

**FISCAL DECENTRALIZATION POLICY AND LOCAL RESOURCE
MOBILIZATION NEXUS IN NEPAL:
A MUNICIPAL CASE STUDY**

**A Thesis
Submitted to
Central Department of Economics
Tribhuvan University
The Faculty of Humanities and Social Sciences
In Partial Fulfillment of the Requirements for the Degree of
Masters of Arts
in
Economics**

**By
Rajendra Prashad Pant
Roll. No.: 194/067
TU Reg. No.: 6-2-327-799-2006
Central Department of Economics (CEDECON)
Tribhuvan University, Kirtipur
Kathmandu, Nepal**

May, 2016

RECOMMENDATION LETTER

This is to certify that the thesis entitled “**FISCAL DECENTRALIZATION POLICY AND LOCAL RESOURCE MOBILIZATION NEXUS IN NEPAL**”; A Municipal Case Study has been prepared by Mr. Rajendra Prashad Pant under my guidance and supervision. I hereby recommended this thesis to the expert committee for acceptance.

.....

Dr. Uma Shankar Prasad

Associate Professor

Central Department of

Economics

Tribhuvan University

Kirtipur, Nepal

Date: May 28, 2016



TRIBHUVAN UNIVERSITY
CENTRAL DEPARTMENT OF ECONOMICS
Office of the Head of the Department

APPROVAL LETTER

This thesis entitled "**FISCAL DECENTRALIZATION POLICY AND LOCAL RESOURCE MOBILIZATION NEXUS IN NEPAL: A MUNICIPAL CASE STUDY**" submitted by **Mr. Rajendra Prashad Pant** to the Central Department of Economics, Faculty of Humanities and Social Sciences, Tribhuvan University, Kirtipur has been accepted as partial fulfillment of the requirements for the Degree Master of Arts in Economics.

Thesis Committee

.....
Prof. Dr. Ram Prasad Gyanwaly
Head of Department

.....
Prof. Dr. Neelam Kumar Sharma
External Examiner

.....
Dr. Uma Shankar Prasad
Thesis Supervisor

Date: 21 June, 2016

Acknowledgement

The Thesis entitled “Fiscal Decentralization Policy and Local Resource Mobilization in Nepal”, for partial fulfillment of the requirements of the Degree of Master in economics is submitted to Central Department of Economics Tribhuvan University, Nepal. This study has focused on the relationship of fiscal decentralization and local resource mobilization in Nepal a municipal perspective.

Firstly, I would like to convey my sincere gratitude to Dr. Uma Shankar Prasad for his candid suggestion and supervision. My special thanks go to Professor Dr. Ram Prasad Gyawaly, HOD and to all the faculty members of Central Department of Economics for kind support and co-operation.

I would like to thanks to my dear friend Mr. Ganga Ram Bhandari and Mr. Prakash Datta Bhatt for their regular encouragement and support for this research work. I also would like to thank Shiddha Raj Bhatt and Rabindra Bista for their regular support.

My sincere gratitude goes to my Father Ram Datta Pant and Mother Lila Devi Pant, who always inspired me to attain a success and supported financially and emotionally. And, at last but not least, the completion of this thesis would have been impossible without whole-hearted support of my elder sister Radhika Pant and all my family members.

Rajendra Prashad Pant

Kathmandu, Nepal

May 2016

Table of Contents

	Page No.
Acknowledgements	i
Table of Contents	ii
List of Table	iv
List of Figures	v
List of Annexes	vi
Abbreviations	vii
CHAPTER I: INTRODUCTION	1
1.1. Background of the Study	1
1.2. Statement of Problem	6
1.3. Rational of the Study	7
1.4. Objectives of the Study	7
1.5. Limitations of the Study	7
1.6. Organization of the Study	8
CHAPTER II: REVIEW OF LITERATURE	9
2.1. Review of Literature	9
A. Conceptual and Theoretical Framework Global Context	9
B. Empirical Study	18
CHAPTER III: RESEARCH METHODOLOGY	32
3.1. Research Methodology	32
3.2. Research Design	32
3.3. Nature and Sources of Data	32
3.3.1. Selection of Municipality	32

