

CHAPTER I

INTRODUCTION

1.1 Background

Nepal is a small landlocked, agricultural, mountainous country in the world having an area and population of 1,47,181 square kilometer and 2,31,51,423 respectively according to the census of 2001. The total number of households is 42,53,220. The male and female compositions of population of the country are 1,15,63,921 and 1,15,87,502. The population growth rate is 2.25 percent per annum (CBS, 2003).

Nepal is divided into three regions on the basis of climate feature; i.e. Himalayan region covers 15 percent area with 7.3 percent population, Hilly region covers 68 percent area with 44.3 percent population and Terai region covers 17 percent area with 48.4 percent population. Population of Himalayan and Hilly region is in decreasing trend and Terai region's population is in increasing trend due to internal conflict and security, lack of physical infrastructure, education, transportation, market, health as well as scarcity of agricultural land. The national per capita income has reached to the US \$ 220 that makes the country stand at 9th rank from the bottom line. Current literacy rate and average life expectancy are 53.7% and 59 years (CBS, 2003). The economic status of Nepalese people is very poor. About 31 percent of Nepalese people are below the poverty line.

Administratively the country is divided in to 75 districts. The district again has been grouped in to 5 development region to promote the

balanced development of the country. Each district is further divided in to the smallest units called village development committees (VDC's). VDC's are governed managed and controlled by the district level units called District Development Committee (DDC's). Altogether, there are 3913 VDC's and 58 Municipalities. Since the research work is local government oriented i.e. the district level, we further concentrate on the target point: Kaski district.

The topic of the study, as already said it is the budget analysis of local government and the specified area is Kaski District Development Committee. The concept of local government budgeting system at district levels indicates the resources mobilization which deals with the budget allocation and distribution of the funds to promote the balanced development. The local units of the government should be made self-dependent in order to achieve to overall development of country. Out of the various units, the DDC is considered as the most important one. Decentralization has been adopted is some from or another in almost all the countries of the world. Different forms and structures of decentralization are in vogue in different countries of the world on the principle of subsidiary, as it would not be convenient to run the whole state machinery and provide public service from the central government alone. Their selection and use is dependent on geographical composition of particular states, population, and condition of development infrastructure, social values and assumptions and the level of civic consciousness. The essence of decentralization depends upon the effective supply of the public amenities through the local government in financing is even more striking than that of the central government. Therefore, the local government units should be made powerful enough

and full of right (in order to execute the plans at local levels as per the instructions given by the central authority) for making decentralization effective. For this job government of Nepal has already passed the local self- governance Act 2055 and Regulation 2056 which provides an authoritative support to the local units. But it doesn't mean that the local units are self-dependent for still they are heavily dependant on the central government. The countries like Indonesia. The Great Britain and France are the living examples that heavily depend on the local government financing for the local development. According to the financial commission of local government the overall financial self dependence index of the District Development is 8.05% what is indicates is that the DDC's resource mobilization level is less than that is should have and that mostly they depend upon the external sources of financing.

The study is chiefly positioned to the managerial aspects of budgeting at district level. However, the part of public administration is also considered with in the range of managerial analysis. The topic also covers the budgeting methods and analysis of revenue & expenditure at district level. The managerial analysis have is aimed at micro level analysis of the district in terms of financial management by using the macro level aspects (www.mld.gov.np).

Introduction of Kaski Distirct

Kaski is one district out of the six districts in the Gandaki zone in the western development region. The district has a total area of 2017 sq km. Kaski it is centrally located in the country. It lies on the top of Mt. Macchpurchha and Annapurna with the Mahabharat range. Kaski is

linked to Lamjung in the east, Myagdi and Parbat in the west, Manang in the north and Syangja and Tanahun in the south. It is one of the main tourist destination points of the country. Here are lots of beautiful mountain peaks and lakes. Pokhara sub-metropolitan city is the headquarters of kaski, about 200 km west of the Kathmandu (Bishwa Kwshar, 1999). This district is well connected by roadways from India boarder Sunali and capital city Kathmandu prithvi highway and Baglung with pokhara-Banlung highway. The total population of the district according to the census of 2000 is 3, 97,368 which look dominated by the males with the number 204,515 against 192,853 females. The literacy rate according to the statistical data of 1996 is 56.84% considering above 6 years of age. The per capita income of the people of district is Rs 13761. There are 43 VDC's with 420 wards, one sub municipal corporation i.e. Pokhara and one Municipality i.e. Lekhnath. Naturally, kaski is one of the richest district of Nepal. The only sub Metropolitan city i.e., Pokhara is the heart of the district. Both Pokhara and Lekhnath municipality one of great important for country it terms of natural beauty, cultural heritage etc.

These features add a lot to the country through tourism business. Fewa Lake, Begnes Lake, mahindra cave, Annapurna base camp (ABC), view tower of kahun, Buddhist monastery etc. are the major tourist sports. Bindubasini temple, Bhadrakali temple, Thulopokhari (Kaski kot), etc are the important places from historical, religious and cultural point of view. Kaski is also femous for muffler, pashmina wool, orange etc.

The district has a sound position of infrastructure with the facilities like education, communication, transportation, electricity etc. Pokhara

industrial Estate that was established in the year of 2033 has new many industries working with the number of many people. The estate has Noodle factories such as Gandaki Noodles, pokhara Noodles, Everest Noodles etc. textile mills, Gas industries such as Griha laxmi and shakti, buiscuit industries such as pokhara foods (Pvt.) ltd. etc.

1.2 Focus of the Study

Government of Nepal emphasis on decentralized administration and provided authority to local bodies to generate local resources through taxes, service charge, fee, sale, and loan and revenue allocation. But in practice, more than 90 % of the VDC's, 40% of the municipalities and 25% of the DDC's are fully dependent on government grant for providing honorarium of elected officials and basis administrative expenses (HMG of Nepal, 2000).

In the situation, this research work focuses on fiscal autonomy of the Kaski DDC. This may help to improve present weak resources and how to budget allocation absorption capacity of Kaski DDC.

1.3 Statement of the Problem

The trend of the migration of the Nepalese people from hilly to Terai Region is not new thing. Migration takes place for the following two purposes: Temporary settlement and permanent settlement.

Various surveys have shown that around 16% people of the total population of the district live in cities. Professionally the major population is engaged in agricultural and animal husbandry. Therefore, this uncontrolled migration of human resource certainly invites various

problems at the urban and rural levels. These problems may be regarding every sphere of life such as education, health, communication, transportation etc. Demand and supply functions regarding the basic needs like food, shelter and clothing act more rapidly.

Infect, these immediate problems occurred due to migration put a greater pressure upon the local government at first. The local government has to play a vital role here to satisfy both the central government, as well as the local people. It has to a bridge the people's needs and other facilities with its own resources accompanied by the government budget. The increasing local expenditure has to be managed properly, which calls for budgeting system readjustments. The national plans and programs have to reformulate at both the central as well as local levels. It has been over served in the practice that the growth of local expenditures has every where outrun the growth of local resources. The major budget sources the local government income are the taxes. There taxes are value added tax (VAT) income tax, excise duty, export Tax, land revenue tax and registration fee etc. However, the reason for decreasing the great amount of revenue is duty fee export tax and excise duty.

In the real sense from the budgeting point of view, the statement of the problem revolves around the arrangement of the required external as well as the internal budget followed by their proper allocation. However, at the DDC level the performance measurement by providing the maximum public facilities. In a nutshell, this study is assumed to solve the problems.

- a) What is the trend of income and expenditure of the Kaski DDC?

- b) What is relationship between budgeted and actual income & expenditure of Kaski DDC?
- c) What is the financial Performance of revenue and expenditure of Kaski DDC?

1.4 Objectives of the Study

The study mainly aims at budget analysis of Kaski District, which encapsulates the arrangement, and allocation of the budget/funds, so effectively as to meet the predetermined goals. The main objective of the study is to analysis budget of local government, special Kaski DDC. Other objectives are as follows;

- a) To analyze trend of income and expenditure of Kaski DDC.
- b) To compare between budgeted income and expenditure and actual income and expenditure of Kaski DDC.
- c) To analyzes the financial performance of revenue and expenditure of Kaski DDC.

1.5 Significance of the Study

Local government is basic foundation of the central government. Overall national development is depends upon the local government. Without managing, the proper budget analysis objectives of the local government might not be achieved. Therefore, it is important and crucial factor of national development. The study may able to provide valuable suggestion local government like Kaski district. The study may be used for researcher students and other concern bodies.

This work closely resembles the effectiveness of the overall financial budget policy and management of the kaski DDC. It is also aimed to

measure the efficiency of the funds used and evaluate the financial budget cycle. Both the efficiency measurement and job evaluation are few of the many essential aspects of every administration. Therefore, the thrust of this study is on examine paradigm of kaski DDC in terms of resource mobilization and making an effort for strong local capacity building. The necessary of managerial analysis for the purpose was largely felt when it was found that no true study on such aspects was ever done before.

Lastly, it will certainly work as a fundamental base to initiate the similar works to be done by the new researchers in the days to come. This is why the research works prove to be more authentic provided they are supported by the previous studies.

1.6 Delimitation of the Study

No study is assumed to be able to serve its purpose going beyond the limit. Some vague studies often have proved to be ambiguous to their aims and objectives. So, to make the research work meaningful, it must have its delimitation done by the researcher himself or herself. Often the study area, research methodology, data collection sources availability of literature and above all, the researcher's own knowledge and experience count important to provide the limitations to every study. Being a case study research there is no doubt that it makes useful contribution to research field but this type of research has certain limitations that have to be born in mind.

Carrying out the macro level study on logical Local government budget analysis was not feasible due to the time and budget constraints, so this study is limited with in the jurisdiction of DDC Kaski. This too became

difficult due to the aforementioned research constraints. Further more the following points will determine the boundary of this study.

- a) The research is concerned only budget analysis of local government i.e. Kaski DDC.
- b) The study is based mainly on the secondary as well as primary data wherever necessary.
- c) The study is covered the budgeted of five years i.e., fiscal year form 060/061 to 064/065 BS.
- d) The study assumed that all data and information provided by the DDC kaski are authentic.

1.7 Organization of the Study

This study is divided in to five chapters: introduction, review of literature, Research Methodology, presentation of data and Summery, conclusion and Recommendations.

The first chapter deals with the background of the study, statement of the problem, objective of the study, significance of the study, delimitation of the study. The second chapter all with conceptual review of local government finance. Historical background of local government in Nepal, fiscal decentralization, Degree of fiscal decentralization, Resources of the DDC's, other sources, Governances Act 2055, Regulation 2056, principles and policies of local self-Governance Act. 2055 B.S. and regulation 2056 B.S., institution arrangement of Kaski

DDC, internal sources of revenue, and external sources of revenue, process of internal resource mobilization, Review of related studies, research report, research articles and review of dissertations. The third chapter deals with methodology adopted in the study as stating the data plan, study area, data mining and analysis techniques, the fourth chapter deals with analysis of sources of revenue, institutional arrangement of revenue collection, composition and trend of revenue and expenditure and financial indicators analyzes by applying the methodology stated in the third chapter and last chapter summarizes the whole study, draws the conclusions and makes some recommendations to improve and systematize.

CHAPTER II

REVIEW OF LITERATURE

The basic purpose of reviewing the literature is to gain knowledge of the past status in the study area. It is a stocktaking of available literature in one's field of research after the topic is selected and having good idea of the problem. The researchers are expected to read what has been written concerning his or her topics. The literature survey thus provides the researcher with the knowledge status of their field of research. This chapter presents the theoretical framework and research review. The

former section presents the relevant theoretical of the study and latter deals with related research report as follow.

2.1 Review of C conceptual Framework

This section deals with concept of budget, objectives, functions, advantages and limitations.

2.1.1 Concept of budget/budgeting

The preparation of an organization's budget is the single most important aspect of its success. First, it forces management to look ahead and try to see the further of the organization, it terms of both long-term and short term goals and events. Second, it requires that the whole management team, from the lowest-level supervisor to the chairman of the board of directors, work together to make and carry out the yearly plans. Finally, by comparing the budget with actual results it is possible to review performance at all levels of management. One of the provide information to organizational managements for planning and control. Budgeting acts as tools of both planning and control. Budgeting is a formal process of financial planning using estimated financial and accounting data.

The budget has been defined by different writers in various ways some of the writers are in the view that budget is a statement forecasting revenue and expenditures during a creation period of time.

The word "budget" is derived from French word "Baguette" which means a small leather bag of pouch. It was used first in England to describe the white leather bag, which held the seal of medieval Court of Exchequer. Later known "Budget" contained proposals of financial plan of government expenditure. But word budget, has now been used in all

countries and in many languages. The term budget is now commonly understood as a government document. In fact, it is a proposal of proposed expenditure for a given period and proposed means of financing them for the approval of legislature. Accountants (UK) defines a budget as a financial and/or quantitative statement, prepared and approved prior to a defined period of time of the policy to be pursued during that period for the purpose of attaining a given objectives. It may include income, expenditure and the employment of capital.

The historical background of budget or public budgeting in Nepal is not very old. It is just dates back to period of less than five decades. Prior to 1951 the country was ruled by the Rana's oligarchy who was interested in the collection of revenue and maintenance of law and order. The Rana regime was overthrown in 1951 and subsequently in 1952 the first budget prepared. But in the initial stage, as there was no experience of the budgeting system, the budgets of those days were simply the estimates of revenue and expenditure of HMG enlisted. But gradually it has been improving besides the constitution of Nepal gives the authority to legislature control to the parliament.

Budget became more important in managing government finance mainly after the introduction of planned development process in 1956. The concern over the status and efficiency of budgetary systems of HMG/N increased specially after the political change of 1990. Growing challenges encountered in relation to the rising expectation of people have prompted the government to become serious as to the means and use of the scarce resources in a more organized and effective manner.

Objectives and Functions of Budgeting:

An effective budgeting system is vital to the success of organization. Budgeting is needed in organization to perform the following functions: (I) planning (II) Coordination (III) Communication and (IV) Control & performance evaluation.

I. Planning

Almost all organization activities require some planning to ensure efficient and maximum use of scarce resources. The budget is a formal planning framework that provides specific deadlines to achieve departmental objectives and contributes towards the overall objectives of an organization. A budget incorporates expected performance and present managerial targets. These targets guide the operation and help in overcoming problems and analyzing the further. Budgeting influences the formulation of all organization strategies and subsequently assists organization managers in executing such strategies.

II. Coordination:

Coordination is a managerial function under which all factors of production and all departmental activities are balanced and integrated to achieve the objectives of the organization. The budgeting process provides the basis for individuals in all parts of organization to exchange ideas on how best to achieve these objectives.

- a) The existence of a well-laid plan is the major steps towards achieving coordination's. Executives are forced to think of the relationships among individual operations, and the company as a whole.
- b) Budgets help to restrain the empire-building efforts of executives. Budgeting broaden individual thinking by helping to remove

unconscious bias on the part of engineers, sales and production officers.

- c) Budget help to search out weaknesses in the organizational structure. The formulation and administration of budgets isolate problems of communication, of fixed responsibility, and of working relationship.

III. Communication:

It is necessary in an efficient organization that all people be informed about the objectives, policies, programmes and performances. This is made possible through their participation in the budgeting process. Budgets inform each manager of what others have agreed to do. They also inform managers of the resources available to achieve objectives and targets.

IV. Control and performance Evaluation:

Budgeting enters in to control at three points:

- a) When a budget is being formulated, departments analyze their plans for the future and submit estimates as per their requirements, justifying each of their demands by demonstrating a need.
- b) After budgets of different departments have been reviewed and approved they become targets that set desirable limits on spending.
- c) At the end of budget period, a comparison of actual expenditures with budget expenditure is made as a means of judging performance and fixing responsibility for deviations.

Budgets are the basis performance evaluation in an organization as they reflect realistic estimates of acceptable and expected performance. It is more accurate, reliable and reasonable to measure current performance against a budget rather than against a vague expectation or against results of previous year when conditions might have changed.

Advantages of Budgeting

Budgeting plays an important role in the effective use of resources and achieving overall organizational goals. It has the following advantages:

- a) Budgeting compels and motiveless managements to make an early and timely study of its problems. It generates a sense of caution and care, and adequate study among managers before decisions are made by them.
- b) Budgeting provides a valuable means of controlling income and expenditure of an office as it is a “plan for spending”.
- c) Budgeting provides a tool through which managerial policies and goals are periodically evaluated, tested and established as guidelines for the entire organization.
- d) Budgeting coordinates and correlates all business activities. It enables management to decentralize responsibility without losing control of the business. It reveals weaknesses, inefficiencies, deviations in the organization very promptly which can be checked immediately to achieve a desired goal.
- e) It provides a norm, basis or yardstick for measuring performance of departments and individuals working in organizations.

- f) Budgeting encourages productive competition, provides incentive to perform efficiently and gives a sense of purpose to each individual in the organization.
- g) Budgeting provides a systematic and disciplined approach to the solution of problems in the organization.

Limitation of Budgeting

While budgeting has many advantages that are vital to an organization, it has certain limitations which require careful consideration:

- I) Planning, budgeting & force casting is not an exact science; it uses approximations and judgment which may not be cent per accurate. At best, a budget is an estimate; no one knows precisely what will happen in the future.
- II) The success and utility of budgeting depends on the cooperation and participation of all members of management. Many a time budgeting has failed because executive management has paid only lip service to its execution.
- III) A budget is only a tool and does not eliminate nor take over the place of management. Executives generally feel “circled in” by a budget and its related figures. They fail to understand that budget is meant to provide detailed information, goals and targets which may help them in achieving the organization objectives.
- IV) The establishment of a budgeting process takes time. Also, sometimes too much is expected from a budget and in case expectations are not fulfilled, the blame is put on the budget.

