

Nepal Knowledge Exchange Program on Fiscal Federalism

LESSONS AND REFORMS



GOVERNMENT OF NEPAL
MINISTRY OF FINANCE

Nepal Knowledge Exchange Program on Fiscal Federalism

LESSONS AND REFORMS



GOVERNMENT OF NEPAL
MINISTRY OF FINANCE

Contents

Abbreviations	x
1 Introduction	1
2 Key Lessons, Issues and Reforms	3
2.1 Intergovernmental fiscal transfers	3
Lesson 1: Strengthening the fiscal autonomy of sub-national governments is important to promote effective fiscal federalism; but needs well managing to avoid fiscal instability	3
Lesson 2: Good (untied) fiscal transfer systems determine fiscal transfers on the basis of objectively verifiable criteria, use verifiable data, and use objective formulae and procedures	7
Lesson 3: Use conditional grants as instrument to achieve specific and measurable purposes while also building the capacity of sub-national governments	10
Lesson 4: It is critical to promote accountability and an inclusive process in the inter-governmental allocation and budget process	12
Lesson 5: Independent representative bodies at the local government level can play a key role in promoting horizontal interests at the local level	14
Lesson 6: The governance of fiscal transfers requires a large role for sectoral leadership and coordination	16
Lesson 7: Institutional arrangements are critical to enhance coordination and oversight	18
2.2 Provincial and local government performance management and appraisal	20
Lesson 8: Improving the performance management of provincial and local governments is critical for the effective implementation of federalism	21
Lesson 9: Striking the right balance in inter-governmental performance management systems among the three levels of government is essential for effective federalism	23
2.3 Provincial and local government public finance management	25
Lesson 10: Provinces and local governments must be accountable to their citizens for their fiscal plans and performance	26
Lesson 11: The need to strike the right balance on the division of responsibilities on public financial management at the federal, province and local levels	28

Lesson 12: Inter-governmental coordination is key to effective public financial management	29
Lesson 13: Promote PLG accountability to the accountability institutions and citizens in their jurisdictions	31
2.4 Provincial and local government taxation	33
Lesson 14: The legal authority to collect and enforce taxes is the foundation for effective provincial and local taxation	33
Lesson 15: There are many steps to raising property tax revenues	35
Lesson 16: Building public trust to mobilize revenues is key for PLG taxation	37
Lesson 17: The need to incentivize PLGs to collect local taxes and to improved taxation-related human and technical resources	38
3 Way Forwards and Recommendations	40
Annexes	42
Annex A: List of Study Visit Participants	43
Annex B: List of workshop participants	44
Annex C: Reform Recommendations Chart	47
Annex D Experts and Knowledge Exchange Programme Team Biographies	59
Annex E: Expert PowerPoint Presentations	-
Annex F: Case Studies on Comparative Focus Countries	-
TABLES	
Table 1: The potential benefits and drawbacks of SNG performance management	23
Table 2: Fiscal federalism reform recommendations	40
BOXES	
Box 1: Strengthening the fiscal autonomy of Nepal's PLGs	6
Box 2: Promoting good (untied) fiscal transfer systems in Nepal that are based on objectively verifiable criteria and that use verifiable data and objective formulae and procedures	9
Box 3: Transforming conditional grants into performance-based grants while building the capacity and increasing the fiscal autonomy of Nepal's PLGs	11
Box 4: Promoting accountability and an inclusive process in the inter-governmental allocation and budget process in Nepal	13
Box 5: Fostering the participation of independent representative bodies at the local government level in the budget process to promote horizontal interests at the local level	16
Box 6: The role of sectoral leadership and coordination in governing fiscal transfers in Nepal	18
Box 7: Institutional arrangements needed to enhance coordination and oversight in Nepal	20
Box 8: Improving the performance management of provincial and local governments is critical for the effective implementation of federalism	22
Box 9: Striking the balance of inter-governmental performance management among the three levels of governments in Nepal	25

Box 10: PLG accountability issues towards citizens for their fiscal plans and performances in Nepal	27
Box 11: Striking the right balance on the division of responsibilities for public financial management at the federal, province and local levels in Nepal	29
Box 12: Inter-governmental coordination for effective public financial management	31
Box 13: Promote PLG accountability to the accountability institutions and citizens in their jurisdictions in Nepal	32
Box 14: Issue and recommendations for Nepal on PLG tax collection	34
Box 15: Issues and recommendations for raising property tax revenues in Nepal	36
Box 16: Issues and recommendations for building public trust to mobilize revenues in Nepal	37
Box 17: Measures suggested to incentivize PLGs to collect local taxes and to improve taxation-related human and technical resource	39

Executive Summary

A. Background

Since 2017, the Government of Nepal has rolled out a federal system of government to simultaneously improve government responsiveness, national cohesion and the country's development status. The 2015 Constitution established a Federal Government, 7 provincial governments and 753 local governments. While progress has been made on setting up the institutional structures and the enabling regulatory framework of the federal system, significant gaps remain. Action is needed to build critical capacity and innovate the inter-governmental fiscal system and coordination between the three levels of government to rapidly improve the provision of services to citizens.

Nepal's 'Knowledge Exchange Programme on Fiscal Federalism' was held in 2019–2021 to broaden the understanding of government officials on fiscal federalism and the related challenges in Nepal, and to identify what needs doing to advance fiscal federalism in the country. The program was supported by the World Bank and was delivered in collaboration with the Forum of Federations global network on federalism and other development partners.

The first component of the programme was the study visits by 33 government officials to Brazil, Kenya and Switzerland in 2019 and 2020. The visits exposed participants to the best practices of other federal and decentralized systems of government focussing on fiscal federalism.

The second component, which is the main subject of this report, was an expert-led workshop on 13–16 December 2021 in Kathmandu for 76 representatives from all three levels of government, development partners and civil society organizations, including the study visit participants. The workshop discussions were led by international experts on fiscal federalism in Canada, Australia, and South Africa across the four themes of (i) inter-governmental fiscal transfers, (ii) provincial and local government performance management, (iii) public financial management, and (iv) provincial and local government revenue mobilization and administration.

The study visits and the workshop provided a great opportunity for participants to seek and offer guidance, identify lessons, and to develop ways of advancing fiscal federalism in Nepal. The resulting reform recommendations, which are presented in this report, provide pathways to guide that maturation process and show how Nepalese governments and devel-

opment partners can support the implementation of fiscal federal. The implementation of the recommendations will require carefully considered effort, coordinated by the leadership across a range of ministries.

The degree of engagement of the senior officials and government representatives in the programme and their willingness to learn from international experience showed a strong commitment to federalism in Nepal. The outcomes of the programme provide cause for optimism on the maturation of federal system of governance in Nepal.

The report outlines the programme's analysis of the challenges to implementing the 2015 Federal Constitution. It is very important to note that, whilst the World Bank and development partners assembled resources and materials to guide stakeholders and participants, the programme and its outcomes were entirely driven and decided by the Nepalese participants from various ministries and levels of government. This was a domestically driven process and much effort was taken to respect and present the findings of the four thematic committees that were responsible for identifying the recommendations. It is equally important to note that the recommendations should not be treated as the ultimate final solutions to the challenges facing federal fiscal governance in Nepal. The recommended pathways map out the next steps for action in the four thematic areas over the next two years. However, the further evolution of federalism must balance responsiveness to external events and citizens' needs whilst remaining focussed on the aims and goals of the reform pathways.

The following key lessons derived from the Knowledge Exchange Programme provide a strong foundation for Nepal to reconsider and roll-out a system of federalism that meets the needs of its governments and citizens.

B. Summary of Lessons to Advance Fiscal Federalism in Nepal

The Knowledge Exchange Programme identified a number of valuable lessons for Nepal drawn from international experiences and the experiences of implementing fiscal federalism so far in Nepal. These lessons are presented in full in Chapter 2 of this report. The following summarises the most important lessons that require high-level government attention.

a) The three levels of government to prioritize identifying and addressing the underlying and emerging fiscal federalism issues – The Knowledge Exchange Programme has broadened the understanding of Nepal's fiscal federalism challenges. The lesson is that, while good progress has been made setting up the foundations of a fiscal transfer system for the equitable distribution of resources to provincial and local governments (PLGs), the associated administrative processes and capacity need improving, and new measures implementing to regularly monitor and measure the achievements of the transfer system and to make fiscal transfers facilitate the achievement of policy outcomes.

b) The effective implementation of fiscal federalism in Nepal will strengthen decentralized service delivery – Nepal's Constitution mandates the Federal Government to collect the major share of revenues to distribute to PLGs through fiscal transfers. Ne-

pal's PLGs account for a large proportion of public expenditure. Considerable variations in sources of revenue, expenditure needs and the fiscal capacities of PLGs requires a robust and transparent fiscal transfer system to correct vertical and horizontal imbalances in the level of resources across and between the levels of government. This calls for innovative and sustainable ways of improving planning and budgeting, financial management, performance monitoring and management, and inter-governmental relations at the PLG level. A robust federalized fiscal system with sound policy and capacity will help improve the effectiveness and accountability of service delivery and investment in the provinces and local governments.

c) The conditional grants to PLGs, which represent about 40% of all transfers to PLGs, need to be linked to development objectives and national policies –

These conditional grants are payments to PLGs to implement national programs and projects that were previously managed by the national government and were transferred to PLGs during the transition to federalism. While the federal government intends to ensure the completion of these programmes and projects, roadmaps are needed for the official transfer of these projects to PLGs to implement and finalise. In addition, while PLGs are responsible, for example, for the provision of basic and secondary education and health care, the Federal Government exercises strong influence on these areas through conditional grants, which can lead to an over-centralisation of policies and programmes and lower levels of local autonomy and responsiveness to diverse needs of local communities and regions.

d) Increasing the flexibility of PLGs in allocating resources will enhance allocative efficiency and innovations –

As in comparable countries such as Brazil, Kenya and South Africa, Nepal's PLGs have autonomy over local taxation and administration and budgeting. However, Nepal's PLGs actually enjoy only limited flexibility in allocating expenditure because only about 30% of their expenditure is financed from internal resources. Conditional grants represent a major proportion of fiscal transfers to PLGs, which limits PLGs' flexibility in allocating expenditure. The Federal Government collects the major share of tax revenues and distributes them to PLGs through fiscal transfers. While this is standard practice in many federal countries, in Nepal, a considerable part of grants to PLGs are earmarked conditional grants, which limits PLG's fiscal autonomy and innovation, as noted above.

e) Fiscal autonomy, expenditure flexibility, and accountability should go hand-in-hand –

Countries such as Brazil, South Africa, and Kenya ensure the fiscal autonomy and spending flexibility of their sub-national governments (SNGs) without compromising accountability, transparency and objectivity. In Brazil, the federal government transfers about 44% of VAT revenues to SNGs with only limited federal control over their use. But Brazil attempts to balance SNGs' autonomy with fiscal discipline and accountability measures, focusing on the proactive disclosure of information and fostering open government practices in SNGs. Kenya has rolled out integrated financial management information systems at the SNG level, which provide a control system and timely information flows. Kenya's Parliamentary Budget Office proactively promotes budget effectiveness. Like Brazil, Switzerland grants unrestricted access to debt for its SNGs (cantons), but the Federal Government imposes hard budget constraints, including no bail-outs for economic distress. The cantons are required to balance their budgets.

f) While Nepal recognizes the importance of regularly monitoring its inter-governmental system,¹ this is hardly carried out due to limited institutional capacity and systems

– The 2019 'Federalism Capacity Needs Assessment' (FCNA)² noted that the national monitoring of the performance of the inter-governmental fiscal system is essential in countries where PLGs have significant fiscal autonomy. This is especially the case in countries such as Nepal where most PLG revenue comes from transfers from the Federal Government. Such monitoring will enable Nepal's Federal Government and National Natural Resource and Fiscal Commission (NNRFC) to check the extent to which the objectives of the transfer system – and particularly equalization, are being fulfilled. It will also allow the Federal Government to look beyond annual budgets and provide some vision about how the fiscal system can be used to stimulate the better allocation of resources within the country.

g) PLGs can be made accountable by monitoring spending and the degree to which spending improves citizens' lives and livelihoods

– Kenya's Commission for Revenue Allocation reviews the performance of SNGs as part of the fiscal transfers recommendation process. In South Africa, the performance management of sub-national governments is (in addition to being linked to grants) embedded in a nationwide monitoring and evaluation framework. The 'misallocation' of funding in school education is a key reason why Australia underperforms on educational outcomes compared to peer nations, and its performance is steadily declining over time. In Nepal, while the Office of the Auditor General conducts performance audits of PLG expenditure; the more systematic monitoring of PLG spending outcomes is needed. Nepal lacks a federal agency or ministry responsible for the M&E of service delivery and local government performance.

h) The National Natural Resource and Fiscal Commission needs to sharpen its focus on ensuring effective fiscal transfers and promoting the commission's accountability

– The NNRFC is a critical component of Nepal's inter-governmental fiscal system charged with recommending the distribution of revenues to PLGs from the consolidated fund. Its formation is meant to give the Government of Nepal a permanent and objective body for managing the distribution of inter-governmental transfers, guiding local revenue mobilization, internal borrowing, and the sharing of natural resources among the three levels of governments. However, the commission is not fully staffed and its staff are frequently reassigned. While the commission carried out a fiscal gap assessment in March 2021 to inform the inter-governmental transfer system, it has still not adopted the resulting recommendations. There is also limited disclosure about how NNRFC's recommendations inform the distribution of the equalization grants.

i) Effective inter-governmental coordination will contribute to better policy outcomes and measures for fiscal federalism in Nepal

– Sound institutional arrangements for coordination and oversight are critical to promote consultation with PLGs in budget processes, including inter-governmental fiscal transfers. Global experience shows that this supports increased transparency, builds trust, and gives credence to the principles of cooperative federalism. While many of the inter-governmental coordination mechanisms en-

¹ The National Natural Resources and Fiscal Commission (NNRFC) Act empowers the commission to appraise the performance of PLGs as the basis for the recommending of grants to them.

² World Bank and UNDP. 2019. Nepal Federalism Capacity Needs Assessment. Kathmandu: Government of Nepal, the World Bank and United Nations Development Programme. Accessed April 2022 at: <https://documents1.worldbank.org/curated/en/503181593615554741/pdf/Nepal-Capacity-Needs-Assessment-for-the-Transition-to-Federalism.pdf>

visaged by Nepal's Constitution are operational, they are mostly ineffective due to weak institutional capacity, lack of political will, limited experience, and most of the institutions being under formation.

j) The weak fiduciary capacity of PLGs is the fundamental challenge to the institutionalization of federalism in Nepal –

The devolution of the fiduciary functions of budgeting, spending and internal controls to PLGs has increased fiduciary risks. This is because public financial management practices at the local level are not adequately developed to provide reasonable fiduciary assurance on the intended purpose of public finances. Procurement capacity is particularly weak among PLGs. PLGs' fiduciary capacity needs to be strengthened and local borrowing should be supported. Specifically: (i) PLGs need to improve local tax collection and revenue administration and establish a monitoring system for collecting revenues; (ii) the federal government needs to use inter-governmental transfers to incentivize revenue mobilization by PLGs; (iii) a federal agency or ministry needs to be established for the M&E of service delivery and local government performance.

k) The absence of a Civil Service Act is constraining the ability of PLGs to operate as autonomous governments –

The act's bill has been pending parliamentary approval since July 2019. Once approved, the Civil Service Act will provide the legal framework to recruit, manage, promote, dismiss, and for the retirement of federal and PLG civil servants. The act's absence leaves PLGs without the means to recruit and manage their civil servants. The adjustments carried out in 2019 did not fill all technical positions in PLGs. Since 2017, PLGs have accounted for about 30% of the national budget. However, the low level of budget execution is raising concerns about the use of public funds by PLGs. Weak institutional and human resource capacities are affecting the performance of federalism at all three levels of government.

The recognition of the above lessons led to the production of the following recommendations for reform:

C. Proposed Fiscal Federalism Reforms in Nepal

The detailed activities needed to implement the following reforms are outlined in the Reform Recommendations Chart at Annex C of the report.

1) Reform the conditional grants to PLGs to make these grants results-driven to incentivize allocative efficiency and accountability for results by:

- a. The federal government adopting the policy of converting conditional grants into performance-based grants;
- b. Reducing the role of federal ministries to developing policies and setting service standards while using conditional grants to PLGs to improve the provision of services;
- c. Shifting the responsibility for recruiting and appointing permanent teachers and health workers from the Federal to the PLG level;
- d. Converting the funding for paying teachers' and health workers' salaries from conditional into unconditional grants so as they can be based on actual expenditure needs;

- e. The Federal Government reviewing the inventory of uncompleted projects in coordination with respective PLGs with the remaining liabilities be calculated, and the required conditional grants transferred to PLGs to complete these projects; and
- f. Ensuring that the conditional grants provided to PLGs for infrastructure development are implemented in line with sectoral programmes.

2) Work towards greater clarity on the division of responsibilities between the three levels of government to enhance the effectiveness of fiscal transfers and resource allocation to them by:

(i) clarifying the roles and responsibilities of the three levels of government to enhance the effectiveness of fiscal transfers and the resources allocated to them; and (ii) deciding on the assignment of specific responsibilities to each level of government. There needs to be a strong emphasis on matching the population benefitting from a public good to the appropriate level of government as the provider. However, it needs to be recognised that the application of the theory of public goods can be messy as many public goods, such as policing, serve both the national and regional levels to different degrees, making it difficult to draw boundaries, especially in areas of concurrent responsibility under the Constitution. In such cases, systematic coordination is needed, including in budgeting and planning to facilitate a federal decentralized system.

3) Prioritize measures to address the socio-economic diversity between the provinces and between local governments by: (i) conducting fiscal gap assessments and ensuring the results inform the distribution of equalization grants; (ii) promoting the systematic monitoring and evaluation of the effectiveness of fiscal transfers; and (iii) supporting the development of data collection instruments in PLGs level for collecting more useful administrative and social economic data to inform the distribution of grants to PLGs.

4) Strengthen inter-governmental coordination by: (i) extending the pre-budget consultations of the Federal Government to include the PLGs for their feedback on proposed fiscal transfers; (ii) holding mandatory budget discussions on proposed conditional grants between provincial sectoral ministries and local government associations to facilitate 'bargaining'; (iii) the Federal Government coordinating regularly with PLGs and facilitating their work; (iv) the Intergovernmental Fiscal Council conducting regular budget forums with representatives of all three levels of government to discuss fiscal, budgetary and financial matters that affect local governments.

5) Take measures to improve the performance management of federal ministries and PLGs by: (i) developing an integrated reporting system that connects the three levels of government to facilitate performance measurement and tracking outcomes; and (ii) developing mechanisms to support transparent monitoring, evaluation, and reporting of public spending and the delivery of public services by the Federal Government and PLGs.

