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Cooperation or Confrontation? Analyzing the Existing Policy Provisions, Intergovernmental Mechanisms, and Practical Challenges of Cooperative Federalism in Nepal

Abstract

This study examines the policy and practice of cooperative federalism in Nepal by analyzing constitutional mandates, legislative frameworks, and empirical evidence. The principles of cooperation, coexistence, and coordination established in the Constitution of Nepal serve as a foundation for institutionalizing cooperative federalism, with the caveat that political, fiscal, and administrative factors have challenged its effective implementation. Although decentralization processes have been initiated, political parties appear unwilling to devolve power, mostly considering centralization as a means of control rather than fostering intergovernmental collaboration. Furthermore, fiscal challenges, jurisdictional ambiguities, and weak institutional mechanisms impede effective federal governance. The findings show that legal ambiguities, political centralization, restricted financial independence, and the ineffectiveness of coordinating mechanisms have led to tenacious difficulties in cooperative governance, resulting in inefficiencies and conflicts among all tiers of government that undermine policy coherence and service delivery. This study demands a clearer devolution of powers, fiscal autonomy, institutionalized intergovernmental coordination, and a reduction in political interference to strengthen cooperative federalism. This approach eventually subsidizes a more resilient and sustainable governance agenda that aligns with constitutional principles of inclusive governance.

Keywords:

cooperative federalism; intergovernmental relations; decentralization; cooperation mechanisms; power devolution; Nepal

Introduction

Federalism is usually the governing mechanism applied to issues of diversity, power distribution, and democratic accountability in many complex

societies (Watts, 2008). Nepal is one of the world's thirty federal countries. The federal form of government differs in these nations, either in terms of structure or functioning.

Altogether, these 30 Federal Countries represent approximately 40 percent of the global population, wherein the system itself guarantees a proper distribution of power among the central, provincial, and local governments to ensure decentralization and regional autonomy (Zulueta-Fülscher, 2020). The Constitution of Nepal, promulgated in 2015, was built on cooperation, coordination, and coexistence as a major tenet of intergovernmental relations. It provides an elaborate framework on cooperative federalism in which powers, resources, and responsibilities are identified and shared among the federal, provincial, and local levels of government. The modern governance system comprises one federal government, seven provinces, and 753 local governments, with 77 District Coordination Committees structured in decentralized forms of cooperative federalism in Nepal. The idea of 'minimize government and maximize governance' seeks to address the conundrum of Nepal's governance since the poor and others in the margins often get drowned in the governance process (Bhul, 2024). The principal provisions are Articles 56, 57, 59, and 60 of the Constitution of Nepal (2015), which devolve powers to provincial and local governments, giving them a fair degree of autonomy in key sectors such as education, health, and infrastructure. Thus, decentralization is expected to respond more directly to community needs. The constitution of Nepal in Articles 232, 233, 234, and 235 creates an intergovernmental relationship and Inter-Province Council for adjudicating disputes between provinces or between a province and the federal government. These constitutional provisions provide power-sharing at different government levels and encourage cooperation. Other constitutional provisions establish important intergovernmental relations and coordination mechanisms, such as the National Natural Resources and Fiscal Commission (NNRFC) and the Intergovernmental Coordination Committee (IGCC). The NNRFC

would make recommendations for fair resource distribution between tiers of government, and thus enhance fiscal cooperation among them. The IGCC would provide a forum for these tiers of government for discussion, thus providing a conduit for promoting collaboration and structured mechanisms to resolve disputes (Devkota 2024c). This study aims to analyze the implementation dynamics of cooperative federalism in Nepal over the last 10 years.

Cooperative federalism has been constitutionally sanctioned in Nepal, but its actual practice has become much more challenging. To analyze the dynamics of cooperative federalism in Nepal, this study examines three interrelated dimensions: political federalism, fiscal federalism, and administrative federalism. These dimensions represent the institutional pillars through which cooperation across levels of government is structured and operationalized. Political federalism refers to the distribution of decision-making authority and political legitimacy across federal, provincial, and local governments, shaping intergovernmental power relations (Watts, 2008; Elazar, 1997). Fiscal federalism involves the allocation of revenue sources, fiscal transfers, and expenditure responsibilities and determines how financial coordination and autonomy are managed among tiers (Oates, 2005; Shah, 2019). Administrative federalism is related to the implementation capacity and bureaucratic coordination required to execute shared responsibilities and public services ((Elazar et al. 2021). These three forms are not separate systems, but intersecting and collaborating components that collectively shape the extent and quality of cooperative federalism.

One notable issue is the conceptual inconsistency of constitutional autonomy and power distribution among different tiers of the government (Bhul, 2024). The lack of clear unbundling and delineation of roles and responsibilities has resulted in overlapping

policies, jurisdictional conflicts, and inefficiencies within both governance and service delivery (Smith & Smith, 2022; Bhul, 2024). The destabilization of Nepalese politics has made its federal transition even more relegated and has established uncertainties about governance structures and decision-making processes. Provincial governments regularly had complications with federal authorities regarding issues of jurisdiction and resource allocation, thus creating inefficiencies and accountability deficits (Devkota, 2022). In addition, the intergovernmental coordination mechanism was established by the National Natural Resources and Fiscal Commission (NNRFC) and the Intergovernmental Coordination Council (IGCC). However, the mechanism is held back by limited authority and resources, and thus priority cannot be very effective in shaping federal policies (Pokharel, 2023). Thus, politically motivated resource distribution rarely relies on an objective assessment of provincial and local needs and demands (Khanal, 2024). Another complicated issue is limited public engagement in decision-making processes, thus failing to achieve responsiveness and accountability to their constituents (Devkota, 2024c).

This study contributes to an important gap in both knowledge and empirical understanding by examining how cooperative federalism is implemented, contested, or circumvented in actual governance processes. Currently, the importance of this inquiry is heightened by the state of play in Nepal's federal system. Almost ten years after the constitution included federalism as a governing model, ingrained policy and power disputes, resource inequalities, conflicting jurisdictions, and limited coordination, which threatens the framework for cooperative governance. If a better understanding is not developed regarding the status of cooperative federalism, Nepal will likely lose the institutional foundation of federalism, ineffective public service delivery, and collapse of trust between tiers of government.

