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Challenges of federalism implementation in Nepal

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Abstract

This study examines the complex issues of implementation of federalism in Nepal, which transformed from a unitary state to a federal democratic republic in 2015. The study conducts a qualitative review of secondary sources such as government reports, World Bank fiscal updates, academic literature and statements by provincial chief ministers to identify major implementation gaps in the political, administrative and fiscal dimensions. While Nepal has been successful in operationalizing political federalism through periodic elections, it performs poorly in the areas of administrative and fiscal federalism. Nearly one-third of local units in Nepal do not have chief administrative officers, provincial governments have 35% staff vacancies, and subnational units have fiscal deficits. Intergovernmental coordination mechanisms are poorly used. Decisions taken by the National Coordination Council in 2023 are far from implementation. The research identifies political interference, the unwillingness of the central government to devolve power, the delayed implementation of key federal laws and identity-based grievances, especially in Madhesh Province, as major obstacles. In comparison with India, Canada and Australia, Nepal's three-tier federal system has its own problems of institutional immaturity and capacity deficits. The study concludes that effective federalism in Nepal requires enhanced fiscal autonomy for subnational governments, institutionalized intergovernmental coordination, timely implementation of federal legislation and a paradigmatic shift in political ideology from centralization to genuine power-sharing. The paper calls for a comprehensive approach to improving local governance capacities and strengthening fiscal federalism frameworks.

Keywords: Federalism, implementation challenges, governance, political leadership, Nepal, fiscal federalism.



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Introduction

Background

Federalism is a system where two or more autonomous entities are part of a single political system. Federal countries engage the citizen in both the local jurisdiction (province, state or canton) and the central federal authority (Elazar, 1994). Elazar also describes federalism as a mixture of “self-rule plus shared rule” where power is separated between the regional and central governments, but each level is independent. After the collapse of the Soviet Union and Yugoslavia, there was a worldwide surge of interest in federalism, for different reasons. The disintegration of such states led to the creation of a number of new federal republics, like Russia, Bosnia, and Serbia-Montenegro, and federal-like entities in other emerging nations, such as Macedonia and Ukraine (Elazar, 1994). Belgium and Spain extended federalism in the 1990s, and countries such as Canada, Switzerland and Australia made major changes to their federal systems. Recently questions have been asked about the viability of federalism in the United Kingdom, Italy, Afghanistan and Iraq (Elazar, 1994). The current research on federalism examines the balance between central policy consistency and subnational diversity and policy innovation (Wang, 2025).

The shift to a federal democratic republic in 2008 marked a major departure from Nepal’s unitary past and ended 240 years of Shah Dynasty rule. In May 2008 the monarchy was formally abolished and Nepal declared a federal democratic republic. The transition from a non-partisan Panchayat system to a multi-party democracy and finally to a federal republic has been a long and contentious one. The main parties and the monarchy signed a political agreement in 1990, which opened the way to a democratization process that lasted for nearly fifteen years. This culminated in the 2006 People’s Movement that resulted in the promulgation of an interim constitution and declaration of Nepal as a federal democratic republic. Nepal’s 2015 Constitution formally established a federal system of government with seven provinces and three levels of government: federal, provincial and local.

Many challenges have been faced in the practice of federalism in Nepal. Recent studies point to continuing problems of low subnational autonomy, fiscal imbalances, underutilized conflict resolution mechanisms and unclear division of responsibilities. “The slow pace of Nepal’s federalization process, underdevelopment of institutions and significant capacity gaps at provincial and local tiers,” is acknowledged by the Provincial and Local Governance Strengthening Programme (PLGSP). According to the World Bank’s Nepal Fiscal Federalism Update 2024, “legal and institutional reforms have moved forward, but at a moderate pace” resulting in fiscal deficits for provincial and local governments due to reduced revenue and grants. There are still administrative challenges, including lack of human resources, lack of financial resources and autonomy, and lack of coordination between local and national policy-making. Since the transition to a federal democratic republic, it has had 14 governments in just 16 years, which shows the constant instability in governance.

