



Political Economy of Fiscal Decentralization Reform in Nepal





Key motivation for decentralization reform – response to political and economic crisis

- **Political crises (1985 and 1990 against panchayat or King's autocratic regime)**
- **1990 crisis led to multi-party system, held local elections, constitutional monarchy**
- **Eighth Plan (1992-97) with objectives of achieving sustainable growth, alleviating poverty and reducing, regional imbalances**
- **Financial and trade sector reforms (privatization of public enterprises) with privatization Act 1994**
- **Enactment of LSGA and regulations in 1999 (one step to reform for decentralization of services, sharing of power and resources between central and local governments)**



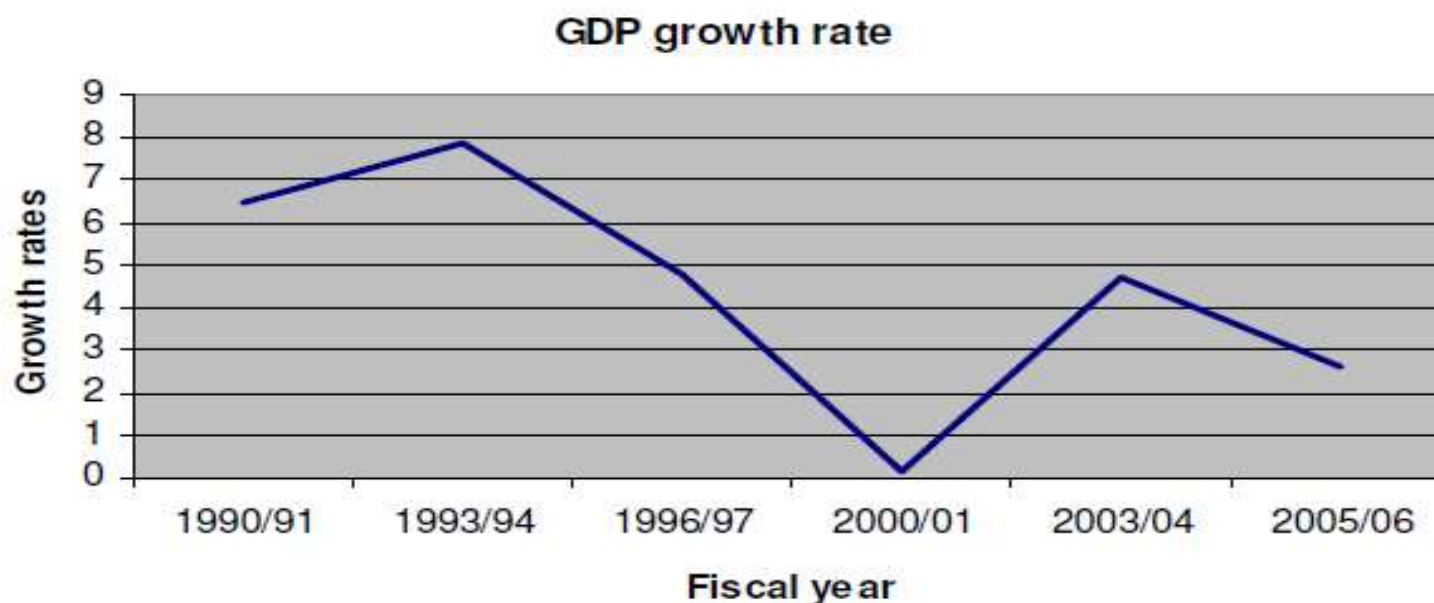
Key motivation for decentralization reform – response to political and economic crisis

- **Political crises continued with no change in behaviour of people in power**
- **Political appointments in bureaucracy affected the effective functioning of bureaucracy**
- **Corruption, political protection, rent and power seeking behaviours continued**
- **Led to Maoist party led people's war in the late '90s with their main objective to fight systemic exclusion**
- **Royal Massacre in 2000, discontinuation of local governments in 2002 led to King taking over for direct rule in 2004, worsened security situation**



