

Prospect and Challenges of Federal Government in Nepaldoi: <https://doi.org/10.3126/skmj.v4i1.90300>**Chhavilal Devkota¹**
Tika Bahadur Thakuri^{2*}**Abstract**

The study discusses the opportunities and challenges of the federal governance in Nepal in the local level following the 2015 Constitution adoption. The paper is based on the theory of cooperative federalism and decentralization and the case study approach of the study pertains to the Dhankuta Municipality area using the qualitative method. The primary data was gathered in the form of semi-structured in-depth interviews with elected officials, administrative employees, and service providers and supplemented by field observations. The result shows that federal restructuring has enhanced accessibility of services, responsiveness of the locality, participatory planning, social inclusion, and grassroots resolution of conflicts. These positive effects are, however, limited by ambiguity in the law and policy, fiscal dependency, poor intergovernmental coordination and lack of human and technical capacity locally. This paper concludes that the institutional form of the federalism of Nepal is still transitional, and its effective consolidation further needs a better legal enforcement, economic separation, capacity building, and enhanced collaboration systems among various levels of government

Keywords: *Federalism, local government, federal governance, decentralization, Constitution*

Introduction

Federalism is the compound or mixed form of government, which is characterized by both the general (central or the federal) government and the regional governments (provincial, state, cantonal, territorial or any other sub-unit governments) within a political system (Kharel, 2022). Federalism refers to a regime where sovereignty and power are shared and split constitutionally between a central government and self-governing subnational units, balancing

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the power of self-rule and the power of shared rule and guarantees constitutionally guaranteed powers of every level of government (Fenna & Schnabel, 2024; Kong, 2025). Federalism, in contrast to mere decentralization, incorporates systems to cooperate with governments and joint leadership, which is a unique type of multilevel constitutional order (Kong, 2025).

The general conceptualization of decentralization on the international level is the strategic devolution of the political, administrative, and fiscal power to subnational levels to enhance the accountability, responsiveness, and participation of citizens (Rondinelli, 1981; Faguet, 2014; Smoke, 2015). In line with this, the theory of cooperative federalism focuses on the interrelationships between various levels of government, and that optimal governance depends on coordination, joint power and institutional co-operation instead of strict separation of power (Elazar, 1987; Watts, 2008; Burgess, 2006). Empirical research in different federations has shown that despite the fact that decentralization and cooperative governance may help to increase policy coherence and service delivery, it depends on institutional capacity, fiscal autonomy and clearly defined mandates (Watts, 2008; Faguet, 2012).

The 2015 Constitution in Nepal was the first change since unitary one in that the system became a three-tier federal one aimed at accommodating diversity, improving local governance as well as service delivery (Pokharel, 2026; Ghimire, 2023). This transition has been recorded by Nepalese scholars as having both opportunities and challenges. According to Ghimire (2023), past experiences of decentralization shaped the restructuring process, and according to Acharya and Zafarullah (2025), there exist underlying gaps in the intergovernmental coordination through unclear jurisdictional mandates, fiscal disparities and inadequate dispute resolution mechanisms. Fiscal federalism research also suggests that the mobilization of local revenues and the allocation of resources are still limited, which restricts the real subnational autonomy (Shah, 2023; Dhungana & Acharya, 2021). The studies of local governance in times of crisis, including coronavirus responses, show that decentralized governance can be effectively used to have a local response but it needs to be accompanied by sufficient resources and technical capacity (Pokharel et al., 2023).

Combined, the international theory and empirical studies of Nepal demonstrate that the prospects of inclusive, responsive, and participatory governance are high through federalism and decentralization, but their implementation requires strong institutional frameworks, mandates, and cooperation between governments (Jero, 2025; Kharel, 2022). In this research, the researcher places itself in this expanding body of literature by exploring the dynamics of cooperative federalism and decentralization in the context of local governance in Nepal and uses a qualitative case study design to predict the experiences of the local actors and the realities of implementing this policy.

