

Nepal

**Data Collection Survey on
Strengthening Local Governance in Nepal**

Final Report

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Japan International Cooperation Agency

IC Net Limited

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List of Abbreviations

ADB	Asian Development Bank
ADD	Agricultural Development Directorate
CD	Capacity Development
CDP	Capacity Development Plan
CEHRD	Center for Education and Human Resource Development
CEP	Community Engagement Platform
CGAS	Computerized Government Accounting System
CPF	Country Partnership Framework
CPS	Country Partnership Strategy
CSO	Civil Society Organization
DCC	District Coordination Committee
DoLID	Department of Local Infrastructure Development
EDCU	Education Development Coordination Unit
ETC	Education Training Center
EU	European Union
FCGO	Financial Comptroller General Office
FNCCI	Federation of Nepalese Chambers of Commerce and Industry
FRA	Fiduciary Risk Assessment
FY	Fiscal Year
GeMSIP	Gender Mainstreaming and Social Inclusion Project
GESI	Gender Equality and Social Inclusion
GIZ	<i>Deutsche Gesellschaft für Internationale Zusammenarbeit</i> (German Corporation for International Cooperation)
GoN	Government of Nepal
GRB	Gender-Responsive Budgeting
IPF	Innovative Partnership Fund
IPFMRP	Integrated Public Financial Management Reform Project
KPTA	Karnali Province Training Academy
LDTA	Local Development Training Academy
LEU	Local Education Unit
LGCDP	Local Governance and Community Development Program
LGOA	Local Government Operation Act
LISA	Local Government Institutional Capacity Self-Assessment
LISP	Local Infrastructure Support Program
LMBIS	Line Ministry Budget Information System
MEDPA	Micro Enterprise Development for Poverty Alleviation Programme
MoEAP	Ministry of Economic Affairs and Planning

MoEST	Ministry of Education, Science and Technology
MoFAGA	Ministry of Federal Affairs and General Administration
MoPID	Ministry of Physical Infrastructure Development
MoUD	Ministry of Urban Development
MoWCSC	Ministry of Women, Children and Senior Citizens
MPRTA	Madhesh Province Research and Training Academy
MTEF	Medium Term Expenditure Framework
MTMP	Municipal Transport Master Plan
MuAN	Municipal Association of Nepal
NARMIN	National Association of Rural Municipalities in Nepal
NASC	Nepal Administration Staff College
NNRFC	National Natural Resources and Finance Commission
NPC	National Planning Commission
NUGIP	Nepal Urban Governance and Infrastructure Project
O&M	Organization and Management
OCMCM	Office of the Chief Minister and Council of Ministers
OAG	Office of the Auditor General
OECD-DAC	Development Assistance Committee of the Organization for Economic Cooperation and Development
OPMCM	Office of the Prime Minister and Council of Ministers
PAMS	Public Asset Management System
PCGG	Provincial Center for Good Governance
PEFA	Public Expenditure and Financial Accountability
PFMRP	Public Financial Management Reform Plan
PIM	Public Investment Management
PLGSP	Provincial and Local Governance Support Programme/ Provincial and Local Governance Strengthening Programme
PLMBIS	Provincial Line Ministry Budget Information System
PPA	Public Procurement Act
PPB	Provincial Project Bank
PPC	Provincial Planning Commission
PPPC	Provincial Policy and Planning Commission
PPP	Public-Private Partnerships
PPR	Public Procurement Regulation
PPSC	Provincial Public Service Commission
PRTA	Provincial Research and Training Academy
PTCO	Provincial Treasury and Comptroller Office
PTMP	Provincial Transport Master Plan
PSP	Provincial Support Program
RIAP	Revenue Improvement Action Plan

RMIS	Revenue Management Information System
SDC	Swiss Agency for Development and Cooperation
SDGs	Sustainable Development Goals
SESP	School Education Sector Plan
SEMES	Strengthening the Monitoring and Evaluation System Project
SHEP	Smallholder Horticulture Empowerment and Promotion
SPRTA	Sudurpashchim Province Research and Training Academy
SuTRA	Sub-national Treasury Regulatory Application
TA	Technical Assistance
TDF	Town Development Fund
TLO	Tole Lane Organization
TSA	Treasury Single Account
TPD	Teacher Professional Development
UNDP	United Nations Development Program
USAID	United States Agency for International Development
WFP	World Food Programme

1. Survey Overview

1.1 Background of the Survey

Under the new constitution promulgated in 2015, Nepal adopted a federal system. Following the first general elections for the seven provincial governments and 753 local governments in 2017, provincial and local government activities commenced in 2018. The second local government election was held peacefully in May 2022, while the second provincial government election took place in November 2022.

The Nepalese government has set the improvement of administrative service provision and the promotion of local autonomy as important goals under the federal system. Over the past decade, it has enacted numerous new laws, revised existing laws and administrative procedures, established a system of fiscal transfers between levels of government, reorganized administrative agencies, and deployed federal government officials to provincial and local governments. In response to the extensive powers and responsibilities granted to provincial and local governments under the 2015 Constitution, the government launched the Provincial and Local Governance Support Programme (PLGSP) as a national program in 2019, strengthening the institutional framework and organizational structure of provincial and local governments, as well as enhancing the capacity of legislators and staff. The government has renamed the program as the Provincial and Local Governance Strengthening Programme (PLGSP) and plans to continue its implementation until 2029.¹

Over the past decade since the transition to federalism, Nepal has made significant progress in institutional development and organizational strengthening of provincial and local governments under the federal system. However, two preliminary surveys conducted by Japan International Cooperation Agency (JICA) on provincial and local governments after the transition to federalism reported that provincial and local governments face various challenges under the federal system and have a high need for capacity development.² For example, in terms of public finance, provincial and local governments have limited autonomous revenue sources and heavily rely on grants from the federal government. Since a significant portion of these grants are subject to restrictions on their use, provincial and local governments face challenges in providing adequate administrative services tailored to the needs of their respective regions. In terms of human resources, Provincial Civil Service Act has not yet been enacted, and the process of establishing independent civil service recruitment systems at the provincial and local government levels is still in its early stages, and there remains a reliance on federal civil servants assigned to provincial and local governments by the federal government. In terms of human resource development, while efforts to establish a provincial research and training academy (PRTA) are underway in each provincial government, their full-scale operations are still in the early stages. A significant challenge is the shortage of personnel capable of

¹ The Provincial and Local Governance Strengthening Program (PLGSP) is supported by the European Union (EU), the United Kingdom, Norway, Switzerland, and the United Nations Development Programme (UNDP) as development partners. Additionally, the World Bank and the Asian Development Bank are collaborating with the PLGSP to implement loan projects and technical assistance aimed at strengthening provincial and local governments. For details on activities by other development assistance agencies, please refer to Chapter 6.

² Refer to JICA and IC Net Limited (2021), and JICA and IC Net Limited (2024). The latter updates the basic information from the former, using Nepal as a case study.

handling local government development plans, fiscal management, and project management, as well as technical personnel in various sectors.

JICA has been engaged in technical cooperation projects in Nepal's governance sector, including strengthening training for local government officials, improving project monitoring and evaluation by line ministries and local government officials, and mainstreaming gender equality and social inclusion.³ The outcomes and accumulated knowledge from these projects and other JICA projects in Nepal may be useful in addressing the aforementioned challenges or other important issues faced by provincial and local governments.

1.2 Purpose of the Survey

Based on the above background, this survey aims to collect information necessary for JICA's future cooperation in supporting local governance of Nepal. The purpose is to investigate the administrative capacity and challenges of provincial and local governments, identify necessary measures for their enhancement, and collect information required to consider the direction of JICA's cooperation and programs in supporting local governance of Nepal, taking into account cooperation needs.

1.3 Scope, Policy, and Methods of the Survey

1.3.1 Scope of the Survey

This survey focuses on the governance functions of provincial and local governments, specifically development planning and budgeting, fiscal management, and project management (planning, implementation, and maintenance), as well as cross-cutting functions such as gender equity and social inclusion (GESI), and human resource development (Figure 1). Furthermore, with the aim of examining the relationship and impact between the governance functions of each level of government and the sectoral functions responsible for public service delivery, the transportation sector (focusing on roads), the education sector (focusing on teacher training), and the private sector (focusing on public-private partnerships) have been included in the scope of this study.

Furthermore, in Nepal's federal system, provincial and local governments heavily depend on the federal government in terms of both finances and human resources. Therefore, changes in the federal government's administrative and fiscal systems can significantly impact provincial and local governments. When considering the direction of JICA cooperation, therefore, the vertical relationships between each level of government are reviewed in the overall framework of the three-tier government system.

³ For details on JICA's governance-related cooperation projects in Nepal, please refer to Chapter 5.

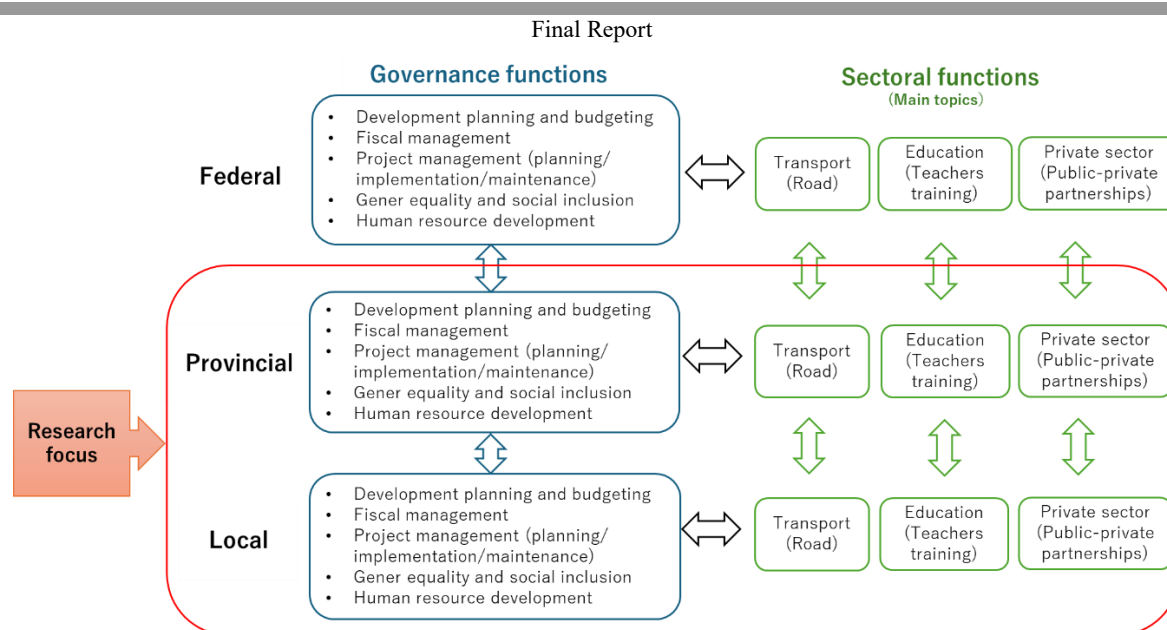


Figure 1 Overall framework of the survey

1.3.2 Basic Principles of the Survey

This survey was conducted in accordance with the following four basic principles of the survey.

Basic Principle 1: Based on the direction and considerations for JICA cooperation outlined in the two preliminary surveys, specific hypotheses were established, and the survey was conducted while verifying their validity.

In conducting the current survey, the survey team reviewed the two preliminary surveys conducted by JICA and compiled information focusing on changes and updates since then.⁴

In the analysis of issues faced by each level of government, information was updated on the three levels of capacity development (CD): institutional, organizational, and individual. The issue analysis in JICA and IC Net Limited (2024) pointed out that the institutional-level issues in Nepal include unclear division of authority and responsibilities among the three levels of government, and that the organizational and individual issues of local governments include budget and personnel shortages and insufficient revenue-raising capacity through own-source revenues.⁵ Additionally, discrepancies between institutional frameworks and actual implementation have been identified as challenges, with specific issues such as delays in the distribution of grants to local governments and the failure to distribute grants to local governments in accordance with the ceilings provided by the federal government. Taking this into account, the issue analysis in this survey focused on the discrepancies between institutions (i.e., laws, guidelines, etc.) and their implementation, and examined the direction of JICA support.

⁴ Refers to the two prior surveys indicated in Footnote 2.

⁵ Table 57 (pp. 166–168) of JICA and IC Net Limited (2024) categorizes Nepal's administrative challenges into three levels of capacity development (institutional society, organization, and individual) and compares them with Bangladesh, Côte d'Ivoire, and Mongolia.

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Based on the results of the aforementioned prior surveys, this study set the following two hypotheses and proceeded with the investigation and verify their validity.

Hypothesis 1: Support complementary to PLGSP and other donor assistance is needed for capacity development (CD) of provincial and local governments in development planning and budgeting, fiscal management, and project management.

Since JICA and IC Net Limited (2021) was conducted, PLGSP and other donors have been supporting institutional development, organizational strengthening, and human resource development to build the capacity of provincial and local governments. However, PLGSP has been providing broad support targeting all provincial and local governments nationwide, and therefore its support for them has been thinly stretched. Additionally, officials dispatched from the federal government to provincial and local governments have been rotated every few years due to personnel changes, and many provincial and local assembly members have been replaced in general elections. Other donor support often targets specific local governments after selecting them through a screening process. For these reasons, it is assumed that support from PLGSP and other donors in areas such as development planning and budgeting, fiscal management, and project management remain insufficient to meet the capacity development needs of provincial and local governments and therefore, complementary support is needed.

Hypothesis 2: Support is needed to establish a sustainable system for human resources development in provincial and local governments in the areas of development planning and budgeting, fiscal management, and project management.

Prior to PLGSP, JICA supported training for local governments through the “The Project for Improving Local Governance Training through Capacity Enhancement on Research and Analysis in Nepal (2016-2019)” by strengthening the Local Development Training Academy (LDTA) and its local centers. After the project ended, the Nepalese government established a Provincial Center for Good Governance (PCGG) in each province, and the LDTA’s regional centers were transferred to the PCGGs, resulting in significant changes to the personnel and structure of the centers. JICA and IC Net Limited (2024) pointed out that, despite support from the PLGSP, the systems of the PCGGs, renamed later as Provincial Research and Training Academy (PRTA), were not sufficiently established, and that many local governments underwent major changes in mayors and assembly members in the 2022 local elections. Although a series of training programs were conducted at each PRTA, they were not in an organized or systematic manner to strengthen their capacity. Additionally, with the formulation of a medium-term human resource development strategy, it is needed to clarify a vision for the human resource development system at the provincial and local government levels and the roles and responsibilities of relevant training institutions such as the Nepal Administrative Staff College and the LDTA under the Ministry of Federal Affairs and General Administration (MoFAGA). Therefore, it is hypothesized that the human resource development system at the provincial and local government levels has not yet been fully established to sustainably meet the human resource development needs of provincial and local governments in the long term.

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Basic Principle 2: The target provincial and local governments are selected based on administrative divisions (municipalities and rural municipalities) and geographical divisions (lowlands and hills), prioritizing those that are likely to provide information necessary for analyzing development planning and budgeting as well as fiscal management.

The current survey selected six local governments in three provinces—Madhesh, Karnali, and Sudurpashchim (Table 1). The following selection criteria were used for the selection of the local governments: 1) inclusion of municipalities and rural municipalities in terms of administrative divisions; 2) inclusion of lowlands and hills in terms of geographical divisions; and 3) publicly available or accessible information on development plans and financial information. Selection criteria 1) and 2) were used to ensure diversity in the social, economic, and geographical characteristics of the surveyed regions by including municipalities and rural municipalities, and areas with different geographical conditions such as lowlands and hills. The selection criterion 3) was adopted to enable more in-depth analysis by focusing on local governments where financial information, such as development plans and budget documents are made public.

Table 1 Provincial and local governments surveyed

Province	District	Local government	Administrative division	Geographical division	Population (2021)	Land area (km ²)	Population density (person/km ²)
Madhesh	Saptari	Saptakoshi	Urban	Lowland	23,510	60.3	390.2
	Saptari	Surunga	Urban	Lowland	49,460	107.0	462.2
Karnali	Salyan	Kapurkot	Rural	Hill	17,526	119.2	147.0
	Surkhet	Bheriganga	Urban	Lowland	48,203	256.2	188.1
Sudurpaschim	Kailali	Jianaki	Rural	Lowland	49,860	107.3	464.7
	Kanchanpur	Shuklaphanta	Urban	Lowland	53,969	162.6	331.9

Basic Principle 3: Identify issues related to development planning and budgeting and fiscal management that significantly impact the implementation of JICA projects in the target sectors and consider points for considerations and countermeasures.

For specific topics in the transportation, education, and private sectors under the jurisdiction of provincial and local governments, the current survey identifies and reports on the challenges and points for consideration in implementing JICA cooperation projects.

Transportation Sector (focus on local roads): JICA and IC Net Limited (2021) reported the following major issues related to local roads: 1) staff shortages at provincial and local governments; 2) inadequate capacity of staff, user committees, and contractors; 3) inability to respond to the increasing number of projects transferred from the federal government to provincial governments and the growing demand for local road development; 4) delays in project implementation, inadequate construction, and increased landslides as a result; and 5) duplication of construction work due to inadequate coordination among the three levels of government. In addition, JICA and IC Net Limited (2024) reported high turnover rates among

staff at provincial and local governments. These issues are likely to be influenced by organizational restructuring following the transition to a federal system, which transferred jurisdiction over local roads from the MoFAGA to the Ministry of Urban Development, thereby affecting the implementation of projects and maintenance of local roads. Therefore, this survey examines 1) the structure and coordination of the three-tier government regarding the local road sector, 2) the number and quality of staff, 3) the number and quality of local road projects, and 4) budget allocation and execution, and identified issues related to the local road sector.

Education Sector (focus on teacher training): The final report in 2024 of the JICA's Project for Improving the Quality of School Education in Nepal points out that, due to organizational restructuring following the transition to federalism and the significant devolution of authority over public education services to local governments, it became difficult to disseminate the project's outcomes nationwide under the guidance of the Ministry of Education, Science and Technology (MoEST).⁶ Furthermore, Japan has not provided financial support for the School Education Sector Plan (SESP), and it is unlikely that the budget for this program will be utilized for disseminating the project's outcomes as before. Therefore, securing budgets for dissemination at the provincial and local governments is essential. Therefore, this survey focuses on clarifying 1) the status and challenges of education budget measures other than SESP at the provincial and local government levels, and 2) the status and challenges of coordination and cooperation between the three levels of government and education-related organizations, in order to identify the mechanisms necessary for sharing experiences for the dissemination of project outcomes.

Private sector (focus on public-private partnerships): Following the completion of JICA-supported 'Sindhuli Road Corridor Commercial Agriculture Promotion Project', a good practice was reported regarding technology dissemination through collaboration between local governments and private companies (i.e., public-private partnership), which complemented limited capacity of local governments. By contrast, after the completion of another JICA cooperation project, the 'Project on Rehabilitation and Recovery from Nepal Earthquake', challenges in terms of technology dissemination and facility operation and maintenance were identified, due to shortages in local government personnel and budget. Based on these cases, the survey team identifies the areas where private companies could be utilized for technology dissemination and facility operation and maintenance after project completion, as well as points for consideration in public-private partnerships.

Basic Principle 4: Conduct surveys on provincial and local government development planning and budgeting, fiscal management, and project management from a gender equality and social inclusion (GESI) perspective and reflect the findings in proposals for the direction of JICA cooperation.

Nepal, composed of more than 120 *jaat* (caste and ethnic groups), continues to face significant challenges related to gender inequality and social discrimination. In particular, the three provinces surveyed are the regions where caste issues and discrimination against women remain deeply entrenched. Recognizing these

⁶ JICA and Padeco (2024).

challenges, the 2015 Constitution and the 2017 Nepal Civil Code guarantee equal rights and freedom from discrimination for all citizens. Additionally, the Gender-Responsive Public Expenditure and Financial Accountability (Gender PEFA) report, published by the Ministry of Finance in 2024, identifies insufficient consideration of gender equality in public investment management. Also, JICA and IC Net Limited (2024) highlights GESI as a cross-cutting issue of high priority in any JICA cooperation. Moreover, the final report of JICA's Project on Participatory Rural Recovery points out that it is essential to strengthen the capacity of lawmakers and provide detailed support and follow-up for people in order to achieve GESI in the planning and implementation processes of local government projects.

Based on the above, the survey team explores the direction of JICA's cooperation in promoting GESI through the following areas: 1) strengthening the capacity of lawmakers -- those elected through quotas for women and socially vulnerable groups in local governments who are not fully utilizing their capabilities, and those who lack sufficient knowledge and practical experience in GESI; 2) strengthening the capacity of public officials in implementing GESI policies, setting gender-disaggregated indicators and data collection in planning and project implementation, monitoring and reporting, and project review criteria; and 3) promoting public awareness and participation in planning and project implementation.

1.3.3 Survey Method

This survey conducted literature surveys and visited six local governments in Madhesh, Karnali, and Sudurpashchim provinces to conduct interviews. Additionally, the survey examined the potential for effectively utilizing JICA's experience and achievements in projects in Nepal and other countries for administrative capacity development, and conducted interviews with other development partners supporting local governance in Nepal. Regarding the federal government, the survey team conducted interviews with the MoFAGA, National Planning Commission, National Natural Resources and Finance Commission, and Ministry of Finance, which play a leading role in the development planning and budgeting, fiscal management, and project management of provincial and local governments.

1.4 Survey Process

The overall workflow for this survey is shown in Figure 2. The survey was implemented in three stages. In the first stage in February-May 2025, the survey team set a preliminary hypothesis for the direction of JICA cooperation at the start of the survey and verified its validity through the first field survey in target provincial and local governments. In the second stage in May-September 2025, the survey team prepared a proposal for the direction of JICA cooperation based on the results from the first stage, and consulted on the relevance of the proposal with key stakeholders in the second field survey. In the final third stage in September 2025-February 2026, the survey team made a final proposal on the direction of JICA cooperation in the draft final report based on the results of the second stage, and prepared the final report after discussion with JICA. It should be noted that the GenZ demonstration and subsequent riots in September 2025 have interrupted the second field survey. Consequently, the third field survey was newly added in December 2025

to follow up on the second field survey.

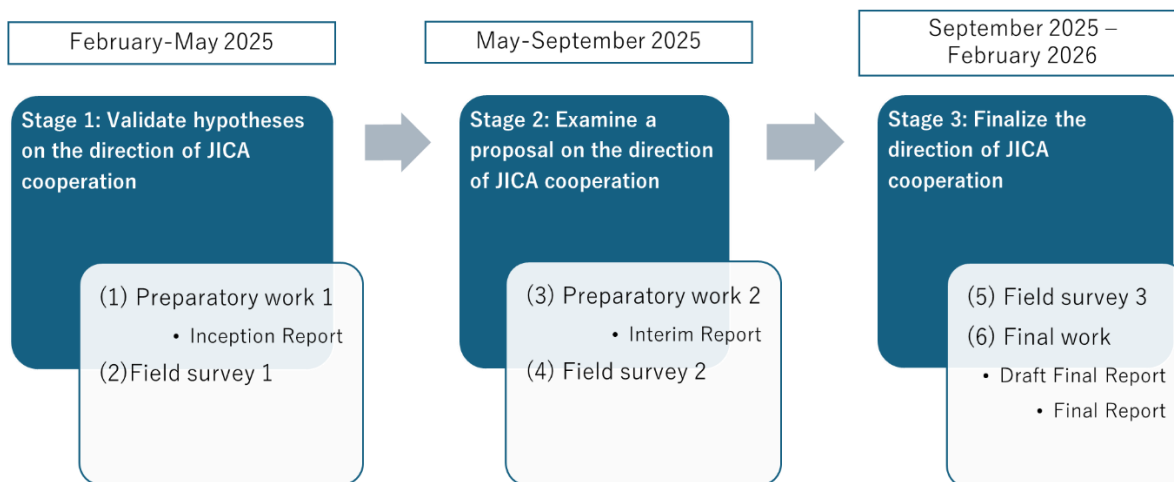


Figure 2 Workflow

2. Progress after the Transition to the Federal System in Nepal

2.1 Institutional Framework

The institutional framework of Nepal's federal system has been established through the enactment of numerous new laws and the revision of existing laws, with the new constitution (2015) serving as the fundamental legal base. The new constitution stipulates in Article 2 of Chapter 1 that "the sovereignty and State power of Nepal shall be vested in the Nepali people." Additionally, Article 4 defines Nepal as "an independent, indivisible, sovereign, democratic, socialism-oriented federal democratic republican State," declaring the transition from a unitary state to a federal state. Furthermore, Article 56 of Chapter 5 stipulates that the structure of the state under Nepal's federal system consists of three tiers: the federal, provincial, and local levels. In 2020, the constitution was amended to change the country's name from "Federal Democratic Republic of Nepal" to "Nepal."

Under the new constitution, general elections were held in 2017, resulting in the establishment of seven provincial governments comprising 77 districts nationwide, and a total of 753 local governments (Table 2). Local governments comprise six metropolitan cities, 11 sub-metropolitan cities, 276 municipalities, and 460 rural municipalities. Within each local government, multiple wards (the smallest administrative units) were established. Each ward is composed of multiple villages (*Tole*), which are not administrative divisions but naturally formed local units. In 2022, the second general elections for provincial and local assemblies were held in accordance with the constitution, and the current three-tier governments are in place today.

According to the 2021 census data, the average population of provincial governments is approximately 4.2 million, while the average population of local governments is around 40,000. The land areas of the metropolitan cities, sub-metropolitan cities, municipalities, and rural municipalities vary substantially. The average population of the six metropolitan cities is approximately 400,000, the average population of the 11 sub-metropolitan cities is approximately 120,000, the average population of the 276 municipalities is approximately 30,000, and the average population of the 460 rural municipalities is approximately 25,000.

Table 2 Administrative divisions, average land area, and average population

Administrative divisions	Total	Area (km ²) ⁽¹⁾	Population (people) ⁽¹⁾	Subdivision ⁽²⁾	Total	Area (km ²)	Population (people)
Federal government	1	147,181	29,242,157				
Provincial government	7	21,026	4,177,451	District	7	1,911	379,768
Local government	753	195	38,834	Metropolitan City	6	199	403,870
				Sub-metropolitan City	11	201	141,381
				Municipality	276	198	30,326
				Rural Municipality	460	202	24,559

(1) Land area and population of provincial and local governments are the average values per administrative unit.

(2) Metropolitan city (Mahanagarpalika), sub-metropolitan city (Upamahanagarpalika), municipality (Nagarpalika), rural municipality (Gaunpalika)

Source: The data of population and land areas are from Nepal Census (2021).

Under the new constitution, based on the principle of separation of powers, the executive, legislative, and judicial branches were established at each level of government. The names of the executive, legislative, and judicial branches at each level of government are summarized in the table below.

Table 3 Branches of federal, provincial, and local governments

Level	Legislative	Executive	Judicial
Federal	Federal legislature	Federal Council of Ministers	Courts
	<ul style="list-style-type: none"> House of Representatives (275 members; 5-year term) National Assembly (59 members; 6-year term; one-third of the members is elected every two years) 	<ul style="list-style-type: none"> Prime Minister Up to 25 ministers, including the prime minister 	<ul style="list-style-type: none"> The Supreme Court High Court District Court Special Court
Provincial	Provincial Assembly	Provincial Council of Ministers	
	<ul style="list-style-type: none"> The number of provincial assembly members shall be twice the number of federal House of Representatives members from each province. Term of office: 5 years 	<ul style="list-style-type: none"> Chief Minister The number of members of the Provincial Assembly shall be no more than 20% of the total number of members of the Provincial Assembly If a non-member of the legislature is appointed as a cabinet minister, they must become a member of the provincial assembly within six months of appointment. 	
Local	Municipal Assembly	Municipal Executive	
	<ul style="list-style-type: none"> Mayor, Deputy Mayor, Chairpersons of each ward, 4 members elected from each ward, and members of the municipal executive elected from Dalit and minority communities Term of office: 5 years 	<ul style="list-style-type: none"> Mayor, Deputy Mayor, Ward Chairpersons, 5 female ward members, 3 ward members from Dalit and minority ethnic groups Term of office: 5 years 	
	Rural Municipal Assembly	Rural Municipal Executive	
	<ul style="list-style-type: none"> Chairperson, vice chairperson, ward chairpersons, 4 ward members elected from each ward, and ward members selected from ward members of Dalit and ethnic minority backgrounds Term of office: 5 years 	<ul style="list-style-type: none"> Chairperson, Vice-Chairperson, Ward chairpersons, 4 female ward members, and 2 ward members from Dalit and minority ethnic groups Term of office: 5 years 	District Assembly, District Coordination Committee

Source: The Constitution of Nepal (2015) and JICA and IC Net Limited (2024).

2.1.1 Federal Level

Article 61 of Chapter 6 of the new constitution establishes the President as the Head of State of Nepal and stipulates that the President shall uphold the new constitution, comply with the law, and promote national unity. The President is elected by a majority vote of an electoral college composed of members of the Federal Legislature and Provincial Assemblies and serves a five-year term. Article 66 states that the President shall perform all functions on recommendation and with the consent of the Council of Ministers. The Prime Minister, who chairs the Council of Ministers, is designated as the head of the executive branch.

The Federal Legislature is a bicameral system consisting of the House of Representatives and National Assembly. The term of office for members of the House of Representatives is five years, with 165 members elected by single-member districts and 110 members elected by proportional representation. The term of office for members of the National Assembly is six years, with 56 of the 59 seats (eight from each of the seven provincials) elected by an electoral college consisting of members of Provincial Assemblies and heads and deputy heads of local governments, and the remaining three appointed by the President upon recommendation by the Nepalese government. One-third of the members of the National Assembly are elected every two years. Article 84 of the new constitution states that the proportion of female members of each political party must be at least one-third. Following the 2022 general election, the proportion of female members stands at 33.8%.

The Council of Ministers, which is the executive branch of the federal government, consists of maximum 25 ministers, including the prime minister (Article 76). The prime minister is the leader of the political party that holds a majority in the House of Representatives. If no single party holds a majority, the prime minister is appointed from among members of the House of Representatives who have the support of multiple parties and constitute a majority.

2.1.2 Provincial Level

Under the new constitution, Provincial Assemblies have been established as the legislative branch of provincial governments (Article 162). Provincial legislature is unicameral, with a term of five years in principle unless dissolved. The number of seats in a Provincial Assembly varies by province, as it is set at twice the number of Federal House of Representatives members from each province, and members are elected through single-member districts and proportional representation systems. The speaker of the provincial legislature is appointed by the party that wins the majority seats. Article 176 stipulates that one-third of the total number of members elected from each political party in Provincial Assembly must be women, and following the 2022 elections, the proportion of female members stands at 36.8%.⁷ Provincial Assembly has committees for each sector, but their names and numbers vary by province.

Provincial Chief Minister, the head of the provincial government, is appointed by Chief of Province who is appointed by Federal President in accordance with Article 163 of the constitution. Provincial Chief Minister is the highest administrative official of the province, while the Chief of Province performs

⁷ United Nations Nepal (2022)

ceremonial roles. The Provincial Council of Ministers is composed of a number of members recommended by the Provincial Chief Minister, not exceeding 20% of the members of the Provincial Assembly, and appointed by the Chief of Province (Constitution, Chapter 13). While the federal government encourages provincial governments to establish up to 7 sector ministries, the number has increased for political reasons. However, some provinces have reduced the number of ministries following the 2022 elections.

2.1.3 Local Level

Local government's Municipal/Rural Municipal Assemblies are composed of 1) mayor/chairperson, 2) deputy mayor/deputy chairperson, 3) chairperson of each ward, 4) four ward members from each ward, and 5) ward members from *Dalit* and minority ethnic groups elected from the municipal/rural municipal executive branch (Articles 17 and 18 of the constitution). All of these positions are filled through direct elections by local residents. The Local Elections Act (2017) requires each political party to nominate a woman for either the position of mayor/chairperson or deputy mayor/deputy chairperson. In the 2022 elections, the proportion of female members in local governments was 41.2%. Municipalities and Rural Municipalities are divided into wards, and each ward council consists of a ward chairperson and four ward members (Article 18, Section 222 of the Constitution). The Local Elections Act (2017) stipulates that at least two of the ward members must be women, and at least one of them must be a woman from an Dalit or ethnic minority background. Most administrative staff, including sector-specific officials, are stationed at municipal/rural municipal offices. Additionally, each ward office is typically staffed by three personnel: 1) a secretary responsible for document management and administrative tasks, 2) a computer operator, and 3) a general office assistant handling miscellaneous duties.

Under the new constitution, legislative and executive branches were established at the federal, provincial, and local levels. However, the judicial branch is organized under the federal government, with federal courts, high courts, and district courts exercising jurisdiction nationwide. Additionally, as prosecutorial agencies, the Office of the Attorney General has been established. The Attorney General is appointed by the President upon recommendation of the Prime Minister of the federal government in accordance with Article 157 of the Constitution. Each province shall have a Chief Attorney, subordinate to the Attorney General, appointed by the Chief of Province on the recommendation of the Chief Minister and serving at the Chief Minister's pleasure. The Chief Attorney is the principal legal advisor to the provincial government, responsible for providing opinions and advice on constitutional and legal matters. Staff of the Chief Attorney's Office shall be managed by the Office of the Attorney General.

2.1.4 Devolution of Powers to Provincial and Local Governments

The new constitution establishes provincial and local governments and transfers (devolves) administrative and fiscal obligations and powers previously held by central government to provincial and local governments, as specified in Schedules 5 to 9 of the Constitution.

In these Schedules, the authorities of each government are classified into three categories: exclusive

powers, concurrent powers, and residual powers. Schedule 5 lists the exclusive powers granted to the federal government, Schedule 6 lists the exclusive powers granted to provincial governments, and Schedule 8 lists the concurrent powers granted to local governments. Schedule 7 lists the concurrent powers shared between the federal and provincial governments, and Schedule 9 lists the concurrent powers shared among the federal, provincial, and local governments. The powers not specified in these schedules are reserved as residual powers of the federal government under Article 58 of the constitution.⁸

The exclusive powers of provincial and local governments stipulated in Schedules 6 and 8 of the new constitution amounts to 21 and 22 items, respectively, indicating that sub-national autonomy is widely recognized at the provincial and local levels. For example, the exclusive powers of local governments include management of administrative services (such as local development, municipal police, and taxation), local and rural road maintenance, primary and secondary education, disaster management, water supply, and small-scale power generation, among others. However, it has been pointed out that the concurrent powers remain unclear in terms of the authority and division of roles among the different tiers of government when exercising such powers, as well as the processes.⁹ The Nepalese government recognizes this issue and is clarifying the division of roles among the three tiers of government in detail, including both revenues and expenditures, under the leadership of the Office of the Prime Minister and Council of Ministers.¹⁰

To facilitate smooth devolution of powers, it is necessary to expedite the clarification of roles and responsibilities among the three tiers of government, as well as a transfer of know-how and management processes related to the exercise of the powers held by the federal government to provincial governments or local governments, or from provincial governments to local governments, to enhance the capacity of provincial and local governments.

2.2 Organizational Structure of Relevant Agencies

Following the transition to a federal system, the federal government underwent organizational restructuring, and currently the MoFAGA, the National Planning Commission (NPC), the National Natural Resources and Finance Commission (NRRFC), and the Ministry of Finance oversee and support development planning, fiscal management, and project management of provincial and local governments. The following provides an overview of the roles and organizational structures of these key institutions (Table 4).

The MoFAGA serves as a liaison between the federal government and local governments, overseeing and supporting local governments. Its main roles include: 1) supervising local governments nationwide, strengthening their capabilities, and supporting their fiscal management; 2) assigning and coordinating federal government officials to provincial and local governments; 3) promoting gender equality and social inclusion; 4) promoting electronic services in local governments; and 5) supporting the development of legal systems in local governments. The Local Level Capacity Development Division of MoFAGA is

⁸ Table 5-9 is explained on pages 12-16 of JICA (2021), so please refer to it.

⁹ For example, refer to the World Bank (2023), pages 19-20.

¹⁰ The Nepalese government is considering measures based on the Unbundling Report. Refer to World Bank (2024b), page 16.

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responsible for the formulation, planning, and implementation of all types of training (training sessions, forums, workshops, and orientations) for local government representatives and staff; also serves as the main implementing body for the PLGSP.

The National Planning Commission is the highest advisory body for the formulation of federal development plans and policies, and it plays the following roles: 1) supporting the preparation of periodic plans and medium-term expenditure frameworks (MTEF) and annual development plans; 2) supporting the monitoring and evaluation of development plans and projects; and 3) supporting the establishment and operation of project banks. At the provincial level, these tasks are carried out by Provincial Planning Commission of respective provinces. There are no such institutions for local governments.

The National Natural Resources and Finance Commission (NNRFC) is an independent body established under Article 250 of the constitution and plays an important role in fiscal transfers to provincial and local governments and revenue allocation of natural resources under the federal system. Its main roles include: 1) determining the distribution of royalty revenues from natural resources such as forests, minerals, and hydropower among the three tiers of government; 2) designing and evaluating fiscal transfer systems such as grants to provincial and local governments; and 3) providing policy recommendations on fiscal systems and support for improving fiscal management capabilities of provincial and local governments. It also develops fiscal rules for internal debt to be raised by all tiers of government.

The Ministry of Finance collaborates with the MoFAGA, National Planning Commission, and NNRFC to oversee and support the overall fiscal management of provincial and local governments in conjunction with the federal government. The main roles related to provincial and local governments include: 1) designing and implementing budget allocations and subsidy disbursements to provincial and local governments; 2) establishing and implementing supervision and reporting systems to improve fiscal soundness of provincial and local governments; 3) establishing and managing fiscal transfer systems to provincial and local governments; 4) reducing regional disparities through grants, and 5) providing training and technical assistance to enhance financial management capabilities of provincial and local governments.

Ministry of Urban Development (MoUD) is responsible for urban development, housing policy, and building codes. Its roles include urban planning, slum upgrading, development of housing for low-income households, formulation of building standards, design/construction/O&M of federal facilities, and urban infrastructure development. It also oversees related agencies such as the Department of Local Infrastructure Development (DoLID) and the Town Development Fund (TDF).

Annexes 1 and 2 provide updated organizational charts for MoFAGA and MoUD.

Table 4 Main organizations responsible for provincial and local governments

Agency	Role and organizational structure
Ministry of Federal Affairs and General Administration	<p>Role: Acts as a liaison between the federal government and local governments</p> <ul style="list-style-type: none"> • Supervision and support of local governments (supervision and support of activities of local governments nationwide, capacity building, policy implementation, and support for fiscal management) • Management of the civil service system (human resources management of federal civil servants, and coordination of personnel allocation at federal, provincial, and local levels) • Supporting inclusive governance (enhancing access to administrative services for socially

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Agency	Role and organizational structure
	<p>vulnerable groups such as women, Dalits, indigenous peoples, Madhesh Indian people, persons with disabilities, and the poor)</p> <ul style="list-style-type: none"> • Promotion of e-government (introduction and operational support for electronic services in local governments) • Policy formulation and legal framework development (drafting and implementation of laws and regulations related to local governments) <p>Organizational structure: Federal Affairs Division, Planning and Development Support Coordination Division, Local Level Capacity Development Division, Employee Administration Division, Employee Adjustment and Organization Development Division, Administrative Reform and Human Resources Planning and Development Division</p>
National Planning Commission	<p>Role: The highest advisory body responsible for formulating the government's development policies and plans</p> <p>Formulation of national vision and development plans</p> <ul style="list-style-type: none"> • Formulation of long-term national visions, five-year plans, annual development plans, etc. (policy formulation for socio-economic development) • Advising on budget and resource allocation (assessing required resources, identifying funding sources, and proposing budget allocations) • Monitoring and evaluating development projects (monitoring the progress of government development plans and projects and conducting evaluations) • Hub for knowledge and policy (collecting and analyzing innovative policy proposals through collaboration with experts, the private sector, civil society, and donors) • Management of the National Project Bank (operating the "National Project Bank" to register and manage important national-level projects) <p>Organizational structure: Chairperson (Prime Minister of Nepal), Vice Chairperson (currently vacant), Members (experts in various fields), Member Secretary (head of the secretariat), specialized Divisions within the Secretariat (Economic Policy Division, Social Development Division, Infrastructure and Urban Development Division, Environment and Climate Change Division, Monitoring and Evaluation Division, Statistics and Data Analysis Division)</p>
National Natural Resources and Finance Commission	<p>Role: An independent agency responsible for fiscal transfers to provincial and local governments and the allocation of natural resources under the federal system</p> <ul style="list-style-type: none"> • Recommendations on the allocation of natural resources (determining the distribution ratios of royalties from resources such as forests, minerals, and hydropower among provincial and local governments, conducting surveys including environmental impact assessments, and providing the basis for allocation) • Design and evaluation of fiscal transfer systems (Establish criteria for fiscal transfers from the federal government to provincial and local governments, and promote fair distribution based on the fiscal conditions of each provincial) • Policy recommendations and technical support (submitting recommendations to the government on improving fiscal systems and supporting local governments in enhancing their fiscal management capabilities) • Decide on the ceilings of internal loans for provincial and local governments <p>Organizational structure: Chairman (appointed by the President upon recommendation of the Constitutional Council), Members (up to five experts in finance, economics, law, and natural resources), Secretariat</p>
Ministry of Finance	<p>Role: A ministry responsible for managing the finances of the federal government and provincial and local governments in collaboration with the MoFAGA, the National Natural Resources and Fiscal Commission, Financial Comptroller General Office, and the National Planning Commission (Note: This role pertains solely to the management of provincial and local government finances)</p> <ul style="list-style-type: none"> • Design and implementation of budget allocation and subsidy disbursement to provincial

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Agency	Role and organizational structure
	<p>and local governments</p> <ul style="list-style-type: none"> • Monitoring and reporting system for fiscal soundness of provincial and local governments • Support for provincial and local government revenue (tax and non-tax) management • Establishment and management of fiscal transfer systems from the federal government to local governments • Reducing disparities among local governments through conditional grants and equalization grants • Training and technical assistance aimed at enhancing financial management capabilities of local governments • Institutional development support in collaboration with international organizations (e.g., UNDP, World Bank)
Ministry of Urban Development	<p>Role: A ministry responsible for urban development, housing policy, and the formulation of building standards, with the aim of responding to rapid urbanization and creating sustainable urban environments. Its mandates include:</p> <ul style="list-style-type: none"> • Formulation of policies, laws, and standards related to urban development, slum upgrading, and housing provision • Enactment and enforcement of the National Building Code • Design, construction, and maintenance of federal government facilities • Development of urban infrastructure and major urban structures • Promotion of housing policies for socially vulnerable groups • Operation of the Town Development Fund • Coordination of domestic and international agreements and treaties • Promotion of research on construction technologies and administration of professional certification systems for engineers <p>Organizational Structure: Urban Infrastructure Division, Building and Housing Planning Division, Department of Local Infrastructure, and Administration Division.</p>

Source: Compiled by the research team from the websites of relevant government agencies.

2.3 Recruitment and Deployment of Civil Servants

Following the transition to federalism, the Government of Nepal has instituted a staffing structure at each level of government through the reassignment ("adjustment") of civil servants. However, since 2019, each provincial government has established a Provincial Public Service Commission (PPSC) and has been recruiting provincial and local civil servants in accordance with the Provincial Civil Service Act.

At the federal level, 75% of positions are filled, except for in the health service where personnel adjustment continues (Table 5). While the overall staffing rate at the provincial level is low, there is a significant variation among provinces, ranging from 35% to 83% (Table 6). This is likely influenced by the timing of the commencement of recruitment activities by the PPSC.

Table 5 Federal government staffing level as a percentage of approved positions (As of March 2025)

Service	Approved positions	Filled positions	Percent of positions filled
Economic Planning & Statistics	328	292	89.0%
Engineering	9,943	6,581	66.2%
Agriculture	1,329	1,215	91.4%
Justice	5,322	4,749	89.2%
Foreign Affairs	447	295	66.0%
Administration	24,568	17,500	71.2%
Audit	534	492	92.1%
Forest	1,951	2,002	102.6%
Miscellaneous	2,808	2,254	80.3%
Education	1,025	851	83.0%
Parliament	382	259	67.8%
Health*	2,663	4,992	187.5%
Total	51,300	41,482	80.9%

*Personnel adjustments from the federal government continue.

Many are placed in provincial and local government but are still federal employees.

Source: Ministry of Finance (2025)

Table 6 Provincial government staffing level as a percentage of approved positions (FY 2023/24)

Province	Approved positions	Filled positions	Percent of positions filled
Koshi	3,984	1,807	45%
Madhesh	4,101	1,659	40%
Bagmati	4,971	2,845	57%
Gandaki	3,411	2,083	61%
Lumbini	5,294	3,444	65%
Karnali	2,929	2,435	83%
Sudurpaschim	3,096	1,084	35%
Total	27,786	15,357	55%

Source: Office of Auditor General (2025)

With regard to local government staffing, the only information available is the number of civil servants hired by the Public Service Commission at the national level, which predates the transition to a federal system. Data for FY 2023/24 shows that there were 32,306 civil servants, or 49 percent of the 65,414 positions approved for that year.¹¹ Recruitment by the PPSCs is also underway, but as of June 2024, there was still a shortage of 30,000 personnel, according to a media report, indicating that the fulfillment rate for civil service positions remains low.¹² Although MoFAGA has introduced a human resources information system in the provinces, it is not being properly implemented due to insufficient coordination among the three levels of government and issues related to the capacity of provincial and local governments. Consequently, MOFAGA has been unable to accurately assess personnel situations at the provincial and local levels.¹³

The low filling rate for provincial and local government positions is affected by the significant delay in the enactment of the Federal Civil Service Act (FCSA), which is supposed to establish the framework for personnel management in the three-tier government system, leaving regulations and systems related to personnel matters at the provincial and local levels incomplete.¹⁴

The following specific factors have been pointed out by both government and non-government sources

¹¹ Department of National Personnel Records (Civil) MoFAGA (2024)

¹² Kathmandu Post, June 25, 2024.

¹³ Interview with the Department of National Personnel Records (MoFAGA)

¹⁴ In Madhesh Province, some local governments have already enacted local civil service acts, leading to some confusion.

regarding the shortage of civil servants at provincial and local levels.

- The absence of FCOSA restricts the hiring activities of PPSC in senior positions.
- The deputation of federal government officials to provincial and local government positions, including the position of Chief Administrative Officer (CAO) of local government¹⁵, the top administrative official of local governments, is not progressing smoothly. Moreover, officials deputed from the federal government are frequently transferred. At the same time, provincial governments rely heavily on federal government officials on deputation, thereby impeding their own recruitment initiatives.
- Local officials are transferred from remote areas to urban or more accessible local governments, resulting in a shortage of personnel in local governments located in rural areas.
- Some local governments are unable to proceed with recruitment of civil servants due to financial constraints or are relying on contract employees as alternatives.
- The organizational development of PPSC is lagging behind.
- The recruitment process by PPSC is protracted.
- Provincial and local governments lack human resource strategies and management capacity.¹⁶

The delay in enacting FCOSA has affected not only recruitment but also overall human resource management. For example, imbalances in working conditions between various personnel arrangements such as deputation, adjustment (from the federal and from the local level), new recruitment, and contract employment; imbalances between the three levels of government in terms of career opportunities; and the lack of clarity in civil service career paths have reduced the motivation of civil servants and consequently are hindering the effectiveness and efficiency of provincial and local government operations.¹⁷

According to the Federal Civil Service Bill, which was finally passed by the House of Representatives on June 30, 2025, provincial secretaries, excluding the Principal Secretary (or Chief Secretary) who is the chief administrative official of the provincial government, and CAOs of local governments will be recruited and appointed by the PPSC.¹⁸ However, as evidenced by the fact that federal government deputations will be allowed for up to 10 years until the commission establishes its recruitment and appointment system, It is likely that a significant amount of time will be required to amend provincial civil service laws, issue personnel-related regulations, and establish personnel systems, including those for recruitment and transfers, based on these regulations.

2.4 Provincial and Local Governance Support Programme (PLGSP)

2.4.1 Achievements, Challenges, and Lessons Learned from the 1st Phase of PLGSP

The PLGSP is a national flagship program implemented from 2019 to 2024 (with the final year extended

¹⁵ As per the Local Government Operations Act (LGOA) 2017, the CAO is responsible for serving as the secretariat for the legislature and the executive committee (equivalent to the cabinet at the federal and provincial levels) and for implementing their decisions, except where otherwise provided by local law.

¹⁶ National Concern and Coordination Committee (2023), Ministry of Finance (2025a), The Asian Foundation (2022), Democracy Resource Center (2024).

¹⁷ The Asian Foundation (2022), Democracy Resource Center (2024).

¹⁸ Kathmandu Post (2025b, 2025c.)

to prepare for the next phase) aimed at strengthening the capacity of governments at all levels, particularly provincial and local governments, in all the institutional, organizational, and individual aspects. The program facilitated the establishment of coordination mechanisms among the three levels of government, the development of laws and policies by provincial and local governments, the establishment of capacity building systems, the mainstreaming of GESI, the strengthening of citizen participation and accountability, and the development of financial management systems.

The PLGSP played a significant role in institutional development of provincial and local governments under the new federal system of governance. MoFAGA highlights the following achievements.¹⁹

- Legislative development by provincial and local governments.
- Formulation of periodic plans and capacity development plans by provincial and local governments.
- Implementation of Local Government Institutional Self-Assessment (LISA) by local governments
- Establishment of grievance redress mechanisms by local governments.
- Progress in mainstreaming GESI at provincial and local levels through GESI audits, GESI policies, and the appointment of GESI focal points at provincial ministries and local governments.
- Development of financial management capacity of provincial and local governments through various tools including Revenue Improvement Action Plan (RIAP) and IT systems for financial management.
- Development of internal control systems through Fiduciary Risk Assessment (FRA), Fiduciary Risk Reduction Action Plan, and internal audits by local governments.
- Establishment of ICT systems in provincial and local governments.
- Establishment and operationalization of the Provincial Center for Good Governance (PCGG)²⁰ under each provincial government to provide capacity building services to provincial and local governments.
- Conducting various training programs for elected representatives and officials of provincial and local governments.
- Implementation of innovative projects utilizing the Innovative Partnership Fund (IPF)²¹ by provincial and local governments.

Although PLGSP has contributed significantly to the advancement of federalism, it has faced various challenges due to its wide scope covering all three tiers of government and cross-sectoral nature. The following challenges and lessons were identified through program reviews conducted in preparation for the next phase and the final evaluation of the Technical Assistance (TA) component:

- **Provincial and local government ownership:** Without authority over operations and finances, provincial and local governments cannot develop ownership, which negatively affects the impact and efficiency of support.
- **Capacity building support approach:** Given that needs vary among provincial and local governments, the effectiveness of a one-size-fits-all approach to capacity building support is limited. More demand-driven and customized support is necessary. In addition, it is necessary to shift the focus

¹⁹ Ministry of Federal Affairs and General Administration (2024).

²⁰ In the new phase of the PLGSP, it is renamed the Provincial Research and Training Academy (PRTA). This is a generic term, and the actual name varies by province.

