Nepal has maintained prudent fiscal management, low debt distress, and stable prices while achieving a strong external position supported by record foreign reserves and high remittance inflows (International Monetary Fund, 2025). These outcomes signal that the federal governance framework—anchored by coordinated fiscal discipline and effective monetary oversight—has successfully delivered macroeconomic stability and preserved public confidence in the economy.

Favourable outturns across growth, inflation, fiscal balance, and debt indicators provide tangible evidence of a governance system capable of managing shocks and sustaining recovery. Real GDP growth has steadily rebounded, inflation remains within the Nepal Rastra Bank's medium-term target, and the current account has shifted into surplus on the back of strong remittances and moderated imports. Meanwhile, fiscal consolidation and cautious borrowing have preserved debt sustainability under IMF's low-risk assessment.

However, the data also reveal structural challenges that continue to shape Nepal's economic landscape. Chronic under-execution of capital spending constrains infrastructure delivery, and the expanding youth diaspora reflects persistent weaknesses in domestic job creation and aggregate demand. As a landlocked economy facing high transport and trade logistics costs, Nepal must deepen productivity, industrial diversification, and cross-border connectivity to translate macroeconomic stability into inclusive, broad-based growth. Overall, the trends captured in Table 2 confirm that Nepal's federal governance structure is delivering results, yet sustained reforms will be essential to maintain stability and unlock higher long-term growth (International Monetary Fund, 2025).

Table 3. Nepal's key economic indicators and performance trends (FY2020/21–FY2026/27)

Indicator	FY2020/21	FY2021/22	FY2022/23	FY2023/24	FY2024/25 (Est.)	FY2025/26 (Proj.)	FY2026/27 (Proj.)	Performance Commentary
Real GDP Growth (%)	4.2	4.1	1.9	3.7	4.3	5.2	5.5	Growth has recovered steadily after the COVID downturn and import restrictions of 2022/23. Momentum is improving, driven by hydropower, construction, and tourism, but remains below pre-pandemic potential. (IMF, 2025)
CPI Inflation (%, period avg.)	3.6	6.3	7.7	5.4	4.2	4.3	5.0	Inflation has eased significantly, stabilising near NRB's 5% target. Food and import price pressures have moderated. Price stability supports consumer confidence. (IMF, 2025)
Current Account Balance (% of GDP)	-8.1	-12.1	-1.5	+3.9	+3.9	-1.4	-2.5	Strong rebound from deep deficits; large remittance inflows and reduced imports created surpluses. A small deficit is expected as investment imports rise. (IMF, 2025)
Gross Official Reserves (USD bn / months of imports)	9.6 / 6.5	9.8 / 6.8	11.8 / 8.5	15.9 / 10.1	17.6 / 10.9	16.8 / 9.8	16.0 / 9.2	Reserves now at record highs, providing strong external buffers. Expected to gradually decline as imports normalise. (IMF, 2025)
Overall Fiscal Balance (% of GDP)	-7.0	-5.7	-4.6	-3.3	-2.9	-3.6	-3.2	Fiscal consolidation since FY2021/22 has been effective, though slower capital spending explains part of the improvement. Sustainability maintained. (IMF, 2025)

Indicator	FY2020/21	FY2021/22	FY2022/23	FY2023/24	FY2024/25 (Est.)	FY2025/26 (Proj.)	FY2026/27 (Proj.)	Performance Commentary
Public Debt (% of GDP)	41.6	43.8	46.5	48.3	49.0	49.5	48.8	Debt remains sustainable under IMF's low-risk assessment. Borrowing tilted to concessional sources. Gradual decline expected beyond 2026. (IMF, 2025)
Capital Expenditure (% of GDP)	4.8	5.5	4.2	3.4	3.4	6.0	6.2	Chronic under-execution remains the key constraint; new project bank and procurement reforms may raise absorption in FY2026. (IMF, 2025)
Remittances (% of GDP)	23.0	23.8	24.9	25.6	26.7	25.0	24.5	Remittance inflows have reached record highs, underpinning domestic demand and external stability. Reliance remains high but positive for reserves. (IMF, 2025)
Bank Non-Performing Loans (NPLs, % of total loans)	1.4	1.5	2.7	4.3	5.2	5.0	4.8	NPLs have risen sharply since COVID and import curbs; the loan portfolio review (LPR) and regulatory tightening aim to restore stability. (IMF, 2025)

Source: International Monetary Fund (IMF) (2025) Nepal: Sixth Review under the Extended Credit Facility Arrangement, Requests for Modification of Performance Criteria, and Financing Assurances Review – Staff Report, Supplement, and Debt Sustainability Analysis. Washington, D.C.: International Monetary Fund, October 2025.

2.5 FUNCTIONAL ORGANISATION ACROSS THE THREE TIERS

The Constitution of Nepal envisions inter-governmental coordination as the foundation of cooperative federalism, ensuring that policy formulation, planning, budgeting, execution, and monitoring operate coherently across the federal, provincial, and local levels. It establishes a system in which each tier exercises autonomy within its jurisdiction while remaining interdependent through shared responsibilities and consultation mechanisms. Policy and planning processes are designed to flow both top-down and bottom-up, allowing national priorities to align with provincial and local needs. Budgeting and fiscal transfers are guided by principles of equity, transparency, and performance, with coordination facilitated through statutory bodies such as the National Natural Resources and Fiscal Commission.

The Constitution also embeds accountability through a unified system of public financial management, audit, and oversight, ensuring fiscal discipline and transparency at every level. Complementing this vertical coordination, the separation of powers among the legislature, executive, and judiciary provides the horizontal checks and balances essential for maintaining democratic integrity, preventing the concentration of authority, and upholding the rule of law within Nepal's federal framework. Table 3 below provides a summary of functional assignments across government tiers.

Recent perception data from the 2025 Survey of the Nepali People reveals that these coordination arrangements are not merely technical processes but central to how citizens judge the effectiveness of federalism. Trust remains strongest where coordination is felt most directly, at the local level, while declining confidence in provincial and federal tiers reflects frustrations with fragmented planning, slow execution, and unclear lines of responsibility. Citizens consistently reward coherent service delivery and penalise institutional overlap or delay, underscoring that effective inter-governmental coordination is not only a constitutional expectation but a lived priority for Nepalese across all provinces (Kathmandu University 2025).

Table 4. Federal, provincial and local government functional assignments

Level of Government	Functional Area	Key Responsibilities
Federal	***National Security & Defence***	Military, foreign relations, and border security.
	Monetary & Fiscal Policy	Central bank regulation, foreign exchange, and financial stability.
	International Affairs	Diplomatic relations, treaties, and international agreements.
	National Policies & Laws	Formulating national-level laws, regulations, and standards.
	Natural Resources Management	Regulation of national-level resources, large-scale hydropower, and environmental conserva-tion.
	Infrastructure & Transportation	Development and management of highways, railways, and national connectivity projects.
	Public Administration & Civil Service	Managing civil service, law enforcement, and central bureaucracy.
	Disaster Management & Emergency Response	Coordinating national disaster response and relief operations.
	Higher Education & Research	Regulating universities, national research institutions, and higher education policies.
	Federal Public Enterprises	Oversight of state-owned enterprises and national economic assets.
Provincial	***Provincial Lawmaking***	Legislation on matters under provincial jurisdiction (e.g., provincial police, education, and health policies).
	Provincial Economic Development	Planning and executing economic policies, investment facilitation, and industry promotion.
	Health & Education Services	Managing provincial hospitals, universities, and technical education institutions.
	Infrastructure & Transportation	Development of provincial roads, transport systems, and public utilities.
	Natural Resources & Environment	Regulating provincial water resources, forests, and land use.
	Provincial Police & Law Enforcement	Managing local security forces and provincial-level law and order.

Level of Government	Functional Area	Key Responsibilities
Provincial	***Provincial Public Enterprises***	Managing state-owned enterprises operating within the province.
	Inter-Governmental Coordination	Facilitating coordination between local and federal governments.
Local	***Municipal & Rural Development***	Planning and implementing local infrastructure projects, roads, and utilities.
	Basic Service Delivery	Primary health care, education, water supply, and sanitation services.
	Local Law Enforcement & Governance	Maintaining law and order through municipal and rural security mechanisms.
	Land & Housing Management	Regulating land ownership, settlements, and urban planning.
	Disaster Risk Management	Responding to local disasters and emergencies.
	Agriculture & Rural Economy	Supporting small-scale agriculture, irrigation, and local market development.
	Civic Engagement & Accountability	Enhancing public participation in governance and decision-making.
	Revenue Collection & Budgeting	Generating local taxes, fees, and managing local budgets.

Source: Drawn from the 2015 Constitution of Nepal

2.6 POLITICAL FEDERALISM

Since the adoption of the 2015 Federal Constitution, Nepal has made significant progress in establishing the formal architecture of federalism through representative institutions at all three tiers of government. Political decentralisation has advanced through the creation of a bicameral Federal Parliament, seven Provincial Assemblies, and 753 elected local governments, each vested with legislative and executive powers. The Federal Parliament—comprising the House of Representatives and the National Assembly—has strengthened democratic accountability through lawmaking, budget approval, and oversight functions. Provincial Assemblies and Executives, led by Chief Ministers, have begun to assert regional policy priorities, while local governments have institutionalised inclusive representation through constitutionally mandated quotas for women, Dalits, and marginalised communities. Regular federal, provincial, and local elections have reinforced political legitimacy, with high voter turnout and sustained public trust signalling strong support for the federal democratic process.

The constitutional framework has also introduced mechanisms to balance autonomy with coordination. The Local Government Operation Act (2017) and Inter-governmental Fiscal Arrangement Act (2017) have provided legal foundations for self-rule and inter-tier cooperation. Political dialogue across levels of government takes place through the National Coordination Council (NCC), Provincial Coordination Councils (PCCs), and the Inter-Provincial Council (IPC), which together manage inter-governmental relations and dispute resolution. However, challenges persist in harmonising mandates, addressing capacity gaps, and mitigating the influence of party centralism. Despite these constraints, Nepal's first decade under federalism has embedded democratic institutions, enhanced inclusion, and set the groundwork for a maturing system of cooperative governance.

In spite of these notable achievements, the full realisation of political federalism continues to face challenges stemming from overlapping mandates, centralised party structures, and the slower pace of administrative and fiscal devolution. Even so, the past decade has succeeded in entrenching the institutional foundations of Nepal's federal democracy, establishing representative governance and political accountability across all levels of the state.

Table 5. Key characteristics of Nepal's federal political architecture

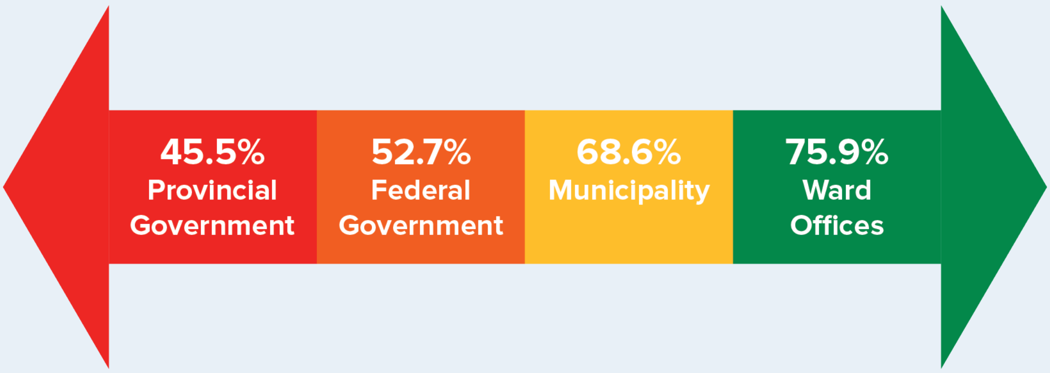
Feature	Description
Federal Legislature	Bicameral Parliament: House of Representatives (275 members) and National Assembly (59 members); responsible for lawmaking, budget approval, and oversight.
Provincial Legislature	Seven unicameral Provincial Assemblies; enact provincial laws, approve budgets, and oversee provincial executives.
Local Governance	753 local governments (6 metropolitan, 11 sub-metropolitan, 276 municipalities, 460 rural municipalities) with elected councils and executives.
Elections	Three tiers of regular democratic elections since 2017; strong voter participation (70% in 2022 local elections).

Feature	Description
Inclusion	Over 41% of local elected representatives are women; quotas for Dalits and marginalised communities institutionalised at all levels.
Executive Leadership	Federal: Prime Minister and Council of Ministers; Provincial: Chief Minister and Council of Ministers; Local: Mayor/Chair and Executive Committee.
Legal Framework	Key Acts include the Local Government Operation Act (2017) and Inter-governmental Fiscal Arrangement Act (2017).
Coordination Mechanisms	National Coordination Council (NCC), Provincial Coordination Councils (PCCs), and Inter-Provincial Council (IPC) facilitate policy coherence and conflict resolution.
Ongoing Challenges	Overlapping mandates, uneven administrative and fiscal reforms, and persistence of political party centralism.

Box 2. Citizen trust in federalism's three tiers

Public perceptions reveal a clear differentiation in how Nepal's three tiers of government are experienced. The 2025 Survey of the Nepali People shows that local governments are the most trusted state institutions, with 68.6 percent expressing confidence in their municipality or rural municipality and 75.9 percent trusting ward offices. Trust then declines with each upward tier: 52.7 percent trust the federal government and 45.5 percent trust provincial governments. This pattern demonstrates that the constitutional principle of self-rule is being realised most effectively at the local level, where services are visible and accessible. Meanwhile, the principle of shared rule remains institutionally established but perceived as less effective, highlighting the need for stronger inter-governmental coordination and clearer division of functions. (Kathmandu University 2025)

Trust in Nepali goverment institutions



2.7 FISCAL FEDERALISM

The constitutional foundation for resource-sharing and fiscal transfers has enabled the three levels of government to plan and execute budgets within a structured system. The introduction of equalisation, conditional, and special grants has institutionalised fiscal transfers, while digital systems such as SuTRA, LISA, and CGAS have modernised public financial management. Nonetheless, persistent challenges remain in ensuring predictability, equity, and fiscal autonomy. Delays in grant disbursements, overlapping responsibilities, and the dominance of conditional grants have constrained local discretion, undermining the principle of self-rule.[4]

Institutions like the National Natural Resources and Fiscal Commission (NNRFC) play a central role in guiding fiscal relations, yet their effectiveness is limited by under-resourcing, weak enforcement authority, and the persistence of politically influenced allocations. Own-source revenues remain modest and uneven across municipalities, while sub-national borrowing powers—though legally permitted—remain largely untapped due to procedural ambiguity and lack of financial readiness. Despite progress in building fiscal architecture, the balance between autonomy and accountability is still evolving. Strengthening fiscal discipline, harmonising tax systems, empowering provincial and local governments, and reinforcing the NNRFC's constitutional mandate are essential to realising a more equitable, efficient, and sustainable fiscal federalism framework.

In sum, Nepal's fiscal foundations are in place, but genuine autonomy remains constrained. The dominance of conditional grants, weak own-source revenues, limited NNRFC authority, and capacity gaps continue to hinder a balanced and accountable fiscal system. Overcoming these barriers is essential to translate fiscal devolution into real equity, efficiency, and local empowerment.

Table 6. Key characteristics of Nepal's fiscal federalism framework

Feature	Description
Revenue Sharing	Vertical distribution of federal revenue: 70% to the federal level, 15% to provinces, and 15% to local governments.
Types of Grants	Three main grants—Equalisation, Conditional, and Special/Matching—form the basis of fiscal transfers; conditional grants account for over 55% of total transfers.
Expenditure Assignment	Overlaps in education, health, and agriculture spending persist due to unclear functional division between provinces and local governments.

[4] Recent Public Expenditure and Financial Accountability (PEFA) assessment findings confirm that, despite the constitutional assignment of expenditure responsibilities across federal, provincial, and local governments, ambiguity in functional responsibilities and expenditure assignments persists in practice, contributing to coordination challenges and inefficiencies in public financial management (Government of Nepal, Ministry of Finance, 2024 PEFA Assessment)."

Feature	Description
National Natural Resources & Fiscal Commission (NNRFC)	Established to oversee transfers and fiscal balance; currently under-resourced and limited in influence over real-time budget decisions.
Own-Source Revenue (OSR)	Remains weak and uneven, with urban municipalities outperforming rural ones due to better tax collection and economic base.
Sub-national Borrowing	Legally permitted but seldom used due to lack of clear procedures, credit frameworks, and capacity for debt management.
Public Financial Management (PFM) Systems	SuTRA (budgeting), LISA (local data), and CGAS (accounting) have standardised PFM processes but require stronger local capacity.
Fiscal Challenges	Conditionality-driven grants, unpredictable fund flows, low budget credibility, and weak fiscal coordination limit sub-national autonomy.
Reform Priorities	Strengthen NNRFC authority, expand OSR potential, rationalise transfers, improve fiscal transparency and accountability across tiers.

2.8 ADMINISTRATIVE FEDERALISM

Administrative federalism remains the least advanced pillar of Nepal's federal transition. While the 2015 Constitution established a three-tier system with corresponding administrative responsibilities, the pace of devolution in practice has been slow and uneven. Structural inertia within the civil service, fragmented legal frameworks, and dependence on federal oversight have resulted in a hybrid reality—federal in law but still unitary in character. The Employee Adjustment Act (2017) was a landmark step, redistributing more than 90,000 staff across federal, provincial, and local levels, yet it was an interim measure rather than a full reform. The absence of permanent civil service laws, incomplete establishment of provincial public service commissions, and continued central control over appointments and transfers have limited true administrative autonomy. As a result, staffing gaps, capacity mismatches, and uneven authority across jurisdictions continue to hinder the functionality and responsiveness of provincial and local administrations.

Administrative federalism remains the least advanced pillar of Nepal's federal transition.

Strengthening administrative federalism now requires a coherent and sequenced approach: enacting federal and

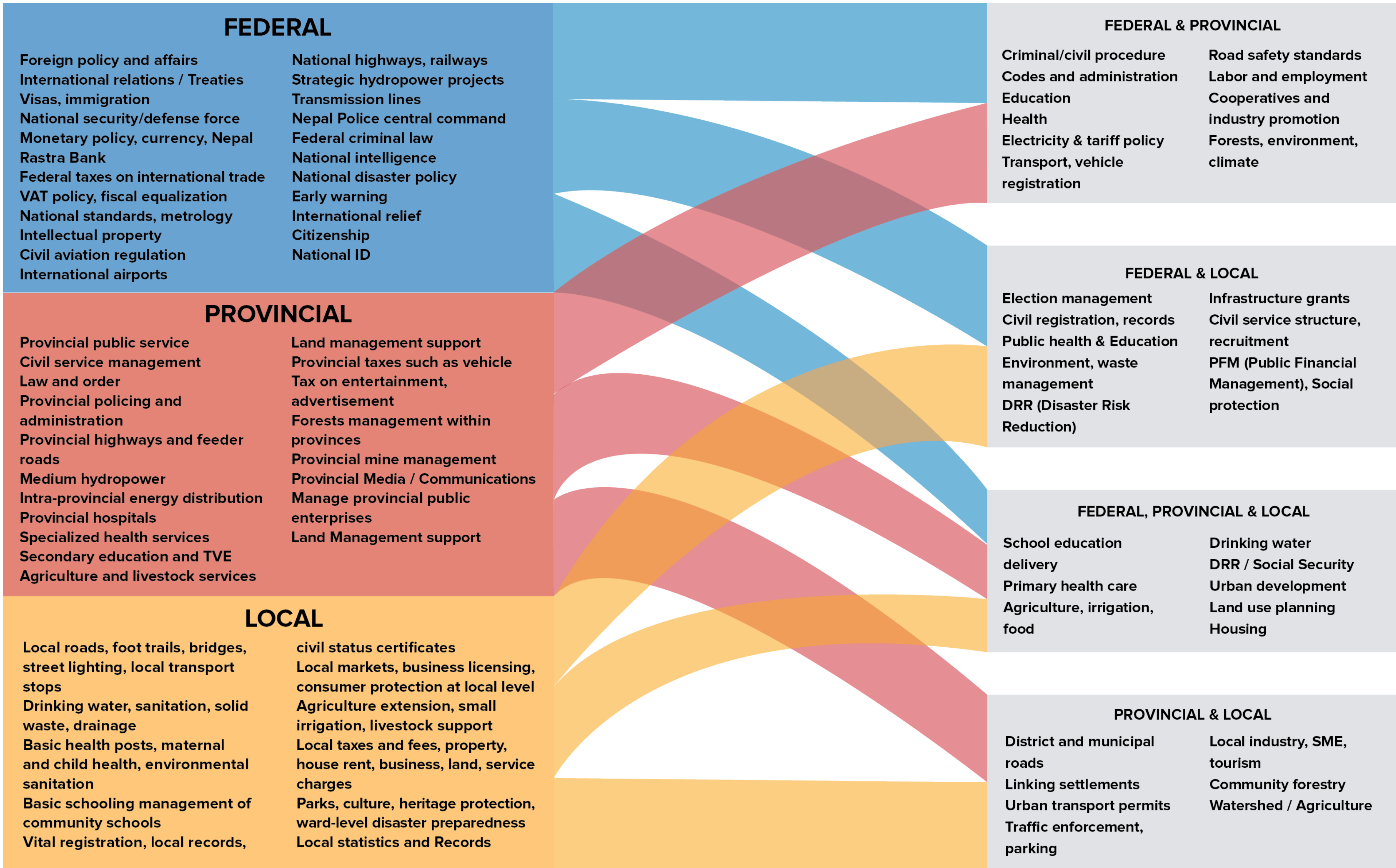
Table 7. Key characteristics of Nepal's administrative federalism

Feature	Description
Constitutional Basis	Articles 285 and 302 of the Constitution provide for separate civil services at each tier and a structured adjustment process for staff redistribution.
Employee Adjustment Act (2017)	Legally enabled the reassignment of over 90,000 federal employees to provincial and local governments as part of the transition to a three-tier administrative system.
Current Staffing Status	Approximately one-third of sub-national positions remain vacant; many staff lack clear roles or authority due to incomplete legislative frameworks.
Civil Service Legislation	Absence of a Federal Civil Service Act and incomplete provincial laws have resulted in fragmented and inconsistent human resource systems.
Public Service Commissions	Provincial commissions are not fully operational, limiting decentralised recruitment and promotion processes.
Central Oversight	MoFAGA continues to exercise strong control over staff deployment, transfers, and appointments, constraining sub-national autonomy.
Administrative Capacity	Provincial and local governments face shortages of skilled personnel and limited management capacity, particularly in planning and service delivery.
Territorial Division	Nepal's administrative structure comprises 7 provinces and 753 local governments (6 metropolitan, 11 sub-metropolitan, 276 municipalities, and 460 rural municipalities).
Reform Priorities	Enact permanent civil service laws, strengthen provincial commissions, standardise HR frameworks, and align staffing authority with federal principles.

provincial civil service legislation, harmonising human resource systems, and embedding accountability frameworks that balance local autonomy with national standards. Each tier of government must be able to manage its own personnel, institutionalise merit-based service delivery, and ensure career mobility within an integrated framework. Ultimately, an empowered civil service system that aligns authority with responsibility will be the backbone of an effective and sustainable federal state.

Figure 4 illustrates the three-tier governance structure established by Nepal's Constitution of 2015, showing how powers and responsibilities are divided among the federal, provincial, and local levels. The federal government oversees national functions such as foreign affairs, defence, monetary policy, taxation, and citizenship, while provinces manage public service, policing, infrastructure within their boundaries, and medium-scale hydropower and education. Local governments handle community services including roads, water, sanitation, health, education, and local taxation. The overlapping areas highlight shared or concurrent powers: federal–provincial coordination covers justice, education, health, energy, labour, and environmental policy; federal–provincial–local cooperation includes school education, health care, agriculture, water, disaster management, and urban planning; provincial–local collaboration manages

Figure 4. Inter-governmental relations and coordination around core functions



roads, transport, tourism, and community forestry; and federal–local cooperation ensures alignment on elections, civil registration, public finance, and social protection. The diagram visually captures the interdependence and coordination needed across all three spheres for Nepal's federal system to function effectively.

2.9 FUNCTIONAL CLARITY & EXCLUSIVE POWERS

The 2015 Constitution of Nepal defines a clear division of powers across the three tiers of government through Schedules 5 to 9, including exclusive powers for the federal, provincial, and local levels. Schedules 6 and 8 assign distinct responsibilities to provincial and local governments that cannot be encroached upon by other tiers. These powers were intended to ensure autonomy in policy, planning, budgeting, and service delivery, while enabling provinces and municipalities to address local needs more effectively. However, despite two major unbundling exercises and the allocation of more than 1,800 functions across the tiers, the process of functional differentiation remains incomplete. Key governance areas such as health, education, infrastructure, and civil service management continue to overlap, leaving implementation fragmented and authority blurred.

Inter-governmental coordination, supportive legislation, and institutional capacity could be strengthened to enable the full exercise of exclusive powers. Provincial institutions such as the Offices of the Chief Minister and Council of Ministers (OCMCMs), Provincial Training Academies (PRTAs), and Provincial Centres for Good Governance (PCGGs) were established to enhance governance and capacity, yet they remain under-resourced and need clearer mandates. Strengthening provincial and local autonomy will depend on harmonising laws, operationalising digital and fiscal systems, and revitalising coordination mechanisms such as the National Coordination Council (NCC), Provincial Coordination Councils (PCCs), and Inter-Provincial Council (IPC). These measures are consistent with the Federal Parliament National Assembly Special Committee recommendation to revise functional unbundling after five years of experience (NA Rec 1)

Table 8. Key characteristics of functional assignment and exclusive powers

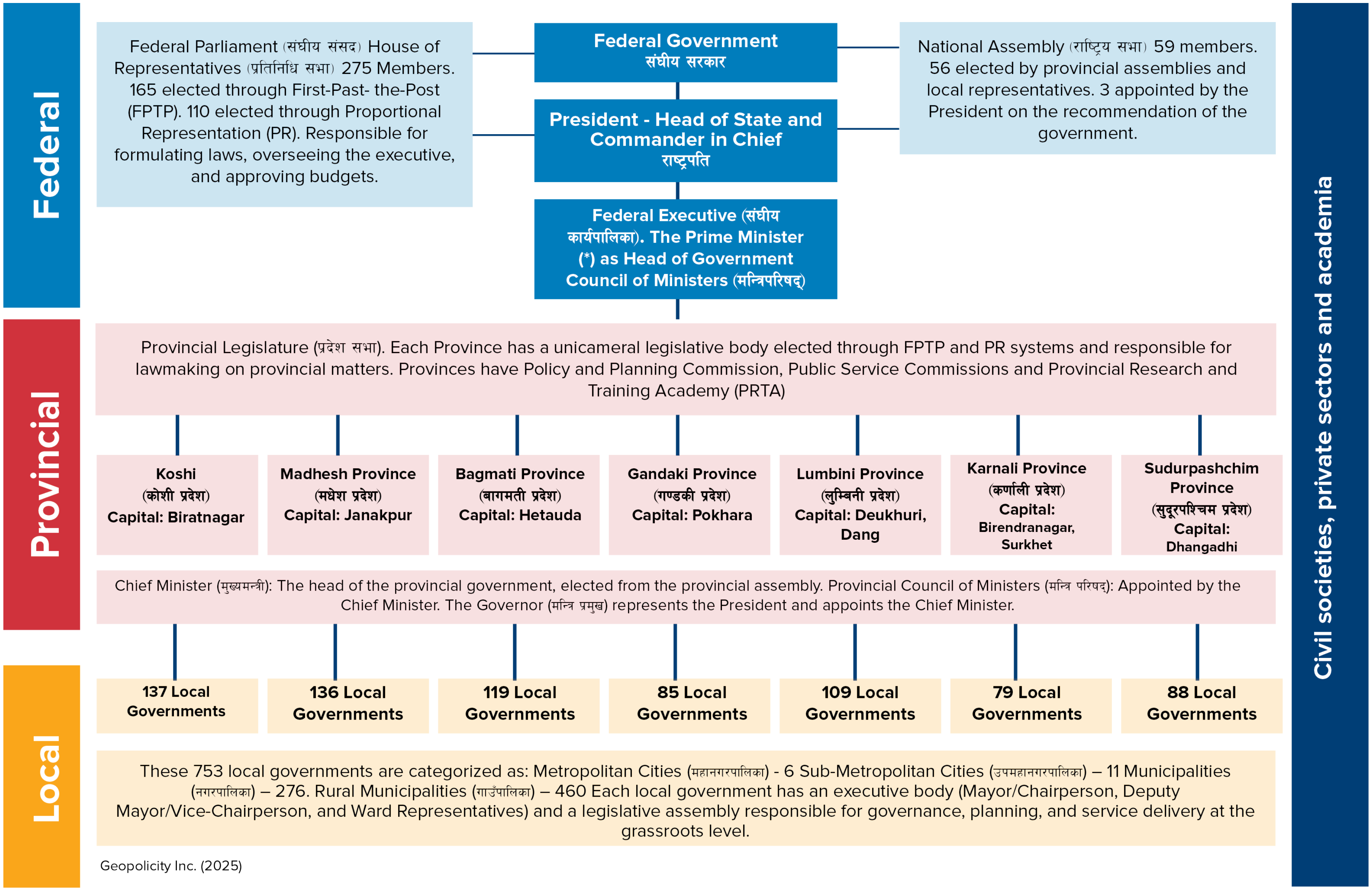
Feature	Description
Constitutional Basis	Schedules 6 and 8 define exclusive powers of provincial and local governments, guaranteeing self-rule within defined jurisdictions.
Unbundling Process	Over 1,800 functions allocated: 870 to the federal level, 565 to provinces, and 360 to local governments; implementation remains partial and uneven.
Core Sectors Affected by Overlaps	Health, education, civil service, infrastructure, natural resources, and procurement exhibit unclear functional boundaries.
Institutional Gaps	Provincial entities (OCMCMs, PRTAs, PCGGs) suffer from limited capacity, unclear mandates, and weak vertical coordination.

Feature	Description
Key Constraints	Weak inter-governmental coordination, lack of harmonised legislation, insufficient capacity, and poor data interoperability.
Audit and Oversight Findings	The Office of the Auditor General and NNRFC note persistent duplication of functions and confusion in accountability mechanisms.
Shared Implementation Areas	Many constitutionally exclusive sectors still operate as joint domains due to reliance on federal ministries and incomplete devolution.
Inter-governmental Coordination Mechanisms	NCC, PCCs, and IPC established to harmonise policy, resolve disputes, and coordinate planning, but remain inconsistently active.
Reform Priorities	Clarify functional boundaries through legislation, strengthen provincial institutions, operationalise digital coordination platforms, and institutionalise cooperative planning and accountability.

The constitutional structure of governance distributes power across three distinct tiers, each designed to perform complementary functions within a unified federal framework (See Figure 5)[5]. At the national level, the bicameral parliament legislates and exercises oversight over the executive, which is led by the Prime Minister and supported by specialised ministries and accountability institutions. The provincial level bridges national policy with local implementation through unicameral legislatures, elected executives headed by Chief Ministers, and sectoral institutions that plan and manage regional development. At the local level, 753 governments—including metropolitan, sub-metropolitan, municipal, and rural municipalities—serve as the primary engines of governance and service delivery, directly engaging citizens in planning and decision-making. This multi-tiered system operationalises cooperative federalism by distributing authority and resources to promote inclusion, responsiveness, and balanced development across the country.

[5] Provinces are constitutionally established as autonomous governance units with executive and legislative authority and are intended to function as key drivers of regional development. While in practice they often play an important coordination role between federal and local governments, this does not diminish their status as a distinct tier of government with their own mandates and responsibilities.”

Figure 5. Illustrative structure of the three tiers of government



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3 FRAMEWORK AND ANALYTICAL APPROACH

The Framework and Analytical Approach provide the foundation for assessing how Nepal's federal system is taking shape in practice—its institutions, its coordination mechanisms, and its capacity to deliver services and uphold accountability. It enables the establishment of a credible baseline against which future progress can be measured, offering an integrated view of how the federal, provincial, and local governments are discharging their constitutional mandates. Through this framework, the State of Federalism Report 2025 moves beyond description to measurement—tracking how responsibilities for policy, planning, budgeting, execution, and audit are being exercised across tiers, and how these processes interact through inter-governmental coordination.

At its core, the approach provides a structured framework for assessing constitutional, institutional, and performance dimensions of Nepal's evolving federal system. It does so by organising federalism into three interrelated domains—political, fiscal, and administrative—each representing a distinct but complementary foundation of the federal architecture.

- **Political Federalism** focuses on how authority and representation are distributed through separation of powers, electoral systems, and inter-governmental coordination.
- **Fiscal Federalism** assesses how financial resources and responsibilities are shared across tiers through revenue assignments, expenditure functions, and fiscal equalisation systems.
- **Administrative Federalism** examines how government functions are managed, coordinated, and delivered through harmonised civil service structures and service delivery mechanisms.

Equally, the framework extends beyond institutional structure to measure the lived reality of federalism. By linking political, fiscal, and administrative performance with citizens' day-to-day experience, it assesses whether federalism delivers results people can feel—whether services reach communities efficiently, budgets are managed transparently, and leaders remain accountable across all tiers. The baseline findings therefore capture not only how well the machinery of federalism functions in principle, but how effectively it fulfils its deeper purpose: building a system of governance that is responsive, equitable, and trusted throughout Nepal.

Figure 6. Key characteristic of political, fiscal and administrative federalism

POLITICAL FEDERALISM

- Separation of political authority
- Vertical power-sharing arrangements
- Representation and electoral systems
- Inter-governmental coordination mechanism
- Constitutional checks and balances

FISCAL FEDERALISM

- Inter-governmental fiscal transfers
- Revenue assignments mechanisms
- Expenditure responsibility sharing
- Fiscal equalisation system
- Sub-national fiscal accountability

ADMINISTRATIVE FEDERALISM

- Division of administrative functions
- Civil service harmonisation
- Inter-tier coordination systems
- Service delivery mechanisms
- Bureaucratic accountability frameworks

3.1 OVERVIEW OF THE REVISED INDICATOR FRAMEWORK

The revised Indicator Framework establishes the empirical foundation for Nepal's State of Federalism 2025 baseline, integrating political, fiscal, administrative, and participatory dimensions of federalism. Building on the PLGSP Results Framework (2024–2029), it consolidates quantitative and qualitative indicators drawn from government administrative systems, perception surveys, and governance performance assessments. The framework aligns national monitoring systems with international governance standards, ensuring that progress can be tracked longitudinally through 2027 and 2029. Core Features of the Framework:

- **Comprehensive Scope:** Captures performance across three tiers—federal, provincial, and local—covering legislative development, fiscal decentralisation, administrative capacity, inclusion, and citizen satisfaction.
- **Integration of PLGSP Indicators:** Adopts and refines PLGSP's Outcome 1–3 indicators, with additional cross-cutting measures for inter-governmental coordination, governance behaviour, and digital transformation.
- **Balanced Metrics:** Combines quantitative indicators (laws passed, budgets executed, staff recruited) with qualitative and perception-based metrics (trust, inclusiveness, responsiveness).
- **Comparability and Continuity:** Ensures repeatability of indicators across the three assessment cycles to enable trend analysis and evidence-based policymaking.
- **GESI Mainstreaming:** Every indicator is gender- and inclusion-sensitive, disaggregated by province, gender, and social group.

Table 9. Illustrative indicator dimensions

Dimension	Key Indicator Types	Means of Verification
Political Federalism	Functionality of inter-governmental forums, legislative harmonisation, participation of women/minorities	Meeting records, legal gazettes, surveys
Fiscal Federalism	Fiscal transfer regularity, budget execution rates, OSR growth	MoF, NNRFC, FCGO data
Administrative Federalism	Civil service deployment, HR policies, e-governance adoption	MoFAGA, PCGG, PRTAs reports
Participatory Governance	Citizen trust, social audits, grievance redress	Perception survey, LG reports

The framework will underpin a Federal Scorecard, providing aggregated scores for performance benchmarking across provinces and municipalities. This allows "yardstick competition" and peer learning while guiding fiscal and policy incentives.

3.2 METHODOLOGICAL PRINCIPLES

The State of Federalism Report 2025 is underscored by a rigorous and adaptive methodological approach, drawing upon international best practice in governance assessment, results-based management, and participatory evaluation. Its design reflects the recognition that federalism is not only a legal and institutional transformation, but also a behavioural and cultural one—requiring indicators that measure both structures and lived experience. To capture this complexity, the methodology combines technical precision with participatory depth, ensuring that every measure of performance is evidence-based, verifiable, and grounded in the perceptions and realities of citizens and institutions alike.

At the core of this approach lies the integration of SMART and SPICED principles—two complementary frameworks that bring together the objectivity of quantitative measurement and the inclusiveness of qualitative insight.[6] Together, they provide the foundation for a balanced methodology that can both quantify change and interpret meaning within Nepal's evolving federal landscape.

The methodological principles guiding the indicator framework are as follows:

- **Specific:** Each indicator targets a clearly defined dimension of federal performance—such as fiscal decentralisation, administrative autonomy, or citizen trust—ensuring clarity of purpose and alignment with constitutional mandates.
- **Measurable:** Indicators are supported by credible data sources, including official government systems like SuTRA, LISA, and national audits, as well as perception surveys and field validation, guaranteeing empirical reliability.
- **Achievable:** Targets are calibrated to Nepal's institutional realities and capacities, setting ambitions that stretch performance without undermining feasibility.
- **Relevant:** Every indicator speaks directly to the goals of cooperative federalism, focusing on inclusiveness, accountability, and effective service delivery rather than abstract institutional formality.
- **Time-bound:** Measurements are structured across fixed intervals—2025 (baseline), 2027 (midline), and 2029 (endline)—allowing for continuous tracking and adaptive learning across the federal transition.

Complementing these are the SPICED principles, which infuse the methodology with participatory integrity and human context:

- **Subjective and Participatory:** Recognising that governance is experienced, not just administered, the methodology captures citizen and official perceptions of trust, responsiveness, and inclusion.
- **Interpreted and Cross-checked:** Data are triangulated between sources—quantitative, qualitative, and documentary—to ensure that results reflect grounded reality rather than isolated observation.
- **Empowering and Disaggregated:** Analysis empowers institutions and communities by highlighting disparities across provinces, genders, and social groups, promoting equitable reform and accountability.

To operationalise these principles, the report introduces a Federalism Performance Scorecard, translating complex governance data into a transparent and comparable format. The scorecard provides aggregated scores across political, fiscal, and administrative dimensions, enabling the identification of progress, gaps, and regional variation. In doing so, it not only measures the mechanics of federalism but also evaluates the quality of governance and the inclusiveness of public service delivery.

[6] SMART refers to the criteria Specific, Measurable, Achievable, Relevant, and Time-bound, commonly used to structure quantitative indicators and assess performance against clearly defined objectives. SPICED refers to the principles Subjective, Participatory, Interpreted, Cross-checked, Empowering, and Diverse, which emphasise the inclusion of multiple perspectives, qualitative judgement, and contextual interpretation in evaluation and assessment processes.

Together, these methodological pillars transform the State of Federalism Report from a static baseline into a living instrument of accountability and learning. They ensure that data collection is not an exercise in compliance, but a dialogue between government and citizens—a means of measuring how far Nepal has come in building a federal system that is functional, participatory, and genuinely transformative.

3.3 DATA COLLECTION TOOLS AND VALIDATION MECHANISMS

Effective measurement depends not only on what is assessed, but on how evidence is gathered, verified, and understood. The State of Federalism Report 2025 therefore anchors its analysis in a robust system of data collection and validation that combines the precision of administrative records with the human insight of primary field research. This blended approach ensures that findings are both technically sound and socially grounded, capturing how federalism functions in practice across Nepal's seven provinces and 753 local governments.

The data collection strategy is deliberately multi-layered. It draws first from secondary administrative sources, leveraging the Government of Nepal's existing systems such as SuTRA, LISA, PEFA, and audit reports to ensure institutional ownership and continuity. These provide the quantitative backbone of the assessment—laws enacted, budgets executed, fiscal transfers made, or civil servants deployed. Alongside these, the study undertakes primary empirical research to explore the qualitative dimensions of federalism: how citizens experience service delivery, how officials interpret their new mandates, and how inter-governmental relations unfold in practice. This integration of administrative evidence with lived experience transforms raw data into a meaningful portrait of a nation in transition.

Key instruments used in the data-collection process include:

- **Perception Surveys:** A nationwide survey of more than 1,000 respondents, drawn through stratified random sampling across 90 municipalities, captures citizen trust, satisfaction, and perceptions of inclusion.
- **Key Informant Interviews (KIIs):** Semi-structured interviews with federal, provincial, and local officials, development partners, and civil society actors provide contextual understanding of institutional performance and coordination challenges.
- **Focus Group Discussions (FGDs):** Facilitated dialogues at community level gather collective perspectives on governance, inclusion, and service delivery, highlighting differences in experience across geography and social groups.
- **Field Observations:** Direct observation of municipal offices, provincial assemblies, and service centres documents how institutions operate in real time, offering evidence of efficiency, accountability, and accessibility.
- **Secondary Data Review:** Administrative datasets and reports from MoFAGA, NNRFC, NPC, the Office of the Auditor General, and other agencies are compiled to benchmark performance against constitutional and programmatic targets.

The combination of these tools allows for triangulation—each data point checked against another until consistency and accuracy are achieved. Enumerators trained through Provincial Research and Training Academies (PRTAs) ensure fieldwork is standardised, gender-sensitive, and ethically conducted. Data from all sources are compiled into a central database, establishing a permanent repository for longitudinal tracking through 2027 and 2029.

To maintain credibility, the process was reinforced through rigorous validation mechanisms. Draft findings were reviewed in technical workshops with the Ministry of Federal Affairs and General Administration, the National Planning Commission, the National Natural Resources and Fiscal Commission, and development partners. Quantitative results were cross-checked against administrative records, while qualitative findings were tested through provincial consultations. A Technical Advisory Group provided ongoing oversight to ensure neutrality and adherence to methodological standards.

This integrated approach ensures that the evidence underpinning the State of Federalism Report is not episodic but institutional, not abstract but lived. By combining government data systems with citizen voices and independent verification, the report establishes a credible and enduring platform for measuring Nepal's progress towards a mature, inclusive, and accountable federal state.

