

CHAPTER ONE

INTRODUCTION

1.1 General Background of the Study

Local government refers to specific entities created by national constitution (e.g. Brazil, Denmark, France, India, Italy, Japan, Sweden etc.); by the state constitutions (e.g. Australia, the United States of America); by ordinary legislation of higher level of central government (e.g. government. New Zealand United Kingdom and most countries etc.); by provincial of state legislation like Canada, Pakistan or by executive order like China to deliver a range of specified services to a relatively small geographically delineated area. Local governance is a broader concept and is defined as formulation and execution of collective action at local level. Thus, it encompass the direct and indirect roles of formal institutions of local governmental hierarchies as well as the roles of informal forms, networks, community organizations and neighborhood associations in pursuing collective action by defining the framework for citizen-citizen and citizen-state interactions, collective decisions making and delivery of local public services (World Bank, 2002).

Local governance includes the diverse objectives of vibrant, living, working and environmentally preserved self-governing communities. Good local governance is not just about providing a range of local services but also about preserving the life and liberty of residents, creating space for democratic participation and civic dialogue, supporting market-led and environmentally sustainable local development, and facilitating outcomes that enrich the quality of life of residents (ibid).

An administrative body for a small geographic area, such as a city, town, county, or state. A local government will typically only have control over their specific geographical region, and cannot pass or enforce laws that will affect a wider area. Local governments can elect officials, enact taxes, and do many other things that a national government would do, just on a smaller scale (businessdictionary.com).

Local government is “A unit of government which does not claim sovereign power. Thus the states of federal countries such as Germany or the USA are not local governments, whereas French departments and UK countries. Their finance may be provided from the central government, or they may be empowered to levy taxes

themselves. They may have discretion over some policies, or be required administering policies, lying down centrally. They may be any number of layers of local governments, possibly with overlapping functions” (Black, 2003)

The municipalities in Nepal are under the Municipality Act-1991. The construction and maintenance of roads, their cleaning, water and lighting of public nuisance, water supply, drainage, maintenance of hospitals and dispensaries, vaccination, construction and maintenance of public markets, slaughterhouses, sanitary conveniences, regulation of dangerous and offensive trades, education, fire protection etc., in the process of meeting the needs of local people are the main functions of municipalities. The local tax is the main internal source of revenue and other taxes are the main sources of the revenue for the country. Municipalities have to utilize all the revenue for financing various development activities (Jha, 2003).

Decentralization is the process of the devolution of the power and the opposite concept of centralization. Certain economic and political powers are granted to the local bodies in the decentralization. The local resources are better utilized by the devolution of power so the interest and affairs of the local can be addressed more easily. It also ensures the participation of disadvantaged, marginalized and women in the decision making. In addition, the local government financial management focuses on efficient resource mobilization, financial procedures and the proper allocation and distribution of the funds to promote balanced development of local units. It also helps in proper identification of local needs and allocation of the available resources to fulfill the needs and the local democracy is also promoted. The government of Nepal passed the local self-government act in 1999 and regulation in 2000 in order to provide authoritative support to local units.

For the effective delivery of the services and balanced development, Nepal has been divided into five developmental regions and seventy-five districts. The districts are divided into VDCs and municipalities. The VDCs and the municipalities are governed, managed and controlled by the district level government units called DDC. The local government in terms of urban areas is metropolitan, sub-metropolitan and municipality. Such LGs determine different tax revenue of the local areas; economic activities and non-tax revenues are provided as grants by the central government to address the local issue of the development.

1.1.1 History of Municipality in Nepal

In Nepal, the history of local bodies/government is not new, it has a long history. Villages are not basic units of administration in Nepal and it had continued to exist as the core of the community life since a long period. The modern history of municipality was introduced during the Rana regime in Nepal. “Bhotahity Sawal”, as the first institution, was established according to the concept of municipality in 1958 B.S. at the time of Rana Prime Minister, Chandra Shumsher. There were “Faant” in Bhotahiti Sawal known as: Upper Faant and Lower Faant (Timsina, 2005).

Upper Faant was related with general administration whereas Lower Faant functioned in social services (cleaning). That is why it was known as “Safai Adda”. The delegates for both the Faants were appointed by Rana and they were as Bada Haakim. During the time rana Prime Minister Bhim Sumsher, there were eighteen delegates in the executive board out of which ten were nominated by Prime Minister and eight were elected. In 1975 and 1976 B.S., “Gathan Sawal” of Patan and Kantipur municipalities was introduced. These improvements were made in the development process of municipality (ibid).

After the political revolution of 2007 B.S. Nagar Panchayat Act 2007 was introduced and there after 5 municipalities were officially established. Patan, Kantipur, Bhaktapur, Biratnagar and Birgunj were those five municipalities. In 2009 B.S. Nepal Rajya Nagarpalika Ain was introduced which further introduced seven new municipalities.

After the restoration of democracy in 2047 B.S., the concept of decentralization rose. Municipal Act 2048 B.S. came on the ground. This act has given the following criteria to divide the municipality.

- I. Metropolitan City: With minimum of 300 thousand populations and annual income of Rs.400 millions and having other necessary facilities and already being a municipality.
- II. Sub-Metropolitan: With minimum of 100 thousand population and annual income of Rs.100 millions and having other necessary facilities and already being a municipality.
- III. With minimum populations of 20 thousand and minimum annual income of 5 million rupees and having other minimum urban facilities.

Till 2053 the number of municipality reached 58. Kathmandu was declared metropolitan in 2052 B.S. Lalitpur, Biratnagar, Pokhara were upgraded into sub-metropolitan in 2053 and Birgunj in 2055 B.S. 44 new municipalities have been declared effective from 15th July 2011 by the government of Nepal (though the later 44 municipalities have not brought into practice). In this way there are one metropolitan, four sub-metropolitans and 94 municipalities in Nepal.

Nepal has two-tier system of local governance, with village and municipal bodies as the lower tier and district bodies as the higher. The village bodies are called Village Development Committees (VDCs) with municipalities serving the same function in town areas. The district bodies are the District Development Committees (DDCs). The current structure of local governance in Nepal was put in place after the restoration of democracy in 1990 and the current functions, duties, and power of the Local Governance (LG) is in effect after promulgation of [Local Self Governance Act in 1999](#) (Sharma, 2011).

The local bodies are instituted from above in the under developed and developing countries which is the common feature of those countries and the thing is opposite in case of developed countries. In Nepal also the local bodies are instituted from above and less power is guaranteed to the local bodies.

1.1.2 Local Self Governance Act, 1999

There must be a good effort in order to develop a country uniformly. Regionally balanced development needs a healthy local effort that can address the local affairs well. There were Panchayati acts which were thought to be outdated and would not support to address the people's affair in the new political situation. Thus government of Nepal has introduced an act to support the balance local development regionally i.e. Local Self Governance Act 1999. It was brought after the establishment of multi party era. It was brought into practice to empower the local bodies as well as manage the financial aspects of them.

1.2 Statement of the Problem

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 abridge the people's need and other facilities with its own resources accompanied by the government budget. The

increasing local expenditure has to be managed properly which calls for financial adjustments. The national plans and programs have to be reformulated at both the central as well as local levels (MLD, 2057 B.S.).