²¹ A fund established under the PLGSP to provide cost-sharing financing for innovative project proposals in the areas of good governance, service delivery, and socio-economic development. Proposals must be submitted jointly by local governments or by local governments in collaboration with provincial governments or other partners.

from individuals to organizations and society to facilitate transformation.

- **Capacity-building framework:** Institutionalization of the Provincial Research and Training Academy (PRTA) with financial and human resources under respective provincial governments is essential for the sustainable capacity-building of provincial and local governments.
- **GESI mainstreaming:** While systems and tools such as GESI policies, GESI audits, and GESI focal persons have been established, their effective implementation requires support to promote shifts in actions and attitude, which is necessary for societal change, to ensure meaningful participation of women and marginalized groups. Particular attention should be placed on senior leadership positions, which are dominated by men and certain castes.
- **Tools and systems introduced:** Various tools and systems including LISA, the Sub-National Treasury Regulatory Application (SuTRA), FRA, RIAP, and GESI audits have been rolled out to local governments. However, they need to be integrated into local government decision-making processes and organizational operations, and grant allocation processes.
- **Program implementation structure:** A robust mechanism is needed to coordinate between federal-level and provincial-level Program Implementation Units and agencies, as well as between provincial-level Program Implementation Units and PCGGs.
- **Budget execution:** Factors that affected the low budget execution of the program included: gaps between annual program implementation plans and provincial needs and capacities; delays in processes due to weak ownership of provincial governments; delays in procurement of facilities and equipment for PCGGs; and a lack of alignment with the federal budget and Medium-Term Expenditure Framework (MTEF) cycle.

2.4.2 Overview of the New Phase

The new phase of the program was developed as "reprogramming", i.e. it was built on the lessons learned with no changes to the basic program design, including objectives and outcomes. The following guiding principles were adopted in the reprogramming process.

- Support for provincial and local governments in devolution
- Transparency and accountability in provincial and local administration
- Mainstreaming GESI to promote transformation in social norms and behavior
- Rights-based and participatory approach toward provincial and local governments
- Devolution of authority, adaptability to contexts, and flexibility in program design and implementation
- Adaptive programming that enables continuous changes

The overview of the new phase described in the program document approved by the National Steering Committee of the PLGSP in June 2024 is shown in the table below. The name has been changed to the Provincial Local Government Strengthening Programme. Although the document has been approved, final adjustments are being made to the detailed plan, as of April 2025.

Table 7 Overview on the new phase of PLGSP

Executing agency	MoFAGA
Implementing agencies	[Local level] Local governments [Provincial level] Provincial governments, PRTAs [Federal level] MoFAGA, Office of Prime Minister and Council of Ministers.
Implementation period	July 2024 – July 2029
Budget	USD 79.23 million (unspent fund from the previous phase) [Sources] GoN 26.57 million, development partners 52.66 million [Allocation] Outcome 1 (Federal) 10%, Outcome 2 (Provincial) 50%, Outcome 3 (Local) 40%
Development partners	[Budgetary support] EU, UK (FCDO), Norway, SDC, UNDP/UN agencies [TA support] UNDP
Outcome	<ol style="list-style-type: none"> [Federal] Federal-level government institutions and intergovernmental mechanisms are fully functioning in support of federal governance as per the Constitution. [Provincial] Provincial governments have efficient, effective, inclusive, and accountable institutions and organizations. [Local] Local governments have capacity for good governance and for delivering inclusive basic services to all people.
Output	<ol style="list-style-type: none"> Federal-level institutions have GESI-sensitive legislation, policies and strategies in support to devolved good governance of provinces and local governments. Federal horizontal and vertical intergovernmental mechanisms and relations are strengthened to 'Leave No One Behind'. Inclusive service delivery by provinces and local governments strengthened through tools and systems for capacity development (LDTA/PRTAs), GESI, public financial management/ fiscal federalism, ICT and others. Provincial institutions, organizations and capacity of elected representatives and staff, are strengthened for provincial good governance, inclusive service delivery and GESI responsiveness. Horizontal collaboration among local governments and vertical collaboration across local governments, provinces and federal government is institutionalized and strengthened through intergovernmental mechanisms, civic engagement, local governance associations and IPF. PRTAs have the capacity to sustainably deliver demand-driven capacity development services for provincial and local government institutions, organizations, their staff and elected representatives, to perform their institutional functions and to deliver inclusive services. Local government institutions and organizations, including elected representatives and staff, are strengthened and accountable for good governance, intergovernmental collaboration, civic engagement and GESI responsiveness. Local government basic service delivery systems deliver effective, sustainable and inclusive services to all people, especially the most marginalized and remote. Civic engagement, social inclusion and external accountability mechanisms are internalized by local governments to ensure meaningful inclusive service benefits and performance accountability to people.

Source: Provincial and Local Governance Strengthening Programme – Programme Document (July 2024 - July 2029)

3. Status and Challenges of Surveyed Provincial and Local Governments

This chapter summarizes the results of the field survey conducted on the provincial governments of Madhesh Province, Karnali Province, and Sudurpashchim Province, as well as two local governments selected in each province.

3.1 Overview

3.1.1 Overview of Surveyed Provinces Governments

Karnali Province is located in western Nepal and is a province characterized by a mix of mountains and hills. It has the largest land area among the seven provinces, but with a population of 1.69 million in 2021, it is the least populous province among the seven (Table 8). The population density is 60 people per square kilometer, the lowest among the seven provinces, and less than one-third of Nepal's overall population density. The ethnic population distribution is 58% Chhetri (Kucheti) and Dalit, known as Bishwa Karma. The province has been a stronghold of the Maoist (Nepal Communist Party-Maoist) insurgency, which lasted for ten years from 1996, due to its poverty and the presence of socially and economically marginalized groups such as Dalits, ethnic minorities, women, and sex workers. Approximately 74% of the provincial population is engaged in agriculture, while only about 1% is involved in manufacturing.

Sudurpashchim is located in the westernmost part of Nepal, with a mix of hills and lowlands (Terai), and borders India. As of 2021, the population was 2.69 million, which is about twice the population density of Karnali Province to the east, but lower than the overall population density of Nepal. Ethnic demographics show that the Chhetri (Kucheti) and Tharu, an indigenous group from the Terai region, account for 57% of the provincial population. The province also faces deep-rooted discrimination and prejudice against Dalits, Kamaiya (former bonded laborers), and Badi. Like Karnali Province, the agricultural population ratio stands at 70%, significantly exceeding the national average for Nepal.

Madhesh Province is located in the southeastern part of Nepal and is a lowland province, with its southern border adjacent to India. As of 2021, the provincial population was 6.11 million, which is comparable to Bagmati Province including the capital Kathmandu, and has the highest population density in the country at 633 people per square kilometer. The ethnic population ratio is dominated by Yadav, who make up 15% of the provincial population, followed by the Muslim minority at 13%, with a high degree of ethnic and caste diversity. However, the overwhelming majority are Indian-origin Madhesh (including Yadav and Muslim), with only 6.7% of the population speaking Nepali as their first language.²² Many Madheshi communities raised voices for more inclusive governance, and demanded more regional autonomy. The status of women is relatively low, with customs such as *dowries* and child marriage still remaining. In terms of the population by industry, the agricultural population ratio is 54%, slightly lower than the national average of 57%, while the population engaged in manufacturing is approximately 5%, slightly higher than

²² The population composition of Madhesh is complex, ranging from high to low castes and diverse occupations, but a common characteristic is a strong tendency to have experienced discrimination despite being born in Nepal. For details, refer to the Japan-Nepal Association (2020), pp. 77-81.

the national average of 4%.

Table 8 Basic information on the provinces surveyed

Name of province	Area (km ²)	Population (people)	Population density (people/km ²)	Geographical features	Ethnic Population Ratio	Population ratio by industry
Koshi	25,905	4,961,492	192	Mountainous, hilly, and lowland (Tara) terrain mixed	Kshetri (15%) Brahman (12%) Rai (10%)	Agriculture (63%) Wholesale/retail and automobile maintenance (11%) Construction (7%) Manufacturing (4%)
Madhesh	9,661	6,114,600	633	Lowlands, along the Indian border	Yadab (15%) Musalman (13%) Terai (5%)	Agriculture (54%) Wholesale/retail and auto repair (16%) Construction (11%) Manufacturing (5%)
Bagmati	20,300	6,116,866	301	Hilly center, including Kathmandu	Tamang (20%) Brahmin (18%) Kshetri (15%)	Agriculture (42%) Wholesale, retail, and auto repair (16%) Construction (8%) Manufacturing (5%)
Gandaki	21,504	2,466,427	115	Mountainous region, including Pokhara	Brahmin (20%) Magar (19%) Kshetri (13%)	Agriculture (58%) Wholesale/retail and automotive repair (13%) Construction (7%) Manufacturing (3%)
Lumbini	22,288	5,122,078	230	Hills and lowlands	Magar (15%) Taru (14%) Kshetri (14%)	Agriculture (60%) Wholesale, retail, and automotive repair (12%) Construction (9%) Manufacturing (3%)
Karnali	27,984	1,688,412	60	Mountainous and hilly terrain	Kshetri (42%) Bishuokarma (16%) Takri (11%)	Agriculture (74%) Wholesale, retail, and auto repair (8%) Construction (5%) Manufacturing (1%)
Sudurpashchim	19,539	2,694,783	138	Hills and lowlands	Kshetri (42%) Tharu (15%) Brahman (13%)	Agriculture (70%) Wholesale/retail and automotive repair (9%) Construction (7%) Manufacturing (2%)
Nepal nationwide	147,181	29,164,658	198	Mountainous, hilly, and lowland areas	Kshetri (16%) Brahman (11%) Magar (7%)	Agriculture (57%) Wholesale, retail, and auto repair (13%) Construction (8%) Manufacturing (4%)

Source: 2021 Nepal Census website

3.1.2 Overview of Surveyed Local Governments

In this survey, six local governments were selected from each of the Madhesh, Karnali, and Sudurpashchim provinces. The following Table provides an overview of the surveyed municipalities.

Saptakoshi Municipality and Surunga Municipality in Saptari District in Madhesh Province are located in the lowlands of the province. As of 2021, their populations were approximately 24,000 and 49,000, respectively. The population density in Saptakoshi Municipality is 390 people per square kilometer, while in Surunga Municipality it is 462 people per square kilometer. Although both are lower than the province-wide population density of 633 people per square kilometer, they are more than twice the national average of 198 people per square kilometer. Additionally, Saptakoshi Municipality and Surunga Municipality have the highest proportions of Tharu people at 26% and 33%, respectively, but they are also characterized by relatively high proportions of Dalit people, such as Musahar and Chamars. By industry, the agricultural population ratio is highest in Saptakoshi and Surunga at 56% and 61%, respectively, while the manufacturing population remains at around 3%.

Kapurkot, located in Salyan District of Karnali Province, is a rural municipality with a population of approximately 18,000 people situated in a hilly area. With a population density of 147 people per square kilometer, it has the lowest population density among the six municipalities and rural municipalities surveyed. Bheriganga Municipality in Surkhet District is a municipality with a population of approximately 48,000 people located in a lowland area. The population density is 188 people per km², significantly higher than the provincial average of 60 people per km², but close to the national average of 198 people per km². In terms of ethnic composition, the three largest ethnic groups—Kshetri, Magar, and Bishuokarma account for 91% of the population in Kapurkot Rural Municipality and 81% in Bheriganga Municipality. When compared to the two municipalities in Madhesh Province, both exhibits relatively lower ethnic diversity. In terms of industrial population ratios, the agricultural population ratio stands at 81% in Kapurkot and 68% in Bheriganga, which is significantly higher than other municipalities in other provinces.

Janaki Rural Municipality, located in Kailali District, Sudurpashchim Province, is a low-lying municipality with a population of approximately 50,000. Although administratively classified as a rural municipality, it is more than twice the size of Kapurkot Rural Municipality in Karnali Province. Additionally, its population density of 465 people per square kilometer is the highest among the six local governments surveyed. Shuklaphanta Municipality in Kanchanpur District is also located in a lowland area, with a population of approximately 54,000 and a high population density of 332 people per square kilometer. In terms of ethnic composition, the combined proportion of Tharu, Kshetri, and Brahmin ethnic groups accounts for 81% of the population in Janaki and 73% in Shuklaphanta. In terms of ethnic diversity, these areas share characteristics similar to those of Karnali Province rather than Madhesh Province. By industry, the agricultural population constitutes 64% of the total population in Janaki Rural Municipality and 71% in Shuklaphanta Municipality, the highest proportions among the surveyed areas.

Table 9 Basic information on the municipalities and rural municipalities surveyed

Province	Name of local government	Area (km ²)	Population (people)	Population density (people/km ²)	Geographical features	Ethnic Population Ratio	Population ratio by industry
Madhesh	Saptakoshi Municipality	60	23,510	390	Lowlands	Taru (26%) Kshetri (12%) Musahar (10%)	Agriculture (56%) Wholesale, retail, and auto repair (13%) Construction (12%) Manufacturing (3%)
Madhesh	Surunga Municipality	107.	49,460	462	Lowlands	Taru (33%) Musahar (8%) Chamar (7%)	Agriculture (61%) Construction (12%) Wholesale, retail, and auto repair (12%) Manufacturing (3%)
Karnali	Kapurkot Rural Municipality	119.2	17,526	147	Hills	Kshetri (45%) Magar (34%) Bishuokarma (12%)	Agriculture (81%) Construction (5%) Wholesale, retail, and auto repair (5%) Manufacturing (1%)
Karnali	Bheriganga Municipality	256.2	48,203	188	Lowlands	Kshetri (42%) Bishuokarma (24%) Magar (13%)	Agriculture (68%) Wholesale, retail, and auto repair (10%) Construction (8%) Manufacturing (2%)
Sudurpashchim	Janaki Rural Municipality	107.3	49,860	465	Lowlands	Tharu (60%) Kshetri (11%) Brahmin (10%)	Agriculture (64%) Construction (12%) Wholesale, retail, and auto repair (10%) Manufacturing (4%)
Sudurpashchim	Shuklaphanta Municipality	162.6	53,969	332	Lowlands	Kshetri (40%) Brahmin (19%) Tharu (14%)	Agriculture (71%) Wholesale, retail, and auto repair (8%) Construction (7%) Manufacturing (2%)

Source: 2021 Nepal Census website

3.2 Structure of the Legislative and Administrative Bodies

The composition of the legislature and main administrative agencies of the provincial governments surveyed are shown in the table below. As discussed in Section 2.2, the personnel information system introduced by MoFAGA is not fully functional at the provincial level, making it difficult for MoFAGA to accurately grasp the human resources situation at the provincial and local levels. The PPSC of each surveyed province has confirmed that all recruitment requests from provincial ministries and agencies have been addressed. However, in Sudurpashchim Province, due to delays in the enactment of the Provincial Civil Service Act and Provincial Civil Service Regulations, recruitment activities have fallen behind, resulting in many unfilled positions, particularly technical ones, across ministries and agencies.²³

Table 10 Legislative and administrative structures of provincial governments surveyed

	Madhesh Province	Karnali Province	Sudurpashchim Province
Number of local governments* ¹	136	79	88
Number of elected representatives (female members in parentheses) * ²	107 (40)	40 (15)	53 (18)
Party composition * ²	<ul style="list-style-type: none"> - CPN (UML) 25 - Nepali Congress 22 - PSP 19 - Janamat Party 13 - LSP 9 - CPN (Maoist Center) 9 - CPN (Unified Socialist) 7 - NUP 1 - RPP 1 - NFS 1 	<ul style="list-style-type: none"> - Nepali Congress 14 - CPN (Maoist Center) 13 - CPN (UML) 10 - RPP 1 - CPN (Unified Socialist) 1 - Independent 1 	<ul style="list-style-type: none"> - Nepali Congress 18 - CPN (Maoist Center) 11 - CPN (UML) 11 - Civil Liveries Party 7 - CPN (Unified Socialist) 4 - NDP 1 - Independent 1
Number of bills passed (as of the end of 2023/24)* ²	6	57	50
Provincial ministries and major offices* ³	<ul style="list-style-type: none"> - Office of Chief Minister and Council of Ministers - Provincial Assembly Secretariat - Ministry of Finance - Ministry of Home Affairs, Communications, and Law - Ministry of Forest and Environment - Ministry of Physical Infrastructure Development - Ministry of Land 	<ul style="list-style-type: none"> - Office of Chief Minister and Council of Ministers - Provincial Assembly Secretariat - Ministry of Economic Affairs and Planning - Ministry of Internal Affairs and Law - Ministry of Social Development - Ministry of Water Resources and Energy 	<ul style="list-style-type: none"> - Office of Chief Minister and Council of Ministers - Provincial Assembly Secretariat - Ministry of Economic Affairs - Ministry of Physical Infrastructure Development - Ministry of Social Development - Ministry of Land Management, Agriculture,

²³ Interview with the Sudurpashchim PPSC

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Management, Agriculture, and Cooperatives	Development	and Cooperatives	
- Ministry of Health and Population	- Ministry of Physical Infrastructure and Urban Development	- Ministry of Internal Affairs and Law	
- Ministry of Energy, Irrigation, and Water Supply	- Ministry of Land Management, Agriculture, and Cooperatives	- Ministry of Industry, Tourism, Forest, and Environment	
- Ministry of Education and Culture	- Ministry of Industry, Tourism, Forest and Environment	- Province Policy and Planning Committee	
- Ministry of Industry, Commerce and Tourism	- Province Planning Commission	- Province Public Service Commission	
- Ministry of Labor and Transport	- Province Public Service Commission	- Province Comptroller of Accounts Office	
- Ministry of Sports and Social Welfare	- Provincial Financial Comptroller Office	- Sudurpashchim Province Research and Training Academy	
- Province Policy Planning Commission	- Education Development Directorate		
- Province Public Service Commission	- Karnali Province Training Academy		
- Provincial Financial Comptroller Office			
- Province Research and Training Center			
Number of recruits through PPSC ⁴	N.A.	241	276

(Abbreviations) CPN: Communist Party of Nepa; UML: Unified Marxist–Leninist; PSP: People’s Socialist Party, Nepal; LSP: Loktantrik Samajwadi Party, Nepal; NUP: Nagarik Unmukti Party; RPP: Rastriya Prajatantra Party; NFS: Nepal Federal Socialist Party; CLP: Civil Liberties Party; NDP: National Democratic Party

Source: *1 Periodic Plan of the respective provincial governments; *2 Office of the Auditor General (2025); *3 provincial governments’ websites; *4 PPSC of the respective provinces

Table 11 provides basic information about the local governments surveyed. With the exception of Saptakoshi Municipality, the surveyed local governments reported that the Provincial Public Service Commission (PPSC) had been able to recruit civil servants in response to their requests. Local governments request recruitment in accordance with their own organizational structure proposed in an Organization and Management (O&M) survey and approved by the Council of Ministers. However, the approved organizational structure no longer reflects current staffing needs in three of the six local governments, resulting in personnel shortages. Preparations are underway in these three local governments to propose a revised organisational structure. In addition, retaining personnel in rural areas is a nationwide challenge due to the large number of officials seeking assignments in urban areas. Of the six target local governments, three have confirmed a high rate of staff transfers to urban local governments. Two local governments reported acute shortages of personnel in specific positions, both of which are engineers.

Table 11 Legislative and administrative structures of local governments surveyed

Local Government	Saptakoshi	Surunga	Bheriganga	Kapurkot	Janaki	Shukla phanta	
Number of wards* ¹	11	11	13	7	9	12	
Number of elected representatives (female members in parentheses)* ¹	57 (25)	57 (25)	67 (28)	32 (12)	47 (21)	62 (25)	
Party composition* ¹	-CPN (United Socialist) 19 - Nepali Congress 15 - CPN (Maoist Center) 12 - JSP 11	- Nepali Congress 28 - CPN (UML) 23 - CPN (Maoist Center) 6	Nepali Congress 43 - CPN (UML) 21 - CPN (Maoist Center) 3	- CPN (UML) 10 - CPN (United Socialist) 7 - CPN (Maoist Center) 6 - Nepali Congress 5 - RPP 4	- CLP 32 - CPN (UML) 9 - Nepal Congress 6	- Nepali Congress 35 - CPN (UML) 13 - CPN (Maoist Center) 10 - CPN (United Socialist) 4	
Staffing* ²	Total	117	108	173	56	188	118
	On deputation	1	1	2	1	1	2
	Local civil servants	48	34	91	49	95	72
	Contractual	68	66	80	6	92	44
	Sufficiency	85%	83%	94%	87%	96%	78%
O&M survey	Approved	Under revision	Under revision	Under revision	Not approved	Recently approved	
Organizational structure* ³	<p>There are some differences depending on the local government, but the following sections are typically found in each local government:</p> <p>[administration and planning] Management, Finance, Revenue, Taxation, and Registration, Planning and Monitoring, Legal Affairs, Internal Audit, IT and Document Management</p> <p>[sectoral services] Social Development, Health, Education, Youth and Sports, Infrastructure Development, Agriculture and Livestock</p> <p>[branch offices] Ward Offices</p> <p>Some local governments have additional departments such as land survey and employment/business promotion.</p>						

(Abbreviations) CPN: Communist Party of Nepal; UML: Unified Marxist–Leninist; JSP: Janata Samajbadi Party, Nepal; RPP: Rastriya Prajatantra Party; CLP: Civil Liberties Party

Source : *¹ Results of the 2022 local elections (Election Commission Website); *² Responses from the local governments surveyed to the questionnaire; *³ Websites of the local governments surveyed

3.3 Development Status

This section summarizes the economic, social, and infrastructure development status of the three surveyed provinces. In general, the three surveyed provinces are lagging behind other provinces in terms of economic and social development because infrastructure development for economic and social development

is progressing at a slower pace.

3.3.1 Economic Development

(1) GDP, population, and per capita GDP by province

As shown in Table , the GDP of the three surveyed provinces ranks among the lowest in the country. In particular, Karnali and Sudurpashchim Provinces account for only 4% and 7% of the national GDP, respectively, indicating a small economic scale. Additionally, the per capita GDP of the three provinces under investigation is lower than the national average and that of other provinces. Among them, Madhesh Province ranks last, with its per capita GDP amounting to approximately 60% of the national average.

Table 12 Nominal GDP, population, and per capita GDP by province

	Name of province	GDP (million rupees)	Share of National Total	Population (million)	GDP per capita (rupees)	Comparison with national per capita GDP
1	Koshi	903,052	16	5.05	178,822	93
2	Madhesh	748,368	13	6.27	119,357	62
3	Bagmati	2,074,418	36	6.24	332,439	173
4	Gandaki	516,698	9	2.48	208,346	109
5	Lumbini	814,035	14	5.25	155,054	81
6	Karnali	243,993	4	1.71	142,686	74
7	Sudurpashchim	404,285	7	2.72	148,634	77
	National total	5,704,848	100	29.73	191,889	100

Source: National Bureau of Statistics (2024) Press Release: 2080/81 Fiscal Year Regional Gross Domestic Product (Estimates) by Province

(2) Economic growth rates by province

As shown in Table , the economic growth rates of the three surveyed provinces are lower than those of other provinces. In particular, the economic growth rates of Karnali Province and Sudurpashchim Province in the 2023/24 fiscal year were the lowest in the country, ranking first and second from the bottom, respectively. The economic growth rate of Madhesh Province is slightly higher than the other two surveyed provinces, but it remains below the national average. Examining the trend over the past five years, these three provinces have consistently shown stagnant economic growth.

Table 13 Rates of economic growth by province

	Provincial name	2018/19	2019/20	2020/21	2021	2022/23	2023/24
1	Koshi	7.23	0.03	5.05	5.60	2.13	3.51
2	Madhesh	8.00	-2.03	4.48	5.09	1.50	3.78
2	Bagmati	5.59	-5.69	5.08	6.24	1.77	3.96
3	Gandaki	6.93	-0.71	4.21	5.88	3.30	4.55
4	Lumbini	6.89	-0.84	4.72	5.18	1.99	4.05
5	Karnali	8.42	1.39	5.00	4.82	1.96	3.39
6	Sudurpashchim	6.73	2.00	4.78	4.68	1.52	3.41
	National average	6.66	-2.37	4.84	5.63	1.95	3.87

Source: National Bureau of Statistics (2024) Press Release: 2080/81 Fiscal Year Regional Gross Domestic Product (Estimates) by Province

(3) GDP share (economic structure) by province

As shown in Table 14, the economic structure of the three surveyed provinces is characterized by a higher proportion of primary industries compared to other provinces. This reflects the fact that the economies of these three Provinces are heavily dependent on primary industries.

Table 14 GDP shares by province

	Provincial name	Primary Industry	Secondary Industry	Tertiary Industry
1	Koshi	33.2	15.9	50.9
2	Madhesh	35.3	10.7	53.9
2	Bagmati	12.0	10.6	77.4
3	Gandaki	26.4	16.8	56.8
4	Lumbini	30.2	13.6	56.3
5	Karnali	29.7	9.5	60.8
6	Sudurpashchim	33.2	12.5	54.3
	National average	28.6	12.8	58.6

Source: National Bureau of Statistics (2024) Press Release: 2080/81 Fiscal Year Regional Gross Domestic Product (Estimates) by Province

(4) Poverty rate

As shown in Table 15, the poverty rate, poverty gap, and squared poverty gap²⁴ in the three surveyed provinces are higher than those in other provinces, except for Lumbini Province. This indicates that the proportion of the population living below the poverty line is higher in these three provinces, and the gap from the poverty line is significant, resulting in a higher proportion of people in more severe poverty.

Table 15 Poverty situation by province

	Name of province	Poverty Rate	Poverty Gap	Square Poverty Gap	Distribution of the Poor	Population distribution
1	Koshi	17.19	3.84	1.25	13.80	16.26
2	Madhesh	22.53	4.62	1.36	25.08	22.56
2	Bagmati	12.59	2.64	0.89	12.68	20.42
3	Gandaki	11.88	2.33	0.71	4.88	8.34
4	Lumbini	24.35	5.80	1.99	22.76	18.96
5	Karnali	26.69	6.25	2.16	6.74	5.12
6	Sudurpashchim	34.16	8.41	2.87	14.02	8.32
	National average	20.27	4.52	1.48	100.00	100.00

Source: National Bureau of Statistics (2024) National Living Standards Survey IV (2022-23) Summary, Table 11

(5) Unemployment rate

As shown in Table 16, the proportion of the non-labor force population in the three surveyed provinces

²⁴ (1) The poverty rate indicates the percentage of the total population whose income or expenditure is below the poverty line (i.e., the poor). (2) The poverty gap indicates the percentage by which the average income of people below the poverty line falls below the poverty line. The poverty gap rate represents the average "depth" of poverty. (3) The squared poverty gap rate indicates the square of the deviation rate from the poverty line. The higher the deviation rate/severity of poverty, the greater the numerical value, and it is used to indicate the extreme "severity" of poverty. . For more details, refer to the Japan International Cooperation Agency (2008) .

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is high²⁵. In particular, the unemployment rate in Karnali Province is approximately twice the national average, indicating a severe employment problem. Additionally, while the unemployment rate in Madhesh Province is the lowest in the country, this is due to a high non-labor force participation rate of 70.6% and a low labor force participation rate of 29.4%. This suggests that a significant number of people may have given up on participating in the labor market due to social customs or low educational levels.

Table 16 Employment situation by province (Ages 10 and above)

Name of province	Employed	Unemployed	Non-labor force population	Total	Labor force participation rate	Unemployment rate
	A	B	C	D(=A+B+C)	E(=D-C)	F(=B/E)
1 Koshi	28.5	3.9	67.6	100	32.4	12.0
2 Madhesh	27.8	1.6	70.6	100	29.4	5.4
2 Bagmati	37.3	3.9	58.8	100	41.2	9.4
3 Gandaki	30.1	6.6	63.3	100	36.7	17.9
4 Lumbini	24.5	6.1	69.3	100	30.7	20.0
5 Karnali	22.0	6.9	71.1	100	28.9	23.8
6 Sudurpashchim	21.0	3.0	76.0	100	24.0	12.5
National	28.7	4.1	67.1	100	32.9	12.6

Source: National Bureau of Statistics (2024) National Living Standards Survey IV (2022-23) Table 13.1

Table 17 shows the inflow and outflow of population by province. The three surveyed provinces have lower inflow populations compared to other provinces, and in these three provinces, outflow exceeds inflow, resulting in a net population decline overall. In Madhesh and Sudurpashchim Provinces, it is notable that men are migrating out while women are migrating in.

Table 17 Inflow and outflow of population by province

Name of province	Population (number) (Unit: Thousand)			Sex Ratio*	
	Inflow	Outflow	Difference	Inflow	Outflow
1 Koshi	40	10	-68	81.4	80.0
2 Madhesh	23	87	-64	64.5	123.9
2 Bagmati	463	187	276	97.2	84.9
3 Gandaki	55	103	-48	87.3	71.5
4 Lumbini	88	69	19	69.4	79.9
5 Karnali	15	58	-43	77.4	78.7
6 Sudurpashchim	17	36	-19	65.0	109.7
National average	701	648	53		

Note: The sex ratio refers to the ratio of males to females in the population, expressed as the number of males per 100 females.

Source: National Bureau of Statistics (2022) Population Census, Domestic Migration, Figure 4.4, Figure 5.4.

²⁵ (1) Employment refers to all persons of working age who engaged in activities for the production of goods or services during the survey period, whether for pay or profit. (2) Unemployment refers to all persons of working age who were not employed during the survey period and who were actively seeking work and available for work during a specific recent period. (3) The non-labor force population refers to persons of working age who are neither employed nor unemployed (e.g., students, pensioners, homemakers, and persons unable to work due to disability or health reasons). For more details, refer to the 19th International Conference of Labor Statisticians (ICLS) held in 2013.

3.3.2 Social Development

(1) Literacy rate

As shown in Table 18, the literacy rates in the three surveyed provinces are generally lower than the national average and remain at a low level. Additionally, the literacy rate for women is lower than that for men.

Table 18 Literacy rates by province

Name of province	Ages 5 and above			Age 15 and above		
	Male	Female	Total	Male	Female	Total
1 Koshi	87.1	70.4	78.2	84.6	64.9	73.9
2 Madhesh	77.9	59.9	68.3	73.1	50.3	60.6
2 Bagmati	89.4	76.8	83.0	87.8	73.2	80.2
3 Gandaki	91.3	76.6	83.4	89.3	72.0	79.6
4 Lumbini	87.4	74.2	80.1	84.1	68.7	75.3
5 Karnali	86.6	68.9	76.6	82.0	61.3	69.7
6 Sudurpashchim	85.1	65.0	73.5	81.5	57.0	66.7
Nationwide	85.8	70.1	77.4	82.9	64.1	72.5

Source: National Bureau of Statistics (2024) National Living Standards Survey IV (2022-23) Table 6.1

(2) Enrollment rate

Tables 19 and 20 show the gross and net enrollment rates by province, respectively. Among the three surveyed provinces, Madhesh Province in particular has low gross and net enrollment rates at all levels of education (primary, secondary, and higher) compared to the national average and other provinces. In particular, the higher education enrollment rate in Madhesh Province is significantly lower than that of other provinces.

Table 19 Gross enrollment rates by province

Name of province	Basic level			Secondary level			Tertiary level		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
1 Koshi	119.3	120.2	119.7	89.7	96.7	93.2	18.0	25.4	22.0
2 Madhesh	112.7	116.4	114.4	65.5	65.2	65.4	8.9	8.0	8.4
2 Bagmati	120.6	117.0	118.9	96.8	124.8	110.1	46.9	45.1	46.0
3 Gandaki	116.2	113.8	115.1	99.4	117.4	107.2	21.8	32.0	27.3
4 Lumbini	119.3	121.2	120.2	94.4	91.4	92.9	19.2	18.5	18.8
5 Karnali	122.1	118.1	120.2	77.3	111.0	94.9	23.0	15.3	18.1
6 Sudurpashchim	124.8	130.6	127.6	74.1	90.8	83.1	26.8	23.6	24.7
National	118.2	119.3	118.7	84.9	94.1	89.6	24.4	24.0	24.2

Source: National Bureau of Statistics (2024) National Living Standards Survey IV (2022-23) Table 6.10

Table 20 Net enrollment rate by province

Name of province	Basic level			Secondary level			Tertiary level		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
1 Koshi	95.9	96.8	96.3	51.4	54.4	52.9	12.3	19.0	16.0
2 Madhesh	92.0	91.4	91.7	27.0	36.1	31.8	6.5	5.2	5.8

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2	Bagmati	98.4	99.0	98.7	56.9	64.3	60.4	30.6	31.5	31.1
3	Gandaki	98.7	100.0	99.3	59.1	65.1	61.7	12.5	24.0	18.7
4	Lumbini	98.1	96.7	97.4	44.8	42.8	43.8	15.2	11.8	13.4
5	Karnali	98.1	97.2	97.7	47.9	60.8	54.6	16.3	11.3	13.1
6	Sudurpashchim	97.7	99.4	98.6	44.7	48.5	46.8	18.0	15.7	16.5
	National average	96.2	96.2	96.2	45.5	49.7	47.6	16.7	16.8	16.7

Source: National Bureau of Statistics (2024) National Living Standards Survey IV (2022-23) Table 6.11

(3) Infant mortality rate and maternal mortality rate

Tables 21 and 22 show the infant and maternal mortality rates by province, respectively. In the three surveyed provinces, various infant mortality rates are generally higher than the national average.

Table 21 Infant mortality rates by province

Name of province	Neonatal mortality rate	Post-neonatal mortality rate	Infant mortality rate	Child mortality rate	Under-five mortality rate
1 Koshi	20	8	28	6	34
2 Madhesh	27	11	38	5	43
2 Bagmati	18	3	21	3	24
3 Gandaki	8	10	19	5	23
4 Lumbini	24	10	34	8	41
5 Karnali	26	11	36	10	46
6 Sudurpashchim	27	13	40	9	49
Nationwide	24	11	35	7	42

Source: Ministry of Health and Population (2022) Demographic and Health Survey, Table 8.3

Among the three surveyed provinces, Madhesh Province has the second-highest maternal mortality rate, after Lumbini Province. The maternal mortality rates in Karnali and Sudurpashchim Provinces are slightly lower than the national average.

Table 22 Maternal mortality rates by province

Name of province	Pregnancy		Delivery		Postpartum		Total	Total	
	N	%	N	%	N	%		N	%
1 Koshi	30	30.3	12	12.1	57	57.6	100.0	99	16.2
2 Madhesh	37	27.6	6	4.5	91	67.9	100.0	134	21.9
2 Bagmati	24	35.8	1	1.5	42	62.7	100.0	67	11.0
3 Gandaki	13	30.2	1	2.3	29	67.4	100.0	43	7.0
4 Lumbini	50	32.5	6	3.9	98	63.6	100.0	154	25.2
5 Karnali	20	37.0	7	13.0	27	50.0	100.0	54	8.8
6 Sudurpashchim	25	41.7	3	5.0	32	53.3	100.0	60	9.8
Total	199		36	5.9	376	61.5	700.0	611	14.3
Average	28		5		54			87	

Source: Statistics Bureau (2021) National Population and Housing Census 2021, A Report on Maternal Mortality, Table 4

3.3.3 Infrastructure Development

(1) Drinking water

Table 23 shows the primary sources of drinking water by province. In Madhesh Province, unlike the other two provinces, approximately 80% of residents use water from wells as their primary source of drinking

water. In contrast, in Karnali Province, nearly 60% of residents have access to piped water within their premises, and over 20% have access to piped water outside their premises.

Table 23 Percentage of main drinking water sources by province

Name of province	Piped Water (Within Compound)	Piped Water (Outside Compound)	Hand Pump/ Tubewell	Other
1 Koshi	47.5	8.2	36.6	7.7
2 Madhesh	5.5	2.1	88.4	4.0
2 Bagmati	55.9	10.0	4.1	30
3 Gandaki	49	26.9	2.3	21.8
4 Lumbini	44.2	9.0	38.1	8.7
5 Karnali	57.9	22.8	0.2	19.1
6 Sudurpashchim	30.9	23.1	38.4	7.6
National average	40.2	11.4	34.2	14.2

Source: National Bureau of Statistics (2024) National Living Standards Survey IV (2022-23) Table 4.7

(2) Access to electricity, telecommunications, waste disposal, and sanitation facilities

Table 24 shows the percentage of households with access to public infrastructure by province. Among the three surveyed provinces, Madhesh Province exceeds the national average in terms of access to electricity, but falls below the national average in terms of access to other public infrastructure. In particular, it ranks lowest in the country in terms of access to public toilets. In Karnali and Sudurpashchim Provinces, access to public toilets exceeds the national average; however, access to other facilities falls below the national average. In particular, Karnali Province has the lowest access to electricity, and Sudurpashchim Province has the lowest access to garbage disposal sites.

Table 24 Percentage of households with access to public infrastructure by province

Name of province	Electricity	Telephone	Internet	Cable TV	Garbage disposal	Public toilet
1 Koshi	94.5	0.7	39.	35.1	20.6	95.5
2 Madhesh	98.5	0.6	28.4	14.4	10.5	84.9
2 Bagmati	98.1	5.8	59.8	36.5	60.2	98.7
3 Gandaki	98.3	2.0	50.3	31.0	35.4	99.2
4 Lumbini	95.9	0.4	36.9	29.4	28.5	93.5
5 Karnali	58.0	0.6	14.0	12.5	9.5	94.7
6 Sudurpashchim	85.0	1.3	19.7	24.2	6.3	96.0
National	94.0	2.0	39.7	28.0	28.9	94.2

Source: National Bureau of Statistics (2024) National Living Standards Survey IV (2022-23) Table 4.8

(3) Access to public facilities

In Madhesh Province, the access time for all public facilities listed in Table 25 is shorter than the national average, whereas Karnali Province and Sudurpashchim Province have longer access times. For example, in Karnali Province, the average time required to access paved roads is 130 minutes, significantly exceeding the national average of 30 minutes. This is likely due to Madhesh Province being flatter than the other two Provinces.

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Table 25 Average access time to public facilities (Unit: Minutes)

Unit: Minutes

	1	2	3	4	5	6	7	
	Koshi	Madhesh	Bagmati	Gandaki	Lumbini	Karnali	Sudurpashc him	Entire country
Early Childhood Development Center	14.9	5.8	8.0	10.0	9.6	15.0	10.9	9.9
Basic School	19.5	9.7	11.0	15.3	12.6	26.7	17.4	14.2
Secondary school	41.0	15.3	19.1	27.5	21.9	58.4	31.1	26.4
Campus/ College	71.3	29.9	37.1	54.0	47.4	122.4	76.4	52.8
Basic Health Centre/ Urban Health	28.2	21.0	19.5	42.2	31.2	58.2	30.8	29.6
Health post	38.4	13.1	24.4	30.1	28.7	62.0	37.5	29.1
Primary health centre	61.6	21.9	38.4	68.7	45.6	152.1	107.5	55.3
Government Hospital	76.6	37.1	57.0	83.3	63.7	169.3	106.3	70.2
Community Hospital	70.9	36.5	53.0	90.1	72.5	164.9	125.0	68.6
Private clinic	30.8	19.3	18.5	42.8	18.5	59.5	27.2	25.9
Private hospital	64.4	31.1	44.8	57.6	57.5	183.8	103.3	60.5
Paved road	42.6	6.4	22.1	27.4	22.8	130.3	68.5	32.5
Unpaved road	12.9	2.6	3.8	12.6	12.6	18.1	13.6	9.0
Market Center	30.6	14.1	42.5	25.8	23.0	65.2	41.1	25.6
Core market	45.1	23.6	27.5	41.5	31.1	54.7	46.4	34.7
Agriculture / Animal Service Center	38.0	22.0	28.7	34.8	27.3	69.9	38.1	32.2
Cooperative	31.5	12.8	15.9	21.4	20.0	58.5	48.7	24.1
Bank/ Financial Institution	44.	18.0	25.3	35.3	27.1	83.5	69.0	35.0
Source of drinking water in rainy season	6.5	2.6	6.1	5.3	9.6	11.6	6.3	6.5
Source of drinking water in dry season	8.1	2.6	6.2	6.7	12.9	13.2	15.8	8.4
Police station	35.4	15.3	26.7	35.1	26.6	60.9	47.6	30.3
Ward Office	29.7	11.5	20.8	31.5	21.1	39.8	27.9	23.2
Community library	46.6	28.8	41.8	74.2	70.8	32.6	25.3	51.4

Source: National Bureau of Statistics (2024) National Living Standards Survey IV (2022-23) Table 5.24

3.4 Development Planning and Budgeting

3.4.1 Status of Provincial Governments

(1) Status of formulation of periodic plans, MTEFs, and annual plans/budgets, and their alignment

Provincial governments have the responsibility to formulate plans on matters related to their jurisdictions under the Constitution. The Intergovernmental Fiscal Arrangement Act 2017 requires the three levels of government to prepare the annual budget and a Medium-Term Expenditure Framework (MTEF) each year, which is a rolling plan that forecasts revenues and expenditures for the next three years. The MTEF is prepared annually in line with the periodic plan, and the annual plan and budget is prepared in a manner

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aligned with the MTEF, with the expectation that the implementation of the annual plan and budget will promote the achievement of medium-term objectives.²⁶

Each provincial government surveyed has developed its own planning guidelines based on the model guidelines issued by the National Planning Commission (NPC) in 2018. The Madhesh provincial government issued its guidelines in 2020, Karnali in 2018, and Sudurpashchim in 2021 (revised in 2023). They are formulating their periodic plans, MTEFs, and annual plans and budgets in accordance with these guidelines.

As of June 2025, all provincial governments except for Sudurpashchim have developed their second periodic plans. Table 26 shows the status of the target provincial governments' periodic planning and MTEF formulation.

Table 26 Status of periodic plan and MTEF preparation of provincial governments surveyed

Provincial government	First Periodic Plan	Second Periodic Plan	MTEF
Madhesh	2019/20–2023/24	2024/25–2028/29	2018/19 onwards
Karnali	2019/20–2023/24	2024/25–2028/29	2018/19 onwards
Sudurpashchim	2021/22–2025/26	To be prepared	2018/19 onwards

For reference, the contents of the most recent plans of the Madhesh Provincial Government are outlined below.

Table 27 Contents of the Madhesh Province Periodic Plan, MTEF, and Annual Plan/Budget

Second Periodic Plan	MTEF (FY2025/26)	Annual Plan and Budget (FY2025/26)
<p>Chapter 1 Introduction Legal basis for plan formulation; development context; review of the First Periodic Plan; progress toward the SDGs; plan formulation process, etc.</p> <p>Chapter 2 Vision, Goals, and Strategies Long-term vision; development goals; sector-specific objectives; challenges and opportunities; structural reform strategies; quantitative targets, etc.</p> <p>Chapter 3 Macroeconomic Framework Analysis of economic growth; sectoral contributions to GDP; consumption and savings; productivity; investment needs; financing sources; macroeconomic indicators and target values.</p> <p>Chapter 4 Public Finance and Investment Revenue and expenditure analysis; fiscal outlook; revenue enhancement strategies;</p>	<p>Chapter 1 Introduction Legal basis of the MTEF; objectives; institutional framework for MTEF formulation; formulation process; roles of relevant institutions.</p> <p>Chapter 2 MTEF and the Macroeconomic Framework Provincial macroeconomic and fiscal situation; development opportunities and constraints; challenges; vision and goals; targets aligned with the Periodic Plan; medium-term macroeconomic projections; performance indicators; revenue forecasts; expenditure outlook; sector-wise and ministry/agency-wise expenditure projections.</p> <p>Chapter 3 Resource Allocation Framework Prioritization criteria; allocation by pillars of the Periodic Plan and SDG goals;</p>	<ul style="list-style-type: none"> Detailed budget by institution, including: actual expenditures from two years prior, estimated actuals from the previous fiscal year, the current fiscal year budget, and a breakdown by funding source. Overview of social security allocations, including: the current fiscal year budget and its breakdown by source of funds. Budget for domestic debt repayment Program-wise budget list (issued as a separate document under the Annual Development

²⁶ National Planning Commission (2021)

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Second Periodic Plan	MTEF (FY2025/26)	Annual Plan and Budget (FY2025/26)
<p>expenditure management; public investment management; public-private partnerships; borrowing; foreign assistance; policies for improving the investment climate.</p> <p>Chapters 5–8 Sectoral Strategies Policies for each sub-sector.</p> <p>Chapter 9 Cross-Cutting Sector Strategies Policies on the following areas: security and law enforcement; governance; labor and employment; disaster risk management; human resource development; social inclusion; poverty reduction; civil society; intergovernmental and inter-agency coordination.</p> <p>Chapter 10 Implementation, Monitoring, and Evaluation Strategies for strengthening plan formulation and implementation; monitoring and evaluation framework; roles of relevant institutions.</p> <p>Annexes</p> <ul style="list-style-type: none"> • Results Framework • Monitoring and Evaluation Framework 	<p>allocations for gender equality and climate change.</p> <p>Chapters 4–7 Medium-Term Frameworks by Ministries and Agencies For each ministry/agency: challenges, goals, strategies, outcomes, priorities, indicators, medium-term expenditure outlook, budget estimates, and resource allocation.</p> <p>Annexes</p> <ul style="list-style-type: none"> • Breakdown of revenues in the past three years • Criteria for project prioritization • SDG framework • Gender-responsive project/program evaluation criteria and budget coding system • Climate-responsive project/program evaluation criteria and budget coding system 	<p>Program)</p>

A World Bank report points out that the periodic plan tends to overestimate capital expenditures, while the MTEF and annual budget estimates are comparatively smaller, and the MTEF often projects higher expenditures for subsequent fiscal years than for the first fiscal year.²⁷ When comparing the periodic plans of the two provinces that developed their second periodic plans along with the MTEFs and the annual budgets for the corresponding years (using the budget for FY2024/25 and the draft budget for FY2025/26), this trend is observed with regard to Karnali Province (Figure 3).

The provincial governments surveyed acknowledge the lack of alignment among the three planning instruments, particularly between the periodic plan and the MTEF, and the annual budget. Contributing factors include: frequent changes in government within a short period, insufficient preliminary studies for

²⁷ World Bank (2024b), The Asian Foundation (2021)

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project formulation, and shifts in priorities due to external factors such as disasters (Madhesh); a discrepancy between the assumptions of the periodic plan and available resources, and limited attention given to the periodic plan and MTEF during the annual budgeting process (Karnali); and political influence over the formulation of the annual plan and budget, and a lack of manpower in the Provincial Planning Commission (PPC) (Sudurpashchim). In an interview with the media, the replacement of the Chief Minister and subsequent changes to the PPC members were also identified as reasons for the misalignment.²⁸

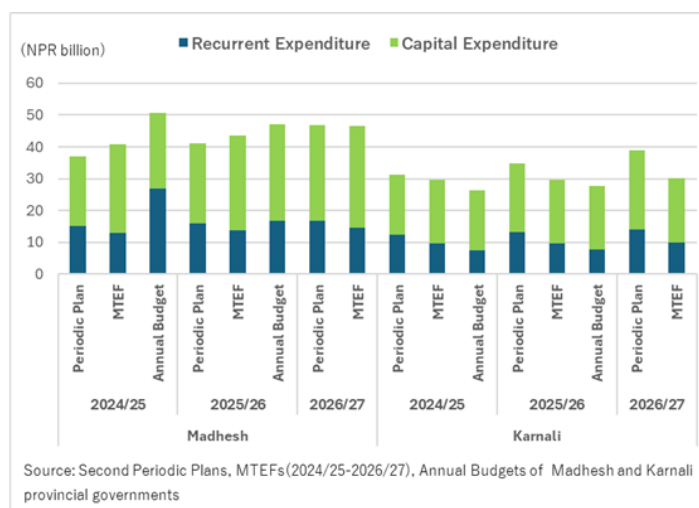


Figure 3 Comparison of provincial governments: Periodic Plans, MTEFs and annual budgets

(2) Intergovernmental coordination

There are no formal mechanisms for coordination with the federal government in the preparation of the periodic plan, the MTEF and the annual plan and budget. Although the interviews and questionnaire survey did not reveal any major coordination challenges, some of the problems identified by the provincial governments surveyed are related to intergovernmental relations. First, some officials mention challenges in ensuring the consistency of their plans with national plans, as required by the planning guidelines. Second, provincial governments find it difficult to make proper revenue projections, especially when preparing periodic plans and MTEFs, because a significant portion of their revenue depends on federal grants, revenue sharing, and donor assistance secured by the federal government, the amounts of which are not very predictable. The figures for the three years from FY 2021/22 show that the gap between budgeted and actual amounts for grants in FY 2022/23 and FY 2023/24 has increased, confirming that it is becoming more difficult to make projections even in the annual budget formulation process.

Table 28 Budget and disbursements of grants to provincial governments surveyed

Province	(NPR million)								
	2021/22			2022/23			2023/24		
	Budget	Actual	Percent of budget	Budget	Actual	Percent of budget	Budget	Actual	Percent of budget
Madhesh	13,903	15,101	109%	19,151	13,729	72%	13,454	11,620	86%
Karnali	15,556	16,825	108%	18,306	13,529	74%	16,274	10,964	67%
Sudurpashchim	14,580	15,635	107%	17,558	11,774	67%	14,422	9,650	67%

Source: Ministry of Finance (2021)(2022)(2023), FCGO (2023)(2024)(2025)

²⁸ Interviews with media representatives in Karnali Province

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However, in Madhesh Province, where the Prime Minister has extended the "federalism campaign" slogan promoted in the provincial periodic plan to the entire country, there has been increased policy-level dialogue between the Provincial Policy and Planning Commission (PPPC) and NPC, and the federal government is reportedly considering increasing special and additional grants to the provincial government.²⁹

Coordination between the provincial and local governments is increasing. The Madhesh provincial government collects the needs of local governments through stakeholder consultation mechanisms, as described in (5) below, and informal meetings during the formulation of periodic plans and annual plans and budgets. The Karnali provincial government has sectoral committees for the formulation of both plans, which meet with local governments. In Sudurpashchim Province, in addition to dialogue with local governments through the Provincial Development Council, the Provincial Planning Commission and sector ministry officials explain the provincial MTEF to each local government. However, due to the local governments' lack of interest and failure to comply with guidance, all three provincial governments have some difficulty coordinating with them.

(3) Effectiveness of project selection and prioritization

All provincial governments have established criteria for project selection and prioritization in their planning guidelines. These are general criteria that are in line with the project evaluation criteria of the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD), but the principles of inclusiveness and equity are explicitly stipulated. Criteria such as geographical inclusiveness or regional balance (Karnali, Sudurpashchim) and stakeholder participation (Sudurpashchim) are also included. The guidelines of Madhesh and Sudurpashchim provinces indicate the number of points allotted for each evaluation criterion, but none of them specify how the criteria are evaluated.

The current survey found that none of the provincial governments surveyed base their decisions on project selection and prioritization criteria, and political influence in the formulation of the annual budget is significant in all of them. Other challenges identified by provincial officials include political influence in setting budget ceilings for each ministry and lack of administrative capacity in setting priorities.

(4) Data availability and utilization

All governments surveyed face the challenge of evidence-based planning due to insufficient data. This significantly affects the planning process, particularly in steps such as analyzing the current socioeconomic situation, reviewing implementation performance during the previous plan period, setting objectives, identifying resources, projecting revenue, and determining budget size.

