



Assessing and Analyzing the Effectiveness of Fiscal Federalism in Nepal

A Political Economy Analysis

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List of Acronyms

CPN-UML	Communist Party of Nepal – United Marxist Leninist
DDC	District Development Committee
IGFA Act	Intergovernmental Fiscal Arrangement Act
IGFC	Intergovernmental Fiscal Council
IGFTs	Intergovernmental Fiscal Transfers
LGO Act	Local Governance Operation Act
LSG Act	Local Self Governance Act
MoF	Ministry of Finance
NNRFC	National Natural Resources and Fiscal Commission
NNRFC Act	National Natural Resources and Fiscal Commission Act
NPC	National Planning Commission
PEA	Political Economy Analysis
VAT	Value Added Tax
VDC	Village Development Committee

Executive Summary

The 2015 Constitution declared Nepal a federal republic. The first major substantive step towards federalisation came in the form of federal, provincial, and local elections in 2017 that enabled the formation of three levels of government in accordance with constitutional mandates. Along with the establishment of subnational governments – especially provincial governments – came the novel challenge of fiscal federalism. In Nepal, fiscal federalism puts the onus of the fair fiscal transfer to sub-national government on the federal government, which collects most of the state revenue including taxes. The National Natural Resources and Fiscal Commission (NNRFC) was created to oversee and manage fiscal federalism in line with the Constitution to ensure fair and often unconditional distribution of resources to subnational governments.

This study has been commissioned to identify key actors, their incentives, and interests in promoting and obstructing fiscal federalism, and more importantly, their roles to strengthen NNRFC's capacity to implement fiscal federalism. The findings and recommendations from the study will support USAID Public Finance Management (USAID PFM) to design the activities ahead to strengthen the effectiveness of NNRFC. Further, it will back up the Commission leadership in understanding the political landscape of its operating environment.

The historically established budgeting and planning process and an entrenched centralizing governance mindset provide a path dependency within which the current fiscal federalism dynamics are unfolding. Despite the establishment of the Commission, the federal executive continues to maintain considerable decision-making power over distribution decisions. A lack of legal and administrative clarity, combined with a lack of de facto authority has undermined the NNRFC and thus hampered fiscal federalism. This in turn has weakened and slowed the institutionalization of effective autonomous provincial and local governance. Ineffective subnational governance feeds into a growing discontent with federalism within certain segments of the public at a time when the political champions of federalism are in electoral decline and political forces indifferent or opposed to federalism are on the rise. This has led to further delay and deprioritizing of legislation that is necessary to strengthen and sharpen the NNRFC and other agencies charged with implementing federalism.

There is widespread consensus among observers that, notwithstanding its infancy, the effectiveness of the Commission has been compromised and it has been hindered from executing its constitutional mandate. In ensuring that state resources are shared justly to benefit the entire population and that provincial and local governments can effectively carry out their mandates, better functioning of NNRFC, and ultimately for the continuation of the federal project as envisaged by the Constitution of Nepal – this study recommends to : review, complete and revise fiscal federalism related legal frameworks; promote fiscal federalism through creating demand for NNRFC's legitimacy; and establish the NNRFC as knowledge leader in fiscal federalism by investing in in-house technical expertise.

**3-TIERS
GOVERNMENTS'
RESPONSIBILITIES**

**3-TIERS
GOVERNMENTS'
REVENUE
RIGHTS**

**FISCAL
IMBALANCES**

FISCAL FEDERALISM

National Natural Resources and Fiscal Commission (NNFRC) works to minimize fiscal imbalances through recommendations of just and equitable intergovernmental fiscal transfers.

Introduction

In September 2015, Nepal commenced another chapter in the country's governance history. After a decade of conflict and a prolonged constitution-making exercise, the Constituent Assembly approved the new Constitution.¹ The Constitution of Nepal 2015 (the 'Constitution') establishes Nepal's federal structure of government, creating seven provinces and 753 local units in addition to the federation at the center.² Through nationwide elections in 2017 and 2022, the arrival of fresh political leadership, especially at the subnational level in the newly created local units and provinces, promised to bring government closer to citizens and establish a path towards a more equal, inclusive, and prosperous Nepal.³

Federalism is at the heart of Nepal's constitutional reform.⁴ Governments at each level of the state — local, provincial, and federal/central — have their own elected executive and legislative branches. Article 57 divides state power among the three levels, with specific exclusive and concurrent powers enumerated in schedules 5 - 9 of the Constitution. According to this division of power, within their jurisdiction, each level is authorized to exercise

their authority through the development of legislation and execution of policy, undergirded by control over their own budgets. They are to do so with cooperation, coexistence, and coordination acting as constitutionalized values upon which the relationships among the 761 governments will be maintained.⁵

Multilevel governance systems, such as the Nepali federation, generate complex webs of institutional relationships — among citizens and government but also among government institutions acting both vertically and horizontally within the federation — the division of state power among several tiers of government gives rise to important governance questions and challenges.⁶

Over recent years, many studies and commentaries have focused on the implementation of Nepal's nascent federalism, highlighting issues including inclusion,⁷ limited capacity, the lack of jurisdictional clarity among the federal, provincial, and local governments, and strained intergovernmental relations.⁸ Importantly, several studies have identified challenges in implementing fiscal

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- 1 For an overview of constitution-making in Nepal, see International Institute for Democracy and Electoral Assistance, *Nepal's Constitution Building Process: 2006-2015: Progress, Challenges, and Contributions of International Community* (2015).
 - 2 Constitution of Nepal 2015, Article 56 defines the structure of the Nepali state as consisting of the federal, provincial, and local levels. The number and delineation of local units was undertaken by the Commission for Restructuring of Village, Municipalities, and Special, Protected and Autonomous Areas. See The Asia Foundation, *Diagnostic Study of Local Governance in Federal Nepal 2017* (2018) 4–5.
 - 3 On elections, see Democracy Resource Centre Nepal, *Nepal's Local Elections 2017: Final Observation Report* (November 2017); Democracy Resource Centre Nepal, *Elections to Nepal's House of Representatives, National Assembly and Provincial Assemblies: Final Observation Report* (May 2018); Democracy Resource Centre Nepal, *Observation of Nepal Local Level Elections, 2022: Preliminary Report* (27 May 2022); Asia Network for Free Elections, *2022 Nepalese Federal and Provincial Elections: Achieving Maturity* (10 February 2023).
 - 4 See, generally, Krishna Hachhethu, *Nation-Building and Federalism in Nepal: Contentions on Framework* (Oxford University Press, 2023); Michael G Breen, *The Road to Federalism in Nepal, Myanmar and Sri Lanka: Finding the Middle Ground* (Routledge, 2019); Iain Payne and Michael G Breen, 'Hourglass Federalism in Nepal: The Role of Local Government in Post-Conflict Constitutions' (2023) 7(2) *Indian Law Review* 177.
 - 5 Constitution of Nepal 2015, Article 232.
 - 6 See, eg, Ronald L Watts, *The Federal Idea and Its Contemporary Relevance* (Institute of Intergovernmental Relations, Queen's University, 2007); Jean-François Tremblay (ed), *The Forum of Federations Handbook of Fiscal Federalism* (Springer International Publishing, 2023).
 - 7 See, eg, Janak Rai, *Deepening Federalism: Post-Federal Analysis on Marginalised Communities in Nepal's Tarai Region* (Federalism in Nepal No 3, International Alert and Saferworld, 2019).
 - 8 See, eg, Democracy Resource Centre Nepal, *The Interrelationship between Three Levels of Governments in Nepal's Federal Structure* (October 2020).

federalism,⁹ with a number specifically identifying the challenges faced by the National Natural Resources and Fiscal Commission (the 'NNRFC' or the 'Commission').¹⁰ A Niti Foundation policy brief (2022), for example, concludes that, despite constitutional and legal mandates to facilitate intergovernmental relations, the Commission faces several challenges in executing its roles: contradictions with other laws, lack of technical capacity, and reliance on federal entities for technical support.¹¹ A joint World Bank and United Nations Development Programme report also identified limited data and the lack of research experience in intergovernmental fiscal relations,¹² the lack of clarity regarding how the activities of the NNRFC, the federal executive, and the Parliament will be coordinated,¹³ and the need to appoint the Commission's full membership as key challenges.¹⁴ The horizontal distribution of fiscal equalization grants related issues prevail in Nepalese fiscal federalism,¹⁵ while the Asian Development Bank highlighted a disconnect between the NNRFC-set limits on subnational government borrowing and actual potential for borrowing as well as challenges to obtain the data required by the NNRFC to support good policymaking.¹⁶ There is a widespread consensus among observers that, notwithstanding its infancy, the effectiveness of the Commission has been compromised in executing its constitutional mandate of ensuring fair and, where applicable, unconditional distribution of resources across subnational governments.

Purpose and Objectives

This report builds on previous studies to deepen understanding in analyzing the NNRFC's role in steering

the implementation of fiscal federalism via the system of fiscal transfers to provincial and local governments. The purpose of this study is to identify key actors, their incentives, and interests in promoting and obstructing fiscal federalism, and more importantly, their roles to strengthen NNRFC's capacity to implement fiscal federalism. Additionally, this study aims to identify opportunities and barriers in implementing strategic plans of NNRFC.

The specific objectives are:

- » Examine political and economic factors that influence formal (policies, laws, acts, guidelines, and legal entities such as NNRFC and ministries) and informal (cultural norms, power relations among government entities) mechanisms in the implementation of fiscal federalism.
- » Determine incentives and interests of actors that influence NNRFC in the context of evolving federalization process.
- » Formulate specific recommendations for NNRFC or for the better management of overall fiscal federalism.

To identify opportunities and barriers to the implementation of the strategic plans pursued by the NNRFC, the study seeks to answer the following key questions (but not exactly in the given order:

- I. Why do designated formal and informal fiscal federalism mechanisms — primarily the NNRFC — function or not function as intended?

9 See, eg, Khim Lal Devkota, Amrit Shrestha and Abhas Ghimire, *Planning and Budgeting in the Provinces of Federal Nepal - A Comparative Analysis*, ed Madhu Raman Acharya (The Asia Foundation, 2021); Uma Shankar Prasad, 'Nepal's Fiscal Federalism Model in the New Constitution: Agenda for Amendments' (2015) 27(2) *NRB Economic Review* 91.