Key motivation for decentralization reform – response to political and economic crisis

- Few economic gains due to early reforms also declined in 2001 because of insurgency





Key motivation for decentralization reform – response to political and economic crisis

- **Security situation further pushed many young Nepalese to leave for labour migration**
- **Continued labour migration resulted in domestic labour shortage leading to higher wage rates – favouring poor labourers**
- **Nepal though benefited from foreign currency in the form of remittance**
- **2006 referendum (all political parties united to topple king) led to their commitment to federal state**
- **Madhesh movement started in 2007 with a demand of autonomous madhesh/terai**
- **Constitutional assembly election held in 2008 to draft new constitution of Nepal in the light of federal structure**



Key motivation for decentralization reform – response to political and economic crisis

- It took 7 years with another round of election for constitutional assembly in 2012
- New Constitution promulgated in September 2015 resulting to un-official Indian blockade for 6 months
- Economic loss of billions of NPR, also due to EQ 2015
- The constitution envisioned three tiers of government – federal, state or provincial and local (urban and rural municipalities) with exclusive and concurrent rights for all three governments to work in the principles of subsidiary and complementarity
- Local, provincial and federal government elections held, enactment of local governance operational Act 2017
- New governments making their plans and programmes with public infrastructure as key priority
- ⌘ Resources are there but capacity to deliver is an issue



Main objectives and features of the decentralisation reform: actual objectives (political) and official objectives (developmental)

- **Political participation and exercise of rights Vs. Token participation and rights denied**
- **Devolution of power Vs. Exercise of power by political forces and bureaucracy with tendency towards centralization**
- **Establishment of functionaries, Services to the citizens at ward levels Vs. Creation of strong provincial government/bureaucracy with centralized behaviour**
- **Downward accountability Vs. "Lack of accountability, delayed execution of national projects, non-compliance of contractual obligations, political protection**
- **Fair and just prices Vs. Market distortion due to cartels, corruption, collusion, coercion**



Main stakeholders in decentralisation reform, their roles, interest and power

Main Reform Stakeholders	Interest and concern wrt reform	Role of stakeholder in the reform	Impact of reform on stakeholder	Power to influence reform	Stakeholder engagement in reform process
Political parties	Increase vote banks, remain in political power	Political manifesto, making reform laws, political decisions when in power			Discussions in local/state/federal assemblies, parliament
Bureaucracy	Better services to citizens, better revenues,	Drafting sectoral regulations, rules, guidance in		Line Ministries, Ministers (political parties)	



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Business Community	Better business environment, removal of policy barriers	Advocacy through business federations			Networking with business advocates, political parties
Civil Society (NGOs/CBOs)	Improved service delivery to citizens,	Evidence based advocacy through network, federation of NGOs	Confidence of citizens and government		Networking with citizens, government and political parties



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Development partners	Better service delivery to citizens, economic improvement	Supporting government in both political and technical processes	Increased or decreased confidence of government	Financial and technical competence	Implementing partners, consultation and workshops with government and civil society
Media including print and social media	Aware and inform citizens	Aware and inform citizens			



Lessons learned

- **Nepal's fiscal decentralization reform process is more of a response to political and economic crisis than a gradual systemic reform process**
- **In the new Nepal's federal context, this is even more complex.**
- **The structures and functionalities envisioned as per federal, provincial and local governments are yet to be newly established by dissolving previous structures under the then unitary system.**
- **Because the reform process is so abrupt and not gradual, the consequences are risky – due to fear of losing jobs/positions/power – increased misuse of resources and power for short-term gains both by political actors and bureaucracy**
- **Political party behaviour is largely driven by vested political interests than serving citizens (politicizing national development projects, nexus with big contractors, compromised development)**
- **Priority in large infrastructure by all tiers of government for which, resources can be met but capacity to deliver will be an issue**
- **There is still a reluctance in central bureaucracy to devolve authorities, power and resources to state and local level in the name of capacity constraints**
- **It's a long journey ahead with much homework needed for bringing reform acts, regulations, and above all political will to implement them**