All provinces require data, particularly on socio-economic conditions and resources, as well as disaggregated data. Although provincial governments collect some data, they rely mainly on secondary data, and the lack of reliable data sources is also an issue. These issues have made it difficult for the provincial

²⁹ Interviews with the PPPC in Madhesh Province. Special grants are provided for the provision of basic services, equitable development between regions, and support for marginalized groups, while supplementary grants are allocated for infrastructure development (Intergovernmental Fiscal Arrangement Act 2017).

governments to conduct comprehensive analyses (e.g., by social group or region), set realistic goals and targets based on the results of such analyses, select appropriate indicators, and set realistic budget levels. The Karnali provincial government recognizes the lack of data management capacity as another challenge and plans to establish a data center.³⁰ It has also entered into a partnership agreement to receive consultancy services related to policy formulation and policy research from the Policy Research Institute established in 2024 at Mid-West University, located in the provincial capital.

(5) Mechanisms for public participation and inclusion and current state of participation

The planning guidelines of each of the provincial governments surveyed provide for various mechanisms for public participation. The table below lists the main mechanisms for participation specified in the guidelines and the actual methods used to ensure participation. There is no direct participation of the general public in the planning process, and the main methods used are: consultations with representatives of various groups during the formulation of periodic plans and annual plans and budgets, and soliciting opinions through public notices. In Sudurpashchim province, only indirect methods were used.

Table 29 Mechanisms and status of participation in planning in the provinces surveyed

Provincial government	Mechanisms under the Planning Guidelines	Actual methods used for ensuring participation
Madhesh	<p>Periodic Plan - Appointment of representatives from local governments, civil society, and the private sector to the planning committee; Ensuring the participation of women and marginalized groups in the committee and thematic subcommittees; Holding public hearings and meetings at the provincial, district, and local levels.</p> <p>MTEF - Workshops, public hearings, and other activities.</p> <p>Annual Plan & Budget - Public hearings and consultations with stakeholders at the provincial and local levels.</p>	<p>Periodic Plan - Consultations with stakeholders in different counties. 79–120 people per session participated.</p> <p>MTEF - No consultations with citizens.</p> <p>Annual Plan & Budget - Public notice soliciting opinions from citizens; Meetings with NGOs and CSOs.</p>
Karnali	<p>Periodic Plan - Consultations with stakeholders at the draft stage.</p> <p>MTEF - Not mentioned</p> <p>Annual Plan & Budget - Not mentioned</p>	<p>Periodic Plan - Consultations with stakeholders.</p> <p>MTEF - None</p> <p>Annual Plan & Budget - Consultations with stakeholders.</p>
Sudurpashchim	<p>Periodic Plan - Not specified</p> <p>MTEF - Stakeholder participation is mandatory. No details about the method are provided.</p> <p>Annual Plan & Budget - Workshops with local governments and stakeholders in each district.</p>	<p>Periodic Plan - Public notice soliciting opinions from citizens; Appointment of women and representatives of marginalized groups to the Provincial Development Council.</p> <p>MTEF - Appointment of women and representatives of marginalized groups to</p>

³⁰ Interview with the Ministry of Economic Planning of Karnali Province.

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Provincial government	Mechanisms under the Planning Guidelines	Actual methods used for ensuring participation
		the Provincial Development Council. Annual Plan & Budget -None

Source: Provincial planning guidelines and questionnaire responses from each government

The issues that the provincial governments have pointed out include low levels of public participation and the dominance of certain elites in the participation process.

The principle of ensuring inclusiveness is explicitly stated in the planning guidelines of all three provincial governments. Inclusiveness is supposed to be ensured through the above-mentioned participation mechanisms as well as through program and project selection criteria. In particular, the planning guidelines of Madhesh Province emphasize the participation and inclusion of women, Dalits, indigenous peoples, persons with disabilities, and residents of backward areas in the formulation and implementation of periodic plans. The Madhesh government has also implemented measures such as incorporating recommendations from GESI audits into annual plans and budgets, and holding meetings with representatives of marginalized groups.

(6) Mechanisms and status of private sector engagement

Private sector involvement in provincial government planning is primarily through invitations to stakeholder consultations, as shown in Table 29 above. In Sudurpashchim province, holding of such meetings was not confirmed, but consultations have been held with the Federation of Nepalese Chambers of Commerce and Industry (FNCCI) during the formulation of the periodic plan. In Karnali Province, the FNCCI made several suggestions to the provincial government for the formulation of the plan.³¹

(7) Gender-Responsive Budgeting (GRB) system and implementation status

The Ministry of Finance issued the GRB Model Guidelines for Provincial and Local Levels in 2020, calling for the integration of GRB into the planning and budgeting cycles of provincial and local governments by establishing necessary systems for the planning process, incorporating a gender perspective at each step of the planning process and at each stage of plan implementation, monitoring and evaluation, and public disclosure of implementation results. To ensure consistency between budgets and gender equality goals, budget codes are assigned to activities during the budget formulation phase based on their direct, indirect or neutral impact on gender equality. The Ministry of Finance at the federal level can verify the gender budget allocation of provincial and local governments through the budget management system.³²

According to the questionnaire responses, there were differences in the implementation of GRB among the three provinces, as shown in the table below. However, all of the provincial governments surveyed consider that GRB is hardly practiced.

³¹ Interview with the representative of the FNCCI in Karnali Province.

³² National Administrative Staff College (2022)

Table 30 Implementation status of GRB

Provincial government	Gender-specific targets and indicators	Monitoring based on gender-specific indicators	Budget coding and financial reporting based on it
Madhesh	Not set	-	Applied to some extent for annual plans/budgets only
Karnali	No set	-	Not applied
Sudurpashchim	Set for gender equality objectives only	Done to some extent	Applied

Source: Questionnaire responses

(8) Capacity-building support

All provincial governments received support from PRTAs (see 3.8) under the PLGSP. Training and support for stakeholder consultations were provided for the preparation of periodic plans and MTEFs. For annual plan and budget preparation, training was provided. Specific donor support includes technical assistance from the Asian Foundation (funded by the Australian Government) for the Madhesh Provincial Government to prepare periodic plans and MTEFs, and technical assistance from International IDEA (funded by the UK Government) for the Karnali Provincial Government to prepare periodic plans.

Two of the three governments have completed their second periodic plan preparation process, and the MTEF has been formulated annually since FY 2018/19. The annual plan and budget have been prepared since FY 2017/18. However, all three governments feel that training on the overall formulation process for all three plans is still insufficient. Provincial governments still need capacity building to: review the implementation of the previous plan; ensure consistency with national plans; set quantitative targets and indicators; identify resources and forecast revenues; define strategies; develop sector programs and results frameworks; identify projects; conduct feasibility studies; and prioritize projects.

3.4.2 Status of Local Governments

(1) Status of formulation of periodic plans, MTEFs, and annual plans/budgets, and their alignment

The Local Government Operation Act (LGOA) 2017 stipulates that local governments may develop and implement "periodic, annual, strategic and thematic mid-term and long-term development plans." The formulation of annual budgets and MTEFs is mandated for all levels of government under the Intergovernmental Fiscal Arrangement Act 2017, but local governments were granted a three-year grace period for MTEF formulation.

The NPC issued the Local Level Planning Guidelines (hereinafter referred to as "NPC Planning Guidelines") in 2018, which provides the legal basis, objectives, and detailed formulation processes for periodic plans, MTEFs, annual plans and budgets, and project banks. Local governments are allowed to establish their own guidelines and regulations while ensuring consistency with the NPC Planning Guidelines, and some local governments have issued their own guidelines.

As of 2023, 161 local governments had prepared periodic plans. The status of periodic plan and MTEF preparation for the local governments surveyed is shown in the table below. All six local governments

formulate the annual plan and budget every year.

Table 31 Status of preparation of Periodic Plans and MTEFs in local governments surveyed

Local Government	Periodic Plan	MTEF
Surunga Municipality	2024/25-2026/27	Not prepared*
Saptakoshi Municipality	Not prepared (Municipal profile was prepared)	Not prepared
Bheriganga Municipality	Not prepared (Municipal profile was prepared)	2024/25 only
Kapurkot Rural Municipality	2022/23-2027/28	2022/23 only
Janaki Rural Municipality	2022/23–2026/27	2022/23 only
Shuklaphanta Municipality	2023/24–2027/28	2023/24–

*According to the mayor, a plan was developed once but not implemented.

There are various reasons for not preparing periodic plans and MTEFs. One local government that has not prepared a periodic plan cites insufficient funds as the reason, while another local government believed that the municipal profile prepared with development partner support was the periodic plan itself, despite it being only part of the plan. Even among local governments that have developed their periodic plans, there is a case where a consultant drafted the plan in consultation with the mayor/chairperson and ward chairpersons, with officials having little involvement in the formulation process. Two of the local governments surveyed have not prepared MTEFs due to insufficient financial resources, expertise, and sense of responsibility. Even the four local governments that have prepared MTEFs have not updated them since their initial formulation. Except for Saptakoshi Municipality, which has 14 staff members in its Planning Section, all of the local governments surveyed has only one to three staff members. However, none of them cited staff shortages in the Planning Section as a reason for not preparing a periodic plan or an MTEF. The main factors for not updating MTEFs are usually the ineffective utilisation of the initial MTEF, a lower sense of responsibility regarding the preparation of MTEFs compared to the annual budget, and a shortage of time and technical staff to update them annually alongside the preparation of the annual budget.

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All the local governments that have prepared periodic plans and/or MTEFs claim that they formulated them in accordance with the NPC Planning Guidelines. Only Surunga Municipality has developed its own guidelines based on the NPC guidelines.

The table below outlining the contents of the three plans formulated by Kapurkot Rural Municipality for reference.

Table 32 Contents of the Kapurkot Rural Municipality Periodic Plan, MTEF, and Annual Plan/Budget

Periodic Plan	MTEF (FY2022/23-2025/26)	Annual Plan and Budget (FY2025/26)
Chapter 1 Introduction	Chapter 1 Introduction	1. Annual Policies and Programs
Purpose of the Periodic Plan; legal and policy foundations; linkages with federal and provincial	Purpose of the MTEF; legal and policy foundations; formulation process, etc.	Policies for the fiscal year and

³³ Local Consultant for the first phase of the PLGSP

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Periodic Plan	MTEF (FY2022/23-2025/26)	Annual Plan and Budget (FY2025/26)
<p>government plans; scope of the plan; constraints related to plan formulation and implementation.</p> <p>Chapter 2 Current Situation of Kapurkot Rural Municipality</p> <p>Geographical, natural, and social characteristics; demographic profile; food self-sufficiency status; housing, education, and basic infrastructure conditions; status of administrative service delivery; status of citizen participation.</p> <p>Chapter 3 Five-Year Plan</p> <p>Long-term vision; overarching goals; sector-specific objectives; integrated strategies; quantitative targets; fiscal situation (funding sources and revenue performance); revenue projections; estimated implementation budget.</p> <p>Chapters 4–7 Sectoral Strategies</p> <p>For each sub-sector: current situation, challenges, opportunities, vision, objectives, and list of programs.</p> <p>Chapter 8: Governance, Policy, and Organizational Development</p> <p>Current situation, challenges, vision, objectives, and programs in the following areas: citizen participation in plan formulation and implementation; policy and legislative development; capacity development; strengthening of regulatory and oversight bodies; security and conflict resolution; transparency and internal control systems.</p> <p>Chapter 9 Monitoring and Evaluation of Plan Implementation</p> <p>Monitoring framework and allocation of responsibilities.</p> <p>Chapter 10: Results Framework</p> <p>Indicators and target values for each sub-sector.</p> <p>Annexes</p> <ul style="list-style-type: none"> Sector-wise program lists (including number of beneficiaries—women, Dalits, total; prioritization; and alignment with the targets of the Provincial Periodic Plan) 	<p>Chapter 2 Medium-Term Expenditure Framework</p> <p>Long-term vision; overarching goals; sector-specific objectives; strategies for achieving the goals; priority areas; medium-term economic framework (economic indicators and target values); medium-term results framework (development indicators and target values); three-year revenue projections; three-year expenditure outlook.</p> <p>Chapters 3–6 Sectoral Strategies</p> <p>For each sub-sector: current situation; long-term vision; objectives; strategies; performance indicators and target values.</p> <p>Chapter 7 Organizational Development and Governance Strategy</p> <p>Long-term vision, objectives, and expected outcomes (without indicators).</p> <p>Chapter 8 Sectoral Expenditures</p> <p>Annual budget projections by sub-sector, program, and project, categorized by priority, strategic areas, SDGs, gender equality codes, and climate change codes.</p>	<p>programs by sub-sector.</p> <p>2. Annual Budget and Project Plan</p> <p>Previous year’s actual expenditures; current year’s budget overview; priorities; revenue enhancement policies.</p> <p>3. Budget Allocation Statement</p> <p>Actual revenues and expenditures from two years prior, estimated actuals from the previous year, and the current year’s budget.</p> <p>4. Program / Project / Activity-wise Budget Allocation</p> <p>5. Sector-wise Budget Allocation</p> <p>6. Ward-wise Budget Allocation</p> <p>7. Budget Allocation for Activities of Non-Governmental Organizations</p> <p>8. Fiscal Act</p> <p>Types and rates of taxes and fees.</p> <p>9. Staff List</p> <p>10. School List</p> <p>11. Tole Lane Organization (TLO) List</p> <p>12. Message on the Prevention of Child Marriage</p>

The three plans were somewhat aligned for the year in which both the periodic plan and the MTEF were formulated. The three local governments that have both a periodic plan and an MTEF prepared them in parallel to ensure consistency between the two. However, they state that this alignment cannot be continuously ensured because the priorities of the local government and the public needs, which are assessed annually in the annual planning and budgeting process, change, creating gaps between these priorities and the priorities specified in the periodic plan and the MTEF, which are not updated.

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Comparing expenditure projections and the size of annual budgets for Kapurkot Rural Municipality, where the periodic plan and the MTEF were formulated in the same year and annual budgets for the three years covered by the MTEF are available, it was observed that the size of annual budget plans tends to be smaller than the projections in the MTEF (Figure 4).

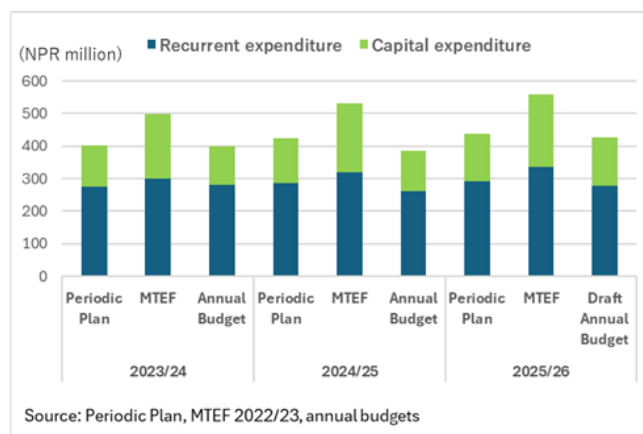


Figure 4 Comparison of local governments: Periodic Plan, MTEF, and annual budgets

None of the four governments that prepared MTEFs have updated them, and some local governments no longer refer to them.

(2) Intergovernmental coordination

The NPC Planning Guidelines require local governments to ensure alignment between their periodic plans and the Sustainable Development Goals (SDGs) as well as national and provincial government policies and plans. To ensure alignment and the quality of plans, MoFAGA is supposed to establish a Local Periodic Plan Recommendation Committee within the ministry. The committee's responsibilities include facilitating and coordinating the formulation of local government periodic plans, developing the capacity of relevant stakeholders, and providing feedback during the formulation. As per the NPC guidelines, local governments are required to obtain feedback from the committee before finalizing their draft periodic plans. Collecting feedback from the PPSC is also expected.

Neither the federal nor provincial governments have been able to ensure the quality of local governments' periodic plans.³⁴ In the periodic plan formulation process of the four local governments that developed their periodic plans, there was no coordination with the federal and provincial governments, and no feedback was obtained on the drafts.

The NPC guidelines do not require intergovernmental coordination for MTEF preparation, and no federal or provincial government involvement was confirmed in the preparation process of target local governments. During the annual budget planning process, the federal and provincial governments distribute budget ceilings and fiscal transfer guidelines to local governments, but they are not otherwise involved. Although the four local governments noted delays in receiving ceiling notifications, these delays did not have a

³⁴ Interview with a member of the NPC

significant impact on the subsequent process.

While provincial governments expressed concern about the unpredictability of federal grants, revenue sharing and donor support, local governments surveyed did not specifically highlight the impact of this issue on their revenue projections. The disbursement of federal government grants to local governments has largely been as planned over the three-year period from FY 2021/22 to FY 2023/24, reaching an average of 94% of the budget.

Table 33 Budget and disbursements of federal grants to local governments surveyed

(NPR million)

Local Government	2021/22			2022/23			2023/24		
	Budget	Actual	Percent of budget	Budget	Actual	Percent of budget	Budget	Actual	Percent of budget
Saptakoshi	252	245	97%	271	243	90%	252	191	76%
Surunga	389	393	101%	431	407	94%	413	368	89%
Bheriganga	443	490	111%	473	461	97%	471	428	91%
Kapurkot	286	250	88%	299	289	97%	278	244	88%
Shukulaphanta	374	389	104%	403	411	102%	403	371	92%
Janaki	417	392	94%	432	401	93%	365	331	91%

Source: Ministry of Finance (2021)(2022)(2023), FCGO (2023)(2024)(2025)

However, some of the local governments pointed out delays in the disbursement of grants from the federal and provincial governments, which are negatively affecting their financial management. In Bheriganga Municipality and Kapurkot Rural Municipality in Karnali province and Surunga Municipality in Madhesh province, delays in grant disbursements have led to the accumulation of unpaid bills, carry-overs to the next fiscal year, and delays in project implementation. These problems are reportedly common challenges faced by local governments.

(3) Effectiveness of project selection and prioritization

The NPC Planning Guidelines instruct that the prioritization of programs and projects be carried out during the formulation of the MTEF and the annual plan and budget. In the MTEF formulation process, sectoral departments assess and roughly prioritize programs and projects based on established criteria, draft the initial MTEF, and discuss it in sectoral committees. The annual plan and budget formulation process involves more

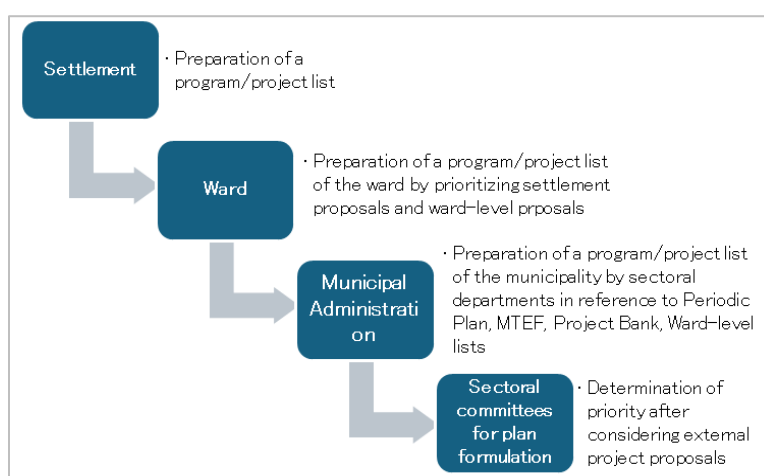


Figure 5 Project prioritization process in annual plan and budget preparation

detailed prioritization, as it directly affects budget allocation (Figure 5).

The criteria and methods for prioritization outlined in the NPC guidelines are applied to both the formulation of the MTEF and the annual plan and budget. The criteria are either common to all projects or sector-specific. The former includes 1) contribution to achieving the economic growth targets set in the periodic plan, 2) contribution to addressing regional priority issues or development of sectors with comparative advantages, 3) contribution to achieving the SDGs, 4) stakeholder engagement, 5) contribution to inclusiveness, and 6) readiness for project implementation. Scoring criteria are also provided.

Political interference in the selection and prioritization of projects is often pointed out. Even the federal government recognizes that poor reflection of citizens' needs in planning due to politicians' pursuit of their own interests is a challenge in local planning. It is also the case with the local governments surveyed, all of which cite this as their greatest challenge. It is reported that even if citizens are involved in the preparation of project lists at the settlement level, the priority is determined at the ward level based on the intentions of the ward chairperson. Similarly, the mayor/chairperson has a significant influence on project prioritization. Despite the selection criteria and evaluation methods specified in the NPC guidelines, all local governments surveyed reported the absence of project selection criteria, suggesting that such criteria have not been applied. In addition, several local governments pointed to a lack of procedural rules as well as a lack of prioritization skills.

(4) Data availability and utilization

Similar to provincial governments, local governments also face significant challenges in planning due to insufficient data. Four out of the six local governments consider data shortages a serious issue. The remaining two governments reported that they had not encountered many difficulties. Particularly needed are data for resource identification and revenue forecasting (all six local governments), disaggregated data on the situation of marginalized groups (four governments), data on service conditions such as the number of facilities and condition of roads (four governments), and socioeconomic data (three governments). All local governments also collect some demographic and service coverage data themselves.

The local governments surveyed acknowledge that the lack of data have made it difficult to properly forecast revenues, identify needs, set priorities, and establish targets and indicators. This poses a significant challenge to developing evidence-based, inclusive plans and effectively monitoring their progress. The local governments surveyed also highlighted other issues related to data such as insufficient skills and systems for managing and utilising data, and a lack of interest among politicians in evidence-based planning.

(5) Mechanisms for public participation and inclusion and current state of participation

The NPC guidelines consider participatory and inclusive processes fundamental to the formulation of periodic plans and annual budgets. For MTEF preparation, participation is not explicitly required. The mechanisms for ensuring public participation and inclusion in the planning process outlined in the guidelines are summarized in the table below.

Table 34 Mechanisms for ensuring public participation and inclusion as outlined in the NPC Planning Guidelines

Mechanism	Details/Purpose
Periodic plan formulation	
Participation of representatives in the planning bodies	<ul style="list-style-type: none"> • Appointment of one female representative from NGOs, the private sector, or experts to the planning supervisory committee • Appointment of representatives of women and marginalized groups³⁵, civil society, NGOs, and cooperatives as members of sectoral committees
Orientation and preparatory workshops	<ul style="list-style-type: none"> • Explanation of the planning process with the participation of the above groups
Participatory data collection and situation analysis	<ul style="list-style-type: none"> • Data collection adopting participatory tools
Consultation on goal and strategy setting	<ul style="list-style-type: none"> • Goal and strategy setting through discussions with the above groups
Community-level meetings	<ul style="list-style-type: none"> • Collection of residents' needs and proposals
Public discussion meeting in the city/village to share drafts	<ul style="list-style-type: none"> • Feedback collection from representatives of the above groups and experts
Annual plan and budget formulation	
Settlement-level meetings	<ul style="list-style-type: none"> • Collection of needs and proposals through meetings with residents, community organizations, and representatives of marginalized groups

Source: NPC Local Level Planning Guidelines

In addition, the NPC guidelines require local governments to consider gender equality and inclusion in the selection and prioritization of proposals from settlements at the ward level, in the review of draft ward plans by sectoral committees, and in the preparation of draft plans and budgets.

The local governments surveyed organize programs to consult with residents at the ward and settlement levels as well as the municipal level for needs collection and project identification. These programs involve settlement organizations (Tole Lane Organizations: TLOs)³⁶, which are community organizations established at the settlement level. As part of the annual planning and budgeting process, a mechanism for incorporating the voices of residents has been established. Project and program proposals discussed with residents at the settlement level are presented to the ward committee, which consists of the ward chairperson and ward committee members. All local governments surveyed report that they have conducted settlement level programs involving residents, TLO representatives, CSOs, and NGOs. Participation ranged from 15 to 20 people in smaller settlements to 30 to 50 people in larger settlements.

Despite these programs, the officials of some local governments noted the low level of awareness and participation of residents in planning. It was also reported that only citizens close to the mayor/chairperson were involved in planning.³⁷

³⁵ Dalits, indigenous communities (Janajati), religious minorities, persons with disabilities, and others

³⁶ Not all settlements have TLO in place.

³⁷ Interviews with representatives of the private sector and TLOs in Bheliganga Municipality

When asked about the measures to ensure inclusiveness, all the local governments surveyed responded that they hold meetings at the settlement or ward level to gather needs from marginalized groups. In the case of Surunga Municipality and Kapurkot Rural Municipality, the results of GESI audits were reportedly reflected in the plans. However, a question about meaningful participation of women and marginalized groups was raised in multiple local governments where they are unable to participate in decision-making at the ward and municipal levels. Factors cited in interviews and surveys include entrenched social norms, the power of leaders and political parties in decision-making at the municipal and ward levels, and the lack of capacity of women, marginalized groups, and their representatives to communicate their needs.

(6) Mechanisms and status of private sector engagement

The NPC guidelines envisage the private sector participation in local-level planning through the general stakeholder participation mechanisms, as mentioned in Table 29 above. The local governments surveyed reportedly invite private sector representatives to meetings at the settlement and ward levels. In all the six local governments, the FNCCI represents the private sector. However, the FNCCI representatives interviewed in two municipalities stated that their engagement with local governments was limited to serving as members of their Revenue Advisory Committee³⁸, and they were not involved in planning.

(7) Gender Budgeting (GRB) system and implementation status

The NPC Planning Guidelines specify the following steps for GRB: 1) collection and analysis of gender-disaggregated data in situation analysis, 2) analysis of program design and program selection to ensure that gender aspects are taken into account and identified gender issues are addressed, 3) assess budget allocations to address gender issues, 4) appropriate classification of allocated budgets and output monitoring, and 5) verification of outcomes.

As mentioned above, the Ministry of Finance's "GRB Model Guidelines for Provincial and Local Levels" require the inclusion of a gender perspective at each stage of the planning process and the coding of activity budgets according to their impact on gender equality. As the PLGSP plans to support the dissemination and internalization of the guidelines in the new phase, it is assumed that the implementation of the GRB is not yet advanced at this stage.

The local governments surveyed have also not fully implemented GRB. Only two of the six local governments have implemented some form of coding and submitted financial reports accordingly. The others have not implemented coding, but they are taking some measures to incorporate gender perspectives into plans and budgets, such as referencing GESI policies when formulating plans and budgets, providing descriptions of the impact of programs and projects on gender equality in plan documents, and reviewing the impact and effectiveness of GESI-related programs. However, mainly because it is not a priority for leaders and partly due to the lack of gender-disaggregated data, there has been little progress in GRB.

(8) Capacity-building support

The local governments surveyed have received some capacity building support in planning from PLGSP.

³⁸ Provides advice on analysis, policy formulation, and tax rate setting regarding local government revenue.

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In terms of annual budget preparation, five local governments have participated in PLGSP training. Two local governments received orientation and training on periodic planning and MTEF preparation from PCGGs under PLGSP support. None of them received capacity building support from development partners, but two local governments received some support in the form of hiring consultants and technical advice for periodic plan formulation.

There is high demand for capacity building among officials. All of the local governments surveyed agreed that capacity building is necessary for formulating periodic plans and MTEFs. Three local governments expressed a need for skills development in project prioritization for annual plan and budget preparation. The local governments face technical challenges in various steps and areas of planning, particularly in revenue forecasting, vision and goal setting, ensuring alignment with national plans, and developing sector programs and result frameworks. It was also suggested that training should be provided not only to officials but also to elected representatives.

3.4.3 Challenges for Provincial and Local Governments

The status of planning and budgeting of the provincial and local government surveyed revealed the following common challenges.

- **Ensure linkages between periodic plan, MTEF and annual budget.** Even when the periodic plan is formulated, the annual plan and budget are not prepared on the basis of it. The main reason for this is that MTEFs have failed to link these plans. MTEFs are developed only because their formulation is mandatory, and they are not used. This is due to the poor quality of the MTEFs resulting from the lack of formulation capacity and necessary data, as well as insufficient institutionalization of their use. In the case of local governments, periodic plans and MTEFs are not prepared or updated due to shortage of human and budgetary resources, as well as a lack of will to formulate, which makes it impossible to prepare the annual plan and budget based on a long-term perspective.
- **Evidence-based planning.** In all provincial and local governments surveyed, lack of data, especially disaggregated data, insufficient adherence to criteria for budget allocation and program/project selection, and political influence hinder the formulation of effective plans. Strengthening the evidence base and transparency of processes is critical, as is building the capacity of officials to make it happen.
- **Improving revenue projection.** All provincial and local governments surveyed have identified realistic revenue forecasting as a challenge in planning. It is necessary to identify resources and organize revenue data through the development of the Revenue Improvement Action Plans, which have been facilitated by PLGSP and development partners. It is also necessary to link these plans to revenue improvement, particularly at the local level.
- **Reflecting citizens' needs and improving inclusiveness.** Both provincial and local governments have implemented some of the measures outlined in the guidelines for gathering residents' needs, but it is questionable whether this has resulted in meaningful participation. In particular, the participation of women and marginalized groups in planning appears to be nominal. In addition, political influence hinders transparency and equity in the selection and prioritization of programs and projects.

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Addressing this issue will also require efforts to raise awareness among citizens.

- **Improving the capacity of officials and legislators to formulate and use plans.** Both the provincial and local governments surveyed strongly recognize the need to strengthen the capacity of officials and legislators in formulating all three types of plans. Even provincial governments that have gone through the periodic planning process twice and MTEFs several times feel that their capacity is weak at each step. In addition, local governments in particular may not even fully understand how to make use of MTEFs.
- **Collaboration with the private sector.** There are doubts about whether provincial and local governments are effectively involving the private sector in the planning process. To address the funding gap issue, which provincial and local governments consistently raise, it is necessary to build substantial relationships with the private sector as a collaborative partner rather than a consultative partner.

3.5 Fiscal Management

3.5.1 Institutional Framework and Overall Challenges of Fiscal Management under the Federal System

(1) Institutional framework

As seen in Section 2.1, Nepal, under its new constitution, has devolved many of the roles and powers of the central government, vested prior to the transition to federalism, to provincial and local governments in order to promote their autonomy.³⁹ This devolution of authority includes the transfer of roles and powers such as fiscal management, development planning, and the provision of public services in various sectors to provincial and local governments. Regarding the devolution of fiscal authority, Nepal is currently advancing the establishment of laws and regulations governing fiscal management under the federal system's three-tier government structure and is in the process of establishing new fiscal management systems and procedures for the three tiers of government (see table below).

Table 35 Laws and regulations on fiscal management of the three-tier governments

Year	Name of Law	Summary
2017	Local Government Operations Act	The roles and responsibilities of local governments, including functional roles, planning and budgeting processes, national treasury management, revenue management, intergovernmental fiscal transfers, borrowing, and the role of the District Coordination Committee.
2017	Intergovernmental Financial Management Act	Revenue sharing and intergovernmental fiscal transfers. The transfer ratio is specified for each type of fiscal transfer. Examples include fiscal transfers from the federal government to provincial and local governments, and fiscal transfers from provincial governments to local governments (horizontal and vertical).
2017	National Natural	Defines the roles and responsibilities of the commission. Includes provisions on

³⁹ The powers granted to each level of government under the new constitution are classified into three categories: exclusive, concurrent, and residual powers. Provincial governments have 21 exclusive powers (see Table 6), while local governments have 22 exclusive powers (see Table 8). For further details, refer to Section 3.1.2 of the report by JICA and IC Net (2021).

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	Resource and Finance Commission Act	organization and personnel, equalization fiscal allocation, grants (conditional, special, supplementary), borrowing, revenue sharing, natural resource management, and more.
2019	Financial Procedure and Fiscal Accountability Act	A law modernizing the fiscal system and establishing fiscal responsibility based on the new constitution. It regulates the operation of the Federal Consolidated Fund, revenue and expenditure forecasts, budget execution management, accounting and auditing, public asset management, and public debt recovery.
2020	Audit Act	A law establishing the legal basis for the Audit Office to audit all organizations of the three-tier government. The Audit Office submits audit reports to the President.
2020	Inter-Governmental Coordination Act)	This law establishes the management of relationships among the three branches of government. It stipulates that the powers prescribed by the Constitution shall be exercised in accordance with the principles of cooperation, coexistence, and coordination.
2021	Financial Procedure and Fiscal Accountability Rules	Regulations that provide further details on the provisions of the Financial Procedure and Fiscal Accountability Act (2019). The accounting formats specified in these regulations will be used by all three levels of government.
2025	Public Debt Management Act	A law aimed at strengthening the legal and institutional framework for public debt management and ensuring sustainable fiscal operations. It establishes principles for debt management, types and maturities of debt, debt issuance procedures, monitoring, and reporting.

Source: JICA and IC Net (2021), with additions based on Tables 2-4.

The revenue of Nepal's provincial and local governments is primarily composed of the following three categories: 1) Grants, 2) Revenue Sharing, and 3) Tax Revenue and Non-Tax Revenue. The following provides an overview of each category.

Grants

Grants transferred through intergovernmental fiscal transfers constitute the largest and most important revenue category for provincial and local governments. The National Natural Resources and Finance Commission (NNRFC), established under the new constitution, makes recommendations on the allocation of grants to provincial and local governments. Grants are categorized into the following four types.⁴⁰

- **Equalization grants:** These are the only grants distributed to provincial and local governments without specific designated uses. Equalization grants are distributed in a manner that totals the sum of the base grant (25%), the grant determined by a formula (73.1%), and the performance-based grant (1.9%). Each local government is required to receive at least 6.5 million rupees.
- **Conditional grants:** These grants are distributed to reimburse provincial and local governments for expenses incurred in implementing federal government programs. Conditional grants are earmarked for specific activities under a program and include salaries of personnel assigned by sectoral ministries to provincial and local governments.
- **Complementary grants:** These are grants distributed for infrastructure development projects that are prioritized at the national level, with costs shared between the federal government and provincial and local governments. The National Planning Commission reviews applications from provincial and local governments and distributes the grants accordingly.

⁴⁰ For details on the contents of each grant, please refer to World Bank (2023), Annex 4 for further explanation.

- **Special grants:** Grants allocated to improve the delivery of basic services such as healthcare, education, and water supply, targeting specific regional or sectoral projects. These grants are managed by the National Planning Commission.

Revenue Sharing

The Intergovernmental Fiscal Management Act (2017) grants specific tax collection rights to each level of government and stipulates that tax revenues collected are shared among the three levels of government. For example, value-added tax and consumption tax collected by the federal government are distributed as follows: 70% to the federal government, 15% to provincial governments, and 15% to local governments. Additionally, vehicle taxes are collected by provincial governments, while entertainment taxes and advertising taxes are collected by local governments, with revenues distributed between provincial and local governments according to the ratios specified in the Act. Regarding non-tax revenues, royalties collected by the federal government from the use of natural resources are distributed with 50% going to the federal government and the remaining 50% shared between provincial and local governments.

Tax revenues and non-tax revenues (Tax and non-tax revenues)

Revenue and non-tax revenue derived from taxes for which provincial and local governments have been granted taxing authority, excluding revenue sharing. These constitute discretionary revenue sources that provincial and local governments can use at their discretion to provide infrastructure and administrative services tailored to the needs of their respective regions.

Borrowing

Article 251 of the new Constitution stipulates that the federal, provincial and local governments may engage in domestic borrowing (internal loans) in accordance with the law. Furthermore, Article 14(1) of the Intergovernmental Fiscal Management Act (2017) stipulates that domestic borrowing may be conducted up to a certain limit recommended by the National Natural Resources and Finance Committee (NNRFC), and that provincial and local governments must obtain the approval of the federal government when engaging in domestic borrowing. According to the recommendations of the NNRFC for the 2025/26 fiscal year, the limit on domestic borrowing by the federal government is set at 5 percent of GDP, and for provincial and local governments, the limit is set at 12 percent of total revenue, including grants.⁴¹ In both cases, domestic borrowing is limited to national priority projects aimed at capital formation or high-yield development projects. Furthermore, Article 14(2) of the Intergovernmental Fiscal Management Act (2017) stipulates that the federal and provincial governments may borrow through bond issuance in accordance with the law, but there appears to be no precedent of provincial governments issuing bonds to date.

One of the borrowing methods available to provincial and local governments is the Town Development Fund (TDF). TDF is an independent organization established under the Town Development Fund Act (1997) and operates as a financial intermediary for raising funds and providing loans for urban infrastructure development. The fund's sources of funding include capital contributions and loans from the government, as well as loans from donors. At present, loan recipients are metropolitan and sub-metropolitan cities, and provincial governments and municipalities as well as rural municipalities are not eligible for investment. The federal government is working to revise the Urban Development Fund Act to include provincial

⁴¹ National Natural Resources and Fiscal Commission (2025).

governments and all municipalities as eligible recipients.⁴²

(2) Overall challenges of fiscal management after the transition to federalism

Since the transition to federalism under the new constitution, Nepal has been developing an institutional framework for fiscal management of the three tiers of government, as described above. This institutional framework has introduced an accounting and auditing system that conforms to international standards. Progress has also been made in the development of financial management information systems in the three tiers of government and the implementation of internal and external audits⁴³. While such progress is commendable, the following challenges have been noted.

Issues on fiscal balance, fiscal transfers, and financial resources

- **Deterioration of fiscal balance in provincial and local governments.** In FY2022/23, provincial and local government revenues came to hit a plateau due to slow economic growth and other factors, while expenditures ballooned, resulting in a fiscal deficit (see Table 34). This is the first time since FY 2018/19 that fiscal statistics for the three tiers of government have been published (see 3.5.2(1) and 3.5.3(1) below for background reasons for this).
- **Dependence of provincial and local governments on grants,** with grants accounting for about 49% of all provincial government revenues and 74% of all local government revenues in FY2022/23, with much of the funding coming from grants (see Table 35).
- **Reduction and delays in grant transfers.** Although provincial and local governments rely heavily on intergovernmental grants as a major source of financing, several issues have been identified, including reductions in grant transfer amounts and delays in disbursement during the fiscal year. These problems stem partly from the low accuracy of revenue forecasts at the federal level, which results in repeated mid-year cuts to grant allocations. Institutionally, the rules and priorities governing the calculation of transfer amounts are not sufficiently standardized or publicly disclosed, leading to a lack of transparency. From a systems perspective, the grant transfer process is not automated and relies heavily on manual procedures, contributing to delays and errors in disbursements. Furthermore, because information on transfers and execution status is not shared in real time, necessary adjustments to plans are often delayed.
- **Limited fiscal autonomy and increased "spending autonomy".** Equalization grants, which are not specified for use, account for a low level of total grants. For example, in the 2025/26 budget instruction, equalization grants account for 37% of the total grants distributed to provincial and local governments and only 28% for local governments (see Table 36). In addition, the share of equalization grants in total grants has been declining. This limits the budget that provincial and local governments can allocate expenditures at their own discretion in line with the needs of their respective regions. In particular, the challenge is to increase "expenditure autonomy" by allocating more generous allocations of equalization grants in order to ensure that even poor rural local government residents can receive

⁴² The Urban Development Fund invests in both profit-generating projects and non-profit-generating projects (such as roads). In the case of profit-generating projects, the project review focuses on the profitability and feasibility of the individual project. In contrast, the review of non-profit-generating projects emphasizes the repayment capacity of the local government borrowing the funds, the extent of its own revenue sources, and its fiscal balance.

⁴³ This section summarizes the issues identified by the World Bank (2023, 2024) and PEFA Secretariat (2024).

adequate government services.

Fiscal Management Challenges

- **Low Budget Execution Rate.** ⁴⁴The deviation between budgeted and actual total expenditures (budget execution rate) for the Government of Nepal as a whole will remain very low at 84.1%, 70.5%, and 80.8% over the three-year period beginning in FY 2018/19. The budget execution rate for provincial government was about 66% in FY2022/23, down from 71% in FY2021/22. ⁴⁵In addition, the budget execution rate for local government remains around 75% in both fiscal years. The execution rate for capital expenditures is particularly low. The following reasons have been identified: 1) inefficient resource allocation due to the lack of linkage between the mid-term plan, mid-term expenditure framework (MTEF), and annual budget; 2) delays and unpredictability in grant allocation and revenue sharing, which adversely affect budget formulation and execution; 3) the existence of local governments with underdeveloped procurement plans; and 4) the lack of a project 4) Weak mechanisms for project selection, implementation monitoring, evaluation, and management of public investment need to be strengthened.
- **Strengthening Revenue Management.** ⁴⁶The gap between budgeted and actual total revenue of the Government of Nepal (revenue execution rate) has been 85%, 70%, and 91% in the three years since the 2018/19 fiscal year, indicating significant room for improvement in revenue management. In addition, tax and non-tax revenues of provincial and local governments in FY 2022/23 will be only 11% and 10% of total revenues, respectively (see Table 37). The government needs to increase its own sources of revenue from tax and non-tax revenues to increase its fiscal independence.

Public Financial Management Reform Strategy

The Ministry of Finance published the Public Financial Management Reform Strategy III 2025–2030 in 2025, announcing its intention to continue advancing the PFM reforms initiated in the 1990s⁴⁷. This strategy is the first PFM reform strategy formulated after Nepal's transition to federalism in 2015, and it is designed with all three tiers of government in view. The strategy's vision is "Trusted Public Financial Management," and it identifies the following seven Strategic Pillars as priority areas: 1) budget credibility, 2) budget execution and reporting, 3) revenue management, 4) intergovernmental fiscal management, 5) debt and fiscal risk management, 6) asset management, and 7) external oversight, transparency, and accountability. In addition, the strategy highlights three cross-cutting priority areas that underpin all seven pillars: 1) capacity development, 2) information technology, and 3) gender- and climate-responsive public financial management. In the following, the reform activities with regard to local governments in Strategic Pillars 1, 2, 3, 4 and 7 are summarized.

Under Strategic Pillar 1 (budget credibility), the government plans to introduce the modules of National Project Bank Management Information System (NPBMIS) for provincial and local governments, and integrate these modules with MTEF, LMBIS and SuTRA of the provincial and local governments (Strategic Objective 1.4). In addition, the government plans to undertake activities to strengthen integrated

⁴⁴ See PEFA Secretariat (2024), pp. 18-19.

⁴⁵ World Bank (2024b), p. 12.

⁴⁶ PEFA Secretariat (2024), p. 23.

⁴⁷ Ministry of Finance (2025b), pp. 12-15.

implementation of periodic plan, Project Bank, MTEF and annual budget plan, although these activities do not refer to local governments (Strategic Objective 1.3).

Under Strategic Pillar 2 (budget execution and reporting), the government plans to update SuTRA of all local governments and integrate them in Treasury Single Account (TSA), and improve quality of the analysis in quarterly financial reports of the government (Strategic Objective 2.6).

Under Strategic Pillar 3 (revenue management), the government plans to expand tax base and improve efficiency of tax administration in all levels of governments (Strategic Objective 3.1), strengthen taxpayer-centered approach in which the tax process is streamlined and accessibility to tax information is improved (Strategic Objective 3.3).

Under Strategic Pillar 4 (Intergovernmental Fiscal Management), the government plans to introduce an IT-based Inter-Governmental Fiscal Transfer System (IGFTS) to enhance the predictability and equity of fiscal transfers (Strategic Objectives 4.1 and 4.2)⁴⁸. The system aims to increase transparency in the rules governing fiscal transfers to provincial and local governments and to fully automate the transfer process, eliminating errors caused by manual procedures and ensuring the timely disbursement of funds.

Under Strategic Pillar 7 (external audit, transparency and accountability), all levels of governments including local governments plan to implement the following activities to enhance citizen engagement in Strategic Objective 7.1: 1) formulating and implementing citizen engagement roadmap; 2) expanding pre-budget consultation and establishing participatory budget forums; 3) establishing and strengthening open budget portals for user-friendly provision of budget and expenditure information of government; 4) developing digital tools to promote citizen engagement in budget process; 5) exploring innovative methods for citizen engagement in project selection of public projects; 6) disseminating information of project implementation and budget execution regularly; 7) implementing public expenditure tracking system, 8) enhancing the use of various social monitoring tools such as public hearings, social audit, and citizen procurement monitoring practices; and 9) expanding citizen's participatory audit.

3.5.2 Status of Provincial Government Status

(1) Financial situations

Since the transition to federalism, the Federal Financial Accountant General's Office (FCGO) of the Ministry of Finance has published consolidated financial statements encompassing the three tiers of government beginning in fiscal year 2019/20. Based on these documents, the table below summarizes the secular trend of the overall fiscal balance of the provincial government over the past five years.

This shows that in FY2022/23, the provincial government as a whole posted a budget deficit for the first time since the transition to federalism. In particular, since FY2020/21, when the Corona disaster began, expenditures have increased significantly while revenues have stagnated, resulting in an overall situation in which expenditures exceeded revenues. ⁴⁹This was due to a decrease in federal tax revenues as a result of the slowdown in economic growth caused by the Corona disaster, as well as import restrictions imposed by

⁴⁸ Ministry of Finance (2025b), pp. 41-44.

⁴⁹ World Bank (2024b), p. 7.

the government in FY2022/23.

Table 36 Trend of provincial government fiscal balance

Unit: Millon Rupees

	Fiscal Year				
	2018/19	2019/20	2020/21	2021/22	2022/23
Revenue					
Tax and non-tax revenue	20,151	70,452	18,413	26,683	21,708
Revenue sharing	48,571	0	67,182	77,461	70,302
Fiscal transfer from federal government	110,467	107,409	110,348	110,989	93,599
Financing receipts	0	0	271	44	111
Others	4,735	0	65,651	4,339	4,189
Total revenue	183,924	177,861	261,865	219,516	189,909
Expenditure					
Recurrent	51,094	66,736	75,377	77,409	79,898
Capital	60,943	89,316	112,122	108,653	124,181
Financing	0	0	1,400	1,417	600
Total expenditure	112,037	156,051	188,899	187,480	204,679
Fiscal balance (Revenue - Expenditure)	71,887	21,810	72,966	32,036	(14,770)

Source: FCGO's Consolidated Financial Statement, various fiscal years.

Next, a comparison of the financial condition of federal, provincial, and local governments in the most recent FY2022-23 consolidated financial statements allows us to consider the following points (Table 35).

- Provincial government spending as a percentage of total government spending remains very low at 10%. The federal government accounts for 68% of all government spending.
- A breakdown of provincial government expenditures shows that capital and recurrent expenditures account for 61% and 39% of total expenditures, respectively, indicating a high proportion of capital expenditures. This contrasts with the high proportion of recurrent expenditures of the federal and provincial governments at 70% and 63%, respectively.
- Revenue sharing and fiscal transfers from federal government account for 37% and 49% of provincial government revenue, respectively, while tax and non-tax revenues remain at a low level of 11%.

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Table 37 Financial positions of three-tier governments FY2022/23

Unit: Million Rupees

	Federal government		Provincial government		Local government		Three-tier gov. total	
	Amount	%	Amount	%	Amount	%	Amount	%
Revenue								
Tax and non-tax revenue	560,573.42	43%	21,708.32	11%	42,469.38	10%	624,751.12	33%
Revenue sharing	273,486.13	21%	70,301.55	37%	66,402.42	15%	410,190.10	21%
Fiscal transfer from federal government	0	0%	93,598.69	49%	297,696.07	69%	391,294.76	20%
Fiscal transfer from provincial government	0	0%	0	0%	23,063.46	5%	23,063.46	1%
Financing receipts	383,600.03	30%	111.12	0%	240.72	0%	383,951.87	20%
Others	76,311.42	6%	4,189	2%	264.26	0%	80,764.70	4%
Total revenue	1,293,971.00	100%	189,908.70	100%	430,136.31	100%	1,914,016.01	100%
Expenditure								
Recurrent	991,506.73	70%	79,897.98	39%	284,746.15	63%	1,356,150.86	65%
Capital	234,624.78	17%	124,180.65	61%	168,641.61	37%	527,447.04	25%
Financing	195,195.44	14%	600.00	0%	429.97	0%	196,225.41	9%
Total expenditure	1,421,326.95	100%	204,678.63	100%	453,817.73	100%	2,079,823.31	100%
Share in three-tier government expenditure		68%		10%		22%		
Fiscal balance (Revenue - Expenditure)	(127,355.95)		(14,769.93)		(23,681.42)		(165,807.30)	

Source: FCGO (2024). Consolidated Financial Statement FY2022-23.

As noted above, provincial governments rely on grants from fiscal transfers from the federal government for 49% of their revenue, but what is the breakdown of grant allocations?

summarizes the allocation of grants to provincial governments over time for FY2021/22 and FY2022/23.

From this table, the following points can be considered.

- The actual amount of total grants to provincial governments in FY2022/23 was Rs. 99.6 billion, down from Rs. 109.0 billion in the previous year.
- A breakdown of grants to provincial governments shows that equalization grants account for the highest percentage of total grants, accounting for 52% of the actual amount in FY2021/22 and 53% in FY2022/23. Conditional grants are next, accounting for a higher percentage of total grants, accounting for 40% and 38% of the actual amount in FY2021/22 and FY2022/23, respectively. Supplemental and special grants account for a small share of total grants, with the sum of both grants accounting for only 7-8% of total grants.
- In FY2022/23, the execution rate of the grant budget was 84%, down 10 percentage points from 94% in the previous year. In terms of the execution rate for each grant, the equalization grant had the highest execution rate in FY2022/23 at 88%, followed by the conditional grants at 82%, the supplemental grants at 77%, and the special grants at 73%.

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Table 38 Grant allocation and execution in FY2021/22 and FY2022/23

Unit: Million Rupees

	FY2021/22			FY2022/23		
	Budget	Expenditure	Execution rate (%)	Budget	Expenditure	Execution rate (%)
Equalization grant	57,955	57,955	100%	61,432	53,753	88%
Share in total grant (%)	50%	53%		52%	54%	
Conditional grant	47,574	43,286	91%	45,859	37,759	82%
Share in total grant (%)	41%	40%		39%	38%	
Special grant	4,150	3,370	81%	4,564	3,315	73%
Share in total grant (%)	4%	3%		4%	3%	
Complementary grant	5,725	4,429	77%	6,296	4,837	77%
Share in total grant (%)	5%	4%		5%	5%	
Total grant	115,404	109,040	94%	118,151	99,664	84%

Source: FCGO Consolidated Financial Statement FY2021/22, FY2022/23.

The revenue collections for each province over the five-year period from FY 2018/19 to FY 2022/23 are shown in Table 37. These revenue collections include tax and non-tax revenues, as well as revenue sharing from the federal government. It shows that total revenue for all seven provinces increased by 64% over the past five years. Comparing the growth rates among the seven provinces, the governments of Karnali and Sudurpashchim were 54% and 44% higher, respectively, than the national average. On the other hand, the Madhesi provincial government increased by 71%, which is higher than the national average.

Table 39 Trend of provincial revenues including Revenue Sharing

Unit: Million Rupees

Province	Fiscal Year					Growth rate over five years
	2018/19	2019/20	2020/21	2021/22	2022/23	
Koshi	10,882	10,707	12,343	14,059	14,866	37%
Madhesh	9,072	9,831	11,644	14,975	15,473	71%
Bagmati	17,896	21,537	25,902	32,032	36,287	103%
Gandaki	8,709	7,128	9,676	11,109	12,153	40%
Rumbini	10,187	9,717	11,336	14,300	15,878	56%
Karnali	5,051	5,229	6,572	8,476	7,772	54%
Sudurpaschim	6,925	6,303	8,121	9,192	9,941	44%
Total	68,722	70,452	85,595	104,144	112,369	64%

Source: FCGO(2024) Consolidated Financial Statement FY2022-23, Table 25.