- V) Excessive emphasis on budgeting may result in attempts by lower level management and employees to buck the system by providing inaccurate estimates of further costs and revenues. As the end of budget period approaches and employees realize that actual expenses have not been as great as allowed by the budget, there may be temptations to spend excessive amounts in order to “use up” the budget allowance. Such activities result in sub-optimal profits for the company.

2.1.2 Evolution of Local Government in some countries

‘The history of Local Government in Britain can be traced back at least to the Saxon period, when government was carried out independently in the courts of countries, or groups of countries, which are independent kingdoms, and by the freemen of the shires (administrative units analogous to the modern administrative countries), of the hundred (combinations of several neighboring townships) and of the individual townships, ‘burghs’ (boroughs) and parishes, who took counsel together in their several ‘moots’ or meetings. After the Norman conquest in the 11th century, which was followed by the unification of England under a single crown, most of the civil institutions of Saxon were either abolished or adopted to the new regime: only the courts of hundreds were allowed to continue as before folk moots were swept away, shire moots were replaced by courts controlled by the lords of the manor, whose judgments were executed by balliffs, some of the more powerful of whom are known as ‘major-balliffs’ or major (from which the title of mayor is derived); and the countries came under the jurisdiction of the sheriffs, who are granted fairly extensive powers as the representatives of the king.

As time passed, two sets of local authorities, distinct from the manorial courts, emerged: the parish meetings and those boroughs and towns that grew strong enough to secure trading privileges and autonomous powers of administration, partly from the lord of manor but principally from the crown by means of Royal charters.

From the time passing of the Poor Relief Act (1601) until well in to the 18th century, the development of Local government was slow. Attempts at reform were made after the passing of the parliamentary Reforms Act in 1832, first by the poor Law Amendment Act 1834, which divided the country in to groups of parishe called poor law unions, each under a Board of Guardians as the responsible authority, and placed central control in the hands of Poor Law Commissioners; and later by the municipal corporation Act 1835, which reformed local government in rather more than half the boroughs by sweeping away political abuses, extending the surface to the rate- payer, controlling financial administration through the introduction of borough audit system and separating the administration of justice from the administration of local affairs.

The geographical pattern of local government established at the close of the 19th century altered very little during the first 60 years of 20th century. The period to the First World War (1914) was one of the consolidations. Between the wars from 1918 to 1939 the assumption by the state of responsibilities, that earlier, would have been considered as outside its scope but the frame work with in which they performed that duties remained substantially the same. Some country boroughs extended their boundaries, several towns acquired borough status.

The constitution of the Netherlands provides for only one types of administrative unit of local level, this is municipality. Every town village is incorporated in one of the municipalities. In the Netherlands the designation of 'town' or 'village' usually has historical significance. The origins of majority of municipalities are very ancient. Many probably evolved from settlement whose inhabitants engaged in agricultural, fishing or settlement which were important to trade owing to their location at the junction of roads or waterways, or which grew up around the castle or hunting lodge of local lord. Some towns were founded in Roman time Noviomagum, now Nijmegen Ultrajectum, now Utrecht and Mosae Trajectum, the Maastrucht of today. Most towns, however, date from about the 12th or 13th centuries and some, particularly in the north, are of later date.

In U.S.A. according to Bridgewater and Kurtz, as the complexity of urban life increased in the 19th century the old system became less efficient, there were also overlapping of old offices with poor methods of accounting and taxation and much blatant graft, which arose the concept of municipality which has become a recurrent feather of American political life. They further explain corruption were common in the city politics which brought vision of two types government. The commission usually elected non-partisan, at larger, for better administrative performance and the chief of such municipality had an image of independent executive type. However, later the position of chief authority was subdivided as 'strong mayor' for the cities such as New York Detroit and 'Weak Mayor' for Chicago.

2.1.3 Historical Background of Local Government in Nepal

Through the concept of local government financing is very old in Nepal (since 1960) (Madan Subedi, 2005). It is still in search of the new studies and researches with the changing variables. There were different rules and regulation followed in the consecutive regions of the different rules of our country. The date backs to the year 2018(1962) when Nepal was formally divided in to 14 zones and 75 districts. After wards many efforts have been made to implement the theories and practices of decentralization for a long time in Nepal. Various delegations of authorities to Local Government Institutions (LGIs) have been formed as commissions, committees, programmes and policies in this regard. The following Acts played vital role regarding the district level decentralization aspect:

1. District Panchayat Act. 2019
2. District Development Committee Act, 2048 (1991)
3. Local self-Governance (LSG) Act, 2055 (1999)

The timely implementation of LSG Act, at the local level is an indispensable effort for making them self-dependent. It is basis for the existing inters- governmental fiscal relations.

The methods of financing systems have been duly improvised and made fit to the time starting from the Lichchhavi period to the current era. Development in Lichchhavi era is divided in three:

- Bhag : For farming
- Bhog : For live stocking
- Kar : For commerce and industry

In those days included the greater public participation in the field of local financial development. However, the central government was highly responsible for the infrastructure development that required heavy expenditure. This responsibility was decentralized through the ministries.

In spite of the long history of the budgeting/financing methods, this study is unable to incorporate it. It is due to the various constraints mentioned in the previous chapter. However, the concept of local government here revolves around the district level government, its rights and power regarding the resource mobilization process. While taking around the local government, this study mainly focuses on the district level government of the following three eras of the democratic Nepal .

1. Pre-Multiparty Era : The period of Panchayat system
2. Multiparty Era : The period of Democratic system
3. Post- Multiparty Era : Current period

The following table shows the different acts passed to empower the local government during the different periods:

Acts passed During Different Periods

S.N.	Periods	Acts Passed
1	Pre-Multiparty System	District Panchayat Act. 2019 BS
2	Multiparty System	District Development Committee Act. 2048 BS
3	Post-Multiparty	Local self Governance Act. 2055 BS and

	System	Regulation 2056 BS.
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2.1.4 Fiscal Decentralization

Fiscal Decentralization (FD) is one of the most essential parts concerned with providing the fiscal autonomy to the decentralized government system or the local government. In other words, FD means devolution or transfer of fiscal power from central to the sub national or the local government (Local Authorities Fiscal Commission, 2000).

Many countries have now come to realize that strengthening local government by granting them some fiscal autonomy is an important component of decentralization.

The main theme of fiscal decentralization is the expenditure aspect of the local government that is based on the principle; meeting the public responsibilities with efficiency-services. Fiscal efficiency is achieved through effective implementation of the decentralization system. FD is assumed to be successful if it can achieve the following three-dimensional economic efficiency (William Loehrer and Rosarian Manason, 1999).

Production Efficiency refers to the cost at which specific goods and services are production.

Allocation Efficiency matches public spending with consumer preferences.

Fiscal Efficiency refers to the ways in the local government units are financed. The local government units generally receive large part of their expenditure form the central government as in some form of

grants or transfers. Apart from this, some tax and revenue autonomy is given to the local governments in order to cover the remaining portion.

Here are three basic components about financing of the local government units. Firstly, the local taxation should match with the services received by the taxpayers. Secondly, the grants mechanism regulated by the central government should not distort the local preferences and thirdly, the financial system designed for the local government units should not threaten national macroeconomic stability.

2.1.5 Degree of Fiscal Decentralization

As described by Ebel and Yilmaz (2002), there is not set of prescribed rules to determine how a country is decentralizing. Therefore, measurement is surprisingly difficult. However, the following are the four indicators for measuring the fiscal decentralization as proposed (William Loeher and Rosarian Manason, 1999).

1. **Revenue Decentralization Ratio (RDR):** It is used to measure the relative importance of local revenues in total general revenue. It is defined as the share of Local Government Units (LGUs) in total general government revenues.
2. **Expenditure Decentralization Ratio (EDR):** It is used to measure the importance of local expenditure in general expenditure. It is defined as the share of LGUs in aggregate general government expenditure.
3. **Modified Expenditure Decentralization Ratio (MEDR):** It holds the fact that some government activities like those on debt services are essentially the responsibility of the central

government. It is defined as the ratio of LGU expenditure net of debt service to general government expenditure net of debt service.

4. **Financial Autonomy Ration (FAR):** It is used to provide an indication of local government independence from central funding. It is defined as the ratio of locally raised revenues to total expenditure or the ratio of LGU revenue from local sources to LGU expenditure.

2.1.6 Resources of the DDCs

Before restoration of democracy in Nepal, i.e. during the panchayat period, the local level government was not given so many rights as it is given today. The close revision of the above three acts makes it clear that the financial sources have been increasing with the additional rights and power in course of time. Even through the DDCs' income has not been able to overcome their expenditures. Some of the reasons may be the additional public facilities that are proportionately increased by local units. The provisions of the resources made in different acts of the different periods for the development of local units of the government are briefly described below:

2.1.6.1 District Panchayat Act 2019

The endorsement and first publication of this act was made on 14th of Mangsir, 2019 BS. Afterwards timely amendments have taken place until other Acts came in to existence. The provision of the sources defined in district Panchayat fund and property under chapter seven of the acts is summarized below:

I. Internal Sources

According to the act the District Panchayat could impose or levy fee on the people or institution or vehicles that use the routes, bridges, ponds etc, that fall within their area either constructed by or handed over to the DDCs. There was a provision of house of house tax@Rs.10 annum per house. They could levy the fee or rent on the people who use the public amenities libraries, hospitals, guest houses, rest houses etc. They could also levy water tax (pot) on water canals, streams, water-mills that are constructed with its assistance.

The district Panchayat had the right to authorize to the parties for collection and sale of cells, bones, teeth, hoof, horns, leathers etc. except that of the elephants, rhinoceros and some of the restricted birds of the district. They could also tender contracts of boats, nets, rivers for fishery. Water species, logs, floating items, burials etc. were also the sources for income through contracts.

II. External Sources

The external sources were:

-) Cash and properties received from Government of Nepal.
-) Amount received as gifts, donation, charity, grants and aids received from Government of Nepal or other agencies.
-) The District Panchayat could claim the share of the income received by Village Panchayat and Town Panchayat of its area @Rs. 5 on every 100 rupees. But the share could be claimed only on the amount except given by Government of Nepal.

- a) They must get prior consent from Government of Nepal if they obtain the loan which is more than 50% of its annual income and need to pledge collateral.
- b) While investing the amount more than 50% of its fund, it must get prior consent. This rule is also applicable when they buy or contract for the assets worth 50% of its total income.

III. Other Sources

The other sources of income of the District Panchayat were the income from the trust properties managed by them, from the sale of their liquid and fixed assets, from penalties and punishments, from their loan etc.

2.1.6.2 District Development Committee Act, 2048

The structure of the Nepalese government had various political changes after the restoration of democracy which took place in the year 2048 B.S. (1992). The main reason behind those changes was the introduction of the multiparty system. Above shown has named this period as Multiparty Era.

In order to make the local units more independent or self-dependent, this act was passed and enacted in the same year. However, there was no major changes comparison to the provision as defined by the District Panchayat Act, 2019 Chapter 5 of the Act named as Economic Provision Consists of the sources of finance, which is summarized below:

I. Internal Sources

The District committees should levy fee or service charge on the routes, bridges, ponds, traffic vehicles and the public amenities as defined in

section 2.3.1 that were either constructed by themselves or were handed over to them. Service charge was also levied on the Kulo, Paini and Dams. So far as the new items regarding fee, service charges taxes. So far as the new items regarding fee, on the use of radio, television, video etc. Registration charge levied on water mill, taxes on land, wool, rosin, herbs, and on dry grass and local development tax levied by Government of Nepal were some of the additional sources of income for the District Development Committees.

II. External Sources:

Loan and grants received from the government and other NGOs and INGOs were in this heading. While getting loan for development works, the DDCs generally had to consult with the financial institutions.

III. Other Sources:

Income from auction and sale of properties of District Development Committees, from charity, donation, gifts, rent, interest, penalties and from income generation skills conducted by the DDCs were included in this category. While selling the nature resources the DDCs had to follow rule no 40 of the DDC (Work Administration) Regulation, 2049.

2.1.6.3 Local Self-Governance Act, 2055

Current period, in this study, is regarded as the post- multiparty Era. The Nepalese government has been making constant effort for the uniform development of the country since the beginning of the democratic rule. After realizing that the development is only possible when centre focus is given and the theory of development is applied at the root level i.e.

local level. It has become more conscious about the local units of the government. Since the previous acts were not found so much systemic and scientific the government introduced Local Self- Governance Act, 2055 B.S. and immediately brought in practice in order to make them more powerful and self-dependent. This act is totally based upon all the previous acts which incorporate some additional provisions regarding the Local government financial management. Chapter 6 of the Act having 33 sections that is named as Economic Provision is summarized below:

I. Internal Sources:

- a) Local Tax:** According to the Act, the DDCs can impose tax at the rate as prescribed and passed by the District Council. They can levy the local tax on road, route ways, bridges, irrigation canals, pond etc. that are either built by the DDCs or are handed over them. Similarly, wool, rosin, herbs & shrubs, grass wastage, stone cocks, slate & sand that fall with in the DDC's territory were also subject to be taxed. Animal bones, horns, feather of birds, animal skin etc were some other items. The DDCs were obliged to remit 35 to 50 percent of the total amount collected through these sources to the concerned VDC or the municipality.
- b) Service Charge:** The DDCs can levy service charge on the public amenities such as guest houses, rest houses, library, hospitals, city hall, kulo and paini (used for irrigation and drinking) etc. that are either built by or are handed over to them. Apart from these, they can also impose the local development tax.

- c) **Fee:** The DDCs can impose fee on the rivers used for boating and fishing, issuance of license and their renewal. They can collect registration charge or water mills in its area, recommendation charges and other charges as prescribed and passed by the District Councils.
- d) **Income from sales:** The DDCs can sell, gravel, rocks and stones, soil, slate etc. that are within its boundary but 35 to 50 percent of the total amount collected from the sale of these things is to be remitted to the concerned VDC or the municipality.
- e) **Income from Revenue Allocation:** According to the act, the DDCs receive the following amount from HMG as revenue allocation:
 -) Registration charge on the sale and purchase of land and houses.
 -) Royalty on mines, petroleum, water resources, forest and natural resources.
 -) Entry fee charged on the tourists.

II. External Sources:

Grants and Aids received from HMG and other NGOs and INGOs are the external sources. However they should get prior consent from HMG before they get grants and aids other than from it. The DDCs can obtain loan assistance from banks or any other financial institutions with or without pledging either fixed or liquid assets as collateral. NG can stand as the mediator in this regard.

III. Other Sources:

Apart from the above sources there are some additional sources of revenue for the DDCs such as amount received from the sale of its properties, rent, interest, fines, income generating skills operated by the DDCs 25% share of the land revenue tax received from VDCs and Municipalities.

Characteristics

Financial Independent

LSGA 2055 describes about the financial independent, as the conditional situations where but not full independency or various sectors like!

For DDC:

- 1) Irrigation canal water turbine road bridge pond
- 2) Road tax
- 3) Renewal of various tax of documents/consultant fee etc.
- 4) Stone gravel and sand, Water materials
- 5) Herbs & Serbs
- 6) Out product of forest (Straw)
- 7) Horn, Plume, Hide etc.
- 8) Common house
- 9) District stadium
- 10) Nursing Home
- 11) Guest House (Respected House)

) LSG Act and regulation which are principles by the Nepal Government for decentralization, devolution and delegation of

authority to the pupils for the development of every aspects of Local formation.

-) Power delegation by the Nepal Government to the aspects agriculture, forestry, government intuitions, Non Govt. intuitions. Supervision super-situation, monitoring evaluation, communication, management and co-ordination between local government and central government (Local Self-Government Act, 2055:95-97).
-) There is clarify about information, management, center and finishing or ending projects, maintenance these projects by the local ownership committee which in clarify by the local self governance Act 2055 and Regulation 2056.
-) It proving fund of DDC/VDC and municipality are management auditing as the easy way.

Decentralization and autonomy are the medium of devolution cruising many technique and improvement from the devolution. The ownership of LSGA 2055 equity transparency, accountability, efficiency, economy and effectiveness are collecting for the taking advantage from the democracy.

Principles and policies

-) Devolution of necessary power, responsibility and resource to make local bodies capable and effective.
-) Development of institutional process and functional mechanism for fulfillment of responsibility.

-) Directing the local bodies to adopt democratic process, transparent working methods, creation of civil society based on public accountability and popular participation.
-) Encouragement for the involvement of private sector
-) Devolution of authority to mobilize revenue.
-) Development of local leadership.

According to these politics, the Act and Regulation have made the following provisions regarding the local bodies:

-) Creation and operation of local bodies.
-) Composition, work responsibility, duties and rights.
-) Tax, revenue and other resources to be mobilized by the local bodies.
-) Local bodies to work in cooperation with NGO, community organization, user group and the private sector.
-) The work of other sectors should also be brought under one umbrella of local bodies; and
-) Relation between the central and local bodies.

