

Reforming Local Governance through Municipal Mergers: Lessons from Japan for Nepal

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Abstract

Japan has a long history of implementing municipal mergers to reform its local governance system. In Nepal, municipal mergers took place as part of the restructuring of local governments following the implementation of the new constitution in 2015. This paper aims to conduct a comparative analysis of the municipal merger processes in Japan and Nepal, focusing primarily on the reasons behind these mergers, the methodologies employed, and the outcomes observed. The goal is to provide policy recommendations on mergers to improve local governance in Nepal. The study is based on a comprehensive literature review and comparative analysis. It involves reviewing both theoretical and empirical literature to offer an overview of the municipal merger approach, along with global trends and practices. The analysis of municipal mergers in Japan and Nepal reveals that Nepal's mergers were constitutionally mandated and top-down, designed to establish local governments within a federal structure. In contrast, Japan's mergers were voluntary, driven by demographic and financial crises. Despite significantly reducing the number of local governments, Nepal's process faced political biases, raising concerns about the long-term viability of its local governments. Given the problems and challenges that Nepal's existing local governments have begun to face, this paper argues that Nepal can improve local governance through municipal mergers. Regular reforms, voluntary mergers with fiscal incentives, and building trust among all levels of government are recommended for the successful amalgamation of local governments in Nepal.

Keywords: municipal mergers, Consolidation, local government, Japan, Nepal.

Introduction

Municipal mergers, also called municipal amalgamation, refer to the territorial consolidation of two or more local government units into a single entity. When a municipal merger occurs, the total number of municipalities decreases as one or more municipalities are dissolved. This can happen

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either by all the merging municipalities dissolving to form a new municipality of a larger scale or by one or more municipalities becoming part of an existing one (annexation). The key characteristic of a municipal merger is that one or more municipalities completely lose their independence, with all authorities and functions being taken over by the newly formed or expanded municipality (Mabuchi 2001, Steiner & Kaiser 2017).

Evidence from countries shows that municipal mergers are carried out with specific goals. Economies of scale are identified as a major goal (Tavares 2024). Other general goals of a merger include cost efficiency, improved service delivery, modernization, rationalization, and municipal autonomy. Municipal mergers can be approached top-down or bottom-up, with bottom-up strategies involving voluntary mergers without government coercion. Top-down approaches involve central government interventions, forcing mergers despite opposition. Mixed strategies, such as a semi-voluntary “carrot and stick” approach, can also be used, where the local government initially makes proposals, followed by top-down interventions if necessary (Kaiser 2015). However, municipal mergers come with a set of drawbacks. The main arguments raised against amalgamation are a decrease in the accessibility of services, a decrease in political participation, a weak tie between residents, their elected officials, and administrative staff, and a threat to well-rooted local identities (Swianiewicz, Gendzwill & Zardi 2017).

The restructuring of local government in Nepal, following the enactment of the Constitution of 2015, was carried out through the municipal merger approach. This led to a substantial decrease in the total number of local governments from 3,374 to 753. It was carried out under the provisions stipulated in the constitution. However, local governance experts argue that the existing number of local governments is excessive and financially unsustainable for Nepal. Boex (2016)^{*****} argues for downsizing the number of local governments to no more than 300 to ensure an efficient public sector in line with the functional assignments set out in the constitution. Indeed, many current local governments are encountering economic and fiscal challenges, such as insufficient capacity for planning and executing development projects and financial constraints.

Many countries worldwide, such as the Netherlands, Sweden, Denmark, the United Kingdom, South Africa, and Japan, have undergone a series of territorial consolidations to address the similar challenges that Nepalese local governments are facing. Japan is a noteworthy example. This study compares the municipal merger processes of Japan and Nepal to understand their similarities and differences. The aim is to draw lessons on mergers as a policy option to achieve a viable local governance system for Nepal. The study mainly focuses on the following questions:

- a. What causes municipal merger reforms?
- b. How is it implemented?
- c. What are the consequences?
- d. What conclusions can be drawn from Nepal’s merger process?

