

## Federalism in Nepal: Cultural Transformation, Governance Challenges, and Opportunities for Inclusive Development<sup>1</sup>

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Arjun Dhooj Aryal<sup>2</sup>

### Abstract

Federalism in Nepal represents one of the most significant political transformations in the nation's modern history. Adopted formally with the promulgation of the 2015 Constitution, federalism was envisioned as a mechanism to decentralize power, promote inclusion, and address long-standing inequalities rooted in geography, ethnicity, and governance. This paper critically examines the cultural, political, and economic dimensions of Nepal's federal experiment. Drawing on theoretical perspectives of federalism and empirical evidence from Nepal's socio-political context, the study highlights challenges such as duplication of bureaucratic structures, fiscal burdens, weak institutional capacity, and rising provincial sentiments that sometimes undermine national unity. It also explores cultural processes such as Nepalization, Sanskritization, and migration, which have shaped national identity and influenced federal restructuring. Using a qualitative methodology based on secondary literature, constitutional provisions, and audit reports, the paper identifies gaps between federal ideals and practice. Findings suggest that while federalism offers opportunities for grassroots democracy, fiscal autonomy, and social inclusion, it also risks exacerbating ethnic divisions and administrative inefficiencies if not carefully managed. The study concludes that Nepal's federalism must be tailored to its unique diversity, emphasizing cooperation, fiscal discipline, and cultural integration. Recommendations include strengthening intergovernmental coordination, enhancing administrative capacity, and fostering a shared national identity rooted in pluralism. Ultimately, federalism in Nepal represents both a challenge and an opportunity: its success depends on strategic reforms and the commitment of political actors to unity and inclusive development.

**Keywords:** Decentralization, ethnic diversity, federalism, governance, inclusion, Nepalization

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<sup>2</sup>Central Department of Political Science, Tribhuvan University

Email: [arjun.aryal@cdps.tu.edu.np](mailto:arjun.aryal@cdps.tu.edu.np)

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## **Introduction**

Federalism has long been debated as a governance model that balances unity with diversity. Scholars such as Riker (1964) and Elazar (1987) argue that federalism is a constitutional arrangement where sovereignty is shared between central and subnational units, enabling both autonomy and cooperation. In practice, federalism has been adopted in diverse contexts—from the United States to Switzerland—each adapting the model to its own historical and cultural realities.

Nepal's adoption of federalism in 2015 was a landmark shift from a unitary monarchy to a federal democratic republic. The move was driven by decades of centralized governance, ethnic marginalization, and uneven development (Sharma, 2019). The ten years long Maoist war and subsequent Madhes movements amplified demands for decentralization, ultimately embedding federalism in the new constitution (Adhikari, 2020). Federalism was expected to deliver inclusive governance, equitable resource distribution, and grassroots democracy (Basnet, 2017).

Yet, federalism in Nepal has faced significant challenges. Audit reports highlight corruption and weak financial discipline at local levels (Office of the Auditor General, 2021). Provincial governments sometimes act in ways that undermine national unity, while duplication of bureaucratic structures has increased administrative burdens (Gyawali, 2018). These realities raise critical questions about whether federalism can achieve its intended goals in Nepal's unique socio-cultural context.

This paper examines Nepal's federalism through cultural, political, and economic lenses. It situates Nepal's experience within global debates, comparing lessons from India, Ethiopia, Switzerland, and the United States. By integrating theoretical foundations with empirical realities, this study seeks to provide a holistic understanding of Nepal's federal journey.

## **Statement of the Problem**

Despite the constitutional promises institutionalized in the 2015 Constitution, Nepal's federalism continues to face significant hurdles that undermine its effectiveness and legitimacy. Administrative duplication across federal, provincial, and local levels has created inefficiencies, while fiscal burdens and weak accountability mechanisms have strained the capacity of institutions to deliver services equitably. Citizens increasingly express dissatisfaction with service delivery, and audit reports consistently highlight corruption, irregularities, and financial mismanagement at local levels, raising concerns about the credibility of the system. Federalism was envisioned as a framework to foster unity through diversity, yet provincial governments have at

times acted in ways that challenge national cohesion, with ethnic demands such as the Madhesi slogan of “One Madhes, One Pradesh” underscoring the tensions between identity-based autonomy and broader national integration. Globally, federalism has struggled to resolve ethnic conflicts, as evidenced by cases in Sudan, Ethiopia, Yugoslavia, and Nigeria, where federal autonomy exacerbated divisions rather than resolving them.

