LOCAL GOVERNMENT MANAGEMENT IN NEPAL: AN URBAN PERSPECTIVE

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Abstract

Governments in both developed and developing countries are turning towards New Public Management (NPM) of their local bodies to improve the effectiveness and efficiency of public service. The question remains however, whether this move towards more flexible public management is practiced as stated and if this approach is a feasible option for countries like Nepal. This article outlines the key aspects of NPM and analyses how far the Nepalese Government has moved the process from a formal to a flexible management arrangement for its local government institutions and whether this approach is feasible in a Nepalese context. The paper finds that flexible public management at the local level should be pursued but that Nepal is still far from its intention of transforming the local bodies to become effective service facilitators, thus emphasizing the need for adjusting the relatively culture blind NPM approach to the local context.

Background

With the introduction of the Local Self-Governance Act (LSGA) in Nepal in 1999 increased authority has been devolved to the local level and a new framework for providing services to the public has emerged, a process which is being further expanded with His Majesty’s Government of Nepal’s (HMGN) plans of increasing the level of devolution in specific sectors.

A wide range of donors, is heavily supporting this decentralization drive with United Nations Development Programme (UNDP) in the forefront, in line with the increased focus on good governance as one of the single most important factors for development. Till now the main focus have been related to the externalities of the decentralization process focusing on participation, transparency and accountability and less on the internal management of the local governments.

The two main reasons for choosing to decentralize are generally to ensure a greater level of participation and influence of the citizens on the decision-making process and to enhance
the effectiveness and efficiency of the delivery of public services. This paper will primarily focus on the latter of these two aspects.

When decentralization moves beyond deconcentration to actively devolve authority to the lower tiers in the government structure it has a pronounced impact on the way people interact with the governing bodies and the way they receive and influence service delivery. Forming a local body is not only a question of ensuring legitimacy and sound regulations. The challenge is also to ensure the principles of good governance while at the same time introducing a management setup, which is focused on improving performance.

As the citizens gradually become more entangled in the decision-making process at the local level their expectations rise and with them an increase in demand for basic services. The challenge for the political and administrative management is thus to gear the organization to better meet these demands. This paper focuses on municipalities in Nepal but the recommendations are equally relevant for the District Development Committees and the Village Development Committees, which are the local political bodies responsible for the local planning and implementation of development activities at district and village level.

Practically all municipalities in Nepal have taken a fairly conservative stance in the management design of the local governments. This is partly due to the slightly rigid Local Self-Governance Act 1999, which was formulated to ensure transparency and accountability and which opens up for a move towards the state becoming an enabler rather than a deliverer. Comparing the Nepalese set-up with the latest thinking and practical experiences from elsewhere illustrates that there is still room for management improvement at the local level, but it also reveals that the local context needs to be taken into consideration.

**The Latest Trends**

Different approaches have been sought to divert local government institutions to become more oriented towards the citizens. The general trend is a move towards more flexible management. Flexibility that eventually challenges the routine or standard day-to-day social activity, which forms the structure of the organization (Bouvaird and Hughes 1995). There has been a drive away from hierarchical public institutions towards more horizontal and decentralized management based on networks rather than top-down management. From an organization where the decisions were taken in a centralized hierarchical manner based on routine and preset solutions to a more flexible organization where the management is process and output oriented. The needs and demands of the citizens is changed according to the time and context. Consequently many local authorities are addressing these changing demands by moving away from blue print solutions to a more process oriented management approach, which eventually means abandoning the all encompassing master plans in favor of the less rigid strategic and action plans, so as to provide the flexibility needed to maneuver according to the needs of the public in a cost-effective manner. Furthermore, the tasks of the local governments are manifold and the resources usually scarce, a reality which has prompted many authorities to move away from the general perception that they are mandated to be the direct provider of services to now becoming more of a facilitator or enabler ensuring that services are delivered, without necessarily being directly engaged in service implementation.
In a wide range of countries the local government institutions are changing their organizational setup from a formal and rigid management to a more flexible approach aimed at better meeting the citizens’ demand. The focus has changed from being a direct provider of services to being more a facilitator (Metcalf 2002).