2.1.7 Resources of Local Government

Financial resources provide energy for smooth operation of local government institutions and stimulate their activities. In fact, financial resource is critical base without which even the viability existence of the LGs would be questionable. LGs have the right responsibilities to raise the financial resources through various direct indirect taxation. The LGs have been also given the facilities of borrowing loans getting grants-in-

aid from central government. The important principals of the local taxation are: autonomy, accountability, localization of tax base, non-exportability, balance of interest responsiveness to local economic growth (Lekhnath Bhattraï,1999).

The LSGA 2055 and its Regulation provides the legal base for the local bodies and principal and policies to develop the local self-government system in Nepal. Among those various policies, the right to mobilize the revenue is the most important. The autonomy of the LB is not practical when LG depends on central government for revenue. So the Act and Regulation has indicated the various sources of revenue. DDC’s various sources of revenue, which are generated either internally or externally.

Classification of DDCs sources of Revenue

1. Tax	2. Charge
3. Fee	4. Service Charge
5. Grant/Loan	6. Sale
7. Revenue allocation	

Adopted from “Orientation on LSGA 2055 and Regulation”, Participation Book, p43

Generally, the resources of local government can classify into internal and external sources of revenue.

2.1.7.1 Internal Sources of Revenue.

As stated above, the local government has two primary sources of revenue. The internal resources of revenue are those revenues that they collect themselves including local taxes, service charges, fees and

licenses, rental from buildings and facilities, interest income, as well as income from sales.

DDC's internal sources of revenue includes the revenues generated by the DDC within it's jurisdiction by imposing the authority that has been provided in the LSGA 2055. DDC's internal sources of revenue include local tax, charge, fee, service charge, and sale and revenue allocation. The internal sources of revenue can further divided into tax and non tax revenue.

a. Tax Revenue

Local Tax: Section 215 of the LSG Act, 2055 has made the arrangement of the local tax that can be levied by the DDCs that can be categorized in to the following two parts:

- a) District Export Tax
- b) Infrastructure Utility Tax
- c) Resources Utility Tax

The district export tax is levied on the materials to be produced with in the district and exported there from and on the wastage and reusable materials. The items along with the rates that fall under this category are listed in Appendix 2.

The second category covers the utility of rural roads, bridges, and ways etc that are constructed by the DDC's own resources. However, the Act clearly mentions that the highways and sub-highways are not for this purpose and that the amount of the tax collected shall be used only for repair and maintenance of the concerned roads. The third category of

tax includes on the sale of wastage, stone, sand, leather, bones, horns, two footed and four footed animals.

b. Non-tax Revenue

The non-tax revenue of the DDC as provided by the LSG Act 2055 and Regulation 2056 are as follows:

- 1. Service charge:** Section 216 of the LSG Act, 2055 depicts this provision. The subjects on which service charge may be levied by the DDC are guest houses libraries hospital, rest house, city hall, as prescribed by the District Council on the basis of the cost of the property. The rate of the charge to be charged on canal, water canal and dam is determined on the total area that the respective subject covers. It is as follows:
- 2. Fee:** Section 217 of the LSG Act 2055 and rule 209 of the local Self-Governance Regulation states the provision about fee that can be levied by the DDCs. The annual rate of fee that may be levied by the DDCs is mentioned here under: Subjects on which service charges may be levied:
- 3. Income from sales:** Section 218 of the LSG Act, 2055 and Rule 210 of the regulation explain that a DDC can sale the natural resources such as sand of rivers, aggregate, stone, soil and the dry woods that fall within its area at he prescribed rate. It adds to the share of local revenue.
- 4. Income from Rent:** DDC Kaski doesn't look having lots of property or the assets that has been hired. However the DDC hall and canteen are the sources that generate some internal revenue. The hall is provided on rent for Rs. 500 per day to the outsiders for special

occasion where as the canteen is given to private sector through tender process. At present it is being run by a local person named Mr. Ganga Prasad Acharya in agreement to pay Rs. 5,500 per month.

5. Revenue Allocation: Section 220 of the act followed by the rule 211 explains the provision regarding revenue allocation which is depicted in Appendix 3 of the study. The rule further states that the DDCs can receive:

-) 50% share of the total royalty amount collected from mining.
-) 10% share of the total royalty amount collected from the forest products; and
-) 10% share of the total royalty amount collected from the area where electric powerhouse is constructed and operated.

6. Other sources of Internal Revenue: Apart from the above sources, the following are the additional sources of revenue for the DDCs (LSG Act, 2055, section 221):

-) Amount received from the sale of its assets and properties, rent, interest etc.
-) Amount received from punishments
-) Amount received from the income generation skill programmes operated and conducted by the DDCs.
-) 25% share of the total amount of the land revenue tax received by the VDCs and municipalities.
-) Fines etc.

2.1.7.2 External Sources of Revenue.

As stated above, the local government has two primary sources of revenue- internal and external. The external sources of revenue include loans and borrowing, and central government's grant.

a. Loans Borrowing

Like other aspects of local finance, the borrowings policy is primarily decided through local government act. Generally, loans are raised to meet the capital expenditure involved in satisfying the increasing local needs, which are developmental in character. Most of the LGs of the developed countries can borrow directly from the public. But, in case of developing countries, more or less government control seems. The government assists the LG in actually obtaining loan at reasonable rates. The government may also guarantee loans when they are obtained from outside agencies.

Conceptually, there are four categories of loan agencies to provide borrowing facilities to the LG (Tulsi, Narayan Shrestha, 1996) has pointed:

- (i) Loan agencies established and controlled by central government
- (ii) Agencies established by central government but functioning as autonomous bodies.
- (iii) Credit co-operatives formed and controlled by local authorities themselves with or without central governments participation and support.
- (iv) Commercial banking institutions.

Local government can borrow money in order to undertake development activities in their respective area. DDC can take loan from

financial institutions. According to the act, the DDC may raise loans, or borrow with or without pledging any of its movable and immovable property owned and possessed by it or on the guarantee of His Majesty's Government, form a bank or any other organization, according to the policy adopted by the District Council (HMG, 2055, Sec 219).

In practice, except for few municipalities, DDC has not used these sources. There is lack of detailed provisions relating to loans. Act and Regulation are silent about the issue of bond. DDC also lack technical know-how to develop economically viable projects to meet the requirements of the financial institutions. It would be necessary to establish a local development bank to provide loans to local government.

b. Central Government Grants:

Central Grant is other major resource of revenue for the local bodies. Central grant to the local bodies is needed to remove the difference between funds need and the available resources. Likewise, it is less expensive, more efficient to get the centrally redistributed services done through local bodies they need central grant for such function. Central grant is necessary to avoid or at least minimize the difference in the quality of services in different local bodies. Similarly grant is necessary to carry out functions that have an impact across the frontiers of the local bodies, like control of pollution. The DDC may raise the revenue from HMG grant and foreign grants.

HMG Grant:

The DDC may receive the administrative grant and development grant of HMG/Nepal. The administrative grant given to the DDCs includes the salary and allowances of personal deputed the DDC and the VDC. Similarly, it

includes the personnel welfare fund of DDC. Besides, the HMG shall provide to the DDC each year with minimum grant prescribed and also with additional grants on such basis as population, level of development, possibility and capability of mobilizing revenues, necessity of financial resources, regular record keeping of incomes and expenditures, situation of auditing and financial discipline of concern DDC (HMG, 2055, Sec. 136).

The development grants made to the DDCs are of two kinds: minimum lump sum grant and conditional grant. The DDCs can invest the minimum lump sum grant in every project of their choice and priority. The conditional grant is provided for investment in two sectors: construction and maintenance of district roads and suspension bridge. The grant system is not scientific and transparent. The act and regulation are silent about the criteria of providing the minimum grant to DDC

Foreign Grants:

The DDCs can get grants and aids form foreign countries, donor agencies and other organizations provided they get a prior consent from Government of Nepal. DDCs either get direct fund transfers or supplementary grants in the form of tangible goods from the donor agencies or they receive them through Government of Nepal. At present, the DDC Kaski has been receiving such grants from UNDP, DFID and UNICEF.

Sources of Revenue of DDC

1.	Tax	Wool, solvent extraction, herbs dry grass (bankes) kabadi (reusable solid waste) boulders, slate, sand, animal bone, horn, feather, hyde (export tax)
2.	Service charge (in services provided by	- Road, bridge, irrigation canal, pond

	DDC)	<ul style="list-style-type: none"> - Guest house, library, medical centre, Community hall. - Canal, water source (irrigation), embankment - Local Development Fee
3.	Fee	<ul style="list-style-type: none"> - River rafting, boat, tuning, fishing permission and renewal. - Registration and renewal fee for water bank - Recommendation fee - Others
4.	Sales	<ul style="list-style-type: none"> - River sand, aggregates, boulders, slate, soil, swept away wood.
5.	Loan	<ul style="list-style-type: none"> - Borrowing from bank or other institutions with or without collateral with approval from District Council and on the guarantee of HMG.

Adopted from Local Authority Fiscal Commission Report, 2000, p.59

Organization of Local Bodies

In the studying the institutional arrangement, there are three levels in the DDC. They are: District Council or policy formulation level, executive level and implementation/administration level.

District Council

The District Council is formed in accordance with section 172 of the Local Self-Governance Act, 1999. The District Council is comprised of the Mayor Deputy Mayor of each municipality, Chairman Voice-Chairman of all VDCs. Members of House of Representatives and the National Assembly of respective district, Members of the DDCs 6 Members nominated by the District Council. In 75 districts of Nepal, there are 9438 councilors; District Council is the highest body of the DDC. The council performs important functions like approving the

programme budget of the DDC, formulating policies, passing tax, fee service charge policy etc.

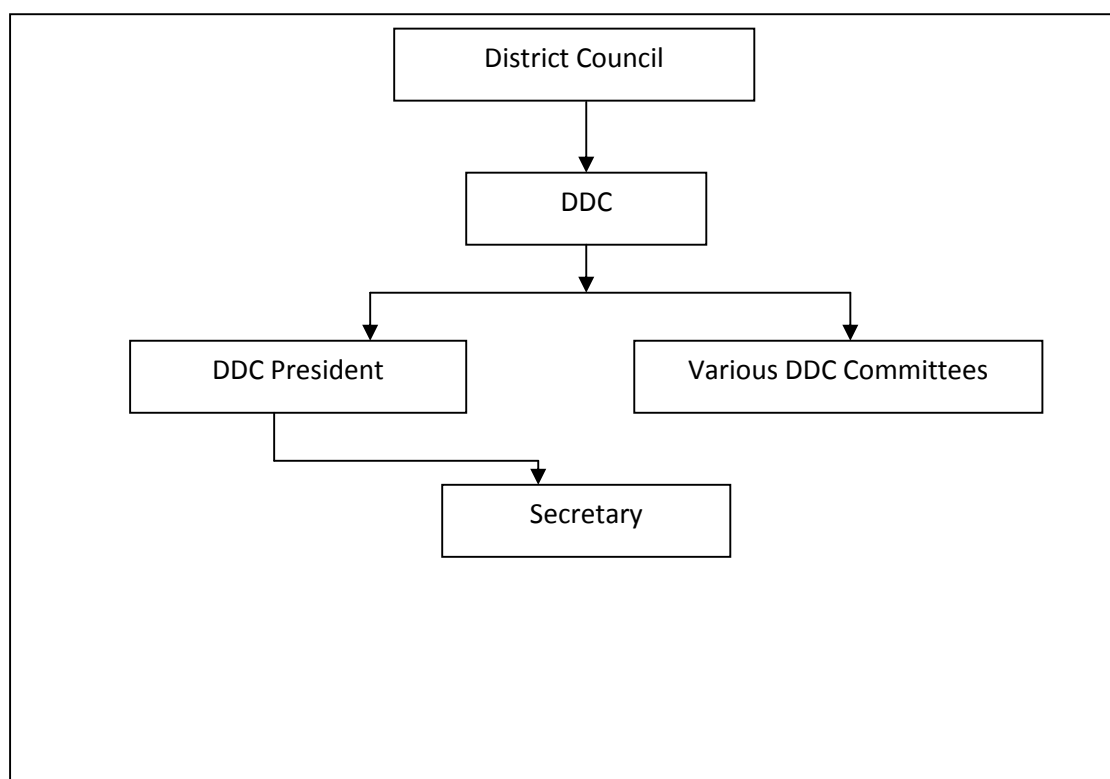
District Development Committee

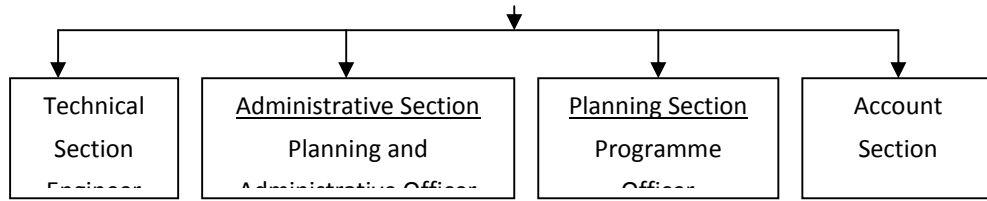
Section 176 of the Local self-Governance Act has made the provision of a DDC as the executive of the District Council in each district development area. According to it, the DDC has one elected *Ilaka* representatives from each *Ilaka*, president, Vice president elected by the Village Municipal Councilor, two members district as ex- officio members. As the executive body of the District Council, the DDC implements programmes decisions passed by the council also implements district activities/programmes related to DDC.

Office of DDC

According to Section 248 of the Local Self-Governance Act, there is a provision of an office of DDC according to section 249; DDC can have necessary staff position with the approval of the District Council. There is a provision that DDC can maintain different sections units in accordance with its workload, nature of work.

Organization Structure of DDC Office





Adopted from Local Authority Fiscal Commission Report, 2000, p. 34.

2.1.8 Process of Internal Resource Mobilization

Since the DDC staffs don't collect the local tax by themselves. This responsibility has been handed over to the private sector. While giving contracts to the private sector, the following process is followed by the DDC as prescribed by the Local Body (Local Body, 2000).

I. Approval Process for the contract work

Generally the Kaski DDC starts this work during the month of Jestha (may/June) of every fiscal year. The first job is to raise a memo which is done by the administration section followed by the suggestion of Account section. The proposal then is submitted to the Local Development Officer (LDO) by the section officer of Administration section. LDO then, forwards the process of the contract work. The DDC determines its minimum bid amount on the basis of previous years. It follows Financial Administrative Regulation, 2056(FAR, 2056) while giving for contracts.

II. Process of Publication of Notice:

When approval of the contract work is given, Administration section of the DDC publishes the notice in local as well as in national dailies. While making tender invitation, if the bid amount exceeds Rs. 50,00,000 the concerned office should publish the notice in national dailies along with the details as demanded by rule no. 66 of the FAR, 2056. The deadline for the submission of the application of tender invitation varies seven to thirty days. According to the tender provision of the DDC the bidder must be registered in VAT and that it must have paid its income tax to claim

the tender of more than of Rs 20,00,000 (Fiscal Administration Regulation, 2060).

Every national as well as the foreign party can forward its sealed tender bids. However the amount of bid security is different for them i.e. 5% of the total bid amount for the national bidder and 10 % for the foreign ones. The amount of bid security should be deposited in to A/C No. 133535 of Nepal Rastra Bank, pardi, Pokhara. Security deposit is not necessary for the organizations whose more than 50% of capital is held by Government of Nepal or the local body.

III. Opening Process of the Sealed Tender Bids:

The sealed tender bids are opened at a fixed time and place specified by the notice in which the presence of the representatives of the following offices is necessary:

- a) District Administration Office, Kaski
- b) Office of the Treasury and controller, Kaski
- c) Ministry of Local Development, Kaski
- d) Office of the Western Regional Directorate, Kaski

The DDC may be or may not deserve the presence of bidders or their representatives. However the bids are found to have been opened as per there provision of the rule no 63 of the local body (Financial Administration) Regulation, 2056. Rule 64 of the same explains not to entertain the tenders as per the conditions given in it.

IV. Evaluation Process of the Tender Bids:

Section 17 of the FAR, 2056 and Local Bodies (Financial Administration) Regulation 2056 have made the provision to set up *a tender bid evaluation committee* within 15 days from the commencement

of each fiscal year by the concerned local body for the evaluation of technical and financial aspects of the tender bids (Local Body, 2056:81). But in practice, in such provision has been found made by the DDC based on the bid amount instead. Therefore, lacks of an effective management body in this regard has been leading the receivable amounts to be in pending for many years and thus are rebated at the end.

V. Agreement process with contractors:

The entire process of making agreement has been handled by Administration Section of the DDC. It has been following rule no. 77 of the FAR, 2056 and rule 68 of the Local Bodies (Financial Administration) Regulation 2056 (1999) for this step. The concerned individual firm or company or an institution is informed by the DDC within three days bids are accepted and that they have to be present in the DDC within seven days thereafter for the contract agreement while making agreement with the contractors, the considerations mentioned in rule 77 (5) along with the other points as mentioned by FAR, 2056 has to be clearly discussed. A program schedule of the project should be made to make the follow-up task effective FAR 2056, rule no. 88(1). The contractors start their job after they are given the Job start order letter.

The DDC, in practice, doesn't make any programme schedule. It receives the first installment of the total bid amount immediately after the agreement is made with the contractors. All amounts of local taxes and sales should be deposited in A/C No. 615905 of Nepal Rastra Bank, Pardi, Pokhara Branch.

