



NEPAL RENEWABLE ENERGY PROGRAMME



THE IMPLEMENTATION OF FEDERALISM AND ITS IMPACT ON NEPAL'S RENEWABLE ENERGY SECTOR

A POLITICAL ECONOMY ANALYSIS, 2019/2020

NIRJAN RAI



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A POLITICAL ECONOMY ANALYSIS

This paper is from a political economy study led by Policy Entrepreneurs Incorporated (PEI) in 2019 to provide political and policy insights for adaptive programming and design of the Nepal Renewable Energy Programme (NREP). The analysis was drawn upon triangulation of evidence from a comprehensive literature review, interviews with senior professionals managing donor projects in the energy and non-energy sector, and a field visit to the three provinces that NREP focuses upon, namely, Provinces 2, Lumbini, and Karnali. A range of individuals, from high ranking political actors and bureaucrats, prominent professionals of various governmental and non-governmental institutions, the private sector, and influential local media persons were also consulted.

The narrative presented here provides an overview of the federalism discourse and recommends initiatives to be taken within the context of provinces' political economy. NREP has drawn upon the report findings to engage with subnational governments and strategise programmatic interventions. Since the analysis in 2019, some of the politics around the key issues has changed. But as the underlying principles remain the same, NREP has decided to share the insights to a broader audience to enable a better understanding of Nepal's energy sector in relation to the implementation of federalism.

ACRONYMS

ADB	Asian Development Bank
AEPC	Alternative Energy Promotion Centre
APM	All party mechanism
CIAA	Commission for the Investigation of Abuse of Authority
CM	Chief Minister
CPN	Communist Party of Nepal
DC	Distribution companies
DoED	Department of Electricity Development
FDI	Foreign direct investment
FSFN	Federalist Socialist Forum-Nepal
LGOA	Local Government Operation Act
LSGA	Local Self Governance Act
MJF	Madhesi Janata Adhikar Forum
MoEn	Ministry of Energy
MoEWRI	Ministry of Energy, Water Resources and Irrigation
MoFAGA	Ministry of Federal Affairs and General Administration
MoPID	Ministry of Physical Infrastructure and Development
NC	Nepali Congress
NEA	Nepal Electricity Authority
NPC	National Planning Commission
PPC	Provincial Planning Commission
PSC	Provincial Public Service Commission
RJP-N	Rastriya Janata Party-Nepal
SEZ	Special Economic Zone
SP-N	Samajwadi Party-Nepal
UML	Unified Marxist Leninist
WECS	Water and Energy Commission Secretariat

GOVERNANCE RELATED CHALLENGES TO IMPLEMENTING FEDERALISM

The promulgation of the Constitution of Nepal (hereafter, the Constitution) in 2015 and the subsequent elections to the three tiers of government, i.e., federal, provincial, and local, in 2017 were major turning points in Nepali politics. These events were an indication that the country was finally getting ready to move past its tumultuous phase of a decade-long political transition (albeit with several unresolved issues) to implement the promises made by the politics and the politicians to the general public. Of these, the greatest undertaking was the restructuring of the Nepali state through federalism. The Constitution establishes three levels of government whose relations are to “be based on the principles of cooperation, co-existence, and coordination”¹ and conferred significant responsibility to provincial and local bodies.

However, the implementation of federalism has encountered many challenges. Part of this challenge stems from the ‘mind-set at the centre’² that is rooted in i) a *legacy of control* of a bureaucracy that was established to help maintain control of the sovereign’s territory and to manage its citizens ii) *the culture of centralisation* among bureaucrats and politicians who are incentivised to gravitate towards the power, privilege, and prosperity of Kathmandu; and iii) the preference of the administration to *perfecting procedures over perfecting implementation* due to a lack of proper incentives for bureaucrats to perform, the high degree of unfunded mandates of public offices, especially at the local level, and lack of authority and unwillingness of bureaucrats to make timely decisions.

Further, the following have been flagged as some of the major challenges in implementing federalism.

- **Staff adjustment and recruitment:** The Constitution, in provisioning for a transitional arrangement, mandates the government to “arrange for the delivery of services by making adjustments of the employees serving in the government services at the time of commencement of this Constitution with the Federal, State and Local levels.”³ However, in early 2020, it was found that over 30 percent of positions in both the provincial and local level governments were unfilled and ii) about 10,000 federal employees subject to adjustment had filed grievances about their adjustment.

The Constitution also provisions for provincial governments to have their own Provincial Public Service Commission (PSC), whose functions, duties, and powers are to be defined by the provincial law that is grounded on the standards established by the federal parliament.⁴ The Civil Service Adjustment Act states that until the Provincial PSCs are constituted, the Federal PSC can, at the request of subnational governments, conduct the necessary recruitment. However, this initiative was mired in controversies: i) some provincial governments have protested against the “anti-federalist move” and “centralised tendency” of federal government, and ii) the indigenous movement decried the lack of inclusion in recruitment. While this issue made it to the Supreme Court, the Federal PSC was allowed to go ahead, as the Court in July 2019 refused to award the requested stay-order⁵. Province 2 expressed concerns and stated their intent to establish their PSC. By September 2020, the Cabinet decided to provide authority to the Provincial PSCs set up a year ago to appoint employees under technical services - health and engineering⁶.

- **Capacity of subnational bodies (or the lack thereof):** The underlying justification to restructure the Nepali state had more to do with the politics of identity than the delivery of

¹ Constitution of Nepal. Article 232.1. Relations between Federation, State and Local level

² Summarised from an analysis presented as the concluding chapter co-authored by the author in The Asia Foundation’s A Guide to Government in Nepal: Structures, Functions, and Practices (2012). For full analysis, see bit.ly/G2GNepal

³ Constitution of Nepal. Article 302.2. Formation and Operation of Government Services in Provincial and Local Level

⁴ Constitution of Nepal. Article 244. Provision related to Provincial Public Service Commission

⁵ “SC Refuses to Issue Stay Order.” The Himalayan Times, July 2, 2019. <https://bit.ly/2Ha7AYD>

⁶ “Province 2 government authorises provincial Public Service Commission to hire employees.” The Kathmandu Post. September 29, 2020. <https://tkpo.st/2GfQlyl>

development. As a result, there was neither the guidance nor the incentive for the central bureaucracy to undertake the necessary preparatory work to ensure a smooth transition from the old to the new political system. There was also very limited discussion about appropriate and skilled capacity at the subnational levels to take on the administrative burden of federalism. It should be noted here that Nepal had this discussion during the 1980s when a similar process of decentralisation was under consideration. Back then, opinions were divided into two camps of what should come first: capacity or authority. Eventually, then, as is in the current case of federalism, the verdict was in favour of devolving authority first.⁷ Consequently, the new constitution devolves a significant amount of authority for the delivery of services, including those related to (renewable) energy, to the subnational bodies, even when a majority of these subnational bodies may not yet have the necessary capacity to perform.

Several other issues help exacerbate the issue of lack of capacity: the first is the lack of experience in local governance, which was the result of the failure of the government to hold local elections for over two decades starting from 2002. During this period, because local bodies were governed by central bureaucrats, there was a complete lack of accountability towards local communities. The second issue is the promotion of a politics of consensus, which was intended to promote peace and harmony in the post-conflict era but resulted in the unintended consequence of the proliferation of a politics of collusion.⁸ This was exemplified by the infamous all-party-mechanisms⁹ that were eventually scrapped by the Commission for the Investigation of Abuse of Authority but continued to exist unofficially. Instead, these practices promoted and proliferated the entrenchment of the politics of patronage.