The government thus moves away from being a direct deliverer to becoming a warrantor of the delivery of public services. In practice this means that the hierarchy of responsibilities changes. Previously the government would take full responsibility of ensuring, delivering and financing service delivery, while it now opens up for alternative solutions transferring implementing and/or finance responsibility to a third party when suitable. The government guarantees that the agreed services are delivered according to the set targets and then seeks the most optimal solution for the delivery. In practice this will often mean contracting out or engaging in public-private partnerships, as the local government often does not possess the comparative advantages needed for delivering the wide range of services effectively and efficiently.
In the Warrantor Model setup the government may opt for the most suitable contractor. The contractor could be from the private sector or where feasible from an internal department depending on the task. The public sector may bid in competition with the private sector to obtain the contract. At the same time the approach opens up for inter-departmental competition and contracting out between departments. These measures are all aimed at delivering the most cost-effective services and optimizing the efficiency of the government institution (GoG 1988, Metcalf 2002).

While the local government continues to remain accountable to the citizens in meeting the set target of service delivery the implementing responsibility may be transferred to the most suitable actor. Furthermore, the move away from full implementation responsibility of the government has opened up new means of financing service delivery. The government no longer takes full responsibility for financing, co-financing and risk sharing, but partner up with the private sector, NGOs or other government institutions to utilize a broader range of service delivery and cost-reduction models.
The change in public management has an effect on three main areas (Metcalf 2002):

- Contract management
- Personnel management
- Financial management

**Contract management**
As management becomes more output oriented, the focus on results and benchmarking is increased throughout public management. Each provider of services is made accountable on a set of agreed targets either through performance agreements or contracts to ensure easily monitored, accountable service delivery. These arrangements are applied to both external and internal service providers. Agreements are reached between the political body and the heads of administrative units to deliver the expected outputs. The administrative units then contract out tasks to other government units and/or specialized service providers, which again may choose to subcontract part of the initial agreement. Besides the promotion of increased efficiency and cost-effectiveness, this setup increases the flexibility of the government as it opens for cooperation with a wide range of stakeholders and eventually leaves the government with a wider range of options to meet its output target. It may choose to opt for internal arrangements and/or contracting out to the private sector or NGOs as per the given context.

**Personnel management**
Changing from a role-based bureaucratic structure to a more task-force entrepreneurial management eventually means a less rigid organizational structure. The hierarchical structure is reduced to one of several leadership tools, reducing the current hierarchies to something temporary and instrumental, which is permanently open for alterations to meet new challenges and to maximize the individual and organizational performance. The organizational structure should thus not be a panacea, but should be made flexible to adjust to the needed situation. A part of this process involves the reduction of management rigidity by removing internal rules and regulations to ease the administrative process (Wolf 2000).

The increased flexibility is closely linked with a hierarchical devolution of powers within the organization. An organization less dependent on boundaries is created based on networks rather than bureaucracy where the employees interact according to needs and knowledge instead of hierarchy. This has often resulted in the removal of the ‘clay’ layers of management, bringing the senior management closer to the individual. The practice increases the responsibility of the individual employee and the consciousness while it ensures that the decisions are taken where the problem lies.

Increased responsibility however, also increases the demands on performance, underscoring the importance of highly qualified employees. To meet this challenge the local government will have to adjust the working conditions to those of the general market, ensuring that payment, privileges and dismissal practices are competitive. At the same time, increased exchange of personnel between different public institutions and between the public and the private sector should be encouraged to gain new external expertise and foster innovative thinking by bringing in new ideas. To further increase the performance of existing staff, performance measures should be introduced to ensure accountability of the
staff towards the goals of the organization and stimulate an output-oriented atmosphere. To stimulate this atmosphere benchmarking and performance measures linked to salary level and promotion could be introduced to encourage achievers.