VI. Follow-up Process:

As started already that a work or a programme schedule of the job should be made while making agreement with the contractors, a follow-up of the

work should be regularly done. If the bid amount exceeds Rs. 25, 00,000 a regular follow-up report should be prepared and submitted to the concerned department. Likewise, a proper institutional arrangement is necessary to ensure whether the due installment payments are timely received. A proper follow-up provision may reduce the possibility of uncertain and untimely payments, balance remaining for a long time and political pressure to convert the remainder into rebates. But there is no such arrangement made by kaski DDC. However the selected staffs of the DDC have been doing this job.

VII. Provision of Reward and punishment:

Reward and punishment are the managerial tools that either motivate or force the payers to get their installment amount paid in time. If the contractor breaks the contract before prior to its expiry, rule 81 and 83 of the local bodies (Financial Administration) Regulation, 2056(1999) should be followed which makes provision to include such contractors in black list. The concerned competent Authority has to maintain the records of rewarded and punished contractors. The Kaski DDC has made a provision of punishment only which in practice has been imposing a fine of the remaining unpaid amount or installments that varies with the time horizon as shown below:

First Year	: @ 5% of the total unpaid balance
Second Year	: @ 7% of the total unpaid balance
Third Year or More	: 10% of the total unpaid balance.

In contrast to Kaski DDC, Kapilbastu DDC has been following the trend of rewarding the contractors @ 10% of the total bid amount if it is paid in advance (keshar J. Baral, 2056).

2.1.9 Institutional arrangement of Kaski DDC.

Nepal Government has empowered the DDC to impose the local taxes with the statutory limit. DDC Act 2048 and regulation 2055 has provided the statutory limits. The provision of LSGA has prescribed the statutory limits of rate of local bodies an effective tax mechanism should be setup because collection and mobilization of the tax and revenue may proper to be ineffective in its absence (Local Bodies, 2057).

The organizational chart of the Kaski DDC given in Appendix 16 Shows that there is no separate mechanism for revenue administration. The same institutional management exists now which was in practice before the local self- Governance Act, 2055 B S was enforced. However, the responsibility certainly has a demand to set either revenue section or a unit of it for revenue collection. Appendix I shows distribution of this responsibility. The DDC has given authority to the private sector for the sale of wastage, reusable items, natural resources, collection of infrastructure utility tax and import & export tax. At present the functions and responsibilities regarding tax administration have been found handled by mainly by the two sections, Administration section and Account section.

Administration section: It performs the following functions

- a) Contract functions such as raising memo, publishing notice for tender invitation opening the sealed tender bids, making agreements with the contractors, keeping record of the installment amounts received from the contractors, charging fine on the contractors who don't pay their installments in time etc.

- b) Other functions such as providing 'D' level license, making their registration on the boats and their renewal etc.

Account sections: this section receives and keeps the record of the amount received as land revenue tax from its VDCs registration fee received from different offices, recommendation fee, and sale of citizenship forms, passport forms, registration forms, DDC hall rent and other receivables.

2.2 Review of Related Studies

As already stated that there are a few researches made on fiscal decentralization- the focus of this study, some of them are worth summarizing here. They are the research reports, articles, discussion papers and unpublished dissertations.

2.2.1 Research Reports

William Loehr and Rosarion Manason, (1999) in their research presented to Harvard Institute of International Development is one of the recent attempts in fiscal decentralization (FD) It is a follow up of the previous work on measuring and assessing the effect of FD in developing countries. Unlike the previous works, it deals with all the important economic factors affecting the FD process. They recommend an approach for assessing the impact of economic efficiency on FD, which is supported and logically approved by a detail case study of the Philippines, conducted in late 1998 to illustrate the method.

Economic efficiency, as they further discuss, has mainly three dimensions Viz. production efficiency, allocate efficiency and fiscal efficiency. Fiscal efficiency being closely related to this research has been briefly described by the duos in following way:

"Fiscal efficiency deals with the ways in which the Local Government Units (LGUS) are financed. Three dimensions are of importance. First, local taxes should connect taxpayers with services they receive as much as possible. Second, systems of grants and transfers from the central government should provide adequate finance without overly distorting local preferences. Third, the system of finance of LGUs should not threaten national macroeconomic stability."

Local Authorities Fiscal Commission has presented a Local Authority Fiscal Commission Report, 2000. In analyzing the fiscal status, the fiscal details for two years (FY 2054/55 and 2055/56) obtained from 34 DDCs, 58 municipalities 75 VDCs have been taken. Report shows that in the present condition, nature resources export taxes (like herbs, boulders, and animal bydes bones) are the main internal resources of the DDCs. The DDC should seriously ponder over this issue. The DDCs do not seem to have made expected progress in terms of expending public services mobilizing resources there from. Similarly, it is necessary to develop a process of formulating, implementing, monitoring policies programmes for proper mobilization of sources of revenue. It is apparent that the DDCs can move confidently towards fiscal autonomy only if they adopt effective practicable revenue policies implement them impartially and efficiently.

Similarly Local Bodies Fiscal Commission Report (2057) describes in detail about fiscal decentralization in Nepal and its implication at local level The report encapsulates the principles of decentralization and other aspects such as legal provision of local bodies in Nepal, financial rights and conditions of local bodies, provision of revenue sharing and central grants to the local bodies and accounting systems and accountability of local bodies. It does not deal the issue at micro level.

Ebel, Robert D. and Yilmaz, (2002) in the World Bank policy research working paper discuss about how to measure decentralization. The main objective of the paper is to take a critical look at the nature and implications of measuring the fiscal dimensions of decentralization. It takes consideration the data of the sub national (Local) governments of six countries: Czech, Republic, Hungary, Poland, Estonia, Latvia and Lithuania received from the organization for Economic Co-operation and Development's (OECD, 2001) survey Fiscal Design Across level of Government. Further they have compared these data with the data of Government Finance Statistics (GFS) issued by the international Monetary Fund (IMF) on which a number of studies on decentralization are based. The main variables used were three different sources of local revenues-tax revenues, non-tax revenues and intergovernmental grants for measuring FD in these countries. Further they have described the relation of FD with other macroeconomic indicators such as economic stability, economic growth and public sector size.

Keshar J. Baral, (2002) in this report submitted to Regional planning office, pokhara has outlined the then existing state of internal resource mobilization process of Kaski and Kapilvastu DDCs.

The main objective of the two DDCs as prescribed by the local self Government Act 2055, to identify the existing problem in revenue mobilization process and to privies the remedial suggestions.

The financial data of DDCs two fiscal years- 2056/57 and 2057/58 have been analyzed. The variables are DDCs revenue, expenditure, share of DDC fund and public participation. The analysis concludes that the contribution of the DDC funds looks dismal to the total revenue of the DDCs. They have been found imposing the taxes which are not even mentioned by the LSG Act, 2055. Moreover, the mechanism for keeping

financial records in systematic and scientific way has not seen developed yet.

2.2.2 Research Articles

Keshar J. Baral, (2004) in his article “The municipal Expenditure and Revenue Structure in Nepal” has made an attempt to look in to the difference in the revenue and expenditure pattern of Nepalese Municipalities before and after decentralization of certain fiscal power given to the municipalities. The main variables of the study are municipal revenue and municipal expenditure. The sub-variables are the sources of municipal revenues such as tax revenues, government grants, borrowings and other sources.

The article has concluded that the share of municipalities in government budget trend to decrease after decentralization of economic power. The share of social programmes and capital investment is less than their administrative expenditure and that there is no significant contribution of local tax and non tax revenue structure of municipalities.

2.2.3 Review of Dissertations

In Nepal local government Budget/finance at the district, villages and municipal levels have been created in one from since the early 1960. Some of the works done on this field are related to macro level. Some researches have been reviewed which are as follows:

Subas Gautam, (2003) An Analysis Budget of Nepalgunj Municipality has broadly expressed the analysis of budget in Local government. He has conducted the research to acquire following objectives:

- i) To analysis the income and expenditure Patten of municipality.

- ii) To identify the new source of revenues.
- iii) To study the process of collecting finance.

He used primary and secondary sources to collect data and used seven years data from F.Y. 2053/54 to F.Y. 2057/58 for analysis. His major findings are as follows:

- i) In study period, revenue collected from taxes shows an increasing trend.
- ii) During the study period Nepalgunj Municipality seems mainly dependent on octroi tax.
- iii) The overall financial performance situation of Nepalgunj municipality in the study period was satisfaction.
- iv) The amount of development expenditure is not being fully utilized during the study period.
- v) The average per capita income is higher than per capita expenditure this trend is not position in the development of municipality on the basis of social justice.

Hem Kumar Mishra, (1983) had conducted a research entitled Local finance in Nepal: A Case study of Rajbiraj town panchyat. In this work he has broadly expressed the theme of local finance in Nepal and ends with suggestions and conclusions. It has briefly explained the functions and important of local financing. The study has focused on the town panchyat using the macro indicators of local finance in the country.

Bishnu Hari Pahadi, (1997) had conducted a research entitled Municipality finance in Nepal: A case study janakpur municipality is a brief study of the overall situation of the finance system of janakpur

municipality. The main variables of the study are income sources and expenditure patterns of the municipality.

Similarly, **Sudershan Silwal, (1998)** conducted a case study of Baglung municipality in 1998 the objectives of the study were to assess the income and expenditure pattern to study the potential sources of revenue to explore the possibilities of raising internal sources to finance the requirements of the municipality and to make policy recommendation for the improvement of financing of the Baglung Municipality. The study is based on the primary as well as secondary data adopting descriptive analysis. He concluded that municipality plays a crucial role for the local development of the country. Octroi was the most important sources of local revenue because it is politically painless, easy, to collect and required fewer work forces. Vehicle tax was found other important sources of the Baglung Municipality. The municipality counts not able to utilize its financial resources effectively. The revenue and expenditure are fluctuating and always, regular expenditure is in excess of development expenditure.

Hari Chandra Sapkota, (2002) had conducted a research entitled Local Government Finance in Nepal: A case study of Pokhara sub-metropolitan.

He has concluded that the overall financial position of the pokhara sub-metropolitan city in his study period in not promising. Even through revenues were collected in significant amount. The expense on social programs under development expenditure heading is very low in both absolute percentages terms.

Madhav Prasad Pokharel, (2004) had conducted a research entitled Budget in Nepal an Analysis of its structure, Patten and policies (FY

1990/1991–2001/2002). He has conducted the research to acquire following objectives:

- i) To review budgetary situation in Nepal.
- ii) To study the major objectives and policies adopted in the annual budgets during 1991-2002.

His study is based on secondary data. For the study purpose, he has taken 12 Fiscal year budget). His major findings are as follows:

- i) Nepal's budgeting process has been highly unrealistic in recent years.
- ii) Development budget I heavily over-programmed.
- iii) Declining but still high deficit.
- iv) Increasing burden of debt servicing charges.
- v) Lack of co-ordination between regular and development budget formulation.
- vi) Over reliance on foreign aid and lack of proper foreign aid policy.
- vii) Lack of monitoring mechanism.
- vii) Lack of multi year planning.
- viii) Lack of commitment.

He has conducted that the budgetary situation in Nepal, major objectives and policies adopted in the annual budgets during 1991-2002, trend of revenue and expenditure.

Madan Subedi, (2005) had conducted a research entitled Local Government Financial Management: A case study of Kaski DDC. He has conducted the research to acquire following objectives:

- i) To make a conceptual review of the financial resources that can be mobilized by the DDCs
- ii) To analysis the work execution regarding internal resources mobilization.
- iii) To analysis various internal and external sources of revenue of Kaski DDC
- iv) To analyses of the current state of internal and external resource mobilization process of the DDC.

His major findings are as follows:

- i) Kaski DDC's budgeted revenue is not realistic for it is not formulated upon the budgetary norms and standards. However the correlation between actual revenue and actual expenditure is significant.
- ii) The share of internal revenue has remained at 18% in average that is negligible. This is due to lack of appropriate mechanism for internal revenue mobilization.
- iii) The average contribution of tax revenue to the total local own revenue or total revenue of the DDC 45%, its share to the total revenue of the DDC remains at 7% which is negligible. It concludes that the DDC doesn't have satisfactory tax autonomy.

Conducted a case study of Kaski district in the field of local government Natural financial management, Natural resource, collection of infrastructure utility tax, import tax, tax mechanism, sources of local revenue, vehicles tax which approved by district council etc.

Dipak Thapa Chhetri, (2007) Local Government Financial Management: A case study of Syangja DDC. He has conducted the research to acquire following objectives:

- i) To analyze the sources of revenue of Syangja DDC.
- ii) To analyze the growth and trends in revenue and expenditure of Syangja DDC.

His major findings are as follows:

- i) Syangja DDC excessively depends on external resources and share of internal in total revenue and survey small.
- ii) Syangja DDC has allocated higher amount of revenue raised from internal sources to its administrative expenses and financial assistance.
- iii) Budgetary process Syangja DDC is not scientific and realistic one.

He has covered the overall financial position and budget allocation of Syangja DDC. The big amounts of resources were spent for development sector of VDC.

Anuj Sigdel, (2004) Financial Analysis of Local Government: A case study of Lamjung DDC. He has conducted the research to acquire following objectives:

- To analysis the potential sources of the own revenue of LDDC
- To analysis the composition of revenue of LDDC.
- To analysis the expenditure pattern of LDDC.
- To study the trend of revenue and expenditure of LDDC.

His major findings are as follows:

- LDDC is excessively dependent on external resources and the share of internal income in total revenue is very small. So it is emphasis that LDDC has yet to mobilize the local sources of revenue property.
- LDDC has allocated higher amount of revenue raised from internal sources to its administrative expenses and financial assistance. Similarly, total revenue of LDDC is in decreasing trend. All these conclude that LDDC has not allocated much more budget for capital expenditure.
- Actual revenue is lower than the budgeted revenue on one hand and on other, actual expenditure is lower than the budgeted expenditure. These facts conclude that budgetary process of LDDC is not scientific and realistic one.
- On the whole, actual revenue and expenditure are far below the budgeted ones. Similarly, all financial indicators are far below the set benchmarks. All these concluded that LDDC has poor financial performance during the study period.

As far as the literature of the local government budget is concerned, pure literature on kaski district is not abundantly available. It is so much especially with the managerial aspects of the subject, which tends to emphasis upon the micro level analysis.

2.3 Research Gap

Many previous researches, which are studying above, were done mainly on financial management of local government. Some research was done on analysis of budget, just in municipalities. These studies cannot research the budget analysis of District Development Committee. Therefore, this study has played important role to fulfill the gap between

previous study had done and research need to be done on the budget analysis of local government. This study would be of different value as it focuses on Kaski District. It examines the current practice of budget analysis of local government in Nepal as important tools of Budgeting; Profit planning and Control.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Background

Research methodology deals with the road map of the study. It deals with the way the data are collected, analyzed, figured out and necessary conclusions and recommendations are made. So, it is the true way of

finding of the research work. It can be said that research methodology is the real agent of research findings and destinations. This chapter deals with the introduction, research design, selection of study unit, nature and sources of data, data collection techniques, data analysis tools and limitations of the methodology adopted in this study.

3.2 Research Design

The term research design is employed in the sense of overall framework or plan for the collection and analysis of data. A research design is the arrangement of conditions for collection and analysis of data. The research design of this study is descriptive as well as analytical. The qualitative aspects of the research such as effectiveness of budget analysis also explained in the word wherever necessary. Therefore analytical as well descriptive research will be applied as research design for the study.

3.3 Population and Sample

This study is based on case study. So only one sample i.e. Kaski DDC is taken as a sample. However, total population is 75 Districts.

3.4 Nature and Sources of Data

Data used in this study are secondary in nature. The use of secondary data is much extensive which are collected through the record factors of the DDC. Secondary data have been collected from published and unpublished official record of the Kaski DDC, annual report and previous thesis of the related area. Following are the main secondary source of data of the DDC used in this study.

- Financial statements especially budgeted income & expenditure and actual income and expenditure published by DDC.
- District Development plan published by DDC.
- News papers, magazines, brushers and related articles of the DDC.
- Books and rules & regulation published by ministry of local development (MLD)
- Other related data available in the subject area.

3.5 Data Collection Techniques

Primary data are collected from the concerned authority of DDC officers by using personal direct interview methods. But this study is mainly based on secondary data. Numbers of sample data and questionnaire have been taken in to account. Most of data required for the purpose are collected from DDC.s official record. The other related and helpful data are collected from different related sources and agencies of Kaski DDC.

3.6 Data Analysis Tools

Data are analyzed by using different statistical tools such as percentage, correlation analysis, bar diagram and accounting tools such as performance report. All the calculations have been done with the help of Ms-excel programme by the researcher as started earlier.

3.6.1 Statistical Tools

I. Trend Analysis

Following trend analysis is calculated in the study period.

- Analysis of internal revenue of Kaski DDC.
- Analysis the tax revenue of internal sources
- Analysis the non-tax revenue of internal sources
- Analysis of External revenue of Kaski DDC.
- Analysis of total revenue of Kaski DDC.
- Analysis the total expenditure of Kaski DDC
- Analysis the total income and expenditure of own sources of Kaski DDC

II. Correlation Coefficient analysis.

Of the several mathematical methods of measuring correlation, the Karl Pearsons methods, popularly known as ‘Pearson’s Coefficient of Correlation’ is most widely used in practice. The pearson coefficient of correlation is denoted by the Symbol ‘r’ and the formula is:

$$r = \frac{\sum XY}{N \sqrt{\sum x^2 \sum y^2}}$$

Where,

$$\sum x = \sum X - N\bar{X}$$

$$\sum y = \sum Y - N\bar{Y}$$

σ_x = Standard Deviation of Series ‘X’

σ_y = Standard Deviation of Series ‘Y’

N = Number of pair in Observation

r = The calculated value of correlation coefficient from a sample of n pairs of observation.