6) Improve the performance monitoring systems and capacity of PLGs by: (i) incentivizing performance monitoring and reporting by PLGs, (ii) rewarding local innovations and outstanding public service performance, and (ii) developing monitoring systems and capacity of PLGs to oversee and manage their own programmes

7) Improve PLG financial management by: (i) the Federal Government and independent third party organisations supporting and carrying out the monitoring and evaluation of PLG programmes including the work of legislatures and independent institutions; (ii) building the capacity of PLGs and their political leadership on financial management; (iii) strengthening PLGs' internal control systems ; and (v) promoting the fiscal responsibility of PLGs.

8) Improve the collection and governance of tax revenues by PLGs by: (i) better defining the tax bases of the three levels of government; (ii) increasing PLG revenue mobilization by changing tax policy and administration starting with property taxes; (iii) working towards the harmonization of tax bases across the three levels of government to avoid double taxation; (iv) building the capacity of PLGs to raise revenue; (v) promoting the accountability of PLGs to local communities on the use of public funds and service delivery aimed at building trust among PLG-level stakeholders on the value of more local revenue raising.

9) Promote a coordinated approach to finalizing, implementing and monitoring these reform actions. The implementation of these recommended reforms should be facilitated by the Fiscal Federalism Coordination Division at the Ministry of Finance in coordination with (i) the National Natural Resources and Fiscal Commission(NNRFC), (ii) the National Planning Commission (NPC), (iii) the National Steering Committee of the Federalism Capacity Needs Assessment at the Ministry of Federal Affairs and General Administration (MoFAGA), and (iv) the yet to be established Implementation Task Force for the Development Action Plan of the Nepal Knowledge Exchange Programme.

Acronyms and Abbreviations

ADCCN	Association of District Coordination Committees of Nepal (ADCCN)
CRA	Commission on Revenue Allocation
FCNA	Federalism Capacity Needs Assessment
GST	Goods and Services Tax
IGAFFR	Intergovernmental Agreement on Federal Financial Relations
IPC	Inter-Provincial Council
MoEST	Ministry of Education, Science and Technology
MoFAGA	Ministry of Federal Affairs and General Administration
MoHP	Ministry of Health and Population
MuAN	Municipal Association Nepal
NARMIN	National Association of Rural Municipalities
NPC	National Planning Commission
NNRFC	National Natural Resources and Fiscal Commission
OCMCM	Office of the Chief Minister and Council of Ministers
OPMCM	Office of the Prime Minister and Council of Ministers
PLG	Provincial and Local Governments
SALGA	South Africa Local Government Association
SNG	Subnational Governments
VAT	Value Added Tax

CHAPTER 1

Introduction

1. Knowledge Exchange Programme – This report was prepared by the Forum of Federations,³ in coordination with the Government of Nepal and the World Bank. It summarizes the lessons learned and reforms areas identified from Nepal's 2019/20 Knowledge Exchange Programme on fiscal federalism. The goal of this programme was to provide pathways for participants to advance the implementation of fiscal federalism in Nepal by exposing senior government officials to comparative experiences in Australia, Canada and South Africa. It aimed to disseminate knowledge on fiscal federalism to broaden understanding of stakeholders of the emerging fiscal federalism challenges in Nepal and develop solutions informed by relevant applicable international experiences.

2. Study visits – The programme was initiated in November 2019 with 33 government officials, including representatives of provincial and local governments (PLGs), making study visits to Brazil, Kenya and Switzerland in different groups between November 2019 and March 2020. These countries were selected based on credible and comparable lessons they offer for Nepal government officials on fiscal federalism. Annex A lists the participants in these visits.

3. Workshop phases – The workshop part of the Knowledge Exchange Programme had an orientation and preparation phase; a study visit debriefing workshop on 6 December 2021, the expert-led discussion on fiscal federalism (7-10 December 2021) and four focus group discussions held from 13-16 December 2021 in Kathmandu for officials from the three levels of government (Annex B lists the participants).⁴

4. Preparation phase – The preparation and orientation phase from September to December 2021 involved the World Bank in coordination with the Forum of Federations conducting several formal and informal consultations with government stakeholders, Development Partners and focus groups. Extensive research was also done referencing the 2019

³ The Forum of Federations is a global network on federalism and devolved governance. The Ottawa, Canada-based organisation develops and shares comparative expertise on the practice of federal and decentralized governance through a global network

⁴ Note that this report uses the term 'levels' of government. The terms 'tiers' and 'spheres' of government are used elsewhere to refer to the same thing with the intention of avoiding indicating a hierarchy of governments. Level is, however, used here as the most familiar term in the Nepali context.

Federalism Capacity Needs Assessment (FCNA)⁵ and other documents to comprehend Nepal's challenges. In addition, a pre-workshop survey was conducted in December 2021 to inform workshop preparation, help tailor the workshop to participants' needs, and identify the different focus group participants.

5. The workshop – Building on the lessons learned from the study visits; the government hosted a workshop from 6–17 December 2021 that brought together experts from Canada, Australia, and South Africa to lead discussions with Nepali officials on experiences of fiscal federalism in those countries. The workshop was attended by 76 participants consisting of representatives from all three levels of government and development partners and civil society organizations. The workshop discussions focused on (i) inter-governmental fiscal transfers, (ii) provincial and local government performance management, (iii) public financial management, and (iv) provincial and local government taxation. It provided an invaluable opportunity to collect participants' perspectives on fiscal federalism in Nepal and resulted in the development of the ambitious yet practical recommendations that are presented in Annex C of this report.

6. High level of engagement – The degree of engagement of the senior officials and government representatives in the programme and their willingness to learn from international best practice on fiscal federalism showed a strong commitment to achieve genuine federalism in Nepal. The outcomes of this Knowledge Exchange Program provides much cause for optimism on the maturation of a genuinely federal system of governance in Nepal.

7. Expert contributions – Fiscal federalism experts from the respective countries facilitated the workshop. The Forum recruited at least one expert on each target country (see Annex D). Each expert was assigned one or more thematic areas of fiscal federalism, depending on the major lessons to showcase from the comparison countries. Each expert delivered several presentations at the expert-led workshops on the assigned thematic areas and on each country (see Annexes E and F).

⁵ World Bank and UNDP. 2019. Nepal Federalism Capacity Needs Assessment. Kathmandu: Government of Nepal, the World Bank and United Nations Development Programme. Accessed April 2022 at: <https://documents1.worldbank.org/curated/en/503181593615554741/pdf/Nepal-Capacity-Needs-Assessment-for-the-Transition-to-Federalism.pdf>

CHAPTER 2

KEY LESSONS, ISSUES AND REFORMS

8. This section is a compilation of the contributions from the wealth of global and local expertise both prior to and during the two week long workshop, presented under the four themes that were addressed by the four focus groups:

- Intergovernmental fiscal transfers
- Provincial and local government performance management and appraisal
- Provincial and local government public finance management
- Provincial and local government taxation.

2.1 Intergovernmental fiscal transfers

9. Intergovernmental fiscal relations concern how each level of government is funded and how the amount and distribution of funds is determined. Most federal governments raise more revenue from taxes and borrowing than they need for their own direct spending. Federal governments subsequently share some of their tax revenues and make fiscal transfers to help sub-national governments (SNGs) and other constituent units meet their expenditure needs. The aim here is to effect redistribution within the country and promote the objectives of federal government. The manner of such revenue sharing and transfers differs greatly in different federal countries.⁶ A good fiscal transfer system will determine fiscal transfers on the basis of objectively verifiable criteria, using verifiable data, and having objective formulas and procedures. The following are the seven key lessons that emerged on this subject from the Knowledge Exchange Programme.

Lesson 1: Strengthening the fiscal autonomy of sub-national governments is important to promote effective fiscal federalism; but needs well managing to avoid fiscal instability

⁶ Forum of Federations. 2010. Fiscal Federalism: A Comparative Introduction, p. 50. Oxford, UK: Oxford University Press.

10. The redistribution of resources – As far as possible, SNGs with spending responsibility should be able to raise revenue associated with their responsibilities. This will result in efficient decision-making and local democratic accountability. However, central governments usually have access to larger and/or more efficient tax bases than SNGs and are typically better able to redistribute resources from wealthier to poorer SNGs. Fiscal gaps or imbalances materialize where SNGs have more responsibilities than they can fund from their own revenues. Inter-governmental transfers are designed, in part, to fill these gaps. This is particularly critical in the context of Nepal's on-going transition to a federal system of governance and its relative underdevelopment. However, too high levels of sub-national fiscal autonomy can threaten macro-economic stability.

11. Roles – The starting point for inter-governmental fiscal relations is determining who does what – in other words, what is each level of government responsible for and how should they pay for it? A number of considerations come into play while clarifying roles and responsibilities among levels of government. These include taking a collaborative rather than a 'top-down' approach; following the pay-for-say principle and avoiding unfunded mandates; considering local fiscal capacity (making sure sub-national governments can provide services they are made responsible for); respecting local and regional differences; and looking forward not backward by considering what could be coming down the road and not what happened before. One general comment made at the workshop was that not too much should be expected of large-scale, centrally driven, government-wide exercises to unbundle responsibilities, and that sectoral leadership and negotiations are often more capable of producing sustainable clarity on functional assignments.

Comparative international experience

12. Australia has a high degree of vertical fiscal imbalance, with the Federal Government raising much more taxation revenue than it needs to fund its constitutional responsibilities, while the States, which are responsible for large areas of service delivery and policy making, do not raise sufficient revenues to fully fund their responsibilities. For example, the responsibilities for providing school education are complex and fragmented. States are responsible for the management, the majority of funding, delivery of public school education and the regulation of the quality of education and standards in all schools; while the federal government is responsible for the majority of the funding of private schools that comes from government, with delivery and management outsourced to private schools. States lack the tax base and fiscal capacity to fund both public and private schools and as such, private schools receive a disproportionately large share of public (federal) funding while public schools remain underfunded. The misallocation of funding in school education is thought to be a key reason why Australia underperforms on educational outcomes compared to peer nations, and its performance has steadily declined over time. Citizens find it hard to know who to blame for poor educational outcomes because accountability is obscured, but the obvious solution – for States to fund and manage all school education – remains out of reach because of the imbalance between fiscal capacity of states and the Federal Government.

13. Canada is one of the most decentralized countries in the world and provides its sub-national governments with great flexibility on their use of grants from the Federal Govern-

ment. The Constitution defines the ten provinces as 'sovereign entities' meaning they act on their own accord. The Federal government has the power to raise money by any means of taxation, but provinces can also levy direct taxes. Local governments have limited taxation authority, which is delegated by the provinces. The Federal government allocates inter-governmental transfers to provinces.

14. Canada's system of allocations – Key examples of Canada's system is the allocation of funding for health care, which is unconditional except that, provinces must follow federal health legislation. Importantly, there is an equalization programme to provinces in the form of unconditional allocations, calculated to level the playing field between provinces. The Federal Government also provides limited funding to municipalities (local governments). Transfers from provinces to municipalities vary from province to province and may be conditional or unconditional (which include revenue sharing arrangements, equalization grants, and per capita grants). Conditional grants to municipalities are directed at expenditures on services such as transport, roads, water, and sewerage and are conditional on being spent on those functions. Sometimes they are lump sum grants while sometimes they are matching grants where the province agrees to pay a percentage of municipal expenditures on that function. Even though the system is well-established, municipalities regularly complain about the vertical fiscal imbalance and ask for more taxation powers and fewer conditions on transfers. Transfers are thus often contentious.

15. South Africa is a unique example of how sub-national governments are granted greater flexibility in applying conditional grants while the Federal Government provides parameters on their effective use. In South Africa, conditional grants to SNGs are intended for particular purposes, including to (i) address underdevelopment in parts of the country, (ii) implement national policy priorities, (iii) build governance capacity, and (iv) develop infrastructure. The implementation of conditional grants is guided by the 'Frameworks for Conditional Grants to Municipalities,' which provides specific details about the rules on how these grants can be used and should be reported upon. Provincial allocations are closely linked to national policy decisions, whereas municipalities (local governments) have greater autonomy by virtue of their assigned exclusive powers and their revenue raising mandates. The national government allocates funding annually as unconditional and conditional grants to both provinces and municipalities on the basis of a symmetrical system outlined in the Constitution. Municipalities have greater revenue raising power than provinces, which makes them more accountable to the public and allows for greater autonomy. However, both provincial and national governments have an oversight role on fiscal and service delivery matters, which forces municipalities to account not just to the public, but also to their provincial governments, with whom they share a limited range of responsibilities, and to the national government. Provinces generally want more taxing authority and more control over determining their areas of responsibility.

16. Brazil – A defining element of Brazil's fiscal federalism is the high level of autonomy granted to SNGs. Unlike Nepal's provinces, Brazil's states have the authority to collect important taxes, and have used their tax autonomy to attract businesses through tax incentives. However, while many states have experienced a significant economic transformation

Box 1: Strengthening the fiscal autonomy of Nepal's PLGs

Strengths – The workshop participants identified a number of strengths in Nepal's inter-governmental fiscal system: i) It has a vertical revenue-sharing mechanism comprising a federal fund for revenue sharing and regular monthly releases; ii) it established equalization grants and developed indicators and formula-based inter-governmental fiscal transfers as recommended by the National Natural Resources and Fiscal Commission (NN-RFC); and iii) demand-based (conditional) grants complement the equalization grants.

Issues to address proposed by workshop participants:

(a) Nepal needs to pursue greater clarity in the division of responsibilities among the three levels of government. Where ambiguity exists, the 'default' approach to clarifying responsibilities has so far been to resort to fiscal capacity and institutional capacity, both which tend to accrete power to the federal and local governments rather than the new provinces, thereby undermining the case for federalism.

(b) The significant fiscal imbalance and discrepancies among sub-national governments in Nepal undermine fiscal and policy autonomy in PLGs. Vertical and horizontal equalization mechanisms are underdeveloped and insufficient to address fiscal imbalances.

(c) Provinces and local governments differ widely in terms of resource mobilization, socio-economic status, and (lack of) institutional capacity, and there is not sufficient data on performance and fiscal gaps with regard to sub-national government. Low levels of general public administration capacity constrain progress on the implementation of fiscal federalism at all levels.

(d) There are a multiplicity of conditional grants and some fiscal transfer mechanisms are ambiguous. This has led to central funds being distributed in a scattered manner.

(e) A further challenge is the limited capacity of many sub-national governments to use transfers. Nepal needs to redesign conditional grants, particularly for funding the provision of health care and education.

Major reform actions proposed by government participants

Government participants proposed the following major reforms to clarify the roles and responsibilities of the three levels of government in order to enhance fiscal transfers and resource allocation among the three levels of government

(a) Decide on the assignment of specific responsibilities to each level of government. A strong emphasis is needed on matching the size

of populations benefitting from a public good to the appropriate level of government as the provider. Many public goods, such as policing, serve the national and regional public to differing degrees; hence it can be difficult to draw boundaries, especially in areas of concurrent responsibility, as in Nepal.

(b) Promote more coordination in budgeting and planning in Nepal's decentralized system.

(c) Redesigning conditional grants on the basis of performance levels and incentives would involve setting of (i) national targets or standards in key outcome areas, (ii) provision of differential funding to Provinces and Local Governments to reflect varying conditions on the ground, including varying starting positions in relation to national targets and varying local revenue-raising capacities and (iii) requiring Provinces and Local governments to design their own interventions to achieve the national targets (rather than those being specified by the federal government) in order to reinforce accountability at the SNG level and to ensure tailoring to local needs and issues.

Additional considerations from the workshop experts:

(a) The need to first clarify fiscal roles and responsibilities and then clarify goals for grants – It is important to first determine the responsibilities that PLGs undertake and how they will pay for them to understand the fiscal gaps. For example, such a clarification exercise identifying a fiscal gap in local governments would show the need for them to receive unconditional transfers except if the delivery of the service crosses its boundaries, where conditional transfers would be necessary.

(b) Inter-provincial coordination should be promoted – At its most basic level, interprovincial coordination enables the sharing of information among jurisdictions with the same responsibilities, which has both practical and reform benefits. On the practical side, for example, provinces might standardize the information collected about school children such that if a family relocates between provinces their educational history can be easily shared to enable a more seamless transition. On the reform side, provinces might compare how they run service delivery systems to choose the best approach and/or consider options for reform. In both cases, there is only a limited need for the involvement of the federal and local governments – in fact, their participation may only increase the administrative burden and reduce the willingness of provinces to openly share information.

(c) Fund wastage – There is the risk that already invested infrastructure costs can be lost if funding is discontinued and projects remain incomplete due to performance failures.

by attracting private investments through tax incentives, this has also resulted in unhealthy fiscal competition between states. Economic benefits accrued from tax incentives to state governments in Brazil include infrastructure development, and the provision of jobs. Parana State officials acknowledge that tax incentives to businesses have contributed to their state's economic expansion, and ranked fourth among Brazil's twenty-five states in terms of fiscal health in 2020. Today, Sao Paulo is no longer the only hub of economic activities in Brazil. While Nepal's PLGs do not have the same level of tax autonomy as their counterparts in Brazil to incentivize cross-border investments using tax instruments, it would be worthwhile to explore other opportunities to put PLGs in charge of promoting investments in their jurisdictions.

17. Applying these lessons to Nepal – Reforms suggested by workshop participants for strengthening the fiscal autonomy of Nepal's PLGs are detailed in [Box 1](#).

Lesson 2: Good (untied) fiscal transfer systems determine fiscal transfers on the basis of objectively verifiable criteria, use verifiable data, and use objective formulae and procedures

18. Tax sharing – In federal systems, tax sharing is usually done via established formulas that are based on expenditure needs, which may be in place for a number of years. Such sharing formulas and the processes to arrive at them can be legally entrenched so that federal governments cannot easily change them. When this is so, the share of taxation revenues is transparent and predictable. Recommendations and suggestions are only as valuable as the information on which they are based. Access to all information, held primarily by government officials, is thus of paramount importance.

19. Safeguards against politicization – A number of federal countries take measures to guard against the politicization of allocative decisions. A central feature is that distribution should be made by experts who make their decisions independent of the narrow concerns of the governments of the day. Moreover, institutions with independent expertise may assist with the implementation of federalism, for instance, by improving budgetary processes, counteracting patronage systems, and facilitating coordination between different levels of government. Such institutions are found in India, Australia, South Africa, Kenya, and Nigeria.

Comparative international experiences

20. Australia – In Australia, an independent commission, staffed by experts, makes non-binding recommendations to the Federal Treasurer, which may be overridden, but in practice are generally adhered to. Ultimately, the final distributive determinations are made on the basis of objective criteria.⁷ Untied grants are determined through a formula to deliver reasonable *horizontal fiscal equalization* to ensure that states have the capacity to deliver broadly similar service levels. The underlying data for the formula is compiled independently by the Australian Bureau of Statistics. The federal government adjusts the level of untied grants from a per-capita basis on the advice from the semi-independent *Commonwealth Grants Commission*. In 2021/22 the revenue-sharing 'relativity' (proportion relative to the average) was 0.4 for the resources-rich state of Western Australia and 4.8 for the Northern

⁷ Steytler, Nico. 2021. The Pivotal Role of The National Natural Resources and Fiscal Commission in Nepal's Intergovernmental Fiscal System. P. 2. Kathmandu: The Forum of Federations. Accessed April 2022 at: <https://forumfed.org/wp-content/uploads/2021/11/The-Pivotal-Role-of-The-National-Natural-Resources-and-Fiscal-Commission-in-Nepals-Intergovernmental-Fiscal-System-FINAL.pdf>

Territory, which is a relatively underdeveloped remote territory with a small population; with these figures fluctuating from year to year; while the two most populous states of New South Wales and Victoria, which have advanced, developed economies with less reliance on natural resources, had stable relativities around 0.94.

