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Intergovernmental Relations and the Challenges of Power Devolution: Federalism in Nepal

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Abstract: This study investigates the complexities and obstacles associated with intergovernmental relations (IGR) in Nepal's emerging federal system. By conducting interviews with government officials and analysing key IGR mechanisms, the research identifies substantial obstacles to the effective cooperation, coordination and coexistence of federal, provincial and local governments. Some of the significant issues are a lack of genuine autonomy for subnational entities, fiscal imbalances, inactive dispute resolution bodies and an ambiguous division of responsibilities. The study uses a qualitative approach, analysing authority, resources and responsibilities in Nepal through 29 key informant interviews with government officials. It identifies themes related to coordination, power devolution and service delivery, and uses secondary sources to contextualise Nepal's federal experiment within broader theoretical and comparative contexts. The study reveals that centralised control, political interference and ineffective institutions continue to hinder Nepal's IGR framework, despite the constitutional provisions. The findings have significant implications for federal governance in Nepal, emphasising the necessity of overcoming structural obstacles, promoting genuine collaboration among government echelons, and empowering subnational entities. More broadly, the study contributes to the literature on federalism and IGR in developing democracies by illustrating the difficulties associated with translating constitutional principles into functional multi-level governance systems.

Keywords: constitution, intergovernmental relations (IGR), federalism, local government, Nepal

1. Introduction

Federalism balances power between central and subnational governments and relies on intergovernmental relations (IGR) for coordination and cooperation. While IGR promotes collaborative governance and decentralisation, gaps persist in practice, particularly in developing federal systems like Nepal.

In Nepal, the knowledge gap in IGR comes from confusion about the roles, responsibilities and power-sharing among federal, provincial and local governments. The confusion in legal areas, money rules and admin setups has made it tough to put the 2015 Constitution into action, which focuses on teamwork and coordination (Acharya, 2021). Studies highlight problems in structure, especially with intergovernmental groups such as the Constitutional Bench and the Interprovincial Council (Subedi, 2021).

The federal government is hesitant to share power, and the persistence of remnants of a unitary system has created a culture of dependency among local and provincial officials (Adhikari & Upadhyaya, 2020). This situation has made IGR institutions less effective, leading to poor service delivery, mismanaged resources and weak implementation of important laws. Research shows these issues, pointing out political manipulation and collusion among various levels of government (Acharya, 2021). The range of real-world studies on how these institutions operate is still quite limited.

To enhance the effectiveness of existing IGR structures in Nepal, there is an urgent need for comprehensive research from both the governmental and academic sectors. It will be necessary to examine institutional complexities, the persistence of a centralised mindset that controls devolution of authority, and bureaucratic tendencies that support authoritarianism, which are countervailing factors for effective IGR functioning (Subedi, 2025). A combination of these factors hinders the effective implementation of the constitutionally provided powers, functions and responsibilities of provincial and local governments. Moreover, research is urgently needed to assess the effectiveness of formal and informal IGR mechanisms, such as irregularities in organising meetings and *ad hoc* decision-making processes, political culture, leadership dynamics and bureaucratic behaviour, which have been significant in other federal systems like the USA and Germany (Cameron & Simeon, 2000; Hachard, 2022).

The implementation of federalism in Nepal has reached a critical juncture since IGR are influenced by various factors including the country's political economy, functional responsibilities, distribution of resources, political culture and leadership traits, administrative and technical capacity, the function of different tiers of government, social diversity, political parties and the electoral system, the status of democracy and good governance across all levels, as well as the overall working environment, institutional capacity and the service delivery system (Agranoff, 2011). To maximise the benefits of the new federal structure, it is necessary that the IGR operationalise effectively, free from political interference or manipulation, and focus on empowering provincial and local governments.

Previous studies have mostly looked at federations that are well-established, but this article looks at how IGR was set up in Nepal very early on. It fills in a very important gap in our knowledge of how developing countries deal with political, administrative and

financial problems. It also fits with ongoing worries about division, power sharing, and how well governments work in states that are transitioning to federalism or have just become federalised. This study investigates the hurdles facing federalism in Nepal, especially the intergovernmental interactions that block the smooth operation of federal, provincial and municipal bodies. Even with the creation of institutions like the Constitutional Bench and Interprovincial Council to set up the federal system, these groups find it tough to tackle issues around politics, administration, jurisdiction and funding. The system's problems get worse because the legislature, administration and judiciary all have their own agendas. There is also a culture of collusion and weak ties with local governments that make things even tougher. Also, a shaky political culture, clashing interests among stakeholders, bureaucratic aims and actors who cannot accept change are allocating resources and planning, resulting in ineffective interactions between governments.

2. Understanding the structural barriers of IGR: A brief literature review

The Comprehensive Peace Accord of 2006, together with the Madhesh Movement of 2015 and other identity-based movements advocating for greater inclusion, laid the foundation for the promulgation of Nepal's new constitution in 2015 (Acharya, 2018). Departing from the traditional monarchy, the new constitution established a Westminster-based, inclusive federal governance system. To facilitate local development, integrate diverse sectoral programs, mainstream specialised functions, promote local economic growth and harness natural resources, the constitutional framework introduced a system of IGR among the three tiers of government. This system envisions a collaborative partnership between state institutions and local communities for driving grassroots development (Subedi, 2021). The Government of Nepal, however, did not establish a federalism implementation plan, designed and coordinated by a high-level commission of experts. Such a body could have played a crucial role in setting a clear timeline for the reform rollout and in guiding the government toward a more effective sequence of reforms (Bhal et al., 2022). In addition, the government also failed to ensure the availability of essential data and information required to monitor economic development, assess expenditure needs and evaluate fiscal performance. These two major lessons were impeded by a lack of political commitment and the reluctance of its bureaucracy to fully adopt constitutional mandates (Acharya, 2021). This hesitancy continues to impede the effective implementation and functioning of IGR in Nepal.

