

# Assessing Heterogeneity in Governance Outcome: Evidence from Local Government Institutional Capacity Self-Assessment (LISA) in Nepal

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## Abstract

Local Government Institutional Capacity Self-Assessment (LISA) as a self-evaluation tool that assess the workflows and performance by identifying the pros and cons for governance enrichment and development delivery. It analyzes periodic plans, financial management, and governance delivery while developing quantifiable indicators and strengthening local government capacity on a larger landscape. The LISA assessment covers ten dimensions with a total of 100 indicators and sub-indicators, broadly addressing accomplishments and evaluation methods through the Totalitarian Approach, Procedural Order, and Quantitative Results. This study includes evaluation approaches, multi-dimensional scope of LISA and scores of 749 local governments (who submitted their assessment scores for the Fiscal Year 2022/23) published by the ministry after quality assurance. The study method employed is Structural Equation Modeling (SEM) with regression analysis. This study aims to divulge the significance, effectiveness, and diversity of local governance outcomes, exploring their implications and variations across different contexts. These comprehensive understandings will thereby contribute to informed policy-making (improvement recommendations in the guideline, directives and working procedure), efficient service delivery and enhanced outcomes (structural and institutional change in local governments, allocation and expenditure efficiency and capacity enhancement) of the local governments. The findings of the study reveal that ten categorized dimensions each contribute differently to governance outcomes. These variations highlight how each dimension's unique impact can influence overall performance. The direction and strength of their relationships can predict how changes in one area might impact another. The newly institutionalized assessment technique promotes regional balanced development and improved local governance by integrating diverse needs, fostering yardstick competition, and advancing whole-of-government collaboration. Thus, moving beyond a blanket approach, governing policies in Nepal must adopt targeted and tailored strategies that account for the diverse realities and local governance heterogeneity.

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## Keywords

LISA, self-evaluation tool, institutional bricolage, yardstick competition, tailored-approaches, governance-outcomes

## JEL Codes

H1, H7

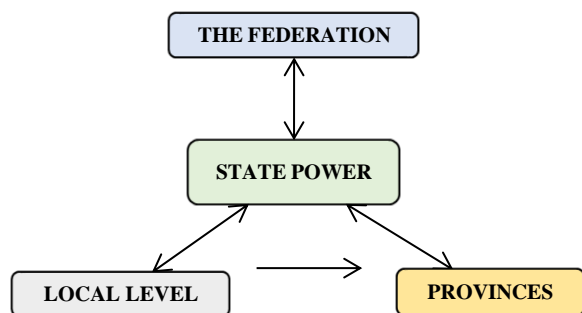
## 1. Introduction: Nepalese governance overview

Nepal is a fledgling federal country when the new Constitution was promulgated in 2015. The state power has been divided into three tiers of the government: seven hundred fifty-three local governments/levels (Municipalities: 293 and

Rural Municipalities: 460), seven Provinces, and one Federation (Figure 1). This governance framework promotes inclusive and participatory democracy, emphasizing just, resilient, and sustainable development activities. The new

constitution ensures equal opportunities for all citizens in governance, empowering local governments in development and service delivery.

**Figure 1:** The Division of State-Power



Source: Designed by author based on constitutional provisions

### 1.1 Nepalese Local Governance: Theories and Practices

To effectively study political systems, one must analyze the extent and types of interconnectedness among political actors within broader frameworks, emphasizing relationships and problem-solving dynamics over a purely structuralist view of institutional change focused on rule implementation (Oakerson, 1999). The term exit-voice dichotomy coined by Hirschman (1970) argues that when the existence of multiple jurisdictions (cities, regions, or countries) is acknowledged, the relationship between office-holders and citizens' changes in two ways. Citizens can react to office-holders' decisions by moving across jurisdictions, which was impossible by the definition under the single-jurisdiction assumption. The application of public choice theory to decision making in local government, argues that citizens will vote for a combination of taxes and benefits that best suit their interests (voice), and/or will relocate to the jurisdiction which offers the best combination of services and taxes (exit); although this theory makes unrealistic assumptions about citizens' ability and willingness to relocate, as well as about the information available to them, particularly in developing countries (Tiebout, 1956). Similarly, the 'voting-with-the-feet' mechanism suggests that competition among multiple jurisdictions providing local public goods results in near-optimal outcomes (Tiebout, 1956). In practice, citizens can improve their assessment of incumbents or policies by comparing with other jurisdictions, even without moving across borders (Salmon, 2019, p. 2). Although local governance under the newly federal structure in Nepal is growing at a slower pace, people desire regionally balanced

development. They compare outputs and outcomes among local governments, ultimately creating synergy for yardstick competition. Thus, institutionalizing and enriching local governance is crucial for a shared future in Nepal. No governance system could be back from democratic values in all facets, beyond the one-size-fits-all model (Declaration of 59th Session of High-level Plenary of UNGA: Clause 135).

Understanding the interplay between individuals and institutions is key to societal dynamics, as institutions mediate interactions among individuals, resources, and society. Examining their real-world functioning unveils why certain outcomes favor some groups while marginalizing others. Cleaver (2012) describes these interfaces as institutional bricolage; where individuals use existing social formulas to adapt institutions to respond to changing situations, leading to at least three outcomes. Aggregation advocates that after the introduction of an institution, stakeholders may accept it and then integrate it with various existing social and cultural components. Similarly, alteration: following the stakeholders' decision to adapt the introduced institutions to align with their livelihoods. The last one is articulation: which narrates to a potential resistance from stakeholders to newly introduced institutions by maintaining their institutional identities and culture (Cleaver, 2002; Cleaver & Franks, 2005). Institutional bricolage seeks to understand how institutions function in practice, recognizing that the embedded context: cultural influences, historical legacies, economic drivers and political logics; is not neutral and cannot be overlooked (Hassenforder et al., 2015). In short, it highlights the diverse approaches that stakeholders adopt when confronted with the introduction of new institutions within existing contexts.

Aligning local government performance; the Stewardship Theory speculates that management prioritizes organizational interests over personal goals, linking success-defined as maximizing the utility of both principals and management- thereby supporting with individual interests (Davis et al., 1991). The democracy and democratic behavior in the local governments of Nepal still need to be enriched. Thus, there is a risk of public resources being used for personal purposes. The application of this theory urges local representatives to use resources and put in efforts for the benefit of a larger number of local beneficiaries in Nepal. Similarly, the utmost attention has been directed toward the concepts of strategy content, organization size, staff quality, planning, representative bureaucracy, networking and personnel stability in local governments for better performance (Walker & Andrews, 2015). Most studies are based on contingency theories of organizational design, economic theories of efficient service production, and resource based perspectives on capacity and capabilities for success (Davies, 1969;

Burgess, 1975; Greenwood et al., 1975a, 1975b; Hansen & Kjellberg, 1976; Honadle, 1981; Baumol & Willig, 1986). Many studies in the 1970s and 1980s focused on municipal productivity (Williams, 2003), efficiency (Ostrom, 1972; Newton, 1982), and cost savings in service delivery (Boyne, 1998) based on size and structure. Recently, the rise of New Public Management (NPM) has emphasized market-based, business-like strategies and management practices to enhance the performance of public sector organizations (Walker et al., 2010; Ashworth et al., 2010). Aligning with this theory, the functions and functionaries in many facets in Nepalese local governance, after the grand administrative reform, demand the integration of NPM principles for better performance.

The 3Es model emphasizes Economy (cost of procuring service inputs such as facilities, staff, and equipment for a given quality), Efficiency (technical cost per unit of output and responsiveness to public preferences), and Effectiveness (actual achievement of service objectives) in public services. Similarly, the Inputs-Outputs-Outcomes (IOO) model analyzes the sequence of inputs (linked to economy), outputs (speed, quantity, and quality), and outcomes (effectiveness, impact, and equity), alongside technical efficiency (ratio of outputs to inputs) and 'value for money' or ratio of outcomes to inputs (Walker & Andrews, 2015). The extension of the 3Es and IOO models provides a variety of performance measures across service delivery, governance enrichment, and the democratization of public services. A focus on service delivery in local government is crucial, as it shapes citizens' day-to-day experiences of the state; however, Walker et al. (2010) argue that this focus should not exclude broader governance issues, including accountability, civil and human rights, probity, corruption, and democratic participation. Many functions in the newly formed local governments of Nepal are still entangled with process and output indicators rather than outcome-based ones. Thus, the proper application of such theories in Nepalese local governments may yield better performance outcomes.

### 1.2 Performance Evaluation in Local Governments

Previously, in the unitary governance structure, the *Village Development Committees (VDC)* had practiced the *Minimum Conditions and Performance Measures (MCPM)* system in Nepal. Its results were tied up with the funds obtained from the central government (LBFC, 2011). In 2015, the federal governance system was established, these VDCs were converted into Wards of Rural Municipalities, and the state restructuring was done. Thereafter, the Local Government Institutional Capacity Self-Assessment Guideline: LISA (2020) developed a self-evaluation tool for local governments, representing a reformed extension and continuation of the

MCPM system within a newly federalized context. The LISA tool evaluates the overall activities of local governments from the previous fiscal year, aiming to enhance capital expenditure efficiency, service delivery, and overall performance with respect to policy oversight, adherence to due process, and the quantification of results achieved. The Nepalese local governance performance can be studied through the lens of Cleaver's (2012) conceptual framework; as the whole assessment process is divided into three evaluation grades. The Totalitarian Approach (TA) seems to generalize policy provisions through 'Zoom Out' theory first, and then, Procedural Order (PO) and Quantitative Results (QR) follows as a part of 'Zoom In' process of policy formulation and implementation landscapes (Cairney, 2019, pp. 62-63). Such theories are highly relevant for explaining local governance approaches, their functions, and performance management in Nepal. The umbrella act governing the functioning of all local governments emphasizes the use of information and technology, stating: *ministry may designate the format of information technology to be used at the local levels to maintain uniformity in the financial transactions and administrative functioning to promote transparency and accountability*' (LGOA, 2017, Clause 80); providing the legal background for the enactment of LISA guideline. LISA provides a comprehensive self-evaluation of local governance in Nepal, emphasizing that institutional diagnostics must be contextualized within the broader societal framework. As a Standard Operating Procedure of the Local Government Operation Act, 2017, LISA can be a valuable tool for promoting local burgeoning and sustainability. Although, Nepalese local governments enjoy constitutional autonomy with assured grants and revenue shares, released in tranches to sub-national governments; in the future, LISA results are expected to be integrated into the fiscal transfer process from higher to lower governments.