(a) Distribution of GST – Recent changes to the distribution of goods and services tax (GST) revenues ensure that states with low relativities continue to receive a floor relativity of 0.7, with the federal government adding its own funding to the GST pool to ensure that other states are not overly impacted.

(b) Are formulas fair? – One of the experts noted that, in common with other federations, untied grant distribution is an ongoing source of tension in the Australian federation. The key issues are not whether the underlying data is correct or whether the formulas have been correctly applied, but rather whether the formulas are 'fair' given changing circumstances and political views.

21. Canada – In Canada, equalization is an unconditional transfer available to the provinces (but not the territories, which are eligible for Territorial Formula Financing). Equalization is designed to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation. The fund is legislated to grow at the rate of a three-year moving average of GDP growth. The allocations depend on a formula, which accounts for provinces' fiscal capacity compared to the average fiscal capacity of all 10 provinces. At national average tax rates, if a province's fiscal capacity is below the ten province average, it is entitled to receive the difference between the average and its own fiscal capacity. This transfer is often controversial, in particular with respect to how it includes natural resources in the formula and how it is increased annually. Changes to the equalization programme are made through inter-governmental consultations and processes largely between finance officials.

22. South Africa – All major taxes in South Africa are collected by the central government and distributed across the three levels of government. This done through a vertical division between the three levels (after deducting national debt servicing). Over past years, the division has been roughly 10% to local governments, 40% to the provinces, and close to 50% that stays with the national government. Subsequent to that, there is a horizontal division, i.e. the distribution of funds across each level through a transparent formula and conditional grants. Provincial governments have limited revenue raising authority and are thus almost entirely dependent on the national government. Municipal revenue potential is more substantial but also dependent on external volatilities. The Division of Revenue Act (DoRA) provides allocations over three years, the first year being set and the two outer years being (accurate) predictions. This enables provinces and municipalities to plan and budget for these transfers over the Medium Term Revenue Expenditure Framework (MTREF) period. There are generally two types of inter-governmental grants. The first is the equitable share unconditional grants, which are determined according to a formula that links to the provincial or local government functions. The second are conditional grants, which are managed by national sector departments and are aimed at promoting national key priorities.

23. South Africa – In South Africa, regular, cyclical consultations take place on fiscal and budget matters in the Budget Council (National Finance Minister and provincial finance

Box 2: Promoting good (untied) fiscal transfer systems in Nepal that are based on objectively verifiable criteria and that use verifiable data and objective formulae and procedures

Strengths - Nepal has made significant progress in setting up its fiscal transfer system to provide a solid foundation for the objective and equitable distribution of resources to PLGs. The NNRFC completed a fiscal gap assessment in March 2021 to inform the inter-governmental transfer system, although it has yet to adopt the report's recommendations.

Issues to address that were identified in the workshop:

(a) The wide fiscal gaps between PLGs limits their ability to meet their expenditure responsibilities.

(b) The NNFC has not adopted the fiscal gaps assessment report that will inform the allocation of equalization grants based on the expenditure needs and revenue potentials of PLGs

(c) There is limited disclosure on how NNRFC's recommendations are informing the distribution of the equalization grants.

(d) There is limited capacity and inadequate measures to support the regular monitoring and measuring of the transfer system's achievements and how far fiscal transfers achieve policy outcomes.

(e) Limited data affect the development acceptable indicators for different grants for PLGs.

Major reform actions proposed by government participants

(f) The National Planning Commission should (i) update the existing national data profile on human development, and economic and public ser-

vice delivery; and (ii) coordinate sectoral ministries and PLGs to ensure regular update administrative records in the national data profile.

(g) Conduct regular community surveys to measure citizens' perceptions about public service delivery to identify gaps and promote accountability of spending authorities and inform the allocation of budgets.

(h) The Ministry of Finance and FCGO to update and upgrade the Subnational Treasury Regulatory Application (SuTRA) and the Provincial Line Ministry Budget Information System (PLMBIS) to enhance the tracking of the allocation and use of fiscal transfers.

Additional considerations from the workshop experts

(a) Promote consultations – Increased consultations with PLGs in the budget process, including on inter-governmental fiscal transfers, will increase transparency, build trust, and give credence to the principles of cooperative federalism in Nepal.

(b) Codify and agree on the approach – It can be useful to codify and agree on the approach to inter-governmental fiscal transfers to reduce the possible misuse or overuse of mechanisms (such as conditional grants) and provide provinces and local governments with greater certainty of transfers over time.

Reliable data – The use of reliable data contributes to transparency. The socio-economic context and institutional evidence to inform untied grants can emanate from survey and administrative data.

ministers) and the Budget Forum (also including the Local Government Association). Similar to Nepal, South Africa has the Financial and Fiscal Commission. Australia has the Commonwealth Grants Commission while Kenya has the Commission on Revenue Allocation. These institutions provide key inputs, advice and decision-making support on inter-governmental fiscal matters.

24. Australia – Australia's federal fiscal arrangements are specified by the Intergovernmental Agreement on Federal Financial Relations (IGAFFR), which sets out how grants and payments from the federal government are made to states and territories to decrease vertical fiscal imbalance between the Commonwealth (the central government) and the states and increase horizontal fiscal equity between states. Deviations from the standard practices are considered to break inter-governmental agreements, which requires either a re-negotiation of the IGAFFR or a change to the fiscal transfer.

25. Applying these lessons to Nepal – Reforms suggested by workshop participants for promoting good fiscal transfer systems in Nepal are detailed in [Box 2](#).

Lesson 3: Use conditional grants as instrument to achieve specific and measurable purposes while also building the capacity of sub-national governments

26. Conditional grants – The use of conditional grants has the great ability to link inter-governmental financial transfers to the achievement of specific and measurable federal outcomes, while reducing corruption and improving transparency. They are an important tool to ensure that federal transfers result in outcomes that citizens benefit from and value and should be employed more frequently in Nepal. However, their misuse and overuse can have downsides that need to be actively managed and avoided. Highly prescriptive conditions imposed by the federal government (often called ‘input controls’) can obscure accountability, reduce local democratic accountability, and consign provincial and local governments to becoming mere ‘service delivery agents’ of the federal government. Similarly, overly prescriptive conditions can reduce the perceived or actual need for provinces and local government to develop and mature their own policy design and service delivery capacity, increasing their reliance on their federal counterparts. The result of the overuse of conditional grants could be to have two (or more) levels of government doing what was previously done by only one, without any improvements to citizens’ lives and livelihoods, which could jeopardize public support for the federal system of government.

27. Local flexibility – Conditions on grants should be focused on outcomes while permitting local flexibility, and on reducing the reliance of provinces and local governments on the federal government over time. Conditional grants should also not be designed in a way that discourages sub-national governments from raising their own revenues.

Comparative international experiences

28. South Africa and Australia – In South Africa, federal conditional grants are used to (i) address under-development in certain parts of the country, (ii) implement national priorities, (iii) build governance capacity, and (iv) develop infrastructure. Each grant is accompanied by a dedicated conditional grant framework that details how it is to be used and reported on. It is a unique example of how a federal government can guide conditional grants while respecting sub-national autonomy. In Australia, sectoral councils for health, education, infrastructure, energy, rural and regional, engage provincial sectors on fiscal transfers, resulting in agreed policy and grant terms.

29. Australia – The major hospital system reforms of 2010 in Australia are a good example of the use of conditional grants. As part of those reforms, the federal government attached conditions to its financial grants to states which both (i) held states to better account for hospital activities, such as meeting specific targets for elective surgery waiting times or emergency department services, and (ii) funded and required states to learn, adopt and deploy new and improved mechanisms for public hospital system management to improve

Box 3: Transforming conditional grants into performance-based grants while building the capacity and increasing the fiscal autonomy of Nepal's PLGs

Strengths - The conditional grants to Nepal's PLGs have so far been used responsibly to mitigate the risks of disrupting the provision key public services during the transition to federalism. The conditional grants are largely cost reimbursement grants as they are used to cover the cost of salaries of transferred central government employees (mostly education and health personnel) and to the costs of legacy projects from the former centralized regime. This was a smart temporary arrangement aimed at minimizing the impact of the transition on the delivery of key public services such as education and health and investment programs which were managed by the previous central government. The workshop participants acknowledged the risk that already invested infrastructure costs could be lost if funding is discontinued and projects remain incomplete due to performance failures.

Issues to address – The following issues were raised in the workshop:

(a) The ratio of conditional grants to total grants is high accounting for 40% of all transfers to PLGs. This limits PLGs' flexibility in allocating expenditure.

(b) Nepal's conditional grants are not tied to the achievement of measurable objectives. A large number of payments to PLGs are for national programmes that were previously managed by the national government and were transferred to PLGs during the transition. While the Federal Government intends to complete these programmes, a roadmap is needed for the completion and transfer of these programmes to PLGs.

Major reform actions proposed by government participants to make conditional grants more effective:

(a) Reform the conditional grants system, by introducing performance-based grants and tailoring them to the achievement of well-defined objectives and national policies.

(b) Reduce the proportion of conditional grants to total grants from the current 40% to a lesser level determined through an inclusive and participatory process.

(c) The Ministry of Education, Science and Technology (MoEST) and the Ministry of Health and Population (MoHP) to adjust permanent teachers and health workers to serve under PLGs.

(d) Convert the cost of teachers' and health workers' salaries into unconditional grants determined based on the costs for the next fiscal year.

(e) Review the inventories of uncompleted projects in coordination with respective provinces. Remaining liability should be calculated and the required conditional grant transferred to PLGs. The responsible agencies for this are the federal and provincial sectoral ministries, the Ministry of Finance and the National Planning Commission.

(f) Ensure that conditional grants for infrastructure are based on sectoral programmes.

Additional considerations from workshop experts:

(a) Extend the pre-budget consultations of the Federal Government for PLG's feedback on proposed fiscal transfers.

(b) Hold mandatory budget discussion on proposed conditional grants between PLG sectoral ministries to facilitate 'bargaining'.

(c) The Federal Government to coordinate regularly with PLGs and facilitate their work.

(d) The Intergovernmental Fiscal Council to regularly hold budget forums with representatives of all three tiers of government to discuss fiscal, budgetary and financial matters that affect local governments.

the efficiency of hospitals. By achieving the second condition of the grants, states permanently increased their capacity and capability to manage hospitals beyond the term of the fiscal transfer. The improved management capacity also enabled States to deliver better hospital services and meet the hospital activity targets set out in the first condition of the grant, which really mattered to citizens and health sector stakeholders. Lastly, the improved efficiency of state public hospitals reduced the future costs of co-funding by the federal government.

30. Canada – In Canada, the federal government provides health and social transfers to provinces on a per capita basis. The conditions are few and rarely enforced. Infrastructure grants to local governments are often for specific purposes, such as road or transit improvements. There are a myriad of provincial conditional transfers to local governments to help pay for specific services, which often have a number of conditions attached to them.

31. Applying these lessons to Nepal – Reforms suggested by workshop participants for transforming conditional grants into performance-based grants while building the capacity and increasing the fiscal autonomy of Nepal's PLGs are detailed in [Box 3](#).

Lesson 4: It is critical to promote accountability and an inclusive process in the inter-governmental allocation and budget process

32. Promoting consultation – Effective inter-governmental coordination should lead to better outcomes of fiscal federalism policies and measures in Nepal. Institutional arrangements for coordination and oversight are critical for promoting consultations between federal government agencies and PLGs in the budget process, including on inter-governmental fiscal transfers. Global experience has proved that this increases transparency and builds trust in line with the principles of cooperative federalism. However, it needs keeping in mind that fiscal allocations between government units present technical challenges and can rely on subjective judgements. Special attention is needed to ensure that these processes and funding arrangements do not neutralize or interfere with constituent units' ability to spend their budgets or impact their tax responsibilities. Whatever, accountability and inclusive practices will increase constituent units' fiscal responsibility and should improve the delivery of services.

Comparative international experiences

33. Consultation platforms – International experiences show that promoting consultations with sub-national governments on national budget processes, including on inter-governmental fiscal transfers, will increase transparency, build trust, and give credence to the principles of cooperative federalism in Nepal.

(a) South Africa's Budget Forum is an excellent example of a type of platform for promoting consultation. These forums are held by the country's Budget Council, which consists of the Federal Finance Minister and provincial finance ministers. The forum discusses any fiscal, budgetary, or financial matters affecting local governments with the participation of the Budget Council plus the Local Government Association. Regular, cyclical consultations takes place on fiscal and budget matters in the Budget Council and the Budget Forum. Similar to Nepal's NNRFC, South Africa has a financial and fiscal commission, Australia its Commonwealth Grants Commission and Kenya its Commission on Revenue Allocation. These institutions provide key input, advice and decision-making on inter-governmental fiscal matters.

(b) Kenyan fiscal commission – The coordinating role of Kenya's Commission on Revenue Allocation (CRA), provides a good example for Nepal. The CRA has the good practices of (i) all its commissioner positions being filled; (ii) it functioning through committees that are chaired by commissioners; (iii) each committee being linked to a directorate in the commission's secretariat; (iv) it enjoying a high level of stakeholder support, including from the Ministry of Finance; (v) it reviewing the performance of the SNGs as part of the fiscal transfer recom-

Box 4: Promoting accountability and an inclusive process in the inter-governmental allocation and budget process in Nepal

Strengths - The Government enacted several pieces of legislation to support intergovernmental coordination, including (i) the Inter-Governmental Relation Act (2020), which outlines coordination mechanism and execution of the concurrent power among three levels of governments, to operationalize effective inter-governmental coordination among themselves and (ii) Intergovernmental Fiscal Arrangement Act (2017), which prescribes the necessary measures regarding revenue rights, revenue sharing, grants, loans, budget arrangements, public expenditures and fiscal discipline to the Federal and PLGs. The Government has supported the creation of various coordination mechanisms in line with the Constitution and relevant laws, aimed at strengthening intergovernmental coordination. Many of the coordination mechanisms are operational.

Issues to address – There is insufficient consultation between the Federal Government and PLGs in the annual national budget process and on the implementation of national policies and programmes. There is also insufficient feedback and reflection on past fiscal transfers. While many of the inter-governmental coordination mechanisms envisaged by the Constitution are operational, they are mostly ineffective due to weak institutional capacity, lack of political will, and limited experience, as most of the following institutions are still in the formative stage.

(a) The Intergovernmental Fiscal Council (IGFC), which is chaired by the minister of finance and includes provincial finance ministers among others, provides an important platform to discuss the important issues on PFM, including budget. The IGFC held 7 meetings since its creation in 2017, but outcomes of its meetings are not published.

(b) The National Natural Resources and Fiscal Commission (NNRFC) is charged with recommending the distribution of revenues to PLGs from the central consolidated fund. This commission is a critical component of Nepal's inter-governmental fiscal system. However, the Nepal Federalism Capacity Needs Assessment

(FCNA, 2019)⁸ found that the commission was not fully staffed, that its secretariat needed to enhance its staff cohort and research capacity on inter-governmental fiscal relations, and that it lacked an adequate database of information to support its work.

(c) The Inter-Provincial Council (IPC) is tasked with coordinating relationships, including resolving disputes, between the federal government and provinces. It performed impressively during its first two years to 2019, but has since been almost dormant. Chaired by the Prime Minister and attended by the Minister of Home Affairs, the Minister of Finance, and provincial chief ministers, at its first formal meeting in 2018 the IPC laid out a Federalism Implementation Action Plan.⁹ However, there has been hardly any progress on implementing the proposed plan, and the council has rarely met and its decisions have not been transparently implemented or reported on.

(d) The Provincial Coordination Committee (PCCs), chaired by the Provincial Chief Minister of each province, promotes PLGs coordination within the province but does not have a secretariat to support the implementation of the council's decisions.

Major reform actions proposed by government participants.

(a) Strengthen the institutional and operational capacity of the intergovernmental coordination mechanism

(b) Enhance pre-budget consultations between the federal government, provinces, and local governments and include feedback to inform fiscal transfers.

(c) Enhance budget discussions on conditional grants with provincial sectoral ministries and local governments.

(d) Promote regular Federal Government coordination and facilitation on addressing the needs of PLGs

mentation process, which serves as an incentive for prudent resource management by SNGs; and (vi) it collaborating with key government stakeholders including the Ministry of Finance, the Controller of the Budget, SNGs, the Auditor General (AG) and civil society organizations.

⁸ World Bank and UNDP. 2019. Nepal Federalism Capacity Needs Assessment. Kathmandu: Government of Nepal, the World Bank and United Nations Development Programme.

⁹ The 2019 FCNA reports that the 2018 action plan identified 29 actions for the federal government to take to facilitate a smooth transition to a federal structure of governance (Interprovincial Council, 2018 and FCNA Annex A). The federal government had agreed to cooperate with the Inter-Provincial Council and expedite the passage of necessary laws.

(c) Kenya's annual summits – Kenya's 2010 Constitution established a two-level federation of the Federal Government and 47 autonomous county governments. The country has developed a strong inter-governmental system for managing relationships between the two levels under its Inter-Governmental Relations Act 2012. The annual summits of federal and county governments are the highest level coordinating instrument for inter-governmental relations. These summits, which are chaired by the President and attended by county governors, are coordinated by the Inter-governmental Relations Technical Committee which is the secretariate of these summits. The secretariat has sectoral working groups, and facilitates the summits' activities, implements summits' decisions and is responsible for resolving disputes on behalf of the Summit. Kenya also has inter-ministerial coordination committees and inter-sectoral coordination forums, which monitor sectoral plans, review progress reports, produce annual reports on matters pertaining to their sectors and implement recommendations from the annual summits.

(d) Brazil – The inadequate attention that Brazil gave to inter-governmental coordination in the early stages of its federal system of governance resulted in many challenges. There was limited coordination among the states. The emergence of unhealthy, intense competition between states to attract businesses showed the need for coordination mechanisms. Nowadays, federal institutions are coordinating better with SNGs, with the Federal Court of Account coordinating with states' courts of accounts being one example of this.

34. Applying these lessons to Nepal – Promising reforms suggested by workshop participants for promoting accountability and an inclusive process in Nepal's inter-governmental allocation and budget process are detailed in [Box 4](#).

Lesson 5: Independent representative bodies at the local government level can play a key role in promoting horizontal interests at the local level

35. Local governments as partners – Local governments play a key role in delivering services and promoting local development. They must be regarded as partners in inter-governmental fiscal relations and should not be seen as mere appendages of provincial governments or passive recipients of grant funding. Particularly when local governments receive considerable federal funding, they ought to be consulted when the Federal Government is determining inter-governmental fiscal allocations. At the same time, it is not possible for the federal Government to negotiate with all 753 local governments. Accordingly, the representative bodies of local governments should be involved to promote local government interests at provincial and federal levels. Collaboration across horizontal and vertical levels of government is advantageous for several reasons, especially so for constituent units that are weaker because of their limited tax base and/or reliance on transfers, regardless of their responsibilities. Mechanisms to coordinate their activities and develop common positions to promote their interests are useful. It is advantageous for these units to come together in representative bodies to present a single voice and for other activities such as capacity building and research.

