



Local Government Performance in Federal Nepal: A Systematic Review of Theory, Practice, Challenges, and Future Directions

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Abstract

Background: Nepal's 2015 Constitution established a three-tier federal system, granting significant powers to local governments. However, performance outcomes remain uneven, with limited systematic synthesis of evidence since the federal transition.

Objectives: This systematic review synthesizes literature from 2015 to 2026 to evaluate local government performance across service delivery, fiscal management, human resource capacity, accountability, and local economic development; identifies performance determinants; and derives policy implications.



Methods: Following PRISMA guidelines, multidisciplinary databases (Web of Science, Scopus, Google Scholar, JSTOR, NepJOL) and grey literature were searched. Thirty-five Nepal-specific empirical studies published since 2015 were selected alongside comparative South Asian and international literature. Qualitative thematic synthesis was employed across five performance dimensions.

Findings: Performance is highly imbalanced—urban municipalities show progress in tax collection and digital transparency, while rural governments face staffing shortages, poor financial administration, and elite capture. Human resource shortages constitute the primary cross-cutting challenge, exacerbated by the absence of integrated HR development strategies. Performance struggles stem from cumulative "incremental issues" (procedural delays, jurisdictional ambiguity, coordination gaps) rather than constitutional flaws.

Conclusion: Constitutional mandates alone are insufficient. Sustainable local governance requires institutionalizing HR management through formal policies, strengthening intergovernmental coordination, and linking fiscal transfers to performance metrics and citizen feedback.

Implication: A formal Local Government Human Resource Development Policy, clarified mandate assignments, and performance-based incentive structures are urgently needed.

Keywords: Accountability; Decentralization; Federalism; Human resource capacity; Systematic review

1. Introduction

The creation of the Constitution of Nepal in 2015 represents a radical departure from Nepal's centuries-old unitary structure, doing away with it and adopting a three-tiered federal form of governance consisting of the federal, provincial, and local governments. Indeed, the new constitution specifically bestows significant political, administrative, and financial powers on local governments, as it considers municipalities and rural municipalities key spaces for service provision, local development, and participatory democracy. Ideally, this major restructuring of the state was envisaged to result in greater democratic participation, increased government accountability, and balance in space and society.

The theoretical case for such a shift is grounded in classic decentralisation and fiscal federalism arguments. Decentralisation theory contends that devolving decision-making authority to lower levels of government improves allocative efficiency and responsiveness because local governments are better informed about community preferences and needs, and can tailor services accordingly (Rondinelli, 1981; Smoke, 2015). Fiscal federalism further suggests that subnational governments can deliver public services more efficiently when expenditure responsibilities are matched with appropriate revenue instruments, formula-based intergovernmental transfers, and clear accountability arrangements (Oates, 1972, 1999; Musgrave, 1959). From a governance perspective, well-performing local governments are also associated with higher levels of transparency, participation, rule of law, and accountability to citizens (UNDP, 1997; Grindle, 2007).



Nevertheless, experience from developing and transitional states shows that the performance of local governments in newly established federal and devolved systems does not necessarily meet the optimistic expectations (Smoke, 2015; Faguet & Pöschl, 2015). Much depends upon institutions' capacity, political incentives, intergovernmental coordination, as well as wider socio-economic factors. In the case of Nepal, although local governments have been granted an extensive list of their exclusive and concurrent powers, there remain issues related to disparities in their performance, low administrative and technical capacities, deficiencies in the financial management system, and vagueness in terms of intergovernmental relations (Bhusal, 2024). From the time of the first-ever elections under the federal system in Nepal in 2017, local governments have taken up increased responsibilities in areas such as basic education, primary health care services, local infrastructure, social safety nets, and local economic development (Acharya & Scott, 2020).