In countries where federalism has been implemented, IGR has been extensively studied, and these studies have been critical in shaping the understanding of both federalism theory and practice. In contrast, Nepal, despite adopting a federal system in 2015 through the promulgation of its new constitution, continues to face a significant gap in scholarly and policy-oriented documentation on IGR (Rai, 2025). Although some preliminary initiatives have been undertaken by the government and development partners, these efforts have not sufficiently addressed the pressing need for comprehensive and systematic research. Existing studies in the Nepali context have largely concentrated on the political,

administrative and fiscal dimensions of federalism, often adhering to procedural approaches to the formulation of policies, programs and legislative frameworks (Acharya, 2021). The scarcity of comprehensive and empirically grounded resources has further limited academic investigations, each of which has consequently remained narrowly focused on formal, process-oriented themes. A notable absence of serious and in-depth studies on IGR mechanisms persists, particularly regarding how these systems function in practice within Nepal's emerging federal structure (DRCN, 2020). This research gap is rooted in a dominant narrative that conceptualises IGR mechanisms merely as routine bureaucratic processes within public administrations, rather than a function of cooperative federalism. As a result, little effort has been made to collect empirical evidence or to critically assess the functionality and effectiveness of these mechanisms. Despite increased citizen access to government services under the federal system, the credibility and functionality of constitutionally mandated IGR mechanisms are increasingly being called into question. This scepticism stems from persistent structural and political challenges, including entrenched practices of nepotism, favouritism and a centralised mindset among political elites and bureaucratic actors (Ayadi, 2025). These issues have impeded the effective implementation of intergovernmental coordination mechanisms, thereby weakening trust between different tiers of government and between the state and its citizens.

Following the context, IGR has attracted researchers, politicians and organisations, especially in the realm of IGR. It covers how power is shared among different levels of government, the connections between local entities and tiers, and the various activities and relationships that exist in between. Researchers have looked at IGR through administrative, fiscal and legal lenses (see e.g. Wright, 1974; Benton, 2020). IGR brings together federal, provincial and municipal groups to boost government teamwork, share ideas, coordinate efforts and resolve conflicts (Cameron & Simeon, 2000). Effective IGR can really help cut down poverty and boost growth. It does so by making it easier for local governments, provinces and the federal government to communicate with each other (Bolleyer, 2009; Acharya & Zafarullah, 2022). It tackles overlaps in the constitution, how things connect, the effects that spill over, and policy problems that go beyond single areas, encouraging teamwork and openness. This framework boosts multi-level governance and decentralisation, making sure responsibilities are shared fairly and public services are delivered efficiently. Therefore, public organisations can work on their own or together, which sometimes results in 'inertia' or solutions that settle for the simplest option (Painter, 2001). Modern IGR focuses on casual chats and interactions (Edwards, 2008). Higher levels of government have a big impact on politics. They shape power dynamics, responsibilities, resource distribution, financial management, policy creation, laws, institutional setups and political processes at lower levels. This leads, then, to an informal IGR framework.

Some researchers (Menzies, 2013; Phillimore, 2013; Acharya, 2021) argue that the federal and provincial governments have failed to make proper use of IGR mechanisms and lack an adequate understanding of their effectiveness. As a result, all tiers of government appear reluctant to fully assume their constitutionally granted powers and responsibilities. This not only prevents the development of positive trends in coordination, cooperation and coexistence but also weakens service delivery. Thus, inclusivity has

become more of a political slogan and a stepping stone for privileged groups to gain access to power. Unequal distribution of power has led to decision-making and resource allocation being concentrated within interest groups, obstructing both collaboration and healthy political competition. Traditional hierarchical approaches further hinder policy implementation and the exchange of ideas, creating barriers to achieving the vision of "unity in diversity" (Afesha, 2015). Therefore, when IGR functions well, it enhances collaboration and coordination among all three levels of government in the decision-making process. Conversely, poor implementation of IGR mechanisms, especially in low-income countries, presents significant challenges. In essence, the core objective of IGR is to ensure that policies and programs at all levels of government are designed and implemented with a citizen-centric approach to service delivery.

Drawing on the experiences of federal countries such as the USA, Canada, Germany and South Africa, where IGR systems are well-established and have not only fostered trust between citizens and the government but also promoted the notion of citizens as partners in every mechanism of governance, this study conducts a literature review of their practices, experiences and documentation. In doing so, it seeks to connect Nepal's federal practices to the broader global discourse on federalism and intergovernmental cooperation. Furthermore, the study contributes to a broader discussion on the challenges faced by developing countries in implementing effective IGR systems. This study seeks to examine how institutional mechanisms associated with the implementation of federalism and, particularly, IGR function in practice in Nepal. It aims to reveal the ways in which political interference, mechanical proceduralism, red tape and rigid bureaucratic systems have contributed to the inefficiencies and tensions in IGR. Furthermore, it explores the resulting gaps between different levels of government and identifies potential pathways to institutional reform and improved coordination. The core focus of this study is on operationalising the IGR mechanism in Nepal's federal system. The theory of central–local relationships is key in IGR research. It looks at how different levels of government interact in areas like legislation, execution and judiciary functions, along with decision-making and delivering services (Rhodes, 1997). It highlights the need for different institutions and variety, making sure the government is accountable and provides direction. This part looks at the current studies on IGR and the structural obstacles that can block connections between different levels of government. IGR focuses on policies, outcomes and impacts, unlike federalism (Wright, 1974).