Nepal risks similar fragmentation if federalism is not carefully managed and adapted to its unique socio-political context. Against this backdrop, the study is guided by three central research questions: What cultural, political, and economic misunderstandings arise in Nepal’s federal system? Why do these misunderstandings persist across different levels of government? And how can Nepal’s federalism be restructured to minimize conflict and promote inclusion? To address these questions, the study pursues three objectives: to identify the misunderstandings inherent in Nepal’s federal system, to analyze the causes of governance and fiscal challenges, and to evaluate strategies for building an inclusive and sustainable federalism that strengthens both local empowerment and national unity.

### **Research Methodology**

This study investigates the challenges facing Nepal’s federal system amid ongoing socio-political transformations, with particular emphasis on the practical and structural difficulties encountered during its implementation. Rooted in Nepalese socialism and democratic values, the research aims to provide a grounded understanding of federalism’s impact on governance, development, and inclusion at the grassroots level. To achieve this, the study adopts a descriptive and qualitative research design, combining both doctrinal and non-doctrinal approaches. The doctrinal method is employed to analyze constitutional texts, federal laws, policy documents, and relevant academic literature, while the non-doctrinal aspect interprets qualitative data related to governance, decentralization, and local socio-economic development under Nepal’s federal system. A purposive sampling technique guides the selection of the most relevant documents, reports, and studies aligned with the research objectives, ensuring that sources are credible, reliable, and representative of diverse administrative experiences.

This study relies exclusively on secondary data, the primary data collection tool is document review. Sources include constitutional provisions, federal acts, government reports, academic books and journal articles, organizational publications, and press releases, supplemented by reputable news articles and information from credible websites.

## Literature Review

### Theoretical Foundations of Federalism

Federalism has been conceptualized as a constitutional arrangement where sovereignty is shared between central and subnational units (Riker, 1964). Elazar (1987) emphasizes that federalism is not merely a legal construct but a covenantal relationship, balancing unity and diversity. Lijphart (1999) situates federalism within the broader framework of consociational democracy, where power-sharing mechanisms are designed to mitigate ethnic and cultural tensions.

Scholars distinguish between three types of federalism: coming-together federalism, where independent states unite for collective strength (e.g., USA, Switzerland); holding-together federalism, where a unitary state devolves power to manage diversity (e.g., India, Nepal); and putting-together federalism, where federalism is imposed by central authority. The concept of *putting-together federalism* was defined by Alfred Stepan (1999) in his work on comparative federalism. Stepan distinguished between *coming-together*, *holding-together*, and *putting-together* federalism. In his framework, *putting-together federalism* refers to federal systems imposed by authoritarian regimes, often without democratic consent, such as the former Soviet Union. Nepal's federalism aligns with the *holding-together* model, designed to accommodate ethnic and regional demands while preserving national unity.

### Federalism and Ethnic Diversity

Federalism is often adopted in multi-ethnic societies to manage diversity. However, its success varies. In India, linguistic reorganization of states in 1956 stabilized the federation by recognizing cultural identities while maintaining a strong center (Austin, 1999). Ethiopia's ethnic federalism, by contrast, institutionalized secession rights (Article 39 of the Ethiopian Constitution), which has fueled separatist conflicts (Aalen, 2002). Switzerland demonstrates a successful model of managing linguistic and cultural diversity through cantonal autonomy and consensus democracy (Steinberg, 1996).

Nepal's federalism is distinctive in that it integrates ethnic identity alongside territorial viability. The division of the country into seven provinces was determined not only by geography and resources but also by considerations of identity and capability (Sharma, 2019). However, this hybrid approach has generated tensions, as ethnic demands continue to shape federal discourse. For instance, the Madhesi slogan of "*One Madhes, One Pradesh*" underscores the risks of identity-based federalism,

where calls for autonomy are framed primarily around ethnic or regional identity rather than administrative efficiency (Hachhethu, 2007). Similarly, the recent demand by Rai and Limbu communities to rename Koshi Province reflects the persistence of identity-driven claims within Nepal's federal structure, highlighting how symbolic recognition of ethnicity remains central to debates over provincial boundaries and nomenclature (The Kathmandu Post, 2023). These developments illustrate that while federalism was intended to balance unity and diversity, identity-based demands continue to challenge the cohesion and stability of Nepal's federal experiment.