Previous research in the area of local governance in Nepal is voluminous and diverse. The body of literature includes empirical works in areas of public administration, political science, development and public finance, although many of them are sector-specific, concentrated on particular cities and municipalities, or concerned with specific practical issues of implementation (Sharma, 2021; Khanal, 2021). The scope of these studies is limited in that they do not seek to systematically analyze performance patterns of local governments within the framework of federalist reforms or integrate theoretical perspectives and emerging empirical evidence concerning the post-2015 period in Nepal. Moreover, a limited number of researchers try to compare performance outcomes observed in Nepal with similar experiences of other South Asian or world countries (Manor, 2022; Channa & Faguet, 2016).

Given this situation, conducting a systematic review of the performance of local governments in Nepal's federal system becomes timely and essential. Through synthesizing theoretical and empirical contributions, this paper attempts to give an analytically rich description of the performance of local governments since the advent of federalism, including the determinants of performance and future lines of inquiry. In addition to enriching the domestic literature, the review also makes a contribution to comparative studies on decentralization and federalism by studying a relatively new and politically important example of federalization in the global South.

The article will seek to meet two main goals. First, the article tries to critically synthesize literature on theoretical and empirical work related to local government performance in federal Nepal, with a specific focus on service delivery, budgeting and fiscal management, institutional capacity building, accountability, and citizens' participation under the governance system after 2015. Second, the article attempts to draw implications from lessons learned from the existing literature and practice on local governance performance. These objectives are based on the kinds of operational, institutional, fiscal, and human resource issues that local governments in federal Nepal face, and how different these issues are from one municipality or rural municipality to another; the significance of these small but very important issues on local government performance, especially on service delivery and accountability? And finally, what



lessons can one learn from existing literature and practice on how local governments have attempted to overcome these issues?

This article tries to elaborate upon the conceptual and theoretical framework that provides the basis for the analysis in the next section. Section three explains the methodology used to conduct a systematic review of the literature. Section four analyses the available empirical data related to the performance of local governments in Nepal after the process of decentralisation and federalisation. Section five explores the insights gained by analysing the situation in South Asia and other parts of the world. Section six explores the main challenges to the performance of local governments. Section seven presents the best practices.

2. Conceptual and Theoretical Foundations

Decentralisation and Federalism

The concept of decentralisation has been defined as the process whereby power, responsibility, and resource flows shift from the national government to subnational governments or quasi-autonomous institutions. In the literature, decentralisation has been categorised into political, administrative, and fiscal forms of decentralisation, and each of these categories may either occur individually or jointly (Rondinelli, 1981; Smoke, 2015). Political decentralisation entails the creation of subnational elected assemblies; administrative decentralisation involves the delegation or devolution of power to make decisions regarding the discharge of public services; and fiscal decentralisation refers to the allocation of the authority to generate revenue as well as expenditure assignments (Falleti, 2010). Federalism can be considered a constitutional form of political and administrative decentralisation.

In Nepal, the federal arrangement has been established since the promulgation of the 2015 Constitution, according to which there will be a three-tiered federal government structure, wherein the local level governments would be considered a separate and constitutionally legitimate order of government, rather than just being administrative agencies. The constitution clearly specifies responsibilities assigned exclusively to the federal government, provinces, and municipalities, and makes provisions for financial transfer between the orders of government (Bhusal, 2021). However, it is an empirical issue as to how far this constitutional devolution has led to greater local autonomy and efficiency (Khanal, 2021).

Fiscal Federalism and Public Finance at the Local Level

Fiscal federalism is the theoretical approach used in prescribing the appropriate distribution of responsibilities for raising taxes and providing expenditures in a multi-tiered system. It has been argued by classical authors that public services involving a high degree of interjurisdictional externalities and those that have macroeconomic implications should be provided by the upper tiers of governments, and services having locally targeted benefits should be decentralized to lower tiers of government (Musgrave, 1959; Oates, 1972). Another key principle underlying fiscal federalism relates to linking revenues to expenditures as well as crafting vertical and horizontal intergovernmental transfers (Oates, 1999; Boadway & Shah, 2009).