10 See Nico Steyter, *The Pivotal Role of The National Natural Resources and Fiscal Commission in Nepal's Intergovernmental Fiscal System* (The Forum of Federations, 2021).

11 See Niti Foundation, *The National Natural Resources and Fiscal Commission: A Custodian of Federalism in Nepal* (2022) <<https://nitifoundation.org/the-national-natural-resources-and-fiscal-commission-a-custodian-of-federalism-in-nepal-strengthening-constitutionalism-in-nepal/>>.

12 World Bank and UNDP, *Capacity Needs Assessment for the Transition to Federalism* (Prepared by the International Center for Public Policy in the Andrew Young School of Policy Studies at Georgia State University, 10 July 2019) 60.

13 *Ibid* xiii.

14 *Ibid* 35.

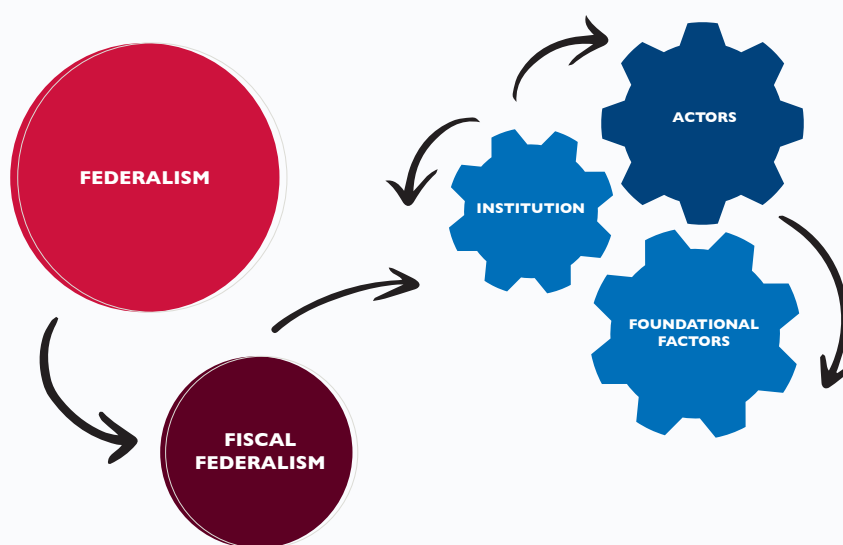
15 Khim Lal Devkota, *Intergovernmental Fiscal Transfers in a Federal Nepal* (Working Paper 20-17, International Center for Public Policy, Andrew Young School of Policy Studies, Georgia State University, November 2020).

16 Asian Development Bank, *Strengthening Fiscal Decentralization in Nepal's Transition to Federalism* (Asian Development Bank, July 2022) 33–36.

2. Where does decision-making authority lie within the fiscal transfer system? What are the factors that determine whether existing fiscal federalism mechanisms and initiatives influence those authorities? Are there key champions or spoilers of fiscal transfer at the national level?
3. What are the roots of the current practices or norms as well as incentives that are preventing the achievement of effective fiscal federalism?

Analytical Framework

NNRFC's functioning political landscape focusing on IGFTs



From a broader perspective, the implementation of federalism and fiscal federalism affect the effectiveness of the intergovernmental fiscal transfer system. Beneath these, the path of budgeting as well as decentralization practices in the country, constitutional and legal provisions and social norms and values set the foundation for the behavior of the NNRFC, which is a major actor in the intergovernmental fiscal transfer system. By the same token, the interaction among the interests of the key actors is stimulated by that foundation which fuels action. Hence, the behavior of the NNRFC and its key stakeholders are the results of foundational factors that exist or existed. On that account, this study frames the effectiveness of the NNRFC in implementing efficient intergovernmental fiscal transfers as the outcome of the historical budgeting practices, the presence of favorable

constitutional provisions, enduring of sufficient supportive laws and the interest of the key stakeholders and implementation levels of federalism and fiscal federalism.

Methodology

The study applies exploratory as well as descriptive methods, involving identifying and interviewing key actors. The research team conducted participatory actor mapping with the NNRFC to identify the key actors for the purpose of this study. These included policy actors, political leaders, government officials, donor and development partners, representatives from the federal and subnational governments, and the chairperson and commissioners of the NNRFC.¹⁷ The study also included desk research that reviewed a range of secondary sources of information, including relevant laws and

¹⁷ See Annex I for the full list of participants.

policies, scholarly studies on public financial management systems and fiscal federalism.

The report uses political economy analysis (PEA) to identify key actors, their incentives, and interests to promote or hinder the implementation of fiscal federalism, in particular how they influence the NNRFC in federalism. The study examines the political and economic factors that influence formal (policies, laws, acts, guidelines, and legal entities such as the NNRFC and federal ministries) and informal (cultural norms, power relations among government entities) mechanisms in the implementation of fiscal federalism. This analysis is used to formulate a series of specific recommendations to enable the NNRFC to better support the overall implementation of fiscal federalism.

Limitations of the Study

The report assesses and analyzes the effectiveness of the NNRFC in relation to fiscal transfers only. An analysis of the NNRFC's other roles, such as providing recommendations for revenue-sharing and internal borrowing and mobilization of natural resources, is essential and would likely illuminate different opportunities and challenges. That analysis, however, is beyond the scope of this report. In preparing the report, only a limited number of provincial and local government officials were interviewed, and the views expressed by interviewees may not echo the concerns of all subnational officials. However, the study proceeds on the assumption that provincial and local government officials share common demands and needs as regards the division of power and a fair distribution of fiscal resources

— both horizontally and vertically — and thus the views of interviewees were representative. In addition, while the study team interviewed several personnel within NNRFC, they were not able to interview all the relevant actors within the Commission. This may limit, to some extent, the depth of knowledge of the internal practices of the NNRFC. However, as analysis largely explores the NNRFC's relationship with other governing bodies — that is, its external environment — this limitation has not significantly impacted analysis.

Organization of the Report

The remainder of this report is divided into four parts. Part 2 describes the foundational factors. It considers planning and budgeting under unitary system. It situates the then status of decentralization as well. It introduces the formal institutions established to govern fiscal federalism in Nepal, in particular drawing attention to the NNRFC's paramount role in overseeing fiscal redistribution in the face of substantial vertical and horizontal fiscal imbalances. Recognizing the importance of history in establishing institutional path dependence, Part 3 presents the political economy of fiscal transfers in Nepal identifying broader and macro issues shaping Nepali federalism, including the decline of the political champions of federalism as well as ongoing bureaucratic inertia and resistance to devolution. It homes in on three specific issues hampering the NNRFC's effective functioning, which deserve emphasis. Part 4 draws together the proceeding analysis to emphasize several general conclusions, while Part 5 offers six recommendations.

Foundational Factors

Planning and Budgeting under the Unitary System

History matters, and while the 2015 Constitution's institutionalization of federalism marks a break with the unitary logic of previous regimes in Nepal, substantial continuities in governance practices remain. Indeed, current practices related to intergovernmental fiscal transfers incorporate the ingredients of previous ways of governing in the unitary system. Situating present practices within Nepal's historic planning and budgeting and decentralisation practices is thus essential to base this analysis.

Origin and Evolution of Planning and Budgeting in Nepal

Contemporary public budgeting and planning in Nepal trace their origins to the mid-twentieth century during the period of regime change following the downfall of the Rana Dynasty (1846 – 1951). While public budgeting ostensibly began under Prime Minister Padma Shumsher Rana in 1947, in actual institutional practice, the process began only after the fall of the Rana regime in 1951. The First Five-Year Plan for economic development was drafted in 1956, which began the process of transitioning the Nepali economy from a traditional agrarian economy to a more modern and liberalized economy over the coming decades. Similarly, development planning was first attempted by the last Rana Prime Minister, Mohan Shumsher, in 1948, to divert popular attention from the then-ongoing anti-Rana political movement. However, as the anti-Rana movement escalated, little progress was made. The planning process was institutionalized only with the establishment of the National Planning Commission (NPC) in 1956 and public financing was formalized during the brief tenure of the elected Nepali Congress

government in 1959.

As Nepal began to open up after the fall of the Ranas, governments began to incorporate foreign aid into overall development planning. Indeed, seventy percent of the budget for the First Five-Year Plan (1956 – 1961), which focused on infrastructure development, was provided by foreign assistance; the remainder came from internal sources. Over the last seventy years, in addition to supporting development expenditure, development partners have supported several legal reforms aimed at improving the planning and budgeting processes. In the 1996 – 1997 financial year, for example, support was given to develop a joint NPC-MoF directive to make the budgeting process more systematic.¹⁸ In 1999, the *Financial Procedure Act 1999* was enacted with the purpose of regularizing and streamlining financial procedures. The same year, the *Local Self Governance Act 1999* established a mechanism to provide unconditional grants to local bodies. The Tenth Five-Year Plan (2002 – 2007) was designed under the World Bank's Poverty Reduction Strategy Paper framework. The Plan introduced a log framework and a Mid-Term Expenditure Framework, enabling multi-year contracting under government budgets. Subsequently, in 2007, the *Public Procurement Act 2007* was enacted to make the government procurement process more systematic and transparent.

Despite these initiatives, due diligence for government contractors and transparency during financial transactions continued to be insufficient. Assessments of public expenditure and financial accountability under the assistance of the World Bank and other development partners reported that though there were some improvements in the budget formulation process, there remained several constraints in the implementation

¹⁸ Ministry of Finance (2008b). Budget Tarjuma Dighadarsan Choutho Sanskaran (Budget Preparation Directive 4th Edition). Kathmandu: Government of Nepal. (in Nepali).

of competitive bidding,¹⁹ the procurement process, and financial transparency.²⁰ Most government organizations were reported to have not prepared their procurement plan, with routine delays in development aid disbursement, which consequently decreased development/capital expenditure.

Despite the formal institutionalization of the planning and budgetary processes after the reestablishment of democracy in 1990, budgeting and planning continued to reflect the administrative process of the pre-democratic era. An examination of government policies and programs announced after 1990 shows little innovation; planning and budgeting continued to follow a generic program. The Maoist insurgency (1996 – 2006) led to an increase in government spending on security and a decrease in capital expenditure, which undermined economic growth.²¹ Even after the conclusion of the conflict, capital expenditure remained low. This was in large part because the *Public Procurement Act 2007* stymied contracting due to its requirements for greater transparency in large-scale development contracts.