### 1.3 The Lisa Self-Assessment Procedure

Ministry of Federal Affairs and General Administration (MoFAGA) is the focal ministry for all local governments, primarily focusing on policy coordination and program implementation, and quality control. During this process, it coordinates by developing web-based reporting system, managing web-cloud services, and regularly updating self-assessment procedures and templates. The facilities and support are provided to District Coordination Committees (DCC: An elected body constitutionally designed to monitor local governments within a district and facilitate coordination among them) for Training of Trainers (TOT) programs and assessment procedures; and to the local governments for compiling, analyzing, and publishing LISA results. Annually,

results are discussed and appraised on a provincial basis with line ministries and sectoral institutions. Local governments with lower scores from the previous year are prioritized. As a result, MoFAGA implements federal programs in these local governments to enhance their performance. Such programs include facilitation on periodic plan formulation, annual planning and budgeting cycle, revenue improvement plans, master procurement plans, and capacity enhancement for local personnel etc. Ministry officials also visit the Municipal Executive's Office and interact with elected representatives and local officials to improve the performance and sustainability of the outcome in the next fiscal year.

The self-assessment consists of an evaluation of all the indicators and sub-indicators from each division, section, and unit, with the results compiled by the Municipal Executive's Office. The major steps in brief are as follows: The Liaison Officer of the Municipal Executive's Office first notifies elected representatives and personnel's about the objectives, importance, and procedure of LISA. Once the self-assessment is completed, the results from all divisions, sections, and units will be submitted to the Chief Administrative Officer (CAO). The results will be compiled and discussed in the Rural/Municipal Executives (a body of elected representatives). A detailed diagnosis will be made on the performance achieved, indicated by the overall score based on each indicator and sub-indicator, during the meeting of the Rural/Municipal Executive. In this meeting, the CAO will provide appropriate elaborations and descriptions to the elected body. Thus, the score is finalized and approved by the 14<sup>th</sup> of January of the current fiscal year. The final LISA results will be published by the Office of the Municipal Executives. It should be uploaded on websites and posted notice boards by 21<sup>st</sup> January for the purpose of Right to Information (RTI). Side by side, the overall evaluation score, along with means of verifications are uploaded into the system provided by the MoFAGA.

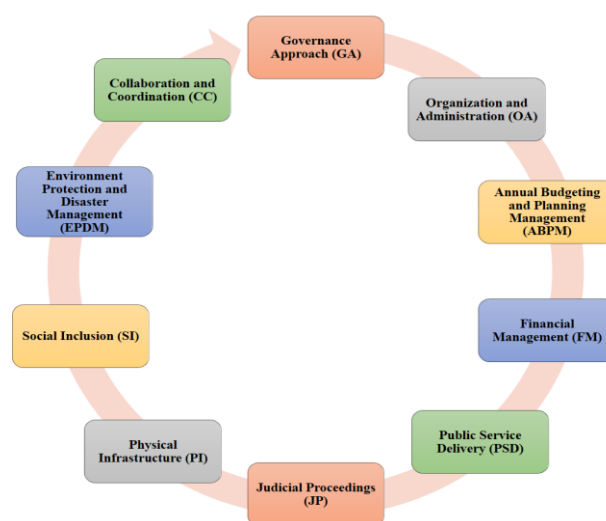
The self-evaluated claimed score of the previous fiscal year (also the whole assessment process) from each local government undergoes probation for quality assurance by MoFAGA. The quality assurance process involves a desk review of the means of verification uploaded by local governments in the web-based system, such as examining facts and figures, minutes, and records of transactions. Occasionally, it also includes field observations and monitoring by competent personnel from the ministry. The score claimed by local governments may be revised during this process. They will be informed and provided adequate time to re-submit any means of verification in case of compliance found. The ministry will then verify all the submissions and make a final decision, concluding the quality

assurance process. The quality-assured final results will be published by MoFAGA on their website (<https://lisa.mofaga.gov.np/report>). The best Rural Municipality and Municipality will be separately announced and honored by the ministry based on their final scores. A copy of the final results is sent to the Office of the Prime Minister and Council of Ministers (OPMCM), Ministry of Finance (MoF), National Natural Resources and Fiscal Commission (NNRFC), and the Cabinet.

#### 1.4 Scope and Evaluation Approaches

LISA covers following ten dimensions as shown in diagram below (Figure 2).

**Figure 1:** Scope (dimensions) of LISA



Source: Designed by author based on LISA guideline

The institutional capacity of local governments is assessed in aforementioned ten dimensions; each dimension is studied on the basis of major three indicators such as Totalitarian Approach (TA), Procedural Order (PO) and Quantitative Results (QR). TA focuses on the overall aspects of local governance in a broader context. It includes, to some extent, the political aspect of the evaluation, comprising 21% of the total weight. PO covers the steps and methodologies to be followed as part of the due process of law, with a weightage of 34%. Meanwhile, QR includes result-oriented indicators that can be measured, analysed, and quantified, carrying the highest weightage of 45%. The division of weightage was made based on local constitutional functions and the provisions of existing laws. Due to the newly federalized structure and the relatively inexperienced, naive local governments, TA and PO account for more than half of the weightage, primarily comprising process indicators. Each dimension is evaluated based on indicators and sectoral sub-

indicators. TA is assessed in four stages (1 to 4), while PO and QR are assessed in three stages (Weak, Average and Best). Scores from all sub-indicators across the ten dimensions are cumulated to determine the final assessment result, representing the local level's status. The Table 1 summarizes the indicators, stages, and weights for the assessment.

**Table 1:** Assessment Grades

Indicators	Codes	Stages/ Results	Assessment Grades				
			Stages	1	2	3	4
Totalitarian Approach	TA	4	Score	0	0.5	0.75	1
			Results	Weak	Average	Best	
Procedural Order	PO	3	Score	0	0.5	1	
			Results	Weak	Average	Best	
Quantitative Results	QR	3	Score	0	0.5	1	
			Results	Weak	Average	Best	

Source: Designed by author based on LISA guideline

### 1.5 Designing the Analysis

The quantitative empirical research on local government management and performance has a spectrum of extended pedigree. Although it demonstrates significant conceptual and theoretical heterogeneity, the diverse findings from empirical studies have not been integrated to assess how local government management impacts the performance. Thus, a comprehensive study of management's effects on local government performance must consider various dimensions from both external and internal stakeholders utilizing diverse data sources. By integrating qualitative insights (provisions in the LISA guideline) with quantitative data (scores of each local government), this study aims to analyze the significance, effectiveness, and diversity of local governance outcomes, exploring their implications and variations across different contexts. These comprehensive understandings will thereby contribute to informed policy-making (improvement recommendations in the guideline, directives and working procedure) and enhanced service delivery to the people and better performance (structural and institutional change, allocation and expenditure efficiency and capacity enhancement of local governments). In Nepal, each local government varies in financial and administrative capability, revenue mobilization, resource allocation, allocation and expenditure efficiency, and monitoring, evaluation, and reporting systems. Although same constitutional rights are assured, their performance levels differ. Therefore, a blanket approach to policy formulation and program implementation may not yield the expected outcomes. This calls the need for a comprehensive study the performance in multiple facets. Since the enactment of the LISA guideline, no study has examined and acknowledged the heterogeneity in local governance outcomes based on the scores. This study, analyzing scores to assess local government performance in

Nepal, may be the first to cover all indicators and sub-indicators of this type. Its policy revisions and score analysis not only benefit Nepalese local governance practices but also make a significant contribution to the academic knowledge spheres. Thus, to address these research gaps and fulfill the objectives; this paper is divided into four sections as follows:

1. Introduction-Nepalese Governance Overview: This section discusses the Nepalese local governance: theories and practices, Performance evaluation in local governments, the LISA self-assessment procedure, Scope and evaluation approaches, and Designing the analysis.

2. Materials & Methods: The Analytical framework, Variables, and Coding are discussed in this section.

3. Results & Discussions: Coefficients and findings and Discussions are presented in this section.

4. Conclusion & Recommendations: This section summarizes the key findings and provides pragmatic recommendations for the fruitful delivery of local governance outcomes.

For the Fiscal Year 2022/23 (Nepali Year 2079/080), 749 out of 753 local governments submitted their assessment score. Kandel (2021) argues that some local governments have not fully internalized the importance of the self-evaluation process; thus, they continue to bypass the guidelines and fail to submit their self-assessment scores. The remaining four local governments that did not submit their scores are not included in this study. All the data used in this research were collected from the ministry's website as an open data source. Since the final results are published by the ministry after quality assurance, there is no risk of missing data, outliers, or inconsistencies. The scores obtained are used directly for the analysis.

Some limitations in this study are considered as follows. It is believed that all local governments exhibit the similar vigor in their management efforts, characterized by homogeneous inter-organizational relationships, decentralization of decision-making, and bureaucratic autonomy. The key limitations in performance evaluation include the lack of comprehensive meta-mega policies and integrated service mapping, as well as insufficient technological and human resources at local level. Additionally, evaluating 'performing' and 'less-performing' local governments undermines the potential benefits of yardstick competition in advancing public welfare. Furthermore, challenges arise from inadequate management of public policies, insufficient de-concentration and decentralization, and persistent issues in governance and anti-corruption efforts; all of which hinder overall progress in local governance. This study includes, three evaluation grades, ten dimensions, 100 sub-indicator counts with respect to the performance of 749 local governments all together to

examine the heterogeneity in local governance. However, a comprehensive analysis of each local government based on all the dimensions and sub-indicator counts could not be made due to resource and time constraint. A detailed study of each dimension and sub-indicator counts for every local government is left for future research.

