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An Opportunity to improve Service Delivery in Nepal through Local Governance*

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Abstract

There is a strong foundation on which to reestablish a local government system in Nepal. Nepal society is constituted and strengthened by strong community traditions. Likewise, decentralization has existed historically. Nepali State is at a crucial moment. After remaining a unitary and centralist state for about 240 years of its formation, a new constitution is being written by Nepali people through the Constituent Assembly (CA). The Interim Constitution directs that Nepal will be a federal democratic republican state. In order to institutionalize the directives, different committees of the CA have been drafting the constitution along the federal line. Traditionally, federalism stood for two tiers of government: central and regional/state. Local governments were left under domain of the state governments. However, recognizing their tremendous importance in institutionalizing democracy and improving service delivery, local governments are now being specifically provided for in the constitution.

As the country goes through this historic period, a review of the state of decentralization and service delivery shows that a serious discussion will be required on the functioning of legitimate local governments. Local governments will require support to dispense their roles and responsibilities. Local governments will require greater local autonomy and building around them systems of accountability to ensure effective and efficient service delivery. Citizens will require empowerment to hold elected representatives, local government authorities and providers accountable. This paper shows that service delivery is still weak, and that addressing the challenges will require addressing the weaknesses in accountability relationships. Carefully designed decentralization and sequencing of decentralization reforms will be a key challenge during this transition. A key lesson is that political economy and economic/resource considerations will remain critical in the debate of what the federal structure in Nepal will look like.

Key words: Fiscal Federalism, Decentralization, Service Delivery

1. Introduction

The present form of Nepali state was created in 1769 by unifying many small and large principalities. Since 1769 to 2008, the country remained a kingdom and the dynasty that led the unification process headed the state. In terms of exercising executive powers, the country witnessed different forms of rules and forms of governance ranging from direct rule by the king to hereditary prime minister to absolute monarchy parliamentary form of government. Despite different forms of rules, the country remained unitary and highly centralized.

Currently, Nepali people are writing their constitution through the Constituent Assembly (CA) which has been a longstanding demand of Nepali people. The election of the CA was held in the backdrop of the historic people' movement in 2006 and a decade long Maoist insurgency preceding the movement. The Interim Constitution declares Nepal a federal democratic republic and the CA is writing the constitution along the federal line. The Constitution justifies federalism as a means to end ethnic, cultural, linguistic, geographical and class-related...discrimination that has been practiced by the establishment. One of the major reasons why people belonging to particular ethnic, linguistic, geographic, cultural communities felt discriminated by the regime is the poor state of public service delivery.

Nepal is a late starter in terms of providing public services to the general people. Before 1951, Nepal was ruled by a family autocracy and there was no question of providing public services to the people; all the machinery was devoted to please the rulers, who were not accountable to the people. There were a number of schools and hospitals but were accessible by a few. It was only after 1951-- the year when the autocracy was over--that the government started thinking of providing basic services to the people. Between these decades, tremendous

changes have taken place in terms of increasing access to the basic services and improving the living standard of the people.

With respect to access, despite its tough geographic terrain, Nepal has recorded remarkable progress in improving access to basic public services. The latest Nepal Standard Survey (NLSS) revealed that by 2004-05, 91 and 63 percent of households had primary schools and health posts/sub-health posts, respectively, within 30 minutes of travel time (CBS, 2004). Likewise, 37 and 44 percent households had access to electricity and piped water, respectively, during the same time. The private sector is also expanding its investments in sectors like health and education.

Despite these developments, Nepal still faces challenges in public service delivery. A sizeable number of people do not yet have access to basic public services. It is not uncommon to find people who have hardly had access to basic public services. Likewise, the efficiency and quality of the services being delivered is still generally low. Some health facilities, for example, are devoid of essential medicines and equipment or the medical personnel to work at the facilities. This poor state of service delivery has been a cause of public concern.

Both central government (CG) and local bodies (LBs) are responsible for providing services. The role of the CG in service delivery is critical, since it has the lead role in policy formulation, financing, regulation and actual delivery. However, the delivery of the CG has not been as efficient and effective, as would be desired, owing in part to a long chain involved from policy formulation to service delivery, lack of local control, poor match between financial allocation and local preferences, among others. In recent years, the role of the LBs in service

delivery has substantially increased. Yet, they are yet to be established as institutions of public service delivery.

