

Federalism's Broken Promises: Explaining Sub National Underdevelopment in Federal Nepal

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Abstract

Federalism in Nepal, constitutionally adopted in 2015, was envisioned as a transformative framework to promote inclusive governance, address historical inequalities, and catalyze sub national development. The constitutional design emphasizes the devolution of power across three tiers of government with provisions for co-existence, cooperation, and collaboration and aimed at fulfilling development aspirations through equitable resource distribution to marginalized provinces and communities. The article aims to find out the gap between constitutional commitment and the performance of its execution through an extensive review of secondary sources, including academic literature, policy analyses, and empirical studies drawing on relevant theories such as fiscal federalism, center periphery dynamics, and political economic perspectives. The study reveals how federalism's constitutional promises remain largely unmet by examining critically the persistent sub national underdevelopment particularly in peripheral regions such as Karnali, Sudurpaschim, and Madhesh despite formal federal implementation nearly a decade. This research identifies structural, institutional, and socio-political factors including inadequate fiscal devolution, administrative centralization, political clientelism, gender disparities, and deep-rooted exclusion that have hindered equitable development. The findings underscore the need to strengthen inclusive governance and resource distribution to ensure genuine development and empowerment at the sub national level.

Keywords: federalism, inclusive governance, political economy, underdevelopment, provincial inequality

Introduction

The political transformation that unfolded in Nepal following the historic events of 2006 represents one of the most significant institutional and governance shifts in the country's

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modern history. The culmination of the Second People's Movement, popularly known as the *Jana Andolan II*, brought an end to the centuries old monarchical constitutional system and paved the way for the establishment of a federal democratic republic. This movement, which mobilized a broad spectrum of Nepali society including political parties, civil society, historically marginalized groups, and ordinary citizens demanded an inclusive political system capable of addressing entrenched inequalities, exclusion, and regional disparities that had long characterized the Nepali state. The abolition of the monarchy and the subsequent introduction of federalism thus marked a watershed moment in the country's political trajectory, symbolizing a decisive break from centralized, exclusionary governance structures of the past.

The adoption of federalism, formally enshrined in the Constitution of Nepal promulgated in 2015, was conceived as a political and institutional response to decades of structural marginalization, uneven development, and governance centralization. Nepal's transition to federalism was not merely an administrative restructuring but a deeply political project, driven by long standing demands for autonomy, recognition, and equitable development from historically excluded regions and communities. The new federal governance structure divided the state into three constitutionally mandated tiers of government: federal, provincial, and local each with distinct powers, responsibilities, and fiscal authorities. This restructuring aimed to decentralize political authority, promote inclusive governance, ensure more equitable distribution of resources, and facilitate development that is responsive to the diverse needs of Nepal's geographically and socio culturally varied regions (Sharma, 2018).

The constitutional foundations of Nepal's federal system are underpinned by the principles of coexistence, cooperation, and coordination among the three tiers of government. Furthermore, the model aspires to realize the ideals of inclusive federalism, with a particular emphasis on correcting historical injustices and fulfilling the long-suppressed development aspirations of marginalized communities. Federalism, in this context, was envisioned as a vehicle to empower provinces and local governments, enabling them to exercise greater control over their resources, make context specific policy decisions, and ensure the meaningful participation of marginalized groups, including ethnic minorities, women, Dalits, and geographically disadvantaged populations (Lawoti, 2020). For historically neglected provinces such as Karnali, Sudurpaschim, and Madhesh, federalism embodied the promise of greater autonomy, inclusion, and developmental justice.

However, nearly a decade after the formal implementation of the federal system, empirical evidence and scholarly assessments suggest that the ambitious promises of

Nepal's federal project remain largely unfulfilled, particularly at the sub national level. While the constitutional guarantees of autonomy, fiscal devolution, and inclusive governance were intended to dismantle the entrenched hierarchies and disparities of the centralized unitary state, persistent structural underdevelopment continues to plague Nepal's historically marginalized provinces. Provinces such as Karnali, Sudurpaschim, and Madhesh still grapple with inadequate infrastructure, weak public service delivery, limited economic opportunities, and institutional fragility. Despite the formal transfer of authority, sub national governments frequently encounter capacity deficits, resource dependency, and significant implementation bottlenecks that inhibit their ability to exercise the autonomy granted to them on paper.