### **Fiscal Federalism**

Fiscal federalism is central to the functioning of federal systems, as it determines how resources are mobilized, distributed, and utilized across different tiers of government. Oates (1999) argues that decentralization enhances efficiency by tailoring policies to local preferences, thereby allowing governments to respond more effectively to the needs of citizens. However, fiscal autonomy can also exacerbate inequalities if resource distribution is uneven or if local governments lack the capacity to manage funds responsibly. In Nepal, audit reports highlight weak financial discipline at local levels, with irregularities in procurement, misuse of funds, and underutilization of budgets (Office of the Auditor General, 2021). Karnali Province, for instance, lags significantly in development indicators due to resource constraints, illustrating the challenges of equitable fiscal federalism in practice.

Devkota (2018) emphasizes that Nepal's federalism has struggled to establish a coherent fiscal framework, as the transition from a unitary to a federal system was rapid and lacked adequate preparation. He notes that while the Constitution provides for fiscal transfers and revenue-sharing mechanisms, the absence of clear guidelines and institutional capacity has led to confusion and disputes between federal, provincial, and local governments. Provinces often complain of diminished rights and insufficient fiscal space, while the federal government accuses local administrations of corruption and inefficiency. This tension reflects the broader challenge of balancing autonomy with accountability in Nepal's fiscal federalism.

Comparative experiences highlight similar complexities. India's Goods and Services Tax (GST) demonstrates the difficulties of coordinating fiscal policies between the center and states, often leading to disputes over revenue sharing (Rao, 2017). In the United States, federal grants frequently create tensions between federal and state priorities, as states seek greater autonomy in spending while the federal government imposes conditions (Peterson, 1995). Switzerland's fiscal equalization system, by

contrast, provides a model for balancing disparities across cantons, ensuring that poorer regions receive adequate support to deliver services (Frey & Eichenberger, 1999). For Nepal, adopting a more structured fiscal equalization mechanism, as suggested by Devkota, could help address regional disparities and strengthen the credibility of federalism.

### **Federalism and Governance**

Federalism is expected to enhance governance by bringing government closer to the people. Basnet (2017) argues that local governments in Nepal have the potential to improve service delivery and citizen participation. However, duplication of bureaucratic structures has undermined efficiency (Sharma, 2019).

Comparatively, India's Panchayati Raj system empowers rural communities, while Switzerland's communes exemplify effective local governance. Ethiopia's federalism, however, has struggled with overlapping jurisdictions and weak institutions.

While existing studies highlight governance and fiscal challenges, they often neglect cultural processes such as Nepalization and migration. This paper integrates cultural, political, and economic dimensions to provide a holistic analysis of Nepal's federalism.

### **Federalism in Nepal**

The evolution of federalism in Nepal is deeply intertwined with the country's political transformations, identity movements, and struggles for inclusion. Historically, Nepal functioned as a unitary monarchy following the unification under King Prithvi Narayan Shah in the late eighteenth century. For centuries, governance remained centralized, with Kathmandu serving as the locus of political and economic power (Hachhethu, 2009). Even after the fall of the Rana regime in 1951 and subsequent democratic experiments, the state retained a unitary character, marginalizing diverse ethnic and regional groups (Lawoti, 2010).

Federal discourse first emerged in the 1950s, particularly among Madheshi leaders who sought autonomy and recognition of regional identity. The Nepal Terai Congress, led by Bedananda Jha and Ramjanam Tiwari, articulated demands for federal restructuring, marking the earliest organized calls for decentralization (Yadav, 2011). During the democratic transition of the 1990s, these demands intensified as Janajatis, Dalits, and Madheshis pressed for greater inclusion in state structures (Lawoti & Hangen, 2013).