Financial management
The organizational flexibility is often followed by flexibility in financial management. Several local governments have chosen to introduce global or one-line budgets reducing the number of sub-budget lines and increasing the scope of use of individual budget lines. The method focuses on reaching specific outputs based on the action or work plans through a less rigid budget procedure opening up for alternative ways of meeting the goal within a given context. The management is thus not confined to micromanage sub-budget lines as long as the work plan is followed and the outputs met.

To further stimulate an efficient utilization of government funds, internal regulations could open up for carrying over unspent delivery to the following financial year. Such processes have effectively maximized the use of resources, as any failure to expend a given budget does not automatically result in a reduction in the budget of the coming financial year (GoG 1988, Wolf 2002).

Reengineering government
Experiences from around the world illustrates that the public management reforms have resulted in more service oriented local governments with greater citizen involvement. Reengineering the government to become less of an administrator and more a manager has resulted in increased focus on output and performance, ensuring a better level of service delivery.

Introducing the above-mentioned measures are often quite controversial as both staff and politicians are suddenly expected to deliver results and are measured more transparently than previously. As a consequence only few local governments have introduced all aspects but generally with substantive success. At the same time, this public management approach is heavily dependent on active citizen backup and demand to be successful, which eventually means that the transformation process must be driven in a transparent and accountable environment. Increased flexibility opens up increased individual responsibility, which underlines the importance of assuring accountability in the process (Haque 2000, Newman 2000). However, under the precondition of an active and demanding civil society these new public management measures have proven to expand the level of service delivery and cost-effectiveness without compromising accountability (GoG 1988, Peltenburg et al 1996, Wolf 2000).
The Nepalese Context

Given the outline of the clear advantages of introducing NPM in principle, given above the question remains whether Nepal has been successful in adapting the said recommendations and whether these are fully applicable for the Nepalese context.

With the strengthening of the local governments through the LSGA in 1999, responsibilities and main working procedures for the management of the local governments were outlined in detail. The LSGA therefore institutionalized the current management arrangement. As a consequence the management structure is very formal.

Figure 3 Municipal Organizational Structure

Note: SS stands for Sub Section. PDC stands for Partnership Development Committee.

The above figure represents a standard organizational structure of a Nepalese municipality or sub-municipal corporation (Biratnagar Sub-Municipal Corporation 2002).
Below the mayor are currently four administrative levels: Secretary, sections, sub-sections and units. Within these administrative levels there is a further management stratification of up to 2-3 layers (depending on officer/clerk level), illustrating a fairly hierarchical management structure. The hierarchy is further emphasized by the daily working procedures in general. Each section only communicates with the other sections through the Secretary, the same accounts for communications through sub-sections, which has to go through the section. The scope and room for cross-sectional or sub-sectional cooperation is thus limited by fairly bureaucratic procedures. Eventually, the setup makes it increasingly difficult to form task forces for upcoming needs on an *ad hoc* basis. The organizational structure is further formalized, as any alteration of the organizational structure has to be approved by the Municipal Council, making it increasingly difficult to adjust the structure to the changing context.