Nevertheless, the local authorities in Nepal continue to be affected by the administrative and capacity problem in the realization of everyday governance functions and development despite the constitutional assurance of federalism because of the lack of clarity in the mandate, institutional weakness, and fiscal reliance of the local authorities that hamper the smooth running of the services and the local governance performance (Acharya & Zafarullah, 2025; Dhungana & Acharya, 2021; Pokharel, 2026). Such difficulties are especially noticeable in the ward and municipal offices, where the officers are not able to enforce the Local Governance Act, 2072, and the local stakeholders face the opportunity to and challenges to develop initiatives (Chaudhary, 2019; Pokharel et al., 2023). The research question of this paper is thus as follows: How do the newly established federal system of governance in Nepal seem and how do local authorities and stakeholders respond to the opportunities and challenges that have arisen? The broad research objective is to analyze the opportunities and challenges faced by local authorities and local stakeholders in the context of the Nepalese system of federal governance, but the specific objective is to establish the issues of major administrative and operation challenges in the context of implementing federal mandate and services of local governments. The analysis of these dimensions allows the research to be placed in the larger context of the discussion of the cooperative federalism and decentralization, and the program of constitutional reform as it applies to the local government.

Federalism is a constitutional system, which shares power between the central and the subnational government to strike a balance between national integrity and regional autonomy and democratic involvement (Elazar, 1987; Watts, 2008). Classical scholarship ideally understands the federal systems as a spectrum between dual federalism, which involves well-defined boundaries to the powers, and cooperative federalism, which involves common responsibility necessitating one that is always inter-governmentally coordinated (Burgess, 2006; Painter, 2010). Comparative studies underline that sustainable federal governs require clear constitutional capabilities, financial independence and formalized systems of intergovernmental collaboration to avoid over-centralization and a fragmentation of governance (Rodden, 2004; Watts, 2008). Nonetheless, challenges like policy inconsistency, fiscal disparities and coordination failures also can be generated by federal systems especially in developing countries that have low administrative capacity (Rodden, 2004).

In terms of Nepal, empirical studies have shown that the federalism implementation via the 2015 Constitution was to devolve power and strengthen local government, but there are still problems to implement it. Adhikari (2023) concludes that despite the fact that federalism allowed better opportunities to achieve the local autonomy and involvement, the poor institutional structure and financial dependence limits effective governance. The qualitative data of the Karnali Province shows that the community has little participation, lack of financial

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autonomy, and limited local-level policy innovation (Ayadi, 2025). Research on intergovernmental relations also shows that there are always ambiguities in devolution of power, fiscal imbalance, and poor coordination between the federal, provincial, and local governments (Acharya & Zafarullah, 2025). Based on the evidences of fiscal federalism studies, it is revealed that the local governments are slowly institutionalizing the revenue mechanisms, but their technical capacity and legal clarity is constrained to offer autonomous service delivery (Dhungana & Acharya, 2021). Also, the studies of decentralized responses to the Covid-19 pandemic show that the local governments have been instrumental in treating the crisis, but revealed small gaps in human resources, infrastructure, and financial sustainability (Pokharel et al., 2023). Put together, the literature indicates that the federal transition of Nepal needs more than constitutional commitment; it needs long-term investment in institutional capacity, financial reforms and proper coordination of the intergovernmental level.

Although a lot of literature has been written about the concept of federalism in Nepal, the literature is largely based on constitutional design and institutional arrangements at the macro-level and very little has been done to involve the local-level application and daily practices of governance. Furthermore, scarcity of studies utilizing qualitative case-based methods to elicit the lived experiences of the local officials and service providers in the early stages of federal transition. Filling this gap, the current research provides context-related evidence that can be used in the policy development, capacity-building policies and successful operationalization of federalism on the local level.