Looking at each provincial revenue by type for FY 2022/23, the total tax and non-tax revenues of Karnali and Sudurpashchim are 36% and 44% of total revenue, respectively, which is considerably lower than the 49% level of all provinces (Table 38). This indicates that these two provinces are highly dependent on fiscal

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transfers from the federal government. In contrast, the total tax and non-tax revenues of Madhesi province are close to 48% of all revenues.

Table 40 Percentage of provincial government revenue by type FY2022/23

Province	Revenue	Non-tax revenue	Fiscal transfer	Other* (*)	total revenue
Koshi	40%	4%	55%	2%	100%
Madhesh	44%	4%	49%	3%	100%
Bagmati	51%	12%	33%	4%	100%
Gandaki	41%	5%	53%	1%	100%
Lumbini	43%	5%	49%	3%	100%
Karnali	35%	1%	64%	1%	100%
Sudurpashchim	42%	2%	56%	1%	100%
Total	43%	6%	49%	2%	100%

* Other includes account (15000 units) Irregularities, disbursement refunds and grant refunds and account (32147 - 49) Internal/Domestic Debt Repayment recipient.

Source: FCGO (2024) consolidated financial tables FY2022-23, Annex 26.

Looking at each province's expenditures in FY2022/23 by type of expenditure, Sudurpashchim province's capital expenditures accounted for 66% of total expenditures, higher than the 61% share for all provinces (Table 39). In contrast, Madhesi's share of capital expenditure is 60%, on par with the share of all provinces, and Karnali's share is 57%, lower than the share of all provinces.

Table 41 Percentage of provincial government expenditure by type FY2022/23

Province	Recurrent expenditure	Capital expenditure*	Loan	Total expenditure
Koshi	41%	59%	0%	100%
Madhesh	40%	60%	0%	100%
Bagmati	38%	60%	1%	100%
Gandaki	35%	65%	0%	100%
Lumbini	41%	59%	0%	100%
Karnali	43%	57%	0%	100%
Sudurpashchim	34%	66%	0%	100%
Total amount	39%	61%	0%	100%

* Refers to investments in non-financial assets.

Source: FCGO (2024) Consolidated Financial Statement FY2022-23, Table 25

(2) Status and issues in revenue management

Organization and Personnel

In each of the surveyed provincial governments, the Ministry of Finance and Economy is responsible for revenue management, and revenue management operations are carried out with the organizational and staffing structure summarized in the table below. All of the provinces conduct revenue management operations with an organizational and staffing structure of about 2 to 5 persons, which is extremely small compared to the size of the province.

Table 42 Organization and staffing of revenue and financial management of provincial governments surveyed

Province	Revenue management				Financial management			
	Office in charge	Number of staff			Office in charge	Number of staff		
		Permanent	Temporary	Vacant		Permanent	Temporary	Vacant
Madhesh	Ministry of Finance, Revenue Management Section	2	1	1	Provincial Treasury Control Office	10	7	3
Karnali	Ministry of Economy and Planning, Revenue Management Section	2			Provincial Treasury Control Office	13	4	
Sudurpaschim	Ministry of Economy, Revenue Management Section	5		9	Provincial Treasury Control Office	6		7

Source: Based on questionnaires (April-May 2025) for target provincial governments under the current Survey.

Status and Issues

In an effort to enhance revenue, Karnali Province has developed a Revenue Improvement Action Plan (RIAP), while the other two provinces have not yet developed or are considering the same plan. The main contents of Karnali's RIAP include the identification of areas for improved tax collection, revenue projections, specific action plans, and monitoring and evaluation. In addition, Karnali has implemented a Revenue Management Information System (RMIS), while the other two provinces have not implemented the same system at this time.

A common challenge identified by the three provincial governments surveyed is the ambiguity of the powers and roles of each tier of government with respect to tax administration. While the New Constitution (2015) Schedules 5-9, Inter-governmental Financial Management Act (2017) and the Local Government Operation Act (2017) provide for exclusive and concurrent powers of the three-tier governments with respect to taxation, there is concern that the ambiguity of the provisions, particularly with respect to co-administrative powers, could undermine potential to improve their own tax revenues.

In order to simplify and clarify the powers and roles related to tax administration, the Office of the Prime Minister and Council of Ministers (OPMCM) of the federal government has clarified the exclusive and co-exclusive powers set forth in Schedules 5-9 of the new Constitution ⁵⁰.

(3) Status and issues in financial management

Organization and Personnel

The Provincial Treasury and Comptroller Offices (PTCOs) of the three provincial governments surveyed are responsible for financial management (Table 40). The PTCO of each provincial government are staffed with six employees (six permanent and seven vacant) in Sudurpashchim Province, while Madhesh and Karnali Provinces are staffed with 17 employees. In response to the questionnaire in this study, the Provincial Treasury Management Offices in Madhesi and Karnali provinces reported that they are staffed with the required number of employees for their operations, while Sudurpashchim province reported

⁵⁰ The first Unbundling Report was published in 2017 on the initiative of the Prime Minister's Office and a second identical report is being prepared; see World Bank (2024b), p16.

inadequate staffing with only 6 employees, less than half the number of employees in Madhesi and Karnali provinces.

Status and Issues

The PTCO of each province is responsible for the overall accounting operations for the budget execution of the entire provincial government and prepares and submits a financial report of the provincial government to the Directorate General of Finance and Accounting (FCGO) of the Federal Ministry of Finance in each fiscal year. The Provincial Treasury Management Offices of the three provinces submit their financial reports without delay each fiscal year.

The Government of Nepal has established various information management systems to manage the finances of the entire three tiers of government under the federal system and utilizes these systems to conduct financial operations. The financial information management systems used by the three provincial governments under study in financial management are summarized in Table 41.

The staff of the Provincial Treasury Management Offices have been provided with training from the General Directorate of Finance and Accounting (FCGO) of the Federal Ministry of Finance and the Provincial Training Institute (PRTA), and all three provinces have indicated that their current staff is adequately skilled. Online and video training has been provided in addition to face-to-face training, and manuals for each system are in place to enable staff to learn on their own. As for training needs, in addition to training for newly hired staff, respondents indicated that capacity building training on the Nepal Public Sector Accounting Standards (NPSAS), recently introduced by the Nepalese government, is needed.

Table 43 Provincial government financial management information system

System	Summary	Year
Provincial Revenue Management Information System (PRMIS)	Web-based software that tracks provincial government revenue.	2018
Sub-national Treasury Regulatory Application (SuTRA)	Software for provincial and local government budget planning, allocation, and accounting.	2019
Computerized Government Accounting System (CGAS)	A system for accounting and reporting of budget execution by each office that executes the government budget, linked to PTSAC and PLMBIS.	2019
Provincial Line Ministry Budget Information System (PLMBIS)	The system supports key functions related to provincial government budget allocation and execution. After budget approval, budget information is entered into PLMBIS to approve execution.	2020
Public Assets Management System (PAMS)	A system for recording and reporting public assets.	2020
Provincial Treasury Single Account (PTSA)	A system that integrates the treasury functions of the entire government. Provides an overall picture of cash balances for the entire government.	2022
Financia Management Information System (FMIS)	An integrated system of fiscal management at the central level.	2022

Source: adapted from World Bank (2023), Annex 5.

(4) Status and issues of internal audits

All of the Provincial Treasury and Comptroller Offices (PTCOs) in the three provinces surveyed have dedicated internal audit departments and conduct internal audits every four months (Trimester) in accordance with Chapter 10 of the new Constitution and the Fiscal Procedures and Fiscal Accountability Act (2019). Madhesi Province reported that it had developed internal audit guidelines, but these guidelines do not appear to be publicly available on its website or elsewhere. Karnali Province did not report that it had developed and implemented the same guidelines. There is no management information system specifically for internal audits, and the management information system in Table 41 is used to conduct internal audits as needed.

Items identified by the internal audit as requiring correction include, for example, improper expenditures, inadequate documentation of evidence, and unclaimed funds. The PTCO recommends that the departments responsible take corrective action for each item (Karnali Province). However, any remaining unresolved internal audit items (audit arrears) that the department is unable to resolve by the end of the fiscal year will be pointed out in an external audit by the Office of the Auditor General (OAG).

The three provincial governments' financial management bureaus responded that they are implementing the aforementioned laws and regulations, but that the quality of audit content (Sudurpashchim Province) and delays in implementation (Madhesi Province) are challenges. The PEFA assessment report published in 2024 identified the following issues: internal audits are mainly limited to checking financial compliance and the government has not formally agreed on internal audit standards.⁵¹ The report also noted that internal audits are mainly limited to checking financial compliance, and that the government has not formally agreed on internal audit standards.

(5) Status and issues of external audits

The Office of Auditor General (OAG), established under Chapter 22 of the new Constitution, conducts external audits for each fiscal year, using Audit Act (2019) as the legal basis. While the Federal Comptroller General Office (FCGO) of Ministry of Finance is responsible for managing the accounts of the executive branch of the three-tier government, the Office of Auditor General is obligated to audit the financial reports of the three-tier government submitted by FCGO and report them to the Federal Assembly through the President, and the Federal Assembly considers the audit reports. The Auditor General is obligated to submit the audit report on the three-tier government to the President within six months after the end of each fiscal year and make it available to the public.

The latest audit report, published in May 2025, reports audit results for the fiscal year 2023-24.⁵² The number and value of audit irregularities (audit irregularities) items identified in the audit report are 1,215 (approximately Rs. 1.5 billion) for Madhesi, 987 (approximately Rs. 1.2 billion) for Karnali, and 1,042 (approximately Rs. 1.3 billion) for Sudurpashchim.⁵³ The audit report also reported that about 38% of these

⁵¹ For a detailed description, see Indicator PI-26 (pp. 123-126) of the PEFA Secretariat (2024).

⁵² See Office of the Auditor General (2025). Audit reports for the three tiers of government can be downloaded from the Office of the Comptroller General's website: <https://www.oag.gov.np/>

⁵³ Specific examples of fraudulent or inadequate improvement recommendations reported include: 1) public works projects have not been completed as contracted, or public works projects have not been started even though the contract amount was

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recommendations for improvement for deficiencies and irregularities had been implemented, while the remaining 62% had been partially implemented or not implemented.⁵⁴ Although the overall amount of deficiencies and irregularities identified in audits by both provincial and local governments is decreasing, it is noted that more local governments need to conduct internal audits and strengthen oversight by municipal council accounting committees for further improvement.

To address these issues, the National Audit Management System (NAMS) was established by the OAG in 2022 to provide direct online linkage with all government agencies, including provincial and local governments for auditing. The three provincial governments surveyed also indicated that they are taking appropriate remedial measures in response to the recommendations for improvement for deficiencies and irregularities identified by the OAG. The three provincial governments also recognize the need for training for their staff to better understand laws, regulations, and guidelines related to financial management.

(6) Status and issues in public asset management

All government entities in the three tiers of government are now required to record and manage public assets, including financial assets and non-financial assets, in accordance with Section 26(4) of the Financial Procedures and Fiscal Accountability Act (2019). In addition, Article 26(5) of the Law mandates that the FCGO maintains consolidated public asset records for all government entities and prepares a consolidated report. The FCGO has developed a Public Assets Management System (PAMS) and has begun using it in 2020.⁵⁵

The PEFA assessment 2024 states that most financial assets such as cash, deposits, and securities are recorded and reported every fiscal year. However, for non-financial assets such as buildings, land, and infrastructure, the PEFA states that record keeping and monitoring is inadequate, and that there are issues with the comprehensiveness and frequency of updates to asset ledgers. The report also states that there are issues of low information disclosure and low transparency of procedures for the sale and disposal of public assets, and that further institutional development is needed. In particular, provincial and local governments need to develop guidelines and procedures for the sale and disposal of public assets.

3.5.3 Status of Local Government

(1) Financial situations

The table below summarizes the trend of the overall fiscal balance of local government over time for the past five years. It shows that in FY2022/23, the fiscal balance of the local government as a whole, as well as that of the provincial government, was in deficit for the first time since the transition to a federal system. In particular, since FY2020/21, when the Corona pandemic began, expenditures have been on an increasing

received; 2) subsidies or grants have been used for purposes other than their original purpose; 3) tax collection omissions or unrecorded tax revenues exist, and collected revenues have not been deposited into bank accounts; 4) Documentation management related to expenditures is inadequate and evidence cannot be submitted; and 5) Audit reports are submitted late or not submitted.

⁵⁴ World Bank (2024b), p. 36.

⁵⁵ PEFA Secretariat (2024).

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trend while revenues have been at a standstill, resulting in expenditures exceeding revenues in FY2022/23.

Table 44 Trend of local government fiscal balance, FY2018/19 - FY2022/23

Unit: Million Rupees

	Fiscal Year				
	2018/19	2019/20	2020/21	2021/22	2022/23
Revenue					
Tax and non-tax revenue	26,766	30,532	50,939	37,671	42,469
Revenue sharing	48,576	54,150	73,400	93,523	66,402
Fiscal transfer from federal government	264,477	243,023	284,199	288,953	297,696
Fiscal transfer from provincial government	16,765	22,924	25,433	23,703	23,063
Financing receipts	0	0	0	0	241
Others	26,018	2,893	59,034	0	264
Total revenue	382,602	353,522	493,004	443,851	430,136
Expenditure					
Recurrent	243,636	192,763	234,873	258,493	284,746
Capital	62,777	127,155	156,300	165,312	168,642
Financing	0	141	263	364	430
Total expenditure	306,413	320,060	391,436	424,169	453,818
Fiscal balance (Revenue - Expenditure)	76,189	33,463	101,568	19,681	(23,681)

Source: FCGO's Consolidated Financial Statement in various years.

Table 35 earlier shows the fiscal status of federal, provincial, and local governments for FY 2022-23, and the following points can be observed for local governments.

- Local government spending as a percentage of total government spending is low at 22%, but higher than the 10% of provincial government spending. Provincial and local government spending combined accounts for about one-third of all government spending, with the remaining two-thirds coming from the federal government.
- A breakdown of local government expenditures shows a capital expenditure ratio of 37% and a recurrent expenditure ratio of 63%, in contrast to the provincial government that has a higher ratio of capital expenditures, 61%.
- The breakdown of local government revenue shows that revenue sharing accounts for 15% of total revenue, fiscal transfers from the federal government 69%, and fiscal transfers from the provincial government 5%, while tax and non-tax revenues account for only a low 10% of total revenue. This is almost equal to the provincial government's tax and non-tax revenue share of 11%.

As noted above, it can be observed that local governments rely heavily on grants from fiscal transfers from the federal and provincial governments for about 75% of their revenue in FY2022/23, but how have the grant allocations changed over time and what is the execution rate? Table 43 summarizes the trends of grant allocations to local governments over the five-year period from FY 2018/19 to FY 2022/23. From this table, the following points can be observed:

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- The total amount of grants received by local governments increased from Rs. 226.9 billion in FY 2018/19 to Rs. 356.1 billion in FY 2022/23. However, this increase is primarily due to an increase in conditional grants, with only a slight increase in equalization grants. As a result, the share of equalization grants in total local government grants fell from 39% in FY 2018/19 to 30% in FY 2022/23.
- The execution rate of grants for total local government decreased slightly from 86% in FY 2018/19 to 83% in FY 2022/23. For equalization grants, the execution rate was only 76% in FY 2022/23, down from 84% in FY 2018/19. During this period, the execution rate for conditional grants has generally hovered around 90%.

Table 45 Trend of fiscal transfer to local governments, FY2018/19 - FY2022/23

Unit: Million Rupees

Type of fiscal transfer	Receipts, expenditure, execution rates	Fiscal Year					
		2018/19	2019/20	2020/21	2021/22	2022/23	
Fiscal transfers from both federal and provincial governments	Equalization grant	Receipts	89,608	96,193	96,276	101,553	107,906
		Expenditure	75,538	93,597	72,543	77,173	81,654
		Execution rate (%)	84%	97%	75%	76%	76%
	Conditional grant	Receipts	129,740	153,430	192,228	192,914	221,129
		Expenditure	114,957	151,435	169,927	181,247	195,418
		Execution rate (%)	89%	99%	88%	94%	88%
	Special grant	Receipts	2,649	6,497	8,600	7,986	12,130
		Expenditure	2,390	4,401	6,581	6,657	8,491
		Execution rate (%)	90%	68%	77%	83%	70%
	Complementary grant	Receipts	4,874	9,826	12,527	10,134	14,957
		Expenditure	2,699	6,290	9,538	8,438	10,007
		Execution rate (%)	55%	64%	76%	83%	67%
	Total	Receipts	226,870	265,947	309,631	312,586	356,121
		Expenditure	195,584	255,723	258,589	273,515	295,570
		Execution rate (%)	86%	96%	84%	88%	83%

Source: FCGO Consolidated Financial Statement, various fiscal years.

The financial situation of the six local governments studied for the fiscal year 2022-23 is summarized in Table 44. From this table the following points can be observed:

- The local governments surveyed receive between 64% and 76% of their revenue from grants from fiscal transfers from the federal and provincial governments.
- Non-grant revenue for surveyed local governments includes revenue sharing received from the federal and provincial governments, revenue sharing from taxes collected by local governments, and non-tax revenue for local governments. These proprietary sources of revenue are quite limited, accounting for only 24% to 36% of local government revenues surveyed.
- All of the governments surveyed had a budget surplus for the fiscal year 2022-23, as their expenditures were less than their revenues in that year.

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Table 46 Fiscal situations of surveyed local governments, FY2022/23

Unit: Million Rupees

Province	Local government	Tax and non-tax revenue (incl. revenue sharing)	Fiscal transfer	Revenue	Expenditure	Balance
Madhesh	Saptakoshi	118.32	260.20	378.52	333.69	44.83
	% in revenue	31%	69%	100%		
Madhesh	Surunga	238.76	428.11	666.87	567.25	99.62
	% in revenue	36%	64%	100%		
Karnali	Kapurkot	118.13	317.54	435.67	433.30	2.37
	% in revenue	27%	73%	100%		
Karnali	Bheriganga	245.16	521.04	766.20	740.52	25.68
	% in revenue	32%	68%	100%		
Sudurpaschim	Janaki	136.23	355.83	492.06	478.52	13.54
	% in revenue	28%	72%	100%		
Sudurpaschim	Shuklaphanta	195.10	396.83	591.93	475.95	115.98
	% in revenue	33%	67%	100%		

Source: FCGO (2024) Consolidated Financial Statement FY2022-23.

(2) Status and issues in revenue management**Organization and Personnel**

Revenue management in the six local governments surveyed is handled by the Revenue Management Division, which is located under each municipality office. The number of staff in these departments is extremely small, ranging from 1 to 2 people in each of the six local governments surveyed (see Table 45).

Status and Issues

To cope with the shortage of revenue management personnel, the villages of Janaki and Shuklaphanta in Sudurpashchim Province have supplemented their revenue management divisions by appointing a secretary from each ward as a revenue management officer.

In addition, four of the six local governments surveyed have developed Revenue Improvement Action Plans (RIAPs), while the other two have not yet done so. The main contents of the four local government RIAPs are similar and include the identification of areas for tax collection improvement, revenue forecasting, specific action plans, and monitoring and evaluation.

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Table 47 Revenue and financial management staffing of local governments surveyed

Province	Local government	Revenue management			Financial management				
		Office in charge	Number of staff			Office in charge	Number of staff		
			Permanent	Temporary	Vacant		Permanent	Temporary	Vacant
Madhesh	Saptakoshi	Revenue management section	1	1		Financial Management Section	1	1	
	Surunga	Revenue management section	1	1		Financial Management Section	1	1	
Karnali	Kapurkot	Revenue management section	2			Financial Management Section	2		
	Bheriganga	Revenue management section	2		1	Financial Management Section	2	1	
Sudurpaschim	Janaki	Revenue management section	1		1	Financial Management Section	1	1	
	Shuklaphanta	Revenue management section	1	1	1	Financial Management Section	1	1	1

Source: Based on questionnaires (April-May 2025) under the current Survey.

Of the six local governments, two local governments in Karnali Province utilize the Revenue Management Information System (RMIS), and two local governments in Madhesi Province are in the process of implementing the same system. Two local governments in Sudurpashchim Province indicated that they are using SuTRA and software developed by a private company to manage the system.

The six local governments surveyed, as well as the provincial government, pointed to the ambiguity of the authority and role of each tier of government with respect to tax administration as a common challenge. This is discussed in the previous section. Other challenges identified include 1) the lack of a coordination mechanism between the federal and provincial governments regarding revenue administration, and 2) a system of taxpayer registration that is either not established or only insufficiently functional.

The six surveyed local governments identified capacity building needs related to revenue management, including 1) development of RIAPs and specific ways to use them, 2) knowledge of taxation and taxation systems, including exclusive and co-administrative authorities, and 3) use of revenue management information systems. Only one of the surveyed local governments has received training in revenue management, whereas the others indicated that they have not received any training through provincial training centers or donor support.

(3) Status and issues in financial management

Organization and Personnel

Financial management of the six local governments surveyed is handled by financial management section of each municipality office. Like the Revenue Management Division, the Financial Management Section operates with a very small staff of 1-3 people (Table 45). The Division is responsible for overall accounting operations related to local government budget execution and prepares and submits local government financial reports to the FCGO of the Federal Ministry of Finance in each fiscal year. The six local

governments surveyed indicated that they use the RMIS, SuTRA, PAMS, and FMIS listed in Table 46 below for financial management.

Table 48 Local government financial management information systems

System	Summary	Year
Revenue Management Information System (RMIS)	Web-based software that tracks local government revenue.	2018
Sub-national Treasury Regulatory Application (SuTRA)	Software for local government budget planning, allocation, and accounting. a	2019
Public Assets Management System (PAMS)	A system for recording and reporting public assets.	2020
Financia Management Information System (FMIS)	An integrated system of fiscal management at the central level.	2022

Source: Based on World Bank (2023), Annex 5.

Status and Issues

One of the challenges in financial management is that only equipment purchased by local government is registered as public assets, while public facilities such as roads, hospitals, and financial assets developed by projects are not. This point is discussed in more detail in the next section on project management.

With regard to training needs, the respondents indicated that financial management section staff had little or no experience receiving training from the FCGO or from the Provincial Research and Training Center. This contrasts with the fact that the Provincial Treasury and Controller Office (PTCO) had ample opportunities to receive training, suggesting that financial management training opportunities are not well rolled out to local governments. As for training needs, respondents reported that they needed basic knowledge on how to use financial management information systems and on the tax system.

(4) Status and issues of internal audits

Like provincial governments, local governments are required to conduct internal audits in accordance with Chapter 10 of the new Constitution and the Fiscal Procedures and Fiscal Accountability Act (2019). To this end, the six local governments surveyed have established internal audit sections, but all of them have only one staff member assigned to the department. In some of the local governments, one internal audit staff member was only a temporary staff member, or the post was vacant, so that a staff member of the Financial Management Section was also in charge of internal audits.

All of the local governments indicated that they conduct internal audits. The items pointed out as needing correction in the internal audits were deficiencies in documentary evidence. In addition, issues such as failure of the section in charge to take appropriate action on items identified as needing correction were also noted. All local government officials indicated that training on internal auditing is needed.

(5) Status and issues of external audits

Like provincial governments, the Office of Auditor General (OAG) conducts external audits of the local governments surveyed in accordance with the Audit Act (2019). Half of the six local governments mentioned the National Audit Management System (NAMS), but we were unable to verify the extent to

which this system is used. The surveyed governments have taken remedial action in response to recommendations for improvement for deficiencies and irregularities identified by the OAG, but they recognize the need for training for their staff to better understand laws, regulations, and guidelines related to financial management.

(6) Status and issues in public asset management

The institutional framework and challenges of provincial government public asset management discussed in section 3.5.2 apply equally to local governments. In particular, many local governments face the following challenges: 1) asset registers are not properly maintained and updated; 2) ownership and use of assets such as land, buildings, and infrastructure are unclear; 3) the economic and use value of public assets is not properly assessed and utilized as a source of revenue or public service opportunity; 4) ownership and other assets are not properly managed between federal, provincial, and local governments; 5) limited asset management capacity of local government officials and IT systems; 6) lack of guidance from the Natural Resources and Finance Commission (NNRFC); and 7) maintenance delays due to the lack of linkage between budget management and asset management.⁵⁶

3.5.4 Challenges for Provincial and Local Governments

We summarize the fiscal management issues identified in this section. Please refer to the following sections of this report for an analysis of the current situation and issues related to fiscal management by provincial and local governments.

- 1) Section 3.4 Development planning and budgeting of the surveyed provincial and local governments: Planning and allocation stages of fiscal management and gender budgeting
- 2) Section 3.6 Project management in surveyed provincial and local governments: Public investment management
- 3) Section 4.1 Provincial and local roads in the transport sector: Budget planning for the road transport sector
- 4) Section 4.2 Teacher training in the education sector: Budget and enforcement

Issues

- **Deterioration of Provincial and Local Government Fiscal Balance:** In FY2022/23, for the first time since FY 2018/19, when the fiscal statistics for the three tiers of government were published, the provincial and local governments posted a fiscal deficit as revenues from the provincial and local governments came to be plateaued while expenditures increased, mainly due to slowing economic growth. This is due to the fact that the slowdown in economic growth caused by the Corona pandemic reduced federal government tax revenues, while spending increased due to the counteracting Corona measures and other factors.
- **Dependence of provincial and local governments on grants:** Grants account for about 49% of all

⁵⁶ See World Bank (2023, 2024b).

provincial government revenues and 74% of all local government revenues in FY2022/23, making them largely dependent on grants for their financial resources.

- **Limited fiscal autonomy and greater "spending autonomy"**: There are insufficient equalization grants, and the ratio of equalization grants to total grants is on a declining trend. This limits the budgetary resources available for provincial and local governments to allocate expenditure at their own discretion in line with the needs of their respective regions. In particular, the challenge is to increase "spending autonomy" by allocating more generous equalization grants to ensure that even residents of poor rural local governments receive adequate government services.
- **Low budget execution rate**: the deviation between budgeted and actual total expenditures (budget execution rate) for the Government of Nepal as a whole remains very low at around 80% since FY 2018/19. The budget execution rate for provincial governments was about 66% in FY 2022/23, down from 71% in FY 2021/22. In addition, the budget execution rate for local government remains around 75% in both fiscal years. The execution rate for capital expenditures is particularly low. The following reasons have been identified: 1) inefficient resource allocation due to the lack of linkage between the mid-term plan, MTEF, and annual budget; 2) delays and unpredictability in grant allocations and revenue sharing, which adversely affect budgeting and execution; 3) the existence of local governments without procurement plans; and 4) weak institutions for project selection, evaluation, and management of public investment projects.
- **Strengthening revenue management**: Self-financing is essential for provincial and local governments to develop infrastructure and provide administrative services that meet the diverse needs of local residents, and strengthening their ability to collect tax and non-tax revenues is an important and urgent priority. Among the three provinces surveyed, Karnali provincial government has prepared a revenue improvement action plan, while the Madhesi and Sudurpashchim provincial governments have yet to do so. Among the six local governments surveyed, only four have developed revenue improvement action plans. In order to put revenue improvement action plans into practice, it is necessary to strengthen the organization and human resource development of the provincial and local governments. For example, the tax collection system, including a registration system for companies and individuals subject to tax collection, must be developed, and the professional skills of tax collection officials in tax administration must be enhanced. For local governments, a major challenge is the shortage of staff in revenue administration departments. Improving skills in revenue forecasting has also been identified as a challenge.
- **Strengthening internal audits**: Internal audits of provincial and local governments are essential to ensure compliance with laws and regulations and to increase fiscal transparency and accountability to local residents. However, as discussed in section 3.5.1, less than half of local governments still conduct internal audits, and the oversight function of municipal accounting committees needs to be strengthened. In addition, as in the case of provincial governments, the variation in the quality and timeliness of internal audits is evident in local governments, and internal audits need to be further strengthened through the MoFAGA, FCGO of the Ministry of Finance, Provincial Training Centers, and donor support.

- **Strengthening public asset management:** In accordance with Article 26(4) of the Financial Procedures and Fiscal Accountability Act (2019), public assets, including financial assets and non-financial assets, are now required to be recorded and managed. While the report states that most financial assets such as cash, deposits, and securities are recorded and reported every fiscal year, for non-financial assets such as buildings, land, and infrastructure, the maintenance and monitoring of records is insufficient, and there are issues regarding the comprehensiveness and frequency of updating asset ledgers. The report also states that there are issues of low information disclosure and low transparency of procedures for the sale and disposal of public assets, and that further institutional development is needed.

Provincial and local governments need to develop guidelines and procedures for the sale and disposal of public assets. In addition, many local governments have been identified as having the following issues: 1) not properly maintaining and updating asset registers; 2) unclear ownership and use of assets such as land, buildings, and infrastructure; 3) public assets are not properly screened for economic and use value and are not utilized as a source of revenue or public service opportunities; 4) lack of an integrated legal framework and guidelines for public asset management; 5) limited asset management capacity of local government officials and IT systems; 6) lack of guidance from the Natural Resources and Finance Commission (NNRFC); and 7) delays maintenance management due to the lack of linkage between budget management and asset management.

3.6 Project Management

3.6.1 Project Classification in the Three-Tier Government System

The exclusive, concurrent, and residual authorities of the federal, provincial, and local governments are listed in Schedules 5 to 9 of the new constitution⁵⁷.

According to Article 5 of the "Basis and Criteria of Project Classification 2080" issued by the National Planning Commission (as shown in the box below), projects under concurrent authority are classified into federal, provincial, and local government projects, respectively.

5. Classification of Projects Under Concurrent Authority

- (1) Projects in the areas of concurrent authority listed in Schedule 7 and Schedule 9 of the Nepal Constitution that are deemed necessary from the perspective of national security or strategic considerations shall be administered by the federal government.
- (2) Among projects listed in the concurrent authority list other than those specified in paragraph (1), projects applicable to a single local government shall be operated by the relevant local government, projects applicable to multiple local governments but falling within a single province shall be operated by the provincial government, and projects applicable to multiple provinces shall be operated by the federal government.
- (3) Notwithstanding the provisions of paragraph (2), projects related to irrigation, river management,

⁵⁷ For details, refer to "3.1.2 Three-tier government authority, functions, and roles" in the report by the Japan International Cooperation Agency (JICA) and IC Net Co., Ltd. (2021).

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- landslide prevention, drinking water, industrial areas, electricity, power transmission lines, and roads as specified in Appendix 1 shall be operated by the federal, provincial, or local government.
- (4) Except as provided in paragraphs (2) and (3), projects listed in the joint management authority list that involve only one local or provincial government shall be operated by the federal, provincial, or local government based on the project costs, in accordance with Appendix 2.
- (5) Notwithstanding the provisions of Paragraphs (2), (3), and (4), the relevant levels may jointly implement projects exceeding the limits specified in the list of joint management authorities.
- (6) Notwithstanding the provisions of Paragraphs (2), (3), and (4), in the event of an emergency caused by a natural disaster, the federal government may, in coordination with the relevant provincial and local governments, undertake projects under the jurisdiction of the provincial or local government.

Table: Appendix 1

Number	Structure	Local	Provincial	Federal
1	Surface irrigation	Up to 5,000 ha in the Terai-Madhesh region, up to 50 ha in the hilly region, and up to 25 ha in the mountainous region	5,000 ha or more in the Terai-Madhesh region, up to 100 ha in the hilly region, and up to 50 ha in the mountainous region	5,000 ha or more in the Terai-Madhesh region, 100 ha or more in the hilly region, and 50 ha or more in the mountainous region
	Shallow well irrigation (New)	In the Terai-Madhesh region, up to 2,000 ha in single or clustered areas, and up to 100 ha in single or clustered areas in hilly or mountainous regions	Deep well irrigation in clusters of 2,000 ha or more in the Terai-Madhesh region, and deep well irrigation in clusters of 200 ha or more in hilly or mountainous regions	
	Pump irrigation (New)	Up to 25 ha in clusters	25 ha or more, up to 100 ha within a cluster	100 ha or more
2	River management	Rivers protected in hazardous areas	Rivers requiring embankments on one or both sides for 10 km	Rivers requiring embankments of 10 km on one side or 10 km on both sides
3	Landslide prevention	Length of 100 m, width of 10 m, total area 5,000 m ² or less	Length of 100 m or more but not exceeding 200 m, base width of 100 m or less, total area of 20,000 m ² or less	Length of 200 m or more, width of 100 m or more, total area of 20,000 m ² or more
4	Drinking water	Supply drinking water to up to 5,000 people in the Terai-Madhesh region, 2,000 people in the hilly region, and 500 people in the mountainous region.	Supply drinking water to 8,000 people in the Terai-Madhesh region, 5,000 people in the hilly region, and 1,000 people in the mountainous region.	Supply drinking water to a population of over 11,000 in the Terai-Madhesh region, over 5,000 in the hilly region, and over 4,000 in the mountainous region.
5	Industrial area	Industrial village	Industrial area	Industrial Special Zone, Export Promotion Zone
6	Road	Local roads with a width of up to 11 m	Roads along provincial expressways and roads within the province with widths ranging from 11 m to 22 m	Roads along national highways and roads with a width of 22 m or more (Construction of these roads shall be coordinated

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				with the provincial government and the federal government)
7	Electricity	Hydroelectric power generation up to 1 MW, or solar or wind power generation for residential or facility use	Hydroelectric power generation of 1 MW or more but not exceeding 20 MW, or solar or wind power generation	Hydroelectric power generation exceeding 20 MW or solar or wind power generation
8	Transmission lines	Local and regional transmission lines with voltages below 11 kV	11 kV or more, less than 33 kV	33 kV or more

Table: Appendix 2

	Operational level	Type of Local Level (if applicable)	Project Criteria (Maximum Budget)
1	Local	Rural municipalities	Up to 30 million rupees
		Municipalities	Up to 50 million rupees
		Sub-metropolitan cities	100 million rupees
		Metropolitan cities	Up to 150 million rupees
2	Province		Exceeding the local limit, up to a maximum of 500 million rupees
3	Federal		500 million rupees or more

Source: Basis and criteria of project classification 2080 (unofficial translation)

3.6.2 Status of Provincial governments

(1) Project scale

The scale of projects (capital budget) and the major projects for the fiscal year 2024 are shown in Table 49. Road and bridge projects account for a significant portion of the capital budget (expenditure) in each surveyed province.

Table 49 Scale of projects (capital budget) and major projects in fiscal year 2024

Unit: million rupees

	Karnali Province	Sudurpashchim Province	Madhesh Province
Capital Budget (31,000)	18,750.86	18,762.42	27,891.46
Percentage of major project types (Top 3)	1. Roads and bridges (44%) 2. Non-residential buildings (15%) * 3. Other (10%)	1. Roads and bridges (38%) 2. Irrigation (15%) 3. Other (11%) **	1. Other (45%) ** 2. Roads and bridges (19%) 3. Irrigation (7%)

Note: The numbers in parentheses indicate account categories.

* Non-residential buildings include schools, hospitals, etc. ** Details of "Other" are unknown.

Source: Annual budget documents of the surveyed provinces (2024–25)

Detailed information on the percentage of total projects affected by time overruns and cost overruns is not available. However, interviews indicate that project delays are frequent. The main causes of these delays are recognized as the time required for land acquisition, the time needed for procurement by construction companies and user committees, and the inability of construction companies and user committees to carry

out construction work according to plan.

(2) Project management process

(A) Infrastructure Development Planning

Currently, there are no comprehensive spatial plans, land use plans, road and river development plans, or facility development plans for buildings covering the entire province. According to interviews with the Ministry of Physical Infrastructure Development of Madhesh Provincial Government, decision-making authority over land use in the province lies with the Ministry of Lands of the Federal Government, not the provincial government. Therefore, the provincial government should coordinate closely with the federal government when formulating any land use plans in the future.

(B) Project Formulation, Appraisal, Selection, and Procurement

The project bank guidelines of Madhesh and Sudurpashchim Provincial Governments stipulate that a concept note for the project must be prepared and appraised by the Provincial Planning Commission before project formulation, namely, conducting a feasibility study. However, the survey team could not confirm that this was actually being done. On the other hand, the project bank guidelines of Karnali provincial government do not stipulate any approval or confirmation process before the project formulation stage.

According to interviews with the Ministry of Physical Infrastructure Development in Madhesh Provincial government, it has been found that the accuracy of project budgets is low at the project appraisal and selection stage. When detailed cost estimates are made after projects are budgeted, the allocated budget is often insufficient to cover the actual costs. This situation suggests that adequate project appraisal is not being conducted before project selection and budgeting.

According to interviews with the Ministry of Physical Infrastructure Development in Madhesh Provincial Government, the project selection process is not a bottom-up approach where requests and suggestions for projects are collected from regional offices of the said Ministry. Instead, it is a top-down approach where the headquarters of the Ministry makes the decisions, and regional offices implement the decisions.

Additionally, procedures for environmental and social considerations are implemented only for large-scale multi-year contract projects, but not for other projects.

The three surveyed provincial governments have prioritized budget allocation for ongoing projects and multi-year contract projects in the project selection (budget allocation/site allocation) process. They also take into consideration operation and maintenance costs after the project is implemented. However, as explained in "(D) Maintenance and Asset Management" below, maintenance plans are only prepared for public investment projects with a project cost of 50 million rupees or more. Therefore, it is considered that operation and maintenance costs after project completion for projects with a project cost of less than 50 million rupees are not sufficiently taken into consideration in the project appraisal and selection process.

There is no formal coordination mechanism among the federal, provincial, and local governments at the planning stage (project formulation, appraisal, and selection) of project management. The interviewee explained that informal consultations are being conducted in general. However, according to interviews conducted in Karnali Province, it has been confirmed that the provincial government conducts consultations

with the federal government and local governments regarding the selection of projects related to grant funds.

Utilization of User Committees

The three provincial governments surveyed are implementing small-scale infrastructure development projects by entrusting them to user committees. Since there are no official reports summarizing the actual situation, it is difficult to accurately grasp the number of projects entrusted to user committees. According to interviews with the Ministry of Physical Infrastructure Development of Madhesh Provincial Government, no specific figures were provided, but based on experience, it was reported that approximately 80% of all public investment projects and approximately 50% of the project budget of the Ministry are implemented through user committees.

(C) Project Monitoring and Evaluation

Regarding the monitoring of projects, many similarities can be observed across the three surveyed provinces. Each province has developed a provincial monitoring and evaluation model based on the 2018 NPC Model Guidelines⁵⁸ and established various monitoring committees.⁵⁹ Regardless of the total amount of project expenditure or the type of infrastructure⁶⁰ or non-infrastructure, each province asserts that the provincial monitoring and evaluation committee plays a central role in monitoring all projects. The committee collaborates and cooperates with the relevant departments of each ministry and the District Coordination Committees. However, specific evaluation indicators for projects have not been established, and tools such as checklists are underdeveloped.⁶¹ Consequently, monitoring currently relies mainly on visually inspecting project progress and completion, as well as conducting interviews with project stakeholders.

Furthermore, there is no institutional framework for evaluation, so systematic implementation has not been achieved. Reports based on monitoring results are submitted to the Office of the Chief Minister and Council of Ministers (OCMCM) and the relevant ministries and departments in each sector. These reports are not usually made available to the public. Issues identified through monitoring are discussed among the relevant parties, who then take measures to resolve them. However, the results of these monitoring efforts are rarely reflected in annual or periodic plans for the following fiscal year due to a lack of substantive evaluation. Currently, there is no legal framework requiring provincial governments to submit project monitoring reports to the federal government, nor is there a framework requiring provincial governments to receive and confirm local government project monitoring reports. In August 2024, the Nepalese government enacted the Monitoring and Evaluation Act 2080 (2024) to establish a legal framework aimed at ensuring

⁵⁸ 1) Provincial Development Action Committee, 2) Provincial Development Action Committee Sub-Committee, 3) Province-level Development Action Committee of Relevant Ministries and Agencies, 4) Provincial-level Development Action Committee Sub-Committee of Relevant Ministries and Agencies, 5) Provincial Monitoring and Evaluation Committee.

⁵⁹ According to the NPC, the Monitoring and Evaluation Manual (2013) was developed with support from JICA's Technical Cooperation, Monitoring and Evaluation System Strengthening Project Phase 2 (2011—2015). Based on this, new monitoring guidelines were established in 2018.

⁶⁰ According to the questionnaire responses from the three provinces, infrastructure projects require a minimum of two monitoring sessions during the implementation period.

⁶¹ In Sudurpashchim Province, some of the monitoring results are reflected in the annual evaluation report of the provincial economic planning department and are publicly available online.

and promoting accountability and transparency in the implementation of development policies and plans, as well as improving efficiency. According to the NPC, regulations and guidelines based on this Act will be formulated in the future. No changes to policies or systems based on this Act have been confirmed by the provincial and local governments surveyed.

(D) Maintenance and Asset Management

Operation and maintenance

In the three surveyed provinces, operation and maintenance plans have been formulated for projects with a budget of 50 million rupees or more. However, for projects with a budget of less than 50 million rupees, operation and maintenance plans have not been formulated. Additionally, regarding expenditures on operation and maintenance, it has been confirmed that the budget is allocated not only from the operating budget (account code: 22231) but also from the capital budget (account codes: 31161, 31171) for regular maintenance.

Asset Management

In the three surveyed provinces, public procurement of equipment and machinery (Goods) is registered in the Public Asset Management System (PAMS). However, facilities (Works) constructed via public procurement by construction companies or user committees are not currently registered in PAMS.

(3) Institutional framework, IT systems, organizational structure/human resources

Institutional Framework

In each of the surveyed provinces, an institutional framework is in place for the formulation, appraisal, implementation (procurement and monitoring/evaluation), and maintenance of projects. Specifically, guidelines and procurement regulations governing the project formulation and appraisal have been formulated. Some provincial governments have formulated guidelines for project banks and for user committees. However, there are currently no province-specific regulations or guidelines for operation and maintenance or asset management.

Rules and guidelines for formulating infrastructure development plans and master plans vary across sectors. For example, in the transportation sector, the Department of Local Infrastructure Development (DOLID) issued guidelines for the Provincial Transport Master Plan (PTMP) in 2023. Each surveyed province is developing its provincial transport master plan in accordance with these guidelines.

IT Systems (Project Bank)

The approach for “Project Bank” has been introduced in the three provinces surveyed. In Karnali Province and Sudurpashchim Province, the information systemization (Digitalization) of project banks is progressing, and websites have been launched. In Madhesh Province, however, the digitalization of project banks is still in the planning stage. Interviews revealed that the use of project banks varies among surveyed provinces. In Karnali Province, projects are registered in the project bank after project selection is completed. In Sudurpashchim Province, project registration in the project bank takes place before project formation. In Madhesh Province, project registration in the project bank before project selection has been made mandatory starting with the 2025 annual budget plan. However, as of now, project information submissions

from relevant ministries and departments are not being made in accordance with the scheduled timeline.

Organizational Structure/Human Resources

The Ministry of Physical Infrastructure Development of the Provincial Government is primarily responsible for infrastructure development and construction projects, including roads, bridges, water supply systems, hospitals, and schools. Each province has regional-level infrastructure development offices in addition to the central office, with a total of approximately 200 to 400 staff members. According to the annual report of the Ministry of Physical Infrastructure Development of the Karnali Provincial Government and interviews with officials in Soudurpaschim Province, nearly half of these positions are vacant, indicating a significant personnel shortage.

3.6.3 Status of Local Governments

(1) Scale of projects

The scale of projects (capital budget) and the major projects for the 2023 fiscal year are shown in Table 50. In all local governments, road and bridge construction projects are among the top three projects with the largest budgets.

Detailed information on the percentage of total projects affected by project delays (time overruns) and cost overruns is not available. According to interviews conducted in Surunga Municipality, approximately 25% of projects are delayed and are expected to be carried over to the next fiscal year.

Table 50 Scale of projects (capital budget) and major projects for the 2023 fiscal year

Unit: Million Rupees

	Bheriganga Municipality	Kapurkot Rural Municipality	Janaki Rural Municipality	Shuklaphanta Municipality	Saptakoshi Municipality	Surunga Municipality*
Capital Budget (31000)* ¹	135.6	98.3	136.37	164.19	59.17	177.38
Percentage of main business types (Top 3)	1. Other (27%) ^{*2} 2. Road and bridges (26%) 3. Non-residential buildings (21%)	1. Road and bridges (32%) 2. Non-residential buildings (29%) ^{*3} 3. Water supply (12%)	1. Road and bridges (55%) 2. Other (12%) ^{*2} 3. Non-residential buildings (21%) ^{*3}	1. Road and bridges (42%)	1. River embankments (22%) 2. Renovation (21%) 3. Road and bridges (14%)	1. Road and bridges (36%) 2. Non-residential buildings (31%) ^{*3} 3. Other (12%) ^{*2}

Note: *1 The numbers in parentheses indicate account categories. *2 Breakdown unknown. *3 Includes construction of schools and hospitals.

Source: Financial statements of each surveyed municipality (2023-24), * for Surunga Municipality (2024-25)

(2) Project management process

(A) Infrastructure Development Plan

In the surveyed local governments, there are no comprehensive spatial plans, land use plans, or facility development plans (including road and river development) at the local government level. According to

interviews with the Ministry of Physical Infrastructure Development of Madhesh Provincial Government, local governments have the authority to make decisions regarding land use.

(B) Project Formulation, Appraisal, Selection, and Procurement

In the surveyed local governments, it was confirmed that no screening processes are conducted during the project formulation stage. Screening processes include preparing project concept notes and verifying the alignment between proposed projects and periodic plans.

During the annual budget formulation process, infrastructure development projects are proposed by each ward, but many of these have not undergone appropriate project formulation or appraisal. The local government conducts feasibility studies and prepares detailed project reports only for large-scale projects (multi-year contract projects).

The costs associated with proposed projects are roughly estimated and included in the budget. Detailed construction costs are reestimated when the procurement phase for construction contractors begins after the project is approved in the annual budget.

Environmental and social considerations are addressed only in large-scale projects (multi-year contract projects), but not in small-scale projects (projects completed within one year).

During the project selection (budget allocation) process, the surveyed local governments prioritize budget allocation for ongoing projects and multi-year contract projects. In addition, in response to the questionnaire, the surveyed local governments explain that they consider maintenance costs for proposed and selected projects when formulating annual budget plans and selecting projects. However, as described in "(D) Maintenance and Asset Management" below, it is difficult to say that maintenance costs are adequately secured after analyzing the annual budget and financial statement.

The process for project selection and prioritization follows the steps shown in Figure 5 of Section 3.4.2. In the NPC Planning Guidelines, Annexes 23, 24, and 25 provide templates for: (1) a situation analysis sheet and a settlement-level project list, (2) a ward-level project list compiled based on (1), and (3) a local government project list prepared with reference to (2). Template (3) requires that each listed project indicate how it contributes to the outcomes and strategies of the Periodic Plan; however, templates (1) and (2) do not contain such descriptive fields. The Guidelines do not prescribe any formal project appraisal formats for the settlement, ward, or local government levels. Additionally, although Annex 11 of the Guidelines stipulates the use of a project prioritization score sheet, interviews revealed no evidence of its application at the settlement, ward, or local government levels. It is presumed that this score sheet is not being utilized in the actual project assessment process. Furthermore, project costs of each project are included in the ward-level project list (2) mentioned above, ensuring they do not exceed the budget ceilings for each ward as determined by the local government. Interviews revealed that these costs are recorded only as lump-sum figures of total project cost. The Guidelines also stipulate the establishment of a Project Bank⁶², targeting projects that have "strategic importance"—that is, projects expected to generate substantial benefits for the local economy and contribute to improving the quality of public services and infrastructure development.

⁶² The term "projects" refers to those funded through complementary and special grants, joint projects, loan-financed projects, and multi-year contract projects, among others

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To this end, the Guidelines provide procedures as well as templates for the Project Concept Note and the Project Proposal (Annexes 34 and 35). Within the project planning process, local governments are required to conduct project appraisals and prepare a Proposal Appraisal Report. To facilitate this, the Guidelines present two key instruments: 1) a Project Prioritization Score Sheet (Annex 11), which includes criteria such as “contribution to broad and inclusive economic growth” and “contribution to the Sustainable Development Goals (SDGs)”; and 2) a Project Readiness Assessment Score Sheet, which includes confirmation items such as completion of the Detailed Project Report (DPR), assurance of funding availability, status of land acquisition, and progress on environmental assessments.

It has been confirmed that there are no coordination mechanisms between the federal, provincial, and local governments during the planning stage of project management (project formation, appraisal, and selection), except for guidelines issued by the federal and provincial governments regarding grant program applications during the annual budget planning process.

Utilization of User Committees

The surveyed local governments have entrusted small-scale infrastructure development projects to user committees. Since there is no official data registering which projects have been entrusted to user committees, it isn't easy to accurately assess the current situation. Interviews in Saptakoshi Municipality and Surunga Municipality revealed that, although approximate, approximately 60% and 20% of the total number of improvement projects implemented by the local governments in those municipalities were entrusted to user committees, respectively. Given that the number of improvement projects in these local governments is approximately 150 in Saptakoshi Municipality and 200 in Surunga Municipality, it is estimated that approximately 40 to 90 projects per year are being implemented by user committees that have been entrusted with project implementation by residents/ facility users.

After the local government completes its annual budget formulation, the local government, together with each ward, decides whether to procure construction companies or delegate projects to the User Committee for projects costing less than 1 million rupees in each district.

The scope of services contracted by the User Committee includes collecting a percentage of the project budget from facility users, typically around a few percent. In Surunga Municipality, this rate was 10%.

There is no advance payment to the User Committee. During the project implementation period, the User Committee covers the project expenses, which are reimbursed upon project completion. However, 5% of the project expenses must be allocated as a reserve for defect liability, which is not paid until 13 months after project completion.

(C) Project Monitoring and Evaluation

A Monitoring and Supervision Committee, chaired by the Deputy Mayor or Deputy Chairperson, conducts project monitoring in collaboration with staff members, such as project officers and engineers, from each sector. The Kapurkot rural municipality, the Shuklaphanta municipality, and the Janaki rural municipality have each established their own monitoring and supervision procedures.⁶³ Although

⁶³ The remaining three local governments are conducting monitoring activities in accordance with the Local Government Operations Act (2017).

monitoring plans have not been formulated in all six local government monitoring and supervision committees, monitoring is conducted for all projects regardless of project expense scale or infrastructure type. Furthermore, all local governments have secured budgets for monitoring activities, with variations due to differences in the number of projects. Shuklaphanta municipality has the highest budget at NPR 2.4 million, while Bheriganga municipality has the second highest budget at NPR 2.1 million, and Surunga municipality has the lowest budget at NPR 300,000.⁶⁴ Monitoring methods are like those of the provincial government. No tools, such as checklists, are used, and progress and completion of projects are mainly confirmed through visual inspection. In some cases, user committees, Tole Lane Organizations (TLOs), political party officials, mayors, chairpersons, district heads, elected members, DDC and community people participate in monitoring.⁶⁵ Monitoring results are submitted to municipality and rural municipality executive committees and relevant sectoral departments and are used as criteria for the final payment of projects. However, no local government publicly discloses these results. Like provincial government monitoring, project evaluation is not conducted at the local government level as there are no evaluation frameworks or indicators. Except for two municipalities in Madhesh province, monitoring results are not reflected in annual or periodic plans.