One of the most pressing challenges confronting Nepal's federal experiment is the continued exclusion of women and marginalized groups from meaningful participation in governance and development processes. While constitutional and legal provisions mandate inclusive representation and gender equity, the practical realization of these commitments remains uneven and often symbolic. Studies indicate that the structural barriers that hindered women and disadvantaged communities under the unitary system persist in the federal context, limiting their access to decision making spaces and economic opportunities (Khadka & Sharma, 2023). The underrepresentation of women, Dalits, indigenous groups, and other marginalized constituencies in provincial and local governance structures undermines the transformative potential of inclusive federalism and exacerbates the conditions of sub national underdevelopment.

The persistence of structural underdevelopment at the sub national level in Nepal raises critical questions regarding the design, implementation, and functioning of the federal system itself. Has federalism, in practice, delivered on its constitutional promises of equity, inclusion, and balanced development? Or has it merely reproduced old hierarchies and inequalities within a new administrative framework? These questions have gained considerable urgency as public disillusionment with federalism grows, particularly among communities and provinces that perceive themselves as being left behind in the federal restructuring process. The frustrations expressed by provincial leaders, civil society actors, and marginalized groups point to a growing gap between the aspirational rhetoric of federalism and the development realities experienced across Nepal's diverse regions.

This research paper seeks to critically interrogate the structural, institutional, socio-political, and gender related factors that contribute to the persistence of sub national underdevelopment in Nepal under the federal system. Through the application of relevant theoretical frameworks and engagement with existing literature, the study

examines why federalism, despite its transformative potential, has thus far failed to deliver meaningful development outcomes for Nepal's historically marginalized provinces Madhesh, Karnali and Sudurpaschim. The primary objective is to provide a comprehensive and nuanced explanation for the disconnect between the constitutional promises of federalism and the empirical realities of continued regional inequality, institutional fragility, and social exclusion.

Literature Review

The adoption of federalism in Nepal in 2015 was heralded as a transformative step toward decentralization, inclusion, and equitable development (Lawoti, 2020). Constitutionally, federalism emphasizes the devolution of power through the three tiers of government based on the principles of co-existence, cooperation, and collaboration, alongside commitments to inclusive governance and equitable resource distribution. For marginalized provinces such as Karnali, Sudurpaschim, and Madhesh, federalism represented long awaited hope for development, autonomy, and dignity (Sharma, 2018). However, a growing body of literature suggests that these aspirations remain largely unfulfilled. Upreti (2021) argues that federalism in Nepal risks becoming a superficial administrative exercise without genuine devolution of power, resources, and authority.

Structural inequalities and historical neglect have entrenched underdevelopment in Nepal's peripheral provinces (Gurung, 2017). Despite the federal restructuring, empirical evidence shows limited progress in addressing disparities in infrastructure, service delivery, and economic opportunities (UNDP, 2019; NSO, 2023).

A critical institutional constraint relates to the administrative control retained by the federal government. Provinces and local governments lack full authority over key areas such as the deployment of civil servants, often relying on centrally appointed bureaucrats whose accountability to sub national development priorities is weak (Khanal, 2022). This administrative centralization undermines the provinces' capacity to implement context specific development policies.

Moreover, the delayed formulation of essential federal laws, particularly on shared powers such as education, civil service, and police, has severely constrained sub national autonomy (Dhungana & Sharma, 2022). Without these legal foundations, provinces and local governments operate in a legal vacuum, unable to exercise their constitutionally mandated roles effectively.

Effective federalism requires robust fiscal decentralization and transparent revenue sharing mechanisms (Oates, 1999). While the Constitution provides for equitable distribution of national resources, studies reveal persistent disparities. Provinces with

higher revenue generation capacity, such as Bagmati Province, enjoy greater fiscal space while poorer provinces depend heavily on federal transfers, which are often inadequate, politically manipulated, or delayed (Khanal, 2021).