Theoretical Framework

This paper theoretically bases on the Cooperative Federalism Theory and Decentralization Theory to explain the Nepal federal transition and local governance processes. Cooperative federalism is another approach to governance which sees governance as a process of shared power and mutual interaction among levels of government and not as a rigid division of jurisdiction, which is supported in the comparative federalism literature that focuses more on intergovernmental coordination and shared rule in federations (Elazar, 1987; Watts, 1999; Burgess, 2006) and as evident in the qualitative analysis of coordination in the multi-tier system of Nepal. Decentralization theory suggests that the responsiveness, participation and service delivery of political, administrative and fiscal powers to subnational governments is made more transparent, serviceable and responsive through devolution while facets of the implementation, including capacity and financial dependency, are unveiled, thus necessitating the application of purposive sampling, in depth interviews and thematic analysis to unravel the lived experiences of the local actors in the federal government (Rondinelli, 1981; Faguet, 2014; Smoke, 2015).

Methodology

It was based on qualitative case study design; the study aimed to address the opportunities and issues of federal government at the local level in Nepal, using Dhankuta Municipality as the case study because it has extensive information. The qualitative case study research is suitable to investigate complex social and institutional phenomena in the context of their real-life (Creswell & Poth, 2018; Yin, 2018). The information was gathered in 2019 at the MSW Field Camp (4th Batch). To include eleven respondents as elected officials, administrative staff, and service providers in their sample, a purposive sampling methodology was used because the representatives had to be individuals with direct experience with local governance and federal implementation (Palinkas et al., 2015). The primary data was collected by use of semi-structured in-depth interviews with the respondents taking about 50-75 minutes and this was supplemented with field observations and analysis of related local documents. High ethical principles were observed: the participants received information about the aim of the study, informed consent was received verbally, participation was voluntary, and confidentiality and anonymity were ensured by using the role-based identifiers (Orb et al., 2001). These data were interpreted by thematic analysis method which included systematic coding, classification, and interpretation of repetitive patterns in regard to the issues of governance, service delivery, fiscal management and challenges in institutions (Braun & Clarke, 2006).

Findings and Discussion

Thematic analysis of eleven in depth case studies of ward chairpersons, ward officials, municipal executives, health personnel and social mobilizers revealed seven overwhelming and interconnected themes that captured the lived realities of federal governance at local level in Nepal.

Local Service Accessibility and Responsiveness.

Reducing the administrative distance and enhancing responsiveness is one of the main goals of federalism, which aims at taking the government closer to the citizens. An improved access to local public services promotes state legitimacy and trust to the citizen in the institutions of governance. The post-federal situation in Nepal has taken service delivery at the ward and municipal level as one of the primary measures of whether constitutional restructuring has been translated into tangible benefits.

Some of the respondents underscored that the accessibility of services has greatly increased with the advent of federal governance. Dhana Kumar Rai (Ward Chairman, Case 1) stated that, 36 varieties of recommendation and approval could be made at local ward offices, so that citizens could complete administrative processes at local offices instead of visiting district headquarters. The same was observed by Chandra Kala Pandey (Ward Officer, Case 2) who

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added that approval of applicants is being relaxed as long time applicants are being identified which eliminates delays and complexity in procedures. According to Jamsheer Rai (Ward Spokesperson, Case 6), it took a little time to become provisioned with the services after the local government became operational, and Meena Shrestha (Social Mobilizer, Case 9) only said that people now directly went to the ward office even with minor legal and social problems rather than going to government offices. The case-study document also documents that, rights of Singha Durbar can be acquired in local level through the citizens and this is a sign of symbolic and functional proximity of governance.

All of these accounts imply that the decentralization of the administration has played a significant part in enhancing the responsiveness and accessibility of the services. The daily availability of ward offices has made the involvement of the citizens with the state normal. Nevertheless, the respondents also reported service delays that need to be coordinated with provincial or federal authorities, which shows that administrative decentralization is robust, but intergovernmental functional coordination is disproportionate.