This study sets up a way to grasp the specific challenges Nepal faces in its federalisation journey by looking at scholarly articles on federalism, cooperation between governments and financial decentralisation. It looks at key concepts like power balance, teamwork between institutions, and how resources are shared across different government levels.

3. IGR in other federating states

Globally, IGR performance has shown variability, functioning in hierarchical, dependent and competitive roles in some countries, while being inclusive, coordinated and cooperative in others (Rosenthal, 1980; Kincaid & Cole, 2016). In the USA, IGR is

characterised by competitive, collusive and coercive dynamics, heavily influenced by interactions among federating units. State governments often enforce more regulations over local governments than the federal government does (Kincaid & Cole, 2016). The federal government frequently struggles to address urgent issues due to polarisation among state governments. Provincial and municipal governments have taken on responsibilities for managing various issues such as immigration, sustainability, climate change, education, abortion, health care and interstate sales taxes (Rose & Bowling, 2015).

The strong connection and unified system strengthen the base of IGR in South Africa. Government bodies and state agencies use their legal power to create policies that need teamwork or shared duties. The lack of cooperation among the three levels of government in chasing common goals or working together on projects really undermines the effectiveness of many intergovernmental agreements (Malan, 2012).

After 1988, devolution became the main goal of Brazilian federalism. Local governments got more power, were held responsible, and used resources better because of this, thanks to democratic governance and economic changes (Jha, 2007). Throughout the twentieth century, governments went back and forth between dictatorial ones that centralised power and free ones that spread power all around. This change happened because the federal government had a lot of political and financial power, and there were no clear rules for how different federal governments should interact with each other. There was also more competition in national politics. The political power of each state is based on how well its leaders can work together with other state groups and the central government (Afonso et al., 2019).

Local governments (LG) in Canada can now engage in federal, provincial and territorial policymaking due to enhanced IGR. These relations have been ineffective because unfunded mandates remain, and trilateral IGRs have devalued (Hachard, 2022), resulting in weak LGs and an executive-dominated Senate. The responsibilities of provinces in health, welfare and education restrict the jurisdiction of LGs, ensuring intergovernmental conflicts (Cameron & Simeon, 2002).

Australian federalism guarantees equal state representation, yet the executive branch predominates in IGRs (Fenna, 2012). Relationships have become overly dependent on soft influences, facilitating the negotiation of joint programs and financial arrangements (Painter, 2001). Criticisms include lack of collaboration, coercive practices, *ad hoc* methods, absence of a strategic agenda, non-appreciation of state and territory contributions, lack of transparency, centralised decision-making and poor meeting procedures (Menzies, 2013).

The German IGR system includes vertical and horizontal IGR, centred on the 'Federal State' (represented by the *Bundesrat* and the *Bundestag*) and the 'State' (*Länder*), which consists of various bodies discussing political initiatives. A third pillar includes institutions that facilitate horizontal coordination among units within the *Länder* (Leonardy, 1998; Benz, 2009). Since the 1970s, interlocking politics and executive federalism have been contentious in Germany, with critics attributing economic stagnation, welfare state issues, lack of reforms and growing citizen disenchantment to poor IGRs.

India has both formal and informal relationships with other governments. The National Development Council and the Inter-State Council (ISC) sometimes share members. *Ad hoc* international conferences and area councils are good ways to solve problems between states, boost regional growth, and improve ties between the union and the states. India provides IGR in a global setting instead of a private or hierarchical one. In India, IGR is governed by centre-state and council-state ties, which, *mutatis mutandis*, work like courts. The ISC handles all government issues and controls ties between states. Collaborative government has become more important because of coalitions. The Council deals with problems between the union states (Hausing, 2023).

4. Methodology

This study examines Nepal using federalism and IGR theories to analyse authority, resource and responsibility distribution among government levels. Federalism theories emphasise the separation of sovereignty between central and subnational governments, each with unique capabilities (Krane & Leach, 2018). This study focuses on relationships, examining how institutional arrangements influence federal dynamics and intergovernmental cooperation, along with the systemic barriers hindering Nepal's federalisation process. The study examines interactions among various government levels in policymaking, budget management and administration, highlighting the impact of coordination and cooperation, or lack thereof, on governments (Fisk, 2022).

We collected data for the research from primary and secondary sources and purposively gathered primary data from October 2023 to April 2024. We conducted in-depth key informant interviews (KII) with 29 key informants, three members of whom were officials from the National Coordination Council (the participants included one from the federal government, one from provincial and one from local governments). Two participants from the Interprovincial Council (one from the federal and one from the provincial governments). Two participants were selected from the Provincial Coordination Council (one from the provincial and one from the local governments' representatives). Seven ministers of the Ministry of Internal Affairs from Lumbini, Karnali, Sudur Paschim, Gandaki, Bagmati, Madhesh and Koshi Province. We also interviewed three chairpersons from LG Associations: one from the Municipal Association, one from the National Association of Rural Municipalities, and one from the Association of the District Committee. Additionally, seven chief ministries of the provinces, one from the Ministry of Federal Affairs and General Administration, one from the National Natural Resources and Fiscal Commission, one from the Joint Secretary of the Prime Minister's Office, one from the Joint Secretary of the Ministry of Law, Justice and Parliamentary Affairs, and one from the Ministry of Finance were also interviewed. These interviews sought the participants' opinions on Nepal's intergovernmental procedures, effectiveness and accountability. They were also asked about how the three levels of government coordinate and eliminate impediments to exclusive and concurrent tasks. We also questioned the effectiveness of service delivery at the three levels of government. Open-ended and

open-structured questionnaires were utilised for these interviews. Transcription and classification of qualitative data yielded four themes, noted below.