**2. Materials & Methods**

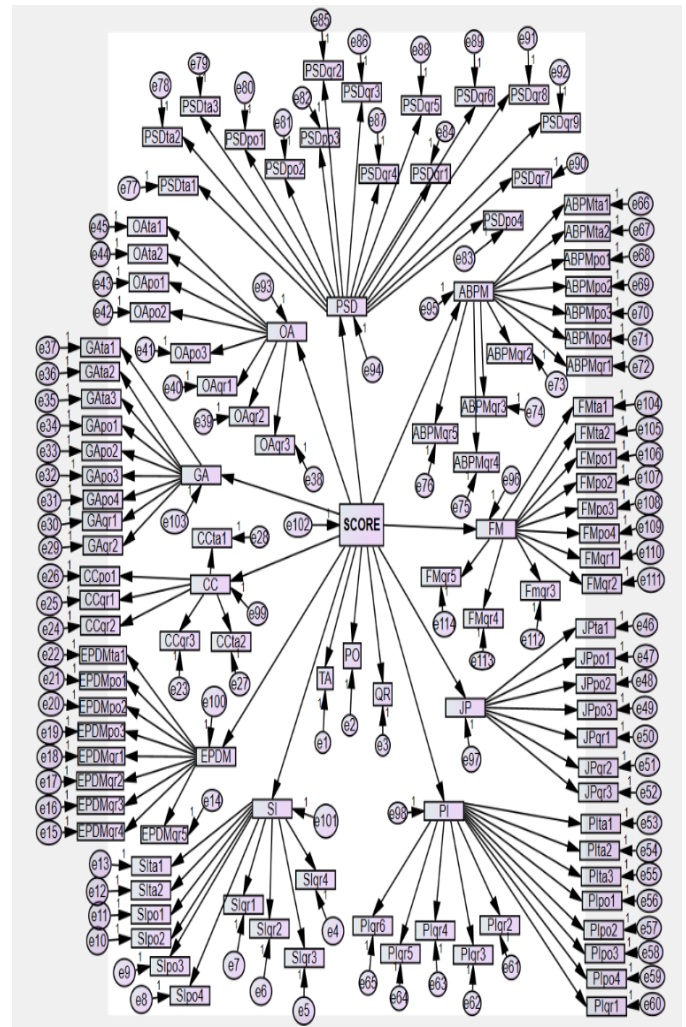
The mixed method approach was applied for the study by combining systematic analytical review and quantitative methodology. The policy analysis begins with an extensive literature review to identify key provisions and establish a contextual basis. Subsequently, the Structural Equation Modeling (SEM) with regression analysis was used for examining the direction and strength of variables to predict the heterogeneity of local governance outcomes. The practical context for each local government may vary, making interactions and unobserved factors critical as they ultimately impact performance. The complex simultaneous analysis of multiple relationships and latent constructs, along with testing mediation and indirect effects to uncover causal pathways, necessitates the use of SEM with regression analysis. There may be some limitations in the data obtained for analysis. Since this is a self-evaluation approach, the scores achieved may not fully reflect actual performance. Some means of verification may fail to be uploaded, certain indicators might be underreported, and there may be varying levels of understanding among local governments regarding the indicators and sub-indicators, especially when relying solely on the web-based system. These factors could affect the final scores achieved by local governments. Despite these challenges, the quality assurance process conducted by MoFAGA addresses these issues by verifying the scores and publishing the final results, which are used for this analysis.

**2.1 Analytical Framework**

The analytical framework (Figure 3) consists of variables that contribute to the evaluation of local government’s performance in Nepal. The whole process of evaluation via 10 dimensions and 100 sub indicators counts encompasses through three evaluation grades TA, PO and QR. It consists of ten variables (GA, OA, ABPM, FM, PSD, JP, PI, SI, EPDM, and CC), influenced by specific observed variables (sub-indicator counts) for each, also categorized into three evaluation grades ultimately characterize the endogenous variable 'SCORE.' The model is likely used to understand how different aspects of performance (also measured by TA, PO, and QR) interrelate and contribute to the 'Score' achieved. The details of indicators, sub indicators and their cumulative counts are presented into Table 2. The relative correlation,

strength and direction of the analysis is presented through the respective coefficients (Table 3).

**Figure 3:** Analytical Framework of the Study



Source: Designed by author

**2.2 Coding and Description of Variables**

The designated ten dimensions, indicators, sub-indicators included in the guideline are mostly inherited from the constitutional provisions, Local Government Operation Act (LGOA, 2017) and existing laws. Table 2 presents a concise overview of the variables utilized in this study.

**Table 2:** Coding and description of variable

S. N.	Dimensions	Indicators (I.)	Description of Variables		Total
			Sectoral Sub Indicators (S. I.) and Coding	Count	
1.	Governance Approach (GA)	TA	Operation of municipal assembly ( <b>GA<sub>ta1</sub></b> ), decision process of municipal executive ( <b>GA<sub>ta2</sub></b> ), and local laws promulgated ( <b>GA<sub>ta3</sub></b> )	3	9
		PO	Operating procedure for committees and sub-committees ( <b>GA<sub>po1</sub></b> ), operation of municipal executive meetings ( <b>GA<sub>po2</sub></b> ), internal control system ( <b>GA<sub>po3</sub></b> ), publishing the property details of elected representatives ( <b>GA<sub>po4</sub></b> )	4	
		QR	Municipal executive's total meeting counts ( <b>GA<sub>qr1</sub></b> ), use of Sub-National Treasury Regulatory Application (SuTRA) in accounting system ( <b>GA<sub>qr2</sub></b> )	2	
2.	Organization and Administration (OA)	TA	Capacity enhancement of local government ( <b>O<sub>ta1</sub></b> ), reporting to higher governments ( <b>O<sub>ta2</sub></b> )	2	8
		PO	Providing TOR for each officials ( <b>O<sub>po1</sub></b> ), Outsourcing non-permanent officials ( <b>O<sub>po2</sub></b> ), performance contract of officials ( <b>O<sub>po3</sub></b> )	3	
		QR	Investment in human resource ( <b>O<sub>qr1</sub></b> ), attendances of Chief Administrative Officer ( <b>O<sub>qr2</sub></b> ), involvement of officials and elected representatives in capacity enhancement programs ( <b>O<sub>qr3</sub></b> )	3	
3.	Annual Budgeting and Planning Management (ABPM)	TA	Formulating annual budgeting and planning and periodic plan ( <b>ABPM<sub>ta1</sub></b> ), involvement of concerned committee and coordination ( <b>ABPM<sub>ta2</sub></b> )	2	11
		PO	Localization of Sustainable Development Goals (SDGs) ( <b>ABPM<sub>po1</sub></b> ), sectoral budget ceilings ( <b>ABPM<sub>po2</sub></b> ), endorsement of annual budget and programs in municipal assembly ( <b>ABPM<sub>po3</sub></b> ), integrating NGO's program into annual budget and approval from assembly ( <b>ABPM<sub>po4</sub></b> )	4	
		QR	Proportion of internal income in total budget ( <b>ABPM<sub>qr1</sub></b> ), proportion of projects (cost estimated below 500 thousands) in total budget ( <b>ABPM<sub>qr2</sub></b> ), annual increment in internal income ( <b>ABPM<sub>qr3</sub></b> ), mutual partnerships by NGOs (cash) ( <b>ABPM<sub>qr4</sub></b> ), budget allocation for the projects to be accomplished by matching funds ( <b>ABPM<sub>qr5</sub></b> )	5	
4.	Financial Management (FM)	TA	Internal revenue ( <b>FM<sub>ta1</sub></b> ), and financial discipline ( <b>FM<sub>ta2</sub></b> )	2	11
		PO	Application of government approved accounting procedures ( <b>FM<sub>po1</sub></b> ), publishing income and expenses ( <b>FM<sub>po2</sub></b> ), formulating annual/procurement plan and its implementation ( <b>FM<sub>po3</sub></b> ), progress review of annual budget and programs ( <b>FM<sub>po4</sub></b> )	4	
		QR	Budget transfer and re-allocation ( <b>FM<sub>qr1</sub></b> ), administrative expenses ( <b>FM<sub>qr2</sub></b> ), capital expenditure ( <b>FM<sub>qr3</sub></b> ), revenue collection ( <b>FM<sub>qr4</sub></b> ), delegating expenses authority to CAO ( <b>FM<sub>qr5</sub></b> )	5	
5.	Public Service Delivery (PSD)	TA	Service delivery ( <b>PSD<sub>ta1</sub></b> ), services provided by Ward Offices ( <b>PSD<sub>ta2</sub></b> ), public satisfaction over service delivery ( <b>PSD<sub>ta3</sub></b> )	3	16
		PO	Use of technology in service delivery (Token, Online registration, or Computerized billing) ( <b>PSD<sub>po1</sub></b> ), SOP of service delivery ( <b>PSD<sub>po2</sub></b> ), payment via banking channels ( <b>PSD<sub>po3</sub></b> ), alternative service delivery mechanism in Ward Offices ( <b>PSD<sub>po4</sub></b> )	4	
		QR	Non-compliance, and its handling ( <b>PSD<sub>qr1</sub></b> ), Social Security Allowance payment via banking channel ( <b>PSD<sub>qr2</sub></b> ), birth registration by 35 days ( <b>PSD<sub>qr3</sub></b> ), public hearings ( <b>PSD<sub>qr4</sub></b> ), mobile service outreach (Vaccination, Vitamin A, Polio, Basic Health Services Camp) ( <b>PSD<sub>qr5</sub></b> ), access to education (enrollment rate) ( <b>PSD<sub>qr6</sub></b> ), access to health services (Equipped health posts, hospitals, compulsory Vaccines for children) ( <b>PSD<sub>qr7</sub></b> ), agriculture and livestock services ( <b>PSD<sub>qr8</sub></b> ), value addition and marketization of local products ( <b>PSD<sub>qr9</sub></b> )	9	
6.	Judicial Proceedings (JP)	TA	Operation of Judicial Committee ( <b>JP<sub>ta1</sub></b> )	1	7
		PO	Provision of mediators for dispute resolution ( <b>JP<sub>po1</sub></b> ), decision making process of Judicial Committee ( <b>JP<sub>po2</sub></b> ), reporting system of Judicial Committee ( <b>JP<sub>po3</sub></b> )	3	
		QR	Compliance resolution ( <b>JP<sub>qr1</sub></b> ), appeal over decisions of Judicial Committee ( <b>JP<sub>qr2</sub></b> ), formation of Mediation Center ( <b>JP<sub>qr3</sub></b> )	3	
7.	Physical Infrastructure (PI)	TA	Road infrastructure development based on master plan ( <b>PI<sub>ta1</sub></b> ), land-use plan based on vulnerability and resilience ( <b>PI<sub>ta2</sub></b> ), Public Private Partnership on physical infrastructure development ( <b>PI<sub>ta3</sub></b> )	3	13
		PO	Child and disable friendly infrastructure ( <b>PI<sub>po1</sub></b> ), utilization of infrastructure and sustainable management ( <b>PI<sub>po2</sub></b> ), Brief Environment Study (BEE), Initial Environmental Examination (IEE) and	4	