The local bodies have been granted to mobilize its local resources by law so that the local affairs can be addressed well. The Local Self-Government Act, 1999 and Local Self-Government Regulation, 2000 have fixed the areas and boundary of revenue to be collected by the local bodies. For better mobilization of local resources, local government can raise different taxes such as land tax, rent tax, tax on industries, vehicle tax, commercial tax, natural resources utilization tax etc. Similarly, the municipalities can raise service charges, fees, fines.

Despite of these resources, why are the local bodies dependent over the external resources of revenue like CG's grant? Is the inadequate arrangement of the fund or mismanagement of the fund is liable not to improve the life standard of people specially the marginalized and disadvantaged groups. Hence the statement of the problem revolves around these aforesaid statements.

Thus the study concerns mainly on finding out the sources of revenue and their allocation. The study also concerns on prevailing the truth whether the municipality is efficient or not to mobilize its sources and achieve targets.

Thus the main concerns of the study are:

1. What are the sources of revenue of Banepa Municipality?
2. Does the municipality meet its expenditure from internal revenue?
3. What can be the possible sources of internal revenue?

1.3 Objective of the Study

The general objective of the study is to assess the overall situation of the financial system of Banepa Municipality. The financial structure of the municipality can be assessed with the help of various decentralization tools such as tax autonomy, fiscal autonomy ratio, local fiscal dependency ratio and relative growth; the research focuses on using those tools so that analysis would be easier and simple.

The specific objectives are as follows:

1. To analyze the revenue and expenditure of Banepa Municipality.
2. To measure the degree of fiscal decentralization and fiscal autonomy of Banepa Municipality.

3. To evaluate the financial performance of Banepa Municipality.

1.4 Significance of the Study

The economic analysis of local finance has been largely required by the stakeholders, donors and policy making levels. Municipality is also one of the important local bodies of the government, municipal finance and its study is worthy which gives close insight to find out the local strength and support for required finance. To assess the latest financial performance, measure the fiscal autonomy and fiscal decentralization of Banepa Municipality, the data of last five fiscal years are taken into the study.

Although municipal finance is one of the most important and talked subjects among the politicians, policy makers, donors and so on but limited research works have been done in this field. So this study will be helpful to those stakeholders and concerned ones about municipal finance. The interested researchers on municipal finance will be beneficial by this work.

1.5 Limitations of the Study

This study has following limitations.

1. The local government in this chapter refers to the financial management at the municipality level.
2. The study is based mainly on the secondary data covering the fiscal year 2065/066 B.S. to 2069/2070 B.S.
3. The findings got from this case study may not be generalised to other municipality of the country.
4. The research is bound by limited time period and cost.
5. The date of the fiscal years in the table are in Bikram Sambat.

1.6 Organization of the Study

The study is divided into five chapters. The first chapter deals with introduction. It includes the general background of the study, statement of the problem, objectives of the study, significance of the study, limitations of the study, and organization of the study. The second chapter deals with the review of literature. This chapter deals with concept of municipality finance, patterns of municipal system, functions and duties and power of municipality and its financial system. Some important studies made both on national and international context are included in this chapter. The third chapter deals the research methodology to complete the research work. The fourth

chapter is busy in explaining the expenditure and revenue pattern of BM during the period of five years till the date. It includes a detailed analytical description of different source of revenue and their contribution to the total revenue as well as the major area of expenditure. The final chapter includes conclusion of the study and recommendations which is helpful in formulating and implementing policies. References are presented after the last chapter, closes the study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Conceptual Review: Local Government and Its Fiscal Decentralization

The concept of municipality relates the concept of local government. According to Black J., the meaning of local government is “A unit of government which does not claim sovereign powers. Thus the states of federal countries such as Germany or the USA are not local governments whereas French departments and UK countries. The powers of local government are entirely delegated from above. Their finance may be provided from the central government, or they may be empowered to levy taxes themselves. They may have discretion from over some policies or be required to administer policies laid down centrally. They may be any number of layers of local government, possibly with overlapping functions” (Dictionary of Economics).

For Jackson, “The term local government indicates the management of local affairs and services by popularly elected councils. In short, local government can be said to be promoting the well being of the people. As the municipality is also a local government, it can be said that the stimulus behind the concept of municipality in many parts of the world emerge as decentralization of central governments for better provision, performance and regulation of service” (Jackson, 1965).

Lekhi (2011) has written about local government that local self government constitutes an important segment of administration. It deals with the function related to local areas and these needs are particularly local in nature. The local government bodies provide good training to its citizens for the democratic leadership at the country level in the matters of social, sanitation, water supply, street lighting, parks, maintenance of local roads, and provision of primary education, libraries, museums, hospitals and dispensaries. The central government and state government have many other important functions to perform. The delegation of these functions to local self government relieves the central as well as the state governments of a good amount of administrative work and burden. Also these functions are difficult to perform from some distance. The idea to allocate these functions to local self governments is based on economy, uniformity and efficiency. In these ways, local self government has

emerged the third and bottom layer of the federal system of government in the country like ours. In short, local self government has become an integral part of the national administrative machinery and playing the same pivotal role that is assigned to local self government in other developed democratic countries of the world.

“Government by popularly elected bodies charged with administrative and executive duties in matters concerning the inhabitants of a particular district or place and vested with powers to make by-laws for their guidance” (Jackson, 1976).

Local self government constitutes an important segment of administration. It deals with the functions related to local areas and these needs are particularly local in nature. The LG bodies provide a good training to its citizens for democratic leadership at the country level in the matters of social, economic and political problems. They take the proper care of the local needs. They perform good duties like sanitation, water supply, street lighting, parks, and maintenance of local roads, provision of primary education, libraries, museums, hospitals, and dispensaries. (ibid).

Local government is concerned for governance of some specific local area. LG is generally popularly elected by its people for a certain period of time to maintain the local affairs. To achieve the different targets, LG also possesses some legal rights though it is bound by some laws.

As described by Ebel and Yilmaz (2002), there is no set of prescribed rules to determine how a country is being decentralizing. The measurement of decentralizing is quite difficult. But, according to Loehr and Manason (1999), the following four indicators for measuring fiscal decentralization can be drawn.

1. Revenue Decentralization Ratio (RDR)
2. Expenditure Decentralization Ratio (EDR)
3. Modified Expenditure Decentralization Ratio (MEDR)
4. Fiscal Autonomy Ratio (FAR)

2.2 Reviews of Previous Studies

There are various studies made on the local finance at national and international level. Such related researches are certainly beneficial for this research. Some of the relevant studies of the national context and international context are summarized below.

2.2.1 Reviews of International Empirical Studies

According to Loehr and Manason (1999), financial decentralization is an essential part of the financial autonomy for a decentralized unit of government or local government. The main concern of fiscal decentralization is with local government. To be successful, the following efficiency should be achieved.

- a) Production Efficiency- The cost at which specific goods and services are produced.
- b) Production Efficiency- The cost at which specific goods and services are produced.
- c) Fiscal Efficiency-It is concerned with the ways in which the local government units are financed.

Fiscal decentralization can be measured by the four indicators; Revenue Decentralization Ratio (RDR), Expenditure Decentralization Ratio (EDR), Modified Expenditure Decentralization Ratio (MEDR), Fiscal Autonomy Ratio (FAR), (ibid).