By conducting an explorative analysis of the relationships governing federal practices, this study presents timely knowledge and insight into the range of intergovernmental cooperation, both in Nepal and in contexts with similar post-conflict or transitional realities. The key research question is: What are the significant challenges to implementing cooperative federalism in Nepal? Key concepts will be explored by analyzing how intergovernmental relationships are determined by political interests, institutional arrangements, and administrative capacity. This study employs a qualitative approach and examines the structural and behavioral limitations of operationalizing cooperative federalism in Nepal. Finally, this study contributes to broader debates around decentralization and restructuring of the state by providing empirical evidence on how federal principles become routine governance.

Cooperative Federalism and Nepalese Experience

Cooperative federalism, sometimes called marble-cake federalism, is an active governance and integrative model that involves states and the national government in making, implementing, and administering policies centered on joint responsibilities rather than a clear-cut separation of power (Watts, 2006). This favorable environment helps intergovernmental cooperation share resources and coordinate policies to address complex societal problems in a more efficient manner (Hanson, 2004). Although cooperative federalism, as a formal construct, gained wide acceptance in the 1930s, the notions underpinning it in essence have early roots, going back to the days when the federal government used land grants to support state-initiated programs for education, infrastructure, and social welfare. Turning point during F.D. Roosevelt's New Deal saw an expansion of federal intervention in charge against lessening the impact of the Great Depression, thereby cementing the relationship between

federal and state agencies in administering welfare programs, employment schemes, and public works, consolidating the position of the federal government in any given issue of policy implementation while still preserving a decentralized framework for the actualization of such policies (Kincaid, 1990). Starting in the 1960s, cooperative federalism emerged even stronger into the "rights revolution," proceeding to federal imposition and participation into environmental regulation, workplace safety, and civil rights-while often requiring states to comply with federally-established standards (Hanson, 2004; Watts, 2006). Nevertheless, increasing administrative concerns and financial constraints led to a reconsideration of federal-state relations starting in the late 1970s. According to Kincaid (1990), the zenith of cooperative federalism came in the years from 1954 to 1978; after that, the trend toward dual federalism gradually commenced, notably manifested in the Reagan-inspired "New Federalism" programs, which aimed to restate more authority to the states. Nevertheless, in addition to this, cooperative federalism is arguably considered a going concern and is flexible and fluid in evolving responses to current debates around policy autonomy, fiscal accountability, and the distribution of power between the federal and state governments.

The transition of Nepal from a unitary system of governance to federalism has been a massive political and economic shift in order to address the age-old issues of centralization, regional disparity, and social exclusion. The idea of cooperative federalism was prompted by the need to devolve powers from the all-powerful Kathmandu-centered system and effectuate balanced development across different geographic regions of the country (Bhul, 2024; Bhattarai and Khadka, 2024). The entire process was propelled by social mobilization and changing political thoughts within the backdrop of nurturing an inclusive democracy to rectify historical injustices.

The Constitution of Nepal clearly mandates that inter-relationships among the three tiers of government (federal, provincial, and local) must be based on the principles of "cooperation, coordination, and coexistence" (Constitution of Nepal, 2015 Art. 232). To operationalize this policy mandate into practice, the Constitution and subsequent legislation have established intergovernmental mechanisms and bodies, including the National Coordination Council, Inter-Provincial Council, Intergovernmental Fiscal Council, and National Natural Resource and Fiscal Commission, suggesting strong constitutional intent to institutionalize collaborative governance (World Bank, 2019; Devkota, 2024). Cooperative federalism in Nepal involves shared governance through negotiated and coordinated decision-making, fiscal interdependence, and joint public service delivery, cumulatively transcending formal devolution to genuine integration (Bhattarai & Khadka, 2024; Hueglin & Fenna, 2015). However, research indicates that many institutional challenges remain, such as a lack of adequate human resources, undeveloped civil service procedures/systems, and delays in enacting federal laws (including the Civil Service Act, Police Act, and Education Act), which limit the capacity and autonomy of subnational governments (Guragain & Pokharel, 2024; International Crisis Group [ICG], 2021). Jurisdictional ambiguities and overlapping mandates are frequently referenced as structural problems that induce inefficiencies, such as federal ministries working directly with local units and bypassing provincial governments, which goes against the constitutional principle of "finance follows function" (Pokharel, 2020-2023; Acharya et al., 2024). In addition, political instability due to ongoing changes in government and weak coalition relationships results in deficits in trust and coordination faced by intergovernmental actors (Acharya & Zafarullah, 2020). Researchers also point to deeper behavioral and psychological barriers, including the central

government's unwillingness to relinquish power and local governments' attempts to assert their autonomy, which creates confrontation despite the institutional abilities for coordination (Bhattarai, 2024; Sharma & Adhikari, 2023). This literature points to the potential need to go much deeper into how these constitutional and institutional arrangements are constructed in practice or enacted—in this study's case, how they are written. This study seeks to address this gap.

Methods

This study uses a qualitative and analytical research approach to examine the changing landscape of cooperative federalism in Nepal under the Constitution, focusing on its implementation challenges since 2015. I conceptualize it interpretively, not least bringing in some abductive inferences to gauge the conditions under which federal, provincial, and local government entities cooperate or confront each other. In this way, using an exhaustive secondary data collection approach, a thorough review of the literature focused on studies specifically concerned with cooperative federalism in Nepal was conducted. This also included systematic examinations in various literature, mostly online databases: Scopus, Google Scholar, NepJol, and many other Op-ed articles in reputed national international online portals, and employed keywords such as "cooperative federalism," Nepal, "intergovernmental relations," or "coordination" published between 2015 and 2025. A qualitative analysis of pertinent articles and reports from mainstream online media articles regarding expert analysis, citizen perceptions, and narratives about cooperative federalism has also been highlighted. These outlines were analyzed thematically, thus leading to valuable insights about cooperation and confrontation intertwined within the federal system and, hence, the barriers and opportunities for implementing this form of federalism in the Nepalese context. By triangulating perspectives

across academic and policy-oriented literature, this study provides a critical and context-sensitive understanding of how cooperative federalism has been interpreted, negotiated, and challenged within Nepal's evolving federal landscape.

