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The Impact of Fiscal Federalism on Local Governance in Nepal: A Study of Financial Decentralisation

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Abstract: This study analyses the impact of fiscal federalism on local governance in Nepal, with a specific focus on the implementation of financial decentralisation following the 2015 constitutional reform. Employing a mixed-methods approach, it integrates quantitative analysis of fiscal data from 2019/20 to 2023/24 with qualitative insights from key informant interviews. The findings reveal that local governments remain critically dependent on federal transfers, generating, on average, only 21% of their revenue internally, thereby constraining genuine fiscal autonomy. Furthermore, stark horizontal imbalances exist, with affluent urban centres such as Kathmandu Metropolitan City accumulating surpluses while rural municipalities, such as Saipal, face severe fiscal deficits, thereby threatening the equity objectives of federalism. Operational challenges, including legislative ambiguities, delayed fund disbursements, weak audit enforcement, and significant capacity deficits at the local level, further impede effective decentralisation. The study concludes that, although the structural framework of federalism is established, its promise of efficient, accountable, and equitable local governance remains constrained. Realising this potential requires integrated policy reforms to enhance local revenue generation, streamline intergovernmental fiscal relations, strengthen accountability mechanisms, and build sustainable administrative capacity.

Keywords: *Fiscal Federalism, Decentralisation, Local Governance, Nepal, Intergovernmental Transfers, Fiscal Autonomy, Horizontal Imbalance, Capacity Building*

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1. Introduction

The transition to a federal system in Nepal, mandated by the 2015 Constitution, represents a foundational shift in the country's governance architecture (Hachhethu, 2023). This restructuring aimed to decentralise political, administrative, and fiscal authority to enhance local autonomy, promote inclusive development, and improve public service delivery. Central to this transformation is the concept of fiscal federalism, which delineates the financial relationships and mechanisms for resource allocation among federal, provincial, and local governments (Nepal, 2016). Effective fiscal federalism is predicated on meaningful financial decentralisation, where local governments possess adequate revenue-generation capacity, expenditure autonomy, and fiscal discipline to address grassroots needs effectively (Adhikari, 2023).

In theory, fiscal decentralisation is expected to enhance allocative efficiency, accountability, and equity by bringing financial decision-making closer to citizens (Pandeya & Shrestha, 2016; Panta, 2018; Keshav & Bhusal, 2024). However, as the discussion section will explore in depth, the realisation of these theoretical benefits depends critically on contextual factors including administrative capacity, coherent legal frameworks, and enforceable accountability mechanisms.

However, the implementation of fiscal federalism in Nepal has encountered substantial challenges. Despite the constitutional provision of fiscal autonomy, local governments often operate with limited financial independence. Their capacity to generate internal revenue remains critically low, creating a heavy reliance on federal transfers (Sharma, 2021). Concurrently, weak administrative and technical capacities, coupled with ambiguous legislative frameworks and overlapping jurisdictions, impede effective budget execution, financial management, and audit compliance. These shortcomings raise pertinent questions about the extent to which the theoretical promises of fiscal decentralisation have been realised in practice and how the existing fiscal framework impacts the quality and efficacy of local governance.

This study seeks to critically examine this nexus. It analyses the post-federal fiscal architecture, assesses the revenue generation and expenditure capacities of local governments, and identifies the institutional and operational constraints that hinder effective financial decentralisation. Focusing on the fiscal years 2019/20 to 2023/24, the research employs a mixed-methods approach, integrating quantitative analysis of secondary financial data with qualitative insights from key informants, including local officials, political leaders, and service recipients.

The findings of this investigation are crucial for policymakers, academics, and practitioners engaged in Nepal's federal project. By diagnosing the gaps between policy intent and on-ground reality, the study aims to contribute to a more robust, equitable, and efficient fiscal decentralisation model. Ultimately, strengthening the financial foundation of local governance is indispensable for achieving the core federal objectives of participatory development, accountable administration, and sustainable prosperity for all Nepali citizens.

2. Materials and methods

This study employed a mixed-methods research design to comprehensively investigate the impact of fiscal federalism on local governance in Nepal, with a specific focus on financial decentralisation. The approach integrated quantitative data analysis with qualitative insights, allowing for a triangulated examination of fiscal trends, implementation challenges, and governance outcomes. The methodology was structured to systematically address the study's objectives concerning the framework of fiscal federalism, the assessment of local fiscal autonomy, and the identification of systemic challenges and corrective measures.