Statement of the Problem

The deep ethnic, caste, geographical and economic diversity of Nepal presents serious challenges to the implementation of federalism. The Constitution of Nepal (2015) highlights three fundamental pillars for federal governance: Political, Administrative and Fiscal

Federalism. However, the country has effectively implemented only the political pillar through regular elections and proportional representation. Administrative and fiscal federalism are conspicuously underdeveloped, with a large gap between constitutional ideals and practice.

While political federalism has been put into place effectively by democratic elections, there has been no comparable progress in administrative capacity or in the development of the fiscal arrangements that would allow subnational governments to function efficiently and autonomously. The implementation gap is a threat to the core of Nepal's federal democratic republic, as the people in the provinces and local governments are still waiting for the material benefits of federalism that were promised.

The discussion on the boundaries of the federal states has become very bitter and there is a lot of discontent among the various ethnic and regional groups. Several groups like the Aadiwasijanaajati (indigenous nationalities), Terai/Madhes (plains region communities) and proponents of the Tharuhat Andolan (Tharu statehood movement) have shown considerable dissatisfaction with the current federal boundaries, arguing that the existing provincial demarcation does not adequately represent their identity, culture or political aspirations. The federal government has been hesitant to empower constitutional institutions and fully devolve authority to subnational governments and political parties are highly polarized on federal state delineation.

Provincial governments frequently complain that they are treated as little more than appendages rather than as independent authorities. One provincial chief likened provinces to "unwanted children" who are "controlled by the center, deprived of real authority, resources and respect". The central problem is a failure of implementation: there is a federal constitution, but federal politicians and bureaucrats have not fully imbibed the principles of power-sharing and decentralization, leaving provinces and local governments without the administrative capacity, financial resources and political authority to serve citizens effectively.

Research Gap and Rationale

Though the existing literature has touched federalism in Nepal from constitutional and theoretical perspectives, there is a huge gap in empirical analysis on implementation challenges in the operational level. Most of the studies have focused on constitutional provisions and not on practical challenges. Moreover, there is little comparative research that situates Nepal's federal experience in the global context of federal democracies. The study explores the shortcomings by examining empirical data on administrative, fiscal and political implementation challenges, using primary source data from government reports and provincial officials, comparative analysis with existing federal systems such as India, Canada and Australia, and evidence-based policy recommendations for sustainable federalism.

Objectives of the Research

- To identify and analyze the principal obstacles to federalism implementation in Nepal
- To examine the administrative, fiscal, and political challenges confronting federal governance

- To propose strategies for strengthening local governance and optimizing federal coordination

Research Questions

- What is the meaning and significance of federalism in the Nepali context?
- What are the key administrative, fiscal, and political challenges in implementing federalism in Nepal?
- What lessons can Nepal learn from comparative federal experiences in India, Canada, and Australia?

Literature Review and Theoretical Framework

Defining Federalism

Federalism is the political system in which a number of constitutionally independent states or regions cooperate under a federal central authority (Elazar, 1991). Essential features are: (a) constitutional division of powers between central and regional governments; (b) regional autonomy in specified areas; (c) cooperative governance through federal institutions; and (d) constitutional protection of regional boundaries (Watts, 2008).

According to Livingston (1956), federalism is not about the constitutional language but the “economic, social, political, and cultural forces that produce the external manifestations of federalism. From a sociological perspective, federalism has to be compatible with the fundamental social realities for it to be sustainable.

Federalism in the Nepali Context

Federalism in Nepal was born from the history of grievances against centralized governance. For 240 years, Kathmandu controlled political, economic and security matters tightly, marginalizing and under developing peripheral regions (Panta, 2007). The economic disparities are glaring. The budget of Karnali Zone is less than that of Kathmandu District. The per capita income of the Himalayan regions is about \$110 whereas it is \$ 446 in Kathmandu (Yash, 2007).

The demand for federalism was more pronounced during the 1990 People's Movement (Jana Andolan I) when three of the 44 registered political parties incorporated federalism in their manifestos (Bhattachan, 2003). The Maoist insurgency (1996-2006) substantially boosted federalism as a central demand, urging ethnic and regional autonomy for marginalized groups (Sharma & Pokhrel, 2004).