During the ongoing constitution writing process in Nepal, an opportune moment presents to lay down fundamental principles and policies in the constitution to ensure efficient and effective service delivery in the future. In particular, the role and responsibilities of the local governments (LGs) will have to be carefully incorporated in the constitution, enabling them to be developed as governments closest to the people and a provider of local public goods.

The essence of a federal form of governance is to empower people by devolving power to the lowest level of government, which will be best suited to provide local services in an efficient and effective manner. However, this role of the LGs has not been fully discussed and deliberated to perhaps inform the constitution writing process. Much of the debate has centered on the division of roles and responsibilities between the central and state governments. Against this background, this paper briefly analyzes the state of service delivery in Nepal and discusses some measures to improve service delivery under a federal structure.

2. Framework

Increasingly Governments in developing countries are paying significant attention to improving the delivery of public services. As a key aspect of governance, decentralization is one of the policy instruments attempted by several countries worldwide trying to improve service delivery. Several countries have attempted to transfer responsibilities of the state to lower tiers of government. Significantly, most of these lower tier governments have been elected, so that the decentralization is not just administrative or fiscal, but also political.

It is argued that local governments could better undertake local public good provision, as it would eventually lead to a better match of political power and incentives to ensure effective delivery. Decentralization could lead to increased devolution of financial resources to sub-national governments, which in turn might imply increased allocation of resources to sectors, such as education and health. Decentralization can achieve several other objectives such as: severing as a path to national unity (e.g. South Africa); may offer a political solution to civil war (e.g. Bosnia–Herzegovina, Sudan); may serve as an instrument to deflate secessionist tendencies (e.g. Ethiopia), or formally forestalling the decision as to whether or not to secede. Countries that are ethnically diverse and territorially concentrated may wish to find ways of working together to provide public services effectively and in this sense decentralization may serve an opportunity (Ahmad et al 2006).

Achieving accountable and efficient local governments takes time; thus decentralization is not a one-off policy change (Box 1). For example, development of sufficient and effective capacity support to manage local governments may take decades to achieve. It is a process of learning by doing with adjustments and fine tuning in of the policy levers as implementation continues. The ultimate outcome of the decentralization process is influenced by the way decentralization is implemented, the political process, and the form of decentralization implemented.

Bahl et al (2006) discuss that proper implementation of decentralization calls for better sequencing of the decentralization reform process. Ideally, subnational governments should first be given clarity about their functions and associated expenditure responsibilities and, based on these, the proper assignment and design of tax instruments and transfer systems should be made.

The rule that finance follows function appropriately defines this sequencing. In addition, to ensure service delivery and the exercise of devolved powers in general, administrative decentralization should be implemented along with expenditure and fiscal arrangements. So function, finance, and functionaries all need to be sequenced properly. A complete framework of decentralization would seek to address specific issues of overall intergovernmental structure, including the number and size of tiers, the linkage between the center and each tier, expenditure and revenue assignments, fiduciary systems, and fiscal and service delivery monitoring systems. All these elements will involve a gradual process and political debate.

Box 1: Fostering Debate on Decentralization

Decentralization is a dynamic process. No country ever gets it right on its first try. Circumstances change, and the nature and design of intergovernmental fiscal relations should change also. An important aspect of establishing an adequate institutional framework for decentralization is thus to build in some 'error-correction' mechanism, that is, to permit and encourage the adaptive development and evolution of the system in response to changes in needs and capacities (Bird, 2001)."

Bardhan (2006) concludes that it is quite plausible to argue that in the matter of service deliveries as well as in local business development, control rights in governance structures should be assigned to people who have the requisite information and incentives, and at the same time will bear responsibility for the (political and economic) consequences of their decisions. In many situations this calls for more devolution of power to local authorities and communities. But at the same time it is important to bear in mind that structures of local accountability are not in place in many developing countries, and local governments are often at the mercy of local power elites, who may frustrate the goal of achieving public delivery to the general populace of social services, infrastructural facilities and conditions conducive to local business development. (In other cases the elite may secede from the system of public services and the political support base of the latter may collapse.) This means that decentralization to be really effective has to be accompanied by serious attempts to change the existing structures of power within communities and to improve the opportunities for participation and voice, and engaging the hitherto disadvantaged or disenfranchised in the political process.

Recent political economy literature analyzes how decentralization will improve outcomes to the extent that physical proximity increases voter information, citizen participation and monitoring of performance, and to the extent that narrowing the scope of responsibilities of each tier of government decision makers reduces their ability to shirk on some responsibilities by performing better on others.