Thus, despite a significant transformation of the economy, a ten-year civil conflict, and multiple constitutional ruptures, the overall practice of budgeting and planning process has remained constant. Planning and budgeting practices have not converged with changes to the political system, and public resource allocation processes continue to contain major features of the pre-democracy era, especially a 'power-based' distribution of the national budget.

Decentralization

Some commentators on political and administrative reforms in Nepal argue that the development of the traditional panchayat system provided the cultural and

political basis for decentralization. Under the 'party-less' Panchayat System, the *Local Administrative Act 1962* divided Nepal into 14 zones and 75 districts, with each district further divided into village and town panchayats (on average about 30 per district), and finally, each village and town divided into wards. Districts were headed by a chief district officer (CDO). Several commissions were set up in the 1960s, including the Administrative Decentralisation Commission, which recommended extreme decentralization in what had always been a unitary structure. In 1982, the government enacted the *Decentralisation Act 1982*.

The 1990 People's Movement brought an end to absolute monarchy and the Panchayat System and established multiparty democracy and constitutional monarchy through the 1990 Constitution. Subsequently, Nepal embarked on a course toward decentralization by gradually devolving more power to the lower levels of government. The village, urban, and district panchayats were converted into local bodies: village development committees (VDCs), municipalities, and district development committees (DDCs). VDCs and municipalities were directly elected while DDCs were indirectly elected via an electoral college formed from the elected members of VDCs and municipalities. The Ministry of Local Development remained the line ministry to oversee these local bodies. In 1991 several important acts were passed, including the *Village Development Committee Act 1992*, the *Municipality Act 1992*, and the *District Development Committee Act 1992*, to provide more de jure power to the local bodies, assigning them responsibilities related to agriculture, basic health, basic education, local infrastructure, vital registration, local tax collection, and other local affairs. However, in practice, local bodies' functions were limited to local infrastructure development, vital registration, and local development affairs because other laws were not revised in line with

19 Office of Auditor General, Nepal. Annual report (2014).

20 Ministry of Finance (2008a). Nepal: An Assessment of the Public Finance Management Performance Measurement Framework as of FY 2005/06. Kathmandu: Government of Nepal. And Ministry of Finance (2015). Public Expenditure and Financial Accountability Assessment: Nepal PFM Performance Assessment II as of FY 2013/14. Kathmandu: Government of Nepal.

21 Sungsup Ra and Bipul Singh, Measuring the Economic Costs of Conflict: The Effect of Declining Development Expenditures on Nepal's Economic Growth (Working Paper Series No 2, Asian Development Bank, June 2005); Dilli Raj Khanal and Nav Raj Kanel, Macroeconomic Policies, Shocks and Poverty Reduction in Nepal: A Simulation Based Quantitative Analysis (Institute for Policy Research and Development, 2005).

decentralization principles.²²

In 1999, the *Local Self Governance Act 1999* (the LSG Act) was passed, repealing all earlier laws pertaining to local bodies. The LSG Act was accompanied by the Local Self Governance Regulations 1999. The LSG Act and its Regulations were the strongest yet attempt to give real power to the DDCs and other local bodies. They gave local bodies a prominent role in local planning, enabling them to actively mobilize community organizations and providing them with unconditional grants.²³ Furthermore, they reiterated the decision to devolve functions relating to agriculture, health, education, and other affairs to the local bodies (earlier carried out by the district-level offices run by the central government). However, the actual empowerment of local bodies was compromised because of the lack of necessary revisions in related laws. District-level offices run by the central government continued to handle most functions conferred to local bodies, resulting in duplication. For instance, though many schools were officially handed over to communities, local governments lacked a role in their budgeting and planning processes. The situation was similar in the health sector.²⁴ The LSG Act did, however, result in significant improvements in local infrastructure development through community organizations.

Moreover, the Maoist insurgency provide a significant setback to devolution. Elected local bodies ceased to operate in 2002, at the height of Nepal's internal conflict. From 2002 onward, seconded civil servants were responsible for the management of local bodies, working with unelected councils of line departments and other local stakeholders. It was not until 2017 that fresh local elections were finally held. The prolonged absence of elected representation and extended control of the central bureaucracy dampened power-sharing and

constrained service delivery at the local level.

The *Local Self Governance Act 1999* envisioned a fiscal commission and initiated a performance-based grants system for the then-local bodies. The Government of Nepal introduced a section within the then Ministry of Local Development to act as the secretariat of the commission. The commission developed the framework for performance assessment of the local bodies and recommended grants to local bodies based on competitive performance.

The review of the historical practices of planning and budgeting with reference to intergovernmental fiscal transfers depicts that there was a gradual improvement in the public finance management system overseeing transfer practices. However, power-based budget capturing continued. The improvement in the intergovernmental fiscal transfers itself had not been sufficient to address grassroots aspirations for greater self-governance. Unjustifiable resource distribution continued to lead to unbalanced development, driving demands for identity-based federalism.

Fiscal Federalism

Fiscal federalism encompasses the distribution of taxation and spending powers across various levels of government. Following federal restructuring in Nepal, both powers of taxation and expenditure are divided across the three tiers of the state. For example, under the 2015 Constitution, land tax is assigned exclusively to the local level;²⁵ provincial taxation powers include house and land registration fees and motor vehicle taxes; the federal government retains the most lucrative tax sources, including customs and excise duties, value-added tax (VAT), and individual income taxes (see Table 1).

22 Krishna P Sapkota, *Nepal Ko Saghiye Sanrachana Ma Tahagat Sarakar Bicha Karye Jimmebari Ra Adhikar Ko Nichepan: Bhaga Char* [Power Devolution and Function Unbundling in Federal Structure of Nepal: Volume Four] (Association of District Development Coordination Committees of Nepal, 2009).

23 Ibid.

24 Dhungel, Dwarika N (2004). *Decentralized Governance: A Prospective of Nepal*. Kathmandu: Institute for Integrated Development Studies.

25 See also Local Government Operations Act 2017, art 11.

Table I: Constitutional distribution of taxing powers to federal, provincial, and local governments.²⁶

Federal exclusive	Provincial exclusive	Federal, provincial, local concurrent	Local exclusive
Customs duty			
Excise duty			
Value Added Tax			
Corporate income tax			
Individual income tax			
Remuneration tax			
		Royalties received from natural resources	
	Houses and land registration fee		House and land registration fee
	Motor vehicle		Motor vehicle
	Entertainment		Entertainment
	Advertisement		Advertisement
	Agro-income		Business tax
			Wealth tax
			Land tax
			House rent tax

In addition to raising revenue, subnational governments have greatly enhanced expenditure powers under the new federal setup. All three tiers of government have their own independent consolidated funds²⁷ and execute annual budgets within their respective jurisdictions.²⁸ Provincial exclusive powers include administration of provincial policing and health services while local government's exclusive jurisdiction includes basic to secondary education and basic health and sanitation.²⁹

At the federal level, the Ministry of Finance (MoF) is assigned key responsibilities such as preparing and implementing the federal budget and, executing fiscal transfers through the budgetary process, as recommended by the NNRF. Mirroring the federal level, each province has established planning commissions

and ministries for economic affairs, which prepare provincial plans and budgets. Provincial Ministries of Economic Affairs and Planning (MoEAP) are assigned with key responsibilities of planning and implementing economic policies, fiscal management, and executing fiscal transfers from provincial to local levels.³⁰ Similarly, local governments have departments to do the same.³¹

To support intergovernmental fiscal relations, the Intergovernmental Fiscal Council (IGFC) is a federal statutory body mandated to conduct consultation and coordination between the three spheres of government on fiscal management.³² The IGFC is chaired by the federal Finance Minister and includes the seven provincial ministers for finance, two local unit heads or deputy heads from each province, three financial experts, and the

26 Based on Constitution of Nepal 2015, schs 5 – 9. Table replicated from Steyter (n 10) 15.

27 Constitution of Nepal 2015, arts 204, 229.

28 Ibid, art 59.

29 Ibid, schs 6, 8.

30 Intergovernmental Fiscal Arrangement Act, 2017, art 31.

31 Local Government Operation Act 2017, art. 67.

32 Intergovernmental Fiscal Arrangement Act 2017, art 33.

Secretary of the Ministry of Finance. In addition to the IGFC, the Constitution provisions for an Inter-Provincial Council, which is convened under the Prime Minister with major federal ministers and all seven provincial chief ministers as members.³³ In the period of seven years of implementing federalism, however, this body has only met twice. Another mechanism that is crucial to resolve issues among the three tiers of government is the National Coordination Council, also led by the Prime Minister.³⁴ However, it was only formed in 2023, three years after the enactment of its enabling legislation in 2020.

Sitting at the apex of the regime for managing fiscal

federalism is the National Natural Resources and Fiscal Commission (NNRFC), a constitutional body with the mandate to determine the size and basis of revenue sharing and fiscal transfers to the province and local levels.³⁵ Finally, the Constitutional Bench of the Supreme Court is designed to act as a last resort for the adjudication of intergovernmental disputes, including on matters related to fiscal relations.³⁶

The federal parliament has enacted several important laws to implement the constitutional provisions for fiscal federalism:

Table 2: Federal laws regarding fiscal federalism³⁷

Act	Objective
National Natural Resources and Fiscal Commission Act 2017	Implements intergovernmental fiscal transfers among the three levels of government and sets the bases for revenue sharing.
Finance Procedure and Fiscal Responsibility Act 2019	Outlines the institutional arrangement and roles and responsibilities of the NNRFC.
Local Government Operations Act 2017	Makes the financial management system accountable, transparent, and result-oriented.
Federal, Provincial and Local Level (Coordination and Interrelations) Act 2020	Provides criteria and standards for intergovernmental relations and coordination including provisions for resolving disputes among the federal units.
Intergovernmental Fiscal Arrangement Act 2017	Defines the process related to the transfer of grants, revenue-sharing, borrowing, budget management, public expenditure, and financial discipline for all three levels of government.