According to World Bank (2011), the Local and Municipal Governance and Finance learning program covers issues in tax and expenditure analysis, budgeting, public services delivery, public management, and corruption control of relevance to policymaking and practice in developing countries. The program is designed to support the reform of local governments' fiscal systems with a view to enhancing the efficiency and equity of public service provision. This is to be accomplished by: Motivating and encouraging the use of analytical tools to evaluate, initiate and implement institutional and administrative reforms for better fiscal management, improved service delivery, and corruption control; Facilitating global, national, regional and local dialogues on pathways to municipal reform to infuse a spirit of learning from each others' experiences; Facilitating the prioritization of tailor-made institutional reforms for participating local governments and municipalities; and Raising awareness of specific concerns such as protection of disadvantaged groups (the poor, minority groups, females) and regions.

Sobhan (2005) has stated that decentralization can help in expanding the ownership and control over the productive assets, enhancing their access to knowledge based society, strengthening the capacity of poor to compete in the market place by

restructuring the monetary policy to deliver credit and provide savings instruments to the poor, designing institutions for the poor and empowering the poor.

Olantunji, Taiwo and Adewoye (2009) in a study, have found that the tax collectors are facing different problems, which has played a negative role in revenue generation of the local governments in Nigeria. Personal interviews, verbal interrogation, questionnaire, text books, and observations of various documents have been used to fulfill their objectives of the study. They concluded that development in agriculture should be maintained to improve the living standard of the people of the state.

Alam (2010) has made a study on Municipal Infrastructure Financing. The four different challenges faced by municipal authorities have been pointed out. Limited fiscal devolution of powers, inability of local governments to fully realize the potential of own-source revenues, inadequate government transfers and limited resources for capital expenditure are those four problems identified. Further he asserted to strengthen the measures to lower the four problems; fundamental strengthening measure, credit-enhancing measure.

2.2.2 Reviews at National Level

Pahadi (1997) has made a study on financial performance of Janakpur Municipality. The study concludes that Janakpur Municipality does not have sufficient fiscal resources so that it cannot meet its expenditure. To fill this gap, the central government should increase grants and it is necessary to increase local resources.

Shrestha (2002) has presented International Working Paper of Georgia University about intergovernmental fiscal relation of Nepal that the practice of decentralization in Nepal is almost four decades old. This makes it perhaps the oldest decentralization process in South Asia. The statutory local government institutions were created as early as 1962 immediately after the replacement of the multi-party democratic system with the so-called party-less Panchayat System in 1960 through a royal takeover. Since then, several intermittent efforts were made to strengthen these institutions in different ways and in different times, often sailing with political waves. With the popular movement of 1990 which restored multi-party democracy in Nepal. Nepal's decentralization policy was brought in the forefront of national agenda of reforms and continues to be the main means to translate democracy and development at the grass-

roots level. Consequently, District Development Committee, Municipality, and Village Development Committee Acts were passed in 1992 reestablishing local government institutions at the district, town, and village levels. This paper gives an overview of intergovernmental fiscal relations in Nepal, and highlights the issues and direction of reforms for the effective fiscal decentralization in the country. The analysis presented here is based on extremely limited sub-national fiscal data. Nevertheless, it is hoped that the paper could serve as a basis for further exploration in the field of intergovernmental fiscal relations in Nepal.

Timsina (2005) has attempted to explore the financial performance of Bhadrapur Municipality of Jhapa District. The financial position of Bhadrapur Municipality over the years, found to be fluctuated. Heavy amount of the resources was spent on regular expenditure and less on developmental expenditure. Further, average per capita income was higher than per capita expenditure which was not positive for development and social justice.

Bhandari (2010) has made a study on the issue of the local finance in Nepal. This study is based on the case study of Dhanagadhi municipality. He has concluded that revenue was not fully utilized by the municipality. The potentialities of sources or revenues are present in the municipality but the authorities have not paid attention to it. It has been also concluded that the municipality should take firm decision in collecting taxes.

Shahi (2010) concluded that the highest percentage of total revenue came from internal revenue. In average it contributes about 60.38 percent in total revenue. The components of own source of revenue of local taxes are fee and fines, property rental and other revenue. The local taxes has the major contribution on the own sources of the revenue in Kirtipur Municipality.

Adhikari (2011) has made a study and analyzed income and expenditure of Bharatpur Municipality, Chitwan, District, Nepal. The study concluded that Bharatpur Municipality could not mobilize its resources in optimal way due to maoist insurgency and lack of identification of the resources of the municipality. House and

land tax, land revenue and natural resources revenue are the major sources of the internal revenue. The regular expenditure increased faster than capital expenditure.

Sharma (2011), in M.A. dissertation, has concluded that local bodies are heavily dependent on central and foreign grants. 86% share of the total revenue of Baglung district has been received from the central grants. It is necessary to mobilize internal sources of revenue for the sustainable development of the DDCs.

Lamichhane (2012) has found that the share of local expenditure is much lower (about 4.84 percent) as compared to total national expenditure (95.16 percent). Therefore local governments cannot deliver sufficient services to the people as demanded in the local level. On the contrary, due to the political instability in the country, and the absence of the elected representatives in local government bodies, the allocated budget at the local level have not been properly used or has remained unspent.

Khatri (2013) has recently made a study on the case study of Kavilbastu Municipality. It has been concluded that the municipality can increase its internal revenue by making more publicity of municipality as historical and religious places. There should be more systematically managed bus park tax, local tax, getting many educational institutions into legal process.

The reviewed researches show that the local governments have not sufficient fiscal autonomy. They heavily depend on the central government for strong financial support as a baby needs his mother's finger to walk with. Though there are many researches about municipal finance but most have not used different tools that measure the financial autonomy, dependency, tax autonomy etc. so there is sufficient scope for analyzing the fiscal condition (income and expenditure) of Banepa municipality independently.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter consists of research design, collection of suitable data to meet specific objective, planning of data, using the appropriate tools and techniques of analyzing the data. Thinking over the above issues, a suitable design has been framed out that incorporates the nature of the study.

3.2 Introduction of the Study Area

Banepa was known by the name 'Baniyampa' from the beginning of medieval period. Banepya, Bhot, Bhonta. Banikapur were the names used to this town in different time period of the history. Later on Banepa remained the name of the town which is used till now. There is another argument behind the name. 'Bane' means business and 'pa' means town. Thus the town is also known as the town of businessman. This town was declared municipality in 2038 B.S. (A Tourist Guide to Banepa).

3.2.1 Geographical Features

Banepa, one of the three municipalities of Kavre Palanchok district is located at 27.37 north latitude and 81.31 east longitudes. Banepa municipality covers the area of 5.31 sq. km. and situated at 4800 ft above the sea level. Dhulikhel municipality is situated in east, Ugratara, Janagal VDC in the west, Tusal/Raviopi VDC in the north and Ugratara, Janagal VDC in the south of Banepa municipality. It is 26 kilometers far from the capital city of the country (A Tourist Guide to Banepa).

3.2.2 Demographic Features

According to the population census of the year 2011, the total population of Banepa municipality is 24,764. Out of which 12,325 are male and 12,439 are female. The sex ratio is 0.9908. The population density of the municipality is 4,477 per sq.km. Literacy of Kavre district is 60.92 percent. The population growth of the district is 0.10 percent. Newar, Brahmin, Chhetri, Tamang etc are the main castes of Banepa (census, 2011).