The overall performance of the federal and the provincial governments in the fiscal federalism perspective is far from the cooperative federalism's norms and mandate. Bhattarai concludes in his article that the average performance of provinces is slow while comparing the data of fiscal year 2018/19 to 2022/23 (Bhattarai, 2024)

Furthermore, the taxation system remains heavily centralized. The authority of provinces and local governments to mobilize revenue is restricted by ambiguous legal provisions and overlapping tax jurisdictions, creating confusion and limiting fiscal autonomy (MoF, 2023). Without proper taxation powers and predictable revenue sharing, sub national governments face significant obstacles in financing development initiatives.

Building on Acemoglu and Robinson's (2012) political economy perspectives, scholars highlighted political clientelism and elite capture impede inclusive development at the sub national level. Instead of empowering marginalized regions, federalism has, in some cases, reinforced existing hierarchies and competition for resources along party and ethnic lines (Dhungana & Sharma, 2022). The lack of clarity over shared powers and resource control fuels political tensions, weakening governance effectiveness.

The Center Periphery Theory remains highly relevant for understanding Nepal's spatial inequalities (Galtung, 1971). Bagmati Province, home to the capital Kathmandu, dominates economically and administratively. It contributes over 22.30 percent of Nepal's GDP, while provinces like Karnali and Sudurpaschim contribute less than 5 percent, reflecting entrenched regional disparities (NSO, 2023). Administrative centralization, weak fiscal autonomy, and delayed legal reforms exacerbate this imbalance, leaving peripheral regions trapped in cycles of underdevelopment.

Inclusion remains a key constitutional commitment, yet gender disparities and broader social exclusion persist. The Nepal Gender Equality Report (UNDP, 2022) documents that women, particularly in rural and disadvantaged provinces, face systemic barriers to education, healthcare, and participation in governance. Without targeted efforts to empower women and marginalized communities, sub national development remains incomplete (Khadka & Sharma, 2023).

While existing studies offer valuable insights, several critical gaps remain. Their contributions have a limited focus on how administrative control including staff deployment, adjustment, and delayed legislation on shared powers undermines sub national development. Additionally, there is insufficient integration of taxation, fiscal

autonomy, and revenue sharing challenges into analyses of underdevelopment. Furthermore, a lack of comparative, province wise analyses using recent socio-economic data fails to highlight disparities between underdeveloped provinces and Bagmati Province. This research seeks to address these gaps by combining theoretical and empirical analysis to critically examine the structural, institutional, and socio-political barriers to sub national development in Democratic Federal Republic of Nepal.

Methods

This study is informed by an interdisciplinary theoretical foundation that draws upon key perspectives from fiscal federalism theory, center periphery theory, political economy analysis, and theories of social inclusion and gender equality. Fiscal federalism theory provides an essential lens for understanding how the distribution of financial resources and autonomy between federal and provincial government affects sub national development outcomes (Oates, 1999). Center-periphery theory, articulated by scholars such as Galtung (1971) offers critical insights into how asymmetric power relations, resource flows, and policy prioritization between the central government and peripheral regions influence patterns of development and exclusion.

Additionally, political economy perspectives, particularly those advanced by Acemoglu and Robinson (2012) shed light on how elite capture, clientelism, and administrative centralization obstruct the realization of inclusive development and equitable governance. Theories of social inclusion and gender equity, notably those of Fraser (2009), further underscore how intersecting exclusions based on gender, caste, ethnicity, and geographic identity perpetuate systemic underdevelopment and hinder the realization of inclusive federalism.

To ground the analysis empirically, this study applies a comparative lens, focusing on underdeveloped provinces such as Karnali, Madhesh, and Sudurpaschim in relation to Bagmati Province; the country's administrative and economic center. The study used secondary data taken from government and scientific research publications. This study illustrates the magnitude and implications of regional disparities under Nepal's federal system and interrogates the extent to which structural, institutional, and socio-political factors continue to constrain inclusive development at the sub national level.