Local elections were supposed to have ended this practice as parties in opposition were expected to promote a politics of competition. However, there are some indications that parties in opposition are using their power of oversight to negotiate resources for themselves. The third issue is around the government's hasty upgrading of village development committees¹⁰ into municipalities in 2014¹¹ which failed to adequately consider infrastructural and economic needs, leaving many municipalities, which are today urban municipalities, lacking the necessary infrastructure and human resource capacity. The impact of this decision is that there is a large discrepancy between not only urban and rural municipalities but even among urban municipalities. The ability to deliver development is also severely impacted by the fact that both the provincial and local bodies do not have adequate staff, in addition to the necessary experience and expertise, to undertake the devolved responsibilities. To maintain the limited number of ministries at the provincial level,¹² functions that are quite varied in both content and nature have been forced under one single administrative entity. For example, not only is the Ministry of Physical Infrastructure and Development responsible for overseeing the energy sector, but also urban planning and development, rural and provincial roads, water supply and sanitation, and irrigation, among many others. Each of these varied tasks has been placed under specific divisions with about 3-5 staff members, each sub-divisions of the primary

⁷ The Asia Foundation (2012). *The Political Economy of Local Governance in Nepal*.

⁸ *Ibid.*

⁹ Established by a cabinet decision in 2009, the APM was a formal body that constituted of members representing all of the political parties in a given area. Principally, it was meant to serve as a consultative apparatus for local government officials. It was perhaps assumed that the APM members represented different parties on a one-party-one-representative basis, they would articulate competing needs and priorities, making resource allocation decisions more open and equitable. Subsequently, the grant management guidelines instructed local officials to consult the APMs when making decisions on resource allocation and other local-level development activities.

¹⁰ A village development committee, or popularly referred to as VDC, were the lower administrative unit of the Government of Nepal in the pre-federalism days. Their urban counterparts were referred to as municipalities. Today, this level of unit is referred to as the rural municipality.

¹¹ In May 2014, the government announced 72 new municipalities to the existing 41. While a number of these new municipalities had adequate infrastructure to get upgraded, in many cases, the government simply merged a number of VDCs, without the necessary infrastructure, in order to meet the population requirement of declaring a municipality.

¹² Which is a positive thing, given the exhibited tendency of political leaders to increase the number of ministries in order to buy political loyalty and favours to maintain a government.

tasks. This problem is manifold worse at the local government level, which is significantly limited by both human and financial resources.

- **Of procedures and politics:** It has been three years since Nepal successfully held its first election in 2017 as a federal democratic republic. While this was a remarkable feat on its own, it was also the beginning of a long and difficult journey towards achieving the final intended outcome. Since then the governments at all three levels have been drafting the necessary legal framework to execute their newfound responsibilities. During this period, two things happened simultaneously. On the one hand, bureaucrats at the federal government have been slow to draft legislation, which is important given that the constitution requires the ‘centre’ to first establish the overarching policies before the subnational governments are allowed to draft theirs.¹³ On the other hand, the federal government has prepared a set of “model laws” to provide some guidance to the subnational governments on drafting laws and to provide a degree of uniformity across all the laws drafted by the 7 provincial and 753 local governments across the country.¹⁴ These model laws range from transactional issues such as allocation of business at each level of government to sector-specific laws including in areas of education and agriculture. But with limited capacity to legislate and in places, the rush to establish legal structures, the resulting subnational legislation has been far from ideal, which could in the future serve as a constraint during implementation.

In the energy sector, the Electricity Act 2076 is yet to be finalised, the Rural Energy Policy 2006 is outdated and there is no specific renewable energy policy. Subnational governments do not have their energy policies and, although mandated, have very little foundation on which to push the sector forward. With new legislation yet to be drafted, the absence of adequate laws, especially the directives that specify the transactional procedures that are to be followed by the bureaucrats, are proving to be one of the primary causes for inaction at the local level. The root cause for this is the incentive structure in the Nepali bureaucracy, including at the local level (who are currently from the central government) that does not reward performance, which can require some level of risk-taking. This is a systemic problem that constrains the overall governance of the country.

¹³ Technically, this is the case because the policies of the subnational government cannot be in contradiction to that of the central government.

¹⁴ Acharya, K. 2018. Local Governance Restructuring in Nepal: From Government to Governmentality

THE POLITICAL CONTEXTS OF PROVINCES 2, LUMBINI, AND KARNALI

The underlying politics between the central and provincial governments are unique for each of the three provinces given the unique contexts within which they came to be and defining how each will govern. This section attempts to provide a better context of how federalism is unfolding in each province and help point towards opportunities and challenges for the energy sector.

Before getting into the examination of the politics of the provinces, it is important to note at the very outset one particular event in Nepali politics. It began with an unexpected decision of the two largest communist parties, i.e., the Communist Party of Nepal (CPN)-Unified Marxist Leninist (UML) and the CPN-Maoists Centre (Maoists) to form a strategic coalition to contest the elections with the stated intent to merge into one single party thereafter. When the final results were tallied, not only had this left coalition come close to a super two-thirds majority in the national parliament, the UML on its own had close to a simple majority.¹⁵ This dominant pattern of election victory was also observed at the provincial elections, where the left coalition, except in Province 2, has formed its government. On the other hand, the Nepali Congress (NC) secured around 20 percent of the seats in the national election; its weak electoral position was further exacerbated by the refusal of the party leaders to take responsibility for the loss and the resulting intra-party politics that has left it a shell of its once powerful self. The result of all this, i.e., the overwhelming electoral mandate of CPN and the inability of NC to serve as an effective opposition, has significantly impacted how the implementation of federalism is moving forward.

PROVINCE 2

Context of the Province: Of the seven provinces in Nepal, Province 2 stands out unique due to several factors beginning with its geography. Located in the southern plains of Nepal, this runs counter to the stereotypical image of Nepal as a mountainous country. As a result, the Province does not hold any resource potential for hydropower, which is also in sharp contrast to Nepal's narrative in the energy sector and the economy as a "hydropower nation." Instead, its rich fertile soil makes it ideal for agriculture. Manufacturing is the second highest contributor to the province's economy, with the sector underpinned by strong transport links (such as the East-West highway), the relative ease of building infrastructure, and its proximity to the northern Indian states.

But where Province 2 differs most is in its politics. The Madhesh-based (Madheshi) parties have played a key role in shaping Nepal's current effort at state restructuring. For much of Nepal's history, this area was covered in dense malaria-infested forests, where only a few indigenous groups could survive the hostile environment. In the 1960s, the Government of Nepal, with assistance from the US government undertook a massive anti-malarial drive. This, along with the Land Reform Act of 1964, the state-driven resettlement projects in the Madhesh, and the construction of the East-West highway contributed to a large influx of the hill dwelling Nepalis into the Madhesh. This was also the time when Nepal, as with many other countries in the post-colonial era, was trying to define its nationhood. Leading this initiative was King Mahendra, a young ambitious monarch who felt the need to reduce India's influence over Nepali matters¹⁶ and establish a Nepali common identity by "unifying" the country culturally.¹⁷

These events manifested in a systemic marginalisation of the Madheshi population by the Nepali state, which was most evident in the issue of citizenship. Here, as a result of the state emphasis on the "Nepali" identity, the population that did not possess the idealised "Nepali-ness," in terms of

¹⁵ This single performance by UML could also have played some sort of deterrence for the Maoists to back out of the pre-election coalition.