Fiscal Imbalances

Despite the devolution of expenditure responsibilities and increased ability to expand revenue sources at the subnational level, the revenue-raising role is highly centralized.³⁸ The federal government retains all major revenue bases — much like the pre-federal regime — whereas the Constitution only assigns provinces and local units low revenue generating sources. Thus, in the 2021-22 fiscal year, for example, the combined revenue generation of local units and provinces was less than one-tenth of the total country's revenue (3.77 percent for provinces; and 5.32 percent for local units), while the federal government raised 90.91 percent.³⁹

33 Constitution of Nepal 2015, art 234.

34 Federal, Provincial and Local Level (Coordination and Interrelations) Act 2020, art 16.

35 Constitution of Nepal 2015, pt 26.

36 Ibid art 137(2)(a).

37 See Devkota, Shrestha and Ghimire (n 9) 10–11.

38 Khim Lal Devkota, Intergovernmental Fiscal Relations in a Federal Nepal (Working Paper 20-13, International Center for Public Policy, Andrew Young School of Policy Studies, Georgia State University, July 2020) 6–11.

39 Financial Comptroller General Office, Consolidated Financial Statements (Federal, Provincial and Local Governments): Fiscal Year 2021/22 (2023).

While the ability of subnational governments to raise revenue is limited, their responsibility over total state expenditure is significantly higher. Under the federal setup, in 2021-22 the quantum of state expenditure through local government was 22.09 percent (significantly higher than the pre-federal regime where local units delivered less than 5 percent of state expenditure⁴⁰) and provincial government 9.69 percent. 68.22 percent of state expenditure was undertaken by the federal government.⁴¹

The revenue imbalance within the Nepali federation is thus substantial. This large vertical fiscal imbalance means that subnational governments are heavily reliant on intergovernmental fiscal transfers to fund the sizable portion of their budgets. The World Bank and UNDP capacity needs assessment of local government, for example, highlighted that 53 percent of local governments are completely dependent on fiscal transfers and revenue sharing. The capacity needs assessment analysis showed that almost all local governments are dependent on conditional grants to finance their local education budgets and basic health services.⁴² According to estimates by the World Bank, Nepal's vertical fiscal imbalance is one of the highest worldwide. Indeed, it is estimated that 80 – 85 percent of the gap that exists between revenue generation and expenditure among subnational governments is required to be filled by intergovernmental fiscal transfers from the center.⁴³

In addition to the large vertical fiscal imbalance, substantial horizontal imbalances exist among subnational governments. Among the provinces, Koshi, Bagmati, and Lumbini, which are home to the country's largest urban centers and industrial hubs, have historically generated the lion's share of income to the national coffers. Utilizing historical longitudinal data from 2006 to 2016, Achyut Wagle shows that Madesh (now Madhesh province)

collected 30.7 percent of total state revenue (mainly due to the customs duty collection in Birgunj) while almost 52 percent of total national revenue was collected in what is now Bagmati. In contrast, during this period, present-day Karnali and Sudurpaschim only contributed 0.24 percent and 1 percent respectively.⁴⁴ Equally significant imbalances also exist at the local level, with rural municipalities experiencing a much lower capacity to expand their revenue base.⁴⁵

Fiscal Equalization

The large discrepancies between the location of revenue collection and the expenditure coupled with the uneven distribution of revenue among the subnational units necessitate significant vertical and horizontal revenue redistribution.⁴⁶ Anticipating the problem of fiscal imbalance, Article 60(2) of the Constitution states that the Government of Nepal shall make the necessary arrangements to equitably distribute the revenue it generates between the federal, provincial, and local levels. The quantum of these fiscal transfers is to be recommended by the NNRFC.⁴⁷

As Niti Foundation has articulated in its policy brief, *The National Natural Resources and Fiscal Commission: A Custodian of Federalism in Nepal*, that the NNRFC was created as a powerful institution, a 'constitutional body' that sits outside of the federal executive. This design element seeks to establish and maintain an institution to oversee fiscal redistribution in a way that is independent of partisan politics, while also acting as a counterbalance to the disproportionate power held by the federal executive and the centralizing politics of Kathmandu.⁴⁸ Indeed, there was an intense debate in the Constituent Assembly to ensure that the independent status of the NNRFC was maintained. The record of the Constituent

40 Payne and Breen (n 4) 188.

41 Financial Comptroller General Office (n 35).

42 World Bank and UNDP (n 12) 95, 125.

43 The World Bank, *Fiscal Architecture for Federal Nepal* (Nepal Development Update, 2017) 21.

44 Achyut Wagle, 'Fiscal Imbalances in Nepal's Federalism: An Empirical Analysis' (2018) 30(1) *NRB Economic Review* 49, 52.

45 Payne and Breen (n 4) 189–190.

46 This is not too dissimilar to many other federal states where vertical fiscal imbalances favouring the centre are common. See, eg, Claudia Dziobek, Carlos Gutierrez Mangas and Pheby Kufa, *Measuring Fiscal Decentralization – Exploring the IMF's Databases* (IMF Working Paper No WPI/11/126, June 2011).

47 Constitution of Nepal 2015, art 60(3).

48 Niti Foundation (n 11) 3.

Assembly Committee on Natural Resources, Economic Rights and Revenue Allocation shows that this was in response to the call from the 'pro-federalist' committee members who feared that the lack of such a body would inevitably lead to the implementation of a form of fiscal federalism that would strongly favor the federal government, which in turn would be detrimental to the independence of newly created subnational units.⁴⁹

The NNRFC must thus play a pivotal role to ensure that country's resources are shared justly to benefit the entire population and that provincial and local governments are able to effectively carry out their mandates, as enumerated in the Constitution. As the NNRFC has articulated itself, its constitutional role is to be 'the custodian of fiscal federalism' in Nepal.⁵⁰ Put simply, 'By assuming an important responsibility in the division of fiscal and natural resources among the 761 constituent units of the federation, the NNRFC has a critical role to ensure the smooth implementation of federalism in Nepal.'⁵¹ As the World Bank emphasizes, the Commission 'could become one of the most important institutions in Nepal'⁵²

The Constitution mandates the NNRFC to determine the size and basis of revenue sharing and fiscal transfers for the provincial and local levels, which also includes the development of parameters for conditional and equalization grants.⁵³ Articles 60(3) to 60(6) of the Constitution establishes four types of grants: fiscal equalization grants, conditional grants, complementary grants, and special grants. The grants are divided into those that provincial and local governments have a claim to (the equalization grant), and those which are provided at the discretion of federal and provincial governments (conditional grants, special and complementary grants). These grants are provided by the federal government to the provincial and local levels and by provincial governments to local units. According to Article 60(3),

the amount of fiscal transfer that a province or local unit receives is recommended by the NNRFC.

Specifically, the NNRFC is mandated to oversee the assignment of fiscal responsibilities, make recommendations for the framework for intergovernmental fiscal architecture, and create a knowledge base on fiscal federalism. In addition, the Commission's duties include settling disputes, determining the shares of revenues for the three levels of government through the mobilization of natural resources, and formulating suggestions to prevent disputes during natural resource management and revenue sharing among governments. The *National Natural Resources and Fiscal Commission Act 2017* (the NNRFC Act) elaborates the functions of the NNRFC and lays out the guidelines for the management of intergovernmental fiscal transfers to address vertical and horizontal imbalances.

Despite the establishment of relevant methods and approaches to fiscal federalism for the NNRFC, there is a widespread consensus among observers that, notwithstanding its infancy, the effectiveness of the Commission has been compromised, undermining its ability to execute its constitutional mandate of ensuring fair and, where applicable unconditional distribution, of resources across subnational governments. Niti Foundation, for example, highlights broader contextual issues emanating from delays in the transfer of functional powers to subnational governments, including the lack of pre-agreed upon transition plans to devolution, in addition to the delay of regulations to operationalize the *Natural Resource and Fiscal Commission Act 2017* and the *Intergovernmental Fiscal Arrangement Act 2017*.⁵⁴

49 Ibid 7.

50 National Natural Resources and Fiscal Commission, First Annual Report of National Natural Resources and Fiscal Commission 2018-19 (2019) <http://nnrhc.gov.np/uploads/resources/2020-01-21/annual_report_final3.pdf>.

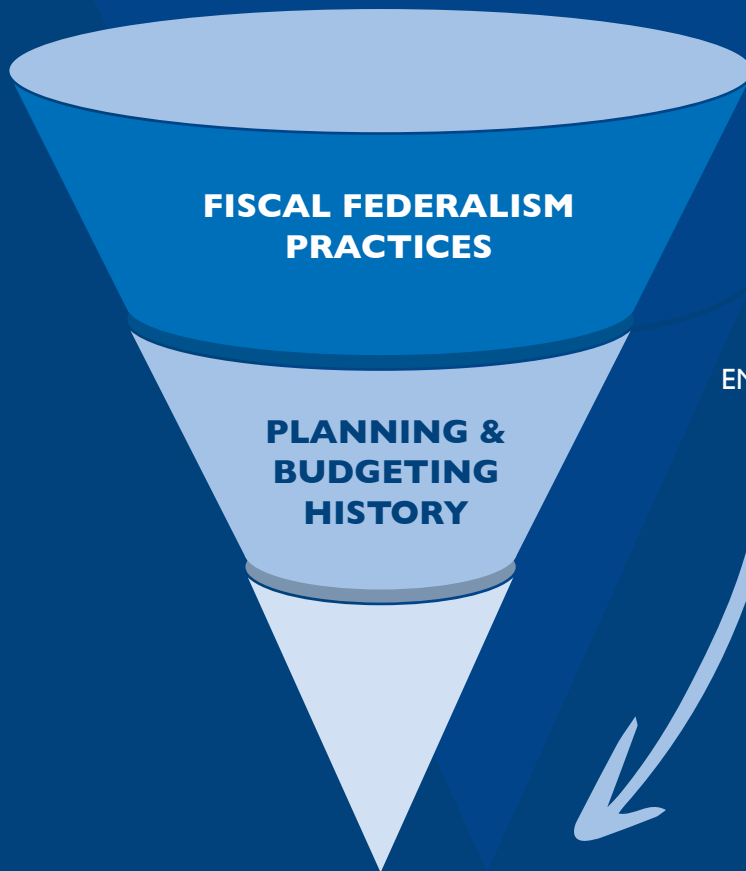
51 Niti Foundation (n 11) 3.