Social Context-Need Based Local Development Planning

The theory of decentralization highlights the fact that local governments are in better positions of identifying the local needs and hence should develop them first. Context-sensitive planning improves efficiency, relevance and ownership of development efforts by the community. The issue of local discretion is especially vital in Nepal due to the diverse socio-geographic situation of the country that has led to inconsequential developmental results.

The move towards need based planning has been emphasized by the respondents throughout. Suman Rai, Ward Head (Case 3) said that there is power at local level to split budget as per location need at local level, which is a break with the centrally imposed form of development. According to Jamsheer Rai (Case 6), developmental projects have been operating under the basis of need-based prioritization especially in the development of infrastructure and social services. Shakuntala Basnet (Deputy Mayor Case 5) stated that the needs of the society may be known and the needed procedure may be made possible by the help of the municipal council. To back this, the case-study document states that the primary activity that is carried out at the local level is the development and construction of roads and that religious places are being rebuilt with the objective of developing it as a tourist destination.

These statistics point to a definite shift toward the top-down planning to the local decision-making. Nevertheless, the preeminence of infrastructure projects and particularly roads implies that the priorities of development are influenced by the political visibility and electoral motivation. This brings up issues concerning the long term equilibrium between the physical and human development sectors including education and health.

Legal and Policy Uncertainties in Federal Implementation

Federal systems also need clear legal frameworks and the clarity of roles played by institutions to ensure effective operation. Failure to have clarity of laws, regulations, and jurisdictions may slow down the implementation process and undermine the authority of the institutions. In the case of local governments, this comes at the cost of the limitation of the exercise of powers granted to them by the constitution.

The confusion often was reported by the respondents because of the delays in or incompleteness of legal frameworks. According to Shakuntala Basnet (Case 5), she said that only rights given to municipality levels were in the paper because the relevant laws were not made on time. Suman Rai (Case 3) noted that, provincial government and central government had been created later on creating coordination issues because initially, local level was established. In Case 2, Chandra Kala Pandey, said that the multiple laws and policies were destroyed and still unknown after being amended in the constitution policy. The case-study document also reports that provincial government was unable to finalize capital city and name of province and this is indicative of institutional instability on a broader scale.

Such stories indicate that there is a structural incompatibility between the design of the constitutions and the preparedness to operate. Lack of autonomy over jurisdiction and slow legislation tie up local authorities and create reliance on upper levels. Consequently, federalism has become institutionally incomplete on the local level.

Revenue-Sharing Constraints and Financial Dependency

Proper decentralization and local accountability is based on fiscal autonomy. The local governments cannot control proper financial resources, thus they may not be able to put the plans into practice and satisfy the citizens. The revenue-sharing agreements are thus a direct determinant of the sustainability of the federal governance.

The first thing that respondents pointed out was ongoing fiscal dependency in the wake of a greater responsibility. In case 1, Dhana Kumar Rai clarified that, local government ought to collect taxes on behalf of provinces and central government, which are frequently not proportional. According to Shakuntala Basnet (Case 5), local government can only utilize 4 percent of the revenue but must remit 96 percent as there should be 4 percent to provincial and central government. Chandra Kala Pandey (Case 2) observed that the citizens are concerned that they have to pay new integrated tax system and Kamal Thapa (Revenue Officer, Case 7) said that people are wondering why taxes go up yet the local services are not being provided. The case-study document further mentions that there have been social issues being created because of making investment in tax and citizens are not paying tax on time.

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This is because these findings provide an unbalanced fiscal responsibility and fiscal authority. Local governments are also revenue collectors and not independent fiscal actors that undermine downwards accountability. This addition is a blow against the hope of decentralization and serves as a source of dissatisfaction among the citizens.