Rules and procedures on personnel management issues are still very rigid. In most municipalities there is still a profound need for defining the role of the employees through mutual agreement. Except for the terms of reference (TOR) of the Secretary and Chief of Finance, which is spelled out in the LSGA, TORs have generally not been formulated. According to the LSGA each employee receives a job description together with her/his letter of appointment. However, this practice is seldom followed and there are no regulations ensuring regular updating of these descriptions. The lack of TORs is also reflected in the *ad hoc* evaluation of the municipal staff. As performance agreements and staff assessment based on clear outputs have not been introduced, there is no transparent measurement of performance linked to output, which eventually complicates the efficiency and quality check of staff members’ individual or collective achievements. Eventually, this lack of performance indicators is reducing the accountability of the employee towards the municipality, as there is little to gain when results are not spelled out. This lack of transparent monitoring leaves the management invalid when it comes to promoting employees, as there is not substantive basis for assessing performance or competency. Furthermore, the requirements for promotion, as per the LSGA 1999 Regulation, relates to seniority, education, training and performance evaluation and as the number of years in service sets a predefined limit to when promotion is possible it can prove difficult to award and eventually retain gifted employees. The same regulation also prevents staff from obtaining qualifying points for promotion while on leave for non-governmental assignments. There is thus no motivation for the staff to seek other temporary opportunities and bring in new innovative ideas gathered from outside the government. Furthermore, the capacity building provided to the municipal staff is neglectable and there is little skills advancement and learning opportunities to help improve the staff performance and build the needed institutional knowledge base (Karna 2002).

Recruitment and dismissal of staff can be a lengthy process and especially dismissal has proven to be difficult. As per the LSGA the responsibility of local recruitment has been assigned to a sub-committee comprised of one person designated by the Council, the Secretary of the municipality and an officer appointed by the Regional Directorate, Ministry of Local Development. This setup brings up the question of internal accountability, as the Secretary is deputed by the Ministry of Local Development and as the second member of the recruitment committee is appointed by the same authority. It is thus, eventually the Ministry of Local Development and not the local body itself, which has the final authority in
relation to personnel issues. As per the LSGA the Secretary is accountable to the Mayor, but as her/his future career is determined by the Ministry of Local Development the de facto accountability often lies with the Ministry. Consequently, there is a lack of accountability towards the elected representatives. Equally more complicated is it to dismiss disqualified personnel. The LSGA Regulation does not open up for dismissal based on poor performance. Only non-performance, absence (more than 90 days without approval), drinking or political activities may be legal grounds for dismissal. In practice however, dismissal is not being effectuated at municipal level partly as a consequence of a bureaucratic practice of sending all dismissal cases to the Municipal Council. The municipalities are thus retaining non- or under-performing personnel.

Only a limited number of municipalities have opted for private sector participation or contracting out when delivering services to the citizens. The LSGA opens up for private sector involvement but fails to provide a comprehensive legal framework for PPP implementation. This taken together with the outspoken distrust between the public and the private sector means that most municipalities are not seriously considering contracting out or engaging in other PPP arrangements (UNDP 2001). The municipalities are thus still primarily service providers, which mean that they have taken upon them the whole hierarchy of responsibilities and are not properly utilizing other means of delivering services, which could prove more viable. There are however ample opportunities for expanding the service level and improving the effectiveness of public services by engaging in PPPs. Most municipalities have poor if any solid waste management facilities, clean slaughterhouses and markets, public sanitation facilities to name a few and engaging in partnership with the private sector in these fairly simple arrangements is still to be thoroughly experimented with.

The above analysis illustrates that the municipalities in Nepal are far from the idealized warrantor state model. The management of these local government institutions has not been geared to ensure efficient and cost-effective delivery as described by the NPM theories or to open up for facilitation rather than direct delivery.

There are however exceptions to the otherwise formal management arrangements. The LSGA legitimizes inter budgetary adjustments of up to 20 percent, which adds valuable flexibility to the management in allocating resources more strategically as the financial year progresses, without necessarily having to pass the alterations through the Municipal Council. At the same time the LSGA opens up for a transfer of unspent project funds to the following year. If operationalized this practice could remove some of the tendencies of resorting to unstrategic over-delivery by the end of the fiscal year to ensure the same level of budget allocations for the next year. The carrying over of unspent resources can stimulate a more cost-effective project implementation as the implementer can safely opt for increasing efficiency without risking a future budget reduction.