52 World Bank and UNDP (n 12) 148. Similarly, the Forum of Federations states that the NNRFC is 'vital to the health, stability and well-functioning of Nepal's federal system.' See Steyter (n 10) 31.

53 For a thorough overview of the role of the NNRFC, see Steyter (n 10).

54 Niti Foundation (n 11) 7-8.

**JUST AND EQUITABLE
FISCAL TRANSFERS**



POLITICAL
OPERATING
ENVIRONMENT OF
NNRFC

**EFFECTIVE FISCAL
TRANSFERS**

Political Economy of Fiscal Transfers in Nepal

Building on these foundational factors, it is instructive to examine the current political and structural context of Nepal to elucidate the present state of federalism and its trajectory. Structural conditions and formal and informal rules shape the interests of individuals and groups. They condition the interests and incentives of key actors, including those within political parties and the public administration, in relation to federalism, in particular how these actors cooperate or contest the ideas and practices undergirding the decentralization reforms that federalism requires.

Broadly, recent electoral outcomes and political dynamics have deflated the momentum of Nepal's federalist movement and strengthened political forces that are indifferent or opposed to federalism. Moreover, a centralized mindset among the public administration continues strongly. Given the linkage of the NNRFC's mandate to the larger federal project and reliance on partnership with the federal bureaucracy, these factors work to undermine the NNRFC's position and prevent it from establishing its legitimacy vis-à-vis traditionally powerful federal agencies like the Ministry of Finance and the National Planning Commission.

Decline of Political Champions of Federalism

The federalism discourse has a long history in Nepal, dating back to at least 1951 when it was first proposed by the Nepal Tarai Congress.⁵⁵ While the demand for autonomy has been echoed over the decades by various ethnic movements, it was not until the Maoists proposed the establishment of nine autonomous regional

governments in 2000 that federalism gained wider reception.⁵⁶ With the 2008 Madesh Movement, federalism burst into the national discourse and was cemented as central to the agenda of state restructuring. At the commencement of constitution-making in 2008, all of Nepal's major political parties subscribed to (at least publicly) some form of federal restructuring.⁵⁷

In the ensuing decade of constitutional deliberation, it was federalism above all else that emerged as the fault line of political contestation—specifically, the role of ethnicity in defining the boundaries and names of the new federal subunits. Numerous federal divisions were proposed, however no single model was able to gain political consensus.⁵⁸ On the one hand, the Maoists, Janajati and Madhes-based parties argued for various federal models in which subunits were defined by a single ethnic group. On the other hand, the 'reluctant federalists' — the Nepali Congress and the Communist Party of Nepal (United Marxist-Leninist), historically the dominant actors of democratic politics — rejected ethnic federalism and proposed models that incorporated multi-ethnic subunits based on economic viability.

After a decade of contentious deliberation, and amidst contestation and violent protest, on 20 September 2015 the Constituent Assembly promulgated Nepal's new Constitution, transforming the country into a federal state. However, despite federalism's prominence in the 2015 Constitution, by the time of its promulgation, the champions of self-determination were already in electoral decline. Thus, it is the parties of the 'reluctant federalists' that are presently dominant within the national Parliament – Nepali Congress and CPN-UML.

55 Frederick H Gaige, *Regionalism and National Unity in Nepal* (University of California Press, 1975) 109.

56 Kiyoko Ogura, 'Maoist People's Governments, 2001-2005: The Power in Wartime' in David N Gellner and Krishna Hachhethu (eds), *Local Democracy in South Asia: Microprocesses of Democratization in Nepal and Its Neighbours* (Sage, 2008) 175.

57 Karl Kössler, 'Inclusion Through Ethnic Federalism? Some Considerations of the Constitutional Transition in Nepal' (2009) 8 *European Yearbook of Minority Issues* 499, 512–513.

58 Hachhethu (n 4).

Both these parties seek to enact and implement federalism in line with their developmental logic and largely overlook the self-determinism logic that initially drove the federalist project.⁵⁹ Given the current weakness of the parties that fought for federalism in the lead-up to the promulgation of the Constitution, it is not surprising that many analysts see a lack of 'political will' for building a strong federal system with strong and independent provincial governments. The current power dynamics favor the continuation of the pre-federalism set-up of a strong federal government but relatively weak provincial governments. At the same time, few parties have called for the outright rejection of federalism.

Moreover, given that Nepal is a multi-party democracy, the transfer of power from the national level to the provincial level and the local level needs to happen not only between governments but also within political parties. The constitutionally mandated level of independence of provincial and local governments from the federal government is hard to achieve without the independence of province-level and local-level politicians from national-level party organizations, which remain highly pyramidal and centralized.⁶⁰ It is evident that the interests and incentives of the major leaders of the political parties is towards consolidation and centralization, and as subnational elected officials remain subservient to the national-level leadership of their respective parties, the independence and autonomy of provincial and local governments is severely compromised.

Interest and Incentives of the Bureaucracy

Bureaucracies are configured differently from political organizations. In Nepal, entry into civil services is competitive, promotion is constrained by seniority-based progression rules, and jobs are for life with retirement occurring at a fixed age. For most bureaucrats, individual incentives and interests are mostly tied to reaching the

uppermost echelon of the bureaucracy, which brings significantly higher pay, larger pensions, and prestige and status.

The restructuring of the governance system transformed the infrastructure of public administration from a unitary structure to that of a federal structure, including the dissolution of several ministries and departments at the federal level as well as the devolution of the roles and responsibilities of many ministries and their departments to the province and local levels. At the time of devolution, there were 99,571 permanent government employees, about 80% of whom were recruited by the Public Service Commission (PSC) based on merit.⁶¹ However, under the new structure, the federal government would only require 48,606⁶² civil servant officials and would need to relocate them to the other two tiers of government. Article 302(2) of the Constitution mandates the federal government to adjust civil servants from the then-central government services to the federal, provincial, and local levels.

There was a significant delay in this administrative adjustment, however, in the initial years following the establishment of federalism due to the reluctance of bureaucrats to be posted within subnational governments. Having been recruited by the then-unitary government, bureaucrats saw adjustment to the provincial and local levels as detrimental to their career advancement. Their incentives and aspirations had been enculturated in a system that was orientated towards Kathmandu, and this mindset has proved difficult to undo. Interviewees commented that even among those bureaucrats who have been adjusted, their previous position in the then-unitary government has internalized a centralized mindset.

The delay in the adjustment in the public administration continues to impact subnational governments. Interviews with provincial stakeholders revealed that provincial governments are understaffed in key areas of fiscal federalism and public financial management, with

59 See Sadikshya Dulal, *Self-Determination versus Development: The Evolution of Federalism in Nepal* (Paper presented at the International Conference on Federalism, Devolution of power and Inclusive Democracy, Kathmandu University School of Law, 22 November 2023).

60 Sambridh Ghimire, 'Internally Democratic', *The Record* (online, 19 January 2022) <<https://recordnepal.com/internally-democratic>>.

61 Figures provided by an interviewee.

62 Ministry of Finance (2019). *Budget Speech of Fiscal Year 2019/2020*. Kathmandu: Government of Nepal.

shortages of staff in senior positions. Hence from a bureaucratic angle, in addition to the political angle, there have not been strong efforts and initiatives to strengthen provincial and local governments.

Vacuums, Contradictions, Ambiguities in the Legal regime

The continued ambiguity of the legal regime amounts to one of the most significant hindrances to the functioning of fiscal federalism. Foundationally, this begins with the overlaps and inconsistencies in the exclusive as well as concurrent powers of the three levels of government, which are enumerated in the constitutional schedules. Despite the 'unbundling' exercise designed to bring clarity to concurrent and overlapping functions, in many areas federal legislation leaves much room for interpretation. The federal parliament has been slow to enact the necessary legislation to guide the implementation of federalized governance, and in the absence of relevant and necessary acts of parliament and guidelines there are a few formal guidance and constraints to run the federal system as intended in the Constitution. Moreover, where federal laws have been enacted, they have adopted an interpretation of the division of power that favors centralism.⁶³

Beyond constitutional ambiguities, legislation enacted to give effect to fiscal federalism contradicts the Constitution. Importantly, the Intergovernmental *Fiscal Arrangement Act 2017* (the IGFA Act) is inconsistent with Article 60(3) which authorizes the NNRFC to determine the amount of fiscal transfer to the provincial and local levels. The IGFA Act instead has determined the ratios of revenue sharing to 50 percent to the federation and 25 percent to each of the provinces and local units, as regards natural resources. The IGFA Act provides for the sharing of value added tax (VAT) and domestic excise duties, only assuring the sole right of the federal government in the other major resources like customs and income taxes. The Act encroaches on the right of the NNRFC by setting the share of VAT and domestic excise duties at 70 percent to the federation and only 15 percent to the provinces and local units respectively. Provincial governments have publicly contested the

distribution of VAT and customs taxes, which together constitute 40 percent of all revenue in Nepal (see Box 1). Moreover, contradictory to the constitutional provisions regarding fiscal transfers, the *Local Government Operations Act 2017* establishes budget ceilings to the ward levels, which has been practiced accordingly. This practice has shown weakness in the proper public finance management process and has fuelled the ineffectiveness in the fiscal transfers.

Moreover, while the fiscal federalism system depends on cooperative and coordinated intergovernmental relations — not only among Nepal's 761 governments but between the governments and the NNRFC — the frameworks structuring the Commission's relationship with governments are deficient. The law, for example, identifies the Ministry of Finance as the NNRFC's liaison institution — in principle a necessary mechanism to

Box 1: 2023-24 Budget Speech of Madhesh Province

The distribution of revenue to provincial and local governments by the federal government needs to be fair (just) and the constitutional provision states that the distribution needs to be balanced and transparent (Point 17).

The provision in the Intergovernmental Arrangement Act 2017, art 6(2) states the distribution of revenue from VAT and custom taxes to be distributed to federal (70%), provincial (15%) and local governments (15%), is unfair (unjust), and the provincial government will initiate dialogue with the federal government to ensure just-distribution of the revenue (Point 18).

The NNRFC's distribution equation for grants needs to be based on population and human development index (Point 19).