Analyzing the nexus of decentralization thus requires a better understanding of relationships of accountability among all stakeholders in a particular country. Decentralization introduces a new relationship of accountability – between national and local policy makers – while also altering existing relationships, such as that between citizens and elected politicians. Only by examining how these relationships change can we understand why decentralization can, and sometimes cannot, lead to better service delivery. In particular, the various instruments of decentralization—fiscal administrative, regulatory, market and financial—can affect the incentives facing service providers, even though they relate only to local policy makers. Likewise, and perhaps more significantly the incentives facing local and national politicians can have a profound effect on the provision of local services.

The WDR (2004) provides a framework for analyzing these relationships of accountability. This framework is summarized in Figure 1. Service improvements are more likely when there are strong relationships of accountability between the actors in the service delivery chain. These actors include providers, clients and policy makers. The short route is the accountability relationship going directly from the client to the service provider. Clients hold service providers responsible for service provision. The long route of accountability is the indirect accountability relationship that goes from the client to politicians and then to the service

provider, the client having indirect accountability over the service provider. Clients appeal to politicians for improving service provision and politicians hold service providers accountable for performance. Clients thus punish or reward politicians for performance and politicians punish or reward service providers for performance based on the signals clients give to politicians. Weaknesses in service-delivery outcomes can be attributed to a breakdown in either the short route or the long route (or both).

[Figure 1]

The next section borrows some of the principles outlined in the framework to take a closer look at the state of decentralization and service delivery in Nepal.

3. Overview of decentralization in Nepal

Nepal has two tiers of LBs: districts and locals. At the local level, there have been separate arrangements for urban and rural areas. Village Development Committees (VDCs) are for rural areas and municipalities for urban areas. VDCs and municipalities are further divided into wards. At the district level, District Development Committees (DDCs) have been in place. The LBs are recognized as autonomous and corporate bodies with perpetual succession and are to be headed by elected representatives.

Nepal has a long history with attempts on decentralization. Politically elected local representatives were in place as early as the sixties. At that time, decentralization was regarded as a process to mobilize people's participation in development (GON& ADB, 2008). Their major competency included judicial powers related to settling of local disputes and hence lacked rights and responsibilities to provide local public goods. Prior to the 1990s (under the monarchy), there

was limited support of true decentralization. The country experienced political change in 1990 resulting in the restoration of multiparty democracy. However, even the Constitution of the Kingdom of Nepal that was promulgated after the restoration of multiparty democracy did not duly recognize the role of local governments.

Fiscal decentralization is rather a recent occurrence in Nepal. The Local Self-Governance Act (LSGA), 1999 for the first time systematically provided for separate expenditure and revenue assignments to DDCs, municipalities, and VDCs based on the principles of fiscal decentralization. The Act provides a relatively long list of expenditures assigned to the LBs that are related to almost every aspect of daily lives of citizens at local level ranging from education to health to water supply and sanitation to agriculture. It devolves a number of revenue sources to these bodies. In most of the sources, rates are defined and in some cases the LBs can define their own rates. The Act provides that the LBs will get minimum and additional grants from the central governments. In theory, LBs have also been allowed to borrow by depositing their property if that is backed by the central government. At the time of the enactment of the law, Nepal had set itself high standards in South Asia region in terms of providing statutory rights and responsibilities to the LBs.

After the LSGA has been implemented, a number of positive developments have taken place. The LBs have taken on responsibilities in a number of areas that were hitherto under the domain of the central government. They have started constructing local infrastructure on a massive scale and providing social services (MLD, 2010). They have also initiated both periodic and annual planning exercises, which are aimed at enabling the local communities to reveal their preferences and prioritize. Local people, at least in urban areas, are increasingly becoming aware

that they have to pay for the services they receive. The central government increased the amount of resources provided to the LBs as a way of empowering them (Table 1).

The VDCs have been receiving the highest amount of grants followed by municipalities and DDCs. However, the grants system remained ad hoc for a long time and since FY 2008/09 the government has tried to make it formula based (MLD & LBFC, 2010). The grant allocation has been based on geographic area, cost index, population, poverty, and a human development index (HDI). Overall, the amount of grants transferred to the LBs as a percentage of the central government's budgeted expenditure has remained a little more than 5 percent in recent years.