2.1 Research Design

The study adopted a descriptive and analytical research design. It utilised both secondary data analysis and primary qualitative exploration to assess the state of fiscal decentralisation, analyse trends over time, and interpret the contextual factors influencing local financial management. The quantitative component provided a macro-level overview of fiscal performance across local governments, while the qualitative component offered depth and explanatory power regarding the mechanisms, perceptions, and obstacles underlying the numerical data. This combination enabled a robust analysis that moved beyond mere description to identify causal linkages and practical implications.

2.2 Data Sources and Collection

The research relied on two primary data sources, collected to ensure both breadth and depth of analysis.

The core quantitative analysis was based on secondary financial data obtained from official government sources for five consecutive fiscal years (2019/20 to 2023/24). The primary repositories included the Financial Comptroller General Office (FCGO) for datasets on internal revenue, fiscal transfers, and total expenditures of all 753 local governments; the Ministry of Finance for policy documents and budget statements; and the Office of the Auditor General (OAG) for reports on audit findings and compliance issues. This five-year timeframe encompassed a critical period following the full implementation of federal structures, enabling meaningful trend analysis of local governments' evolving fiscal capacity.

To ground the statistical trends in lived experience and expert opinion, qualitative data were gathered through Key Informant Interviews (KIIs). A purposive sample of 13 key informants was selected to ensure representation from multiple stakeholder groups involved in local fiscal governance, including Chief Administrative Officers, Finance Officers, Planning Officers, Elected Local Representatives, and members of oversight bodies. Semi-structured interview guides, tailored to each stakeholder category, were used to explore themes such as revenue mobilisation challenges, budget execution processes, intergovernmental coordination, and the perceived impact of fiscal autonomy on service delivery.

The study acknowledges that 13 key informant interviews represent a modest sample for a national-level analysis of fiscal federalism. This constitutes a limitation of the research. However, the sample size is justified for the following reasons. First, the qualitative component was designed as a complement to, rather than the primary pillar of, the mixed-methods approach; the core quantitative analysis encompasses all 753 local governments over five fiscal years, providing robust macro-level generalisability. Second, purposive sampling targeted specific institutional roles (Chief Administrative Officers, Finance Officers, Planning Officers, elected representatives, and oversight body members) that hold concentrated, expert knowledge of local fiscal operations. Third, thematic saturation was achieved after approximately 10 interviews, with subsequent interviews confirming rather than adding new themes, indicating that the sample captured the principal recurring challenges and perceptions across diverse local contexts. Fourth, resource constraints typical of independent academic research limited the geographic scope, though efforts were made to include informants from multiple provinces, including Bagmati, Lumbini, and Karnali. Future research should expand the qualitative sample to include a larger and more geographically diverse pool of informants, alongside citizen surveys, to further validate and enrich these findings.

2.3 Data Analysis Techniques

The collected data were analysed using complementary techniques to derive comprehensive findings.

The financial data from the FCGO was systematically compiled into comparative tables for trend analysis. Key metrics were calculated and analysed, including the proportion of Internal Income to Total Income for each province and municipality type, the Expenditure Capacity, measured as total expenditure relative to the annual budget, and the Fiscal Gaps, which highlight surpluses or deficits. Descriptive statistics and comparative percentages were used to identify patterns, disparities between different classes of local government, and changes over the five-year period.

The interview transcripts were analysed using thematic analysis. This process involved familiarisation with the data, generating initial codes, searching for themes, reviewing these themes, and finally defining and naming them. The analysis aimed to identify recurring perceptions, institutional challenges, and practical suggestions related to the implementation of fiscal decentralisation, with major themes emerging around capacity constraints, legislative ambiguities, and systemic inefficiencies.

A core analytical strategy was the comparative assessment of fiscal performance across different tiers of local government and across Nepal's seven provinces. This comparison illuminated stark disparities in revenue-generating capacity and expenditure efficiency, providing empirical evidence of horizontal fiscal imbalances that challenge the equity goals of federalism. The contrast between fiscally robust metropolitan areas and struggling rural municipalities was a particular focus of this analysis.

2.4 Ethical Considerations

The study adhered to standard ethical research guidelines throughout its execution. Informed consent was obtained from all interview participants prior to the interview, with a clear explanation of the study's purpose and assurance of their right to withdraw at any time. Confidentiality and anonymity were strictly maintained in the recording, transcription, and reporting of all qualitative data. The research upheld academic integrity by using data solely for this analysis, maintaining neutrality to avoid political bias, and committing to a transparent presentation of the findings.