In terms of performance, the theory of fiscal federalism postulates that the chances of successful service delivery by local governments increase if three requirements are fulfilled: (i) mandates must be well-defined and realistic; (ii) local governments should have sufficient resources for performing their mandates, which would entail both locally generated resources and transfer payments from higher levels of government; and (iii) accountability mechanisms which relate decisions taken on a local level to public interest should be established (Smoke, 2015; Weingast, 2014). Otherwise, the decentralized model would face problems such as unfunded mandates and disparities between different locations (Rodden, 2006; Subedi, 2018).

Governance, Performance and Accountability

It has been stressed in the literature on governance that decentralization and federalism alone will not yield positive results, but they will depend on the effectiveness of the institutional arrangements and governance mechanisms (Grindle, 2007; Andrews, 2013). Good local governance has often been conceived in terms of such characteristics as transparency, participation, responsiveness, rule of law, equity, and accountability (UNDP, 1997; World Bank, 2019). It then follows that local government performance can be defined as the degree to which local governments perform well in providing communities with public goods and services in line with the normative standards.

In this regard, this paper seeks to employ an interpretation of the concept of local government performance that is multivariate and includes at least five dimensions: (i) effectiveness in service delivery, which includes the availability, quality and equality of essential services provided; (ii) financial management performance, which includes aspects such as revenue collection, budget implementation, financial statement preparation and audit adherence; (iii) organisational capacity in terms of structure, manpower, skills and administrative processes; (iv) participation, openness and accountability, including means of engaging citizens, providing information and being accountable; and (v) local economic development, involving efforts by local governments in building livelihoods and resilience (Yami, 2024; Young, 2023).

3. Methodology for the Systematic Review

Scope and Time Period

The systematic review concentrates specifically on the time period after the adoption of the 2015 Constitution of Nepal that heralded the establishment of the federal system and thus delineated the functions, responsibilities and finances of the local governments. Thus, empirical literature postdating 2015 becomes a central concern in the review as it captures the functioning of the local governments within the new federal set-up. The prior literature is selectively used to provide a theoretical framework or background information; however, it does not become a part of the key evidence base. Although the emphasis in the systematic review will be placed primarily on Nepal, literature from other South Asian countries and from Europe, North America and elsewhere across the globe may also be included to some extent.

Data Sources and Search Strategy.

A search strategy involving multidisciplinary scholarly databases, including Web of Science, Scopus, Google Scholar, and JSTOR, and other region-specific databases such as Nepal



Journals Online (NepJOL) and governance-development oriented journals, along with grey literature, was employed for retrieving relevant literature concerning the performance of local government in federal Nepal. Furthermore, various institutional repositories and policy portals, such as those of the Government of Nepal, Ministry of Federal Affairs and General Administration, National Planning Commission, and prominent local governance sector development partners in Nepal, such as The Asia Foundation and Town Development Fund, were accessed (Town Development Fund, 2023; The Asia Foundation, 2018). This was because a significant number of studies on local governance in Nepal are found to be published either in nationally oriented journals or as policy papers instead of international journal articles.

Keywords used for searching include, but are not limited to, “performance of local governments”, “local governance”, “local government effectiveness”, “rural municipalities”, “Federated Nepal”, “decentralization”, “service delivery”, “fiscal decentralization”, “capacity building”, “accountability”, and “intergovernmental relations”. Truncation and Boolean operators were used in order to expand the search, and alternative spellings were taken into consideration where applicable. The initial search yielded a large number of potential sources that were further screened using the following inclusion and exclusion criteria:

Inclusion and Exclusion Criteria

The criteria for inclusion and exclusion of literature were used to ensure that only those sources relevant to the thesis topic and having high methodological rigor were selected. The studies have been included if: (i) they concentrated on the issues relating to local governments of Nepal, specifically, municipalities and rural municipalities, or on the local governance in the context of Nepalese federalism; (ii) they had analyzed any aspect related to performance, such as service delivery, fiscal management, institutional capacity, governance process, accountability, and/or citizen participation; (iii) they used empirical or analytical research approaches, such as qualitative case study, quantitative analysis, mixed method, or policy evaluation; (iv) they were written in English; and (v) they were published in or after 2015. A few works published before 2015, which provided important theoretical or contextual insights, were selected but were distinguished from the rest of the sources.

