



# **National Governance Symposium 2024**

## ***MAYOR'S ROUNDTABLE - LOCAL GOVERNANCE FOR INCLUSIVE ECONOMIC DEVELOPMENT***

### **Strengthening Subnational Governance for Inclusive Economic Development**

SESSION BRIEF





## Executive Summary

Nepal's inclusive economic development depends on the effectiveness of its local governance system. Despite constitutional provisions granting municipalities authority over key sectors like health, education, and infrastructure, challenges such as intergovernmental coordination issues, resource constraints, and policy conflicts persist. Weak financial independence, delayed fund transfers, and limited private sector engagement hinder economic growth, while citizen participation remains inadequate. Addressing these gaps requires empowering local governments through financial, administrative, and legal reforms, alongside structured collaboration among all governance levels. Strengthening participatory planning mechanisms and integrating Sustainable Development Goals (SDGs) into local strategies can help ensure equitable development and effective policy implementation.

To enhance efficiency and accountability, Nepal must focus on capacity building, youth engagement, and improved transparency. Initiatives like skill development programs and entrepreneurship platforms can leverage the potential of Nepal's youth to drive economic progress. Strengthening governance mechanisms, such as digital platforms for financial oversight, public-private partnerships, and participatory decision-making models. These options can foster trust and streamline development efforts. Learning from successful case studies and scaling proven interventions will be critical in building a governance framework that ensures equitable growth, maximizes citizen participation, and supports long-term sustainability.

## I. Introduction

Since 2015, Nepal has embraced a federal system to address the country's diversity and promote effective governance, lasting peace, and prosperity. The Constitution of Nepal, promulgated in 2015, established a federal framework consisting of three tiers of government: Federal (Sangh), State/Province (Pradesh), and Local Level (Palika) (Adhikari, 2020). Additionally, decentralization is explicitly recognized under Article 50(1) of the Constitution.

At the core of local governance lies the fundamental objective of fostering economic growth and ensuring inclusive development. This involves empowering local governments to manage resources effectively, make decisions tailored to their community's unique needs, and implement policies that drive sustainable economic activities. Inclusive development emphasizes reducing disparities by prioritizing the participation and representation of all societal groups, including women, marginalized communities, and economically disadvantaged populations. By addressing local challenges and leveraging local opportunities, local governance creates an environment where every individual, regardless of their background, has access to opportunities and resources, thereby contributing to overall societal progress and equity.



## II. Legal Framework for Federalism

The Local Government Operation Act (2017) serves as a cornerstone policy framework empowering municipalities to exercise autonomy in planning and implementing development initiatives. The act further introduces measures to provide financial assistance and support to local governments, including provisions for revenue allocation, federal grants, and mechanisms to promote domestic borrowing (Acharya, 2018). These elements aim to strengthen operational autonomy, enhance accountability and transparency, and foster the inclusion of women and marginalized communities. Local governments are expected to be the primary agents of change due to their proximity to citizens and intimate understanding of localized needs. For instance, the "Municipal Profile Reports" issued annually highlight disparities in service delivery and resource utilization, underlining both opportunities and challenges in fostering local economic growth.

The significance of local governance in promoting inclusive development cannot be overstated. Municipalities and rural municipalities (Gaunpalikas) serve as the foundation for delivering essential services, infrastructure, and social welfare programs. Data from the Ministry of Federal Affairs and General Administration (MoFAGA) reveals that local governments accounted for approximately 17% of Nepal's total budget allocation in the fiscal year 2022/2023, underscoring their central role in governance. However, only 62% of the allocated resources were fully utilized, reflecting inefficiencies in planning and execution.

### III. Problem Statement

Coordination between the three levels of government has also emerged as a challenge. Overlapping responsibilities and delays in transferring funds often lead to inefficiencies and duplication of efforts. For example, many local governments lack the resources to fully implement their annual development plans, despite having constitutional authority over primary health care, basic education, and local infrastructure.

Another critical concern is the insufficient engagement of the private sector in local development initiatives. Public-private partnerships (PPPs) remain underdeveloped in Nepal, limiting opportunities for economic growth and job creation.

Lack of functional clarity	Confusion about roles and responsibilities among federal, provincial, and local governments.
Resource constraints	Insufficient funding and human resources to meet rising expectations.
Policy conflicts	Newly formulated laws often exploit local government rights, creating chaos and inefficiencies.
Citizen engagement gaps	Limited participation of citizens in decision-making processes.
Unfunded mandates	Local governments face increasing responsibilities without adequate financial support.
Behavioral and coordination issues	Intergovernmental collaboration is undermined by societal and institutional factors.

## IV. Policy Options and Opportunities

Theme	Intervention	Description
Youth Engagement	Establish platforms and programs to involve young people in local decision-making, skill development, and entrepreneurial activities.	Youth engagement leverages the energy and innovation of young people, enabling them to contribute to local governance and economic development. By fostering opportunities for leadership and participation, this intervention helps build
Integrating Sustainable Development Goals (SDGs)	Align local development strategies with the SDGs by creating frameworks and indicators tailored to local contexts.	Integrating the SDGs into local governance fosters a holistic approach to development, addressing economic, social, and environmental dimensions. This ensures that local actions contribute to broader national and global sustainability goals.
Inclusive Planning Processes	Develop participatory planning mechanisms that engage marginalized groups, including women, indigenous communities, and economically disadvantaged populations.	Inclusive planning processes prioritize the voices of underrepresented groups, ensuring that their needs and aspirations are reflected in local development plans. This approach promotes equity and fairness, leading to more sustainable and impactful outcomes.
Empowering Local Governments	Strengthen the financial, administrative, and legal autonomy of local governments through policy reforms and resource allocation.	Empowering local governments ensures they have the authority, resources, and capacity to make decisions that address local needs effectively. This includes improving fiscal independence, ensuring accountability mechanisms, and enhancing local leadership for driving inclusive economic growth.
Collaboration and Coordination	Foster partnerships among local, provincial, and federal governments, as well as with civil society organizations, private sector actors, and development partners.	Collaboration and coordination ensure that efforts across various levels of governance and sectors are harmonized, reducing duplication and enhancing the efficiency of resource utilization. This approach strengthens the collective impact on inclusive economic development.
Capacity Building	Provide training, technical support, and resources to enhance the competencies of local government officials and stakeholders.	Capacity building equips local authorities with the knowledge and tools necessary to implement effective governance practices. This includes areas such as financial management, policy development, and inclusive service delivery, fostering stronger local institutions.