Results

Constitutional and Legal Provisions

The Constitution of Nepal, promulgated in 2015, federalized Nepal, encompassing the vital transformation from a largely unitary governance structure to decentralized governance aimed at empowering local and provincial governments. In this view, cooperative federalism strengthens relations among governments while providing a stronger framework for the governance and allocation of resources at the federal, provincial, and local levels. Theoretically, cooperative federalism justifies intergovernmental relations concerning shared responsibility, institutional cooperation, and mutual decision making among various tiers of government. In contrast, practice has shown a different story regarding federalism in Nepal. Some scholars claim that local governments are empowered through fiscal autonomy and decision-making empowerment in the federal structure, while others believe that weak institutional frameworks constitute political constraints that limit the effectiveness of the federal structure (Bhusal, 2023; Bhul, 2024). Moreover, reports state that even government provinces constituting fiscal devolution in the constitution are dependent, financially, even upon such governments, raising greater issues on the autonomy and functionality of lower-tier governments (Khanal, 2022). Moreover, federal and provincial entities are often embroiled in conflicts over jurisdictional authority, budgeting, and administrative control, which implies that cooperative federalism created in Nepal is only on paper and in theory, resulting in overlap in governance and inefficiencies in service delivery (Democracy Resource Center, 2024a).

Table 1.
Major Intergovernmental Coordination Mechanisms (IGCMs)

Constitutional and Legal Provisions and Concurrent Practices	Mechanisms of Cooperation	Associated Roles and Responsibility	Current Status
<i>Article 97 of the Constitution of Nepal & Rule 147 of the National Assembly Rules, 2075 (2018)</i>	Federalism Enablement and National Concerns Committee	Oversees federalism-related policies, national projects, governance, security, foreign relations, human rights, inclusion, and disaster management.	Actively engaged in evaluating and addressing federalism and national concerns.
<i>Articles 234, 250, and 251 of the Constitution of Nepal, 2015</i>	Office of the Prime Minister and Council of Ministers (OPMCM)	Facilitates coordination among various governmental levels, formulates national policies, and oversees implementation.	Engaged in key decision-making processes and policy formulation, promoting inter-ministerial cooperation.
<i>Article 56: Structure of Federal Governance</i>	Federal, Provincial, and Local Governments	Establishes a federal governance structure promoting cooperation among all tiers of government.	Active; coordination issues remain prominent.
<i>Articles 57 and 232, 234 of the Constitution of Nepal and all provisions of Federation, Province and Local Level (Coordination and Interrelation) Act, 2020 (2077)</i>	Cooperation Among Government Levels	Government tiers must implement delegated powers and responsibilities according to the spirit of cooperation. Article 232 emphasizes cooperation, coexistence, and coordination among government tiers.	The Interrelation and Coordination Act, 2020 (2077) mandates that while exercising powers, government tiers must respect each other's authority, avoid interference, and ensure coordination for efficient service delivery.
<i>Federation, Province and Local Level (Coordination and Interrelation) Act, 2020 (2077) Sec. 28</i>	Inter-Provincial Council (IPC) chaired By Prime Minister	Promotes dialogue and coordination among provinces to address inter-provincial issues, resource sharing, and joint initiatives.	Actively addressing inter-provincial disputes and enhancing collaboration for regional development.
<i>Federation, Province and Local Level (Coordination and Interrelation) Act, 2020 (2077) Section 16</i>	National Coordination Council	Coordinates government activities across different levels and sectors, ensuring integrated development strategies.	Plays a vital role in implementing national policies through cooperative frameworks between local and federal levels.
<i>Recommendation No. 49 of the National Assembly, Federalism Implementation Study and Monitoring Parliamentary Special Committee</i>	Administrative Coordination Committees Chaired By Chief Secretary	Manages employee adjustments, mobilization, and overall administrative coordination, collaboration and cooperation at the federal, provincial and local levels	Functioning effectively to streamline government operations and enhance inter-governmental HR collaboration for administrative federalism.
<i>National Natural Resources and Fiscal Commission Act, 2074 (2017)</i>	Constitutional Body for Fiscal Justice and Transfer	Provides oversight on specific sectors such as natural resources and fiscal policies, ensuring effective implementation, fiscal transfer and monitoring.	Functioning to enhance transparency and efficiency in resource allocation and fiscal management.
<i>Articles 220 and 232 of the Constitution of Nepal</i>	Provincial Coordination Council chaired by Prime Minister	Facilitates cooperation and coordination among provincial governments, ensuring alignment with national objectives.	Actively operational in enhancing inter-provincial cooperation and addressing local governance challenges.
<i>Intergovernmental Fiscal Management Act 2017 (2074)</i>	Intergovernmental Fiscal Council chaired by Finance Minister	Manages fiscal relations among different tiers of government, ensuring equitable distribution of resources.	Establishes frameworks for fiscal responsibility and accountability among federal and provincial governments.
<i>Monitoring and Evaluation (M&E) Act, 2080 (2024) National Planning Commission (NPC)</i>	National Development Action Committee (NDAC), and Ministerial Development Action Committee (MDAC)	Provides strategic direction for national development, coordinating efforts among government, private sector, and civil society.	Engaged in multi-sectoral planning and monitoring progress on national development goals and initiatives.
<i>Government of Nepal (Allocation of Business) Rules, 2017</i>	Ministry of Federal Affairs and General Administration	Ensures coordination of governmental operations, facilitates communication between different government levels, and oversees administrative functions.	Actively working on enhancing the efficiency of government operations and implementing federalism principles.

<i>Part 8 of the Constitution of Nepal</i>	National Assembly	Represents public interests through legislation, oversight of the executive, and promoting democratic governance.	Functioning as the legislative body, contributing to law-making and enhancing public participation in governance.
<i>Article 137 of the Constitution of Nepal</i>	Supreme Court Constitutional Bench	Interprets the Constitution, resolves disputes regarding constitutional interpretation, and safeguards citizens' rights.	Acting as the apex judicial authority, ensuring justice and upholding constitutional norms.
<i>Audit Act, 2075 (2018)</i>	Office of the Auditor General	Conducts financial audits and performance evaluations of federal, provincial, and local governments to ensure transparency and accountability.	Plays a crucial role in ensuring fiscal discipline and good governance by monitoring budget allocations and expenditures.
<i>Local Government Associations (Informal)</i>	Local Government Associations like (MuAN), (NARMIN), and (ADCCN)	Facilitates collaboration among local bodies, advocates for local governance issues, and promotes community engagement in decision-making.	Currently active in enhancing local governance and advocating for the interests of local authorities and communities.