Discussion and Analysis

This section critically examines the persistence of sub national underdevelopment in Nepal by combining quantitative data, governance analysis, and theoretical insights. Through comparative interpretation of secondary data and institutional performance, it

highlights why marginalized provinces remain underdeveloped while regions like Bagmati Province prosper.

Secondary data reveals striking provincial inequalities in human development, poverty and income. When compared to HDI, Madhesh (0.519), Karnali (0.538) and Sudurpaschim (0.547) lag by approximately 0.150, 0.131 and 0.122 points in relation to Bagmati province (0.669). Likewise, the poverty rate of Madhesh province is 17.2 percent, Karnali province 32.5 percent, and Sudurpaschim province 18.3 percent seven percent higher than Bagmati province. When calculating the deviation in literacy rate, Madhesh province is 18.6 percent lag the Bagmati province and Karnali and Sudurpaschim province almost six percent. The GDP per capita income of Bagmati province scores almost three times more than Madhesh, Karnali and Sudurpaschim provinces. Nonetheless, the contribution to national GDP also distinctly defines the low economic growth of the provinces as compared to the Bagmati province (22.30 percent) which are 14.26 percent greater than Madhesh province, 19.74 percent greater than Karnali province and 18 percent greater than Sudurpaschim province.

Table 1

Socio-Economic Disparities Among Provinces

Province	HDI (2019)	Poverty Rate (%)	Literacy Rate (%)	GDP Per Capita Income (US\$)	Contribution to National GDP (%)
Bagmati	0.669	7.0	82.1	2602	22.30
Madhesh	0.519	24.2	63.5	932	8.04
Karnali	0.538	39.5	76.1	1089	2.56
Sudurpaschim	0.547	25.3	76.2	1153	4.30

Source. UNDP (2019), Dulal (2023); NSO (2022)

The GDP per capita also shows the status of distinct economic deprivation between provinces. Bagmati has almost two-fold income in comparison with Karnali and Sudurpaschim and threefold of Madhesh province. To conclude, Bagmati province dominates national economic output, income levels, and social development indicators. In stark contrast, Karnali, Sudurpaschim, and Madhesh continue to lag significantly, reflecting structural disadvantages exacerbated by policy and governance failures.

Despite constitutional provisions for devolution, real administrative authority remains centralized. The federal government controls staff deployment, limiting provincial autonomy and accountability. The Capacity Need Assessment for the Transition of Federalism carried out by Government of Nepal, UNDP, World Bank and the Nepal Administrative Staff College, 2019 reveals that out of the need assessed 21,399 staffs for the provinces out of which 13,821 staffs have been deployed and still there 7,578 (35.41 percent) i.e. one third staffs are vacant at the provinces which shows the severe challenges of service delivery to the provinces. Additionally, the Provincial Public Service Commissions in the provinces have started to fulfill vacant the staff doing Organization and Management Surveys and doing promotion of staff who have adjusted to provinces from the federal level. However, lack of institutional long-term policy and standards identification, it is predicted to become long term burden to the provincial treasury. Furthermore, it is growing as the confronting issue between the federal government and the provinces and local governments also since the prevalence of staff recruited earlier by different mechanisms and criteria.

Essential laws governing education, civil service, and police have yet to be enacted, undermining provinces' ability to fulfill their mandates (Dhungana & Sharma, 2022). According to the Constitution, the federal government must formulate some base level laws like School Education, University Umbrella law, Federal Civil Service law and Police Adjustment acts, but these acts are in practice. Without authority over human resources and key service sectors, provincial governments' function as dependent administrative units rather than empowered governance entities, especially in underdeveloped regions.

Bagmati Province generates substantial internal revenue due to its economic base, while Karnali and Sudurpaschim remain heavily dependent on federal grants (MoF, 2023). Budget speech book of fiscal year 2025/26 of these provinces shows the actual internal income and budget of the province in the fiscal year 2023/2024.