3.4 LIMITATIONS AND MITIGATION MEASURES

Every national assessment of governance faces a tension between ambition and reality. This report has been conceived with a clear-eyed understanding that Nepal's data ecosystem remains uneven and that its political landscape is dynamic and sometimes unpredictable. Recognising these conditions, the report builds transparency into its own limitations and treats them as integral design features rather than methodological weaknesses. In doing so, it preserves both the integrity and the comparability of results across the three reporting cycles—2025, 2027, and 2029—while ensuring that lessons from implementation feed directly into the country's maturing monitoring systems.

Several contextual and operational constraints were identified during the design phase. These were addressed through a set of structured mitigation measures aimed at maintaining methodological rigour and protecting the credibility of the findings.

- **Data Gaps and Reliability:** Nepal's sub-national data systems remain incomplete, with inconsistencies in reporting across provinces and municipalities. To mitigate this, the report triangulates information from multiple sources—administrative data, independent assessments, and perception surveys—and introduces proxy indicators where official statistics are missing. This approach ensures that every indicator has a verifiable evidentiary base, even where direct measurement is not yet possible.
- **Political and Institutional Variability:** Frequent political turnover and coalition shifts can disrupt access to data or influence responses. The study counters this risk through strict political neutrality, drawing on institutional rather than individual sources and validating information through multiple governance tiers. In practice, this means privileging documented administrative data and corroborated minutes over

self-reported narratives.

- **Capacity Constraints at Local Level:** Many local governments, particularly in remote areas, still face technical limitations in data collection and reporting. To strengthen accuracy and consistency, the report relies on enumerators trained through Provincial Research and Training Academies (PRTAs), equipped with digital data-capture tools and standardised reporting templates. These measures not only enhance quality but also build long-term local capacity by embedding training modules within MoFAGA's own systems.
- **Temporal and Seasonal Factor:** Budget cycles and election periods can delay fieldwork or distort perception data. Surveys and interviews were therefore timed to avoid fiscal year closures and political campaigning, while the overall schedule remains flexible enough to accommodate unforeseen disruptions. This sequencing helps maintain objectivity and comparability across assessment years.
- **Qualitative Bias:** Perception surveys risk capturing momentary sentiment rather than systemic performance. To reduce this bias, the study applies SPICED-based triangulation—cross-checking perception data with administrative records, institutional audits, and case evidence. By integrating quantitative and qualitative findings, the report ensures that interpretation is balanced and empirically grounded.
- **Sustainability Risks:** Finally, there is a risk that data collection could remain donor-driven and episodic. The report directly addresses this by embedding its methodology within national systems. Baseline updates will be institutionalised within MoFAGA and the National Statistics Office, forming part of Nepal's evolving monitoring and evaluation (M&E) architecture.

Taken together, these mitigation measures reflect a commitment to continuous improvement and institutional ownership. Rather than treating limitations as obstacles, the State of Federalism Report turns them into mechanisms for strengthening national data governance. By anticipating gaps, acknowledging uncertainty, and embedding resilience, the report establishes a methodological foundation capable of withstanding political change, fiscal pressure, and future rounds of scrutiny—ensuring that each subsequent assessment will be not only comparable but more precise, inclusive, and nationally anchored than the last.

4 POLITICAL FEDERALISM

Since the adoption of the 2015 Constitution, Nepal has made significant progress in establishing the institutional, legal, and political foundations of federal governance. The analysis below highlights these achievements while also identifying remaining gaps in implementation and coordination.

The assessment of **political federalism** in Nepal measures how effectively constitutional authority and democratic representation are being exercised across the three tiers of government. It evaluates whether the principles of separation of powers, balanced representation, and inter-governmental coordination are functioning as intended to sustain a cooperative and accountable federal state.

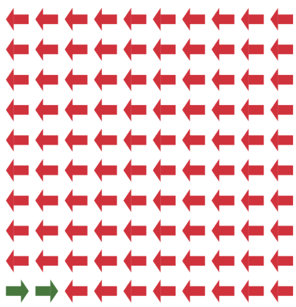
- First, indicators on the ***separation of political authority*** track the degree to which legislative, executive, and oversight functions are distinct yet interdependent. This includes measuring how many federal laws required to operationalise the Constitution have been enacted, the extent of delegation to provincial and local levels, and whether critical gaps—such as the Federal Civil Service Act and Federal Education Act—remain unresolved.
- Second, ***vertical power-sharing arrangements*** are examined through the functionality of coordination platforms such as the National Coordination Council (NCC), Inter-Provincial Council (IPC), and Provincial Coordination Councils (PCCs). Their meeting frequency, issue-resolution rate, and follow-up on agreed actions reveal the strength of cooperative federalism in practice.
- Third, ***representation and electoral systems*** are assessed through indicators capturing inclusiveness and legitimacy of elected bodies across tiers. Examples include voter participation rates, the proportion of women and marginalised groups in elected office, and the extent of citizen engagement in lawmaking and oversight processes.
- Fourth, ***inter-governmental coordination mechanisms*** are measured by the number and quality of shared service agreements, the resolution of inter-tier disputes, and the institutionalisation of joint decision-making procedures that bridge federal, provincial, and local planning systems.
- Finally, ***constitutional checks and balances*** are evaluated through the effectiveness of oversight institutions such as parliamentary committees, the Auditor General, and anti-corruption bodies, as well as the transparency of federal policymaking. For instance, the proportion of draft laws subjected to public consultation and disclosure serves as a proxy for legislative accountability.

Together, these indicators provide a structured lens to evaluate how far Nepal has advanced in building a coherent and inclusive system of political federalism—one that balances autonomy with coordination and authority with accountability. The findings will establish the 2025 baseline for measuring progress in subsequent federalism assessments.

In broad terms, the results indicate that Nepal's political federalism is structurally established but functionally incomplete. The country has achieved significant milestones in building democratic institutions, devolving authority, and embedding inclusion in its political system. However, legislative backlogs, weak inter-governmental dialogue, and an incomplete unbundling of powers continue to impede full realisation of constitutional intent.

Public perception data from the 2025 Survey of the Nepali People provides a clear window into how citizens evaluate the political dimension of federalism and its ability to guide the country's direction. The findings show that while federalism has expanded representation and brought decision-making closer to communities, confidence in Nepal's political leadership and higher-tier institutions has weakened. Only 23.7 percent of citizens believe the country is moving in the right direction, and trust in federal and provincial governments has declined steadily since 2020, reflecting dissatisfaction with political stability, policy coherence, and the ability of national actors to steer the country effectively. In contrast, trust in local governments and ward offices remains high, demonstrating that citizens associate political effectiveness with proximity, responsiveness, and practical problem-solving rather than with national-level politics. The survey suggests that political federalism is most successful where its structures translate into visible improvements in people's lives, and least convincing where political contestation, centralised decision-making, or weak coordination undermine public confidence in the country's trajectory (Kathmandu University 2025).

The indicators under this pillar - legislative performance, coordination mechanisms, inclusiveness, and accountability - highlight both progress and constraints. Legislatively, Nepal has enacted most of the laws required by the 2015 Constitution, creating the statutory backbone for devolved governance. Yet critical enabling Acts, such as the Federal Civil Service Act and Federal Education Act, remain pending, preventing provincial and local governments from fully exercising their mandates.



23.7%
of citizens believe the country is moving in the right direction.

Institutionally, the mechanisms designed to manage vertical relations—the National Coordination Council (NCC), Inter-Provincial Council (IPC), and Provincial Coordination Councils (PCCs)—exist but function inconsistently, with irregular meetings and limited follow-up on decisions. Representatively, inclusion remains a strong feature of Nepal's political landscape, with women and marginalised groups holding unprecedented numbers of elected offices, though executive roles remain male-dominated. Accountability, meanwhile, is evolving: parliamentary committees and oversight agencies are active but still constrained by weak enforcement and limited transparency in policymaking. Together, these findings portray a federal system that is formally complete but still consolidating in practice—a system where democratic representation is strong, but institutional coordination and legislative coherence require sustained reform.

4.1 LEGISLATIVE AND POLICY REFORMS ACROSS THE TIERS

Nearly a decade after the promulgation of the 2015 Constitution, Nepal's legislative and policy architecture for federalism remains a work in progress. The federal transition has required an extensive legal overhaul, demanding new legislation across virtually every sector. By August 2023, 111 of the 151 Acts mandated by the Constitution had been enacted, while 40 laws remained pending or required amendment (National Assembly Legislative Committee, 2023). This three-quarter completion rate signifies major progress, yet the absence of several cornerstone statutes continues to constrain the implementation of federalism.

Key achievements include the timely passage of fundamental rights legislation in 2018, establishing Nepal's basic legal framework for civil and political freedoms, and two foundational laws—the Local Government Operation Act (2017) and Inter-governmental Fiscal Arrangement Act (2017)—which together provided the operational scaffolding for devolved governance. These measures allowed provincial and local governments to legislate within their new jurisdictions and clarified broad fiscal relations between the tiers.

However, legislative gaps persist in several core domains, particularly in the areas of civil service, education, and health. The absence of the Federal Civil Service Act has delayed the formation of independent provincial civil services, leaving provinces reliant on deputed federal staff and restricting their administrative autonomy. Similarly, the Federal Education Act—intended to define roles in shared responsibilities such as curriculum, teacher management, and school standards—remains pending. As a result, provinces continue to operate in legal ambiguity, with multiple levels of government issuing overlapping directives.

At the provincial level, all seven assemblies have established their legislative frameworks and enacted hundreds of laws relating to public service, local governance, education, and social development. Yet provincial lawmaking remains heavily dependent on federal enabling Acts, and provinces have limited legal drafting capacity. This asymmetry has produced inconsistencies and, in some cases, duplication between federal and provincial laws. The incomplete functional unbundling—clarifying which tier is responsible for each

Box 3. The legislative balance sheet of federalism (as of 2023)

Nepal's legislative progress since the 2015 Constitution reflects both achievement and inertia. Of the 151 Acts required to operationalise the Constitution, 111 had been enacted by August 2023, leaving 40 pending or in need of amendment. This equals roughly 74% compliance—a solid base, yet short of a fully functional federal state.

Key Achievements

- **Foundational Federal Acts:** Local Government Operation Act (2017) and Inter-governmental Fiscal Arrangement Act (2017) established the operational backbone for devolved governance.
- **Rights Legislation:** All fundamental rights laws were enacted by 2018, ensuring basic civil and political protections as mandated by the Constitution.
- **Provincial Legislative Activity:** Seven Provincial Assemblies have passed hundreds of laws on education, health, and local administration, though often dependent on federal frameworks.

Persistent Gaps

- **Critical Missing Laws:** Although the House of Representatives passed the Federal Civil Service Act on 29 June 2025, the legislative process was subsequently disrupted, and the Bill had not been enacted, the Federal Civil Service Act has recently been passed, the Federal Education Act remains pending, constraining provinces from forming their own administrations and harmonising service standards.
- **Concurrent Powers Confusion:** Overlaps in health, education, and agriculture continue due to incomplete functional unbundling and absence of joint operating procedures.
- **Limited Legislative Transparency:** In FY2023/24, fewer than 10% of federal bills were published for public comment, and virtually none underwent structured GESI review (Kathmandu Post, 2023; PLGSP/UNDP, 2023).

Analytical Insight:

Federalism's success depends not only on the number of laws enacted but, on their sequencing, coherence, and inclusiveness. The legislative framework is largely in place, but the system still runs on partial statutes and inherited central habits. Unless remaining gaps are closed and provinces empowered through enabling laws, the legal foundation of federalism could become its bottleneck rather than its backbone.

policy function—exacerbates this problem, especially in concurrent sectors such as health, agriculture, and infrastructure (MoFAGA, 2023).

Despite these challenges, the overall trajectory of legislative reform is positive. Nepal's Parliament has demonstrated commitment to fulfilling its constitutional obligations, while provincial and local governments have shown growing legislative confidence. Nevertheless, challenges remain in the sequencing and coherence of legislation, as well as in the consistency and depth of consultation processes in practice. The legislative process is still characterised by limited public participation and inadequate gender and social inclusion (GESI) analysis. A 2023 review found that fewer than 10% of federal bills were published for public comment, and almost none underwent formal GESI assessment (Kathmandu Post, 2023; PLGSP/UNDP, 2023).

A sector particularly affected by these delays is education, where the absence of the Federal Education Act leaves provincial policies vulnerable to misalignment with national standards. Similarly, environmental and agricultural governance remains fragmented between tiers. These issues illustrate the broader challenge of legislative harmonisation in a multi-level system where concurrent powers require cooperation and shared rule rather than duplication. The introduction of a public consultation for the proposed bill in 2023 marks an important step towards greater transparency, aiming to institutionalise public participation in federal lawmaking. Yet its passage and enforcement will be the true test of whether Nepal's evolving federal system can balance authority with accountability.

Federal legislative processes in Nepal provide for structured mechanisms of public consultation, transparency, and parliamentary scrutiny, including committee reviews and stakeholder engagement. The findings of this report therefore do not suggest an absence of formal consultation frameworks. Rather, they point to variability in the depth, consistency, and effectiveness of their application in practice.

Legislative and policy reforms since 2015 reveal a clear direction of progress but an unfinished agenda. Nepal has laid the statutory foundation for federal governance, but the consolidation phase demands a more deliberate approach to coherence, inclusion, and inter-tier coordination. The next stage will require not only passing the remaining laws but ensuring that legislation across all tiers operates as a unified legal ecosystem, anchored in consultation, transparency, and shared accountability.

National Assembly Recommendations 93–94 on delegated legislation emphasise that subordinate rules should stay within the scope of primary laws and be vetted by the Ministry of Law, Justice and Parliamentary Affairs for consistency.

4.2 FUNCTIONALITY OF INTER-GOVERNMENTAL COORDINATION

Strengthening NCC, IPC, PCCs and the Inter-governmental Fiscal Council with permanent secretariats and monitoring, as proposed in National Assembly Recommendation 48, is essential for cooperative federalism. Moreover, the findings here support proposals for an Administrative Coordination Council to address cross-cutting implementation issues (National Assembly Recommendation 49). Moreover, similarly, establishing provincial administrative coordination councils involving municipal Chief Administrative Officers can enhance vertical coordination (NA Rec 50).

Inter-governmental coordination is the operational test of Nepal's federal compact—the means through which constitutional principles of shared rule and self-rule are translated into practical governance. In theory, the Constitution envisages a multi-layered system of coordination anchored in apex political forums such as the National Coordination Council (NCC) and the Inter-Provincial Council (IPC), complemented by Provincial Coordination Councils (PCCs) that link provincial and local governments. These mechanisms are intended to align national policies, resolve disputes, and ensure coherence across planning, budgeting, and implementation cycles. In practice, however, Nepal's coordination architecture remains largely underutilised and inconsistently functional, reflecting both political fragmentation and administrative inertia within a still-maturing federal system.

At the national level, the Inter-Provincial Council (IPC)—chaired by the Prime Minister and composed of the seven Chief Ministers—was designed as the primary forum for vertical dialogue and dispute resolution. Yet, since its establishment, the IPC has convened only three times, with its last meeting held in April 2019 (Kathmandu Post, 2023). None of the 29 resolutions agreed in the IPC's 2018 Action Plan, including the commitment to pass the Federal Civil Service Act by 2019, were implemented. Similarly, the National Coordination Council (NCC)—responsible for reviewing federal affairs annually—failed to meet for three consecutive years between 2020 and 2022. Its eventual reconvening in mid-2023 was a welcome signal of renewed attention to inter-governmental relations, but it also underscored a troubling pattern: coordination has been reactive rather than routine, driven by political expediency rather than institutional rhythm. The overall resolution rate of issues raised through these bodies remains close to zero, leaving critical matters of fiscal sharing, functional overlap, and civil service deployment unresolved.

Nepal's coordination architecture remains largely underutilised and inconsistently functional, reflecting both political fragmentation and administrative inertia within a still-maturing federal system.

The consequences of this inaction cascade down the federal hierarchy. Day-to-day coordination between federal ministries and provincial and local governments frequently bypasses formal channels, weakening the authority of provinces as the intended intermediary tier (MoFAGA, 2024). Federal ministries continue to issue directives directly to local governments on planning and project implementation, reflecting enduring unitary practices that undermine cooperative federalism. Provincial Coordination Councils, which were established as forums for joint planning and problem-solving between provinces and municipalities, have now been convened in all provinces, with each holding multiple meetings, typically five to eight, through FY 2024/25. However, their effectiveness has varied. While regular meetings have taken place, outcomes have often been uneven, with limited follow-up, weak documentation of decisions, and inconsistent translation of deliberations into coordinated action. As a result, policy coherence across tiers continues to rely heavily on informal and personality-driven interactions rather than predictable and institutionalised coordination processes.

The baseline findings confirm that these coordination deficits have tangible governance costs. Disputes over concurrent functions, overlapping capital projects, and inconsistent application of fiscal rules persist precisely because there is no standardised mechanism for conflict resolution or tracking of inter-governmental commitments. In the absence of strong IG forums, local governments often rely on political party networks or direct appeals to federal ministries, bypassing their provincial governments altogether. This practice reinforces vertical fragmentation and weakens the cooperative ethos envisioned in the Constitution.

There are, however, emerging signs of recalibration. The reactivation of the National Coordination Council in 2023, together with growing recognition within the Office of the Prime Minister and Council of Ministers, MoFAGA, and the National Planning Commission of the need for more structured vertical dialogue, suggests renewed momentum for institutional coordination. In this context, a draft administrative proposal under inter-ministerial review seeks to strengthen the functioning of the NCC and the Inter-Provincial Council through more regular, scheduled meetings and the establishment of a small permanent secretariat to track follow-up and implementation of decisions. If adopted under OPMCM leadership, these measures would mark a shift from largely symbolic coordination towards more functional and sustained inter-governmental engagement.

Going forward, the effectiveness of Nepal's federalism will depend on whether inter-governmental coordination can evolve from occasional consultation to a culture of shared governance. To achieve this, three priorities stand out:

- **Institutionalisation:** Legal mandates for meeting frequency, agenda-setting, and follow-up should replace reliance on political goodwill. To revitalise the Inter-Provincial Council, the NA recommends a working committee of the Home Minister and two Chief Ministers to meet quarterly and follow-up on IPC decisions (NA Rec 47). State of Federalism monitoring can track its functionality.
- **Inclusivity:** Representation in IG forums must expand beyond top political executives to include provincial assemblies, local associations, and women and marginalised groups. Provinces are encouraged to form thematic committees with local government representation, as recommended by the NA, to align sector policies (NA Rec 51)
- **Accountability:** Outcomes of IG meetings should be publicly reported, with measurable follow-up indicators embedded in PLGSP and MoFAGA monitoring frameworks.

Nepal's first decade of federalism demonstrates that coordination cannot be legislated into existence—it must be practised. The architecture for cooperative federalism is in place, but its activation requires political commitment, administrative discipline, and mutual trust across all tiers. Regularising inter-governmental dialogue and embedding it within the country's policy cycle will be essential if Nepal is to transform its federal design into an operationally coherent and accountable system of governance.

Finally, political parties are encouraged to restructure their own internal organisation to reflect the federal system, as called for in NA Rec 39, to reduce excessive centralisation in party decision-making.

4.3 GOVERNANCE MANDATES AND INSTITUTIONAL ROLE CLARITY

Defining "who does what" remains one of the most complex and consequential challenges of Nepal's federal transition. While the Constitution of 2015 clearly outlines the distribution of powers across the three tiers of government, translating these provisions into functional and coordinated practice has proved far more difficult. The core test of political federalism—the alignment between authority, responsibility, and accountability—remains only partially achieved.

The constitutional framework establishes three categories of powers: exclusive, concurrent, and residual. In practice, however, concurrent powers have become the most contested space. Their implementation has been slowed by the incomplete functional unbundling process—an exercise meant to break broad constitutional mandates into specific, actionable responsibilities. According to MoFAGA's 2023 Functional Mapping, while many responsibilities have been devolved on paper, operational protocols and administrative agreements to define shared execution remain missing (MoFAGA, 2023). As a result, overlaps and ambiguities persist across multiple sectors, particularly in education, health, agriculture, and infrastructure. Both provincial and local governments often run similar programmes—such as teacher recruitment or agricultural extension—without coordination, leading to duplication of effort and fragmented accountability.

Both provincial and local governments often run similar programmes... without coordination, leading to duplication of effort and fragmented accountability.

This lack of clarity is compounded by the continued central control of human resources. The long delay in enacting the Federal Civil Service Act has prevented provinces from establishing their own provincial civil services, leaving them dependent on staff deputed from the federal level. The absence of clear personnel management rules has created an uneven administrative landscape: some provinces struggle to fill key technical and managerial posts, while others operate with overlapping chains of command. The situation is similar at the local level, where staff remain under mixed authorities and lack defined career pathways. Despite the constitutional commitment to autonomy, the persistence of unitary administrative practices has kept provincial and local governments tethered to central approval systems, undermining their ability to plan and deliver effectively (Government of Nepal, 2023).

The blurring of institutional boundaries is also evident in the area of service delivery. Ideally, federal ministries would set national standards and provide technical guidance, while provinces would coordinate regional programmes and local governments would handle frontline implementation. In reality, federal ministries frequently continue to implement projects directly at the local level, often through line agencies or vertically structured programmes that bypass provincial authorities altogether. As of mid-2024, there were no formal shared service agreements that operationalise cooperation among the three tiers. This has fostered competition rather than collaboration, weakening the role of provinces as the connective layer between the federal centre and local governments. The result is a patchwork of initiatives—multiple roads, clinics, or training centres funded by different levels of government with limited communication among them. Such duplication confuses citizens, dilutes accountability, and fuels perceptions that the federal system adds complexity without delivering proportional benefits.

Citizens judge federalism not by its structures but by its outcomes: who delivers which services, and who is accountable when they fail.

Despite these challenges, the trajectory towards greater clarity is not static. Several institutional and policy initiatives are underway to address gaps. The National Natural Resources and Fiscal Commission (NNRFC) has been working with MoFAGA to standardise inter-tier roles in fiscal transfers and service delivery. Sectoral working groups in health, education, and infrastructure have begun drafting cooperative frameworks to delineate responsibilities and reporting mechanisms. All seven provinces have now established Public Service

Commissions and drafted provincial civil service laws—ready to be operationalised once the federal framework law is passed. These efforts suggest a growing recognition that clarity of function must be matched by clarity of process, and that formal rules need to be complemented by collaborative practice.

The baseline assessment, however, underscores that progress remains incremental and uneven. The “rules of the game” for Nepal’s federalism are still being written through negotiation, precedent, and improvisation rather than established law. Key to advancing clarity will be:

- **Completing the legislative agenda** on concurrent functions and the civil service, ensuring that provincial and local roles are grounded in law rather than informal practice.
- **Institutionalising joint decision-making** through inter-governmental agreements that enable shared implementation without encroachment.
- **Strengthening vertical communication** so that federal standards and monitoring frameworks are co-designed with provincial participation, preventing top-down directives that undermine autonomy.

Ultimately, the question of role clarity is about more than administrative efficiency—it is about the credibility of federal governance itself. Citizens judge federalism not by its structures but by its outcomes: who delivers which services, and who is accountable when they fail. At present, those answers are not always clear. The consolidation phase of Nepal’s federal journey must therefore focus on aligning the legal framework, administrative practice, and political behaviour to ensure that each tier functions within its constitutional domain. Only through such alignment can the system evolve from overlapping mandates and contested authority to one defined by coherence, cooperation, and accountability.

4.4 GESI INTEGRATION IN POLITICAL INSTITUTIONS

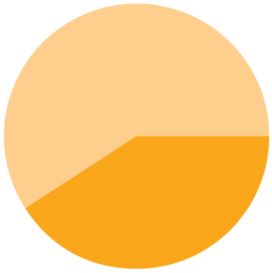
Gender equality and social inclusion (GESI) remain defining features of Nepal’s federal project—both as a constitutional commitment and as a test of whether political federalism has delivered on its promise of representation and equity. The country’s constitutional and electoral design has made inclusion a structural guarantee rather than a discretionary policy. In comparative terms, Nepal now stands among South Asia’s most inclusive democracies, having institutionalised women’s and marginalised groups’ participation across all tiers of government. Yet, while representation is extensive, empowerment remains uneven, and the quality of participation within political institutions continues to lag behind the impressive numbers.

At the heart of this progress is a bold quota system that enshrines political inclusion at every level. The 2015 Constitution and election laws require the representation of women, Dalits, Janajatis, Madhesis, and other historically marginalised communities within elected bodies. Following the 2022 elections, women constitute over 41 percent of all local elected representatives, including a mandatory female Deputy Mayor or Deputy Chairperson in all 753 local governments (Election Commission of Nepal, 2022).

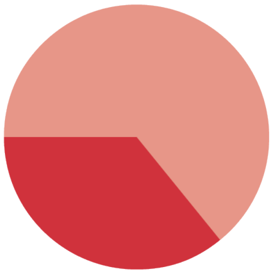
This achievement has reshaped local governance: women now hold institutional authority in planning committees, budget hearings, and social sector programming. At the provincial level, women account for approximately 36 percent of assembly members, supported by the constitutional requirement that either the Speaker or Deputy Speaker be female. In the Federal Parliament, one in three members are women—a figure well above the South Asian average. Similarly, the guaranteed presence of Dalit and minority representatives in each ward has embedded diversity within local councils and enhanced the symbolic legitimacy of the federal system.

This expansion of descriptive representation is beginning to influence governance outcomes. Evidence from PLGSP and independent assessments shows that female Deputy Mayors and women ward members have led initiatives in areas such as maternal health, gender-based violence prevention, and women's entrepreneurship (The Asia Foundation, 2023). Many municipalities have adopted gender-responsive policies and budget frameworks, while provincial governments are establishing gender units within planning and finance ministries. These developments suggest that representation is starting to translate into more inclusive policy agendas, particularly at the local level where decision-making is closest to citizens.

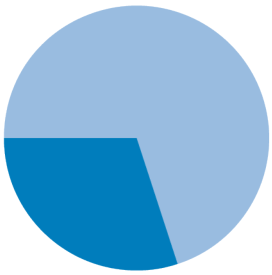
Nevertheless, the transition from presence to power remains incomplete. Although women hold significant numerical representation, they continue to face barriers in accessing executive leadership roles and influencing high-level decision-making. Only about 13 percent of Mayors and Chairs are women, and none of the seven provinces has yet elected a female Chief Minister. Inter-governmental bodies such as the Inter-Provincial Council (IPC) and National Coordination Council (NCC)—the most influential forums for federal dialogue—remain entirely male. In 2023, the IPC comprised the Prime Minister, key federal ministers, and seven male Chief Ministers, resulting in zero female participation at the apex of inter-governmental decision-making. These gender imbalances at the top risk reproducing patriarchal hierarchies even within newly devolved institutions. Moreover, political party structures remain centralised and male-dominated, often determining candidate selection and leadership trajectories. Female representatives, while numerous, report limited voice within party caucuses, legislative committees, and budget negotiations.



41%
of all local elected representatives are women



36%
of assembly members are women



30%
of federal parliament members are women

Beyond representation, the institutional mainstreaming of GESI in governance systems remains uneven. On a positive note, all seven provinces and roughly 80 percent of local governments have adopted GESI strategies or guidelines to embed inclusion in planning and budgeting. These provisions have secured dedicated funding streams and catalysed innovative local initiatives—from women's skill-development centres in Lumbini to inclusive education scholarships in Karnali. Yet, implementation and monitoring vary widely. Many local governments meet budgetary earmarks in form but lack systems to track impact, leading to tokenistic allocations rather than transformative results.

Institutional capacity constraints are another barrier. While GESI units or focal points have been established within federal and provincial bureaucracies, they often lack resources, authority, and data to influence mainstream policy decisions. Critically, GESI has yet to be systematically integrated into the federal legislative process. As of 2023, fewer than 10 percent of draft federal bills were published for public consultation, and almost none underwent structured gender or inclusion analysis (PLGSP/UNDP, 2023).

Less than 10% of draft federal bills were published for public consultation

The baseline assessment also highlights a qualitative gap between representation and influence. Many elected women at the provincial and local level report challenges in navigating male-dominated committees and bureaucracies, and in converting participatory mandates into policy leverage. Strengthening women's political leadership will require targeted capacity building, peer mentoring, and cross-provincial learning platforms. Moreover, inclusion must extend beyond gender: Dalit, Janajati, and disability representation within provincial and federal bureaucracies remains limited, and intersectional barriers—particularly for women from minority groups—persist.

Although women hold significant numerical representation, they continue to face barriers in accessing executive leadership roles and influencing high-level decision-making.

In summary, Nepal's federal system has institutionalised inclusion but not yet normalised equality. The architecture for gender-balanced and socially inclusive representation is among the most advanced in Asia, but its transformative potential has yet to be fully realised. The next phase of federal consolidation must therefore focus on moving from numeric representation to substantive participation—ensuring that elected women and marginalised representatives can shape budgets, laws, and inter-governmental policy debates on equal footing. Achieving this will depend on three complementary reforms:

- **Legal integration:** Enactment of the Gender Equality and Inclusion legal framework and mandatory inclusion analysis for all federal and provincial legislation.
- **Institutional empowerment:** Strengthening GESI units, expanding monitoring capacity, and linking inclusion performance to fiscal incentives.
- **Leadership development:** Investing in skills, mentorship, and political networks for women and marginalised leaders to enhance their influence in decision-making forums.

The report echoes the NA call to review electoral provisions so that women's access to key local executive positions is further guaranteed, not merely numerically represented (NA Rec 3). Furthermore, this aligns with the inclusive representation guarantees in Articles 38, 42 and 47 and the NA Special Committee recommendation to ensure effective participation of women, Dalits, Janajatis, Madhesis, Tharu, Muslims, backward classes, minorities, marginalised groups, persons with disabilities, gender and sexual minorities, citizens from backward regions and economically disadvantaged Khas Arya (NA Rec 4). Future reforms should also examine candidate-selection rules, including proposals from the National Assembly to ensure that at least one-third of FPTP candidates nominated by each party are women (NA Rec 5)

If these measures are pursued, Nepal can transform its inclusive political architecture from a symbol of progress into an engine of equitable governance. GESI integration thus represents not only a moral imperative but also a practical foundation for achieving the broader goals of cooperative, accountable, and representative federalism.

4.5 POLITICAL FEDERALISM PERFORMANCE SCORECARD

Nepal's 2025 baseline assessment of political federalism reveals a federation that is structurally complete but functionally uneven. Nearly a decade after the 2015 Constitution, the architecture of democracy, including elected institutions, legislative frameworks, and inter-governmental councils, is firmly established, yet many of the mechanisms designed to make this system work in practice remain underdeveloped. This report shows that while most constitutional laws have been enacted and all tiers of government are operational, persistent gaps in legislative coherence, inter-governmental coordination, and institutional role clarity continue to limit the full realisation of cooperative federalism. In this regard, it seems logical to encourage line ministries to prepare and publish time-bound action plans in response to parliamentary and provincial committee directives, as envisaged in NA recommendations on follow-up to committee decisions (NA Rec 7).

At the same time, Nepal's record on inclusion stands out regionally, as women and marginalised groups occupy unprecedented numbers of elected positions, though influence within executive and policy processes still lags. The table below summarises the comparative status of Nepal's political federalism as of 2025, contrasting

Table 10. Political federalism: 2025 baseline, constitution vs. practice

Category	What it means (scope)	Constitutional provision / expectation	Current state of play (2025 baseline)	Successes / gains	What remains incomplete
Separation of political authority	Distinct yet interdependent legislative, executive and oversight functions across three tiers; extent of delegation and legal compliance	2015 Constitution requires comprehensive statute book to operationalise devolution; exclusive and concurrent powers across Schedules 5–9; sub-national legislatures empowered to legislate within jurisdiction	111 of 151 required federal Acts enacted by Aug 2023; 40 still pending or needing major amendment. Federal Civil Service law now passed by the HoR but not been enacted (HoR 29 Jun 2025; NA 2 Sep 2025). Federal Education/ School Education law progressing but not yet fully enacted. Limited legal requirement for public consultation on draft bills; practice remains uneven.	Fundamental rights laws enacted by 2018; core devolution framework in place via LGOA 2017 and IGFA 2017.	Legislative sequencing and coherence issues (concurrent powers); School Education Bill still moving through parliament; weak formal consultation on bills (no binding obligation; limited disclosure).
Vertical power-sharing and coordination (NCC, IPC, PCCs)	Functionality of apex and provincial coordination platforms (meeting frequency, issue-resolution, follow-up)	Constitution envisages cooperative federalism via NCC, IPC and PCCs; regular meetings and follow-through to harmonise policy and resolve disputes	IPC met thrice, last in April 2019; long hiatus thereafter. NCC did not meet 2020–2022; reconvened July 1, 2023. Issue resolution and implementation of IPC's 2018 29-point plan minimal. PCC functionality uneven across provinces.	Constitutional architecture exists; recent NCC revival signals renewed political attention to IGR.	Coordination mostly reactive, not routine; weak secretariat/ monitoring for decisions; low inclusivity at apex forums (see GESI row).
Representation & electoral systems (inclusion and legitimacy)	Inclusiveness and legitimacy of elected bodies across tiers (women, Dalits, Janajatis), voter engagement	Quotas ensure at least 33% women in Parliament; mandatory women's representation at local level (Mayor/ Deputy Mayor rule; ward quotas); inclusion of Dalits/minorities	Women ≈41% of local representatives; mandatory female Deputy Mayor/Vice Chair in all 753 LGs; ≈36% women in provincial assemblies; ~one-third in Federal Parliament. Executive leadership remains skewed: ~13% mayors/ chairs are women; no female Chief Ministers to date.	Nepal is a regional leader on women's political representation; inclusion of Dalits/minorities constitutionally embedded.	Gap between representation and influence: senior executive roles and apex IG forums remain male-dominated (see IPC composition 2023); party hierarchies limit women's and minority leadership trajectories.

Category	What it means (scope)	Constitutional provision / expectation	Current state of play (2025 baseline)	Successes / gains	What remains incomplete
Operational IGR mechanisms (shared delivery & joint procedures)	Existence/quality of shared service agreements, inter-tier dispute resolution, and joint planning/ budgeting procedures across tiers	Constitution and IGR Act (2020) anticipate cooperative execution of concurrent functions and shared services, with clear protocols	Formal shared-service agreements are not yet institutionalised: federal line agencies still implement local projects directly, often bypassing provinces; functional unbundling and joint SOPs remain incomplete, especially in education, health, agriculture, infrastructure.	Sector working groups (e.g., education/ health/ infrastructure) drafting cooperative frameworks; growing recognition within MoFAGA/ NPC of need for structured vertical dialogue.	Absence of standardised **shared-delivery** instruments and dispute-resolution routines; continued **federal bypass** of provinces undermines the intermediary tier and fuels duplication.
Checks and balances (oversight and transparency)	Effectiveness of parliamentary committees, OAG, anti-corruption bodies; transparency of federal policymaking (e.g., public consultation on bills)	Parliament to oversee executive; OAG to audit; CIAA and other bodies to enforce integrity; transparent lawmaking and audit follow-up	OAG reports highlight large unresolved arrears and audit observations across tiers; provincial and local arrears/settlement challenges persist. Draft bills sometimes opened for comment, but no legal obligation and limited practice; overall budget participation score 31/100 (OBS 2023).	OAG and parliamentary oversight structures are established; Nepal's budget transparency improved (OBS 2023 openness score 50/100).	**Low audit resolution/ arrears persist**; legislative oversight of the budget rated "weak," and formal public consultation on laws remains sparse.

constitutional provisions with the current state of play, and highlighting key achievements and unfinished reforms across the five analytical dimensions of the assessment.

The baseline indicators presented in Table 10 highlight both the institutional achievements and persistent gaps in Nepal's political federalism as of 2025. The legislative framework has advanced considerably, with roughly three-quarters of constitutional laws enacted, yet critical Acts such as those governing the civil service and education remain pending, limiting full separation of political authority. Inter-governmental coordination mechanisms, while constitutionally established, remain largely underutilised, with the Inter-Provincial Council and National Coordination Council meeting infrequently and resolving very few disputes. Despite these procedural

Table 11. Baseline indicators for assessing political federalism in Nepal (2025)

No.	Indicator	Description	2025 Baseline	Trend/ Observation
1	Proportion of federal draft laws subjected to GESI analysis and stakeholder consultation	Measures inclusiveness and transparency of the legislative process; tracks how many draft laws undergo structured consultation before enactment.	<10% of federal bills published for comment in FY2023/24	Upward trend expected if GESI screening and consultation bill (2023) passes.
2	Number of federal laws enacted to operationalise constitutional mandates	Reflects completeness of the legal framework underpinning political federalism.	111 of 151 constitutional laws enacted (74%)	Improving but constrained by delays in key Acts such as Civil Service and Education.
3	Functionality of inter-governmental coordination forums (NCC, IPC, PCCs)	Measures frequency and effectiveness of formal inter-tier coordination mechanisms.	IPC met only three times since 2017; NCC reconvened in 2023 after 3-year gap	Slightly improving after recent NCC revival, but still irregular.
4	Resolution rate of inter-governmental issues raised	Captures whether inter-governmental disputes are addressed through formal mechanisms rather than political negotiation.	<5% resolution rate since 2018	Stagnant; reforms needed to institutionalise IG dispute resolution.
5	Inclusiveness of inter-governmental forums	Assesses representation of women and marginalised groups in NCC and IPC.	0% female representation in IPC (2023)	No progress; inclusion mechanisms not yet applied at apex IG bodies.
6	Voter turnout in federal, provincial, and local elections	Measures citizen engagement and legitimacy of elected bodies.	70% turnout in 2022 local elections	Stable; sustained trust in electoral system.

No.	Indicator	Description	2025 Baseline	Trend/ Observation
7	Percentage of women and marginalised groups in elected offices across tiers	Tracks representational inclusiveness in political decision-making.	41% of local representatives female; 36% provincial assembly members women	Stable; Nepal leads South Asia in gender representation.
8	Number of Shared Service Agreements (SSAs) signed across tiers	Reflects degree of practical inter-tier cooperation and shared execution of concurrent powers.	0 formal SSAs by 2024	Static; highlights centralisation and weak cooperative practice.
9	Proportion of draft policies published for public consultation	Gauges transparency and participatory lawmaking at the federal level.	Below 10% (FY2023/24)	Improving marginally; pending consultation bill may raise compliance.
10	Effectiveness of parliamentary oversight committees	Evaluates checks and balances through committee activity and audit follow-up.	Approximately 30% of audit irregularities resolved (FY2022/23)	Moderate improvement but accountability systems remain weak.

weaknesses, Nepal's electoral legitimacy is strong, demonstrated by sustained voter turnout exceeding 70 percent and some of the highest rates of women's representation in South Asia.

However, inclusiveness in apex coordination bodies is lagging, with no women currently participating in the Inter-Provincial Council. Transparency in federal lawmaking and parliamentary oversight also remain modest, with fewer than 10 percent of draft bills open for public consultation and only about 30 percent of audit irregularities resolved. Overall, the baseline reveals a maturing political system that has institutionalised representation and participation but still requires stronger coordination, accountability, and inclusivity to realise the full promise of cooperative federalism.

4.6 CONCLUSION

Nepal's experience with political federalism reveals a nation that has made impressive strides in building the architecture of democratic devolution yet still grapples with the complexities of making that system fully functional. Nearly a decade after the 2015 Constitution, the basic institutions of federal governance—elected bodies, coordination mechanisms, and inclusive representation—are in place. However, the transition from form to function remains incomplete. The federal project has achieved legitimacy through elections and representation but still struggles with the efficiency, coherence, and accountability necessary to deliver on its transformative potential.

While the core constitutional and legislative framework for federalism is largely in place, delays in the enactment of specific sectoral laws, particularly the Federal Civil Service Act and related frameworks in education and health, continue to constrain the full operationalisation of devolved responsibilities. Yet the absence of critical legislation on the civil service, education, and health sectors continues to delay the full transfer of authority to provincial and local levels. The result is a halfway federalism: devolved in principle but centralised in practice. Coordination mechanisms such as the Inter-Provincial Council (IPC) and National Coordination Council (NCC) provide a constitutional platform for dialogue but have been sporadic in practice, leaving provinces and local governments to depend on informal or partisan channels for problem-solving. This undermines the spirit of cooperative governance and leaves important inter-tier issues—such as fiscal transfers, staffing, and service delivery—largely unresolved.

Overall, the evidence suggests that the primary constraint lies not in the absence of legal frameworks, including at provincial and local levels where substantial legislation has already been developed, but in the effective implementation, coordination, and operationalisation of these frameworks across tiers of government.

Institutional roles and mandates are more defined in law than in execution. The incomplete functional unbundling of concurrent powers, coupled with the delay in finalising the Federal Civil Service Act, has created ambiguity in accountability and performance. Federal ministries continue to perform functions that are constitutionally assigned to provincial and local levels, reflecting incomplete functional unbundling and continued reliance on central institutions. This has resulted in federal ministries maintaining a high degree of operational involvement in sub-national service delivery and coordination, while sub-national administrations struggle with staffing and coordination gaps. Meanwhile, Nepal's achievements in gender equality and social inclusion stand as a hallmark of progress. The country now leads South Asia in women's and marginalised groups' representation across elected institutions. Yet the journey from representation to influence is ongoing, executive positions remain male-dominated, and GESI mainstreaming within policymaking and budgeting is inconsistent and often tokenistic.

Despite these constraints, the baseline findings are cautiously optimistic. Nepal's political federalism enjoys broad legitimacy, demonstrated by consistently high voter turnout and the resilience of local democratic institutions even amidst political change. The challenge ahead lies in transitioning from the first phase of institution-building to a second phase of institutional performance and maturity, where the focus shifts from quantity to quality, from establishing systems to making them work seamlessly. Key issues emerging from the baseline include:

- **Legislative Consolidation:** Accelerate the passage of pending federal Acts and harmonise sectoral laws to eliminate overlaps and operational bottlenecks. The 2025 perception survey shows declining trust in federal institutions, with only 52.7 percent expressing confidence in the federal government and just 23.7 percent believing the country is moving in the right direction (Kathmandu University 2025). This signals that legislative delays and legal ambiguity are increasingly viewed by citizens as signs of political drift, underscoring the urgency of consolidating the legal framework so federalism feels coherent and credible.