¹⁶ During this time, India had its outpost in the Himalayan border. Moreover, the Indian ambassador had significant influence on the Nepali politics

¹⁷ This latter was epitomised by his regime's slogan: *ek bhasha, ek bhash, ek dharma, ek desh*, which translates to "one language, one dress, one religion, one country"

features, language, religion, and dress code, was deprived or experienced extreme difficulty in acquiring Nepali citizenship. In the early 1990s, with the end of King Mahendra's Panchayati regime and the reinstatement of multi-party democracy in the country, there was hope that Nepal would transform into a more inclusive society. But this also eventually failed to provide the environment to meet the ethnic and regional aspirations of the Madheshi population. Consequently, about a decade later, this issue started taking centre stage in Nepali politics, when, in the aftermath of the promulgation of the interim constitution, the Madhesh-based leaders took to the street to demand, among other things, their right to self-determination based on ethnicity. Their demand for federalism soon became a rallying cry for many of the other ethnic groups that were also demanding more inclusivity in the state apparatus. The mainstream political parties grudgingly accepted this in fear of missing the political tide.

Key Issues in Politics and Governance

The Politics of the Madhesh-based Political Parties: For most of Nepal's modern political history, the population relied on national-level political parties to represent their political interests. While there were some initiatives to push for a regional Madhesh-based (Madheshi) political party going back as early as the 1970s, this gained significant traction around the time of the Madhesh Movement in 2005. This was led by the Madhesi Janata Adhikar Forum (MJF), a non-governmental platform turned political party, which provided a space for a network of Madheshi professionals and political actors to raise and discuss Madheshi issues.¹⁸ Relying on that momentum, the Madheshi parties secured a significant number of electoral victories in the 2008 Constituent Assembly to become the fourth largest political force with the ability to drastically influence Nepali politics. However, in the ensuing years, due to internal political competition and in-fighting,¹⁹ the parties splintered into smaller units diminishing their potential for collective bargaining. They also took a massive hit in the election to the second Constituent Assembly in 2013, where they were able to win only a fraction of their 2008 seats.

The next time Madheshi parties took centre stage in Nepali politics was in 2015, following the promulgation of the new Constitution of Nepal. While over 90 percent of parliamentarians voted for the new constitution, there was opposition from those who represented the Madhesh and some of the indigenous groups. This opposition spilled into the streets in various parts of the country, some of which resulted in *bandhs* and clashes between the police and protestors. Where this became most prominent was in key border areas, most of which were controlled by the Madheshi parties, resulting in a severe curtailment of the supply of goods into the country. Many Nepalis felt that this "economic blockade" was the result of New Delhi's disapproval of the new constitution, which India has officially denied. In the end, after about six months of the showdown, the movement petered out, and having failed to garner success, was left with a great degree of uncertainty among the Madheshi parties. Meanwhile, the country's politics moved on to its next phase, i.e., general elections, and as a result of a lack of cohesive strategy, the various Madheshi parties took different pathways in the post-constitution elections to the three tiers of government. As expected, they managed to secure the lead in Province 2.

Presently, there are two issues of political importance in Province 2. The first involves a potential merger between Rastriya Janata Party-Nepal (RJP-N) and Samajwadi Party-Nepal (SP-N). While several interests are pushing for this, there are differences within the RJP-N about the merger. The difference stems from the fact that many of the Madheshi parties, including the RJP-N, were brought together by their shared geography and political history rather than by a common ideology, which makes it difficult for the party leaders when having to deal with issues with fundamental ideological differences among themselves, such as a merger with the left-leaning SP-N. Furthermore, there is also opposition from the younger cohort of Madheshi leaders, who fear losing out in the new political settlement. This sort of entrenched internal politics between and within the Madheshi parties indicates

¹⁸ Aryal, M. 2007. The Rise of Party. Nepali Times. Issue Number #349. <https://bit.ly/38ODfKn>

¹⁹ Jha, P. 2011. Big Madhesi Politics. Nepali Times. Issue Number #535. Read in detail for a description of the kinds of split in the Madhesh-based parties

a relatively large amount of political instability in the province. This requires the programme to be cognizant of the underlying politics in trying to remain close to the political actors to be able to push through specific policies and programmes and in remaining neutral to be able to manoeuvre if and when necessary.

The second issue of importance is the discussion around the amendment to the constitution. With the Madheshi parties unable to make political gains through their protests in the immediate aftermath of the promulgation of the new constitution, many of these parties made constitutional amendments their major agenda. However, even within the Madheshi parties there were differences in opinion on this: RJP-N continued to demand the amendment, Federalist Socialist Forum-Nepal (FSFN) preferred to remain largely silent.²⁰ In the ensuing election result, the political party with a roughly two-thirds electoral majority in parliament, CPN (especially UML) was not committed to the amendment. As a result, this issue remained buried; other than some Madheshi parties occasionally making public demands, albeit without a significant push. But with the current elected provincial government now in power for over two years, and with limited development results to show, there is an incentive for the Madheshi parties to bring this issue back to the centre stage of national and regional politics before the next election cycle. This can have significant implications on programming, with regards to planning logistics and getting the government to focus on “fringe” issues such as energy..

Province 2 vs. Federal Government: Given its unique political history, Province 2 is determined to maintain, to the extent possible, a relatively independent status vis-à-vis the central government. This is most evident in the position that the provincial government has taken in some of the key issues of implementation of federalism: for example, as stated earlier, the provincial government sent a letter to the Federal PSC requesting not to go ahead with the recruitment process and warned that even if it did that it would not accept their new recruits.²¹ Instead, it introduced a bill to form its own Provincial PSC to undertake the recruitment process.²² Furthermore, it has also expressed its intent not to make use of the model laws that the central government has prepared for all subnational bodies.

Other differing positions taken up by the provincial government of Province 2 include one of the provisions in the Bill on Law and Order that would have given the control of the security agencies to the Chief District Officer, an appointee of the central government, stating that, according to the Constitution, it is the responsibility of the provincial government to maintain law and order within its territorial jurisdiction. Thus, the provincial government introduced its provincial administrative law through which it established the post of a provincial District Administrative Officer in each district for the same purpose. It is unclear how these parallel establishments are to coexist and function. Furthermore, when the federal government registered a bill on Police Administration—making a provision that the federal government would deploy Nepal Police personnel to the posts of Deputy Superintendent of Police or above as a part of the provincial police, it introduced a Provincial Police Act with the provision of a Provincial Inspector General of Police who will be accountable to the Provincial Ministry of Internal Affairs and Law.

The result of this aggressive approach of Province 2 is that there is an interest, and onus, on the government to expedite its legislative efforts. Indicating this is the fact that the provincial assembly has already promulgated 18 specific bills, and this includes in sectors where the central government is yet to bring out their policies. Relevant for the energy sector, the provincial cabinet has already endorsed their Provincial Electricity Act and forwarded it to the parliament, while the central government has still not promulgated the Electricity Act (Amendment) 2076. On the one hand, this indicates the sluggish nature of the central government to draft the necessary legal arrangement, and

²⁰ Pradhan, T. 2018. “Amendments on back burner as country marks Constitution Day.” The Kathmandu Post. September 19, 2018. <https://bit.ly/3nvKgDX>

²¹ Kamat, R.K. 2019. “Province 2 won’t accept FPSC-recruited staff.” The Himalayan Times. August 10, 2019. <https://bit.ly/36MzqTx>

²² Tiwari, A. 2019. “Province 2 government to introduce bill for forming Provincial Public Service Commission.” January 4, 2019. <https://bit.ly/3nxfLNZ>

on the other, it indicates the zeal of those in the provincial governments to draft laws. And while it may be worthy to commend the provincial government for introducing timely legislation, *the process* and *rigor* in drafting may result in some difficulties in future implementation. For the process part, given that the constitution bars any contradiction in the provincial laws to their central counterpart, there is a high degree of possibility of having to, at best, amend, at worst redraft these legal arrangements. For the rigor part, the result of not having adequately considered the technical nature of this legislation could be that the province is stuck with sub-par laws to guide the sector.