63 See Madhu Raman Acharya, Parshuram Upadhyay and Amol Acharya, *Assignment of Functions Across Levels of Government in Nepal: Summary Report* (The Asia Foundation, 2020).

enable the relationship between the federal government and the Commission — however, several interviewees raised concerns that in practice the relationship with the MoF is distorting the NNRFC's focus within the federation. Indeed, meetings between the Commission and the governments are infrequent (see Box 2).

Moreover, while the NNRFC is dependent on federal ministries and departments to undertake foundational tasks, such as defining standards, which are essential to establish the bases for revenue sharing, many of these tasks are left undone. Without legal authority or political legitimacy to oblige governmental institutions to act, a lack of technical support has left the NNRFC has been unable

Box 2: Discontent with the NNRFC's fixation on the Ministry of Finance

'The NNRFC has been focusing its effort having dialogue with MoF and other federal agencies, rather than with provincial and local governments. The NNRFC's main role is to focus its effort to provide services to provincial and local governments, not to federal government. They hardly discuss (have dialogue) with us (senior leadership) in provincial governments.'

The NNRFC's distribution equation for grants needs to be based on population and human development index (Point 19).

— *Former Provincial Chief Secretary*

to take action (see Box 3). Viewed from the federal executive, the NNRFC has failed to take initiative in some of these arenas (see Box 4).

Similarly, inadequate frameworks — and importantly training in how to use them — and an absence of subnational public service employees has led to a lack of general knowledge about public financial management

Box 3: Lack of coordinating support with federal ministries and departments

'The Constitution mandates the Commission to find the fiscal gap between the potential revenue generation and estimated expenditure. Currently, the Commission faces difficulty in estimating expenditure since there are no minimum standards set for estimating the cost structures of services and local infrastructure. There are national-level conventions signed by the federal government, such as the SDGs. However, there are no specific minimum standards for services or codes for infrastructure for specific provinces and local governments. The standards vary as per geography, population, and access to necessary economic and social infrastructure such as energy, communication, and so on. Unlike the National Planning Commission, the NNRFC does not have direct authority over ministries and departments so as to demand technical and professional support to define the necessary standards for services and infrastructure (such as building codes, etc).'

— *Chief Commissioner, NNRFC*

and the nature and processes of budgeting among subnational elected representatives (see Box 5). Thus, local assemblies, in particular, rely heavily on copying model laws and protocols prepared by federal ministries, and many municipalities are still not able to prepare and implement budgets on time. The budgets prepared by a majority of municipalities are not in the correct form, adopting the template provided by the Ministry of Federal Affairs and General Administration (see Box 6).⁶⁴ Moreover, the practice of elected representatives funding projects within their constituencies directly via

64 Achyut Wagle, *Fiscal Federalism of Nepal: A Perspective on Its Practice* (Paper presented at the International Conference on Federalism, Devolution of power and Inclusive Democracy, Kathmandu University School of Law, 22 November 2023).

Box 4: Lack of initiative

‘The NNRFC has still not taken any initiative to define the ceiling for domestic debt for all three levels of governments. The NNRFC needs to take steps to develop the ceiling for domestic debt for the government of Nepal. It is essential and important to define these so that governments do not plunge into debt traps (because of using debt to cover regular expenditures).’

— *Former Finance Secretary*

Box 5: Lack of human resources

The provinces lack human resources for the implementation of fiscal federalism and public financial management. There is a staff shortage, especially in revenue and economic planning and statistical services. Provinces are short on positions in these disciplines and are facing vacancies or a quick rotation of staff in these categories. In the Accounting Group, there is a shortage of staff in senior positions.”

— *Former Provincial Chief Minister*

constituency development funds continues, bypassing the fiscal transfer system. A practice initiated by national legislators; it has been replicated at the provincial level.⁶⁵ The result has been confused and fractured planning and budgeting processes at the local level (see Box 7).

Finally, the NNRFC is not represented in the Intergovernmental Fiscal Council, which comprises the finance heads of the federal government, provincial governments, and representatives from local government.

⁶⁵ Nepal Live Today, ‘Everything You Need to Know about the Controversial Constituency Development Fund’ (18 November 2022) <<https://www.nepallivetoday.com/2022/11/18/everything-you-need-to-know-about-the-controversial-constituency-development-fund/>>.

⁶⁶ Constitution of Nepal 2015, art 60(3)

⁶⁷ Niti Foundation (n 11) 8.

Box 6: Subnational government budget processes

‘The budgeting processes of the provincial and local governments are not consistent with the budgeting process of the federal government. There is a need to strengthen the capacity of provincial and local governments to make the budgeting process effective and consistent with the federal budgeting process. This is an issue that is making fiscal federalism difficult to implement.’

— *Former NPC member (economist)*

Several interviewees observed that the Commission’s permanent presence in this forum would not only symbolically recognize its place at the center of intergovernmental fiscal relations but would also better inform the Commission about the concerns and needs of the three levels of government.

Continued Dominance of Federal Decision-makers

As discussed above, the NNRFC is an important institution designed to lessen central domination. Taking key decisions concerning the distribution of state revenues out of the hands of the federal executive is fundamental to the NNRFC’s given function. However, the federal executive continues to maintain considerable decision-making power over distribution decisions, despite the fact that the Constitution has clearly given this authority to the NNRFC.⁶⁶

These grants continue to be determined by federal line ministries. For example, basic and secondary education, which is clearly an exclusive power of local government is being funded via conditional grants, enabling the continued practice of centrally allocated funding.⁶⁷ This

Box 7: Confused and fractured planning and budgeting processes

Although, in 2017, the new Local Government Operation Act 2017 (the LGO Act) was enacted to help local governments fulfill their constitutional mandates, inadequate legislation and institutional frameworks, human resources management, accounting and procurement systems, and revenue administration have affected their functional capacity. The shifts in authority have led to confusions among local representatives regarding their roles in planning processes, among others. Further, the coordination among local entities is inadequate for planning and implementation. The LGO Act authorizes local government units to formulate periodic, annual, strategic, and sectoral plans and are required to prepare mid-term expenditure framework, resource mapping, financial policies and principles, and submit outcomes to the federal and provincial governments for review. Currently, local infrastructure is funded through conditional grants. Line ministries decide the conditional grants, which are at times guided or requested by political leaders.

central government intervention continues despite the NNRFC's recommendation that the modality ought to be changed. Not only is the distribution of grants to the local governments via conditional grants a clear example of the creep of federal authority, but this practice also hinders the equitable distribution of resources to needy schools and leads to resource crowding (see Box 8). Moreover, such conditional grant distributions do not serve the priority areas of the government (see Box 9).⁶⁸ The Commission has asked the MoF to share the bases

used for the distribution of the conditional grants to the subnational governments but has not yet received the responses from the ministry.⁶⁹ These cases might repeat as there is a lack of legal provisions regarding the punishment to the officials who disregard or disobey the Commission's recommendations.

Similarly, interviewees raise how many centrally devised schemes such as Janata Awas Yojana (People Housing Program) and Sana Khanepani Yojana (Small Drinking Water Projects) have been designed by federal line ministries with funding transferred as conditional grants directly to local governments for implementation even where the constitutional domain under which the program falls is that of the subnational governments. Moreover, federal agencies continue to make off-cycle budget transfers to local governments, tied with instructions as to how they are to spend the money. This practice disturbs local government budget discipline and renders local governments as mere implementing units of the federal government.

The NNRFC's role in determining grants for fiscal equalization has also been undermined. Constitutionally, the NNRFC is to recommend the basis — determined by a revenue 'estimation' made at the beginning of the fiscal year — for the distribution of fiscal equalization grants. This recommendation is made to the federal government, and accordingly, the federal government is to allocate grants. Provincial and local government leadership complain, however, that the quantum of the equalization grant has not been as per the NNRFC's recommendation. Interviews revealed that the Ministry of Finance has on several occasions revised the quantum in the last quarter of the financial year so that grants are made in line with actual revenue, a figure that is often much lower than the start-of-year estimate. These reductions have been made without any formal consultation with NNRFC.

For example, in the third week of April 2023 (towards the conclusion of the 2022-2023 financial year), the MoF instructed the Financial Comptroller General Office

68 Narayan Baskota, Are We on the Right Track of Equitable and Justifiable Development? (Paper presented at the International Conference on Federalism, Devolution of power and Inclusive Democracy, Kathmandu University School of Law, 22 November 2023) <<https://solconferences.ku.edu.np/submissions/>>.

69 National Natural Resource and Fiscal Commission, Fourth Annual Report (2023).

70 Asian Development Bank (n 16) 31.

Box 8: Shift to conditional grants away from fiscal equalization grants

‘At the local government level, the strong shift to conditional grants suggests that the federal government is seeking to strongly direct local government spending (as opposed to using a large block equalization grant, output, or outcome standard, or allowing the province to shape grants to local governments). The shift away from fiscal equalization grants raises the question of whether the provinces and local governments are being treated equitably.’

— *Asian Development Bank*⁷⁰

Box 9: Distorting prioritisation of government spending

‘The federal government has not complied with the prioritization of development (including infrastructure) in its budgeting process and has included small and non-prioritized projects in its budget defying its own norms of investing priority projects.’

— *Former Vice Chairperson, Provincial Planning Commission*

(FGCO) to reduce the last tranche of equalization grants to provincial and local governments by half.⁷¹ In response to this, the local government associations, the Municipal Association of Nepal (MuAN) and the National Association of Rural Municipalities in Nepal (NARMIN), issued a formal letter to the NNRFC to

request the Commission act to prevent the MoF's decision from being implemented. The local government associations also threatened to protest in front of the MoF's building if their concern went unheard. The NNRFC sent a letter to the federal cabinet reiterating the constitutional requirement for the government to adhere to the Commission's recommendations with regard to the equalization grant. As a result of this advocacy, the federal government reduced the cuts to the local government equalization grants by half (that is, while there was still a cut to the grant, local units received 75 percent, as opposed to only 50 percent, of the initially recommended amount of third tranche). In contrast, cuts to the provincial equalization grants were maintained at 50 percent of the initially recommended amount of third tranche.

Similarly, there are instances where federal institutions like the Ministry of Finance or the National Planning Commission (NPC) have encroached on the NNRFC's turf. For example, the *Intergovernmental Fiscal Arrangement Act 2017* has provided power to the NPC to operate special and complementary grant as per the provisions made by federal executive, and not the NNRFC.