- **Functional Coordination: I**nstitutionalise regular meetings of the IPC, NCC, and PCCs, supported by secretariats and monitoring frameworks to ensure decisions are implemented. Survey data reveal widespread public frustration with fragmented governance, weak coordination, and slow decision-making at higher tiers, reflected in lower trust in provincial governments (45.5 percent) relative to local ones (68.6 percent) (Kathmandu University 2025). Strengthening coordination platforms would therefore not only improve inter-governmental performance but also help restore citizen confidence in the ability of provincial and federal actors to act decisively and in unison.
- **Administrative Clarity:** Complete the civil service reform process, finalise the unbundling of functions, and formalise shared-service agreements to clarify roles across tiers.
- **Citizens consistently reward clarity and responsiveness:** trust in ward offices (75.9 percent) and local governments remains significantly higher than in other tiers because roles and responsibilities are more visible at the local level (Kathmandu University 2025). Completing administrative reforms would reduce confusion, limit duplication, and help ensure that citizens experience a more predictable and reliable state.
- **GESI Mainstreaming:** Move beyond quotas by strengthening women's and marginalised groups' participation in executive roles and ensuring that inclusion informs policymaking and budgeting at every level. The perception survey shows sharp declines in language- and caste-based discrimination but persistent gender barriers, particularly for women in the Terai who report greater difficulty accessing services and information (Kathmandu University 2025). This highlights that structural inclusion has advanced, yet substantive influence and equitable outcomes still lag behind, making GESI mainstreaming essential for legitimacy and fairness within the federal system.
- **Political Commitment:** Foster sustained political will and inter-party consensus to prioritise federal reforms over short-term partisan interests. With political parties now the least trusted institutions nationally at just 30.5 percent, public perception indicates deep scepticism towards political leadership and its ability to guide the country effectively (Kathmandu University 2025). Renewed political consensus and visible commitment to federal reforms are therefore critical to rebuilding confidence and ensuring that federalism moves from design to delivery.

Nepal's political federalism is firmly established but not yet fully consolidated. The structures of democracy, accountability, and inclusion are in place, but the next test lies in ensuring they perform as a cohesive and cooperative system. Public perceptions from the 2025 survey show high trust in local governments but declining confidence in federal and provincial tiers, underscoring that citizens now judge political federalism by how effectively it delivers and coordinates across levels. With consistent leadership, transparent lawmaking, and a renewed commitment to inter-governmental dialogue, Nepal can move from a federal system still finding its footing to one that delivers on the Constitution's promise—effective governance, equitable development, and genuine inclusion for all its citizens (Kathmandu University 2025).

5

FISCAL FEDERALISM

The analysis of fiscal federalism presented in this report is aligned with established public financial management assessment frameworks, particularly the Public Expenditure and Financial Accountability (PEFA) framework. Key findings on revenue performance, expenditure assignment, inter-governmental transfers, and fiscal coordination correspond to core PEFA dimensions, including budget credibility, fiscal relations between levels of government, and predictability of resource flows. This alignment ensures that the assessment is grounded in internationally recognised diagnostic standards while reflecting Nepal's federal context.

The assessment of fiscal federalism in Nepal examines how financial powers and responsibilities are distributed, managed, and exercised across the federal, provincial, and local levels of government. It evaluates whether the principles of equity, efficiency, transparency, and fiscal autonomy are functioning as intended to support cooperative federalism and sustainable service delivery.

- ***First, indicators on revenue assignment and inter-governmental fiscal transfers*** assess how effectively resources are mobilised and shared among tiers. They measure the adequacy and predictability of vertical and horizontal transfers, the performance of the National Natural Resources and Fiscal Commission (NNRFC), and the balance between conditional, equalisation, and special grants that underpin fiscal equity.
- ***Second, budget execution, planning, and financial management*** are evaluated through indicators on fiscal discipline, transparency, and absorptive capacity. These capture the efficiency of public financial management systems such as SuTRA, LISA, and CGAS, the timeliness of transfers, and the proportion of capital budgets executed within the fiscal year
- ***Third, fiscal autonomy and expenditure patterns at sub-national levels*** are examined to determine how far provinces and municipalities can independently generate and manage resources. Indicators include the share of own-source revenue in total budgets, the extent of expenditure discretion, and the composition of sub-national spending between recurrent and capital items.

Together, these indicators provide a structured framework to measure Nepal's progress in establishing a coherent and sustainable system of fiscal federalism—one that aligns financial flows with devolved functions and ensures equitable service delivery across all tiers. The findings will form the 2025 baseline for evaluating fiscal maturity and inter-governmental balance in subsequent federalism assessments.

In broad terms, the results indicate that Nepal's fiscal federalism has made substantial progress in establishing architecture but remains constrained in practice. The inter-governmental transfer system—anchored by unconditional, conditional, and equalisation grants—has stabilised resource flows, yet local and provincial dependence on federal funding remains high. Own-source revenues are limited and uneven, with poorer provinces and rural municipalities lagging behind. Budget execution rates are modest, particularly for capital projects, reflecting administrative bottlenecks and weak procurement planning. At the same time, fiscal transparency has improved through digital systems such as SuTRA and LISA, and oversight by the Auditor General is expanding. Collectively, these indicators portray a fiscal system that has achieved structural integrity but requires deeper reform to enhance autonomy, strengthen expenditure management, and ensure that fiscal devolution translates into tangible local outcomes.

Table 12 presents the 2024 PEFA (Public Expenditure and Financial Accountability) scores for Nepal, reflecting the latest assessment of the country's public financial management performance. To enable cross-national comparison, we aimed to include India, Bangladesh, and Pakistan. However, recent national-level PEFA assessments for India and Pakistan are not available. Consequently, Indonesia (2017) and Vietnam (2024) have been used as regional comparators to provide a reference point, given their relatively advanced but still contextually relevant PFM systems.

Nepal's pillar scores, ranging from D+ to C+, suggest a public financial management system that remains foundational in many respects but shows signs of progress in areas such as accounting, budget execution, and transparency. A D+ rating, observed in pillars like budget reliability and asset management, indicates basic frameworks exist but are inconsistently implemented or poorly enforced—typically resulting in weak budget credibility or incomplete records of government assets and liabilities. A C score implies that standard practices are in place but often lack comprehensive coverage or effective application. Where C+ scores appear, such as in budget execution or accounting and reporting, there is evidence of partial improvements—systems are working better but still require strengthening to reach more reliable, transparent, and accountable standards. Collectively, these scores reflect a system in transition, with foundational elements present but needing reform to enhance performance and resilience.

Table 12. PEFA pillar score comparison – Nepal vs. regional peers

No.	PEFA Pillar	Nepal (2024)	Indonesia (2017)	Bangladesh (2023)	Vietnam (2024)	Nepal vs. Others (Summary)
1	**Budget reliability**	D+	C	C	C	Nepal's D+ is **below** others' ~C average.
2	**Transparency of public finances**	C+	B	C	B	Nepal's C+ is slightly **below** others' ~B– average.
3	**Management of assets and liabilities**	D+	C	C	C+	Nepal's D+ is **lower** than others' ~C average.

No.	PEFA Pillar	Nepal (2024)	Indonesia (2017)	Bangladesh (2023)	Vietnam (2024)	Nepal vs. Others (Summary)
4	**Policy-based fiscal strategy and budgeting**	C	B	C+	C+	Nepal's C is **below** others' ~C+–B average.
5	**Predictability & control in budget execution**	C+	B	C+	B	Nepal's C+ is **below** others' ~B average.
6.	**Accounting and reporting**	C+	B	C	C+	Nepal's C+ is roughly **on par** with others' ~B–C+ average.
7.	**External scrutiny and audit**	C	C	C+	C+	Nepal's C is **slightly lower** than others' ~C+ average.

Notes: India and Pakistan have no recent national PEFA; Indonesia (2017) and Vietnam (2024) are used as substitutes, respectively

Sources: Nepal 2024 PEFA Report; Bangladesh 2023 PEFA Report; Indonesia 2017 PEFA Report; Vietnam PEFA findings.

5.1 REVENUE ASSIGNMENT AND INTER-GOVERNMENTAL FISCAL TRANSFERS

Nepal's transition towards a devolved fiscal system continues to advance, supported by a maturing legal framework and incremental improvements in public financial management (PFM) capacity across the three tiers of government. Drawing on the Public Expenditure and Financial Accountability Assessment (PEFA, 2024), the Nepal Fiscal Federalism Update (World Bank, 2024), and the Capacity Assessment of Provincial and Local Governments (MoFAGA, 2025), this section reviews progress around the three pillars of fiscal federalism - revenue assignment and transfers, budget execution and financial management, and fiscal autonomy and expenditure performance.

Revenue assignment and inter-governmental fiscal transfers

Nepal's fiscal framework, founded on Article 60 of the Constitution and the Inter-governmental Fiscal Arrangement Act (2017), defines the mechanisms for sharing revenues and assigning expenditure responsibilities. The National Natural Resources and Fiscal Commission (NNRFC) has progressively refined the Fiscal Equalization Grant (FEG) formula to reflect need-based and performance-linked criteria (World Bank, 2024). However, the system remains heavily centralised. Conditional grants (CGs) still account for over 40 percent of total local government revenues, limiting flexibility in fiscal decision-making (World Bank, 2024).

Provincial and local governments continue to rely substantially on fiscal transfers, with own-source revenue financing only 8 percent of total spending. The vertical fiscal gap remains high—averaging 93 percent for provinces and 94 percent for local governments (World Bank, 2024). Despite legal provisions permitting domestic borrowing, none of the provinces have yet exercised this option, reflecting limited debt management capability and underdeveloped sub-national credit frameworks (World Bank, 2024).

The PEFA Assessment (2024) confirms that Nepal's inter-governmental transfer mechanisms are transparent and rule-based, supported by the NNRFC and statutory allocation schedules. Yet the timeliness and predictability of conditional grants remain problematic, as delays in federal budget communication reduce the ability of sub-national governments to plan and execute their budgets effectively (PEFA Secretariat, 2024).

While Nepal's fiscal transfer system is underpinned by clearly defined criteria and formula-based allocations, as reflected in the design of equalisation, conditional, and special grants, recent Public Expenditure and Financial Accountability (PEFA) findings indicate that challenges persist in ensuring adequacy and predictability of these transfers. In particular, gaps in federal revenue collection have constrained the overall resource envelope available for inter-governmental fiscal transfers, thereby affecting both the sufficiency and distribution of equalisation grants across provinces and local governments. This dynamic has implications for horizontal equity and the ability of sub-national governments to deliver constitutionally mandated services, as variations in transfer adequacy are increasingly shaped not only by formula design but also by upstream revenue performance at the federal level (Government of Nepal, Ministry of Finance, PEFA Assessment, 2024).

Enhancing local revenue performance will depend not only on administrative improvements in tax collection and compliance, but also on the promotion of local economic activity and expansion of the underlying tax base, including through support to local enterprises, markets, and investment.

Provincial coordination on uniform vehicle tax rates and earmarking a share for environmental protection is proposed in NA Rec 61 and should be explored.

Budget execution, planning, and financial management

Significant progress has been achieved in strengthening PFM systems, underpinned by modern digital tools such as the Sub-National Treasury Regulatory Application (SuTRA), Computerized Government Accounting System (CGAS), and the Treasury Single Account (TSA) (PEFA Secretariat, 2024). These reforms have enhanced fiscal reporting, control, and transparency. However, Nepal's overall budget reliability remains weak. According to the PEFA 2024, aggregate expenditure outturns were below 85 percent of approved budgets, resulting in a 'D' rating under PI-1, while composition variances exceeded 15 percent, indicating misalignment between approved and executed budgets (PEFA Secretariat, 2024).

Similarly, actual revenue collection averaged less than 92 percent of estimates during the assessment period, largely due to optimistic macro-fiscal projections and capacity constraints in project implementation (PEFA Secretariat, 2024). At the sub-national level, execution challenges persist. The World Bank (2024) reports that provincial governments underspent 34 percent of their budgets in FY2023, and local governments underspent by 24.4 percent, mostly on capital expenditure. The MoFAGA Capacity Assessment

(2025) finds that although 44 percent of local governments have developed and implemented procurement plans, fewer than 20 percent have published annual budget execution reports within the legally mandated timeframe.

Internal control systems and audits have expanded in scope, supported by the Financial Comptroller General Office (FCGO), yet internal audits remain compliance-based rather than risk-focused (PEFA Secretariat, 2024). Legislative scrutiny of audit reports has improved, but backlogs persist in the Public Accounts Committee, limiting the accountability impact of external audits (Office of the Auditor General, 2023).

Fiscal autonomy and sub-national expenditure patterns

Despite the establishment of a strong constitutional and institutional base, fiscal autonomy at the sub-national level remains constrained. Local own-source revenue has stagnated at approximately 6.5 percent of total local revenues, and most municipalities continue to depend on central transfers to finance service delivery (World Bank, 2024). While the MoFAGA Capacity Assessment (2025) notes improved compliance with financial reporting and accounting standards, capacity shortfalls in fiscal forecasting, planning, and public investment management continue to affect spending efficiency.

The PEFA (2024) highlights moderate improvement in predictability of in-year resource allocation, rated ‘B’ under PI-21, yet expenditure efficiency remains low due to late procurement and “bunching” of capital outlays. Nearly 35 percent of provincial capital spending occurred in the final month of FY2023 (World Bank, 2024). Fiscal accountability mechanisms, however, have improved. Audit irregularities at both provincial and local levels have declined, and the Public Debt Management Office (PDMO) has consolidated debt recording under the Debt Operations Management System (DOMS) (PEFA Secretariat, 2024).

Nonetheless, the PEFA 2024 scores for transparency and oversight remain modest, with ‘C+’ ratings in areas such as fiscal strategy, external audit, and legislative scrutiny, reflecting systemic weaknesses in follow-up and data integration (PEFA Secretariat, 2024).

Despite the establishment of a strong constitutional and institutional base, fiscal autonomy at the sub-national level remains constrained.

Overall assessment

Nepal's fiscal federalism is structurally advanced but functionally constrained. The legal and institutional foundations for inter-governmental fiscal relations are in place, yet fiscal decentralisation remains shallow, hindered by persistent vertical imbalances, limited revenue autonomy, and weak budget execution capacity. Advances in PFM digitalisation, fiscal transparency, and oversight have laid the groundwork for deeper fiscal devolution. Looking ahead, policy priorities should include:

- Refining the equalisation and conditional grant formulae to enhance equity and predictability.
- Strengthening revenue administration and taxpayer compliance at provincial and local levels.
- Aligning periodic development plans, MTEFs, and annual budgets to improve execution efficiency.
- Deepening capacity development in accounting, audit, and public investment management.
- The NA has suggested clarifying the scope of NNRFC's authority over different grant types; any reform should balance independence with coherence (NA Rec 67)
- Publishing the statistical basis for equalisation allocations, as urged in NA Rec 69, will improve trust and transparency.

Together, these reforms would consolidate Nepal's progress towards a functional, transparent, and accountable system of fiscal federalism that supports equitable and efficient service delivery.

Nepal's fiscal federalism is structurally advanced but functionally constrained. The legal and institutional foundations for inter-governmental fiscal relations are in place, yet fiscal decentralisation remains shallow.

5.2 BUDGET EXECUTION, PLANNING, AND FINANCIAL MANAGEMENT

Nepal's progress in strengthening budget execution, planning, and financial management reflects an evolving but uneven system that continues to consolidate following the 2015 constitutional transition. The Public Expenditure and Financial Accountability (PEFA) Assessment (2024), the Nepal Fiscal Federalism Update (World Bank, 2024), and the Capacity Assessment of Provincial and Local Governments (MoFAGA, 2025) collectively show that while the legal and institutional foundations for sound PFM are in place, the effectiveness of implementation varies significantly across tiers of government.

Budget reliability and execution

The PEFA 2024 reports continued weaknesses in the realism of both revenue and expenditure forecasts, with the aggregate expenditure outturn averaging below 85 percent of the approved budget and revenue outturn below 92 percent during FY2018/19–FY2020/21. These shortfalls resulted in low PEFA ratings for budget reliability (PI-1 and PI-3, both rated "D"), revealing chronic overestimation of fiscal capacity and delayed project execution (PEFA Secretariat, 2024). Similarly, composition variances in expenditure remained above 15 percent, reflecting frequent reallocations between economic and functional classifications, mainly due to delays in project implementation and low capital budget absorption.

At the sub-national level, the World Bank (2024) found that provincial governments underspent 34 percent of their budgets and local governments 24.4 percent in FY2023. The MoFAGA (2025) assessment attributes this to late budget approvals, weak procurement planning, and administrative bottlenecks in the financial approval chain. While current expenditures (such as salaries and transfers) remain stable, capital spending continues to experience "bunching," with nearly one-third of development expenditures executed in the final month of the fiscal year.

The Financial Comptroller General Office (FCGO) has improved the monitoring of budget execution through real-time reporting from the Treasury Single Account (TSA) and CGAS. However, compliance with budget ceilings, virements, and contingency use remains limited, especially at the sub-national level. Weak project appraisal and fragmented procurement oversight continue to undermine capital budget quality (World Bank, 2024).

Planning and budget preparation

Nepal's planning system has improved structurally but remains poorly synchronised across instruments. The PEFA 2024 highlights that while most line ministries and provincial governments now prepare Medium-Term Expenditure Frameworks (MTEFs), these are not consistently linked to periodic development plans or annual budgets. The MTEF framework received a "C+" rating (PI-16), indicating basic integration of medium-term fiscal perspectives but insufficient analysis of forward expenditure implications (PEFA Secretariat, 2024).

The World Bank (2024) and MoFAGA (2025) assessments reveal that although most local governments prepare annual budgets and development programmes, fewer than half align them with multi-year plans. Weak sequencing between the National Planning

Commission's (NPC) guidelines, provincial planning commissions, and local periodic plans leads to misalignment in priorities and recurrent under-execution.

Institutional reforms have enhanced procedural compliance. Over 90 percent of local governments now submit their budgets to local assemblies on time, and budget delegation practices have improved. Yet, significant variation remains in planning quality, especially in the integration of GESI, and climate-responsive budgeting. The ongoing revision of the National Planning Commission's Fifteenth Plan and the preparation of the Sixteenth Plan (2026–2031) aim to strengthen fiscal–planning coherence across tiers of government.

Public financial management and internal control

The legal framework for PFM—anchored in the Financial Procedure and Fiscal Accountability (FPFA) Act, 2019—is being progressively implemented, supported by digital systems and the adoption of the Nepal Public Sector Accounting Standards (NPSAS). The PEFA 2024 confirms significant advances in PFM systems integration, with digital platforms such as SuTRA (for sub-national governments), CGAS, and LMBIS (for budget preparation) improving fiscal data consistency and transparency. These systems are now interconnected, allowing consolidated fiscal reporting at the federal level (PEFA Secretariat, 2024).

However, challenges persist in internal control and audit functions. The internal audit system—managed by the FCGO—remains compliance-oriented, lacking a risk-based methodology (PEFA PI-26, rated "D+"). The Office of the Auditor General (OAG, 2023) has reported progress in external audit coverage, but delays in the Public Accounts Committee's review of audit findings weaken accountability. At the provincial and local levels, the MoFAGA Capacity Assessment (2025) found that although 60 percent of local governments have established internal control systems, fewer than half conduct annual internal audits as required by law.

Transparency in budget execution is improving incrementally. The PEFA 2024 notes that 90 percent of federal financial data are now published within statutory timelines, and digital access to fiscal information has improved (PI-9 rated "C"). Nonetheless, citizen access to simplified fiscal data, particularly at the local level, remains limited.

Key achievements and emerging priorities

Overall, Nepal's progress in budget execution and financial management demonstrates strong institutionalisation but uneven performance across levels. Core achievements include:

- Integration of PFM systems across federal and sub-national levels through SuTRA, TSA, and CGAS,
- Standardisation of accounting and reporting frameworks via NPSAS,
- Reduction of audit irregularities at both provincial and local levels; and,
- Improved fiscal reporting timeliness through strengthened FCGO oversight.

Persistent challenges, however, require targeted interventions. These include improving the credibility of revenue and expenditure forecasts, aligning MTEFs with national and sub-national plans, adopting risk-based internal audits, and expanding performance-based budgeting. In the next reform phase, priorities should focus on:

- Establishing a medium-term fiscal strategy that integrates macroeconomic projections with sub-national MTEFs,
- Enhancing budget execution capacity through better procurement management and monitoring,
- Introducing performance-linked fiscal transfers to strengthen accountability; and,
- Expanding public access to fiscal data through citizen-friendly budget summaries and digital dashboards.

A time-bound annual implementation calendar for recommendations of the Auditor General, CIAA, PSC and other constitutional commissions, as urged by the NA Special Committee, should be institutionalised and tracked in future State of Federalism cycles.

These reforms, anchored in the ongoing PFM Reform Strategy (2016/17–2025/26), will be central to improving fiscal discipline, transparency, and efficiency within Nepal's federal system.

5.3 FISCAL AUTONOMY & SUB-NATIONAL EXPENDITURE PATTERNS

Nepal's fiscal federalism framework envisages progressively greater autonomy for provincial and local governments to plan, finance, and execute development priorities within their constitutional mandates. However, despite significant institutional progress since 2015, sub-national fiscal autonomy remains constrained by limited revenue-raising powers, high dependence on federal transfers, and uneven expenditure performance. Evidence from the Public Expenditure and Financial Accountability (PEFA) Assessment (2024), the Nepal Fiscal Federalism Update (World Bank, 2024), and the Capacity Assessment of Provincial and Local Governments (MoFAGA, 2025) indicates that the constitutional vision of self-reliant and accountable sub-national governments has only been partially realised.

Revenue autonomy and fiscal dependence

Provincial and local governments continue to rely heavily on federal transfers for fiscal stability, reflecting limited progress in developing sustainable own-source revenue streams. The World Bank (2024) reports that in FY2023, own-source revenue accounted for only 8 percent of total provincial spending and 6.5 percent of total local government revenue, down from 8.5 percent in FY2022. This has kept the vertical fiscal gap persistently high, averaging 93 percent for provinces and 94 percent for local governments. Metropolitan cities remain the only category with relatively stronger revenue performance, generating around 40 percent of their total income from own sources, compared to just 0.6 percent for rural municipalities.

Revenue assignment remains guided by the Inter-governmental Fiscal Arrangement Act (2017) and the National Natural Resources and Fiscal Commission Act (2017). The PEFA

2024 highlights that although these frameworks clearly define fiscal rights and transfers, sub-national governments lack adequate instruments to broaden their tax base, manage compliance, or expand non-tax revenue. Provincial tax heads such as vehicle registration and business licensing fees remain modest, while property taxation—a key local source—is underexploited due to weak land valuation systems and administrative inefficiencies (PEFA Secretariat, 2024).

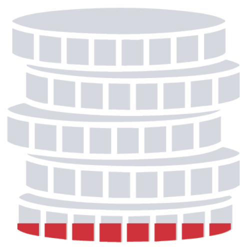
The Nepal's Capacity Needs Assessment and Partnership Mapping Report (2025) indicates that a minority of local governments have fully functional revenue administration units, and many continue to operate without updated tax maps or electronic billing systems. While the Ministry of Federal Affairs and General Administration, with support from PLGSP-supported provincial capacity-development arrangements, has introduced Revenue Improvement Action Plans in approximately 375 local governments, implementation remains uneven. In most cases, these initiatives are still at an early stage and tend to emphasise procedural compliance rather than sustained, results-oriented improvements in local revenue mobilisation.

An integrated natural resources framework law, as proposed in NA Rec 65, would help harmonise fiscal and environmental objectives across tiers.

Expenditure autonomy and patterns

While the Constitution guarantees expenditure authority for provincial and local governments under Schedules 6–9, practical fiscal autonomy is limited by rigid conditional grants and restricted discretion in budget execution. The PEFA 2024 shows that conditional transfers account for over 40 percent of total sub-national revenue, often tied to centrally defined programmes in education, health, and infrastructure. This restricts fiscal flexibility and delays local prioritisation. Unconditional Fiscal Equalization Grants (FEGs) represent only 25–30 percent of transfers, and complementary and special grants remain relatively small and project-specific (PEFA Secretariat, 2024).

Spending composition at sub-national levels reveals both structural and performance issues. In FY2023, capital expenditure accounted for only 25 percent of total local government spending, while recurrent expenditures such as salaries, administrative costs, and social transfers dominated the budget (World Bank, 2024). Provincial governments exhibited similar patterns, with development



8 paisa
of every Rupee spent by provinces comes from their own revenue

6.5 paisa
of every Rupee spent by local governments comes from their own revenue

budgets persistently under-executed due to procurement bottlenecks and late fund releases. Despite improvements in cash flow predictability through the Treasury Single Account (TSA), coordination between the National Natural Resources and Fiscal Commission (NNRFC), the Ministry of Finance, and the Financial Comptroller General Office (FCGO) remains limited, constraining timely resource allocation. At the same time, inter-governmental expenditure overlaps persist, particularly in concurrent functions such as water, sanitation, education, and agriculture. The World Bank (2024) notes that while provinces are legally empowered to design and implement medium-scale capital projects, line ministries continue to channel funding directly to local governments, blurring accountability and complicating fiscal reporting.

Institutional capacity and accountability

Institutional capacity to manage fiscal autonomy is improving but remains uneven. The PLGSP-supported Capacity Assessment finds that around 90 percent of local governments now prepare annual budgets within statutory timelines, yet fewer than half undertake regular quarterly budget reviews or systematically link expenditure to performance indicators (Nepal's Capacity Needs Assessment and Partnership Mapping, 2025). The 2024 Public Expenditure and Financial Accountability (PEFA) assessment similarly observes that while the Financial Procedure and Fiscal Accountability Act (2019) has strengthened the formal framework for public financial management, sub-national governments frequently lack the skilled personnel and systems required to fully operationalise these provisions in practice (PEFA Secretariat, 2024).

The introduction of the Sub-National Treasury Regulatory Application (SuTRA) has significantly enhanced expenditure monitoring and transparency at the local level. According to the PEFA 2024, over 700 local governments now use SuTRA to track budget execution and produce financial reports. However, its analytical use for performance budgeting remains limited. External oversight has improved, with the Office of the Auditor General (OAG) expanding audit coverage to all provinces and most local governments, though follow-up actions on audit observations are still weak.

Key trends and reform directions

Overall, Nepal's fiscal autonomy and expenditure management at sub-national levels remain at a formative stage. The institutional architecture is well-defined, yet functional decentralisation is incomplete. Key trends include:

- Continued fiscal dependence on federal transfers, with limited diversification of sub-national revenue sources.
- Predominance of recurrent spending over capital investment, reflecting low absorptive capacity and procurement inefficiencies.
- Gradual expansion of digital PFM tools such as SuTRA and CGAS, improving transparency but requiring further integration with performance management systems.
- Strengthened oversight by the FCGO and OAG, although internal accountability at the sub-national level remains underdeveloped.

Moving forward, policy priorities should focus on:

- Local revenue reform should include underused bases like advertisement and entertainment taxes, as highlighted in NA Rec 59.
- Enhancing own-source revenue mobilisation through improved property taxation, digital revenue collection, and updated fiscal maps.
- Increasing unconditional fiscal transfers and reforming the design of conditional grants to allow greater planning flexibility.
- Strengthening sub-national expenditure management, with emphasis on capital project planning, procurement, and fiscal reporting.
- Institutionalising performance-based budgeting and linking fiscal transfers to measurable service delivery outcomes.

Expanding capacity building programmes delivered through Provincial Centres for Good Governance and national training institutions, including the Nepal Administrative Staff College, to professionalise sub-national fiscal administration and management practices.

Reforms to align real estate registration fees more closely with market values, as recommended by the NA, would improve fairness and revenue yield (NA Rec 60).

These reforms, aligned with the PFM Reform Strategy (2016/17–2025/26), will be crucial in consolidating Nepal's fiscal federalism and enabling sub-national governments to exercise genuine autonomy while ensuring fiscal discipline and accountability.

5.4 FISCAL FEDERALISM PERFORMANCE SCORECARD

Nepal's 2025 baseline assessment of fiscal federalism presents a federation that is structurally complete but functionally inconsistent. The country has made tangible progress in establishing the institutions, laws, and systems needed to operationalise fiscal federalism, yet the performance of inter-governmental fiscal relations, sub-national autonomy, and budget execution remains mixed. Evidence from the Public Expenditure and Financial Accountability (PEFA) Assessment (2024), the Nepal Fiscal Federalism Update (World Bank, 2024), the Capacity Assessment of Provincial and Local Governments (MoFAGA, 2025), and fiscal indicator data (2024/25) provides a composite view of progress and remaining gaps across key dimensions of fiscal performance.

Legal and institutional foundations for fiscal federalism

- **PFM and Fiscal Legislation:** Since the promulgation of the 2015 Constitution, Nepal has established a comprehensive fiscal framework through the Financial Procedure and Fiscal Accountability (FPFA) Act 2019 and related regulations, the Inter-governmental Fiscal Arrangement Act 2017, and the National Natural Resources and Fiscal Commission Act 2017. These have enabled the introduction of fiscal equalisation, conditional, complementary, and special grants, while clarifying sub-national borrowing limits (Government of Nepal, 2019). However, while the legislative framework is largely in place, its full operationalisation is still evolving. The PEFA (2024) found that fiscal risks associated with sub-national governments and public enterprises remain underreported (PI-10, rated "D"), and the Debt Management Strategy (2022) has yet to be extended to cover provinces and municipalities (PEFA Secretariat, 2024).

- **Institutional Coordination:** The National Natural Resources and Fiscal Commission (NNRFC) has matured as a constitutional body and now provides formula-based recommendations on revenue sharing and equalisation grants. Yet inter-governmental fiscal dialogue mechanisms remain underdeveloped. The Fiscal Federalism Coordination Division (FFCD) within the Ministry of Finance has been designated as the coordinating unit for fiscal federalism, but the World Bank (2024) notes that coordination among the NNRFC, National Planning Commission (NPC), and the Ministry of Federal Affairs and General Administration (MoFAGA) remains fragmented

Scorecard Summary (2025): Legislative completeness: 85% (PEFA, MoFAGA tracking). Inter-governmental fiscal coordination effectiveness: Low (infrequent meetings and limited policy coherence). Sub-national debt management frameworks: Not operational

Revenue assignment and fiscal transfers

Revenue sharing and grants remain the cornerstone of Nepal's fiscal decentralisation model. The PEFA (2024) rated fiscal transfers as "C+" (PI-7), confirming that allocation formulas for equalisation, conditional, and special grants are transparent and rule-based but lack consistency and predictability in disbursement. The World Bank (2024) reports that while conditional grants accounted for 46.5 percent of local government revenues in FY2023, delays in communication of grant amounts and procedural rigidities have undermined budget planning.

- **Own-source revenue performance** remains weak across all provinces and most municipalities. The MoFAGA Capacity Assessment (2025) shows that own-source revenues constitute 6.5 percent of total local revenue and 8 percent of provincial expenditure, indicating high dependency on inter-governmental transfers. Revenue Improvement Action Plans (RIAPs) have been prepared in 375 local governments, yet most remain unimplemented due to limited administrative capacity and outdated fiscal mapping systems.

Scorecard Summary (2025): Own-source revenue contribution: 6.5% (Local), 8% (Provincial). Vertical fiscal gap: 93% (Provincial), 94% (Local). Timeliness of fiscal transfers: Moderate – delayed communication of conditional grants. Transparency of allocation formulas: High – all transfers published but weak technical consultation

Budget credibility and expenditure performance

The credibility of sub-national budgets remains a key weakness in Nepal's fiscal system. The PEFA (2024) recorded an aggregate expenditure outturn below 85 percent (PI-1, rated "D") and composition variances exceeding 15 percent (PI-2). At the sub-national level, World Bank (2024) data show that provincial governments underspent 34 percent and local governments 24.4 percent of their approved budgets in FY2023.

Capital expenditure remains the most affected category, with only 57 percent execution at the federal level and similar shortfalls in the provinces. Delays in procurement, weak project appraisal, and late budget approvals continue to drive low absorption rates. The MoFAGA Capacity Assessment (2025) identifies the recurrent dominance of “Economic Miscellaneous” categories—ranging from 7 to 12 percent of total budgets—as a sign of weak expenditure prioritisation.

Scorecard Summary (2025): Budget execution (federal level): 80.8% (average FY2020–21). Budget execution (provincial/local): 66–76% (FY2023). Capital expenditure execution: 57% (Federal), 61% (Provincial), 64% (Local). Procurement compliance (using e-GP): 65% of total value; coverage improving (PEFA, PI-24: rated “C”)

Public financial management systems and oversight

PFM reform has advanced significantly through the rollout of digital systems such as SuTRA, CGAS, LMBIS, and the Treasury Single Account (TSA). The PEFA 2024 observed that Nepal’s budget classification and accounting practices now fully align with GFSM 2014 standards (PI-4, rated “A”), and fiscal reporting has improved (PI-29, rated “C+”). However, the internal control and audit systems remain underdeveloped. The PEFA (2024) rated internal audit “D+” (PI-26) and internal controls on non-salary expenditure “C+” (PI-25), reflecting a compliance-driven approach with limited risk management. The Office of the Auditor General (2023) reported a decline in audit irregularities, but follow-up on audit recommendations remains low—only about 30 percent of irregularities were resolved in FY2023.

Scorecard Summary (2025): Budget classification (GFS/COFOG compliance): Achieved. Internal audit maturity: Low – compliance-based. Audit irregularities resolved: 30% (FY2023). Financial data publication (timeliness): 90% within legal timeframe (PEFA PI-9: “C”)

Fiscal autonomy and sub-national accountability

While the fiscal transfer system has stabilised, genuine autonomy in revenue and expenditure decision-making remains constrained. The World Bank (2024) and MoFAGA (2025) both highlight that sub-national governments still rely on central approval for borrowing, major project selection, and recurrent staff financing. Furthermore, political leadership turnover and capacity gaps have weakened fiscal accountability.

Citizen engagement in budget formulation and expenditure monitoring remains minimal. Fewer than 25 percent of local governments conducted public hearings in FY2023, and fewer than 20 percent published annual budget execution reports within three months of the fiscal year’s end (MoFAGA, 2025). Scorecard Summary (2025):

Sub-national fiscal discretion: Low – conditional transfers dominate. Public participation in budgeting: 25% (local governments). Publication of budget execution reports: 20% (within timeframe). Use of SuTRA for fiscal monitoring: 93% of local governments.

Overall assessment

Nepal's fiscal federalism architecture is legislatively mature but functionally uneven. The key strengths include an established fiscal transfer system, modernised PFM digital tools, and improved fiscal transparency. However, weaknesses persist in budget credibility, own-source revenue mobilisation, inter-governmental fiscal coordination, and audit follow-up.

The fiscal federalism assessment provides a 2025 baseline of how Nepal's constitutional vision for fiscal devolution is being realised in practice. It examines the degree to which financial powers, responsibilities, and resources are distributed, managed, and exercised across the federal, provincial, and local levels in accordance with the principles of equity, efficiency, transparency, and fiscal autonomy. The analysis draws on evidence from the Public Expenditure and Financial Accountability (PEFA) Assessment (2024), the Nepal Fiscal Federalism Update (World Bank, 2024), and the Capacity Assessment of Provincial and Local Governments (MoFAGA, 2025), as well as official fiscal data for 2024/25.

Future performance-based equalisation grants could incorporate incentives and sanctions for timely budget approval and execution, as suggested in NA Rec 77. Some NA recommendations suggest allocating at least half of municipal capital budgets to wards using objective criteria; this could be piloted and assessed in future SoFR cycles (NA Rec 83). Furthermore, NA Rec 85 proposes minimum sizes for "federal" and "provincial" projects to reduce micro-projects at higher levels.

Table 11 compares constitutional expectations with the current state of implementation, highlighting areas of progress—such as the establishment of inter-governmental fiscal systems, digitalised PFM platforms, and transparent grant formulas—and those that remain incomplete, including weak revenue performance, limited fiscal autonomy, and uneven budget execution. Together, these findings offer a structured view of Nepal's fiscal federalism maturity, serving as a benchmark for measuring improvements in future federalism assessments.

Nepal's fiscal federalism architecture is legislatively mature but functionally uneven... weaknesses persist in budget credibility, own-source revenue mobilisation, inter-governmental fiscal coordination, and audit follow-up.

Table 13. Fiscal federalism: 2025 baseline, constitution vs practice

Category	What it means (scope)	Constitutional provision / expectation	Current state of play (2025 baseline)	Successes / gains	What remains incomplete
Revenue assignment and inter-governmental fiscal transfers	Equity, predictability, and transparency of fiscal resource distribution across three tiers; functionality of NNRFC and inter-governmental fiscal coordination mechanisms	The 2015 Constitution (Art. 60; Schedules 5–9) mandates shared fiscal powers, equitable distribution of national revenue, and the establishment of the NNRFC to recommend transfer formulas for equalisation, conditional, and special grants	Transfer system institutionalised under the Inter-governmental Fiscal Arrangement Act 2017; NNRFC fully operational; FFCD (MoF) coordinates fiscal policy. Equalisation formula under review (2024). Conditional grants comprise ~46% of LG revenue; fiscal transfers account for 74% of sub-national income; own-source revenue ≈ 6.5% of total LG revenues	Transparent grant formulas published annually; routine transfer flows improving; greater fiscal visibility through NNRFC and FCGO systems; initiation of Fiscal Federalism Roadmap under MoF	Vertical fiscal gap remains wide (93% provincial, 94% local); equalisation formula yet to fully address horizontal disparities; conditional grants dominate over discretionary transfers; timeliness and predictability of disbursements remain inconsistent
Budget execution, planning, and financial management	Credibility, transparency, and efficiency of fiscal planning and budget execution; alignment between national and sub-national fiscal frameworks	The Constitution (Art. 59) empowers each level to prepare and execute budgets; the FPFA Act 2019 provides for uniform PFM procedures, audit, and accountability across all tiers	PEFA (2024): Aggregate expenditure outturn <85% of budget (PI-1: D); composition variance >15%; provincial underspending 34%, local 24.4%. Capital expenditure execution: 57% (federal), 61% (provincial), 64% (local). "Economic Miscellaneous" still 7–12% of sub-national budgets.	Fiscal architecture standardised via SuTRA, CGAS, TSA, and LMBIS; improved reporting timeliness (90% within deadlines); provincial and local assemblies approve budgets on time; budget delegation improving	Low budget credibility and recurrent under-execution; procurement delays and weak appraisal of capital projects; poor integration between periodic plans, MTEFs, and annual budgets; internal audit compliance-based rather than risk-based

Category	What it means (scope)	Constitutional provision / expectation	Current state of play (2025 baseline)	Successes / gains	What remains incomplete
Fiscal autonomy and expenditure patterns	Extent to which sub-national governments can mobilise, allocate, and manage resources independently; degree of discretion in spending and priority-setting	The Constitution grants provinces and local governments authority to collect taxes, fees, and charges under Schedules 6–8; sub-national borrowing allowed within ceilings defined by NNRFC	Fiscal autonomy limited: sub-national borrowing frameworks not operational; provinces and LGs remain dependent on federal transfers. Recurrent expenditure 70–75% of total sub-national spending; capital share stagnant at 25–30%. Only 25% of LGs conduct public hearings; 20% publish execution reports on time.	PFM systems decentralised; SuTRA adoption at >90% of LGs; LGs authorised to approve and execute budgets independently; increasing gender-responsive and social inclusion allocations	Weak local revenue mobilisation (property and business tax underutilised); conditional grants restrict spending discretion; provincial fiscal planning capacity low; citizen engagement and performance-linked budgeting underdeveloped
PFM systems integration and oversight	Standardisation and interoperability of fiscal systems, accounting, and audit across tiers; strength of oversight institutions (OAG, PACs)	FPFA Act (2019) and Audit Act (1991) mandate harmonised accounting, audit, and reporting across all levels; OAG to audit all public entities; FCGO manages consolidated financial reporting	PEFA (2024): PFM systems interoperable; SuTRA and CGAS integrated into national accounts; OAG coverage extended to all provinces and 90% of LGs; audit irregularities down to 30% unresolved (from 45% in 2020). Internal audit: PI-26 "D+"; external audit follow-up limited	PFM digital transformation near complete; data consolidation through TSA and SuTRA; publication of fiscal data improving (PI-9 "C"); strong legislative foundation	Weak audit follow-up and PAC scrutiny; limited sub-national capacity for internal control; fragmentation between fiscal reporting and performance data; lack of integrated risk-based audit framework
Equity and performance orientation of fiscal policy	Fairness and efficiency of fiscal allocation and service delivery outcomes; results-based inter-governmental financing	Constitution envisages fiscal equalisation and performance-linked grants ensuring equitable development outcomes across regions	Performance-based transfers in pilot stage under PLGSP; equalisation formula considers population, area, poverty, and revenue effort but lacks outcome indicators; no uniform fiscal performance measurement system	Gradual shift towards performance-based grants; PEFA indicators embedded in PLGSP monitoring; pilot "fiscal score-cards" introduced for LG benchmarking	Performance incentives not institutionalised; fiscal equity criteria still input-based; weak link between fiscal performance and service delivery outcomes

Nepal's fiscal federalism architecture is legally consolidated but institutionally uneven, reflecting a federation that has achieved structural completeness yet struggles with operational depth. The legislative framework governing revenue assignment, inter-governmental fiscal transfers, and public financial management (PFM) is well established through the Inter-governmental Fiscal Arrangement Act (2017) and the Financial Procedure and Fiscal Accountability Act (2019). These reforms have been complemented by extensive digitalisation, particularly through platforms such as SuTRA, CGAS, and LMBIS, which have enhanced fiscal transparency, oversight, and reporting consistency across all levels of government.

Despite these achievements, fiscal practice remains constrained by limited sub-national autonomy, high dependency on federal conditional grants, and persistent vertical and horizontal fiscal imbalances. Own-source revenues remain negligible relative to total budgets, and capital budget execution continues to underperform because of weak procurement planning, capacity shortfalls, and coordination gaps among the National Natural Resources and Fiscal Commission (NNRFC), Ministry of Finance (MoF), and Ministry of Federal Affairs and General Administration (MoFAGA). The 2025 baseline therefore depicts a system where the architecture of fiscal federalism is in place, yet its functional maturity remains incomplete. Strengthening fiscal discipline, deepening performance-based transfers, and enabling greater local revenue generation will be critical to advancing Nepal's transition towards a more autonomous, accountable, and results-oriented fiscal federation.