The Madhes Movement of 2007, which came after the promulgation of the Interim Constitution, was important. Supported by an eight party coalition, Prime Minister Koirala promised to establish a federal state structure culminating in the first constitutional amendment in April 2007 that enshrined federalism.

Comparative Federalism: India, Canada, and Australia

India has a three-tier federal structure (Union, State, and Local) with clearly defined Union, State and Concurrent Lists. Indian states are fairly independent in fiscal matters and have legislative power. The 73rd and the 74th Amendments to the Constitution (1992)

institutionalized local governance and created a strong third tier. India's federal experience suggests that identity-based federalism can reconcile diversity with national unity.

The Canadian federal system has much provincial autonomy, especially in education, health, and natural resources. The Canadian model is based on "cooperative federalism" with many intergovernmental arrangements. Quebec's identity-based federalism claims highlight the difficulties of accommodating distinct regional identities within a federal system.

Australia's federal system is constitutionally similar to the United States but operates with a great deal of inter-governmental co-operation. The Council of Australian Governments (COAG) is an example of a formalized collaboration between the federal and state governments. Australia's experience highlights the importance of fiscal equalization and intergovernmental forums.

Theoretical Framework

The main theoretical framework used in this study is Elazar's (1991) notion of "federal spirit". It is a mentality and political inclination to negotiation and fair bargaining. Burgess (2012) argues that federalism requires a "willingness to compromise on core issues of state formation or re-formation. This theoretical framework emphasizes that the success of federalism depends not only on constitutional arrangements but also on the willingness of political actors to share power and cooperate.

Kincaid (2011) states that federalism is "the dependent variable" and that its creation is determined by basic societal factors, while its survival depends on the recognition of the value of federal governance by various actors. This view stresses that for Nepal's federalism to be sustainable, it has to be inclusive of ethnic, regional and economic diversities.

Methodology

Research Design

A descriptive and qualitative research design is employed to achieve the study objectives. The qualitative approach is suited to handle complex governance issues that require contextual understanding (Yin, 2014). The research is primarily based on document analysis, including analysis of constitutional provisions, government reports, academic literature and media sources.

Data Sources

The study relies on multiple data sources to ensure triangulation and reliability of findings.

Primary Sources

The official documents of Government of Nepal especially those of Ministry of Federal Affairs and General Administration (MoFAGA) are primary sources and have detailed information on the status of federal implementation and administrative hurdles. The World Bank Nepal Fiscal Federalism Updates (2024) provides extensive data on fiscal transfers, revenue generation and expenditure trends at subnational tiers. The PLGSP reports provide understanding of the efforts in institutional capacity building and progress indicators for provinces and local governments. Provincial chief ministers, whose views are easily

accessible in the national media, comment directly on the practical problems of implementation, fiscal constraints and intergovernmental relations. The National Planning Commission reports also provide important information for development planning, resource allocation and policy synchronization between the three tiers of government.

Secondary Sources

Secondary sources are peer-reviewed academic journals on federalism and governance, theoretical frameworks and empirical evidence from comparative federal studies. Prominent scholars on comparative federalism such as Elazar (1991, 1994), Watts (2008), and Burgess (2012) have produced foundational texts offering conceptual clarity and global perspectives that enrich the analysis. Respected publications like the Kathmandu Post and Rising Nepal carry articles and opinion pieces that echo the existing discussions, political advancements, and popular dialogue surrounding the implementation of federalism. The federalism legal framework is based on constitutional and legal documents like the Constitution of Nepal (2015), Local Government Operations Act and various federal laws. Primary and secondary sources are included to allow for a more complete analysis and to cross-verify information across different data types.