		Environmental Impact Analysis (EIA) of projects ( <b>PIpo3</b> ), Implementation of National Building Code and Standards ( <b>PIpo4</b> )		
	QR	Road expansion ( <b>PIqr1</b> ), upgradation of roads ( <b>PIqr2</b> ), drinking water service expansion ( <b>PIqr3</b> ), implementation of annual plan ( <b>PIqr4</b> ), waste management ( <b>PIqr5</b> ), industrial infrastructure development ( <b>PIqr6</b> )	6	
	TA	Minimization of social discrimination ( <b>SIta1</b> ), proportional participation ( <b>SIta2</b> )	2	
8.	<b>Social Inclusion (SI)</b>	Social security and protection ( <b>SIpo1</b> ), advocacy and movements for ending the domestic violence ( <b>SIpo2</b> ), activities to end the child labor, child marriage, dowry, <i>Boksi</i> , Menstrual Seclusion ( <i>Chhaupadi</i> ) customs ( <b>SIpo3</b> ), Gender Equalization and Social Inclusion (GESI) responsive budget auditing ( <b>SIpo4</b> )	4	10
	QR	Reduction in the number of domestic violence against women ( <b>SIqr1</b> ), investment in the programs to decrease child labor, child marriage, dowry, <i>Boksi</i> , Menstrual Seclusion ( <i>Chhaupadi</i> ) customs ( <b>SIqr2</b> ), Users Committees lead by women, secluded class, disable people ( <b>SIqr3</b> ), investment to lift-up the socio-economic status of women, back warded, minorities and marginalized people, senior citizens, secluded people, disables and vulnerable ( <b>SIqr4</b> )	4	
	TA	Disaster Management ( <b>EPDMta1</b> )	1	
9.	<b>Environment Protection and Disaster Management (EPDM)</b>	Controlling environmental pollution ( <b>EPDMpo1</b> ), Child friendly infrastructure ( <b>EPDMpo2</b> ), identifying and mapping hazard prone areas ( <b>EPDMpo3</b> )	3	
	QR	Budget allocation for environmental conservation ( <b>QRta1</b> ), involvement of private sector, community organization and citizens for environment protection ( <b>QRta2</b> ), establishment of Local Disaster Management Fund and expenses ( <b>QRta3</b> ), formation and operation of Local Community Organizations ( <b>QRta4</b> ), accessibility of emergency services such as ambulance, fire engine and extinguisher ( <b>QRta5</b> )	5	9
	TA	Collaboration and coordination among Federation, Provinces and Local Level ( <b>CCta1</b> ), Inter-local governments collaboration and coordination ( <b>CCta2</b> )	2	
10.	<b>Collaboration and Coordination (CC)</b>	Formation and operation of committees to address the issues affecting two or more local governments ( <b>CCpo1</b> )	1	6
	QR	Coordination and facilitation by local governments for projects implementation with higher governments ( <b>CCqr1</b> ), inter-local government partnership ( <b>CCqr2</b> ), coordination with DCC ( <b>CCqr3</b> )	3	
<b>GRAND TOTAL</b>			<b>100</b>	<b>100</b>

Source: Author-coded data based on LISA guideline: aligned with analytical framework

### 2.2.1 Governance Approach (GA):

In the context of governance approaches, a TA involves the operation of the municipal assembly, the decision-making process of the municipal executive, and the promulgation of local laws, with a score of 3. Similarly, PO focuses on the operating procedures for committees and sub-committees, the functioning of municipal executive meetings, the internal control system, and the publication of property details of elected representatives, scoring a 4. Likewise, QR measure the municipal executive's total meeting counts and the use of the Sub-National Treasury Regulatory Application (SuTRA) in the accounting system, with a score of 2. The governance is primarily analyzed through totalitarian and procedural methods. With the newly established system, focusing on the overall context and due process holds particular significance; thus, GA is assigned a weightage of 9.

### 2.2.2 Organization and Administration (OA):

In the realm of organization and administration, the TA emphasizes capacity enhancement of local government and

reporting to higher governments, which scores a 2. Similarly, PO aspect includes providing Terms of Reference (TOR) for each official, outsourcing non-permanent officials, and implementing performance contracts for officials, receiving a score of 3. Likewise, QR evaluate investment in human resources, the attendance of the CAO, and the involvement of officials and elected representatives in capacity enhancement programs, also scoring a 3. Organization and administration is a functional wing of the Office of the Municipal Executive. Efficient administration and a well-structured organization can accomplish tasks effectively. Thus, by focusing on process and output indicators, it is assigned a weightage of 8.

### 2.2.3 Annual Budgeting and Planning Management (ABPM):

In annual budgeting and planning management, the TA focuses on the formulation of annual budgets, planning, and periodic plans, as well as the involvement of concerned committees and coordination, with a score of 2. The PO emphasizes the localization of SDGs, setting sectoral budget



ceilings, endorsing annual budgets and programs in the municipal assembly, and integrating NGOs programs into the annual budget with assembly approval, receiving a score of 4. Similarly, QR are assessed based on the proportion of internal income in the total budget, the proportion of projects with cost estimates below 500 thousand in the total budget, the annual increment in internal income, mutual partnerships by NGOs (cash), and budget allocation for projects to be accomplished by matching funds, which achieves a score of 5. ABPM emphasizes the administration and efficient allocation of resources, ensuring that plans align with local priorities and deliver maximum results. Thus, with a focus on process and output indicators, it is assigned a weightage of 11.

#### 2.2.4 Financial Management (FM):

In the financial management sector, TA centers on maintaining internal revenue and financial discipline, earning a score of 2. The PO focuses on adhering to government-approved accounting procedures, publishing income and expenses, formulating and implementing annual and procurement plans, and conducting progress reviews of the annual budget and programs, which receives a score of 4. Similarly, QR are evaluated based on budget transfers and re-allocations, administrative expenses, capital expenditures, revenue collection, and the delegation of expense authority to the CAO, achieving a score of 5. Financial management focuses on the accountability of local governments, emphasizing prudent fiscal practices, transparency, and long-term financial sustainability. The weightage of 11 highlights its importance in maintaining trust and ensuring the efficient use of public funds.

#### 2.2.5 Public Service Delivery (PSD):

The public service delivery is one of a major dimension in local governance. Among three evaluation grades, the TA addresses service delivery, the services provided by ward offices, and public satisfaction with these services, scoring a 3. Similarly, PO emphasizes the use of technology in service delivery, such as tokens, online registration, or computerized billing, and includes the establishment of Standard Operating Procedures (SOPs) for service delivery, payments via banking channels, and alternative service delivery mechanisms in ward offices, with a score of 4. Likewise, QR are assessed based on factors such as handling non-compliance, Social Security Allowance payments via banking channels, timely birth registration, public hearings, mobile service outreach initiatives (including vaccination, Vitamin A, polio, and basic health services camps), access to education (enrollment rates), access to health services (equipped health posts, hospitals, and compulsory vaccinations for children), agriculture and livestock services, and the value addition and marketization of

local products, which achieve a score of 9. Focusing on governance and delivery, output indicators are primarily emphasized, complemented by process indicators. The totalitarian aspect is also incorporated to benchmark basic service delivery provisions. Thus, the highest-ranked indicator, PSD altogether holds a weight of 16.

#### 2.2.6 Judicial Proceedings (JP):

Judicial Committees in local governments are led by vice chair/vice mayors. The functions assigned in Local Government Operation Act, 2017 are performed by the committees; considered as judicial proceedings. Aligning with other dimension, the TA focuses on the operation of the Judicial Committee, which scores a 1. Similarly, PO includes provisions for mediators to aid in dispute resolution, outlines the decision-making process of the Judicial Committee, and establishes a reporting system for the committee, receiving a score of 3. Whereas, QR are assessed based on compliance resolution, appeals against decisions made by the Judicial Committee, and the formation of a Mediation Center, which also scores a 3. As Judicial Committees are newly established in local governments, elected representatives resolve local disputes and conflicts based on the provisions of the LGOA, 2017. Considering process and output indicators, Judicial Proceedings assigned a weightage of 7.

#### 2.2.7 Physical Infrastructure (PI):

In physical infrastructure sector, the TA involves road infrastructure development guided by a master plan, a land-use plan addressing vulnerability and resilience, and Public-Private Partnerships for physical infrastructure projects, scoring a 3. The PO includes creating child- and disability-friendly infrastructure, ensuring sustainable management and utilization of infrastructure, conducting Brief Environmental Studies (BEE), Initial Environmental Examinations (IEE), and Environmental Impact Analyses (EIA) for projects, and adhering to the implementation of National Building Code and Standards, which achieves a score of 4. Similarly, QR are evaluated based on road expansion, road upgradation, expansion of drinking water services, implementation of annual plans, waste management practices, and industrial infrastructure development, earning a score of 6. Physical infrastructure development is crucial, particularly considering the significant disparities in infrastructure assets among local governments in Nepal. Addressing these gaps is essential for ensuring balanced development and delivery of services. Accordingly, it is assigned a weightage of 13, reflecting its high priority.

### 2.2.8 Social Inclusion (SI):

The social inclusion is one of an acknowledged dimension in overall Nepalese governance since three decades. Its foundation must be assured even from the lowest units of governance. In this evaluation process, within the social inclusion; the TA focuses on minimizing social discrimination and ensuring proportional participation, scoring a 2. The PO involves social security and protection measures, advocacy and movements to end domestic violence, efforts to eradicate child labor, child marriage, dowry, Boksi, and Chhaupadi customs, and implementing Gender Equalization and Social Inclusion (GESI) responsive budget auditing, receiving a score of 4. Similarly, QR are assessed based on reductions in domestic violence against women, investments in programs to address child labor and related issues, the establishment of user committees led by women, and efforts to enhance women's socio-economic status, marginalized groups, senior citizens, and people with disabilities, also scoring a 4. Nepal is a multi-ethnic, multi-cultural, multi-religious, and multilingual country, where social cohesion, cultural pluralism, and the participation of all groups in decision-making are cutting-edge governance issues. Social Inclusion is allocated a weight of 10 in measuring local government performance because it ensures equitable access to resources and opportunities, particularly for marginalized and vulnerable groups, reflecting the commitment to inclusive governance and addressing social inequalities.