Another important and more informal flexibility aspect is the general lack of TORs. Even though the omission is counterproductive in keeping the municipal employees accountable, it leaves room for the management to assign tasks to the staff according to the present needs without compromising any personnel agreements or contractual restrictions. The challenge is thus to find a convenient middle way, which ensures flexibility without compromising staff accountability.
Finally, several municipalities have chosen to top up the salary level of their staff to attract more qualified personnel with some success, illustrating that there is a realization that salaries will have to be adjusted to those of the market to stay competitive and attract qualified personnel. However, if the promotion processes is not improved and made more transparent it may prove difficult to retain qualified personnel.

**Scope For Improvement**

Research and practice from developed as well as developing countries show that significant progress can be made through a process that diminishes bureaucracy and increases the flexibility of local governments (Newman 2000, Wolf 2000, Metcalf 2002). In Nepal the focus on the decentralization process has rightly been on the involvement of civil society and the devolution of powers to locally elected representatives. However, in this process less attention has been given to the daily management arrangements and consequently the means that control the service delivery performance of the local governments.

A brief study of the current management setup at the municipal level in Nepal illustrates that even though clear guidelines have been introduced to ensure well functioning municipalities there is still ample scope for improvement. The general management structure is very hierarchical and formalized with little room for maneuver for the management to adapt different alternative approaches to apply flexible cost-effective service delivery solutions. The hierarchy of responsibilities in most places still lie with the local governments, which have not fully taken advantage of the utilization of alternative service delivery mechanisms and financial arrangements. However, with the increasing level of taxes being applied in the municipalities and the increasing capacity of civil society to put pressure on the local governments, the need for an effective and efficient management of the municipal resources becomes still more apparent. Experience from elsewhere illustrates that the increasing requirements on local authorities to ‘render on account’ to the public for their actions has opened local governments up to internal as well as external challenges (Newman 2000).

To ensure cost-effective and efficient implementation steps will have to be taken at both national and local level:

**National level**

Even though the major thrust of responsibility of improving the performance of the municipalities in Nepal lies at the local level, there is still room for streamlining legislation to open up a more flexible management of the municipalities. As part of the devolution process HMGN could amend the LSGA legislation so that the promotion process becomes less rigid and based primarily on performance assessments to encourage staff effectiveness. At the same time room should be given to ease the dismissal process to enable the municipal management to separate disqualified or low performing personnel. This leads back to the role of HMGN in municipal management. For the local governments to perform independently and optimize their management it is paramount that the staff of the municipality is accountable to the elected officials only. Consequently, the Secretary of the municipality should be untied with the Ministry of Local Development to ensure adherence to the will of the Mayor and the Municipal Council and eventually to the citizens of the municipality. This can only be fully realized through the constitution of a local civil service for the local governments to parallel the national civil service. A local civil service would
counterbalance the national level influence on the local level staff and ensure local independence in the management of the local governments.

The LSGA does provide the needed room for involving the private sector in local service delivery (with exception of minor tasks which must be carried out by CBOs or NGOs), but has not specified any framework of how such private sector participation can be internalized. To ease the utilization of a third party and eventually disburse responsibility and risks to other stakeholders than just the public sector, HMGN could introduce regulations and/or acts aimed at fostering PPPs at the local level. The BOT policy formulated by the National Planning Commission awaiting Parliament’s approval is an important step in this direction.

Local level
The major changes needed to meet the challenge of improving performance in the local governments relates to the formal organizational structure. The structure could be softened to stimulate networking and cross-sectional work on an ad hoc basis based on the given context. This eventually means that the Secretary and/or Section Chiefs need not be involved in all activities related to more than one section or unit but should stimulate inter-section cooperation. Eventually, the legislation should also open up for changes in the organizational structure without the involvement of the Municipal Council to give the management the needed flexibility to perform its tasks. Accountability between the different layers in the municipality could then be ensured by performance contracts between the political and administrative levels and between management, sections, units and individuals to hold individuals and teams accountable to preset given outputs as per the municipal needs, which are eventually defined by the constituency. Such measures should however, be implemented over a predefined time frame, which would allow the staff and management to adjust accordingly. The local governments, with local elected representatives, have only been operational since late 1999. There is therefore logic behind the initial adaptation of formal management structures to steer clear of beginner obstacles. Before measures are taken to experiment with more ad-hoc and task-based management it is therefore paramount that the individual municipality has the capacity and routine to initiate this process. As the capacity varies greatly from municipality to municipality the process should therefore be adjusted in accordance with the local context.