Finally, the impact of this relationship is also evident at the bureaucratic level. Clearly, in adjusting the central bureaucracy, most of the hill-based bureaucrats, not only from the dominant brahmins but also from the indigenous communities, did not have Province 2 as their preferred location. Among those who were eventually compelled to move to Province 2, retention has been very limited. The impact of this frequent turnover in staff prevents the institutionalisation of functions within an already deficient institution, which is likely to impact the relationships that development projects, amongst others, have to develop to carry out their work.

LUMBINI PROVINCE

Context of the Province: Geographically, a significant portion of Lumbini Province lies in the Terai region. The southern districts in these regions, with a large population of ethnic Tharus, were part of the “*Ek Madhesh, Ek Pradesh*”²³ demand of the Madheshi parties who were demanding that the entire Madhesh be provisioned as a single provincial unit. This demand was opposed not only by the central political actors, who were not in favour of creating a southern entity that could stifle the hilly region but also by the Tharus, who did not associate themselves with the Madhesi identity. Instead, the Tharus demanded their own Tharuhat Province, which would stretch from Nawalparasi in the east to Kanchanpur in the west. Lumbini Province also extends northward, beyond the southern plains of the Terai, to include some of the hill districts. These districts are largely inhabited by the indigenous Magars, who also demanded their own Magarant Province. It is these rural areas especially Rukum²⁴ and Rolpa that were the birthplace of the Maoist insurgency and a stronghold of the CPN-Maoists. Given its remote geography and rough terrain, a hard-line faction of the Maoists continues to wage their war against the state with this region serving as their base.

Economically, the southern plain region of the province is rich in fertile soil with significant potential for agriculture. As with Province 2, the accessibility in the southern plains and proximity to some of the larger markets in north India makes the region ideal for establishing industries. The industrial corridor between Bhairahawa and Butwal is one of the fastest-growing regions in the country. The government has also established a Special Economic Zone in Bhairahawa, which is intended to promote foreign direct investment, but has been stuck in limbo for a variety of reasons including lack of adequate energy infrastructure. Furthermore, because the birthplace of Gautam Buddha is in Lumbini, there is significant potential for tourism. Taking all these into consideration, the government has been upgrading the old airport into a regional international airport with a capacity to handle several million passengers annually.

Key Issues in Politics and Governance

A cosy centre-province relationship: In many ways, Lumbini Province is the opposite of Province 2 when it comes to the implementation of federalism. First and foremost, this region has been a UML bastion for quite some time. Furthermore, currently, of the five largest cities of the province, except for Nepalgunj, are all governed by NCP. This domination at both levels of the government and the ensuing cosy relationship between the two is shown by the fact that almost all of the legislation passed by the provincial legislature has largely been copy-pasted from the model laws provided by the federal government. When asked about whether or not the province had moved forward provincial-level

²³ translation: one Madhesh, one Province

²⁴ The district of Rukum was split into East and West Rukum in 2017

legislation on electricity, the response from all of the senior leaders of the government agencies was that this was an unnecessary task given that the centre had not completed drafting its legislation for the sector. While this is not an incorrect statement per se, this can be considered as emblematic of the provincial government's mind-set. The province has set up its interest in developing the energy sector and is not entirely averse to gaining support from the centre, including from the Nepal Electricity Authority (NEA).

Multiple power centres: There are three key power centres entrenched in a prolonged battle to be the political epicentre of Lumbini Province. Of the three, Rupandehi is the most powerful, as is evidenced by the fact that Butwal was selected to be the temporary capital for the province, the result largely influenced by prominent NCP political leaders from within the Province. This position, however, is being strongly challenged by other districts that are further west in the province, such as Rolpa, Pyuthan, Dang, Banke, and Bardia, through the lobbying of top politicians including the Ministry of Energy Water Resources and Irrigation (MoEWRI) Minister, Barsha Man Pun. One suggested compromise was the probability of moving the capital to Kapilvastu, which would be further west from Rupandehi, albeit with significant opposition from Rupandehi. Banke and Bardiya, on the other hand, have had the least political influence on this decision, even though it used to have some of the most prominent political representation in the past, including Sushil Koirala and Bam Dev Gautam. More recently, politicians from Banke have threatened to secede from and join Karnali. Given the socio-economic connection with Karnali, where many from the hills of Karnali migrate down south to Banke and the surrounding region, politicians from Karnali have also responded positively. However, this is largely an empty threat, given that the proponents of this idea lack the necessary two-thirds majority in the provincial government to see this through.

Strategic location; strong potential for growth: Several factors work in favour of . First and foremost, the province, given its fame as the birthplace of Siddhartha Gautam Buddha, has a huge potential for international tourism catering to Buddhist pilgrimages. Second, as in Province 2, the flatlands and the proximity to India makes the province ideal for industries to locate in. Furthermore, it is centrally located in the country making it ideal for industries seeking to serve the domestic market. All of these are supported by increasing investment in infrastructure, from highways to airports, that is likely to propel into a higher trajectory of economic growth. Third, given its interlinkages with central politics and the similar demography to that of the centre, is considered to be the more stable southern province. For example, while Birgunj in Province 2, Nepal's primary transit point, came to a standstill during the economic blockade of 2015, the transit point at Bhairahawa became the lifeline for the country and continues to play an important role. Nepalgunj in Banke is another major trading point for Nepal. Lastly, during the staff adjustment process, Lumbini Province was among the first preference of bureaucrats for relocation. While the provincial government is still short on staff, this willingness of bureaucrats to prioritise Lumbini Province can go a long way in providing a relatively stable administrative environment, until the province can recruit the necessary human resource.

KARNALI PROVINCE

Context of the Province: While there were several propositions on how to divide up the country, the top political actors initially decided that there would be six provinces. However, following mass protests, the proposed Province 6 was divided into two, creating what is today the Karnali and Sudurpaschim Provinces. Interestingly, while there was a general understanding that all provinces should be connected to India, because the southern districts of Banke and Bardiya, were placed in Lumbini Province, Karnali is the only province that does not have direct access to India. Karnali is, area-wise, the largest province, but is also the least populous. Geographically, the province is very mountainous and has some of the most remote locations in the country that are better connected to regions in Tibet than in Nepal. As with Lumbini Province, some of Karnali's remote districts were also key strongholds of the Maoists, largely because the State's presence was severely limited.

Karnali ranks the lowest among the provinces in terms of human development: it has the highest level of multi-dimensional poverty index. In FY 2018/19, the size of Karnali's economy was around NPR 119.25 billion, compared to the next smallest economy of Sudurpaschim Province at NPR 220.95 billion. Karnali's growth rate is also the lowest at 5.68 among all the seven provinces; its economy is largely based on agriculture, with increasing potential for production of herbs, with Yarchagumba being the most popular. It has the fewest number of industries among all the provinces, which is also the case for domestic and small cottage industries. It also has the least extensive local road network and the least amount of irrigated land. The province is plagued by a serious infrastructure deficit. For example, the district headquarters of Humla, Simikot, is yet to be connected by a motorable road. While the Karnali River has significant hydropower potential, the total installed capacity is only about 7 MW.