These studies have been excluded because of focusing on provincial or federal performance in isolation from local governments; were commentaries or opinion pieces with no analytical approach; lacked sufficient methodological clarity; or duplicated studies and presented identical results.

Study Selection and Data Extraction

Study selection was undertaken in three successive phases in accordance with PRISMA-inspired guidelines for conducting governance research (Page et al., 2021). First, all records that were found were screened based on their title and abstract for topical relevance to local government effectiveness in federal Nepal. Second, those records deemed potentially relevant were further assessed for full-text eligibility using inclusion and exclusion criteria. Third, the selected studies were assessed for conceptual rigor and empirical relevance to the research questions being addressed through this systematic review. The result was a total of around



thirty-five Nepal-specific studies published since 2015, supplemented by a few comparative studies conducted in South Asia and elsewhere.

Data Extraction Procedure: For each of the studies reviewed, a detailed data extraction framework was employed to capture information relating to publication information, research problem(s), methodology used, geographical location, performance aspects investigated, findings, problems encountered, and possible solutions or policies suggested. The data extraction was done systematically to allow for consistency of comparison among the studies and synthesis. A special interest was taken in examining the perspective from which performance was viewed by the studies – citizen/administrative/political published in the various databases until the end of March 2026.

Analytical Strategy

Due to the wide range of methodologies and types of data in the selected literature, a qualitative thematic synthesis strategy was employed instead of conducting a meta-analysis. Codes were derived through an iterative process, starting from the five performance dimensions described in section two and moving on to cross-cutting dimensions such as the intergovernmental relations, political incentives, gender issues, and involvement of external partners in development projects. Codes were applied to the information obtained from each study, and patterns among the codes were identified.

This process took two stages. First, the results of studies conducted in Nepal were synthesized in a structured narrative according to the performance dimension. Second, comparative analyses carried out in South Asian and other countries were utilized in order to place the findings in the Nepalese context and provide additional insights about similarities and differences as well as lessons that can be transferred to Nepal's case (Manor, 2022; Channa & Faguet, 2016). While doing so, special attention was paid to the methodological constraints, variability of conditions in different locales, and possible biases in the selected literature. It is important to note that rankings of local government performances were not the purpose of the analysis.

4. Empirical Evidence on Local Government Performance in Federal Nepal

Efficiency in Service Delivery: The literature that has been analyzed presents mixed results regarding the efficiency of service delivery of local governments in federal Nepal. Researchers in the field have emphasized in their studies the need for the role of the local government to be played properly, by highlighting the need for local political commitment and effective management (Acharya & Scott, 2020; World Bank, 2024). It has been noted that municipalities that are led by stable leaders, whose management is efficient, and which actively work with the community, perform better when it comes to delivering services (Bhusal, 2024). However, in most rural municipalities, the problem persists.

Several studies highlight that federalization has expanded local discretionary space, enabling some local governments to tailor programmes to specific community needs (Adhikari, 2026). Examples include targeted scholarship schemes, context-specific public health campaigns and



small-scale infrastructure projects prioritised through participatory planning (The Asia Foundation, 2018). However, other works caution that expanded mandates have not always been matched by corresponding resources or technical support (Sharma, 2021). In such contexts, local governments often rely on ad hoc project funding from development partners, leading to fragmented interventions and uneven service quality across jurisdictions (Khanal, 2021).