5. Findings of the empirical research

5.1. The Constitutional Bench influences justice for personal gain

The 2015 federal constitution of Nepal established a Constitutional Bench in the Supreme Court, as stated in Article 137. This bench resolves disputes between various government levels, including federal-provincial conflicts and local election matters. The Chief Justice and four appointed judges define the constitutional limits of each government level (GoN, 2015).

The bench determines whether local, regional and federal laws are constitutional, and it also settles the major constitutional interpretative queries and sets the standard for how the federal government works in Nepal, although it has yet to decide on any major issues that make people wonder how well it can affect the IGR. The Bench has had to deal with many disagreements about natural resources, taxes, trade and federal units (three tiers of government) rights since the start of federalisation. It meets twice a week to resolve disagreements between government agencies, laws and how the Constitution should be interpreted (DRCN, 2020).

A few well-known cases show how difficult it is for the courts to do their jobs. Madhesh Province, for instance, fought back against the federal government's takeover of the *Sagarnath* Forestry Development Project in 2019, stating that it violated its constitutional rights. Additionally, Madhesh Province brought a new case against the central government, claiming that the Forest Act of 2019 broke the constitutional rights of provinces related to forests. It aligns with a case which was brought against the central government in 2018 for allegedly telling local governments what to do without first consulting them, which is a point-blank contempt of the concept of unity, set out in Article 232.

Another issue concerned public education. In Nepal, local governments run primary and secondary schools, and they establish their own rules for school mergers and teacher hiring. This has caused a lot of disagreement in the education field, as the Supreme Court ruled that selecting schoolteachers is the federal government's competence, raising much concern about the federal government overstepping local autonomy.

There is also a growing concern about the Bench's fairness, mostly because of its involvement in politics. A lot of people are afraid that the Prime Minister, ministers and the Chief Justice might be involved in choosing judges and making backstage deals. Of course, this has dire consequences for the Bench's power, integrity and claims of impartiality with respect to the other benches in the Supreme Court.

Article 137 of the Constitution of Nepal delineates the autonomy, jurisdiction, authority and decision-making responsibilities of the Constitutional Bench placed within the Supreme Court. While the constitutional provisions establish the foundational framework for the Bench, a critical examination of its operational effectiveness, the

impartiality of its rulings and the implications of these decisions for IGR remains imperative. The institutional strengthening of an effective IGR system and the consolidation of a balanced federal structure require several key conditions. These include a transparent and impartial process for the appointment of justices, the delivery of neutral and unbiased judgments, timely adjudication of cases and robust coordination among various levels of government to ensure the effective implementation of the Bench's decisions. A representative of the federal government expressed the following opinion during a KII interview regarding the need to enhance the effectiveness of the Constitutional Bench:

> From the beginning, political parties disagreed on whether a separate Constitutional Court should be established or a separate bench within the Supreme Court. In addition, Supreme Court judges disagree on whether the Constitutional Bench should be formed by lottery or appointed by the Chief Justice from nominees of the Judicial Council. Due to a shortage of judges, the Judicial Council has difficulty assigning justices to the Bench, causing delays and a perceived low priority. Many sessions are not held for more than a year, leading to unresolved jurisdictional conflicts and tensions among the three levels of government.

5.2. The Interprovincial Council: A hampered path to intergovernmental harmony

Nepal's constitution set up the Interprovincial Council (IPC) to tackle political conflicts between the federal government and the provinces. A group of ten, led by the Prime Minister, includes important ministers and provincial leaders (GoN, 2015). Nevertheless, the IPC has mostly stayed inactive for many reasons. A big hurdle is the federal government's hesitation to hand over power to the provinces, which causes friction between local leaders and the federal government. When provincial chief ministers focus more on their own interests or party agendas instead of working together, it really undermines the council's chance to create effective solutions.

Nepal's unstable coalition governments and changing political relationships make it hard for the IPC to make steady progress and stay committed to common federal goals. The IPC is stuck because of the highly embedded bureaucracy culture, which is marked by hierarchy, control and dynamics based on personalities. This makes the IPC less useful as an intergovernmental platform.

The Council has not been very active, holding just four meetings from 2017 to 2023. They have approved 84 tasks, but 40 are still waiting because of slow progress on important laws. The lack of any meetings since April 2019 shows that the Council is pretty much inactive right now. The IPC's role is unclear, and without local government input, there is a gap that makes it very difficult to tackle conflicts between different levels of government.