^{*****}A study report entitled “Intergovernmental Fiscal Design in the Context of the Federal Constitution of Nepal”

The study is based on a comprehensive literature review and comparative case study analysis. Literature was searched with the Google search engine. The search was mainly performed using the aforementioned research questions and the keywords, properly combined. The identified publications were reviewed to determine eligibility and extract information. The credibility of the information provided in this paper was ensured through cross-checks with multiple publications and the extensive use of authentic sources such as government reports and legal documents. This study contributes to the literature on municipal mergers by providing a case study of Nepal, filling a gap in existing literature where similar studies are lacking. It also provides a series of recommendations on the municipal merger approach, tailored to the Nepalese context.

Motives of Municipal Mergers

The municipal merger reforms are primarily driven by economic and financial reasons. Economies of scale are the most common motivation. Municipal mergers are often supported by the argument that bigger municipalities can provide their services at lower costs per unit due to economies of scale, which allow them production efficiency (Tavares 2018). Askim, Klausen, Vabo, and Bjurstrom (2016) have identified the following factors that should promote municipal mergers:

- **Fiscal Stress:** Budgetary pressures force governments to seek cost-cutting reforms to avoid reducing public services.
- **Urbanization:** The concentration of people in urban areas results in population decline in peripheral areas, leading to inefficiencies due to reverse economies of scale. At the same time, rapid urban population growth exacerbates governance challenges in metropolitan areas, such as coordination in spatial planning, transportation systems, and infrastructure development across jurisdictions, thereby pressuring local governments to reform their size and structure.
- **Decentralization:** Significant decentralization of responsibilities generally supports the case for larger local entities. An expanding local portfolio is assumed to change existing conditions and pressure reforms.
- **Recent amalgamation reform:** Reform is seen as self-reinforcing in the short term, with amalgamation being a continuous process in some countries. After mergers are carried out, the results may not be satisfactory for all parties involved, leading to additional reforms.

The above-mentioned authors also introduce so-called filtering factors that either drive or hinder reforms. The possibility of amalgamation reforms generally decreases when any three of the following factors are present together:

- **Consensual political systems:** Governments in consensual political systems struggle more than in a majoritarian democratic system to gather the political support needed for radical reforms. Amalgamation reforms become more challenging in a consensual democratic system when political parties are tied to opponents of the reform, as it can often weaken or halt these initiatives.

- **Strong protection of local self-government:** The restructuring of sub-national units is challenging in countries where local self-governance is strongly protected, making amalgamation reform less likely in those countries.
- **Large local governments at the starting point:** Some countries traditionally have larger local governments. In these countries, further amalgamation is unlikely to be considered a reform strategy for addressing fiscal stress, urbanization, or functional decentralization, as they see amalgamation as an already exhausted option and will seek other strategies instead.
- **Historical absence of amalgamation reform:** Reform is often seen as self-reinforcing in the short term, driving further reforms, while non-reform is also self-perpetuating, acting as a barrier to change. In countries where local government structures have remained unchanged for many years, local political leaders and residents value municipal boundaries as a symbol of identity rather than as merely functional service providers.

According to Keating (1995), the debate on consolidation revolves around four major principles: The first is **efficiency**, concerning which structure can deliver the most services at the lowest cost. The second is **democracy**, focusing on which structures can best ensure citizen oversight of government accountability. The third is equity in **distribution**, focusing on which structure can achieve a fair allocation of tax responsibilities and services. The fourth is **development**, evaluating which structures are most capable of driving economic growth.

Global Trends and Practices: Since World War II, many industrialized and urbanized nations have carried out multiple rounds of local government reforms (Mao, Wang & Zhang 2022). In Europe and other regions, most territorial reforms at the municipal level have focused on consolidation, aiming to decrease the number of local governments by forming larger municipal units. These consolidations occurred in three waves. The first wave of consolidation in Europe and North America took place in the 1960s and 1970s. This was driven by the expanding role of government in economic and physical planning and the emergence of the modern welfare state. The debate at the time focused on efficiency and large-scale planning, with a strong academic preference for consolidation. This type of reform was particularly prevalent in Northwestern Europe, including countries like Belgium, Denmark, Finland, Germany, Norway, Sweden, the Netherlands, and the United Kingdom. Similar reforms also took place in the non-democratic countries of Eastern Europe, such as Czechoslovakia, Hungary, Poland, Romania, and Yugoslavia.