Fiscal Performance and Financial Management

In terms of fiscal performance, research highlights areas of progress as well as ongoing deficiencies. To start with, federalism has entrenched the practice of formula funding for intergovernmental fiscal transfers and ensured relatively reliable fiscal budgetary envelopes for local governments compared with the old unitary system (Subedi, 2018; Town Development Fund, 2023). Some municipal governments have started making efforts towards raising their own revenue by improving property tax assessment, improving collection mechanisms, and levying user charges for certain services (World Bank, 2019). Moreover, research suggests that some urban municipal governments have started adopting programmatic budgeting and a medium-term expenditure framework (Bhusal, 2021).

On the other hand, several researchers identify shortcomings in the domain of financial management. Underspensing of capital budgets due to late budget approval, complex procurement processes, and inadequate project management are quite common problems (World Bank, 2024). Weak internal control, improper segregation of duties, and lack of audit follow-up tend to impair fiscal accountability (Pokhrel, 2022). Local governments that are smaller and more remote tend to rely heavily on conditional transfers and externally funded projects, thereby limiting their own priorities and promoting vertical accountability (Sharma, 2021).

4.3 Institutional and Human Resource Capacity

In all of the mentioned studies, institutional and HR capacity become the major factors influencing local government effectiveness. A significant proportion of local governments have thin administrative capacity, particularly in rural settings where civil servants are hard to attract (Khanal, 2021; Bhusal, 2024). Various specialist technical staff, including planners, engineers, financial officers, social development workers, and program monitors, are either unstaffed or on short-term contracts without any career prospects (World Bank, 2019). High employee turnover and transfers prevent the accumulation of institutional knowledge (Acharya & Scott, 2020).

Many researchers highlight the fact that even though the federation constitution greatly increased the obligations on the part of local government, their staffing requirements and human resources strategies have fallen behind (Adhikari, 2026; Sharma, 2021). Recently, some literature has been published discussing the gaps that exist regarding the policy concerning the human resource development of Nepal's local governments. According to Adhikari, Dhakal, and Ghimire (2026), the lack of an integrated human resource development strategy leads to inconsistent training programs, a lack of clarity with regard to career prospects, and low motivation for staff. The researchers emphasize that most of the capacity-building initiatives take place on a project basis, meaning that the competencies of local municipality officials are



developed inconsistently. In turn, Adhikari (2026) shows that there is a strong connection between the strategic approach towards human resources management and organizational efficiency in Nepal.

Responsibility-capacity discrepancy results in strained public officials and delays in procedures (Poudel & Dahal, 2023). Despite efforts on capacity building by the Nepalese government and development agencies, which include training in areas like planning, budgeting, and procurement, these efforts are often ad hoc in nature, being project- and time-bound and not integrated into a broader plan for institutional capacity development (The Asia Foundation, 2018). Thus, there is a lack of sustainable gains in capacity (World Bank, 2024).

5. Participation, Transparency and Accountability

While the process of federal transition, efforts towards participatory planning, social accountability, and transparency have been observed at the local government level (Yami, 2024; Young, 2023). It has been found that local governments regularly arrange ward-level consultations and municipality assembly meetings to gather citizens' preferences in relation to their annual plan (Acharya & Scott, 2020). Some municipalities also use social audit, public hearing, and complaints redressal systems to improve downward accountability (The Asia Foundation, 2018). The growth of technology, such as websites and social media of the municipalities, has led to several ways to share information and participation of citizens, especially in urban areas (Bhusal, 2021).

But the efficacy of the above mechanisms is not consistent. In several instances, participation is dominated by the elites and representatives of political parties and has limited involvement of women, marginalized groups, or poor families (Young, 2023; Yami, 2024). The process of social audit and public hearing can turn into meaningless activities resulting in no consequences (Pokhrel, 2022). The implementation of provisions of proactive budgeting and procurement information is inconsistent (World Bank, 2024). Some scholars point out that the citizenry may have no clear-cut expectations of the functions of local governments under federalism, thus making it difficult to hold them accountable for their performance (Sharma, 2021).