Data Analysis

The data were analyzed using thematic analysis, a qualitative method that seeks to identify themes that occur across multiple sources. The analysis was carried out in a systematic four-step procedure. All source materials government reports, World Bank updates, academic literature and media sources were first open coded to identify implementation challenges. Secondly, these codes were grouped into broad analytical themes: administrative challenges (staff shortages, capacity deficits, and unbundling delays), fiscal challenges (revenue deficits, fiscal shortfalls, and grant allocation issues), political challenges (reluctance of the center to decentralize authority, legislative delays, political interference) and identity-based challenges (Madhesh Province grievances, ethnic marginalization, regional inequalities). Thirdly, pattern identification looked at the links between themes and root causes, showing how historical centralization, bureaucratic resistance and limited institutional capacity produced persistent bottlenecks. The comparative analysis finally situated Nepal's experience within global federal frameworks, drawing lessons from India, Canada, Australia and South Africa to increase the credibility and relevance of the findings.

Limitations

There are multiple limitations to the study that need to be considered in the interpretation of the results. The use of secondary data limits direct interaction with local stakeholders and may lead to missing the nuanced realities on the ground. Moreover, while attempts were made to triangulate data across different sources, the media sources used in the analysis may carry inherent biases. The rapidly changing federal scenario in Nepal requires periodic updates of findings and the absence of disaggregated provincial data makes a comparative analysis among the seven provinces of Nepal not exhaustive.

Findings and Analysis

Staffing Shortages and Capacity Gaps

Capacity of Administration The implementation of federalism in Nepal is faced with major challenges. Roughly one-third of local units lack chief administrative officers (CAOs) and there is also high turnover in the positions that are filled. Provincial governments are said to have some 35% staff vacancies, which has led to the bureaucracy being described as “unstable”. Three principal secretaries were changed in eight months in Bagmati Province.

Nepal’s Provincial and Local Governance Strengthening Programme (PLGSP) is the major framework for implementing federalism, which recognizes “substantial capacity deficiencies at provincial and local tiers. The revision of the program for 2024-2029 refers to “the sluggish progress of Nepal’s federalization process, underscoring the weakness of institutions”.

Implementation of Local Government Operating Act (LGOA) 2074 BS reveals that 'capacity building initiatives have been inadequate and poorly coordinated. “Urban municipalities with very imbalanced budgets have made some progress in tax collection and digital transparency, but rural governments are hindered by staffing shortages, poor financial management and elite capture,” a systematic review finds.

Unbundling and Jurisdictional Ambiguity

The three tiers still have not fully "unbundled" their functions. The Unbundling Report (2017), although seminal, has “widely recognized” limitations. "The late approval of the unbundling initiative systematically blocks the proper functioning of federalism".

Provincial governments complain that there is no legislation delineating exclusive and shared powers. “This is a basic issue,” Chief Minister of Bagmati Province said. The federal government cannot explain concurrent powers and this leads to paralysis in functioning. Overlapping powers make it difficult for the citizens to access state services.

Fiscal Imbalances and Revenue Shortfalls

There are serious challenges to fiscal federalism in Nepal. The World Bank's Nepal Fiscal Federalism Update 2024 says that provincial and local governments received less financial resources in fiscal year 2023, mainly due to a decrease in federal revenue. This led to the first fiscal deficit at the subnational level since the beginning of fiscal federalism in 2017. Provincial governments underutilized 34% of their budget and local governments underutilized 24.4%. Koshi Province Chief Minister called the provinces as a “treasure bag without currency.

Grant Distribution and Fiscal Autonomy

Local entities say the federal government is decreasing the equalization grant and increasing the allocation of conditional grants. The shift from unconditional to conditional grants centralizes power and reduces the autonomy of sub-federal governments.

Local and provincial governments complain about the revenue distribution, saying it is inequitable. For the next fiscal year 2024-25, the government has allocated Rs88 billion in fiscal equalization grants to local governments and Rs60 billion to provincial governments. In

Lumbini Province, fiscal equalization grants fell by 26% leading to “considerable financial strain.

Tax Structure and Revenue Mobilization

There are still shortcomings in the implementation of fiscal federalism despite the existence of strong legal frameworks. These include vertical and horizontal imbalances, overlapping tax bases and limited local capacity. The institutions of valuation, compliance and enforcement mechanisms are weak, and local governments are challenged to raise revenue.