The turning point came with the People's Movement (Jana Andolan II) in 2006, which ended King Gyanendra's direct rule and paved the way for a republican order. The Interim Constitution of 2007 recognized Nepal as a federal democratic republic in principle, responding to the mobilization of marginalized groups and the Maoist insurgency's emphasis on restructuring the state (Hachhethu, 2009). On 28 May 2008, Nepal was formally declared a Federal Democratic Republic, abolishing the monarchy and institutionalizing federalism as a foundational principle (Yadav, 2011).

The promulgation of the Constitution of Nepal in 2015 marked the formal institutionalization of federalism. The constitution divided the country into seven provinces, 77 districts, and 753 local governments, establishing three tiers of government—federal, provincial, and local—with constitutionally guaranteed powers (Lawoti & Hangan, 2013). This restructuring aimed to address historical exclusion, regional inequality, and the failures of centralized governance. The first federal, provincial, and local elections in 2017 operationalized the system, creating functioning governments at all levels (Lawoti, 2010).

Despite these achievements, Nepal's federalism remains a work in progress. Challenges persist in resource distribution, intergovernmental coordination, and institutional capacity. Nonetheless, federalism represents a significant departure from centuries of centralized rule, embodying the aspirations of diverse communities for autonomy, inclusion, and equitable governance.

## **Discussion**

Federalism is widely recognized as a mechanism to foster peace, stability, and accommodation within nations characterized by concentrated differences in identity, ethnicity, religion, or language. Particularly in large or diverse countries, federalism can enhance service delivery, bolster democratic resilience, ensure decisions are made at appropriate levels, prevent the concentration of power and resources, and facilitate greater democratic participation (Bulmer, 2015). A federation constitutes a composite polity comprising constituent units and a central government, each endowed with powers delegated by the people through a constitution. These units are empowered to interact directly with citizens in significant legislative, administrative, and taxing matters, and their representatives are elected directly by the people (Watt, 1998).

As a normative concept, federalism encompasses a range of institutional arrangements, including unions, federacies, associated states, leagues, and cross-border functional authorities (Fessha, 2010). In the modern era, the U.S. Constitution of 1787 is regarded as the pioneering experiment in establishing a federal system of

governance, followed by similar systems in Switzerland, Canada, Australia, and India (Paleker, 2006). Interest in confederal forms of political organization has revived in recent years, with confederations distinct from federations by having shared-rule institutions dependent on constituent governments. These institutions are composed of delegates from constituent governments and thus have only an indirect electoral and fiscal base (Watt, 1998).

The executive-legislature relationship within shared institutions is a crucial variable affecting the balance and internal dynamics of federations. Various forms of this relationship—such as the separation of powers in the U.S. presidential-congressional structure, the fixed-term collegial executive in Switzerland, and the executive-legislative fusion with responsible parliamentary cabinets in several countries—have shaped politics, administration, intergovernmental relations, and cohesion or conflict within federations (Watt, 1998). Federalism ultimately aims to distribute power systematically within a comprehensive political system to preserve political integrity through negotiation and bargaining (Riker, 1964).

In Nepal, the space for federalism expanded after the Comprehensive Peace Accord in 2006, which sought to promote power-sharing, address ethnic and caste-based discrimination, integrate development programs, and boost local economic growth. The previous monarchical democracy had failed to facilitate meaningful participation in decision-making processes at various levels (Dhakal, 2013). Federalism was therefore seen as a means to systematically create opportunities, ensure access and inclusion for marginalized groups, guarantee citizens' rights and security, and efficiently manage human resources at all levels (Karki, 2014). However, challenges such as insufficient legislation, weak institutional frameworks, poor human resource management, and inadequate accounting, procurement, and revenue administration systems remain obstacles to the effective functioning of Nepal's federal system (Acharya, 2018).

Federalism in Nepal is a relatively new experiment, and its implementation has revealed a series of cultural, political, and economic misunderstandings. These misunderstandings persist across different levels of government and have complicated the realization of federalism's intended goals. To address the research questions, this discussion is organized into three parts: cultural misunderstandings, political misunderstandings, and economic misunderstandings. Each section explores why these issues persist and how Nepal's federalism can be restructured to minimize conflict and promote inclusion.