### 2.2.9 Environment Protection and Disaster Management (EPDM):

The environment protection and disaster management are cross-cutting issues around the globe; as it impedes the sustainable development. It is commonly accepted that the enhanced capacity of local governments can have a profound impact on saving lives, and assets and building community based disaster resilience (Rose, 2014). Thus, understanding the global perspectives, this dimension in the evaluation process consists of TA primarily focuses on disaster management, scoring a 1. Similarly, PO includes controlling environmental pollution, creating child-friendly infrastructure, and identifying and mapping hazard-prone areas, which receives a score of 3. Likewise, QR are evaluated based on budget allocation for environmental conservation, involvement of the private sector, community organizations, and citizens in environmental protection, the establishment and expenses of a Local Disaster Management Fund, the formation and operation of local community organizations, and the accessibility of emergency services such as ambulances, fire engines, and extinguishers, achieving a score of 5. Given the sensitivity of global warming, climate change,

environmental protection, and disaster management, quantitative indicators are prioritized, assigning EPDM a weightage of 9.

### 2.2.10 Collaboration and Coordination (CC):

Collaboration, coordination, and working at communities are major values of federalism in Nepal. Thus, the practices of going hand-to-hand even from lowest units is much appreciated in Nepalese governance. Thus, TA in this dimension focuses on collaboration and coordination among the Federation, Provinces, and Local Levels, as well as inter-local level coordination, scoring a 2. Similarly, PO involves the formation and operation of committees addressing issues affecting two or more local governments, which scores a 1. Ultimately, QR are assessed based on the coordination and facilitation by local governments for project implementation with higher governments, inter-local government partnerships, and coordination with the DCC, achieving a score of 3.

The collaboration and coordination among the three tiers of government, as well as among local governments, is a fundamental and essential approach in the newly federalized structure. However, despite its necessity and sensitivity, clear provisions for coordination with non-state actors and private financing institutions to support local government financing appear to be lacking. While output indicators are more prevalent, it is assigned a weightage of 6.

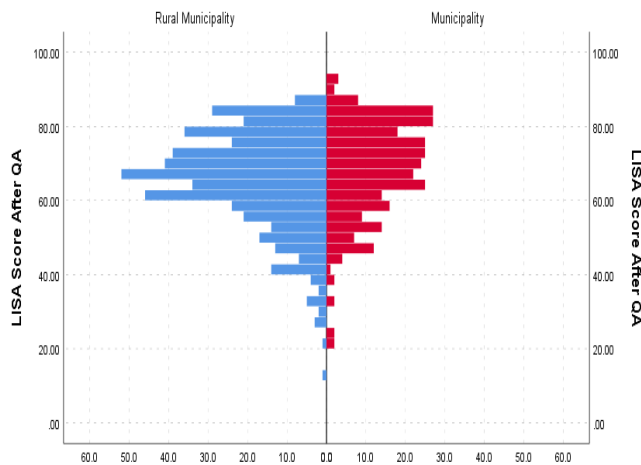
As political-administrative units, the local level stands for lowest governments tier in the vicinity of people. Therefore, they are considered delivery institutions. Being a multidimensional approach, performance measurement of local governments is more challenging when assessed via scores. Therefore, selecting the dimensions and indicators that truly reflect the performance of local governments is a difficult task. The selection of these dimensions, indicators, their counts, and weightage is finalized based on the constitutional functions of local level (Constitution of Nepal, Schedule-8), the Local Government Operation Act, 2017, and other existing laws. These weightages in sectoral performance assessment serve as vital indications, facilitating the identification of weaker sectors and the subsequent implementation of targeted policy measures aimed at enhancing their performance.

## 3. Results and Discussions

The LISA score after Quality Assurance (conducted by MoFAGA) showed that Municipalities (291) scored higher at 68.56 compared to Rural Municipalities (458) at 65.43. In terms of evaluation grades, Municipalities achieved a score of 33.11 in QR, slightly surpassing the 32.16 scored by Rural

Municipalities. When analysing the PO, Municipalities also led with a score of 21.13, while Rural Municipalities scored 19.62. However, under the TA, Rural Municipalities scored 13.66, slightly lower than the Municipalities' score of 14.32. The scores of Rural Municipalities are spread out between 20 and 80, with a significant number of occurrences around the mid-range (60-80). Whereas Municipalities scores are more concentrated between 60 and 90, indicating higher and more consistent scores compared to Rural Municipalities (Figure 4).

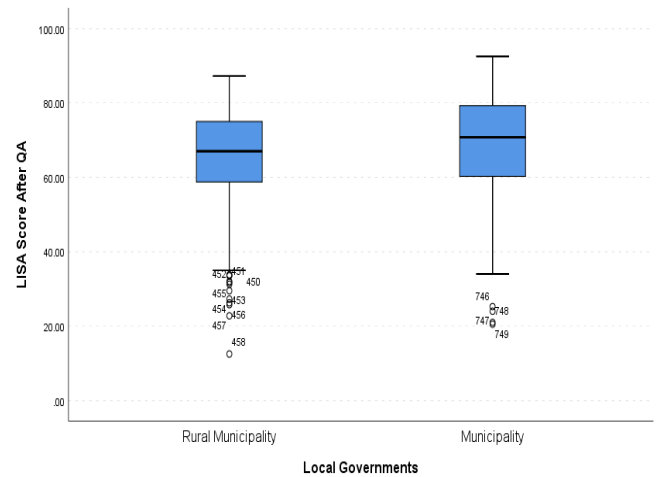
**Figure 4:** LISA Scores in Rural Municipalities and Municipalities



Source: Prepared by author based on the LISA Score

The box plot for Municipalities seems to have a slightly higher median and a smaller range of scores; whereas, Rural Municipalities have more variability, as indicated by the longer whiskers and the occurrence of outliers on the lower side. This indicate that Municipalities generally have higher and less variable LISA scores. Rural Municipalities show greater variability and have more outliers, suggesting that their scores are more spread out with some particularly low values (Figure 5).

**Figure 5:** The Box Plot of LISA Score



Source: Prepared by author based on the LISA Score

The standard deviations (SD) and mean scores (M) in case of 10 governance dimensions across Rural Municipalities and Municipalities are presented below.

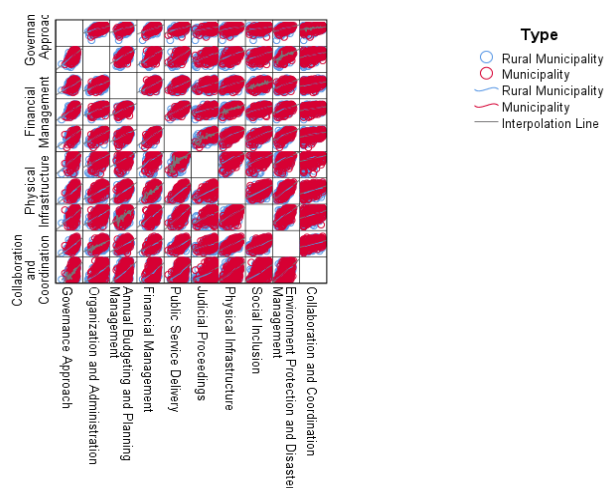
- i. **GA:** Both Rural Municipalities (M=7.54, SD=1.04) and Municipalities (M=7.59, SD=1.00) have similar governance practices, with Municipalities performing slightly better.
- ii. **OA:** Scores are nearly identical, with Rural Municipalities at M=5.80, SD=1.42 and Municipalities at M=5.81, SD=1.37, indicating consistent organizational practices across both.
- iii. **ABPM:** Municipalities (M=7.17, SD=1.71) outperform Rural Municipalities (M=6.86, SD=1.79) in budgeting and planning, showing better planning cycle.
- iv. **FM:** Both show strong and similar financial management, with Rural Municipalities at M=8.06, SD=1.69 and Municipalities at M=8.08, SD=1.67.
- v. **PSD:** Municipalities (M=11.77, SD=2.10) slightly edge out Rural Municipalities (M=11.70, SD=2.24) in delivering public services.
- vi. **JP:** Municipalities (M=5.88, SD=1.39) have slightly better judicial proceedings than Rural Municipalities (M=5.77, SD=1.49).
- vii. **PI:** Municipalities (M=7.51, SD=2.54) are better at physical infrastructure development compared to Rural Municipalities (M=6.35, SD=2.59).
- viii. **SI:** Municipalities (M=6.70, SD=2.31) perform better in social inclusion compared to Rural Municipalities (M=6.29, SD=2.22).
- ix. **EPDM:** Municipalities (M=5.16, SD=1.75) are more effective in environmental protection and disaster management than Rural Municipalities (M=4.58, SD=1.70).

x. **CC:** Municipalities ( $M=2.89$ ,  $SD=1.94$ ) show slightly better collaboration and coordination efforts than Rural Municipalities ( $M=2.49$ ,  $SD=1.93$ ).