Among the many issues raised by the IPC, employee adjustment was a key issue for the institutional development of administrative federalism. In 2017, the Employee Adjustment Act was introduced and implemented to address this, but due to a lack of political consensus, reservations from trade unions and resistance from hardcore

bureaucrats nurtured by a centralised bureaucratic pathology, the act became ineffective. As a result, a second Employee Adjustment Act was introduced in 2018, and the process of employee adjustment was initiated. Accordingly, it was estimated that around 90,000 employees would be required across the three tiers of government to operate the federal governance system effectively. However, at that time, the number of employees stood at 87,000, of which 17,102 employees were working in local government units. But according to the initial estimates, approximately 50,000 employees were needed for local governments, 15,000 for provincial governments and 25,000 for the federal government. However, during the employee adjustment process under the Employee Adjustment Act, a total of 35,670 employees (41%) were adjusted for the federal government, 12,180 (14%) for the provincial government and 39,150 (45%) for the local government. This process was completed in a rush, with a political consensus to manage it more effectively in the future through the introduction of a new Civil Service Act. It failed to address administrative federalism, which in turn weakened the administrative IGR necessary for the implementation of federalism.

In 2022, the federal government attempted to draft the Civil Service Act. However, due to political disagreements, reservations from employee trade unions and the vested interests of hardcore bureaucrats raised in a centralised bureaucratic culture, the federal government has not yet been able to pass the Act. As a result, infrastructure development, service delivery and policy implementation at all tiers of government have been hindered. Nevertheless, the efforts made by the provincial governments to draft their own Civil Service Acts have helped address some issues related to employee management, professional development and resource distribution at the provincial and local levels. However, there has not been any significant improvement in activities such as organisation and management, human resource development planning, capacity assessments, training, study visits, workshops, or similar initiatives. Employees tied to the federal levels continue to receive benefits consistently, while others appear to be deprived of most facilities. Micromanagement by the federal government has obstructed intergovernmental cooperation, and in this context, the Prime Minister has issued warnings to the provinces not to challenge federal authority over security and police administration. Moreover, due to the lack of clarity in project distribution among different tiers of government, disputes frequently arise, and the mechanisms for resolving these disputes have proven to be ineffective. In this context, due to the absence of a Federal Civil Service Act, the management of Chief Secretaries working at the provincial level on a temporary basis under the federal government, Secretaries working in provincial ministries, and Chief Administrative Officers of local governments has been framed as a narrative of administrative IGR. Similarly, systems like the Intergovernmental Fiscal Transfer System and the voting process for National Assembly members conducted by elected representatives at the local and provincial levels have also been described as core activities of IGR. However, these interpretations fall outside the constitutional principles of coordination, cooperation and coexistence. A representative of the provincial government expressed the following opinion during a KII interview regarding the need to enhance the effectiveness of the IPC:

> All political, developmental, administrative and policy issues including disputes between the Federal and the Provinces, or between the provinces, should be addressed through the Interprovincial Council. However, the Council lacks both a dedicated secretariat and a legal framework. Since the IGR Act 2020, this constitutionally mandated body has become inactive, now operating under a section of the Prime Minister's Office. It meets irregularly and only for formalities. Regular activation of the Council could help resolve federal–provincial conflicts and strengthen intergovernmental relations.

Although such matters could be discussed in meetings of the National Coordination Council and the Intergovernmental Relations Council (IPC) to clarify the necessity, concept and functions of the IGR and since the federal government may need to further devolve powers, these councils are not holding regular meetings. As a result, the IGR has been bureaucratically redefined in a distorted manner, diverging from its intended purpose.

5.3. The National Coordination Council: Steering intergovernmental coordination

Nepal's federal, provincial and municipal governments are required to collaborate via the National Coordination Council (NCC), whose role is defined by the Federation, Province and Local Level (Coordination and Inter-relation) Act of 2020. Under the chairmanship of the Prime Minister, the NCC promotes intergovernmental collaboration on concurrent authorities, national interest, and provincial and local implementation (GoN, 2020). It also helps create concurrent power laws and policies to coordinate national policy. However, the NCC has been neglected due to the ruling party's internal disagreements, political inequalities and bureaucratic reluctance.

Nepal's patronage structure renders three NCC members sympathetic toward the government doubtful. This hurts the Council's ability to represent local governments and favours the Chair and the federal government. Provincial involvement may be marginalised due to federal and local conflicts, since their seven Chief Ministers may be outnumbered. This lack of fair participation has hampered provincial and municipal policy creation and execution. Provincial attempts to implement the Police Act and Civil Service Act were impeded by concurrent rights legislation complexities. Note that provincial actors may choose the IPC for partnership. A representative of the provincial government expressed the following opinion during a KII interview regarding the need to enhance the effectiveness of the NCC:

> National Coordination Council (NCC) meetings are often rushed and formal, lacking a results-oriented approach. Key issues raised at such NCC meetings are often seen as lacking results. Issues such as the allocation of conditional grants to small projects, bypassing the seven-step participatory planning process at the local level, limited role of the Fiscal Commission, staff shortages at subnational levels, police integration in the province, inadequate service facilities, weak law-drafting capacity at provinces and local levels, neglect of the 2075 Public Expenditure Review Commission report, and frequent changes in

provincial ministries due to political interests are regularly discussed. While decisions are made, implementation remains weak due to political apathy.

The NCC composition highlights representation inequality. Six federal government officials joined the NCC, compared to the three in the IPC. Provincial representation is confined to their seven chief ministers, whose seat is based on the Constitution. There is, therefore, a high possibility that federal and municipal governments may collude to marginalise provinces, raising concerns about their NCC power, because the local government representatives selected by the federal government appear to act in alignment with the interests of the federal government.

5.4. The Intergovernmental Fiscal Council: A centralised mechanism for resource management

The Intergovernmental Fiscal Arrangement Act of 2017 coordinates financial matters among the government tiers of Nepal by establishing the Intergovernmental Fiscal Council. The council includes federal and provincial finance ministers, local government representatives and expert appointees, fostering dialogue and collaboration on fiscal issues (GoN, 2017).

