



# **National Governance Symposium 2024**

## ***KEYNOTE PANEL - THE ROAD TO SUBNATIONAL GOVERNANCE FOR INCLUSIVE ECONOMIC DEVELOPMENT***

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

SESSION BRIEF





## Executive Summary

As Nepal's federal system matures, provincial and local governments are emerging as key players in delivering development outcomes, promoting economic equity, and ensuring inclusive subnational governance. However, this potential is constrained by weak intergovernmental coordination, inconsistent fiscal transfers, fragmented program ownership, and limited capacity for data-driven planning. This policy brief highlights strategic interventions to strengthen provincial governance, empower local economies, and align development efforts across all tiers of government.

Key recommendations include institutionalizing Provincial Project Banks to ensure equitable resource allocation, operationalizing joint program ownership models through standardized MOUs, and formalizing a Dual-Track Women's Economic Empowerment (WEE) strategy. Moreover, the brief advocates for enhancing digital governance, strengthening Public-Private Partnership (PPP) frameworks, and investing in capacity-building initiatives such as Provincial Leadership Academies and Governance Fellowships. Establishing outcome-linked grant formulas and transparent performance dashboards will further drive results-oriented governance and reduce duplication of efforts.

This policy brief draws on emerging good practices from provinces like Gandaki and Koshi, and provides a replicable roadmap for embedding resilience, equity, and collaboration at the heart of subnational governance.

## 1. Background

Nepal's 2015 Constitution introduced a federal system, operationalized after the 2017 local elections, with seven provinces and 753 local governments functioning under a decentralized fiscal framework. While subnational governments now handle about one-third of public expenditures, the implementation of federalism has faced hurdles chiefly, the absence of a detailed rollout plan, limited legal and institutional frameworks, insufficient training, and gaps in civil service alignment (1). Effective coordination among federal, provincial, and local tiers remains a pressing need (2), though public perception is largely positive, with 81% supporting federalism as a means to ensure local autonomy, inclusive governance, and accountability (3).

However, challenges persist. Strengthening institutional capacity, clarifying revenue-expenditure assignments, and improving infrastructure and human resources are critical to achieving sustainable growth (4). Fiscal transfers with clarified expenditure & revenue assignments remain as a huge gap and subnational bodies' major reliance on federal grants, requiring enhanced transparency and financial management support (5). Weak vertical and horizontal coordination (6), geographic barriers, limited civic engagement, and frequent leadership changes further strain public service delivery (7). Nonetheless, local governments, being closest to citizens, are viewed as effective (8). Addressing institutional gaps and building accountability mechanisms can also bolster PPPs for infrastructure and service improvement (9), while reorienting centralized civil service culture is vital for realizing the full potential of federalism (10).

## 2. Rational for Action on the Problem

Despite Nepal's promising federal transition, intergovernmental relations (IGR) remain underdeveloped, limiting the potential of provincial and local governments to deliver inclusive development. While some provinces, such as Koshi, demonstrate high capital budget execution (up to 80%), others lag due to lack of clear mandates, weak vertical coordination, and inadequate implementation continuity. Although five-year periodic planning has helped align provincial and national goals, inconsistencies in coordination, bureaucratic ownership, and leadership transitions have disrupted effective program delivery. A recurring issue is the "capacity trap," where technical resources and fiscal space exist, but political instability or bureaucratic inertia hinder their full utilization.

Further, weak synergy between political leadership and administration has led to duplication, policy drift, and a lack of accountability in program implementation. This is exacerbated by overlapping roles, blurred mandates, and the absence of institutional learning frameworks for both political leaders and bureaucrats.

Digital governance aspirations, while ambitious, often fail to materialize due to lack of data ownership, weak coordination across government tiers, and undefined accountability protocols. Additionally, intergovernmental initiatives rarely come with standardized co-ownership models, causing confusion over funding responsibilities and programmatic roles. These structural and behavioral weaknesses risk derailing inclusive economic goals, particularly in sectors such as women's empowerment, agro-processing, and tourism. Without targeted reforms to address these bottlenecks, Nepal's federal experiment may fail to deliver on its promise of equity, accountability, and development.