Performance agreements at an individual level could replace the scarce TORs as a less rigid management tool, which could be closely linked to the rules of promotion to foster effectiveness and efficiency. To be fully effective this approach needs to be backed by more transparent and consequent dismissal rules to ensure elimination of non-performing staff. A changed management style, which favors outputs and recognizes performance would also make the municipalities a more attractive workplace and may eventually improve the status of the public sector to become a viable option and competitor with donor agencies and the private sector in attracting competent employees.

Externally, the municipalities could benefit from drawing on a broader range of stakeholders in providing the needed services to the citizens including NGOs, the private sector and community based organizations. More and more municipalities are slowly endorsing these measures but it is still not internalized into daily management processes. The practice of introducing internal as well as external competition and bidding for municipal tasks could be
introduced to stimulate the management processes and open up alternative implementation and finance options of service delivery. At the same time there is great scope for increasing the level of services and improving existing service provision through contracting out or related PPP arrangements. The practice of service delivery should be changed so that contracting out is considered for every larger service operation to ensure that the most effective and efficient solution is sought, while the local government must still ensure full responsibility of the delivery. Some of the skepticism related to PPPs in Nepal has its roots in some of the major national privatization schemes, which failed to deliver the expected results. However, experiences with PPP pilots at the local level have proven differently. The schemes have been simpler and the process has been institutionalized to ensure transparency and accountability in the selection and implementation process. Eventually, the responsibility lies with the local council, which is accountable to the citizens.

The theories of New Public Management may assist in improving the efficiency and effectiveness of the municipalities in Nepal by introducing measures that will increase the responsibility of the individual staff member and involve non-government stakeholders in the implementation of services warranted by the municipality. It is important however, that such measures are only implemented when the capacity to do so is in place and the socio-economic context taken into consideration. A working culture, which has traditionally been based on seniority and hierarchy, is not changed overnight and a period of adaptation will be required. Furthermore, the fact that NPM has never been fully implemented in any public management globally, illustrates that it remains a theory for adaptation in accordance with the socio-cultural aspects of the given place.

The NPM approach has occasionally raised concerns about the accountability towards the people. If the public sector is deregulated and the private sector or NGOs are responsible for service delivery the system may become increasingly decoherent, which could weaken accountability (Newman 2000, Wallis and Dollery 2000). However, research shows that if properly implemented the fear that modern management approaches always result in a victory of ‘managerialism’ over political decision-making is not justified (Bouvaird and Hughes 1995). Local government management should be an integrated part of a good governance process ensuring transparency and accountability towards the citizens. Reinventing the local governments is not only about changing the blueprints of the administration, but eventually about dialogue with citizens about the role of the government and the need of the citizens. The challenge is to ensure that the citizens serve as an inspiration for new policies (Wolf 2000), which brings the issue back to good governance. The warrantor state model can thus only be successful as a part of good governance, which ensures that the local elected governments are accountable to the people so that the citizens can articulate their interests and exercise their political and legal rights in a participatory and transparent manner. NPM can and should serve as a source of inspiration for adapting more effective and efficient public management measures in the municipalities in Nepal, but as has been illustrated such measures should be refined to complement the local context. The multilateral and bilateral donors in Nepal should thus expand their focus to not only support policy issues related to externalities of local governments but also include public management to assist the local governments in providing appropriate services to the citizens in accordance with their needs and rights.
References


**Biographical Data**

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