3.3 Research Design

The study is based on the secondary sources of data, obtained from the record of Banepa Municipality. The income and the expenditure patterns of last five years obtained from the record of Banepa municipality are collected.

3.4 Sources of Data

In order to meet the aforesaid objectives of the study, secondary sources of data from the record of Banepa Municipality is used. Besides these, different books, magazines, newspapers, publications of MOLD, online publications and library documents are used for the final shape of this work.

3.5 Tools and Techniques of Analysis

We need various tools and techniques of mathematics and statistics to convert raw data into desired form. Firstly, the basic tools of addition, subtraction, multiplication, division, calculation of percentage, ratio are used. Secondly, specific operations of both the statistics and mathematics are done. Some of the specific tools are defined below.

3.5.1 Measurement of Fiscal Decentralization

The following mathematical tools are used to measure the degree of fiscal decentralization.

1. Financial Autonomy Ratio (FAR)

FAR 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 local expenditures or the ratio of LGU revenue from local sources to LGU total expenditures. (Ebel and Yilmaz, 2002).

FAR shows the degree of the financial autonomy. Higher the ratio better is the fiscal autonomy of LGUs.

Mathematically,

$$\text{FAR} = \frac{\text{Total Local Owned Revenues}}{\text{Total Local Expenditure}}$$

Where,

Total local owned revenue means total internal revenue including tax and non-tax revenue.

Total local Expenditure means total expenditures of the LGU; administrative and capital expenditures.

2. Local Fiscal Dependency Ratio (LFDR)

LFDR shows to what extent the local government units depend upon the central government for transfers and loans. It is defined *as the ratio of intergovernmental transfers to total local revenue*. (Demello, 2000).

LFDR measures the degree of financial dependence of local government upon the central. Heavier dependence LGU upon central government, higher is the ratio. This implies that LGU should have least dependence on CG for grants and independence in terms of revenue.

Mathematically,

$$\text{LFDR} = \frac{\text{Total Intergovernmental Transfer}}{\text{Total Local Revenues}}$$

Where,

Total Intergovernmental Transfer means the grant including loans received by LGUs from CG.

Total Local Revenue means revenue of the LGU including internal revenue, grants, loan and borrowing.

The World Bank Benchmark for LFDR is:

Strong-below 33 percent,

Weak-Above 50 percent

3. Relative Growth (RG)

Relative growth is the tool which measures the change in total revenue in relation to the change in total revenue of a local government. This represents the growth rate of the internal revenue and total revenue. For better fiscal autonomy, higher growth rate of internal revenue in comparison to total revenue is preferred.

Mathematically,

$$\text{RG} = \frac{\text{Change in Internal Revenue}}{\text{Change in Total Revenue}} \times 100$$

Where,

Change in Internal represents the gap between internal revenue of current year and previous year.

Change in Total Revenue means the difference between total revenue of current year and previous year.

4. Tax Autonomy

According to Ebel and Yilmaz, tax autonomy is defined as the ratio of tax-revenues to total local revenues or local government taxes as the percent of total local revenues. This shows to what extent the local government units have the sources and power for imposing local taxes.

Mathematically,

$$\text{Tax Autonomy} = \frac{\text{Total Local Tax Revenue}}{\text{Total Local Revenues}}$$

Where,

Total Local Tax Revenue means the tax revenue of the local government including infrastructure utility tax and resource utility tax as prescribed by LSGR, 2000.

5. Financial Autonomy Index (FAI)

FAI is used to measure the degree of financial independency of a LGU from CG. It is also defined as the ratio of locally raised revenues to total revenue. (MoLD, 2057 B.S.)

The share of internal revenue of the local governments to the total revenue source is measured by FAI.

Higher the FAI, lesser financial support of the central government is needed and vice versa.

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

The World Bank Benchmark (MoLD, 2057 B.S.) for Autonomy index is,

Strong-above 75 percent,

Weak-below 60 percent

3.6 Analysis of Income of Municipality

In the accounting of municipality income, there are two broad headings: namely internal source and external source. This categorization is based on LSGA 1999 and municipality accounting.

3.6.1 Internal Income of Municipality

The local self governance act (LSGA) 1999 has categorized the internal sources of revenue of the municipality in the following subheadings:

a) Tax Revenue

The tax revenue of the municipality includes the house and land tax, rent tax, enterprise tax, vehicle tax, property tax, entertainment tax, commercial video tax, advertisement tax, natural resources utilization tax, hatt bazaar tax, tax on service and industries,

b) Non-tax Revenue

Non-tax revenue of the municipality includes service charges such as parking charge, water, electricity, water tap, public telephone, waste management, sanitation, sewerage/drainage provided by municipality, tourist site entry fee, garden, view tower fee, fees for entertainment like magic, circus, recovering dues for other, hostels charges, laundry ghat, market places, slaughter houses, crematorium charges. Besides these, sales of its property, dry wood and auctioning the properties not required for the municipality are also the sources of the internal revenue of the municipality.

3.6.2 External Revenue

External income includes the grant, subsidy and the revenue (to be allocated) provided by the government and DDC to the municipality.

3.7 Municipality Expenditure

The expenditure of the municipality can be broadly categorized into two subheadings namely regular/administrative expenditure and development expenditure as ministry of local development format.

3.6.4.1 Regular Expenditure

Regular expenditure includes the running costs of the municipality office such as salary given to the municipality staffs, allowances given to staffs and executive committee, travel and daily allowance while going to DDC and MoLD, service

expenditure, furniture for office, economic assistance, land revenue refunded to DDC, maintenance and some other expenditure for administration not included in above heading.

3.6.4.2 Development Expenditure

This subheading of the expenditure includes expenditure made for infrastructure development, basic services and empowerment. The expenditure done over road construction, culvert and bridge making, expenditure on scholarship, salary given to the teachers, infrastructure development of school, campuses, grants given to health post/sub health post, expenditure on agriculture heading, empowerment training, tour, observations, women empowerment, pro-poor program, cultural promotion expenditure, natural resource management expenditure are the development expenditure.

CHAPTER FOUR PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction

This chapter deals with all the quantitative data collected earlier are presented in tables, charts, and diagrams. Then the various tools discussed in chapter three have been applied for analyzing the data. The interpretations of the findings of the study have been presented thereafter.