(D) Maintenance and Asset Management

Maintenance

The surveyed local governments generally do not have maintenance plans for facilities constructed using capital expenditures. While Janaki Rural Municipality and Shuklaphanta Municipality verbally stated that they have partial maintenance plans (plans), the actual status remains unclear.

Among local government staff, the one-year defect liability period is understood to be the responsibility of the construction contractor or the user committee for operation and maintenance.

According to the financial statements for fiscal year 2023, among the four local governments (excluding Saptakoshi Municipality and Shuklaphanta Municipality, for which data is unavailable), only two local governments have allocated operation and maintenance expenses from their operating budgets. However, the amounts allocated for operation and maintenance remain minimal. In the same four local governments, expenses related to regular maintenance were confirmed to be paid from the capital budget.

Asset Management

The Store Sections of the surveyed local governments have registered public procurement of equipment and machinery (Goods) in the PAMS system. Additionally, according to interviews, in cases of procuring consulting services (Service), the deliverables, such as reports, are registered in the system. On the other hand, regarding construction (Works), such as facilities or structures (e.g., bridges), after construction are generally not registered. However, exceptionally, in Surunga Municipality and Saptakoshi Municipality, only buildings (Buildings) are registered.

⁶⁴ Additionally, Kapurkot rural municipality reported NPR 870,000, Janaki rural municipality NPR 1,000,000, and Sapkota municipality NPR 960,000 rupees, all of which are budget amounts for the 2022/2023 fiscal year.

⁶⁵ Surunga City and Sapkota City in the same province responded in the questionnaire that monitoring results are partially reflected in annual and periodic plans.

(3) Institutional framework, it systems, organizational structure/human resources**Institutional Framework**

Based on interviews with the surveyed local governments, it was found that there are no cases where local governments have formulated their own acts or regulations for project management. Instead, local governments utilize laws, regulations, and guidelines set by the federal or provincial government related to project formulation and appraisal, selection, implementation (including procurement and monitoring), operation and maintenance, and asset management.

The primary laws, regulations, and guidelines utilized are as follows:

- Local Government Operations Act 2074
- Local Infrastructure Development Project Operation Procedure 2079
- Public Procurement Act 2063, Public Procurement Regulation 2064

Regarding laws and guidelines for the formulation of spatial plans, infrastructure development plans, and master plans, the situation varies by sector. For example, in the transportation sector, the Department of Local Infrastructure Development (DOLID) of the federal government issued the Municipal Transport Master Plan (MTMP) Guidelines and Manual in 2014, and local governments are currently developing MTMPs in accordance with these guidelines and manual.

IT Systems (Project Bank)

None of the surveyed local governments has implemented a project bank. The reasons cited for not implementing a project bank include the fact that its implementation is not legally mandated, local representatives have expressed limited interest in implementing it, and there is limited support from the federal or provincial governments for its implementation.

Organizational Structure/Human Resources

The Physical Infrastructure Development Section of local governments is responsible for the construction of structures, with a staff size (fixed number) of approximately 10 to 15 personnel. In some local governments, approximately half of the fixed positions are vacant.

According to interviews with local governments, there are virtually no opportunities for training the staff of the said section in procurement or technical matters.

3.6.4 Challenges for Provincial and Local Governments

Challenges related to project management are as follows:

- **Development of regional development plans and infrastructure development plans:** As of the time of this survey, the surveyed local governments have no track record of formulating regional development plans or infrastructure development plans. When preparing the annual budget of the local government for the next fiscal year, small-scale infrastructure development projects are selected based on current needs, rather than long-term development plans. In other words, to address the fact that there are many small-scale projects that benefit only for each ward, and few projects that benefit the local government as a whole, it is necessary to formulate infrastructure development plans of the local government as a whole, take stock of infrastructure projects that have been completed to date, and integrate existing plans

appropriately, as master plans exist in some areas such as water supply. This plan formulation is also expected to increase transparency in project formation, appraisal, and selection. To avoid falling into a situation similar to the current one, where the effectiveness of periodic plans is low due to the influence of the five-year election cycle, it is essential to involve citizens appropriately in the plan formulation process and to establish governance mechanisms, such as citizens' monitoring during implementation. In addition, it is crucial to coordinate the division of roles between the federal and provincial governments during the plan formulation process.

- **Review of systems related to formation, appraisal, selection, and implementation:** In local governments, the current project formation, appraisal, and selection processes are concentrated in the short period of annual budget formulation. As a result, it is possible that projects that have not been adequately prepared or discussed may be selected. It is extremely challenging for local governments without a project bank to complete project appraisals within the budget formulation period. Although detailed project reports are required for large-scale projects, the project appraisal process and the quality of appraisals are unclear. Institutional modifications are needed to establish a project formation and appraisal cycle separate from the annual budget formulation cycle process. Additionally, the appraisal capabilities of relevant parties need to be enhanced.
- **Ensuring the quality of project monitoring:** Provincial and local governments have established organizations and institutional frameworks for project monitoring, and monitoring is being implemented. However, while there are many projects to be monitored, the monitoring and supervisory committees lack sufficient human resources and capabilities. In particular, local governments primarily aim to monitor and confirm the completion of projects before making final payments to contractors and user committees. However, since there are no checklists or evaluation indicators, the quality of monitoring is not sufficiently ensured. This is recognized as a common issue for both provincial and local governments.
- **Introduction of project evaluation:** Until now, there has been no legal framework for project evaluation, and therefore no systematic project evaluation has been conducted by provincial and local governments. Currently, there are insufficient means to verify whether projects are being implemented in line with annual and periodic plans, whether the intended objectives are being achieved, and what impact they are having on citizens as administrative services. With the Monitoring and Evaluation Law enacted in 2024, guidelines and an online reporting system⁶⁶ will be established by the NPC, and the introduction of project evaluation may gradually progress. In parallel with the development of guidelines for provincial and local governments, it is also essential to strengthen the capacity of provincial monitoring and evaluation committees and local government monitoring and supervisory committees.
- **Formulation of annual reports:** This survey found that project formulation, appraisal, and selection based on periodic plans and MTEFs are being conducted very limitedly in most cases. Furthermore, the degree of achievement of the development goals set in the periodic plans is not being shared among

⁶⁶ According to the National Planning Commission (NPC), to effectively and efficiently share and report monitoring and evaluation results of public works among the three levels of government, the introduction and improvement of IT systems are highly necessary in the future.

relevant parties. Therefore, it is necessary first to establish a system for reporting on annual development status.

- **Formulating operation and maintenance guidelines:** Although guidelines related to the formation, appraisal, planning, and implementation of project management have been established, their effective implementation faces challenges. On the other hand, guidelines for operation and maintenance are not yet in place, and budget allocation and personnel allocation for operation and maintenance are not sufficiently considered. Therefore, regarding operation and maintenance, the first step is to establish guidelines.
- **Strengthening asset management:** Currently, assets are not registered after project completion. There is no information on where projects were carried out in the past, and the asset value of facilities and structures is unknown. To improve this situation, public facilities should be registered as public assets. Furthermore, as promoted by the Public Expenditure and Financial Accountability (PEFA) Secretariat, it will be necessary in the future to register financial assets (such as loans and grants) as assets.
- **Organizational restructuring:** Although there are some vacant positions in local governments, the number of personnel is generally in line with expectations. However, the workload is heavy compared to the number of personnel, and some tasks, such as on-site inspections of projects, are outsourced to external consultants, so it cannot be said that there is a sufficient number of personnel. Furthermore, the technical level of civil engineering skills of the currently assigned staff is insufficient to handle the structure of large-scale bridge and building development projects. Therefore, if local governments are to construct such structures, it will be necessary to recruit and assign staff with structural engineering skills. A review of the organizational structure, including the demarcation of responsibilities with the federal and provincial governments, is required.
- **Strengthening the capabilities of personnel involved in project management:** To date, training and capacity-building for local government officials and resident representatives engaged in project management have been insufficient. In particular, training is required in project formulation, selection, procurement, and operation and maintenance.

3.7 Gender Equality and Social Inclusion

3.7.1 Status of Provincial governments

The new Constitution (2015) aims to realize an inclusive state and guarantees the rights of all people to equality, social justice, and freedom from all forms of discrimination.⁶⁷ In response, the Nepali government has prioritized GESI under the new federal system in its 15th Development Plan (2019/2020–2023/2024). In 2021, it formulated the National Gender Equality Policy 2077, which clearly outlines priority issues such as ensuring women's economic empowerment and social participation, and eliminating gender-based violence and harmful practices.⁶⁸ Based on constitutional provisions, GESI-sensitive quota systems were introduced in provincial and local elections in 2017 and 2022. These systems resulted in the election of

⁶⁷ See the Preamble of the Constitution of Nepal (2015).

⁶⁸ For more information, see GoN and MoWCSC (2021). According to the GESI Division of MoFAGA, the MoFAGA drafted the Social Inclusion Policy in 2020. However, it has not yet been approved by the National Assembly.

female, ethnic minority, and Dalit members of parliament in each provincial and local government.⁶⁹ A reservation system has been introduced in the civil service, including a 45% quota for women.⁷⁰

The PLGSP, which has supported capacity building in provincial and local governments, has prioritized the mainstreaming of GESI as mentioned in Section 2.4, and has promoted various initiatives such as the formulation of GESI strategies, the introduction of Gender-Responsive Budgeting (GRB)⁷¹, and the implementation of gender audits (See also in Section 3.4.1 (7)).⁷² At the provincial level, the Social Development Department of the Ministry of Social Development is responsible for the GESI-related tasks which include 1) developing policies, laws, and guidelines related to GESI, and 2) planning and implementing GESI-related projects and conducting GESI audits. The staffing situation varies by province, with three vacancies in Sudurpashchim Province (see Table below).

Table 51 Key achievements in GESI in target Provinces

Province	Number of staff	Main Achievements
Karnali Province	4	<ul style="list-style-type: none"> Development of provincial GESI policy (2021), GESI audit guidelines (2020), and GESI mainstreaming strategy (2023), as well as the passage of the Dalit Bill (2025).
	No vacancies	<ul style="list-style-type: none"> Appointed 18 Gender Focal Persons across sectoral ministries. GESI audits implemented since 2022. Development of a transformative leadership training manual with support from the EUSIF. Implementation of support programs targeting vulnerable children. Implementation of various awareness-raising programs.
Sudurpashchim Province	2	<ul style="list-style-type: none"> Development of the provincial GESI policy (2023) with support from the UNFPA and development of the GESI audit guidelines (2023) with support from the PLGSP.
	3 vacancies	<ul style="list-style-type: none"> Preparation of the GRB report by incorporating gender-specific targets, indicators, and budget codes and implementation of GRB-related training. Implementation of orientation on GESI audits. Implementation of GESI audit in 2023/2024 and publication of the report on the provincial website. Implementation of awareness campaigns to prevent violence against women. Implementation of income generation activities for women, persons with disabilities, orphans, and children.
Madhesh Province	5	<ul style="list-style-type: none"> Assigned GESI focal persons to each ministry. GRB does not set gender-specific targets or indicators. Budget coding is applied to some extent in annual plans.
	1 vacancy	<ul style="list-style-type: none"> Implementation of GESI audits. Implementation of the Dalit Empowerment Act (2020).

Source: JICA Survey questionnaire and interviews

⁶⁹ The Constitution stipulates that 40% of local government councilors must be women, and an additional 20% must be reserved for Dalits. Furthermore, it states that 33% of state and federal government councilors must be women. The number of female local government members increased from 14,353 (40.96%) in the 2017 election to 14,352 (41%) in the 2022 election. The proportion of female members in provincial and federal governments also reached 36.4% and 33.8%, respectively (both in the 2022 election).

⁷⁰ See JICA and IC Net Limited (2024). Following the promulgation of the Interim Constitution (2007) that explicitly stipulated affirmative action measures, the Civil Service Act was revised in 2007 to introduce a quota system. The breakdown of the 45% is as follows: women 33%, *Adivasi Janajati* (indigenous peoples) 27%, *Madhesh* (lowland Indian-origin residents) 22%, Dalit 9%, and persons with disabilities 5%.

⁷¹ The introduction of GRB in Nepal began with the development of GRB guidelines in the 2007/2008 fiscal year prior to the transition to federalism, and in 2013, GRB functions were added to the LMBIS, a ministry-specific budget information management system (GoN and MoF, 2024).

⁷² See GoN, MoFAGA and PLGSP (2021) for details of the GESI strategy under the PLGSP. According to the MoFAGA (2023), more than half of the 753 local governments have developed GESI policies or strategies.

3.7.2 Status of Local Governments

In local governments, the Women, Children and Social Development Unit, or the Women, Children and Social Welfare Section, is responsible for formulating GESI-related policies and programs, and for conducting related activities. Of the six local governments surveyed, Janaki and Saptakoshi have relatively large staff numbers, with 13 and six members of staff respectively, while the other cities have only two or three. In the Karnali and Sudurpashchim provinces, only one or two members of staff are assigned to GESI-related tasks. Overall, the number of staff seems insufficient for the volume of GESI-related work. However, the only vacancy is in Bheriganga, and it is unlikely that additional staff will be hired in the future. Conversely, in Madhesh Province, three staff members in Surunga and six in Saptakoshi are responsible for GESI-related tasks within their respective departments. All local governments have gender focal points, with GESI-related responsibilities handled by the GESI staff members.

All six local governments, except Janaki formulated GESI policies or strategies under the PLGSP (see the table below). However, in some cases, it was unclear whether such policies or strategies had been formulated, and the year of formulation was unknown. This suggests that they were not formulated independently by LG staff members but rather under the guidance of external consultants. Three local governments have conducted GESI audits with varying levels of implementation. Some local governments explained that they are conducting GESI audits to ensure that grant allocation amounts are not reduced, given that there are GESI-related evaluation items in LISA.⁷³ As previously mentioned, only two local governments are implementing code classification and preparing financial reports, and these practices are not being implemented sufficiently (see Section 3.4.2(7)).

Table 52 Status of GESI activities of local governments surveyed

Local governments	The current number of staff in the department or unit, including (GESI staff)	GESI Policy/ Strategy (Year developed)	GESI Audit (Year conducted)	GESI-related activities (2023/24 fiscal year)		
				Budget	Expenditure	Main Activities
Karnali Province						
Bheriganga Municipality	2 (1)	○ (2024)	×	12.40	11.73	-Awareness raising and technical training -Empowerment of Dalits -Support for Persons with Disabilities
Kapurkot Rural Municipality	2 (2)	○ (2022)	○ (2023/24)	3.27	3.18	-Technical training -Dalit and women's awareness and empowerment -GESI Audit

⁷³ Although LISA evaluation results are not linked to grant allocations for local governments, some LG officials may misunderstand this.

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Sudurpashchim Province						
Shuklaphanta Municipality	3 (2)	○ (2020)	○ (2019/20, 2022/23, 2023/24)	3.7	3.15	-GRB Assessment -Reduction of sexual violence and abuse against youth -Establishment of Children's Clubs -Awareness-raising for parents of children with disabilities
Janaki Rural Municipality	13 (1)	×	○ (2021/22, 2023/24)	5.20	4.31	-GESI Coordination Committee Meeting -Establishment of the Ward Children's Rights Committee -Support for Persons with Disabilities
Madhesh Province						
Surunga Municipality	3 (3)	○ (2023)	×	4.35	4.4	-Child labor prevention, child-friendly campaigns -Dalit and women's empowerment -GESI audit preparation
Saptakoshi Municipality	6 (6)	○* (NA)	×	4.04	3.75	-GESI audit training -Community awareness -Campaigns on gender-based violence and domestic violence -Campaign on dowry

Note: Budget and expenditure units are in million rupees. *During the interview, officials explained that they had formulated a GESI policy. However, there was no physical copy available, no information on the website, and the year of publication was unknown.

Source: JICA Survey questionnaire and interviews

The following are examples of good practices related to GESI in the respective LG. Despite limited budgets, each LG has implemented GESI activities with innovative approaches.

Table 53 GESI good practices in local governments surveyed

Local Government	Good practices in GESI
Karnali Province	
Bheriganga Municipality	• Enacted the Dalit Empowerment Act in January 2023, which includes provisions for educational support such as scholarship provision, strict enforcement of prohibitions against caste-based discrimination, and creation of employment opportunities. A committee was established in the municipality to enforce the law.
Kapurkot Rural Municipality	• No best practices were reported, but in addition to developing GESI policies, the rural municipality enacted the Sexual Violence Prevention Act Implementation Regulations 2079 in 2023.
Sudurpashchim Province	
Shuklaphanta	• A breastfeeding room has been established within the municipality office.

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Municipality	<ul style="list-style-type: none"> Supported women entrepreneurs in leaf businesses in Ward 4 and Ward 6 through the Micro-Enterprise Development Program (MEDPA) aimed at poverty reduction.⁷⁴ Support was provided by the National Trust for Nature Conservation.
Janaki Rural Municipality	<ul style="list-style-type: none"> Developing an educational curriculum and textbooks in the Talu language with consideration for ethnic minorities. Through MEDPA, supporting leaf business initiatives by former <i>Kamaiya</i> (bonded laborer) women's groups in Ward 1 and Ward 3, and tailoring in Ward 6. The latter receives support from a community forest group. Supporting income generation for families of severely disabled individuals through tailoring businesses.
Madhesh Province	
Surunga Municipality	<ul style="list-style-type: none"> Goat farming program targeting widows.
Saptakoshi Municipality	<ul style="list-style-type: none"> Free ambulance service for pregnant women. 50% discount on business registration taxes for women.

Source: JICA Survey questionnaire and interviews

3.7.3 Challenges for Provincial and Local Governments

The following issues related to GESI have been identified.

- **Insufficient mainstreaming of GESI in practice:** At provincial and local government levels, laws and systems to promote GESI mainstreaming are being established, primarily with the support of the PLGSP. However, as will be described below, the mainstreaming of GESI has not yet advanced sufficiently in practice.
- **Lack of statistical data necessary for GRB and GESI promotion:** To achieve a common understanding among provincial and local assemblies that GESI should be given equal or higher priority to other development issues, concrete data and information are indispensable. However, statistical data on various target groups, including gender-disaggregated data and data on socially marginalized groups such as Dalits, is barely available at either the local or provincial government levels. This lack of data hinders the full implementation of GRB and GESI policies and strategies.
- **Low priority and limited budget for GESI programs:** In many provincial and local governments, infrastructure development remains in high demand among community people and tends to be prioritized. Furthermore, budget allocations designated for social development projects targeting women and children were abolished after the introduction of federalism, making it difficult to select projects that directly benefit these groups. Consequently, GESI programs are given low priority within the limited budgets of many provincial and local governments, resulting in limited activity.
- **Lack of political will to mainstream GESI:** although legal systems to promote GESI have been established since the transition to federalism, many provincial and local governments lack the strong

⁷⁴ With support from the UNDP and the Australian Department of Foreign Affairs and Trade, the Ministry of Industry, Commerce, and Supplies has been implementing this program since 1998. It was later expanded nationwide. Both individuals and groups can participate, and obtain loans from banks and attend various training programs. Beneficiaries are responsible for 20% of activity costs, while the LG covers the remaining 80%. According to interviews with local governments in Sudurpashchim Province, the program has been effective in improving the livelihoods of poor people who are able to cover the costs and continue their activities. However, some people who rely on daily labor for their livelihoods have reported that they are unable to participate in the program due to the time required for skill training, which can take up to three months.

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leadership and political will among mayors and chairpersons, legislators and parliaments necessary to promote GESI policies, resulting in their ineffective implementation.

- **Lack of experience and knowledge among female and Dalit quota representatives:** Although female and Dalit quota representatives have been elected to local governments, many of them are first-time representatives who lack experience and basic knowledge of politics and administration. Although orientation programs targeting these representatives are being conducted with support from the PLGSP and other donors, they are not fulfilling their role of sufficiently promoting GESI by reflecting the voices of people in their annual plans at district and local council levels.
- **Lack of GESI-sensitive planning:** Some local governments do not adhere to the guidelines when planning. Consequently, community participation is limited, particularly among women and other socially vulnerable groups. Even when they participate and express their opinions, there is a tendency for the opinions of women and young people not to be reflected in project selection.
- **Lack of knowledge and capacity among community people regarding GESI and local administration:** Community people, including women and Dalits, have insufficient awareness, knowledge and capacity regarding GESI and local administration. Discriminatory social and cultural practices, such as the caste system, remain deeply rooted and hinder the mainstreaming of GESI. Continuous awareness-raising activities and the promotion of behavioral change are essential to address this situation. Prior to the introduction of federalism, the Local Governance and Community Development Programme (LGCDP) focused on building the capacity of communities and people due to the absence of local assemblies and elected representatives. However, this initiative was not continued in the subsequent PLGSP, which instead prioritized capacity building for newly elected representatives and provincial and local governments. Against this backdrop, efforts to strengthen knowledge and capacity related to local administration, including GESI, have been insufficient, resulting in limited community participation in the formulation of annual plans and projects by local governments.
- **Lack of active Tole Development Organizations and Tole Lane Organizations:** There are multiple settlements (*toles*) within the ward, which is the smallest administrative unit. In some cases, Tole Lane Organizations (TLOs) have been established. Additionally, after the MoFAGA developed the Model Guidelines for Tole Development Organizations in 2077 (2021) and the Tole Development Organization Act in 2079 (2023), some local governments newly formed TLOs.⁷⁵ According to the local governments surveyed, these organizations are not necessarily present in all wards. Even when they are established to consolidate the opinions of residents and promote various forms of civic participation, few are active. Revitalizing existing tole organizations would facilitate community participation in planning and implementing projects, as well as mainstreaming GESI.
- **Lack of knowledge and capacity among residents regarding GESI and local administration:**

⁷⁵ MoFAGA (2021) and MoFAGA (2023). For example, four Tole development organizations were set up in Ward 9 of Shuklaphanta Municipality in the Sudurpashchim Province. This was because it was difficult for the ward chairperson and ward members alone to gather opinions and coordinate project plans for each ward and facilitate smooth discussions among community people in the rural municipality. Notably, a woman who had previously served as a Dalit ward member was appointed as the organization's chairperson, highlighting the significant need for capacity building within such Tole organizations.

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Local people, including women and Dalits, have insufficient awareness, knowledge and capacity regarding GESI and local administration. Discriminatory social and cultural practices, such as the caste system, remain deeply rooted and hinder the mainstreaming of GESI. Continuous awareness-raising activities and the promotion of behavioral change are essential to address this situation. Prior to the introduction of federalism, the LGCDP focused on building the capacity of communities and people due to the absence of local assemblies and representatives.⁷⁶ However, this initiative was not continued in the subsequent PLGSP, which instead prioritized capacity building for newly elected members and provincial and local governments. Against this backdrop, efforts to strengthen knowledge and capacity related to local administration, including GESI, have been insufficient. This has resulted in limited community participation in the formulation of annual plans and projects by local governments.

- **Lack of practical knowledge and skills regarding GESI among administrative staff:** This applies not only to GESI-focal staff, but also to staff in other sections or units. Although some local governments have developed GESI policies or strategies, conducted GESI audits or implemented GRB, the implementation remains inadequate. Additionally, stakeholders have raised issues such as the results of GESI audits not being reflected in subsequent plans and insufficient GRB implementation. There is an urgent need to enhance the practical GESI capabilities of not only GESI focal persons and GESI-responsible sections or units, but also of all provincial and local government officials.

3.8 Human Resource Development

3.8.1 Status of Provincial governments

The Local Development Training Academy (LDTA) was established as a training institute for LG officials under the MoFAGA⁷⁷ and had seven regional centers. In 2020, these regional centers were reorganized into Provincial Centers for Good Governance (PCGG) under the PLGSP and now serve to strengthen the capacity of provincial and local governments. Subsequently, each provincial government enacted acts and regulations or administrative orders for each training institute, conducting organization and Management (O&M) surveys in the process. However, staff allocation varies by province. The Madhesh Provincial Research and Training Centre (MPRTC) has assigned 13 out of 19 staff members. Conversely, the Karnali Province Training Academy (KPTA) and the Sudurpashchim Province Research and Training Academy (SPRTA) have not made sufficient progress, partly because the O&M survey results have not yet been approved by the provincial government cabinet. Because of the absence of technical staff, consultants

⁷⁶ For example, Citizen Awareness Centers were established in each LG, and community mobilizers assigned to each LG conducted awareness-raising activities targeting women and Dalits. Additionally, community mobilizers facilitated discussions among people, including women and socially vulnerable groups, to support the development of local government development plans and participation in projects.

⁷⁷ According to the LDTA, despite organizational restructuring during the transition to federalism, the LDTA Act has not been revised to date. Training for civil servants in non-official gazette positions and on-demand training for provincial and local government officials and elected members are conducted. There is no particular cooperation or coordination between the LDTA and provincial training institutes or the PLGSP. Training for civil servants in official gazette positions is conducted by the Nepal Administrative Staff College (commonly known as the Staff College) as before.

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dispatched by the UNDP technical assistance program under the PLGSP are responsible for training activities. Most activities are training programs related to capacity development (CD) for provincial and local governments, as planned by the PLGSP. In Karnali and Sudurpashchim provinces, on-demand training is also being conducted in response to requests from local governments (see the table below).

Table 54 Status of training centers in the provinces surveyed

Karnali Province	
Established	The Karnali Province Training Academy (KPTA) Act was enacted in 2023. A new training building was constructed using the provincial government budget.
Number of Staff	According to the Organization and Management (O&M) survey, 56 staff members including 17 technical staff are planned to be assigned, but currently there are 11 staff members including the Executive Director, 9 seconded staff members, and 1 PLGSP/UNDP consultant. The latter are responsible for actual operations.
Main Activities	Budget and activities are supported by PLGSP and EU (MTEF training). On-demand training is conducted, including revenue improvement plans and CDP development.
Sudurpashchim Province	
Establishment	The Sudurpashchim Province Research and Training Academy (SPRTA) Act was enacted in 2020, with regulations implemented in 2022.
Staff	According to O&M survey results, 21 staff members are planned to be assigned, but currently there are 6 including 1 executive director, 4 former LDTA regional center staff members, and 1 PLGSP/UNDP consultant. Only the latter is capable of handling training activities.
Main Activities	Allocated a budget of NPR 100 million from PLGSP and NPR 30 million from the province. Training programs for provincial and local elected members and staff through PLGSP were conducted. On-demand training was initiated. Provincial CDP has not been developed.
Madhesh Province	
Establishment	The Madhesh Provincial Research and Training Center (MPRTC) was established in 2021 by a provincial government administrative order.
Number of Staff	According to the O&M survey results, 19 staff members are planned to be assigned, with 13 currently assigned. Frequent personnel changes occur.
Main Activities	Training programs for provincial and local government officials and staff under the PLGSP were conducted.

Source: JICA Survey questionnaire and interviews

3.8.2 Status of Local Governments

The target local governments do not have a section or unit dedicated to capacity development (CD), so this task is handled by the administrative section instead. Although Capacity Development Plans (CDPs) are expected to be formulated as part of PLGSP activities, they have only been confirmed in three local governments: Kapurkot, Shuklaphanta and Janaki (see the table below). However, due to budget constraints, these local governments are unable to implement activities in accordance with the CDPs. The remaining local governments without CDPs engage in limited capacity development activities in line with their annual development plans. The need for CD is shown in the table below. In addition to annual development plans and periodic plans, MTEF, GRB and GESI audits are undertaken by the PLGSP. Staff training includes administrative management, procurement, IT, tax collection and revenue improvement.⁷⁸ The needs of elected representatives are based not on their own opinions, but on those of LG staff. These needs focus on

⁷⁸ According to LDTA, the most frequently requested themes for on-demand training from local governments nationwide include periodic planning, MTEF, property tax, procurement, GRB, disaster management, information management, and leadership.

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basic issues such as the roles and responsibilities of elected members, and rules and regulations. In terms of the organization's needs, in addition to developing physical infrastructure, such as organizational structure, human resources and IT systems — which encompass a broader interpretation of CD — other needs include coordinating and cooperating with other agencies, inter-local government cooperation and public-private partnerships.

Table 55 Status of CD activities in local governments surveyed

	Capacity Development Plan (year)	CD activities (FY 2023/24)			CD Needs (Areas requiring strengthening)		
		Budget	Expenditure	Main Activities	Staff	Elected representatives	Municipality /Rural Municipality Office (Organization)
Bheriganga	×	0.1 local revenue	NA	-Various training	-Annual plans, periodic plans, MTEF, GRB, monitoring and evaluation (M&E) -Tax collection (including citizen tax education) -Motivation improvement -Admi. management -IT -Self- development and non- cognitive science training	-Orientation on laws, regulations, rules, and the roles and responsibilities of council members	-Human resource development plans -Competency development plans, motivated staff -Guidelines and procedures -IT systems
Kapurkot	○ (2024)	0.9	0.35	-Various training	-Annual plans, periodic plans, MTEF, GRB, M&E -Procurement -Roles and responsibilities	-Policy -Laws and legal frameworks -Roles and responsibilities	-Human Resources Development Department -Physical aspects, equipment, and supplies -IT systems

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Shuklaphanta	○	1.63	1.5	-CDP development - Creation of agricultural & educational profiles -GESI audit -IT training, observation and training for the Judicial Committee	-On-the-job training -Periodic plan and MTEF -M&E -Good Governance and Leadership -IT -Procurement, Audit including improvement of audit arrears -GESI Audit -GRB, GESI Strategy -Report preparation	-Periodic plan and MTEF -Laws, regulations, procurement -M&E -Good governance and leadership -Public hearings and social audits -IT -GESI Audit, GRB, and GESI Strategy	-Policy, Law, Regulations, Guidelines, Procurement -IT -Participatory planning and M&E -Public-Private Partnerships (PPP) -Citizen Participation -Coordination with other agencies
Janaki	○ (2021/22)	1.6	0.9	-Study tour and training for judicial committees and mediators -IT, disaster prevention, and local administration training -GESI policy, GRB, GESI audits, and public hearings	-Periodic plan and MTEF -Good governance and leadership -IT -On-the-job training -Internal control systems -Procurement, Audit including improvement of audit arrears	-Periodic plan and MTEF -Laws, regulations, and procurement -Good Governance and Leadership -Public hearings and social audits -IT -GESI Audit, GRB, and GESI Strategy	-Integrated plan for CD -Policy, Law, Rules, and Guidelines - Procurement -IT -Participatory planning, M&E -PPP -Citizen participation -Coordination with other agencies
Surunga	×	NA	NA	-Teacher training by the municipality -IT-based training by the Federal Audit Office	-Annual plan, periodic plan, MTEF, GRB and M&E -Procurement -Roles and responsibilities	-Policy development -Legislation	-Physical aspects, equipment, and supplies -IT -Training programs -Orientation and site visits for elected members and staff

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Saptakoshi	×	NA	0.2 **	-Teacher training by the municipality -IT-based training by the Federal Audit Office training for teachers by the city	-Annual plan, periodic plan, MTEF, project bank, GRB and M&E -Procurement -Roles and responsibilities	-Policy formulation -Legislation -Periodic plan, MTEF, GESI, Sustainable Development Goals (SDGs), Child-Friendly LG, Environmentally Friendly LG -Revenue improvement	-Physical Infrastructure and equipment -IT -Training -Orientation and study tours for elected members and staff -Improvement of staff transfer and promotion systems

Note: *Budget and expenditure units are in million Rupees. **training for municipal staff only.

Source: JICA Survey questionnaire and interviews

3.8.3 Challenges for Provincial and Local governments

The challenges faced by provincial and local governments in human resource development are as follows:

- Provincial training institutes lack adequate personnel, infrastructure and facilities.** Training institutes were established in each province under the coordination and support of the PLGSP as institutions responsible for training provincial and local government officials. However, the results of the O&M surveys of these organizations have not been approved in any of the three provinces surveyed, and the KPTA and SPRTA in particular are experiencing delays in staff deployment. Furthermore, there is no legal basis for the relationship between these provincial training institutes and sector training institutions in each province, such as the Provincial Education and Training Centers (ETCs) described below. There is also no coordination or collaboration between them. In terms of facilities, although the KPTA has constructed a training building using provincial budget, there is a shortage of accommodation. Conversely, the SPRTA and the MPRTC have not adequately addressed the ageing infrastructure. Furthermore, the SPRTA and the MPRTC are responsible for both training and research, but both agencies recognize that they are not devoting sufficient resources to the latter. Based on the above, it is essential to strengthen the capacity of provincial training centers. The urgent task is to ensure the adequate allocation of staff, including technical staff.
- Capacity building for local elected representatives:** Capacity building for local elected representatives remains inadequate. Although various orientation and training programs have been implemented for provincial and local representatives under the PLGSP, opportunities for individual support are limited due to the large number of elected members. Furthermore, as local elections are held every five years, it is highly likely that local representatives will be newly elected who lack sufficient knowledge of basic politics, administration and laws. Therefore, there is a need to raise their overall capacity. Concerns have been raised about the capacity of female representatives and those from the Dalit quota. Several local government officials have also expressed the view that GESI and community participation are not being adequately implemented. Providing intensive support and sharing examples of good practice would be an effective way to address these issues.

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- **Lack of practical skills among local government officials:** Although various laws, policies and systems have been developed at the local government level under the PLGSP, many challenges remain in their implementation, and it is difficult to conclude that the program's capacity-building support has been fully effective. As the PLGSP targets all provinces and local governments nationwide, one-size-fits-all training programs are unable to address the individual needs of each local government adequately. While some local governments have requested and implemented on-demand training from provincial training institutions, such initiatives remain limited. As previously mentioned, even in areas where the PLGSP has provided support, such as with annual development plan and periodic plans, MTEFs and GESI audits, the CD needs of local government officials remain high. Additionally, there have been many requests for more practical training in areas such as business management, procurement, IT, tax collection, revenue improvement, sector-related technical training and leadership.

4. Status of Sectors in Surveyed Provinces and Local Governments and Considerations for JICA Project Implementation

4.1 Provincial and Local Roads in the Transportation Sector

4.1.1 Status and Challenges

(1) Overview of the provincial government's road transportation sector

Scale: The budget allocated for road and bridge construction accounts for the largest proportion in Karnali and Sudurpashchim Provinces, reaching approximately 40 - 45% of the total capital budget (Table 56). By contrast, in Madhesh Province, expenditures classified under "other" projects constitute the largest share, with the road and bridge construction budget accounting for only 19% of the total.

Looking at the implementation status of projects in each province, 336 projects are being implemented in Karnali Province and 219 projects in Sudurpashchim Province. The average budget per project is 24 million rupees in Karnali Province and 32 million rupees in Sudurpashchim Province.

Funding sources vary by project. The majority comes from federal government grants. For example, in Karnali Province, approximately 10% of the 2024 fiscal year budget for road and bridge construction (approximately 82.6 billion rupees) is from the provincial own funds, with the remaining 90% coming from grants.

Plan: The three surveyed provinces each have different geographical characteristics. Road and transportation development has been identified as a key priority in the periodic plan of each provincial government, considering these characteristics. In all three provinces, provincial transportation master plans (PTMPs) have been formulated in accordance with the guidelines of the Department of Local Infrastructure Development (DOLID). Since consultations with local governments had not been conducted during the formulation of these master plans, there is a possibility of a lack of coordination between the provincial government and local governments in infrastructure development. Therefore, at the stage of formulating road projects based on the master plans, consultations between the provincial government and local governments are essential to avoid project duplication and ensure connectivity with roads developed by local governments.

Project Formulation: To date, prioritization and budgetary measures based on road improvement plans have not been concretized. In the future, it is expected that the master plan will be utilized to formulate, appraise, and select projects.

Project Implementation: There is no organized data on project delays (time overruns) or cost overruns, and details are unclear. The leading cause of project delays is land acquisition, and measures are needed to address this issue.

Operation and maintenance: Regarding operation and maintenance, the Ministry of Physical Infrastructure Development of the Provincial Government has an operation and maintenance plan for the road transport sector. According to the said Ministry of Madhesh Provincial Government, the "Road Operation and maintenance Group Guidelines 2024", formulated by the Department of Local Infrastructure

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Development (DOLID) of the federal government, are applied to road operation and maintenance. Operation and maintenance are handled by the regional office of the said Ministry, among others. However, considering the allocation of the annual budget, it is difficult to say that sufficient measures are in place. The figures i, j, and k in Table 56 represent maintenance costs for all public facilities and are not limited to road and bridge projects. Of these, only daily maintenance is allocated from the regular budget, accounting for approximately 0.1% of the capital budget.

Organization and human resources: The ministry responsible for road and bridge construction within the provincial government is the Ministry of Physical Infrastructure Development. This ministry receives approximately 30% of the total budget of each provincial government and is the ministry with the largest budget within the provincial government. Each Ministry of Physical Infrastructure Development within the provincial government has a department responsible for roads and bridges, as well as a department responsible for urban development, including water supply and sewerage, and several regional offices. According to the annual reports of Karnali Province and Sudurpashchim Province, there are numerous vacant positions, and a shortage of personnel is a significant issue. Additionally, interviews with relevant parties revealed challenges such as a lack of technical expertise in bridge and tunnel construction, which requires highly skilled personnel, and slope protection to prevent landslides, as well as an insufficient understanding of public procurement laws and regulations, environmental protection, and rules related to the resettlement of project-affected persons.

Table 56 Overview of road transport sector of provincial governments surveyed

Unit: Thousand Rupees

	Karnali Province	Sudurpashchim Province	Madhesh Province
a Total Budget ^{*1}	31,410,041	31,629,828	43,892,170
b Total Capital Budget (30000) ^{*1}	18,750,868	18,762,423	27,891,469
c Road and bridge construction expenses (31151) ^{*1}	8,158,599	7,102,613	5,436,306
d Percentage: % (d = c/b)	44%	38%	19%
e 【Reference】 Other projects expenses (31159) ^{*1}	-	-	12,495,746
f 【Reference】 Ratio: % (f=e/c)	-	-	45
g Number of road and bridge construction projects ^{*2}	336	219	155
h Annual budget per project (h=c/g)	24,282	32,432	35,073
i Daily maintenance (22231) ^{*1/**1}	22,751	50,591	44,365
j Regular maintenance (buildings) (31160) ^{*1/**1}	354,616	77,863	80,765
k Regular maintenance (non-building) (31170) ^{*1/**1}	217,599	233,148	355,520
l Budget amount of the Ministry of Physical Infrastructure Development (337)	10,465,439	14,597,884	13,115,274
m Percentage of the Ministry of Physical Infrastructure Development's budget as a proportion of the total budget	33	46	30
n Number of staff at the Ministry of Physical Infrastructure Development ^{*3}	222	464	249
o Vacant positions ^{*3}	111	228	81
p Status of Mid-Term Plan Development (○: Completed, ×: Not yet developed)	○	○	○
q Status of Formulation of Provincial Transportation Master Plan (○: Completed, ×: Not yet developed)	○	○	○

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r	Status of Road Operation and maintenance Plan Development (○: Completed, ×: Not yet developed)	○	○	○
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Legend: Items in parentheses are account codes. **1 Includes operation and maintenance of structures other than roads and bridges.

Source: *1 Budget Speeches for the 2024/25 fiscal year of each province, *2 Annual Development Programs for the 2024/25 fiscal year of Karnali Province and Sudurpashchim Province, Annual Development Program for 2024/25 fiscal year of Madhesh Province (Ministry of Physical Infrastructure only), *3 2024/25 Annual Progress Report of Ministry of Physical Infrastructure of Karnali Provincial Government

(2) Overview of the road sector in local governments

Scale: The capital budget of the surveyed local governments accounts for 20 to 30% of their total budget. The budget allocated for road and bridge construction constitutes approximately 25 to 30% of the total capital budget in the surveyed local governments under Karnali Province, approximately 40 to 60% in those under Sudurpashchim Province, and approximately 15% in those under Karnali Province (see Table 56).

In Saptakoshi Municipality, river embankment construction accounts for 22% of the budget. (Information on Surunga Municipality is currently pending.) According to information obtained on the number of road projects in Janaki Rural Municipality, there were 80 road and bridge projects in the 2023 fiscal year, with an average cost of approximately 940,000 rupees per project.

Funding sources vary by project. The majority comes from the federal government's equalization grants. For example, in Janaki Rural Municipality's 2023 fiscal year, road projects received approximately 80% of their funding from the federal government's equalization grants.

Planning: Local governments with periodic plans emphasize the importance of road and transportation development. However, regardless of whether or not they have periodic plans, none of the local governments surveyed in this study have yet formulated local government road/transportation master plans, although there are guidelines and manuals for local government transportation master plans (Municipal Transport Master Plan: MTMP) formulated by the Department of Local Infrastructure Development (DOLID).

Project Formation: Road projects, like other public investment projects, are budgeted through the annual budget process. Citizens' opinions on the project for the following year are gathered and discussed at the ward level before being proposed, and the proposed projects are selected to allocate budget by the municipality/rural municipality council.

Project implementation: There is no organized data on project delays (time overruns) or cost overruns, and details are unclear. The main factors contributing to project delays are believed to be lengthy procurement processes. In addition, it has been reported that the ease of registration for construction companies, which allows unqualified contractors to enter the market, and variations in the knowledge and skills of user committees hinder the efficient implementation of projects.

Operation and maintenance: Regarding operation and maintenance, some local governments do not allocate sufficient funds in their annual regular budgets. Even if funds are secured in the regular budget, they amount to only about 1 to 2% of the capital budget, which is a small amount.

There are no departments or personnel dedicated solely to operation and maintenance; instead, the Infrastructure Development Section of the local government is responsible for operation and maintenance. According to the Infrastructure Development Section of Surunga Municipality, the municipality has

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formulated the "Maintenance Guidelines 2024" for road maintenance purposes.

Organization and Human Resources: There is no department specifically specialized in road and bridge construction; instead, the Infrastructure Development Section is responsible for planning, appraisal, procurement, and maintenance. Regarding human resources, issues such as a shortage of staff with technical expertise and high turnover rates have been reported.

Table 57 Overview of road transportation sector of local governments surveyed

Unit: Thousand Rupees

	Karnali Province		Sudurpashchim Province		Madhesh Province		
	Bheriganga Municipality	Kapurkot Rural Municipality	Janaki Rural Municipality	Shuklaphanta Municipality	Saptakoshi Municipality	Surunga Municipality	
a	Total Budget ^{*1}	609,750	344,398	506,965	546,941	269,735	580,680
b	Total capital budget (30,000) ^{*1}	135,630	98,302	136,373	164,199	59,175	177,384
c	Road and bridge construction expenses (31151) ^{*1}	34,897	31,235	75,097	69,562	8,281	64,078
d	Ratio: % (d = c/b)	26%	32%	55%	42%	14%	36%
e	Number of road and bridge construction projects ^{*2}	**2	**2	80	**2	**2	**2
f	Annual budget per project (f=c/e)	**2	**2	938	**2	**2	**2
g	Daily maintenance (22231) ^{*1}	0	2,619	0	**2	764	448
h	Regular maintenance (building) (31160) ^{*1}	1,655	414	36	**2	2	**2
i	Regular maintenance (excluding buildings) (31170) ^{*1/ **1}	0	10	344	**2	354	**2
j	Number of staff in the Infrastructure Development Division ^{*3}	12	6	1	11	7	13
k	Vacant post ^{*3}	0	0	3	0	8	0
l	Status of Mid-Term Plan Development ^{**3}	×	○	○	○	×	○
m	Status of road operation and maintenance plan ^{**3}	×	×	×	×	×	×
n	Status of Local Government Transportation Master Plan Development ^{**3}	×	×	×	×	×	×

Legend: Items in parentheses are account codes. ^{**1} Includes operation and maintenance of structures other than roads and bridges. ^{**2} Not available ^{**3} (○): formulated, (×): Not yet

Source: ^{*1} Financial statements of each surveyed municipality (2023-24), for Surunga Municipality (2024-25), ^{*2} 2023/24 Fiscal Year Budget Allocation by Program/Project, ^{*3} On-site survey interviews

(3) Coordination functions at the federal, provincial, and local levels

Guidelines for periodic planning, MTEF, and annual budget formulation are provided by the federal and provincial governments; however, there are no opportunities for coordination or consultation beyond these guidelines. Furthermore, there is no coordination function among the three levels regarding the formulation, appraisal, selection, and implementation of road projects. According to interviews in the local government of Madhesh Province, there was no consultation with local governments when identifying provincial roads in the provincial road master plan.

Local governments request that federal or provincial governments undertake technically challenging or

difficult-to-implement road and bridge construction projects. However, during this field survey, it was not clarified how federal or provincial governments coordinate with local governments within the project management process to form, appraise, and select projects.

(4) Roads Board Nepal

The Roads Board Nepal is an independent organization established in 2002 under the Roads Board Nepal Act to manage and operate a dedicated fund for road operation and maintenance within Nepal.

The Roads Board Nepal allocates the budget necessary for road operation and maintenance to relevant agencies. The budget for the Strategic Road Network (SRN) is allocated to the Department of Roads (DOR), and the budget for the Local Road Network (LRN) is allocated to local governments. Under the current Roads Board Act, provincial governments (provincial roads) are not eligible for allocation.

The Roads Board Nepal determines the allocation amounts to each local government based on standards and formulas. However, to receive the allocation, local governments are required to share the costs, and some local governments do not receive the maintenance budget allocation from the Roads Board Nepal, even though it has been allocated.

Table 58 Budget allocation and disbursement for road maintenance by local governments surveyed

Unit: Thousand Rupees

	Bheriganga Municipality	Kapurkot Rural Municipality	Janaki Rural Municipality	Shuklaphanta Municipality	Saptakoshi Municipality	Surunga Municipality
Budget Allocation	4,400	1,000	1,800	4,800	4,700	3,500
Disbursement	0	1,000	0	2,221	0	2,827

Source: Roads Board Nepal Annual Report (FY 2022/23)

4.1.2 Points for Consideration in the Implementation of JICA Projects

- **Quality of Master Plans:** It is necessary to confirm whether the provincial and local governments targeted for cooperation have road/transport master plans and the status of their formulation. If master plans have not been formulated, support is required to assist in the formulation of master plans that consider the overall socio-economic development of the provincial and local governments. Additionally, suppose master plans have already been formulated. In that case, it is essential to verify the quality of the plans, including whether the content was discussed with the federal government, provincial government, and local governments during the formulation process, and whether the plans are sufficiently understood by the citizens. If the quality is inadequate, support for revising the master plan may also be considered.
- **Clarification of jurisdiction:** Local governments are not sufficiently involved in the formulation of provincial road/transport master plans. In light of this, it is necessary to carefully confirm the jurisdiction, formulation status, and relationship with the plan for roads that are to be cooperated on.
- **Coordination and collaboration:** To maximize project effectiveness and ensure efficient implementation, it is crucial to consider the connectivity of roads under the jurisdiction of federal,

provincial, and local governments, and to promote comprehensive development.

- **Utilization of JICA project experience:** In response to technical challenges, it is necessary to utilize the experience gained from previous JICA projects in Nepal. For example, the pilot activities for simple landslide prevention measures implemented in villages targeted by “The Study on Disaster Risk Management For Narayangharh – Mugling Highway (2007 to 2009)” could be utilized⁷⁹ .
- **Utilization of other donors' experience:** In the road sector, there are donor-supported projects such as the Rural Connectivity Support Project (RCIP) supported by the Asian Development Bank (ADB) and the Provincial Road Improvement Program (PLRIP) supported by the World Bank. From these projects, lessons can be learned regarding road management, local road construction and implementation (procurement), improvement of the technical and management capabilities of relevant parties, and insights into associated risks. The Local Infrastructure Support Program (LISP), implemented by the Foreign, Commonwealth & Development Office (FCDO) of the United Kingdom, integrates administrative capacity building (technical cooperation) for local governments with infrastructure development, including roads, offering insights into the potential and risks of combining "hard" and "soft" cooperation. Furthermore, until 2025, the United States Agency for International Development (USAID) has supported improvements in provincial government public finance management, and relevant guidelines are being developed, and their outputs and lessons learnt are expected to be utilized.
- **Sharing of examples among local governments:** The LISP mentioned above combines local administration and infrastructure development. If JICA projects are implemented with a similar combination, promoting information sharing and sharing of good practices between local governments supported by LISP and those supported by JICA projects is expected to enhance coordination and improve results between the two projects. LISP is scheduled to be implemented until 2029.
- **Fostering ownership among local governments:** Currently, local governments are outsourcing the formulation of periodic plans and revenue improvement plans to consultants and merely receiving the results. This situation suggests that local governments may not be taking ownership of their issues and solutions. In the planning and implementation of road development projects, dialogue with citizens and consensus-building are the roles of local governments. Therefore, consultants involved in the JICA project should respect the roles of local governments and support them in fostering their ownership.
- **Operation and maintenance Systems and Securing Financial Resources:** Collaborate with the Roads Board Nepal to establish operation and maintenance systems and secure financial resources for operation and maintenance.

4.2 Teacher Training in the Education Sector

4.2.1 Current Situation and Challenges

The Ministry of Education, Science and Technology (MoEST) has identified enhancing education quality as one of its key priorities in the School Education Sector Plan (SESP, 2022/23–2031/32). The plan aims to

⁷⁹ International Cooperation Agency, Japan Engineering Corporation (2024).

promote Teacher Professional Development (TPD) and establish a sustainable support system for teachers provided by local governments.⁸⁰ Under the federal system, local governments have been granted greater authority, with Local Education Units (LEUs) now responsible for primary and secondary education. Meanwhile, provincial governments are responsible for provincial universities, higher education, vocational education and the operation and management of libraries and museums. Teacher training is administered by provincial-level Education and Training Centers (ETCs), which are responsible for TPD. LEUs also conduct some training activities, as described below. Additionally, schools are expected to provide professional support to teachers to complement these efforts. District Education Offices, formerly the center of local education, were renamed Education Development Coordination Units (EDCUs) during the transition to a federal system, after which they were placed under the jurisdiction of the Centre for Education Human Resource Development (CEHRD)⁸¹ of the MoEST. EDCUs' personnel and budgets have been significantly reduced, and their responsibilities are now limited to administering the 10th-grade exams, coordinating between the CEHRD and LEUs, and performing other related tasks. It no longer conducts teacher training programs or provides school monitoring and technical support.

In the absence of a Federal Education Act⁸², none of the target provinces have enacted Provincial Education Acts and SESP activities are being implemented. In these circumstances, Madhesh Province has formulated the Provincial Education Policy 2081 in 2024, which aims to improve the quality of education, provide equitable educational opportunities and enhance the learning environment by developing school facilities and infrastructure.⁸³ In Karnali and Sudurpashchim provinces, legal frameworks for provincial universities are being developed, but comprehensive Provincial Education Policies have yet to be established. Education administration at provincial level is handled by the Education Development Directorate (EDD) under the Ministry of Social Development in Karnali and Sudurpashchim provinces, and by the Education Division of the Ministry of Education, Science, Technology and Commerce in Madhesh province. In Karnali province, 12 staff members have been assigned; however, there are nine vacancies in Sudurpashchim province, and 16 vacancies in Madhesh province, resulting in an insufficient staffing structure (Table 57). ETCs also exhibit similar trends. Additionally, the majority of ETC staff are administrative staff working in management departments. There is only one technical officer in each ETC, and training programs such as TPD are conducted by mobilizing registered experts (roster experts)

⁸⁰ According to MoEST (2022), the goals of SESP are: (1) ensuring equitable access, (2) strengthening the quality of education, (3) providing diverse educational opportunities, and (4) promoting good governance.