4.5 Local Economic Development and Resilience

While evidence on the role of local governments in fostering local economic development and resilience remains limited, it is gradually increasing. Some urban municipalities have developed local economic development strategies in areas like tourism, SMEs, and urban infrastructure (Town Development Fund, 2023). Some have tried their hands at promoting cooperatives, vocational education, and market infrastructure to enhance livelihoods (World Bank, 2019). In times of crisis like the COVID-19 pandemic and floods/landslides, local governments have played crucial roles in mobilizing relief efforts, managing quarantine sites, and aiding the vulnerable (Bhusal, 2024; Poudel & Dahal, 2023).

On the other hand, most rural municipalities lack the expertise and data required to formulate and implement effective local economic development strategies (Khanal, 2021). Their responses remain ad hoc and project-based due to fiscal uncertainties and conflicting mandate overlaps with other levels of government (Acharya & Scott, 2020). Available literature



indicates that without clear policy directions, effective intergovernmental cooperation, and adequate capacity building efforts, the capacity of local governments to contribute significantly to economic transformation and climate resilience is under-utilized (Sharma, 2021; World Bank, 2024).⁵ Cross-Country Insights from South Asia and Beyond

It is worthwhile looking at comparative evidence from South Asia and elsewhere to understand the issues that arise out of decentralization reforms in Nepal. In India, Pakistan, Bangladesh, and Sri Lanka, decentralization efforts often face several common obstacles – vagueness regarding functions of institutions, financial autonomy, politically driven administrative apparatus, and disparities in capacities in local administrations (Manor, 2022; Channa & Faguet, 2016). In India, which has a long history of democratic local governance structures, there are variations in the performance levels among the states and cities, depending on political commitment and other factors (Saxena, 2019; Jha, 2021).

The findings from studies conducted in Western Europe and North America, where local governments function in relatively well-established administrative systems and have adequate fiscal instruments, reveal that performance management, benchmarking, and citizen feedback mechanisms are very critical in improving their performance (Bovaird & Löffler, 2009; Andrews, 2013). Performance management tools such as performance contracts, league tables, citizen report cards, and participatory budgeting have been used, albeit with different levels of effectiveness (World Bank, 2024). Although the institutional and resource endowments are quite different from Nepal's, these lessons show the importance of performance measurement and reporting (Steytler, 2018; Rodden, 2006).

6. Important Challenges Facing Local Governments in Their Performance

From a review of literature on local governance in Nepal, the following major challenges can be identified in respect of local governance performance (Acharya & Scott, 2020; Bhusal, 2024). The operational/administrative challenges include complexities involved, poor coordination among federal, provincial and local governments, lack of standardization in planning, budgeting and procurement processes (Khanal, 2021). All this leads to project implementation problems and inadequate budget utilization (World Bank, 2024).

The fiscal/financial challenges relate to the mismatch between the functions assigned by the constitution and resources available (Subedi, 2018; Town Development Fund, 2023). The majority of local governments still depend heavily on conditional grants and project funding from external sources, limiting their flexibility to plan and prioritize (Sharma, 2021). Poor Public Financial Management Systems, involving the use of financial information systems and audit follow-up, add to financial problems faced by local governments (Pokhrel, 2022).

Resource limitations are prevalent among local bodies in Nepal. According to Adhikari, Dhakal, and Ghimire (2026), the lack of a coherent human resource development strategy at the local level has led to critical human resource issues such as inadequate technical manpower, attrition, vacant positions, and scattered training programs. As per Adhikari (2026), the lack of performance-based incentives and career prospects has meant that existing human resources



are underutilized and demoralized, thus impacting organizational effectiveness. All of these factors restrict the ability of local governments to design, implement, and monitor programs effectively (Poudel & Dahal, 2023; World Bank, 2019). Ambiguity in institutional and legal frameworks, such as conflicting mandate jurisdiction and disparate laws for each sector, leads to ambiguity about roles and responsibilities.