### 3. Solutions

To strengthen intergovernmental relations and institutional performance across Nepal's federal structure, a set of coordinated, actionable reforms are necessary. First, political and bureaucratic stability must be promoted through resilience protocols such as continuity checklists, structured handover mechanisms, and lightweight digital pilots that enhance coordination without overburdening the system. These tools—like simplified project banks or shared digital folders—can build early trust between institutions and scale into more robust platforms over time. Embedding adaptive governance practices will ensure that leadership changes do not disrupt service delivery or derail multi-year planning cycles.

Second, provinces should institutionalize joint program ownership frameworks. Successful models like Koshi's Growth, Entrepreneurship, and Employment Program (GEEP) illustrate the benefits of co-design, joint funding, and clear role delineation among provincial and local governments. Future programs should be mandated to include formal Intergovernmental MOUs that specify roles, cost-sharing, timelines, and dispute-resolution mechanisms. Standing coordination committees should review these programs quarterly to ensure alignment and resolve bottlenecks.

Third, improved synergy between the political and administrative arms of government is essential. Scheduled briefings and shared decision-making frameworks can bridge communication gaps and align objectives. Codes of conduct and onboarding programs for ministers and MPs—focused on administrative roles, planning cycles, and budgeting protocols would reduce turf conflicts and foster shared ownership of development goals. Provincial governments should also establish sectoral PPP blueprints to attract private investment, tailored to each province's comparative advantages; such as Koshi's renewable resources or Lumbini's cultural tourism.

Fourth, the push for inclusive economic development should be anchored in better program targeting and public accountability. Local governments and cooperatives must be resourced and incentivized to expand women's access to finance, markets, and skills training. Investments in social infrastructure, such as girls' education and maternal health, must continue and be scaled through provincial programs. Simultaneously, high-potential sectors like agro-processing and tourism should be strengthened through market-linkage policies, export support, and enterprise-friendly regulation. Aligning the TVET ecosystem with provincial economic priorities like IT skills in urban hubs or agro-tech in rural belts, will create jobs and reduce regional disparities.

Finally, provinces must define data ownership and governance protocols to realize their digital transformation goals. Designating data stewards, engaging local and diaspora tech communities via hackathons or fellowships, and embedding open feedback loops in program monitoring will help bridge the gap between digital aspirations and service delivery. In doing so, Nepal's federal system can evolve into a responsive, inclusive, and performance-driven governance structure.



## 4. Proposed Policy and Policy Recommendations

The major policy takeaway and the recommendations are grouped across key thematic areas, drawing from recent provincial innovations, stakeholder feedback, and best practices.

### i. Equitable Resource Allocation and Fiscal Federalism

Provincial planning and budgeting processes often lack transparency and alignment with local needs. Establishing a structured and evidence-based approach to resource allocation will promote equity and efficiency.

#### Policy Recommendations:

- Standardized pre-feasibility protocols covering economic, social, and environmental dimensions
- Evidence-based prioritization mechanisms (e.g., scoring matrix) to reduce duplication and promote transparency
- Dual-Track Women's Economic Empowerment (WEE) Strategy by combining financial instruments (like microcredit and cooperative equity) with social support services (e.g., scholarships, health access) to enhance women's participation in the economy.
- Develop Technical and Vocational Education and Training (TVET) programs tailored to local markets through partnerships with women's cooperatives (e.g., agro-processing, tourism).

### ii. Strengthening Intergovernmental Relations

Effective federalism requires collaborative ownership of programs and clearly defined institutional roles across federal, provincial, and local levels.

#### Policy Recommendations:

- Standardize Joint-Ownership Frameworks by mandating Intergovernmental Memorandums of Understanding (MOUs) for all province-led programs, detailing budgets, roles, and conflict-resolution mechanisms.
- Establish Provincial-Local Coordination Committees, chaired by Principal Secretaries, should meet quarterly to track implementation, resolve bottlenecks, and align with national goals.
- Encourage provinces to design and implement joint programs with local governments and development partners, using Koshi's GEEP (Growth, Entrepreneurship, and Employment Program) as a replicable model.

### iii. Enhancing Political Stability and Institutional Continuity

High turnover and shifting political priorities disrupt program continuity and institutional learning.