These positive developments notwithstanding, decentralization in Nepal has been far from complete for a number of reasons. To begin with, the LBs' roles and responsibilities do not have constitutional backing. The Constitution of the Kingdom of Nepal, 1990 and its predecessor appreciated the importance of decentralization. However, it was confined to the Directive Principles of State Policy, which is not enforceable by the law. Because of this, it took almost a decade (in 1999) to enact the law empowering the LBs with relatively more roles and responsibilities. It may be noted that in many mature democracies decentralization has taken place without constitutional guarantee. However, in nascent democracies such as Nepal, the success of decentralization may in part hinge on the constitutional backing.

Second, the LBs have not been able to fully exercise the competencies as envisioned by the Act (LBFC, 2004) for a number of reasons. The Act conflicted with many existing laws as they provided many of the rights to the central government as well. At the time the legislation was passed, it contradicted with 23 laws. Consequently, there are only a few items like certification and recommendation, and waster management that are exclusively assigned to the

LBs (LBFC, 2004); with the rest of them under the competencies of the central government and the LBs. This duplication of the roles could have been avoided by devolution. Nevertheless, the CG's intermittent efforts to fully or partially devolve proved to be only half-hearted. On the other hand, the LGs were not in a position to unilaterally exercise the powers given to them by the Act.

Owing to this lack of clarity on the roles and responsibilities of the LBs in many sectors, the LBs seem to be interested in allocating budgets to those areas that are relatively clear. It is claimed that DDCs and VDCs allocate a large part of their budgets in rural roads, and municipalities in urban roads and sewerage (LBFC, 2004). They appear to be more hesitant to spend in other sectors like education and health as the facilities even at VDC level are run by the central government.

Third, the LBs' revenue base is weak and they have not fully utilized the bases given. Despite a long list of revenues assigned, most of them are not revenue yielding. More importantly, they have not been able to mobilize their revenue sources even where there is a potential (LBFC, 2004; GoN & ADB, 2008) for different reasons. Since expenditure assignments are not clear, LBs do not face a hard budget constraint. In other words, the LBs budget according to what is available not according to what is needed. Likewise, until very recently the central government provided grants to the LBs based on ad hoc procedures and thus, LBs had little incentive in collecting taxes at local level. Generally, the revenue sources could not be mobilized to realize more revenue at the local level.

Table 1 presents the total amount of revenue generated by the LBs over the years. It shows that local taxes constitute less than one percent of Gross Domestic Product (GDP). As a

percentage of general government revenue, the share of revenue mobilized by the LBs is in the range of 4 to 5 percent.

Fourth, the intergovernmental transfer system was not properly sequenced and it didn't coincide with accountability measures. Principles of fiscal decentralization suggest that finance should follow functions, meaning that lower tiers of government should be provided funds once their expenditures are clearly assigned. However, the government started providing substantial amount of grants before the LSGA was in place, when the LBs' role was even unclear and limited. Owing to this, proper utilization of grants received may be limited. In some cases, it is reported that the amount is allocated to the political and geographic areas pro rata (LBFC, 2004).

Fifth, staffing policy is not commensurate with the policy of decentralization. Currently, the LBs have two types of staff: deputed by the central government and hired by the LBs. Chiefs of all the LBs are to be deputed by the central government and the rest of staff are either deputed or locally hired. VDC secretaries are hired and transferred by the central government and local political officials have no control this regard, which in a way limits their accountability to the local governments.

Sixth, decentralization is guided by the central government and LBs lack autonomy in their operations. There are many guidelines in place that LBs have to follow. They range from distribution of social security to commissioning social audit. Some of them, in particular those related to carrying out delegated functions, can be justified, but not all of them. The LBs are even controlled in hiring of staff the cost of which is to be borne by their own source (GoN and ADB, 2008). With respect to the grants being provided, unconditional grants too are followed by many guidelines that the LBS have to comply with.

An interesting and striking point about the decentralization process is that even the incomplete legislation could not be fully implemented. It was only for more than three years (till July 2002) after the LSGA was enacted that the LBs were led by elected representatives. Yet, by the time the Act was in place, the Maoist insurgency that began in 1996 had controlled a significant part of rural Nepal and the LBs in those areas were no more fully functional. In subsequent years, as the conflict intensified, the LBs in the rest of the country became virtually non-functional. This suggests that even during 1999-2002 the LBs could not fully exercise their authority. It should be pointed out that after 2002 the LBs are being led by civil servants deputed by the central government.