Strengthening fiscal discipline, aligning transfers with performance, and deepening inter-governmental fiscal dialogue through empowered NNRFC and MoFAGA coordination will be critical for advancing Nepal's fiscal maturity in the next assessment cycle (2027).

Table 14. Baseline indicators for assessing fiscal federalism in Nepal (2025)

No.	Indicator	Description	2025 Baseline	Trend / Observation
1	**Vertical fiscal gap**	Measures dependence of provincial and local governments on federal transfers versus own-source revenue.	93% (provincial) and 94% (local); own-source revenue ≈ 6.5% of total LG revenues.	High dependence on federal transfers persists; no significant change since 2022.
2	**Proportion of conditional vs equalisation grants**	Assesses balance between discretionary and tied fiscal transfers to sub-national governments.	Conditional grants = 46.5% of total transfers; equalisation grants declining to 28%.	Conditional grants dominate, constraining local fiscal discretion; equalisation formula under review.
3	**Timeliness and predictability of inter-governmental transfers**	Evaluates whether fiscal transfers are released on schedule and according to formula.	Only 58% of LGs received first and second instalments within scheduled timeframes in FY2023/24.	Moderately improving with MoF reforms, but still irregular and unpredictable.

No.	Indicator	Description	2025 Baseline	Trend / Observation
4	**Own-source revenue (OSR) mobilisation rate**	Measures sub-national fiscal effort; share of locally generated revenue in total budget.	6.5% (LGs), 8% (provinces).	Stagnant; weak administrative capacity, outdated property valuation, poor compliance.
5	**Budget execution rate (total and capital)**	Tracks utilisation of approved budget allocations and absorptive capacity.	Federal: 80.8%; Provincial: 66%; Local: 76%; capital expenditure ≈ 57–64%.	Underspending chronic; capital projects delayed by procurement and design bottlenecks.
6	**Budget variance (composition deviation)**	Measures credibility of budget implementation compared to original allocations.	Expenditure variance >15% (PEFA PI-2: D).	Persistent misalignment between allocations and actual outturns.
7	**Use of digital PFM systems (SuTRA, CGAS, LMBIS)**	Assesses coverage and integration of digital financial management platforms.	SuTRA used by 93% of LGs; CGAS operational at all provinces; LMBIS integrated nationally.	High system uptake, but weak interoperability and limited analytical use for decision-making.
8	**Internal and external audit coverage**	Gauges the extent and timeliness of financial audits across tiers.	Internal audit (PI-26: D+); external audit (PI-30: C+); 30% of audit irregularities resolved in FY2023.	Moderate improvement in coverage; weak follow-up on findings.
9	**Publication of fiscal data and reports**	Measures transparency and timeliness of financial disclosure across levels.	90% of financial data published within deadlines; 20% of LGs disclose quarterly execution reports.	Improving, but sub-national reporting remains inconsistent and incomplete.
10	**Share of recurrent vs capital expenditure at sub-national levels**	Examines composition of sub-national spending to gauge fiscal sustainability.	Recurrent = 72%; capital = 28% of total LG expenditure.	Skewed towards administrative and salary costs; limited developmental spending.
11	**Effectiveness of financial oversight institutions (OAG, PACs, NNRFC)**	Evaluates the strength of fiscal checks, audits, and inter-governmental fiscal governance.	OAG coverage >90% of LGs; PAC sessions limited; NNRFC operating but under-resourced.	Oversight expanding but effectiveness constrained by weak institutional follow-through.
12	**Alignment of MTEFs with periodic and annual plans**	Measures fiscal coherence across planning instruments.	Only 40% of provinces and 33% of LGs align MTEFs with periodic development plans.	Partial alignment; poor forward-linking between planning, budgeting, and execution cycles.
13	**Procurement compliance and use of e-GP**	Tracks transparency and efficiency of public procurement at sub-national level		

5.5 CONCLUSION

Nepal's experience with fiscal federalism in its first decade demonstrates that building the architecture of fiscal devolution is only the beginning of a longer institutional transformation. The foundations are solid: a clear constitutional framework, standardised PFM systems, and established transfer mechanisms. Yet, the true test of fiscal federalism now lies in how effectively these systems can drive development outcomes and strengthen the social contract between government and citizens. The 2025 baseline suggests that Nepal is entering a new phase, one that must move beyond compliance and procedural alignment towards fiscal performance, accountability, and innovation.

The next stage of reform will depend on deepening inter-governmental coordination and trust. Fiscal policy must increasingly be negotiated and implemented as a shared responsibility across tiers, where provinces play the integrative role the Constitution intended. The National Natural Resources and Fiscal Commission (NNRFC) and the Ministry of Federal Affairs and General Administration (MoFAGA) must evolve from administrative intermediaries into strategic facilitators of fiscal dialogue and policy coherence. Likewise, fiscal decentralisation must be tied to measurable service outcomes, where sub-national governments are rewarded not for absorbing grants but for delivering tangible results in health, education, and infrastructure.

The federal project will also hinge on building a performance culture in public finance. That requires not only stronger technical systems but behavioural change—embedding fiscal discipline, transparency, and citizen accountability as core norms of governance. In this sense, fiscal federalism is not simply about distributing money across levels of government; it is about shaping incentives that encourage prudence, efficiency, and responsiveness.

By 2027, progress will be measured less by the number of laws or systems in place and more by whether fiscal devolution has translated into fairer opportunities, better-managed public resources, and visible improvements in people's lives. Nepal's fiscal journey thus stands at an inflection point: from establishing rules to realising results, from fiscal formality to fiscal maturity.

6 ADMINISTRATIVE FEDERALISM

The assessment of administrative federalism in Nepal evaluates how authority, staffing, and service delivery functions are organised and exercised across the three tiers of government. It assesses whether the principles of efficiency, accountability, transparency, and subsidiarity are operating effectively to ensure responsive and equitable public administration. Administrative federalism represents the functional core of the federal system, linking political authority and fiscal resources to the institutions and personnel that deliver public services.

- ***First, indicators on public service delivery and institutional efficiency*** measure the performance of provincial and local administrative systems in fulfilling their constitutional mandates. They assess how effectively public services such as education, health, civil registration, infrastructure, and social protection are planned, delivered, and monitored, and how well coordination occurs between federal ministries, provincial line agencies, and local governments (MoFAGA, 2025).
- ***Second, indicators on human resource capacity and deployment*** examine whether the civil service framework provides the structure, skills, and staffing necessary to sustain autonomous and professional administrations. These indicators consider the establishment and operation of provincial public service commissions, the balance between deputed, permanent, and contractual staff, and the existence of coherent career pathways and incentive structures across tiers (Constitution of Nepal, 2015; PLGSP, 2024).
- ***Third, indicators on transparency, accountability, and the use of digital systems*** assess whether administrative practices are consistent with open government principles. They include measures of digital integration through platforms such as SuTRA and the Civil Registration and Vital Statistics (CRVS) system, the strength of internal audits and social accountability mechanisms, and the functionality of grievance redress and information disclosure systems (PEFA Secretariat, 2024; UNDP, 2023).
- ***Fourth, the administrative federalism performance scorecard*** aggregates these indicators to assess how well Nepal's public administration has adapted to the federal model. It evaluates whether institutional reforms are resulting in improved service outcomes, better resource management, and stronger accountability between the tiers of government.

Together, these indicators form a structured framework for analysing how far Nepal's administrative systems have progressed in transforming legal and fiscal devolution into operational reality. They provide an evidence base for evaluating institutional performance, functional alignment, and the quality of citizen-facing governance under federalism.

The 2025 baseline shows that administrative federalism remains the least consolidated pillar of Nepal's federal reform. The Constitution guarantees separate civil services at each level under Articles 285 and 302 (Constitution of Nepal, 2015), yet implementation has been slow and uneven. The delay in enacting the Federal Civil Service Act until 2025 prevented the creation of permanent provincial and local cadres, leaving more than 60 percent of provincial positions vacant (MoFAGA, 2025). Provincial and local governments continue to rely heavily on deputed staff from the federal level, while recruitment and deployment procedures remain centralised.

At the same time, administrative modernisation has accelerated. The rollout of digital platforms for planning, accounting, and citizen services has improved procedural efficiency and transparency. Nearly all municipalities now use SuTRA for budget management and reporting, while the civil registration and vital statistics system covers more than 95 percent of wards, strengthening data reliability and citizen access. Provincial Centres for Good Governance, together with province-level research and training functions, have emerged as important drivers of institutional capacity building. While institutional arrangements vary across provinces, these centres and training units are playing an increasingly central role in skills development and systems strengthening, even as staffing and resource constraints continue to limit their reach.

The capacity constraints identified in this section relate primarily to staffing, skills, and deployment gaps at the provincial and local levels, rather than institutional overload at the federal ministry level. Evidence across sectors indicates that sub-national governments continue to face shortages of qualified personnel, uneven staff distribution, and limited technical capacity to execute devolved functions. These constraints reflect the incomplete operationalisation of the federal civil service framework and delays in staff adjustment processes, rather than excessive workload pressures within federal ministries. As a result, capacity challenges are most pronounced at the point of service delivery, where responsibilities have been devolved but human resources remain insufficient or misaligned.

Administrative federalism remains the least consolidated pillar of Nepal's federal reform... at the same time, administrative modernisation has accelerated.

Overall, the indicators under this pillar - service delivery, human resource systems, transparency, and digital governance -0 show a federal administration that is legally established but operationally uneven. The next phase of reform must focus on aligning authority, capacity, and accountability across all three tiers. Strengthening the provincial layer as a bridge between federal policymaking and local implementation, professionalising the sub-national civil service, and institutionalising performance-based management systems will be essential to make administrative federalism an effective and enduring pillar of Nepal's cooperative governance model.

6.1 PUBLIC SERVICE DELIVERY AND INSTITUTIONAL EFFICIENCY

Nepal's 2025 baseline assessment of administrative federalism reveals that the institutional foundations for service delivery have been established across all provinces and municipalities, but operational efficiency remains uneven. The Capacity Assessment of Provincial and Local Governments (MoFAGA, 2025) confirms that while every local government now functions with an elected executive, approved budget, and statutory planning and monitoring systems, the quality and consistency of public service delivery vary significantly by geography, fiscal capacity, and staffing strength. The assessment situates Nepal's administrative performance within an emerging pattern: a system that is structurally functional, digitally enabled, and increasingly citizen-facing, yet constrained by fragmented coordination, limited human resources, and uneven institutional maturity.

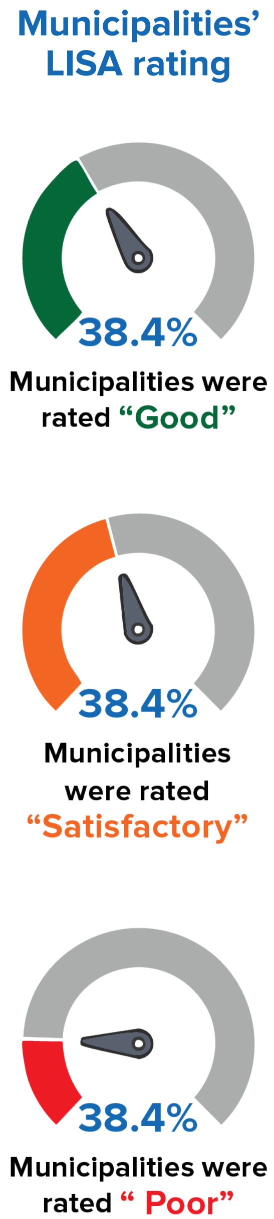
There is a need to conduct nationwide orientation on federalism, democracy, rule of law and future State of Federalism support would ideally expand federalism, democracy and rule of law orientations for elected representatives and officials at all three levels, reflecting NA recommendations to reduce citizen confusion and build a common understanding of the federal model (NA Rec 10).

There is a need to conduct nationwide orientation on federalism, democracy, rule of law

Institutional functionality and governance systems

Institutional functionality across provincial and local governments has improved markedly since the first cycle of PLGSP assessments. According to the Local Government Institutional Self-Assessment (LISA) 2023/24 results aggregated in the Excel indicator dataset, 38.4 percent of municipalities scored within the "good" performance range, up from 32 percent in FY2021/22. A further 44 percent were rated "satisfactory," while 17.6 percent remained below the minimum conditions for effective governance. The MoFAGA Capacity Assessment (2025) attributes these gains to the standardisation of planning, budgeting, and reporting systems under the Provincial and Local Governance Strengthening Programme (PLGSP), including the widespread use of digital platforms such as SuTRA for financial management and the Planning and Monitoring Information System (PMIS) for annual plan tracking.

At the provincial level, the institutionalisation of core administrative structures is largely complete. All seven provinces have established Offices of the Chief Minister and Council of Ministers, public service commissions, and Provincial Centres for Good Governance. However, functionality remains uneven. The 2025 Capacity Assessment finds that fewer than half of provincial ministries meet minimum standards in policy coordination, procurement management, and monitoring and evaluation, while service delivery capacity is constrained by persistent staffing gaps. As of 2025, only around 38 percent of approved provincial civil service posts were filled, leaving approximately 13,800 positions vacant nationwide, with particularly acute shortages in technical and managerial cadres. These constraints have direct implications for inter-governmental coordination and the quality-of-service delivery. While provinces have increasingly adopted standard planning and reporting systems, limited human resource depth continues to restrict their ability to fully exercise devolved mandates and to function effectively as the coordinating tier within the federal system (UNDP, 2026; MoFAGA, 2025).



Service delivery performance across tiers

The 2025 baseline confirms that local governments remain the most active tier in direct service provision, especially in health, education, and basic infrastructure. Across all municipalities, the Capacity Assessment found that 89 percent of local governments provide routine civil registration and social protection services, 82 percent operate local health facilities or outreach programmes, and 78 percent manage or co-manage basic education institutions. However, service quality and coverage vary. For example, while more than 95 percent of urban municipalities provide full CRVS (Civil Registration and Vital Statistics) services through digitised systems, only 64 percent of rural municipalities have reliable digital registration capacity due to internet and staffing constraints (PLGSP Indicator Dataset, 2024).

Infrastructure and public works services show similar disparities. Over 90 percent of local governments have prepared annual infrastructure plans, but fewer than half have multi-year investment frameworks or dedicated asset management systems. According to MoFAGA (2025), only 41 percent of municipalities maintain a functional infrastructure database, and just 29 percent integrate maintenance schedules into budget execution plans. This leads to recurrent underutilisation of capital budgets and inconsistent asset maintenance. The Capacity Assessment also highlights that 55 percent of municipalities have implemented public hearings and social audits as part of their service delivery oversight cycle, up from 43 percent in 2022, indicating growing local accountability but still limited coverage.

At the provincial level, service delivery performance has improved in administrative sectors such as licensing, public works, and agriculture extension, yet remains weak in social service coordination. Three provinces (Bagmati, Gandaki, and Lumbini) have begun integrating their sectoral management information systems with local data feeds, improving reporting on education and health indicators. Still, only two provinces - Bagmati and Sudurpashchim - have achieved complete alignment between their annual plans and local government periodic plans, a gap that undermines vertical policy coherence (5 Indicators Merged.xlsx, 2025).

95%
of urban municipalities provide full CRVS services

Institutional efficiency and coordination

Institutional efficiency has been shaped by digital reforms but remains constrained by procedural duplication and limited coordination between tiers. Nearly all local governments (98 percent) now use SuTRA for budgeting and accounting, and 91 percent have adopted the Local Information System for Accountability (LISA) tool. This has enabled near real-time financial and performance reporting, contributing to improved fiscal transparency. However, integration between systems remains incomplete; only 56 percent of local governments have successfully linked SuTRA outputs to their planning and procurement systems, and fewer than 20 percent currently share performance data with provincial monitoring units (PLGSP Indicator Dataset, 2024).

The Capacity Assessment (2025) finds that while the procedural efficiency of local institutions has improved—measured by the average time to process procurement and approve plans (now 42 days, down from 63 days in 2022), decision-making remains centralised at the executive level, limiting internal accountability. Provincial oversight of local performance is also weak: only four provinces reported systematic annual reviews of local governments' performance, and none have formalised inter-tier performance agreements. Citizen feedback mechanisms also show gradual but positive progress. According to the Capacity Assessment (2025), 68 percent of municipalities now maintain a grievance redress system or citizen help desk, compared with just 37 percent in 2020. However, only 15 percent of these systems have integrated digital interfaces, limiting accessibility and follow-up. These findings suggest that while administrative efficiency is improving, accountability to citizens remains a structural weakness in the system.

Overall baseline interpretation

Taken together, the 2025 baseline depicts an administrative system that is functionally established but uneven in performance. The institutional foundations for service delivery are operational across all tiers, and the diffusion of digital tools has increased efficiency and transparency. Yet, Nepal's administrative federalism still functions below its potential due to human resource shortages, uneven institutional capacity, and weak coordination across levels of government. Performance disparities between urban and rural municipalities, and between stronger provinces such as Bagmati and weaker ones such as Karnali and Sudurpashchim, highlight structural inequalities in administrative reach and service quality.

In summary, the Capacity Assessment (MoFAGA, 2025) and accompanying datasets confirm that Nepal's administrative institutions are in transition from establishment to consolidation. Public service delivery has become more accessible and procedurally standardised, but efficiency and quality vary widely. The focus for the next phase must therefore be on aligning administrative capacity with functional responsibilities—strengthening staff deployment, institutionalising inter-tier coordination mechanisms, and deepening citizen-facing accountability systems—to ensure that the promise of federalism is fully realised in practice.

6.2 HUMAN RESOURCE CAPACITY AND DEPLOYMENT

Human resource capacity and deployment are central to the operational effectiveness of Nepal's federal system. The 2025 baseline confirms that while institutional structures are now in place across all three tiers of government, the administrative machinery that sustains them remains underdeveloped. The Capacity Assessment of Provincial and Local Governments (MoFAGA, 2025) finds that staffing shortages, unclear career pathways, and uneven skill distribution are the most binding constraints to functional devolution. The assessment highlights that the absence of a permanent federal civil service framework until mid-2025 delayed the establishment of provincial and local service cadres, resulting in heavy dependence on deputed or contractual personnel.

Federal and provincial staffing patterns

At the federal level, ministries have largely completed internal restructuring, but the process of delegating technical and administrative personnel to the provinces remains incomplete. The Capacity Assessment (MoFAGA, 2025) shows that only 38 percent of the 22,236 approved provincial civil service positions were filled as of early 2025. The remaining 62 percent, approximately 13,800 posts, are either vacant or temporarily occupied by deputed federal staff. This has created severe asymmetries between provinces. Bagmati Province, for instance, reported 61 percent of sanctioned positions filled, while Karnali and Sudurpashchim Provinces had fewer than 30 percent of posts occupied. This disparity is primarily attributed to uneven access to skilled professionals and to centralised recruitment procedures that have not yet been devolved to the provincial level.

The absence of a Federal Civil Service Act prior to 2025 constrained the provinces' ability to establish their own service structures, leading to inconsistent deployment practices. Although all seven provinces have now established Provincial Public Service Commissions, only four (Bagmati, Gandaki, Lumbini, and Sudurpashchim) had begun independent recruitment processes by the start of FY2024/25 (MoFAGA, 2025). Provincial governments continue to rely heavily on the federal Ministry of Federal Affairs and General Administration (MoFAGA) to approve recruitment quotas, secondments, and transfers, limiting their administrative autonomy.

38%
of provincial civil service positions were filled

Staffing reforms must guard against unsustainable long-term liabilities at sub-national level, a risk highlighted in NA Rec 34. Moreover, the use of junior staff in senior posts should be avoided, as this undermines both meritocracy and administrative credibility, echoing NA Rec 35. The National Assembly also suggest requiring that Chief Administrative Officers should be at least at Under-Secretary level to match expanded responsibilities (NA Rec 37). Future federal HR reforms should adopt a more officer-oriented structure to enhance productivity, in line with NA Rec 42.

Local government staffing and capacity

At the local level, human resource constraints are even more acute. The PLGSP Current Indicator Data (2024) shows that only 47 percent of local governments had filled their approved staff positions by the start of 2025. Vacancies are highest in technical categories, including engineers, accountants, and information technology officers, where only 31 percent of posts were occupied. The remaining gaps are covered through short-term contractual hires or donor-supported technical assistance. While this has ensured continuity of basic operations, it has also created instability in service delivery and limited institutional memory.

The Capacity Assessment (MoFAGA, 2025) identifies three key structural barriers to effective human resource deployment: (i) limited coordination between the federal adjustment mechanisms and local staffing plans, (ii) the absence of an integrated HR information system across levels, and (iii) weak provincial oversight of local personnel management. Staff performance evaluations remain largely procedural and are not linked to professional development or promotion. As a result, retention is low in remote and hardship municipalities. In Karnali Province, for example, 27 percent of administrative positions are vacant primarily due to out-migration of qualified staff seeking postings in urban areas (MoFAGA, 2025).

Local governments should progressively codify local civil and government service arrangements in line with federal and provincial law, as recommended by the NA (NA Rec 28). Moreover, HR rules should discourage frequent transfers by requiring a minimum term of service, often cited as two years, in provincial or local postings prior to promotion, consistent with NA Rec 29. In addition, in the short term, provincial governments should have a greater role in designating and managing chief administrative officers for municipalities, as suggested by the NA committee (NA Rec 31). Finally, the National Assembly recommends that provinces should manage transfers and deputations of their own secretaries, reinforcing administrative autonomy (NA Rec 32).

Capacity development and training systems

Despite these structural constraints, there has been steady progress in institutionalising capacity development mechanisms. Each province has established a Provincial Centre for Good Governance (PCGG) and a Provincial Research and Training Academy (PRTA) tasked with delivering professional training to sub-national officials. The Capacity Assessment (2025) reports that more than 16,000 local government officials and 4,000 provincial staff had participated in formal training programmes under PLGSP by the end of 2024. Training modules focus on planning, budgeting, procurement, gender equality and social inclusion (GESI), and information technology systems. However, coverage remains uneven. Only 28 percent of local governments reported that at least half of their staff had received job-related training in the past two years, and only 11 percent of these programmes were accredited or competency-based.

The training institutions themselves face capacity constraints. Four PRTAs and three PCGGs operate with fewer than ten core professional staff, limiting their outreach and the quality of technical support they can provide (MoFAGA, 2025). The assessment recommends strengthening collaboration between PRTAs and the Nepal Administrative Staff College to standardise curricula and promote cross-province peer learning.

HR governance and performance management

Governance of the civil service system remains overly centralised and fragmented. Although the Constitution (Article 285) mandates distinct civil services for each tier, the federal level continues to exert control over most HR functions, including recruitment, transfers, and promotions. The Capacity Assessment (2025) notes that only 22 percent of provincial ministries and 19 percent of municipalities had adopted a formal Human Resource Development Plan by the start of 2025. Furthermore, only 17 percent of local governments had functional performance appraisal systems linked to incentives or career progression. The remaining majority rely on generic reporting templates without measurable outputs or targets.

Digital human resource management systems are at an early stage. The Human Resource Management Information System (HRMIS) piloted in 2023 is now operational in 63 municipalities and four provinces, yet integration with financial systems such as SuTRA and CGAS is not complete. According to the 5 Indicators Merged Dataset (2025), only 14 percent of local governments regularly update HR data electronically, and fewer than one in ten provinces produce consolidated HR reports for decision-making.

2025 Baseline interpretation

Nepal's 2025 baseline confirms that while human resource institutions have been established, the administrative backbone of federalism remains fragile. Staff shortages, centralised HR control, and limited technical capacity continue to hinder the functionality of provincial and local administrations. The gradual rollout of the Federal Civil Service Act, the operationalisation of Provincial Public Service Commissions, and the institutionalisation of training through PRTAs and PCGGs mark critical steps forward. Yet, human resource federalism remains only partially realised. The next phase of reform must priorities the creation of integrated HR systems, the decentralisation of recruitment and deployment authority, and the professionalisation of sub-national cadres. Strengthening incentives for retention in remote areas and aligning training with performance evaluation will be essential to transform administrative federalism from a structural arrangement into an effective system of public service delivery and accountability.

6.3 TRANSPARENCY, ACCOUNTABILITY, AND USE OF DIGITAL SYSTEMS

Transparency and accountability form the foundation of effective administrative federalism. They ensure that devolution results not only in the transfer of authority but also in visible improvements in governance quality and public trust. The 2025 baseline shows that Nepal has made notable progress in integrating digital systems across federal, provincial, and local administrations, though accountability and data interoperability remain incomplete.

Transparency and public accountability mechanisms

The Capacity Assessment of Provincial and Local Governments (MoFAGA, 2025) finds that 82 percent of local governments now publish annual budgets and plans on their official websites, up from 63 percent in 2022. Similarly, 74 percent have introduced citizen participation mechanisms such as public hearings and social audits, with compliance highest in urban municipalities. Despite this improvement, only 29 percent of municipalities conduct both public hearings and social audits consistently each fiscal year, and fewer than one in five track citizen feedback or grievance resolution outcomes. Provincial assemblies have also introduced formal public reporting requirements, but follow-up on audit observations remains weak, with approximately 70 percent of irregularities still unresolved at the provincial level (MoFAGA, 2025).

Digital systems and e-governance integration

Digital governance has advanced rapidly, supported by federal investments under the Provincial and Local Governance Strengthening Programme (PLGSP, 2024). By 2025, 98 percent of local governments were using the Sub-national Treasury Regulatory Application (SuTRA) for financial management, and 91 percent had adopted the Local Information System for Accountability (LISA) to monitor institutional performance. The Civil Registration and Vital Statistics (CRVS) system has expanded to cover more than 95 percent of wards, improving record accuracy and citizen access to services. However, interoperability across systems remains limited. Only 56 percent of municipalities link their SuTRA data with planning and procurement platforms, and fewer than 25 percent integrate performance data with provincial monitoring frameworks.

At the provincial level, digital integration varies. Bagmati and Gandaki provinces have established online public information portals that consolidate budget, procurement, and audit data, while other provinces still rely on manual reporting. The 5 Indicators Merged Dataset (2025) indicates that digital adoption has improved procedural efficiency, with the average time to process financial approvals declining from 63 to 42 days between 2022 and 2024. Nonetheless, gaps persist in data accuracy, staff digital literacy, and system maintenance.

Internal control and audit systems

The PEFA Secretariat (2024) reports that while digitalisation has enhanced transparency, internal control mechanisms remain weak. Internal audit coverage is rated “D+” (PI-26), indicating compliance-driven rather than risk-based oversight. Only 44 percent of local governments conduct internal audits annually, and fewer than half have trained audit personnel (MoFAGA, 2025). Similarly, provincial Public Accounts Committees (PACs) are operational in all seven assemblies but lack technical staff and analytical tools to review audit reports effectively.

2025 Baseline interpretation

Nepal’s progress in administrative transparency and digital governance represents one of the most visible successes of the federal transition. The widespread use of SuTRA, LISA, and CRVS systems has strengthened financial reporting and improved public access to government information. However, accountability mechanisms remain procedural rather than performance-oriented, and digital systems are not yet fully interoperable across tiers. Moving forward, priorities should include consolidating digital platforms, integrating audit and planning data, and expanding citizen feedback systems to ensure that transparency is accompanied by genuine accountability and measurable service improvements.

6.4 ADMINISTRATIVE FEDERALISM PERFORMANCE SCORECARD

Nepal’s 2025 baseline assessment of administrative federalism presents a federal system that has achieved institutional reach but continues to face functional gaps in capacity, coordination, and performance. The assessment draws on evidence from the Capacity Assessment of Provincial and Local Governments (MoFAGA, 2025), the PLGSP Indicator Framework Datasets (2025), and administrative data from the Provincial Centres for Good Governance (PCGGs). Together, these sources reveal that while most administrative structures are operational, the quality, efficiency, and equity of service delivery vary significantly across provinces and municipalities.

At the core of this assessment are three interlinked findings. First, the institutional foundations for administrative federalism—offices, systems, and staff—are largely in place. All provinces have established key agencies such as the Offices of the Chief Minister and Council of Ministers (OCMCMs), public service commissions, and training academies. Similarly, all 753 local governments are operational, with functioning councils, budget systems, and administrative offices. Second, institutional performance remains constrained by human resource shortages, centralised control over recruitment, and incomplete transfer of authority, leaving provinces and local governments reliant on deputed staff. Third, administrative modernisation is gaining momentum through digital systems like SuTRA and the Civil Registration and Vital Statistics (CRVS) platform, but interoperability and data use for decision-making are still limited.

The scorecard below summarises the 2025 baseline findings across four analytical dimensions of administrative federalism, comparing constitutional intent with current implementation, and identifying progress, constraints, and reform priorities.

Box 4. Local service delivery as the anchor of public confidence

Despite declining national optimism—only 23.7 percent believe the country is moving in the right direction—citizens report comparatively strong improvements in their locality, with 54.4 percent stating that local conditions are improving. Respondents overwhelmingly cite better roads (73.8 percent), improved health services (45.3 percent), electricity supply (40.8 percent), and drinking water as the main reasons for optimism. These are precisely the service areas where local governments have clear, devolved authority. The data indicate that citizen satisfaction is anchored in tangible, everyday local improvements, reinforcing the central role of municipalities in the success of federalism. It also confirms that improving local service delivery remains the most direct pathway to strengthening trust in the state.
(Kathmandu University 2025)

Table 15. Administrative federalism: 2025 baseline, constitution vs practice

Category	What it means (scope)	Constitutional provision / expectation	Current state of play (2025 baseline)	Successes / gains	What remains incomplete
Public service delivery and institutional efficiency	Effectiveness and consistency of administrative systems and service delivery across tiers; coordination between ministries, provinces, and local governments	The 2015 Constitution (Art. 57, Schedules 6–9) mandates provincial and local governments to manage devolved services in education, health, agriculture, infrastructure, and social protection	All 753 LGs and 7 provinces fully operational; 89% of LGs deliver basic services; 95% CRVS coverage; 38.4% of municipalities rated "good" in LISA 2023/24; but large disparities in rural performance	Service delivery standardised under PLGSP; expansion of digital registration and PMIS; improved local planning compliance	Weak vertical coordination; uneven service quality between urban and rural areas; limited maintenance planning; provincial oversight irregular
Human resource capacity and deployment	Adequacy, skills, and distribution of staff across tiers; degree of autonomy in recruitment and deployment	Constitution (Arts. 285, 302) provides for distinct civil services at each level; Employee Adjustment Act 2017 enabled initial staff redistribution	38% of provincial civil service posts filled (13,800 vacant); only 47% of LG staff positions filled; 4 provinces have begun independent recruitment; heavy reliance on deputed staff	Establishment of Provincial Public Service Commissions, PCGGs, and PRTAs; 16,000 LG and 4,000 provincial staff trained under PLGSP	Federal control over transfers persists; fragmented HR data; limited digital HRMIS coverage (14% of LGs); weak retention in remote areas
Transparency, accountability, and use of digital systems	Integration of e-governance tools and public reporting systems; citizen access to information; audit and grievance mechanisms	Constitution (Arts. 216, 220) mandates transparency, audit, and right to information; federal and sub-national governments to maintain open systems	98% of LGs use SuTRA; 91% use LISA; 95% CRVS coverage; 82% publish annual budgets; 74% hold public hearings; internal audit coverage 44%; 30% audit irregularities resolved	Rapid digitalisation of finance and civil registration; improved access to government data; growing use of public hearings	Limited system interoperability; weak internal audit capacity; digital literacy gaps; citizen grievance systems underused (only 15% digitalised)
Institutional coordination and performance management	Functionality of inter-tier coordination, performance review, and accountability frameworks	Constitution envisages cooperative administration through PCCs, OCMCMs, and joint monitoring; performance oversight by MoFAGA and provinces	PCCs operational in 5 provinces but irregular; 56% of LGs link SuTRA to planning systems; 4 provinces conduct annual LG performance reviews	Provincial monitoring improving; digital data systems support oversight; annual LISA assessments institutionalised	Lack of formal performance agreements; weak cross-tier accountability; coordination largely ad hoc; limited integration of planning, HR, and fiscal data

Table 14 presents the quantitative indicators that underpin Nepal's 2025 baseline for administrative federalism. These indicators translate the qualitative findings of the Capacity Assessment of Provincial and Local Governments (MoFAGA, 2025) into measurable benchmarks of institutional performance, human resource adequacy, accountability, and digital integration across provinces and municipalities. Together, they capture the operational dimensions of administrative federalism—how effectively provincial and local administrations perform their functions, manage staff, deliver services, and engage citizens.

The data reflect a system that has achieved near-universal institutional coverage but continues to exhibit uneven functionality. For instance, while 98 percent of local governments now use SuTRA for financial management and 95 percent of wards operate digital civil registration systems, only 38.4 percent of municipalities meet the "good" benchmark in the Local Government Institutional Self-Assessment (LISA) ratings. Similarly, staffing shortfalls persist, with fewer than half of sanctioned positions filled in most sub-national entities. These disparities are accompanied by rising but inconsistent accountability practices: 74 percent of municipalities hold public hearings annually, yet fewer than one-third conduct both hearings and social audits systematically.

The indicators in Table 14 therefore serve as a baseline against which Nepal's progress towards a capable, transparent, and accountable administrative system can be measured in subsequent assessments. They show clear momentum in institutional modernisation yet highlight that the consolidation of administrative federalism will depend on addressing capacity deficits, integrating digital systems, and embedding performance-based accountability across all tiers of government.

Table 16. Baseline indicators for assessing administrative federalism in Nepal (2025)

No.	Indicator	Description	2025 Baseline	Trend / Observation
1	Percentage of LGs rated "good" or above in LISA institutional assessment	Measures institutional performance and service delivery capacity	38.4% (good), 44% (satisfactory), 17.6% (weak)	Gradual improvement from 32% in FY2021/22; still uneven across provinces
2	Provincial staffing fill rate	Tracks adequacy of staffing in provincial institutions	38% of sanctioned positions filled	Major vacancies in technical and managerial posts; progress dependent on new Civil Service Act
3	Local staffing fill rate	Measures human resource sufficiency at local level	47% of approved positions filled	Persistent shortages, especially in engineers, accountants, IT officers
4	Share of LGs conducting both public hearings and social audits annually	Gauges routine accountability to citizens	29% of municipalities comply fully; 74% hold at least one hearing	Expanding coverage but irregular follow-up; best practice in urban municipalities

No.	Indicator	Description	2025 Baseline	Trend / Observation
5	LGs using SuTRA and LISA systems	Measures adoption of core digital tools for transparency and performance	SuTRA: 98%; LISA: 91%	High adoption rate; limited system integration and analytical use
6	Share of wards with digital civil registration systems (CRVS)	Measures ll. and accessibility of core citizen services	95% national coverage	Near universal; remaining gaps in rural connectivity
7	Average time to approve municipal procurement plans	Indicator of administrative efficiency	42 days (down from 63 days in 2022)	Procedural efficiency improving; still centralised decision-making
8	Proportion of LGs with grievance redress systems (digital or manual)	Measures citizen feedback mechanisms	68% have systems; only 15% digitalised	Progressing but limited responsiveness to grievances
9	LGs with annual performance review or LISA-linked monitoring	Tracks use of data for performance management	100% participate in annual LISA; 56% link planning and budget systems	Consolidated institutionalisation under PLGSP; provincial monitoring uneven
10	Number of provinces conducting annual LG performance reviews	Measures provincial oversight role	4 of 7 provinces (Bagmati, Gandaki, Lumbini, Sudurpashchim)	Expanding oversight; weak follow-up on recommendations

The 2025 baseline confirms that Nepal's administrative federalism is structurally complete but functionally uneven. Institutions exist and operate across all tiers, digitalisation has improved efficiency and transparency, and accountability mechanisms are becoming more institutionalised. Yet, provincial and local administrations continue to struggle with staffing deficits, weak audit and oversight, and limited horizontal coordination. Performance data reveal a dual reality: Nepal's administrative systems are among the most decentralised in South Asia, yet among the least adequately resourced. The spread of SuTRA, CRVS, and LISA demonstrates an administrative culture shifting towards openness, but system interoperability, data use, and citizen accountability mechanisms lag behind.

The overall direction of reform is positive. If the Federal Civil Service Act is effectively implemented, provincial commissions operationalise recruitment, and PCGGs and PRTAs expand their reach, Nepal will move closer to an integrated and performance-based public administration. The next phase of federal reform should therefore focus on completing human resource devolution, institutionalising accountability, and strengthening the link between digital transformation and administrative efficiency—transforming the architecture of administrative federalism into a fully functional and citizen-responsive system.

6.5 CONCLUSION

Nepal's administrative federalism in 2025 stands at a critical turning point between structural completion and functional consolidation. The core institutions of public administration are now established at all three tiers, yet their performance and capacity remain highly variable. The Capacity Assessment of Provincial and Local Governments (MoFAGA, 2025) confirms that administrative authority has been devolved in principle but remains partially centralised in practice, especially in human resource management, oversight, and inter-tier coordination.

The assessment reveals four defining characteristics of this stage in Nepal's administrative federalism. First, institutional functionality has expanded, with nearly all provincial and local governments operating with statutory plans, budgets, and digital systems. Service delivery coverage has improved, yet the quality and consistency of delivery differ sharply between urban and rural jurisdictions. Second, human resource capacity continues to be the most binding constraint. Provinces operate with less than half of sanctioned positions filled, and local governments rely heavily on deputed or contractual staff. Until the new Federal Civil Service Act and provincial recruitment systems take full effect, this imbalance will continue to impede sub-national performance.

Third, digital transformation has been the most visible achievement of administrative federalism. Tools such as SuTRA, LISA, and CRVS have expanded across almost all municipalities, improving transparency and procedural efficiency. However, these systems are not yet fully interoperable or used for analytical decision-making, and many local administrations still lack the digital literacy to maximise their potential. Fourth, accountability and performance management remain procedural rather than strategic. While most municipalities conduct social audits and public hearings, only a minority track follow-up actions or link performance data to planning and budgeting cycles.

Overall, the administrative system now has the architecture required for federal governance but not yet the operational capacity or coherence to deliver uniformly strong results. Nepal's next phase of reform must therefore focus on professionalising the sub-national civil service, devolving recruitment and deployment authority to provincial and local levels, and embedding performance-based management systems. Provinces, in particular, must be empowered to serve as the coordinating tier—linking federal policy with local delivery through functional oversight and technical support.

Several reviews, including NA federalism recommendations, suggest rationalising the number of federal ministries and departments now that many functions have shifted to provinces and local levels (NA Rec 46).

By 2027, progress in administrative federalism should be measured not by the number of institutions established but by their ability to deliver consistent, citizen-focused outcomes. This will require sustained investment in people, systems, and coordination. If the current momentum in digital governance and institutional development is coupled with reforms in human resource autonomy and accountability, Nepal's administrative federalism can evolve from a framework of compliance into a performance-driven system that genuinely brings governance closer to citizens.

7 PUBLIC PERCEPTIONS AND CITIZEN ENGAGEMENT

This section assesses how citizens perceive the performance of government under Nepal's federal system, focusing on trust, satisfaction, inclusion, and participation. It draws primarily on the 2025 Survey of the Nepali People and on the Capacity Assessment of Provincial and Local Governments (MoFAGA, 2025).

The 2025 Survey of the Nepali People provides the most current and comprehensive view of how citizens perceive governance, public services, and federalism's performance. With more than 6,300 respondents across all provinces, the survey offers robust evidence on shifting levels of trust, optimism, satisfaction, and expectations. The results reveal a significant divergence between national pessimism and relatively higher confidence in local governance, while also highlighting deep concerns over corruption, livelihoods, and service quality in several federal sectors.

Across almost all indicators, the 2025 survey reflects a nation in a "low-trust, high-expectation" environment. Citizens continue to view local governments more positively than provincial and federal tiers, yet they also report a decline in satisfaction with key services such as education, health, and roads. Despite this broader erosion in optimism and institutional trust, the survey shows clear areas of progress, including declining experiences of linguistic and caste-based disadvantage, growing merit-based attitudes to leadership, and consistent improvements in physical access to health facilities.

7.1 OVERALL PUBLIC SENTIMENT

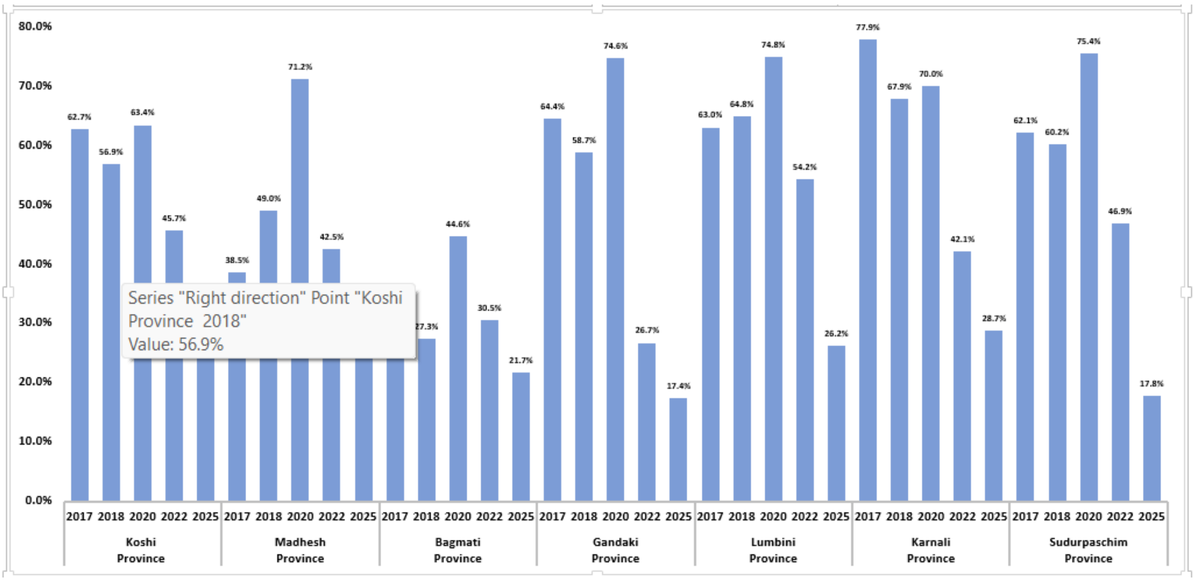
Nepalese are significantly more pessimistic about the country's direction in 2025 than at any point since the survey series began. Only 23.7 percent of respondents believe Nepal is moving in the right direction, while 61.8 percent think it is heading the wrong way. This is the lowest level of optimism recorded since 2017 and the first time it has fallen below 25 percent. A further 12.3 percent now describe themselves as indifferent, and 2.1 percent are unable to say, signalling a growing sense of uncertainty alongside rising pessimism. These results stand in stark contrast to 2020, when optimism peaked at 65.6 percent, reflecting a period of comparatively higher confidence. Since then, sentiment has deteriorated steadily. Between 2022 and 2025 alone, the share of Nepalese who believe the country is on the right track fell sharply from 41.7 percent to 23.7 percent, while those judging the country to be on the wrong track rose from 54.7 percent to 61.8 percent. The longitudinal data therefore point to a clear and sustained decline in public confidence in the country's overall trajectory.