\bar{X} X Mean of x or dependent Variable

\bar{Y} X Mean of x or dependent Variable

The above formula can be transformed to the following from which is easier to apply:

$$r = \frac{\sum XY}{\sqrt{\sum x^2 \sum y^2}}$$

The value obtained from the use of this formula always lies between +1 to -1. The positive value indicates positive correlation between the observed variables and vice-versa. The purpose of using Pearsonian formula in this study is to find out correlation between actual and forecasted variables viz. budget, income and expenditure of the DDC. However, the interpretation of 'r' depends upon the value of probable error (P.E.)

III. Probable Error

The probable error of the coefficient of correlation helps to determine the reliability of the value of 'r' and interpret it.

Mathematically expressed,

$$P.E = 0.6745 \frac{1 - r^2}{\sqrt{N}}$$

Where,

P.E. = Probable Error

r = Correlation Coefficient

N = the number of pairs of observation.

The relation between the variables X and Y is determined after the value of r and P.E. are compared to each other. There are the following alternative interrelations in this regard:

Case 1: if the value of r is less than P.E., ($r < P.E$) there is no evidence of correlation between or not significant the variables X and Y.

Case 2: if the value of r is six times greater than P.E, ($r > 6P.E.$) There exists significant correlation between the variables X and Y.

Case 3: In the circumstances other than the above two cases (If $P.E < r < 6P.E$) nothing can be concluded with certainty.

Case 4: The limits within, which the population correlation coefficient can be expected to lie is given by $r \pm P.E$ (S.C. Gupta, 1990)

Following correlation coefficient is calculated in the study period.

- Correlation Coefficient between Total Actual income and Actual expenditure.
- Correlation Coefficient between Total Budgeted income and Budgeted expenditure.
- Correlation Coefficient between Total Budgeted income and Actual income.
- Correlation Coefficient between Total Budgeted expenditure and Actual expenditure

3.6.2 Financial Tools

The following financial tools are used to measure the fiscal autonomy and the degree of fiscal decentralization.

I Financial Performance Analysis

For the purpose of performance analysis, actual revenue has been compared with the budgeted revenue. Similarly, actual expenditure has been compared with budgeted expenditure. Or performance analysis measures the fiscal efficiency of the DDC by comparing its budgeted and actual figures of income and expenditure (Mark Abrahams and Francis Conway, 1994). There are the following two variations of performance.

Revenue Performance (Pr): It is the measure of financial performance of the actual revenue in relation to the budgeted revenue.

Mathematically expressed;

$$Pr = \frac{\text{Actual Revenue}}{\text{Budgeted Revenue}} \times 100$$

Where, Pr = Revenue Performance

Expenditure Performance (Pe): It is the measure of financial performance of the actual expenditure in relation to the budgeted expenditure.

Mathematically expressed;

$$Pe = \frac{\text{Actual Expenditure}}{\text{Budgeted Expenditure}} \times 100$$

Where, Pe = Expenditure Performance

II. Financial Autonomy Ratio (FAR):

It is used to provide an indication of local government independence from central funding. It is defined as the ration of locally raised revenues to total local expenditures or the ratio of LGU revenue from local sources to LGU expenditure.

Mathematically expressed; FAR = $\frac{\text{Total Local Own Revenues}}{\text{Total Local Expenditure}}$

*Where, Total Local – Own Revenue means Total internal Revenue
Total Local Expenditure means Total Expenditure.*

III. Tax Autonomy (TA)

Tax Autonomy, expressed by 'T' in this study indicates to what extent the local government units have the sources and power for imposing local taxes. It is defined as the ratio of tax-revenue (both own and shared taxes) to total local revenues or local government taxes as the percent of total revenues (Ebel, Robert D. and Yilmaz, 2000)

Mathematically expressed; $T = \frac{\text{Total Local Tax Revenue}}{\text{Total Local Revenue}}$

Where, Total Local Tax- Revenue means Tax Revenue and Total Local Revenue means Total Revenue.

4. Financial Autonomy Index (FAI)

It is defined as the share of internal own revenue to total revenue sources.

Mathematically expressed (Local Bodies, 2057)

$FAI = \frac{\text{Share Of Internal Revenue}}{\text{Total Revenue Source}}$

Where, Share of Internal Revenue means Total Internal Revenue and Total Revenue source means Total expenditure.

3.7 Limitation of the Methodology

Limitations of the methodology followed for this study are mentioned below.

- a) All the quantitative data collected are secondary data of kaski DDC only.

- b) The quantitative data do not represent the period before FY 2060/2061 and after FY 2064/2065.
- c) Analysis of the data is made by using the statistical indicators mentioned in this chapter only.
- d) The findings based on analysis and presentation of the data represents only kaski DDC and not the other DDCs of Nepal.

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

4.1 Data Presentation and Analysis

Previous chapter deals with the methodology adopted in this study. This chapter deals with the presentation and analysis of the data. This chapter analysis the sources of revenue, composition and trend of revenue and expenditure. Finally, it presents the performance of kaski district and findings of the study.

4.1.1 Trend Analysis of Revenue

Composition of internal and external revenue analyzed in this chapter.

4.1.1.1 Internal Sources.

As stated in the previous chapter the DDC has different internal sources- local tax, services charge, fee, sale and revenue allocation. Basically, internal sources are classified in two categories- tax and non-tax sources. There are different types of local tax (for detail see Chapter II) kaski DDC has raised revenue from infrastructure utilization tax and resources utilization tax and non-tax sources. It has raised the non tax revenue from fee and fines sale of natural resources and revenue allocation as internal sources of revenue. For the purpose of the

analysis, internal revenue has been classified into tax and non-tax revenue. Internal revenue raised during the observed Fiscal year is shown in table 4.1.

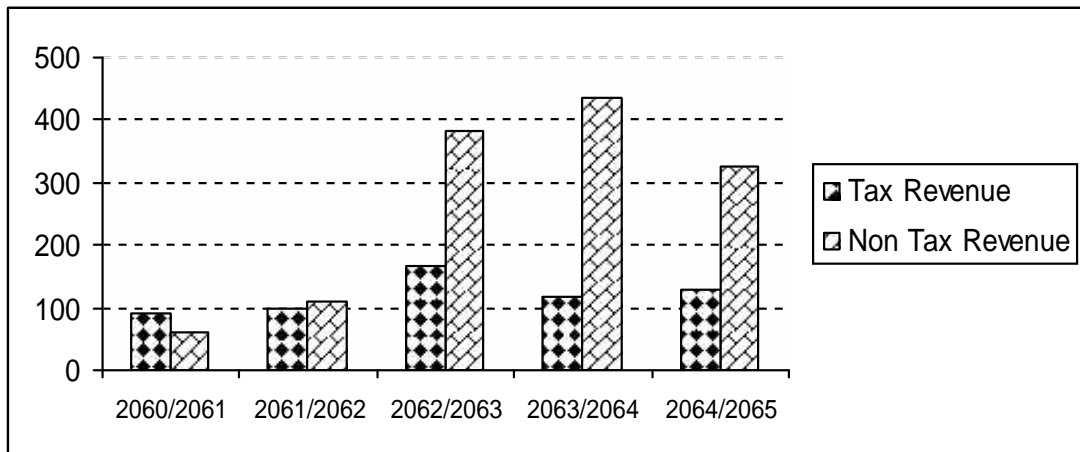
Table 4.1
Internal Revenue of Kaski DDC (Rs in lakh)

FY	Tax Revenue	%	Non Tax Revenue	%	Total Internal Revenue
2060/2061	91.78	59.97	61.28	40.03	153.06
2061/2062	100.15	47.84	109.22	52.16	209.36
2062/2063	166.41	30.33	382.18	69.67	548.59
2063/2064	116.06	21.04	435.41	78.96	551.47
2064/2065	129.14	28.48	324.16	71.52	453.30

Sources: Appendix 4

Table 4.1 show that total internal revenue of Kaski DDC was highest in FY 2063/2064 with Rs 551.47 Lakes and the lowest in FY 2060/2061 with Rs 153.06 Lakes. The tax revenue remained 91.78 lakes, 100.15 lakes to 129.14 lakes respectively in the FY 2060/2061 to 2064/2065 respectively. DDC has raised internal revenue from tax and non tax sources. The revenue raised in taxes and other sources are given in table 4.1. The tax revenue collects in FY 2060/2061 to 2064/2065 was 59.78%, 47.84%, 30.33%, 21.04%, 28.48%. The highest collection rate in FY 2060/2061 and lowest collection rate in FY 2063/2064. The non tax revenue was collects in FY 2060/2061to 2064/2065 was 61.28, 109.22, 382.18, 435.41 and 324.16 lakes respectively. The non tax revenue collects highest revenue in FY 2063/2064 and lowest collects revenue in FY 2061/2062. This statement shows that the tax and non tax revenue collects in little fluctuation in the study period.

Figure 4.1



The bar diagram as shown in Fig. 4.1 represents the fluctuation of taxable and non taxable out of the total internal revenue in the FY 2060/2061 to 2064/2065 gradually it is in increasing grand.

4.1.1.2 Tax Revenue

As stated in the previous chapter DDC can impose infrastructure utilization tax and resources utilization tax. It can impose tax on roads, path, bridge, irrigation, ditches and ponds etc built by or transferred to it at approved rate under infrastructure utilization tax. Similarly, it can impose tax on the wastage, stone leather, bones, horns, hoof, two footed and four-footed animals etc exported out of the district under resource utilization tax. But kaski DDC has imposed tax on wastage, stone letehr, (Kabadi). Table 4.2 shows the composition of infrastructure utilization tax and resources utilization tax of kaski DDC.

Table 4.2

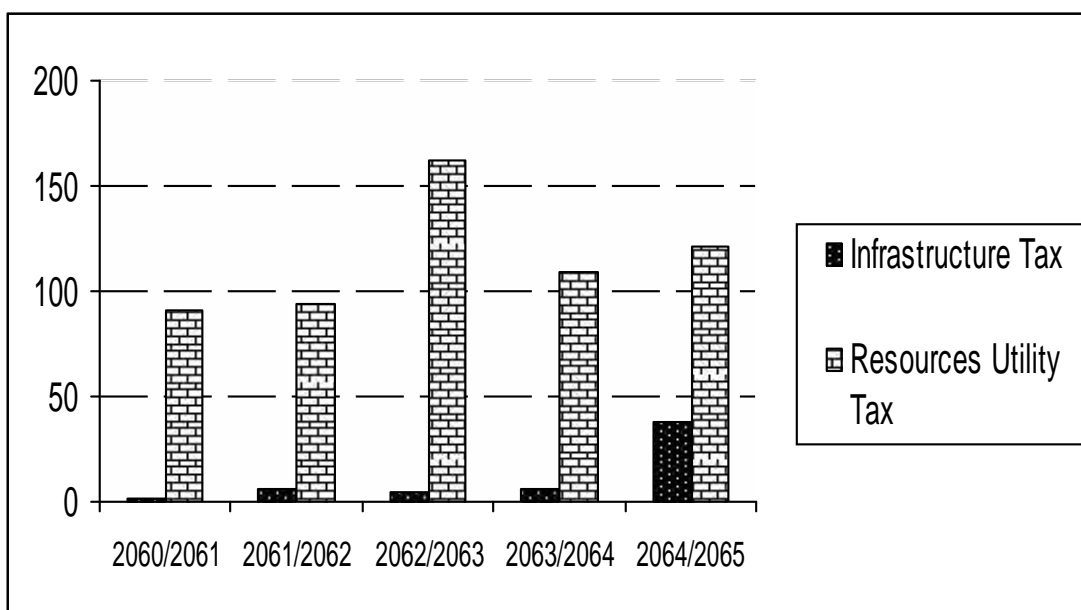
Tax Revenue structure of Kaski DDC (Rs in Lakh)

FY	Infrastructure Tax	%	Resources Utility Tax	%	Total Tax Revenue
2060/2061	11.6	1.24	906.1	98.73	917.8
2061/2062	63	6.30	938.5	93.70	1001.5
2062/2063	47.6	2.86	1616.4	97.14	1664.1
2063/2064	64	5.51	1096.5	94.49	1160.6
2064/2065	383.3	6.45	1208.0	93.55	1291.4

Sources: Appendix 10

The above table shows the structure of tax revenue of kaski DDC. The infrastructure utility tax is the sum of the taxes collected from the vehicles using the roadways and bridges either constructed by the DDC or handed over to it. The infrastructure tax contributed the tax revenue was FY 2060/2061 to 2064/2065 was 1.24%, 6.30%, 2.86%, 5.51% and 6.45% in the study period the infrastructure tax collected in highest FY 2064/2065 and lowest was FY 2060/2061. Similarly, the resources utility tax collected from different sources as mentioned in Appendix 11. Has fluctuating share in the total tax revenue of the kaski DDC. The resources utility tax contributes the total tax revenue was 2060/2061 to 2064/2065 was 98.73%, 93.70%, 97.14%, 94.49% and 93.55% in the study period. The resource utility tax collected in the highest FY 2062/2063 and lowest in FY 2064/2065.

Figure 4.2



4.1.1.3 Non-Tax Revenue

As stated in the previous chapter, the DDC can raise revenue through non tax sources – service charge, fee, and sale and revenue allocation. But the Kaski DDC raised revenue from non tax sources like mainly fee and fines sale of natural resources, Registration fee as internal sources of revenue. Table 4.3 shows the internal source of revenue that is raised by the kaski during the five years study period.

Table 4.3

Non-Tax Revenue Structure (Rs in Corore)

FY	Service charge	%	Fee	%	Sales proceeds	%	Revenue sharing	%	Others	%	Total
2060/2061	0	0	2.38	3.89	3.73	6.09	49.11	80.15	6.06	9.88	61.28

2061/2062	1.20	1.09	3.0	2.74	3.20	2.92	95.76	87.67	6.06	5.58	109.22
2062/2063	7.18	1.87	12.55	3.28	0.5	0.13	351.76	92.04	10.19	2.68	382.18
2063/2064	3.24	0.74	5.70	1.30	0	0	400.07	91.88	26.4	6.08	435.41
2064/2065	1.83	0.56	3.48	1.07	2.02	0.62	295.61	91.19	21.22	6.56	324.16

Sources: Appendix 10

Table 4.3 shows the structure of the non tax revenue of kaski DDC which is composed of service charge, fee, sales proceeds, revenue sharing and others.

The share of service charge in the internal revenue of kaski DDC approximately 0%, 1%, 2%, 0.74%, and 0.56% in the first five years of study period. The share of fee contributed 4%, 3%, 3%, 1% and 1% in the FY 2060/2061 to 2064/2065 respectively.

Revenue of sale had share of 6.09%, 3%, 0.13% 0%, 0.62% in the FY 2060/2061to 2064/2065 respectively. However, the share of sales proceeds was nil in FY 2063/2064.

Revenue of revenue of sharing of 80%, 88%, 92%, 92% and 91% in the FY 2060/2061 to 2064/2065 respectively.

Lastly the share of the revenue from miscellaneous sources (other) approximately 10%, 6%, 3%, 6% and 7% in the same FY respectively. The other source of revenue is composed of the amount received from price and penalties lease rent, interest and income generating skills.

4.1.1.4 External Revenue:

As stated in chapter two, DDC's external sources of revenue include loans, borrowing, foreign grant and government of Nepal grant.

Table 4.4

Total External Revenue Structure of Kaski DDC (Rs in lakh)

FY	External Revenue	Total Revenue	Share of External Revenue
2060/2061	405.53	558.59	72.60%
2061/2062	1160.82	1370.19	84.71%
2062/2063	1067.70	1616.29	66.05%
2063/2064	1780.28	2331.74	76.34%
2064/2065	1867.74	2321.05	80.47%

Sources: Appendix 7

The external revenue structure of kaski DDC is presented in appendix 7. By considering the actual income less internal revenue, the external revenue can be obtained. It is also summarized in table 4.4 as external revenue. The largest share contributed by grants dominated external revenue throughout the study period. The share of external revenue to total revenue was approximately 73%, 85%, 66%, 76% and 80% in the FY 2060/2061 to 2064/2065 respectively.

4.1.1.5 Composition of Revenue

As started in the previous chapter, the DDC have raised the funds from two different sources- internal and external. However, the bulk of their revenue has come from external sources. Table 4.5 shows the relative and absolute role of internal sources and external sources of revenue in the total revenue of Kaski DDC from the fiscal year 2060/61 to 2064/65.

Table 4.5

Revenue Raise from External and Internal Sources (Rs in Lakh)

FY	Internal		External		
	Amount	%	Amount	%	Total
2060/61	153.06	27.40	405.53	72.60	558.59
2061/62	209.37	15.28	1160.83	84.72	1370.20
2062/63	548.59	33.95	1067.71	66.05	1616.30
2063/64	551.47	23.65	1780.28	76.35	2331.75
2064/65	453.30	19.53	1867.75	80.47	2321.05

Source: appendix: 8

Table 4.5 shows the total revenue of kaski DDC. Internal revenue of highest in the FY 2063/2064 with more than 551.59 lakes where as it is lowest in FY 2060/2061 amounting Rs. 153 lakes. However, it was at its highest level in FY 2063/2064 with 551 lakes. Similarly, the external revenue is highest in FY 2064/2065 and the lowest in FY 2060/2061.