Comparative international experiences

36. South Africa – The South Africa Local Government Association (SALGA) promotes and protects the interests of local governments and raises the profile of local governments by (a)

supporting local government transformation, (b) supporting local governments to fulfil their developmental mandates and (c) participating in inter-governmental relations. National legislation provides for the 'accreditation' of an association of local governments by the national government. This accreditation then propels the association into a mouthpiece for the entire sector in inter-governmental fiscal relations. SALGA represents local governments in the above-mentioned Budget Forum, which is an intergovernmental relations forum used for budget consultation. The accreditation also makes SALGA the employer body, which negotiates local government salaries with employee unions. In addition, it conducts research, training and advocacy on local government issues and provides induction training to all newly elected councillors. Hence, SALGA represents both the political and administrative components of local government. A challenge has been that both urban and local governments have been brought together in one association. Other countries may have separate associations for urban and rural local governments. The disadvantage of having only one association is that urban or rural matters may be neglected, depending on the orientation of the association's leadership.

37. Canada – The Federation of Canadian Municipalities (FCM), which has 2,000 municipality members across the country, advocates on behalf of municipalities to the federal government. Each province also has at least one municipal association (in some cases there are separate urban and rural associations, or separate associations for large cities in the province), which advocate to the respective provincial governments. They also offer services such as capacity building and research. In Canada, there are thus municipal associations at the national and provincial level that have an advocacy role. In many cases, they also do research and train municipal officials.

38. Australia – The Australian Local Government Association represents local governments in inter-governmental forums; but is largely an observer and does not participate in decision-making due to the fact that a) local governments are devolved entities of states and are not recognized in Australia's Constitution, and b) there is a limited extent to which the association can truly represent the breadth and diversity of Australia's many local governments. Each state has its own local government association that represents local governments in dialogues with their state government (e.g. the Municipal Association of Victoria in the State of Victoria). State representative bodies often offer a range of services to their local governments including capability development, advocacy to the state government, collective purchasing, and advice. The Australian experience shows the critical importance of representative bodies in local government in capacity building and service provision, but also the limits of them in political processes and decision-making, noting that such groups are not democratically elected and must remain subordinate to elected groups in some levels of government.

39. Applying these lessons to Nepal – Reforms suggested by workshop participants for Fostering the participation of independent representative bodies at the local government level in the budget process to promote horizontal interests at the local level are detailed in [Box 5](#).

Box 5: Fostering the participation of independent representative bodies at the local government level in the budget process to promote horizontal interests at the local level

Strengths – Nepal’s federalism system provides space for the involvement of Nepal’s local government associations –the Municipal Association Nepal (MuAN), the National Association of Rural Municipalities (NARMIN) and the Association of District Coordination Committees of Nepal (ADCCN). These institutions should be involved in coordinating and promoting the interests of their constituents in policy processes at the local and federal levels.

Issues to address – Workshop participants highlighted the lack of clarity about the roles and responsibilities of the representative groups in Nepal of MuAN, NARMIN and ADCCN. It was asserted that these groups should coordinate on common goals around municipal gover-

nance outcomes, development and other issues. The proposed reform actions to address these issues included the following:

Major reform actions proposed by government participants.

(a) Incentivize representative groups to carry out coordination roles by formally involving them in monitoring and evaluating government programmes and policies with local governments.

(b) Incentivize and encourage these groups to research and report on the performance of local governments.

Lesson 6: The governance of fiscal transfers requires a large role for sectoral leadership and coordination

40. Risks of concurrent responsibilities – There are notable risks in federations such as Nepal, which have a high degree of concurrent responsibilities between the different levels of government, from the over-centralization of fiscal transfers, especially where they are accompanied by conditions or policy prescriptions. High levels of concurrent responsibility are associated with high degrees of ‘spillovers’ in policy and service delivery successes and failures. For example, in a federation where responsibility for road infrastructure is concurrently held by all three levels of government; poorly funded and constructed regional roads under provincial governments are likely to have significant impacts on both inter-provincial highways at the federal government level and local roads at the local government level. Conversely, highly effective regional roads may reduce the incentive for investing in inter-provincial highways and local roads.

41. Challenges – Significant challenges can emerge from the management of fiscal transfers associated with the sectoral responsibilities of provincial and local governments if budgets are primarily or completely managed by federal agencies rather than the sectoral agencies who are responsible for policy and service delivery. The three main such challenges are: (i) that fiscal transfers become a de-facto policy-making system disconnected from the expert knowledge and people that actually manage and run key systems, such as the road transport, health care and educational systems to the detriment of outcomes for citizens; (ii) that collaboration between levels of government within sectors or systems is replaced or intermediated by collaboration between levels of government in a way that slows progress and increases bureaucracy; and (iii) that the size and complexity of the fiscal transfer system can become unmanageable.

42. Solution – The solution is to establish a system for inter-governmental sectoral coordination in key areas and devolve inter-governmental policy and funding proposals to such sectoral councils for development. In such a system, the role of central agencies becomes one of oversight and approval rather than development and management.

Comparative international experiences

43. Australia – Australia has a long history of informal yet highly effective sectoral inter-governmental coordination through ministerial councils. The federal and state ministers for health, education, economic development and other areas meet regularly in such councils to formally coordinate on policy and service delivery 'spillover' issues and to collaboratively develop proposals for reform, associated with funding proposals. They are supported by more regular meetings of staff in concerned departments to work through the details of policy and funding proposals. Proposals are scrutinized by the central level Council on Federal Financial Relations (comprised of federal and state treasurers) and finally endorsed by the national cabinet (comprised of the prime minister and state premiers). This links the systems of inter-governmental financial relations to the policy and service delivery areas and expertise that citizens value, while retaining an appropriate level of overall system oversight and management through central ministers and agencies.

44. Canada – In Canada, the provinces are sovereign entities and are not subordinate to the federal government. They are fully independent in the areas of jurisdiction that are assigned exclusively to them. However, local governance institutions do not have independent status in the Constitution. Provincial governments have the exclusive authority to make laws in relation to the existence, institutional structures, boundaries, responsibilities, and financing of municipalities. Inter-governmental relations in Canada rely mostly on ad hoc informal networks. The lack of a formalized process does not, however, mean that there is no cooperation or coordination. There are many inter-governmental committees that help coordinate inter-governmental agreements. Meetings between the prime minister and provincial premiers are called from time to time by the prime minister. The Council of the Federation, which was formed by the provincial and territorial premiers, has helped institutionalize relations among provinces. In addition, there are also meetings of provincial finance ministers and many sectoral committees and working groups. However, there is no process to include municipalities or the larger community and the reliance on these informal networks is criticised for lacking transparency.

45. South Africa – It was recognized during the early stages of the establishment of the South African federal system that too little attention was being paid to the provincial-local interface with the main focus on the federal-provincial interface. Yet, the provincial-local interface is crucial for hands-on engagement with local governments. South Africa is trying to counter this by promoting effective political and technical inter-governmental engagement. The provincial-local interface is crucial for hands-on engagement with local governments. The system has evolved with provinces actively monitoring and supporting municipal revenue raising and by collecting monthly income and expenditure statements in addition to quarterly and annual performance reports linked to budget reporting. The under-collection of revenue by local governments is a major issue, often related to lack of political will.

Box 6: The role of sectoral leadership and coordination in governing fiscal transfers in Nepal

Strengths – Almost all local governments have sectoral committees with responsibilities allocated among ward chairs. These committees have taken responsibilities for social, economic and infrastructure sectors.

Issues to address – The main issue concerning sectoral leadership and coordination for the governance of fiscal transfers identified by workshop participants was the lack of coordination across relevant ministries' inputting into budget processes. Local needs and budgetary planning are better understood and catered to when responsible sectoral ministries can make inputs through consultations into the fiscal budgetary process – to improve fiscal governance horizontally and vertically.

Major reform actions proposed by government participants

a) Institutionalise the holding of regular meet-

ings between sectoral ministries across levels of government.

b) Ensure that conditional grants for infrastructure are based on sectoral programmes.

c) Consider the sectoral coordination of service delivery, policy reform and inter-governmental funding proposals to avoid an overly centralized federation. Sectoral coordination should be prioritized in areas of key national interest such as education and health care.

Reforms proposed by experts

(a) Pass the sectoral laws required to enable PLG service delivery programs by clarifying the division of responsibilities among the levels of government and defining service delivery norms and standards for PLGs.

(b) Issue sectoral guidelines based on the standards of related laws.

Provinces will engage with municipality when the latter's revenue collection drops below a certain standard, and may intervene as a last resort.

46. Applying these lessons to Nepal – Reforms suggested by workshop participants for sectoral leadership and coordination in the governance of fiscal transfers in Nepal are detailed in [Box 6](#).

Lesson 7: Institutional arrangements are critical to enhance coordination and oversight

47. Importance of institutionalising coordination – Where access to the major sources of revenue is dominated by the federal government, the inevitable consequence is that provinces and local governments will, to varying degrees, rely on national transfers to perform their constitutional mandates. Within a constitutional paradigm where equality between citizens is a foundational value, the distribution of revenue raised nationally should be done to ensure equitable access to state services for all citizens. The NNRFC was established to serve a similar objective by designing and implementing a fair system for distributing inter-governmental transfers and to monitor these transfers.¹⁰ Most, if not all, federal countries have some form of arrangement to coordinate policy and budget decisions across levels of government. However, not all countries have institutionalized them in law. Also, the extent to which these arrangements are also used for oversight (as distinct from coordination) varies from one federal country to the next.

¹⁰ Steytler, Nico (2021). The Pivotal Role of The National Natural Resources and Fiscal Commission in Nepal's Inter-governmental Fiscal System. P. 1. Kathmandu: The Forum of Federations.

Comparative international experiences

48. South Africa has an Intergovernmental Fiscal Relations Act, 1997, which regulates the annual cycle of budget negotiations between local governments, provinces and the national government, with the Finance and Fiscal Commission as the advisory expert body. The act provides for inter-governmental forums dedicated to inter-governmental fiscal relations and has been crucial in bringing stability and predictability in the inter-governmental fiscal area, particularly in the beginning of the transition to a federal system. It has also ensured that local governments have a voice in debates about the sharing of national revenues. A broader Intergovernmental Relations Framework Act was adopted later in 2005. This act sets out a nationwide architecture for (i) inter-governmental forums at, and between, all three levels of government, (ii) inter-governmental agreements and (iii) inter-governmental dispute resolution. This act has facilitated coordination within sectors and within provinces. However, the inter-governmental forums set up under this act have somewhat moved away from the original mandate of cooperation into being sites for 'upward accountability'. In that sense, inter-governmental fiscal relations now serve the dual purpose of coordination and oversight. Sub-national governments report into the inter-governmental relations structures and mechanisms, and the national government uses those performance reports to make forward looking policy decisions and on inter-governmental funding.

49. Australia – In Australia, much of the inter-governmental fiscal arrangements are set out in the Intergovernmental Agreement on Federal Financial Relations (IGA FFR). This agreement sets out a range of issues, including the institutional arrangements under Schedule A. Arrangements include (i) the requirement for there to be a Standing Council on Federal Financial Relations or similar comprised of the treasurers of states, territories and the Federal Government, (ii) the remit of the Council, and (iii) types of permitted inter-governmental fiscal transfers. Although the agreement is not legally enforceable, and the institutions (including the Council) have no legal basis, the agreement and its institutions operate effectively.

50. Canada – Inter-governmental fiscal relations in Canada are not as institutionalized as in South Africa and Australia; but coordination is pursued through ad hoc informal networks such as the Council of the Federation and meetings between finance ministers.

51. Oversight – Inter-governmental oversight is part of South Africa's system for inter-governmental relations and is provided for in the Constitution and regulated extensively in public finance management legislation. Provinces are tasked with overseeing their municipalities and can intervene if they fail. The national government oversees provinces and may also intervene in provinces that fail. Both instruments are regularly used as corrective measures. However, they are always preceded by efforts to support the troubled municipality or province. Canada has few, if any, institutionalized structures or processes for inter-governmental oversight between the national government and the provinces as provinces are sovereign entities. Provinces do, however, provide accountability frameworks for local governments.

Box 7: Institutional arrangements needed to enhance coordination and oversight in Nepal

Issues to address:

(a) Needs and strengths – Workshop participants highlighted the need for institutionalising pre-budget consultations by the Federal Government with provinces and local governments on fiscal transfers. It was also suggested to ensure regular budget discussions on conditional grants with the sectoral ministries of provinces and local governments. The NNRF is considered as a strength in this regard as it is a constitutional body and has the required autonomy. And the Intergovernmental Fiscal Council has been established as an institutional mechanism for settling disputes.

(b) Oversight – It was noted that it may be necessary for the Federal Government to intervene in provincial governments with inadequate capacity, although capacity constraints must be addressed with the necessary funding and support.

Major reform actions proposed by government participants:

- (a) Ensure annual pre-budget consultations between the national government, provinces and local governments.
- (b) Hold project and programme-wide discussions with provincial governments before finalizing conditional grants.
- (c) Ensure that the Intergovernmental Fiscal Council meets at least four times every fiscal year.
- (d) Encourage inter-governmental agreements for large projects.
- (e) Formulate legislation on inter-local government cooperation and coordination.
- (f) Establish a system of the forward planning of activities that allows for upfront policy considerations and predictability, which makes it simpler to evaluate their implementation.

Recommendations from the experts:

The experts highlighted that in 'young' federations, inter-governmental oversight may be necessary while sub-national capacity develops and systems mature. However, the key consideration for federal oversight is to enable accountability and reporting to the general public. Accountability to another level of government should not overshadow accountability to the public. Governments need to be held to account for the proper spending of funds from all sources. The risk of accountability regimes that require local governments to report to provinces on spending and outputs (or provinces to the Federal Government) is that they reinforce the idea that the lower level of government is merely a service provider to the higher level of government rather than being a service provider to their citizens or constituencies. This can blur accountability and devalue the federal system of government. In the same vein, building and supporting independent institutions that are capable of holding all governments to account is critical to increase transparency and trust. In mature federations, sub-national governments engage in voluntary benchmarking or rely on benchmarking by private sector and non-profit institutions, rather than 'top down' government-driven performance management. In young federations there may be a need for a more enabling system of support that responds to institutional weaknesses

2.2 Provincial and local government performance management and appraisal

52. Provincial and local government performance management refers to the systems through which the Federal Government oversees the activities, outputs and outcomes of other levels of government. In the context of fiscal federalism, sub-national performance is most frequently employed as a mechanism for ensuring that the policy intent associated with fiscal transfers is met.

53. In the context of multilevel governance, it is useful to distinguish the following three approaches to performance management:

- Input-based, by measuring the effort or methods used to generate performance; i.e. when sub-national governments are only permitted to borrow or spend in certain ways.

- Output-based, by measuring the production of the effort; i.e. sector coordination and planning, often tied to fiscal arrangements.
- Outcome-based, by measuring the actual outcomes achieved from the inputs and outputs. In this approach, governments are free to adapt or localize their efforts towards a common, agreed outcome or goal. This system allows the most freedom because approaches can be determined locally.

54. Applying these lessons to Nepal – Reforms suggested by workshop participants related to institutional arrangements for coordination and oversight are detailed in [Box 7](#).

Lesson 8: Improving the performance management of provincial and local governments is critical for the effective implementation of federalism

55. Achieving the minimum viable level of performance management of all levels of government is necessary for some federal service reforms. For example, achieving the nationally agreed-upon objective of significantly improved vaccination rates will probably require the coordinated actions of three levels of government involving funding from the federal government, planning and administrative support from the provincial governments, and community-level service delivery by local governments. It can be presumed to a degree that an effective system of performance management should exist at the federal level. As such, the main need is for the implementation of fit-for-purpose systems of managing the performance of provincial and local levels in relation to their inter-governmental activities to ensure the delivery of coordinated federal actions.

Comparative international experiences

56. Australia and Canada – The performance management of sub-national governments in Australia and Canada is primarily linked to fiscal transfers. The national governments do not monitor or evaluate the performance of provincial and local governments. In Canada, provincial governments do, however, require municipalities to submit financial information returns each year. As part of these submissions in one province (Ontario) municipalities can voluntarily include performance measures. Some municipalities in Canada have come together to identify and collect consistent and comparable performance data. In Australia, State governments have legislated requirements on their local governments to publish both financial and performance data, and many States bring these data together to enable comparison of Local Government performance.

57. South Africa – In South Africa, the performance management of sub-national governments is (in addition to being linked to grants) embedded in a nationwide monitoring and evaluation framework. Central to local government's performance management is integrated in the development plans, which are expected to represent local, provincial and national priorities and to include citizens in evaluating performance. Inter-governmental performance management is essential for the effective implementation of federalism. But it is important not to lose sight of the main objective of performance management, which is the improved delivery of services. For example, in South Africa, performance management sometimes pursues compliance rather than better services. It is important to link performance management to issues citizens care about.

Box 8: Improving the performance management of provincial and local governments is critical for the effective implementation of federalism

Issues to address – In Nepal, the most important issues affecting PLG performance management identified by workshop participants were the need for a more effective reporting system across the three levels of government, the need to improve the monitoring and evaluation of PLG performance, and the limited capacity of PLGs on performance monitoring and evaluations.

Reform actions proposed by government participants:

(a) Establish management information systems (MISs) and completely digitize them within five years.

(b) Create a tailored periodic reporting system by refining the existing tools like local government institutional self-assessments (LISAs), annual audit reports, social audits and public hearings.

(c) Link the periodic reporting of public expenditure with fiscal transfer mechanisms at the beginning of each fiscal year.

(d) Develop outcome-based indicators rather than financial reporting for monitoring performance.

(e) Link local and provincial levels of government with better fiscal transfer systems.

(f) Strengthen the use of district coordination committees (DCCs) as monitoring and coordinating entities that directly report to the provincial offices of chief minister and council of ministers (OCMCMs).

(g) Use the Personnel Training Academy (PTA), provincial centres for good governance (PCGG), and the Local Development Training Academy (LDTA) and their physical infrastructure to create a new institution such as a 'local governance research and personnel training council'.

(h) Provincial councils should report annually to their OCMCMs, which will submit consolidated reports to the Ministry of Federal Affairs and General Administration (MoFAGA) along with policy recommendations and intervention measures.

(i) Develop and execute a tool for PLGs to monitor service delivery performance.

(j) Create a separate institution for the M&E of local governments under OCMCMs.

(k) Build the capacity of local leaders on performance monitoring through peer learning,

knowledge management and networking.

(l) Strengthen the Nepal Administrative Staff College (NASC), provincial centres for good governance (PCGG), and the Personnel Training Academy (PTA) to create good governance and capacity development centres for PLGs.

(m) Link the provision of grants (fiscal transfers) to developing PLGs' capacity.