Key Issues in Politics and Governance

Federalism and development – a colossal challenge for Karnali: The restructuring of the state was depicted as a panacea for the development problems that had besieged Nepal. While federalism has to some extent devolved central authority, which has helped increase the access of citizens to government services such as registering births and obtaining citizenship certificates and passports, the challenges accessing services related to development remain significant. With differing human capacity and economic resources, the development benefits to be reaped from federalism will vary significantly: the two provinces that are likely to struggle the most in this regard are the remote far-western provinces of Karnali and Sudurpaschim. Karnali, for its part, is likely to continue to rely on the central government, meaning that the population of Karnali will continue to rely on subsidies from the centre to support most services, from food provision to energy.

A challenge in quantity and quality of the bureaucracy: A key challenge in the pre-federalism days was the difficulty of getting bureaucrats, deputed by the central government, to move to and remain in remote locations. A major criticism was that most of the executive officers, who had no political connection and were forced into these remote positions, were largely absent and commuted only when necessary to their offices. Given its less accessible locations, this problem is likely to continue in the future for Karnali. Those that have no choice use whatever power they can to locate themselves in Birendranagar, a relatively modern and accessible urban municipality in Surkhet. While this may change slightly when the Provincial PSC can hire locally, there is likely to be significant disparity within the province itself.

THE COMMONALITIES OF THE PROVINCES

The three provinces each have their unique characteristics that are impacting how federalism is shaping out for them. Equally, there are some common governance issues that the three share:

- **Lack of opposition and bad governance:** The political party in opposition has an instrumental role to play in a democracy, for it provides the necessary checks on the power of the ruling majority. But the ability to take on the role of the primary opposition, at the central level particularly, was lost by the Nepali Congress. This was largely because it was unable to take up any fundamental reforms despite the humiliating electoral defeat, highlighting the political factionalism within the party, and in the process losing the credibility necessary to be treated as a respected opposition. Also, there is a deep entrenchment of collusive practices among all parties at the subnational level to usurp development funds. Any opposition present is not based on the merits of legislation (key informants noted that most legislators do not read bills registered in the provincial parliament), rather opposition is registered either as a show of force or to oppose an "unfair" *bhagbanda*, i.e., the divvying up of the political spoils.
- **A pursuit to replicate the centre:** One of the early slogans of federalism was *gaun ma Singha Durbar*, which reflected the promise made by the politicians to transfer the historically centralised powers down to the people. In reality, however, the interest of the subnational political actors has been to replicate central institutions, often without adequate analysis of the

need and appropriateness of such institutions.²⁵ Such interests can be traced back to central institutions looking for space in a new federal structure or to local political actors for whom these new institutions offer additional space for them to recruit party loyalists and offer opportunities to seek rent.

- *The mind-set of the provincial legislators:* In continuing with the theme of wanting to replicate the centre, another major replication is in the mind-set of the provincial legislators. There is a lot that these newly established set of lawmakers are copying from their counterparts at the centre. To begin with, there is very limited evidence-based deliberation in either parliament. As stated above, a significant number of legislators fail to make basic preparations such as reading bills in their entirety and are not committed to the large-scale planning taken up by the executive body. Instead, they see themselves as truly representing the people and that it is their duty to ensure and execute projects within their constituencies. As with the central parliamentarians, they are now demanding a fund similar to the “constituency development fund,” a budgetary line item allocated to each parliamentarian to be spent at his/her discretion.

²⁵ While the member of the PPC of Lumbini Province stated that there were a number of such attempts, the example he offered was the push for the creation of a Provincial Academy of Science and Technology, which would be a replica of the Nepal Academy of Science and Technology.

(ENERGY) PLANNING IN NEPAL

Inspired by the periodic planning practices of the Soviet Union, Nepal drafted its 1st Five-Year Period plan in 1956. Since then, the country has gone through over a dozen such periodic plans, with the National Planning Commission (NPC), the “apex advisory body of the Government of Nepal for formulating a national vision, periodic plans and policies for development,” releasing its latest 15th Five-Year Period Plan in April 2019. While these periodic plans are emblematic of centralised state-led planning, the re-establishment of democracy in 1990 pushed for a stronger decentralisation that had started with discussions in the 1980s. This initiative culminated in the promulgation of the *Local Self Governance Act* (LSGA) in 1998, which significantly expanded the roles and responsibilities of local bodies through the devolution of both power and resources to plan and manage basic services such as health and education as well as basic local infrastructure.²⁶ The LSGA required a bottom-up planning process that started at the settlement level and merged it with the national planning process. The entire planning cycle followed, what was then called, the 14-step process planning.²⁷

LOCAL LEVEL PLANNING – THE *DE JURE*

In the new federal regime, the LSGA has been supplanted by the *Local Government Operation Act* (LGOA), promulgated in 2017, to provide the legal basis for local bodies to prepare their development plans. Furthermore, that same year the Ministry of Federal Affairs and General Administration (MoFAGA) issued the *Local Level Planning and Budget Allocation Roadmap*²⁸ to help realise and promote uniformity in all of the roles and responsibilities around planning and budgeting conferred constitutionally to the local bodies. This *Roadmap*, shown in figure 1 below, establishes specific institutional arrangements and explicit procedures and timelines that all local bodies are to follow in developing their annual plans and budgets.

As per this *Roadmap*, the planning cycle is to begin with the *Revenue Estimation Committee* preparing and presenting revenue projection to the local executive office by the beginning of January. Based on this report, and in consultation with the *Resource Estimation and Budget Allocation Committee*, the local executive office approves and submits its projection report to the Provincial Ministry of Finance by mid-January. This is followed by a requirement on the federal and provincial governments to provide budgetary ceiling details on the revenue distribution and fiscal equalisation grants to the local executive office by the middle of March and April respectively.

The next set of tasks is that of the *Resource Estimation and Budget Allocation Committee*, which is responsible for estimating the overall availability of resources to the local body (including funds from all sources, i.e., revenue collection, funds from federal and provincial governments, and internal loans); proposing an outline for a balanced distribution of resource while taking into consideration the preference of federal and provincial governments as well as the local needs, and determining the total and sectoral budget ceiling for the local body. All of these are to be prepared by the Committee within the third week of April and communicated by the CEO to all of the relevant offices by the end of April.