⁸¹ Following the transition to a federal system, district offices in each sector were abolished or dissolved. However, some sector offices including the EDCU under federal government jurisdiction at the provincial level, which oversees education, agriculture, and water supply, remain in place. The federal government's Education Act proposed the revival of District Education Offices, sparking criticism that this would infringe upon the authority of provincial and local governments.

⁸² As of June 2025, approximately nine and a half years after the promulgation of the Constitution, the Federal Education Act remains unenacted. As a result, the division of authority and responsibilities among the three levels of government in the education sector, as well as the coordination among relevant government agencies, remains unclear. Teachers in primary and secondary education, which are currently under the jurisdiction of the federal government, are scheduled to be transferred to the local governments after the enactment of the Federal Education Act. However, concerns about limited budgets, deteriorating working conditions, and the potential for fixed work locations have led to strong opposition from teachers' unions, making adjustments difficult. During the field survey for this study (April 7, 2025), large-scale protest demonstrations organized by teachers' unions took place against the federal government for failing to take concrete actions based on previous agreements toward the enactment of the Federal Teachers' Act. For details, see Kathmandu post (2025).

⁸³ Madhesh Provincial Government, Ministry of Education and Culture (2024) (Nepali).

responsible for specific subjects. ⁸⁴

Table 59 Status of EDD and ETC of provincial governments surveyed

Education Development Directorate (EDD)/Education Division				Education Training Center (ETC)			
Current Number of Staff	2023/24 Fiscal Year*		Main Activities	Current Number of staff	2023/2024 fiscal year*		Main Activities
	Budget	Expenditure			Budget	Expenditure	
Karnali Province							
28	372.63	172.31	-School construction	12	24.	19.	-One-month TPD
No vacancies			-Granting scholarships	No vacancies			-Five-day customized training
			-Creation of educational profiles				
			-Campaign and awareness raising against caste discrimination in -				
			Distribution of teaching materials				
			-Capacity development				
Sudurpashchim Province							
13	152.45	115.86	-Improvement of school infrastructure	7	24.1	13.	-One-month TPD
9 vacancies			-Revision of the implementation procedures for the National Vocational Qualifications System 2080 (2023/2024)	8 vacancies			-Five-day customized training
							-Leadership training for principals
							-Cognitive Function Enhancement Training for Children
Madhesh							
16	176.10	108.34	-ICT support program at school	16	60.64	36.64	-TPD Training (class 6-8) for health and physical education
16 vacancies			-One model school program in 8 districts	16 vacancies			
			-SEE Examination management support program				
			-Children friendly education support program				
			-Scholarship for Dalit student				
			-“Educate girl and Save girl” campaign				
			-EMIS Data management				

⁸⁴ Includes former and current teachers.

Note: *Budget and expenditure units are in millions of rupees.

Source: JICA Survey questionnaire and interviews

Of the six local governments surveyed, four local governments in Karnali province and Sudurpashchim province have not yet drafted or implemented their own education acts because the Federal Education Act has not yet been enacted. In contrast, Surunga municipality in Madhesh province enacted its Municipal Education Act in 2021, and Sapkota municipality did so in 2017. However, due to the Federal Education Act not being enacted, policies cannot be well determined for many matters, and education administration based on their own education acts cannot be fully implemented.

Regarding LEU staffing, Kapurkot and Saptakoshi have one staff member each; Surunga has three; and the remaining local governments have four. Kapurkot is the only one with vacancies. In local governments with three to four staff members, the total number includes assistants and support staff, with only one regular technical staff member.

The annual education budget plan is formulated through the process shown in Figure 5 which illustrates the effectiveness of the project selection and prioritization process outlined in section 3.4.2(5). Most activities in the education sector are planned according to the SESP, implemented by the MoEST with development partners' support. Thus, most of the budget consists of conditional grants from the federal government and equalization grants from the federal and provincial governments. CEHRD allocates conditional grants to local governments with budget ceilings for each SESP activity. These budgets are allocated to local governments nationwide as uniform activity packages to achieve the SESP's four goals: 1) ensuring equitable access, 2) strengthening the quality of education, 3) providing diverse educational opportunities, and 4) promoting good governance. The table below shows the status and challenges of education in the six local governments. Basically, since teachers' salaries account for a large portion of the budget, local governments with a large number of teachers tend to have a larger overall education budget. All local governments are working to improve the quality of education and learning outcomes under the SESP framework. Challenges include issues related to the number and quality of teachers in several local governments. Additionally, as will be discussed later, insufficient teacher training and a lack of institutional support are common challenges. Furthermore, weak education monitoring and evaluation systems also present a challenge. While some progress is evident, the need for improvements in school facilities remains.

Table 60 Status and challenges of education in local governments surveyed

	Basic Education Information			Local Education Unit				
	Schools*	Number		Number of Staff	2023/2024 academic year**		Major achievements	Major challenges
		Students	Teachers		Budget	Expenditure		
Bheriganga municipality	51	12044	239	4	265.12	248.10	-Improving the school enrollment rate	-Insufficient teacher training
	Basic: 36	Basic: 7,750	Basic: 215	None			-Improving the quality of education	-Weak monitoring system
	Secondary:	Secondary:	Secondary:					-Lack of legal framework

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	15	4294	24				-Improvement of learning outcomes -Infrastructure deficiencies
Kapurkot rural municipality	24	3	141	1	120.82	110.5	-School facility improvements -Declining student enrollment, school consolidation
	Basic: 19	Basic: 2824	Basic: 79	1 vacancy			-Career counseling and lectures for students -Lack of effective monitoring and evaluation
	Secondary: 5	Secondary: 1140	Secondary: 6				-Skill development training for students -Declining parental interest -Decline in educational quality -Budget and staff shortages -Lack of legal framework
Shuklaphanta municipality	28	5	19	4	217.88	199,85	-Completion of school adjustments and staff assignments -Shortage of subject teachers
	Basic: 15	Basic: 3,866	Basic: 164	No vacancies			-Budget shortfall due to the withdrawal of USAID (school construction support).
	Secondary: 133	Secondary: 1987	Secondary: 34				-Development of regional curriculum for grades 1–8 -Insufficient monitoring of scholarship disbursements -Classroom preparation -Inadequate management of private schools -Inadequate infrastructure
Janaki rural municipality	32	49	313	4	217.79	201.51	-Enhancement of teachers' and staff members' capabilities -Declining student enrollment and school consolidation (outflow to adjacent municipalities)
	Basic: 21	Basic: 3,744	Basic: 243	No vacancies			-Teacher shortage, particularly a shortage of high-quality teachers, and difficulties in securing them
	Secondary: 11	Secondary: 1198	Secondary: 8				-Improvement of school facilities -Regular academic performance analysis -Reassignment of teaching staff -School mergers -Insufficient teacher training due to lack of -Regular monitoring and

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						evaluation independent -Grant funding allocation based on academic performance
	3	7	17	3	213.04	188.3
Surunga municipality**	Basic: 23	Basic: 5,765	Basic: 125	No vacancies		
	Secondary: 7	Secondary: 2057	Secondary: 52			
						-IT-based training for teachers -Curriculum development for teachers -Teaching material management -Free distribution of books -School meals -Improvement of early childhood -teacher salaries and implementation of training
	12	3	96	1	88.71	68.53
Saptakoshi municipality***	Basic: 8	Basic: 2000	Basic: 69	No vacancies		
	Secondary: 4*	Intermediate: 1127	Intermediate: 2			
						-School facility improvements -Enhancement of teacher capabilities -Reduction in dropout rates -Enhancement of teaching and learning quality -Promotion of digitalization

Note: *This includes students from grades 1 to 10 and grades 1 to 12, as well as primary school students. **Budget and expenditure units are in million rupees. ***The budgets and expenditures for Surunga and Saptakoshi do not include salaries for teachers.

Source: JICA Survey questionnaire and interviews

The following analysis is based on education budgets and expenditures for the 2023/2024 fiscal year in Shuklaphanta municipality and Janaki rural municipality, both in Sudurpashchim province. As shown in Table 59, the total education budgets of the two local governments are nearly identical. Shuklaphanta's recurrent budget is 96.7% of its total education budget, while Janaki Village's is 94%. Recurrent expenditures, such as teacher salaries and activities implemented under the SESP, account for most education budgets of both local governments. Both local governments have an overall expenditure rate exceeding 90%, indicating a high level of budget execution. However, there is a significant difference in the capital expenditure rate. In Janaki rural municipality, the capital expenditure rate is 88.7%, suggesting that activities are generally implemented as planned. In contrast, Shuklaphanta municipality's capital

expenditure rate is only 58.4%, leaving approximately 41% of the capital budget unspent.

Table 61 Education budget and expenditure in Shuklaphanta and Janaki

Item	Shuklaphanta municipality	Janaki rural municipality
Total Budget	217,877	217,792
Recurrent budget	206,48	204,10
Percentage of total budget (%)	96.7	94
Capital budget	11,400	13,695
Percentage of total budget (%)	3.3	6
Total expenditure	199,847	201,514
Total expenditure ratio (%)	91.7	92.5
Recurrent expenses	193,19	189,37
Recurrent expenditure ratio (%)	93.6	92.
Capital expenditures	6,661	12,142
Capital expenditure ratio (%)	58.4	88.7

Note: Budget and expenditure units are in thousands of rupees

Source: Budget and financial statements for the 2023/2024 (2080/2081) fiscal year of Shuklaphanta municipality and Janaki rural municipality (SuTRA output)

The itemized education budgets and expenditures of the two local governments are shown in the table below. Salaries and allowances account for the largest proportion of the total education budget, representing 73% in Shuklaphanta and 80% in Janaki. Expenditure rates are high, at 97.45% in Shuklaphanta and 97.62% in Janaki, indicating stable teacher salary payments. The budget for constructing and maintaining school buildings and facilities is the only item classified under the capital budget mentioned above. While Janaki's expenditure rate is high at 87.41%, it is significantly lower at 58.9% in Shuklaphanta. This discrepancy is due to delays in constructing high schools and dormitories in ward 10 of Shuklaphanta municipality, as well as the failure to implement construction projects for a high school in ward 8 and sports field improvements in ward 4. Regarding learning recovery and extracurricular activities affected by the COVID-19 pandemic, Janaki rural municipality did not execute any budget, while Shuklaphanta municipality achieved expenditure rates exceeding 90% for both, implementing them as planned. Furthermore, Shuklaphanta implemented alternative educational activities, such as vocational and literacy education, which are not budgeted for in Janaki.

Table 62 Budget and expenditure by education item in Shuklaphanta and Janaki

Item	Shuklaphanta municipality			Janaki rural municipality		
	Budget	Expenditure	Expenditure rate	Budget	Expenditure	Expenditure rate
Salaries and allowances	149,318	145,509	97.45	164,400	160,495	97.62%
Snacks for students	10,859	7,734	71.22	11,980	8,039	67.10%
Improvement of the quality of school education	17,738	15,711	88.57%	8,000	6,618	82.72%
Scholarships and other student support	6,187	5,329	86.13	9,511	6,987	73.47%

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School Management	5,079	4,608	90.72	4,206	3,577	85.05
Educational materials	8,681	7,322	84.34	1,961	1,353	69.00%
Local Curriculum Development	500	499	99.80	1,030	805	78.11%
Various training programs	1,690	1,340	79.29	1,424	841	59.03%
Sports	3,075	2,660	86.50	655	629	96.00%
Learning recovery due to COVID-19 impacts	500	494	98.80	400	0	0
Extracurricular activities for students	150	140	93.33	300	0	0.00
Vocational education	2,100	1,400	66.67	No item		
Alternative education and literacy education	500	390	78.00	No items		
Establishment of school funds	1	0	0	No items		
Construction and maintenance	11,400	6,711	58.87	13,925	12,171	87.41%
Total	217,877	199,847		217,792	201,515	

Note: Budget and expenditure units are in thousands of rupees.

Source: Budget and financial statements for the 2023/2024 (2080/2081) fiscal year of Shuklaphanta municipality and Janaki rural municipality (SuTRA output).

The table below shows the sources of funding for the education budgets and expenditure of Shuklaphanta and Janaki. Both local governments depend heavily on grants from the federal and provincial governments to fund most of their education budgets. Approximately 93% of Shuklaphanta's budget and 83.7% of Janaki's budget are funded by grants. There is a particularly high dependence on conditional grants with predetermined purposes: 85.0% of Shuklaphanta's expenditure and approximately 79.3% of Janaki's expenditure are funded by these grants. This indicates a high level of dependence on federal government's education policies, particularly the SESP, led by the MoEST, as well as the federal government's responsibility for hiring and paying permanent teachers. Although authority in the education sector has gradually been transferred from the federal government to provincial and local governments since the transition to federalism, reliance on grants is inevitable, particularly for local governments due to their limited financial resources. A notable difference between the two local governments is their tax and non-tax revenue. Shuklaphanta receives revenue sharing from the federal and provincial governments, whereas Janaki does not. Conversely, Janaki generates 16.2% of its revenue through its own tax and non-tax revenue. This may be influenced by the chairman's emphasis on education.⁸⁵

Table 63 Sources of education budget and expenditure in Shuklaphanta and Janaki

Item	Shuklaphanta municipality				Janaki rural municipality			
	Budget	%	Expenditure	%	Budget	%	Expenditure	%
Federal Government Conditional Grants (Recurrent)	157,131	71	152,166	76.1	154,300	70.9	145,756	72.3
Federal Government Conditional Grants (Loans and capital)	1,500	0	1,450	0.7	339	0.2	291	0.1
Federal Government Conditional	12,003	5.5	8,617	4.3	10,261	4.7	7,388	3.7

⁸⁵ According to municipal officials, the current chairperson of Janaki rural municipality is prioritizing education, which has resulted in increased budget allocations compared to under the previous chairperson.

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Grants (SESP Loans and recurrent)								
Federal Government Conditional Grants (SESP, Recurrent)	7,337	3.4	5,711	2.9	6,200	2.9	4,608	2.3
Provincial government conditional grants (capital)	2,600	1.2	2,023	1	2,900	1.3	1,801	0.9
Federal Government Equalization Grant (Recurrent)	12,955	5.	11,930	6.0	3,695	1.7	2,685	1.3
Federal Government Equalization Grant (Capital)	900	0.4	735	0.4	6,825	3.1	6,371	3.1
Federal Government Special Grant (Loans and Capital)	8,000	3.7	4,000	2	0	0	0	0
Fiscal transfers (subtotal)	202,426	92.6	186,632	93	184,520	85	168,900	83.7
	14,850	6.8	12,630	6.3	0	0	0	0
Provincial government revenue sharing (recurrent)	50	0	485	0	0	0	0	0
Revenue sharing from provincial government (capital)	10	0	99	0	0	0	0	0
Revenue sharing from local government (recurrent)	0	0	0	0	4,855	2.2	4,320	2.1
local government tax revenue (non-recurrent)	0	0	0	0	24,417	11.2	24,295	12.1
local government tax revenue (capital)	0	0	0	0	4,000	1.8	4000	2.0
Tax revenue and non-tax revenue (subtotal)	15,450	7.0	13,214	6.5	33,272	15.2	32,615	16.2
Total	217,877	100	199,847	100	217,792	100	201,515	100

Note: Budget and expenditure units are in thousands of rupees.

Source: Budget and Financial Statements for the 2023/2024 (2080/2081) Fiscal Year of Shuklaphanta municipality and Janaki rural municipality (SuTRA output)

Effective TPD is essential to improve the quality of education under the SESP framework. Because teachers' understanding of the new integrated curriculum introduced in 2019 is inadequate, capacity building is necessary. While permanent teachers can participate in TPD organized by the provincial ETC — a training program for current teachers that issues a certificate of completion — temporary teachers cannot. Therefore, the SESP requires local governments to implement customized training for the latter, for which conditional grants are allocated by the federal government's MoEST.⁸⁶ Customized TPD training for first- to third-year teachers has been confirmed in four of the six local governments (see the table below), except for Bheriganga and Surunga. As mentioned above, due to a shortage of LEU technical staff, rostered experts registered in local government, ETC and federal government are serving as training instructors. Each local government cited challenges such as budget shortages, a lack of training instructors and materials, and insufficient training opportunities. Additionally, because of the lack of a formal coordination mechanism with provincial governments or the ETC, the training provided by the ETC was supply-driven and did not consider the needs of the local governments. Meetings of school principals were held at varying frequencies in the target local governments. As local governments are unable to conduct school monitoring, these

⁸⁶ Interview with the Planning and Monitoring Division of the MoEST for this survey. In addition to TPD, training for IT focal persons is also allocated from conditional grants provided by the SESP.

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meetings provide an important opportunity to assess the effectiveness of teacher training and the current situation and challenges facing individual schools.

Table 64 Status and challenges of customized TPD training in local governments surveyed

local governments	2023/2024		2024/2025		Issues related to training, coordination and collaboration with ETC	Meetings among principals and school monitoring	Notes
	Times of training	Number of participants	Times of training	Number of participants			
Bheriganga	None	None	None	None	-Lack of training opportunities -Supply-type ETC training, lack of needs-based training	-Principal meetings are held monthly. -No school monitoring plan.	
Kapurkot	Once	24	None	None	-Insufficient TPD training. -No formal coordination mechanism with the provincial government or ETC. Teachers are dispatched to training only in response to requests from ETC.	-Principals' meetings are held monthly. -No school monitoring plan.	
Shukla planta	Once	32	Once	21	-Lack of high-quality training instructors -Insufficient training materials -No formal coordination or cooperation mechanism with provincial governments or ETC, but attendance at ETC quarterly meetings -Supply-type ETC training -Budget allocation influenced by provincial politics	-Principals' meetings are held six times a year.	-Allocate a budget of 140,000 rupees per year for customized training -Dispatch two city roster experts and other training instructors -Customized training for IT focal point teachers (5 days)
Janaki	Once	99	Once	99	-Budget shortage -Insufficient training materials -No formal coordination mechanism with the provincial government, but participates in ETC quarterly meetings and provincial	-Meetings for principals are held monthly. -Six school-based teacher support sessions conducted. Visit to Lumbini Province	-Dispatched 10 city roster experts (subject-specific teachers)

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					government workshops for LEUs to share experiences		
Surunga	None	None	None	None	-Insufficient teacher training. -Insufficient monitoring and evaluation of training. -No formal coordination mechanisms with federal and provincial government -Insufficient support from the provincial government.	-Meetings for principals are held at least once every quarter. -School-based teacher support is implemented across all schools	-Customized training (5 days) for IT focal teachers
Saptakoshi	Once	NA	2	NA	-Insufficient teacher training -Insufficient monitoring and evaluation of training -No formal coordination mechanisms with federal and provincial government -Unable to obtain support from the provincial government	-Principals' meetings are held at least twice a year. -School-based teacher support is provided six times.	-Customized training for secondary education teachers is conducted in 2023/24. -119 subject experts are registered. They are requested to teach as needed without any payment.

Source: JICA Survey questionnaire and interviews

4.2.2 Points for Considerations in the Implementation of JICA Projects

Since 2024, JICA has been implementing the “Project for the Improvement of Basic School Education”, which has been running for five years and is aligned with the SESP to contribute to enhancing educational quality. Specifically, this project aims to strengthen the implementation of the primary mathematics curriculum by establishing a continuous TPD support system, strengthening human resources at school level and sharing good practices for improving lessons nationwide.⁸⁷ The following points should be well considered when JICA provides TPD support at provincial and local government levels in addition to this project: for improving lessons nationwide.

- **Shortage of technical staff at ETCs and LEUs:** The provincial ETCs and LEUs of local government, which are responsible for TPD training, each have only one technical staff member, resulting in a significant personnel shortage. When transferring new TPD training techniques, flexible measures will be necessary, such as utilizing experts registered with ETCs and local governments.

⁸⁷ For details, refer to the Project Evaluation Form (International Cooperation Agency, Human Development Division, Basic Education Group, 2023).

- **Insufficient TPD teacher training and quality issues:** Although the three target provinces provide regular training for teachers, many ETC and provincial and local government officials have pointed out that limited budgets mean that sufficient training cannot be provided. Some local governments have not implemented customized TPD training for temporary teachers, and the need for support is clear. Even when training is provided, the training period is sometimes shortened from five days to three, and it is challenging to secure high-quality trainers.⁸⁸ These issues may be caused by insufficient capacity and systems at the local government level, which also affect the quality of training. Considering these challenges, both permanent and temporary teachers need continuous and practical support to acquire the knowledge and skills necessary to respond to the new integrated curriculum and effectively integrate different subjects.
- **TPD Training Budget:** The TPD training budget for provincial ETCs and target local governments is funded by conditional grants from the MoEST based on the SESP. In provincial and local governments, there is still high demand for infrastructure development, such as roads, bridges and irrigation systems, and equalization grants are being utilized. The proportion of autonomous revenue is also limited, making it particularly difficult for small and medium-sized local governments to allocate budgets to TPD training in the education sector other than conditional grants. ⁸⁹ To introduce and continue the new TPD training supported by JICA, it is desirable to secure a budget for TPD training through cooperation with the SESP and other funding sources, such as universities and NGOs.
- **Opportunities for experience sharing:** Principals' meetings organized by LEUs serve as a forum for schools to share experiences. In Sudurpashchim province, for example, LEUs participate in quarterly ETC meetings and two-day experience-sharing workshops organized by the provincial government, where they discuss the challenges, they have faced, and the lessons they have learned. In several EDCUs in the same province, meetings targeting LEUs are held once or twice a quarter. In addition to these existing meetings, each province has branches of the Municipal Association of Nepal (MuAN) and the National Association of Rural Municipalities in Nepal (NARMIN). ⁹⁰These organizations could be utilized as venues for JICA technical cooperation to share good practice with LEUs on improving lessons.

⁸⁸ Interviews with the ETC in Sudurpashchim province and the EDCU in Kailari district of the same province.

⁸⁹ For example, in Janaki rural municipality of Sudurpashchim province, a young former journalist was elected as the chairperson and introduced policies prioritizing health and education. However, according to him, the rural municipality faces the challenge of insufficient budget allocation for the social sector due to the urgent need for infrastructure development. The EDCU in Kailari district of Sudurpashchim province noted that while large cities like Kathmandu have abundant local revenues, with nearly 90% of schools being private, smaller local governments with greater education needs struggle to secure sufficient budgets due to limited local revenues.

⁹⁰ MuAN consists of mayors and deputy mayors of municipalities, while NARMIN consists of chairperson and vice-chairpersons of rural municipalities. The main sources of funding are annual membership fees from each LG. MuAN fees vary depending on the size of municipalities, while NARMIN charges NPR 300,000 per rural municipalities. As a federation of local governments, MuAN and NARMIN engage in policy consultations and submissions to the federal government, as well as the creation and distribution of various resource books and guidelines for local governments, and meetings for sharing experiences. For more details, please see the respective organizations' websites ([Home - MuAN](#), [narmin.org.np](#)).

4.3 Public-Private Partnerships and Collaboration with Other Stakeholders

This section describes public-private partnerships in the local governments surveyed, as well as cooperation between local governments, which is more feasible in the local context of Nepal, and collaboration with academic institutions, which was confirmed during the field survey.⁹¹

4.3.1 Status and Challenges

(1) Public-Private Partnerships (PPP)

The Local Government Operations Act (LGOA) allows PPPs in the planning and implementation of local government projects, the collection of service fees by the private sector, and the mobilization of the private sector in the implementation of projects and service delivery. However, even at the federal level, the legal framework has only recently been developed with the enactment of the Public Private Partnerships and Investment Act 2019 and the establishment of the Public Private Partnerships and Investment Rules 2020. It is likely that there are very few examples of local governments advancing and implementing PPP legal frameworks.

In the six local governments surveyed, the only PPP-related rules formulated were the guidelines developed by Saptakoshi Municipality. None of the governments has implemented any projects in partnership with private entities, but Bheriganga Municipality is currently negotiating terms and conditions with a private company for waste management. Under this arrangement, the company will collect waste from households and segregate it at a landfill site (established with grants from an international NGO and the provincial government), which involves some initial payment from the company to the municipality. The collection fee paid by households will be set by the municipality in consultation with the contracted company. Bheriganga Municipality learned about this PPP model from a neighboring local government, where it conducted a study visit.

The two local governments in Sudurpashchim Province are implementing some projects in cooperation with local NGOs supported by a donor and an international NGO. Janaki Rural Municipality constructed toilets and kitchens in 20 schools through a cost-sharing arrangement with an NGO supported by the United Nations World Food Programme (WFP), and in another project, constructed toilets in four schools, conducted community sanitation training, and constructed drinking water supply facilities for marginalized communities in collaboration with a local NGO supported by an international NGO. The Shuklaphanta community built two schools on a cost-sharing basis with an Australian-supported local NGO.

⁹¹ Although collaboration between local governments and with academic institutions was outside the scope of this survey, these cases are included in the report because the field survey identified more cases than those involving the private sector.

The local governments surveyed see potential for PPPs in areas such as public toilet management, waste management, agriculture (e.g., operation of agricultural product collection centers, construction and operation of cold storage facilities, installation of cooling tank facilities), transportation, tourism, and use of local government facilities and land. For reference, the potential PPP schemes specified in the PPP Act of the Duhabi Municipality are shown in the box below.

The local governments surveyed consider inadequate laws and regulations as the main obstacle to PPPs. There is no special department for PPP, and the organizational structure for PPP is not yet in place. The above mentioned Duhabi Municipality's PPP law establishes a PPP committee to oversee PPP projects, consisting of the Chief Administrative Officer (CAO), the heads of the planning, finance, and legal sections, a representative from the private sector, and an administrative officer.

Another common challenge for the local governments surveyed is a lack of knowledge in working with the private sector. Interviews with officials give the impression that, due to a lack of relevant knowledge, officials do not fully understand the benefits of PPPs and therefore have little motivation to promote them. In addition, there is no dialogue between local governments and the private sector, and consequently there is no opportunity for ideas to be generated through discussions with the private sector or for the private sector to deepen its understanding of PPPs. There is a need for local governments to work with the FNCCI to build knowledge about PPPs and seek broader collaboration with the private sector at the local level.

In addition, it may be difficult to involve the private sector in the operation and management of municipal facilities through PPPs in economically backward regions. Kapurkot Rural Municipality, located in a hilly area, is constructing a general hospital. However, according to its officials, entrusting its operation and management to a private entity is unlikely as the economic level of the local population would make it difficult for any private entity to generate profits through user fees.

(2) Intermunicipal cooperation

The LGOA provides that local governments may cooperate with other local governments by mutual agreement or through joint management of resources to minimize costs, maximize resource utilization, and provide effective services. Target areas include: 1) large-scale infrastructure development and equipment procurement/management, 2) disaster management, 3) transport operation and management, 4) development and operation of waste collection sites and treatment systems, 5) fire tender vehicle and ambulance operations, 6) settlement development and land use planning, 7) promotion of tourism, technology and culture, 8) joint business, 9) basic and secondary level technical education, 10) local market management and environmental protection, 11) sister relations between local governments, 12) sharing of

Box 1 (For reference) PPP schemes specified in the Duhabi Municipality PPP Act

Infrastructure Development Projects

- Build and Transfer
- Build, Operate, and Transfer
- Build, Own, Operate, and Transfer
- Build, Transfer, and Operate
- Lease and Rental, Operate and Transfer
- Lease, Design, Operate, and Transfer
- Develop, Operate, and Transfer
- Other

Economic Development Projects and Social Development Projects

- Public Service Agreement
- Marketing Agreement
- Special Service Delivery Agreement
- Other

Source: Duhabi Municipality Public-Private Partnerships Act 2023

best practices and experiences, 13) material and financial support, and 14) others.

Compared to PPPs, intermunicipal cooperation appears to be progressing. This is likely to be influenced by initiatives such as the PLGSP's Innovative Partnership Fund (IPF) to promote cooperation, various donor-supported projects, and international NGO-supported projects that facilitate cooperation and experience sharing among local governments. In addition, the Sudurpashchim provincial government has conducted orientation sessions in each district to promote intermunicipal cooperation in preparation for future population decline. The cases of cooperation confirmed in the six governments surveyed (including those planned) are listed in the table below.

Table 65 Cases of inter-municipal cooperation in the local governments surveyed

Local government	Content of Cooperation
Surunga Municipality	<ul style="list-style-type: none"> Implementing a project in collaboration with an adjacent local government and conducting joint monitoring.
Kapulkot Rural Municipality	<ul style="list-style-type: none"> Agriculture: Established a common market with an adjacent local government. Generated NPR 55 million in revenue. Vehicles are also shared. Roads: Plans to construct a ring road through cost-sharing with an adjacent local government.
Janaki Rural Municipality	<ul style="list-style-type: none"> Livestock: Collaborating with a adjacent local government on livestock grazing regulations and livestock shed construction. Disaster Prevention: Sharing costs with an adjacent local government for a sand collection project in a river as part of flood prevention measures.
Suklaphanta Municipality	<ul style="list-style-type: none"> Firefighting: Cooperating with three neighboring local governments under a memorandum. Waste Management: Plans to accept waste from an adjacent municipality at the constructed processing facility.

Source: Interviews and questionnaire survey

Bheriganga Municipality is also exploring opportunities to cooperate with neighboring local governments in areas such as agriculture, corridor management, infrastructure development, irrigation improvement, and water supply.

Intermunicipal cooperation has been realized through the exchange of memoranda based on discussions between mayors, even without laws or guidelines. While PPPs involve reconciling interests with the private sector, intermunicipal cooperation is more convenient for local governments to implement, especially where there are no political disputes. In addition, its cost-saving effects are visible, making it an attractive option for many local governments, especially those with smaller budgets.

(3) Collaboration with academic and other institutions

During the field survey, the survey team obtained information about cases of collaboration between local governments and academic institutions. The Plants Research Center Salyan, which is under the Federal Ministry of Forestry and Environment and located in Kapurkot, are discussing with the municipality a joint project to grow locally unique herbs in some areas of the municipality and process and export them to improve the income of local residents. Bheriganga Municipality is exploring the possibility of collaborating with nearby universities in implementing its agricultural development strategy formulated with support from GIZ and the EU.

4.3.2 Points for Consideration in the implementation of JICA Projects

The current survey found no actual cases of PPPs or collaboration between local governments and academic institutions among the target local governments. However, the factors hindering collaboration and the challenges local governments face in development planning, financial management, and project management suggest important considerations for JICA when planning cooperation projects involving collaboration between local governments and other actors.

(1) Points for consideration on PPP in JICA's cooperation projects

- **Establishment of institutional frameworks and organizational structures** Few local governments are believed to have enacted PPP-related laws and regulations, and it is likely that assistance will be needed to develop the necessary legal framework. Robust monitoring and evaluation systems would also be essential, particularly where the operation, maintenance and provision of services is outsourced. However, the fact that there are many challenges in general project monitoring and evaluation by local governments, as discussed in section 3.6, suggests that monitoring and evaluation systems for PPP projects need to be carefully designed. It is essential to include support for organizational and individual capacity building in conjunction with the establishment of laws and regulations.
- **Ensuring transparency and building trust** It is likely that relationships between the public and private sectors have not been established at the local level, and that the private sector has little trust in local governments. Given the problems of collusion between the public and private sectors and political patronage in Nepal, ensuring transparency in the planning, contracting, implementation, and evaluation of PPP projects is extremely important. A case study of a metropolitan government's PPP initiatives reveals the importance of building trust among stakeholders when designing and implementing PPP projects. In addition, since private entities may have a limited understanding of PPPs and may be reluctant to invest, awareness raising through orientation and sharing of success stories is needed.
- **Citizen Participation** The local governments surveyed recognize political influence in the selection of projects in the development planning process as a challenge. Involving citizens in the planning of PPP projects is important in order to deliver services that meet their needs and win their support for the project.

(2) Points for consideration on inter-municipal cooperation in JICA's cooperation projects

- **Establishing institutional frameworks** The local governments surveyed have implemented intermunicipal projects through memorandums between mayors/chairpersons. There may also be some cases even without MOUs. Support for intermunicipal cooperation should begin with the establishment of a framework that includes institutional design and guidelines to ensure equitable distribution of benefits and costs among participating local governments.

- **Citizen participation** Agreements between mayors/chairpersons may involve political agendas. As with PPPs, it is necessary to include steps for citizen participation, such as confirming residents' needs, communicating pros and cons to them, and gathering their opinions.
- **Using lessons learned from inter-municipal cooperation in other local governments** Four of the six local governments surveyed have implemented intermunicipal cooperation projects. Intermunicipal cooperation in solid waste management in Kathmandu valley presents a good practice of cooperation among adjacent municipalities. There are many other cases of intermunicipal cooperation facilitated by PLGSP and projects with external support. Intermunicipal cooperation between municipalities could be effectively and efficiently applied in other public services such as landfill management and fire and disaster prevention management. It is therefore important to study the success factors and lessons learned from previous cases before designing support.

(3) Points for consideration on collaboration with academic and other institutions in JICA's cooperation projects

- **Improving mutual understanding between local governments and academic and other institutions** The lack of collaboration between local governments and academic and other institutions in the local governments surveyed is largely due to a lack of understanding of the potential for collaboration. Bheriganaga Municipality is exploring collaboration with academic institutions in the implementation of its agricultural development strategy. This is believed to be the result of development partners' support to promote cooperation among local governments and other partners within the framework of the provincial government's agricultural development strategy. It is desirable that JICA also consider facilitating mutual understanding through such frameworks and platforms under its support.
- **Mobilizing academic institutions to support local industries** In Japan, local governments promote local industries by forming clusters of stakeholders in the value chain, such as the prefectural government, local governments, prefectural agricultural experiment stations and research centers that provide technical support, farmers, cooperatives, processors, local banks, wholesalers, and retailers. Academic institutions can provide technical support and research, and cooperation with them under such a framework can be considered for local industry promotion.
- **Strategic use of academic institutions for effective planning, projects and GESI initiatives** As discussed in Sections 3.4, 3.6, and 3.7, the lack of data is a major obstacle to local government development planning, budget formulation, project implementation, and the implementation of GESI measures. Collaboration with academic institutions that have sectoral data and expertise in data collection and use is expected to help address local government data challenges.

5. Utilization of Lessons Learned from JICA Support in Nepal and Other Countries

5.1 Utilization of Insights and Lessons Learned from JICA Support in Nepal

5.1.1 Gender Mainstreaming and Social Inclusion Project

(1) Implementation period

February 2009 to January 2014 (Budget: 590 million yen)

(2) Achievements

The project aimed to promote GESI policies introduced by the Nepali government following the adoption of the Interim Constitution in 2006. It provided capacity building for community members and district administrative officials in 21 local bodies, i.e., village development committees in two districts, equipping them with the skills to formulate and implement development plans and projects from a GESI perspective, including the introduction of GRB. Through the work of independently deployed social mobilisers and various training programs, community members, including women and socially vulnerable groups, were encouraged to participate in the formulation of annual development plans and the implementation of pilot projects. This enhanced the fair and effective administrative capacity of the local bodies and improved the mechanisms for democratic administrative services.⁹²

(3) Strengths of support, utilization, and considerations

- **Intensive support for pilot local governments:** While the government's Local Government and Community Development Programme (LGCDP) provides the necessary capacity building for the implementation of GESI policies nationwide, this project provided pilot local bodies with intensive support in formulating participatory and democratic development plans and implementing priority projects. The strength of JICA's technical cooperation lies in its approach of concentrating model development and demonstration in pilot districts and compiling the results into guidelines, which will be useful when considering future cooperation plans. It should be noted that, while seed money support is useful when providing project support on a pilot basis, it is important to establish a mechanism to ensure that Local governments also contribute to the budget to guarantee sustainability. Additionally, the terminal evaluation of this project revealed that, although the project's results were shared with the LGCDP, efforts to promote dissemination were inadequate.⁹³ Future cooperation projects will need to incorporate activities that strategically apply lessons learned and feedback from the PLGSP sector program and other local governments.
- **Capacity building for administrative staff and community people:** One of JICA's strengths is strengthening the capacity of development project planning and implementation from a GESI

⁹² Japan International Cooperation Agency Nepal Office (2017)

⁹³ Japan International Cooperation Agency Nepal Office (2015)

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perspective for administrative service providers and beneficiaries. In Nepal, where GESI is a priority issue for local administrations, support remains necessary even after the transition to federalism. As processes that require changes in people's behavior and social transformation are expected to take time to become established, future support strategies must consider how to incorporate effective approaches within the limited time available for cooperation.⁹⁴

5.1.2 Project for Improving Local Governance Training through Capacity Enhancement on Research and Analysis in Nepal

(1) Implementation period

January 2016 to December 2019 (Budget: 315 million yen)

(2) Outcomes

This project enhanced the capabilities of the LDTA and its regional centers, which are responsible for training targeting LG officials. By introducing an instructional design model comprising analysis, design, development, implementation and evaluation, the project contributed to the sustainable development of training curricula and materials, and to the implementation of training programs by these institutions.⁹⁵

(3) Strengths of support, utilization, and considerations

- **Various training curricula and materials were developed in the administrative field:** This project involved the development of training curricula and materials on topics such as GRB formulation, property tax and local-level planning. Furthermore, the ex-post evaluation confirmed that the LDTA had developed 36 new training modules. ⁹⁶These training materials and curricula for LG officials and elected members are highly versatile and can be utilized directly in new cooperation projects aimed at enhancing the capacity of local governments. Efforts were made to strengthen the capacity of implementing agencies, and certain results were achieved. However, the LDTA was unable to secure the budget necessary to hire technical staff to whom the technology could be transferred, and recruiting new staff proved difficult.⁹⁷ When providing technical cooperation with provincial training institutes established after the transition to a federal system, close attention must be paid to potential risks in terms of effectiveness and sustainability if it is not possible to secure sufficient technical staff and budget.
- **Follow-up training and on-demand training for local governments:** Following the property tax

⁹⁴ According to the Terminal Evaluation Report (JICA Nepal Office, 2015), it was pointed out that the support period for the project was too short for the target group to see the effects, and that the verification of GESI considerations for existing LG grants was insufficient across the entire project.

⁹⁵ Japan International Cooperation Agency, IC Net Co., Ltd., and Tack International Co., Ltd. (2019)

⁹⁶ International Cooperation Agency Nepal Office (2024)

⁹⁷ According to interviews with the LDTA conducted for this survey, the adequate allocation of technical staff was set as a prerequisite for the project, but the LDTA Act was not revised during the organizational restructuring and civil service reassignment processes accompanying the transition to federalism, and at that time, the hiring of new staff was not approved by the Civil Service Commission or MoFAGA. Following the federal transition, LDTA's regional centers were transferred to provincial governments, but while the scope of responsibilities of the LDTA headquarters was reduced, the staff from that time continued to be assigned, enabling the development and implementation of training modules to be carried out sustainably.

training for local governments, monitoring and follow-up activities were conducted in the several municipalities. As a result, tax revenue of local governments increased in some cases from 1.8 to 117 times⁹⁸, and these results were widely shared through workshops with relevant parties. This experience could be applied in the form of follow-up activities and on-demand training after classroom training when considering JICA support to strengthen the capacity of local governments. Additionally, to ensure LG autonomy, it is advisable to provide support in the form of covering training and activity costs incurred by local governments.

5.1.3 Project for Rehabilitation and Recovery from Nepal Earthquake

(1) Implementation Period

July 2015 to December 2019 (Budget:2,230 million yen)

(2) Outcomes

This project aimed to promote recovery and reconstruction in the Kathmandu valley, Gorkha district and Sindhupalchowk district, all of which were affected by the 2015 earthquake in Nepal. This was achieved by formulating recovery and reconstruction plans, as well as establishing earthquake-resistant building guidelines. Coordinated with other technical cooperation and grant aid programs, the project enabled swift implementation of initiatives tailored to the priority issues and needs of the affected areas. Furthermore, the seismic design guidelines were utilized in housing and school construction projects financed by the World Bank and the ADB. The synergistic effects of JICA's projects with those of other organizations were also confirmed.⁹⁹

(3) Strengths of support, utilization, and considerations

- **Rapid survey and implementation of demonstration projects:** Leveraging the strengths of the technical cooperation project scheme based on development surveys, the project quickly identified priority issues and needs in disaster-affected areas. In collaboration with local governments, the project implemented 24 emergency restoration projects, known as “quick impact projects”. Some of these projects informed the planning of grant aid for hospital and bridge reconstruction. Additionally, the livelihood reconstruction projects were utilized in the technical cooperation described below (5.1.4), providing experience in project implementation approaches and considerations for socially vulnerable groups. Using this scheme enabled us to respond in detail to the diverse issues and needs of the target areas. It is considered that combining rapid surveys and demonstration projects is effective in Nepal's governance sector.
- **Ensuring the sustainability of projects:** The livelihood reconstruction project produced positive outcomes, including the fair distribution of benefits and the promotion of equitable participation by various ethnic groups and socially vulnerable individuals. However, the ex-post evaluation confirmed

⁹⁸ Japan International Cooperation Agency, IC Net Co., Ltd., and Tack International Co., Ltd. (2019)

⁹⁹ For further details, see the ex-post evaluation report by the Japan International Cooperation Agency and OPMAC Co., Ltd. (2022).

that several groups were having difficulty continuing their activities. Despite numerous projects being planned and implemented to address the challenges and needs of target groups, the outlook for medium-term sustainability was not entirely positive. This issue must be carefully considered when implementing development research-type technical cooperation with local governments.

5.1.4 Project on Participatory Rural Recovery

(1) Implementation period

2019-2023 (Budget: 330 million yen, estimated amount of cooperation at the time of the preliminary project evaluation)

(2) Achievements

The Project was implemented in four local governments affected by the 2015 Nepal earthquake to help them identify recovery challenges and incorporate these into their periodic and annual development plans, as well as implement projects. The Community Resilience Project targeted approximately 80% of beneficiaries who were widows, other women, and members of socially vulnerable groups such as the Dalit community. Around 70% of these beneficiaries showed improvements in income and social status, demonstrating the project's significant outcomes.¹⁰⁰

(3) Strengths of support, utilization, and considerations

- **Capacity building of local elected representatives, administrative staff and community people:** Formulating periodic and annual development plans remains a challenge for local governments in Nepal. The know-how gained through this project, which supports community projects in each ward and provides methods for planning and implementing projects that promote GESI and social audits, can be applied to new local governments that become cooperation partners in the future.
- **Small-scale livelihood improvement project manual:** The manuals developed for small-scale livelihood improvement projects, such as vegetable cultivation, goat raising and tourism promotion, as well as community disaster prevention projects, will support similar initiatives by local governments in new cooperation projects. While this project supported project implementation through outsourcing to local NGOs, from the perspective of fostering autonomy and responsibility among local governments and community people, as well as ensuring project sustainability, a direct support approach is desirable.¹⁰¹

¹⁰⁰ NDRRMA and JICA (2023)

¹⁰¹ According to a former expert, JICA explained that due to the COVID-19 pandemic at the time, it was not possible to provide seed money directly to local governments or community groups, and instead support was provided through NGO commission contracts. While this allowed for detailed support, there were concerns that the costs of NGO commission fees were high and that the management tasks required each year, such as selection and contracting, were significant. On the other hand, the ongoing climate change adaptation project in Nepal, which is based on sustainable forest management, does not use NGO contracts. Instead, direct project support, including budget allocation, is provided to community forest groups, with the project team managing the operations.

5.2 Utilization of Lessons Learned from JICA Support in Other Countries

5.2.1 Bangladesh: Project for Capacity Development of City Corporations/ Project for Strengthening Capacity for City Corporations

(1) Implementation period

- Project for Capacity Development of City Corporations (January 2016-July 2021, 650 million yen)
- Project for Strengthening Capacity for City Corporations (February 2022-ongoing)

(2) Achievements

In response to rapid urbanization, this project aims to advance the development of administrative capacity of city corporations by establishing a foundation focused on four key areas: legislation, organization, finance, and human resource development. Specific achievements include formulating the “Strategy for Governance Improvement of City Corporations,” drafting and deliberating bylaws/regulations, improving the transparency and comparability of budgets between city corporations and final statements, strengthening the collection of holding taxes, promoting citizen participation, and establishing training systems.¹⁰²

(3) Lessons and considerations applicable to Nepal

- **Strengthening tax collection functions through various measures including taxpayer education, and promoting the involvement of elected representatives.** These projects developed a holding tax assessment and collection manual, provided related training for city corporation officials, and supported city corporations to monitor collection rates. To encourage elected representatives’ involvement, the collection status of each councillor was made visible. Furthermore, these projects supported some city corporations to conduct diverse activities to educate citizens about tax payment, such as publishing lists of delinquent taxpayers and organizing school essay contests on holding tax, in addition to creating an educational video and leaflet. Local governments in Nepal have a high demand for revenue improvement, particularly in holding tax collection and citizen tax education, and these experiences can be directly applied.
- **Institutionalization of citizen participation and learning through experience sharing:** To promote citizen participation in city corporations, these projects provided training to officials, developed guidelines on a broader concept of citizen engagement, and supported the establishment of city coordination committees to facilitate the internalization of the system in each city corporation. Cases from within Bangladesh and Japan presented in the training were effective in clarifying the direction in which each city corporation should pursue. Furthermore, These projects supported the public relations efforts of the city corporations and the disclosure of information to citizens. and the implementation of citizen surveys to obtain citizen feedback (one city corporation also piloted an online citizen survey). While systems for citizen participation are being established in Nepal’s local administration, there are many challenges regarding public relations and information disclosure. The

¹⁰² Hiroki Watanabe, Naoko Anzai, Rie Fusae (2024)

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experiences and lessons learned from this project are useful for promoting policy-making and collaboration through dialogue and feedback from citizens.

- **Horizontal learning to promote behavior change:** These projects provided a number of opportunities for city corporations with no previous horizontal links to share and learn from each other through joint meetings and training sessions, both in person and online. These opportunities to share best practices and foster mutual competitiveness were effective in promoting quality improvements in the services provided by the city corporations. In Nepal, such opportunities are lacking at the provincial and local government levels, so it would be beneficial to incorporate them into support programs to encourage concrete action.

5.2.2 Bangladesh: Strengthening Paurashava Governance Project

(1) Implementation period

February 2014 to October 2018 (Budget:640 million yen at the time of the terminal evaluation)

(2) Achievements

The project aimed to improve administrative services in urban municipalities, which faced numerous systemic, organizational, and individual challenges. It developed a national strategy through the Ministry of Local Government to strengthen the capacity of urban municipalities. It also produced tools to implement the strategy, such as operational manuals and training programs, and established a training system through national government training institutions. All the tools were reviewed by the ministry and training institutions, became official government documents, and are currently being used in training programs.

(3) Lessons and considerations applicable to Nepal

- **Flexible project design, enabling support in both governance and infrastructure areas:** After the start of the project, surveys were conducted to identify the needs of the municipal residents and the capacity building needs of the municipal officials. In response to the survey results, the project decided to include the following areas in its support in addition to governance: urban planning (including urban development regulations), road infrastructure (design, project supervision, maintenance, licensing, etc.), and drainage systems (similar in scope to road infrastructure). As there were no experts in these areas in the consultant team, local experts and former technical officials of the Bangladesh government were mobilized to address these areas. This flexible project design allowed the project to respond to local needs.
- **Emphasis on training for mayors and council members:** The tools developed in this project are intended for administrative officials, mayors and council members. Basic training on laws and regulations, administrative basics, budget management and tax collection was developed for mayors and council members. In addition, training and manuals on development planning, citizen participation, and community monitoring have been developed for all mayors, council members,

and administrative officials. This approach has had synergistic effects, including increased commitment to tax collection among mayors, improved tax collection capacity and efficiency among officials, and increased support for tax collection among council members. These examples suggest that mayors and council members, who are responsible for decision making, need to recognize their role and strengthen their capacity to improve governance.

5.2.3 Dominican Republic: The Project on the Capacity Development for Efficient Planning and Development Management in the Province of Dajabon

(1) Implementation period

February 2012 to January 2016 (Budget:415 million yen)

(2) Achievements

In the Dominican Republic, where there is a high level of dependence on the central government, this project supported the establishment of municipal development councils and the formulation of development plans. It also strengthened the capacity for projects implementation and established a sustainable support system in five municipalities in the province of Dajabón, aiming to effectively support the government's decentralization policy through capacity building in local development planning and implementation¹⁰³. Consequently, medium- to long-term development plans that reflected the needs of residents were created, and a mechanism was established to ensure these needs were reflected in the annual work plans of the relevant ministries.

(3) Lessons and considerations applicable to Nepal

Introduction of a positive approach to regional development: This project recognized the importance of strengthening local autonomy and went beyond mere problem solving to discuss the direction of city development and establish projects to achieve this. Specifically, enthusiastic and motivated individuals were selected to sit on city development councils, while local young people were hired and trained as regional coordinators to promote a positive approach to regional development and provide ongoing support to build up a body of successful experiences. Such initiatives and efforts are valuable in Nepal, where there is a strong reliance on the federal government and problem-solving approaches are commonplace. Strengthening the capabilities of motivated local and community people, including local elected members, staff and residents, has the potential to support local governments in formulating plans and proactively implementing projects.

¹⁰³ Japan International Cooperation Agency (JICA) and IC Net Co., Ltd. (2015).

5.2.4 Honduras: Project for Strengthening of the Capacity Development of the Local Governments for Regional Development

(1) Implementation period

September 2006 to October 2010 (Budget: 242 million yen)

(2) Achievements

This project supported the municipalities and municipal associations of Honduras, which face budgetary, personnel and administrative capacity constraints, by focusing on strengthening human resources and organizational capacity. A comprehensive process known as the FOCAL model was developed and implemented to cover the planning, implementation, operation and maintenance of community participatory social infrastructure development projects. Under this model, baseline surveys¹⁰⁴ were conducted to assess the status of communities, development plans were formulated at municipal and village levels and projects were implemented through participatory processes. This enabled more appropriate and efficient social infrastructure development. The participatory census was a core approach of the FOCAL model, enabling residents to accurately identify their own issues and needs and helping municipalities and mayors to understand the true needs of their communities. Consequently, even with limited budgets, it has become possible to formulate project plans, and citizens' trust in the municipal administration has increased. The model has been institutionalized and expanded to other municipalities outside the target area, with horizontal expansion progressing throughout Honduras. Furthermore, the FOCAL model has been used in support projects by other donor agencies, establishing itself as a sustainable regional development approach.