Chart 3. Overall direction of the country, by year

Source: Survey of the Nepali People in 2025, Kathmandu University, School of Arts

Across all seven provinces (see Chart 4), optimism about the country's direction is low and varies only modestly, with around one quarter of respondents in Karnali (28.7%), Koshi (26.6%), Lumbini (26.2%), and Madhesh (25.4%) expressing a positive view, and even fewer in Bagmati (21.4%), Sudurpashchim (17.8%), and Gandaki (17.4%). In every province, a clear majority believe the country is heading in the wrong direction, led by Gandaki (76.4%), Bagmati (67.9%), Koshi (66.6%), and Lumbini (62.3%). Pessimism is lowest in Karnali (49.3%), while Sudurpashchim (55.5%) and Madhesh (50.1%) also record more than half of respondents stating that the country is moving in the wrong direction.

Chart 4. Country is moving in the right direction, by province and year



Source: Survey of the Nepali People in 2025, Kathmandu University, School of Arts

Optimism has fallen sharply across all provinces since 2020, with some of the steepest declines recorded between 2022 and 2025. Gandaki saw an early and dramatic drop of nearly 48 percentage points between 2020 and 2022, while Sudurpashchim and Lumbini experienced the largest recent falls, with optimism dropping from 46.9 to 17.8 percent and from 54.2 to 26.2 percent respectively. Growing uncertainty is also evident, with around one quarter of respondents in Sudurpashchim and one fifth in Madhesh expressing ambivalence about the country's direction.

Optimism varies across demographic groups, with women (25.2%) slightly more positive than men (22.2%), younger people (28.0%) more optimistic than older adults (20.7%), and those with primary education (29.1%) more hopeful than those with higher degrees (15.8%). Rural residents (28.5%) are more optimistic than urban respondents (21.4%), and people in the Mountain region (30.7%) report the highest positivity. Religious/Linguistic groups (35.8%), Madhesh/Terai Caste communities (28.5%), Hill Dalits (25.7%), and followers of Islam (35.8%) or Buddhism (34.5%) are also more optimistic than the national average. By occupation, optimism is lowest among businesspeople and students (both 20.5%) and highest among those in agriculture (26.0%) and labour (25.1%), with optimism declining as income levels rise.

7.2 CITIZEN TRUST AND SATISFACTION WITH GOVERNMENT SERVICES

Findings from the 2025 Survey of the Nepali People reveal a more complex and less positive picture than in earlier rounds. Trust in government remains strongest at the local level, where citizens interact most directly with service providers, but confidence has weakened across most tiers of government, reflecting a broader pessimism about the national direction and the performance of political and administrative institutions. Only 23.7 percent of respondents believe Nepal is moving in the right direction, the lowest level since 2017, while 61.8 percent believe it is moving in the wrong direction. Yet views of local conditions remain comparatively more positive: 54.4 percent report that their locality is improving, although this marks a notable decline from 70.4 percent in 2022. This widening gap between national pessimism and local-level confidence underscores a fundamental feature of Nepal's federal transition: services delivered closer to citizens are perceived more favourably, even as trust in higher tiers of government erodes.

Trust in local governments continues to stand out. In 2025, 68.6 percent of respondents reported trusting their municipality or rural municipality, and 75.9 percent expressed trust in ward offices. Trust remains much lower for provincial governments, at 45.5 percent, and lowest for political parties, at just 30.5 percent. The Public Service Commission is the most trusted institution, with confidence levels above 85 percent, while courts, police, and community-based organisations also retain comparatively high levels of public trust. Satisfaction with service delivery follows a similar pattern: citizens report relatively easy access to civil registration, drinking water, and basic health care, while dissatisfaction persists in areas such as electricity access, road quality, market access, and irrigation, which shape sectoral expectations and influence perceptions of government performance. Women, residents of the Terai, higher-income groups, and respondents in Madhesh and Lumbini tend to encounter greater difficulties or express lower satisfaction, whereas respondents in Karnali and Sudurpashchim offer comparatively stronger assessments of institutional trust and improvements in services.

Taken together, these results illustrate a federal system that has widened access to essential services but continues to face challenges related to timeliness, consistency, responsiveness, and administrative integrity. Public confidence is highest where service delivery is tangible and proximate, and weakest where institutions are perceived as distant, politicised, or ineffective. The pattern is clearly reflected in the "Trust in institutions, by year" table in the 2025 National Survey, which shows a steady decline in trust across almost all national and provincial institutions since 2020, contrasted with persistently high trust in local governments, ward offices, the Public Service Commission, courts, and community organisations. This table highlights both the resilience of local governance in the eyes of citizens and the urgent need for improved performance, communication, and accountability at higher tiers of the state.

Table 17. Trust in institutions, by year

Institutions	Trust[7]				
	2017	2018	2020	2022	2025
The Federal Government	63.7%	64.7%	67.2%	56.2%	52.7%
Provincial Government	NA*	61.7%	67.1%	51.6%	45.5%
Municipality/rural municipality /Local Government	NA*[8]	NA*	NA*	75.1%	68.6%
Municipal Wards	NA*	NA*	NA*	79.2%	75.9%
Government employee	NA*	NA*	82.7%	76.9%	63.2%
Local Community Leaders- Tole Lane Development Organisation	NA*	NA*	NA*	69.3%	68.9%
Political Parties	64.3%	58.2%	56.2%	44.0%	30.5%
Courts	82.8%	82.1%	87.7%	77.2%	75.7%
Judicial Committees	NA*	74.0%	85.3%	73.7%	72.6%
Nepal Police	86.5%	78.2%	85.7%	79.7%	73.6%
Municipal Police (In the case of municipalities)	NA*	NA*	NA*	NA*	71.4%
The Media (Television, Radio, Newspapers)	92.2%	91.3%	91.8%	88.0%	81.9%

[7]Figure for "Trust" is derived by adding the figure of "Fully Trust" and "Moderately Trust"

[8]In 2017, 2018 and 2020, respondent level of trust for local government was asked slightly differently. The question was framed to seek the trust for Mayor/Chairperson and Ward Chairperson instead of local government. The trust for Mayor /Chairperson and Ward Chairperson showed a gradual increase from 2017 to 2020. For instance, 69.6% people reported they trust Mayor/ Chairperson in 2017, this figure increased to 81.3% in 2018 and 80.4% in 2020. Similarly, 72.9% respondent cited they trust Ward Chairperson in 2017, this was increased to 81.3% in 2018 and slightly decreased 84.3% in 2020.

Institutions	Trust[7]				
Social media (Facebook/ Twitter etc.)	NA*	NA*	73.6%	62.9%	60.8%
CBOs (women's group, savings and credit group)	92.0%	90.7%	90.7%	86.3%	73.6%
Public Service Commission	NA*	78.0%	89.3%	88.8%	85.1%
Provincial Public Service Commission	NA*	NA*	NA*	NA*	80.8%

Source: Survey of the Nepali People in 2025, Kathmandu University, School of Arts

Box 5. Gendered experiences of federalism

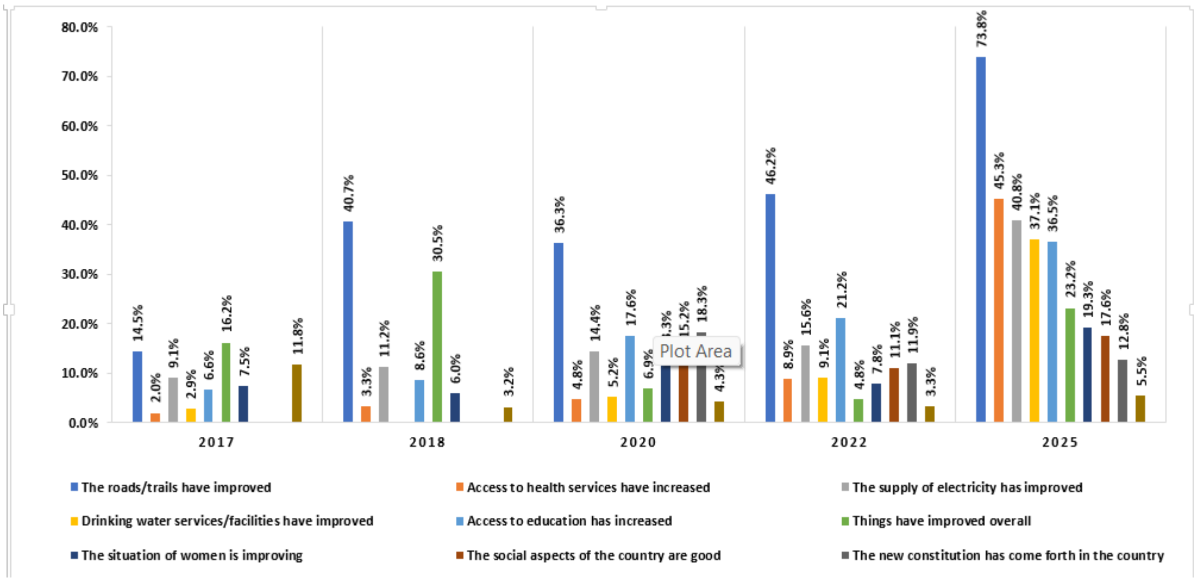
The 2025 public perception survey highlights important gender disparities in how citizens experience federalism. Women, particularly in the Terai, report greater difficulty accessing administrative services, navigating documentation, and obtaining information compared to men. Only 25.2 percent of women expressed optimism about the direction of the country, compared to 22.2 percent of men, but women consistently reported more barriers in service access, grievance redress, and participation. While the Constitution has ensured women's representation - 41 percent of local seats and 36 percent of provincial seats are held by women - the survey shows that substantive influence and equitable service experiences lag behind structural inclusion. These findings underline the urgency of embedding GESI not only in representation but in public administration, budgeting, and frontline service delivery. *(Kathmandu University 2025)*

7.3 REASONS FOR OPTIMISM

A small minority of Nepalese who believe the country is moving in the right direction explain their optimism largely in terms of improvements in basic services and infrastructure. Among the 23.7 percent who expressed a positive outlook, the most frequently cited reasons were better roads and trails (73.8 percent), increased access to health services (45.3 percent), improved electricity supply (40.8 percent), and enhanced drinking water facilities (37.1 percent). Many respondents also pointed to increased access to education, a general sense that conditions have improved overall, progress in the status of women, improvements in social cohesion, and a stronger sense of security. These themes indicate that for the minority who remain optimistic, tangible improvements in everyday public services are the most powerful drivers of confidence.

While the pattern of reasons is broadly similar across the seven provinces, notable differences exist in their intensity. Roads remain the dominant factor everywhere, with especially high shares in Bagmati (89.6 percent), Karnali (78.8 percent), and Koshi (76.5 percent), and a lower yet still majority share in Sudurpashchim (52.2 percent). Access to health services, electricity, and drinking water was also cited widely but unevenly, with Bagmati consistently reporting the highest levels of improvement across these services, while Madhesh and Sudurpashchim recorded far lower levels. Other contributors to optimism, such as improvements in women's status, perceived social progress, and better educational access, vary across regions. These variations suggest that although optimism is anchored in service improvements everywhere, the specific drivers differ according to provincial realities, service gaps, and levels of investment across Nepal's diverse federal landscape.

Chart 5. Top reasons for optimism, by year (%)



Source: Survey of the Nepali People in 2025, Kathmandu University, School of Arts

7.4 EQUITY, INCLUSION, AND GESI OUTCOMES

Nepal's Constitution commits the state to an inclusive, equitable, and gender-responsive governance system, yet the 2025 Survey of the Nepali People and the Capacity Assessment reveal that these aspirations remain only partly realised. Clear progress is visible in reducing discriminatory experiences, especially in relation to language, caste, and ethnicity. Reports of language-related disadvantage in accessing government services have dropped to 5.6 percent, and caste- or ethnicity-based barriers are now reported by fewer than 1 percent of respondents in core administrative interactions. These improvements suggest that federal restructuring and local-level service expansion have contributed to more equitable access in several areas. However, gender-based disparities remain more persistent. Women, particularly in the Terai, continue to report higher levels of difficulty accessing government services, obtaining documents, and navigating administrative procedures than men.

Despite these gains, the survey highlights that inclusion in practice still lags behind constitutional guarantees. While representation of women, Dalits, Janajatis, and Madhesi groups in elected bodies has strengthened, meaningful influence in decision-making and service outcomes remains uneven. Only 28 percent of local governments fully implement mandatory GESI budget allocations, and just 22 percent track results using gender- or caste-disaggregated data. Provincial variation is significant: Bagmati and Gandaki show stronger institutionalisation of GESI procedures, whereas Madhesh, Lumbini, and Sudurpashchim exhibit weaker uptake. Many local governments possess GESI guidelines on paper—more than 80 percent—but fewer than one in four use them systematically to shape planning, budgeting, or service delivery.

The survey also underscores persistent informal barriers. Respondents from marginalised groups describe obstacles linked to political affiliation, language, bureaucratic behaviour, and entrenched gender norms. Service areas requiring documentation, land registration, or targeted subsidies continue to reflect structural inequities, particularly for Madhesh/Terai Dalit households, women-headed households, and poorer rural populations. Meanwhile, optimism related to improvements in women's status is uneven; just 23.7 percent of women in Madhesh cite better conditions for women as a reason for national optimism, compared with more than 40 percent in Koshi and Bagmati.

Overall, while the 2025 data show marked reductions in overt exclusion and a growing culture of representational diversity, they also reveal the distance still to be travelled in translating inclusion into equitable outcomes. Strengthening enforcement of GESI targets, improving local government capacity for disaggregated data, and linking fiscal incentives to demonstrable inclusion performance will be essential to narrowing gaps. Ensuring that GESI is embedded not just procedurally but substantively in planning, budgeting, and frontline service delivery remains central to realising the Constitution's commitment to an inclusive federal state.

Table 18 presents citizens' awareness of the services delivered by the federal government, disaggregated by province. The results show that while education, national infrastructure, health policy, and social security are widely recognised federal responsibilities, levels of awareness vary considerably across regions. Provinces such as Bagmati, Koshi, and Karnali demonstrate higher familiarity with core federal functions, whereas awareness in Madhesh and Sudurpashchim is more uneven. These patterns highlight important information gaps in how federal responsibilities are understood across the country, with implications for service access, accountability, and citizen engagement.

Table 18. Awareness of federal services, by province (%)

Federal services		Province						
	Overall	Koshi	Madhesh	Bagmati	Gandaki	Lumbini	Karnali	Sudurpashchim
Education/University related	69.0%	70.5%	75.1%	69.9%	48.0%	71.3%	70.6%	70.8%
National Highway/ Physical Infrastructure related	52.4%	50.2%	31.5%	66.0%	43.0%	59.7%	63.9%	41.7%
Health related policy and service	51.9%	51.3%	47.2%	57.2%	39.7%	58.5%	50.8%	48.7%
Social security related	48.6%	53.7%	45.7%	48.3%	55.2%	47.2%	47.4%	38.6%
Employment related	46.8%	50.4%	54.2%	38.4%	38.1%	44.6%	53.9%	60.3%
Large scale electricity related	26.8%	24.1%	16.6%	37.2%	25.1%	16.5%	38.2%	27.8%
Citizenship and Passport related	24.2%	16.0%	34.4%	19.6%	29.3%	26.8%	10.8%	39.5%
Large scale irrigation related	19.5%	22.7%	17.6%	15.8%	17.1%	18.2%	27.8%	25.5%
Tourism Policy related	5.2%	5.4%	3.3%	4.5%	10.3%	3.6%	6.4%	6.0%
Mining related	3.3%	0.7%	2.6%	1.3%	9.9%	2.9%	10.5%	5.7%
Land use policy related	2.4%	1.7%	0.0%	0.1%	9.1%	1.9%	4.7%	6.5%
Telecommunication and postal service related	2.3%	1.3%	2.0%	2.3%	4.9%	0.6%	1.1%	5.0%
Others	1.0%	2.5%	0.0%	0.3%	1.3%	0.9%	1.1%	0.7%

Source: Survey of the Nepali People in 2025, Kathmandu University, School of Arts

7.5 EFFECTIVENESS OF PARTICIPATORY GOVERNANCE MECHANISMS

The 2025 assessment shows that participatory governance mechanisms are now widely established across local governments, but their effectiveness remains uneven and largely procedural. Public hearings and social audits are conducted in most municipalities, yet only 29 percent perform both regularly and track follow-up actions, limiting their impact on accountability. Although 74 percent of municipalities hold at least one public hearing annually, citizen feedback seldom leads to adjustments in plans or budgets, indicating weak integration of participation into decision-making.

Awareness and engagement also vary across provinces and demographic groups. Respondents in Bagmati, Koshi, Karnali, and Gandaki report higher levels of awareness of local services and avenues to raise concerns, while Madhesh and Sudurpashchim lag behind. Citizens continue to rely primarily on informal channels—friends, neighbours, and community leaders—for information about local services (62.5 percent), suggesting that formal communication and outreach mechanisms remain underutilised.

Digital and institutional mechanisms for participation show mixed progress. While most municipalities operate grievance-handling systems or help desks, fewer than 15 percent provide digital or online interfaces that allow citizens to submit and track complaints. Judicial Committees are widely trusted and used for dispute resolution, but satisfaction with outcomes has declined, and many citizens still choose not to report grievances formally due to perceptions of bias or procedural complexity.

Taken together, these findings suggest that while Nepal has made strong strides in establishing participatory structures, the depth, responsiveness, and institutionalisation of participation remain limited. Participation is most effective where municipalities actively link citizen feedback to service improvements, maintain transparent communication, and integrate participatory processes into routine planning and monitoring. Strengthening these mechanisms will be essential to deepening accountability and citizen trust across all tiers of Nepal's federal system.

This table summarises how citizens across Nepal believe information about local government services should be communicated, revealing a strong preference for informal and community-based channels over formal government or digital platforms. Friends, family, and neighbours remain the most trusted source nationwide, followed by local community leaders and social media, though the importance of each channel varies considerably by province. Traditional media such as radio and television play a secondary role, while official government websites and direct communication from government officials are among the least preferred. The results highlight significant gaps in formal outreach and underscore the need for local governments to strengthen accessible, citizen-centred communication strategies tailored to provincial and social contexts.

Table 19. Suggested channels for sharing local government information

Federal services		Province						
	Overall	Koshi	Madhesh	Bagmati	Gandaki	Lumbini	Karnali	Sudurpashchim
From friends and family and neighbours	62.5%	45.3%	74.2%	67.3%	52.5%	62.5%	38.8%	61.3%
Through the local community leaders	35.0%	16.1%	32.9%	29.7%	30.4%	53.0%	26.0%	57.0%
From social media (Facebook, Twitter)	29.2%	23.1%	22.1%	40.5%	46.4%	31.9%	36.2%	22.1%
If disseminated from television	17.1%	27.3%	18.1%	12.9%	27.7%	11.5%	4.6%	9.1%
From Bazaar/Market	16.1%	6.6%	26.9%	12.6%	12.0%	8.6%	9.0%	18.4%
If disseminated from Radio Nepal	14.7%	25.5%	12.7%	18.9%	11.4%	10.1%	6.6%	17.3%
From the Internet (by placing it on the municipality's web page)	14.0%	5.4%	8.4%	21.2%	20.0%	23.1%	12.0%	15.8%
Through the government officials	10.3%	5.5%	14.1%	14.4%	6.6%	3.3%	7.4%	18.9%
If disseminated from community/ local radio network/stations	9.1%	5.9%	3.8%	17.4%	11.0%	12.7%	17.3%	8.1%
Toll Reform Committee	9.0%	5.7%	8.6%	1.5%	9.0%	12.9%	12.0%	18.5%
From the political parties	8.8%	2.1%	15.6%	8.8%	6.3%	5.1%	8.0%	2.7%
Through SMS on my mobile phone	7.7%	4.7%	4.8%	4.0%	19.5%	6.5%	17.1%	15.9%

Federal services		Province						
From local newspapers	7.2%	10.2%	6.5%	3.5%	13.5%	7.6%	3.7%	4.6%
Through leaflets, pamphlets, posters	6.4%	2.9%	12.5%	1.5%	1.2%	2.7%	3.9%	9.7%
Through the community-based group (women's group, savings and credit etc.)	5.8%	0.6%	0.6%	6.5%	12.7%	11.9%	9.1%	13.0%
From national newspapers	3.0%	3.4%	2.4%	1.5%	9.4%	2.6%	2.5%	1.4%
From teachers of the local schools	3.0%	0.8%	2.5%	2.5%	3.8%	2.9%	4.6%	8.6%
Through Government's/Local government's websites	2.2%	2.6%	2.1%	1.5%	3.3%	1.4%	0.5%	5.2%
Through Civil Society Organisations/NGO's	1.2%	0.0%	0.9%	0.0%	2.6%	1.2%	0.2%	5.9%
Others	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%	0.0%
Don't know/Can't say	4.6%	13.3%	2.9%	0.0%	0.7%	4.2%	7.1%	8.2%

Source: Survey of the Nepali People in 2025, Kathmandu University, School of Arts

7.6 CONCLUSION

The 2025 perception data confirm that Nepal's federal system has expanded the reach of government, widened democratic participation, and strengthened local-level inclusion, yet the quality, depth, and consistency of these gains remain uneven. Citizens trust local governments more than provincial or federal tiers, largely because local services are visible, proximate, and easier to access. However, satisfaction drops where services are delayed, politicised, or of inconsistent quality, and this dissatisfaction now sits within an overall context of rising national pessimism and declining trust in higher-tier institutions. The survey shows clear gaps between citizens' expectations and institutional performance, making it evident that participation, responsiveness, and service quality remain decisive determinants of public confidence.

Inclusion has advanced in structure, particularly through constitutional mandates that have transformed the representational landscape. But inclusion in outcomes lags behind. Experiences of linguistic and caste-based exclusion are declining, yet gender-based barriers remain significant, particularly for women in the Terai. Local governments often meet GESI requirements procedurally, but far fewer translate these commitments into targeted resource allocation, systematic monitoring, or measurable improvements in service equity. Similarly, participatory governance mechanisms exist in most municipalities, but only a minority use them effectively. Public hearings, social audits, and grievance systems remain largely symbolic unless they lead to actual adjustment of plans, budgets, or service delivery practices. The survey's communication-preference data also show that citizens continue to rely overwhelmingly on informal networks rather than formal channels, signalling a serious gap in institutional communication and outreach.

A summary of significant conclusions is provided below:

- **Public confidence in federalism is bifurcated,** with strong trust in local governments but declining trust in provincial and federal tiers, signalling that devolution is delivering visibly at the bottom but is not yet functioning coherently higher up.
- **National pessimism is at its highest recorded level,** with optimism about the country's direction falling below 25 percent for the first time, underscoring deeper systemic concerns that federal institutions

Public perception issues are not cosmetic concerns but fundamental to Nepal's federal transition. Trust, inclusion, and participation are core pillars of legitimacy in a devolved system.

must address to maintain legitimacy.

- **Service delivery drives trust,** as citizens associate improved local roads, drinking water, health services, and electricity with effective government; weaknesses in electricity, irrigation, roads, and market access directly erode satisfaction and confidence.
- **Equity and inclusion have progressed unevenly,** with sharp declines in language- and caste-based discrimination but persistent gender barriers, limited GESI implementation, and continued exclusion in documentation- and subsidy-linked services.
- **Participatory governance remains largely procedural,** with widespread existence but shallow use of public hearings, social audits, and grievance systems, and citizens still relying on informal networks for information, highlighting a critical gap in institutional responsiveness and communication.

Taken together, these findings underscore that public perception issues are not cosmetic concerns but fundamental to Nepal's federal transition. Trust, inclusion, and participation are core pillars of legitimacy in a devolved system. The "Trust in institutions, by year" table in the national survey illustrates this clearly: trust in federal and provincial institutions has declined steadily since 2020, while trust in local governments, ward offices, courts, community organisations, and the Public Service Commission remains significantly higher. This divergence reflects both the promise and the fragility of Nepal's federal system. Strengthening the link between citizen voice, service delivery, and institutional accountability must therefore be a central priority. Deepening participatory practices, improving transparency and communication, enforcing GESI integration in planning and budgeting, and building systems that respond reliably to citizens are essential if federalism is to fulfil its purpose of bringing government closer to the people and improving the lived experience of governance for all Nepalese.

8 PROVINCIAL AND LOCAL GOVERNMENT PROFILES

The 2025 baseline assessment of Nepal's federal performance reveals substantial variation across provinces and municipalities, shaped by differing political maturity, fiscal capacity, administrative readiness, and now, increasingly, by citizen perceptions captured through the 2025 Survey of the Nepali People. The survey provides an important additional dimension to the institutional analysis in this section, showing how governance capacity on paper aligns with the lived experience of citizens across the seven provinces.

Vertically, the assessment finds a persistent asymmetry between federal authority and sub-national autonomy. Despite constitutional guarantees, provinces and municipalities remain dependent on federal direction in staffing, fiscal allocation, and implementation. While amendments to the Federal Civil Service Act, 2075 (2019) began devolving certain recruitment functions to provincial governments, most provinces still operate with fewer than 40 percent of approved staff. Fiscal devolution remains partial, with 93 percent of provincial and 94 percent of local budgets financed by federal transfers. These vertical imbalances weaken sub-national discretion and dampen citizen satisfaction, reflected in relatively lower trust ratings for federal (52.7 percent) and provincial governments (45.5 percent) compared to local governments (68.6 percent).

Horizontally, disparities among provinces are equally pronounced. Bagmati and Gandaki outperform the national average on most institutional indicators, consistent with survey results showing stronger public awareness of federal and provincial services, higher satisfaction with health and infrastructure, and more trust in local institutions. Their Local Government Institutional Self-Assessment (LISA) scores show that over 50 percent of municipalities are rated "good," compared to only 27 percent in Karnali and 29 percent in Sudurpashchim. These institutional gaps mirror public sentiment: public pessimism is highest in Gandaki (76.4 percent wrong direction) and

Despite constitutional guarantees, provinces and municipalities remain dependent on federal direction in staffing, fiscal allocation, and implementation

Bagmati (67.9 percent), while optimism is relatively higher in Karnali (28.7 percent), which also reports comparatively lower perceived exclusion and higher trust in community institutions.

Fiscal performance reinforces these disparities. Bagmati's own-source revenue represents 10.5 percent of total receipts, whereas Karnali's remains below 2 percent. Yet survey findings add a critical nuance: despite Karnali's economic constraints, citizens report higher trust in local services, stronger perceptions of improvement in infrastructure and service access, and relatively greater optimism that their locality is improving, even when their assessment of the country as a whole remains pessimistic.

At the local level, municipal and rural governments continue to diverge sharply in performance. Metropolitan and sub-metropolitan cities show stronger administrative functionality, digitalisation, and citizen satisfaction, consistent with survey findings indicating higher awareness of local services, stronger engagement, and easier access to civil registration, drinking water, and health services. Rural municipalities continue to face staffing shortages, limited fiscal space, and weaker public financial management systems. The PLGSP Indicator Framework shows that only 38.4 percent of municipalities nationally achieved a "good" rating in FY2023/24, yet the survey reveals that even in weaker municipalities, citizens overwhelmingly rely on local governments as their first point of contact and continue to trust ward offices (75.9 percent) more than any other tier besides the Public Service Commission.

Across all provinces, a consistent pattern emerges: the political architecture of federalism has been successfully established, but the fiscal, administrative, and now citizen-perception pillars are unevenly consolidated. Provinces such as Bagmati and Lumbini are emerging as reform leaders, with survey results confirming higher satisfaction with roads, electricity, and health services. Others, like Madhesh and Sudurpashchim, face structural constraints reflected both in weaker institutional scores and in lower awareness of public services, weaker satisfaction with infrastructure, and continued reliance on informal networks (friends, neighbours, community leaders) for accessing government information.

The political architecture of federalism has been successfully established, but the fiscal, administrative, and now citizen-perception pillars are unevenly consolidated.

The following section presents comparative profiles of provincial and local governments, drawing on more than 60 quantitative and qualitative indicators supplemented by perception data from the 2025 Survey. It illustrates how variations in fiscal autonomy, staffing, institutional functionality, citizen trust, service satisfaction, and participatory behaviour shape Nepal's federal transition. Together, these findings underscore that the challenge of federalism is not only vertical alignment between tiers and horizontal balance across regions, but also responding to the perceptions and expectations of citizens who increasingly evaluate federalism by its lived impact on daily services, fairness, and trust.

8.1 SUMMARY OF PROVINCIAL-LEVEL RESULTS AND VARIATION

This section synthesises results from the Capacity Assessment and the PLGSP indicator sheets to profile provincial performance and gaps against the national baseline. It highlights vertical imbalances, where provinces and local governments remain dependent on federal staffing, fiscal transfers, and standard-setting, and horizontal imbalances, where institutional strength, revenue effort, and service quality vary markedly across provinces. The analysis draws on LISA composites, HR fill rates, PFM and participation indicators, and province-level notes from the Capacity Assessment, with population figures referenced from the 2021 Census. Overall, Bagmati and Gandaki cluster above national averages across most governance dimensions, Koshi and Lumbini are mixed performers with strong pockets and weak peripheries, Madhesh performs strongly on scale and connectivity but faces persistent equity and compliance constraints, and Karnali and Sudurpashchim face the steepest capacity and fiscal headwinds that reinforce structural disadvantage UNDP, 2026; Government of Nepal, MoFAGA)

Koshi Province

Koshi demonstrates mid-upper institutional performance, supported by relatively strong urban municipalities such as Biratnagar and Itahari. The province benefits from diversified economic activity, better connectivity, and an emerging digital culture.[9] Urban corridors show above-average LISA scores, with most municipalities rated "good" or "satisfactory." However, its hill and mountain municipalities lag behind due to structural and human resource (HR) deficits. Provincial capacity is improving through planning and reporting systems, yet technical staffing and project execution remain weak. Own-source revenue (OSR) growth is above the national mean (approximately 9 percent of total receipts), but fiscal dependency persists. The province still lacks an integrated HR system, which constrains administrative efficiency.

- ***Primary differences vs average:*** better urban LISA scores, stronger digital uptake, below-average HR fill in remote municipalities.
- ***Major areas of incapacity:*** project preparation and procurement planning, HR deployment to hills, outcome tracking for GESI and service delivery

[9] Mid-upper institutional performance" denotes provinces scoring in the upper-middle range of the national distribution across composite governance indicators, including LISA, HR capacity, PFM performance, and fiscal indicators, based on standardised clustering used in the Capacity Assessment.

Madhesh Province

Madhesh Province combines the highest population density with the lowest institutional balance. Its proximity to the Indian border provides market advantages yet also exposes governance vulnerabilities including fiscal leakages and politicisation. The Capacity Assessment (MoFAGA, 2025) shows that while Madhesh leads in service throughput—especially in civil registration and social protection—its compliance, transparency, and internal audit systems fall below national averages. OSR performance is uneven: larger municipalities such as Janakpur perform well, but rural bodies collect little local revenue. LISA data indicate only 33 percent of municipalities rated "good." HR distribution is skewed, with provincial ministries overstaffed in central towns and under-resourced in peripheral areas. GESI mainstreaming remains largely procedural.

- ***Primary differences vs average:*** higher service throughput, higher fiscal dependency, lower average LISA in rural belts.
- ***Major areas of incapacity:*** internal audit and follow-up, grievance systems, performance-linked budgeting, HR professionalisation at local level

Bagmati Province

Bagmati is the most institutionally mature province and the administrative benchmark for Nepal's federal system. It benefits from Kathmandu's centrality, the presence of national agencies, and strong fiscal performance. Over 60 percent of municipalities in Bagmati achieved a "good" LISA score, the highest nationally. The province leads in OSR (averaging 11 percent of total receipts) and in digitalisation, with 100 percent of municipalities using SuTRA and over 90 percent applying e-procurement. The Capacity Assessment finds strong provincial oversight, though inter-tier coordination sometimes bypasses formal channels due to political centrality. Bagmati's challenge lies in extending its high standards to peri-urban and rural municipalities where planning and procurement are weaker, and where capital spending absorption rates drop below 70 percent.

- ***Primary differences vs average:*** higher LISA share rated "good," stronger OSR, broader use of SuTRA and portals,
- ***Major areas of incapacity:*** uneven procurement quality among smaller LGs, limited integration of performance data into budgets, audit resolution backlog in some sectors.

Gandaki Province

Gandaki stands out for governance quality, planning discipline, and disclosure compliance. It maintains a balanced urban–rural mix with modest fiscal autonomy. The provincial administration actively monitors local governments and conducts annual performance reviews in 70 percent of its municipalities. OSR averages around 7 percent, and execution rates are above the national mean, although fiscal space remains limited. HR capacity varies by district: western mountainous areas have chronic vacancies, while urban municipalities are near full staffing. Digital adoption is strong but concentrated in urban centres. GESI integration is progressing through targeted grants, yet technical training and asset management lag. Gandaki's commitment to data-driven decision-making and participatory planning make it a model for mid-sized provinces.

- ***Primary differences vs average:* s**tronger provincial review routines, better compliance on disclosure, moderate OSR,
- ***Major areas of incapacity:*** technical HR deficits in remote LGs, asset management and maintenance planning, e-procurement coverage.

Lumbini Province

Lumbini exhibits two distinct realities: a capable, industrialising urban core (Butwal, Siddharthanagar) and lagging rural municipalities with low fiscal and technical capacity. The Capacity Assessment (MoFAGA, 2025) records medium performance overall—44 percent of municipalities rated "satisfactory," 32 percent "good." The province's HR fill rate is about 40 percent, with wide intra-provincial variation. Audit follow-up and capital budget execution trail the national average. Although digital tools such as SuTRA and CRVS are widely adopted, internal control systems and cross-border integrity management remain weak, especially along the Indian frontier. GESI implementation is compliance-oriented, with few performance-linked outcomes. Lumbini's strategic location offers potential for industrial revenue and regional integration if governance bottlenecks are addressed.

- ***Primary differences vs average:*** mixed LISA distribution, moderate digital adoption, mid-range OSR.
- ***Major areas of incapacity:*** procurement planning, internal control, GESI outcome monitoring, cross-border integrity risks on corridors.

Karnali Province

Karnali remains the most capacity-constrained province due to geography, remoteness, and resource scarcity. Less than one-third of provincial civil service posts are filled, and HR shortages are acute in engineering, accounting, and health cadres. Only 27 percent of its municipalities achieved "good" LISA scores, while OSR contributes under 2 percent of total receipts. Provincial oversight mechanisms exist but lack financial and human capacity to operate consistently. Infrastructure development is hampered by poor road access, high transport costs, and limited private-sector participation. Data collection and monitoring systems are rudimentary, and digital literacy remains low. Despite these challenges, Karnali demonstrates strong community engagement and provincial commitment to capacity building, supported by Provincial Centres for Good Governance.

- ***Primary differences vs average:*** lowest HR fill, lowest OSR, lowest share of "good" LISA ratings.
- ***Major areas of incapacity:*** technical HR deployment, project preparation, logistics for service delivery, data and monitoring system.

Sudurpashchim Province

Sudurpashchim shows steady institutionalisation but persistent structural constraints. The province's geography isolates several districts, inflating service delivery costs and hampering connectivity. About 35 percent of municipalities scored "good" in LISA, close to the national mean but below frontier provinces. Provincial ministries face high staff turnover, while local governments rely on deputed officers for key technical roles. Budget execution remains weak, with significant underspending in infrastructure and agriculture. Digital system uptake (SuTRA and CRVS) is widespread, but data analysis and e-procurement usage are limited. Inter-tier coordination has improved modestly through periodic provincial–local consultations, yet citizen feedback mechanisms are underdeveloped. Gender and inclusion strategies exist in most municipalities but lack resources and measurable outputs.

- ***Primary differences vs average:*** lower execution and audit follow-up, patchy digital use beyond finance modules.
- ***Major areas of incapacity:*** retention of skilled staff, maintenance planning, outcome-level GESI tracking, grievance resolution.

Table 20 provides a broad summary of Nepal's seven provinces, presenting an integrated snapshot of governance capacities, constraints, and opportunities within the federal system. It draws from the Capacity Assessment of Provincial and Local Governments (MoFAGA, 2025) and the PLGSP Indicator Framework datasets to illustrate how each province is performing relative to national baselines.

The table captures both ***vertical imbalances***—reflecting how provinces depend on federal transfers, directives, and staffing, and ***horizontal imbalances***, highlighting disparities in institutional strength, fiscal autonomy, and administrative maturity across regions.[10] It is not a ranking, but a comparative overview designed to help interpret Nepal's evolving federal landscape from a governance perspective. Each provincial profile consolidates population data, an overall summary of governance capacity, the principal shortcomings identified through the Capacity Assessment, and key opportunities for strengthening federal coherence. The final column summarises the broader implications for Nepal's state-building process, showing how different provincial trajectories together define the success and sustainability of Nepal's federal experiment.

Provinces may consider creating integrated district-level service centres hosting multiple provincial line functions, as proposed by NA Rec 43. The report supports NA recommendations to avoid recentralising boards and development committees that should remain under provincial authority (NA Rec 44). The NA highlights updating public land records and land use as a priority governance task (NA Rec 98); this will be integrated into future baseline indicators.

[10] Vertical imbalances refer to disparities in power, resources, and administrative authority between different tiers of government. In Nepal's context, these arise when provinces and local governments depend heavily on the federal level for fiscal transfers, staffing approvals, and policy directives, limiting their constitutional autonomy to plan and deliver services independently. Horizontal imbalances describe inequalities that exist among provinces or municipalities at the same level of government. These include differences in institutional capacity, revenue generation, service delivery performance, infrastructure, and human resources. Horizontal gaps often reflect underlying economic, geographic, and demographic disparities that influence how effectively each province or local government can exercise its devolved powers within the federal framework.

8.2 PROVINCIAL OVERVIEW (ALL PROVINCES, FULLY COMBINED)

This table provides a consolidated overview of provincial governance performance by combining institutional indicators from the MoFAGA Capacity Assessment with citizen perception data from the 2025 Survey of the Nepali People. It highlights the persistent vertical imbalances in Nepal's federal system, where provinces and local governments continue to depend heavily on federal transfers, federal staffing authority, and centrally framed policies, limiting their autonomy in planning, budgeting, and service delivery. At the same time, the table illustrates pronounced horizontal disparities across provinces: Bagmati and Gandaki demonstrate stronger administrative systems, higher LISA scores, and stronger fiscal bases, while Karnali and Sudurpashchim face constraints linked to geography, capacity shortages, and limited revenue-raising potential.

By integrating survey evidence, the table shows how these structural differences are reflected in the perceptions and lived experiences of citizens. Provinces with stronger administrative capacity, such as Bagmati and Koshi, also record higher satisfaction with roads, electricity, and health services, while Madhesh and Sudurpashchim show lower optimism, weaker awareness of government services, and higher dissatisfaction in key sectors. Trust in institutions varies widely, with consistently high confidence in local governments, ward offices, courts, and the Public Service Commission, but declining trust in provincial and federal tiers across most regions. These combined insights underscore that Nepal's federal transition is shaped not only by institutional architecture but also by how citizens experience governance day to day. The table therefore establishes a comprehensive baseline for understanding the differentiated challenges and opportunities facing each province, reinforcing that strengthening federalism requires addressing both vertical alignment and horizontal balance, while ensuring that improvements in institutional performance translate into tangible gains in public trust, service quality, and inclusion.

Table 20. Provincial overview (all provinces, fully combined)

No.	Province	Population (2021 Census)	Overall governance capacity	Major shortcomings & challenges	Primary opportunities for enhancement	Implications for the State of Federalism	Citizen trust profile (2025)	Citizen satisfaction & service perceptions (2025)	Perception-linked implications
1	Koshi	4,961,412	Mixed-to-strong in urban corridors; weaker in hills; systems largely in place, uneven HR and execution (MoFAGA, 2025).	HR deployment to remote LGs; capital project preparation; procurement; outcome-level monitoring & GESI use.	Provincial support units; performance-linked grants; digital planning tools; integrated budgeting.	Demonstrates need to pair digital rollout with HR and procurement depth to reduce vertical reliance.	High trust in PSC (89.9%), courts (79.6%), police (79.7%). Provincial govt trust moderate.	26.6% optimistic; strong roads and education awareness (70.5%); moderate health policy awareness (51.3%).	High institutional trust but lower optimism indicates governance strength but weak national sentiment.
2	Madhesh	6,114,600	High service through-put; strong connectivity; but compliance and integrity controls trail system expansion (MoFAGA, 2025).	Internal audit; grievance systems; executive inclusion; outcome monitoring.	Risk-based audits; citizen portals; performance budgeting in large LGs.	Scale without controls sustains vertical dependency and horizontal equity gaps.	Lower trust overall; provincial trust 28.8%; PSC 82%; high trust in courts (79.8%).	Only 25.4% optimistic; low satisfaction with drinking water (22.7%) and electricity (24.1%); strong demand for jobs (54.2%).	Weak optimism and uneven service perception highlight governance fragility and need for systematic reforms.
3	Bagmati	6,116,866	National pacesetter on LISA, OSR, digital transparency; some peri-urban variance persists (MoFAGA, 2025).	Uneven procurement in smaller LGs; limited budgeting performance; audit backlogs.	Expanded e-GP coverage; contract management; integrate LISA with budget ceilings; PAC strengthening.	Offers reference model; next step is stronger transparency into tighter accountability.	Trust high in media (87.1%), courts (70.3%), police (75.4%); moderate local govt trust; provincial govt trust mid-range.	High satisfaction with roads (84.1%); strong scores in electricity and health access; optimistic drivers tied to infrastructure.	Survey reinforces Bagmati as a performance leader with citizen expectations centred on service quality and delivery speed.