4.2 Revenue Analysis of Banepa Municipality

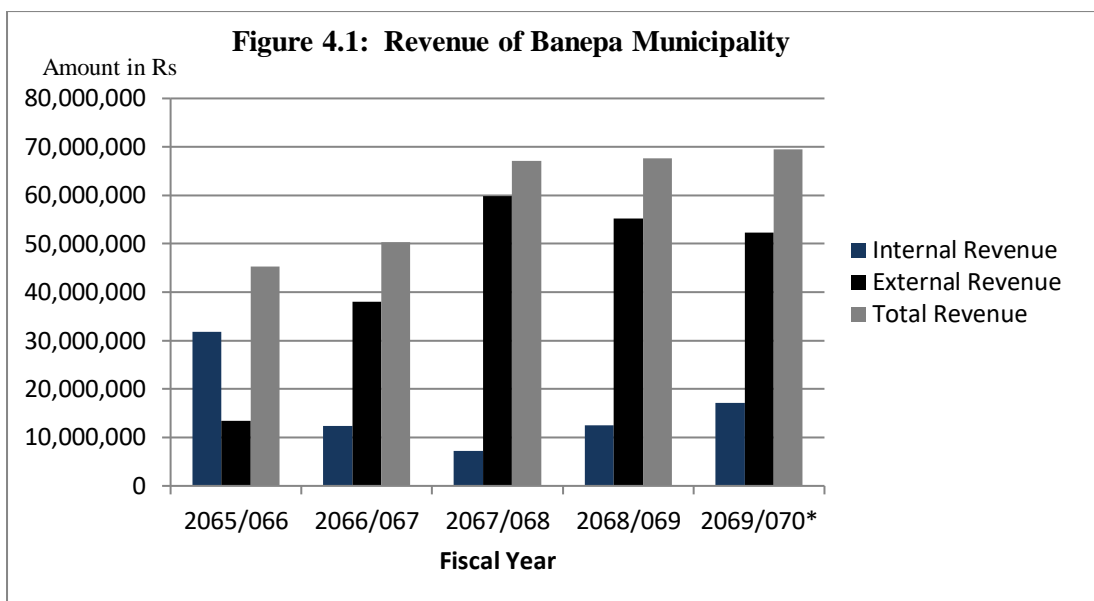
The total revenue of Banepa Municipality comprises internal and external revenue. The internal revenue is composed of tax and non-tax revenue. Table 4.1 shows internal, external and total revenue of Banepa Municipality.

Table 4.1
Internal and External Revenue

| Fiscal year | Internal Revenue | External Revenue | Total Revenue |
|-------------|------------------|------------------|---------------|
| 2065/066 | 31,811,928 | 13,444,279 | 45,256,207 |
| 2066/067 | 12,327,486 | 37,986,902 | 50,314,388 |
| 2067/068 | 7,208,478 | 59,848,994 | 67,057,472 |
| 2068/069 | 12,496,305 | 55,187,989 | 67,684,294 |
| 2069/070* | 17,195,000 | 52,267,096 | 69,462,096 |

Source: Annual Budget and Program Report of Banepa Municipality

Table 4.1 shows that the internal revenue of Banepa Municipality is approximately Rs.31 million in fiscal year 2065/066. It gradually decreased to 7 million in fiscal year 2067/068. Then it slowly increased in subsequent years. From the table 4.1, it is clear that the total revenue of Banepa Municipality is highest i.e. approximately Rs. 69 million in fiscal year 2069/070 and lowest in fiscal year 2065/066 which stands at Rs. 45 millions.



Source: Annual Budget and Program Report of Banepa Municipality

From the figure 4.1, the total revenue of Banepa Municipality is highest i.e. approximately Rs 69 million in the fiscal year 2069/070 and lowest at Rs. 45 million in fiscal year 2065/066. Similarly, the internal revenue is highest i.e. approximately Rs 31 millions in FY 2065/066 and the lowest at 7 millions in FY 2067/068.

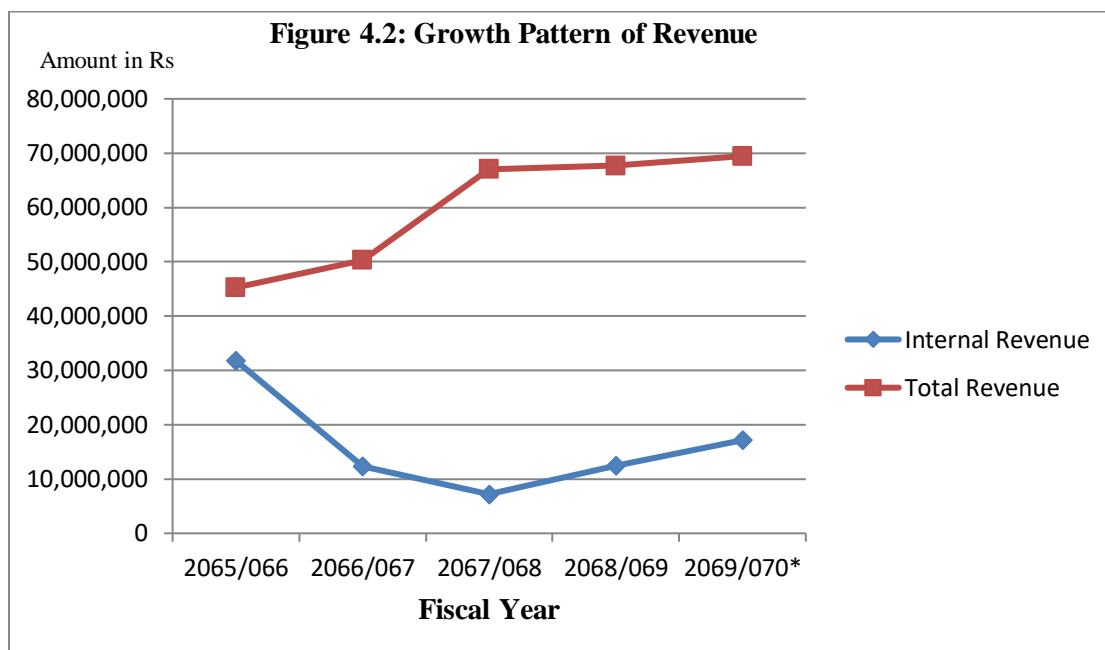
Table 4.2
Share of Internal Revenue to Total Revenue

| Amount in Rs | | | |
|--------------|------------------|---------------|---------------------------|
| Fiscal year | Internal Revenue | Total Revenue | Share of Internal revenue |
| 2065/066 | 31,811,928 | 45,256,207 | 70.29 |
| 2066/067 | 12,327,486 | 59,840,146 | 24.51 |
| 2067/068 | 7,208,478 | 67,057,472 | 10.75 |
| 2068/069 | 12,496,305 | 67,684,294 | 18.46 |
| 2069/070* | 17,195,000 | 69,462,096 | 24.75 |

Source: Annual Budget and Program Report of Banepa Municipality

Table 4.2 shows the share of internal revenue to total revenue. The share of internal revenue is 70.29 percent in fiscal year 2065/066 and 20.60 percent in fiscal year 2066/067. It is 10.75 percent, 18.46 percent, and 24.75 percent in the fiscal years 2067/068 to 2069/070 respectively. The share of internal revenue to total

revenue has decreased up to fiscal year 2067/068 and gradually increased in fiscal year 2068/069 and 2069/070.



