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34th NEPAL INFRASTRUCTURE SUMMIT 2024

Driving Sustainable Development
through Strategic Investment

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12 – 13 September 2024

The Soaltee Kathmandu

Role of Provincial and Local Governments (PLGs) in Infrastructure Development

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Federal Parliament of Nepal





3F Lens for Infrastructure Development

(From the Perspective of Theory and the Constitution)

Function

Sufficient powers and clearly defined functions, including responsibilities in infrastructure development.

OPMCM: (40 %, 30 %, 30 %)
OAG : (68 %, 10 %, 22 %)

Finance

Reliable resources and adequate funding to carry out functions and support infrastructure development

OPMCM: (86 %, 6%, 8%)
OAG: (80 %, 9 %, 11%)

Functionaries

An organizational structure with competent institutions, staff, clearly defined laws, and a conducive working environment

(41%, 14%, 45%)



Achievements/Milestones

- Significant functions and responsibilities for infrastructure development assigned to PLGs
- Institutional setup (legal framework, staffing, etc.)
- Significant fiscal transfers
- Encouraging capital expenditure (e.g., 61% for provinces)
- Most capital outlay directed towards construction, including buildings, roads, bridges, and other public projects (World Bank Fiscal Federalism Update 023 & 024)
- Developed Periodic Plans, MTEF, and established Provincial Development Councils, Provincial Coordination Councils, Provincial Planning Commissions, and Investment Boards (e.g., Koshi Province Investment Authority)
- Enacted LG act, Provincial Commercial and Trade Laws, Civil Service Laws, and other essential legislation
- Multiplier effect of fiscal resources with a sectoral focus on development
- The PLGs have now created a favorable environment for investment



Problems and challenges

- Federal encroachment on the functional responsibilities of PLGs
- Centralized revenue powers and limited fiscal resources for PLGs.
- Coherence and compatibility issues regarding the 3F principle.
- Bureaucratic challenges affecting governance and administration.
- Issues related to fiscal federalism
- The determination of vertical and horizontal fiscal pools lacks a scientific approach
- Coordination problems among federal units
- Planning issues characterized by a top-down approach rather than a bottom-up strategy.
- Federal ministries exhibit a centralist mindset, violating the GoN business regulation of 2017.
- Land acquisition challenges to PLGs
- The ownership of provincial ministry and other office buildings has not been transferred to the provinces.
- Basic infrastructure issues, including security and land, deter investors from engaging with PLGs



Ways Forward/Recommendations

- Finalize the unbundling exercise by clearly protecting the constitutional rights of PLGs.
- Enhance PLGs fiscal independence.
- Reform fiscal federalism, including the fiscal transfer system and natural resource mobilization
- Establish a scientific approach for determining vertical and horizontal resource pools.
- Promote better coordination mechanisms between federal units.
- Address bureaucratic hurdles and resolve land acquisition issues at PLGs
- The ownership of provincial ministry/offices buildings be transferred to the provinces
- Follow a bottom-up planning and budgeting system.
- Establish a clear legal framework for exclusive and shared rights
- Encourage public-private partnerships.
- Ensure coherence and compatibility between functions, funds, and functionaries.



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