No.	Province	Population (2021 Census)	Overall governance capacity	Major shortcomings & challenges	Primary opportunities for enhancement	Implications for the State of Federalism	Citizen trust profile (2025)	Citizen satisfaction & service perceptions (2025)	Perception-linked implications
4	Gandaki	2,466,427	Above-average planning, disclosure, and provincial oversight; peripheral LGs face capacity gaps (MoFAGA, 2025).	Technical HR shortages; asset management; limited e-procurement penetration.	Provincial maintenance funds; AMPs; shared engineering pools; procurement helpdesks.	Illustrates how provincial stewardship can narrow horizontal gaps if resourced and codified.	Courts (76.5%) & CBOs (80%) highly trusted; lower police trust (65.1%); moderate provincial trust.	One of the highest pessimism levels (17.4% optimistic; 76.4% pessimistic); moderate satisfaction with roads.	Strong institutional trust coexists with pessimism, showing delivery-perception gaps despite administrative strength.
5	Lumbini	5,122,078	Two-speed province: capable core and lagging periphery; execution and audit follow-up below leaders (MoFAGA, 2025).	Procurement planning; internal control; follow-up; GESI tracking.	Project preparation facility; risk-based audit pilots.	Underscores need for targeted provincial instruments to equalise within-province disparities.	Courts (77%), police (74%), PSC (85%) highly trusted; provincial govt moderately trusted.	Good satisfaction in health (58.5%) and roads; optimism lower (~26.2%); electricity improvements moderate (41.8%).	Perception data reinforces structural two-speed pattern: strong core services but uneven periphery performance.
6	Karnali	1,688,412	Most constrained in HR, OSR, connectivity, and absorptive capacity; systems present but performance lagging (MoFAGA, 2025).	HR retention; logistics; data systems; capital absorption.	Hardship-linked HR incentives; pooled provincial services; works frameworks; mobile service units.	Highlights structural vertical imbalance and need for differentiated support.	Very high trust levels: PSC (88.8%), police (82.7%), courts (79.6%); strong trust in LGs.	Higher optimism (28.7%); strong satisfaction with roads (70.4%) and water; high awareness of federal services.	Survey shows resilience: despite economic constraints, citizen trust is high, supporting targeted capacity strengthening.

No.	Province	Population (2021 Census)	Overall governance capacity	Major shortcomings & challenges	Primary opportunities for enhancement	Implications for the State of Federalism	Citizen trust profile (2025)	Citizen satisfaction & service perceptions (2025)	Perception-linked implications
7	Sudurpashchim	2,694,783	Institutionalisation progressing; execution, HR stability & coordination remain below average (MoFAGA, 2025).	Retention of skilled staff; maintenance; outcome-level GESI tracking; grievance resolution.	Provincial talent pipelines; NASC training; maintenance budgeting norms; citizen loops into budgets.	Points to need for sustained provincial capacity & inter-tier coordination.	High PSC trust (91% – highest nationally); strong trust in courts (67.3%); provincial trust moderate-low.	Very low optimism (17.8%); modest satisfaction in health/water; electricity improvement 42.7%.	Despite high institutional trust, pessimism indicates weak service equalisation across remote geographies.

8.3 SELECTED CASE STUDIES FROM LOCAL GOVERNMENT

Local level (governance): capacity and basic service delivery

Outcome 3 assesses local governments' capacity for good governance and their performance in delivering inclusive basic services. With 753 municipalities (including rural municipalities) now in their second elected term, the emphasis is on institutionalising accountable practices, improving service delivery, and strengthening citizen satisfaction at the grassroots level. In 2023/24, local governments made notable gains in institutional capacity (e.g. self-assessments, planning processes) and enjoyed relatively high public confidence, but challenges persist in oversight and in equitable service provision.

- **Local Institutional Performance (LISA Scores):** Nepal introduced the LISA system to evaluate municipal capacity across governance, administration, and service delivery indicators. After three annual cycles, results show that only about 38% of municipalities achieved a "good" performance ranking in the latest assessment. The majority of local governments fell in lower performance tiers, indicating weaknesses in areas such as planning, financial management, and human resource practices.
Date/source: LISA composite results, FY2022/23 (study by Pradhan & Kharel, Feb 2024).
  - **Observation:** While all local units now engage in this self-assessment process (tied to performance-based grants), the fact that under 40% meet the "good" benchmark highlights significant capacity gaps that need addressing. Common shortcomings identified include lack of sufficient technical staff, delays in budget execution, and gaps in compliance with federal standards.
- **Elected Representation:** Local councils are highly representative due to constitutional mandates. Roughly 41% of the 35,000+ local elected officials are women, including virtually all 753 Deputy Mayors/Vice Chairs (who must be female by law). There are also mandated representations of Dalits and minority groups in each ward committee.
Date/source: Election Commission of Nepal, Local Elections 2022; Asia Foundation SNP Survey 2022.
  - **Observation:** This has improved local inclusivity; for example, women's presence in councils has led to more initiatives on women's health and gender-based violence at the local level. However, women still hold relatively few top executive positions (approximately 13% of Mayors/Chairs are female), and meaningful inclusion in decision-making varies by municipality. Many local governments have formed GESI committees and at least 90% have prepared GESI Action Plans or Guidelines (often with PLGSP support) to mainstream inclusion in local planning. The focus now is ensuring these plans translate into budget allocations and services that address the needs of women, Dalits, Janajatis and other excluded groups.
- **Citizen Satisfaction with Services:** Public confidence in local government is comparatively high. In a 2022 nationwide survey, 57.2% of respondents said they were satisfied with the service delivery by their local government. Moreover, a majority (54.4%) felt that federal restructuring itself had improved local service capacity. Date/source: Survey of the Nepali People 2022 (Kathmandu University/Asia Foundation), launched Jan 2023.
  - **Observation:** This indicates that, despite operational difficulties, citizens are noticing better access to services under elected local leadership. Notably,

local governments were rated the most responsive tier during the Covid-19 crisis, which likely bolstered public trust. That said, satisfaction is not uniform: rural and marginalised communities often still report gaps in services like road access, drinking water, and market linkages. Another survey (UNDP, 2018) found only 15% of people "fully satisfied" and about two-thirds "partially satisfied" with their municipality, suggesting room for improvement in service quality and outreach.

- **Basic Service Delivery Outcomes:** Basic Service Delivery Outcomes. In terms of concrete services, local governments have made measurable progress on several fronts. For example, national survey data show that birth registration coverage among children under five in Nepal rose from about 58% in 2014 to roughly 77% in 2019, reflecting efforts to expand civil registration and local oversight. Municipalities have also led expansions in rural roads, drinking water systems, and sanitation services. However, quality and maintenance remain uneven; many local units continue to struggle with staffing and financing for devolved services such as health posts, schools, and agricultural extension. National census and survey data will be important for tracking evolving service outcomes in the coming years (Multiple Indicator Cluster Survey, 2014 and 2019).
  Disparities are evident: for instance, some well-resourced municipalities have near-universal drinking water access and high vaccination coverage, while remote rural municipalities lag behind on these indicators (often requiring provincial or federal intervention).
  Date/source: UNICEF Nepal statistics 2023; Ministry of Health – administrative data on local service benchmarks (improvements in WASH, immunisation).
  - **Observation:** The devolution of basic services to local governments has improved local accountability – communities can directly petition their council for improvements – but it has also put pressure on local capacity. Many municipalities are still learning to manage procurement and staffing for essential services. Encouragingly, schemes like conditional grants for infrastructure and Minimum Condition/Performance Measure (now LISA) have pushed lagging local governments to step up basic service delivery. Continued capacity building and resource support are needed to ensure all local residents benefit from devolved services.

- **Local Accountability and Oversight:** By law, each municipality must form oversight committees (such as audit, procurement, monitoring committees) and hold annual public hearings. Compliance is growing; in 2023, virtually all 753 local governments conducted annual social audits or public hearings on their budgets. Additionally, community-based monitoring tools are spreading – at least 33 municipalities (mainly in Madhesh and Lumbini Provinces) implemented Community Score Cards with civil society to gather citizen feedback on services.
  Date/source: International Alert report on community scorecards, 2022; Accountability Lab Nepal updates.
  - **Observation**: These mechanisms have revealed issues like delays in scholarship distribution and shortages of medicines, which local officials have pledged to address. Nonetheless, formal grievance redressal is still patchy. There is no nationwide data on the percentage of citizen complaints resolved by local governments, but case studies suggest many complaints (e.g. on infrastructure quality or staff behaviour) go unanswered. Strengthening Ward Citizen Forums and grievance registries at the ward level could improve this accountability loop. Local councils themselves vary in proactiveness – some

rigorously debate annual plans and review progress, while others simply endorse decisions of the executive. On the whole, however, the second generation of local representatives (elected in 2022) appear to be more educated and reform-oriented, which bodes well for improving governance at the local level.

Nepal's local governments have arguably been the flagship success of the federal experiment so far, bringing government closer to the people and sustaining basic services even during crises. They have put in place the building blocks of local governance: elected councils, participatory planning processes, village assemblies, and community monitoring. Public opinion reflects a relative endorsement of local government performance compared to other levels. The trajectory for local governance is one of gradual improvement, but with significant variation. Some municipalities (often urban or better-resourced) are innovating with digital services, local revenue generation, and inclusive budgeting, whereas smaller rural municipalities still rely heavily on federal grants and have limited administrative capacity. Key signs of progress include the widespread adoption of self-assessment and planning tools by local bodies and increasing responsiveness to local needs (e.g. emergency relief distribution, local road maintenance).

Persistent challenges remain in technical capacity (filling skilled positions such as engineers, accountants), financial sustainability (expanding local revenue without over-taxing the poor), and ensuring the inclusion of the most marginalised (who may not yet feel the impact of local government in their daily lives). Overall, the evidence suggests an upward trajectory in local institutional functionality – if supported with adequate training, incentivised through performance-based grants, and monitored by an active civil society, local governments can continue to improve service delivery and deepen grassroots democracy as Nepal's federal transition advances.

8.4 LOCAL LEVEL TECHNOLOGY, FISCAL REFORMS, AND INCLUSION

Outcome 4 zooms in on cross-cutting improvements at the local level, particularly the adoption of digital tools, enhancements in public financial management, and the mainstreaming of Gender Equality and Social Inclusion (GESI) in local governance. In 2023/24, Nepal's local governments accelerated their digital transformation – rolling out e-governance systems and automating processes – and took steps to institutionalise GESI practices (such as gender-responsive budgeting). These reforms aim to make local governance more efficient, transparent, and inclusive.

- **Digital Service Delivery Tools:** The majority of local governments have embraced online platforms to deliver administrative services. Notably, over 97% of wards (the lowest administrative unit) now use an online system for vital event registration – births, deaths, marriages, etc. This dramatic uptake (part of the Civil Registration and Vital Statistics initiative) has made it easier for citizens to obtain birth certificates and other documents, contributing to one of the fastest increases in registration rates in South Asia. In addition, all municipalities have set up official websites and many offer downloadable forms and public notices online.
  Date/source: World Bank Digital CRVS Project update, 2024.

- » **Observation:** The near-universal digitisation of vital registration at the ward level is a milestone – it improves accuracy of local population data and underpins better planning (e.g. knowing how many children to plan vaccinations for). That said, some remote wards still face internet connectivity issues, and digital literacy of citizens can be a barrier; many municipalities have addressed this by establishing helpdesks at ward offices to assist residents with the e-system.

- **Integrated Financial Management Systems:** By 2024, all 753 local governments were using the SuTRA accounting software to manage budgets and report expenditures and the Public Asset Management System (PAMS). These systems, provided by the Ministry of Federal Affairs and General Administration, ensure that local budget data are captured in a standard format and can be monitored in real time by provincial and federal authorities.
  Date/source: PLGSP Annual Progress Report 2023.
  - » **Observation:** The rollout of SuTRA/PAMS nationwide has been a game-changer for fiscal transparency. It enables timely financial reporting and has streamlined grant disbursements (e.g. conditional grants usage can be tracked). Moreover, some provinces have developed their own digital dashboards that integrate with SuTRA to oversee local spending. One gap is in e-procurement (e-GP): while the federal Public Procurement Management Office extended the e-GP system to sub-national entities, there is no consolidated data on how many municipalities are tendering online. Field reports indicate that larger municipalities are using e-GP for most bids, but smaller rural ones still rely on manual processes. Expanding e-procurement adoption is a next step to reduce corruption and enhance efficiency at the local level.

- **Fiscal Reforms and Local Revenue:** In terms of fiscal reform, local governments have begun to modernise revenue administration. Many municipalities have digitised tax records and billing for property taxes and business licences. However, introducing new local taxes or fees based on systematic studies remains rare. There is no centralised tally of revenue policy reforms across municipalities in 2024.
  Date/source: Review of local tax policies, MOFAGA 2024.
  - » **Observation:** Anecdotally, some municipalities (especially in urban areas) have broadened their tax base – for instance, by updating property valuations or automating tax collection – which has increased their own-source revenues. But others, particularly rural municipalities, still collect very little locally and depend almost entirely on inter-governmental fiscal transfers. The Inter-governmental Fiscal Arrangement Act allows local units a range of taxes (property, rental, advertisement, etc.), yet capacity to enforce and collect these varies. The federal government and development partners have provided training on revenue estimation and encouraged tax-potential studies, but as of 2024, such studies had not been widely conducted or translated into new local revenue instruments. Maintaining a balance is key: while boosting local revenue is important for sustainability, it should be done in a way that doesn't over-burden citizens or create disparities between richer and poorer municipalities.

- **GESI in Planning and Budgeting:** Gender Equality and Social Inclusion has been mainstreamed into local planning procedures. All local governments are required to prepare a Gender-Responsive Budget (GRB) statement as part of their annual budget. In FY 2023/24, the federal Ministry of Finance reported that around 39% of the national budget was classified as directly or indirectly supporting GESI goals – and local governments follow a similar classification system (though their exact compliance rate is not centrally tracked).
  Date/source: National GRB Implementation Review 2024; UN Women Nepal report.
  - **Observation:** In practice, this means municipalities allocate funds for programmes like women's empowerment training, scholarships for Dalit students, disability assistance, etc. For example, many municipalities now earmark 10% of their capital budget for projects identified by women's groups, and 15% for disadvantaged communities, however, this is not guided by national policy. All 7 provinces and a majority of municipalities (est. 80%+) have adopted GESI strategies or guidelines that set out these earmarks. The caveat is that monitoring of how effectively these GESI-tagged funds are spent is uneven. Some local governments produce GESI audit reports – evaluating whether budget allocations benefited target groups – but there is no aggregate data on this. The institutionalisation of GESI is evident also in staffing: many municipalities (especially urban ones) have designated GESI focal persons or units to ensure that women, dalits, janajatis, and other groups have voice in local governance. Going forward, improving the quality of GESI outcomes (not just the quantity of allocations) will be important – e.g. tracking improvements in women's livelihoods or inclusive infrastructure as a result of those budgets.
- **Capacity Building and Innovation:** Capacity Building and Innovation. To sustain reforms, provinces have established a range of capacity-development arrangements, including Provincial Centres for Good Governance and province-level training units supported through PLGSP, which have developed e-learning modules and practical toolkits for local officials. By 2024, multiple online training modules covering areas such as planning, budgeting, GESI, and basic IT skills had been made accessible to local governments, allowing officials to access training on demand and reducing the need for travel (PLGSP, 2023). This digital approach has broadened reach, with substantial uptake reported across municipalities, including participation in online courses on public procurement regulations. However, evidence on whether training demand is fully met, and on how consistently training translates into changes in practice, remains limited, as systematic tracking of unmet training needs is not yet in place. Provincial experience suggests that resource constraints continue to shape prioritisation of training offerings, underscoring the importance of sustained investment and further tailoring of content, including modules on climate resilience and urban planning, to address emerging local government challenges.

The digitalisation and GESI mainstreaming efforts at the local level signal a forward-looking reform trajectory. In the past five years, Nepal's local governments leapt from paper-based, centrally-controlled systems to modern e-governance practices. This has increased transparency (e.g. budgets and council decisions are now routinely published online by many municipalities) and efficiency (processes like registering a birth or paying taxes are faster). It has also created a wealth of data – financial, demographic, etc. – that can be used for evidence-based planning. On the GESI front, one of the most tangible signs of progress is the high representation of women and marginalised groups in local bodies and the institutional requirements to consider their needs (through budget earmarks and consultations).

These are key signs of progress towards more inclusive local development. Of course, persistent challenges temper these gains: not all local units have equal access to technology (some remote areas still struggle with connectivity); the quality of GESI outcomes depends on changing deep-rooted social norms, which takes time; and local fiscal reforms are in early stages, meaning many municipalities still rely on external support for basic operations. Nonetheless, the trajectory is clearly one of modernisation and inclusion. Local governments today are more tech-enabled and socially conscious than they were at the start of federalisation. If this momentum continues – supported by provincial and federal frameworks (like the Digital Nepal strategy and the national GESI policy) – we can expect local governance to become increasingly service-oriented, accountable, and attuned to the diverse population it serves.

8.5 INSTITUTIONAL EFFICIENCY, INCLUSIVITY, & ACCOUNTABILITY

This outcome focuses on whether the seven provincial governments are operating efficiently, practicing inclusive governance, and upholding accountability in their institutions. Key measures include human resource capacity, fiscal management, oversight of expenditures, and responsiveness to citizen needs at the provincial level. In 2023/24, provinces remained constrained by limited manpower and finances, though they have established core institutions and begun addressing governance challenges.

- **Provincial Civil Service Capacity:** Nepal's provinces face a severe shortage of civil servants. As of early 2025, only 8,415 of the 22,236 approved provincial civil service positions were filled – about 38% – leaving roughly 13,800 posts (62%) vacant. All provinces rely heavily on staff deputed from the federal government or hired on temporary contracts.
  Date/source: Federalism & Localisation Centre study (Khim Lal Devkota), reported Mar 2025.
  - **Observation:** These capacity gaps have direct effects on service delivery – for instance, dozens of local units lack even a Chief Administrative Officer due to unfilled positions. The continued absence of a Federal Civil Service Act has prevented permanent staffing of provincial ministries, highlighting a structural weakness in administrative federalism.
- **Fiscal Autonomy and Revenue Generation:** Provincial governments remain heavily dependent on federal transfers. In FY 2022/23, only about 20% of provincial revenues came from the provinces' own taxes and fees, while approximately 80% was financed through fiscal transfers from Kathmandu. Major revenue sources (VAT, excise, income tax) are collected by the centre and shared, leaving provinces with limited exclusive taxes (e.g. agricultural income tax contributes negligibly).
  Date/source: FCGO reports and Asia Foundation analysis, 2020–2023.
  - **Observation:** This fiscal structure means provinces have constrained spending power. Poorer provinces like Karnali illustrate the challenge – in FY2020/21 Karnali's own-source revenue was just 1.8% of its total receipts. Such

dependence on federal grants limits provincial ability to initiate programmes and undermines the constitution's vision of sub-national fiscal autonomy. Positively, provinces' own-source revenues have been rising modestly each year (from ~11% of budgets in 2019/20 to ~14% in 2020/21), but they still lack buoyant revenue bases.

- **Budget Utilisation and Efficiency:** Provinces continue to underspend their budgets, especially on development projects. By the late third quarter of FY 2022/23, the seven provinces on average had spent only 34% of their allocated annual budgets, and local governments had spent just 24.4% of theirs. Even accounting for a typical last-quarter spending surge, substantial portions of capital budgets remained unutilised at year-end.
  Date/source: Expenditure performance data reported May 2025.
  - **Observation:** This chronic under-execution (often leaving 15–20% of budgets unused) reflects capacity and procedural bottlenecks. Procurement delays, frequent staff turnover, and weak project management at the provincial level contribute to slow spending. The result is that citizens see fewer tangible development outcomes despite growing provincial budget allocations. Provinces like Bagmati and Lumbini, for example, managed to spend only around a quarter of their development funds by mid-year. Improving budget planning and execution is thus a priority for provincial efficiency.
- **Accountability – Audit and Oversight:** According to the Auditor General's 62nd Annual Report, a substantial share of audit observations at the provincial level remain unresolved, and only a minority of audited provincial agencies had cleared all identified irregularities in FY 2022/23. Recurring issues include weaknesses in procurement practices, stalled projects, and irregular expenditures that were identified through audit processes but not fully corrected. These patterns point to persistent gaps in provincial financial management and legislative oversight. While all provincial assemblies have established oversight committees, including Public Accounts Committees, and the federal Parliament's Special Committee on the Implementation of Federalism issued a set of recommendations in mid-2023 addressing provincial governance reforms, enforcement of corrective measures remains uneven. Strengthening provincial Public Accounts Committees and reinforcing the authority of Provincial Assemblies to ensure systematic follow-up on Auditor General findings will be critical to improving accountability outcomes (Office of the Auditor General, 2023).
- **Inclusivity in Provincial Governance:** All seven Provincial Assemblies meet the constitutional requirement of at least 33% women members, due to the inclusion of proportional representation seats. In practice, women make up about 36% of provincial assembly members nationwide (ranging from ~30% to 40% by province). Additionally, each province has either a Speaker or Deputy Speaker who is female, as mandated.
  Date/source: Election Commission data, Provincial Assembly elections 2022; see Gender Gap Index for political empowerment.
  - **Observation:** While numeric inclusion has been achieved in legislatures, executive roles remain male-dominated – for instance, all seven Chief Ministers have been men. Provinces have begun adopting Gender Equality and Social Inclusion (GESI) policies and forming inclusive committees. By 2024, most provinces had established GESI Units in their ministries and at

least 5 out of 7 provinces had approved a GESI Strategy or Policy to guide inclusive governance. The challenge is translating these policies into practice (e.g. ensuring women's meaningful participation in provincial planning and budgeting). On inclusion of ethnic and marginalised groups, provincial cabinets and public service hiring have seen only gradual improvements, as data on representation in provincial civil service are not systematically published

Half a decade after their establishment, Nepal's provincial governments are operational but continue to face capacity and institutional constraints. Core structures, including provincial legislatures, courts, public service commissions, and training academies, have been established, and provinces have enacted a growing body of provincial legislation. At the same time, limited staffing levels, procedural bottlenecks, and still-evolving accountability arrangements constrain administrative efficiency. Provincial governments also function within a fiscal framework that relies heavily on central transfers, which narrows effective policy autonomy. There is, however, emerging evidence of provinces seeking to clarify and strengthen their constitutional role, including formal resolutions and inter-governmental engagements aimed at advancing the devolution of assigned powers and addressing persistent institutional gaps.

Provincial governments are also rationalising structures (Gandaki recently merged dozens of offices to cut costs and improve service delivery). The trajectory suggests gradual strengthening – as federal enabling laws come through and as provinces build capacity, one can expect improved budget absorption and service delivery. However, persistent challenges – like federal reluctance to relinquish control (police, civil service), and weak downward accountability – temper the progress. In summary, Nepal's provinces have established the framework of provincial governance; the coming years must focus on improving the functionality and responsiveness of these institutions, with continued emphasis on training, resource mobilisation, and inclusive practices.

8.6 CONCLUSION

Nepal's provincial and local governments now stand at the centre of the country's federal transformation, embodying both the visible achievements of devolution and the structural imbalances that continue to shape performance. The 2025 baseline reveals that while the architecture of federalism is fully established, its functional maturity remains uneven across provinces and municipalities. Provinces such as Bagmati and Gandaki have begun to translate devolved powers into stronger planning systems, digital uptake, and more consistent oversight, while others like Karnali and Sudurpashchim continue to confront entrenched constraints linked to geography, staffing shortages, and limited fiscal space. These horizontal disparities are mirrored in the 2025 perception survey, where optimism, service satisfaction, and public trust diverge sharply across Nepal's regions, underscoring that institutional capability and citizen experience move together.

At the local level, municipalities have become the most trusted and responsive tier of government, consistently outperforming federal and provincial levels in citizen confidence. Yet this trust is not matched by uniform administrative strength. Urban municipalities benefit from deeper revenue bases, better staffing, stronger digital systems, and higher satisfaction with services such as health, roads, and drinking water.

Rural and remote municipalities, by contrast, continue to struggle with vacancy rates, procurement weaknesses, poor capital absorption, and limited capacity for planning and oversight. These differences compound horizontal inequality within provinces themselves, reinforcing the need for targeted equalisation and differentiated support models rather than one-size-fits-all reforms.

The baseline also shows that federalism's institutional design has outpaced the coherence of its implementation. Vertical imbalances persist: provinces and local governments remain dependent on federal transfers, federal approval for staffing decisions, and centrally driven sectoral policies. The Federal Civil Service Act—although now adopted—has only begun to address the bottlenecks that prevent provinces from recruiting their own cadres or exercising full personnel authority. Coordination forums exist but function irregularly, leaving routine planning, budgeting, and service delivery to informal channels that weaken predictability and blur accountability. Provincial assemblies must exercise their authority under Article 235(2) by enacting laws to govern municipal coordination and dispute resolution, aligning with National Assembly Recommendation 53 and strengthening the middle tier's integrative role.

The 2025 baseline confirms that the next phase of Nepal's federal journey must focus not on rebuilding institutions, but on closing the vertical and horizontal gaps that now define the system. This means empowering provinces to coordinate effectively, professionalising sub-national administrations, and aligning fiscal incentives with demonstrable improvements in service quality, equity, and accountability. It also requires deeper integration of citizen perceptions into performance frameworks, ensuring that institutional reforms are judged not only by compliance and capacity, but by whether Nepalese in every province experience a more accessible, fair, and reliable state.

With sustained political will and targeted institutional support, Nepal's sub-national governments can move from managing devolution to demonstrating development—advancing a federalism that is not only constitutional in design but transformative in practice.

9 CROSS-CUTTING TRENDS AND ANALYSIS

Nepal's federal transition is now embedded institutionally across the three tiers, yet performance remains uneven and marked by both vertical and horizontal imbalances. Vertically, provinces and local governments have gained constitutional authority but still rely heavily on federal transfers, central staffing approvals, and national standards, which can dilute sub-national discretion and slow implementation. Horizontally, sharp disparities persist among provinces and among municipalities at the same tier, reflecting differences in administrative depth, own-source revenue (OSR) bases, geography, and market access. PFM frameworks have strengthened in form, including wider rollout of core systems and classification alignment, but budget reliability and audit follow-up still lag. At the same time, public confidence in local governments has risen relative to other tiers, buoyed by visible service delivery gains and expanded civic participation. The agenda ahead is to translate institutional form into consistent performance by tightening accountability, deepening sub-national capacity, and aligning fiscal incentives with results across all tiers (PEFA Secretariat, 2024; The Asia Foundation, 2023; MoFAGA, 2025; PLGSP, 2023).

9.1 SUMMARY OF GOVERNANCE PATTERNS ACROSS TIER

Understanding governance patterns across Nepal's federal tiers requires looking beyond the existence of institutions to how authority, resources, and responsibilities are actually exercised. Each tier now functions within a clearly defined constitutional framework, but the way these frameworks are interpreted and implemented reveals striking differences in capacity, accountability, and influence. The federal government continues to dominate in policy direction and fiscal control, while provincial governments are still defining their operational role as coordinators and regulators. Local governments, meanwhile, have become the most visible tier of governance, directly shaping citizens' daily experiences with the state.

Section 9.1 synthesises these patterns to illustrate how political, fiscal, and administrative dynamics vary across tiers. It examines the balance between representation and decision-making power, the quality of fiscal management, and the evolving culture of public accountability. The analysis shows that Nepal's federal model has achieved breadth—through expanded participation and institutional coverage—but not yet depth, as disparities in capability, coordination, and performance continue to shape governance outcomes across all levels.

- **Political representation is broadening, but influence is uneven.** Constitutional quotas have delivered unprecedented women's presence at local level, with roughly 41 percent of seats now held by women after the 2017 and 2022 local elections. Yet leadership roles remain skewed towards men, and meaningful, sustained influence by women and marginalised groups is inconsistent across municipalities (Election Commission of Nepal, 2022; Prasain & Dhakal, 2024; Equal Measures 2030, 2024).
- **Sub-national PFM systems are more comprehensive, but execution and credibility are still weak.** The 2024 PEFA assessment, based on the 2016 methodology, notes improvements in legal and institutional architecture, including alignment to GFSM classifications and broader use of Treasury Single Account and digital tools. However, aggregate expenditure outturns remain below targets and compositional deviations exceed benchmarks, signalling persistent budget credibility challenges (PEFA Secretariat, 2024).
- **Fiscal dependence on the centre remains high.** Provincial and local governments continue to rely on formula-based fiscal equalisation, conditional, and special grants recommended by the National Natural Resources and Fiscal Commission (NNRFC). While the system has enhanced transparency of distribution, own-source revenues are still a small share of sub-national financing and provincial and local deficits widened in FY2023, underscoring the need for more robust local revenue mobilisation and predictable transfers (Forum of Federations, 2021; World Bank, 2024; New Business Age, 2024).
- **Local governments are the most trusted tier for service delivery, but satisfaction varies by place and group.** A majority of citizens report satisfaction with local services and perceive improved capacity since federal restructuring. Trust is highest for local governments compared to provincial and federal tiers. Yet satisfaction is lower in remote and poorer municipalities, reflecting service gaps and capacity constraints (Asia Foundation, 2023).
- **Digitalisation is advancing, with uneven depth.** Most municipalities now use the SuTRA and have expanded civil registration services, supporting more timely budgeting and better data. However, integration with planning, procurement, and performance monitoring systems is incomplete, limiting the gains from digitalisation and data use (PLGSP, 2023).

9.2 POLITICAL, FISCAL, AND ADMINISTRATIVE INTERLINKAGES

Nepal's federal effectiveness rests on how political, fiscal, and administrative dimensions reinforce one another. Political mandates drive the allocation of functions across tiers; fiscal frameworks determine whether those functions are adequately financed; administrative capacity defines whether services are delivered to standard. The following interdependencies are salient:

- **Political devolution shapes fiscal space and spending choices.** Devolved mandates in health, education, WASH, and local infrastructure require commensurate resources and flexibility. Where provinces and municipalities have stronger political leadership and inclusive councils, they are more able to articulate priorities, negotiate with the centre, and use conditional grants strategically. Conversely, weak political brokerage can translate into fragmented projects and under-execution despite available grants (MoFAGA, 2025; World Bank, 2024).

- **Fiscal equalisation and conditional grants drive administrative behaviour.** The inter-governmental transfer regime, guided by the NNRFC, includes equalisation, conditional, and performance-based grants intended to balance needs and incentivise reforms. Where performance conditions are clear and predictable, municipalities have strengthened planning, procurement, and reporting. Inconsistent or late disbursements, however, erode incentives and exacerbate vertical dependency (Forum of Federations, 2021; PLGSP, 2023).
- **Administrative systems convert political intent and fiscal flows into results.** Near-universal adoption of SuTRA and broader PFM reforms have improved transaction processing and transparency, but budget credibility remains a constraint. Weak internal audit and limited outcome-focused monitoring dilute the impact of spending. Strengthening HR pipelines, procurement, and asset management is essential to realise the promise of devolved mandates and to ensure that inclusive political representation translates into better services, especially for women, Dalits, and remote communities (PEFA Secretariat, 2024; MoFAGA, 2025; IFES, 2020).

9.3 GAPS, CHALLENGES, AND EMERGING OPPORTUNITIES

Almost a decade into implementation, Nepal's federal transition has entered a more complex and dynamic phase. The question is no longer whether federalism is working, but how well it adapts to the competing demands of performance, equity, and legitimacy. What now matters is the interaction of multiple systems—how political mandates influence fiscal behaviour, how budgets translate into services, and how citizens perceive accountability across tiers. The baseline findings suggest that Nepal's federalism is not a linear progression towards consolidation, but a constantly negotiated balance between autonomy and interdependence.

This section explores that balance through a sharper, forward-looking lens. It identifies the structural tensions shaping governance—between ambition and capacity, formality and functionality, and central control and local discretion. These tensions are not necessarily failures; they are the growing pains of a maturing federation. Addressing them requires more than administrative reform—it calls for innovation in inter-governmental cooperation, smarter fiscal design, and a renewed social contract between citizens and the state.

- **Budget credibility and execution.** Persistent deviations between approved and actual spending, and under-execution of capital budgets, particularly in lagging provinces and rural municipalities, point to weak project preparation, procurement bottlenecks, and cash-flow uncertainty. Addressing these requires multi-year budgeting discipline, timely and predictable transfers, and standardised procurement and contract management support at sub-national level (PEFA Secretariat, 2024; MoFAGA, 2025; World Bank, 2024).

- **Human resource depth and deployment.** Chronic vacancies in technical and mid-level cadres limit local problem solving and slow service delivery. Provincial public service commissions and dedicated training pathways, including collaboration with the Nepal Administrative Staff College and PLGSP provincial centres, are critical to professionalise cadres and improve retention, especially in remote areas (MoFAGA, 2025; PLGSP, 2023; World Bank, 2024).
- **Integrity, internal control, and audit follow-up.** While oversight structures exist, internal audit remains compliance-focused and follow-up on audit observations is inconsistent. Strengthening provincial Public Accounts Committees, adopting risk-based internal audit, and linking audit resolution to performance-based grants would close accountability gaps and improve value for money (PEFA Secretariat, 2024; PEFA GRPFM, 2023; World Bank, 2024).
- **Horizontal equity and inclusive outcomes.** Disparities between urban cores and remote municipalities remain pronounced, with weaker OSR, digital readiness, and maintenance capacity in hinterland areas. Targeted equalisation shared provincial service pools, minimum service standards, and explicit GESI-linked budget tagging can reduce gaps and ensure that devolution delivers for women, Dalits, and marginalised communities (MoFAGA, 2025; Equal Measures 2030, 2024; World Bank, 2024).
- **Digital transformation as a force multiplier**. The near-universal rollout of SuTRA and broader e-governance investments under PLGSP have improved transparency and could enable real-time performance management. The next step is to integrate planning, budgeting, procurement, and citizen feedback systems to support data-driven decision-making, monitor Outcome 3, and strengthen budget credibility (PLGSP, 2023; PEFA Secretariat, 2024; World Bank, 2024).
- **Evolving fiscal federal architecture.** Continued operationalisation of the NNRFC's formula-based grants and the move towards performance-linked transfers offer a pathway to reduce vertical imbalances and incentivise institutional reforms. Recent recommendations on equalisation volumes for provinces and local levels demonstrate the scale of fiscal decentralisation in practice and the need to safeguard predictability and transparency (Forum of Federations, 2021; New Business Age, 2024; World Bank, 2024).
- **Public confidence and political momentum.** Public confidence and political momentum. Evidence of rising satisfaction with local services and growing trust in local governments has created political space to lock in reforms that make participation and accountability routine, including expanded use of community scorecards and digital grievance redress mechanisms. Sustaining this momentum will require demonstrable service improvements in lagging areas and stronger inclusion in executive decision-making processes (Asia Foundation, 2022; International Alert, 2023; World Bank, 2024).

9.4 NEPAL IN COMPARATIVE PERSPECTIVE

Beyond these domestic measures, Nepal's federal transition can be contextualised by global governance and development indices. Recent international indices provide an external check on Nepal's progress and highlight areas of strength and weakness relative to regional peers. Below is a summary of Nepal's most recent scores and rankings on key global indicators, along with comparisons to selected Asian comparators (Bangladesh, Sri Lanka, Indonesia, Vietnam, India, etc.):

- **Open Budget Survey (2023)** – *Transparency Score:* 50/100 (Rank 58 out of 125 countries); *Public Participation:* 31/100; *Budget Oversight:* 46/100.
  Source: International Budget Partnership, OBS 2023.
  - Nepal's budget transparency score jumped from 39 in 2021 to 50 in 2023, reflecting improved publication of budget documents. This score is slightly above the global average (45) and nearly on par with India (51). Regionally, Nepal now far outperforms Bangladesh and Sri Lanka (each scored 37) in transparency. However, public engagement in the budget remains limited (31/100) – a common challenge across South Asia – and Nepal's oversight institutions are only moderately effective. The OBS recommends Nepal prioritise publishing a Citizens' Budget and Pre-Budget Statement to further boost transparency. Compared to peers, Nepal's gains in budget openness are a positive sign, indicating a trajectory towards greater fiscal accountability if participation mechanisms (e.g. pre-budget consultations) can be strengthened.
- **Sustainable Development Goals (SDG) Index (2024)** – *Index Score:* 68.6 (out of 100); *Global Rank:* 85 out of 167 countries.
  Source: Sustainable Development Report 2025 (SDSN).
  - This index measures overall progress towards the 17 SDGs. Nepal's score of ~68.6 indicates it has achieved about 68% of the SDG targets on average. Notably, Nepal ranks above India (score ~67.0, rank 99) and Bangladesh (63.9, rank 114), reflecting relatively stronger performance in areas like health and education. However, Nepal lags behind Vietnam (73.3, rank 61) and Indonesia (around 70, rank in the 70s). Nepal has made particular strides in goals such as SDG 3 (Health) and SDG 4 (Education) – for example, improving maternal health and primary education enrolment – but is challenged on SDG 9 (Industry/Infrastructure) and SDG 16 (Governance) where progress is slower. The SDG Index also highlights that Nepal faces "significant challenges" on ending hunger and achieving climate resilience. In regional context, Nepal is a middle-performer: it leads the pack in South Asia aside from Sri Lanka (which traditionally scores higher on human development indicators) but needs acceleration to catch up with Southeast Asian peers on economic and infrastructure-related goals.
- **World Justice Project Rule of Law Index (2023)** – *Score:* 0.52 (on a 0–1 scale); *Global Rank:* 71 out of 142 countries.
  Source: WJP Rule of Law Index 2023.
  - Nepal's overall rule of law score slightly declined in 2023, but it ranks first among the six South Asian countries assessed. It is ahead of Sri Lanka and India (which are the next best in the region), and far above Pakistan, Bangladesh and Afghanistan. Breaking down the score, Nepal performs relatively well on Constraints on Government Powers (ranked 48th globally)

and Order and Security (70th), signalling that basic security is maintained and some checks on power exist. However, Nepal scores poorly on Absence of Corruption (rank 94) and Civil Justice (107th), indicating persistent corruption and difficulty in accessing civil justice. The Fundamental Rights dimension also sees Nepal around 80th, reflecting concerns like freedom of expression and due process. The strong regional ranking suggests Nepal has made relative improvements – for instance, reductions in police abuse and open government data – whereas larger neighbours have seen rule of law stagnate or decline. There is a need to complete police adjustment to provincial control. Yet, the modest absolute score (0.52) means rule of law is only about halfway to the ideal. The trajectory globally has been one of decline, and Nepal is not immune; the WJP noted Nepal experienced slight backsliding in 2023, particularly on fundamental rights. Safeguarding judicial independence and curbing corruption remain key challenges if Nepal is to climb into the upper half of the Index.

- **Corruption Perceptions Index (2023)** – *Score:* 35/100; *Global Rank:* 108 out of 180 countries.
  Source: Transparency International, CPI 2023 (published January 2024).
  - » Nepal's score of 35 is a one-point improvement from the previous year, marking its best score in a decade, and it climbed to 108th from 110th. Nevertheless, a score below 50 denotes a high level of perceived public-sector corruption. In South Asia, Nepal is mid-table: it ranks below Bhutan (score 42, rank 26) and below India and the Maldives (both score 40, rank 93) but above Sri Lanka (score 36, rank 115), Pakistan (28, 133), and Bangladesh (25, 149). This positioning implies Nepal is perceived as less corrupt than some regional peers (likely due in part to its active civil society and press freedom), but corruption remains "rampant" by TI's classification. Sectors like public procurement, local government contracting, and police services are frequently cited by citizens as prone to bribery or undue influence. Nepal's incremental progress – CPI score rising from 33 in 2021 to 35 in 2023 – suggests reform efforts (e.g. digital payment systems, strengthened anti-graft bodies) are starting to have an effect. However, the country has yet to implement key measures like whistleblower protection and campaign finance transparency that could significantly improve its corruption standing. The trajectory is one of slow improvement, but Nepal will need to accelerate governance reforms to reach at least the global average CPI (which remains around 43).

- **Human Development Index (2022/2023)** – *HDI Value:* 0.622 (Nepal categorised in Medium Human Development); *Global Rank:* 143–145 out of 191 countries (rank 145 in HDR 2025).
  Source: UNDP Human Development Report 2025 (data up to 2022).
  - » Nepal's HDI has steadily improved – up from 0.591 in 2017 to 0.622 by 2023, reflecting gains in life expectancy (now ~71.3 years) and education. Nepal climbed one rank to 145th in the latest report, above Pakistan (168th) and somewhat surprisingly, now also above India and Bangladesh (both around 130th) in rank. (India and Bangladesh, while having higher GNI per capita, are classified similarly in human development due to disparities in health/education). Nepal significantly trails Sri Lanka (89th, High HDI) and the Maldives (93rd). Regionally, Nepal's HDI reflects its status as a lower-middle-income country that has made strides in reducing poverty and improving health outcomes – for instance, the maternal mortality ratio has fallen to 151 per

100,000 live births, a substantial improvement. However, income and education indicators drag the HDI down: Nepal's GNI per capita and mean years of schooling are among the lowest in Asia. The UNDP also highlights Nepal's Gender Development Index – female HDI is 0.567 vs male 0.661, yielding a GDI of 0.858, meaning sizable gender gaps in development. The trajectory for Nepal's HDI is positive (a 54% rise since 1990), but future gains will require addressing quality of education, productive employment, and governance factors that influence human development. Comparatively, Nepal is doing well on health (life expectancy now higher than India's) but needs to boost incomes and skills to catch up with better-ranked neighbours.