Source: Constitution of Nepal and other Legal provisions, as quoted by Bhul (2025)

Consequently, further investigation shows that despite the wide range of studies that have delved into the structural, legal, and economic dimensions of Nepal's federalism, there is still a large void in the understanding of political parties in influencing cooperative federalism, as they are core actors of governance in federal systems in relation to policy-making, legislative oversight, and the allocation of fiscal resources. In addition, factionalism in political parties creates administrative bottlenecks, leading to delays in policy implementation at the subnational level (Devkota 2024a). The conflict in the political arena between federal and provincial lawmakers is now delaying all types of major infrastructure projects and demonstrating how cooperative federalism is fragmented in Nepal (Khanal 2024). These conditions require urgent research to see how these political incentives shape a cooperative governance arrangement among internal actors, exposing the much more complex portrait of intergovernmental cooperation, which is influenced by partisan interest, coalition politics, and electoral calculations (Democracy Resource Center, 2024a).

The constitutional arrangement for cooperative federalism in Nepal exists within a framework of broad provisions and mechanisms

guided by intergovernmental collaboration and effective governance, as shown in Table 1. Article 97 of the Constitution and Rule 147 of the National Assembly Rules empowers the Federalism Enablement and National Concerns Committee to examine governance, human rights, disaster preparedness, and management so that federalism-related policies can be scrutinized. Articles 234, 250, and 251 provide OPMCM's coordination among all levels of government and the implementation of national policies for interministerial coordination. In promoting a cooperative arrangement of various levels of federal governance as contemplated under Article 56, Articles 57 and 232 provide for the implementation of delegated powers and responsibilities in the spirit of cooperation. The Federation, Province, and Local Level (Coordination and Interrelation) Act, 2020 (2077), ensures that there is mutual recognition of authority between various levels of government, with a view to enforcing effective coordination in service delivery. Apart from these provisions, the Inter-Provincial Council, headed by the Prime Minister, provides resources for dialogue and resource sharing among provinces, while the National Coordination Council coordinates activities across levels of government to facilitate

integrated development strategies. Administrative Coordination Committees, with the Chief Secretary as a chair, advance coordination in the field of civil service management, ranging from mobilization to staff transfer.

The National Natural Resources and Fiscal Commission (NNRFC) oversees resource management and fiscal policies in line with promoting transparency and accountability. The Intergovernmental Fiscal Management Act and the Intergovernmental Fiscal Council implement mechanisms to ensure equitable resource sharing and fiscal responsibility between the government layers. Moreover, the Monitoring and Evaluation Act (M&E) of 2024 also provides for coordinating and developing national projects from the federal to the local level, while informal associations of local governments such as MuAN and NARMIN strengthen the cause of local governance and enhance community engagement. Nepal has a good foundation for operationalizing cooperative federalism, notwithstanding some glaring impediments and challenges to effective coordination and implementation among all tiers of government. In 2017, an inventory was made, which listed approximately 1,795 functions, of which 873 were federal, 567 provincial, and 355 local functions, as shown in Table 2. This ‘unbundling of functions/power’ has elucidated responsibilities and tends to avoid overlaps at different levels of government, and forwards a clean case for the conduct of federalism (Bhul, 2024; Devkota, 2024a). In addition, the Inter-Provincial Council (IPC) is a very important mechanism for legislative coordination, which ensures legal harmonization and resolution of legislative disputes between provinces while also encouraging mutual assistance between them. Likewise, in terms of financial apparatus, the Intergovernmental Fiscal Council serves as the body in charge of managing fiscal transfers and ensuring accountability across tiers of government. Altogether, these agencies and mechanisms would

create a strong cooperative federalism agenda in Nepal to ensure good governance and mutual cooperation across sectors, countering the complexity that has already developed with the multi-tiered governance system.

Cooperative Federalism: Application Status of Legal Framework in Nepal

As enshrined in Article 50, Part 4 of the Constitution of Nepal, the regulation of relations among federal units shall be based on the principles of mutual cooperation, whereas Article 232 in Section 20 states that relations among the federation, province, and local levels shall be based on the principles of cooperation, coexistence, and coordination. The Federation, Province, and Local Level (Coordination and Interrelationship) Act, 2077 (2020) states that national interest, national pride, and unity; implementation of the state's guiding principles; fundamental rights and national policies; building a socialist-oriented economy; respect for the existence and functional autonomy of each level; assurance of equal treatment and security to the citizens of Nepal; mutual coordination, consultation, assistance, and information exchange; conservation of natural and physical resources; sustainable management of resources and fair distribution of benefits; combating corruption and promoting good governance; mutual cooperation and collaboration; establishing a proportional, inclusive, and participatory governance system; cooperation and coordination in trade, transportation of goods; and service extension shall form the basis of interrelationships among federation, provinces, and local levels.

Political Federalism Institutionalizing Framework

Legislative interrelationships within plural formulation for national unity and respect for regional and local autonomy represent the spirit behind the constitution. On the one hand, federal

laws are created for nationwide concern and to form a level of uniformity. On the other hand, provincial laws are passed with regard to specific regional needs and situations and form a backdrop to regional governance and local representation. In cases in which provinces deem it imperative to apply legislation on matters of common concern, they may request that the federal government legislate specifically for them. This very urgent legal architecture is about to start considering that around 180 laws are viewed as necessary for the fully fledged operation of federalism, of which 40 are considered to be of urgent need for the legal autonomy of the provinces and local levels (Bhul, 2024). It is a legislative framework that provides clean demarcations of jurisdiction for the efficient conduct of law-making operations while minimizing the overlap of jurisdictions that would otherwise impede the optimum working of each layer of government within its defined power. In addition, Article 58 of Nepal's Constitution provides for an even modern interpretation: that is, the federation has powers regarding matters not expressly listed in both exclusive and concurrent rights to suit the articulation of emerging national needs.