3. Results

The implementation of fiscal federalism in Nepal represents a foundational shift in governance, aimed at decentralising power and resources to enhance local autonomy, accountability, and development. This study examined the impact of this transition, particularly focusing on financial decentralisation at the local government level from fiscal years 2019/20 to 2023/24. The findings reveal a complex landscape where constitutional aspirations are tempered by operational realities, systemic constraints, and persistent inequalities.

3.1. Structural Fiscal Dependency and Constrained Autonomy

The most salient outcome of this analysis is the profound fiscal dependency of local governments on central transfers. As summarised in Table 1, local governments in Nepal generated, on average, only 21.4% of their income internally between FY 2019/20 and 2023/24, while their capacity to execute budgets remained at 73.4%. This signifies that nearly four-fifths of local budgets are financed through intergovernmental fiscal transfers including equalisation, conditional, and special grants from the federal government. Such heavy reliance undermines the core principle of fiscal federalism, which posits that subnational financial autonomy is essential for responsive and accountable governance. The consistently low proportion of own-source revenue points to structural limitations: narrow tax bases, weak administrative capacity for revenue collection, and an institutional environment that does not sufficiently incentivise local revenue mobilisation.

Concurrently, local governments demonstrated a limited capacity to execute their budgets. The average expenditure rate across all local levels stood at approximately 73% of the total annual budget allocation. This substantial under-spending reveals systemic inefficiencies in planning, procurement, and project implementation. Qualitative insights from key informant interviews, particularly with planning and finance officers, indicate that the delayed and unpredictable disbursement of federal transfers is a primary bottleneck. Funds often arrive months into the fiscal year, disrupting annual work plans, delaying contract awards, and culminating in rushed end-of-year spending that compromises both project quality and financial oversight. This combination of weak revenue generation and poor expenditure efficiency creates a double bind: local governments are neither fiscally self-reliant nor fully effective in utilising the transferred resources, constraining their ability to deliver services and promote local development.

Table 1: Fiscal Performance of Local Governments in Nepal (Five-Year Average: FY 2019/20 - 203/24)

Indicator	Aggregate Value (%)	Implication
Average Share of Internal Revenue	21.4	High dependency on federal transfers; limited fiscal autonomy.

Average Budget Expenditure Rate	73.4	Systemic inefficiency in budget execution and resource absorption.
Resource Gap (Income vs. Expenditure)	~26.0	Structural deficit indicating chronic fiscal stress and dependency.

Source: Compiled from FCGO data (2019/20– 2023/24)

3.2. Pronounced Horizontal Imbalances and the Urban-Rural Chasm

Aggregate national figures obscure severe and entrenched disparities in fiscal capacity across different regions and categories of local government. A provincial comparative analysis exposes a stark core-periphery divide. The analysis reveals disparities in fiscal capacity across provinces (Table 2). While Bagmati Province's local governments generated 32.3% of their income from local sources, Karnali Province generated only 9.9%. Provinces such as Sudurpaschim (11%) and Gandaki (20%) fell between Bagmati and the others, but remained well below Bagmati. This threefold disparity demonstrates that the benefits of decentralisation are distributed unevenly, potentially reinforcing pre-existing regional inequalities rather than alleviating them, thereby contravening the equity objectives of fiscal federalism.

Table 2: Disparities in Fiscal Capacity Across Provinces (Five-Year Average)

Province	Average Internal Revenue (% of Total Income)	Average Expenditure Execution (% of Budget)
Bagmati	32.3	67.6
Madesh	25.4	70.8
Gandaki	19.5	74.4
Lumbini	17.9	74.9
Koshi	16.9	76.2
Sudurpaschim	11.1	81.3
Karnali	9.9	79.7

Source: Compiled from FCGO data (2019/20 - 2023/24)

This provincial imbalance is exemplified by the stark contrast between urban and rural local bodies (Table 3). These imbalances are magnified at the municipal level, revealing an acute urban-rural dichotomy. Kathmandu Metropolitan City emerged as a significant outlier, with internal revenue accounting for over 74% of its income, while expenditure execution averaged just 44%, resulting in substantial and sustained budget surpluses. On the opposite end of the spectrum, Saipal Rural Municipality exemplified fiscal precarity, with internal revenue at 10% and expenditure at 86%, leaving no fiscal space for discretionary development and indicating a hand-to-mouth existence. Municipalities like Rajbiraj (23% internal revenue) and Tulsipur Sub-Metropolitan (29%) represent an intermediate reality but still face significant resource gaps. This disparity contravenes the principle of fiscal equalisation, a bedrock of federal systems designed to ensure all jurisdictions can provide a comparable standard of public services. The evidence suggests that, without robust mechanisms for horizontal fiscal equalisation, Nepal’s federalism risks institutionalising a two-tiered system of citizenship in which the quality of governance is determined by one’s postal code.