²⁶ The Asia Foundation (2012). *Political Economy of Local Governance in Nepal*

²⁷ For details on the local development planning and the 14-step planning process, see *A Guide to Government in Nepal: Structures, Functions, and Practices* by The Asia Foundation

²⁸ Ministry of Federal Affairs and Local Development, 2018. *Local Level Planning and Budget Allocation Reference, 2074* (amended) (in Nepali). Retrieved from <http://www.mofald.gov.np/ne/node/6319>

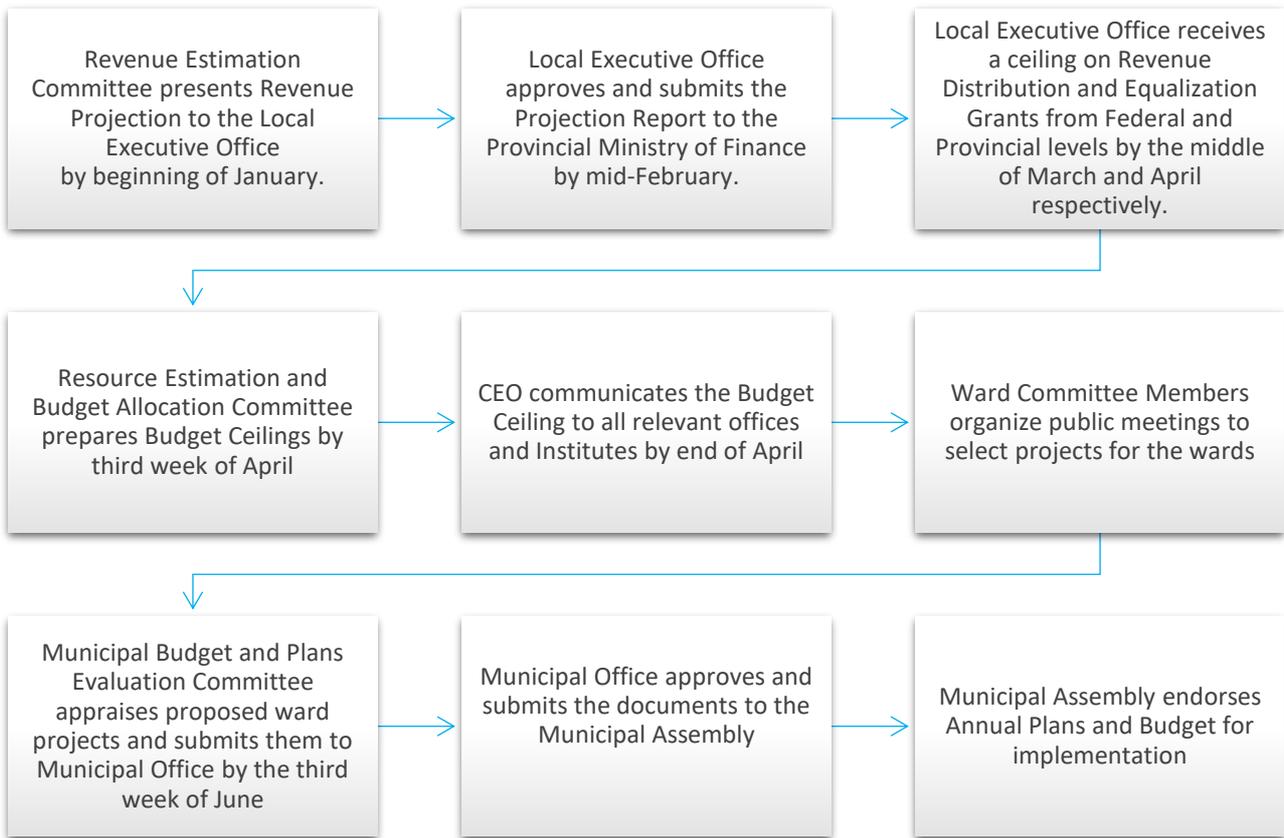


Figure 1. Local Level Planning and Budget Allocation Roadmap

Furthermore, there is a requirement in the *Roadmap* to ensure an inclusive process. This begins at the settlement levels, where ward committee members of each local body are required to organise public meetings with maximum individual and institutional representation. The overall output of this exercise is a selection of projects—prepared within the allocated budget ceiling and the principles of prioritisation—that are forwarded to the ward office. These projects proposed from all the wards are accumulated at the municipal level, where they are appraised by the *Municipal Budget and Plans Evaluation Committee*. It is also the responsibility of this committee to put together the draft annual budget and programmes by the third week of June and submit it to the municipal office. The municipal office needs to approve the presented document and submit it to the municipal assembly, which must endorse the annual plans and budget to make it official. Only then can the plan and budget be deemed finalised and ready to be implemented.

LOCAL LEVEL PLANNING – THE *DE FACTO*

This new planning and budgeting system has been in place for only two cycles, and local bodies, in reality, are yet to consistently follow most of the prescribed measures in the *Roadmap*. This tendency to stray away from the prescription begins early on in the planning process: whereas the *Roadmap* requires a comprehensive analysis of the revenue stream of the local government, the preferred tendency for many local bureaucrats, for lack of capacity and/or incentive to perform, is usually to increase the budget figure from the previous year by an arbitrary but reasonable figure, which generally tends to hover around the ten to twenty percent margin.

The most severe deviations from prescriptions to ensure good fiscal governance are at the point of allocation of resources. Critically, this is instigated at the municipal offices, where many municipalities, for lack of a well thought out development vision and an evidence-based policymaking process to back it up and to avoid any political wrangling among the constituencies, prefer to simply divvy up the available resources equally among wards. Once the funds have become the responsibility of the ward offices, there are many drivers of collusion that come into play, where collusive practices involve “a tacit understanding between the three primary actors: bureaucrats, politicians, and the community elites,” each driven by their incentives that range from direct financial gains to pork-barrel politics.²⁹ Furthermore, these collusive practices are made effective through contractual procedures that are often fraught with conflicts-of-interest, lacking the necessary transparency, and pursued through the informal decision-making processes.³⁰

Through all these issues of governance, most local bodies seem to prefer to invest primarily and a significant part of their discretionary budget on road building and maintenance. Not only is this preferred because of how communities view road access, given the harsh terrain around many across the country, as an important facet of development, but also because local politicians want to increase their popularity by picking projects that are highly visible to their direct constituencies to appease them for their votes during elections. Most importantly, this preference to invest in road construction and maintenance is the result of the fact that local politics is heavily dominated by actors with large investments in construction and contracting. Some of the other areas of investment of local governments are in building other public infrastructure such as irrigation, water supply, and drainage. Many also invest in schools, which goes largely towards paying the salaries of teachers. Energy generally does not fall within their preferred category of investments; something that many view as being the responsibility of the central government and NEA. This is due mainly to the way electricity/energy planning has traditionally been delivered in Nepal. The following section goes deeper into this particular phenomenon.

(RENEWABLE) ENERGY³¹ PLANNING AND INSTITUTIONS IN A FEDERAL NEPAL

Before going into the details of (renewable) energy planning in Nepal, two things need to be mentioned. First, the Constitution, in referring to “services such as electricity, water supply, irrigation,” through its *Schedule 9: List of Concurrent Power of Federation, State, and Local Level*, establishes these as a shared responsibility between all three levels of government. The government has attempted at bringing clarity with regard to “assigning the responsibilities clearly and support to build necessary organisation and legal structures, financial and human resource management to perform the functions within their working areas,”³² through the functional analysis done by the Federalism Implementation and Administration Restructuring Coordination Committee under the Office of the Prime Minister and the Council of Ministers. Second, if programmes such as NREP are to engage with subnational governments regarding their energy planning, it is important to understand how planning in this sector is currently carried out. The analysis in this report considers the overall energy sector and does not seek to disaggregate renewable energy. This decision is based on discussions

²⁹ These are detailed out in the “Political Economy of Local Governance in Nepal,” published by The Asia Foundation in 2012. While this research was done in the pre-federalism era, the primary drivers of collusion at the local level have not changed.

³⁰ Ibid.