Not only is the continued influence of the federal executive over grant decision-making institutionally undermining the NNRFC, but it is also resulting in a continuation of the centralized fiscal system of pre-federal Nepal. Indeed, federal government capital expenditure is not being spent equitably. Capital expenditure in Bagmati Province (population 6.12 million) ranges from 41 to 50 percent of the total national expenditure while expenditure in Karnali Province (population 1.688 million) is merely 4 to 7 percent. Surprisingly, the expenditure of Lalitpur District (population 551,000) alone equals the expenditure of the entire Karnali Province and the expenditure of Kathmandu District (population 2.04 million) ranges from 27 to 38 percent of the national total capital expenditure.⁷² This shows that as far as state expenditure is concerned, old ways continue. The episode in April 2023 regarding unilateral MoF reductions to equalization grants, narrated above, however, reveals

71 प्रदेश र स्थानीय तहको वित्तीय समानीकरण अनुदानको २३ अर्ब कटौती [23 Billion Reduction of Provincial and Local Fiscal Equalization Grants], Online Khabar (online, 28 April 2023) <<https://www.onlinekhabar.com/2023/04/1298876>>. A copy of the letter is presented in Annex 2.

72 Baskota (n 71). Population data retrieved from National Statistics Office, 'Population Size and Distribution', National Population and Housing Census 2021 <<https://censusnepal.cbs.gov.np/results/population>>.

the power of subnational governments, when acting collectively and in consort with the NNRFC, to shape fiscal federalism and support fiscal devolution. Change is possible.

The NNRFC's Internal Governance Issues

The NNRFC is a new institution in Nepal and still very much in its formative years. Created by the 2015 Constitution, its permanent secretariat — a staff of public service personnel — was established in 2017. There was a delay in the appointment of the Commission's constitutionally designated leadership, with the NNRFC's Chairperson only appointed in 2019 and only three of the four member positions filled in 2021. By this time four budget sessions and fiscal-transfer rounds had already been completed. In addition to the legal and institutional contradictions and vacuums described above, while it continues to establish itself as an institution, the NNRFC suffers from internal organizational shortcomings and weaknesses stemming from a lack of social legitimacy, in-house expertise, and conflict/void in formal institutions.

Faced with the federal government's failure to adhere to the Commission's recommendations, as detailed above, the NNRFC has been unable to exert power to challenge federal government overreach. As interviewees highlighted, on several occasions, the Commission has expressed public discontent regarding the non-adherence to its recommendations — for example, the disregard of the equalization grant recommendations made during the Covid-19 health emergency — the federal government, however, has paid no heed to such pleas.

Moreover, the Commission lacks the in-house technical expertise that is required to produce reports that it — as well as other ministries, parliament, and various intergovernmental agencies — must rely on.⁷³ Several interviewees stressed that there is an acute need to enhance the technical ability of the Commission in effective data management and sectoral expertise for analysis. In particular, many expressed concerns regarding the Commission's ability to make effective

recommendations for fiscal equalization grants. Both the IGFA Act and the NNRFC Act elaborate on the provisions for fiscal equalization grants, which are structured in the form of direct formula-based unconditional grants from the federation to provinces and local units. The IGFA Act, for instance, stipulates that fiscal equalization grants will be made available to provinces and local units upon the recommendations of the NNRFC based on their 'need for expenditure' and 'revenue capacity' — that is, the extent of the fiscal gap. Each year, the NNRFC recommends the criteria and weightage for the allocation of fiscal equalization grants. Emphasizing the lack of transparency in how this formula are derived, several interviewees questioned the rigor of this recommendation. For example, the formulae-based system for equitable fiscal equalization grants is yet to address demographic characteristics and the level of human development including the population size of the subnational governments.

Finally, despite legal authorization in the NNRFC's regulations to hire experts from outside the government, by and large, the Commission hosts public service employees who are part of the larger federal bureaucracy. This has led to a frequent turnover of employees, especially among high-level and technical staff such as revenue specialists from MoF, affecting the Commission's administrative stability. A primary driver of this churn is the stark reality that other federal ministries, such as the MoF, are perceived to be more likely to support individual career advancement. In comparison, as has been observed in the other newly established constitutional bodies, rotations to the NNRFC are seen as detrimental for career development. Moreover, the Commission's dependence on employees of the federal government for technical support might be influencing the Commission's capacity to hold the federal government accountable.⁷⁴

73 See also discussion in Niti Foundation (n 11) 9–10.

74 These challenges have also been noted in regard to the 'Other' Commissions. See Niti Foundation, *Why Nepal's 'Other' Commissions Matter for Justice and Inclusion* (2022) 23.

Major Findings and Conclusion

The analysis of political economy of fiscal transfers in Nepal draws to light following broad major findings and conclusions that deserve emphasis.

Federal institutions struggle to do away with the ‘centralizing’ agenda.

Despite significant economic, social, political, and legal transformations, engrained governance practices endure. Planning and budgeting practices have not converged with changes to the political system and attempts at decentralization have constantly been met with resistance. Recent electoral outcomes and political dynamics have deflated the momentum of Nepal’s federalist movement and strengthened political forces that are indifferent or opposed to federalism. Key actors shaping federalism — senior leaders within the bureaucracy and political party elites — have strong incentives and aspirations to perpetuate a system that orientates towards Kathmandu, and this has proved difficult to undo. These actors are at the heart of the institutions shaping — and distorting — fiscal federalism. Given the linkage of the NNRFC’s mandate to the larger federal project and reliance on partnership with the federal bureaucracy, these factors work to undermine the NNRFC’s position and prevent it from establishing its legitimacy vis-à-vis traditionally powerful federal agencies like the Ministry of Finance and the National Planning Commission.

The institutions responsible are either weak or unwilling to make and implement federalism-related laws.

Vacuum, ambiguities, and contradictions within the legal regime continue. This supports an environment in which informal mechanisms and practices prevail, enabling political opportunism and federal-level institutions to dominate through their historically embedded power and influence. Institutions of the federal executive thus continue to maintain considerable decision-making

power over fiscal distribution decisions even where the NNRFC is the constitutionally mandated authority. This is manifest in the federal government’s increased reliance on conditional grants and a displacement of the NNRFC in the setting of equalization grants. Moreover, collegial cooperation and federal ministries and departments is lacking. While fiscal gap estimations require national standards, these have yet to be developed. The delay in the appointment of the Commission’s constitutionally designated leadership — still, today, only four of the five positions on the Commission are filled — reveals a further lack of political prioritization of the NNRFC and its mission. These factors combine to severely undermine the NNRFC’s functioning and public standing and are significant factors preventing the Commission from establishing itself as an effective constitutional body. Only when there is a clear and joint understanding of the NNRFC’s role and support for the fulfillment of this role, from all levels of government, will it be able to operate as envisaged by the constitution.

NNRFC’s social legitimacy weakened.

The NNRFC is only bestowed with persuasive authority. The Constitution does not give the Commission ‘hard’ power to ensure the enforcement of its decisions; it cannot impose sanctions when its recommendations are not followed. It thus relies on its social and political legitimacy to enforce compliance. With the champions of federalism in electoral decline at the national level and there is resistance to devolution within the bureaucracy, the NNRFC has lost important allies to support its mission. It will be hard for the Commission to effectively compel powerful federal ministries, like the MoF, to abide by its recommendations. Current political dynamics favor pre-federalism ways of working and are supporting the consolidation of a strong federal government with relatively weak provincial governments. However, when acting collectively, subnational governments — local governments in particular — have demonstrated the

capacity to support greater decentralization, as the local government association's intervention in response to the MoF's unilateral reductions to equalization grants shows.

The NNRFC suffers from several critical operational shortcomings.

The NNRFC suffers from internal organizational shortcomings and weaknesses. In particular, the Commission lacks the in-house technical expertise that is required to produce reports that are essential for fiscal federalism to function. The ability of the NNRFC to produce high-quality analysis is not only important to set the quantum of intergovernmental fiscal transfers, but it is also critical for developing its public legitimacy. As Nico Steyter highlights, the NNRFC's institutional legitimacy 'does not flow only from its constitutional status as an independent institution, but from the appreciation by all concerned of its wise, economically sound, compelling and coherent financial products that serve the interests of Nepal's people.'⁷⁵ Moreover, frequent turnover of employees, especially among high-level and technical staff, affects the Commission's administrative stability. The Commission's dependence on employees of the

federal government for technical support might be influencing the Commission's capacity to hold the federal government accountable.

The historically established budgeting and planning process and an entrenched centralizing governance mindset provide a path dependency within which the current fiscal federalism dynamics are unfolding. A lack of legal and administrative clarity, combined with a lack of de facto authority has undermined the NNRFC and thus hampered fiscal federalism. This in turn has weakened and slowed the institutionalization of effective autonomous provincial and local governance. Ineffective subnational governance feeds into a growing discontent with federalism within certain segments of the public at a time when the political champions of federalism are in electoral decline and political forces indifferent or opposed to federalism are on the rise. This has led to further delay and deprioritizing of legislation that is necessary to strengthen and sharpen the NNRFC and other agencies charged with implementing federalism. This further delays the proper functioning of provincial governments in a perpetuating cycle.

75 Steyter (n 10) 31–32.

Recommendations

This report has highlighted that the NNRFC was created as an institution designed to assure independency in resource distribution within the new Nepali federation. It does so by taking key decisions concerning the distribution of state revenues out of the hands of the federal executive. However, as the report has detailed, despite the establishment of the Commission, the federal executive continues to maintain considerable decision-making power over distribution decisions. There is widespread consensus among observers that, notwithstanding its infancy, the effectiveness of the Commission has been compromised and it has been hindered from executing its constitutional mandate. In conclusion, the report offers several recommendations to empower the NNRFC to assume its pivotal role as 'the custodian of fiscal federalism' in Nepal. In the spirit of the 2015 Constitution, these recommendations are designed to support the effective implementation of federalism, ensuring that state resources are shared justly to benefit the entire population and that provincial and local governments can effectively carry out their mandates.

Review, complete, and revise legal frameworks.