The executive interrelationship within the federal, provincial, and local governments in Nepal has been based on principles of cooperation, coexistence with mutual obligation, and coordination of operations among themselves on national and regional matters. Inter-province relations are equally important; mutual responsibilities between two provinces include cooperation and assistance in enforcing laws and administrative orders within their areas of jurisdiction and mutual support in aspects such as economic development and disaster control. This mandates regular communication and equal opportunities for citizens from other provinces to create a common interface and social cohesion. The provision in Article 234 of the Constitution for the Formation of an Inter-Provincial Council,

consisting of the Prime Minister and Chief Ministers, endows this excellent forum for resolving any disputes between the federation and provinces or among the provinces themselves, proving the commitment to peaceful and stable federal governance. The makeup of the National Assembly, comprising members of provincial assemblies and local government representatives, as per Article 86 of the Constitution of Nepal, legitimizes the legislative process by incorporating diverse voices from various levels of government. The Federal, Provincial, and Local Levels (Coordination and Interrelationship) Act, 2077, Article 92 calls for the establishment of the National Coordination Council under Section 16, the Provincial Coordination Council under Section 24, and subject-specific committees under Sections 22 and 26, all geared towards coordination and collaboration across levels and fields. It provides District Coordination Committees to enhance coordination between government offices at the district level. These multi-layered coordination mechanisms underline Nepal's commitment to a collaborative and cohesive federal political structure.

Fiscal Federalism Application Coverage.

In Nepal, fiscal interrelationships among federations, provinces, and local levels are seen as the efficient allocation of resources and power responsibilities to empower people economically. Federal units are authorized to legislate fiscal matters within their territorial jurisdiction, namely, the preparation of annual budgets, decision-making, and the development or implementation of policies. The management of interrelationships among these levels is also governed by legislation, such as the Intergovernmental Financial Management Act, 2074 (2017), the National Natural Resource and Finance Commission Act, 2074 (2017), and the Local Government Operations Act, 2074 (2017). All of these laws provide a systematic approach

Table 2.
Political Powers and Intergovernmental Roles under Political Federalism in Nepal

Level of Government	Political Powers Allocations (as per Constitution of Nepal)	Roles and Responsibilities (as per FPL (C&I Act, 2077))	Legal References
Federal Government	• National defense, army deployment, and foreign affairs • Citizenship, immigration, passports, visas • Central fiscal policy: customs, VAT, income taxes • Currency, central bank, monetary regulation • National election management • Supreme Court, High and District Courts and constitutional bodies • Central police, intelligence • National planning and mega-projects • Telecommunication, postal services • Civil service regulation and appointments	• Prepare national standards for public service delivery • Coordinate and guide provincial and local governments • Set dispute resolution mechanisms • Maintain uniformity in national policies • Monitor compliance with national laws at subnational levels	• Constitution: Articles 56–58, 109, 113–114, 232–237; Schedules 5, 7, 9, • Coordination Act 2077: Sections 4–11 • (873 Federal Roles) (Total 1795 Roles allocation of all three tiers of governments according to Unbounding Power Report)
Provincial Government	• Provincial police administration • Education, provincial health services, agriculture, irrigation • Provincial roads, electricity, tourism, media • Provincial planning and budgeting • Provincial taxes (vehicle, land, entertainment, advertisement) • Provincial civil service and commissions	• Coordinate with both federal and local levels for service delivery • Harmonize policies with national laws • Represent province in intergovernmental forums • Resolve horizontal disputes (among provinces) • Facilitate provincial-level development strategy alignment	• Constitution: Articles 162, 167–170, 232–235; Schedules 6, 7, 9 • Coordination Act 2077: Sections 12–19 • (567 Provincial Roles according to Unbounding Power Report)
Local Government	• Local law-making and service delivery • Local policing and dispute resolution • Basic education and health services • Drinking water, local roads, sanitation, waste management • Civil registration: birth, death, marriage • Local development projects • Local taxes: house rent, property, business, tourism • Local arbitration and community mediation	• Collaborate with provincial and federal governments in joint service delivery • Align local plans with higher-level frameworks • Participate in intergovernmental meetings • Provide data and reports to upper levels • Resolve local conflicts through Ward-level mechanisms	• Constitution: Articles 214, 221–226, 232–235; Schedules 8, 9 • Coordination Act 2077: Sections 20–26 • (355 Local Level Roles according to Unbounding Power Report)

Source: Constitution of Nepal and Coordination Act, 2077

to financial relationships, revenue collection, and allocation in a transparent manner. The Constitution and other relevant laws enlist various provisions for financial interrelationships, including taxation rights, revenue distribution, and financial transfers. Such mechanisms are vital for encouraging local governance and ensuring that all of these resources are efficiently allocated to meet the different needs of Nepal's communities. The major revenue powers in federalism in Nepal are discussed in Table 3.

The federal structure of Nepal is premised on a system of defined legislative interrelations aimed at balancing national unity with subnational

autonomy. Federal laws establish rules for national issues, while provincial laws focus on regional specificity, with the Constitution of Nepal mandating harmonization on concurrent subjects. Mechanisms such as the Inter-Provincial Council under Article 234 and several coordination bodies constituted under the Federal, Provincial, and Local Levels (Coordination and Inter-relationship) Act 2077 have been established to foster inter-governmental dialogue and conflict resolution. This formation of the National Assembly (Article 86) also ensures representation from different levels of governance. It essentially depends on fiscal arrangements to make this political

Table 3.
Revenue Mobilization Powers of all Three Tiers of Government

Revenue	Federal Level	Provincial Level	Local Level
A. Tax Revenue	1. Custom Duty 2. Excise Duty 3. Value Added Tax (VAT) 4. Corporate Income Tax 5. Personal Income Tax 6. Remuneration Tax	1. House and Land Registration Fee 2. Vehicle Tax 3. Entertainment Tax 4. Advertisement Tax 5. Tax on Agricultural Income	1. Property Tax 2. House Rent Tax 3. House and Land Registration Fee 4. Vehicle Tax 5. Land Tax (Land Revenue) 6. Entertainment Tax 7. Advertisement Tax 8. Business Tax
B. Non-Tax Revenue	1. Passport Fee 2. Visa Fee 3. Tourism Fee 4. Service Fee 5. Gambling/Lottery 6. Fines and Penalties	1. Service Fee 2. Tourism Fee 3. Fines and Penalties	1. Service Fee 2. Tourism Fee 3. Fines and Penalty
C. Other Revenue	1. Other tax and non-tax revenues raised/levied according to federal and other prevailing laws.	1. Other tax and non-tax revenues raised/levied according to the provincial law and prevailing national legislation.	1. Other tax and non-tax revenues raised/levied according to the local law and prevailing legal frameworks.