The four local governments presented in Table 3 were selected purposively to represent the spectrum of fiscal performance observed in the dataset, rather than as a statistically representative sample. Kathmandu Metropolitan City was chosen as the extreme positive outlier, demonstrating the highest internal revenue generation (74.2%) and lowest expenditure execution (44.1%) among all 753 local units. Saipal Rural Municipality (Bajhang District, Sudurpaschim Province) represents the opposite extreme, with among the lowest internal revenue (9.9%) and chronically high expenditure rates indicative of fiscal precarity. Rajbiraj Municipality (Saptari District, Madhesh Province) and Tulsipur Sub-Metropolitan City (Dang District, Lumbini Province) were selected as illustrative intermediate cases, representing the more common reality of moderately low own-source revenue (23.0% and 28.8%, respectively) and significant dependence on federal transfers. This purposive selection enables a clear illustration of the urban-rural and regional fiscal chasm without claiming statistical representativeness for the individual cases.

Table 3: Contrasting Fiscal Realities: Urban Affluence vs. Rural Constraint

Local Government (Type)	Avg. Internal Revenue (%)	Avg. Expenditure (%)	Key Fiscal Status
Kathmandu Metropolitan City	74.2	44.1	Substantial Surplus; High fiscal autonomy.
Tulsipur Sub-Metropolitan	28.8	68.3	Moderate Gap; Dependent on transfers.
Rajbiraj Municipality	23.0	72.6	Significant Gap; Constrained capacity.
Saipal Rural Municipality	9.9	86.3	Severe Deficit; High dependency, minimal discretion.

Source: Compiled from FCGO data for selected local bodies (2019/20 - 2023/24)

3.3. Institutional and Legislative Friction in Implementation

Beyond the quantitative data, the qualitative findings highlight significant institutional and legislative ambiguities that stifle genuine local autonomy. A critical analysis of the policy framework reveals contradictions that confuse revenue assignments and limit fiscal space. While the Constitution (Articles 59 and 60) grants local governments the authority to tax and to finance deficits, subsequent laws and policies create overlapping mandates and operational barriers. For instance, the International Cooperation Policy (2019) centralises authority over foreign aid, effectively limiting local governments' access to alternative financing. Furthermore, conflicts between the Local Government Operation Act (2017) and the Intergovernmental Fiscal Transfer Act (2017) over the right to royalties from natural resources, such as riverine materials, have created legal ambiguity, often stalling potential revenue streams for local bodies. As one Chief Administrative Officer interviewed noted, this results in "paper autonomy," in which responsibilities are devolved without the corresponding fiscal tools and clarity needed to exercise them effectively.

The design and operation of the intergovernmental fiscal transfer system itself emerged as a critical challenge. Although the system is formula-based and intended to promote equity and predictability, stakeholders at the local level consistently reported inefficiencies. The most frequently cited issue was the chronic delay in the disbursement of funds from the federal treasury. These delays, confirmed across multiple respondent categories, paralyse local planning cycles, undermine contract management, and foster financial uncertainty that is detrimental to both governance and development outcomes. This finding underscores a principle often highlighted in public finance literature: the timeliness and predictability of transfers are as critical to local governance as their overall size or design.

3.4. Implications for Governance: Service Delivery and Democratic Accountability

The impact of these fiscal and institutional realities on local governance is multifaceted and presents a mixed picture. On the one hand, decentralisation has succeeded in bringing government physically closer to the people. Citizens reported improved access to administrative offices, saving time and reducing travel costs associated with travel to district headquarters. Mandatory processes such as public hearings and participatory budgeting have created new, if sometimes ritualistic, forums for citizen engagement, thereby raising public awareness of local planning and resource allocation. This aligns with theoretical expectations that decentralisation can enhance the state's visibility and accessibility.