#### Policy Recommendations:

- Digital Incubator Fund to create a provincial fund to pilot low-cost, cross-agency tech innovations (e.g., dashboards, document repositories) that solve immediate governance challenges.
- Require provincial commissions to maintain regularly updated handover guides and quick-start manuals for key administrative processes.

### iv. Synergizing Politics and Administration

Stronger collaboration between political leaders and administrative actors leads to more coherent policies and implementation.

### Policy Recommendations:

- Develop a provincial code outlining expected behaviors, conflict-of-interest rules, and protections for whistle-blowers for both political and bureaucratic actors.
- Institutionalize monthly sessions where Principal Secretaries update the Chief Minister and ministers on key progress indicators.
- Publish standard guides for Public-Private Partnership (PPP) models in strategic sectors such as dairy, tourism, and renewable energy, with clear legal and financial protocols.

### v. Inclusive Economic Development

Sector-specific interventions—when linked with supportive policies and market access—can unlock economic potential and reduce poverty.

### Policy Recommendations:

- Provincial Value-Chain Policy for supporting rural agro-processors and tourism SMEs through tax incentives, technical assistance, and trade facilitation with neighboring regions.

### vi. Evidence-Based Decision-Making and Capacity Building

Institutional capacity, not individual capability, must drive planning, execution, and learning in provincial governance.

### Policy Recommendations:

- Provincial Planning Capacity Program by delivering targeted training on pre-feasibility studies, data analysis, and participatory planning. Partner with academic institutions for continuous learning.
- Launch open transparent, regularly updated digital platforms displaying project statuses, key indicators, and citizen feedback.
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### vii. Cross-Cutting Leadership and Good Governance

Leadership continuity and inclusive governance are foundational to long-term effectiveness and accountability.

### Policy Recommendations:

- For the National “Subnational Toolkit” Repository, NPC should host and maintain a repository of policy implementation guides covering fiscal transfers, M&E, and procurement tailored for subnational governments.
- Conduct annual simulation exercises to test provincial readiness for crises such as leadership changes or sudden budget cuts.
- Dual-Track Grant Formula with restructuring fiscal transfers into two components: Capacity-based (50%) tied to LG readiness (e.g., staffing, audit results) and Performance-based (50%) linked to development outcomes (e.g., job creation, infrastructure delivery)
- Functional assignment review by tasking the NPC to lead a national review of local government mandates, aligning functions with population size, resource availability, and capacity.
- Develop digital systems to monitor disbursements, ensure compliance with allocation formulas, and flag inconsistencies for Grant Management Information Systems (GMIS)
- Provinces should publish quarterly dashboards covering employment, service delivery, and deprivation ranking to build transparency and track progress utilizing Provincial Performance Dashboards.

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## Conclusion

Nepal's federal transition stands at a critical juncture. Strengthening provincial capacities and institutional linkages will be essential to realize the constitutional promise of inclusive development and responsive governance. By investing in cooperative models, clear intergovernmental frameworks, gender-responsive policies, and evidence-based planning systems, provincial governments can become engines of transformation. The time is now to institutionalize good practices, scale innovative models, and commit to a shared vision of federalism rooted in equity, transparency, and accountability.

### 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 6: Keynote Panel - The Road to Subnational Governance for Inclusive Economic Development

**Chair:** Hon. Prof. Dr. Shiva Raj Adhikari, Vice Chairperson, National Planning Commission

**Presentation:** Dr. Khim Lal Devkota, Chairperson, Federalism and Localization Center

**Panelists:**

- Dr. Dilli Raj Aryal, Vice Chairperson, Province Policy and Planning Commission, Lumbini Province
- Mr. Kedar Nath Sharma, Principal Secretary, Office of Chief Minister and Council of Ministers, Koshi Province
- Dr. Raghu Raj Kafle, Former Vice-Chairperson, Province Policy and Planning Commission, Gandaki Province
- Dr. Sohan Prasad Sha, Vice Chairperson, Province Policy and Planning Commission, Madhesh Province
- Dr. Usha Jha, Former Member, National Planning Commission

**Moderator:** Dr. Pukar Malla, Chairperson, Governance Lab at Daayitwa Abhiyaan

**Knowledge Partner:** Federalism and Localization Center

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