## Cultural Misunderstandings

One of the most pressing challenges in Nepal's federalism lies in the cultural domain. Federalism was introduced partly to accommodate ethnic and regional diversity, yet misunderstandings persist about how identity should be represented within the federal structure. Ethnic groups such as the Madhesi, Tharu, Limbu, Tamang, and others have historically demanded recognition through autonomous provinces (Hachhethu, 2007). The slogan "*One Madhes, One Pradesh*" epitomizes the tension between identity-based autonomy and national integration.

These cultural misunderstandings persist because federalism in Nepal was designed as a hybrid model—territorial divisions were based not only on geography and resources but also on identity (Sharma, 2019). This has created expectations among ethnic groups that federalism would deliver cultural autonomy, while the central government has emphasized national unity. The lack of consensus has led to disputes over provincial boundaries, nomenclature, and representation. For example, the renaming dispute in Koshi Province, where Rai and Limbu communities demanded recognition of their identity in the provincial name, illustrates how symbolic issues can escalate into political conflict (The Kathmandu Post, 2023).

Comparative experiences highlight the risks of identity-based federalism. Ethiopia institutionalized ethnic federalism by granting secession rights to its provinces, which has fueled separatist conflicts and civil war (Aalen, 2002). By contrast, India managed linguistic diversity through the States Reorganization Act of 1956, which reorganized provinces along linguistic lines but maintained a strong central authority (Austin, 1999). Switzerland provides another model, where cantonal autonomy accommodates linguistic and cultural diversity within a consensus-driven system (Steinberg, 1996). Nepal must learn from these cases: while recognition of diversity is essential, federalism must also foster a shared national identity.

In Nepal, cultural misunderstandings are further complicated by historical processes such as Nepalization and Sanskritization. These processes involved the assimilation of diverse ethnic groups into dominant hill Brahmin and Kshatriya cultures, often marginalizing indigenous languages and traditions (Gellner, 2007). Federalism was expected to reverse this marginalization by empowering ethnic groups, but the hybrid design has left many communities dissatisfied. The challenge, therefore, is to balance cultural recognition with national integration, ensuring that federalism does not become a vehicle for fragmentation.

## **Political Misunderstandings**

Political misunderstandings in Nepal's federalism stem from confusion over the distribution of powers and responsibilities among federal, provincial, and local governments. The Constitution assigns exclusive powers to the federal government in 35 matters, concurrent powers with provinces in 25 matters, and concurrent powers with provinces and local governments in 15 matters. Provinces have exclusive competencies in 21 matters. However, in practice, overlapping jurisdictions have created disputes.

For example, disagreements have emerged over the roles of Chief District Officers and the Nepal Police, with federal and provincial authorities contesting control. Political parties, meanwhile, have restructured their organizations to align with the federal framework, but party directives often override constitutional mandates. This has led to weak accountability, as leaders at all levels operate according to party interests rather than constitutional responsibilities (Sharma, 2019).

These misunderstandings persist because Nepal's federalism was introduced rapidly, without adequate preparation or capacity building. The Interim Constitution of 2007 and the 2015 Constitution provided the legal framework, but institutional mechanisms for coordination and dispute resolution remain weak. Intergovernmental councils exist, such as the Intergovernmental Finance Council and State Coordinating Council, but their effectiveness is limited (Devkota, 2018).

Comparative insights show that political misunderstandings are common in federal systems. In India, Article 356 allows the central government to intervene in state affairs, often leading to disputes (Austin, 1999). In the USA, tensions between federal and state governments have persisted since the Civil War, particularly over issues such as civil rights and healthcare (Peterson, 1995). Switzerland, however, demonstrates how strong intergovernmental coordination can mitigate misunderstandings, with cantons cooperating through established councils and mechanisms (Steinberg, 1996). Nepal must strengthen its intergovernmental institutions, clarify roles, and promote cooperative federalism.

Political misunderstandings in Nepal are also linked to weak institutional capacity. Provincial assemblies often lack experienced legislators, and local governments struggle with administrative expertise. This has led to delays in law-making and poor implementation of policies. Moreover, political parties dominate decision-making, often sidelining constitutional provisions. Without stronger institutions and clearer delineation of powers, political misunderstandings will continue to undermine federalism.