Source: Table 4.2

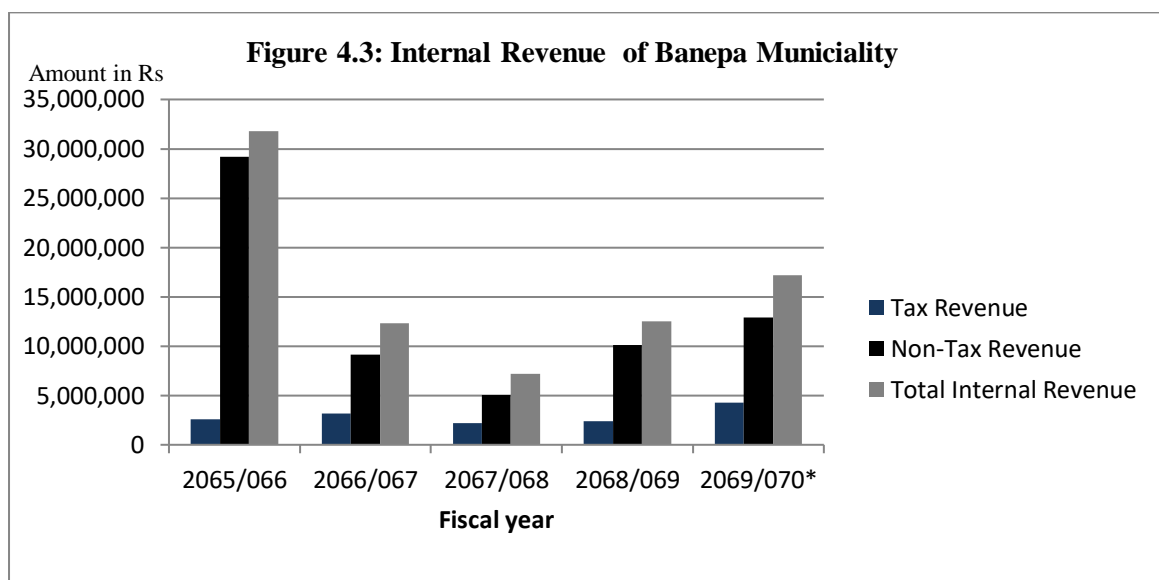
Figure 4.2 shows that the total revenue has been growing steadily throughout the study period whereas the internal revenue is decreasing up to FY 2067/068 because the service charge of the municipality has heavily decreased by Rs 23,203,036 in FY 2066/067 as compared to last fiscal year. Due to the fall in amount of fees in FY 2067/068 in comparison to previous fiscal year, the internal revenue curve continues to fall till FY 2067/068 and there is rise after this fiscal year due to recovery in these components.

Table 4.3
Breakdown of Internal Revenue

| Fiscal year | Amount in Rs | | |
|-------------|--------------|-----------------|------------------------|
| | Tax Revenue | Non-Tax Revenue | Total Internal Revenue |
| 2065/066 | 2,602,644 | 29,209,284 | 31,811,928 |
| 2066/067 | 3,196,958 | 9,130,528 | 12,327,486 |
| 2067/068 | 2,177,458 | 5,031,020 | 7,208,478 |
| 2068/069 | 2,380,543 | 10,115,762 | 12,496,305 |
| 2069/070* | 4,290,000 | 12,905,000 | 17,195,000 |

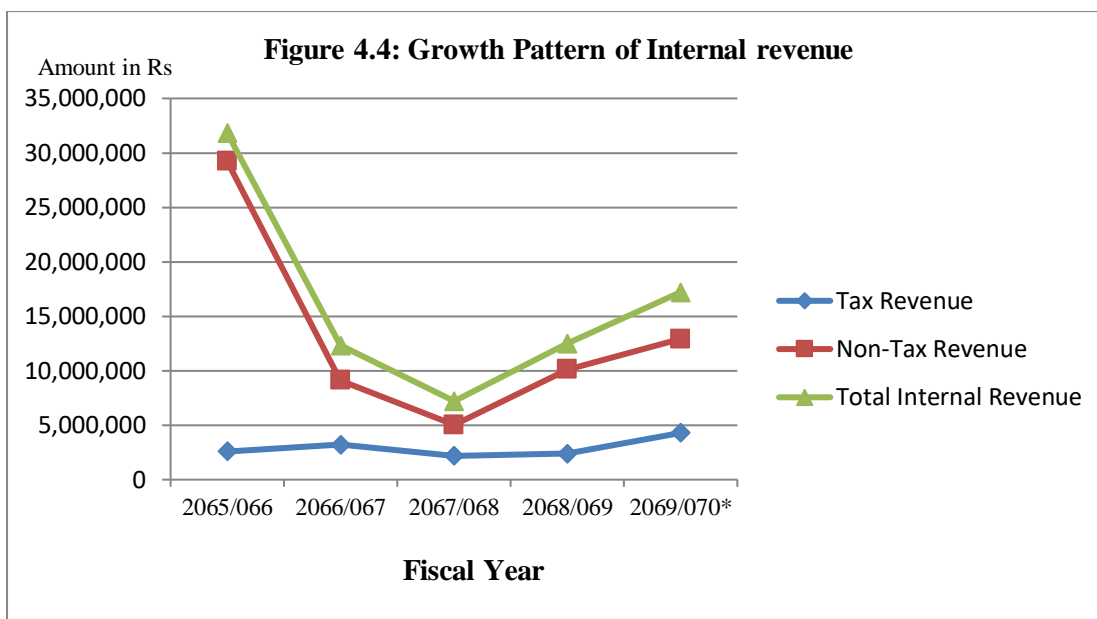
Source: Annual Budget and Program Report of Banepa Municipality

Breakdown of internal revenue of Banepa Municipality is depicted by the table 4.3 where the tax revenue is approximately Rs. 2 million in fiscal years 2065/066, 2067/068 and 2068/069 but it is approximately Rs 3 millions in fiscal year 2066/067. It is highest in fiscal year 2069/070 approximately at Rs. 4 million. Similarly, the non-tax revenue is confined to approximately at Rs. 29, 9, 5, 10 and 12 million in the fiscal years 2065/066 to 2069/070 respectively.



Source: Table 4.3

According to figure 4.3, the internal revenue of Banepa Municipality is highest in fiscal year 2065/066 i.e. approximately standing at Rs 31 million whereas fiscal year 2067/068 has the least internal revenue of Rs. 7 million. The internal revenue decreased in fiscal year 2066/067 and 2067/068 than it was in fiscal year 2065/066. The reason of fall in internal revenue is due to fall in non-tax revenue. It got pace of increase from fiscal year 2068/069 and continued in fiscal year 2069/070.



Source: Table 4.3

Figure 4.4 depicts the general growth pattern of the internal revenue of Banepa Municipality. The non-tax revenue is decreasing until fiscal year 2067/068 and increasing continuously throughout the study period. The tax revenue has smooth pace between approximately Rs 2 million to Rs 4 million.

Table 4.4

Share of Tax Revenue to Total Revenue and Total Internal Revenue

| Fiscal year | Tax Revenue | Amount in Rs | |
|-------------|-------------|---------------------------|------------------------|
| | | Share in Internal Revenue | Share in Total Revenue |
| 2065/066 | 2,602,644 | 8.18 | 5.75 |
| 2066/067 | 3,196,958 | 25.93 | 6.35 |
| 2067/068 | 2,177,458 | 30.21 | 3.25 |
| 2068/069 | 2,380,543 | 19.05 | 3.52 |
| 2069/070* | 4,290,000 | 24.95 | 6.18 |

Source: Annual Budget and Program Report of Banepa Municipality

The share of the tax revenue to total revenue and total internal revenue of Banepa Municipality is shown in the table 4.4 above. The tax revenue as the share of internal revenue covers approximately 8 percent, 25 percent, 30 percent, 19 percent and 24 percent in fiscal years 2065/066 to 2069/070 respectively. As the share of total revenue, it has 5.75 percent and 6.35 percent in fiscal year 2065/066 and 2066/067 respectively. The share decreased to 3.25 percent in fiscal year 2067/068 whereas

there is negligible increase in fiscal year 2068/069 but it got increased share in fiscal year 2069/070 as 6.18 percent. Looking above table, it is clear that there is not consistent pattern of tax revenue.