Performance is also affected by political economy dynamics. Politics at the local level can drive innovation and responsiveness where political leaders are developmentally minded and strongly motivated by electoral incentives (Yami, 2024), but also be characterized by patronage, elite capture, and myopia (Young, 2023). Interplay between national-level party organizations and local administrations affects appointments, allocation of resources, and oversight, which may work against technocratic management and inclusiveness (Acharya & Scott, 2020; Sharma, 2021).

7. Promising Practices and Adaptations

Notwithstanding the challenges, the literature reports several good practices and adaptation strategies (The Asia Foundation, 2018; Town Development Fund, 2023). Several municipalities have enhanced their capacity to generate revenues through improved property valuation, digitalized billing, and taxpayer engagement, creating room for funding local initiatives (Subedi, 2018; World Bank, 2019). A few municipalities in Gandaki province have adopted an integrated approach to information management through integrated municipal information systems (IMIS) covering planning, budgeting, and accounting (Bhusal, 2021; Pokhrel, 2022).

Citizen engagement is also addressed through innovative strategies that include using digital means for the dissemination of information and collection of feedback, community scorecards for measuring the performance of services provided, and partnerships with civil societies for the encouragement of inclusive engagement (Yami, 2024; Young, 2023). In some situations, good mayoral governance, as well as executive team coherence, have become very significant factors in making necessary changes, forming alliances for change, and managing relations with higher levels of governance and development partners (Acharya & Scott, 2020; Bhusal, 2024). Based on findings drawn from public organisations, Adhikari (2026) proposes that local governments, which make use of systematic performance management practices and continuous skill development practices, often do better than other local governments despite being faced with the same challenges.

Synthesis: How Incremental Issues Influence Overall Performance

The core takeaway from the literature review, as noted, is that the performance of the local governments in the federal structure of Nepal does not depend so much on one big transformational change but on the cumulative impact of many small everyday problems (Adhikari, 2020; World Bank, 2024). Each of the capacity deficits, procedural problems, partial information systems, unclear guidelines and limited resources considered separately can be regarded as an insignificant problem to deal with. But when combined, they create serious obstacles for the performance of local governments.



For instance, the uncertainty surrounding the delegation of functions could result in conflicts between governments concerning jurisdiction over essential service provision (Bhusal, 2021). Consequently, there is a delay in approving budgets and providing funds that works in conjunction with the limited capacity of procurement and the shortage of staff to cause project execution problems (Pokhrel, 2022). The failure to timely execute the projects creates a situation of decreased citizen satisfaction and reduced confidence, thus reducing the willingness to engage in revenue collection efforts and participation (Yami, 2024). Adhikari, Dhakal and Ghimire (2026) further note that the lack of a sustainable plan to develop human resources amplifies the aforementioned problems because the local governments lack trained staff that could sort out such procedural difficulties.

8. Future Research and Policy Directions

This review highlights several key areas where research is required to gain greater insights into local government performance within Nepal's federal system. Firstly, there is a need for longitudinal comparative research into trends in local government performance within different municipalities and rural municipalities, rather than only cross-sectional case study analysis (Acharya & Scott, 2020; Bhusal, 2024). Secondly, it is necessary to conduct integrated analysis, bringing together quantitative measures of performance, including such measures as service coverage, budget execution rate, and citizen satisfaction ratings, with qualitative analysis of political dynamics and institutional factors (World Bank, 2024; Yami, 2024). Thirdly, more focus needs to be placed on the role of gender and social inclusiveness of local government leadership and administration and their effect on performance outcomes (The Asia Foundation, 2018; Young, 2023). Finally, comparative research comparing the experiences of Nepal with similar processes of state federalization in other South Asian countries would provide useful insights (Manor, 2022; Channa & Faguet, 2016).