Internal revenue has drastically increased in FY 2060/61 to 2063/2064 but in FY 2064/2065 decreasing in amount of 98 lakes less than FY 2063/2064. The fluctuation of internal revenue of kaski DDC in the study period in FY 2064/2065 less the collection of registration fees.

Figure 4.3

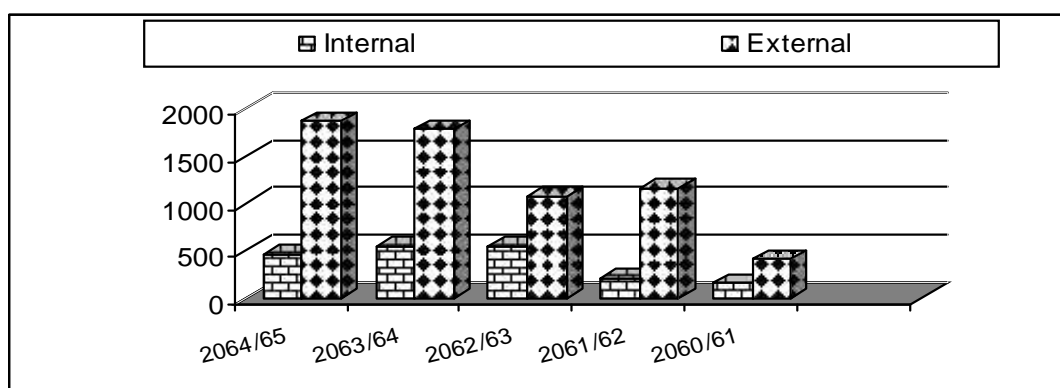


Fig. 4.5 represents the both internal and external revenue during the study period.

Table 4.6

Growth and Trend in Revenue of Kaski DDC (Rs In lakh)

FY	Internal Revenue		External Revenue		Total Revenue
	Amount	Growth rate %	Amount	Growth rate %	
2060/2061	153.06	-	405.53	-	558.59
2061/2062	209.37	0.36	1160.83	1.86	1370.19
2062/2063	548.59	1.62	1067.71	-0.08	1616.29
2063/2064	551.47	0.005	1780.28	0.66	2331.75
2064/2065	453.30	-0.17	1867.75	0.049	2321.05
		1.815		2.489	

Source: Appendix: 8

Table 4.6 depicts the growth and trend in revenue of kaski DDC in totality. The internal revenue was the composition of different sources as shown in Appendix 4. The growth rate of internal revenue was -.036%, 1.62%, 0.005%, & -0.17% in the FY 2060/2061, 2061/62, 2062/63, 2063/64, and 2064/65. The compound growth rate is 1.81% and the external revenue growth rate is – 1.86%, -0.08%, 0.66%, and 0.049% in the FY 2060/2061 to 2064/2065 respectively. The compound growth rate of external revenue is 2.48% in the study period.

Figure 4.4

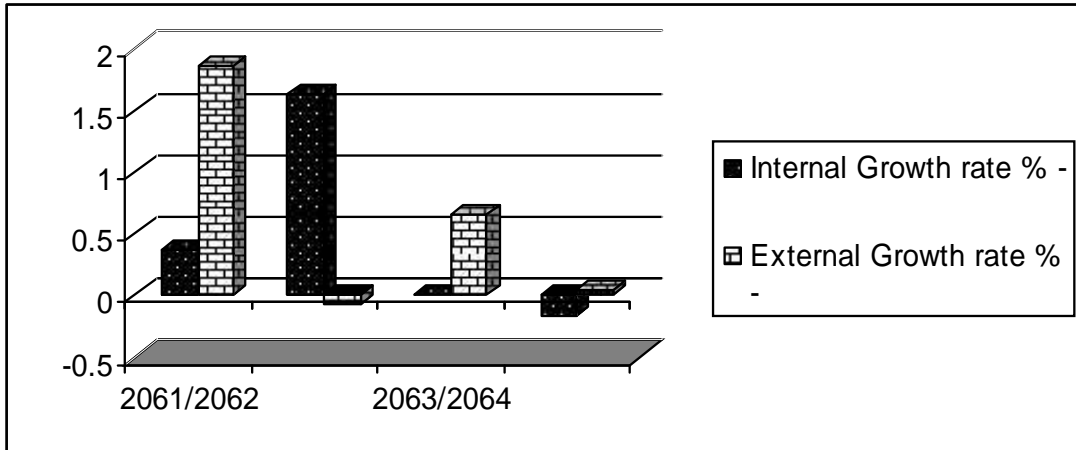


Fig. 4.6 above shows the trend lines of the total internal and external revenue of Kakdi DDC. There is a fluctuation of internal as well as external revenue in the past five years study period.

4.1.2 Trend Analysis of Expenditure:

Previous section deals with the analysis of the revenue whereas this section deals with the analysis of expenditure.

4.1.2.1 Expenditure pattern of Kaski DDC:

Expenditure means spending or using money for a specific purpose over a fix period of time. Expenditure is the out flow of cash from the DDC body to operate the general administration, social and development works. Through expenditure of kaski DDC cover many areas, expenditure are broadly divided in to administrative and development expenditure. Table 4.7 shows the administrative and development expenditure of kaski DDC during the observed fiscal years.

Table 4.7

Total Expenditure of kaski DDC (Rs in lakh)

FY	Administration expenditure	Share %	Development Expenditure	Share %	Total Expenditure

2060/2061	211.71	45.38	376.77	64.02	588.48
2061/2062	220.94	7.44	2748.31	92.56	2969.25
2062/2063	188.50	20.50	730.75	79.50	919.25
2063/2064	255.51	5.64	4277.85	94.36	4533.36
2064/2065	378.82	24.32	1178.56	75.68	1557.39

Sources: Appendix 6

Table 4.7 depicts the expenditure structure of kaski DDC. The total expenditure was broken down to administrative expenditure and development expenditure. The table shows that the share of administrative expenditure to the total expenditure was 45%, 7%, 21%, 6% and 24% in the FY 2060/2061 to 2064/2065 respectively.

Similarly, the development expenditure has remained at 64%, 93%, 80%, 94% and 76% in the same FY.

Figure 4.5

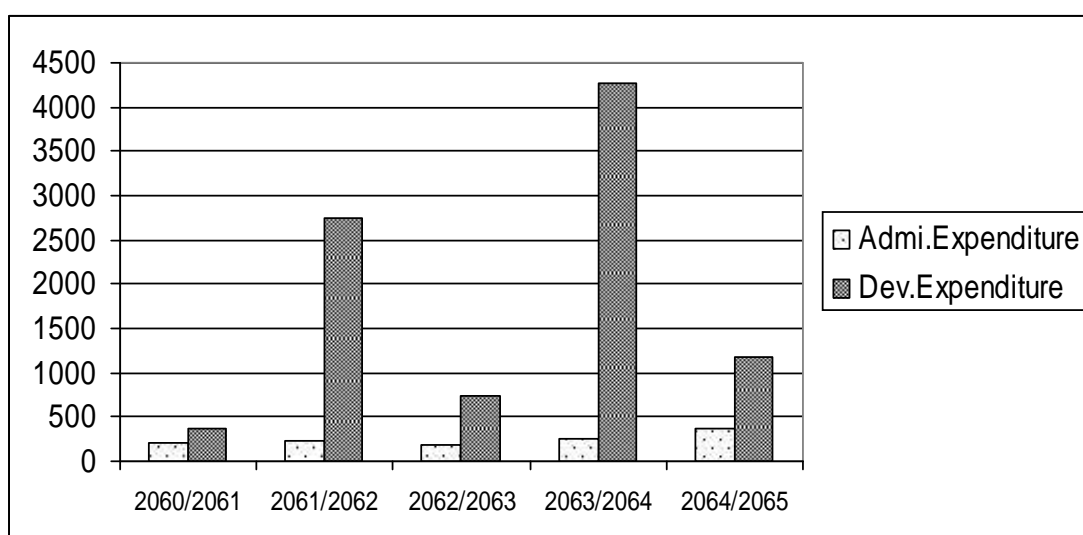


Fig.4.7 depicts the relative share of the two types of expenditure to the total revenue of DDC.

Figure 4.6

Growth trend of total expenditure of kaski DDC

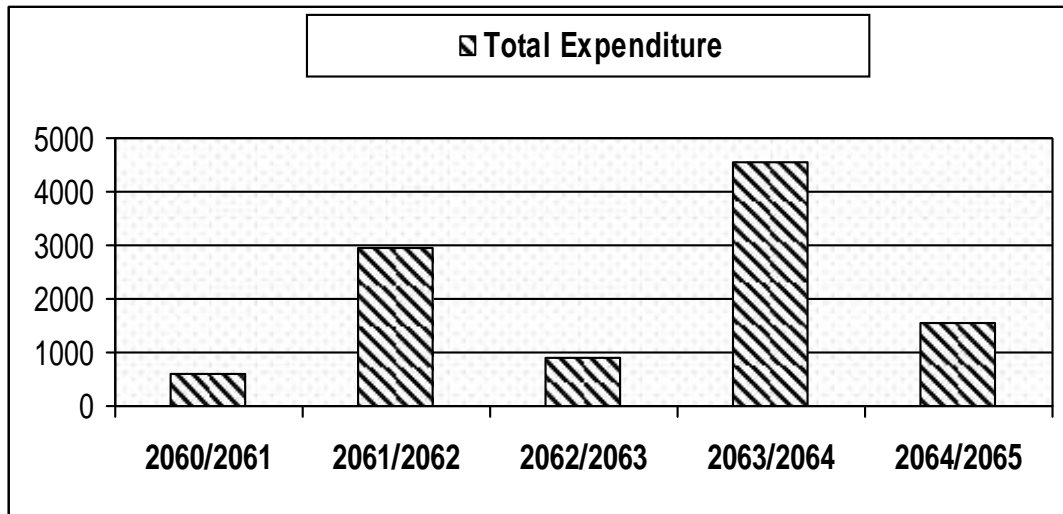


Table 4.8

Comparison of Total Income and Expenditure (Rs in Lakh)

FY	Actual Income	Actual Expenditure	Financial Gap
2060/2061	558.59	588.48	-29.89
2061/2062	1370.19	2969.25	-1599.06
2062/2063	1616.19	919.25	694.94
2063/2064	2331.17	4533.36	-2202.19
2065/2065	2321.05	1557.39	763.66

Source: Appendix 8

Table 4.8 shows the comparison of the DDC's total income and expenditure. The gap calculated is the difference between total income and total expenditure. The positive gap indicates excess of income and over expenditure and vice-versa. The largest gap looks in the FY

2063/2064 with Rs -2202.19 lakh and smallest in the FY 2060/2061 with – 29.89 lakh.

4.1.2.2 Expenditure pattern of own sources of Revenue

As stated in the previous chapter, DDC disburses internally generated revenue in administrative and construction/maintenance work. The kaski DDC's administrative expenditure consists of expenses on salary, allowance, service, office operation, repair and maintenance, and financial assistance donation/prize. Appendix 9 shows the distribution of own sources of revenue during the observed fiscal year. Appendix 9 reflects that bulks of own sources of revenues are use in 19 heading. Kaski DDC's expenditure on 19 heading or total expenditure is Rs 148.24, 108.40, 99.64, 94.55 and 145.74 lakes in FY 2060/2061 to 2064/2065 respectively.

Table 4.9

Distribution of Own sources of Revenue (In Rs)

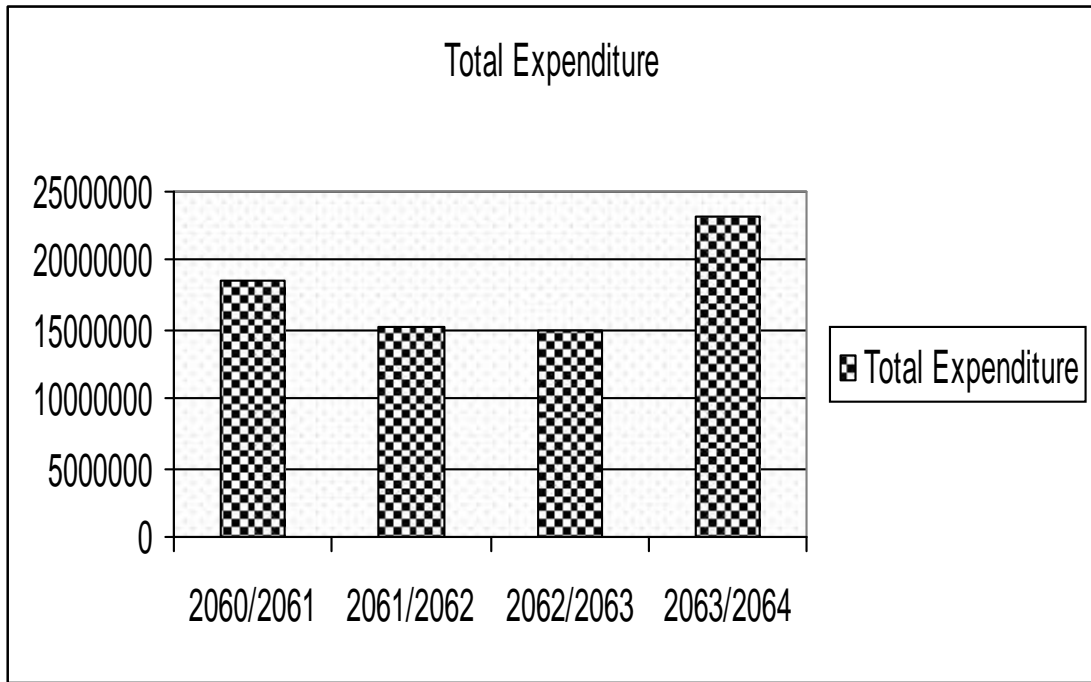
S.N.	Particular	Fiscal Year				
		2060/2061	2061/2062	2062/2063	2063/2064	2064/2065
1	Salary	1549637	1822000	2187538	2211605	2567020
2	Alloouce	559706	626500	1523170	1645586	2387900
3	Daily Allowance	560483	720000	860678	589159	1085320
4	Office operation exp.	845344	1050200	1300000	1248840	1320500
5	Rent	37811	85000	59081	4850	52000
6	Maintenance	475900	620000	1098800	417550	1025817
7	Office equipment	400000	150000	0	0	0
8	News paper/ Books	97909	52000	64000	42870	105600
9	Petrol	410932	752300	818807	914162	1052648
10	mis.exp.	350000	405000	628500	461187	630000
11	pernanent equipment	147979	980000	0	0	67000
12	Training and seminar	298409	750200	1278604	887531	1689321
13	Donation, pridge,	3508755	1689000	180500	249040	368930

	member fee, fund					
14	Land purchase	0	0	0	0	0
15	Building and House	1041499	1200300	0	0	0
16	Other structure and maintainance	4683701	0	0	0	0
17	Income return	1305723	1650000	2152000	2694774	4287000
18	principle and interest income	0	0	0		0
19	Providend fund	100000	110000	0	300000	502000
Total		14824151	10840500	9964140	9455549	14574036

Source: Appendix 9

Kaski DDC's expenditure on salary, allowance, and office operations covers the highest portion of expenditure during the study period. It is Rs.103.37 Lakh, 105.57 Lakh and 57.64 Lakh. On the other hand DDC's expenditure trend of other heading such as maintenance 36.38 lakh, Petrol 39.48 lakh, Training and seminar 49 lakh, donation, prize, member fee 59.96 lakh and structure, maintenance, income return headings are high expenditure shows in study period.

Figure 4.7



DDC maximum expenditure of twenty five to forty percentage of total amount it has raised from tax, fee, service fee, charge and rent for administrative works. Similarly, Kaski DDC disburse higher amount in administrative expenses than that is provided by the regulation in FY 2060/2061 and 2061/2062. But in other FY of study period follow these criteria of regulation. The present of DDC may spend in Financial Assistance one percentage of the total amount raised by the DDC from tax, fee, and service fee. Charge and rent.

4.2 Correlation Coefficient Analysis

The interpretation of the values of correlation coefficient and probable error presented given blow.

4.2.1 Relationship between Total Actual income and Actual Expenditure.

Table 4.10

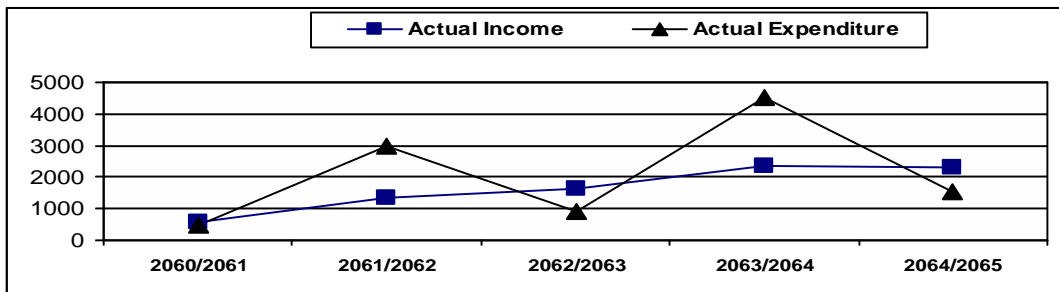
Total Actual income and Actual Expenditure (Rs in Lakh)

FY	Actual Income	Growth Rate %	Actual Expenditure	Growth Rate %
2060/2061	558.59	-	588.48	-
2061/2062	1370.19	145.29	2969.25	536.52
2062/2063	1616.29	17.96	919.25	-69.04
2063/2064	2331.74	44.27	4533.36	3.93
2064/2065	2321.05	0.45	1557.39	-65.64

Source: Appendix 8

Since the value of $r = 0.56$ is less than the value of $6P.E. = 6 * 0.20$ as shown in Appendix 11, nothing can be concluded with certainty about correlation between the variable X & Y. The correlation's being not significant means the actual income and actual expenditure has not a certain definite relation. This implies that DDC's budget was not realistic. It was not prepared on the basis of budgetary norms and guidelines.