The political change of 1989 and the early 1990s in Eastern Europe led to a trend of territorial fragmentation. These changes were reactions to grassroots pressures rather than central-level policies. Following 1990, decentralization and local self-government in some countries of the region were seen as nearly synonymous with the right of each settlement, no matter how small, to have its own independent local government. Efforts to maintain larger units were perceived almost as attempts to threaten local autonomy.

In the late 1990s and early 2000s, Europe experienced a new wave of territorial amalgamation reforms in countries such as Greece, the former Yugoslav Republic of Macedonia, Georgia, and Denmark. In other countries, like the United Kingdom, Estonia, Finland, the Netherlands, Iceland, and Germany, a more gradual process of amalgamation occurred, with small reforms happening regularly. Following the 2008 financial and economic crisis, another wave of reforms took place in Latvia (2009), Greece (2011), Luxembourg (2011), Ireland (2014), Turkey (2014), and Albania

(2015). Armenia, Estonia, Italy, Norway, and Ukraine have undergone recent reforms (Keating 1995, Swianiewicz et al. 2017, Mao et al. 2022).

Strategies of Municipal Mergers

Kaiser (2015) in her paper “Top-down versus Bottom-up: Comparing Strategies of Municipal Mergers in Western European Countries” discusses amalgamation strategies, which are decision-making procedures adopted by policymakers to accommodate interests and stakeholders affected by policy initiatives. Strategies can be distinguished along two dimensions: bottom-up to top-down and comprehensive to incremental. Bottom-up merger strategies involve voluntary decisions by municipalities or citizens. In contrast, top-down approaches involve intervention by higher levels of governments, often involving coercion against the will of the municipal authority or the majority of its residents. In reality, however, merger strategies may not always be pure top-down or bottom-up forms. Mixed strategies are possible and common, too. Mixed strategies, such as a semi-voluntary “carrot and stick” approach, can be used. A further distinction can be made between comprehensive and incremental approaches. Comprehensive strategies analyze the local government structure at one time, while incremental approaches consider only part of a country's territorial structure for reform. Different countries have chosen different reform strategies for their territorial structure, highlighting the importance of considering cultural norms and initial situations when organizing local government.

Global Trends and Practices: In some countries, for example, Sweden, Denmark, and the UK, local governments are forced to merge by their national governments. In other countries, such as France, the US, and Switzerland, municipalities are free to choose whether or not to merge. In voluntary cases, municipalities are reluctant to merge due to various challenges, such as the sharing of resources and decision-making power, and the risk of losing community ties and local peculiarities (Strebel 2016).

Effects of Municipal Mergers

Tavares (2018) in his paper “Municipal amalgamations and their effects: a literature review” describes theoretical implications of amalgamations by highlighting three main areas of potential outcome: economic efficiency, managerial effectiveness, and democratic outcomes.

Economic Expectation: Municipal mergers are often justified by the claim that larger municipalities can provide public services at lower costs per unit, with the benefit of economies of scale. Some authors advocate that amalgamation can foster local economic development, lower borrowing rates, and reduce investment risk in infrastructure projects. Large-scale local governments also improve economic efficiency and managerial effectiveness due to their higher specialization and professionalization. Consolidated regions reduce free-riding due to inter-jurisdictional spillovers.

Empirical literature reveals that over eighty percent of municipal services are routine and labor-intensive, meaning they are unlikely to generate significant economies of scale following amalgamations. Instead, managerial efficiency plays a more crucial role than municipal size in achieving cost-effectiveness, as inefficiencies in larger municipalities often arise from issues related to management and administrative complexity. Proponents of inter-municipal cooperation and

outsourcing for municipal services present another theoretical argument against amalgamations. They suggest that local governments seeking economies of scale can do so through flexible arrangements like sharing resources with neighboring municipalities or outsourcing services to private companies or other local governments. This approach avoids the need for more drastic territorial reforms.