Social Inclusion and Local Conflict Resolution

Federalism has been commonly defended as a process to make communities more inclusive and giving power to marginalized groups. Local governments are very important in resolving the daily conflicts and enhancing social justice. The informal dispute resolution systems should be capable of enhancing the social cohesion and diminishing the strain on formal court systems.

Respondents have highlighted the increasing contribution of ward offices towards social mediation and inclusion. Chandra Kala Pandey (Case 2) told that mutual understanding is solving general household problems and fights with the help of ward office (Milapatra). Shakuntala Basnet (Case 5) said that women participation and leadership increased and valuing was boosted after the federal restructuring. According to Jamsheer Rai (Case 6), there was the distribution of two lakhs rupees amongst women, Dalits, Janajati and other backwards community. Laxmi BK (Dalit Women Representative, Case 11) gave an additional comment that the office of the ward listens to our problems more than ever and asks to discuss them. In the document, it is also reported that, social mobilizers have solved general social issues under social justice council of every municipality.

These results indicate that decentralization has brought about inclusion and localization of conflict resolution. Nonetheless, sustainability requires regular funding, institutionalization and political determination.

Limitation of Human Resource and Technical Capacity

Decentralization involves institutional capacity which is important in converting the same into good governance. Service delivery requires adequate staffing, technical skills and training. The effectiveness of the federal restructuring may be weakened by capacity gaps.

The human resource constraints were noted among the respondents in different cases. Roshan Katuwal (Health Assistant, Case 4) observed that there is the inadequacy of human resources in health services. Shakuntala Basnet (Case 5) said that there was an issue in Karmachari Samayojan that caused misunderstanding in the role of staff members. Kamal Thapa (Case 7) explained that tax portal system through the online system is not effective because there is lack of skilled manpower. Meena Shrestha (Case 9) also mentioned that staffs are

underworked and overworked with no proper training. Unplanned human resource management policy on local level is also reported in the case-study document.

These capacity shortages have a strong impact on limiting services delivery and administration efficiency. Unless paralleled investment in human resource is made, decentralization warrants being not more than a symbolic move.

Optimism on the Sustainability of Federalism

Long-term institutional legitimacy is formed under the influence of perceptions on sustainability. The current research on the perception of the future of federalism by the local actors can shed light on its consolidation. Adaptive learning is manifested in optimism put into reality.

Nonetheless, the respondents had high normative support on federalism. Suman Rai (Case 3) wrote that the best practice in the world is federalism and it must be sustainable in Nepal, whereas it will take time to implement it correctly. According to Shakuntala Basnet (Case 5), she stated that they should create economic independence in every local level because it was effective. According to Jamsheer Rai (Case 6), economic activities and HDI ought to be enhanced in order to be sustainable. Ramesh Adhikari (Case 10) even said that federalism must be institutionalized and legally developed. These reactions represent a restrained optimism, and they view federalism as a long-term initiative, which relies on the fiscal reform, legal clarity, and capacity development.

Finally, the study reveals that the federal governance in Nepal has increased the access, participation, and problem solving at the local levels though limited by the fiscal dependency, legal ambiguity, and lack of capacity. The opportunity and limitation co-exist in conflict with the transitional character of the Nepal federal system and the necessity of consolidation of institutional structures in the long run.

Discussion

This paper explored the possibilities and problems of federal government on the local level in Nepal by qualitative case studies of the ward-level and municipal level actors. The results indicate an intricate and transitional scenario where federal restructuring has provided worthwhile service, participation and local problem-solving, even as it has revealed institutional, fiscal as well as capacity-related limitations. This section addresses these findings relative to the current literature and theoretical framework of the study which is Cooperative Federalism and Decentralization Theory.