(n) Link professional training scores to PLG civil servants' promotion.

(o) Directly involve citizens in local government budgeting, planning, implementation and appraisal.

Additional considerations from the experts:

Tailoring performance management to local needs

– It's important while locating performance management in a multilevel context to ask if i) performance management frameworks can be tailored to regional and local needs; and ii) if there can be provinces and/or local governments with differing views responding to local conditions within the framework for performance reporting.

Focus on value for citizens – The focus of enhancing performance management should be on developing the autonomy and independence of provincial and local governments to deliver services that their citizens value. Over-engineering performance management systems risks diverting resources and effort away from generating citizen value and may weaken, rather than strengthen, the capacity of provincial and local governments. It is important to avoid being overambitious while establishing monitoring and evaluation frameworks, particularly given their limited capacity to report and, more importantly, to analyse reports. The focus of reporting should on strengthening the accountability of all levels of government to their citizens.

Conditional transfers – It can be challenging to balance the autonomy of sub-national governments and their entitlement to transfers with the use of conditions for performance management purposes. There was considerable interest at the workshop in the type of reporting mechanisms used in the three focus countries, with each sector often having their own reporting mechanisms. Sectors have their own reasons for seeking reports at particular times. This challenges the integration of reporting arrangements and may overwhelm sub-national

governments. There was also a keen interest in the publication of the results of the annual audits by Nepal's Auditor-General.

Strengthen existing institutions? – Participants asked if there was a need for need an independent agency that is responsible for performance monitoring, providing technical capacity building/data standards, in Nepal besides federal ministries and agencies? Or if it was rather more important to focus on streamlining, consolidating, and strengthening

existing ones to support fiscal federalism in local governments?

A national database should be created for continuous monitoring and evaluating the fiscal and economic performance of PLGs.

The overall framework for data collection and dissemination needs to be redesigned to support decision-making at all three levels of government. This is crucial for the success of the Fiscal Commission (and for fiscal planning in general).

58. South Africa – In South Africa, the framework for integrated development planning compels municipalities to involve citizens in annual planning and budgeting cycles. Municipalities must regularly report to citizens on their performance on certain indicators and performance agreements with senior officials must be made public. Also, South Africa's Ministry of Finance publishes municipal performance data on a free portal called Municipal Money,¹¹ which has become a popular portal used by the public, institutions, the media, and politicians.

59. Applying these lessons to Nepal – Promising reforms suggested by workshop participants for improving the performance management of provincial and local governments are detailed in [Box 8](#).

Lesson 9: Striking the right balance in inter-governmental performance management systems among the three levels of government is essential for effective federalism

I) Performance management – The performance management of sub-national governments is not universally beneficial to federalism. The optimal implementation of SNG performance management should strike the right balance between the benefits and drawbacks (see Table 1).

Table 1: The potential benefits and drawbacks of SNG performance management

Benefits	Drawbacks
Improves the delivery of public value by managing the risks of non-delivery or the poor delivery of services and outputs.	Reduces the scope for the local tailoring and diversity policies, programmes and government interventions by imposing uniformity and centralism via grant conditions and performance targets.
Improves the progress towards shared goals by clarifying the ways in which SNGs can contribute Design, delivery and reporting of national targets for improvement (e.g., in health, economic development etc).	Reduces democratic accountability by enforcing federal government priorities on to SNGs' programmes.
Improves accountability for fund transfers by providing greater public transparency on how transferred funds are spent.	Diminishes the case for federalism by obscuring which government is making decisions Design of policies, programmes and government interventions

¹¹ <https://municipalmoney.gov.za>

Comparative international experiences

60. Australia – In Australia the federal government does not manage the performance of States in a general sense. However, states are accountable to the public by reporting via instruments such as public dashboards while local governments have to follow their states' accountability and performance management frameworks. But states' performance in specific areas of inter-governmental engagement is often managed through conditions attached to inter-governmental transfers by the federal government. These conditions can be specific timebound arrangements, often with output indicators. Or they can be ongoing sector-based arrangements for fiscal transfers, linked to targets and set at the outcome level.

61. South Africa – Performance management in South Africa is highly integrated and highly regulated, with both local and provincial governments reporting into a common framework. There is a close relationship between provincial governments and the central government. A comprehensive legal framework for development planning and reporting has been adopted across the three levels of government. Municipalities development plans and budgets must be informed by national and provincial plans and budgets. However, this is technically complex and counters local autonomy. Municipalities must adopt strategic plans for their entire terms of office. The programme and strategies of these integrated development plans must align with national and provincial governments. Each municipality has an Auditor General at the who carries out financial and performance audits of expenditure and programmes each year and reports the findings and adherence to the development plan to the municipality and the public. Municipalities must submit monthly financial statements to provincial treasuries. Financial management rules combine internal accountability and upward accountability. However, there are the following four concerns with this system:

- The confusion of roles between federal and provincial governments in terms of who monitors local governments.
- The potential overregulation and overreporting with too little substantive value or effect.
- The overambitious expectation of inter-governmental alignment through joint planning.
- The need for accountability to the public as well as to government institutions.

62. Usefulness of upward reporting – The experience in South Africa has been that the usefulness of upward reporting rests on the assumption that there is capacity at the 'senior' levels to conduct the analysis. When this is missing, it results in reporting for compliance's sake. Provinces and municipalities tend to receive poor feedback and are simply burdened with onerous reporting duties. South Africa is trying to counter this by promoting effective political and technical inter-governmental engagement rather than just reporting.

63. Canada – The Canadian system is very different and in many ways the 'opposite' of South Africa's system. Canada's Federal Government does not monitor the performance or finances of provincial and local governments; but instead uses fiscal transfers as leverage to get provinces to achieve certain objectives. For example, health transfers require provinces to adhere to the principles of the Canada Health Act even though health care is a provincial responsibility. The provincial-local relationship differs between provinces, but the annual submission of financial reports by local governments is common across all ten systems.

Box 9: Striking the balance of inter-governmental performance management among the three levels of governments in Nepal

Issues to address:

- Coordination – Workshop participants identified coordination between the three levels of government on periodic planning, implementation and resource mobilization as a very important issue. The point was made that the ultimate authority for implementing inter-governmental performance management of provincial governments lies with the Federal Government in Nepal while it lies with council executives for local governments. Provincial reporting to the Federal Government has mostly been based on the central level auditor general's reports. However, from 2020/2021, the Local Government Institutional Self-Assessment (LISA) is being implemented in local governments.
- Reporting to the public – A general observation was that governments only reporting to other governments can blur responsibility; and that the main need is for SGNs to report to

their constituents, the public. Also, independent institutions have a crucial role to uphold accountability and fiscal transparency in all levels of society and government. At the same time, capability building is essential. Capacity building is not achieved by merely receiving funding to improve capabilities as the focus must be on outputs and, ultimately, outcomes.

Reform actions proposed by workshop participants:

- LGs to produce periodic integrated development plans that align with national standards.
- Formulate legislation to facilitate cooperation and coordination among PLGs.
- Promote platforms for stakeholder dialogue and peer learning at the PLG level.
- Facilitate the meaningful engagement of local government associations and district coordination committees in dialogues on local government performance and M&E.

Local government performance measurement is largely voluntary and not based on legal frameworks with compulsions. Comparisons and benchmarking are often used, but municipalities want to be given the opportunity to explain differences across municipalities, as these differences can be related to external factors.

64. Applying these lessons to Nepal – Promising reforms suggested by workshop participants on of inter-governmental performance management are detailed in Box 9.

2.3 Provincial and local government public finance management

65. Accountability – Provincial and local governments should be accountable to their citizens for the revenues they raise and how they spend the money. Primarily, the public needs to know that their government is spending this money well. This requires clear, accountable, and transparent budgetary procedures and prudent and accountable financial management. There are the following four components of public finance management:

- Budgeting with operational and financial plans to meet stated goals
- Accounting of basic financial information on expenditure, revenues, assets and liabilities
- Reporting on financial positions
- Auditing through the independent verification of accounting records and financial reports.

Lesson 10: Provinces and local governments must be accountable to their citizens for their fiscal plans and performance

66. Clear procedures – Sub-national governments need to be held accountable for their fiscal plans and performance. Accountability and fiscal discipline require clear and properly implemented budgetary and financial systems and procedures. Financial documents are required for accountability and should be timely, verifiable, available to the public (easy to access and understandable by lay persons), present a full and accurate picture of all government activities and expenditure (including user fees, which are sometimes netted out), and comparable by the financial information being similarly broken down to compare across governments.

Comparative international experiences

67. Canada and Australia – Canada and Australia have no federal constraints on budgets for their provinces and states and there is no federal restriction or oversight on borrowing. The provinces and states release their own public accounts and have auditor generals who report to the legislatures and the public. Also, provincial and state legislation sets out the requirements for municipal budgeting, auditing, and reporting, with municipalities required to do the following:

- Prepare balanced budgets at the start of each year (i.e. by not budgeting for a deficit in their operating budgets) to present fiscal priorities, spending and revenues. These budgets must be submitted to the provinces.
- Submit audited financial statements to provinces at the end of each year, following national standards, to show how revenues and expenditure compare to the budget.
- Appoint an auditor – in Australia, local governments are also independently audited by state auditor generals.
- Local governments in Australian states are sometimes required to report publicly on fiscal management and service delivery. For example in the State of Victoria, all local councils report on standard metrics that the public can query and compare across councils to get a view of their council's performance. Councils are required to report on areas such as roads, statutory planning, waste collection, sustainability and financial performance amongst others. The comparative information system is run by the Victorian State Government at the Know Your Council website. Similar websites exist in other States.

68. South Africa – Similar requirements exist in South Africa in addition to accounting standards for reporting purposes and ensuring that budgets have been appropriately approved by municipal councils, which give budgets and spending against them legal legitimacy. Provinces set rules for municipal borrowing and borrowing limits. These rules aim to ensure that municipalities do not go bankrupt because if they do it is their province's responsibility to bail them out.

69. Borrowing – In most Canadian provinces, province-wide municipal finance authorities help smaller municipalities access borrowing at a lower cost. In Australia, most state governments provide a similar service for local governments.

Box 10: PLG accountability issues towards citizens for their fiscal plans and performances in Nepal

Strengths – All metropolitan and sub-metropolitan cities and almost all (97%) other local governments reported to the 2019 FCNA found that they had an inclusive planning and budgeting process. Nearly all local governments say that women and Dalit members participate in assembly deliberations. The Local Government Operations Act (2017) prescribes steps in the planning process that local government must follow in preparing their budgets.

Issues to address – Workshop participants identified the following PLG accountability issues towards citizens concerning their fiscal plans and performances in Nepal:

- Build the capacity of the political leadership for sound public finance management.
- Promote and enforce the fiscal responsibility of PLGs.
- Redesign the multiplicity of types of transfers to local governments as there are five types of transfers from the Federal Government to local governments (revenue sharing plus four types of grants) and the same types from provincial to local governments. Hence, local governments receive ten types of transfers. This multiplicity of types challenges local government budgeting, accounting, and reporting.
- There needs to be a mechanism to monitor and review the plans and budget of PLGs to keep in line with national strategies and long-term plans.

Major reform actions proposed by government participants:

- Orientate and build the capacity of local leaders on the Constitution, law and public financial management.
- Strengthen human resources and the capacity of institutions that lead public investment management, including by developing project banks at the federal and PLGs levels.
- Strengthen and institutionalize citizen engagement instruments to promote PLGs'

accountability in critical areas such as:

- following the 7-step process in the budgetary process at local government level
- PLGs to adopt their own Financial Procedures and Fiscal Responsibility Acts (FPFRA)
- PLGs to adopt and use the medium term budgeting framework (MTBF) to improve budget performance.
- Enhance transparency and accountability mechanisms and standards at all three levels of government and especially among PLGs.
- Adopt policy measures to improve budget performance at all levels of government.
- Develop measures to foster timely approval of budget of local governments.

Additional considerations from the experts on building political leadership:

- It is important to train political leaders to establish a broad understanding about what political leadership should entail. What exactly do they need to know and who is best placed to train them?
- It needs to be carefully considered who will lead political orientations and whether these should be one-offs or continuous. This is a big task that requires dedicated institutional capacity.
- Such training needs a curriculum.

Additional considerations from the experts on other issues:

- Provincial governments may have an important role to play in monitoring and supporting local governments, but mostly lack the capacity and mandate to do this.
- Introduce a simplified process for PLGs to report on financial management and service delivery outputs and outcomes to citizens and the Federal Government. This may require culturally appropriate tools and processes.

70. Capacity building

- All councillors in South Africa receive week-long induction training at the beginning of their terms. The South African Local Government Association develops and delivers the training in partnership with national and provincial governments. Importantly, the training is delivered by practitioners such as former councillors and government officials.

- In Australia, capacity building is built into the local government system with mandatory training for anyone who seeks to stand for local office. This training is provided by state governments with the capacity building must be seen as a good opportunity for peer learning.

71. Additional considerations from the experts on the passing of local budgets:

- South African municipalities must pass their annual budgets 28 days before the start of each financial year with drafts prepared three months ahead of time. This not happening is seen as signalling that a municipality may fail to pass its budget. At this point, the province starts engaging to identify potential challenges. Ultimately, if no budget is passed at the beginning of a financial year, the law permits the national or provincial government to impose a budget and ensure its implementation.
- In Australia, the state level is responsible for local governments and the laws under which local governments function are an extension of state laws. As in South Africa, it is illegal in Australia for local governments to spend outside of their approved budget.

72. Borrowing – Some SNGs borrow funds for their programmes. It is important to highlight the rules for SNGs to borrow. Do the rules need to be changed, or solidified?

73. Equalization Grants– In South Africa, Canada and Australia, equalization grants are generally not linked to performance. The objective of equalization grants should be to level the playing field and not to compel compliance.

74. SNG Budget Performance – Sub-national budget performance requires cooperation among the different levels of government. The first point of call in case of SNG budget irregularities should not be to cut funding. In South Africa, while the legal mechanism for discontinuing funding in response to material financial irregularities exists, there is reluctance to use it because it ultimately results in citizens being punished should their SNG's grant funding be cut.

75. Applying these lessons to Nepal – Reforms suggested by workshop participants on PLG accountability issues towards their citizens are detailed in [Box 10](#).

Lesson 11: The need to strike the right balance on the division of responsibilities on public financial management at the federal, province and local levels

76. Level of responsibility – It needs to be clear which level of government has the various responsibilities for public financial management. Who should set out budgetary and financial performance requirements? And, who should provincial and local governments be accountable to? Should the federal government set national standards, for example, leaving the implementation to provincial and local governments? In all three focus countries, local government budgeting, financial management, auditing, and reporting are regulated in legal frameworks. In Canada and Australia, these are set provincially, while in South Africa, there is one national legislative framework. In Canada and South Africa, local governments must submit regular financial statements to their provinces for monitoring. In South Africa, the reporting frequency is much higher (monthly) than in other more mature federations.

Box 11: Striking the right balance on the division of responsibilities for public financial management at the federal, province and local levels in Nepal

Issues to address and reforms

The workshop participants said that, in Nepal, striking the right balanced division of public financial management responsibilities among the three levels of governments includes the need for investing in PLGs' internal control systems including doing the following:

- Prepare and implement internal control systems in PLGs with supporting guidelines and mandatory standards.
- Develop PLGs' capacities for internal control and auditing including peer reviews of internal audits.
- Fostering the ownership by political leadership of internal control systems.

Additional considerations from the experts:

- Strong public financial management is an important underpinning of federal financial relations, and accountability should be fo-

cused on reporting to citizens, while the level of investment should focus on fitness for purpose for Nepal's medium-term development rather than seeking to exactly emulate other federal systems.

- Peer-level capacity building at provincial and local levels will be useful to build maturity while avoiding undue influence from the Federal Government.
- The Federal Government should focus on enabling and supporting PLGs to attract, retain and develop staff with strong public financial management skills alongside its other activities of setting standards and implementing information systems. An overreliance on standardization can dampen innovation and reduce provincial and local autonomy, while high quality skills and capabilities can see the provinces and local governments drive new approaches to public financial management and eventually challenge the federal government to also improve.

77. Applying these lessons to Nepal – Promising reforms suggested by workshop participants for striking the balance on the division of responsibilities on public financial management between the three levels of government are detailed in [Box 11](#).

Lesson 12: Inter-governmental coordination is key to effective public financial management

78. Importance of coordination – Inter-governmental coordination is vital in working out details around policy, administration, and fiscal demands in relation to the funding of public services. Coordination between the levels of government will support better governance outcomes and better fiscal practices. The rationale and reality are that in federations all levels of government, their entities and institutions should operate in the same physical spaces and serve the same citizenry, whatever the legal powers or mandate of each may be. Practical and effective inter-governmental coordination is the tool to ensure effective public financial management, collaboration, communication, and coordination on key priorities so that citizens experience 'one government' working for them.

Comparative international experiences

79. Australia – There is no formal budget coordination mechanism between federal and state governments in Australia; but there is collaborative planning, budgeting, and reporting. States are accountable to their own jurisdictions, parliaments, and public. In Australia, state ministers may override local budget decisions in extreme cases. In Australia local government budgets go through a seven month long process that includes public consultation. This process is supported by state departments of local government.

80. Canada – Canada's provinces and municipalities adopt their own budgets and don't need approval from any 'upper level' government. However, municipalities are restricted by the provincial government from budgeting for a deficit in their operating budgets.

81. South Africa:

(a) Provincial governments in South Africa engage directly with their local governments to prepare their budgets to ensure compliance and pursue budget alignment across the levels of government. As a last resort, they can intervene when a local government fails to pass its annual budget on time.

(b) The South African Constitution mandates the National Treasury to develop and enforce uniform financial management standards across all levels of government and their governments. There is a dedicated and detailed legal framework for national and provincial governments and a separate national legal framework for municipalities. Both support the same uniform standards. South Africa has one independent Auditor General's office that audits all national, provincial, and municipal finances.

(c) In South Africa, municipal budget discretion is limited by:

- The national regulation of energy and water prices;
- centralised wage negotiations;
- national standards for service delivery; and
- conditional grants.

(d) In South Africa, municipal budgets and finances are closely monitored by provinces. While provinces try to influence municipal budgets to align them with national and provincial plans, in practise, this is very difficult to achieve due to the fragmented responsibilities. All municipalities must submit monthly regular financial statements (monthly, mid-year, and year-end). This data is submitted to provincial treasuries that pass the information on to the national treasury. In other words, the system is more uniform than in Canada and subject to greater direction from the centre.

(e) South African provinces and municipalities may borrow funds under the national borrowing framework. But such borrowing is limited to capital expenditure and is subject to the approval of the National Treasury. Loans for current expenditure must be paid back within the same financial year. Provinces generally do not borrow, mainly because their main source of funding is inter-governmental grants. Municipalities do borrow as they have independent sources of revenue which serves as a guarantee for borrowing.

(f) Two main mechanisms are used in South Africa for carrying out local needs assessment. The first is participatory budgeting where 10 months before the start of each financial year municipalities start engaging with citizens on their specific needs. The municipal departments consider feedback and then prepare draft budgets, which then go back to citizens who can still influence the adjustment of plans. The second is master planning where technical plans from departments that consider population data, infrastructure data, costs, time-frames, and access considerations, etc. These plans are key tools for making budgets.