³¹ In a country where hydropower is the prominent source of electricity, which not only is a clean renewable energy it is also an indigenous source (and perhaps the most important of them all). Also, with hydropower as the main source of electricity, that also small private sector owned hydropower projects as one of the key sources (Nepal’s largest plant currently is a 140 MW hydropower plant. Another 456 MW is scheduled to come online very soon. Most of Nepal’s hydropower is under 50 MW, constituting about 90% of total installed capacity)

³² Government of Nepal. Federalism Implementation and Administration Restructuring Coordination Committee. 2017. Unbundling/Detailing of List of Exclusive and Concurrent Powers of the Federation, the State (Province) and the Local Level Provisioned in the Schedule 5, 6, 7, 8, 9 of the Constitution of Nepal.

with experts and government officials conducted during this research, especially at the field level, where it is quite evident that what little planning there is in this sector happens within this framing.

Furthermore, the report here looks at how all three levels of government have approached or are approaching the energy sector.

- At the federal level:** Ever since Nepal first began systematically planning its energy sector, in the seventies and the eighties, it has always been the responsibility of the central government. While the planning for all petroleum-based energy sources falls under the Ministry of Industries, Commerce, and Supplies, electricity, which dominates the energy discourse in Nepal, has been the responsibility of the Ministry of Energy (MoEn), currently the MoEWRI.³³ There are three agencies under MoEWRI with various functions and differing levels of influence on sector planning: namely, the Department of Electricity Development (DoED), the Water and Energy Commission Secretariat (WECS), and the NEA. Of these, the latter stands as the strongest single entity with the largest influence on the sector, with its size of staff (approximately 10,000), budget, and know-how, and is considered to have significant leverage over the Ministry. The next agency with some influence over the electricity sector is DoED, whose primary responsibility is to administer licenses and monitor projects. The weakest entity is the WECS, despite its mandate to serve as a think tank for the water and energy sectors. Together these institutions have all played their part in forecasting the demand for electricity and designing the supply through a pipeline of projects.

Planning around renewable energy—more specifically, mini/micro hydro and non-hydro based renewable energy—is a relatively more recent phenomenon in Nepal that was largely pushed for by several development partners. Renewable energy has largely been considered an expensive and fringe set of technologies that are largely meant to increase the access of rural communities to electricity via (mostly) off-grid technologies. The Alternative Energy Promotion Centre (AEPIC) is the designated agency to promote “alternative energy.” There is an incentive to push for rural electrification, even with NEA and as the national electrification rate continues to increase, the relevance of AEPIC in the energy sector continues to be questioned especially by the larger players, including subnational governments.

- At the provincial level:** As per the constitutional provision to devolve authority, Provincial MoPIDs have been handed several responsibilities in the energy sector that range from developing policies and other enablers to implementing projects. On the ground, however, provincial political actors seem to be interested in three particular issues.

The first issue is the division of mandate among the different levels of governments: while the constitution only divides the mandate by size, i.e., small, medium, and large, corresponding policies, e.g., from the National Planning Commission, limits the authority of local governments to grant licenses to projects of up to 3 MW and provincial governments of up to 20 MW, while keeping the rest for the central government. However, subnational political actors have the aspiration to manage and implement larger hydropower projects and many have expressed their dissatisfaction with the current set up and frame this as the central government’s interest to centralise everything, including the energy sector.

The second issue involves the desire to invest in generation, i.e., almost all provincial actors and governments are stating their intention to develop hundreds, if not thousands, of

³³ This particular task was originally under the purview of the Ministry of Water Resource (MoWR), which shows the dominance of hydropower. Later, as part of a political *bhagbanda*, the MoWR was divided into MoEn and Ministry of Irrigation (MoI). In the new era of governance, this is now the responsibility of the MoEWRI. In reality, however, ministry continues to function as a MoEN and MoI, as the two sectors have not been brought together in practice. Also, MoEWRI has two secretaries, one that over sees energy, the other, largely, irrigation.

megawatts of electricity generation capacity within their province. This narrative is present in hydro-rich provinces, such as Karnali, as well as provinces with limited or without any potential for hydropower, such as Province 2 and Lumbini, which is also considering the possibility of investing in solar power. While it may be desirable for political actors and bureaucrats to offer such grand visions for the future of the province, there is neither the understanding nor the technical know-how behind these large numbers. This is further exacerbated by the fact that these agencies have not reached out to the few individuals and institutions with the capacity and the appreciation for the complexities around how projects can be made feasible.

The third issue is of attaining full electrification in the provinces; a popular move for both politicians and bureaucrats, regardless of how connected the provinces are, given the strong demand from the constituencies. Every year, provincial governments have allocated budget to either extend the national grid, wherever possible and offer off-grid solutions to the hardest to access communities. In the case of on-grid solutions, the funds are provided directly to the NEA by the state or development partners such as the Asian Development Bank (ADB) who then take on the responsibility of implementing the project. In other areas, the initiative is taken up by communities or non-governmental organisations.

More importantly, this issue is tied to the larger responsibility of distribution, that the constitution has given to the subnational governments.³⁴ To date, other than the limited provision by the Butwal Power Company³⁵ and Community Rural Electricity Entities,³⁶ distribution has been primarily the responsibility of NEA. As with most government agencies undertaking exercises to rearrange institutional structures to fit the new constitutional requirements, there is early discussion in NEA on how it should adjust institutionally to address distribution. One possibility that has gained traction, including a decision from the Board of Directors of NEA, is to transform its regional offices into separate distribution companies (DisCom).³⁷ Furthermore, one idea³⁸ is to begin with NEA having full ownership of the DisComs, which can later be handed over to the subnational governments. Another possibility is to begin with NEA but eventually allow for investments into the DisComs from other agencies, including the subnational governments. But because this is in a very initial stage, it is unclear how everything will eventually take shape, as a result of which, currently, there are more questions than answers. Nevertheless, NEA has started separated bookkeeping for its existing regional offices beginning from the coming fiscal year. There is initial discussion in Karnali about converting the budget in rural electrification into equity ownership for the provincial government.

- **At the local level:** Pre-federalism, the Local Self Governance Act, i.e., the legislation designed to devolve central authority, gave *wards* the responsibility for provision of electric streetlighting. Whereas the LSGA did specify in the functions, duties, and power of the municipalities the responsibility to generate and distribute (or cause to be generated or distributed) electricity in the municipal area, in practice this was not taken up by the municipalities. There are, however, several areas where we find some investments from local governments: e.g., local governments have contributed the financial portion of communities towards electrification from the grid through the Community Rural Electrification Entities

³⁴ The constitution has set this for local governments, but this is very unclear.

³⁵ BPC's distribution license is from the Andhikhola Hydroelectric and Rural Electrification Project in 1990. It distributes electricity to about 36,000 customers in four districts, viz. Syangja, Palpa, Pyuthan, and Argakhanchi.

³⁶ These entities are in the form of cooperatives that buy bulk electricity from the national grid to distribute it within their community members. The National Association of Community Electricity Users-Nepal, the national federation of these entities, has 282 members spread across 52 districts of Nepal.

³⁷ NEA currently has eight regional offices located in the following locations: Biratnagar, Janakpur, Hetauda, Kathmandu, Pokhara, Butwal, Nepalgunj, and Attariya. Based on NEA's 2016/17 data, there is a large variance in the number of consumers each of these regional offices serve, which also translates largely to the energy sales and the revenue generated by each of these regional offices.

³⁸ Nepal Electricity Authority. Annual Report for 2016/17

Programs. In these instances, one can find a constituency that spends the necessary political capital to ensure the flow of funds to their particular agenda. The other area where there seems to be some interest is in solar streetlighting and/or small-scale solar home systems. While these are considered to be “low hanging fruit,” these are also, at times, pushed for by local dealers of the technology and a promise of a kickback for the local bodies. Also, many local governments have very limited awareness of the conditional grants for RE; of those that were aware, the general perception was that the amount given was tokenistic and would enable limited impact to be made.