4. State of service delivery

Administratively Nepal is divided into five development regions, 14 zones, 75 districts, 3914 VDCs, and 58 municipalities. Most of the ministries have their offices at district level that are key to delivering services under their jurisdictions. And, some of the district level offices have their delivery units down to the VDC level. These service units are administratively and financially controlled and managed by district level offices, that are in turn controlled by their regional offices, departments and ministries. As for the local governments, they exist at district level and below. DDCs function at district level and so do municipalities and VDCs in urban and rural areas. *Ilakas* are constituted of a number of VDCs, but they do not have independent status.

The central government plays a significant role in providing public services. It provides these services through ministries, departments, regional, district and VDC level offices. Several public enterprises and other autonomous agencies are also involved in the service delivery

process. However, for a number of reasons this service delivery model not been able to rise up to the challenges. First, a long chain is involved between the service delivery units at local levels and the ministries in terms of budgeting, planning, programming and staffing. Budgets and programs are to be approved at the central level and passed on to the lower level, a process which takes significant amount of time. Despite improvements in recent years, annual budgets and work plans do not reach the operational level on time. Second, because of the centralized nature, there is very little scope for matching budget allocation and programming with local needs. Thirdly, the local people and authorities have almost no control over the staff and budget of the CG offices.

The quality of services being delivered by the central agencies is still low. In health, since medicines to be provided even by the sub-health posts are centrally purchased and supplied, they in some cases reach to the facilities late (Devekota, 2006). This is further exacerbated by the acute absence of health personnel in their duty stations, both in remote villages and district headquarters. Some positions of medical doctors in district hospitals are hardly fulfilled. This may open possibilities for less competent staff to perform complicated and delicate medical procedures (Box 2).

Box 2: X-ray Machine operated by Peon

Rukum District Hospital's x-ray machine is being operated by a peon for the last ten years in the absence of a radiographer. Amar, the peon, has been working in the hospital for the last 20 years and has been running the machine for last 10 years. He learnt how to operate themachine by working in two health camps and with that experience he started his job. Not only that, he now repairs the machine. **(Source: Kantipur, September 18, 2009).**

The situation in the education and agriculture sectors is not very different even though the magnitude of the problem may vary because of the nature of the services in question. Agriculture and livestock service facilities lack bare minimum equipment and other supplies (GoN and ADB, 2008). The problem of absenteeism could be higher in agriculture sector than in health sector. In education, it was reported that about 34 schools were facing the problem of seepage in their classrooms and only 53 percent of schools had sufficient furniture (FCGO...).

There is also absenteeism of civil servants in their work stations. In Mugu, one of the remotest districts, only three officers were in-charges out of 24 were present at their work stations in May 2009 (Sharma Yam, field notes, 2009). When a team of the OPMCM went to a few districts in the far west region in August 2009, only two officers in-charge—the Chief District Officer (CDOs) and the Police Chief—were present. In Khotang district, 12 officers in-charges of major services were away from their duty station (Kantipur, August 2009). The national dailies often report that officers in-charge of various services at the district level are away from their duty stations (although sometimes away on approved leave or attending training workshops).

Box 3: Local Officials' Presence in Their Work Stations

Besides field piloting, the head of the DDC and the Municipality are least motivated to work in the DDC and Municipality. This explains their long absence from the office for unknown reasons. Their absence has become a rule rather than the exception. The VDC secretary and LDOs, particularly of the remote hill and mountain areas, spend more than 75 % of their time outside the district/VDC areas. The possible reasons for the absence include attending training workshops and other official (?) business. Actual time available for the service seekers is far less than desired."

Source: GRDCP, 2008

The recent cholera epidemic highlights systemic challenges in the service delivery chain. In the summer of 2009, 398 people died of cholera (Kantipur, August, 26, 2009) in the Mid-West Region, mainly in Jajarkot, Rukum and a number of other districts. The epidemic erupted in late April and continued till the end of August. At the time of this epidemic there was a lack of health personnel and essential medicines in some of the local health facilities in villages (Himal, 2009). In Jajarkot District Hospital, only one doctor was present at the time out of four positions. The response on the epidemic was slow. Later on health workers and medicines to these districts, but they were not sufficient, and not timely.

With respect to the public services delivered by the LBs, the issues can broadly be classified into two: scope and coverage, and efficiency. The LBs provide services in very limited areas. The services exclusively provided by the LBs include issuing certificates related to vital registration and recommendation, disposal of garbage and building permits. For the rest, they are not obliged to perform and hence carry out those that they deem easier (LBFC, 2004). Further, there are inefficiencies in the delivery of basic services. In the ensuing paragraphs the causes of this state of affairs are enumerated.