82. Applying these lessons to Nepal – Promising reforms suggested by workshop participants on inter-governmental coordination on public financial management are detailed in [Box 12](#)

Box 12: Inter-governmental coordination for effective public financial management

Workshop participants agreed on the need in Nepal to improve the prioritization of programme, budget alignment and bottom-up planning. Their specific recommendations were as follows:

- Align PLG annual budgets with sectoral ministries' medium term plans with the involvement of PLGs and their medium term expenditure frameworks to avoid ad hoc planning.
- Strengthen local needs assessment mechanisms by developing and strengthening ward-level planning mechanisms.
- Link programmes with progressing against the Human Development Index (HDI) and achieving the Sustainable Development Goals (SDGs) supported by building consensus around national priority projects.

Lesson 13: Promote PLG accountability to the accountability institutions and citizens in their jurisdictions

83. External audits give credibility to PLG's financial and performance-based reporting. The office of the auditor-general should provide independent, non-partisan audits of the use of public funds of the sub-national governments (including audits of financial statements, value-for-money audits, and compliance audits).

Comparative international experiences

84. Auditing – In Canada, municipal audits are governed by provincial legislation, while in South Africa, there is one Auditor-General.

85. Anti-corruption bodies – The establishment of and support for anti-corruption bodies is critical. This includes internal audit units and public accounts committees in legislatures. In Australia and Canada, these are generally set up by provinces for municipalities, while South Africa has a national framework. In South Africa there are public accounts committees in the legislatures of all three levels. It is critical that public accounts committees work 'outwardly', i.e. to inform and involve the public.

86. South Africa – In South Africa, the Auditor-General's reports on the performance of SNGs is regularly discussed in the respective legislatures. For example, the audit reports on municipalities' finances are tabled in local councils, discussed in public meetings of the councils, following which councils are compelled to adopt oversight reports. Public accounts committees operate in the legislatures at all three levels. Generally, their mandate is to oversee the finances of organs of state at their respective levels. They are mandated to review audit reports, work with internal audit units, investigate financial malfeasance and make recommendations.

87. Canada – The issue was considered in the workshop of: if provinces are not accountable to their federal governments, how do the accountability institutions work internally? In Canada, all three levels of government report separately on their own performance. The federal government does not consolidate the budgets of provinces and municipalities. There is much greater emphasis on reporting to the public, and on the oversight institutions and structures within the sub-national governments. At the same time, it's not in the federal

government's interest to have any sub-national government go bankrupt and either the federal or the provincial government may step in if necessary. Conditional grants do inject a degree of upward accountability. With respect to federal transfers to provinces (such as health and social transfers), there are conditions, but these are not very strict. Federal grants to municipalities are usually channelled through provinces, which then hold municipalities accountable. The conditions are usually not too strict, but there is always a level of tension between the levels as the higher levels are usually not best placed to determine how funds should be spent.

88. National standards – Another important issue is the affordability for PLGs of achieving nationally set standards. South Africa's national government determines many technical standards for municipal service delivery (water quality, road infrastructure, environmental health standards, etc.) that don't always pay attention to affordability or feasibility at the local level. National or provincial governments are supposed to consult local governments when passing legislation that affects local governments; but this does not always work well in practice. In Australia, if a national standard is proposed to be adopted that applies to states and not to the Federal Government; it is the states' responsibility to evaluate the feasibility and they generally work together with the Federal Government to evaluate the impact on their jurisdictions. In other words, the costing of the standards is done by the level of government that will bear the cost. Of course, the states involved do not always agree with one another or with the Federal Government. This is an unavoidable risk; but multilateral sector-based dialogue is generally used to achieve positive outcomes.

Box 13: Promote PLG accountability to the accountability institutions and citizens in their jurisdictions in Nepal

Workshop participants said it is important to enhance legislatures' oversight over programme performance. Their specific recommendations were as follows:

- a. Promote the oversight of provincial and local assemblies of the implementation of audit observations and recommendations. This requires activating and strengthening the role of public accounts and services committees at the federal and provincial levels.
- b. Hold constructive discussions in legislative committees on programme performance and audit observations in all three levels of government alongside building the capacity of legislators and legislative controls to carry out performance audits.
- c. Institutionalise mechanisms in local governments to discuss audit findings including through public hearings.

Other recommendations

- a. Strengthen the regulatory and institutional framework for citizens' engagement at all levels of government:

- Support the development and implementation of citizens' engagement strategies and plans by the Federal Government and PLGs by (i) promoting budget transparency and the disclosure of information; (ii) through constructive government-citizen engagement; (iii) building the capacity of PLGs and civil society groups on how to effectively engage citizens in PLG programmes; and (iv) incentivizing the application of citizens' engagement guidelines and plans by funding their application and tracking and measuring compliance.
- Support approaches to citizens' engagement that promote accountability and transparency, such as (i) producing and disseminating citizens' budgets, (ii) maintaining interactive institutional websites, (iii) the timely publishing of annual sector and PLG reports, and (iv) publishing approved budgets and in-year budget amendments – all in accessible formats.
- Promote proactive government reporting on citizen engagement outcomes.

89. Applying these lessons to Nepal – Promising reforms suggested by workshop participants on improving PLG accountability are detailed in [Box 13](#).

2.4 Provincial and local government taxation

90. Revenue autonomy – Provincial and local governments need to be able to raise revenues on their own through taxes and fees. Revenue autonomy is important for successful fiscal decentralization because provincial and local governments will generally be more accountable and more responsive to the needs and preferences of citizens when they have to levy their own taxes. Revenue autonomy also leads to greater fiscal responsibility because sub-national governments will have to raise the money they are spending rather than simply being given money from the national government.

91. Revenue raising – Provincial and local taxation concerns deals with the rules and practices for resource mobilization by sub-national governments. Given that fiscal autonomy is important to promote effective outcomes from federalism, it is critical to ensure clarity on how sub-national governments are empowered and supported, legally and administratively, to raise their own revenue, and any limits to their authority.

Lesson 14: The legal authority to collect and enforce taxes is the foundation for effective provincial and local taxation

92. Provincial and local governments not only need the legal authority to collect taxes, but also the authority to enforce the payment of taxes. Legislation needs to clearly set out what taxes each level of government can levy. The extent to which SNGs can determine the tax base and set tax rates on their own and any constraints on their ability to levy such taxes need to be need clearly set out.

Comparative international experiences

93. Taxations powers – In Canada, the division of taxation powers between the federal and provincial governments is set out in the constitution. Provinces largely rely on income and sales taxes, but also on property taxes, sales of goods and services, and resource revenues. They are free to design their own tax systems and there are no federal restrictions on the tax base or the tax rate. To improve tax coordination and harmonization, however, bilateral agreements between the federal government and the provinces/territories are used for the collection of income and sales taxes in the majority of provinces.

94. Taxation revenues – Property taxes are the main source of revenue for Canadian and Australian municipalities with each municipality having its own slight variation on the levying of property taxes. These taxes account for nearly half of municipal revenue in Canada, and slightly more than half in Australia, with non-tax charges for services and fees being the next largest source of revenue. Tax arrears are minimized because municipalities have been given, and use, their legal authority to collect these taxes.

95. Taxation powers – In South Africa, provinces generally don't raise their own revenue while municipalities levy property rates and charge for municipal services such as water,

electricity, sewage and refuse removal. And provinces may not introduce new taxes without national approval. Provinces' lack of fiscal autonomy compromises their democratic role. In Australia, the federal government dominates revenue-raising, and is reluctant to let go of it, with states raising only 16% of taxes. There is great variation among them in the tax base (mostly driven by uneven access to mining royalties), and their taxation capacities. Local governments raise property taxes and charge service fees, which makes them largely self-reliant. The Federal Government determines a framework for property taxation. Municipalities may not increase the tax rate beyond the limits set by the Federal Government. In addition, municipalities must go through a consultative process and get federal approval to introduce new taxes. The consultative process must include demonstrating the affordability and economic justifications for new taxes to the public.

96. Natural resource taxation – The focus countries have different approaches to taxing natural resources. It is a provincial issue in Canada and Australia as they determine exploration fees and collect royalties. With resources spread unevenly, this is a contested issue in both countries as equalization grants do not fully accommodate the uneven access to this revenue. In South Africa, mining is a national competence and all associated revenue (except property taxes and local government services) are treated as national revenues for distributing to the three levels of government.

97. Provincial level authority – Canada and Australia's provinces and states exercise their taxation powers autonomously without any federal involvement. Local level revenue raising is regulated by provinces. Local governments rely to some extent on provincial support, but their own-source revenue-raising systems are well-developed. Still, provinces and states provide some transfers and will intervene if local governments threaten to go bankrupt.

98. Inter-governmental transfers – The calculation of inter-governmental transfers should not serve as a disincentive to SNGs raising own revenues. In South Africa, this principle is contained in the Constitution, which says there is no obligation on the national government to compensate sub-national governments that do not raise revenue commensurate with their fiscal capacity and tax base. However, because the South African Bill of Rights compels municipalities to provide free basic services to the poor, the national government compensates municipalities via the provision of in the equalization grants for the subsequent loss of revenue (but not lack of fiscal effort). South Africa's provinces actively monitor and support municipal revenue raising by collecting monthly in-

Box 14: Issue and recommendations for Nepal on PLG tax collection

Issues and recommendations – The main issue raised by workshop participants on the authority of Nepal's PLGs to collect taxes were the need for greater clarity on the tax bases of the three levels of government. The workshop participants recommended the following:

- a. PLGs should regularly generate and update tax collection related databases.
- b. PLGs should produce annual taxation implementation plans in consultation with stakeholders.
- c. PLGs should produce revenue improvement plans.
- d. Provincial governments regularly identify information on agriculture production and related incomes
- e. Use fiscal transfers to incentivize improved PLGs revenue mobilization
- f. Institute links between tax payments and the social security system by, for example, specifying what happens for retired taxpayers. Taxpayers should feel safe.

come and expenditure statements. The under-collection of revenue is a major issue, often related to political will but also lack of technical capacity. When revenue collection drops below a certain standard, provinces should engage municipalities and may intervene as the last resort.

99. Applying these lessons to Nepal – Promising reforms suggested by workshop participants on PLG tax collection are detailed in [Box 14](#).

Lesson 15: There are many steps to raising property tax revenues

100. Property taxes are a very suitable type of tax for local governments to raise. They are difficult to evade as they are based on the benefits received from local services and are among the types of taxes that are least detrimental to economic growth and can promote local autonomy and accountability. To raise these taxes it is necessary to determine what is included in the tax base (e.g. land or land and improvements, which exemptions will be allowed, etc.), how land is valued (e.g. market value versus area-based assessment), and how tax rates are set (e.g. differentiated by type of property). Tax administration is key to making property taxes work well, including billing, collection, enforcement, and appeals.

Comparative international experiences

101. Property taxation authorities – Property taxation by local governments in Canada and Australia are regulated by provincial and state legislation. In South Africa, local governments levy property taxes under the national property taxation law. In Canada, the tax base includes land and buildings except for on hospitals, educational institutions, religious institutions, and government properties. The assessment of property values is key to the property taxation regime. Market value is used as the base in all three countries. In Australia and Canada, the assessment of property values is mostly performed by provincial agencies. The Canadian province of Ontario has seven types of property categories with different tax rates; and there are restrictions on the differences among them. There are also optional property classes that municipalities can choose to use, or not. In terms of collection and enforcement, property tax arrears are very low in Canadian municipalities. Bills are sent to taxpayers who can pay by mail, at city hall or online. Non-payment leads ultimately to municipality selling the properties to realise the due property taxes.

102. South Africa – Municipalities levy property rates in South Africa. The Constitution authorizes them to do this unlike in Canada where it is done under national legislation. This national legislation enables national oversight and limited control. For example, the national minister may cap increases and apply ratios to certain categories of property. In general, the central government dominates revenue raising because it controls almost all taxation powers. A key consideration in South Africa's local governments has been the importance of the capacity and will to enforce taxes and fees for services. A further dimension is the entitlement (based on the Bill of Rights) of indigent municipal residents to free basic services. The national government compensates for this with inter-governmental fiscal transfers. Fiscal efforts in raising taxes are important but often neglected.

Box 15: Issues and recommendations for raising property tax revenues in Nepal

In Nepal, property tax rates are determined by area based upon local governments' interests and means. There is little the Federal Government can do to create uniformity in this matter. Local governments may impose property taxes. Other taxation, such as land taxation, is shared with provinces. However, the property taxation regime is problematic because of the difficulties determining land and property values, especially in rural communities where land is sometimes unused. Consideration should be given to a single tax administration system with rates determined by one level of government and taxes collected by another level. However, this could complicate lines of accountability.

Recommendations by workshop participants:

- The revenue potential of property tax should be identified and better understood in terms of being under the jurisdiction of local governments.
- A programme should be run to educate stakeholders, including political leaders, and raise awareness about local revenue mobilization and administration.
- Support policy formulation and implementation relevant to property taxation.

Additional considerations from the experts

103. The World Bank's Property Tax Diagnostic Manual¹² is a comprehensive report on decisions and choices that need to be made to collect property taxes.

104. Property taxation powers – Canadian municipalities generally send out property tax bills twice a year and property owners receive continuous reminders to pay. In South Africa, property taxes are included in monthly municipal bills. Importantly, the law allows municipalities to consolidate the various service fees and property taxes. This is very useful for municipalities as, for example, it allows them to disconnect the electricity of property tax defaulters. Furthermore, properties may not be transferred without all the taxes and fees associated with them having been paid.

105. Differing tax rates – Workshop participants asked if citizens feel comfortable paying taxes where the rates differ substantially between municipalities. It is not a problem in Canada, where taxes can be higher but they pay for better services. Municipalities do observe each other's tax rates though. Uniform tax rates may not be advantageous as they restrict municipalities from making their own choices related to the services they provide.

106. Different taxation frameworks – The experience in South Africa illustrate that property taxation does not need to be a zero-sum game. Municipalities are permitted to determine tax rates, but a national framework has certain control over the matter. The legislation regulates certain national limits, regulates how evaluations are conducted, certain universal exemptions and a framework for tax rebates. Furthermore, municipalities must produce tariff and property tax policies that explain their choices. In Canada, provinces determine the framework, and when there are major changes, people often hold the provinces accountable even when changes happens at the municipal level.

¹² Kelly, Roy, Roland White and Aanchal Anand. 2020. Property Tax Diagnostic Manual. Washington, D.C.: World Bank Group. Accessed April 2022 at: <https://imagebank2.worldbank.org/search/32204339>

107. Special provisions – Sub-national taxation must accommodate the vulnerable, such as the indigent, and the asset-rich and cash-poor. Sub-national governments in the focus countries have developed mechanisms for this, sometimes aided by legislative frameworks. These include property tax rebates, deferred taxation, and tax credits based on income. South Africa has a policy of ‘free basic services’ where local governments provide free basic services to the poor and are compensated for this. Canadian municipalities sometimes allow for property tax deferrals for the ‘asset-rich but income-poor’ (paid upon death). Tax credits based on income are also offered in some provinces.

108. Applying these lessons to Nepal – Promising reforms suggested by workshop participants to increase property tax revenues in Nepal are detailed in [Box 15](#).

Lesson 16: Building public trust to mobilize revenues is key for PLG taxation

109. Aside from good frameworks and intergovernmental relations, sub-national governments need to build public trust to mobilise local revenue through the following to bring the public on side by clearly linking taxes to service delivery expenditure. This include (i) provide accurate accessible information to show what revenues are being spent on; (ii) good communication with citizens on local public expenditure, service performance, outcomes and the taxes levied; (iii) real engagement by involving the public through participatory budgeting; (iv) building credibility by promoting greater transparency and PLGs’ accountability to the citizens; and promoting budget transparency, showing people how taxes are being spent and what services.

Box 16: Issues and recommendations for building public trust to mobilize revenues in Nepal

Recommendations – Workshop participants said that public trust needed building in Nepal to mobilize revenues by carrying out the following activities:

- Run tax education programmes for political leaders and stakeholders and citizens .
- Strengthen the institutional capacity of provincial centres for good governance (PCGGs) to train PLG officials, political leaders, and administrative officials on revenue mobilization and administration.
- Institutionalize local government institutional self-assessments (LISAs) as a reporting and needs assessment tool for local governments.

The following additional considerations were highlighted by the experts:

- It is important to move away from a purely transactional approach to taxation. Instead, taxation must be seen as part of the cycle of social and economic investment and not just as an instrument to collect revenue. In other words, taxes should be linked to expenditure on services.
- It is important to consider how to promote revenue enhancement without constraining buying power. In other words, while it is critical to stimulate local governments to collect what is owed to them, care must be taken not to unreasonably add to the tax burden of citizens and companies.
- Borrowing can be a feasible solution for long-term investments instead of pushing the costs into short term tariffs and taxes.

Comparative international experiences

110. Canada – In Canada, some tax bills include charts of what percentage of the tax in question will go to pay for to link expenditure to taxes for taxpayers. Some local governments engage in participatory budgeting through public meetings to discuss the budget with attendees sometimes having discretion over small parts of budgets. Some local governments, such as Toronto, levy an amount from property taxes for investing in transit and housing. This earmarked tax links some of this tax to specific expenditures.

111. Australia – In Australia, the state governments requires that all their local governments report on taxation and spending consistently, and they use this information to provide a side-by-side comparisons of all local government on taxation, spending and outputs by sector (e.g. waste collection, roads, environment and sustainability, maternal and child care). This helps educate taxpayers and helps to make municipalities accountable. Furthermore, affording citizens a say over a small percentage of budgets may encourage taxpayers and educate citizens.

112. South Africa – In South Africa, the participation of local citizens in budget process prior to the adoption of budgets helps educate taxpayers on what revenues will be spent on. This helps ensure that taxation does not compete unreasonably with the interest of the vulnerable in their ability to access food, housing and other critical needs recognised in the Bill of Rights.

113. Applying these lessons to Nepal – Promising reforms suggested by workshop participants on building public trust to mobilize revenues are detailed in [Box 16](#).

Lesson 17: The need to incentivize PLGs to collect local taxes and to improved taxation-related human and technical resources

114. Tax collection and rates – Provincial and local government should be encouraged to collect the taxes owed to them. Sub-national governments should not be penalized for collecting their own revenues or bailed out if they don't. In that vein, transfers should encourage, not penalize tax collection. Tax coordination and harmonization is also essential to prevent sub-national taxation from compromising macroeconomic stability and preventing overlap. In Canada, provincial-municipal equalization transfers (where they exist in six out of the ten provinces) do not penalize municipalities for raising tax rates. In South Africa, the equitable share formula considers tax potential but does not compensate for under-collection. In Canada, tax coordination and harmonization are pursued through voluntary agreements between the federal government and most provinces for income and sales taxes.