Functional and Managerial Expectations: Public choice scholars argue that smaller municipalities tend to be more responsive due to Tiebout-type competition effects among local governments and greater homogeneity of preference among residents. Wallace Oates' decentralization theorem suggests that in polycentric regions, self-sorting of population leads to intra-community homogeneity and inter-community heterogeneity of preferences. This dynamic promotes managerial effectiveness and service quality through competition among local governments and internal alignment of community preferences. In contrast, municipal consolidation often leads to higher administrative costs due to complex bureaucratic structures. According to the Leviathan hypothesis, fragmentation reduces spending through smaller, decentralized structures. Fiscal decentralization promotes competition among local governments, improves transparency about the cost and quality of public services, and encourages experimentation and innovation.

While public choice scholars emphasize the advantages of managerial efficiency in smaller municipalities, others argue that amalgamated municipalities are capable of providing a wider range and higher quality of services due to their larger size and specialized functions. Bigger municipalities can support full-scale bureaucracies, employ professional administrators, and ensure better coordination, resulting in greater functional specialization. This can improve citizen satisfaction with service delivery, including efficiency and effectiveness.

Democratic Expectations: Urban politics literature suggests that smaller jurisdictions have closer contact between councilors and citizens, and politicians are more accountable to their local constituencies. However, when municipalities are amalgamated and governance scales up, it can lead to less community, social, and political trust. Polycentric governance structures promote more consensual decision-making by capturing relevant communities of interest. On the other hand, Dahl and Tufte's classical argument suggests that amalgamated municipalities can improve local democracy by increasing service delivery capacity and fostering organized political participation. This is because larger populations tend to foster more fruitful political discourse, stronger civil society, and greater pluralism. The broader range of interest groups and civil society organizations leads to increased political competition, generating higher responsiveness to policy preferences.

Global Trends and Practice: Although results vary significantly across different countries and reforms, some patterns are evident: cost savings are mainly seen in general administration expenses such as wages and office supplies (e.g., Netherlands, Germany, Denmark, Australia, and Japan), and there are minimal changes in the quality of local services. For instance, a perception-based study in Canada showed little perceived improvement in municipal services after amalgamation. In Japan, it was found that amalgamation reform resulted in higher tax burdens and commuting expenses in smaller amalgamated areas. It is also evident that the quality of local democracy often diminishes (e.g., Denmark, Australia, and Israel). Multiple studies indicate that amalgamation reforms frequently encounter a trade-off between efficiency and democratic quality (Tavares 2018).

Municipal Mergers in Japan and Nepal: Motives, Strategies and Effects

Case of Japan

In Japan, a series of municipal mergers have taken place during different periods. The number of municipalities was consolidated from 71,314 in 1888 to 1,727 in 2010. Currently, 1718 municipalities exist as local governments in Japan. Excluding small-scale events of municipal mergers, there are three main historical events: the Great Meiji Consolidation (1888-1889), the Great Showa Consolidation (1953-1961), and the Great Heisei Consolidation (1999-2010).

Motives: The motives for municipal mergers in the three eras were different. The first two consolidations were influenced by factors other than the general universal objectives behind mergers. The Great Meiji Consolidation, which reduced the number of municipalities from 71,314 to about one-fifth (15,859), aimed to establish cities, towns, and villages as modern local administrative units following the enactment of the Shisei-Chosonsei law^{§§§§§§§§} in 1888. A decree from the interior minister specified that new administrative units should ideally consist of 300 to 500 households.

Before the Great Showa Consolidation in 1953, numerous small-scale consolidations occurred frequently. Over 64 years, the number of municipalities decreased from 15,859 to about 9,868 between the Great Meiji and the Great Showa Consolidations. These mergers were driven by various motives. Some were due to the dissolution of partial-affairs associations, formed by municipalities unable to merge during the Great Meiji Consolidation due to factors like geographical difficulties and historical disputes. These associations were later dissolved, necessitating mergers among member municipalities. Other mergers were part of urban development, driven by urbanization in major cities like Tokyo, Osaka, Yokohama, Nagoya, and Kyoto. Additionally, some mergers were enforced to strengthen Japan's war efforts by expanding city areas for national defense. Mergers in cities such as Sasebo, Yokosuka, Tokuyama, and Maizuru were typically done for this purpose.