Among the greatest discoveries in this research is that the local government services have become more accessible and responsive after adoption of federalism. As respondents noted,

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ward offices have always been a major source of contact between citizens and the state, which decreases the distance between administration and the delays in the process. This observation is very consistent with the literature of decentralization that states that the decentralization of authority to local governments boosts responsiveness and service provision because of proximity and local knowledge (Rondinelli, 1981; Faguet, 2014). In Nepal, empirical research also reports that the outreach of services and participation of citizens by the local governments have improved with the federal restructuring (Chaudhary, 2019; Pokharel et al., 2023). Nevertheless, this discrepancy in responsiveness of services that necessitate coordination with provincial or federal services depicts shortcomings of intergovernmental collaboration, similar to the apprehensions by Acharya and Zafarullah (2025) about the poor institutionalization of the cooperative systems within the federal system in Nepal.

The results associated with the need-based and context-sensitive local development planning also attest to the main assumption of the decentralization theory, which states that the local governments are in a better situation to establish priorities in communities. The respondents pointed out a greater level of discretion in budgetary allocation and choice of projects especially in the infrastructure and local economic development. This is consistent with the evidence on the international level according to which decentralization enhances allocative efficiency when the local governments have a significant decision-making power (Faguet, 2014; Smoke, 2015). Nepalese researchers have also remarked on a change of centrally imposed development agendas into a locally led development planning (Dhungana & Acharya, 2021). Nonetheless, the preeminence of infrastructure schemes, particularly roads, is an indicator that political interests and electorate popularity still determine development decisions. The observation aligns with the literature review, which points out that decentralization will tend to replicate elite-driven priorities in the event of weak accountability mechanisms (Smoke, 2015).

The fact that there was a lot of ambiguity in legal and policy terms was found to be a big limitation towards the proper operation of the local functioning of federalism. The respondents cited slow laws, inconsistent mandates, and duplication of jurisdictions, which constrained their powers as stipulated by the constitution. According to cooperative federalism, this indicates failure to use shared-rule arrangements because effective collaboration means that roles are well-defined, there is legal clarity, and institutionalized coordination (Elazar, 1987; Watts, 2008). The same gaps in implementation have been reported in Nepal, where the constitutional provisions had been implemented faster than the legislative and administrative readiness (Acharya, 2018; Dhungana & Acharya, 2021). The results therefore support the argument that federalism is not an isolated constitutional design alone but a continuous

institutional process that needs legal and administrative unity which must be consolidated on a long term basis.

Another problematic issue that has been determined in this research is fiscal dependency and revenue-sharing restrictions. Local governments have few options to control locally generated revenue despite increased duties and continue to be extremely reliant on provincial and federal government transfers. This observation is a direct indication of the fact that administrative devolution lacks fiscal independence, which is a warning of the decentralization theory that administrative devolution compromises accountability and effectiveness (Rondinelli, 1981; Smoke, 2015). The tons of Nepalese literature have continued to emphasize the lack of balance between spending obligations and generating revenue at the local level (Acharya & Zafarullah, 2025; Dhungana & Acharya, 2021). Within the context of cooperative federalism, this imbalance impounds to suggest a hierarchical, as opposed to cooperative fiscal relationship between the levels of federalism, which is against the ideal of negotiated interdependence as highlighted by Watts (2008). The local legitimacy and trust are further undermined by the taxation dissatisfaction expressed by citizens as reported by respondents.

The paper also reveals that federalism has increased the avenues of social inclusion and local settlement of conflicts. Ward offices have been playing a greater role as a convenient service to arbitrate on household conflicts, to encourage women involvement, and in assisting marginalized communities. The study results are consistent with the literature on decentralization that highlights the idea of democratic deepening and participatory governance as the main effects of local self-rule (Faguet, 2014). Situation-specific studies also report that local governments have emerged as significant arenas of inclusion and social justice interventions, especially to women and other disadvantaged groups (Chaudhary, 2019). These practices are functional complements of local initiatives and national inclusion agendas according to the views of cooperative federalism. Nevertheless, the fact that respondents put an emphasis on the funding limitation implies that such benefits are vulnerable in the absence of long-term financial and institutional backing.