- **UN E-Government Development Index (2022/2024)** – *EGDI Score (2024):* 0.5781; *Global Rank:* 119 out of 193 countries.
  Source: UN E-Government Survey 2024.
  - Nepal falls in the "Middle E-Government" tier. The 2024 ranking of 119th is an improvement from 125th in 2022, showing that Nepal's digital government initiatives (like online portals, digital services and infrastructure expansion) have accelerated. The EGDI, a composite of online services, telecommunication infrastructure, and human capital, places Nepal above Pakistan (136th) and Afghanistan (188th) in South Asia, but behind all other comparators: India (62nd), Sri Lanka (98th), Bangladesh (100th), Bhutan (103rd), and the Maldives (94th). The survey notes Nepal made "significant strides in digital development" among Least Developed Countries since 2022 – for example, the launch of the Nagarik (Citizen) App and wider use of government websites. Yet, Nepal's e-service provision still lags in sophistication and usage. Notably, Nepal's E-Participation sub-index rank was 152nd, indicating that while government information may be online, interactive services and citizen feedback mechanisms are limited. The regional benchmark underscores that Nepal must invest more in ICT infrastructure (internet penetration is just over 40%) and in user-friendly digital services. The upward trend in EGDI is encouraging – if initiatives under the Digital Nepal Framework are fully implemented (such as broadband expansion and digital literacy programmes), Nepal is likely to continue climbing in this index.

- **Global Competitiveness Index (2019)** – *GCI Score:* 51.6/100; *Global Rank:* 108 out of 141 countries.
  Source: World Economic Forum, Global Competitiveness Report 2019 (latest available – WEF has not published a GCI ranking post-Covid).
  - In the last assessment, Nepal ranked in the bottom quartile globally, indicating significant challenges in drivers of economic competitiveness like infrastructure, institutions, and skills. Regionally, Nepal was behind India (68th) and Bangladesh (105th), but just ahead of Pakistan (110th). Nepal scored relatively well on macroeconomic stability and market size, but very low on pillars such as technological readiness and product market efficiency. While this data is somewhat dated, other proxy measures (e.g. World Bank's Ease of Doing Business where Nepal ranked 94th in 2020) suggest Nepal's business climate remains difficult – with issues in getting electricity, enforcing contracts, and trading across borders. Since 2019, Nepal has made incremental reforms (online business registration, one-stop service centres for investors), but also suffered pandemic-related setbacks. Competing countries like Vietnam have likely leapt ahead with aggressive reforms and industry upgrades.

In the absence of a current GCI, one can look at related indices like the Global Competitiveness by IMD or the WEF's Executive Opinion Survey, which indicate Nepal still struggles with bureaucratic inefficiency and inadequate infrastructure. The overall trajectory on competitiveness has been slow improvement, but Nepal will need to quicken the pace – focusing on human capital upskilling, export promotion, and governance reforms – to substantially improve its standing when the GCI or analogous indices are next published.

- **Global Gender Gap Index (2023)** – *Score*: 0.664 (66.4% parity); *Global Rank:* 116 out of 146 countries. S ource: World Economic Forum, Global Gender Gap Report 2023.
  - Nepal slipped in rank from 2022 (when it was 96th) due to a decline in the "Economic Participation and Opportunity" sub-index. In 2023, Nepal has closed about 66% of its overall gender gap. By sub-index: Economic participation gap closed only 47.5% (rank 136); Educational attainment 92.3% (rank 127); Health and survival 96.9% (rank 82); Political empowerment 28.8% (rank 54). The data underscore that Nepal's strengths lie in women's health and political representation, while the glaring weakness is in economic opportunity (low female labour force participation and wage equality). Regionally, Nepal is a mixed performer: it lags slightly behind Sri Lanka (rank 115) and significantly behind Bangladesh (rank 59, with over 72% parity – buoyed by decades of female leadership and workforce inclusion).

    However, Nepal fares better than India (127th) and Pakistan (142nd) which have larger gender gaps. The drop in Nepal's score from ~0.692 to 0.659 between 2022 and 2023 may be partly due to new data showing fewer women in technical and professional roles and a slight decrease in female political representation after the 2022 elections. On the positive side, Nepal's gender gap in education is nearly closed at primary and secondary levels, and women hold 41% of parliamentary seats (thanks to quotas). The trajectory for Nepal on gender parity has been one of gradual progress punctuated by data revisions. The country achieved its highest ever proportion of women in parliament and local

Nepal stands out for its strides in inclusion (female representation) and social indicators relative to its income level, but it underperforms in economic and institutional capacity indicators compared to countries like Indonesia or Vietnam.

government in recent years, which is promising for future gains. To improve its GGGI ranking, Nepal will need to focus on economic empowerment of women – creating jobs, promoting women's entrepreneurship, and ensuring women are not left behind in the post-pandemic economic recovery. Encouragingly, Nepal has a strong policy framework (e.g. a Gender Equality Act and initiatives for women's financial inclusion), so the task ahead is effective implementation and cultural change to translate legal parity into real parity.

The mosaic of global indices portrays Nepal as a country making measurable progress in governance, transparency, social development, and inclusion, albeit from a low baseline and at an uneven pace. Nepal is often mid-ranked – rarely a top performer, but frequently ahead of other South Asian nations in areas like rule of law and budget transparency. The gains in indices like the CPI and OBS suggest gradual improvements in accountability and openness during the federal period. Similarly, climbing HDI and SDG scores reflect sustained progress in health, education, and social outcomes, many of which can be linked to decentralised service delivery and community engagement under federalism. However, Nepal continues to confront structural challenges captured by these indicators: corruption remains high, economic competitiveness is weak, and gender gaps in economic roles are significant. These are the very areas where federalism's promise – bringing government closer to the people – must be leveraged further. For instance, empowering local governments to manage resources efficiently can help reduce petty corruption and improve service satisfaction (echoed by the relatively better perception of local government in surveys). Likewise, provinces can tailor economic policies to local strengths, potentially boosting overall competitiveness if inter-provincial healthy competition is encouraged.

In light of regional benchmarks, Nepal stands out for its strides in inclusion (female representation) and social indicators relative to its income level, but it underperforms in economic and institutional capacity indicators compared to countries like Indonesia or Vietnam. This juxtaposition indicates that Nepal's federal transition has succeeded in creating a more inclusive polity yet is still in early stages of delivering robust prosperity. The evidence base from both domestic and international measures suggests a trajectory that is cautiously positive: each year Nepal inches forward on reforms, but transformational changes will require sustained political will and probably a longer horizon than the first decade of federalism.

9.5 GENDER EQUALITY AND SOCIAL INCLUSION IN COMPARATIVE PERSPECTIVE

Nepal's federal transition has been accompanied by significant strides in embedding Gender Equality and Social Inclusion (GESI) into governance processes. Quotas and constitutional provisions have ensured high levels of women's political representation across tiers: 41% of local officials are female, every municipality has a female Deputy Mayor or Deputy Chair, and women hold around 36% of seats in Provincial Assemblies. This makes Nepal a regional leader in political inclusion. By contrast, India's national parliament has only around 15% women, and Pakistan's about 20%, while Bangladesh has 21% in its Jatiya Sangsad. At the local level, India has introduced 33% quotas in many states, but Nepal's constitutional guarantees go further, ensuring consistent representation of women and Dalits at ward level.

On the World Economic Forum's Global Gender Gap Index 2023, Nepal scored 0.664, ranking 116th globally. It performed strongly in political empowerment (rank 54) and health parity (rank 82), but poorly on economic participation (rank 136). This reflects the paradox of Nepal's GESI progress: despite exemplary political inclusion, structural barriers keep women's labour force participation and wage equality among the lowest in South Asia. Bangladesh, by comparison, ranks 59th overall, driven by strong female participation in export industries, while India (127th) and Pakistan (142nd) lag behind Nepal on most dimensions. Nepal's near-parity in education access, with a 92% closure of the gender gap, suggests a strong foundation for future gains.

GESI mainstreaming is also evident in fiscal and institutional reforms. Gender-responsive budgeting is mandatory across all tiers, with the Ministry of Finance reporting that roughly 39% of the national budget in FY2023/24 directly or indirectly supported GESI objectives. Provinces and municipalities now earmark specific percentages of their budgets for women, Dalits, and disadvantaged communities. However, implementation quality varies. Many allocations remain symbolic, with weak monitoring of whether earmarked funds deliver measurable improvements in women's livelihoods, social protection for marginalised groups, or disability inclusion. Comparatively, Sri Lanka and India have longer-standing gender budgeting systems but often with less institutional reach than Nepal's three-tier model.

Nepal also stands out regionally for legislating social inclusion beyond gender. The constitution requires representation of Dalits and minority groups at the ward level, and most local governments have established GESI Committees and focal points. This breadth of institutionalisation is relatively rare in South Asia. Nonetheless, challenges remain acute. Representation at the executive level is still male-dominated – all seven Chief Ministers and most Mayors/Chairs are men. Similarly, marginalised groups are underrepresented in higher civil service positions, and women face barriers in economic empowerment compared to peers in Bangladesh or Vietnam.

Despite exemplary political inclusion, structural barriers keep women's labour force participation and wage equality among the lowest in South Asia.

In sum, Nepal has made globally recognised progress in embedding GESI principles into governance, especially in political representation and budgeting frameworks. Regionally, it is ahead of India, Pakistan, and Sri Lanka on gender inclusion in politics, while lagging behind Bangladesh in women's economic empowerment. The federal system has created unprecedented opportunities to institutionalise GESI at every level, but the task ahead is to translate representation and budget allocations into substantive empowerment – ensuring that women, Dalits, Janajatis, and other marginalised groups benefit equally from Nepal's federal dividend.

9.6 WHERE NEPAL STANDS IN ITS FEDERAL TRANSITION

As Nepal enters 2025, the federal governance system is undeniably more embedded than it was at inception – institutions exist at all three levels, elections have been held twice, and there is growing public acceptance of the federal model. The evidence presented in this chapter points to several key signs of progress. These include improved delivery of services and increased public satisfaction at the local level; enhanced transparency and accountability measures (like widespread use of FMIS systems and better budget disclosure); meaningful inclusion of women and marginalised communities in governance; and a closing of development gaps in areas like health and education outcomes.

The strengths of Nepal's federal system lie in these grassroots improvements and in the resilience shown by local and provincial governments even amidst shocks (economic downturns, pandemic, natural disasters). Global indices validate some of these gains – for example, Nepal's rising Open Budget Index score and Rule of Law ranking indicate a slow but steady strengthening of governance.

However, the persistent challenges cannot be overlooked. Foremost among them is the incomplete legal and institutional framework – with critical federal laws delayed, causing a cascading effect of uncertainty at provincial and local levels. Institutional immaturity is evident in the inconsistent functioning of inter-governmental mechanisms and the capacity deficits in provincial administrations. Fiscal dependency is another structural problem: sub-national units still rely overwhelmingly on the federal centre for funds, which can undermine the very autonomy federalism sought to grant. Corruption and bureaucratic inefficiencies continue to sap public trust and waste resources, as shown by audit backlogs and low budget execution rates. Moreover, while political representation has broadened, administrative power is still often concentrated and patriarchal, limiting truly inclusive decision-making.

9.7 CONCLUSION

Nepal's federal transition has reached a decisive stage where the foundations of political, fiscal, and administrative federalism are firmly in place, yet the system still operates below its potential. The evidence from the 2025 baseline confirms that the institutions of democracy, inclusion, and accountability are functioning, but not yet harmonised into a cohesive and fully cooperative state. Legislative and policy reforms have advanced significantly, but delays in key laws, uneven inter-governmental coordination, and persistent administrative centralisation continue to limit the autonomy of sub-national governments. Fiscal transfers, service delivery, and citizen participation show tangible progress, demonstrating that federalism is increasingly benefiting communities across the country.

However, the next phase will require translating structure into performance by closing legislative gaps, strengthening inter-tier coordination, and empowering provinces as genuine stewards of regional development. With sustained political will and continued partnership between government, citizens, and development actors, Nepal's federal system can evolve from one of transition to one of transformation, delivering the inclusive, accountable, and resilient governance envisioned in the Constitution.

10 SUMMARY OF ACHIEVEMENTS

Nepal's first decade under federalism has produced measurable achievements across political, fiscal, and administrative domains. The 2025 baseline demonstrates that the constitutional framework has translated into functioning institutions at all three tiers, with notable gains in inclusion, transparency, and service delivery despite persistent challenges.

10.1 POLITICAL FEDERALISM

Political federalism has reached a stage of deep institutional consolidation. Nepal's democratic transformation has embedded a functioning three-tier system of government, grounded in the Constitution and operational through regular elections, inclusive representation, and inter-governmental dialogue. This institutional maturity has enhanced the legitimacy, responsiveness, and representativeness of the state, although challenges remain in coordination, legislative completeness, and policy coherence.

Key achievements and changes are summarised below:

- **Functional three-tier governance** improving local representation and citizen access to services.
- **74% of constitutional laws enacted,** creating a clear legal foundation for devolution.
- **Sub-national law-making initiatives** enabling tailored governance and context-specific legislation.
- **Inclusive representation institutionalised,** with 41% women and strong quotas for marginalised groups.
- **Elections and oversight mechanisms active,** reinforcing accountability through parliamentary committees and PACs.
- **Inter-governmental coordination bodies established,** such as the NCC and IPC, fostering shared rule.
- **Revival of IG forums** supporting policy alignment and collaborative planning across tiers.
- **Operational oversight institutions,** including audit, anti-corruption, and judicial mechanisms, strengthening checks and balances.

- **Local judicial and grievance systems** expanding access to justice and dispute resolution at the grassroots level.

Political federalism has consolidated the architecture of shared rule and self-rule, embedding inclusion, participation, and legitimacy in governance. The next phase must focus on strengthening enforcement, consistency of coordination, and leadership equity. Progress will be reassessed in the 2027 and 2029 State of Federalism Reports to capture further institutional consolidation and cooperative governance gains.

10.2 FISCAL FEDERALISM

Nepal's fiscal federalism has moved from structural establishment to operational maturity. The fiscal framework now supports rule-based transfers, digitalised financial systems, and greater transparency, positioning the country among South Asia's most advanced fiscal devolution models. Reforms in planning, auditing, and financial management have strengthened fiscal discipline and predictability, though dependency on central grants and weak own-source revenues continue to constrain autonomy.

Key achievements and changes (See Table 22 for a summary of achievements in fiscal federalism):

- **Rule-based fiscal transfers** ensuring equitable and predictable funding for sub-national governments.
- **Improved grant formulas** driving performance-based equity and regional balance.
- **PFM systems digitised** through SuTRA, TSA, CGAS, and LMBIS, enhancing transparency and reducing discretion.
- **Budget disclosure and audits expanded,** improving compliance and public financial transparency.
- **Budget execution and planning reforms** advancing timely and efficient delivery of local programmes.
- **Sub-national revenue and borrowing rights** introduced, laying foundations for fiscal autonomy.
- **Crisis fiscal resilience mechanisms**-maintained service delivery during shocks such as COVID-19.
- **Debt management discipline** sustained, keeping public debt within safe thresholds and inflation stable.

Fiscal federalism has achieved a transparent, rule-based, and digitally enabled foundation, driving accountability and equity across all tiers. The forthcoming phase must focus on strengthening local revenue capacity, deepening fiscal decentralisation, and improving expenditure quality. These outcomes will be tracked and compared in the 2027 and 2029 State of Federalism Reports.

10.3 ADMINISTRATIVE FEDERALISM

Administrative federalism has matured rapidly, transforming Nepal's governance landscape into one of localised service delivery, digital innovation, and accountable administration. All provincial and local structures are now operational, with growing administrative competence and improved cross-tier coordination. The system has brought government closer to citizens while promoting efficiency, transparency, and responsiveness.

Key achievements and changes (see Table 20 for a summary of achievements in administrative federalism):

- **Sub-national structures built nationwide,** ensuring the physical and institutional presence of government.
- **Service delivery decentralised** in education, health, and infrastructure, expanding reach and equity.
- **Digital governance scaled up,** with SuTRA, LISA, and CRVS integration driving automation and anti-corruption.
- **Local accountability mechanisms** such as social audits and public hearings institutionalised in 74% of municipalities.
- **Civil service reforms initiated,** professionalising local administration and reducing politicisation.
- **Process efficiency gains** achieved through automation and simplification of administrative procedures.
- **Cross-tier coordination improved,** enabling data sharing and joint planning.
- **Crisis response decentralised,** improving resilience and local disaster management.
- **Local integrity and anti-corruption measures** expanded, deterring malfeasance and enhancing trust.

Administrative federalism has embedded a responsive and service-oriented state apparatus. With digitalisation, local accountability, and cross-tier cooperation now well established, the next focus will be on building professional cadres, standardising quality, and ensuring sustainability. Future progress will be monitored and validated in the 2027 and 2029 State of Federalism Reports.

10.4 PERFORMANCE SUMMARY

Across all three dimensions, Nepal's federal transition demonstrates significant institutional progress. In political federalism, achievements centre on the institutionalisation of democracy, inclusiveness, and inter-governmental dialogue, which have strengthened legitimacy and representation though coordination and legislative completeness remain priorities. In fiscal federalism, the foundation of fiscal autonomy and accountability has been laid through transparent transfers and digital systems, with the next challenge being to deepen own-source revenue, improve capital budget execution, and link fiscal transfers to performance. In administrative federalism, operational structures are in place and service delivery is increasingly digital and citizen-oriented, yet sustained progress will depend on human resource reform, interoperability of systems, and institutionalised performance management.

Table 21. Summary of political federalism achievements

No.	Achievement	Impact on Good Governance	Challenges to Address	Potential Risks
1	Functional three-tier governance	Improved local access, enhanced representation	Weak coordination, underdeveloped systems	Undermined legitimacy if institutions fail
2	74% constitutional laws enacted	Legal clarity for federalism	Delays in key federal acts	Ambiguity in responsibilities
3	Sub-national law-making initiated	Tailored governance to local needs	Inconsistent legislative capacity	Overlap/conflict in laws
4	Inclusive representation institutionalised	More equitable decision-making	Low influence in leadership roles	Tokenism without power-sharing
5	Elections and oversight active	Accountability through parliaments, PACs	Weak enforcement of findings	Erosion of checks and balances
6	Coordination bodies established	Platforms for joint decision-making	Irregular meetings, no follow-through	Siloed governance
7	Revival of IG coordination forums	Policy alignment, shared planning	Sustainability and commitment	Disjointed policy and fragmentation
8	Local judicial and audit systems	Grassroots dispute resolution and oversight	Capacity and legitimacy gaps	Public distrust if weak outcomes
9	Oversight bodies operational	Strengthened rule of law	Limited reach and resources	Oversight fatigue, politicisation

Table 22. Summary of fiscal federalism achievements

No.	Achievement	Impact on Good Governance	Challenges to Address	Potential Risks
1	Rule-based fiscal transfers	Equitable, predictable funding	High dependency on centre	Undermined autonomy
2	Improved grant formulas	Performance-driven equity	Data, buy-in, implementation lag	Political distortion of formula
3	PFM systems digitised (SuTRA, TSA)	Transparency, reduced discretion	Capacity gaps, poor integration	Cyber risks, digital divide
4	Budget data disclosure improved	More public financial transparency	Limited usability at local levels	Illusory openness without engagement
5	Expanded audits & internal control	Better compliance and tracking	Weak audit depth, slow response	Normalisation of irregularities
6	Budget execution & planning reforms	Timely, efficient delivery	Capacity and planning issues	Rush-spending, poor outcomes
7	Sub-national revenue and borrowing rights	Foundations of fiscal autonomy	Low own-source revenues	Financial stress or unsustainable borrowing
8	Crisis fiscal resilience & coordination	Maintained services under shocks	Limited institutionalised cooperation	Gaps during future emergencies

Table 23. Summary of administrative federalism achievements

No.	Achievement	Impact on Good Governance	Challenges to Address	Potential Risks
1	Sub-national structures built	Nationwide reach of government	Staffing shortfalls	Dysfunctional administrations
2	Service delivery decentralised	Citizens better served locally	Quality and equity gaps	Perceived failure of federalism
3	Digital governance scaled up	Efficiency, anti-corruption	System integration, skills	Breakdown or exclusion risk
4	Local accountability mechanisms	Citizen feedback and oversight	Weak follow-up, inconsistency	Civic disengagement
5	Civil service reforms initiated	Towards competent local bureaucracy	Delay, politicisation	Administrative capture or vacuum
6	Process efficiency gains	Faster services, less red tape	Habits, change management	Reversion to old norms
7	Cross-tier coordination improving	Aligned planning and shared data	Fragmentation, tech issues	Overlaps, poor targeting
8	Crisis response decentralised	Rapid local disaster action	Gaps in preparedness	Uneven impact, public backlash
9	Local integrity measures expanded	Deterrence of corruption	Weak enforcement	Local elite capture, impunity

11 RECOMMENDATIONS AND STRATEGIC DIRECTIONS

As Nepal enters 2025, the federal governance system is undeniably more embedded than it was at inception – institutions exist at all three levels, elections have been held twice, and there is growing public acceptance of the federal model. The evidence presented in this chapter points to several key signs of progress. These include improved delivery of services and increased public satisfaction at the local level; enhanced transparency and accountability measures (like widespread use of FMIS systems and better budget disclosure); meaningful inclusion of women and marginalised communities in governance; and a closing of development gaps in areas like health and education outcomes.

The strengths of Nepal's federal system lie in these grassroots improvements and in the resilience shown by local and provincial governments even amidst shocks (economic downturns, pandemic, natural disasters). Global indices validate some of these gains – for example, Nepal's rising Open Budget Index score and Rule of Law ranking indicate a slow but steady strengthening of governance.

However, the persistent challenges cannot be overlooked. Foremost among them is the incomplete legal and institutional framework – with critical federal laws delayed, causing a cascading effect of uncertainty at provincial and local levels. Institutional immaturity is evident in the inconsistent functioning of inter-governmental mechanisms and the capacity deficits in provincial administrations. Fiscal dependency is another structural problem: sub-national units still rely overwhelmingly on the federal centre for funds, which can undermine the very autonomy federalism sought to grant. Corruption and bureaucratic inefficiencies continue to sap public trust and waste resources, as shown by audit backlogs and low budget execution rates. Moreover, while political representation has broadened, administrative power is still often concentrated and patriarchal, limiting truly inclusive decision-making.

The strengths of Nepal's federal system lie in these grassroots improvements and in the resilience shown by local and provincial governments even amidst shocks

The trajectory emerging from the evidence is that of a federal system still in transition, not yet in steady state. The direction is generally positive – reforms are moving the needle bit by bit – but progress is uneven across sectors and regions. Provinces like Bagmati and Gandaki are relatively ahead in institutionalising new practices (e.g. digital systems, revenue generation), whereas others like Karnali and Sudurpashchim struggle with harsher geography and poverty that exacerbate capacity gaps. The coming years are likely to see Nepal's federalism maturing from an initial phase of "set-up and orientation" to a phase of "performance and delivery." Signs of this shift include the pressure from provincial leaders for more autonomy and the competition among local governments to attract investment and show results. If managed well, these dynamics can spur innovation and accountability (for instance, well-performing local governments could serve as models and mentor others, a practice PLGSP is facilitating through peer learning).

Nepal's federal journey so far demonstrates that decentralisation is a process, not an event. The country has laid the foundations for a more inclusive and participatory governance system – arguably its most significant achievement. The challenge now is to build on these foundations to create a state that is not only inclusive in form but also efficient and responsive in function. The evidence base suggests a cautious optimism: Nepal is trending upward on many governance and development metrics, but realising the full dividends of federalism will require addressing the bottlenecks head-on. This means accelerating legal reforms, investing in civil service capacity at sub-national levels, ensuring fiscal federalism is equitable and sufficient, and strengthening oversight to curb malfeasance. As Nepal enters the second decade of federalism, the focus must shift from establishing structures to delivering outcomes – so that an average citizen, whether in the hills of Karnali or the plains of Madhesh, can tangibly feel that federalism has made government more accessible, more accountable, and more able to improve their quality of life. The coming years will be decisive in confirming whether the bold bet Nepal made in 2015 is paying off; the data and analysis in this chapter indicate that, with sustained commitment, it indeed can.

Nepal's federal journey so far demonstrates that decentralisation is a process, not an event.

11.1 STRENGTHENING FEDERALISM INSTITUTIONS AND COORDINATION MECHANISM

As Nepal enters late 2025, its federal governance system is more firmly embedded than it was at inception. Two cycles of nationwide elections have been held, installing fully functional institutions at federal, provincial, and local levels. Evidence from the 2025 baseline assessment points to tangible gains. Over half of citizens are now satisfied with local government performance, and a majority believe that federal restructuring has improved local service capacity. Local governments have expanded basic services in health, agriculture, and infrastructure, helping close development gaps in previously underserved regions. Transparency and accountability measures have also improved: Nepal's Open Budget Index transparency score jumped from 39 in 2021 to 50 in 2023, reflecting better publication of budget information, and its e-government ranking improved from 125th to 119th globally between 2022 and 2024. Perhaps most notably, Nepal now leads South Asia in representation of women and marginalised groups across elected bodies – a landmark achievement in inclusion. Local and provincial governments have shown resilience through recent shocks (economic downturns, the COVID-19 pandemic, natural disasters), maintaining services and governance even under stress. These advances are validated by global indices: for example, steadily rising scores in budget transparency and rule-of-law assessments signal a slow but sure strengthening of governance. Such progress at the grassroots and institutional levels underscores that Nepal's federal model is delivering initial dividends in empowerment, participation, and service delivery improvements.

However, the federal experiment's persistent challenges are equally stark. Foremost is an incomplete legal and institutional framework that has left key aspects of federalism in a state of limbo. Critical laws required by the 2015 Constitution remain pending – for instance, the Federal Civil Service Act (along with sectoral laws in education and health) is yet to be enacted, impeding the full devolution of authority to provinces and local governments. As a result, many functions are federal in principle but centralised in practice, with civil servants and resources still controlled by the centre. Inter-governmental coordination mechanisms have also not matured as intended. The constitutionally mandated Inter-Provincial Council (headed by the Prime Minister) and the

Over half of citizens are now satisfied with local government performance, and a majority believe that federal restructuring has improved local service capacity.

National Coordination Council exist on paper but meet only sporadically. In their absence, provinces and local governments often resort to adhoc or partisan channels to resolve issues, undermining the spirit of cooperative governance and leaving disputes over fiscal transfers, personnel deployment, and service responsibilities unresolved. This weak formal coordination is compounded by unclear division of roles: the functional unbundling of concurrent powers remains incomplete, leading to overlapping mandates between tiers. Federal ministries sometimes bypass provincial authorities and deal directly with local governments, while provinces struggle to assert their role as an intermediary tier. Such practices blur accountability and can breed tension among the levels of government.

Capacity and resource asymmetries further challenge Nepal's federal trajectory. Many provincial administrations remain severely understaffed – only 38% of provincial civil service positions are filled, on average, leaving critical expertise gaps in planning, budgeting and service supervision. Local governments, too, face high vacancy rates in technical positions, relying heavily on adhoc staff deputations. Fiscal federalism, though structurally in place, has yet to deliver genuine autonomy. Sub-national governments still depend on federal grants for over 90% of their budgets; own-source revenues remain very low (around 6.5% of local revenues and 8% of provincial expenditures) and concentrated in wealthier areas. This vertical imbalance keeps provinces and municipalities financially tethered to the centre. Moreover, budget execution is weak, especially for capital investment: in FY2022/23 provincial governments spent only around two-thirds of their allocated budgets (with 34% underspent), and local governments about 76%. Much of the development budget gets bunched into the last quarter of the fiscal year, reflecting persistent bottlenecks in procurement and project management. These patterns not only slow infrastructure delivery but also signal inefficiency in public spending. Oversight and integrity systems are still finding their footing as well. Internal audits in municipalities remain compliance-focused rather than risk-based, and audit follow-up is weak – Nepal's Auditor General notes that backlogs in legislative scrutiny of audit reports (e.g. Public Accounts Committee reviews) continue to limit accountability at sub-national levels. Public participation in budgeting and planning, while improving, is institutionalised in only a minority of local units, and transparency measures like citizen budgets or proactive disclosures are uneven. Similarly, despite a robust anti-

However, the federal experiment's persistent challenges are equally stark.

corruption framework on paper, enforcement at local levels is limited; the national anti-graft agency (CIAA) has a mandate over sub-national officials but faces capacity constraints in handling the surge of local-level complaints. All of this contributes to continued citizen concern about petty corruption and bureaucratic inefficiency sapping the promise of federal governance.

Notably, the **performance of Nepal's federal system is uneven across regions and sectors.** Provinces such as Bagmati and Gandaki have pulled ahead in institutionalising new practices – for example, rolling out digital PFM systems, improving local revenue collection, and fostering innovation in service delivery – whereas less-developed provinces like Karnali and Sudurpashchim lag behind. Geographic remoteness, limited fiscal base, and human resource gaps in these lagging provinces amplify the implementation challenges. A similar divergence is seen among local governments: some municipalities in more accessible or urban areas are excelling in governance and development outcomes, while others struggle to meet basic mandates. These disparities point to the need for differentiated support – a one-size-fits-all approach to federal consolidation will not work given Nepal's heterogeneity. On the positive side, competitive and cooperative dynamics are emerging that could spur improvements. Provincial leaders are increasingly vocal about their autonomy and are demanding more authority and resources from the centre, which reflects a maturing understanding of federalism's potential. Likewise, there is healthy competition among municipalities to attract investment and showcase results, suggesting that success stories in one locality can motivate others to improve. Development partners and programmes like PLGSP have begun facilitating peer-learning, where well-performing local governments mentor weaker ones – an approach that can propagate good practices from the bottom up. If managed and supported properly, these dynamics of provinces asserting leadership and localities innovating can become engines of accountability and experimentation, accelerating the overall federalisation process.

Overall, Nepal's federal transition at the close of 2025 can be characterised as structurally complete but functionally in progress. The constitutional and legal architecture is largely built, and the foundational institutions of democratic federalism are in place. The task now is to move from establishing systems to making them deliver. In this second phase of federalism, the focus must shift decisively to

Nepal's federal transition at the close of 2025 can be characterised as structurally complete but functionally in progress.

performance and outcomes – so that an average citizen in the hills of Karnali or the plains of Madhesh tangibly experiences government that is more accessible, responsive, and accountable. To that end, several strategic directions emerge from the evidence. Accelerating pending reforms is paramount: for instance, finalising the civil service restructuring and other unfinished laws will remove key bottlenecks and clarify the rules of the game. Investing in sub-national capacity – both human and institutional – is a long-term necessity, calling for continuous training, smarter deployment of skilled personnel, and incentives to retain talent outside Kathmandu.

Likewise, fiscal federalism must be recalibrated to ensure provinces and local governments have adequate, predictable resources along with greater revenue powers; the fiscal transfer system should be refined to enhance equity (so that poorer regions are uplifted) and flexibility (so that local plans are not rigidly dictated by central conditions). At the same time, stronger accountability and integrity systems need to underpin the next phase: this means bolstering oversight bodies (e.g. empowering provincial Public Accounts Committees and strengthening the Office of the Auditor General's reach), expanding transparency measures (like citizen budgets and e-governance) and enforcing anti-corruption safeguards to curb malfeasance. Critically, inter-governmental coordination must be improved – regular, institutionalised dialogue between the federal government, provinces, and local governments is needed to resolve disputes, align development priorities, and share best practices.

The Public Consultation Bill (2023) creates an opportunity to formalise citizen participation in lawmaking and, if effectively implemented, will help strengthen bottom-up accountability across governance systems. While Nepal's political arena will remain competitive, cross-party consensus on sustaining and deepening federalism will be essential. Political leaders will need to approach the strengthening of federal governance not as a zero-sum struggle for authority, but as a shared state-building endeavour that rises above party divisions. The coming years will therefore require sustained political commitment and adaptive learning. If the Government of Nepal, supported by programmes such as PLGSP and development partners, can steer reforms along these strategic lines, the country will be well positioned to consolidate its federal experiment into a more efficient, equitable, and citizen-centred system.

Table 24 presents a matrix of recommended strategic measures across the political, fiscal, and administrative dimensions of federalism. These measures are designed to address the issues identified in the assessment and chart a forward-looking agenda. Each measure includes the expected impact, the level of government primarily responsible (national, provincial, and/or local), and the lead institution to champion the change. The recommendations balance top-down accountability (e.g. strengthening oversight institutions) with bottom-up empowerment (e.g. citizen engagement mechanisms), and emphasise improving transparency, integrity, and inter-governmental coordination as the pillars of Nepal's federal consolidation. Collectively, these strategic directions provide a practical roadmap for the Government of Nepal, the Provincial and Local Governance Strengthening Programme (PLGSP), and development partners to deepen federalism in the coming years. By acting on these priorities, Nepal can move beyond the formative phase of setting up federal structures and enter a new phase focused on delivering on the constitutional promise of better governance and development outcomes for all citizens.

Table 24. Political federalism strategic measures

Issue Identified	Proposed Measure	Expected Impact	Level of Effort	Lead Institution
Delayed federal laws (e.g. Civil Service, education, health acts) creating authority gaps	Enact pending federal legislation to complete the devolution framework – e.g. expedite the Federal Civil Service Act and remaining sector laws, and harmonise overlapping laws.	Removes legal ambiguities and enables full transfer of functions and staff to sub-national levels; strengthens the constitutional mandate for devolution.	Federal	Federal Parliament (law-making) in coordination with the Ministry of Law, Justice , and Parliamentary Affairs
Lack of ministry actions plans linked to executing federalism	Encourage line ministries to prepare and publish time-bound action plans in response to parliamentary and provincial committee directives, as envisaged in NA recommendations on follow-up to committee decisions	Ministries prepare and implement action plans to comply with committee directives.	Federal & Provincial	OPMCM and MOFAGA
Sporadic inter-governmental coordination (IPC, NCC rarely convened)	Institutionalise regular inter-governmental forums (IPC, National Coordination Council, and Provincial Coordination Committees), supported by a dedicated secretariat and follow-up mechanism.	Ensures continuous policy dialogue and problem-solving across tiers; fosters cooperative federalism by resolving issues of transfers, staffing, and development in a timely manner.	Federal & Provincial	Office of the Prime Minister and Council of Ministers (OPMCM), with Ministry of Federal Affairs and General Administration (MoFAGA) as secretariat
Overlap and ambiguity in functional assignments across tiers	Finalise functional unbundling for concurrent powers and formalise service-sharing agreements between governments. Issue clear guidelines delineating federal, provincial, and local responsibilities in overlapping sectors.	Clarifies "who does what," reducing duplication and conflict. Improves accountability by making each tier answerable for its domain, and enhances service delivery through better coordination.	Federal & Provincial	National Natural Resources and Fiscal Commission (NNRFC) (technical lead) with MoFAGA and NPC; coordination with Provincial governments

Issue Identified	Proposed Measure	Expected Impact	Level of Effort	Lead Institution
Federal ministries bypassing provinces and direct dealings with local governments	Empower provinces as coordinating tier by routing appropriate federal programmes and directives through provincial governments and strengthen provincial oversight over local affairs (e.g. requiring federal agencies to consult provincial authorities on local projects).	Respects the constitutional three-tier structure and builds provincial capacity. Reduces fragmentation by ensuring local governments receive consistent guidance and support via provinces, and enhances vertical checks and balances.	Federal & Provincial	OPMCM/MoFAGA, in partnership with Provincial Chief Ministers' Offices
Strengthen efficiency of provincial cabinet size	Review provincial cabinet size in line with efficiency and cost containment, including consideration of capping ministerial posts in accordance with NA Special Committee recommendation to limit ministers to around 10 percent of assembly members (NA Rec 2).	Considerable fiscal savings	Federal & Provincial	MOFAGA
Lack of Join Parliamentary Oversight of Implementation of Federalism	Support the establishment of a permanent Joint Parliamentary Committee on Federalism Implementation, as recommended by the NA Special Committee, to receive periodic State of Federalism reports, monitor follow-up, and strengthen parliamentary oversight over federalism (NA Rec 6).	Improve checks and balances on implementation and deliver		

Issue Identified	Proposed Measure	Expected Impact	Level of Effort	Lead Institution
Centralised party control limiting local autonomy and accountability	Foster cross-party commitment to federalism – e.g. establish a multi-party forum or agreement (through Parliament or MoFAGA) to uphold the autonomy of provincial and local governments. Develop codes of conduct for political parties to discourage undue interference in local decisions.	Helps insulate governance from partisan interference, allowing local institutions to exercise their mandates freely. Encourages broad political consensus on federal principles, leading to more stable and consistent reform implementation.	Federal (multi-level buy-in)	National Parliament (State Affairs Committee) convening major parties; supported by MoFAGA for facilitating dialogue
Limited citizen participation and transparency in local decision-making	Legislate and implement citizen engagement mechanisms – for instance, pass the Public Consultation Bill (2023) and enforce provisions for public hearings, social audits, and participatory planning at local levels. Mandate proactive disclosure of budgets and decisions (e.g. citizen's budgets).	Strengthens bottom-up accountability and transparency. Citizens gain channels to influence policies and monitor government performance, which can improve trust and service responsiveness.	Federal (law) & Local (implementation)	MoFAGA and the Ministry of Law, Justice , and Parliamentary Affairs in coordination with Provincial governments and local councils (for implementation)
High representation of women and marginalised groups but low influence in decision-making	Strengthen inclusive leadership by instituting capacity building and leadership mentoring for elected women, Dalit, Janajati officials; enforce rules for including women/ minority members in key committees and as vice-chairs or deputies. Expand gender- and inclusion-responsive budgeting across all tiers.	Converts numeric inclusion into meaningful influence. Greater voice for women and disadvantaged groups in executive roles leads to policies and budgets more attuned to all citizens' needs, reinforcing the inclusiveness gains of federalism.	Federal, Provincial & Local	MoFAGA/GESI Division and National Women Commission (for guidelines); Provincial Ministries of Women/Social Development; PLGSP/PCGGs (for training programmes)

Issue Identified	Proposed Measure	Expected Impact	Level of Effort	Lead Institution
Weak oversight by sub-national legislative bodies (e.g. provincial assemblies, local councils) over the executive	Enhance checks and balances at sub-national levels – establish or strengthen Public Accounts Committees in provincial assemblies; build capacity of local councils to review budgets, audits, and performance of the executive. Provide training and standardised tools for councillors to exercise oversight (with support from PLGSP).	Tighter horizontal accountability: provincial and local executives become more answerable to their legislatures, reducing unchecked authority. This leads to more prudent use of funds, timely audit compliance, and integrity in local governance.	Provincial & Local	Provincial Assemblies (Speaker/secretariat) with support from Office of the Auditor General (OAG) and PLGSP (capacity building)

Table 25. Fiscal federalism strategic measure

Issue Identified	Proposed Measure	Expected Impact	Level of Effort	Lead Institution
High vertical fiscal imbalance – sub-national governments overly reliant on federal transfers (own-source revenue <10%)	**Refine inter-governmental fiscal transfers** by increasing unconditional grants and improving the equalisation formula to better target need. Commit to **predictable transfer schedules** (e.g. announce ceilings for fiscal transfers multi-year, and disburse funds on a fixed timetable).	Enhances equity and autonomy: poorer provinces/municipalities receive fairer shares, and all sub-national units can plan budgets with greater certainty. More unconditional funding gives local bodies flexibility to address local priorities, strengthening self-rule.	Federal	**Ministry of Finance (MoF)** in consultation with NNRFC and NPC (for formula design); Federal Parliament (for any legal amendments)
Narrow local and provincial revenue base (low own-source revenue collection capacity)	**Strengthen sub-national revenue mobilisation** through administrative and policy measures: establish or upgrade Revenue Divisions in each municipality/ province, digitise property and business tax systems, update property valuations and tax maps, and enforce implementation of Revenue Improvement Action Plans (RIAPs) in all local units. Consider modest **new local revenue instruments** (fees, local service charges) where feasible.	Broadens the fiscal capacity of provinces and local governments, reducing over-reliance on central funds. Higher own revenues (e.g. property tax yields) increase local fiscal space for development priorities and inculcate greater fiscal responsibility and accountability to local taxpayers.	Provincial & Local (with federal support)	**MoFAGA and Ministry of Finance** (policy guidance and technical support); Provincial Ministries of Economic Affairs and Planning; local government associations (for peer support)
Rigid conditional grants limiting local planning freedom, and delays in grant disbursements	**Make fiscal transfers more flexible and timely:** redesign conditional grants to allow fungibility within broad sectors or introduce block grants, and streamline grant release procedures. For example, consolidate multiple small conditional grants into broader funding windows (e.g. an infrastructure block grant) and release allocations before the start of the fiscal year.	Local and provincial governments gain greater budget autonomy and can tailor spending to local needs without breaching rules. Timely releases prevent cash crunches and improve budget execution rates. Overall, planning and service delivery become more efficient and responsive.	Federal	**Ministry of Finance** (Inter-governmental Fiscal Division) in coordination with **NNRFC;** endorsed by National Planning Commission

Issue Identified	Proposed Measure	Expected Impact	Level of Effort	Lead Institution
Low execution of capital budgets and weak project implementation at sub-national levels (e.g. provinces underspent 34% in FY2023)	**Improve development planning and budget execution:** enforce rigorous project screening and ready-to-launch project preparation before budgeting; introduce mid-year expenditure reviews and reallocation flexibility for slow projects; strengthen procurement planning by requiring all agencies to publish and adhere to Procurement Plans. Additionally, permit **multi-year appropriations** or carry-over of capital funds for ongoing projects to reduce year-end spending rush.	Boosts capital budget absorption and the quality of development outcomes. Projects are better prepared and procured on time, reducing underspending and "last-minute" expenditures. Citizens benefit from more timely completion of infrastructure and services. Increases overall budget credibility and value for money of public spending.	Provincial & Local (with federal oversight)	**National Planning Commission (NPC)** and **Financial Comptroller General Office (FCGO)** (for guidelines on budgeting and carryover); Provincial Planning Commissions and local planning units (implementation)
Lack of performance orientation in budgeting and service delivery	**Adopt performance-based budgeting and incentives:** link a portion of fiscal transfers to results (e.g. grant top-ups for meeting immunisation targets or clean audit compliance). Develop key performance indicators for provincial and local governments (aligned with SDGs/federalism goals) and publish an annual federalism performance scorecard. Reward high performers with recognition or additional resources (performance grants).	Introduces a results-driven culture in sub-national finance. Provinces and municipalities are motivated to improve service delivery and governance outcomes to earn incentives. Over time, this can raise service standards nationwide and make funding allocations more output-oriented, not just input-based.	Federal & Provincial	**National Planning Commission** and **MoF** (to design performance grant mechanism); NNRFC (to integrate into transfer formula); OPMCM (to champion annual performance reviews)
Insufficient transparency and citizen participation in budgeting (OBS participation score 31/100)	**Institutionalise budget transparency and public engagement:** require all provinces and large municipalities to formulate Citizens' Budgets and hold public budget hearings during planning. Expand the participatory budgeting pilots to more municipalities, ensuring community input in project selection.	Greater transparency builds public trust and enables citizens to provide input on spending priorities. Participation in budgeting ensures resources are allocated to felt needs, and oversight by civic groups can reduce misuse.	Local (with federal guidelines)	**Financial Comptroller General Office (FCGO)** and **MoFAGA** (to issue transparency guidelines); Municipalities and Provincial Finance Ministries (implementation);