Several municipalities (although none in provinces 2, Lumbini, Karnali) have drafted their *municipal energy plans*. These are, however, the outputs of donor-funded renewable energy projects, which have developed a methodology that involves hosting public platforms to ensure community participation, identifying local-level energy champions, and the use of evidence-based approaches to establish an energy vision and subsequent plans. The goal of these projects is to compile these *municipal energy plans* into *provincial energy plans*, which would then amalgamate to produce the *national energy plan*. While this approach is well intended, it lacks an appreciation of how (energy) planning (or the lack thereof) happens in Nepal. The approach by itself adds value by bringing together communities and policymakers to think through energy in their localities but risks producing an end product (a plan/report) which is not then taken forward and acted upon.

KEY OVERARCHING POLITICAL ECONOMY BASED RECOMMENDATIONS

The current political environment of Nepal is an unprecedented opportunity to transform the country's administrative structures to better serve Nepali citizens. It is important to internalise the complex and dynamic political economy in the implementation of programmes such as NREP and the following recommendations are made in this regard:

- **Need for buy-in from subnational governments:** With the implementation of federalism now fully operational and sectoral authority and responsibilities gradually being devolved, subnational bodies are increasingly having more influence on matters that affect them directly. It is, therefore, important to build relationships with subnational governments and support them directly. Regarding the energy sector, the MoPID in the Provinces are currently understaffed on energy and require technical support. Institutions need to find their own set of unique value addition/s to the subnational governments to provide support while at the same time remain flexible.

Subnational governments, particularly local governments, are firmer on their needs and as their capacity grows, they will demand more oversight of externally funded support. So, alignment to the subnational governments' needs, visions, and objectives is highly important. All support to these governments must be in terms of both policy and practice. For example, in Province 2, following the footsteps of Province 1, they were in the early stages of discussion of establishing their own version of the Social Welfare Council to monitor all development work in the province.

- **Employ a bespoke strategy for each province:** This report has attempted to underscore the unique characteristics (and some of the commonalities) of the three provinces. The key takeaway is that bespoke strategies for each province are needed. For example, given Province 2's more confrontational position vis-à-vis the central government, this can make them more accepting of assistance from development projects although the possibility of a high rate of turnover of bureaucrats seconded by the centre may lead to less institutionalisation of arrangements. Alternatively, in Provinces Lumbini and Karnali, given the political alignment with the centre, there needs to be alignment and engagement on policies and programmes, for example in the case of pursuing overarching legislation such as the Electricity Act.

Karnali, as a province with a low ranking in the human development index, lack of infrastructure, and limited human and financial resources, may require a more traditional approach in promoting renewable energy than in its southern counterparts. The Province will pursue both full electrification and energy access. Similar to Province 2, the Karnali Province also has a high rate of turnover of bureaucrats seconded by the centre and institutionalisation of efforts is important. Most importantly it should be noted that politics is a dynamic phenomenon and the relationship between stakeholders can change from moment to moment.

- **Make strategic choices of municipalities to engage in:** In the three provinces (2, Lumbini, Karnali) there are a total of 324 municipalities: 138 urban³⁹ and 186 rural. However, as stated earlier, the current classification of municipalities in Nepal has resulted in large disparities not only between urban and rural (which is only natural) but also between municipalities in the same category. For example, among the urban municipalities, while the more established have most of the essential governance systems in place and are also (relatively) well-endowed with human and financial resources, many of the newer ones are only urban municipalities in name and are struggling to maintain themselves. Nevertheless, for programmes that are market focussed, urban municipalities represent opportunities for the market to innovate because their issues go beyond that of basic electrification. These opportunities encompass

³⁹ Includes both metropolitan and sub-metropolitan units

both technological and financing mechanisms; they (may) have a market of substantial size to provide the critical mass necessary for the private sector to reap returns, and the municipal governments have the necessary financial resources and the human resource capacity to drive market-based programs. For example, urban municipalities in the plains of Provinces 2 and Lumbini have significant potential for electric public transport. However, bigger urban municipalities may also be very well endowed (at times more than the provincial governments) and have substantial leverage over provincial and central counterparts. Thus, these municipalities are likely to prioritise their own value addition and be less likely to seek to collaborate. The newer and less endowed urban municipalities, on the other hand, will have greater need for resources and may be more willing to accommodate agencies with which to partner/collaborate.

With rural municipalities, many severely lack both financial and human resources. This is even more pronounced if we are to consider the remotest rural municipalities especially if we compare across the provinces (2, Lumbini and Karnali). The rural municipalities will have more need for resources and will be willing to engage with the project. Rural municipalities may offer some opportunities as well, but these will require significantly more investments and carry associated risks. There are simply too many local bodies with an immense need for resources. Instead of spreading support too thin, the selection of responsive local municipalities is important depending on the goals of intervention parties.

- Invest in building capacity of subnational governments:** It has been established from the outset of this report that as a result of not having adequate discussion on the capacity of the subnational governments to oversee their newfound responsibilities, the current challenges in implementation of federalism are only to be expected. This is easily noticeable to anyone who has had to engage, of late, with subnational governments and is also documented in many studies conducted by both governmental and non-governmental agencies. For example, a recent study⁴⁰ by the CIAA exposes a thorough lack of fiscal discipline among local governments that adversely impact is local development. Furthermore, it is also clear that the constitution includes many aspirational provisions, which in theory may sound admirable but in reality will take a very long time (if at all) to achieve. For example, the capacity of local governments to completely take on the responsibility of electricity distribution is highly questionable.

These challenges in implementing federalism should not be seen as a failure of the process, but rather the need to take the exercise of federalism as a work-in-progress that will require both investment and (equally important) patience from all stakeholders. This is not the first time a country, including Nepal, has made this political decision and will not be the last. From a positive perspective the underlying principle of federalism, of political self-determination, seems to be deeply ingrained at the subnational level in Nepal, which is a sign that this is now, by and large, an irreversible process. The eventual success of this, however, will be judged by the ability of the three levels of government to deliver basic services to all Nepali people and to ensure their economic and social wellbeing. For this, a good starting point is to invest in increasing the capacity of the government, especially at the subnational level, who have neither the experience nor the expertise in this regard.

Helping to build capacity, however, does not mean prioritising programmatic agendas (no matter how well-intentioned they may be) over the genuine needs of the subnational governments. This is most applicable in cases of local governments with very limited resources: as desperate recipients of assistance and lacking the capacity to engage as equals, they may be more susceptible to accepting assistance that may not be within their

⁴⁰ Commission on the Investigation of Abuse of Authority. 2019. Findings of the Investigations of the Complaints on Local Governments and Recommendations from the Commission (in Nepali)

immediate need. Development projects should invest in designing assistance packages that truly reflect the needs and the capacity of their beneficiaries. A good example here of what not to do is the energy planning exercise that has been conducted for local governments in the past by other projects. As has been distinctly documented in this political economy analysis, local governments, at the moment, have neither the intention nor the capacity to conduct energy planning; moreover, this has, for historical and technical reasons, been the task taken up by central agencies. While the constitution may have provisioned for a devolution of this particular task, and while it may be a good idea to promote engagement of subnational governments in this exercise, the reality on the ground is that this will be a futile exercise that fails to achieve impact on overall energy planning in the country.