Overall, Municipalities tend to outperform Rural Municipalities, with higher average scores in areas such as ABPM, PI and SI. While both show considerable variability, particularly in PSD and PI. Municipalities exhibit slightly better performance and lower variability across most of the dimensions. Thus, Rural Municipalities have more variability in areas like CC suggesting less consistency in their performance. The Scatter Plot Matrix illustrating dimensions in Rural/Municipalities is shown below (Figure 6). The close alignment of red and blue lines suggests that the relationship between variables is similar across local governments. The strong correlation between FM and PSD justifies a uniform policy approach to financial reforms and governance enhancement. Therefore, policies or strategies that work in one local government may also be effective in another. Conversely, divergence of these lines indicates that the relationship between variables differs. The stronger relationship between PI and SI in municipalities might need to include the components of SI into urban infrastructure projects, while rural projects might require different priorities, demanding tailored strategies. Likewise, a steeper slope indicates a stronger relationship between variables, suggesting that targeted interventions could leverage this correlation. In rural municipalities, where FM strongly influences governance quality; improving financial management practices could be a high-impact intervention. Similarly, a curved interpolation line indicates a non-linear relationship. For instance, a curve that flattens at higher levels of one variable might suggest diminishing returns. Also, outliers in the scatterplot represents not following the general trends possibly due to unique local factors, or special circumstances realities and heterogeneity in Nepalese local governance outcomes. The influence of various evaluation approaches across TA ( $F(1,747) = 7.704$ ,  $p=0.006$ ), PO ( $F(1,747) = 15.388$ ,  $p<0.001$ ) and QR ( $F(1,747) = 4.528$ ,  $p=0.034$ ) was evaluated by using One-way ANOVA showing the statistical significance. The highest F-score in PO indicate the greater variations; suggesting the due process of law still needs to be institutionalized. The same applies to the TA. The lowest F-score in case of QR indicates better quantifiable delivery. Despite the lethargic administrative culture and less productive systems-of-systems at the federal and provincial levels, local governments are performing well. Specific TOR, proper organizational structure, and local autonomy lead to better quantifiable results, aligning with the principles of NPM. However, the highly significant impact of PO suggests that not all aspects of NPM are being fully complied with in

as in case of JP, PI, SI, EPDM and CC. The black interpolation line represents the overall trend across local governments. Its proximity to the red and blue lines in the areas of ABPM, OA suggests a consistent relationship regardless of the local government reinforcing the idea of unified approach. Conversely, the deviation of red and blue line from black line in case of many variables suggests that a one-size-fits-all policy or blanket approach might not be appropriate in all local governments.

**Figure 6:** The Scatter plot matrix illustrating dimensions in Rural/Municipalities



Source: Prepared by author based on the LISA Score

The direction and strength of these relationships predict how changes in one area might impact another. Thus, by analysing the alignment, shape, and position of the interpolation lines in this scatterplot matrix; policymakers can prioritize areas for intervention recognizing the ground

Nepalese local governance. Lack of a well-established, sustained, open and free market economy may be one of a logical reason for this. The study conducted by Adhikari and Raut (2024) estimates the size of Nepal's informal economy between 2010/11 and 2020/21 using two different approaches. The National Accounts Approach indicates that 42.66% of the economy is informal, while the Currency Demand Method (CDM) estimates this figure at 40.60%. This substantial proportion of the economy being informal reflects the instability and perturbations in Nepal's market economy. The detailed study was conducted by Structural Equation Modeling (SEM) for multiple regression analysis. For the saturated model of sample size 749, the initial goodness of fit was tested by the most frequently reported parameters in the literature (Collier, 2020, pp 64-65) such as GFI (0.90) and CFI (0.92). The estimates are presented below (Table 3).

**Table 2: Regression Weight Summary**

Items	Variables	Estimate	S.E.	C.R.	P	Items	Variables	Estimate	S.E.	C.R.	P
PSD	<- SCORE	0.134	0.004	38.139	***	PIta2	<- PI	0.102	0.005	20.246	***
OA	<- SCORE	0.075	0.003	27.438	***	PIta3	<- PI	0.083	0.005	17.135	***
GA	<- SCORE	0.049	0.002	22.332	***	PIpo1	<- PI	0.025	0.003	8.485	***
CC	<- SCORE	0.096	0.004	23.705	***	PIpo2	<- PI	0.082	0.005	16.148	***
EPDM	<- SCORE	0.099	0.003	31.202	***	PIpo3	<- PI	0.091	0.005	17.73	***
SI	<- SCORE	0.131	0.004	32.928	***	PIpo4	<- PI	0.095	0.005	18.784	***
PI	<- SCORE	0.159	0.004	36.802	***	PIqr2	<- PI	0.083	0.004	22.104	***
JP	<- SCORE	0.073	0.003	24.182	***	SIta1	<- SI	0.099	0.004	24.769	***
FM	<- SCORE	0.092	0.003	28.916	***	SIta2	<- SI	0.069	0.004	16.409	***
ABPM	<- SCORE	0.092	0.004	25.847	***	SIpo1	<- SI	0.108	0.006	19.677	***
PSDpo3	<- PSD	0.053	0.004	12.496	***	SIpo2	<- SI	0.096	0.005	21.156	***
PSDpo4	<- PSD	0.057	0.004	14.701	***	SIpo3	<- SI	0.131	0.005	25.568	***
PSDqr1	<- PSD	0.084	0.004	18.835	***	SIpo4	<- SI	0.089	0.007	12.584	***
PSDqr2	<- PSD	0.017	0.002	7.89	***	SIqr1	<- SI	0.082	0.005	16.232	***
PSDqr3	<- PSD	0.053	0.007	7.866	***	SIqr2	<- SI	0.112	0.005	22.455	***
PSDqr4	<- PSD	0.091	0.006	14.231	***	EPDMta1	<- EPDM	0.109	0.006	19.38	***
PSDqr5	<- PSD	0.101	0.006	17.284	***	EPDMpo1	<- EPDM	0.087	0.005	16.314	***
PSDqr6	<- PSD	0.048	0.003	14.43	***	EPDMpo2	<- EPDM	0.032	0.003	9.94	***
PSDqr7	<- PSD	0.032	0.003	12.205	***	EPDMpo3	<- EPDM	0.155	0.007	21.673	***
PSDpo2	<- PSD	0.062	0.006	11.185	***	EPDMqr1	<- EPDM	0.109	0.007	16.623	***
PSDpo1	<- PSD	0.067	0.005	12.698	***	EPDMqr2	<- EPDM	0.168	0.007	24.767	***
PSDqr8	<- PSD	0.054	0.004	14.139	***	CCta1	<- CC	0.146	0.006	24.95	***
PSDqr9	<- PSD	0.113	0.006	18.166	***	CCta2	<- CC	0.168	0.005	31.305	***
PSDta3	<- PSD	0.071	0.004	18.582	***	CCpo1	<- CC	0.185	0.006	31.372	***
PSDta1	<- PSD	0.067	0.004	15.075	***	CCqr1	<- CC	0.164	0.006	26.602	***
PSDta2	<- PSD	0.029	0.003	10.999	***	CCqr2	<- CC	0.18	0.006	30.529	***
OAta1	<- OA	0.142	0.009	15.596	***	CCqr3	<- CC	0.156	0.007	23.406	***
OAta2	<- OA	0.166	0.008	19.665	***	GAta2	<- GA	0.066	0.005	14.6	***
OApo1	<- OA	0.149	0.007	20.105	***	GAta3	<- GA	0.111	0.007	15.854	***
OApo2	<- OA	0.049	0.005	10.517	***	GApo1	<- GA	0.148	0.008	18.14	***
OApo3	<- OA	0.196	0.01	20.467	***	GApo2	<- GA	0.103	0.006	16.581	***
OAqr1	<- OA	0.102	0.009	11.819	***	GApo3	<- GA	0.201	0.011	18.091	***
OAqr2	<- OA	0.021	0.004	5.746	***	GAqr1	<- GA	0.238	0.012	19.626	***
OAqr3	<- OA	0.174	0.009	19.854	***	GAqr2	<- GA	0.003	0.002	1.389	0.165
ABPMta2	<- ABPM	0.051	0.004	12.38	***	GAta1	<- GA	0.103	0.007	14.392	***
ABPMpo1	<- ABPM	0.059	0.005	11.514	***	ABPMta1	<- ABPM	0.092	0.007	12.726	***
ABPMpo2	<- ABPM	0.134	0.007	18.199	***	FMta1	<- FM	0.14	0.008	16.876	***
ABPMpo3	<- ABPM	0.076	0.007	10.801	***	FMta2	<- FM	0.091	0.008	11.987	***
ABPMpo4	<- ABPM	0.135	0.008	17.465	***	FMqr5	<- FM	0.065	0.005	12.505	***
ABPMqr1	<- ABPM	0.104	0.008	12.674	***	PIta1	<- PI	0.094	0.005	18.744	***
ABPMqr2	<- ABPM	0.065	0.005	12.269	***	PIqr4	<- PI	0.067	0.004	18.58	***
ABPMqr3	<- ABPM	0.083	0.007	11.426	***	PIqr5	<- PI	0.08	0.005	16.311	***
ABPMqr4	<- ABPM	0.142	0.007	19.088	***	PIqr6	<- PI	0.032	0.003	9.442	***

ABPMqr5	<-	ABPM	0.059	0.005	11.9	***	SIqr3	<-	SI	0.108	0.006	18.599	***
FMpo1	<-	FM	0.032	0.003	9.735	***	SIqr4	<-	SI	0.106	0.005	21.066	***
FMpo2	<-	FM	0.093	0.006	16.393	***	EPDMqr3	<-	EPDM	0.092	0.005	16.988	***
FMpo3	<-	FM	0.145	0.008	17.651	***	EPDMqr4	<-	EPDM	0.154	0.007	21.134	***
FMpo4	<-	FM	0.169	0.008	20.758	***	EPDMqr5	<-	EPDM	0.093	0.007	14.297	***
FMqr1	<-	FM	0.047	0.004	11.248	***	TA	<-	SCORE	0.218	0.004	57.076	***
FMqr2	<-	FM	0.048	0.004	11.497	***	PO	<-	SCORE	0.365	0.005	70.083	***
Fmqr3	<-	FM	0.053	0.006	8.435	***	QR	<-	SCORE	0.417	0.006	64.678	***
FMqr4	<-	FM	0.118	0.008	15.624	***	PIqr3	<-	PI	0.078	0.004	17.812	***
JPtal	<-	JP	0.084	0.004	19.598	***	GApo4	<-	GA	0.027	0.004	7.345	***
JPpo1	<-	JP	0.209	0.007	29.544	***	PIqr1	<-	PI	0.087	0.004	20.8	***
JPpo2	<-	JP	0.076	0.004	18.709	***	JPqr2	<-	JP	0.09	0.005	18.026	***
JPpo3	<-	JP	0.205	0.009	22.939	***	JPqr3	<-	JP	0.237	0.007	31.644	***
JPqr1	<-	JP	0.099	0.005	18.256	***	<b>Note: C.R.: Critical Ratio; S.E.: Standard Error; ***p &lt; 0.001; **p &lt; 0.01 &amp; *p &lt; 0.05</b>						

Source: Author: regression weights derived from analysis

The strength of coefficients in social terms represents the type and degree of policy intervention needed in the respective dimensions. Among the sub-indicator counts in governance approach, the majority of the variables exhibit a significant positive impact. GAa1 (0.103, C.R. = 14.392), GAa2 (0.066, C.R. = 14.6), and GAa3 (0.111, C.R. = 15.854) show a positive significant relationship with GA. Similarly, GApo1 (0.148, C.R. = 18.14), GApo2 (0.103, C.R. = 16.581), GApo3 (0.201, C.R. = 18.091), and GApo4 (0.027, C.R. = 7.345) are statistically significant on GA. Likewise, GAqr1 (0.238, C.R. = 19.626) has significance on GA. But, GAqr2 (0.003, C.R. = 1.389,  $p = 0.165$ ) shows a very weak relationship (coefficient 0.003) and is not statistically significant. The appropriate promulgation of necessary local laws (GAa3) has the strongest coefficient within the TA. Similarly, the internal control system (GApo3) has the strongest impact within PO. The municipal executives' meeting counts (GAqr1) have the strongest coefficient within QR. The formulation, promulgation, and proper implementation of local laws, along with the application of an internal control system and regular executive meetings, represent transparency, good governance, and the active participation and meaningful engagement of stakeholders in the process of democratic enrichment.