Source: Constitution of Nepal, as quoted in the Intergovernmental Fiscal Arrangement Act, 2017; cited in Devkota, (2021)

architecture function effectively. Expenditure responsibilities are defined in the Constitution (Article 57, Schedules 5-9), but issues related to timely budget submission at the subnational level in FY 2024/25 are ongoing, with 50 local levels and one province producing no timely submissions (Devkota, 2024b). The movement of legal and institutional changes has been slow (Saito et al., 2024), while the principle of residual rights (Article 58) provides the ability to adapt to the governance structure because it puts matters not listed under the authority of the federation.

Nepal's federalism, in fiscal terms, has been characterized by systematic revenue-sharing, intergovernmental transfers, and the distribution of natural resource royalties. Revenue-sharing is structured in the Local Government Operations Act, 2074 (2017), and in the Intergovernmental Fiscal Management Act, 2074 (2017), which specifies the revenue source assigned to each level of government. While the federal government claims a large share of tax revenue, defined powers exist to levy taxes at subnational levels. Equalization and other conditional grants recommended by the NNRFC under intergovernmental fiscal transfers

constitute a critical source of financing for both the operational and developmental requirements of provinces and local levels, especially those with poor revenue-generating capacity. Natural resource royalties are distributed according to the NNRFC guidelines to share the benefits of resource extraction between the federal government and affected subnational units. All of these would require strict coordination to ensure fiscal sustainability across levels because the Public Debt Management Act, 2079 (2023) Public Debt Management Act, and the Local Government Operations Act, 2074, were established at a point when provincial and local governments suffered a fiscal shortfall in 2023 (Saito et al., 2024) for the first time since the establishing of federalism in 2017. In addition, it has been highlighted that the required legal and institutional reform processes are at a slow pace to operationalize the federal system (Saito et al., 2024), indicating that there is a need for further continuation so that the fruits of such a system can be realized in Nepal. The principle of residual rights, as contained in Article 58 of the Constitution, provides that the federal government shall have authority over

Table 4.
Employee Positions of all Three Levels of Government

Level of Government	Approved Positions	Filled Positions	Vacant Positions
Federal (Sangha)	53,075	41,574	11,501
Provincial (Pradesh)	20,483	11,138	9,345
Local (Sthaneeya Taha)	65,414	32,808	32,606
Total	138,972	85,520	53,452

Source: MoFAGA, Reports 2081 (2024)

matters that are not expressly enumerated within the lists of exclusive and concurrent rights, giving room for flexibility to tackle matters that might not have been anticipated and that evolve along with national priorities within the governance system.

Administrative Federalism in Executing the Picture.

The Constitution of Nepal has envisioned a multi-tiered organizational setup for decentralizing public administration. Of the 761 governments, the federal government retains key administrative functions, whereas seven provinces and 753 local governments share devolved authority. They all have various organizational structures and positions. According to the 2015 or new Constitution of Nepal, the aforementioned federal transition involves a complete restructuring of the political power and the administrative responsibilities of the different tiers of government—federal, provincial, and local.[9] The political system itself creates very complicated legislative, executive, and inter-provincial relationships that try to balance national unity with subnational autonomy. Legislative relationships involve passing federal laws for matters of national importance and provincial laws for matters more regional in nature. The Constitution also emphasizes maintaining harmony over concurrent matters. The Inter-Provincial Council (Article 234) and coordination councils according to the Federal, Provincial, and Local Levels (Coordination and Interrelationship) Act, 2077 assist intergovernmental discussion and resolve differences. The formula for forming

the National Assembly under Article 86 brings various political voices from above and below. Nevertheless, the administrative machinery supporting this political system has its own hurdles. Although the civil service establishment was nationalized in 1956 and functions under the Civil Service Act of 1993 (2049 BS), the most critical bill on federal civil service remains stuck in parliament, with 1582 proposed amendments as of 2025, which is supposed to create a federal bureaucracy in line with the aspirations of the new Constitution. This implies that the old law continues to exist, obstructing the effective implementation of the federal administrative principles found in Articles 57, 285, and 302 of the 2015 Constitution. In addition, the functioning of the constitutional powers of elected local agencies remains limited (Mishra, 2025).

Furthermore, Table 4 shows that the administrative landscape becomes further tangled by severe vacancies in most government positions, which were almost 38.5% vacant in 2024 (2081 BS), with severity most acute at the lower levels (49.9%) and province (45.6%) levels (MoFAGA, 2024). For instance, there were many vacancies among the Chief Administrative Officer posts, especially at the local level, where in 2025, 256 out of 753 positions (33.99%) were vacant, and Madhesh Province faced a critical shortage (Dangal, 2025). The main reasons for these vacancies include delays in federal civil service law, poor intergovernmental coordination, and the reluctance of bureaucrats to serve subnationally. The constitutional vision for empowered subnational governments has emerged as the most centrally authoritative intervention against

decentralization. The important intergovernmental administrative cooperation for restructuring and the rightsizing of the civil service in this regard suffers from the non-promulgation of the FCS Act, hence leaving senior administrators without an accountability framework. Radical bureaucratic reform schemes, such as drastic staff cuts (Ministry of Finance, 2025), seek to create fiscal prudence, but will likely aggravate gaps in actual service delivery, particularly at subnational levels, given already high vacancy rates. A more balanced approach towards decentralized recruitment and building capacity is necessary for formulating a flexible and responsive administrative system to suit the future.

Discussion

Cooperative Federalism Practices in Nepal: Cooperation vs. Confrontation

When the New Constitution of 2015 was enacted, Nepal instituted a federal approach to devolve power and encouraged collaboration among the federal, provincial, and local levels of government based on the principles of cooperation, coordination, and coexistence. Implementation of cooperation has been largely inconsistent, creating some occasions of cooperation among government levels and conflict (Democracy Resource Center, 2024b). During the initial phase of the transition, the federal government facilitated provincial and local government levels by creating the necessary conditions for resource allocation, program administration, and administrative reorganization (Bahl et al., 2022). This section outlines the literature on the topic and provides supporting examples of cooperation and confrontations. Cooperative federalism in Nepal has been broadly characterized by varying degrees of cooperative interaction and conflict at all levels of government. While the constitution promotes intergovernmental collaboration and cooperation, the challenges of practice have created occasions of cooperation and conflict in practice, as shown in Table 5. The following sections outline the

literature on the primary events of cooperation and conflict in Nepal's federal governance.