Table 4.5
Share of Non-tax Revenue to Total Revenue and Total Internal Revenue

Amount in Rs

| Fiscal year | Non-Tax Revenue | Share in Internal Revenue | Share in Total Revenue |
|--------------------|------------------------|----------------------------------|-------------------------------|
| 2065/066 | 29,209,284 | 91.82 | 64.54 |
| 2066/067 | 9,130,528 | 74.07 | 18.15 |
| 2067/068 | 5,031,020 | 69.79 | 7.51 |
| 2068/069 | 10,115,762 | 80.95 | 14.95 |
| 2069/070* | 12,905,000 | 75.05 | 18.57 |

Source: Annual Budget and Program Report of Banepa Municipality

Table 4.5 shows the share of non-tax revenue to the internal revenue and total revenue of Banepa Municipality. It contributes 91.82 percent, 74.07 percent, 69.79 percent, 80.95 percent and 75.05 percent in internal revenue and 64.54 percent, 18.15 percent, 7.51 percent, 14.95 percent and 18.57 percent in the fiscal years 2065/066 to 2069/070 respectively.

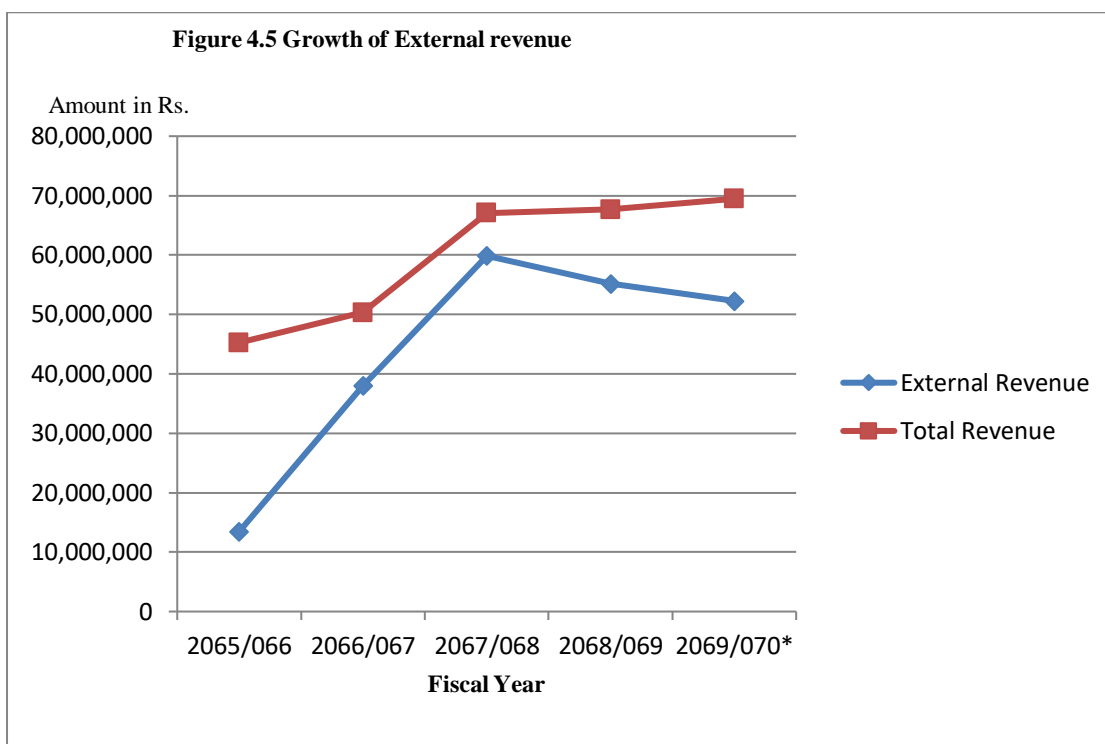
Table 4.6
Share of External Revenue to Total Revenue

Amount in Rs

| Fiscal year | External Revenue | Total Revenue | Share of Total Revenue |
|--------------------|-------------------------|----------------------|-------------------------------|
| 2065/066 | 13,444,279 | 45,256,207 | 29.70 |
| 2066/067 | 37,986,902 | 50,314,388 | 75.49 |
| 2067/068 | 59,848,994 | 67,057,472 | 89.25 |
| 2068/069 | 55,187,989 | 67,684,294 | 81.53 |
| 2069/070* | 52,267,096 | 69,462,096 | 75.25 |

Source: Annual Budget and Program Report of Banepa Municipality

Table 4.6 depicts the external revenue and its share in total revenue. It covers 29.70 percent, 75.49 percent, 89.25 percent, 81.53 percent, and 75.25 percent of the total revenue from fiscal year 2065/066 to 2069/070 respectively.



Source: Table 4.6

Figure 4.5 shows the growth process of the external revenue of Banepa Municipality. The external revenue increased continuously from FY 2065/066 to 2067/068 but after FY 2067/068 it decreased throughout the study period. Fall in the grants (as shown in table 4.15) of CG causes this downward of the external revenue curve. FY 2067/068 has the highest external income and FY 2065/066 has the lowest.

4.3 Expenditure Analysis of Banepa Municipality

Expenditure heading has two major headings: administrative expenditure and capital expenditure. Capital expenditure includes the expenditure made on infrastructure, basic services (health, education, and agriculture), natural resource management and empowerment. Expenditure made to run the municipality office is regular expenditure. Regular expenditure comprises the salary and allowance, office administration expenditure, furniture for office, economic assistance, maintenance expenditure and land revenue refund.

4.3.1 Total expenditure of Banepa Municipality

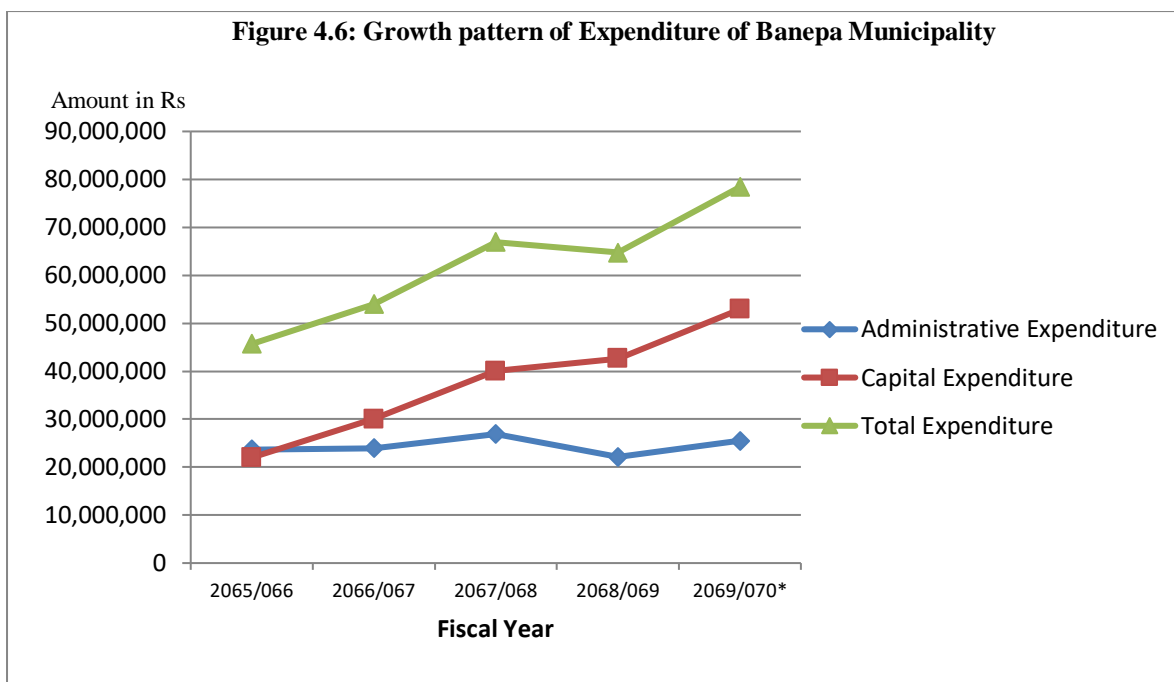
All expenditures made by Banepa Municipality are categorized under two broad headings-Administrative Expenditure and Capital Expenditure. Table 4.7 shows the capital and administrative expenditure of Banepa Municipality in different fiscal years.