The Great Showa Consolidation was a response to post-war rapid urbanization and industrialization in Japan. The aim was to strengthen the capacity of local units to execute newly delegated functions, such as managing junior high schools. A legal standard requiring municipalities to have a population of over 8,000 was established. It resulted in a decrease in the number of municipalities from 9,868 to about one-third (3,472). The Great Heisei Consolidation represents the most recent trend of municipal mergers in Japan. It took place in the context of the ongoing process of decentralization, the aging population, and the financial deterioration of local governments. A survey report on "Heisei Municipal Mergers" by the Ministry of Internal Affairs and Communication (MIC) shows that severe financial issues (74.5 percent) were the main reason for municipal mergers, while promoting ongoing decentralization and addressing the aging population were second and tertiary reasons, accounting for 61 percent and 46.6 percent of cases, respectively.

Strategies: Japan's strategy of municipal mergers can be described as a mixture of voluntarism and promotion. Although the consolidation was decided voluntarily and led by the prefecture's^{*****}

^{§§§§§§§§} It means the institution of the system of cities, towns, and villages.

^{*****} Local government of Japan consists of a two-tier system – Prefecture (Ken) as the upper tier and municipality (city, town, and village) as the basic tier. There are 47 prefectures.

governor, the promotional role of the central government was crucial. The Great Heisei Consolidation was strongly promoted by the central government through revisions to national laws and the provision of fiscal incentives.

The stance of the central government toward municipal mergers over time is reflected in the Municipal Merger Law (MML) of 1965 and its subsequent amendments. The law initially did not promote municipal mergers but aimed to remove obstacles to voluntary mergers. However, its character was changed to a promotional stance after amendments in 1995. Moreover, the central government took a more visible positive stance on mergers by amending the Uniform Decentralization Law (UDL) in July 1999. The government also used local allocation taxes as a key incentive to encourage mergers. Additionally, in August 1999, the government issued "Guidelines for the Promotion of Municipal Mergers" to prefectures, which asked prefectures to make "merger patterns" for municipalities under their jurisdiction and enforce them. A cabinet decision in December 2000 set a goal of 1,000 mergers as part of a broader administrative reform program. To support this, the government launched campaigns and public relations efforts, such as nationwide symposiums, and established the "Municipal Merger Assistance Headquarters" in March 2001, followed by the "Municipal Merger Assistance Plan" in August 2001.

Effects: A questionnaire survey conducted in 590 post-merger municipalities on December 31, 2012, in Japan also provides information on the merits of municipal mergers. In response to the question, "What are the advantages of the municipal mergers?" 74.7 percent of respondents agreed that municipal mergers enhance the efficiency of public administration (through proper staffing and consolidation of communal facilities), 71.7 percent also agreed that they promote large-scale regional development, 46.8 percent believed that they strengthen the capacity of municipalities by facilitating the establishment of specialized divisions equipped with specialists (such as doctors, nurses, and nutritionists), and 39.7 percent accepted that municipal mergers improve public services. This finding shows that the municipal merger approach has many advantages in the local government system.

The survey conducted in 1998 in Shiga Prefecture captured public opinion on municipal amalgamation. The result shows mixed opinions towards municipal amalgamation. 20.8 percent of respondents positively favored municipal amalgamation, and 20.7 percent were rather positive. On the other hand, 18.6 percent of people were against municipal amalgamation, and 22.1 percent held rather negative opinions. In response to the major reasons against municipal amalgamation, 76.7 percent of respondents believed that amalgamation weakens the relationship between citizens and municipal offices, 44.9 percent of respondents also believed that it weakens attachment to hometowns, and 43.7 percent felt that it makes access to municipal offices more inconvenient. Other negative impacts of municipal mergers identified were disadvantages for peripheral development, deterioration of the natural environment and living conditions, and loss of historical and cultural characteristics.

Case of Nepal

The local governance system of Nepal has undergone various restructuring phases following political changes. In the past, Nepal emphasized the formation of new administrative units at the local level to establish a decentralized governance system. For instance, in 1962, when Japan had

just completed the Great Showa Consolidation, Nepal established a three-tier administrative system at the sub-national level: village/town panchayat, district panchayat, and zonal panchayat, in line with the decentralization spirit outlined in the Constitution of Nepal, 1962. To foster democracy, the country was organized into an administrative structure comprising 75 districts, 14 zones, 3,600 villages, and 18 municipalities.