Evidence of Cooperation in Nepal's Federal System: Opportunities

As intergovernmental cooperation between the federal, provincial, and local governments continues to characterize Nepal's cooperative federalism, instances of intergovernmental collaboration are common in disaster response and crisis management. This factor boosts the credibility of intergovernmental collaboration in Nepal, with the swift mobilization of resources and reconstruction efforts following the devastating earthquake that hit the nation in April 2015 (Dhungana, 2023). The operational efficacy of Nepal's federal system in emergency response has been equally illustrated in other disasters, such as landslides and floods that occurred in 2024 (Acharya et al., 2024), and in the response to the COVID-19 pandemic, particularly in the distribution of vaccines (Pokharel, 2023). These stories emphasize the necessity of pre-established intergovernmental networks to communicate and improve overall responsiveness. The Intergovernmental Fiscal Transfer System (IFTS) has now become a major vehicle for resource distribution to provincial or local governments in the fiscal area (Wagle, 2018; Paudel, 2020), allowing these governments to budget for about one-third of their total government expenditures (Asian Development Bank, 2022). Facilitating the transfers assessed by the National Natural Resource and Fiscal Commission (NNRFC) fosters an atmosphere conducive to fiscal decentralization and promotes local governments' financing of key public services while giving them a degree of financial independence through local taxation (Saito et al., 2024). However, difficulties remain with the prompt release of funds (Democracy Resource Center, 2024b; Acharya & Scott, 2022; Prasai, 2020), and the mechanisms that have already been put in place remain a considerable advancement in fiscal cooperation to strengthen

subnational governance and reduce regional disparity.

Another crucial aspect of Nepal's cooperative federalism relates to legislative collaboration and policymaking between federal and provincial governments. Policy development processes for sectors such as education involve wide discussions at all administrative levels to balance regional variations and local needs (Devkota, 2022; Rai, 2023) and enhance ownership and accountability at local levels. Similarly, while climate change and sustainable development require extensive collaborative efforts from federal and provincial stakeholders to write environmental legislation (Bhattarai et al., 2023; Bhattarai and Khadka, 2024), the NNRFC has often played a mediating role by facilitating conversations and ensuring local interests in the final decision. Articles 50 and 232 of the Constitution of Nepal (2015) expressly uphold the principles of cooperation and coordination among federal units as fundamental to effective legislation and development programs. Institutional mechanisms such as the Inter-Provincial Council (IPC) have become important conflict resolution and dialogue channels between federal and provincial governments (Acharya et al., 2024), while the National Coordination Council (NCC) aims to coordinate policy and implementation strategies at different levels (Saito et al., 2024). The Federation, the Province, and Local Levels (Coordination and Interrelationship) Act, 2077 provides legal backing for this cooperation, focusing on coordinating, consulting, and exchanging information so that all levels maintain their autonomy with national interests in mind. Studies (Subedi, 2023; Bhul, 2024) highlight the necessity of inclusive governance institutions and administrative coordination to create a working cooperative federal system in Nepal.

Examples of Confrontation in Nepal's Federal System: Challenges

Nepal's experiment with federalism illustrates a complex interplay of cooperation and confrontation across its governmental tiers, which can be discussed in Table 5.

Political Federalism: The political extent of cooperative federalism in Nepal realizes the foremost challenges that are deeply rooted in weak intergovernmental coordination, dialogue, and ambiguous institutional mechanisms. Coordination mechanisms such as the Inter-Provincial Council (Art. 234) and the National Coordination Council remain underutilized despite the institutional mechanisms meant to support dialogue (Subedi, 2023; World Bank 2020). The frequent bypassing of provincial authorities by federal ministries undermines vertical political trust (World Bank 2020). Furthermore, the overlapping mandates and vague power-sharing provisions in Schedules 7 and 9 lead to blurred accountability and contested responsibilities, particularly in areas such as natural resource management and basic service delivery (Bhattarai et al. 2023; Prasai 2020; Devkota 2022). Nepal's political climate also adds instability, and coalition governments frequently collapse, with provinces such as Koshi and Sudurpashchim experiencing multiple turnovers (Acharya et al., 2024; Bhul, 2024). Inter-party conflicts, centralized political control, and power jockeying over positions, such as CAOs and CDOs, further aggravate political fragility (Paudel, 2020; Acharya & Scott, 2022; Prasai, 2020). However, cooperation is not absent: post-earthquake disaster response (Dhungana, 2023), vaccine distribution during the pandemic (Pokharel, 2023), and policy consultation in sectors such as education and the environment (Devkota, 2022; Bhattarai & Khadka, 2024) suggest that intergovernmental political collaboration is both possible and necessary. This paucity of structured dialogue circumvents provincial counterparts, thus depriving subnational governments of the decision-making processes. Federal dominance

Table 5.
Major Challenges in Implementing Cooperative Federalism in Nepal (2015–2025)

Key Challenge	Description	Reference
Political Federalism		
Weak Intergovernmental Coordination & Dialogue	Coordination platforms like the Inter-Provincial Council are underutilized; federal ministries often bypass provincial counterparts.	World Bank (2020), p. 24
Overlapping Mandates & Vague Constitutional Roles	The Constitution's concurrent and exclusive lists (Schedules 5–9) have overlaps, creating power struggles and blurred accountability.	World Bank (2020), pp. 26–28
Dominance of Federal Government	Subnational governments are politically and institutionally overshadowed; centralization of decision-making persists.	Devkota, (2024)
Frequent Political Turnovers/ Political Instability	Instability in both federal and provincial cabinets disrupts consistency in federal implementation; Coalition government changes: Koshi- 9 times and Sudurpashchim 8 times in last 7 years	Devkota, (2024) Acharya et al. (2024) Bhul (2024)
Fiscal Federalism		
vertical and horizontal Fiscal Imbalance	Local and provincial governments rely on conditional grants due to weak own-source revenue mobilization.	ADB (2022), pp. 41–49
Ambiguous Tax Assignment	Unclear division of taxation authority leads to double taxation (e.g., rent, vehicle, and land taxes by multiple tiers).	Devkota, (2024)
Inequitable Revenue Sharing	Horizontal disparities in tax base (Kathmandu vs rural municipalities); formula-based transfers lack transparency.	World Bank (2020), pp. 37
Weak Capacity for Financial Management	Many local governments lack systems and expertise to manage and report budget and expenditure efficiently.	Sharma (2019); Guragain & Pokharel (2024)
Administrative Federalism		
Shortage of Human Resources	Over 30% of local units lack Chief Administrative Officers (CAOs); provinces face 35–40% bureaucratic vacancies.	ADB (2022), pp. 31; World Bank (2020), p. 45
Delayed Federal Civil Service, Police and Education Bills Legislation	Absence of a Civil Service Act, Police Act, and Education Act, cause uncertainty in staff deployment, accountability, and service hierarchy from federal to local level.	Devkota, (2024); Bhusal, (2023)
Jurisdictional Overlap	Duplication of responsibilities between levels leads to service delivery inefficiencies and confusion.	World Bank (2020), pp. 46–48
Insufficient Administrative Autonomy	Subnational governments lack institutional independence in managing personnel, public procurement, and policy execution.	Guragain & Pokharel (2024)