Central Government Reluctance to Devolve Power

One continuing challenge is the federal government’s unwillingness to truly devolve authority. Acharya and Zafarullah’s (2025) research states that “centralized control, political interference and ineffective institutions continue to impede Nepal’s IGR framework despite constitutional provisions.

Political parties appear to be “reluctant to decentralize authority, viewing centralization as mainly a control mechanism, rather than a means to foster intergovernmental cooperation”. This centralizing tendency is contrary to federal constitutional principles and reduces provincial autonomy.

Delayed Legislation

Delay in implementation of major laws is one of the major hurdles of implementation of federalism in Nepal. There are about 38 important laws that are not ratified and are important for the functioning of the federal system. Important legislation such as the Federal Police Act and the Education Act has yet to be passed, for example. Without these laws provincial governments cannot effectively function, as they lack the legal authority to supervise key areas such as policing and education. “Federalism is like a ‘2G framework’ when governance needs to be in the ‘5G era’,” complained the Gandaki Province Chief Minister. The metaphor highlights the distance between the snail’s pace of legal reform and the immediate needs of the people.

“The deliverables for citizens as envisaged by federalism are still pending,” the Speaker of Parliament acknowledged. “Also, the passage of laws required by the Constitution and federalism is not yet complete,” he said. The Constitution guarantees federal governance but the lack of legislation to implement it means provinces cannot deliver services to the citizens. Until such laws are passed, federalism will remain incomplete and ineffective in Nepal.

Political Interference

Also, political interference in the local government affairs undermines the constitutional autonomy. There have been suggestions that federal grants sometimes go to projects that are not based on impartial criteria, but on political factors. There is a problem of “political interference in administration” for the provinces.

Sudurpaschim Province Chief Minister cited bureaucratic obstruction, giving an example where a government secretary refused to accept provincial jurisdiction while

wielding power in Kathmandu. This duality highlights bureaucrats' unwillingness to embrace federalism.

Madhesh Province and Identity Politics

Despite the promise of inclusion in federalism, Madhesh Province and the Madheshi people are systematically marginalized. Studies show "federalism in Nepal has not lived up to the aspirations of the Madheshi community, as their identity crisis continues. "Central interference has been a vulnerability for the province, with federal authorities having a say in local political dynamics.

Madhesh Province Chief Minister has expressed his frustration over the imbalance between rights and resources. He contrasted the unfavorable view of Nepal's federalism with that of India, which was to empower Indian states with resources and authority to do their mandates. The Madhesh movement "shed blood for federalism" but is still facing the unfulfilled promises. Political mistrust, born of historical grievances and identity politics, transforms inter-governmental interactions into power struggles.

Ethnic and Regional Disparities

The ethnic model in Nepal is characterized by diversity, but ethnic differences are limited between Hindus and Buddhists and between tribes and castes, and between the mountain regions, middle hills and lowland Terai. Ethnic relations in Nepal are based on coexistence and interdependence, which is a reflection of the state's historical efforts in dealing with diversity.

The Madhesi are a diverse group of plains dwellers including traditional Hindus, a Muslim minority and a variety of ethnic groups including the Tharu. In Madhes, Dalits and untouchables are predominantly landless and are subject to multi-faceted and deep discrimination.

Weak Coordination Mechanisms

The constitutional provisions for cooperation, coordination, and coexistence have not been successfully implemented. The National Coordination Council's 2023 meeting produced six decisions but "most of these decisions, taken after two days of deliberations among representatives of the three tiers, remain unaddressed. Coordination platforms such as the Inter-Provincial Council are "underutilized; federal ministries often bypass provincial counterparts". The lack of coordination among political actors, legislators and civil servants has a negative impact on governance at all levels.

Structural Barriers

Acharya, Kandel and Upadhyay (2024) identify 'structural impediments to intergovernmental relations in Nepal' including 'ambiguous jurisdictions, political discord, inefficient bureaucracies and nebulous fiscal mechanisms. These obstacles generate "inefficiencies and conflicts at all levels of government that undermine policy coherence and service delivery.