3.3.2 Source of Data	33
3.4. Presentation of Data and Analysis	34
CHAPTER IV	
PRESENTATION OF DATA, ANALYSIS AND FINDINGS	35
4.1. Revenue Generation by Local Bodies in Nepal	36
4.2. Classification of Municipality	37
4.3. Revenue Generation and Income Pattern of Municipality	38
4.4. Revenue Generation by Municipalities	41
Case of Bhaktapur Municipality	50
Case of Bhimdatta Municipality	51
4.5. Expenditure Pattern of Local Bodies in Nepal	53
4.5.1. Expenditure Pattern of Municipality of Nepal	53
CHAPTER V	
FINDINGS, CONCLUSION AND RECOMANDATIONS	65
5.1. Findings	65
Major Findings	65
5.2. Conclusion	66
5.3. Recommendations	68
ANNEX	71
REFERENCES	84

List of Tables

Table 4.1: Revenue Generation Pattern of Municipality in Nepal	39
Table 4.2: Revenue of Bhaktapur and Bhimdatta Municipality of fiscal year 2065/66 .	43
Table 4.3: The Structure of Tax Revenue of Bhaktapur and Bhimdatta Municipality of fiscal year 2065/66	47
Table 4.4: Expenditure Patten of Municipality	54
Table 4.5: Expenditure in Bhaktapur and Bhimdatta municipality of fiscal year 2065/66 .	60

List of Figures

Figure 4.1: Share of Internal Revenue and External Revenue in Municipalities	41
Figure 4.2: Revenue generation by municipalities	42
Figure 4.3: Share of Own Source Revenue and External Revenue in Total Revenue of All Municipalities	48
Figure 4.4: Share of Own Source Revenue and External Revenue in Total Revenue of Bhaktapur Municipality	50
Figure 4.5: Share of Own Source Revenue and External Revenue in Total Revenue of Bhimdatta Municipality	51
Figure 4.6: Comparative Study of Share of Own Source Revenue in Total Revenue ..	52
Figure 4.7: Share of capital exp., recurrent exp. and debt payment in Total expenditure	56
Figure 4.8: The share of own source revenue in total expenditure of all municipalities	57
Figure 4.9: The share of own source revenue in total expenditure of Bhaktapur municipality	58
Figure 4.10: The share of own source revenue in total expenditure of Bhimdatta municipality	59
Figure 4.11: Comparative study of share of own source revenue in total expenditure ...	63
Figure 4.12: Comparison between Total Revenue and Total Expenditure of All Municipalities	64

List of Annexes

Annex 4.1: The Source of Revenue of VDCs, Municipalities and DDCs	71
Annex 4.2: List of Municipality in Nepal	74
Annex 4.3: Functions and Responsibilities of Local Bodies	76
Annex 4.4: Revenue generate from own source revenue by Municipalities	78
Annex 4.5: Revenue and Expenditure of Bhaktapur Municipality	80
Annex 4.6 Revenue and Expenditure of Bhimdatta Municipality	82

Abbreviations

ADB	Asian Development Bank
CBS	Centre Bureau of Statistics
CEDECON	Central Department of Economics
DDC	District Development Committee
e.g.	For example
etc	Etcetera (and so on)
FY	Fiscal Year
GDP	Gross Domestic Product
GoN	Government of Nepal
HMG	His Majesty Government
LBFC	Local Body Fiscal Commission
LBFCS	Local Body Fiscal Commission Secretariat
LGs	Local Government
LSGA	Local Self Governance Act
LSGR	Local Self Governance Regulation
NA	Not Available
NPC	National Planning Commission
TU	Tribhuvan University
UNDP	United Nations Development Programme
UDLE	Urban Development through Local Effort
VDCs	Village Development Committees
WB	World Bank