Similarly, OAa1 (0.142, C.R. = 15.596), OAa2 (0.166, C.R. = 19.665) have strong statistical significance on OA. Likewise, OApo1 (0.149, C.R. = 20.105), OApo2 (0.049, C.R. = 10.517), and OApo3 (0.196, C.R. = 20.467) also have significant impact. Equally, OAqr1 (0.102, C.R. = 11.819), OAqr2 (0.021, C.R. = 5.746) and OAqr3 (0.174, C.R. = 19.854) show significant impact on OA. Reporting to higher governments (OAa2) has strongest impact within TA. Similarly, the performance contract of CAO to Chairperson/Mayor and other officials to CAO holds strongest

impact within PO. The capacity enhancement programs for elected representatives and officials (GAqr3) have the strongest relationship among QR. Thus, a significant and intact reporting mechanism, capacity enhancement of politicians and officials, and a target-based work culture among officials symbolize an appropriate organizational and administrative system at the local level. Likewise, ABPMa1 (0.092, C.R. = 12.726), and ABPMa2 (0.051, C.R. = 12.38) have a positive effect. The ABPMpo1 (0.059, C.R. = 11.514), ABPMpo2 (0.134, C.R. = 18.199), ABPMpo3 (0.076, C.R. = 10.801), ABPMpo4 (0.135, C.R. = 17.465) also show a positive and significant influence on ABPM. Similarly, ABPMqr1 (0.104, C.R. = 12.674), ABPMqr2 (0.065, C.R. = 12.269), ABPMqr3 (0.083, C.R. = 11.426), ABPMqr4 (0.142, C.R. = 19.088) and ABPMqr5 (0.059, C.R. = 11.9) have positive relationship with ABPM. Formulation of annual budget and programs also including periodic plan (ABPMa1) has highest impact within TA. Similarly, integrating NGO's program into annual budget and approval from assembly (ABPMpo4) has strongest coefficient among PO. Likewise, mutual partnerships on cash by NGOs (ABPMqr4) shows highest impact among QR. These findings align with some previous studies.

The annual budgeting and planning, based on the designated local planning process ensure efficient resource allocation and alignment with community priorities (Kattel, 2024). Similarly, by engaging citizens, state and non-state actors, and integrating their programs into the local government's budget cycle, promotes transparency, accountability, and sustainable development, representing strong budget management practices (Goyale & Nash, 2017, pp. 232-233). Thus, sub-indicators corresponding ABPM have key role in outlining the performance of local governments in

Nepal. The sub-indicator FMta1 (0.14, C.R. = 16.876) has a strong positive relationship with FM, whereas FMta2 (0.091, C.R. = 11.987) has a weaker one. Similarly, FMpo1 (0.032, C.R. = 9.375), FMpo2 (0.093, C.R. = 16.393), FMpo3 (0.145, C.R. = 17.651), and FMpo4 (0.169, C.R. = 20.758) also show statistical significance. Likewise, FMqr1 (0.047, C.R. = 11.248), FMqr2 (0.048, C.R. = 11.497), FMqr3 (0.053, C.R. = 8.435), FMqr4 (0.118, C.R. = 15.624), and FMqr5 (0.065, C.R. = 12.505) show significant impact with FM. Annual increment in internal revenue (FMta1) has the strongest relationship with FM within the TA. Similarly, reviewing the progress of the annual budget and programs (FMpo4) has the highest impact within PO. Likewise, total revenue collection (FMqr4) exceeding the assumptions has the strongest impact within QR. Identifying and mobilizing internal revenue and intergovernmental fiscal transfers play crucial roles in performance of local governments (Devas & Alam, 2008, p. 1). A sound local financial system is vital for maintaining the integrity of the public sector and earning citizens' trust (Shah, 2007). Similarly, Caulfield (1997) argues that the real issue is whether improvements in local finances, including the taxation system, can strengthen local economies and reduce inequality, thereby reducing threats to social cohesion in urban areas. Thus, in a nutshell; identifying needs, efficiently utilizing and mobilizing internal revenue, and tracking the progress are crucial aspects of financial management at the local level.

The PSDta1 (0.067, C.R. = 15.075), PSDta2 (0.029, C.R. = 10.999), and PSDta3 (0.071, C.R. = 18.582) show significant impact on PSD. Similarly, PSDpo1 (0.067, C.R. = 12.698), PSDpo2 (0.062, C.R. = 11.185), PSDpo3 (0.053, C.R. = 12.496), and PSDpo4 (0.057, C.R. = 14.701) also have statistical significance. Likewise, PSDqr1 (0.084, C.R. = 18.835), PSDqr2 (0.017, C.R. = 7.89), PSDqr3 (0.053, C.R. = 7.866), PSDqr4 (0.091, C.R. = 14.231), PSDqr5 (0.101, C.R. = 17.284), PSDqr6 (0.048, C.R. = 14.43), PSDqr7 (0.032, C.R. = 12.205), PSDqr8 (0.054, C.R. = 14.139), and PSDqr9 (0.113, C.R. = 18.166) indicate statistically positive relationship with PSD. The public satisfaction over service delivery (PSDta3) has strongest relationship within TA. Similarly, service delivery by using technology: Token, Online registration, or Computerized billing (PSDpo1) shows highest impact within PO. Likewise, value addition and marketization of local products (PSDqr9) has robust effect on PSD within QR.

Devas and Alam (2008, pp. 1-3) argues that local governments being in the vicinity of people; administrative decentralization with proper financing yields better results with direct service delivery role transferred from central to local government. Similarly, grants from the central

government may be utilized to improve the delivery of services and enhanced performance. Ten-year strategic plan (FY 2020/21-2030/31) focuses on strengthening federalism and responsible public administration in Nepal; including the key highlights improving citizen access to public services, establishing policies and standards for service quality at all government levels, promoting administrative good governance through necessary tools, and ensuring transparency, ethics, and accountability in public administration (MoFAGA, 2020). Based on these four strategies, the Nepalese bureaucracy is dedicated to enhancing comprehensive service delivery across all three tiers of government. Service delivery at the local governments of Nepal faces challenges such as inadequate infrastructure, logistical difficulties in remote areas, a lack of skilled manpower, bureaucratic inefficiencies, and disparities in equitable distribution of resources among ethnicities. Thus, the strength and direction of the coefficients found in this study may be useful for guiding policy interventions in the relevant areas. The operation of Judicial Committee (JPta1: 0.084, C.R. = 19.598) has significant but weaker effect on JP. Similarly, JPpo1 (0.209, C.R. = 29.544), JPpo2 (0.076, C.R. = 18.709), and JPpo3 (0.205, C.R. = 22.939) also have significant impact. Similarly, JPqr1 (0.099, C.R. = 18.256), JPqr2 (0.090, C.R. = 18.026), and JPqr3 (0.237, C.R. = 31.644) have statistically positive and significant relationship with JP. Reporting system of Judicial Committee (JPpo3) to municipal executive has highest effect within PO. Likewise, formation of Mediation Center (JPqr3) has strongest relationship with JP within QR. Thus, the resolution of conflicts and disputes through mediation seems to be the main focus at the local level. Locally elected representatives perform basic judicial proceedings in Nepal's reformed governance system, which has established and institutionalized a distinct model. The judicial activities carried out by locally elected representatives acknowledge fraternity, socio-economic pluralism, and the regional, cultural, and linguistic diversity that define the unique identities of communities across the region. The development delivery is a major dimension of local governments. Among the various developmental aspects, building physical infrastructure and assets creation are central and key priorities for communities, citizens, officials, and politicians in Nepal. These areas often drive decision-making and shape the focus of local initiatives. In this study, the PIta1 (0.094, C.R. = 18.744), PIta2 (0.102, C.R. = 20.246), and PIta3 (0.083, C.R. = 17.135) show positive relationship with PI. Similarly, PIpo1 (0.025, C.R. = 8.485), PIpo2 (0.082, C.R. = 16.148), PIpo3 (0.091, C.R. = 17.730), and PIpo4 (0.095, C.R. = 18.784) also have statistical significance. Likewise, PIqr1 (0.087, C.R. =