Table 2 explicitly shows the dependency of all provinces above the federal grants. Bagmati province has comparatively low dependency as compared to other provinces. Sudurpaschim Province and Karnali province have the higher dependency after Madhesh province. Here, it is noteworthy to mention that as constitutional fiscal right, Bagmati province has proposed to take the internal fiscal debt to meet its budget deficit but was not possible due to absence of federal law on this regard. The causes of the heavy dependence on federal budget are a) higher proportion of conditional grant to provinces, b) limited sources of revenue authorized to the provinces and c) the conflicts of revenue

sharing by local governments to provinces. Examples could be the sharing of revenue of river-based materials, advertising and entertainment tax.

Table 2

Internal Income and Expenditures of the Provinces (FY 2023/24, Rs. in Thousand)

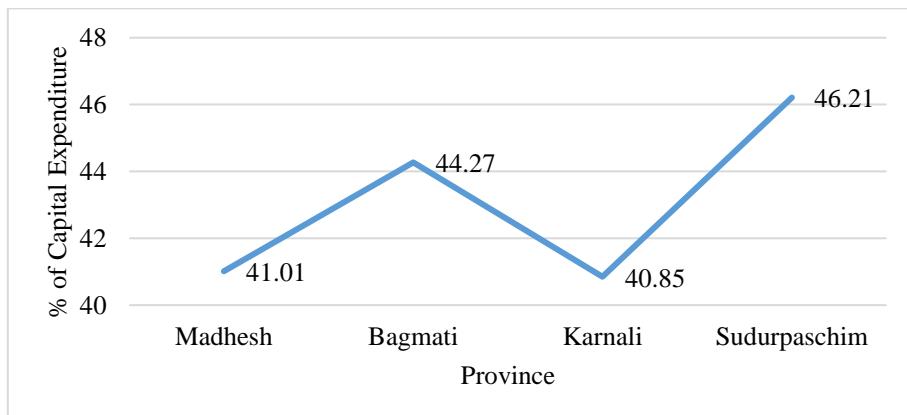
Province	Total Budget	Internal Income	Federal Grant	Debt by Financial Sectors	Federal grant % in Budget
Madhesh	37279871.00	26308110.00	10971761.00	0.00	29.43
Bagmati	64471862.00	52409993.00	11359169.00	702700.00	17.62
Karnali	26177826.00	15199177.00	10978649.00	0.00	41.94
Sudurpaschim	22860901.00	13211349.00	9649552.00	0.00	42.21

Source. Budget Speech Book (2025/26) of the respective provinces

The following figure highlights the expending capacity of the provinces. The provincial capital expenditure percentage is not satisfying. The implication of legislative contradiction, centralized bureaucratic mindsets, staff inadequacy and shortage of technical staff and inability to provide necessary legislature for use of resources like forest and public land and lacking both institutional and organizational capacity development and coordination, communication are major factors contributing for the low delivery of result.

Figure 1

Capital Expenditure of Provinces by Percentage



Source. Budget Speech Book (2025/26) of the respective provinces

Taxation Confusion in Nepal's federal system remains a critical barrier to effective sub national development. The constitutional provisions on power sharing, particularly concerning exclusive and concurrent rights, are ambiguously defined, leading to significant overlaps and disputes between federal, provincial, and local governments regarding taxation authority (PEFA, 2022). Lack of legal clarity has delayed the formulation of essential laws governing revenue mobilization and tax collection at the provincial level. As a result, underdeveloped provinces remain heavily dependent on federal grants, limiting their fiscal autonomy and ability to generate adequate internal resources. Consequently, this deepens existing regional disparities and undermines the promise of equitable development under federalism.

The Constitution of Nepal and the Intergovernmental Coordination and Collaboration Act (2017) provide for mechanisms a) Inter Provincial Council (Article 234), b) National Coordination Council, c) Provincial Coordination Council, and d) Thematic Committee. These committees' meeting either take place rarely or there is procrastination for the implementation of the decision that sets back the development at sub national level. Nonetheless, studies and government reports reveal these mechanisms are either inactive or operate as mere formalities, lacking seriousness and effective follow-up (Sharma & Paudel, 2023). Without meaningful and functional coordination, the three tiers of government operate in silos undermining the cooperative federal spirit and obstructing integrated development efforts.