115. Adequate resources – Sub-national taxation needs adequate human and technical resources to assess properties, set tax rates, bill regularly, and collect and enforce payment. The valuation of property is complex and expensive and in Canada is mostly done by expert provincial agencies. South African municipalities have expert valuation boards. Canada's municipal associations carry out capacity building. In South Africa, municipal budget and administrative capacity had to grow over time.

116. Expanding the tax base – The biggest issue is the large effort needed to expand tax bases to include households that were previously not in the tax net. Oversight and support for sub-national tax administration is critical, especially in their early stages. In South Africa, the national and provincial treasuries monitor revenue generation by municipalities, receiving and analysing monthly, mid-year, and annual income and expenditure statements. These statements are very regularized to allow comparison and aggregation. National and provincial governments may take over parts of municipalities that fall below critical standards of revenue generation.

117. Applying these lessons to Nepal – Promising reforms suggested by workshop participants to incentivize PLGs to collect local taxes and to improve taxation-related human and technical resources are given in [Box 17](#).

Box 17: Measures suggested to incentivize PLGs to collect local taxes and to improve taxation-related human and technical resource

Incentivize PLGs to collect local taxes through policy and tax harmonization to avoid conflict and overlap in collecting taxes in Nepal through the following reforms:

- Identify conflicting rules and regulations and their provisions related to the raising of revenue.
- Fill policy gaps by concerned governments.

Prioritize human resource and institutional capacity development in Nepal's sub-national governments to raise revenue:

- Address human resource and institutional capability with operations and management
- Provincial public service commissions should play a major role in PLG human resource management.
- Build the capacity of all PLGs on operations and management.

CHAPTER 3

WAY FORWARDS AND RECOMMENDATIONS

118. The Nepal Knowledge Exchange on Fiscal Federalism was an intensive two-week programme of international comparative exchange, policy engagement and reflection that generated valuable lessons from South Africa, Canada and Australia and concrete recommendations on what Nepal can implement effectively in the short, medium-to-long term with regard to fiscal federalism. The exposure to systems and practices of the three comparison countries led the participants from government agencies in Nepal to identify the recommendations in Table 2.

Theme 1 The inter-governmental fiscal system	Theme 2 Provincial and local government performance management	Theme 3 Provincial and local government financial management	Theme 4 Provincial and local government taxation
Redesign conditional grants	Improve the prioritization of programme and budget-alignment, navigating between protecting sub-national autonomy and overall coherence and effectiveness	Strengthening PFM capacity and accountability of PLGs leadership	Prioritizing own source revenue mobilization by PLG
Clarify the division of responsibilities	Establish a more effective reporting system across the three levels of government	Prioritizing Investment Programs of PLGs based on local needs and national priorities	Promote tax education--build understanding and capacity among stakeholders at PLGs levels of the value and reward of more local revenue raising
Tailor fiscal transfers to promote equity across the country among provinces and local governments	Ensure effective monitoring and evaluation of PLGs performance by the federal government	Strengthening internal control systems for fiscal discipline and accountability	Establishing operations and management to strengthen administrative and human resource capacity of PLGs

Theme 1 The inter-governmental fiscal system	Theme 2 Provincial and local government performance management	Theme 3 Provincial and local government financial management	Theme 4 Provincial and local government taxation
Facilitate better coordination between the three levels of government on the annual national budget process	Build the capacity of PLGs on oversight and management	Promoting government accountability to accountability institutions	Pursue the harmonization of tax bases across the three levels of government
Make better input data available to calculate grants		Promoting the fiscal responsibility of PLGs	

ANNEXES

Annex A: List of Study Visit Participants

Annex B: List of workshop participants

Annex C: Reform Recommendations Table

Annex D Experts and Knowledge Exchange Programme Team Biographies

Annex E: Expert PowerPoint Presentations

Annex A: List of Study Visit Participants

S.N	Name	Designation	Agency
Brazil Study Visit Participants			
1	Mr. Bhimsen Timsina	Under Secretary	MOF
2	Mr. Ramesh Adhikari	Under Secretary	MoFAGA
3	Mr. Dil Bahadur Chhetry	Under Secretary	MOF
4	Mr. Begendra Raj Sharma Paudyal	Secretary	NNRFC
5	Mr. Bindeswar Prasad Lekhak	Under Secretary	NNRFC
6	Mr. Krishna Kumar Karki,	Under Secretary	NNRFC
7	Mr. Namraj Ghimire	Under Secretary	NNRFC
8	Mr. Khum Lal Bhusal,	Accounts Officer	NNRFC
9	Mr. Pradeep Shrestha	Under Secretary	OPCM
10	Mr. Ramesh Prasad Siwakoti	PEFA Coordinator	PEFA, FCGO
Kenya Study Visit Participants			
11	Mr. Krishna Prasad Devkota	Under Secretary	OPCM
12	Mr. Dila Ram Panthee	Under Secretary	FCNA SC, MoFAGA
13	Mr. Rajesh Gautam	Under Secretary	MoFAGA
14	Mr. Prakash Pudashaini	DFCG	FCGO
15	Mr. Uday Raj Sapkota	Joint Secretary	MOF
16	Mr. Kishor Jung Karki	Joint Secretary	NNRFC
17	Ms. Anita Poudel	Under Secretary	NNRFC
18	Mr. Bharat Prashad Bhatt	Under Secretary	NNRFC
19	Mr. Madhu Kumar Marasini	Secretary	OCCM, Sudur Paschim
20	Mr. Arjun Prasad Pokharel	Secretary	OCCM, Lumbini Pradesh
Switzerland Study Visit Participants			
21	Mr. Gokul Basnet	Under Secretary	OPCM
22	Mr. Ramhari Gyawali	Under Secretary	MOF
23	Mr. Dinesh Regmi	Deputy FCG	FCGO
24	Mr. Iswor Kumar Giri	Under Secretary	MOFAGA
25	Mr. Babu Ram Subedi	DFCGO	FCNA, TC, FCGO
26	Mr. Nirmal Dhakal	Under Secretary	NNRFC
27	Mr. Kapil Prasad Subedi	Under Secretary	NNRFC
28	Mr. Dinesh Bhattarai	Senior Statistical Officer	NNRFC
29	Ms. Laxmi Kumari Basnet	Secretary	OCCM, Karnali Pradesh
30	Mr. Madhusudan Burlakoti	Secretary	OCCM, Bagmati Pradesh
31	Mr. Dal Bahadur Adhikari	Secretary	OCCM, Gandaki Pradesh
32	Mr. Yogya Prasad Rai	Accounts Officer	OCCM, Province 1
33	Mr. Jitendra Prasad Yadav	Accounts Officer	OCCM, Madhes Province

Annex B: List of workshop participants

S.N	Name	Designation	Agency
1	Ramji Prasad Baral	Honorable Minister	Ministry of Economic Affairs and Planning, Gandaki Province
2	Salik Ram Jamakattel	Honorable Minister	Ministry of Economic Affairs and Planning, Bagmati Province
3	Tara Lama Tamang	Honorable Minister	Ministry of Economic Affairs and Planning, Sudurpaschim Province
4	Shailendra Prasad Sah	Honorable Minister	Ministry of Economic Affairs and Planning, Madhes Province
5	Krishna Dhoj Khadga	Honorable Minister	Ministry of Economic Affairs and Planning, Lumbini Province
6	Mr. Dhani Ram Sharma	Secretary	Ministry of Economic Affairs and Planning, Bagmati Province
7	Mr. Namraj Ghimire	Joint Secretary	Department of Transport
8	Mr. Dinesh Bhattarai	Senior Statistics Officer	National Natural Resources and Fiscal Commission
9	Mr. Ishwari Prasad Pandey	Under Secretary	National Natural Resources and Fiscal Commission
10	Mr. Chuda Raj Sapkota	Under Secretary	National Natural Resources and Fiscal Commission
11	Mr. Bharat Prasad Bhatt	Under Secretary	Ministry of Forest and Environment
12	Mr. Krishna Kumar Karki	Under Secretary	Ministry of Home Affairs
13	Mr. Khum Lal Bhusal	Chief Administrative Officer	Bhirkot Municipality, Gandaki Province
14	Mr. Laxmi Prasad Joshi	Under Secretary	Ministry of Health and Population
15	Mr. Prem Narayan Shrestha	Director	Provincial Center for Good Governance, Lumbini Province
16	Mr. Bhupendra Pandey	Chief Administrative Officer	Lumbini Municipality
17	Mr. Rajendra Prasad Pyakurel	Executive Director	National Association of Rural Municipalities in Nepal
18	Mr. Narendra Shah	Section Officer	Office of the Chief Minister and Council of Ministers, Sudurpaschim Province
19	Mr. Yogya Prasad Rai	Accounts Officer	Office of the Chief Minister and Council of Ministers, Province 1
20	Mr. Ramesh Adhikari	Under Secretary	Investment Board Nepal
21	Mr. Nirmal Dhakal	Under Secretary	Ministry of Finance
22	Mr. Madan Prasad Pokhrel	Under Secretary	Office of the Chief Minister and Council of Ministers, Bagmati Province
23	Mr. Dil Bahadur Chhetry	Under Secretary	Ministry of Finance
24	Dr. Gopi Krishna Khanal	Joint Secretary	Ministry of Federal Affairs and General Administration
25	Mr. Chakra Pandey Sharma	Joint Secretary	Provincial Coordination Section, Office of the Prime Minister and Council of Ministers

S.N	Name	Designation	Agency
26	Mr. Saroj Prasad Guragain	Secretary	Office of the Chief Minister and Council of Ministers (Province 1)
27	Mr. Ganesh Bahadur Singh	Secretary	Ministry of Social Development (Sudurpaschim Province)
28	Dr. Tulsi Prasad Thapaliya	Director General	Ministry of Education, Science and Technology
29	Mr. Krishna Prasad Karpi	Secretary	Ministry of Social Development (Karnali Province)
30	Mr. Hemraj Aryal	Under Secretary	Ministry of Federal Affairs and General Administration
31	Mr. Rupesh Kumar Sah	Under Secretary	Office of the Chief Minister and Council of Ministers (Madhes Province)
32	Mr. Tarjan Kumar Limbu	Chief Administrative Officer	Limchungbung Rural Municipality, Province 1
33	Mr. Har Govinda Pandey	Province Manager, Lumbini Province	Municipal Association of Nepal
34	Mr. Pradeep Shrestha	Under Secretary	Office of the Prime Minister and Council of Ministers
35	Mr. Jitendra Prasad Yadav	Accounts Officer	Office of the Chief Minister and Council of Ministers (Madhes Province)
36	Mr. Yam Kanta Pandey	Under Secretary	Lumbini Province
37	Mr. Narhari Tiwari	Chief Administrative Officer	Musikot Municipality
38	Ms. Renuka Shah	Chief Administrative Officer	Kanchanpur Municipality
39	Mr. Babu Ram Subedi	Joint Secretary	Ministry of Finance
40	Mr. Kamal Prasad Bhattarai	Secretary	Ministry of Social Development (Province 1)
41	Mr. Ramhari Gyawali	Under Secretary	Ministry of Finance
42	Mr. Ishwar Kumar Giri	Under Secretary	Ministry of Finance
43	Mr. Ram Prasad Pathak	Under Secretary	Ministry of Finance
44	Mr. Umesh Shrestha	Under Secretary	Ministry of Finance
45	Mr. Pralhad Pokharel	Under Secretary	Ministry of Education, Science and Technology
46	Mr. Ishwori Prasad Bhandari	Under Secretary	Central Bureau of Statistics
47	Mr. Nimesh Mishra	Chief Administrative Officer	Tamakoshi Municipality
48	Mr. Padam Raj Joshi	Executive Director	Provincial Center for Good Governance, Sudurpaschim Province
49	Mr. Muktinarayan Bhandari	Under Secretary	Office of the Chief Minister and Council of Ministers Gandaki Province
50	Mr. Prakash Pudashaini	Deputy Financial Comptroller	Financial Comptroller General Office
51	Mr. Tika Ram Aryal	Under Secretary	Ministry of Social Development, Lumbini Province

S.N	Name	Designation	Agency
52	Mr. Ramesh Subedi	Section Officer	Office of the Chief Minister and Council of Ministers Bagmati Province
53	Mr. Mahadeb Panth	Joint Secretary	Office of the Prime Minister and Council of Ministers
54	Dr. Gunanidhi Sharma	Senior Health Administrator	Ministry of Health and Population
55	Mr. Ananda Saru	Secretary	Office of the Chief Minister and Council of Ministers, Karnali Province
56	Mr. Trilochan Poudyal	Director of Studies	Nepal Administrative Staff College
57	Mr. Kapil Prasad Subedi	Chief Tax Officer	Inland Revenue Office(Birgunj)
58	Mr. Mohammad Shariph	Section Officer	Provincial Center for Good Governance, Madhes Province
59	Mr. Naveen Das	Account Officer	Ministry of Social Development, Lumbini Province
60	Mr. Dinesh Regmi	Deputy FCG	Department of Roads
61	Mr. Gokul Basnet	Under Secretary	Office of the Prime Minister and Council of Ministers
62	Mr. Rudra Hari Bhandari	Under Secretary	Ministry of Social Development , Bagmati Province
63	Mr. Ganesh Prasad Timisina	Director	Provincial Center for Good Governance, Province 1
64	Mr. Yam Prasad Subedi	Under Secretary	Office of the Chief Minister and Council of Ministers, Gandaki Province
65	Mr. Keshav Prasad Upadhaya	Director	Provincial Center for Good Governance, Karnali Province
66	Mr. Rajan Raj Poudel	Chief Administrative Officer	Namobuddha Municipality
67	Anita Poudel	Under Secretary	Ministry of Industry, Commerce and Supplies
68	Bhimsen Timsina	Advocate	CSO
69	Dal Bahadur Adhikari	Joint Secretary	Public Service Commission
70	Dila Ram Panthee	Joint Secretary	Ministry of Finance
71	Laxmi Kumari Basnet	Joint Secretary	Ministry of Tourism
72	Toynath Lamsal	Under Secretary	Ministry of Social Development, Gandaki Province

Annex C: Reform Recommendations Tables

TOPIC 1: INTERGOVERNMENTAL FISCAL TRANSFER REFORMS

1. Redesigning the conditional grants to PLGs

Objectives: To make the conditional grants results-driven to incentivize allocative efficiency and accountability for results

Designated activity	Timeline	Responsible agency
1.1. Adopt policy, reforming the conditional grants into performance-based grants	6 months	MOF in coordination with NNRFC and NPC
1.1.1. Conduct a technical review of the current conditional grants to identify gaps, and propose recommendations for making the conditions grants performance grants		MOF, NNRFC, NPC, Sectoral Ministries
1.1.2. Draft policy on reforming the conditional grants into performance-based grants, based on the recommendations of the technical review		NNRFC, NPC
1.1.3. Finalize policy through stakeholder consultation, involving PLGs, DPs, and civil society organizations	2 months	NNRFC, NPC
1.2. Adopt policy, adjusting permanent public teachers to local governments and financing their salaries through fiscal equalization grants	6 months	Ministry of Education, Science, and Technology, MOF
1.3. Adopt policy, adjusting permanent health workers to local governments and financing their salaries through fiscal equalization grants	6 months	Ministry of Health and Population. MOF
1.4. Transfer the planning, budgeting, and financing of the national programs and projects that the national government previously managed to PLGs. (These programs and projects were transferred to PLGs during the transition to federalism but are financed with conditional grants)	2 months	Sectoral ministries of federal and provinces, Ministry of Finance, NPC
1.4.1. Review the inventory of the national programs and projects managed by PLGs that are financed by conditional grants to determine the remaining liability and the funds required to complete them.		MOF, NPC
1.4.2. Develop a roadmap for the official transfer of the national programs and projects to PLGs to implement and finance them using conditional grants		2 months
Following the roadmap, MOF should finance the remaining liabilities of those uncompleted projects through conditional grants	6 months	Ministry of Finance

2. Clarify functional responsibilities among the three levels of government

Objective: enhance the effectiveness of fiscal transfers and allocative efficiency

Designated activity	Timeline	Responsible agency
<p>2.1. Review the Unbundling Report (February 2017) and the functional assignments of the three levels of government to identify overlapping responsibilities and propose recommendations.</p> <p>2.1.1. Develop and agree on clear terms of reference for the review and identifying overlapping responsibilities of the three levels of government in coordination with PLGs and redefining responsibilities.</p> <p>2.1.2. Establish a national committee to coordinate the review redefining responsibilities.</p>	<p>1 month</p> <p>1 month</p>	<p>Key role of OPMCM in line with NPC, MoF, and sectoral ministries in coordination with provincial governments</p> <p>OPMCM</p>
<p>2.2. Reclassify projects to be implemented by the three levels of government, reflecting the new functional responsibilities</p>	<p>6 months</p>	<p>NPC, in coordination with sectoral ministries</p>

3. Addressing the heterogeneity of provinces and local governments

Designated activity	Timeline	Responsible agency
<p>3.1. Conducting fiscal gap assessments and ensuring the results inform the distribution of equalization grants;</p>	<p>6 months</p>	<p>NNRFC</p>
<p>3.2. Transfer equalization grants based on the formula recommended by NNRFC</p> <p>3.2.1. Publish NNRFC's recommendations for the distribution of equalization grants</p>	<p>Regular</p>	<p>MOF</p> <p>NNRFC</p>
<p>3.3. Support the development of data collection instruments at the PLGs level for collecting more useful administrative and social-economic data to inform the distribution of grants to PLGs.</p>	<p>Regular</p>	<p>NPC</p>

4. Foster vertical inter-governmental coordination in budgetary processes

Objectives: to improve fiscal policy outcomes, increase transparency, build trust, and give credence to the principles of cooperative federalism in Nepal

Designated activity	Timeline	Responsible agency
<p>4.1. Promote inclusive federal pre-budget consultations to ensure PLGs feedback on proposed fiscal transfers</p> <p>4.1.1. Develop and publish a federal pre-budget consultation plan annually</p> <p>4.1.2. Issue a communique on the pre-budget consultations held with PLGs</p>	<p>Every year around March</p> <p>1 month</p>	<p>MOF in coordination with MOEAP</p> <p>MOF</p>

4. Foster vertical inter-governmental coordination in budgetary processes

Objectives: to improve fiscal policy outcomes, increase transparency, build trust, and give credence to the principles of cooperative federalism in Nepal

Designated activity	Timeline	Responsible agency
<p>4.2. Hold mandatory budget discussions on the proposed conditional grants between federal and provincial sectoral ministries and local government associations to facilitate 'bargaining.'</p> <p>4.2.1. Develop and publish a federal pre-budget consultation plan annually</p> <p>4.2.2. Issue a communique on sectoral discussions held between the federal, provinces, and local government associations on the proposed conditional grants consultations</p> <p>4.2.3. Promote intergovernmental agreements for big public investment projects</p>	<p>Every year around April</p> <p>1 month</p> <p>1 month before the budget</p>	<p>MOF in coordination with MOEAP</p>
<p>4.3. Conduct regular Intergovernmental Fiscal Council (IGFC) meetings as a budget forum with representatives of all three levels of government to discuss fiscal, budgetary, and financial matters that affect local governments</p> <p>4.3.1. Conduct IGFC meetings at least 4 times a year</p> <p>4.3.2. Announce IGFC meetings at least two weeks before the meetings</p> <p>4.3.3. Conduct an IGFC meeting within one week after the approval of the federal budget</p> <p>4.3.4. Publish minutes of IGFC meetings and actions taken on the council's decisions</p> <p>4.3.5. Prepare and publish an annual report on the IGFC's operations</p> <p>4.3.6. Have a dedicated IGFC website on the MOF website to enhance public access to information on the IGFC's meetings, minutes, and reports</p>	<p>Quarterly</p>	<p>MOF</p>