Following the restoration of the multi-party democratic system in 1990, Nepal enacted a new constitution in 1991. This led to the reform of local bodies to align with democratic governance. The District Panchayat, Nagar Panchayat, and Village Panchayat were restructured and renamed as the District Development Committee (DDC), Municipality, and Village Development Committee (VDC), respectively. A two-tier local government system was established, with the DDC as the higher tier and the municipalities and VDCs as the lower tier. Further, the Local-Self Governance Act (LSGA), 1999, devolved many powers and responsibilities to local units. There were 75 DDCs, 217 municipalities, and 3157 VDCs.

However, the powers devolved through the LSGA, 1999, were never fully exercised, and responsibilities were never performed to their full extent due to various reasons. The size of VDCs/municipalities was one of the major barriers to their functional capacity. VDCs and municipalities were too small in population size and geography, lacking the financial and institutional viability to perform all their functions. Many laws contradicting the LSGA, 1999, were not amended, preventing full enforcement of the act. Another reason was the absence of elected representatives for 15 years, as elections were not held until 2017.

Municipal mergers in Nepal took place significantly only after the promulgation of the Constitution of Nepal in September 2015⁺⁺⁺⁺⁺⁺. The constitution transformed Nepal from a unitary state to a federal democratic republic, establishing three spheres of government: Federal, State, and Local levels. Rural municipalities (Gaunpalika), Urban Municipalities (Nagarpalika), and District Assemblies have been introduced as local governments. Rural municipalities and urban municipalities were established through the municipal merger process.

Motives: The local-level restructuring was done according to the provisions of the constitution (Article 295, clause 3). The main purpose of the restructuring was to establish local governments that could serve the principle of federalism as envisioned in the constitution. The Local Level Restructuring Commission (LLRC) was established on March 15, 2016, with a mandate to propose the number and boundaries of the local level based on factors such as population size, population density, accessibility of the service center, internal sources of revenue, ethnic, linguistic, and cultural concentration, and geographical accessibility. The commission's term was one year. It proposed a total of 719 local governments across Nepal. After some amendments, the Government of Nepal declared 753 local governments, consisting of 460 rural and 293 urban municipalities.

⁺⁺⁺⁺⁺⁺ In 2011, there were 58 municipalities and 3915 VDCs. 72 new municipalities were established in May 2014, 61 in December 2014, and 26 in September 2015. In this way, the number of VDCs decreased from 3915 to 3157 while the number of municipalities increased from 58 to 217 between 2014 to 2015. 639 VDCs were merged in Municipalities during this period.

Strategy: The merger occurred because it was mandated by the constitution. It is also a one-shot comprehensive merger reform. The process followed a compulsory top-down approach. The LLRC was set up to restructure local government based on the terms of reference (ToR) set by the Government of Nepal. A high-level coordination committee chaired by the Minister of the Ministry of Federal Affairs and Local Development (MoFALD)***** was formed to support the commission. To assist the work of the commission, a District-level Technical Assistance Committee, chaired by a Local Development Officer (LDO), was set up in each district. This committee was mandated to propose a restructuring model of local governments in their respective districts based on the criteria and standards set by the commission. Committees were asked to prepare the proposal through wide consultation with all stakeholders in their jurisdiction. The report included detailed information on the amalgamation of existing VDCs/Municipalities to form new rural/urban municipalities, including their new names and boundaries. These proposals were the main basis of the commission's decision on the formation of new local bodies.

Initially, the commission proposed 565 local units, but after the government revised its ToR to use Ilakas***** as the basis for restructuring, the commission recommended 719 local governments. Following some amendments to boundaries and numbers, the Government of Nepal announced 744 local governments on March 10, 2017. On August 20, 2017, the government added 9 more local governments in the Madhesh province to meet the demands of the Madhesh-based parties, raising the total number of local units to 753.

Effects: The reform substantially reduced the number of local governments, but it faced several obstacles. Conducted over a short period (March 15, 2016, to March 14, 2017), the commission lacked detailed data at the ward and village levels. Political tensions in Madhesh Province hindered the restructuring process, preventing District-level Technical Assistance Committees from functioning effectively. The revision of the commission's ToR during the process, along with the government's decision to increase the number of local governments, suggests that political interests influenced the amalgamation process.