Source: Author (Bhul), 2025

in policy along with frequent changes in political alignments, characterized by many coalition governments serving only a year in Koshi and Sudurpashchim provinces (Devkota, 2024; Bhul, 2024), undermine the political stability that cooperative federalism demands for its operationalization.

Fiscal Federalism: In the fiscal realm Cooperative federalism is hindered by persistent vertical and horizontal imbalances in Nepal. Subnational governments heavily depend on conditional grants due to their limited own-source revenue mobilization capacity, compromising fiscal autonomy (Asian Development Bank, 2022). Tax assignment ambiguity creates opportunities for double taxes on rent, land, and motor vehicles

(Devkota 2024)., while formulas for horizontal revenue sharing lack transparency and are perceived as politically biased, resourceful, and rich municipalities, such as Kathmandu, benefit disproportionately compared to rural areas (World Bank, 2020; Khanal, 2023). These conflicts may be exacerbated when grants are delayed or abruptly decreased, resulting in the protests/ declaration of the state of federal encroachment (Wagle, 2018; ADB, 2022; Saito et al., 2024). For instance, local governments protested against budget cuts in 2021 and continued to claim that resource allocation was politically motivated (Democracy Resource Center, 2024b). Taking all of these considerations into account, examples of fiscal cooperation exist in Nepal after a decade

of multiple overlapping political and fiscal conflicts, fighting for resource allocation. The NNRFC supported the Intergovernmental Fiscal Transfer System (IFTS), which allows services to be coordinated and interconnected through adherence (Paudel, 2020; Saito et al., 2024). Although fiscal disputes are prevalent throughout Nepal's local fiscal practices, examples of coherent cooperative practices recommend that ground-up cooperative practices become gradually embedded.

Administrative Federalism: Administrative challenges are no less dangerous. Approximately one in three local units in Nepal have no Chief Administrative Officer (CAO) in their employment and current provincial vacancies are as high as 40%, greatly restricting service delivery (World Bank, 2020; ADB, 2022). Simply passing several key pieces of federal law, including the Civil Service Act, Police Act, and Education Act, has been delayed. This delay has raised doubts over the quality of human resources, who should be tasked with recruitment and selection, and there is uncertainty regarding the department responsible for monitoring compliance (Devkota, 2024; Bhusal, 2023). Creating institutions often results in overlapping responsibilities among jurisdictions and levels of government, duplicating responsibilities and generating confusion among end clients. This situation is compounded by a lack of clear processes for dispute resolution among the three levels of government (World Bank, 2020; Khanal, 2022). In addition, subnational governments often lack the institutional autonomy to procure services, hire staff, or execute local policy initiatives (Guragain & Pokharel, 2024), which is surprising given that many other countries have more decentralized government structures. Regardless of these challenges, there have been instances of administrative collaborative actions, such as managing disaster response or a formal provincial/federal action to enhance and plan for education

and environmental policy (Rai, 2023; Bhattarai et al., 2023), that provide evidence of an ideal state of cooperative federalism, if opportunities are provided for collaborative and united efforts through legislation and capacity building to realize the promises. However, achieving the promise of administrative federalism will require serious investment in bureaucratic infrastructure for hiring and training officials, a clear legal framework, and autonomy-based improvements to local-level capacity.

Conclusion

Since 2015, Nepal has formally committed to the institutionalization of cooperative federalism, guided by the principles of cooperation, coexistence, and coordination through the promulgation of the constitution. However, it must be admitted that practical realization is very complex, as it is not just about the expectation of cooperation but also experiences confrontation among the federal, provincial, and local governments. The three basic dimensions of cooperative federalism—political, fiscal, and administrative—are not effectively implemented or institutionalized in a balanced and coordinated manner. Politically, intergovernmental dialogue is weak and overlapping mandates often lead to blurred accountability. First, revenue-sharing and tax assignment mechanisms do not promote transparency and justice, thereby creating resource imbalances across government levels. Administratively, the duplication and overlapping of functions and roles restrict effective service delivery, especially at the local level, while a lack of chief administrative officials and bureaucratic readiness capacities are constraints. These challenges are aggravated by the perceived dominance of the federal government and capacity limitations at sub-national levels, which hinder the proper realization of what federalism is actually all about. Often, cooperation would be overtaken by power struggles, fiscal disputes, and jurisdictional

conflicts that arise from centralized political powers and vague legal provisions.

However, there are also some examples of cooperation regarding disaster management, fiscal transfers, policy uniformity, and joint legislation. To achieve a more functional variant of cooperative federalism between autonomy and coordination, certain measures are required. Tightening the redefinition of legal jurisdictional responsibility, establishing proper fiscal autonomy that ensures timely and equitable appropriation of budgets, creating proactive intergovernmental coordination through institutionalized forums and dispute resolution mechanisms, and reducing political interference at the subnational level are necessary steps. Finally, a sustained commitment from all political actors, including national interest, sectional interest, and ultimately citizen interest, will be necessary to nurture an inclusive and responsive governance system that can address the various needs and wants of people in Nepal and promise sustainable development according to federalism rather than fragmentation.

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The authors declare that they have no conflicts of interest.

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