In Nepal's IGR system, this Council is very active. Its annual meetings assure constant participation and progress on crucial budgetary concerns mandated by legal requirements. Regular engagement is crucial to fiscal federalism, which distributes financial resources and duties across government levels for effective and equitable governance. And simplifying intergovernmental fiscal transfers has its effect. Resource allocations enable particular tiers to accomplish their objectives and balance national growth. The Council organises projects by government hierarchy to maximise resource use. The federal government oversees critical national projects, provinces, medium-sized ones and minor ones of local governments.

It handles a range of budgetary issues, from drafting laws to ensuring solid accounting, having its main focus on resource allocation, cash transfers, income projection and mobilisation, fiscal management analysis and reporting standards. It manages debt, oversees spending from the consolidated fund and handles borrowings. Even with the Council's helpful input, there are still problems with putting things into action. Administrative friction comes from issues like double-dipping in revenue collection, lack of involvement in budgeting and inconsistent use of processes throughout different levels of government. Complicated procurement and a conventional method for the allocation system hold back fiscal federalism.

One prominent concern lies in the imbalanced allocation of revenue rights, with the federal government retaining a significant 70% share compared to 15% each for provinces and local governments. Similarly, intergovernmental fiscal transfer indicators lack nuance, often employing a blanket approach. Resource distribution formulas, such as the 50%–25%–25% split for natural resource royalties, lack a demonstrably equitable basis.

What is more, delays in formulating essential laws, a propensity to abuse fiscal transfers and a knowledge gap across tiers about income production and spending

allocations compound these issues. Thus, the Council has not established a resource allocation mechanism that matches each tier's contributions and consumption demands. To maximise Nepal's federal fiscal system, administrative inefficiencies, resource allocation equity and IGR framework knowledge gaps must be addressed.

5.5. The National Natural Resources and Fiscal Commission: An unfulfilled potential

The National Natural Resources and Fiscal Commission (NNRFC) prioritise natural resource distribution and intergovernmental fiscal transfers, with its research and studies supporting fiscal federalism. The commission also makes crucial resource collection, allocation and recommends spending measures. Apart from this, the NNRFC must resolve natural resource use issues between government levels and distribute intergovernmental fiscal assistance and set provincial reserve fund distribution guidelines (GoN, 2017).

Although the NNRFC has the ability to empower subnational sovereignty and manage resource allocation, its current operation raises certain issues. As such, the existing income allocation system, which seems to favour centralisation, undermines provincial and local budgetary independence. Although the Constitution requires financial sovereignty, the Commission's powers are limited to equalisation, conditional grants, revenue sharing and capped natural resource royalties.

The Intergovernmental Financial Arrangements Act of 2017 significantly restricts the NNRFC's resource allocation function and may be marginalised since special and extra funding are channelled via the National Planning Commission. This method seems more about maintaining the Ministry of Finance's authority over the NNRFC than simplifying it. Limitations suggest that the latter's potential is untapped, yet several crucial actions are needed to fulfil its constitutional responsibility and create a federal Nepal. First, revenue allocation must be changed to encourage subnational resource mobilisation and fiscal self-reliance. Secondly, giving the NNRFC more fiscal tools, such as unconditional grants and flexible resource allocation methods, would help local and provincial governments manage their budgets and development goals. Finally, it must be independent from the Ministry of Finance and the National Planning Commission to arbitrate and facilitate intergovernmental fiscal interactions. The NNRFC's mission for Nepal's federal system is promising, but its constraints restrict its effectiveness. Decentralisation, greater powers and more autonomy are needed for the Commission to achieve fair resource allocation and develop subnational governance in Nepal.

5.5.1. The Provincial Coordination Councils: A patchwork of progress in the federal landscape

The 2017 Local Government Operations Act of Nepal requires each province to have Provincial Coordination Councils (PCCs) led by the Chief Minister. These councils,

comprised of provincial and local government members, promote policy coordination, resource management and strategic collaborations. However, the Councils' performance is unequal throughout Nepal, indicating both potential and limitations in its shifting federal framework. Annual PCC meetings are mandated by law, although attendance has been variable. Three provinces had three meetings in seven years, while Karnali Province held five. This discrepancy challenges the Councils' dedication and involvement.

Despite frequent irregularities, PCC meetings do cover important subjects, such as fiscal coordination between provincial and municipal governments and sharing budget plans, fiscal management techniques and grant distribution processes. Tax harmonisation, revenue sharing and concurrent jurisdiction, blocked by the federal government, are also crucial. However, the Councils struggle with personnel and administrative issues, simplifying provincial civil service commission procedures and executing the Police Act. In many ways, their meetings may help improve local and provincial service delivery and governance.

At the same time, local officials often feel overshadowed by the representatives of provincial government during meetings, expressing concerns that their grievances and perspectives go unheard. Moreover, decisions reached sometimes fail to translate into concrete action, raising questions about implementation and follow-through.

Despite these problems, the PCC platform is necessary for citizens to share their opinions, file complaints and talk about policies. Open conversation leads to more unity and understanding in the future, even if it provides results right away. The fact that the success of PCCs varies shows that Nepal's government structure is still negotiating who has what power and duty. To reach their full potential, these groups need to get past their party differences, find shared ground on touchy issues and come up with effective ways to follow through. In Nepal's complicated federal system, PCCs may transform from places to meet into important tools for working together and running the government.