## V. Recommendations

Empowering local governments is fundamental to achieving inclusive economic development and national prosperity in Nepal. Nepal's Development Cooperation Policy (2019) provides a roadmap for aligning local priorities with national development goals, emphasizing sustainable economic growth, poverty reduction, and social equity. Learning from successful case studies while fostering innovative approaches such as digital governance, skill development, and microfinance can further enhance the efficacy of local governance. Further, addressing systemic challenges, enhancing resource allocation, and fostering collaboration can create a robust governance framework. Hence, strengthening local governance will ensure equitable development, maximize citizen participation, and lay the foundation for sustainable growth. Some important reflections from this paper that can be highlighted as:

### 1. The Role of Local Governments in Economic Development

Local governments are positioned as the primary agents of change in Nepal's federal structure, yet their effectiveness depends on their ability to mobilize resources, plan strategically, and engage diverse stakeholders. While the Local Government Operation Act (2017) provides a framework for autonomy, gaps in financial and human resources continue to hinder meaningful progress. Strengthening institutional capacity and fiscal independence is crucial for enabling local governments to implement inclusive economic policies.

### 2. Challenges in Multi-Level Coordination

The lack of clear functional responsibilities among federal, provincial, and local governments has created inefficiencies in governance. Overlapping roles and delayed fund transfers have led to inconsistencies in service delivery. Addressing these challenges requires a more structured approach to intergovernmental coordination, with well-defined mechanisms for fiscal transfers, policy harmonization, and dispute resolution. Strengthening the Intergovernmental Fiscal Arrangement Act (2017) can help reduce these inefficiencies.

### 3. Inclusivity as a Core Principle

Nepal's commitment to inclusive development is reflected in its policies, yet the implementation of participatory planning mechanisms remains limited. Women, marginalized communities, and economically disadvantaged groups often struggle to have their voices heard in local governance. Successful case studies, such as the Participatory Planning Process in Dhulikhel Municipality, highlight the benefits of inclusive decision-making. Scaling such models across the country can enhance social equity and ensure a fair distribution of resources.

### 4. Public-Private Partnerships (PPPs) as a Catalyst for Growth

Despite the potential of PPPs to drive economic development, Nepal has yet to fully integrate private sector engagement in local governance. Initiatives like the Nijgadh Agro-Industrial Market Development Project demonstrate how strategic investment can enhance local economies. Encouraging similar partnerships through policy incentives and legal frameworks can create employment opportunities and foster sustainable development at the grassroots level.

### 5. Need for Transparency and Accountability

Transparency remains a critical issue in Nepal's local governance. The inefficient use of allocated funds, as evidenced by the 62% utilization rate of local government budgets in 2022/2023, underscores the need for improved financial oversight. Strengthening accountability measures, such as digital governance platforms and community monitoring mechanisms, can enhance trust in public institutions and curb corruption.

### 6. Leveraging Youth Engagement for Sustainable Development

Nepal's growing youth population represents an untapped resource for local economic development. Investing in youth leadership, skill development, and entrepreneurship can foster innovation and productivity. Creating platforms for young people to participate in governance not only strengthens democracy but also ensures that policies reflect the aspirations of future generations.

### About NGS

National Governance Symposium (NGS), an annual event organized by Governance Lab (Govlab) at the Daayitwa Abhiyaan, has been convening government, private sector, civil society and academia stakeholders since 2022 to foster discussions on and create a collaborative community for governance innovations and inclusive development in Nepal. This year, with the theme of **"Strengthening Subnational Governance for Inclusive Economic Development,"** the Symposium was organized on December 19-20, 2024 in partnership with Nepal Administrative Staff College (NASC) and with support from government partners Office of the Prime Minister and Council of Ministers, National Planning Commission and Ministry of Finance, as well as organizing partners Daayitwa and Nepal Leadership Academy.

#### **Session 2: Promoting Growth Entrepreneurship and Employment in Rural Nepal**

**Chair:** Mr. Krishna B. Raut, Secretary, Ministry of Industry, Commerce and Supplies

**Presentation:** Mr. Sanjay Pokharel, Entrepreneurship Manager, Daayitwa

**Panelists:**

- Ms. Bimala Aryal, Mayor, Sunwal Municipality
- Ms. Juna Mathema, Chairperson, Startup and Innovation Forum, FNCCI
- Dr. Sharan Kumar Pandey, Secretary, Ministry of Industry, Agriculture and Cooperatives, Koshi Province
- Mr. Tanka Nath Chimire, Proprietor, Rani Mahal Fishing Resort, Palpa

**Moderator:** Dr. Pratiba Pandey, CEO, Herveda Botanicals

**Knowledge Partner:** Daayitwa



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