## **Economic Misunderstandings**

Economic misunderstandings in Nepal's federalism revolve around fiscal federalism, resource distribution, and expenditure management. Federalism was expected to promote equitable development by empowering local governments to mobilize resources. However, audit reports highlight weak financial discipline at local levels, with irregularities in procurement, misuse of funds, and corruption (Office of the Auditor General, 2021). Citizens express dissatisfaction with service delivery, as budget allocations often go underutilized.

These misunderstandings persist because fiscal autonomy has not been matched with administrative capacity. Less than 60 percent of required positions are filled, and as new positions are created, administrative expenses increase. Provinces complain of diminished rights, while the federal government accuses local administrations of corruption. This blame game reflects a lack of clarity in fiscal responsibilities and weak mechanisms for accountability (Devkota, 2018).

Comparative experiences illustrate the complexities of fiscal federalism. In India, disputes over the Goods and Services Tax (GST) highlight the challenges of coordinating fiscal policies between center and states (Rao, 2017). In the USA, federal grants often create tensions between federal and state priorities (Peterson, 1995). Switzerland's fiscal equalization system provides a model for balancing disparities across cantons (Frey & Eichenberger, 1999). Nepal must adopt similar mechanisms to ensure equitable resource distribution and strengthen fiscal discipline.

In Nepal, fiscal misunderstandings are exacerbated by regional disparities. Provinces such as Karnali lag behind in development indicators due to resource constraints, while provinces with better infrastructure and economic bases, such as Bagmati, draw more investment (Sharma, 2019). Without effective fiscal equalization, these disparities will widen, undermining the goals of federalism. Devkota (2018) argues that Nepal needs a stronger fiscal framework, with clear guidelines for revenue sharing and capacity building for local governments. Only then can fiscal autonomy translate into equitable development.

## **Restructuring Federalism for Inclusion and Unity**

To minimize conflict and promote inclusion, Nepal's federalism must be restructured in several ways. First, cultural misunderstandings can be addressed by fostering a shared national identity rooted in pluralism, while recognizing diversity

through inclusive policies. This requires symbolic recognition of ethnic identities, such as provincial names and languages, while promoting a common Nepali identity. Second, political misunderstandings require stronger intergovernmental coordination, clearer delineation of powers, and capacity building for provincial and local governments. This includes strengthening intergovernmental councils, clarifying roles of officials, and reducing party dominance in decision-making. Third, economic misunderstandings must be resolved through fiscal equalization mechanisms, enhanced accountability, and investment in administrative capacity. This requires stronger fiscal frameworks, better auditing, and capacity building for local administrations.

Ultimately, federalism in Nepal must balance autonomy with unity. It must empower local communities while safeguarding national cohesion. Lessons from India, Ethiopia, Switzerland, and the USA demonstrate that federalism is not a one-size-fits-all model; it must be tailored to Nepal's unique socio-cultural and economic context.

## **Conclusion**

Federalism in Nepal represents both a challenge and an opportunity. It was introduced to decentralize power, promote inclusion, and address historical inequalities. Yet, cultural, political, and economic misunderstandings have undermined its effectiveness. Ethnic demands highlight the risks of fragmentation, overlapping jurisdictions create political disputes, and weak fiscal discipline hampers development.

Despite these challenges, federalism offers opportunities for grassroots democracy, fiscal autonomy, and social inclusion. Comparative experiences show that federalism can succeed if tailored to national contexts. Nepal must strengthen intergovernmental coordination, clarify roles, promote pluralism, and adopt fiscal equalization mechanisms. Success depends on strategic reforms and the commitment of political actors to unity and inclusive development.

## **Contribution of the Article**

This article contributes to the study of federalism in three ways. First, it integrates cultural processes such as Nepalization, Sanskritization, and migration into the analysis of federalism, highlighting how identity politics shape governance. Second, it provides comparative insights by examining federal experiences in India, Ethiopia, Switzerland, and the USA, offering lessons for Nepal's hybrid model. Third, it offers policy-relevant recommendations for restructuring federalism to minimize conflict and promote inclusion.

By addressing cultural, political, and economic misunderstandings, the article advances understanding of Nepal's federalism and provides a framework for building an inclusive and sustainable system. It underscores the need for federalism to be tailored to Nepal's unique diversity, emphasizing cooperation, fiscal discipline, and cultural integration.

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