On the other hand, the study finds that the potential for improved accountability and responsive service delivery is severely constrained by fiscal constraints. The classic "benefit principle" linking local taxation to local service provision a key mechanism for accountability in fiscal federalism theory is severely diluted when most of the local funding comes from impersonal federal transfers. This disconnect can reduce citizens' incentive to closely monitor local government performance, as they do not directly bear the financial costs of inefficiency or corruption. Furthermore, the heavy reliance on conditional grants restricts local policy discretion, often transforming municipalities into implementing agencies for centrally designed programs rather than innovators tailoring services to local contexts. In fiscally stressed rural municipalities, budgets are increasingly absorbed by recurrent administrative costs, leaving minimal resources for capital investment or quality improvement in essential services such as health, education, and infrastructure, thereby perpetuating a cycle of underdevelopment.

3.5. Synthesis: Bridging the Chasm Between Constitutional Vision and Ground-Level Reality

The findings of this study necessitate a critical reconciliation with the theoretical underpinnings of fiscal federalism. The Nepali experience vividly illustrates the cautionary arguments of scholars like Bahl (1999) and Shah (2007), who emphasise that successful decentralisation in developing countries is contingent upon robust complementary institutions capable bureaucracies, clear legal frameworks, and enforceable accountability mechanisms. The evidence suggests that devolving responsibilities without simultaneously building these supportive pillars leads to a disconnect between authority and capability.

Models such as Tiebout's "voting with feet," which assume citizen mobility and inter-jurisdictional competition, have little traction in Nepal’s context of limited mobility, strong community ties, and vast disparities in service quality. Similarly, Oates' decentralisation theorem, which hinges on local governments' superior information about local preferences, is valid only if those governments possess the fiscal and administrative capacity to act upon that information—a condition often unmet in Nepal’s rural municipalities.

4. Discussion

The findings of this study illuminate the complex and often contradictory realities of implementing fiscal federalism in Nepal, revealing a system where constitutional aspirations are mediated by structural constraints, institutional legacies, and socio-economic disparities. The evidence of profound fiscal dependency, significant horizontal imbalances, and persistent capacity gaps necessitates a critical discussion anchored in both the empirical data and the broader theoretical literature on decentralization.

Foremost, the documented reliance of local governments on federal transfers constituting nearly 80% of their income directly challenges a core tenet of classical fiscal federalism theory. As posited by Oates (1972), a primary rationale for decentralization is the efficient provision of public goods tailored to heterogeneous local preferences, a process presumed to be strengthened by fiscal autonomy. However, the Nepali case demonstrates that when local bodies lack meaningful own-source revenue, the linkage between local taxation, expenditure, and accountability is severely weakened. This aligns with Bird and Vaillancourt's (1998) observation that financial decentralization without adequate revenue-raising authority risks creating "empty" devolution, where subnational governments are administratively busy but fiscally impotent. The low internal revenue generation, averaging 21%, suggests that local governments remain implementers of centrally determined priorities funded by conditional grants, rather than becoming innovative, responsive actors. This dependency syndrome undermines the potential efficiency gains theorized by the Tiebout model (1956), as the competition among jurisdictions is muted when their financial survival hinges not on attracting tax-paying citizens but on negotiating transfers from a higher authority.

The horizontal imbalances revealed between provinces and between urban and rural municipalities present a serious challenge to the equity objective of federalism. The finding that Bagmati Province generates over three times the internal revenue of Karnali Province corroborates Wagle’s (2018) empirical analysis of fiscal imbalances in Nepal’s federal system. Such disparities contravene the principle of fiscal equalization, a mechanism considered essential for ensuring that all jurisdictions can provide a reasonably comparable level of public services despite differing fiscal capacities (Boadway and Shah, 2009). The data shows that poorer, rural municipalities like Saipal operate at the edge of their budgets with minimal surplus for development, while metropolitan areas like Kathmandu accumulate substantial reserves. This outcome risks cementing a two-tiered citizenship where the quality of essential services from road maintenance to school facilities is fundamentally determined by geography. Without a more robust and enforceable equalization mechanism, as managed by bodies like the National Natural Resources and Fiscal Commission (NNRFC), Nepal’s federal transition may inadvertently perpetuate or even exacerbate the regional inequalities it was designed to mitigate, a concern echoed in national critiques (Poudel, 2021; Bhattarai et al., 2020).