Regarding scope and coverage, a number of factors have contributed towards it. To begin with, there is no clear distinction between local and non-local services. Except for a few items mentioned in the foregoing paragraphs, many basic services assigned to the LBs can be concurrently delivered by the CG and LBs. It is for this reason that they allocate a great proportion of their budget in local infrastructure. It is reported that 4 DDCs spent more than 60 percent of their budget in physical infrastructure (LBFC, 2004). In recent years, the LBs are

found to be providing grants to the schools and health facilities being run by the central government. However, they seem to be reluctant to allocate in areas other than physical infrastructure.

Second, the LBs are not considered as service providers, rather they are regarded as development agents. Although the preamble of the LSGA refers about the role of the local bodies on this matter, it focuses the LBs role in development rather than in local service delivery (GoN and ADB, 2008). Some argue that perhaps devolution is an instrument of local development rather than a means of empowering service delivery mechanisms at local level (GoN and ADB, 2008).

Third, there is the issue of capacity. In recent years, in particular after the promulgation of the LSGA, the LBs are assigned more functions and revenues without corresponding increase in capacity to deliver on their mandate. The present administrative structure of the LBs was created long ago when they existed as local political units of the then regime. Since then there has been considerable change in their roles and responsibilities. As a result, they are overly burdened with their responsibilities. This is particularly an issue in many VDCs (GON & ADB, 2008; LBFC, 2004). Actually, the VDCs are virtually run by secretaries with non-officer level. As for DDCs, the LSGA envisages to have line offices in agriculture, health, and education, which has not yet been materialized. So much so, the district technical offices (DTOs) originally created as technical sections of the DDCs are being developed as technical wings of the Ministry of Local Development (MoLD) (GoN & ABD, 2008).

Fourth, the VDC's role in providing basic services is not clear. VDCs are the lowest level of local governments considered “viable jurisdictions of service delivery” and as such should

play a key role in providing basic services in their respective areas. Whereas the DDCs' role should have been in building their capacity and delivering services that are beyond the VDC's capacity. Since district headquarters are generally far from VDCs, it is neither convenient for the citizens to commute to the district headquarters nor the local people have equal access to the basic services provided to the DDCs. However, more resources and capacity building measures are centered on DDCs, whereas VDCs are regarded as DDCs' extended arms. DDCs exercise a great deal of power over the VDCs in budgeting, programing, and staffing. Consequently, the VDCs have not been able to emerge as local governments that are closest to the people in terms of efficient entities of basic service delivery.

Presently decentralization is practiced without restructuring the LBs in terms of their geographical areas. District boundaries were created in the sixties for the ease of the central government's administration (GoN, and ADB, 2008) and for political reasons (Khanal, 2010), not with service delivery in mind. Similarly, factors like ethnic, geographical and cultural homogeneity were not properly considered. In the case of VDCs in particular, all of them have nine wards irrespective of their population and geographic area; whereas VDCs' population ranges from 192 to 40,000 people. Some of the VDCs are larger and more resourceful than many municipalities. With respect to municipalities, many of them were established in recent years on political bases. With the advancement made in transport and communications, the geographic divisions of DDCs and VDCS made in the past have become redundant.

This unscientific and impractical organization of the LBs has several implications in service delivery. People have to travel a long way to meet their district headquarters even if headquarters of neighboring districts are close by simply because their VDCs belong to different

districts. Needless to mention that these people have less access and control over the services being provided there. Since ethnic, linguistic, socio-cultural factors were not properly taken into considerations, this also dampened the spirit of decentralization.

In addition to the structure of the LBs, their over dependence on the grants may have contributed to inefficiencies in service delivery. As alluded to earlier, the LBs have been receiving a huge sum of amount in the form of grants and have been assigned revenue sources without clearly spelt out functions and corresponding accountability instruments in place. Resultantly, the resources are either not properly allocated or not spent economically. For example, it is found that 60 percent of VDCs allocate grants equally to nine wards (GoN & ADB, 2008).

Another source of inefficiency of the public service delivery system at the LB level is the lack of local control over their staff and thus, weak accountability relationships with clients/citizens. Since the secretaries/chiefs of the LBs are centrally controlled in terms of their transfer, promotion, dismissal, salary and other pecuniary benefits, there is no incentive for these officials to be accountable to the LBs' political representatives. As shown in Box 3, chiefs of staff of the LBs are not regular in their offices. So much so, an X—ray machine was reportedly being run by a messenger (and not a medical professional) in 2009 (Box 2). Hardly any day goes by, where it is not reported in national dailies that LBs have been suffering because of staff absenteeism (Sharma Yam field notes, 2010).