Political instability at both federal and provincial levels has worsened development challenges. Federal systems have been introduced to curb down the overspill effects of the *bandha*, strikes and political unrest to all the parts of the country. However, the political instability and change of government in federal level have direct impact to the provinces impacting the frequent change of governments and the senior executives. Frequent changes in federal and provincial governments disrupt policy continuity (Thapa, 2023).

Politicization of administrative appointments and resource distribution fuels clientelism rather than development (Dhungana & Sharma, 2022). Governance standards and service delivery remain weak, particularly in marginalized provinces. Hence, without political stability and effective governance, even well-designed federal structures fail to deliver development, especially in fragile and resource constrained regions.

There is Gender Disparities and Social Exclusion in the provinces. The national census data 2021 of Nepal reveals that Female literacy in Madhesh is 54.7 percent, Karnali 69.4 percent, Sudurpaschim 68.2 percent and Bagmati: 72.3 percent respectively. Women's representation in provincial assemblies is also weaker and remains below 35 percent and

exclusion of women and marginalized groups persists in local planning and development processes (Khadka & Sharma, 2023). This shows the promise of inclusive federalism remains unfulfilled without concrete actions to dismantle gender and social barriers, perpetuating underdevelopment.

This analysis reveals a convergence of structural, institutional, and political factors driving sub national underdevelopment which are structural inequalities inherited from centralized governance. There is incomplete devolution of administrative and legislative powers, weak, symbolic intergovernmental coordination mechanisms, resource asymmetrical and fiscal dependency, political instability, clientelism, and weak governability, and persistent gender and social exclusion

Conclusion

The introduction of federalism in Nepal was intended to correct historical injustices, decentralize power and promote inclusive development across regions and communities. Until power, resources, and authority are meaningfully devolved, backed by functional coordination and stable governance, the constitutional promises of equitable development and inclusion will remain elusive. Federalism, as implemented in Nepal, risks becoming a superficial administrative exercise rather than a transformative governance model. The constitutional principles of co-existence, cooperation, collaboration, and equitable resource distribution aimed to empower marginalized provinces such as Karnali, Sudurpaschim, and Madhesh, while addressing entrenched regional disparities.

However, this research demonstrates that nearly a decade into federalism implementation, sub national underdevelopment remains a persistent reality. Comparative analysis reveals that provinces like Bagmati have benefited disproportionately, while peripheral regions continue to face structural disadvantages in income, human development, and access to services.

The causes of this underdevelopment are multi-dimensional; the incomplete devolution of administrative and legislative powers, with federal control over staff deployment and essential legislation on shared sectors such as education, natural resources (i.e. forest, mines) sharing, civil service, and police, undermines provincial autonomy. Weak and often symbolic intergovernmental coordination mechanisms coupled with poor implementation of decisions reflect a governance deficit across the three tiers of government. Fiscal federalism remains incomplete, with significant resource asymmetry, weak revenue generation capacities in poorer provinces, and unclear taxation frameworks. Political instability and weak governability, exacerbated by frequent

changes in government, frequent transfer or change of chief administrative executives, elite capture, and clientelism, disrupt developmental efforts. Persistent gender disparities and the exclusion of marginalized groups further deepen development gaps and contradict constitutional commitments to inclusion.

Addressing these challenges requires genuine political commitment to fully implement constitutional devolution, immediate enactment of essential federal legislation on shared powers, functional, empowered intergovernmental coordination mechanisms with clear accountability, reforms in revenue generation and resource distribution to promote fiscal equity and targeted efforts to address gender and social exclusion at all levels of governance. Without these corrective measures, federalism risks becoming a broken promise for Nepal's marginalized regions and communities. Only through inclusive governance, equitable resource distribution, and functional intergovernmental cooperation; the vision of federalism as a vehicle for sub national development be realized. This research mostly focuses on functioning of provincial government and its different factors of pushing to success or failures and it reveals the need to do micro level study on local governments also to see the implications of federalism.

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