The institutional and operational constraints identified legislative ambiguities, delayed transfers, and weak audit enforcement highlight the critical importance of the "how" in decentralization. The contradictions between the Constitution’s grant of taxing powers and subsequent sectoral laws (e.g., Forest Act 2019) create a climate of uncertainty that stifles local initiative. This reflects Shah's (2010) argument that successful fiscal federalism requires not just assignment of functions but also coherent, non-overlapping legislative frameworks. Furthermore, the chronic delays in transfer disbursements, a frequent complaint from local officials, disrupt the entire local planning and implementation cycle. This practical bottleneck is often more debilitating than the theoretical design of the transfer formula itself, underscoring Ahmad and Brosio’s (2006) point that the operational efficiency of intergovernmental systems is as vital as their structural design. Similarly, the weak follow-up on audit findings from the Office of the Auditor General points to a critical accountability deficit. If financial irregularities are routinely identified but rarely corrected with consequence, the audit process becomes a ritual of compliance rather than a tool for improving governance and deterring misuse, weakening the fiscal responsibility pillar essential for decentralization’s success (Martinez-Vazquez and McNab, 2003).

Finally, the capacity constraints, particularly in operating systems like SuTRA and in generating credible local budgets, speak to the broader challenge of administrative readiness. The transition from a unitary to a federal system demands a corresponding shift in human resource skills, from compliance-oriented clerks to proactive financial managers and planners. The reported lack of trained accountants and planning officers in rural municipalities validates Danga and Browning’s (2020) finding that capacity building is a paramount challenge for Nepal’s federalism. This gap between devolved responsibility and local capacity means that even with timely funds and clear mandates, many local governments lack the technical ability to execute projects efficiently or mobilize revenue effectively. Therefore, the discussion must conclude that Nepal's experience reinforces a central lesson from comparative federalism: constitutional and legal frameworks are merely the starting point. The realization of fiscal federalism's promised benefits efficiency, accountability, and equity is contingent upon a sustained, long-term project of institutional strengthening, bureaucratic capacity building, and the cultivation of a political culture that genuinely empowers local units. Until these foundational issues are addressed, local governance in Nepal will likely remain characterized by the dual reality of increased administrative proximity to citizens coupled with constrained fiscal and policy agency, as observed in other nascent federal states undergoing similar transitions.

5. Conclusion

This study set out to analyze the impact of fiscal federalism on local governance in Nepal, with a focus on the implementation of financial decentralization following the constitutional reforms of 2015. Through a mixed-methods analysis of fiscal data from 2019/20 to 2023/24 and insights from key stakeholders, the research presents a nuanced assessment of a system in transition. The findings collectively indicate that while Nepal has successfully established a three-tier federal structure, the operational reality of fiscal decentralization remains encumbered by significant structural, institutional, and capacity-related constraints.

The evidence reveals a profound vertical fiscal imbalance, where local governments remain critically dependent on federal transfers, generating on average only 21% of their revenues internally. This dependency undermines the fundamental link between local taxation and accountability, limiting the potential for responsive and efficient governance as theorized in classical fiscal federalism literature. Concurrently, stark horizontal imbalances persist, with affluent urban centers like Kathmandu Metropolitan City accumulating substantial surpluses while rural municipalities such as Saipal operate under severe fiscal stress. These disparities threaten the constitutional commitment to equitable development and risk institutionalizing geographic inequality in public service delivery.

Operational challenges further complicate the landscape. Legislative ambiguities, particularly in revenue assignments for natural resources, create uncertainty and stifle local initiative. Chronic delays in the disbursement of federal grants disrupt local planning cycles, leading to inefficient budget execution. Moreover, weaknesses in the accountability ecosystem especially the limited enforcement of audit findings and pervasive deficits in administrative and technical capacity at the local level prevent the full realization of decentralized governance's potential benefits.

Looking ahead to the next five to ten years, Nepal's federal experiment faces a critical window of opportunity. The path forward is neither simple nor guaranteed. Without sustained political commitment to genuine fiscal empowerment, the current trajectory risks cementing a hollow federalism in which local governments remain administrative outposts rather than autonomous units of governance. However, there are grounds for measured optimism. The very existence of robust fiscal data enabling studies such as this one, the institutionalisation of the National Natural Resources and Fiscal Commission, and the gradual accumulation of administrative experience at the local level all indicate that the system is maturing rather than stagnating. If policymakers prioritise three interconnected reforms over the coming decade, such as clarifying revenue assignments to unlock local resource mobilisation, enforcing timely and predictable intergovernmental transfers, and investing systematically in local administrative capacity, then Nepal could yet realise the federal vision of accountable, equitable, and locally responsive governance. The constitutional architecture is sound; what remains is the sustained political will to inhabit it fully. The next decade will determine whether federalism becomes a transformative reality or a missed opportunity for Nepal's citizens, particularly those in the rural municipalities where the need is greatest.

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