Improper sequencing of the roles and responsibilities of the LBs is another issue of concern. Principles of fiscal decentralization (ideally) suggest that expenditures should first be assigned; followed by revenues, intergovernmental grants and borrowing. However, this seems

not to have been the case in Nepal. Local bodies were assigned revenues coming from land tax and were entitled to revenue sharing even before the LSGA came into being. Thus, the revenues were assigned without the LBs properly being mandated for defined functions (LBFC, 2004). This was further exacerbated as the government started providing a substantial amount of grants to LBs since fiscal year 1995/96. This in part may explain why LBs allocate their budgets inefficiently and spend inappropriately. Local bodies are yet to fully be institutions of service delivery as the CG still plays a significant role in delivering basic local services (LBFC, 2004). A shift has not happened moving the LBs from the periphery to having even greater impact on the daily lives of the ordinary citizens through efficient service delivery. Perhaps this may explain why the people did not feel the absence of the elected representatives in their LBs for a long time (LBFC, 2004).

In conclusion, despite the recent efforts to improve access and quality of service delivery, Nepal is yet to reach a more desired and efficient model in which citizen priorities and needs are provided by their jurisdictions. The central government still occupies center stage in basic service delivery. Yet, for some of these services, the LBs are better situated to provide them and perhaps higher level local governments where services with greater economies of scale are involved. The role of LBs remains limited in part due to weak administrative capacity to manage and implement government programmes. Enhancing the roles of the LBs to efficiently deliver basic services will require a shift in the current paradigm. In the next section, we discuss some of the possible measures toward a perhaps more efficient and equitable model that upholds (to some extent) on the accountability model laid out above.

5. Conclusion

Constitutional guarantee of local governments. Local governments (LGs) need to constitutionally form a tier of government headed by elected representatives. With this, the local governments will unlikely be victims of vagaries of the central and state governments.

Clear expenditure assignments. Local governments ought to be mandated to provide basic local public goods. In this regard, the expenditures of the LGs should be clearly assigned. Perhaps not all expenditure responsibilities of the LGs need to be listed in the constitution itself. After assigning certain rights and responsibilities in the constitution, it could be laid down that the rest will be devolved based on the principle of subsidiarity. This will avoid constitutional rigidity and at the same time ensure competencies of different tiers of government.

Adequate revenue for the local governments. Unlike in the present, the LGs should be provided adequate revenue sources. In addition to local taxes, they should be allowed to levy surcharges in tax revenues like income tax and valued added tax (VAT). This will allow urban local governments to generate substantial own source revenues.

Principle-based intergovernmental transfer system. Even after assigning substantial revenue sources to the local governments, it is highly likely that there substantial gap between the revenue generated and their expenditure needs, particularly in rural areas given the low revenue potential of rural local governments. This gap will be serviced through transfers from the federal and state governments. The design of the transfer system will therefore form an important part of the fiscal federalism agenda in Nepal.

Separate provisions of local governments in rural and urban areas. Given the unevenness in development and revenue potential between the rural and urban areas, and subsequently,

administrative and fiscal capacity to deliver on basic public services, separate structures need to be created between the rural and urban areas. This allows for separate expenditure and revenue assignments to the LBs. As the local bodies in urban areas will be more capacitated and more liquid than their counterparts in the rural areas, the municipal bodies can be given more powers to manage their affairs and state and central governments will put greater emphasis on improving the capacity of the rural LGs.

Proper accountability structure in place. The constitution should provide for proper and adequate institutions ensuring accountability of the local governments without which there is no guarantee that local public service delivery will improve. In this regard, the role of the electoral system, intergovernmental relations and citizen empowerment in development programs is critically important. Likewise, fiduciary issues (financial management, procurement, budgeting, accounting, auditing and reporting) will require focus and clarity across the tiers of government. Rights to information, including enhanced social accountability mechanisms and cognizance of environmental and social safeguard issues will be important.