Figure 4.8



The trend line as depicted by figure 4.10 proves that the relationship between actual income and actual expenditure is not conclusive. It means the two variables are not correlated. Actual income was at to

the lowest level of Rs.558.59 lacs in the FY 2060/2061 which looks at the highest level of Rs. 2331.74 lacs in the FY 2063/2064. Similarly, the actual expenditure looked at the lowest level of Rs. 466.48 lacs in the FY 2060/2061. It reached to the ever highest level of Rs. 4533.36 in FY 2063/2064.

4.2.2 Relationship between Budgeted Income and Budgeted Expenditure.

Table 4.11

Total Budgeted Income and Expenditure (Rs in Lakh)

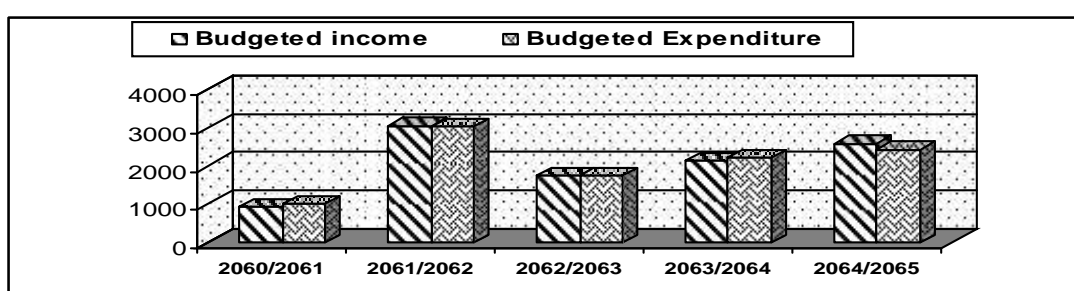
FY	Budgeted income	Growth rate %	Budgeted Expenditure	Growth rate %
2060/2061	932.88	-	1009.33	-
2061/2062	3048.49	2.27	3043.89	2.01
2062/2063	1759.85	-0.42	1751.05	-0.42
2063/2064	2129.16	0.20	2225.23	0.27
2064/2065	2579.93	0.21	2423.83	0.089

Sources: Appendix 5

Since the value of r and P.E. as shown in Appendix 12 state that correlation between budgeted income and budgeted expenditure. Since the value of $r = 0.98$ is six times greater than the value of $P.E. = 60 \times 0.11$, the value of r is significant. It means that if the budgeted income increased so did the budgeted expenditure and vice-versa. It also signifies that the budgeted expenditure of kaski DDC was through to make the budget based on the cash flow basis, not on accrual basis. If the DDC received cash in terms of revenue from different sources it

made enough expenditure budgets. Again if it didn't have enough cash, the expenditure too, was made in similar ratio. This all concludes that DDC's budgeted expenditure was not dependent factor of its budgeted income.

Figure 4.9



The bar diagram as shown in figure 4.11 clearly states the relationship. The budgeted income of kaski DDC has an increasing trend in FY 2060/2061 and 2061/2062. Whereas, it has little increased next three fiscal years.

The growth rate of budgeted income in the fiscal years 2060/2061 to 2064/2065 was 2.27%, -0.42%, 0.20%, 0.21% respectively. Similarly the growth rate of budgeted expenditure was 2.01%, -0.42%, 0.27%, 0.089% respectively. The negative growth rate indicates that the budgeted income and expenditure have decreased in those years.

4.2.3 Relationship between Budgeted Income and Actual Income

Table 4.12

Total Budgeted Income and Actual Income (Rs in Lakh)

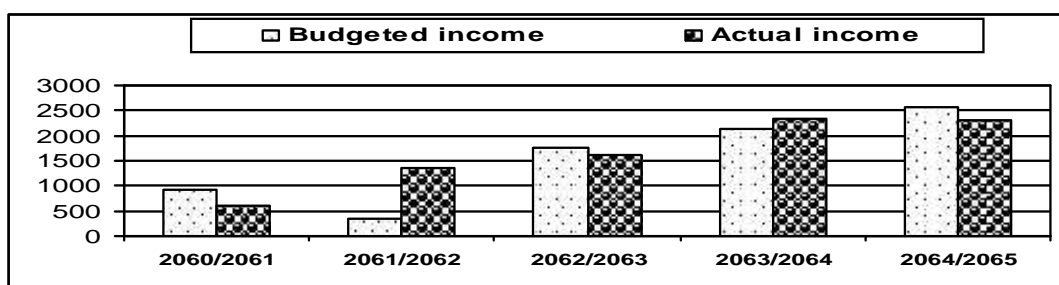
FY	Budgeted income	Actual income	Amounting Gap
2060/2061	932.88	598.59	374.29

2061/2062	348.49	1370.19	-1021.7
2062/2063	1759.85	1616.29	143.36
2063/2064	2129.16	2331.74	-202.58
2064/2065	2579.93	2321.05	258.88

Sources: Appendix 5 & 8

The value of r and P.E. are shown in Appendix 13. Here, since the value of $r = 0.46$ is not less than the value of $6 \text{ P.E} = 6 * 0.23$, nothing about correlation between the variables X & Y can be concluded with certainty. The uncertain relationship between actual income and budgeted income proves that DDC's budgeted income did not correspond to the actual one. This is because of the unrealistic picture of budgeted income.

Figure 4.10



The 4.12 figure depicts that the two variables- budgeted income and actual income have no conclusive relationship. The actual income had increasing trend in fiscal years i.e. 2060/2061 to 2064/2065. Similarly the trend line of budgeted income also had decrease in first two years then increase next fiscal years.

4.2.4 Relationship between Budgeted Expenditure and Actual Expenditure

Table 4.13

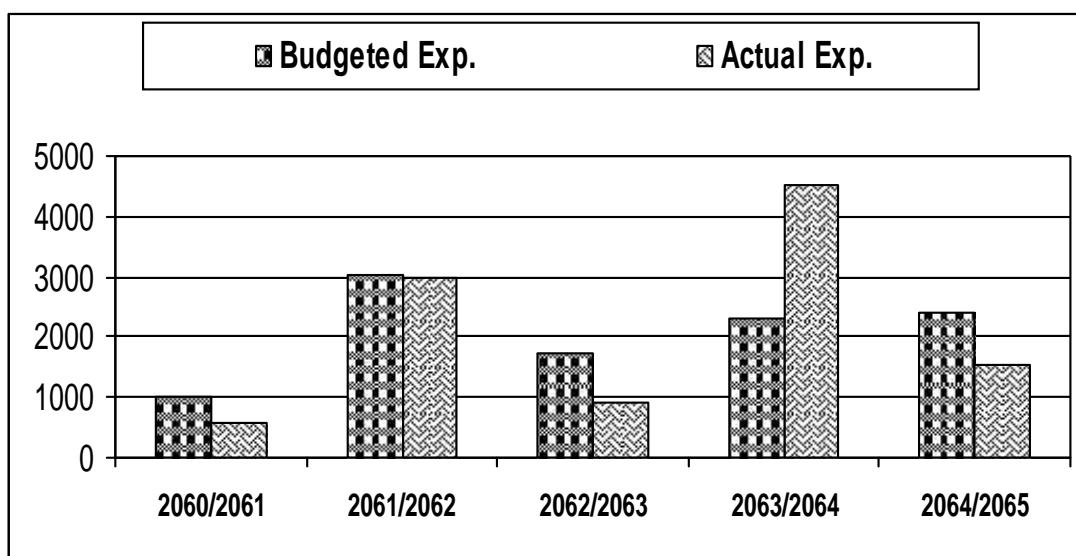
Budgeted Expenditure and Actual Expenditure (Rs in Lakh)

FY	Budgeted Expenditure	Actual Expenditure	Amounting Gap
2060/2061	1009.33	588.48	542.85
2061/2062	3043.89	2969.25	74.64
2062/2063	1751.05	919.25	831.8
2063/2064	2331.17	4533.36	-2308.13
2064/2065	2423.83	1557.39	866.44

Sources: Appendix 6

The value of r and PE are shown in Appendix 14. Here, since the value of $r = 0.65$ is not less than the value of $6*PE = 6*0.17$, nothing about correlation between the variables X and Y can be concluded with certainty. The uncertain relationship between budgeted exp. and actual exp. Proves that DDC's budget expenditure did not correspond to the actual expenditure one. This is because of the unrealistic picture of budgeted expenditure.

Figure 4.11



The trend of the figure depicts that the two variables- budgeted expenditure and actual expenditure have no conclusive relationship. The budgeted expenditure had increase in first two fiscal years then decrease third fiscal year. Fiscal year 2063/2064 and 2064/2065 had increasing. Similarly, actual expenditure also had similar nature.

4.3 Financial Performance Analysis

4.3.1 Total Budgeted and Actual Revenue of Kaski DDC

Table 4.14

Total Budgeted and Actual Revenue (*Rs in Lakh*)

FY	External Revenue			Internal Revenue			Total Revenue		
	Bgt.	Achievement		Bgt.	Achievement		Bgt.	Achievement	
		Amount	%		Amount	%		Amount	%
2060/2061	703	405.53	57.68	229.88	153.06	86.58	932.89	558.59	59.87
2061/2062	2812.14	1160.82	41.27	236.36	209.37	88.58	3048.49	1370.19	44.94
2062/2063	1349.61	1067.70	79.11	410.25	548.59	133.72	1759.85	1616.29	91.84
2063/2064	1650.11	1780.28	107.88	479.05	551.47	115.11	2129.16	2331.74	109.51
2064/2065	1870.72	1867.75	99.84	709.22	453.30	63.91	2579.93	2321.05	89.96

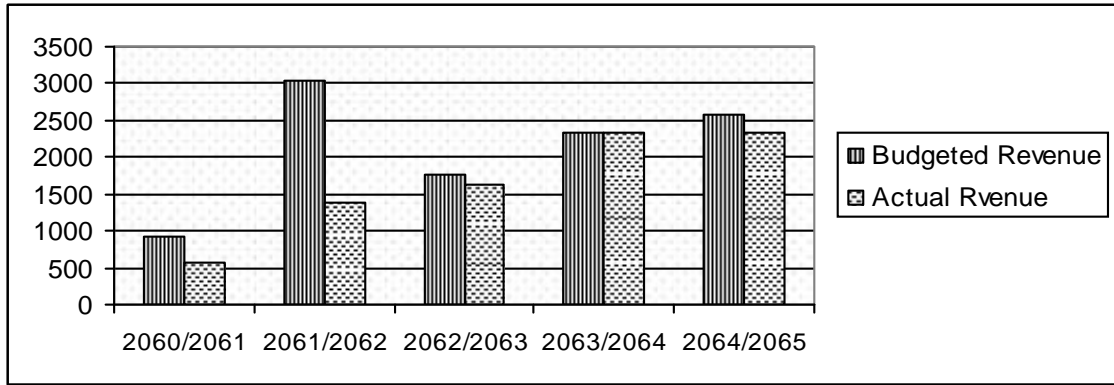
Average Total	77.15	Average Total	97.58	Average Total	79.24
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Source: Appendix 4

The budgeted and actual revenue of external sources in FY 2060/2061 are 703 lakh and Rs 405.53 lakh. The budget achievement is 57.68% for the same period. Similarly, in the FY 2064/2065 the same are Rs 1870.72 lakh and Rs 1867.75 lakh. The budget achievement is 99.84% for the same period. The highest achievement is 107.88% in the FY 2063/2064. This is mainly because of underestimate of budget. Budget in this year is less than in FY 2060/2061 and 2060/2061 and 2061/2062. In that FY the budgeted and actual of external sources are 1650.11 lakh and Rs 1780.28 lakh. The lowest achieving is 41.27% in the FY 2061/2062. In that FY the budgeted and actual revenue of external sources are 2812.14 lakh and 1780.28 lakh respectively.

The budgeted and actual revenue of internal sources in the FY 2060/2061 are 229.88 lakh. The budget achievement is 86.58% for the same period. Similarly in the FY 2064/2065 the same are Rs 709.22 lakh and Rs 453.30 lakh. The budget achievement is 63.91% for the same period. The highest achievement is 133.72% in the FY 2062/2063. The lowest achievement is 63.91% in the FY 2064/2065, in that FY the budgeted and actual revenue of internal sources are 709.22 and Rs 453.30 lakh.

Figure 4.12: Total Budgeted and Actual Expenditure



In this way, the total budgeted revenue and actual revenue of Kaski DDC in the FY 2060/2061 are Rs 932.89 lakh and Rs 558.59 lakh. The budget achievement is 59.87% for the same period. Similarly, in the FY 2064/2065 the same are Rs 2579.93 lakh and 2321.05 lakh. The budget achievement is 89.96% for the same period. The highest achievement is 109.51% in the FY 2063/2064. In that fiscal year the budgeted revenue is Rs 2331.17 lakh whereas the actual revenue is Rs 2321.05 lakh, which is full achievement. The lowest achievement is 44.94% in the FY 2061/2062. In that FY the budgeted revenue and actual revenue are Rs 3048.49 lakh and Rs 1370.19 lakh.

During the study period, the lowest achievement is 44.94% in the FY 2061/2062. This is due to cut off DDC development grant and local development construction programme and bulk reduction on VDC grant. The main reason for the variance between budgeted revenue and actual revenue is over estimation of the budget in the FY 2060/2061 and 2061/2062. It is due to kaski DDC council made the project just to flatter vdc secretary and the general people and kaski DDC demand more money for the project than actually it is required.

4.3.2 Total Budgeted and Actual Expenditure of Kaski DDC

Table 4.15

Total Budgeted and Actual Expenditure (*Rs in Lakh*)

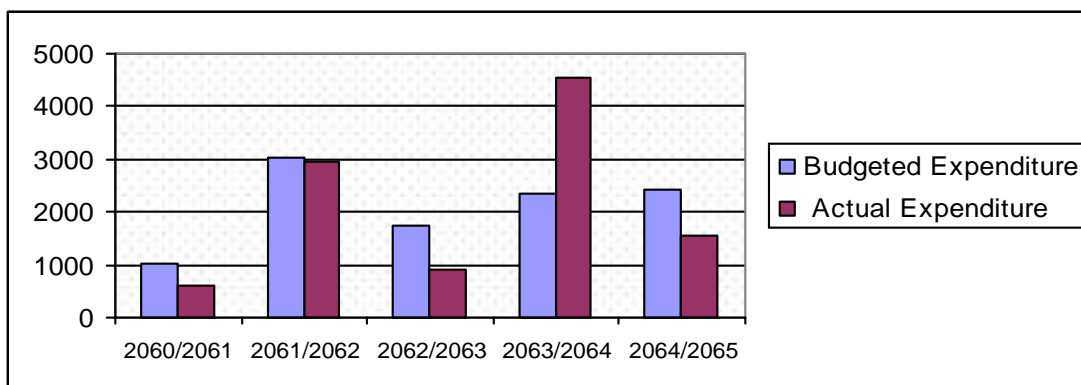
FY	Development Expenditure			Administrative Expenditure			External Revenue		
	Bgt.	Achievement		Bgt.	Achievement		Bgt.	Achievement	
		Amount	%		Amount	%		Amount	%
2060/2061	674.15	376.77	55.88	335.18	211.17	63	1009.33	588.48	58.30
2061/2062	2242.53	2748.31	122.55	220.94	801.36	362.70	3043.89	2969.25	97.54
2062/2063	1226.64	730.75	59.57	524.41	188.50	35.94	1751.05	919.25	52.49
2063/2064	1697.62	4277.85	252	633.55	255.51	40.32	2331.17	4533.36	194.46
2064/2065	1527.87	1178.56	77.13	895.96	378.82	42.28	2423.83	1557.39	64.25
	Average Total		113.42	Average Total		108.84	Average Total		93.40

Source: Appendix 6

The budgeted and actual development expenditure in the FY 2060/2061 is Rs 674.15 lakh and Rs 376.77 lakh. The budget achievement is 55.88% for the same period. Similarly, in the FY 2064/2065 the same are Rs 1527.87 lakh and Rs 1178.56 lakh and the budgeted achievement is 77.13%. The highest achievement is 252% in the FY 2063/2064. This is mainly because of under estimate of the budget. Similarly, the lowest achievement is 55.88% in the FY 2060/2061.

The budgeted and actual administrative expenditure in the FY 2060/2061 are Rs 335.18 lakh and Rs 211.17 lakh. The budgeted achievement is 63% for the same period. Similarly, in the FY 2064/2065 the same are Rs 895.96 lakh and Rs 378.82 lakh and budgeted achievement is 42.28% and lowest achievement is 40.32% in the FY 2063/2064.

Figure 4.13: Total Budgeted and Actual Expenditure



In this way, the total budget expenditure and actual expenditure in the FY 2060/2061 are 1009.33 lakh and Rs 588.48 lakh. The budgeted achievement is 58.30% for the same period. Similarly, in the FY 2064/2065 the same are Rs 2423.83 lakh and Rs 1557.39 lakh, the budgeted achievement is 64.25% for the same period.