The nature of the federal governance on the local level is greatly hampered by human resource and technical capacity constraints. According to the respondents, there was shortage of staff, mismatch in individual skills and absence of proper management of personnel adjustment procedure (*Karmachari Samayojan*) that compromised the means of service delivery and efficiency of administration. This observation is in line with larger literature in the field of decentralization, which warns against relocating power without also investing in institutional capacity, which contributes to the failure of the implementation (Smoke, 2015). The Nepal-based studies have also found the capacity deficit as a significant bottleneck when implementing the federal activities, especially in technical activities like health, taxation, and administration (Pokharel et al., 2023). The lack of coordination in human resource

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management is a sign of weak coordination between the federal and state governments based on the cooperative form of federalism.

Nevertheless, the research revealed that there was strong normative support of federalism among local actors with a reserved and conditional optimism towards the sustainability of the same. The respondents brought about federalism as a long term initiative that must take time, institutional learning and systematic reform. This is consistent with the literature of comparative federalism that portrays that a federal system tends to experience a period of constant consolidation after which it will stabilize (Elazar, 1987; Burgess, 2006). Nepalese scholars also suggest that the concept of federalism in Nepal needs to be perceived as a continuous process instead of a reform that has been achieved (Acharya & Zafarullah, 2025). The results indicate that the optimism of the local actors depends on whether the fiscal autonomy, clarity of the laws, and capacity building conditions, which are key to both the decentralization and cooperative federalism theories are improved.

In general, this work is also a contribution to the literature as it shows that the federal governance of Nepal is partial decentralization ingrained in the under-institutionalized system of cooperative federalism. Although there are positive changes in administrative proximity, participation and localized problem-solving, structural constraints remain to be barriers to effective implementation. These results indicate that the time has come to go beyond constitutional reform to entrenched intergovernmental relations, restructuring of the fiscal and capacity building to achieve the transformative potential of federalism in Nepal.

Conclusion

This paper has critically analyzed the opportunities and constraints of federal government in Nepal in the local level based on case study in wards and municipal level institutions. The results suggest that federal restructuring has heavily reorganized the relations between the state and the society by increasing the proximity of administration, access to the state services, as well as spaces of participation of the local and mediation of the social. In this regard, this research gives empirical evidence to the claim of the decentralization theory that the devolved governance formats can enhance the responsiveness and contextualize of the service provision.

Nevertheless, the review also indicates that federalism is still limited by the structural and institutional constraints that are still present. The lack of consistency in legal and policy loopholes, sluggish legislative regulations, and lack of clarity in the allocation of powers remain as the vices that undermine the ability of local governments to exercise the constitutionally assigned authorities. Fiscal dependency also hinders proper decentralization because local governments have very little control over revenue and spending yet they have more administrative roles. These limitations destroy bottom-up responsibility and limit the

transformative capacity of federal rule on the bottom. Further lack of human resource capacity, technical knowledge and coordinated personnel management are other factors that hamper the efficiency of administration and quality of service.

Besides, the results indicate that the federal system in Nepal is still a partial fusion of decentralization and cooperative federalism. Although there has been an improvement in administrative and political decentralization, cooperative intergovernmental processes especially in fiscal management, legislative coordination and capacity development are still immature. Federalism is therefore a half-baked institutional provision, rather than a complete system of governance.

Nonetheless, the study also shows that there is a high normative commitment of the federalism among local actors who also view it as a legitimate and necessary framework of inclusive and responsive governance. This relative optimism is important to emphasize the fact that federalism in Nepal must be perceived more as a developing process than as an institutional solution. The attainment of unity of the federal governance would then need a long term endeavor to enhance the legal clarity, financial independence, institutional aptitude, and intergovernmental coordination. The need to address these dimensions must be seen as part of realizing that federalism fulfills its constitutional promise as well as helps to achieve sustainable, effective, and inclusive, the local government in Nepal.

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