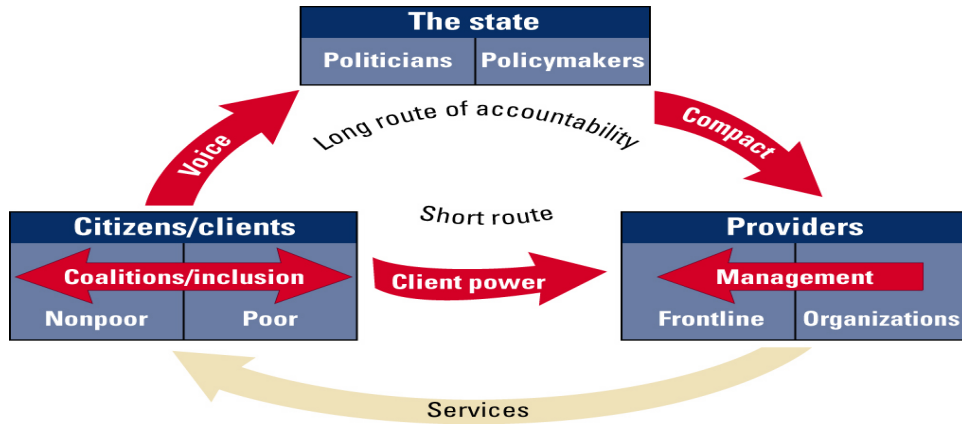
Restructuring of Local Governments. Local Governments will have to be restructured to render them viable entities. Much has changed in terms of technology, infrastructure and connectivity since the present form of local bodies, especially districts and VDCs were created and as such will have to be reflected in the new structure of local governments. The structure of local governments will have to take into geographical proximity; ethnic, cultural and linguistic homogeneity; ease of service delivery; economic of scale, and physical infrastructure, among others.

Staffing. Local governments should be allowed to have their own staff that is accountable to locally elected representatives. This right should not be unconstrained, however. The LGs should face hard budget constraint; otherwise the central and state governments will have to bear the brunt of the liabilities created by the LGs. And, the authority to hire own staff should be guided by clear accountability principles.

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Figure 1: The Long and Short Route of Accountability



Source: World Development Report (2004).

Table 1. Nepal: Selected subnational revenue data (by Major sources), 2001/02—2006/07.

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Items	Village Development Committees (VDCs)					Rs. in million
Own Source Revenue	766	479.6	434.7	534.7	429.5	711.1
Grant	1620	1572	2215.1	2007.5	2189.8	4166.6
Total	2386	2051.6	2649.8	2542.2	2619.3	4877.7
	Municipalities					
Own Source Revenue	1368.7	1707.9	1765.5	1933.5	1867.9	1946.4
Grant	0	23.3	28.8	705.7	655.6	1099.4
Loan	0	2.6	2.6	2.4	3.9	4.7
Total	1368.7	1733.8	1796.9	2641.6	2527.4	3050.5
	District Development Committees (DDCs)					Rs. in million
Own Source Revenue	614.4	560.8	325.7	492.6	518	909.1
Revenue Sharing	417.7	388.3	1005.9	390.3	539	1091.8
Grant	663.4	747	2736.3	826.5	765.9	5325.2
Total	1695.5	1696.1	4067.9	1709.4	1822.9	7326.1
	All Local Bodies					Rs. in million
Own Revenue	2749.1	2748.3	2525.9	2960.8	2815.4	3566.6
Revenue Sharing	663.4	747	2736.3	826.5	765.9	5325.2
Grant	2283.4	2342.3	4980.2	3539.7	3611.3	10591.2
Loan	0	2.6	2.6	2.4	3.9	4.7
Total	5695.9	5840.2	10245	7329.4	7196.5	19487.7
	% Share of the Local Bodies					
% of Grants in Own Source Tax	83.06	85.23	197.17	119.55	128.27	296.96
Own Source Tax % of Central Government Revenue	5.45	4.89	4.05	4.22	3.90	4.07
Own revenue % GDP	0.60	0.56	0.47	0.50	0.43	0.49
Own Source Local Tax/Total General Government Tax	5.44	4.88	4.04	4.22	3.89	4.05
Grant % of Central Govt. Tax	1.32	1.33	4.39	1.18	1.06	6.07
	Memorandum Items					Rs. in million
Central Govt. Revenue	50445.6	56229.7	62331	70122.7	72282.1	87712.2
General Government Revenue	50528.66	56314.9272	62528.17	70242.25	72410.37	88009.1551
GDP	459443.0	492231.0	536749.0	589412.0	654055.0	727089.0

Source: Annual Reports of the Local Bodies Fiscal Commission and Economic Survey, Government of Nepal (2007/08)