The highest achievement is 194.46% in the FY 2063/2064. In that FY the budgeted expenditure and actual expenditure are Rs 2331.17 lakh and 4533.36 lakh. The lowest achievement is 52.49 in the FY 2062/2063. In that FY the budgeted expenditure and actual expenditure are Rs 1751.05 lakh and 919.25 lakh.

The main reason for the lowest achievement of budgeted expenditure is over estimation government grant, for the same period, kaski DDC council made optimistic expenditure budget to get the popularity of vdc secretary and local people.

4.3.3 Fiscal Autonomy and Decentralization

Table 4.16

Financial Autonomy Ratio (FAR)(*Rs in Lakh*)

FY	Total Internal Revenue	Total Expenditure	FAR (in %)	Remarks
2060/2061	153.06	588.48	26	-
2061/2062	209.36	2969.25	7.05	Decreased
2062/2063	548.59	919.25	59.67	Increased
2063/2064	551.47	4533.36	12.16	Decreased
2064/2065	453.30	1557.39	29.10	Increased

Source: Appendix 4&8

FAR measures the financial autonomy of the local government unit. The FAR that has been computed in table 4.16 provides important information to ensure the local government independence from the central funding. The fluctuating FAR shown in the table above gives a clear picture of local independence of kaski DDC. The share of internal revenue of kaski DDC in its total expenditure was 26%, 7%, 60%, 12%, and 29% in the fiscal years 2060/2061 to 2064/2065.

Table 4.17

Financial Autonomy Index (FAI) (Rs in Lakh)

FY	Total Internal Revenue	Total Expenditure	FAR (in %)	Remarks
2060/2061	153.06	558.59	27.40	week
2061/2062	209.36	1370.19	15.27	week
2062/2063	548.59	1616.29	33.94	week
2063/2064	551.47	2331.74	23.65	week
2064/2065	453.30	2321.05	19.52	week

Source: Appendix 4&8

From the above table we can find out the level of financial autonomy index (FAI) of Kaski DDC. The FAI was 27%, 15%, 34%, 24% and 20% in the Fiscal year 2060/2061 to 2064/2065. The FAI of the fiscal year 2061/2062 was lowest of all other years. It is highest at 33.94% in the FY 2062/2063. The FAI of Kaski DDC is not consistent. If the performance is compare with the World Bank benchmark, it looks weak throughout all the fiscal years.

Table 4.18

Tax Autonomy (TA) (Rs in Lakh)

FY	Tax revenue	Total Revenue	Tax Autonomy	Remarks
2060/2061	91.78	558.59	16.43	-
2061/2062	100.15	1370.19	7.30	Decreased
2062/2063	166.41	1616.29	10.29	Increased
2063/2064	116.06	2331.74	4.97	Decreased
2064/2065	129.14	2321.05	5.56	Increased

Source: Appendix 4&8

Table 4.18 shows the contribution of the tax revenue of the DDC to its total revenue. The DDC's tax autonomy remains at 16.43%, 7.30%, 10.29%, 4.97%, and 5.56% throughout the study period of five years. It remained almost at the constant level of 8.91% in the average.

Table 4.19**Financial Performance (Revenue) (Rs in Lakh)**

FY	Total Actual Revenue	Total Budgeted Revenue	Achievement	Remarks
2060/2061	558.59	932.88	59.87	Strong
2061/2062	1370.19	3048.49	44.94	Strong
2062/2063	1616.29	1759.85	91.84	Strong
2063/2064	2331.74	2129.16	109.51	Strong
2064/2065	2321.05	2579.93	89.96	Strong

Source: Appendix 5&8

The financial performance of the revenue of kaski DDC is presented in table 4.19. The table shows that the performance of revenue was strong in the all fiscals of Study period. The remarks are based on the standard benchmark as prescribed by World Bank.

Table 4.20**Financial Performance (Expenditure) (Rs in Lakh)**

FY	Total Actual Expenditure	Total Budgeted Expenditure	Achievement	Remarks
2060/2061	588.48	1009.33	58.30	Strong
2061/2062	2969.25	3043.89	97.54	Strong
2062/2063	919.25	1751.05	52.49	Strong
2063/2064	4533.36	2331.17	194.46	Weak

2064/2065	1557.39	2423.83	64.25	Strong
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Source: Appendix 5&6

Table 4.20 above shows the financial performance of Kaski DDC in terms of expenditure, according to the remarks based on the World Bank, benchmark. It looked strong in the fiscal years 2060/2061, 2061/2062, 2062/2063, 2064/2065. However, it was weak in the FY 2063/2064.

Table 4.21

Administrative Expenditure of Kaski DDC (Rs in Lakh)

FY	Administrative Expenditure	Total Expenditure	Achievement (In %)	Remarks
2060/2061	211.71	588.48	35.97	weak
2061/2062	220.94	2969.25	7.44	Strong
2062/2063	188.50	919.25	20.50	Weak
2063/2064	255.51	4533.36	5.63	Strong
2064/2065	378.82	1557.39	24.32	weak

Source: Appendix 6

The performance of administrative expenditure is shown in table 4.21. If the performance is compared with the benchmark as prescribed by LSGR, it is found strong in the fiscal years 2061/2062 and 2063/2064. It has remained below 15% in these fiscal years. The performance is weak in the FY 2060/2061, 2062/2063 and 2064/2065 with above 25% of the total expenditure. However, it was at 20.50% in the FY 2062/2063, which is satisfactory.

4.5 Major Findings of the Study

Major findings of this study based on the analysis and presentation of data are presented below.

1. The total revenue of Kaski DDC remained at the highest level of Rs 551.47 lakh in FY 2063/2064 and lowest level of Rs 153.07 lakh in FY 2060/2061. The trend of revenue is increasing up to four years of study period and decreasing trend in the final year.
2. The infrastructure tax of kaski DDC highest level of Rs 383.3 lakh in fiscal year 2064/2065 and Resource utility tax of Rs 1616.4 in the FY 2062/2063. The total tax revenue of kaski DDC constituted at the highest level of Rs 1664.1 lakh in FY 2062/2063. The trend of tax revenue collection is increasing up to FY 2062/2063 in the study period and decreasing in the 4th year and finally it slidely increasing trend in study period.
3. In non-tax revenue of Kaski DDC, which is composed of service charge, fee, and sales precede, revenue sharing and other. In non-tax revenue, the largest share was contribute the revenue sharing, highest collection Rs 435.41 corore in FY 2063/2064 and lowest collection Rs 61.28 corore in FY 2060/2061.

4. Tax revenue and non-tax revenue as individual sources of Kaski DDC. It contributed the 32% and 68% respectively in the total internal revenue of kaski DDC in study period of FY.
5. In external revenue, the largest share was contributed by total revenue sharing of Kaski DDC. It was 72.60%, 84.71%, 66.05%, 76.34% and 80.47% in the Fiscal Years 2060/2061 to 2064/2065. It has fluctuating trend in the study period.
6. The net internal and external revenue in the FY 2060/2061 are Rs 153.06 lakh and Rs 405.53 lakh respectively. The same for the FY 2064/2065 are Rs 453.30 lakh and 1867.75 lakh respectively. The government grant is sole external sources of Kaski DDC. Revenue sharing a vital contributor to internal resources. It has contribution to the total revenue is approximately 76% in the study period.
7. The amount of administrative expenditure had increasing trend for the FY 2060/2061 and 2061/2062. It declined in the next year and finally it rises to the highest level of Rs 378.82 lakh in the FY 2064/2065. Similarly the amount of development expenditure had the increasing trend for the first two years. It declined in the next years. Then study period of forth year it drastically increased and finally it again declined. So, the total expenditure trend of Kaski DDC similarly trend of development expenditure.
8. While comparing total income and expenditure of Kaski DDC, the largest financial gap was found in the FY 2063/2064 with Rs - 2202.19 Lakh.

9. Relation between total actual income and actual expenditure of Kaski DDC is not correlated. It means two variables are not correlated. It was not prepared on the basis of budgetary norms and guidelines.
10. Relation between budgeted income and budgeted expenditure are correlated. The budget income and budgeted expenditure are significant i.e. r is 0.98 and P.E. is 0.11.
11. Relation between budgeted income and actual income is uncertain relationship of two variables. It proves that DDC's budgeted income did not correspond to the actual one. So that calculated value of r is 0.46 and P.E. is 0.23.
12. Relations between budgeted expenditure and actual expenditure have no conclusive relationship. Because the value of r is 0.65 and P.E. is 0.17.
13. The expenditure of Kaski DDC was the dependent factor of its income. It means that DDC's expenditure followed the cash basis. If the income was more, so was the expenditure and vice-versa.
14. The actual expenditure of DDC remained under control with the budgeted expenditure throughout the study period of five years. However, as already mentioned, the amount of expenditure depended upon the availability of the funds.
15. The performance of budgeted to actual average achievement of internal revenue of Kaski DDC is 97.58 % and external revenue is 77.15%. The total average achievement revenue of Kaski DDC is 79.24% during the five years of study period.

16. The performance of budgeted to actual average achievement of administrative expenditure of kaski DDC is 108.84% and development expenditure is 113.42. The total average expenditure of kaski DDC is 93.40% during the five years of study period.
17. The financial autonomy ratio (FAR) did not have constant performance. The similar indicator FAI did not meet the performance benchmark as prescribed by the World Bank.
18. The tax autonomy of the Kaski DDC is fluctuating. It has remained at 9% on average throughout the study period.
19. The financial performance of kaski DDC in terms of actual and budgeted figures of revenue looked better. According to the benchmark set by the World Bank, the revenue performance was strong in all the study period of fiscal years. The expenditure performance of the DDC too was not bad means looked well except in the FY 2063/2064 in which it looked weak.
20. The performance of administrative expenditure is compared with the benchmark as prescribed by LSGR, it is found strong in the fiscal years 2061/2062 and 2063/2064. It has remained below 15% in these fiscal years. The performance is weak in the FY 2060/2061, 2062/2063 and 2064/2065 with above 25% of the total expenditure. However, it was at 20.50% in the FY 2062/2063, which is satisfactory.

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Previous chapter analyzed the collected data. This chapter summarizes the whole study. Draws the conclusion and forwards the recommendations for the improvement of financial condition of Kaski DDC.

5.1 Summary

Nepal has two-tier government system. The first one is central government and other is local government. The local government is further divided in to district development committee, municipality and

village development committee. There are 75 DDCs, 58 municipalities and 3912 VDCs.

Kaski DDC is one of the tourist as well as mountain district of Gandaki Zone. Here are 43 VDCs, in this district. It is divided in to four constituencies and 13 ilakes.

This study is particularly concerned with the local government budget analysis. A case study of kaski DDC. The study will covered the budgeted of 5 years i.e., fiscal year form 060/061 to 064/065 BS. This study based on the secondary as well as primary data. Most of the data were collected from kalski DDC's office recorded and accounting and financial reports. The information was collected by discussing with the concerned officials and staff of kaski DDC. These data were analyzed by using simple statistical tools like percentage, growth rate, trend analysis and other indicates with the help of Ms excel application staff ware.

Local government has the right and responsibilities to raise the financial resources through tax and non- tax revenue. The LGs has been also given power to raise the fund loan. In addition, it receives grants- in-aid from government of Nepal. The local government budget is concerned with the income and expenditure pattern of DDC. These are two main sources internal and external of the DDC's revenue. Internal sources includes various types of local taxes, charge, fee, service charge, sale revenue allocation and district development charge which is approved by the district council and external are includes loans and borrowings, Nepal Government grant, and foreign grant.

Taxation (taxable and non taxable) is considered a powerful instrument of local government for raising the local revenue. Such as export duty,

excise duty, Geep action, citizenship recommendation, registration, land tax (received from VDC) dolor fare, guest room fare, tender for sale, exam fee, house land registration, vehicle tax license renewal miscellaneous electricity royalty, local service fees, road tax, bridge tax, irrigation, canal and pound tax, waste materials, herbs horn, plum hide with approved by the district council annually.

Although the district council has power to impose the local tax, but the rate is predetermined by LSGR 1999 and it is same for all DDC. The goods and services provided with in the district may vary from one to another district. So the system of imposing tax through central level does not seem suitable. Similarly, the DDC has no autonomy for determining the service charge of ditch and embankment. Likewise, LSGR has provided the same registration and renewal fees of watercourse, boats and tunings for the different rivers, which is not practically suitable.

Government of Nepal empowered the local government to levy local taxes in 2019 B.S. District Panchavat act was enforced in 2019 B.S. Restoration of democracy DDC act 2048 B.S. was promulgated and the former act was repelled. Local self-governmence act 2055 has been enforced provided other new sources of revenue for local government.

Kaski DDC collects all the local tax by contracting out to the private party. Only tender price is considered in the evaluation process of tender. The management capacity and good will of the contractor are neglected. Tender with high prices is accepted from the qualified tenders. Different researchers have studied about the municipal finance taking various case studies. But few researches have been carried out regarding the DDC. Baral has conducted a study on the mobilization of

internal resources of Kaski and Kapilbastu DDC in 2059. Local authorities' fiscal commission has presented a local authority fiscal commission report 2000.

The study has covered five years period i. e. FY 2059/060 to FY 2063/064 and divided in five main chapters which consist of (1) Introduction (2) Conceptual Framework and Review of Literature (3) Research Methodology (4) Data presentation and Analysis (5) Summary, Conclusion and Recommendation.

5.2 Conclusions

Some conclusions have drawn based on different analyses, which are as follows.

1. The actual income of the DDC has not a steady growth rate of means that the DDC is either unable to mobilize the internal revenue or to identify the new sources. More over the actual revenue does not correspond to the budgeted one. This concludes that the DDC's budgeted revenue is not realistic for it is not formulated up to the budgetary norms and standards. However correlation coefficient between budgeted revenue budgeted expenditure is significant.
2. The total revenue of Kaski DDC is composed of the DDC funds, central grants and other regular budgetary sources. The share of internal revenue has remained at 23% in average that is negligible. The growth pattern of the internal revenue is not steady but fluctuating. This is due to the lack of appropriate mechanism for internal revenue mobilization.
3. Although the average contribution of tax revenue to the total own revenue of the DDC is 31%, share to the total revenue of the DDC

remains at 9%, which is negligible. It concludes that the DDC does not have satisfactory tax autonomy.

4. The total expenditure of the DDC looks high level of revenue during the study period except in the FY 2062/2063 and 2064/2065. This is the because of the Kaski DDC council made optimistic expenditure actual budget to get the popularity of VDC secretary and local people.
5. The actual to budgeted figures of financial performance of revenue was strong is all the study period of fiscal years, according to the bench mark of World Bank. Similarly, the actual to budgeted expenditure performance of the Kaski DDC is also strong in the fiscal years except in the FY 2063/2064.
6. The financial expenditure of Kaski DDC has never reached to the satisfactory according to the bench mark of World Bank. It is not good result for financial expenditure of Kaski DDC.
7. The performance of administrative expenditure to total expenditure has been found strong in the fiscal years 2061/2062 and 2063/2064 except in the fiscal years 2060/2061, 2062/2063 and 2064/2065 according to the bench mark of World bank.
8. The financial autonomy and decentralization of Kaski DDC is strong for financial performance of revenue and financial performance of expenditure but it is week in financial autonomy index even through financial autonomy ratio and tax autonomy is fluctuating, according to the benchmark set by the World Bank.

5.3 Recommendations

On the basis of the conclusion of the study, the following recommendations are forwarded:

1. The DDC can increase its internal revenue by introducing some new sources of tax revenue. Some possible sources might be the agro-products, tourist entry fee, registration, and renewal of new business and industries.
2. The DDC can promote the alternative sources of revenue mobilization such as public participation, private sectors, NGOs and INGOs.
3. Kaski DDC has not developed effective tax collection and local resources mobilization mechanism. So, it is recommended that Kaski DDC has to establish separate well- managed tax administrative unit with capable employee to raise and mobilize local resources effectively.
4. Accounting system of Kaski DDC needs to be uniform in coming years. For this the sectoral revenue sources and expenditure sources should be set.
5. The standard format and the limit of budget formulation should be developed in order to make the budgeted revenue and expenditure more realistic.
6. Kaski DDC still has a traditional financial data management system which creates the problem while carrying out any analytical and research work. So, it is recommended that the DDC should arrange the financial data as prescribed by LSGA 1999 and make then upto date. And the filling and recording system of kaski DDC should be made scientific so that the required information can be retrieved whenever necessary in minimum time.

7. The organizational structure of Kaski DDC is so complex that it is very difficult to identify the responsibility and accountability. It should be simplified.
8. The difference between budget and actual revenue budget and actual expenditure indicate that Kaski DDC formulates the budget on the political pressure. So it should not prepare its budget on undue political pressure and horse trading.
9. The major position of internal sources of revenue has been spent on administrative work. It is recommended that the Kaski DDC can increase the development expenditure by reducing the administrative expenditure. So it should and increase administrative expenses and increase the development expenditure.
10. DDC should hire same experts for its financial planning and control to improve its present financial condition for the purpose it is recommended that separate financial department should be established.
11. Apart from the above recommendations forwarded to the DDC, this work also adds to the literature for researchers for further studies.

If we can attract and mobilize the people who have handsome sources of foreign currency, there may be significant contribution for the development of the private sector and their promotion slowly the status of the district will be obviously stronger.

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