The Local Government Operation Act (2017) establishes standards for municipalities, setting a minimum population threshold of 500,000 for metropolitan cities and 300,000 for sub-metropolitan cities. For other municipalities, the population requirement varies by geographical area, ranging from 10,000 to 100,000. Despite these standards, many municipalities do not meet the population criteria. 66.2 percent of the population resides in urban municipalities*****. However, many urban residents lack access to the basic urban amenities promised by the Act. Many of the existing local governments are facing several challenges (e.g., inadequate capacity for planning, staffing, implementing developmental works, etc.). Experts of local governance claim that the existing number of local governments is too large and is unaffordable for Nepal.

Findings

Based on the analysis of the municipal merger process of Japan and Nepal, as well as other global trends, the following findings can be broadly outlined for Nepal's merger experience:

***** Now the name is Ministry of Federal Affairs and General Administration

***** A combination of VDCs. One Illaka normally has 3 to 5 VDCs. There were around 900 Illaka

***** National Population and Housing Census 2021, Nepal

Motive: The motive behind municipal mergers in Nepal is similar to the Great Meiji Consolidation of Japan. It was caused by the constitutional mandate to establish viable local governments aligned with federalism. However, unlike Japan, where serious agendas such as the aging population, declining birth rate, and financial crisis have been realized nationwide and these agendas are driving forces of municipal mergers, Nepal lacks strong incentives for municipal mergers. The recent municipal mergers in Nepal were successful primarily because they were mandated by law.

Strategy: The merger process in Nepal was a one-time, top-down event where the central government acted as the regulator, with the Local Level Restructuring Commission (LLRC) proposing mergers based on government mandates, and district-level technical committees facilitating the process at the local level. In contrast, in Japan, the consolidation was voluntarily decided by local authorities, with the central government playing a proactive role through legal amendments, fiscal incentives, and campaigns.

Effects: The merger reform substantially reduced the number of local governments, but the process had several limitations, including a short timeframe, insufficient disaggregated data, and political bias favoring more local governments. Experts argue that the existing number of local governments is too large and financially unsustainable for Nepal.

Conclusion and Recommendation

Municipal mergers involve reducing the number of municipalities by combining two or more municipalities. This approach is widely practiced across the world as a tool for local governance reform. Mergers are carried out for various purposes, such as improving efficiency, fiscal outcomes, urban governance, decentralization, and development. While results differ across countries, certain trends are clear: cost savings are primarily noted in general administrative expenses, yet service quality improvements are minimal. Additionally, several countries have reported negative impacts on local democracy. Japan's experience shows that local governance reform is not a one-time activity. Although municipal mergers have drawbacks, the potential advantages they offer can surpass the associated disadvantages. A series of reforms involving the collective effort of all tiers of government may be required to achieve the desired result.

Municipal mergers occurred in Nepal following the enactment of the new constitution in 2015. The motive was to establish viable local governments in the federal system by consolidating VDCs and municipalities. It happened in one shot in a short timeframe. The process was top-down. This led to a significant decrease in the number of local governments. However, a political bias was observed in determining the number and boundaries of the local governments. In this regard, the following recommendations can be made:

- Local governance reform is not a one-time activity. Nepal should periodically plan and implement municipal mergers as necessary to improve the local governance system.
- Article 7 of the Local Government Operation Act, 2017, provides the option for existing rural/urban municipalities to merge with their neighboring municipalities. The process is a voluntary bottom-up approach. Article 3 also provides a legal foundation to change the number, boundaries, and headquarters of the existing local government through a bottom-up approach. Rural and urban municipalities have political value in Nepal. Thus, municipal

mergers are highly political affairs. Without strong political will and broad consensus among stakeholders, amalgamation initiatives will hardly be successful. In this case, the voluntary merger can be promoted by strengthening trust and cooperation among all tiers of government. Like Japan, the constitution of Nepal has envisioned a fiscal equalization system, and the National Natural Resource and Fiscal Commission (NNRFC) has been established to enforce this system. This institution can play a key role in promoting municipal mergers through fiscal incentives.

- Municipal merger alone may not be successful in making the local government system function. Municipal mergers should be supplemented by other alternative measures as well.

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