5. Reliable and adequate data and information at provincial and local levels

Objective: To support the allocation of fiscal transfers that are based on objectively verifiable criteria, verifiable data, and objective formulae and procedures

Designated activity	Timeline	Responsible agency
<p>5.1. Update the existing national data profile on human development and economic and public service delivery</p> <p>5.1.1. Develop a plan to coordinate with sectoral ministries and PLGs to update their administrative records in the national data profile</p> <p>5.1.2. Develop a plan to build the capacity of PLGs to update their administrative records in the national data profile effectively</p>	<p>2 months</p> <p>3 months</p>	<p>National Planning Commission, CBS</p>

5. Reliable and adequate data and information at provincial and local levels

Objective: To support the allocation of fiscal transfers that are based on objectively verifiable criteria, verifiable data, and objective formulae and procedures

Designated activity	Timeline	Responsible agency
<p>5.2. Promote demand-side data collection on public service delivery to identify delivery gaps across communities</p> <p>5.2.1. Develop a plan to support regular community surveys to measure citizens' perceptions about public service delivery to identify gaps and promote accountability of spending authorities and inform the allocation of budgets</p> <p>5.2.2. Develop a dedicated website for demand-side data, including community survey results, to promote public access to the information and foster accountability of spending authorities</p>	<p>6 months</p> <p>6 months</p>	<p>NPC</p>
<p>5.3. Update and upgrade SUTRA and PLMBIS, to enhance the tracking of the allocation and use of fiscal transfer</p> <p>5.3.1. Review the Integrated Financial Management System assessment report (2022) to draw lessons and recommendations</p> <p>5.3.2. Develop SUTRA and PLMBIS updating plan</p> <p>5.3.3. Conduct consultations with stakeholders on the implementation of the plan</p>	<p>2 months</p> <p>2 months</p> <p>1 month</p>	<p>MOF/FCGO</p>

TOPIC 2: PROVINCIAL AND LOCAL GOVERNMENT PERFORMANCE MANAGEMENT AND APPRAISAL

1. Promoting effective political and technical inter-governmental engagement

Objectives: improve accountability and the performance of public services delivered by PLGs

Designated activity	Timeline	Responsible Agency	Supporting Agency
1.1. Promote the development and implementation by PLGs the integrated development plans that align with national standards			
1.1.1. Develop and disseminate to PLGs national development strategy with clear medium to long term objectives, targets, and standards	1.1 1-2 years (tentatively)	NPC/MoFAGA Provincial planning commission	
1.1.2. Develop a plan to incentivize and strengthen the capacity of PLGs to develop and implement their integrated development plan	Within 1 year	MoFAGA	
1.1.3. Prepare and disseminate annual reports on the development and implementation of integrated development strategy by federal ministries, provinces, and LGs	Annually	(NPC/ Provincial Planning Commission)	
1.2. Strengthen intergovernmental cooperation and coordination at PLGs levels			
1.2.1. Develop a national strategy to promote and incentivize intergovernmental coordination at PLGs levels – inter-provincial coordination, interprovincial and LGs coordination, and interlocal governments coordination.	Within 2 years	OPMCM/ MoFAGA	
1.2.2. Promote knowledge sharing on national and global good practices of intergovernmental coordination at the subnational level	Annually	OPMCM/ MoFAGA/ OCMCM/DCC	
1.2.3. Develop a national program to promote interactions, dialogue, and peer learning events across PLGs, aimed at promoting intergovernmental cooperation and coordination at PLGs levels	Annually	MoFAGA	
1.3. Foster the effective operationalization of the Provincial Coordinating Committees (PCC)			
1.3.1. Ensure PCC meetings are regular, and the meeting dates and locations are announced at least two weeks before the meetings.		PCC	
1.3.2. Ensure minutes are prepared for PCC meetings and published, and actions taken on the committee's decisions are published	Annually	OCMCM	
1.3.3. Ensure annual reports are prepared on the Committee's activities and published			
1.3.4. Have a dedicated website of PCC on each province's website to enhance public access to information on the Committee's meetings, minutes, and reports			

1. Promoting effective political and technical inter-governmental engagement

Objectives: improve accountability and the performance of public services delivered by PLGs

Designated activity	Timeline	Responsible Agency	Supporting Agency
<p>1.4. Foster the effective implementation of the Inter-Provincial Coordinating Council (IPC)</p> <p>1.4.1. Ensure that IPC meetings are regular and that the meeting dates and locations are announced at least two weeks before the meetings.</p> <p>1.4.2. Ensure minutes are prepared for IPC meetings and published, and actions are taken on the council's decisions are published</p> <p>1.4.3. Ensure annual reports are prepared on the Council's activities and published</p> <p>1.4.4. Have a dedicated website IPC on OPMCM's website to enhance public access to information on the Committee's meetings, minutes, and reports</p>	Annual basis	OPMCM	
<p>1.5. Promoting meaningful engagement of local government bodies for improved PLGs performance management and appraisal</p> <p>1.5.1. Develop a plan to strengthen the capacity of local government bodies such as MUAN, NARMIN, and District Coordination Committees and incentivize their effectiveness in supporting local government performance monitoring and evaluation.</p> <p>1.5.2. Promote annual reporting on the activities of MuAN, NARMIN, and District Coordination Committees to increase their accountability to the public</p>	<p>Reporting-Annually</p> <p>Developing a plan (within a year)</p>	MoFAGA	

2. Establishing more effective reporting systems

Objective: to improve monitoring and reporting on PLGs performance

Designated activity	Timeline	Responsible Agency	Supporting Agencies
<p>2.1. Strengthen existing integrated management information system (MIS) on PLGs performance and complete digitization performance management system in PLGs</p> <p>2.1.1. Develop an action plan to support strengthening the existing integrated reporting system for PLGs.</p> <p>2.1.2. Develop a program to build capacity and incentivize PLGs reporting through the integrated reporting system</p> <p>2.1.3. Link PLGs reporting to feed the existing systems with fiscal transfer</p>	within five years.	<p>PLG performance accountability platform / MoFAGA (MIS system/ digitalization)</p> <p>NNRFC (existing system)</p>	

3. Promote systematic monitoring and evaluation of PLGs performance			
Designated action	Timeline	Responsible Agency	Supporting Agencies
<p>3.1. Consider expanding the role of the M&E Division of MOFAGA as the Provincial and Local Public Service Performance Office (PSPO) to</p> <p>a. Coordinate performance monitoring and evaluation of PLGs to produce evidence regularly for improving decentralized public service delivery.</p> <p>b. Facilitate the improvement of M&E capacity and systems to PLGs to improve effective performance monitoring and reporting</p> <p>c. Provide technical support PLGs to meet their M&E and reporting requirements to the federal government and citizens.</p> <p>d. Work with relevant institutions, including MOF, NNRF, NPC, PCCG, PLGs, LDTA, and NASC, to leverage M&E and reporting support to PLGs.</p>	1-2 years (tentatively)	Provincial-level— (Provincial level committee: Local-MOFAGA Federal-MoFAGA MoFAGA has Local-level capacity development division and Federal Affairs division	
<p>3.2. Develop the M&E capacity of performance monitoring and capacity development institutions such as DCC, MuAN, NARMIN, PGCC, etc., as monitoring and coordinating entities that directly reports to OCMCM.</p> <p>3.2.1. Develop, implement, and monitor a capacity development plan to improve the capacity of performance monitoring and capacity development institutions</p> <p>3.2.2. Develop a plan to regularly monitor the effectiveness of the performance monitoring and capacity development institutions</p>	Yearly	MOFAGA NPC (Oversight) MoFAGA MOFAGA	
<p>3.2.3 Develop a plan to strengthen the capacity of existing institutions such as PTA, PCCG, and LDTA, enhancing their operational effectiveness.</p>	Within a year – to 2 years.	MFAGA Provinces	
<p>Promote accountability of PLGs to accountability institutions within the provinces and local governments</p> <p>Develop policy guidance to clarify how PLGs need to be accountable to the accountability institutions within the province and LGs. MOGAFAs PSPO can be tasked to work collaboratively with the PLGs for technical support</p>		PLGs, OCMCM, MoFAGA	

4. Build the capacity of PLGs on performance oversight and management			
Designated activity	Timeline	Responsible agency	Supporting Agencies
<p>4.1 Develop and implement capacity development plans for PLG performance oversight and monitoring</p> <p>4.1.1 The Capacity development should focus on</p> <p>4.1.2. Strengthening the oversight role of local leaders, including peer learning, knowledge management, and networking.</p> <p>4.1.3. Strengthening the institutional capacities of institutions such as NASC, PCGG, and PTA that are in place to create good governance and capacity development canthers for PLGs.</p> <p>4.1.4. Developing and implementing instruments to promote citizen participation in PLGs programs, including budgeting, planning, implementation, and monitoring of public programs and service delivery</p>	1-2 years	MOFAGA	

TOPIC 3: PROVINCIAL AND LOCAL GOVERNMENT PUBLIC FINANCE MANAGEMENT

1. Strengthening PFM capacity and accountability of PLGs leadership			
Designated action	Timeline	Responsible Agency	Supporting Agencies
<p>1.1. Develop an action plan to promote the regular provision of orientation and capacity development for local leaders on the Constitution, laws, and public finance management through the framework of PLGSP. The action plan should:</p> <p>a. Cover orientation and capacity building of local leaders during the 2023/24 fiscal year</p> <p>b. Identify focus areas, target beneficiaries, and frequency of the orientation/ training and how the training impacts can be tracked and measured.</p> <p>c. Identify institutions that will develop training and orientation materials/ modules programs and conduct the training.</p>	Within 2 months (by the end of June)	<p>MOFAGA (overall responsibility since PLGSP)</p> <p>Provincial Planning Commission</p>	<p>MoF</p> <p>NPC</p> <p>NNRFC</p>
<p>1.2. Develop a citizen engagement strategy to support mainstreaming and institutionalizing citizen engagement at PLGs levels. The strategy should include</p> <p>1.2.1. Include good practice CE instruments and approaches in Nepal and other countries</p> <p>1.2.2. Identify measures for tracking and reporting on the implementation of the strategy</p>	Within 2 months	Provincial Planning Commission	PLGs
<p>1.3. Promote the engagement of civil society organizations (CSOs) to support the implementation of the national citizen engagement strategy. The SCOs' role may include capacity building for PLG officials on CE approaches, providing technical backstopping to PLGs to mainstream CE in PLGs programs, and tracking the implementation of citizens at the PLGs level.</p>	Within 2 months	PLGs	
<p>1.4. Strengthen the bottom-up planning process to begin the actual budgetary process right from the ward level. A 7-step process of implementation was proposed.</p>	Within 2 months	MoFAGA, Local Government	

2. Prioritizing investment programs of PLGs based on local needs and national priorities

Designated activity	Timeline	Responsible agencies	Supporting Agencies
2.1. Improve public investment at PLG levels by supporting the development and implementation of project banks at PLG levels.	2 months	Federal MoF/ Provincial Ministry and Local govts	NNRFC, MoF, Sectoral Ministries, Local govts
2.2. Ensure the capital investments financed by PLGs are those pre-screened, approved, and included in the project bank.			
2.3. Support capacity development for PLGs in public investment management, including managing the project banks			

2. Prioritizing investment programs of PLGs based on local needs and national priorities

Designated activity	Timeline	Responsible agencies	Supporting Agencies
2.4. Support the development of the periodic plans by all PLGs		Federal MoF	
2.5. Provide technical backstopping to PLGs to ensure alignment of the annual budget with periodic plans to avoid ad hoc planning			
2.6. Adopt a policy to institutionalize periodic local needs assessment		Local Government	
2.7. Develop a plan to capacity for PLGs in institutional capacity and local needs assessment. This will require capacitating ward-level planning mechanisms.			
2.8. Link programs with the human development index and Sustainable Development Goals. This should be supported by building consensus around national priority projects.		Local Government	

3. Strengthening Internal controls for fiscal discipline and accountability

Designated activity	Timeline	Responsible Agency	Supporting Agencies
3.1. Prepare and implement internal control systems with supporting guidelines and mandatory standards.	Ongoing	MoFAGA/Local Govts and Provincial FCGO	TBD
3.2. Capacity development for internal control and audit. This will require a peer review of the internal audit.			
3.3. Ownership of leadership to prepare and implement an internal control system.			

4. Promoting government accountability institutions

Designated activity	Timeline	Responsible agency	Supporting agencies
4.1. Build mechanisms for discussion and entrenching audit observations in the province and local assemblies. A specific action would entail activating public accounts and services for the audit committee at the federal and provincial levels.	On-going	PLGs/ Auditor General Office (Oversight agencies)	
4.2. Constructive discussions in the legislative committees on program performance and audit observations in all three levels of government. Capacity building for legislators and legislative controls for the performance audit would be valuable.			
4.3. Prepare mechanisms for discussions of audit observations in PLGs. Active public hearings for fiscal transparency will be required.			

5. Promoting Fiscal responsibility of PLGs

Designated activity		Responsible agency	Supporting agencies
5.1. Integration of Financial Procedures and Accountability Act in PLGS law	Within 2 months	NNRFC, MOF, sectoral ministries	
5.2. Enhance Medium-term budgeting framework (MTBF) for budgetary performance.	Next FY	NNRFC, Ministry of Finance,	
5.3. Enhance transparency, responsibility, mechanisms, and standards at all three levels basically at PLGs.	Next FY	PLGs, MoF	
5.4. Activate corrective measures for weak budget performance.	Ongoing	LG with Provincial/ federal govts oversight	

TOPIC 4: PROVINCIAL AND LOCAL GOVERNMENT TAXATION

1. Pursuing harmonization of tax bases across the three levels of government			
Designated Activity	Timeline	Responsible Agency	Supporting agencies
1.1. Identify conflicting rules and regulations and their provision related to revenue	Two Months	NNRFC	
1.2. Provide feedback to the concerned government on the policies' gaps			
2. Prioritizing own source revenue mobilization by PLGs			
Designated Activity	Timeline	Responsible Agency	Supporting Agencies
2.1. Increase understanding of the defined tax bases of the three levels of government, e.g., information on agricultural production and related income must be identified by the provincial government	15 days to one month	NNRFC	
2.2. Prepare Guidance Notes on the defined tax bases for each level of government	15 days	MOF, MOFAGA, NNRFC	
2.3. Identify the baseline on the taxes at each level	Annually	(FCGO)	
2.4. Generate and update databases regularly by PLGs related to their tax collection			
2.5. Revenue improvement plans should be formulated, implemented by PLGs, and monitored by the Federal. The Federal government provides guidance and template.	1 year	NNRFC/ MOFAGA/ each PLG level	
2.6. Create a regulatory framework to link tax payment and the social security system	6 months	MOF/MOFAGA- GA	
3. Strengthen Capacity for resource mobilization and administration at PLGs level			
Designated Activity	Timeline	Responsible Agency	Supporting Agencies
3.1. Promoting Tax education at the PLG level			
3.1.1. Training Provincial Centre for Good Governance (PCGG) on resource mobilization and administration at PLGs level (facilitated by the MOFAGA's PSPO)	Annually	MOFAGA/ FCGO/NN- RFC/Npc	
3.1.2. Train both political leaders and administrative officials on resource mobilization and administration at PLGs level (facilitated by PCGGs)	Regular	PCGG	
3.2. Strengthening O&M capacity at PLGs levels to help identify and fill capacity gaps in resource mobilization and administration at PLGs levels			
3.2.1. Training Provincial Public Service Commissions in O&M to conduct their own O&M to help fill HR capacity gaps on resource mobilization and administration at PLGs levels	TBD	TBD	

Annex D: Experts and Knowledge Exchange Programme Team Biographies

1. ENID SLACK – CANADA

Enid Slack is the Director of the Institute on Municipal Finance and Governance (IMFG) and an Adjunct Professor at the Munk School of Global Affairs and Public Policy at the University of Toronto. IMFG focuses exclusively on the fiscal health and governance challenges faced by large cities and city-regions in Canada and abroad. Enid has written extensively on metropolitan governance, intergovernmental fiscal relations, property taxes, municipal fiscal health, and financing municipal infrastructure. She has co-edited a number of books including *Financing Infrastructure: Who Should Pay?* and *Governance and Finance of Metropolitan Areas in Federal Systems*. Enid consults on municipal finance and governance issues with governments and international agencies such as the World Bank, IMF, UN Habitat, Asian Development Bank, the Inter-American Development Bank, the International Growth Centre, and the Forum of Federations. In 2012, she was awarded the Queen's Diamond Jubilee Medal for her work on cities.

2. JAAP DE VISSER – SOUTH AFRICA

Jaap de Visser (LLB, LLM, PhD) is Director of the Dullah Omar Institute at the University of the Western Cape (Cape Town). His research, teaching and consulting focuses on decentralisation, local government, good governance and federalism in Africa and he has published widely on those topics. He has conducted research and published on decentralisation in South Africa, Zimbabwe, Zambia, Lesotho, Uganda, South Sudan and Ethiopia and has conducted expert assignments in Nepal, Brazil and the Philippines.

3. SHIREEN DE VISSER – SOUTH AFRICA

Shireen de Visser (BIURIS, LLB, MPhil) has 17 years' experience in public finance, fiscal policy, integrated strategic planning, good governance and ethics. She started her career in Blaauwberg Municipality in 1999 (which subsequently merged into the City of Cape Town) during the transitional period in South Africa, Western Cape Treasury (Budget Office and Fiscal Policy) and more recently worked as the Senior Manager Governance and Strategy at Stellenbosch Municipality. Shireen has worked extensively across different areas of expertise in South Africa including, intergovernmental relations, developing and analysing socio-economic profiles at provincial and local level, financial and performance monitoring and evaluation. Further research and practical work experience involves areas of energy and water sustainability, municipal tariffs, analysis of services across different spheres of government, risk and fraud management and ethics in government. More recently Shireen was appointed as a member to the Research and Ethics Committee of the Fiscal and Financial Commission of South Africa.

4. JASON TABARIAS – AUSTRALIA

Jason Tabarias is an economics and public policy expert with a multi-disciplinary background. Previously Jason has worked at the Department of the Premier & Cabinet (Victoria, Australia) where he held various roles including: n Assistant Director, Public Sector Reform n Task-force Lead, Reform of the Federation & Reform of Australia's Taxation System n Assistant Director, Intergovernmental Relations Jason has also worked as a management consultant with top tier international firms and in senior roles in Australian and New Zealand governments. Jason was previously an Honorary Fellow at the University of Melbourne, where he designed and taught graduate programmes in economics, policy and public administration



GOVERNMENT OF NEPAL
MINISTRY OF FINANCE