Newly elected local governments have been functioning in Nepal for 2.5 years. This brings to an end the first half of their 5-year term, creating an important milestone for evaluating their performance. The 2019 survey of local governments reveals substantial variation in their legal, administrative, planning, and budgeting capacities. Geographic characteristics constitute one factor that predicts differences in capacities, with rural and mountainous regions performing slightly better. Training of local officials is another factor associated with higher legal capacity, reflected in a higher number of formed committees and passed laws. In contrast, party and caste differences between elected officials are associated with more disputes and lower legal, planning, and budgeting capacities.

**Background and Data Sources**

The 2015 Constitution defined Nepal as a federal democratic republic organized around three levels of government – federal, provincial, and local. In 2017, 753 newly elected local governments with substantial policy powers were formed. This report evaluates the initial state of the capacity of local governments and proximate determinants. We anticipate continuing to evaluate its evolution to assess implications for service delivery under the new mandates (see Besley and Persson, 2011 for theoretical framework and predictions).

Our analysis uses the Nepal Administrative Staff College (NASC) Capacity Need Assessment Survey, conducted in January – March of 2019. The survey was administered in 115 randomly selected local governments (LGs) located in 62 districts from all seven provinces. 43% of surveyed local governments belong to DFID-focus provinces 2, 5, and 6, half of which are rural municipalities. The main survey goal was to measure the progress of local governments in fulfilling their constitutional mandates and identifying major gaps in their capacities.

We also use the 2017 election data from the Nepal Election Commission. These data include information on individual candidates, their age, gender, party, location, contested position, and election outcomes, such as votes and ranks. We predict the caste of elected officials based on their last names and classify them into elite and non-elite caste groups following Vollan (2015).

**Capacity Measures**

We primarily focus on legal, administrative, planning, and budgeting capacities, summarized in the table below.

<table>
<thead>
<tr>
<th>Capacity</th>
<th>Average (across LGs)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Legal</strong></td>
<td></td>
</tr>
<tr>
<td>Assembly committees</td>
<td>6.7 out of 8</td>
</tr>
<tr>
<td>Passed laws</td>
<td>12.6 out of 18</td>
</tr>
<tr>
<td><strong>Administrative</strong></td>
<td></td>
</tr>
<tr>
<td>Assembly meetings since last elections</td>
<td>4.1</td>
</tr>
<tr>
<td>Executive meetings last year</td>
<td>14.4</td>
</tr>
<tr>
<td><strong>Planning</strong></td>
<td></td>
</tr>
<tr>
<td>Development bank</td>
<td>27%</td>
</tr>
<tr>
<td>Project bank</td>
<td>64%</td>
</tr>
<tr>
<td><strong>Budgeting</strong></td>
<td></td>
</tr>
<tr>
<td>Submitted 2075/76 budget on time</td>
<td>83%</td>
</tr>
<tr>
<td>Use SUTRA to prepare budgets</td>
<td>68%</td>
</tr>
</tbody>
</table>
Capacity Determinants

Empirical Strategy
We correlate the above measures of capacity with potential determinants. Equation (1) summarizes the empirical strategy in a regression framework:

\[ \text{Capacity}_i = \alpha + \beta \text{Determinant}_i + \gamma \text{Rural}_i + \theta \text{Terai}_i + \epsilon_i \]  

(1)

where \( \beta \) measures effect of a determinant conditional on geographic characteristics of municipality \( i \) (rural vs. urban/metropolitan, terai vs. hills/mountains). The estimates should be interpreted as associations, not causal effects, due to the non-random nature of potential determinants.

Results

Geography
Local governments located in DFID-focus provinces (2, 5, and 6) have similar capacities to those located in other provinces. The only exception is the number of Assembly committees, on which DFID-focus provinces perform slightly worse by forming around 10% fewer committees.

Rural municipalities have better legal and budgeting capacities than their urban counterparts.
They formed 10% more committees, passed 9% more laws, and were 51% more likely to use SUTRA for budgeting.

Similarly, local governments located in hilly and mountainous regions perform better than those located in Terai region.

Training of Local Officials
Local governments differ in the amount of training received by elected officials. Figure 1 plots the average number of training received by the mayor, deputy mayor, and ward chairs, with 95% confidence intervals.

Training of local officials improves the legal and budgeting capacities of local governments.
Conditional on geographic characteristics, local governments, in which the mayor, deputy mayor, or ward chairs received more training, created more committees and passed more laws, while holding fewer meetings.

A 10% increase in the proportion of Assembly members who received training is associated with a 2% increase in the number of formed committees and a 3.4% increase in usage of SUTRA for budgeting. At the same time, it is also associated with 4.5% fewer Assembly meetings, 2.7% fewer Executive meetings, and a 7.8% lower probability of creating a development plan.
Party Differences
Key officials in 26% of local governments (mayor and deputy mayor or chair and vice-chair) belong to different parties.

Differences in party affiliations of local officials lead to disputes and lower legal and administrative capacity.

Figure 2 shows that LGs, in which the mayor and deputy mayor are from different parties, formed 0.8 (12%) fewer committees and held 3.5 (23%) fewer meetings of the executive, with no significant differences in other capacities.

Similarly, on average, 45% of ward chairs are affiliated with a different party than the mayor. Conditional on geographical factors, a 10% increase in the proportion of ward chairs from a different party than the mayor is associated with a 4.8% higher probability of disputes between the mayor and ward chairs, 1.7% fewer committees, and 1.6% fewer laws.

Caste Differences
28.7% of local governments have key officials from different caste groups, i.e., the mayor from elite caste while the deputy mayor belongs to non-elite caste and vice versa.

Differences in caste affiliations of local officials are associated with lower administrative, planning, and budgeting capacities.

Conditional on geographic characteristics, LGs with caste differences held 3.5 (23%) fewer meetings and were 21 percentage points (66%) less likely to create a development plan, and 14 percentage points (17%) less likely submit a budget on time.

Staffing
Most local governments experienced a high turnover of the Chief Administrative Officers (CAOs). 90% of LGs had more than one CAO, and 55% had more than two CAOs since elections. Nevertheless, LGs experiencing a frequent change of CAOs do not score worse on any capacity measure.

More than half of LGs also self-reported disruption of their functioning due to lack of administrative, legal, planning, accounting, and IT staff. However, the shortage of staff is not consistently associated with lower capacities in the data.
Conclusion
As of March 2019, a substantial number of local governments lacked key legal, administrative, planning, and budgeting capacities. A higher number of training received by elected officials is associated with better legal and budgeting capacities of local governments. At the same time, differences in party affiliations and caste between officials at different positions are associated with lower legal, planning, and budgeting capacities. Other commonly cited reasons for the low performance of local governments, such as a high turnover of CAOs and lack of staff, do not predict capacity in the data. Developing better tools for measuring capacity, tracking improvements, and identifying its determinants present promising areas for future research.

References