Lastly, following from Adhikari (2026) and Adhikari, Dhakal & Ghimire (2026), future research should rigorously examine whether certain interventions in human resource management, such as performance-related pay or competencies, have any effect on municipal-level outcomes through quasi-experiments.

From a policy standpoint, the results highlight the need for clarity regarding the assignment of functions, the simplification and standardization of procedures, and the enhancement of mechanisms for intergovernmental coordination (Khanal, 2021; Sharma, 2021). Intergovernmental fiscal transfers should be structured in a manner that ensures the provision of adequate and reliable resources in combination with performance-based incentive structures (Subedi, 2018; Town Development Fund, 2023). Investment in human capital in terms of appropriate staffing norms, competitive career ladders, and structured training is crucial for maintaining achievements (Poudel & Dahal, 2023; World Bank, 2019). Practically, Adhikari, Dhakal, and Ghimire (2026) suggest developing a Local Government Human Resource Development Policy with built-in processes for hiring, training, performance assessment, and career ladder advancement for municipalities. Adhikari (2026) also proposes linking performance metrics of organizations to human resource measures like staff turnover rates,



skills attained, and citizen feedback. Last but not least, devising a performance measurement system through the use of administrative data and citizens' feedback would enable local governments to track their own performance and foster upward and downward accountability (Yami, 2024; World Bank, 2024).

Local governments in Nepal face a complex array of operational, fiscal, and human resource challenges that vary significantly by location; while some urban municipalities have successfully improved tax collection and digital transparency, many rural governments remain hampered by chronic staffing shortages, poor financial administration, and elite capture. The significance of these "incremental issues" including procedural delays, coordination gaps, and jurisdictional ambiguity lies in their cumulative impact, as their interaction creates substantial barriers that lead to project execution failures and a subsequent decrease in citizen trust. Lessons from existing practice suggest that overcoming these hurdles requires institutionalizing human resource management through formal policies, strengthening intergovernmental coordination to clarify mandates, and linking fiscal transfers to objective performance metrics and citizen feedback to foster transparency and accountability.

9. Conclusion

The transition to federalism in Nepal has opened significant new avenues for a development agenda rooted in citizen priorities. However, the article concludes that constitutional mandates and legal provisions alone are insufficient to ensure effective local self-governance; success requires a continuous and meticulous focus on the practical "nitty-gritty" elements of administrative performance. A central takeaway of the review is that local government performance is not determined by a single transformational shift, but rather by the cumulative impact of many small, everyday "incremental issues". These challenges—including capacity deficits, procedural delays, unclear guidelines, and coordination gaps—interact to create substantial barriers. For example, jurisdictional ambiguity often leads to budget delays, which, combined with staffing shortages and procurement hurdles, result in failed project execution and decreased citizen trust.

The review highlights highly imbalanced outcomes across the country. While some urban municipalities have successfully improved revenue collection, digital transparency, and participatory planning, many rural governments remain hamstrung by poor financial administration, remote locations, and "elite capture" of the political process. The most critical cross-cutting challenge identified is human resource (HR) development. Currently, local governments face chronic staffing shortages, high turnover, and a lack of integrated HR strategies. Without a professionalized workforce and performance-based incentives, organizational motivation remains low, and capacity-building efforts remain fragmented and unsustainable.

To ensure the long-term success of federalism and inclusive growth, the article recommends several key policy shifts like Institutionalizing HR Management: Developing a formal Local Government Human Resource Development Policy that standardizes hiring, training, and career advancement; Strengthening Coordination: Clarifying the assignment of functions to



resolve conflicting mandates between federal, provincial, and local levels; Incentivizing Performance: Linking fiscal transfers and staff rewards to objective performance metrics and citizen feedback; Enhancing Accountability: Utilizing administrative data, social audits, and digital tools to foster both upward and downward transparency.

Ultimately, the article concludes that without committed staff and effective management of daily administrative hurdles, the promise of the 2015 Constitution will remain unfulfilled.

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