20.800), PIqr2 (0.083, C.R. = 22.104), PIqr3 (0.078, C.R. = 17.812), PIqr4 (0.067, C.R. = 18.580), PIqr5 (0.080, C.R. = 16.311), and PIqr6 (0.032, C.R. = 9.442) have significant impacts on PI. The land-use plan based on vulnerability and resilience (PIta2) has the strongest coefficients in its relationship with PI among TA. The high coefficients of PIta2 reflect the priorities and interventions of local governments at the zenith. Similarly, application of National Building Code and Standards (PIpo4) shows highest impact on PI within PO. After the devastating earthquake in Nepal in 2015, most of the local governments focused its better implementation. Likewise, the expansion of local roads (PIqr1) shows the highest priority of local governments within QR. The lack of well-equipped and reliable public transportation at the local level (Kattel, 2023; Kattel, 2024) creates a strong demand for its improvements. As a result, many local governments are investing in establishment and upgradation of their transportation infrastructure. Devas and Alam (2008, pp. 57-58) argued the alternative sources of financing the capital investment by local governments such as: asset sales, private sector investment, leveraging, joint ventures, private finance initiative (PFI), leasing, sale-and-leaseback, community investment. Some successful schemes for municipalities organized by state-level in India require quite a high level of government (or donors) intention to make them workable (Blore, Devas & Slater, 2004). Another positive aspect of municipal bond in emerging capital markets is the provision and development of credit rating, however it may be costly (Davis & Alam, 2008, p. 57). Thus, details of these facets results more rigorous financial health of local government than the central government, and can be financed also in the physical infrastructure development. These efforts aim to enhance the accessibility and reliability, ultimately improving the quality of life of people. Additionally, it can stimulate local economic growth and contribute to overall regional development. The rich diversity in language, religion, culture, ethnicity, geographical landscape, and socio-economic indices among the Nepalese people inevitably demands social inclusion by prioritizing vulnerable and underprivileged groups in every facet of governance. Therefore, policies and programs across all tiers of government address SI as a key issue. The study results show that SIIta1 (0.099, C.R. = 24.769), and SIIta2 (0.069, C.R. = 16.409) have significance on SI. Similarly, SIpo1 (0.108, C.R. = 19.677), SIpo2 (0.096, C.R. = 21.156), SIpo3 (0.131, C.R. = 25.568), and SIpo4 (0.089, C.R. = 12.584) also have significant impact. Likewise, SIqr1 (0.082, C.R. = 16.232), SIqr2 (0.112, C.R. = 22.455), SIqr3 (0.108, C.R. = 18.599), and SIqr4 (0.106, C.R. = 21.066) have statistical significance and positive impact on SI. The minimization of social discriminations (SIIta1) shows highest

relationship with SI within TA. The statistical significance reflects the public demand to eliminate all forms of social discrimination and ensure equality of opportunities. Similarly, the activities carried out by local governments to end child labor, child marriage, dowry practices, Boksi, and Menstrual Seclusion (Chhaupadi) customs are justified by the highest statistical significance of SIpo3 within PO. Likewise, investment in programs aimed at reducing child labor, child marriage, dowry, Boksi, and Menstrual Seclusion (Chhaupadi) customs (SIqr2) shows the strongest social impact within QR. Thus, implementing the principle of inclusion in society, through the effective design of programs and activities, even at the local level, fosters peace, justice, equity, and equality among people. Study results show that most local governments have actively engaged in disaster management. Since local governments face the first trigger of disasters, the Local Disaster Management Committee, provisioned in the LGOA 2017, has been functional and fruitful for the plan of actions. The EPDMta1 (0.109, C.R. = 19.38) is significant and has positive relationship. Similarly, EPDMpo1 (0.087, C.R. = 16.314), EPDMpo2 (0.032, C.R. = 9.94), and EPDMpo3 (0.155, C.R. = 21.673) also has statistical significance on EPDM. Likewise, EPDMqr1 (0.109, C.R. = 16.623), EPDMqr2 (0.168, C.R. = 24.767), EPDMqr3 (0.092, C.R. = 16.988), EPDMqr4 (0.154, C.R. = 21.134), and EPDMqr5 (0.093, C.R. = 14.297) have positive relationship with EPDM. Identifying and mapping hazard prone areas (EPDMpo3) has strongest coefficient among sub-indicators of PO. Similarly, involvement of private sector, community organization and citizens for environment protection (EPDMqr2) shows highest impact on EPDM within QR. These results show the similarities with the findings of Rose, A.D., 2014; Dalisay, S.N.M., 2014 and Jimée et. al., 2015. Similarly, Devas and Alam (2008, pp. 78-80) mention management of disasters as one of the objectives of intergovernmental fiscal transfers, but allocation of budget should be limited to real emergencies. There is nothing worse than paper plan syndrome or it's modern digital equivalent: where plan is formulated and dumped into a desk drawer or into a hard drive; such plans may harm more when they are eventually put to the test by a crisis time (Alexander, 2015). Due to global warming and climate change, mountainous countries like Nepal have been suffering for decades. The agenda of environmental protection and sustainable development for the resilience has reached at an alarming stage, demanding urgent action. Thus, disaster management activities, identifying hazard-prone areas, and involvement of the private sector, community organizations, and citizens in environmental protection highlight the areas of priority for local governments. The appropriate collaboration and



coordination among the tiers of government is a key approach in newly established federal system in Nepal. The constitutional and legal provisions ensure cooperation between the federal, provincial, and local level along with non-state actors. Aligning in this study, CCta1 (0.146, C.R. = 24.95), and CCta2 (0.168, C.R. = 31.305) have significance in CC. Similarly, coordination between or among local governments through the formation and operation of committees to address the issues affecting two or more local governments (CCpo1: 0.185, C.R. = 31.372) shows a significant relationship. Likewise, CCqr1 (0.164, C.R. = 26.602), CCqr2 (0.180, C.R. = 30.529), and CCqr3 (0.156, C.R. = 23.406) show positive statistical significance with CC. The partnership with other local governments (CCqr2) has strongest coefficient within QR. Devas and Alam (2008, pp. 133-146) quotes successful collaboration experiences within various dimensions in commonwealth countries such as Jamaica, Sierra Leone, Malta, Mauritius, Sri Lanka, Nigeria, Malaysia. Similar circumstances may also be applicable in case of Nepal. The processes of fiscal transfer from higher to sub-national governments; planning and budgeting sequences; financing the local governments; and the grand integration of officials recruited in the unitary system across the tiers of governments require effective coordination in the new governance structure of Nepal. Effective implementation of policies and programs relies on strong intergovernmental relationships, ensuring integrated balanced development and regional autonomy across the country. The indulgence of the federal system is expected to burgeon the governance and democracy in all tiers of governments. Local governments have been established on 10th March 2017, on a constitutional basis, increasingly follow a black-box approach to project management, where assemblies approve cumulative amounts without detailed program breakdowns. Monitoring and implementation are often weak, with evaluations largely superficial. This trend fosters gerrymandering, pork-barreling, over-politicization of development agendas, and administrative incompetence; all of which undermine meaningful public participation in governance. The growing malpractices in budgeting and project cycle management could significantly hinder development and erode public trust and satisfaction on public service delivery (Kattel, 2024). The policy analysis starts by taking the context into account, rather than beginning from a blank sheet of paper (Bardach and Patashnik, 2015; Cairney and Weible, 2017). Such contexts are geographical and socio-economic conditions, the government infrastructure and policies that are already in place, and the events that often seem to be out of the control of policymakers and prompt them to act (Cairney, 2019). National-level rule enforcement remains a key mechanism for

effective multiscale governance, but blanket regulations often fail to meet local practical needs and may conflict with local judgment, leading to new challenges (Sidibé et al., 2018). In the new federal system, many laws and supporting bylaws related to local governance remain to be formulated and updated in Nepal (Kattel, 2023). Bridging the gap between planned and actual spending requires collaboration among various budget management partners and a consensual agenda to achieve meaningful progress (Goyal & Nash, 2017, p. 232). Successful policy execution and outcomes depend on information symmetry, timely assembly approval of a detailed budget, and effective implementation frameworks. Thus, for regional integrated balanced development, *ceteris paribus*, yardstick competition; through an approach of bottom-up (Salmon, 2019, pp. 1-7) has a decisive role in modeling the future of democratic local governance. Findings of this study align with most of the studies based on the local government's performance. Martini et al. (2022) found that local government performance in Indonesia is significantly influenced by the management of regional wealth, financial dependence, regional size, and spending efficiency in enhancing development and community services. Similarly, the review of 86 relevant articles on the effect of management on performance by Walker and Andrews (2015) investigated seven key approaches to local government management: strategy content, planning, personnel stability, staff quality, networking, representative bureaucracy, and size. The findings from the support score analysis point that moving toward strong positive performance outcomes, driven by effective planning, personnel stability, and staff quality, along with moderate support for the advantages of representative bureaucracy, networking, and strategic contents. Thus, by considering the appropriate heterogeneity, effective management practices enhance performance and yield positive dividends. Beyond collinearity, the causality between variables has been cautiously observed. The impact of one variable on another in governance outcomes ultimately guides policy implications. As causation precedes effects (Pearl et al., 2016, p. 1), the experimental design and focused study, accounting for theoretical and empirical heterogeneity in Nepalese local governance outcomes, should be carefully examined. Thus, understanding and interpretation of results, particularly in relation to Simpson's paradox, require careful consideration (Pearl et al., 2016, pp. 1-7).

#### 4. Conclusion and Recommendations

This study reveals that ten dimensions are significant predictors of the LISA score for each local government. Additionally, the counts of sub-indicator variables also significantly predict these ten dimensions, although the

strength and direction of these relationships vary. Most of the management variables examined were found to be, on balance, beneficial to performance. However, analyzing the provisions of guideline: the weightage of each dimension through sub-indicator counts, their flow, sequence, and approach to delivery outputs appears fragmented and inconsistent in many places. Given the diverse approaches in local governance, policy interventions should be tailored accordingly, potentially leading to different governance outcomes. Overall meta-policies and focused, specific strategies should be developed based on the national or federal governance approach and the socio-economic framework. When the governance system changes, there is a risk of non-institutionalization of the new system (Cleaver, 2012). Since the LISA approach is a continuation and improvisation of the MCPM system established earlier, the sub-indicator counts in the latter seem to overlook already institutionalized local governance outcomes under the unitary system. Communities, organizations, and systems-of-systems had already been institutionalized in those governance landscapes, yet these facets have been repeated from the beginning in the new LISA assessment. The policy continuation gap may be due to the 'drafting inefficiency' of officials or the failure of political leaders to rationalize the 'Zoom Out' and 'Zoom In' approaches. Therefore, this gap inevitably calls for timely improvisation of evaluation approaches, dimensions, and sub-indicator counts in the guideline. For enriched local governance, it is essential to prioritize optimal public spending, clearly map roles and responsibilities, and ensure effective intergovernmental management with a focus on policy outcomes and yardstick competition. The highest governmental authority should ensure effective intergovernmental management, and make sure that all the activities are successfully accomplished by the designated organizations.

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