5.6. The Sectoral Committees: Potentials and perils

Nepal has a complex government operated by a network of organisations that draft laws, monitor the administration and hold individuals responsible. This network revolves around Sectoral Committees, which coordinate federal, provincial and municipal health, roads, agriculture, education and other government efforts. Federal minister-led organisations may help governments collaborate and define growth targets. Despite their enticing purpose, many do not accomplish anything, making them seem ineffective.

A different picture unfolds in the federal Parliament. Ten standing committees look into finance, foreign relations, agriculture and social issues. Specialist committees, such as the Parliamentary Hearing Committee and the Sustainable Development and Governance Committee, investigate specific governance issues. These committees examine laws, give orders and investigate government actions, linking the legislative and executive branches. Parliamentary committees, while on a strong mission and good at monitoring, still have their weaknesses. Political parties often form strange alliances that keep proposals from

moving forward in committee, showing how they can hurt legislative progress. There are a few big hurdles that make these partnerships less effective.

The composition of these committees is challenging. Political parties, which value loyalty above experience, sometimes nominate members based on vote share rather than skill or fitness. This inexperience prevents the committee from doing meaningful analysis and asking stakeholders intelligent questions. Lack of committee meeting action plans or agendas compounds this problem. Instead of policy talks, political objectives typically drive random conversations. The noncompliance of government and non-government entities progressively weakens the committees. The performance of these committees depends on internal and external circumstances. Institutional capacity and member knowledge are important, but public demands, interest groups and international obligations may also affect their activities.

Nepal's committee system has a lot of promise for clear and accountable governance, but it needs to fix some basic issues. Committees play a crucial role in Nepal's democracy, and the government needs to enhance their skills and independence, focus on merit-based appointments, and establish clear objectives and procedures. Political parties, government agencies and civil society must work together. They should prioritise the national interest over their own agendas and make sure these committees do their important job as safeguards and promoters of good governance.

6. Discussion: Reframing cooperation, coexistence and coordination as rational choices within Nepal's federal landscape

A successful federal system is built on three key ideas: coexistence, cooperation and coordination. These concepts might seem similar, but they have different theories and uses in a federal system. Nepal's 2015 Constitution not only includes these principles, but they are also proclaimed to be the basics of a smooth and effective multi-tiered governance system. However, in case of their imbalance, dire consequences to intergovernmental relations (IGR) ensue, revealing deeper issues at the bosom of Nepal's federal structure and politics.

6.1. Coexistence as the framework for federal pluralism

Theorists like Lijphart (1977) based federalism on pluralism and consociationalism, promoting peaceful coexistence of multiple identities, political entities and jurisdictions under one political system. Federalism was expected to institutionalise cohabitation by encouraging local autonomy and regional identity in Nepal, a country with great ethnic, linguistic and geographical variety. That is why the Nepalese Constitution emphasises cohabitation between federal, provincial and municipal administrations, although experience shows otherwise. The federal government regularly violates subnational

autonomy due to centralist tendencies. While pluralism is expected to promote variety and local control, it somewhat weakens it instead.

Coexistence requires solid constitutional protections to push back against government overreach. Nepal's provinces and local governments frequently clash over federal instructions because of unclear jurisdiction and shared authority agreements (Acharya, 2021). In a coexistence system, different identities and ruling units can operate side by side without clashing. In reality, there are no clear rules for how things should work, highlighting that the constitution does not align with what actually happens.

6.2. Cooperation: A functionalist imperative for effective federalism

Cooperation, positioned under functionalism (Elazar, 2006), proposes that various levels of government must work together to meet common concerns, notably in economic growth, social welfare and environmental protection. Intergovernmental entities like the Interprovincial Council and National Coordination Council compel collaboration in Nepal. These institutions have struggled because of political reluctance, bureaucratic lethargy and unclear mandates (Adhikari & Upadhyaya, 2020).

Competitive dynamics and a collaborative culture among political elites in Nepal can overshadow the essential commitment to collaborative governance required for cooperation. Political actors often exploit IGR frameworks for personal or party gain, undermining genuine cooperation (Acharya, 2021). The deviation from theoretical expectations worsens due to the lack of confidence between federal and provincial administrations, as subnational entities often perceive federal measures as attempts to restrict their sovereignty.

For collaboration to work well, skills, transparency and responsibility are essential. Sadly, Nepal is missing these elements. When there is no solid legal basis for governments to work together, informal networks and quick decisions have taken over. Sometimes, informal procedures can work, but they usually do not deliver great results and just reinforce power imbalances. Nepal's federal approach aims for teamwork that brings together resources and skills.

6.3. Coordination: Navigating the boundaries of authority and accountability

Coordination matters in federalism, as it helps avoid governance paralysis and conflicts that arise from overlapping jurisdictions. Theorists such as McLaughlin (1918) and Osborne (2010) highlight the importance of clear lines of responsibility and coordinated efforts across various levels of government. In Nepal, coordination within IGR has been a hot topic. Confusion over shared powers in education, natural resource management and policing has led to ongoing tensions between the federal and provincial governments.

Nepal's experimentation with a federal government shows that working together can turn into conflict if there are no strong financial systems and ways to settle disagreements. The federal government does not want to give up power over important things like taxes and the police; in response, provincial governments have gone to court, often all the way to the Constitutional Bench. However, there are popular claims that the Bench is not strong enough and is too much under the influence of politics, which makes things worse (Subedi, 2021). Also, different levels of government often work alone, which makes service delivery across the country uneven. There are gaps, waste and delays in government results when there is no clear order for allocating projects. This shows that Nepal still does not have the coordination tools that supporters of federation say it should have. And this makes it harder to have a coordinated government.