(3) Lessons and considerations applicable to Nepal

- **Participatory, small-scale social infrastructure projects with easily visible effects:** The FOCAL model was developed and introduced into the existing local delegation scheme. Small-scale infrastructure projects, such as road improvements, education and health facility development, and water and sanitation improvements, were implemented with community participation. This improved the transparency and efficiency of the projects and was highly regarded as a factor that promoted community participation.¹⁰⁵ These lessons are applicable to and useful for Nepal's provincial and local governments, which face challenges in participatory planning and project implementation. Provincial and local government officials in Nepal have expressed concerns that the PLGSP's support, which focuses on strengthening the capacity of local elected members and officials, is "difficult to see the beneficiaries or results" given that various laws and guidelines are being established in line with the transition to a federal system. In this context, providing support for participatory small-scale social infrastructure projects at the community level to strengthen the operational aspects of local administrative systems is considered to align with the needs of local governments and is deemed essential. It should be noted that Nepal has MuAN and NARMIN, which

¹⁰⁴ Name changed from the latter half of the project.

¹⁰⁵ Japan International Cooperation Agency Public Policy Division (2010) and Japan International Cooperation Agency, Global Group 21 Japan Co., Ltd. (2019).

are federations of municipalities and rural municipalities. However, they lack the personnel and organizational capacity to provide local governments with adequate technical support. Nevertheless, these organizations could serve as forums for horizontal learning among local governments.

- **Setting an appropriate and sufficient cooperation period:** The initial cooperation period was two and a half years. However, due to delays in the allocation of central government funds, social infrastructure development projects had to be implemented using alternative funding, resulting in an extension of 20 months to the cooperation period. Terminal and ex-post evaluations revealed the importance of confirming external conditions that may affect output achievement and setting an appropriate and sufficient cooperation period.¹⁰⁶ In Nepal, where cooperation involves both planning and project implementation at the local government level, it is advisable to carefully determine the cooperation period considering these findings.

5.2.5 Tanzania: Study on Improvements of Opportunities and Obstacles to Development (O&OD) Planning Process

(1) Implementation period

June 2006 to March 2008 (Budget: 170 million yen)

(2) Outcomes

This development survey was conducted to assess the status of implementation of the participatory local development planning methodology “Opportunities and Obstacles to Development (O&OD),” which had been introduced in approximately 80% of local governments in Tanzania, and to compile recommendations for improving the O&OD planning process based on empirical research. The key outcome of this survey was to position O&OD not merely as a planning tool but as a process to promote the strengthening of local autonomy. Moreover, the survey recommended that capacity development for stakeholders and the creation of an enabling environment to enhance the self-governance capacity of local communities are crucial for strengthening local autonomy based on O&OD.¹⁰⁷

(3) Lessons and considerations applicable to Nepal

- **Recommendations based on the verification of existing approaches and the results of the pilot testing of provisional recommendations:** This survey used the characteristics of the development survey scheme to identify areas for improvement through verification of the O&OD plan formulation process and demonstrated tentative proposals in multiple local governments. As a result, it was possible to extract effective improvement proposals, enabling the planning and implementation of technical cooperation described below. On the other hand, in Nepal, a detailed verification of the local administrative system centered on the formulation and implementation of development plans under the federal system has not been conducted to date. Therefore, such

¹⁰⁶ Ibid.

¹⁰⁷ Japan International Cooperation Agency, International Development Center (2008)

initiatives utilizing JICA's development survey scheme are highly appropriate at the current timing, approximately eight years after the establishment of local governments under the federal system and are useful as a method to support the strengthening of local administrative system operations.

- **Participatory planning methods for identifying diverse needs:** This survey positioned O&OD methods as a process that promotes democratization and decentralization by empowering community people to take the initiative in formulating, implementing and evaluating development plans. Since the transition to a federal system, local governments in Nepal have been required to address a wider range of needs than ever before. However, the traditional top-down approach is still prevalent in practice. To overcome this, Nepal could apply the experience of development study in Tanzania, which identified specific improvement measures reflecting diverse needs in multiple municipalities.

5.2.6 Tanzania: Strengthening Participatory Planning and Community Development Cycle for Good Local Governance

(1) Implementation Period

October 2009 to October 2014 (Budget: 450 million yen)

(2) Outcomes

The participatory local development planning methodology, i.e., O&OD, introduced by the Tanzanian government, was improved. A collaborative model was developed between local governments and community people, and the provision of administrative services was strengthened.¹⁰⁸ In particular, support for communities and project implementation by trained district and county facilitators in pilot local governments led to outcomes such as enhanced self-reliance among community people and promotion of collaboration between local governments and community people. This demonstrates the effectiveness of the improved O&OD model.

(3) Lessons and considerations applicable to Nepal

- **Continuous facilitation at the sub-village level by Ward Facilitators:** It was found that engaging with community groups at the sub-village level (which is smaller than the local government level) continuously is effective in eliciting community people's ownership and commitment. In Nepal, where gender and caste issues remain deeply rooted, detailed facilitation at settlement (Tole) or ward level is important, and this lesson can be applied directly. In this project, facilitators were assigned from sector-specific staff, but Nepal's local governments face a shortage of personnel, so consideration must be given to who can take on the role of facilitator.
- **Building a common understanding among stakeholders and adopting a flexible approach to project management:** The terminal evaluation pointed out that the initial cooperation period of three

¹⁰⁸ Phase 2 (January 2015 to March 2021, 660 million yen) was implemented to enable the Tanzanian government to independently expand the program nationwide.

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and a half years was insufficient for developing and demonstrating an improved O&OD model that contributes to community development. This is because considerable time is required to build a common understanding among stakeholders, as well as for a detailed analysis of the current situation. The need for flexible project management was also identified.¹⁰⁹ Similar cooperation in Nepal requires consideration of these lessons, as it is expected that, as in Tanzania, there will be many relevant agencies, and it will take time to develop a shared understanding.

- **Effective coordination with other JICA assistance schemes:** JICA has supported local government reform in Tanzania through the Local Government Reform Support Programme (2009–2020), combining JICA’s different assistance schemes such as: 1) implementation of phase 2 of this project; 2) common basket fund support; 3) policy advisor dispatch; 4) Project for Capacity Development for Local Government Training; and 5) Osaka-local domestic training. Effective coordination with items 2) and 3) contributed to the success of this project¹¹⁰. This is a highly relevant lesson for JICA to consider when planning medium- to long-term support for LG in Nepal, where efforts are also underway to strengthen LG under a sector program.

5.2.7 Lao People's Democratic Republic: Project for Enhancing Capacity in Public Investment Program Management (PCAP II) and Project for Improving Public Investment Management (PIMCAP)

(1) Implementation period

- PCAP II (Phase 2): March 2008-September 2011 (Budget: 330 million yen)
- PIMCAP (Phase 4): February 2019-March 2022 (Budget:320 million yen)

(2) Achievements

Phase 2 published a revised manual that covered the public investment program management and supervision methods developed in the previous phase in depth, and promoted its nationwide dissemination. Phase 4 aimed to implement reforms to strengthen Public Investment Management (PIM), aligning it with budget management. The project selected both central government agencies and provincial governments as pilot targets, supporting capacity building for PIM at the local level. This contributed to improving the planning and evaluation capabilities of sub-national governments for public investment projects, as well as strengthening their coordination with the central government.¹¹¹

(3) Lessons learned and considerations applicable to Nepal

- **District-level public investment program management:** In Phase 2, materials to support the management of district-level public investment programs were included in manuals and handbooks, and training was provided for district officials. At the terminal evaluation, the combination of training

¹⁰⁹ JICA Tanzania Office (2012). Following the final evaluation, the project cooperation period was extended by 1.5 years to identify the necessary conditions for disseminating lessons learned from the demonstration activities and the O&OD demonstration model.

¹¹⁰ Japan International Cooperation Agency (JICA) and International Development Center Co., Ltd. (2021)

¹¹¹ Japan International Cooperation Agency (JICA) and IC Net Co., Ltd. (2022)

and on-the-job training was highly rated for its effective capacity development.¹¹² While JICA also supports PIM in other countries, cooperation in overseeing public investment program operations at the local government level is rare. Laos' experience can be utilized to support PIM in local governments in Nepal.

- **Capacity building for local governments on PIM through joint efforts:** The Phase 4 project developed standard methods, tools and workflows for project proposal and appraisal, and verified them through workshops and consultations with the relevant agencies, including the pilot local government. These joint efforts strengthened knowledge and capacity in project appraisal and evaluation, medium-term budget frameworks and three-year public investment rolling plans at the local government level. In Nepal, project appraisal and verification of alignment with periodic plans are insufficient, and MTEFs have not yet been established. Therefore, basic capacity building for PIM is essential. The collaborative efforts observed in this project provide a valuable reference for future capacity-building initiatives targeting Nepalese LG officials, offering them a platform to learn specific methods and procedures.

5.2.8 Thailand: Technical Cooperation Project on Local Management Cooperation in Thailand

(1) Implementation Period

February 2010–February 2013 (Budget: 98 million yen)

(2) Achievements

This project aimed to enable small-scale local governments with limited financial and human resources to provide efficient public services by strengthening the institutional framework for inter-local government cooperation involving higher-level provincial governments, and enhancing the capacity of relevant agencies.¹¹³

(3) Lessons Learned and considerations applicable to Nepal

- **Institutional design and capacity building of relevant institutions through pilot projects:** This project implemented pilot projects on inter-local government cooperation in the three target provinces and promoted institutional reforms, such as developing manuals. Furthermore, the capacity of relevant institutions was built. The results showed a significant improvement in the coordination and support capabilities of the relevant institutions, as the project provided practical support for the implementation of inter-local government cooperation projects rather than merely offering training. While the necessity of inter-local government cooperation is gradually being recognized in Nepal, the necessary systems are not yet in place.¹¹⁴ Therefore, Thailand's experience will serve as a direct and useful reference when

¹¹² Japan International Cooperation Agency Laos Office (2011)

¹¹³ Japan International Cooperation Agency (JICA) Thailand Office (2013)

¹¹⁴ According to NARMIN, it is difficult for local governments with small populations and budgets to provide all administrative services uniformly, similar to larger local governments. In fields such as firefighting services, waste management, disaster response, and environmental management, promoting inter-municipal cooperation is important. In addition, the establishment of institutional frameworks to support such cooperation is required.

including inter-local government cooperation in new cooperation initiatives in Nepal.

- **Academic-government collaboration:** Prior to this technical cooperation, Japan shared its experience of local government collaboration at the Japan-Thailand Joint Study Group on Local Government Capacity Building. Two technical cooperation projects were then implemented through the dispatch of individual experts. This long-term collaboration involved many university officials from both Japan and Thailand, enabling the smooth sharing of experiences in local government collaboration between the two countries. In the pilot project, Thai university officials served as local consultants in creating manuals and training programs, thereby promoting understanding and strengthening coordination between local governments. These experiences of public–academic collaboration could inform future cooperation in Nepal, encouraging the active participation of various stakeholders and enhancing the capacity of provincial and local governments to mobilize resources.

5.2.9 Bhutan: Project to Promote Inclusive Participation of Local Residents Using the Community Engagement Platform

(1) Implementation period

March 2024 to February 2027 (ongoing)

(2) Achievements

Since 2015, the Ministry of Home Affairs, Local Government and Disaster Management has been implementing a project with technical assistance from JICA to introduce Community Engagement Platforms (CEPs) in villages. These platforms enable community people to discuss common issues and solutions, linking them to development plans and budget allocation at *Gewog* (Block) and village levels. The project aims to support the establishment of inclusive decision-making processes for community people, enhance their capacity to improve their livelihoods and address gender-related issues through CEP utilization. While the project is ongoing, certain achievements have been observed, including effective decision-making and the promotion of self-reliant activities by community people in areas with CEPs, as well as the piloting of efficient local governance systems.¹¹⁵

(3) Lessons and considerations applicable to Nepal

- **Ensuring opportunities for discussion of diverse community needs:** The CEPs in this project consist of five to ten households in neighboring areas, enabling small-group discussions and facilitating the expression of inclusive opinions, including those of minorities. Although the promotion of GESI is stated as a goal in local government-level planning and implementation in Nepal, it is not functioning adequately, and community people’s participation is limited. Therefore, the CEP initiatives in Bhutan are highly relevant for strengthening the capacity of organizations at settlement (tole) level.
- **Effective provision of public services through the revitalization of self-help and mutual aid.** This project has identified several cases where community people have revitalized self-help and mutual aid

¹¹⁵ Information obtained from consultants of IC Net Limited currently serving as short-term experts on this project.

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initiatives using local resources through the CEP. Furthermore, people in areas where the CEP has been introduced reportedly apply for government project budgets more efficiently and contribute more effectively to project activities than those in areas where the CEP has not been introduced. This know-how in strengthening CEP functions can promote self-help and mutual aid among community people, as well as the efficient and effective implementation of public services in local governments of Nepal, which face budget constraints.

6. Lessons Learned from the Initiatives of Other Development Partners

6.1 United Nations Development Programme (UNDP)

UNDP supports the implementation of federalism in Nepal by facilitating improvements in governance with a focus on inclusiveness, participation, transparency and gender equality. It provides a wide range of support at the federal level, including strengthening the Parliament, supporting the Public Service Commission, and supporting access to justice (including strengthening local government judicial committees) and the National Human Rights Commission. Direct support for federalism implementation is provided through national programs. Following the Local Governance and Community Development Program (LGCDP, 2009-2019), which preceded the PLGSP, UNDP is operating a technical assistance (TA) program under the PLGSP to strengthen capacity at the provincial and local levels.

A third-party evaluation of the TA program identified key achievements and lessons learned regarding the content and operation of the TA program (Table 66). These lessons have been incorporated into the design of the new phase.

Table 66 Key achievements and lessons learned from the PLGSP TA Program

Main achievements	Lessons learned and challenges for upscaling
<ul style="list-style-type: none"> • Institutional and Policy Aspects - Progress in local government legislation, development of GESI strategies, formulation of RIAPs, and implementation of FRAs. Establishment and operationalization of the PCGG. Contribution to maintaining intergovernmental relations between provincial and local governments. • Capacity building - Training for over 3,000 provincial and local government officials and staff, and development of training curricula. • GESI - Over 450 local governments developed GESI policies/strategies. 553 local governments and 33 provincial ministries conducted GESI audits. Over 400 local governments and 55 provincial ministries appointed GESI focal persons. • ICT - Deployment of IT staff in nearly all local governments. System development and implementation (“Hello CM” portal, SuTRA, e-attendance system, digital grievance submission system, internal control system). 	<ul style="list-style-type: none"> • Technical support needs vary significantly by province, requiring tailored assistance. GESI needs also vary by province, requiring contextual approaches. • Implementing federalism requires not only technical support but also changes in administrative and behavioral practices. • Support is needed to strengthen parliamentary/assembly processes at all three levels of government. • Evidence-based learning is effective. Systematic documentation of best practices, stories, and data is necessary. • An effective coordination system among organizations and units involved in provincial level program implementation (Program Coordination Units, Provincial Program Implementation Units, PCGGs, provincial and local governments) is extremely important. • Frequent turnover of TA staff and lack of incentives affect the efficiency and sustainability of activities.

UNDP will continue to support the operation of TA programs in the new phase. It will focus on implementation aspects and adopt a “transformative” approach. At the local government and community level, the focus will be on strengthening accountability through grievance redress systems, empowering youth to improve services, providing one-stop services, strengthening the capacity of elected representatives,

particularly in the judiciary, and promoting digitalization.¹¹⁶

6.2 World Bank

The World Bank, under its 2019-2024 Country Partnership Framework (CPF), has supported the implementation of federalism by strengthening public financial management (budget and revenue management) under the Multi-Donor Trust Fund (MDTF) and service delivery organizations in specific sectors such as education, health, social protection, and local infrastructure. It has also promoted reforms in fiscal transfers and financial management through policy lending, and made intellectual contributions through analytical and advisory work, such as the Federal Capacity Needs Assessment conducted in 2017, the Public Expenditure and Fiscal Accountability (PEFA) assessments of the federal and some provincial governments, the Public Expenditure Review, and the publication of the Nepal Fiscal Federalism Update.

Of particular relevance to this survey are the Integrated Public Financial Management Reform Programme (IPFMRP) and the Nepal Urban Governance and Infrastructure Project (NUGIP). The results of these programs are summarized in the table below.

Table 67 Key achievements of IPFMRP and NUGIP

Program overview	Main achievements
IPFMRP, 2018-2023	
It aims to strengthen the effectiveness of financial management and procurement organizations, systems and procedures at the three levels of government. Target areas include budget formulation, accounting and financial reporting, procurement, and auditing.	<ul style="list-style-type: none"> • Development of guidelines and systems, and capacity building for MTEF preparation; Development of MTEF by provincial governments. • Integration of budget formulation, finance, revenue, accounting, and asset management systems; Integration of SuTRA and LMBIS; Incorporation of the Nepal Public Sector Accounting Standards into SuTRA and CGAS; Establishment of accounting management and reporting procedures at all provincial and local governments. • Development of local government internal control guidelines; Implementation of internal control by 362 local governments; Development of guidelines by provincial governments. • Conducting audits of all provincial governments and nearly all local governments and timely submission of audit reports by the Office of the Auditor General. • Development and partial implementation of a citizen engagement strategy (including public disclosure of the MTEF, budget documents, and budget execution status, and citizen participation in performance audits).
NUGIP, 2020-2026	
It aims to strengthen the organizational and financial capacity of target local governments to improve infrastructure services by developing urban infrastructure	<ul style="list-style-type: none"> • 435 officials received training on building codes, GESI, environmental protection, procurement, finance, and quality management. • Twelve local governments implemented 2,482 small-scale projects to mitigate the impact of Covid-19. 50,000 people received wages through labor participation. 240,000 people benefited. • 29 target local governments established audit committees and internal

¹¹⁶ Interview with UNDP Nepal Office

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through the disbursement of grants and enhancing project management capacity based on needs. Labor-intensive small-scale projects have also been implemented to mitigate the impact of COVID-19.

control teams, submitted internal audit reports, adopted accounting policies, and developed action plans to address audit findings. 25 local governments developed internal control guidelines.

Source: World Bank (2024a), World Bank (2024c)

The following lessons learned and challenges have been identified to date in the above projects. There are some common lessons with the PLGSP, which also involves multiple institutions.

- It is necessary to ensure the participation of provincial and local governments in the implementation structure of the IPFMRP and to establish mechanisms to avoid duplication with support from other development partners.
- The complexity of the project design involving multiple agencies, a low level of ownership due to frequent turnover of officials, and a lack of reform mechanisms in the early stages led to delays in program implementation.
- There are challenges in work progress, budget execution, quality of work, environmental and social compliance, contract management, and progress reporting of infrastructure projects in NIUGIP's target local governments, resulting in delays in project implementation.

Under the new CPF, which covers the period 2025-2031, the World Bank's support will focus on clarifying the roles and responsibilities of the three levels of government, improving budget and fiscal transfer systems, strengthening citizen-centered service delivery capacity, and supporting public financial management and inclusive planning and implementation.¹¹⁷

6.3 Asian Development Bank (ADB)

ADB set improving access to services devolved to the provincial and local levels as one of the three objectives of its Country Partnership Strategy (CPS) for 2020-2024. In conjunction with support for specific sectors such as education, urban infrastructure, and agriculture, ADB has supported policy reforms and capacity building to improve service delivery by provincial and local governments. Governance support has focused on strengthening expenditure management, debt management, procurement, and resource planning and management through policy lending and related technical assistance. In parallel, sector service improvement projects for local governments, such as the Urban Resilience and Livability Improvement Project (2024-2029), work to strengthen financial management in target provincial and local governments in addition to infrastructure development. Key results of governance support include:

- Improvement of resource planning and management for three provincial governments and ten local governments, and enhancement of property tax management capacity.
- Establishment of a project bank, a periodic plan, and the MTEF of the Lumbini Province through

¹¹⁷ World Bank (2025)

the PPC.

- Development of the Public Financial Management Reform Strategy and the Domestic Revenue Mobilization Strategy for three levels of government by the Ministry of Finance.
- Development of SuTRA with joint support with the United Kingdom.
- Development of the Public Asset Management System (PAMS)

ADB is also assisting the Ministry of Finance in reviewing progress on fiscal federalism and PEFA assessment in Madhesh Province.

Because ADB's governance-related interventions at the provincial and local levels are limited, the survey team was unable to find reports documenting relevant lessons learned to the current survey.

ADB's 2025-2031 CPS indicates that it will continue to adopt a similar approach to support the implementation of federalism, focusing on sector services while providing TA support for debt management, procurement, and resource planning and management (project bank, taxation, provincial and local borrowing frameworks, asset management system, and public investment guidelines). In the area of public investment, a three-year "Public Investment Management Performance Improvement Project" is currently underway, focusing on the federal level and strengthening systems and capacities in areas such as procurement, contract management and safeguards.

6.4 United Kingdom

The UK is supporting the establishment of Nepal's federal system, including a GBP 2 billion investment in the first phase of PLGSP. In addition, through the Coherence Programme (2017-2024), implemented in partnership with MoFAGA, the UK supported the improvement of parliamentary deliberation processes through International IDEA. Under the same programme, a team of youth mentors provided mentoring to local government representatives and produced resource materials on key legislation. The mentoring was successful, and MoFAGA plans to expand it through the PLGSP.¹¹⁸

The UK has identified the following challenges and lessons learned from its support for the implementation of federalism, including that provided through the PLGSP.

- The challenges of implementing federalism include aligning interests and fostering stakeholder coalitions for change.
- Since the three-level government is more interested in infrastructure development, health services, and economic development than governance, strengthening links with other UK assistance could increase incentives and ownership for federalism implementation.
- It is necessary to ensure local government ownership and enhance effectiveness in response to local needs.
- PLGSP development partners should focus on the quality of delivery.
- Improvements in vertical and horizontal intergovernmental coordination and a shift from supply- to demand-driven approaches are needed.

¹¹⁸ Interview with the official of the UK Foreign, Commonwealth and Development Office (FCDO) of the British Embassy in Nepal.

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- Building on the principles of power-sharing that are at the core of federalism, it is necessary to consider how to include marginalized groups and people involved in conflicts.¹¹⁹

Furthermore, the UK is implementing the Local Infrastructure Support Program (LISP) through the WFP, which aims to strengthen the implementation capacity of local infrastructure services with a focus on the empowerment of women and marginalized communities. The pilot phase was intended to cover 15 local governments in Karnali Province and 15 local governments in Lumbini Province, with a planned expansion to Madhesh Province as well. However, the rollout to Madhesh Province was cancelled due to budget reductions.¹²⁰ The program provides funding for infrastructure development as government equalization grants based on proposals from local governments and on a cost-sharing basis, while also building capacity in areas such as infrastructure design, implementation, maintenance, project prioritization, and inclusive planning. The main infrastructure sectors supported by LISP include roads and bridges, irrigation, water supply and sanitation, and buildings and urban development.¹²¹ The program also aims to create green recovery jobs. Although provincial governments are not involved in the disbursement of funds, they are expected to play a role in facilitating coordination among local governments and promoting the sharing of good practices through province-level coordination forums.¹²² The commitment of the target local governments is high, and the pilot phase has yielded significant results and spillover effects, offering valuable lessons as a combined support initiative that integrates sector support with planning and investment management. Lessons learned and challenges identified for scaling up the program also provide insights (Table 68).

Table 68 Key achievements and lessons learned from the LISP

Achievements	Lessons Learned and Challenges for Scaling Up
<ul style="list-style-type: none"> • Improvement of project selection and prioritization in local governments' annual planning and budgeting and enhanced inclusiveness • Decrease in the number of small-scale projects and shift of resources towards larger and strategic local infrastructure projects • Increased budget allocation for infrastructure maintenance • Increased public participation in planning processes for infrastructure projects and significant increase in the number of women in user committees • Increased participation of women and marginalized communities in construction work • Improvement of infrastructure quality and public financial management through better procurement practices • Improvement in infrastructure quality through better contract and construction supervision • Application of the LISP approach and tools to all 	<ul style="list-style-type: none"> • Risks of sexual exploitation, abuse and harassment exist and an increased level of public awareness of reporting mechanisms is required. • A more robust fiduciary risk management framework is needed. • A comparison is needed with the most vulnerable groups in terms of access to employment opportunities and also with project selection practices by local governments without LISP support in terms of inclusiveness. • Capacity-building for infrastructure development section staff is a challenge in terms of experience, retention, and motivation. • Challenges exist in assessing how much

¹¹⁹ Foreign, Commonwealth and Development Office (2022)

¹²⁰ Interview with the LISP consultants.

¹²¹ Interview with the LISP consultants.

¹²² Interview with the official of the FCDO of the British Embassy in Nepal.

Achievements	Lessons Learned and Challenges for Scaling Up
infrastructure projects by multiple local governments • The Karnali provincial government's decision to jointly finance local government infrastructure projects using the LISP approach	individual projects contribute to overall local government development. The coordinating role of provincial governments is important.

Source: Foreign, Commonwealth and Development Office (2024), Nepal Embassy FCDO official interviews

In addition, through the Asia Foundation and the Development Initiative (an international organization that promotes the use of data for development), the UK supports the generation of data and statistics at the provincial and local levels, evidence-based and participatory decision-making processes, and improved availability of quality data.

The UK government has recently withdrawn its support for the reprogrammed PLGSP II. As a result, PLGSP has been compelled to reduce the scope of the project.

6.5 Switzerland (SDC)

The Swiss Agency for Development and Cooperation (SDC), in its cooperation program for Nepal for 2023-2026, sets forth three key priority areas for cooperation, the first of which is federal state building. With an objective of realizing inclusive service delivery through the strengthening of provincial and local governments, SDC is co-financing the PLGSP and, in parallel, supports the strengthening of provincial and local government institutions and systems in Koshi Province through the Provincial Support Programme (PSP, 2018-2026). The areas of support include: (1) legislation and policy-making, administrative and personnel management, financial management, planning and implementation for provincial governments; (2) cooperation and coordination through strategic partnerships and natural resource sharing between provincial and local governments; and (3) implementation of GESI responsive transparency and civic engagement policies.¹²³ In addition, separate support is provided to strengthen the leadership and participation of women members of local assemblies in political decision-making.

SDC support has made the following achievements in Koshi Province so far:

- Developed Provincial Periodic Plan, MTEF and Transport Master Plan
- Developed guidelines for local government FRA procedures and their use by local governments
- Initiated strategic partnership projects between the provincial and local governments in areas such as emergency response centers and waste management.
- Formalization of provincial legislative process and drafting of financial directives and fiscal accountability act
- Developed guidelines for local government capacity self-assessment
- Increased participation of women local government councillors in decision-making and increased

¹²³ SDC website

https://www.eda.admin.ch/deza/en/home/projekte/projekte.filterResults.olddesign.par_projectfilter_copy_page2.html/content/dezaprojects/SDC/en/2018/7F10126/phase1?oldPagePath=/content/deza/en/home/projekte/projekte.html

provincial and local government budget allocations for gender equality.¹²⁴

In providing focused support to specific provinces, the PSP operates under an implementation structure in which the Provincial Government serves as the counterpart, and the Provincial Chief Minister and the Swiss Ambassador act as co-chairs. Through this arrangement, the program engages in frequent consultations with provincial assembly members and makes deliberate efforts to incorporate the needs of the Provincial Government.¹²⁵ SDC notes that, through this type of support, the political engagement of elected representatives is critically important for advancing reforms.¹²⁶

In addition to the PSP, SDC is implementing the Municipal Revenue Enhancement Project (2024-2029) to support selected local governments in Koshi and Bagmati provinces in (1) collection of own-source revenues and tax compliance, (2) planning, budgeting, and procurement systems, and (3) horizontal and vertical sharing of learning on own source revenues.

6.6 Germany (GIZ)

The *Deutsche Gesellschaft für Internationale Zusammenarbeit* (GIZ: German Corporation for International Cooperation) has made governance and democracy one of its priority areas. From 2019 to 2024, through a two-phase project to strengthen decentralized governance structures, GIZ supported the improvement of inclusive services in three provinces - Lumbini, Karnali and Sudurpashchim - by working with provincial governments and 15 local governments. The specific areas of support in the first phase were legal reform, revenue enhancement, and inclusive planning and budgeting that mainstreamed gender and social inclusion and strengthened social accountability. It was implemented in collaboration with the PCGGs of the target provinces, MoFAGA, and the Nepal Association of Rural Municipalities (NARMIN).

Through Phase 1, GIZ learned that even when local government planning is supported, the plans are not necessarily implemented. Phase 2 therefore placed greater emphasis on learning beyond training, providing operational guidance through mobile teams to address local government needs, sharing best practices, improving digital services, and supporting dialogue between the three levels of government.

With the completion of the above project, GIZ has shifted its approach to integrating governance support into private sector development and will continue to support governance from an economic governance perspective.¹²⁷

¹²⁴ Swiss Agency for Development and Cooperation (2022)

¹²⁵ Interview with SDC Nepal Office

¹²⁶ Swiss Agency for Development and Cooperation (2022)

¹²⁷ Interview with GIZ Nepal Office

7. Direction of JICA Cooperation

In this chapter, we will organize and analyze the issues based on the information obtained from the literature review and the field survey, and propose a direction for cooperation.

7.1 Challenges Following the Transition to Federalism

In Chapter 3 of this report, issues were identified through case studies of the three provincial governments and six local governments surveyed. In this section, the identified issues will be organized and analyzed according to the perspectives of institutional, organizational, and human resource levels of capacity development.

7.1.1 Summary of Governance-Related and Cross-Cutting Issues

(1) Governance-related challenges

- **Development planning and budgeting** At the institutional level, the number of local governments that have formulated periodic plans (=medium-term plans) and MTEFs remained at 161 as of fiscal year 2023/2024.¹²⁸ Among local governments, when limited to urban and rural municipalities, the percentage of municipalities that have formulated periodic plans and MTEFs is only 13% and 12%, respectively, of the total number of municipalities. Additionally, among the local governments surveyed, three had developed periodic plans and MTEFs, but these were not being implemented after their development and were not being utilized as policy guidelines for annual budget planning, the formulation and approval of public investment projects, and other purposes. The background to this situation includes organizational-level challenges such as insufficient data, time, and personnel required for monitoring the implementation of periodic plans and annually updating MTEFs, a lack of commitment to developing MTEFs, and the fact that these policy documents were developed with support from the federal government and donors, resulting in a lack of accumulated expertise among local government officials. To address this, it is important to formulate and implement human resource development policies, with a particular focus on policies, systems, and processes to transfer the knowledge, skills, and know-how of federal government officials who are assigned to provincial and local governments to provincial and local government officials. At the individual level, there is insufficient understanding of the operation of periodic plans and MTEFs among legislators and officials, and there is a lack of capacity among officials responsible for these tasks.
- **Fiscal Management** Under the federal system, fiscal management systems have been established to a certain extent, and financial management information systems for the three-tier government have been developed and are operational. However, there are still many challenges in fiscal management. In terms of overall fiscal management, challenges include budget deficits for fiscal year 2022/23 for provincial and local governments, revenues heavily dependent on grants, limited fiscal autonomy and expanding

¹²⁸ World Bank (2024b).

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expenditure autonomy, and low budget execution rates. In revenue management, institutional-level challenges include the lack of revenue improvement action plans and taxpayer registration systems, which hinder effective tax collection. In public asset management, institutional-level challenges include the lack of registration of financial assets and public facilities in the Public Asset Management System (PAMS), which prevents a comprehensive overview of public assets. Regarding internal audit, institutional-level challenges include inadequate implementation of the internal audit system, and organizational-level challenges include the lack of guidelines outlining the methods and processes for implementing the system. At the individual level, there are challenges such as irregular audits and variations in audit quality due to the lack of training programs to enhance the capabilities of staff responsible for internal audit.

- Project Management** One of the most fundamental issues at the institutional level of local governments is the lack of regional development plans and infrastructure development plans. Without these plans, it is impossible to effectively and efficiently utilize limited fiscal resources for regional economic and social development and infrastructure development. In addition, there are issues such as the lack of a project bank, insufficient institutional frameworks for the formulation, review, selection, implementation, and monitoring of projects, and the absence of maintenance and management guidelines. As a result, projects are not formulated in accordance with infrastructure development plans but are instead formed as numerous small-scale projects at the ward or village level and allocated budgets accordingly. At the organizational level, there are issues with insufficient implementation monitoring by monitoring and supervisory committees due to the excessive number of projects. At the individual level, there are issues with a lack of expertise among personnel in charge of project formation, selection, and monitoring. Regarding infrastructure maintenance and management, issues at the organizational and individual levels include a lack of awareness of the importance of maintenance and management and low priority in budget allocation.

Table 69 Issues and challenges in the governance areas surveyed

Survey Area	Capacity Development Level	Issue
Development planning and budgeting		
Periodic plans, MTEF, annual budgets/development plans	Institutional implementation /Organization/Individuals	Improving the consistency of periodic plans, MTEF, and annual development/budget plans
	Institutional implementation/Organization/Individuals	Evidence-based planning
	Institutional implmentation/Organization	Improving revenue forecasting capabilities
	Institutional implementation/organization	Reflecting resident needs in planning and improving inclusiveness
	Institutional implementation/organization/individual	Collaboration with the private sector, academic institutions, and neighboring local governments
	Individual	Improving the planning and utilization capabilities of provincial and local government officials and legislators
Fiscal management		
Fiscal and financial management in	Institutions/organizations	Deterioration of provincial and local government fiscal balance

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Survey Area	Capacity Development Level	Issue
general	Institutions/Organizations	Dependence on grants from provincial and local governments
	Institutions/Organizations	Limited fiscal autonomy and expansion of "revenue autonomy"
Revenue management	Institutional development/Organization	Planned revenue improvement based on the revenue improvement action plan
	Institutional implementation/organization/individuals	Strengthening organizational structure and human resource development to improve the implementation and monitoring of revenue improvement action plans
	Institutions/Organization	Establishment and effective operation of a registration system for taxpaying entities such as corporations
Financial Management	Organization/Individual	Addressing and preventing deficiencies and irregularities identified through external audits
Internal Audit	Institutions/organization	Delays in conducting internal audits and improving audit quality
	Organization/Individual	Development of guidelines for internal audits and training to develop human resources
	Organization/Individual	Human resource development through internal audit training
Public asset management	Institutional development/Organization	Promotion of registration of financial assets and public facilities in public asset management systems
	Institutions/Organization/Individuals	Proper maintenance and updating of asset ledgers
	Institutions/Organizations	Clarification of ownership and usage status of public assets such as infrastructure
	Institutions/organizations	Utilization of public assets as revenue sources or for public services
	Institutions	Improving ownership overlap between federal, provincial and local governments
	Institutions	Establishment of a comprehensive legal framework and guidelines for public asset management
	Organizations/individuals	Strengthening the public asset management capabilities of provincial and local government officials
	Organizations/Individuals	Strengthening infrastructure maintenance and management through coordination between budget management and asset management
Project management		
Planning	Institutions/Organizations	Formulation and implementation of regional development plans and infrastructure development plans (especially local governments)
Project formation, review, selection, implementation, and	Organization	Organizational response to delays in project implementation
	Organization/Individual	Enhancing the quality of project monitoring and

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Survey Area	Capacity Development Level	Issue
monitoring		supervision committees through organizational strengthening and human resource development
	Individual	Improving the expertise of local government officials in project formulation, selection, public procurement, etc.
	Institutions/Organizations	Introduction of post-implementation evaluation
	Institutions/Organizations	Establishment of an annual reporting system
Infrastructure maintenance and management	Institutional development/Operation	Creation and effective operation of infrastructure maintenance guidelines
	Organization/Individual	Budget allocation for infrastructure maintenance and improvement of awareness of the importance of maintenance
Human Resource Development	Organization/Individual	Enhancing the capabilities of personnel involved in business management

(2) Cross-sectoral issues

- **Gender Equality and Social Inclusion (GESI)** At the provincial and local government levels, institutions have been established to promote the mainstreaming of GESI with support from programs such as PLGSP. However, there is a lack of gender-responsive budgeting (GRB) and statistical data necessary for promoting GESI, resulting in low priority for GESI programs and limited budgets. At the organizational level, there is a lack of political will among legislators to mainstream GESI, and community organizations such as TLOs are not being fully utilized for GESI mainstreaming. At the individual level, challenges include a lack of political will among legislators regarding GESI, raising residents' awareness of GESI, improving the knowledge and skills of female legislators and legislators elected under the Dalit quota, and improving the practical knowledge and skills of administrative staff regarding GESI.
- **Human resource development** Overall, there is still a lack of clarity regarding human resource development policies for provincial and local governments under the federal system. In the governance sector, it is important to establish systems and processes for transferring the skills and know-how of experienced and knowledgeable officials from the MoFAGA, Ministry of Finance, National Planning Commission, and other federal ministries to provincial and local government officials.

In addition, provincial training institutes were established as core organizations for human resource development in provincial and local governments, but operationalizing the institutes and organizations are at an early stage, as the institutes still lack sufficient personnel, organizational structures, and facilities, and budgets. At the individual level, local government officials including assembly members need capacity building, and there is an overwhelming shortage of practical training in such fields as administration, laws and regulations, management, gender equality and social inclusion, IT, technical training for sector-specific staff, and training for ward staff.

Table 70 Cross-cutting issues

Survey area	Capacity development level	Issues
Gender equality and social inclusion (GESI)		
Local Government	Institutional implementation/organization	Lack of statistical data necessary for gender-responsive budgeting (GRB) and GESI promotion
	Institutional implementation /organization	Low priority and limited budget for GESI programs
	Organization	Promoting GESI mainstreaming through the revitalization of village organizations (TLOs)
	Individual	Lack of political will among legislators regarding GESI mainstreaming
	Individual	Raising residents' awareness of GESI
	Individual	Improving the knowledge and capacity of women parliamentarians and parliamentarians elected under the Dalit quota
	Individual	Improving the practical knowledge and capacity of administrative staff regarding GESI
Human resource development		
Provincial government	Institutional implementation /organization	Insufficient personnel, organizational structure, and facilities at the provincial training center
Local government	Individual	Insufficient training for legislators (laws, administration, GESI, SDGs, etc.)
	Individual	Insufficient training for staff (administration, laws and regulations, management, gender equality and social inclusion, IT, technical training for sector-specific staff, training for ward office staff, etc.)

7.1.2 Overall Challenges

Based on the issue analysis above, the overall challenges under the federal system can be summarized as follows:

Strengthening the implementation of institutions established under the federal system. The first overall challenge is to strengthen implementation of the institutions established by provincial and local governments to date and to sustainably promote inclusive and comprehensive regional development that meets the needs of local residents.

Ten years have passed since the promulgation of the constitution in 2015. The progress made in institutional development under the federal system during this period has been remarkable and can be described as a rare success story even by global standards. General elections for provincial and local governments were conducted smoothly in 2017 and 2022, and various laws and regulations have been established at all levels of government under the new constitution. Additionally, in accordance with laws enacted under the federal system, the organizational structures of the three-tier government have been reorganized or newly established, and government officials have been transferred and assigned to their respective levels of government. Furthermore, all provincial governments and 161 local governments have formulated periodic plans and MTEFs and are compiling annual government budgets to implement projects and provide administrative services. Concurrently with this process, fiscal management systems including IT systems have been established across the three tiers of government to ensure fiscal transparency and

accountability.

While various institutions for the federal system have been developed to a considerable extent over the past decade, a large scope of challenges remain in terms of provincial and local governments effectively implementing these institutions. For example, 1) as of 2023, only 161 local governments have developed periodic plans, 2) even among those that have formulated periodic plans, many are not effectively implementing them to drive regional development, 3) projects of local governments primarily consist of small-scale infrastructure development that reflects the needs of individual districts, rather than comprehensive projects aimed at regional development, and 4) local governments have limited tax revenue and non-tax revenue, resulting in extremely limited discretionary funds to allocate in response to residents' needs. While the fourth issue of local governments' un-earmarked financial resources is a critical challenge, increasing the proportion of equalization grants in fiscal transfers to local government is also an important challenge to enhance un-earmarked financial resources.

Infrastructure development and improvement of administrative services at the provincial and local government levels. The second overall challenge is that, over the 10 years since the transition to federalism, priority has been given to the development of administrative and fiscal management systems within provincial and local governments, resulting in insufficient infrastructure development and improvement of administrative services in various sectors. As a result, residents of cities and villages have not been able to feel the benefits of infrastructure development and improvements in administrative services that would have directly improved their livelihoods and quality of life on a daily basis.

Local governments are facing many challenges in various sectors. For example, 1) many local governments have not formulated infrastructure development plans, resulting in a lack of medium-term planning toward sustainable development, 2) local governments have limited capacity to collaborate with private sector entities, universities, and federal government agencies in their regions to improve administrative services, and 3) few local governments have the capacity to collaborate with neighboring local governments to save costs public service delivery in sectors such as waste and recycling management.

Shift from supply-driven support to demand-driven support. The third overall challenge is the need to shift federal government support for provincial and local governments from a supply-driven approach to a demand-driven approach that is tailored to the needs of provincial and local governments.

The PLGSP, which has been implemented since 2019, has provided nearly identical support programs to provincial and local governments nationwide under the leadership of the federal government. As a result, it has been reported that provincial and local governments have had limited ownership of the PLGSP. The following reasons for this were pointed out: 1) provincial governments have had relatively low provincial budget allocations under PLGSP, and 2) local governments have found that PLGSP support has not met their respective needs.

Given Nepal's extremely diverse geographical characteristics, which include lowlands, hills, and mountainous areas, and the coexistence of more than 120 diverse ethnic and linguistic groups (*Jaat*), it is self-evident that regional and sectoral challenges as well as their priorities and support needs considerably vary among provincial and local governments. It would not be an overstatement to say that the most fundamental reason for Nepal's transition to a federal system and promotion of decentralization lies in the

need to establish a government capable of addressing the diverse challenges faced by each region. It is a critical insight of the federal government that its support for provincial and local governments under the PLGSP must be tailored to address their needs.

7.2 Direction of JICA Cooperation

Based on the issue analysis in the previous section, this section proposes the direction of JICA cooperation. First, the basic principles of JICA's cooperation with regards to what to aim for, what to support, and how to support are presented. Guided by these principles, the overall direction, support approach, and support content of JICA cooperation are proposed.

7.2.1 Basic Principles

(1) What is the objective?

The direction that this JICA cooperation should aim for can be summarized as follows: to enhance efficiency, transparency, equity, and inclusiveness of local governments in Nepal, improve public infrastructure and services sustainably, thereby enhancing livelihoods and quality of local people.

This direction can also be expressed more simply as: bringing better lives to people in local communities through better governance and better public services.

(2) What will be supported?

1. **Strengthening organizations and human resources of local governments.** JICA cooperation will support organizational strengthening and human resource development of local governments, aiming at effective and integrated implementation of governance systems with regard to development planning and budgeting of provincial and local governments institutionalized through PLGSP support. In particular, support will be provided for the formulation of effective development plans and budgets aimed at achieving medium-term objectives, as well as for strengthening the planning processes and mechanisms that enable the needs of local residents to be appropriately reflected.
2. **Enhancing capabilities and participation awareness of local residents.** By strengthening community organizations (TLOs) and other entities that constitute each district within local governments, JICA cooperation will enhance the capabilities of residents and support their effective participation in the formulation and implementation of local governments' periodic plans.
3. **Enhancing resource mobilization capacity.** JICA cooperation will provide support to strengthen local governments' revenue collection capacity, improve their ability to access government-affiliated development financing such as the Town Development Fund (TDF), and enhance stakeholder collaboration, toward enhancing capacity for resource mobilization.
4. **Integrated improvement of governance, infrastructure development, and administrative services.** JICA cooperation will combine the governance strengthening described in points 1 to 3 above with improvements in infrastructure development and administrative services to help lawmakers and

residents feel the benefits of improved governance and local development.

(3) How will this support be provided?

1. **Customized support to address local needs.** Provide customized support tailored to the practical needs of local government officials and staff.
2. **Pilot support.** Support for some pilot local governments to validate effective cooperation methods and prepare for future expansion and rollout to other local governments.
3. **Support to promote horizontal learning.** Utilize the knowledge and experience gained from local administration in Japan, other JICA cooperation projects in Nepal, and JICA's support for local administration in other countries through promoting horizontal learning among local governments.
4. **Support collaboration with other donor agencies.** Collaborate with other donor agencies to ensure that JICA support is complementary to their support.

(4) What should be the time horizon and cooperation schemes of JICA support?

Strengthening governance at the local government level requires repeated, annual support aligned with the fiscal year cycle in order to generate effective outcomes. In addition, projects for infrastructure development and improvement of administrative services typically span multiple years from planning to implementation, and additional time is needed for residents to tangibly experience the benefits. Therefore, a minimum of four to five years is necessary. Furthermore, given that Nepal has 753 local governments (736 municipalities and rural municipalities when metropolitan and sub-metropolitan cities are excluded), achieving the JICA cooperation direction outlined above will require a medium- to long-term support period.

For these reasons, it is proposed to assume a ten- to twelve-year support period, divided into three phases, and to combine different JICA support schemes throughout the period.

In Phase 1, a four- to five-year technical cooperation project will be implemented to develop a 'local governance model' capable of integrated management of development planning, public financial management, and project management. For example, four to six local governments in two provinces will be selected, and support will be provided to strengthen governance on both the expenditure and revenue sides. At the same time, management of projects implemented in line with development plans using public funding sources—such as TDF, IPF, complementary grants, and special grants—will be strengthened on a pilot basis. Across these areas of cooperation, GESI mainstreaming will be promoted within development planning and public financial management. Once these support measures reveal an appropriate model for local administration, the project will collaborate with provincial branches of local government federations such as the Municipal Association of Nepal (MuAN) and the National Association of Rural Municipalities in Nepal (NARMIN) to share this model with other local governments and promote horizontal learning. It will be also desirable to share experiences with relevant provincial government agencies as described later. Furthermore, regarding public relations activities such as disseminating results and promoting best practices using social media, it will be effective to provide support from Phase 1 so that the target local governments and related agencies can take the lead in these efforts.

Phase 2 technical cooperation project will involve horizontal expansion over 3-4 years, increasing the number of target local governments within the Phase 1 target provinces. This will refine the model

established in Phase 1 into a more versatile and replicable form. Furthermore, it will support organizational strengthening and human resource development in specific high-demand sectors to improve infrastructure and administrative services. This aims to enhance local government capacity with an eye toward effective yen loan projects in Phase 3, while also further developing the local governance model. Furthermore, the project will support the establishment of cooperation and coordination mechanisms, particularly with the Office of the Chief Minister and Council of Ministers (OCMCM), Provincial Planning Commission, Provincial Finance Ministry, Provincial Treasury and Comptroller Office, Ministry of Economic Planning, Ministry of Infrastructure Development, and provincial training institutions. Phase 2 will also continue efforts in horizontal learning through collaboration with provincial branches of local government associations such as MuAN and NARMIN.

In Phase 3, a three- to four-year yen-loan project will be implemented to scale up the governance model developed in Phase 2 to local governments in the other provinces. If the appropriate model emerges earlier during Phase 2 technical cooperation, consideration will be given to launch the yen-loan project in parallel with Phase 2, without waiting for its completion, in order to accelerate the realization of development outcomes. To roll out the versatile governance model of local governments to other provinces, collaboration and cooperation with federal agencies such as the MoFAGA and NPC is essential. Furthermore, sharing experiences with the headquarters of MuAN and NARMIN, as well as their respective branches in the other provinces, will be beneficial in advancing the rollout.

7.2.2 Overall Framework for Cooperation Directions

This section proposes the direction of JICA cooperation for local governance under the federal system in Nepal. The overall framework of this proposal is summarized in Figure 6. This direction of cooperation assumes a medium- to long-term engagement of around 10 to 12 years, divided into three phases, in accordance with Basic Policy (4) described above.

The proposed areas of cooperation for local governance consist of the following three areas: 1) strengthening the integrated management capacity for periodic planning, budgeting, and projects, 2) enhancing revenue capacity and access to public funds, and 3) improving infrastructure development and administrative services. Additionally, when supporting these three areas of cooperation, support for strengthening GESI will be provided. Furthermore, when supporting the three cooperation areas, the use of digital platforms is proposed as a tool to promote realization of outcomes in each cooperation area and to enable their rollout to other provincial and local governments.

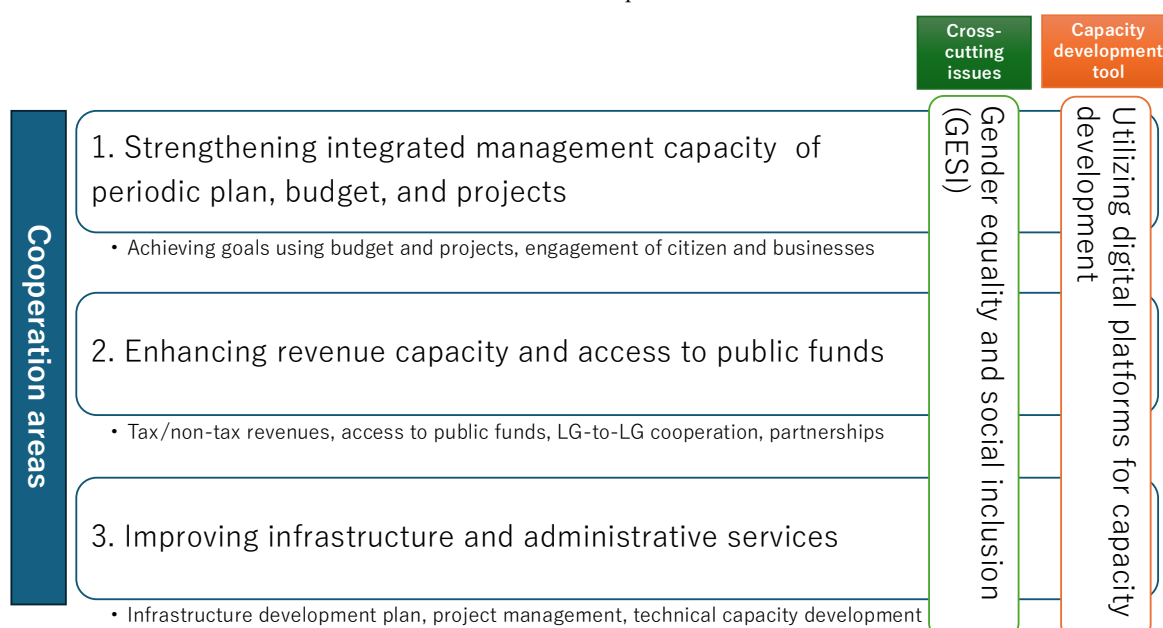


Figure 6 Overview on the direction of JICA cooperation

In the following, we explain the challenges to be addressed, support approaches, specific support contents, and points for consideration when providing support for the three cooperation areas aimed at strengthening local administration.

(1) Strengthening integrated management capacity of periodic plan, budget, and projects

Issues to be addressed:

Institutional development, organizational strengthening, and human resource development of local governments in the areas of periodic planning, budgeting (MTEF and annual budget preparation), project management, citizen participation, and GESI mainstreaming.

Support approach:

Support will be provided to strengthen the organizational capacity and human resources of relevant departments to enhance capability of local governments to utilize periodic plans and budgets (MTEFs and annual budgets) as core tools for promoting development in urban and rural areas. In doing so, support will be provided to ensure meaningful participation of residents and the private sector in the formulation, implementation, and monitoring of periodic plans, annual plans and budgets, and to mainstream GESI. If local governments lack adequate institutional frameworks in this area, institutional strengthening will also be supported. In addition, support will focus on strengthening relevant departments and developing human resources to ensure that MTEFs are updated annually and utilized in budget deliberations and the appraisal and prioritization of projects.