This report has highlighted the various vacuums, contradictions, and ambiguities within the legal regime. The enactment of the remaining legislation and implementing rules and regulations to guide the implementation of federalized governance needs to be prioritized. In particular, further clarification of the ambiguities and overlaps within the division of power among the three levels of government, as enumerated in schedules 5 – 9 of the Constitution, is essential. Here, the federal government must take the leading role as in many instances subnational assemblies must await federal framework legislation before enacting provincial and local laws. **The Commission should engage with the federal parliament to support the passage of the pending Acts.**

76 See Niti Foundation (n 11) 13.

Moreover, in July 2023, the National Coordination Council meeting in Pokhara proposed revising the unbundling report, which was intended to clarify the roles and authorities of the three levels of government. **This ongoing process is an opportunity for the Commission to provide recommendations.** The NNRFC can support the interpretation of the extent of the functional roles and responsibilities of the three levels of government, as this forms the basis for the Commission to assess fiscal gaps and make recommendations. The NNRFC can support an exercise that aims to optimize the utilization of resources in ways that bring efficiency in resource generation and public spending. This includes proactive participation in determining national basic minimum standards, advocating policy and programmatic harmonization across different levels of government, and ensuring adequate and timely information sharing and regular communication in the fiscal federalism ecosystem.⁷⁶

Finally, as this report has noted, there are several contradictions between the fiscal federalism architecture legislation and the provisions of the Constitution, including the *Intergovernmental Fiscal Arrangement Act 2017* (the IFGA Act), the *Local Government Operations Act 2017* (the LGO Act), and the *Natural Resources and Fiscal Commission Act 2017* (the NNRFC Act). Recently, the federal government has initiated a process to revise the IFGA Act. **The NNRFC should advocate for these laws to be amended and made consistent with the Constitution.**

Create demand for fiscal federalism (and thus for the NNRFC).

The NNRFC is reliant on social and political legitimacy to enforce compliance with its recommendations. The NNRFC only meets with governments infrequently,

however, limiting the depth of relationship that is necessary to support compliance with the Commission's recommendations. Thus, **it is essential for the Commission to increase its engagement with governments at all three levels.** Not only is this necessary to deepen cooperation and coordination but it will reduce the potential for misunderstandings and conflict.

Moreover, in a landscape where the champions of federalism are in electoral decline at the national level and there is resistance to devolution within the bureaucracy, the NNRFC must look beyond the established actors in the federal parliament and executive as allies in its work. As highlighted in relation to the local government association's intervention in response to the MoF's unilateral reductions to equalization grants, when acting collectively, subnational governments — local governments in particular — have demonstrated the capacity to support greater decentralization. **The NNRFC should seek to deepen its engagement with subnational governments, looking to local and provincial governments as strategic allies in the process of implementing fiscal federalism.**

One initial initiative that the Commission can take to deepen institutional relationships and understanding of its mission among subnational governments is to **share its annual report with provincial assemblies, as well as develop materials specifically for local and provincial elected officials.** Some provincial assemblies have established procedures to enable the review or discussion of selected constitutional body reports,⁷⁷ and several provincial assemblies are currently reviewing their rules of procedure to make the tabling and discussion of constitutional body reports mandatory. **The NNRFC should engage with provincial assemblies to facilitate the regular discussion of its reports.** Doing so would support awareness of fiscal federalism and the NNRFC and support the objective of developing strategic alliances in support of fiscal devolution.

The report highlighted a lack of awareness of the

77 For example, in their Provincial Assembly Regulations 2023, Gandaki Province has provisions to discuss the annual reports of constitutional bodies, including the NNRFC, and Gandaki provincial commissions.

78 The NNRFC Act empowers the Commission 'to coordinate and cooperate with various constitutional bodies, the Government of Nepal, government agencies in local and provincial level or public agencies as needed'. See also Ibid 12–14.

importance of public financial management among subnational elected officials. In particular, local assemblies rely heavily on copying model laws and protocols prepared by federal ministries. While there is a need for subnational governments to receive external support to strengthen public financial management, due to the centripetal tendencies of the federation, there is a suspicion of top-down communication and centrally given assistance. As a body with national reach and independence from the central executive, **the NNRFC is in a strategic position to act as an interlocutor among governments,** in particular accompanying subnational governments through the process of institution building and the establishment of public financial management processes. As part of this interlocutor role, the NNRFC can provide a platform to conduct intergovernmental consultation, bargaining, and dispute settlement.⁷⁸ This must begin with a deeper commitment to regular engagement with subnational government, making time to hear their demands and suggestions regarding fiscal federalism. Given the suspicion on the part of subnational governments, however, in doing so, the NNRFC will need to adopt a nuanced political approach in its outreach.

Beyond governmental engagement, compared with many of Nepal's other constitutional bodies, such as the National Human Rights Commission, the NNRFC does not have the same level of engagement with media, civil society, citizens, and political parties. **The Commission should seek to deepen its relationships with academic institutions (universities and research institutions), think tanks, and media groups as an important step to foster greater public discourse and ownership of the fiscal federalism enterprise.**

Establish the NNRFC as a knowledge leader by investing in in-house technical expertise.

For its effective functioning and successful execution of the huge responsibility bestowed upon it, the NNRFC requires a dedicated cadre of skilled experts and specialists. Moreover, establishing itself as a credible

knowledge leader within the Nepali state is an important way for the NNRFC to establish itself as a socially legitimate constitutional body. To date, however, due to technical capacity limitations, the Commission has only been able to propose marginal changes to the fundamental structure of the grant system. In the absence of an organization of competent Commissioners and researchers, the Commission's mission is compromised. The NNRFC Act enables the Commission to obtain expert services from outside the government, and it is essential that **the federal parliament and the Ministry of Finance support the Commission with the resources required to engage experts and specialists as required.**

Beyond this, however, the NNRFC must also invest in enhancing the technical skills of its core staff to perform the work that the Constitution envisages from the Commission. As this report has highlighted, the staff within the NNRFC's Secretariat are currently seconded from the federal bureaucracy; there is a frequent turnover of employees, especially among high-level and technical staff, which affects the Commission's administrative stability. **The NNRFC should coordinate with the federal government and parliamentarians to amend the NNRFC Act to enable the fixed-term appointment of a Secretary upon the recommendation of the NNRFC Commissioners,** a model that follows that of the National Human Rights Commission.

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Appendix

Annex I: Key informant interviews with key actors for political economy of fiscal federalism.

Prime Minister's Office

1. Baikuntha Aryal, Chief Secretary (former secretary of NNRF)

Ministry of Finance

2. Rameshwor Khanal, former secretary MoF

National Planning Commission

3. Prof Dr. Pushkar Bajracharya, Former member (economics), NPC
4. Rabi Sainju, Former Joint secretary, NPC

Federal Parliament

5. P M Singh, Parliamentary member, Former Deputy PM
6. Shishir Khanal, Federal Parliament member, member Rastriya Swotantra Party (Former Minister)
7. Radheshyam Adhikari, Constitutional expert, Former Member of National Assembly
8. Khim Lal Devkota, Member of National Assembly

Provincial level

9. P S Gurung, Member of Parliament, former Chief Minister of Gandaki Pradesh
10. Mahesh Yadav, Minister Education and Social Welfare, Madhesh Pradesh (Janmat Party)
11. Giridhari Sharma Paudel, Former VC of Planning Commission, Gandaki Pradesh
12. Gopi Khanal, Former chief secretary, Karnali Pradesh

Pradesh

13. Dipendra Jha, former chief attorney, Madhesh Pradesh
14. Prem Prasad Bhattarai, Secretary, Ministry of Economic Affairs, Madhesh Pradesh

Local government and associations

15. Chiribabu Maharjan, Mayor of Lalitpur Metropolitan City
16. Jit Narayan Yadav, Mayor Ganeshman Charnath Urban Municipality
17. Laxmi Devi Pandey, Chairperson, Nepal Rural Municipality Association
18. Tulasi Kumari Pandey, Deputy Mayor Ganeshman Charnath Urban Municipality
19. Lakhan Dev Yadav, Head of Infrastructure Division Ganeshman Charnath Urban Municipality
20. Kalanidhi Devkota, Executive Director, Municipality Association of Nepal

National Natural Resource and Fiscal Commission

21. Balananda Paudel, Chairperson
22. Judda Bahadur Gurung, Member

Donors and Multilateral Development Banks

23. USAID
24. FCDO
25. World Bank
26. Asian Development Bank

Others

27. Reenu Kumari Yadav, Vice-Chair, Janata Samajbadhi Party (Former Minister)
28. Bishal Chalise, former senior program officer working with NNRF for PFM project from Niti Foundation

Annex 2: Letter sent by the Ministry of Finance to Financial Comptroller General Office to cut the third tranche of equalization grants.



नेपाल सरकार
अर्थ मन्त्रालय
(वित्तीय संघीयता समन्वय महाशाखा)

फोन नं.: ४२११३३९
फ्याक्स नं.: ४२११३९८
ईमेल: fcd@mof.gov.np
सिंहदरवार, काठमाडौं

प.सं. : वि.सं.स.म.२०७९/८०
च.नं.: ११९

मिति:- २०८०/०९/१४

विषय:- अन्तिम किस्ताको वित्तीय समानीकरण अनुदान हस्तान्तरण सम्बन्धमा ।

श्री महालेखा नियन्त्रक कार्यालय
अनामनगर, काठमाडौं ।

आर्थिक वर्ष २०७९/०८० मा हस्तान्तरण हुन बाँकी अन्तिम किस्ताको वित्तीय समानीकरण अनुदान रकम विनियोजन ऐन, २०७९ को दफा ४ को उपदफा (३) बमोजिम हाललाई पचास प्रतिशतले हुन आउने रकम प्रदेश तर्फ रु.९ अर्ब ९३ करोड ६८ लाख र स्थानीय तहलाई रु.१३ अर्ब २० करोड १५ लाख मात्र हस्तान्तरण गर्ने नेपाल सरकार, मन्त्रपरिषदको मिति २०८०/०९/१२ को निर्णयानुसार कार्यान्वयन गर्ने व्यवस्था हुन अनुरोध गर्दछु ।

श्री वज्रेश्वर शर्मा
महालेखा
आ.व. १/१४

चुरामणी अर्याल
शाखा अधिकृत

श्री वज्रेश्वर शर्मा
महालेखा
आ.व. १/१४

च.नं. ११९
२०८०/०९/१४