Nepal vs. India

Nepal and India have three levels of government. But the States in India have far greater fiscal autonomy and legislative powers. India has a dual federal system with clear demarcation of Union, State and Concurrent Lists thus providing constitutional clarity which is lacking in Nepal. The Chief Minister of Madhesh made an explicit unfavorable comparison of Nepal with India, saying “Indian states have the resources and the authority to carry out their mandates”. The 73rd and 74th Constitutional Amendments of India institutionalized local governance, creating a formidable third tier that is missing in Nepal’s local government structure.

Nepal vs. Canada

Canada’s federal system gives the provinces a fair degree of autonomy. But Quebec’s identity-based federalism requires addressing challenges similar to those in Nepal’s Madhesh. Canada’s achievement in accommodating Quebec in a federal system through asymmetrical federalism and constitutional recognition offers lessons for addressing identity-based grievances in Nepal.

Nepal vs. Australia

While the Australian federal system is constitutionally different, it highlights the importance of existing coordination mechanisms. The National Coordination Council of Nepal is based on the Council of Australian Governments (COAG). Australia’s fiscal equalization system which redistributes resources to provide uniform services across states has lessons for Nepal’s fiscal federalism challenges.

Nepal vs. South Africa

Post-apartheid federalism in South Africa provides a case study of the response of federal systems to historical marginalization. The Constitution of the Republic of South Africa (1996) has Schedule 4 that defines concurrent functional areas and provides a clarity that is lacking in Nepal’s federal framework. South Africa’s experience demonstrates the need for clarity in constitutional terms during federal transitions.

Discussion

The findings show that the federalism implementation in Nepal has a “implementation gap” which means the gap between the constitutional aspiration and the practical reality. The Constitution of Nepal provides a comprehensive framework for the federal governance but it has been a very challenging process to implement this framework into operational institutions.

The political parties that supported federalism during the transition seem reluctant to decentralize power when in government. This is an example of what Burgess (2012) calls the absence of the ‘federal spirit,’ a refusal to compromise on fundamental questions of state formation. Such hesitance is manifested in the central government’s keeping police authority

in its own hands, the slow implementation of federal legislation, and political interference in local administration.

Administrative Dimension: The provincial and local level's lack of capacity demonstrates the difficulty of building federal institutions from the ground up. The unitary history of Nepal has so far limited the administrative capacities at subnational levels and the rapid transition to federalism has outstripped institutional development. Fiscal imbalances and issues with grant allocation are examples of the tensions that exist between the capacity of the central government to raise revenue and the spending responsibilities of subnational governments. The "fiscal gap," as it is called, in which subnational governments have responsibilities but lack the resources to meet them, undermines the promise of federalism for independent local governance.

The findings are consistent with Livingston's (1956) sociological view of federalism: For sustainability, the federal structure of Nepal should be in line with the social realities. Ethnic and regional diversity that required federalism, especially the Madhesh demands, is still poorly addressed and is a threat to the legitimacy of federalism. Elazar's (1991) concept of "federal spirit" is especially relevant. The "federal spirit" is still in its infancy in Nepal's political culture, as demonstrated by the central government's unwillingness to devolve power, and the lack of readiness of political leaders to share real power.

Comparison with Global Experiences

Nepal's problems of federalization are comparable to those of other transitioning democracies. The post-apartheid transition in South Africa also faced similar challenges of administrative capacity and identity-based conflicts, while federal consolidation in India has taken decades of institutional evolution, indicating that the implementation of federalism in Nepal will require prolonged and sustained effort. But Nepal's case is different in a few ways. Its three-tier federal system is unusual internationally, which causes coordination problems; the rapid transition from unitary to federal governance has hindered institutional development; identity-based federalism claims, especially from Madhesh, have led to ongoing conflicts; and fiscal federalism arrangements are less mature than in older federations.