When implementing the above support, in-person support (hereinafter referred to as "real support") and support utilizing digital platforms (hereinafter referred to as "digital support") will be combined in an

appropriate manner to promote organizational strengthening and human resource development. Real support includes expert teams visiting local governments at appropriate times aligned with their fiscal years to provide on-site coaching to enhance practical capacity. Digital support includes providing online training before and/or after the real support aforementioned.

The specific support measures are as follows.

- **Strengthening formulation, implementation, and review of periodic plans, and promotion of participation by residents and the private sector.** Figure 7 summarizes the steps involved in the formulation and implementation review of periodic plans by local governments. The project will support strengthening capacities required to appropriately manage each of these steps. It will promote meaningful participation by residents and the private sector to ensure that local needs are reflected in the formulation of periodic plans. With regard to plan implementation reviews, the project will support the conduct of mid-term reviews.
- **Strengthening integrated management of periodic plans, MTEFs, annual plans and budgets, and projects.** After the formulation of periodic plans, the project will provide support for strengthening mechanisms and processes that enable the periodic plan to be linked and managed in an integrated manner with the MTEF and the annual budget, and projects. Specifically, the project will support the implementation of the steps for formulating the MTEF based on the periodic plan, as well as the steps for preparing the annual plan and budget in alignment with those plans. Over multiple years, the project will assist the cycle of project selection based on the periodic plan, MTEF, and annual plan and budget; regular monitoring of budget plans; and reviews of the MTEF and annual plan and budget. Assuming that local elections are held in May 2027, and that the periodic plan is prepared during FY 2027/28, along with the MTEF and annual budget for the subsequent fiscal year, the project will provide support in the timeline shown in Figure 7 according to the scheduling of the NPC's planning guidelines. In this figure, periodic plan formulation is assumed to be started in October 2027, taking into account the time for reorganization of the executive branch of local governments, budget preparation of the following fiscal year starting from mid-July, and induction training of PLGSP for mayors/chairpersons and assembly members of local governments.

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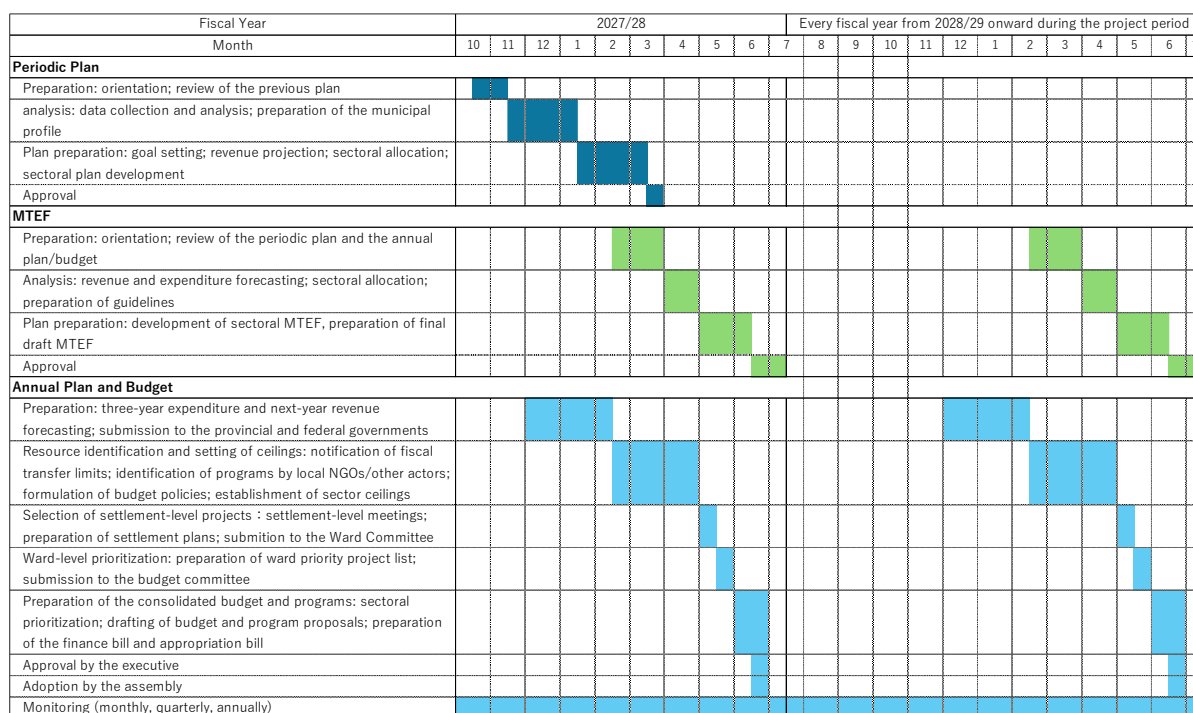


Figure 7 Preparation and Monitoring/Review Cycle of the Periodic Plan, MTEF and Annual Budget (assumption)

- **Mainstreaming GESI in development planning, budgeting and project management.** Support will be provided to incorporate gender equality and social inclusion (GESI) initiatives into the above support to promote their mainstreaming. Specifically, support will be provided for organizing and analyzing sex-disaggregated data in the situational analysis; strengthening capacities of settlement-level organizations such as TLOs and existing community groups involved in planning; enhancing capacities of ward representatives (including women and Dalit quota members) and ward chairpersons; and strengthening various committees. JICA support will also promote mainstreaming of GESI throughout the planning process, including the introduction of GESI indicators into various plans, and capacity development on gender budgeting, gender audits, and other relevant areas.

Points for consideration:

- Local governments' periodic plans and MTEFs must be implemented based on the guidelines for provincial and local governments prepared by the National Planning Commission. JICA cooperation will make maximum use of federal government support resources for provincial and local governments, ensuring consistency and avoiding duplication.
- It is logically desirable to begin formulating the periodic plan immediately after the local election currently expected in May 2027 and inauguration of the new local government administrations, which is to be followed by preparation of the MTEF and the annual budget plan for the following fiscal year. However, given the heavy workload and the capacity levels of the target local governments, it will likely be necessary to consider practical measures, such as simplifying the MTEF.

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- Given that provincial training institutes have been established in each province and training programs for local government officials have begun, it is important to ensure the consistency and complementarity of these training programs with support of JICA cooperation. Since the progress in establishing and operating provincial training institutes varies significantly by province, it is necessary to confirm the situation in each province before determining the content of support for local governments. In addition, the Local Development Training Academy (LDTA) at the federal level may be partially involved in delivering orientation and various training programs for elected representatives after the elections. Accordingly, it will be necessary to confirm the training implementation arrangements for the period following the next local elections.
- The Nepal Association of Municipalities (MuAN) and the National Association of Rural Municipalities (NARMIN), which are federations of local governments, have branch offices in each province. These offices will be utilized to facilitate horizontal learning and disseminate the results of JICA support for target local governments to other local governments.

(2) Enhancing revenue capacity and access to public funds

Issues to be addressed:

Strengthening local governments' capacity to collect taxes and non-tax revenues, access public funds such as Town Development Fund (TDF), Innovative Partnership Fund (IPF), complementary grants, and special grants, enhance intergovernmental coordination, and establish institutional frameworks, organizational strengthening, and human resource development for collaboration with the private sector and academic institutions.

Support Approach:

Strengthen the resource mobilization capacity of local governments. Here, "resources" refer to not only local government tax revenues and non-tax revenues, but also a broader sense of resources, namely, public funds such as the federal government's TDF, IPF under the PLGSP, complementary grant, and special grant as well as the funds, technology, human resources and networks held by the private sector and academic institutions in the region, and networks with neighboring local governments. These resources have the potential to be mobilized by local governments but have not been fully utilized to date. This initiative aims to enhance mobilization capacity of those resources that local governments possess potentially. In particular, strengthening tax collection capacity and access to public funds are high-priority issues requiring urgent attention, and JICA cooperation will consistently address them from the outset of its cooperation.

Similar to Cooperation Area 1, JICA cooperation will provide support by combining real support and digital support, focusing on strengthening the organizations and human resources of relevant local government departments. In real support, a team of experts will visit local governments at appropriate times to strengthen the practical capacity of government officials through on-site coaching. In addition, digital support will utilize digital platforms to 1) provide online training, 2) exchange opinions and mutual learning with local governments in Japan, 3) promote horizontal learning through sharing good practices among

local governments, and 4) share information on public funds accessible to local governments.

Specific support measures are as follows.

- **Improving tax collection capacity of local governments.** As of 2022, 211 local governments reported that they had formulated revenue improvement action plans (RIAPs).¹²⁹ For these local governments, the implementation of the plan will be monitored, and advice will be provided on areas for improvement. Additionally, through the JICA-supported “Project to Improve the Quality of Local Government Training by Strengthening Survey and Analysis Capabilities,” the project developed and implemented integrated property tax training, and achieved tangible results. Leveraging this track record and experience, JICA cooperation will focus its support on strengthening collection capabilities for integrated property tax—the most critical source of local government revenue—covering areas such as ledger development, assessment, billing, and collection monitoring. If the target local governments have not formulated a RIAP, JICA cooperation will first support the development of such a plan, while simultaneously advancing organizational strengthening, human resource development, and public awareness activities.
- **Improving access to public funds for local governments.** Under the Town Development Fund (TDF) Act, whose revision is underway by the federal government, all provincial and local governments will become eligible to receive loans from the fund for infrastructure development. The TDF's financing targets are broadly categorized into two sectors: “Basic Social Infrastructures” such as urban development and housing, sanitation and waste management, public facilities and utilities, and environment and recreation; and “Income-Generating Infrastructures” such as commercial facilities, transportation infrastructure, agriculture, forestry, tourism, and sports” (see Annex 3 for TDF details). Therefore, JICA cooperation will support improving local governments' access by examining the necessary conditions and procedures for obtaining financing from this Fund. JICA cooperation will also provide information on the Innovative Partnership Fund (IPF), which is accessible under the PLGSP, and support efforts to secure funding. The projects eligible for the IPF are, in principle, those related to “the utilization and advancement of information technology (IT)” or “the introduction and application of innovative approaches to provincial and local government policies.” Specifically, projects must fall under one of the 21 thematic areas listed in Annex 4. While the TDF supports physical infrastructure requiring construction, the IPF excludes physical infrastructure from its scope, making the two funds complementary. Therefore, effectively combining both funds could enable the implementation of projects involving both hardware and software to achieve one of the periodic plan's objectives. Furthermore, since complementary grants and special grants managed by the National Planning Commission are not being fully utilized by local governments, support will be provided to strengthen their ability to access and secure these grants.
- **Strengthening cooperation among local governments.** Depending on the type of administrative services provided by local governments, cooperation with neighboring local governments may enable more efficient service delivery. For example, cooperation among local governments can significantly reduce costs and improve efficiency in areas such as waste collection, treatment, and recycling; disaster

¹²⁹ See PLGSP (2022).

prevention and firefighting; and small-scale infrastructure development. Support will be provided for strengthening organizations, human resources, and networks that utilize such cooperation among local governments.

- **Strengthening collaboration with the private sector and academic institutions.** Support the establishment of systems, organizational strengthening, and human resource development to enable local governments to collaborate with private sector entities and academic research institutions within their jurisdictions for infrastructure development and administrative service provision. For example, while some provincial and local governments have enacted public-private partnership (PPP) laws, there are very few cases where these laws are effectively utilized. Therefore, support will be provided to enhance the formulation and implementation of PPP laws by local governments.

Points for consideration:

- Strengthening local governments' capacity to collect tax revenues and non-tax revenues, along with improving their access to public funds, are high-priority issues for the government. Therefore, JICA cooperation propose to provide support starting from Phase 1. In doing so, it will proceed with support while paying attention to consistency and complementarity with existing assistance. Examples of existing support include support for local governments in developing revenue improvement action plans through the PLGSP, amendments to the Town Development Fund Act by the federal government, and support for strengthening revenue management through assistance from the ADB and other donors. TDF provides not only loans for new projects to local governments, but also technical assistance to facilitate project formulation and implementation. Therefore, it would be worthwhile to consider enhancing local governments' capacity for project formulation and execution in coordination with TDF's technical assistance.
- Regarding inter-local government cooperation, since there are emerging examples of cooperation among local governments in Nepal, horizontal learning of good practices utilizing digital platforms can be effective for scaling up such cooperation. Additionally, Japan has abundant good practices in inter-local government cooperation, and there are also good practices in other countries, such as JICA's support for local government cooperation in Thailand. It is thus worth leveraging Japan's experience of inter-local government cooperation.
- Collaboration with the private sector and academic institutions in the region could be also strengthened by supporting horizontal learning through digital platforms, utilizing good practices in Nepal, JICA's support to other countries, and local governments in Japan.
- Similar to Cooperation Area 1, horizontal learning on good practices of resource mobilization utilizing digital platforms should be provided in collaboration with local government associations such as MuAN and NARMIN, with a view to expanding and scaling up these efforts nationwide in the medium to long term.

(3) Improving infrastructure development and administrative services

Issues to be addressed:

Public project management, support for project implementation promoting the GESI, and institutional reform, organizational strengthening, and technical human resource development in the target sectors.

Support Approach:

Cooperation Areas (1) and (2) above focus on support for improving governance functions of local governments. Improving governance is an essential prerequisite for enhancing infrastructure development and public service provision across all sectors of local governments. However, unlike improvements in infrastructure and administrative services that directly benefit residents, the benefits of governance improvements are not immediately visible to residents, making it difficult for them to feel the effects of such improvements. As a result, a vicious cycle emerges where support and motivation for governance improvement among local government officials and staff are unable to be sustained, and administrative services fail to be improved as expected. In fact, weak ownership of governance support under the PLGSP may stem from falling into such a vicious cycle.

The same observation can be applicable for GESI mainstreaming. The importance of GESI in planning was emphasized before the transition to the federal system, and has been stressed after the transition primarily through the PLGSP. However, the current survey revealed that the cases where residents had actually felt the benefits of GESI through the actual implementation of projects remain limited.

To break out of this vicious cycle and create a positive one, it is proposed that the Phase 1 JICA cooperation be designed as a technical cooperation project that intentionally integrates infrastructure development and small-scale projects contributing to GESI mainstreaming into the governance improvement in Cooperation Areas (1) and (3). In each target local government, some pilot projects will be selected, and public funds will be mobilized for those projects through Cooperation Area (2). Once those projects have secured public funds, they will be implemented and monitored to strengthen project management capacity. By repeating the series of activities in each fiscal year cycle, resident satisfaction with administrative services provided by local governments will increase, thereby generating a virtuous cycle in which the motivation and support for governance improvement among local governments further grows. Through this process, an appropriate local governance model will be developed.

In Phase 2, based on the achievements, good practices, and lessons learned from Phase 1, the model will be expanded to a larger number of local governments to enhance its versatility, while establishing a dissemination system for further horizontal expansion. Furthermore, keeping in mind the direct benefits to residents, support will be provided to strengthen organizations and human resource capacities for infrastructure development and administrative service provision, thereby further developing the local governance model. The support will target specific sectors where local governments have high needs. In Phase 3, the model will be scaled up to an even larger number of local governments.

As in Cooperation Areas 1 and 2, real support and digital support will be combined to provide support in Cooperation Area 3 as well. Since PLGSP has not provided technical training to improve the expertise of

technical staff assigned to sectors in local governments, technical training is extremely important and highly complementary to PLGSP. JICA cooperation will also consider implementing technical training by utilizing training instructors and training curricula for the sectors supported by JICA in Nepal.

In terms of real support, a team of experts will visit local governments at appropriate times to provide on-site coaching to sectoral staff, thereby strengthening their practical capacity. In terms of digital support, digital platforms will be utilized to: 1) provide online technical training, 2) exchange opinions and mutual learning with local governments in Japan, 3) promote horizontal learning through the sharing of good practices among local governments, and 4) share information on public funds accessible to local governments.

The specific support measures are as follows.

- **Support for the formulation and implementation monitoring of public infrastructure development plans.** Support will be provided for the formulation of local government public infrastructure development plans, and the capacity of the departments in charge will be strengthened in the process.
- **Strengthening of management capacity at the planning, allocation, and implementation stages of public projects.** The systems for the planning stage (formulation, *ex-ante* evaluation), allocation stage (selection, budgeting), and implementation stage (contract management, public procurement, implementation monitoring, project completion reporting) of public projects will be improved, and the organizations of the departments responsible for the systems will be strengthened and their human resources developed. In addition, in conjunction with the introduction of a Project Bank at the local government level promoted by the National Planning Commission, registering the identified projects in the Project Bank and managing the projects (formulation, appraisal, budgeting) may also be considered, depending on the progress of the introduction of Project Bank on the side of the National Planning Commission.
- **Implementation of small-scale projects contributing to the GESI mainstreaming.** In Cooperation Area 1, resident participation and GESI in the development planning process will be promoted, and support will be provided for identifying and implementing small-scale projects. Considering the current situation where budgets are often not allocated for such projects by local governments, it may be necessary to consider the provision of seed money from JICA or the introduction of a matching fund where local governments bear a certain percentage of the project costs. Furthermore, in providing JICA support, it is necessary to consider methods that help foster ownership of local governments and residents, for instance, selecting wards or settlements that are committed to GESI, or piloting a proposal system from wards or TLOs. Furthermore, the goal should not be limited only to the benefits of target groups from JICA support, but also to establish a mechanism and improve the capacity of stakeholders so that similar projects can be implemented in other local governments and wards.
- **Strengthening organizations in sectors selected by local governments for support.** As part of medium- to long-term support of JICA cooperation, for example, in infrastructure sectors such as water and roads, support will be provided for the creation of local government infrastructure development and maintenance plans, as well as for the establishment of organizational structures for departments

responsible for monitoring the implementation of these plans. Similarly, support will be provided for the formulation, implementation, and monitoring of action plans aimed at improving selected administrative services.

- **Development and implementation of technical training programs for local government technical staff in target sectors.** Similar to the sector organizational strengthening mentioned above, as a medium- to long-term support, technical training will be conducted utilizing the results of JICA's sector support in Nepal and human resources. Examples include market-oriented agricultural promotion (Smallholder Horticulture Empowerment and Promotion: SHEP) training and small-scale livelihood improvement training introduced along the Sindhuli District in the agricultural sector, community disaster prevention training in the disaster management sector, and teacher training currently being developed as part of ongoing technical cooperation in the education sector.
- **Mainstreaming GESI in target sectors.** Provide support to both service providers and beneficiaries in target sectors to enhance understanding of gender equality and social inclusion and improve implementation capacity.

Points for consideration:

- JICA cooperation will actively collaborate with JICA's sector support projects in Nepal to ensure synergies between local governance support and sector support.
- In the medium term, it is desirable for provincial training institutes to provide technical staff training programs for local governments. Therefore, the development of technical staff training programs and the training of trainers under JICA cooperation should be supported with keeping in mind the future transfer of those programs to provincial training institutes. On the other hand, since there are currently no institutions responsible for technical training at the provincial level, it is necessary to promote partnerships in support, such as with federal government training institutions and public/private specialized institutions.
- It would be effective for local governments and the respective beneficiary groups to immediately disseminate and share information on the outcomes and good practices obtained from the implementation of local road development and small-scale projects contributing to the GESI promotion. Also, as in Cooperation Areas 1 and 2, it is desirable to collaborate with MuAN and NARMIN, which are associations of local governments, to utilize and share these outcomes and good practices as subjects for horizontal learning, aiming for dissemination and deployment to other local governments.

7.3 JICA's Strengths and Coordination with Other Donor Support

The three Cooperation Areas above are proposed to leverage some of JICA's strengths explained in Chapter 5 while coordinating with other donor support explained in Chapter 6. An overview is provided in the following (see also Table 69).

(1) Strengthening the integrated management capacity for periodic planning, budgeting, and projects

The demand-driven, practical training approach for local governments proposed in this area of cooperation has already been implemented through JICA's Project for Improving Local Governance Training through Capacity Enhancement on Research and Analysis (2016-2019). This project has implemented human resource development through a combination of classroom training for local governments and practical training customized to their requests. The administrative training curriculum, materials, and trainers trained under the project can be utilized in Cooperation Area (1). In addition, the Project on Participatory Rural Recovery (2019-2023) involves participatory reconstruction planning, project implementation, and social audits at the ward level of local governments, with the participation of council members, staff, and residents. This project is highly versatile, and the knowledge and lessons learned from it can be utilized in Support Area (1). Furthermore, the Gender Mainstreaming and Social Inclusion Project (2009-2014) has gained experience and knowledge in incorporating GESI perspectives into development plans and projects of local governments, which can be utilized to promote gender mainstreaming in Cooperation Area (1). Moreover, the knowledge and experience of inclusive development planning gained from the projects in Laos, the Dominican Republic, Honduras, and Tanzania, as explained in Chapter 5 are also worth leveraging.

In other donor support, UNDP plans to provide TA support for capacity development in the new phase of PLGSP. The knowledge and lessons learned through support from the UK, Switzerland, the World Bank, and others will be also very useful for JICA cooperation projects. In JICA cooperation, it will be necessary to engage in dialogue and collaboration to ensure that the scope and approach of these donor support programs are complementary to each other.

(2) Enhancing revenue capacity and access to public funds

JICA has a track record of enhancing local governments' capacity to collect property taxes through on-demand training under the aforementioned Project for Improving Local Governance Training through Capacity Enhancement on Research and Analysis (2016-2019). In addition, in the Project for Capacity Development of City Corporations/Project for Strengthening Capacity for City Corporations (2016-2021/2022-present) in Bangladesh, JICA has been promoting taxpayer education and the involvement of local government council members while working to strengthen local governments' tax collection functions. Furthermore, in the Technical Cooperation Project on Local Management Cooperation in Thailand (2010-2013) in Thailand, JICA implemented a pilot project for inter-municipal cooperation in collaboration with universities and developed a model for municipal cooperation. Those experiences are likely to be useful for strengthening resource mobilization capacity of local governments, including revenue improvement and inter-municipal cooperation in Nepal.

In other donor-supported initiatives, the Asian Development Bank (ADB) is providing support to improve local governments' revenue planning and strengthen their capacity to manage property taxes. By collaborating with the ADB, there is a high likelihood that the experience and lessons of ADB can be leveraged through collaboration in Cooperation Area (2).

(3) Improving infrastructure development and administrative services

The aforementioned Project on Participatory Rural Recovery (2019-2023) has a track record of implementing small-scale pilot projects in collaboration with local governments and residents to improve the livelihoods of local residents through vegetable cultivation, goat farming, community disaster prevention, and tourism. Additionally, in the Strengthening Participatory Planning and Community Development Cycle for Good Local Governance (2009-2014) in Tanzania, continuous facilitation was provided to village residents, resulting in collaborative efforts between local governments and residents to improve small-scale infrastructure and administrative services. In the Project for Strengthening of the Capacity Development of the Local Governments for Regional Development (2006-2010) in Honduras, the processes for planning, implementation, operation, and maintenance of community infrastructure development projects were developed and implemented through resident participation. This project successfully demonstrated the development effects of participatory small-scale community infrastructure projects, fostered ownership among local governments and residents, and achieved horizontal rollout to many communities. The knowledge and experience gained from these projects provide useful insights and experience for building and scaling up models for small-scale infrastructure projects and administrative service improvements of local governments in Nepal.

Other donor support includes the UK's "Local Infrastructure Support Program (LISP)," which provides matching funds for infrastructure development proposed by local governments, while also implementing capacity building in areas such as infrastructure design, implementation, O&M, project prioritization, and inclusive planning. The experience and insights gained from this program are highly useful in considering the support approach for Cooperation Area (3). Collaborating with LISP is expected to contribute to achieving synergistic effects with JICA cooperation.

Table 71 Strengths of JICA support and coordination with other donor support in each cooperation area

Cooperation Area	Support Content	Utilization of JICA Support Strengths	Cooperation with Other Donors
1. Strengthening the integrated management capacity for periodic planning, budgeting, and projects	<ul style="list-style-type: none"> Support for the formulation, implementation, and monitoring of periodic plans, and promotion of participation by residents and the private sector Strengthening the integrated implementation of periodic plans, MTEFs, annual budget plans, and projects Support for the formulation, implementation, and monitoring of public infrastructure development plans Strengthening management capacity in the planning, allocation, and implementation stages of projects 	<p>Nepal Project to Improve the Quality of Local Government Training through Strengthening Survey and Analysis Capabilities (2016–2019)</p> <ul style="list-style-type: none"> Follow-up training for local governments and on-demand training: After classroom training, practical on-demand training is conducted upon request from local governments. This model can be utilized as a customized training program. Developed administrative training curriculum and materials: Revised and developed after the transition to federalism, with high versatility <p>Nepal Participatory Local Recovery Project (2019–2023)</p> <ul style="list-style-type: none"> Capacity building for local councilors, administrative staff, and residents: The formulation of periodic plans and annual development plans by local governments remains a challenge at present. Support expertise at the district level, as well as the formulation and implementation of plans and projects that contribute to GESI promotion, and social audit methods are also highly useful. <p>Nepal Gender Mainstreaming and Social Inclusion Promotion Project (2009–2014)</p> <ul style="list-style-type: none"> Capacity building for administrative staff and residents: Strengthening development project planning and implementation capacity from a GESI perspective for both service providers and beneficiaries remains useful even after the transition to federalism. Detailed support for pilot local governments: Detailed support, including various training programs and planning and implementation of priority projects in pilot local governments, is possible, providing valuable lessons and feedback for sector programs and other local governments. <p>Laos Public Investment Planning and Management Improvement Project (2019–2022)</p>	<p>UNDP:</p> <ul style="list-style-type: none"> Under the PLGSP, provided technical assistance (TA) for policy support through the Program Implementation Unit and capacity development (CD) support through provincial training centers. In the next phase, CD support will focus on improving service delivery through complaint mechanisms, youth empowerment, one-stop services, strengthening the capacity of legislators, and digitalization. <p>Switzerland:</p> <ul style="list-style-type: none"> Supported provincial and local governments in Koshi Province in areas such as legislation, planning and financial management, social inclusion, intergovernmental coordination, and strengthening the leadership of women local councilors <p>ADB:</p> <ul style="list-style-type: none"> Support the PEFA assessment and review of the transition to fiscal federalism in Madhesh Province. Supports investment management (project bank, periodic planning, and MTEF formulation) for the Lunbini Provincial Planning Commission. <p>World Bank: Nepal Urban Governance</p>

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Cooperation Area	Support Content	Utilization of JICA Support Strengths	Cooperation with Other Donors
		<ul style="list-style-type: none"> Strengthening the review, evaluation, and alignment of local government projects with medium-term expenditure frameworks and periodic plans. <p>Dominican Republic Local Government Planning Capacity Project (2012–2016)</p> <ul style="list-style-type: none"> Developing an approach to regional development through the empowerment of local councilors, administrative staff, and residents 	<p>and Infrastructure Project (NUGIP)</p> <ul style="list-style-type: none"> Support capacity building for 17 local municipal governments in grant allocation, development planning, revenue enhancement, fiscal management, public investment management, and social inclusion Through technical assistance (TA), conduct annual surveys on the progress and challenges of fiscal federalism starting in 2023. Additionally, lead the PEFA assessment of the Gandaki Provincial government.
<p>2. Enhancing revenue capacity and access to public funds</p>	<ul style="list-style-type: none"> Improving local governments' capacity to collect taxes and non-tax revenues Improving access to public funds for local governments Strengthening intergovernmental coordination Strengthening collaboration with the private sector and universities 	<p>Nepal Project to Improve the Quality of Local Government Training through Strengthening Survey and Analysis Capabilities (2016–2019)</p> <ul style="list-style-type: none"> Follow-up training and on-demand training for local governments: Following classroom training, practical follow-up and on-demand training were conducted upon request from local governments, resulting in improved property tax collection capacity. This model can be utilized as a customized training program. Developed administrative training curriculum and materials: Revised and developed after the transition to federalism, with high versatility. <p>Bangladesh Core City Function Enhancement Project/Urban Function Enhancement Project (2016–2021/2022–present)</p> <ul style="list-style-type: none"> Strengthening tax collection functions, including citizen tax education and promoting the involvement of council members <p>Thailand Inter-Municipal Cooperation Project to Enhance Public Service Delivery Capacity (2010–2013)</p> <ul style="list-style-type: none"> Institutional development and capacity building of relevant agencies through pilot projects based on inter-local government cooperation 	<p>ADB:</p> <ul style="list-style-type: none"> Implemented improvements to revenue plans and strengthened fixed asset tax management capabilities for selected local governments. Supported the development of a revenue enhancement strategy for the Nepalese government targeting the three-tier government structure.

Cooperation Area	Support Content	Utilization of JICA Support Strengths	Cooperation with Other Donors
		<ul style="list-style-type: none"> Strengthening local government collaboration through cooperation between Japanese and Thai universities 	
3. Improving infrastructure development and administrative services	<ul style="list-style-type: none"> Institutional reform and organizational strengthening in sectors selected by local governments for support. Developing and implementing training programs for technical staff in target sectors of local governments. Mainstreaming gender equality and social inclusion in target sectors 	<p>Participatory Local Recovery Projects (2019–2023)</p> <ul style="list-style-type: none"> Implementation of small-scale pilot projects in areas such as vegetable farming, goat rearing, community disaster prevention, and tourism. Development of a manual for small-scale livelihood improvement projects <p>Participatory planning and community development strengthening project for local government capacity building in Tanzania (2009–2014)</p> <ul style="list-style-type: none"> Promoting collaboration between local governments and residents through ongoing facilitation of residents in villages (wards) and improving small-scale infrastructure and administrative services <p>Honduras Western Regional Development Capacity Building Project (2006–2010)</p> <ul style="list-style-type: none"> Development and implementation of a comprehensive process for planning, implementing, operating, and maintaining community-participatory social infrastructure development projects Fostering ownership and horizontal scaling through the visualization of development impacts achieved through participatory small-scale social infrastructure projects 	<p>United Kingdom: Local Infrastructure Support Program (LISP)</p> <ul style="list-style-type: none"> Providing matching funds for infrastructure projects proposed by local governments. Planned expansion to 80–350 local governments. Implementing capacity-building initiatives in infrastructure design, implementation, O&M, project prioritization, and inclusive planning

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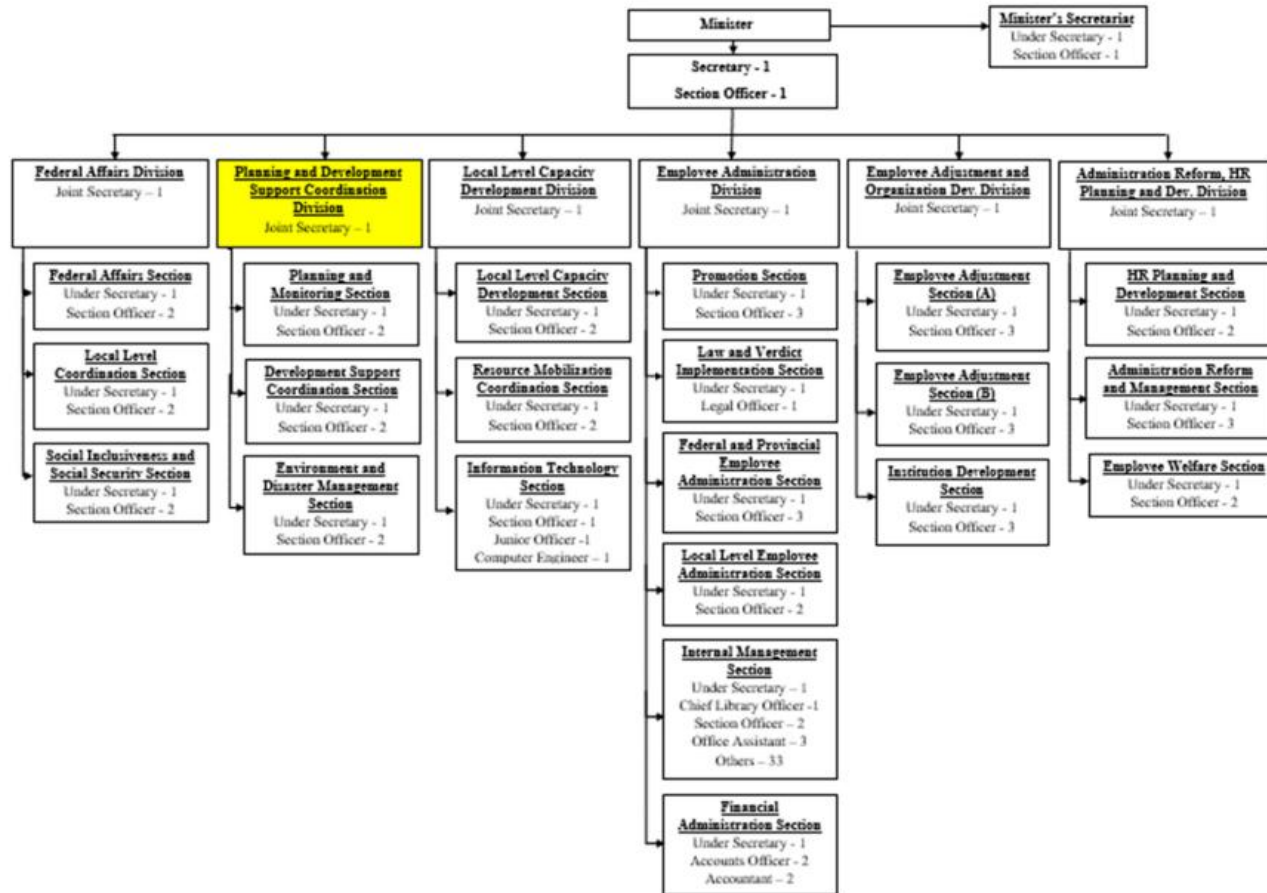
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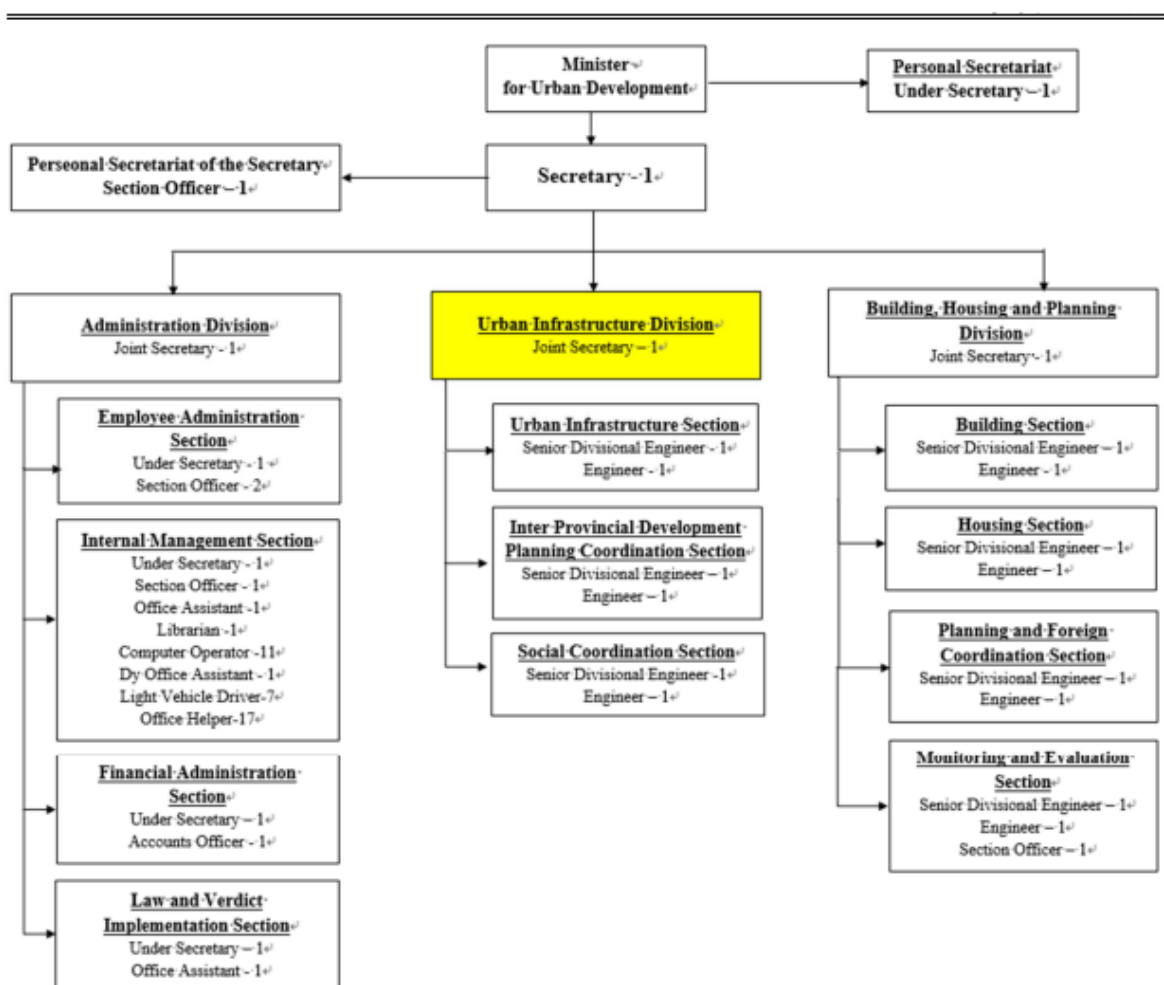
Annex 1 Organizational Chart of the Ministry of Federal Affairs and General Administration



Source: Prepared by the survey team based on the MoFAGA website.

Note: The numbers in the figure indicate the number of staff.

Annex 2 Organizational Chart of the Ministry of Urban Development



Source: Prepared by the survey team based on the MoUD website.

Note: The numbers in the figure indicate the number of staff.

Annex 3 Financial Status, Investment Areas, and Operational Process of the Town Development Fund (TDF)

Investment Areas: Projects financed by the TDF fall into two main categories: “Basic Social Infrastructures” and “Income-Generating Infrastructures.” The terms and conditions of loans and grants differ depending on these categories (see Annex 1 of the TDF Investment Regulation 2079 for details).

- Basic Social Infrastructures: Urban development and housing; water supply, sanitation and waste management; public facilities and utilities; environment and recreation.
- Income-Generating Infrastructures: Commercial facilities; transport infrastructure; agriculture and forestry; tourism and sports.

Funding Overview: The number of approved projects, total project cost, loan amount, and grant amount over the past three fiscal years (FY 2078/79, 2079/80, and 2080/81) are shown below. On average, around 10–20 projects are approved annually. Loan amounts during the past three years ranged from approximately NPR 1.66 million to NPR 428 million, with an average of around NPR 83 million. The large share of grants is mainly attributable to water supply projects, where government grants cover up to 70 percent of total project costs.

Fiscal Year (BS)	No. of Approved Projects	Total Project Cost (NPR)	Total Loan Amount (NPR)	Total Grant Amount (NPR)
2078/79	18	Approx. 4.98 billion	Approx. 2.26 billion	Approx. 1.97 billion
2079/80	9	Approx. 2.95 billion	Approx. 0.98 billion	Approx. 1.66 billion
2080/81	20	Approx. 1.83 billion	Approx. 0.67 billion	Approx. 0.13 billion

Source: TDF Annual Reports (FY 2078/79, 2079/80, 2080/81)

Year-wise Funding Scale: The number and scale of ongoing projects over the past three fiscal years show an increasing trend. The increase in FY 2080/81 is largely due to the addition of 12 upgrade projects expanding the functions of existing water supply schemes.

Fiscal Year (BS)	No. of Approved Projects	Total Project Cost (NPR)	Total Loan Amount (NPR)	Total Grant Amount (NPR)
2078/79	57	Approx. 15.32 billion	Approx. 5.82 billion	Approx. 7.41 billion
2079/80	57	Approx. 17.22 billion	Approx. 5.89 billion	Approx. 9.09 billion
2080/81	73	Approx. 19.97 billion	Approx. 6.55 billion	Approx. 9.62 billion

Source: TDF Annual Reports (FY 2078/79, 2079/80, 2080/81)

Financial Status: According to the TDF Business Plan (2024–2028), the financial position as of the end of FY 2079/80 (2022/23) is generally sound, although improvement in annual loan recovery rates is required.

- Total equity amounts to approximately NPR 7.16 billion, comprising NPR 2.76 billion in government capital, NPR 1.41 billion in donor-funded reserve funds, and NPR 2.98 billion in accumulated profits.
- Total borrowings amount to NPR 7.27 billion, consisting of NPR 5.33 billion from the Asian Development Bank, NPR 0.13 billion from the World Bank, and NPR 1.82 billion from the Government Consolidated Fund.
- The annual debt service payment is NPR 0.75 billion, exceeding the scheduled amount of NPR 0.38 billion.
- Cumulative lending amounts to NPR 10.87 billion, including NPR 3.99 billion for municipal infrastructure, NPR 6.82 billion for water supply projects, and NPR 0.044 billion for transport.
- Against a cumulative loan recovery target of NPR 9.20 billion, actual recovery stands at NPR 8.01 billion.
- Annual loan recovery amounts to NPR 0.88 billion against billed amounts of NPR 1.82 billion, representing a recovery rate of approximately 48 percent.
- The Fund’s main sources of revenue are interest income from loans and service fees for grant management.

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Except for project-specific technical assistance, TDF covers its operating costs from its own income and does not receive operational budget allocations from the government. TDF pays corporate income tax at a rate of 25 percent on its profits.

Loans: According to Article 7 of the TDF Investment Regulation 2079, key loan conditions are as follows:

- Minimum NPR 5 million; maximum NPR 1 billion (maximum NPR 500 million for local governments).
- TDF financing may cover up to 90 percent of total project cost.
- Interest rates vary by project type. Borrowers making timely repayments for three consecutive years receive a 1 percent interest discount. A penalty of 1 percent per annum is applied to overdue principal amounts.
- Repayment period varies by project type, with a maximum of 30 years including a 5-year grace period.

Grants: According to Article 6 of the TDF Investment Regulation 2079, grant provisions are as follows:

- The Fund may provide grants for project construction, studies, appraisal, and construction supervision, subject to the terms and conditions of grants received from the Government of Nepal or donor agencies.
- Grant ratios vary depending on the classification of local governments based on population, intergovernmental fiscal transfers, and internal revenue capacity. Less financially self-reliant local governments receive higher grant shares. (For further details, refer to Schedule 2 of the TDF Investment Regulations 2079.)
 - Construction grants: up to 30 percent of project cost.
 - Project study and development grants: up to 90 percent.
 - Supervision/implementation management grants: up to 90 percent.

Project Application Process: The project cycle generally consists of seven steps, from application by municipalities to construction:

- Step 1 – Application: Submission of loan application and required documents. The required documentation includes, among others: (1) a resolution from the applicant’s executive committee regarding the acceptance of loans and grants; (2) detailed documents concerning land title and ownership for the project site; (3) a brief project description or a Detailed Project Report (DPR); (4) environmental study reports; and (5) financial statements.
- Step 2 – Project Review: Document review, site visits, and consultations.
- Step 3 – Appraisal Preparation: Assessment of eligibility, feasibility, and repayment capacity or revenue potential. The appraisal evaluates whether projects satisfy the standards and financing conditions prescribed by the TDF, as well as their overall feasibility. For "Basic Social Infrastructures," the assessment focuses on the financial status and repayment capacity of the recipient local government. In contrast, for "Income-Generating Infrastructures," the primary focus of the appraisal is the profitability and revenue-generating potential of the proposed infrastructure.
- Step 4 – Decision Notification: Notification of approval or rejection.
- Step 5 – Committee & Board Approval: Review by IPC and final approval by the Board.
- Step 6 – Loan Agreement: Signing of the loan agreement.
- Step 7 – Procurement & Construction: Procurement process and commencement of construction.

Technical Support: TDF provides technical support to local governments throughout project implementation, including feasibility studies, procurement management, and construction supervision. Due to staffing constraints, some support is delivered through contracted consultants.

Training: TDF also conducts training for local government officials on procurement, contract management, accounting software, asset management, and TDF loan and grant mechanisms.

Institutional Framework: TDF operates under the Ministry of Urban Development (MoUD). A Board of Directors established under the Town Development Fund Act (2053) oversees TDF operations. The Board comprises 16 members chaired by the Secretary of MoUD, with members from the Ministry of Finance and MOFAGA. TDF has administrative, financial, and technical units, with 22 staff currently in post against an approved strength of 34. Staff recruitment is conducted directly by TDF.

Legal Framework: TDF operates in accordance with the Town Development Fund Act (2053), its Regulation

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(2054), Financial Regulation (2071), Staff Service Regulation (2068), Investment Regulation (2079), Debt Recovery Regulation (2079), Co-financing Guideline (2075), Investment Guideline (2077), and Water Supply Tariff Guideline (2078).

Annex 4 Overview, Institutional Arrangement, and Process of the Innovative Partnership Fund (IPF)

Scale: According to the PLGSP Annual Report (2022–2023) covering all phases of the programme, a total of 75 projects were approved in FY 2022. Information on the total number of applications was not available. The table below presents the number of approved projects by province and the main types of projects selected.

Province	No. of Projects	Main Types of Projects
1 Koshi	10	Promotion of local tourism; agriculture; entrepreneurship development; introduction of ICT in local administration; improvement of marginalized communities
2 Madhesh	9	Local economic development; support to local government governance; improvement of vertical relations between provincial and local governments
2 Bagmati	11	ICT-enabled service delivery; agriculture; waste management; entrepreneurship support
3 Gandaki	13	Digital governance; local economic development
4 Lumbini	10	Digital literacy enhancement; development of municipality-owned fiber optic networks; integrated municipal systems; IT education in schools
5 Karnali	12	Waste management (joint projects by three municipalities); fruit and poultry promotion; homestay operation; school IT labs; digital archiving of public records; water-based tourism
6 Sudurpashchim	9	Modernization of governance systems; local economic development; improvement of vertical relations between provincial and local governments
Nationwide Total	74	—

Source: PLGSP Annual Report 2022-2023

Based on the “IPF Implementation Directive 2078,” the new phase of PLGSP (PLGSP 2024–2029) formulated the “IPF Operational Guidelines 2081 (2024).” The information below is primarily based on the IPF Operational Guidelines 2081.

Principles (Article 2): The IPF is guided by six core principles: (i) modernization of governance and service delivery; (ii) priority support to resource-constrained local governments; (iii) fostering ownership by provincial and local governments; (iv) risk-sharing and strengthening implementation capacity; (v) mutual learning and sharing of successful and unsuccessful experiences; and (vi) application of the Competitive Challenge Fund (CCF) concept. The description of the Competitive Challenge Fund (CCF) under the IPF Implementation Guidelines 2078 is presented in the box below. This mechanism is designed to facilitate access to the IPF for smaller local governments.

Recognizing that many local governments may lack sufficient capacity to prepare high-quality proposals, the IPF adopts a two-stage process. In the first stage, provincial and local governments submit simplified concept notes that undergo initial screening. For proposals that pass this stage, PLGSP-supported experts may provide technical assistance to resource-constrained local governments (with annual own-source revenue below NPR 2.5 million) to develop full proposals. (Source: IPF Implementation Directive 2078)

Institutional Arrangement (Article 3): Overall responsibility for IPF operation rests with the Provincial Programme Support Unit (PPSU) established within the Office of the Chief Minister and Council of Ministers (OCMCM) of each province. A Technical Committee is formed to undertake technical tasks, including appraisal

and selection of proposals.

Project Size and Eligible Applicants (Article 4): The maximum project duration is two years. Applications may be submitted through: (i) single applications by one local government; (ii) joint applications by two or more local governments; or (iii) cost-sharing partnerships with NGOs, cooperatives, or private sector entities.

Eligible Thematic Areas (Articles 6 and 7): Projects must fall under one of the following thematic areas and generally involve the use or advancement of information technology (IT) or innovative approaches in provincial and local government initiatives. Physical infrastructure construction, recurrent personnel costs, vehicle expenses, and routine relief activities are not eligible.

1. Provincial and local public financial management and governance
2. Areas linked to Local Government Institutional Self-Assessment (LISA) indicators
3. Information technology (IT), e-governance, and GovTech
4. Contributions to provincial and local policies, plans, and budgets
5. Components of Integrated Local Development Plans
6. Waste management
7. One-stop service delivery systems at the local level
8. Integrated settlement development, land pooling, resilience, and disaster management
9. Social accountability approaches
10. Development of model cities, villages, or wards
11. Data- and evidence-based decision-making
12. Gender equality and social inclusion (GESI)
13. Innovative ideas in education, health, water supply, and sanitation
14. Entrepreneurship development and livelihood improvement
15. Business incubation
16. Improved citizen access to public information
17. Risk-sensitive land use planning
18. Socio-economic transformation of marginalized groups
19. Essential equipment, systems, and technologies for innovation projects
20. Advanced technologies contributing to local economic development
21. Other nationally or internationally recognized innovative practices

Mandatory Appraisal Requirements (Article 8): Project appraisal must address the following mandatory requirements: financial transparency; completion of LISA and Fiduciary Risk Assessment (FRA); gender-responsive budget execution; completion of previous IPF projects; limitations on consecutive applications; and notification of selection results.

Grant Ceiling and Cost Sharing (Article 9): Grant ceilings are NPR 5–10 million for single applications and NPR 20–40 million for joint applications. At least 20 percent of total project cost must be contributed by the participating local government(s).

Implementation Process and Templates: Although the IPF Operational Guidelines 2081 do not provide detailed procedures, the IPF Implementation Directive 2078 outlines the following process:

1. Allocation of budget from the federal government to provincial governments.
2. Call for Project Concept Notes (Annex 4 of the Directive 2078).
3. Screening of Concept Notes based on 12 mandatory criteria. The appraisal consists of the following 12 criteria, all of which must be met with a "Yes" response to proceed to the next stage: 1) Innovation, 2) Readiness of the implementation arrangement 3) Alignment with local government development objectives, 4) Approval of the annual budget, 5) Registration in LISA, 6) Registration in FRA, 7) LISA and FRA scores of at least 50%, 8) Inclusion of vulnerable groups, 9) Project cost within the prescribed IPF budget limits, 10) Exclusion from the list of prohibited expenditures, 11) Agreement on cost-sharing arrangements, and 12) Completion of audited financial statements
4. Invitation to submit Full Project Proposals.

Final Report

5. Submission of Full Project Proposals including technical proposal, implementation arrangement, budget, procurement plan, and cost-sharing agreement (Annex 5 of Directive 2078).
6. Project appraisal based on scored criteria such as 1) innovation, 2) scalability, 3) contribution to SDGs, 4) empowerment, 5) gender budgeting, 6) LISA score, 7) FRA score, 8) capital budget execution rate, 9) infrastructure elements, and 10) audit arrears.
7. Agreement between the local government and the Provincial Coordination Committee.
8. Feedback to unsuccessful applicants, encouraging resubmission in subsequent years.

Fund flow: The provincial government transfers funds to the local governments whose project proposals have been approved in the form of “conditional grants”, in accordance with the Government of Nepal’s fund flow regulations, through the Provincial Treasury and Comptroller Office (PTCO).