Issue Identified	Proposed Measure	Expected Impact	Level of Effort	Lead Institution
	Leverage civil society and ICT (e.g. online portals) to publish budget and expenditure data in user-friendly formats.	Over time, this leads to budgets that are more equitable and reflect local preferences, and it strengthens civic oversight of public funds.		support from **civil society organisations** for facilitation
Gaps in fiscal oversight and integrity at sub-national levels (weak internal audit, audit backlogs, few consequences for financial irregularities)	**Strengthen PFM accountability systems:** establish internal audit units in all provinces and large municipalities and upgrade their capacity to conduct risk-based audits. Ensure the Auditor General's mandate covers provincial and local accounts with sufficient resourcing for annual audits of all tiers. Activate Public Accounts Committees (PACs) at federal and provincial legislatures to examine audit findings related to sub-national spending, and implement a time-bound process for ministries and local governments to respond to audit queries. In parallel, empower the **Commission for the Investigation of Abuse of Authority (CIAA)** to more proactively investigate corruption in local projects, e.g. by setting up provincial offices and hotlines.	Robust oversight will deter financial mismanagement and corruption. Regular internal audits will catch issues early, while external audits with legislative scrutiny will hold officials to account for misuse of funds. Implementing audit recommendations will improve financial discipline. Strengthened CIAA action at sub-national level will increase the risk of punishment for corrupt acts, thereby improving integrity in local service delivery and use of public resources.	Federal & Provincial	**Office of the Auditor General (OAG)** (for audits) in collaboration with **FCGO; Federal Parliament and Provincial Assemblies** (PAC functioning); **CIAA** (anti-corruption enforcement)
Fragmented inter-governmental fiscal policy coordination (weak coordination among MoF, NNRFC, NPC, MoFAGA)	**Establish a formal Fiscal Federalism Coordination Forum** that convenes key agencies (MoF, NNRFC, NPC, MoFAGA) with provincial finance ministers on a semi-annual basis.	Creates a dedicated mechanism for holistic oversight of the fiscal federal system. Policy decisions (e.g. on borrowing limits, grant reforms, fiscal equalisation) become more coherent and jointly owned by all stakeholders.	Federal & Provincial	**Ministry of Finance** (lead convener) with **NNRFC** (technical secretariat); NPC and MoFAGA as key members; Provincial finance ministries as participants

Issue Identified	Proposed Measure	Expected Impact	Level of Effort	Lead Institution
	This forum would discuss and resolve fiscal policy and transfer issues, coordinate on sub-national borrowing frameworks, and review the fiscal health of provinces/locals.	Provinces get a voice in national fiscal decisions that affect them, reducing misunderstandings. Ultimately leads to a more **cohesive fiscal policy** and prevents adhoc unilateral decisions.		
Capacity constraints in financial management at sub-national levels (lack of skilled accountants, planners)	**Expand capacity building in public financial management (PFM):** deploy mobile PFM expert teams or advisors to weaker provinces and municipalities; scale up training programmes on budgeting, accounting, and procurement through Provincial Centre for Good Governance (PCGG) and Nepal Administrative Staff College. Incorporate modules on fiscal policy, budget analysis, and financial integrity in elected representative training (through PLGSP). Encourage peer learning by twinning well-performing municipalities with those lagging in PFM indicators.	Improves the proficiency of local and provincial officials in managing public funds, leading to better budget formulation, execution, and reporting. Over time, all sub-national units build a core cadre of financial management professionals, which translates to more effective and efficient use of resources and compliance with standards. Peer learning accelerates the diffusion of good practices.	Federal, Provincial & Local	**MoFAGA/PLGSP** (programme management for capacity support); **Provincial Training Centres (PCGG)** and **Administrative Staff College** (training delivery); Development partners (technical assistance for expert deployment)
Incomplete administrative restructuring and staffing: delayed Civil Service reform and high vacancy rates in provincial/local posts	**Complete civil service federalisation and fill vacancies:** enact the Federal Civil Service Act (if not already) and associated regulations to clearly delineate federal, provincial, and local civil service cadres. Empower Provincial Public Service Commissions to recruit for provincial and local needs, and launch special drives to fill critical vacancies (engineers, doctors, accountants) in remote areas, with incentives for posting.	Ensures that sub-national governments have the human resources to perform their functions. Clear civil service rules and autonomous provincial HR bodies will allow timely recruitment and deployment, reducing reliance on adhoc deputations.	Federal & Provincial	**Ministry of Federal Affairs and General Administration (MoFAGA)** and **Public Service Commission (PSC)** (for legal framework and oversight); Provincial PSCs (recruitment at sub-national level)

Issue Identified	Proposed Measure	Expected Impact	Level of Effort	Lead Institution
	Consider **contracting or lateral entry** in the interim to plug urgent staffing gaps. Prepare decentralisation plans at federal and provincial level.	Over time, each province and municipality will build a stable administration, improving service delivery and local governance.		
Limited capacity and skills, especially at the local level, despite training efforts	**Institutionalise continuous capacity development:** strengthen the Provincial Centres for Good Governance (PCGGs) under PLGSP to provide regular training, coaching, and technical assistance to local officials and elected representatives. Update curricula to focus on practical skills (planning, financial management, IT, procurement, GESI, environmental governance). Establish a **peer learning network** where model municipalities share knowledge (e.g. via exchange visits, mentor schemes). Additionally, collaborate with academic and training institutions (e.g. NASC, universities) to create accredited courses for local governance.	Creates a sustained pipeline for upgrading skills of government staff and leaders. Continuous learning opportunities will professionalise the provincial and local public service, leading to more competent administration. Peer learning spreads innovation and good practices horizontally. In the long run, stronger human capital at the local level translates to more efficient, accountable, and innovative public service delivery.	Provincial & Local (with federal support)	**MoFAGA/PLGSP** (programme lead for capacity building); **PCGGs** (provincial training implementation); **Nepal Administrative Staff College** and universities (curriculum support)
Weak performance management and accountability of civil servants at sub-national levels	**Introduce performance management systems for sub-national administration:** implement an appraisal system with clear performance indicators for municipal and provincial officials (e.g. service delivery targets, project completion, citizen satisfaction). Tie high performance to rewards (career progression, recognition) and institute sanctions or retraining for consistent under-performance.	Incentivises a culture of merit and results in the bureaucracy. Civil servants and officials at all levels become more accountable for outcomes, not just processes. Over time this will improve service quality (as employees strive to meet targets) and help identify capacity gaps.	Federal, Provincial & Local	**OPMCM** and **MoFAGA** (to design performance appraisal frameworks and guidelines); Provincial governments (to implement for their staff); **Public Service Commission** (to align with career incentives)

Issue Identified	Proposed Measure	Expected Impact	Level of Effort	Lead Institution
	Complement this with enforcing citizen charters and service standards for key public services, and requiring local governments to publish an annual report on performance against targets.	Public annual performance reporting also enhances transparency, allowing citizens to see how their government is doing.		
Fragmented or citizen-unfriendly service delivery processes	**Establish one-stop service centres and digital governance for citizens:** promote the creation of integrated service centres at the municipal level where citizens can access multiple services (registrations, permits, payments) in one place. Expand e-governance platforms – e.g. online applications for certificates, licenses, tax payments – to all municipalities, including interoperability so that data can be shared across federal-provincial-local systems. Encourage provinces to develop **common digital solutions** that smaller local governments can adopt (for instance, a provincial e-service portal catering to all LGs in that province).	Simplifies and speeds up service delivery, improving citizen experience and satisfaction. One-stop centres and online services reduce bureaucratic run-around and opportunities for petty corruption. Digital integration ensures that citizens' data and documents flow seamlessly between agencies, making government more responsive and reducing duplication. This also helps standardise quality of services across the country by levelling up lagging localities with ready-made digital tools.	Local & Provincial (with federal ICT support)	**Ministry of Communication and IT / National Information Technology Centre** (for e-governance infrastructure); **MoFAGA** (policy guidance); Provincial IT units and municipal administrations (implementation)
Uneven adoption of transparency and integrity measures in administration (e.g. only 15% of grievance systems are digital)	**Enhance administrative transparency and integrity systems:** roll out e-procurement (e-GP) to all provinces and municipalities for public tenders to curb collusion. Mandate every local government to establish a functional **grievance redress mechanism** (help desk or online portal) and integrate it with a central monitoring system to ensure grievances are addressed. Enforce periodic asset declaration by mayors, provincial ministers and senior officials, and publish the summaries.	Expands transparency and deters misconduct in local administration. E-procurement increases fairness and value in public purchasing by reducing manual manipulation. Grievance systems give citizens a voice and problem-resolution channel, boosting trust when complaints are acted on. Asset disclosure and ethics codes put moral pressure on officials and make it easier to detect illicit enrichment.	Federal & Local	**Public Procurement Monitoring Office (PPMO)** (for e-GP rollout); MoFAGA (for grievance mechanism standards and integrity policy); **CIAA** (for anti-corruption oversight and training); Municipal governments (implementing ethics and grievance systems)

Issue Identified	Proposed Measure	Expected Impact	Level of Effort	Lead Institution
	Develop local codes of ethics and strengthen integrity committees in municipalities to oversee anti-corruption commitments. Coordinate with CIAA to train local officials on anti-corruption laws and to deploy focal persons in provinces for quicker investigations.	Overall, these measures build a culture of integrity and openness at the local level, which is critical for long-term accountability.		
Inadequate monitoring, evaluation and oversight of sub-national performance	**Strengthen oversight and feedback loops:** institute an annual **Federalism Performance Review** led by MoFAGA – using key indicators from this Report – to monitor progress of each province and a sample of local governments, with results published and discussed in a high-level forum (e.g. an annual federalism summit). Empower the National Parliament (through its State Affairs Committee) to summon annual progress hearings from MoFAGA and provincial leaders on federal implementation. At the provincial level, encourage governments to conduct regular supervision of local governments (within constitutional bounds) and provide support where lapses are identified. Additionally, promote civil society and media monitoring by supporting them to use Right to Information and social audits to report on local governance.	Creates a strong feedback mechanism to identify and address problems in federalism implementation. Annual reviews and parliamentary oversight ensure that federalism remains on the national agenda and that responsible agencies are held to their commitments. Provincial monitoring of local units (done cooperatively) can catch issues like mismanagement or service gaps early and trigger remedial support. Involving civil society and media leverages independent scrutiny, adding pressure for improvement from outside government. These layers of oversight together ensure **no level of government operates in a accountability** vacuum, reinforcing both top-down and bottom-up checks and balances.	Federal & Provincial	**MoFAGA** (to lead performance review and reporting); **National Parliament** State Affairs Committee (oversight hearings); Provincial Chief Minister's Offices (monitoring of local units); Collaboration with **civil society organisations** (external monitoring)

11.2 CONCLUSION

Each of the above strategic measures is geared towards consolidating Nepal's federal governance through practical, actionable steps. By addressing political, fiscal, and administrative dimensions in tandem, these recommendations seek to lock in the gains of the past eight years while proactively tackling the bottlenecks that remain. Importantly, the measures emphasise cooperation and mutual accountability: federal actors must empower and support sub-national governments even as local and provincial actors step up to fulfil their responsibilities in a transparent and accountable manner. Going forward, the Government of Nepal – in partnership with PLGSP and other development partners – should prioritise the implementation of these measures. This will require not just policy changes, but also sustained political will, adequate resourcing, and coordination among institutions. If followed through, the strategic directions outlined here can transform Nepal's federal system from a work in progress into a stable, high-performing engine of inclusive governance and development, delivering on the constitution's vision of a nation that is “federal in structure, functional in service, and fair to all its people.

ANNEXES

STATE OF FEDERALISM INDICATOR BASELINES

<table>
<tr><th rowspan="2"></th><th rowspan="2">Indicator</th><th colspan="4" rowspan="2">Baseline Value (2023/24)</th><th colspan="4">Status</th></tr>
<tr><th>2025/26</th><th>2026/27</th><th>2027/28</th><th>2028/29</th></tr>
<tr><td rowspan="11">Outcome 1</td><td>1. # of federal acts and regulations enacted or amended in accordance with Articles 58, 59(7), and Schedules 7 & 9 to strengthening federal governance</td><td colspan="4">83</td><td></td><td></td><td></td><td></td></tr>
<tr><td rowspan="6">2.a Percentage of IGM decisions fully implemented (FI), partially implemented (PI), and not implemented (NI).</td><td></td><td>FI</td><td>PI</td><td>NI</td><td rowspan="6"></td><td rowspan="6"></td><td rowspan="6"></td><td rowspan="6"></td></tr>
<tr><td>IPC [11]</td><td>N/A</td><td>N/A</td><td>N/A</td></tr>
<tr><td>NDAC</td><td>0%</td><td>100%</td><td>0%</td></tr>
<tr><td>ACC</td><td>100%</td><td>0%</td><td>0%</td></tr>
<tr><td>NCC</td><td>0%</td><td>100%</td><td>0%</td></tr>
<tr><td>IGFC</td><td>0%</td><td>100%</td><td>0%</td></tr>
<tr><td>2.b Satisfaction rate of provincial and local governments with IGM coordination processes</td><td colspan="4">Indicator dependent on an Institutional Perception Survey</td><td></td><td></td><td></td><td></td></tr>
<tr><td>3. Percentage of PLGs reporting that federal capacity development frameworks, tools, and systems have improved their institutional performance and service delivery.</td><td colspan="4">Indicator dependent on an Institutional Perception Survey</td><td></td><td></td><td></td><td></td></tr>
<tr><td>4. Percentage of federal, provincial, and local institutions reporting improved allocative efficiency and resource use.</td><td colspan="4">Indicator dependent on an Institutional Perception Survey</td><td></td><td></td><td></td><td></td></tr>
<tr><td rowspan="3">Output 1</td><td>1.1. Number of GESI targeted legislations (laws/ policies/strategies/guidelines/ code of conducts) formulated</td><td colspan="4">17</td><td></td><td></td><td></td><td></td></tr>
<tr><td>1.2. Number of federal legislative or policy documents developed through formal multistakeholder consultation</td><td colspan="4">N/A</td><td></td><td></td><td></td><td></td></tr>
<tr><td>1.3. Number of memos/directives on GESI issued by federal government to PLGs</td><td colspan="4">5</td><td></td><td></td><td></td><td></td></tr>
</table>

[11] No meetings held by the IPC in the reporting period.

<table>
<tr><th rowspan="2"></th><th rowspan="2">Indicator</th><th rowspan="2" colspan="2">Baseline Value (2023/24)</th><th colspan="4">Status</th></tr>
<tr><th>2025/26</th><th>2026/27</th><th>2027/28</th><th>2028/29</th></tr>
<tr><td rowspan="13">Output 2</td><td rowspan="5">2.1.a. Number of core Inter-governmental meetings held annually</td><td>IPC</td><td>0</td><td rowspan="5"></td><td rowspan="5"></td><td rowspan="5"></td><td rowspan="5"></td></tr>
<tr><td>NDAC</td><td>1</td></tr>
<tr><td>ACC</td><td>1</td></tr>
<tr><td>NCC</td><td>2</td></tr>
<tr><td>IGFC</td><td>2</td></tr>
<tr><td rowspan="4">2.1.b. Number of issues discussed through core Inter-governmental meetings</td><td>IPC</td><td>0</td><td rowspan="4"></td><td rowspan="4"></td><td rowspan="4"></td><td rowspan="4"></td></tr>
<tr><td>NDAC</td><td>15</td></tr>
<tr><td>ACC</td><td>1</td></tr>
<tr><td>NCC</td><td>Not Reported by Government Counterpart</td></tr>
<tr><td>2.2. Number of NCC meetings held with cross-tier representation</td><td colspan="2">1</td><td></td><td></td><td></td><td></td></tr>
<tr><td>2.3. Number of IGFC meetings held with participation of MOF, NPC, and representation of provincial governments</td><td colspan="2">2</td><td></td><td></td><td></td><td></td></tr>
<tr><td rowspan="3">Output 3</td><td>3.1. Number of national capacity development frameworks, curricula, or systems developed or endorsed by federal institutions for delivery through PRTAs, LDTAs and NASC.</td><td colspan="2">21</td><td></td><td></td><td></td><td></td></tr>
<tr><td>3.2. Number of pilot or prototype guidelines, standards, or tools developed or amended by federal institutions to support PFM functions of provincial and local governments</td><td colspan="2">19</td><td></td><td></td><td></td><td></td></tr>
<tr><td>3.3.a. Number of ICT systems, platforms, or digital tools developed or amended and functional by federal institutions to support governance and service delivery by PLGs</td><td colspan="2">39</td><td></td><td></td><td></td><td></td></tr>
</table>

<table>
<tr><th rowspan="2"></th><th rowspan="2">Indicator</th><th rowspan="2" colspan="4">Baseline Value (2023/24)</th><th colspan="4">Status</th></tr>
<tr><th>2025/26</th><th>2026/27</th><th>2027/28</th><th>2028/29</th></tr>
<tr><td>Output 3</td><td>3.3.b. Number of PLGs using ICT systems, platforms, or digital tools developed or amended by federal institutions in at least one core governance or service delivery function</td><td colspan="4">7</td><td></td><td></td><td></td><td></td></tr>
<tr><td rowspan="22">Outcome 2</td><td>1. Number of Provinces which have conducted/ completed administrative restructuring to promote organisational efficiency</td><td colspan="4">3</td><td></td><td></td><td></td><td></td></tr>
<tr><td rowspan="8">2.1. Percentage of Provincial IGM decisions fully implemented (FI), partially implemented (PI), and not implemented (NI).</td><td></td><td>FI</td><td>PI</td><td>NI</td><td rowspan="8"></td><td rowspan="8"></td><td rowspan="8"></td><td rowspan="8"></td></tr>
<tr><td>Madhesh</td><td>57%</td><td>29%</td><td>14%</td></tr>
<tr><td>Bagmati</td><td>11%</td><td>61%</td><td>28%</td></tr>
<tr><td>Karnali</td><td>40%</td><td>60%</td><td>0%</td></tr>
<tr><td>Koshi</td><td>75%</td><td>25%</td><td>0%</td></tr>
<tr><td>Gandaki</td><td>Pending</td><td>Pending</td><td>Pending</td></tr>
<tr><td>Lumbini</td><td>100%</td><td>0%</td><td>0%</td></tr>
<tr><td>S.Paschim</td><td>50%</td><td>50%</td><td>0%</td></tr>
<tr><td rowspan="8">2.2. Percentage of systems/mechanisms/platforms established or reformed and functional at the provincial level to support coordination with LGs</td><td></td><td>Established</td><td>Established / Functional</td><td>%</td><td rowspan="8"></td><td rowspan="8"></td><td rowspan="8"></td><td rowspan="8"></td></tr>
<tr><td>Madhesh</td><td>3</td><td>2</td><td>66%</td></tr>
<tr><td>Bagmati</td><td>3</td><td>3</td><td>100%</td></tr>
<tr><td>Karnali</td><td>2</td><td>2</td><td>100%</td></tr>
<tr><td>Koshi</td><td>4</td><td>4</td><td>100%</td></tr>
<tr><td>Gandaki</td><td>Pending</td><td>Pending</td><td>Pending</td></tr>
<tr><td>Lumbini</td><td>2</td><td>2</td><td>100%</td></tr>
<tr><td>S.Paschim</td><td>4</td><td>3</td><td>75%</td></tr>
<tr><td>3. Percentage of provincial institutions reporting improved organisational performance and efficiency as a result of newly developed or improved systems and mechanisms.</td><td colspan="4">Indicator dependent on an Institutional Perception Survey</td><td></td><td></td><td></td><td></td></tr>
</table>

<table>
<tr><th rowspan="2"></th><th rowspan="2">Indicator</th><th rowspan="2" colspan="3">Baseline Value (2023/24)</th><th colspan="4">Status</th></tr>
<tr><th>2025/26</th><th>2026/27</th><th>2027/28</th><th>2028/29</th></tr>
<tr><td rowspan="8">Outcome 2</td><td>4. Percentage of Provincial governments allocating and disburse funds from their own budgets to the IPF</td><td colspan="3">28.57 (2/7 provinces)</td><td></td><td></td><td></td><td></td></tr>
<tr><td rowspan="7">5. Number of indicators out of agreed checklist for ISO checklist achieved by PRTAs</td><td>Madhesh</td><td colspan="2">0%</td><td rowspan="7"></td><td rowspan="7"></td><td rowspan="7"></td><td rowspan="7"></td></tr>
<tr><td>Bagmati</td><td colspan="2">0%</td></tr>
<tr><td>Karnali</td><td colspan="2">0%</td></tr>
<tr><td>Koshi</td><td colspan="2">54%</td></tr>
<tr><td>Gandaki</td><td colspan="2">80%</td></tr>
<tr><td>Lumbini</td><td colspan="2">0%</td></tr>
<tr><td>S.Paschim</td><td colspan="2">0%</td></tr>
<tr><td rowspan="15">Output 4</td><td rowspan="7">4.1. Percentage of institutional frameworks or mechanisms developed or revised by provincial governments that are GESI responsive</td><td>Madhesh</td><td colspan="2">0%</td><td rowspan="7"></td><td rowspan="7"></td><td rowspan="7"></td><td rowspan="7"></td></tr>
<tr><td>Bagmati</td><td colspan="2">14%</td></tr>
<tr><td>Karnali</td><td colspan="2">100%</td></tr>
<tr><td>Koshi</td><td colspan="2">44%</td></tr>
<tr><td>Gandaki</td><td colspan="2">Pending</td></tr>
<tr><td>Lumbini</td><td colspan="2">100%</td></tr>
<tr><td>S.Paschim</td><td colspan="2">Pending</td></tr>
<tr><td rowspan="8">4.2. Number of Provincial officials trained (disaggregated by elected representatives, staff [elected representatives, staff and others] as well as the types of Capacity Development Activity [orientations, workshops, peer learning, CoP etc.])</td><td></td><td>Elected Reps.</td><td>Civil Servants</td><td rowspan="8"></td><td rowspan="8"></td><td rowspan="8"></td><td rowspan="8"></td></tr>
<tr><td>Madhesh</td><td>0</td><td>0</td></tr>
<tr><td>Bagmati</td><td>515</td><td></td></tr>
<tr><td>Karnali</td><td>0</td><td>0</td></tr>
<tr><td>Koshi</td><td>68</td><td>378</td></tr>
<tr><td>Gandaki</td><td>0</td><td>0</td></tr>
<tr><td>Lumbini</td><td>116</td><td>1779</td></tr>
<tr><td>S.Paschim</td><td>36</td><td>364</td></tr>
</table>

	Indicator	Baseline Value (2023/24)		Status			
				2025/26	2026/27	2027/28	2028/29
Output 4	4.3. Number of provincial legislations drafted (Act/ Regulation/ Policy/ Procedures etc) in accordance with Schedule 6 as well as Schedules 7 & 9	Madhesh	109				
		Bagmati	127				
		Karnali	Pending				
		Koshi	102				
		Gandaki	150				
		Lumbini	130				
		S.Paschim	109				
	4.4. Number of functional e-governance and ICT mechanisms at PG institutions.	Madhesh	19				
		Bagmati	33				
		Karnali	10				
		Koshi	17				
		Gandaki	Pending				
		Lumbini	3				
		S.Paschim	8				
Output 5	5.1.a. Number of Provincial Coordination Council (PCC) meetings held	Madhesh	4				
		Bagmati	1				
		Karnali	1				
		Koshi	1				
		Gandaki	Pending				
		Lumbini	1				
		S.Paschim	1				

	Indicator	Baseline Value (2023/24)		Status			
				2025/26	2026/27	2027/28	2028/29
Output 5	5.1.b. Number of inter-governmental learning sharing platforms established (Virtual or in-person).	Madhesh	0				
		Bagmati	0				
		Karnali	0				
		Koshi	0				
		Gandaki	0				
		Lumbini	0				
		S.Paschim	0				
	5.2. Number of meetings conducted in presence of LGs association during decision-making process.	Madhesh	0				
		Bagmati	2				
		Karnali	1				
		Koshi	0				
		Gandaki	Pending				
		Lumbini	0				
		S.Paschim	1				
	5.3.a. Number of IPF projects with signed agreements between the PRT and the GPA Project Officer.	Madhesh	9				
		Bagmati	0				
		Karnali	0				
		Koshi	0				
		Gandaki	17				
		Lumbini	10				
		S.Paschim	0				
	5.3.b. Number of people directly benefited from the IPF projects.	We do not have the data for this. We agreed at the workshop to keep this indicator nonetheless and make it an important point for improved data collection at the provincial level.					

	Indicator	Baseline Value (2023/24)		Status			
				2025/26	2026/27	2027/28	2028/29
Output 6	6.1.a. Number of PRTAs with a Strategic Plan backed by sound sectoral implementation plans.	2					
	6.1.b. Number of curricula/courses developed by PRTAs	Madhesh	2				
		Bagmati	9				
		Karnali	7				
		Koshi	6				
		Gandaki	1				
		Lumbini	3				
		S.Paschim	4				
	6.2. Number of PRTA's with a dedicated digital platform to expand access to capacity development programmes	2					
	6.3. Number of PRTAs with MEL systems that have defined indicators and source of information.	0					
PLGSP + Outcome 1	Proportion of federal draft laws/policies subjected to GESI analysis and stakeholder consultation	0					
	Transparency of federal policy formulation (% of laws published online in draft form)	0					
	Resolution rate of inter-governmental issues raised (%)	0					
	Inclusiveness of IG mechanism participation (% of marginalised reps)	0					
	Number of Shared Services Agreements (SSAs) signed across federal, provincial and local governments	0					
PLGSP + Outcome 2	% of provincial civil service positions filled	38%					
	% own-source tax revenue	20.70%					

	Indicator	Baseline Value (2023/24)	Status			
			2025/26	2026/27	2027/28	2028/29
PLGSP + Outcome 2	% of audit irregularities resolved	29.80%				
	% of training demands met by PRTAs	N/A				
PLGSP + Outcome 3	Local council oversight effectiveness (qualitative)	N/A				
	Citizen satisfaction with basic local services (%)	57%				
	% of approved sub-national capital budget executed within the fiscal year”	<85%				
	Execution rate of local capital budgets (%)	80-90%				
	Percentage of grievances addressed by LGs	N/A				
	Women’s and marginalised groups’ satisfaction with LG accountability	N/A				
PLGSP + Outcome 4	Number of provincial digital platforms operationalised with real-time LG integration (e.g. GIOMS, LISA)	100				
	Number of local governments utilising e-GP, CGAS, and PAMS with verified audit trails	100				
	Number of revenue instruments introduced or revised at sub-national level based on tax potential studies	To be completed following indicator approval				
	Number of laws/policies subjected to post-legislative scrutiny with recorded amendments	7				
	Proportion of LGs with approved budgets containing mandatory allocations for GESI-prioritised groups	N/A				

	Indicator	Baseline Value (2023/24)	Status			
			2025/26	2026/27	2027/28	2028/29
PLGSP + Outcome 4	**Number of PRTA/PCGG modules implemented per province with digital curriculum tracking**	8				
	Number of youth panels formally engaged in municipal or provincial planning cycles	N/A				
	Number of LGs implementing structured civic monitoring tools (e.g. community scorecards, CivActs)	33				
	Number of sector-specific SSAs backed by formal coordination units and budget line items	0				
Global Comparator Indicators	**OBS Public Participation (out of 100)**	31				
	OBS Budget Oversight (out of 100)	46				
	OBS Transparency (Open Budget Index, out of 100)	50				
	SDG Global Index Score (Nepal)	68.6 / 100				
	SDG Global Rank (Nepal)	85th out of 167				
	Rule of Law Index Score	0.52				
	Rule of Law Global Rank (Nepal)	69th out of 142				
	Corruption Perceptions Index (CPI) Score	34 / 100				
	Human Development Index (HDI) Score	0.602				
	EGDI (E-Government Development Index) Score	0.5781				

	Indicator	Baseline Value (2023/24)	Status			
			2025/26	2026/27	2027/28	2028/29
Global Comparator Indicators	**EGDI Global Rank (Nepal)**	119th out of 193				
	World Bank Business Ready Economy Ranking (Nepal)	108th out of 180				
	Global Gender Gap Index Score	0.659				
		116th out of 146				

CONSOLIDATED SUMMARY OF NATIONAL ASSEMBLY RECOMMENDATIONS ON IMPROVING FEDERALISM

No.	Theme	Consolidated recommendation	Indicator of success	Likely impact
1	**Constitutional clarity and unbundling**	Revise and clarify the unbundling of functions across federal, provincial and local levels, based on 5 years of experience, to remove overlaps and ambiguities.	Revised functional assignment gazetted and used in practice; reduction in reported overlaps and jurisdictional disputes; number of laws and regulations aligned with the new unbundling.	Clearer roles, less duplication, faster decision-making and more coherent service delivery across the three tiers.
2	**Size of provincial executives**	Limit the number of provincial ministers to 10 percent of assembly members, with a floor of 5, to contain administrative costs and improve public trust.	Constitutional or legal amendment enacted; all provinces within the new cap; share of recurrent spending on provincial cabinets reduced.	More efficient provincial governments and improved citizen confidence in federalism due to visible restraint in political appointments.
3	**Inclusive political representation**	Strengthen laws to guarantee women's leadership at local executive level, ensure at least one third women candidates in FPTP races, and operationalise inclusive representation for women, Dalits, indigenous nationalities, Madhesi, Tharu, Muslims, minorities, marginalised groups, people with disabilities and gender and sexual minorities.	Share of women candidates and elected representatives at or above one third at all levels; representation of targeted groups in elected bodies and key posts; enactment and implementation of inclusive representation laws.	A more representative and legitimate federal system that better reflects Nepal's social diversity and reduces exclusion driven grievances.
4	**Egalitarian and socialism oriented society**	Promote an egalitarian, socialism oriented society through coordinated economic policies and programmes across public, private and cooperative sectors and all tiers of government.	Joint policy frameworks and programmes across the three sectors and three tiers; share of budget targeted to social justice and equity objectives.	Stronger alignment between constitutional ideals and economic policy, with more inclusive growth and reduced inequality across regions and groups.

No.	Theme	Consolidated recommendation	Indicator of success	Likely impact
5	**Respect and protection of disadvantaged groups**	Empower underprivileged and backward classes and tackle discrimination and violence against Dalits, women, children, older people, people with disabilities and other vulnerable groups, while implementing fundamental and social security rights.	Decline in reported incidents of discrimination and violence; coverage of social security schemes; rights based complaints resolved.	More dignified lives for vulnerable groups, stronger social cohesion and increased legitimacy of the federal democratic republic.
6	**Parliamentary oversight of federalism**	Establish a permanent joint parliamentary committee to monitor federalism implementation and require federal and provincial committees to prepare and implement action plans on their directives.	Joint committee constituted and meeting regularly; proportion of committee recommendations with implemented action plans; annual reporting to parliament.	Stronger political oversight of federalism, better follow up on reforms and greater accountability of the executive to citizens.
7	**Using constitutional commissions effectively**	Systematically implement recommendations of constitutional commissions and the Auditor General through annual action plans and calendars.	Annual implementation plans prepared and endorsed; share of commission recommendations implemented by due date; audit observations reduced over time.	Improved financial discipline, reduced corruption, better personnel management and stronger rule of law across all tiers.
8	**Federalism implementation plan and decentralisation**	Operationalise the federalism implementation action plan, prepare time bound task lists on laws, organisations and staffing, and develop decentralisation plans at federal and provincial levels to delegate responsibilities, resources and capacities downward.	Action plan approved and fully costed; number of functions formally delegated; share of services delivered at the closest effective tier.	More complete and coherent implementation of federalism with stronger sub-national governments and fewer central bottlenecks.
9	**Citizen awareness of federalism**	Deliver nationwide orientation, training and awareness programmes on federalism, democracy, rule of law and inter tier coordination for citizens and all newly elected representatives.	Number of orientation events held; proportion of newly elected officials trained within a defined period; survey evidence of improved understanding of federal roles.	Reduced confusion about federalism among citizens and politicians, helping to consolidate support for the system.

No.	Theme	Consolidated recommendation	Indicator of success	Likely impact
10	**Service delivery and grievance handling**	Make public administration cleaner, more responsive and transparent by improving high demand services (land, survey, transport, tax, migration etc.), rolling out digital tools, eliminating middlepersons, and establishing effective grievance mechanisms like Hello Sarkar at all tiers.	Average service delivery time in key offices; percentage of services delivered online; number and resolution rate of grievances logged across all levels.	Faster, more predictable services, reduced petty corruption and stronger citizen trust in state institutions.
11	**Administrative federalism and civil service reform**	Establish a high-level administration reform commission to align administrative systems with federalism, carry out O and M reviews and reduce excess federal staffing while strengthening officer oriented human resource management.	Reform commission established and delivering recommendations; new organisational structures approved; ratio of federal to sub-national staff reduced in line with functional assignments.	A leaner, more efficient and better structured public administration that matches the new division of powers.
12	**Police federalisation**	Complete police adjustment and establishment of provincial police forces in line with provincial exclusive powers over law and order.	Provincial police laws enacted; proportion of policing functions and budgets under provincial command; response times and crime clearance rates by province.	Enhanced provincial ownership of security, better local responsiveness and reduced ambiguity in law-and-order functions.
13	**Staffing provincial and local governments**	Address immediate staffing gaps at provincial and local levels through temporary deployment, with clear rules on postings, minimum tenure, promotions, delegation of CAO postings to provinces, and prevention of politicised appointments or unsustainable staff expansions.	Share of approved posts filled at provincial and local levels; adherence to minimum tenure rules; decline in ad hoc or politically motivated deployments; staff costs within agreed ceilings.	More capable and stable administrations at sub-national levels, with predictable career paths and lower fiscal risk.

No.	Theme	Consolidated recommendation	Indicator of success	Likely impact
14	**Coherent civil service legislation**	Ensure that federal, provincial and local civil service and government service acts are mutually consistent and aligned with the Constitution, while allowing provinces and local levels to legislate within that framework.	All provinces and local levels with civil service laws consistent with the federal act and Article 227; number of legal inconsistencies identified and resolved.	Greater legal certainty for staff management and a clearer basis for mobility and performance management across the three tiers.
15	**Institutional and political structures fit for federalism**	Align political party structures with the federal system and avoid or abolish parallel or unnecessary government bodies, boards and development committees, limiting federal ministries to about 15 and dissolving redundant departments.	Party constitutions and structures revised; number of parallel or redundant institutions eliminated; federal ministries and departments reduced to agreed targets.	Reduced fragmentation, lower administrative costs and more streamlined implementation of public policies.
16	**Integrated service delivery and district platforms**	Use integrated provincial service centres in each district and develop district coordination committees as provincial service delivery units to avoid proliferation of small offices.	Number of integrated district service centres operational; number of separate small offices closed or merged; citizen satisfaction with district level services.	More joined up services closer to citizens, with reduced overheads and clearer lines of accountability.
17	**Inter-governmental coordination mechanisms**	Strengthen national and provincial inter-governmental forums, including the Inter Provincial Council, inter governmental fiscal council, national and provincial coordination councils, and new administrative coordination councils of chief secretaries and CAOs, with regular meetings and permanent secretariats.	Frequency of meetings and proportion of decisions implemented; permanent secretariats staffed and funded; recorded reductions in unresolved inter tier disputes.	More predictable and cooperative relations among tiers of government, reducing conflict and overlap in policy and implementation.

No.	Theme	Consolidated recommendation	Indicator of success	Likely impact
18	**Law making practices across tiers**	Institutionalise consultation with lower tiers when legislating on exclusive powers, discuss bills in thematic committees before introduction, and ensure public participation in law making through online publication and strict rules on delegated legislation that respect tier jurisdictions.	Percentage of relevant bills preceded by consultations and thematic committee review; share of bills published online for at least 30 days; decline in ultra vires delegated legislation.	Better quality, more coherent and more legitimate laws, with fewer jurisdictional disputes and greater citizen ownership.
19	**Defining minimum service packages and costing**	Define minimum service delivery responsibilities of provinces and local levels and the associated funding needs.	Official minimum service packages adopted; costing completed and reflected in grants and own source revenue frameworks; service coverage indicators tracked against minimums.	Stronger linkage between mandates and money, helping to reduce unfunded mandates and uneven service provision across the country.
20	**Own source revenue and tax reform**	Prepare provincial and local revenue reform and mobilisation plans, improve collection of taxes such as advertisements and entertainment, base property registration fees on market value, and harmonise vehicle taxes with an earmarked share for environment and forest protection.	Revenue to GDP ratios at provincial and local levels; share of budgets funded by own source revenues; compliance and collection rates for key local taxes.	Increased fiscal autonomy and sustainability of sub-national governments and improved incentives for sound land and environmental management.
21	**Natural resources and environment governance**	Clarify the roles of all three tiers in the exploitation, regulation and benefit sharing of minerals, riverbed materials and other natural resources, adopt integrated laws, and curb environmentally damaging over exploitation and illegal crusher operations.	Comprehensive natural resource laws enacted; proportion of extraction operations licensed and compliant; environmental indicators improving in affected areas.	More sustainable and equitable use of natural resources, reduced local conflict and greater revenues for sub-national governments.
22	**Sub-national borrowing and fiscal risk management**	Develop provincial and local debt management systems and end the practice of showing internal borrowing as a budget source without legal and institutional safeguards.	Sub-national debt frameworks approved; debt ceilings respected; share of budgets financed by compliant borrowing; debt distress indicators monitored.	Access to responsible development finance at sub-national level while containing macro fiscal and credit risks.

No.	Theme	Consolidated recommendation	Indicator of success	Likely impact
23	**Grants system design and performance incentives**	Clarify the jurisdiction of the National Natural Resources and Fiscal Commission, increase the weight of equalisation grants, ensure transparency of equalisation data, restrict grants to the four constitutional types, and introduce performance based incentives for at least half of equalisation transfers, including sanctions and rewards for budget timeliness.	Share of transfers channelled as equalisation; public disclosure of formula data; proportion of equalisation grants allocated using performance criteria; number of local governments rewarded or sanctioned based on budget performance.	A more rules based, transparent and performance oriented inter-governmental fiscal system that reduces politicisation and improves service delivery.
24	**Budgeting, planning and project selection**	Align annual budgets with periodic plans, prioritise long term strategic projects, end the practice of undistributed budgets and fragmented activities, institutionalise bottom up planning and project banks, and set clear thresholds for the size of federal and provincial projects.	Share of capital budget allocated to projects drawn from periodic plans and project banks; share of budget allocated in a timely and fully distributed manner; number and value of projects meeting minimum size criteria.	More strategic, efficient and non fragmented public investment, with better development outcomes and less waste.
25	**Ward level allocation and small projects**	Guarantee that at least 50 percent of local capital budgets are allocated through transparent formulae to wards and define maximum size thresholds for ward level projects by municipal category.	Proportion of capital budgets distributed to wards according to agreed formulae; number of projects within the ward level ceilings; ward level reporting on outputs.	Greater territorial equity within municipalities, more visible benefits at community level and stronger accountability of ward representatives.
26	**Use of foreign aid and land acquisition for projects**	Ensure that foreign aid financed projects are designed and implemented at the level of government that holds the relevant functional authority and resolve land acquisition constraints that delay key investments.	Share of aid projects aligned with constitutional competencies; number of projects delayed by land issues; average time to resolve land acquisition for priority projects.	Better aligned development partner support, faster implementation of infrastructure and fewer project level conflicts.

No.	Theme	Consolidated recommendation	Indicator of success	Likely impact
27	**Capacity development systems**	Integrate and rationalise capacity and skills development training offered by federal and provincial bodies and provide targeted capacity building on legislative and judicial powers at local level.	Comprehensive training plans and curricula agreed; number of staff and elected representatives trained per year; pre and post training assessment of competencies.	Stronger institutional capacity at all tiers, leading to better laws, judgements and services.
28	**Monitoring, evaluation and fiscal good governance**	Use district coordination committees and other mechanisms to monitor and evaluate projects of all three levels in each district and strengthen legal and policy frameworks for fiscal discipline and public accounts type oversight at local level.	Regular district level monitoring reports produced; number of corrective actions taken; audit queries and irregularities reduced over time.	More effective use of public resources and higher quality of development projects across the country.
29	**Transparency, information and data systems**	Require all state agencies to update and publish information on their responsibilities and performance regularly and link the financial systems of all three tiers into an integrated data platform.	Regular publication of financial and performance data; operational integrated PFM or financial data systems; public access to standardised fiscal reports.	Stronger transparency and accountability, easier monitoring of federalism implementation and improved fiscal policy-making.
30	**Land management and records**	Regularly update government and public land records, land use classifications and land use plans, and align these with property registration practices and planning decisions.	Land information systems modernised and updated; proportion of parcels with updated records and land use status; reduction in land disputes and encroachments.	Clearer land tenure, better spatial planning and more efficient use of land for development and environmental protection.
31	**Social accountability and citizen engagement**	Create spaces for citizen participation, including during bill drafting and budget discussions, and maintain multiple channels for feedback at all tiers to strengthen accountability to citizens.	Number of consultations held on laws and budgets; citizen submissions received and reflected in final decisions; surveys of citizen satisfaction with opportunities to be heard.	More responsive and people centred governance and stronger public support for federal institutions.

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NEPAL: THE STATE OF FEDERALISM REPORT - 2025

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