The Two-Tier vs. Three-Tier Debate

A two-tier structure of government "is perceived to be more efficient" than the three-tier model, the abstract of the study said. "There is a growing debate in Nepal over the two-tier versus three-tier structure of government. Some groups are demanding the abolition of provinces," the abstract said. Advocates of a two-tier system argue it would reduce administrative costs, simplify coordination and eliminate federal-provincial disputes. Proponents of the three-tier structure say that provinces are the fundamental innovation of federalism and their abolition would "catapult Nepal into more chaos" and in effect return to the earlier unitary system. The findings of this study suggest that the challenges of the three-tier structure are not due to its hierarchy, but to its weak implementation, so building provincial capacity and fiscal autonomy rather than abolishing provinces is a more constructive way forward.

Summary of Findings

The study has investigated the complex challenges of federal implementation in Nepal. The results show that:

- **Administrative challenges:** Acute shortages of staff (33% of local units without Chief Administrative Officers; 35% of provincial vacancies), high turnover rates and important capacity deficits at the subnational levels impede effective governance.
- **Fiscal challenges:** Sub-national fiscal deficits, underutilization of funds (34% provincial; 24.4% local), inequitable allocation of grants and limited fiscal autonomy hamper the potential of federalism for independent local governance.
- **Political issues:** The reluctance of the central government to decentralize power, delay in the enactment of important federal laws (38 pending) and political interference in local governance violate the principles of the federal constitution.
- **Identity issues:** Madhesh Province and the Madheshi people are still marginalized; federalism has not fulfilled its promise of inclusion and identity recognition;
- **Coordination challenges:** Coordination mechanisms among different levels of government are underused to a significant extent, with decisions of the National Coordination Council remaining largely unimplemented and coordination platforms often bypassed.

Conclusion

The change of Nepal from a Unitary System to a Federal System is one of the greatest constitutional changes in the history of Nepal. The Constitution of Nepal, 2015 has established a Federal Democratic Republic with seven provinces and three levels of government. But this study has shown that constitutional provisions do not guarantee effective federalism. The challenges of implementation are significant in administrative, financial, political, identity and coordination. Almost 10 years after the adoption of federalism, provincial governments remain “in a state of limbo,” and some are asking whether federalism is even possible.

The answer is not to do away with federalism, but to strengthen it. The provinces are the “most important innovation” of federalism and scrapping them would “plunge Nepal into further chaos”. This study identifies implementation gaps that Nepal needs to address: increasing administrative capacity, enhancing fiscal autonomy, passing critical legislation, institutionalizing coordination, addressing identity-based grievances and nurturing a genuine federal mindset.

Federalism in Nepal is still “a work in progress”, but if sustained, has the “potential to revolutionized governance and make provinces a driver for development and inclusiveness. The way forward will require political will, institutional progress and fidelity to the federal principles of collective governance and regional autonomy. As Kincaid (2011) points out, the continued viability of federalism rests on the ability of the nation’s diverse constituencies to agree on the importance of maintaining a federal system of government. For Nepal, the deal needs to shift from constitutional commitment to practical implementation.

Recommendations

Based on the findings of the study, strategies have been suggested to alleviate the implementation challenges and enhance the federal governance in Nepal.

- **Build Administrative Capacity** – fast-track the recruitment and deployment of civil servants to subnational governments, carry out organized capacity-building programs based on the PLGSP, develop career incentives for working in more remoter areas and complete the unbundling process to identify jurisdictional authority.
- **Improve Fiscal Federalism:** Increase fiscal equalization grants, not move to conditional grants, clarify revenue sharing arrangements, strengthen local revenue mobilization capabilities and address vertical and horizontal fiscal disparities.
- **Institutionalized Intergovernmental Coordination:** Regular convening of the National Coordination Council, efficient dispute resolution mechanisms, formalized platforms for intergovernmental dialogue and implementation of the six resolutions from the 2023 NCC meeting.
- **Implement Key Federal Legislation:** Secure passage of the Federal Police Act, Education Act and Civil Service Act; clarify concurrent powers through legislative means; and put in place legal frameworks for provincial operations.
- **Create a Federal Mindset:** Change the political culture from centralization to real power-sharing; create a culture of federal principles among the bureaucracy; educate citizens and officials about the benefits of federalism; and promote a "federal spirit" among political leaders.

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