6.4. Intergovernmental relations and federalism: A theoretical synthesis

Nepal deals with challenging intergovernmental issues because it needs to balance coexistence, cooperation and coordination, all key to making federalism work well. Still, political, legal and bureaucratic challenges make it hard to implement these principles. Wright (1974) highlights that the link between federal units and conflict resolution is crucial, indicating that Nepal's federalism is in its early stages of development. Weak connections between governments have created political games and a culture of dependence, leaving local governments often controlled by federal power.

This study thus situates itself within a broader federalism theory by demonstrating how newly established federations, particularly in developing nations, face distinct challenges in operationalising federal principles. Nepal's experience mirrors the struggles of other transitioning federations, where the formal structures of federalism are in place, but the informal political and bureaucratic cultures undermine their efficacy. The broader implications for federalism theory suggest that institutional design alone is insufficient; political will, administrative capacity and cultural shifts are equally crucial for successful federal governance.

7. Policy implications of Nepal's experiment with intergovernmental relations

Nepal's federalism and intergovernmental relations present critical policy implications that need to be addressed for the effective functioning of the new system. Concerns have been raised about the Constitutional Bench's independence and fairness, and it needs to be strengthened to make sure it stays that way. Changes are needed to help the Bench uphold the ideals of federalism without being swayed by politics. Therefore, it is about time to use the Interprovincial Council and give it the power to settle political disagreements between the central government and the regions. And when the Council is idle, states may still work together, having a clear goal, keeping everyone involved and working toward common governmental goals.

There is an excess of power in the National Coordination Council, with more federal and local government members than provincial ones. This makes it harder for the council to meet the goals of all levels of government. To ensure equal involvement, changes need to be made. It is also very important to improve fiscal autonomy and give the Intergovernmental Fiscal Council and the National Natural Resources and Fiscal Commission more power. These groups need more freedom, better ways to divide up resources, and the power to settle budget disagreements between levels of government.

The performance of PCCs of different areas is not uniform either, so it is important to make sure that everyone is involved and that people work together. Centralisation, political meddling and bureaucratic delay are some of the structural problems that the councils face. To fix these problems, the whole system needs to be reformed to remove cultural and systemic hurdles. This will make it possible for different levels of government to really work together and coordinate.

Boosting skills and sharing knowledge among different government levels can substantially enhance Nepal's federal system. This analysis points out the missing knowledge and skills in fiscal federalism, resource allocation and intergovernmental processes. Putting money into training and knowledge-sharing platforms can help officials tackle the challenges of the new federal framework. A varied policy strategy is needed to boost the independence and fairness of federal institutions, give power to local governments, improve fiscal federalism and tackle both structural and cultural obstacles.

8. Conclusion: Toward a functional IGR framework in Nepal

Nepal operates under a federal governance model. The goal is to share power, boost local control and create a fair political system. But this vision runs into challenges because of complicated federal structures and politics. The main problem is the unclear division of responsibilities between federal, provincial and local governments. This creates overlaps in authority, power conflicts and a tendency to centralise, even though the constitution encourages teamwork. When things are opaque, it leads to conflict and blunders in how public services are delivered. This weakens the idea of living together and slows down the push for a diverse and decentralised way of governing.

Political manipulation and the refusal to share power hider the functioning of federalism in Nepal. Federal–provincial cooperation was promoted via IPCs and the National Coordination Council. However, inactivity, political interference and imprecise operational parameters make these bodies ineffective. Political elites often emphasise personal and party interests above collaborative governance, cooperation and partnership. This shift from cooperative federalism demonstrates the country's lack of institutional trust and accountability. Despite the constitutional delineation of powers and responsibilities among the federal, provincial and local governments, weak fiscal and administrative processes have contributed to persistent overlaps and ambiguities in the exercise of authority and the discharge of duties. These challenges are further exacerbated by political interference, partisan interests and the influence of intermediaries within the

leadership of institutional mechanisms, all of which impede effective intergovernmental cooperation. Moreover, the absence of a robust intergovernmental budgeting framework, coupled with politically motivated distribution practices, has resulted in significant developmental imbalances and increased public dissatisfaction. Consequently, governance across the three tiers of government has become uneven, undermining the broader goals of federalism and inclusive development. Current coordinating methods raise disagreement over concurrent powers and resource distribution. Cooperation is only possible with rules and dispute resolution.

Vestiges of Nepal's unitary structure have hindered its transition to federalism. The political and bureaucratic culture is centralist, preventing subnational governments from fully achieving their autonomy. The conflict between constitutional decentralisation and political centralisation and the centres' reluctance to delegate authority fosters a culture of dependence among local administrations, hindering federalisation.

Nepal must reform its federal structure to enhance trust, respect and power-sharing. This requires adopting a cooperative political culture that promotes dialogue and consensus between government levels. Robust, clear intergovernmental institutions are essential for resolving conflicts, ensuring accountability and distributing resources. A balanced federal system needs a consistent legislative framework for collaboration and effective budget measures. Addressing these concerns will enable Nepal to harness the full potential of its federal experiment.

Functional intergovernmental relations rely on legislative and administrative reforms and the willingness of political actors to embrace collaboration, cohabitation and coordination. A strategy that promotes shared governance and national unity can help achieve the potential of a federal system. Nepal's federalism is a developing political initiative needing continuous commitment and management of challenges.

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