Table 4.7
Total Expenditure Banepa municipality

| Fiscal year | Amount in Rs | | |
|-------------|----------------------------|---------------------|-------------------|
| | Administrative Expenditure | Capital Expenditure | Total Expenditure |
| 2065/066 | 23,683,919 | 22,002,416 | 45,686,335 |
| 2066/067 | 23,954,150 | 30,005,758 | 53,959,908 |
| 2067/068 | 26,897,163 | 40,026,152 | 66,923,315 |
| 2068/069 | 22,141,432 | 42,619,354 | 64,760,786 |
| 2069/070* | 25,510,000 | 52,890,000 | 78,400,000 |

Source: Annual Budget and Program Report of Banepa Municipality

Table 4.7 shows the expenditure of Banepa municipality. The administrative expenditure was highest at Rs 26.89 million in FY 2067/068 while it was the lowest at Rs. 22.14 million in FY 2068/069. It stands at Rs.23.68, 23.95, 25.51 million in the fiscal years 2065/066, 2066/067 and 2069/070 respectively. The capital expenditures remained at Rs 22, 30, 40.02, 42.61, and 52.89 million in the fiscal years from 2065/066 to 2069/70 respectively. These make the total expenditure Rs 45.68, 53.95, 66.92, 64.76 and 78.4 million in the subsequent fiscal years.



Source: Table 4.7

Figure 4.6 shows that capital expenditure has increasing trend whereas administrative expenditure has not any uniform pattern of growth. It has increased from FY 2065/066 to FY 2067/068 and came to the lowest in FY 2068/069 among the study period due to the fall in amount of administrative expenditure and again increased for FY 2069/070.

Table 4.8

Share of Administrative and Capital Expenditure to Total Expenditure

| Fiscal year | Amount in Rs | | |
|-------------|--------------------------------|-------------------------|-----------------------|
| | Administrative Expenditure (%) | Capital Expenditure (%) | Total Expenditure (%) |
| 2065/066 | 51.84 | 48.16 | 100 |
| 2066/067 | 44.39 | 55.61 | 100 |
| 2067/068 | 40.19 | 59.81 | 100 |
| 2068/069 | 34.19 | 65.81 | 100 |
| 2069/070* | 32.54 | 67.46 | 100 |

Source: Annual Budget and Program Report of Banepa Municipality

Table 4.8 shows the share of administrative expenditure and capital expenditure to the total expenditure of Banepa municipality. The share of administrative expenditure is 51.84 percent, 44.39 percent, 40.19 percent, 34.19 percent, and 32.54 percent in the fiscal years from 2065/066 to FY 2069/070 respectively. Similarly, in those years, the

share of capital expenditure remained 48.16 percent, 55.61 percent, 59.81 percent, 65.81 percent and 67.46 percent respectively.

4.3.2 Achievement of Administrative Expenditure

The achievement of administrative expenditure can be obtained by comparing to the administrative expenditure with the total expenditure. In another way, it can be expressed as the percentage of total expenditure. Table 4.9 shows the achievement of the administrative expenditure.

Table 4.9
Achievement of Administrative Expenditure

| Amount in Rs | | | | |
|--------------|----------------------------|-------------------|-----------------|---------|
| Fiscal year | Administrative Expenditure | Total Expenditure | Achievement (%) | Remarks |
| 2065/066 | 23,683,919 | 45,686,335 | 51.84 | weak |
| 2066/067 | 23,954,150 | 53,959,908 | 44.39 | weak |
| 2067/068 | 26,897,163 | 66,923,315 | 40.19 | weak |
| 2068/069 | 22,141,432 | 64,760,786 | 35.18 | Weak |
| 2069/070* | 25,510,000 | 78,400,000 | 32.54 | Weak |

Benchmark as per LSGR: Strong- Below 15 percent, Weak- Above 25 percent

Source: Annual Budget and Program Report of Banepa Municipality

Table 4.9 shows the achievement of the administrative expenditure. As per the benchmark of Local Self-Governance Regulation 2000, it looks weak in all the fiscal years.

Table 4.10
Expenditure on Education and Health

| Amount in Rs | | | | | |
|---------------------|------------------|-----------------------------------|---------------|-----------------------------------|--------------------------|
| Fiscal Year | Education | Share in total Expenditure | Health | Share in total Expenditure | Total Expenditure |
| 2065/066 | 1,002,270 | 2.19 | 406,777 | 0.89 | 45,686,335 |
| 2066/067 | 166,000 | 0.31 | 345,297 | 0.64 | 53,959,908 |
| 2067/068 | 183,800 | 0.27 | 245,838 | 0.27 | 66,923,315 |
| 2068/069 | 50,000 | 0.077 | 417,790 | 0.65 | 64,760,786 |
| 2069/070* | - | - | 600,000 | 0.77 | 78,400,000 |

Source: Annual Budget and Program Report of Banepa Municipality

Table 4.10 shows the expenditure of Banepa municipality in health and education. The expenditure on both of the heading is very less. The share of education is less than the share of health except in FY 2065/066.

Table 4.11
Expenditure on Interest and Principal Payment

| Amount in Rs | | | |
|---------------------|---------------------|-----------------------------------|--------------------------|
| Fiscal Year | Debt Payment | Share in total Expenditure | Total Expenditure |
| 2065/066 | 1,323,070 | 2.89 | 45,686,335 |
| 2066/067 | 179,241 | 0.33 | 53,959,908 |
| 2067/068 | - | - | 66,923,315 |
| 2068/069 | 5,354,683 | 8.27 | 64,760,786 |
| 2069/070* | 3,500,000 | 4.46 | 78,400,000 |

Source: Annual Budget and Program Report of Banepa Municipality

Table 4.11 shows the debt payment of Banepa Municipality. The share of the debt payment (interest and principal) is 2.89, 0.33, 0, 8.27 and 4.46 in the fiscal years 2065/066 to 2069/070.

4.3.3 Comparison of Income and Expenditure

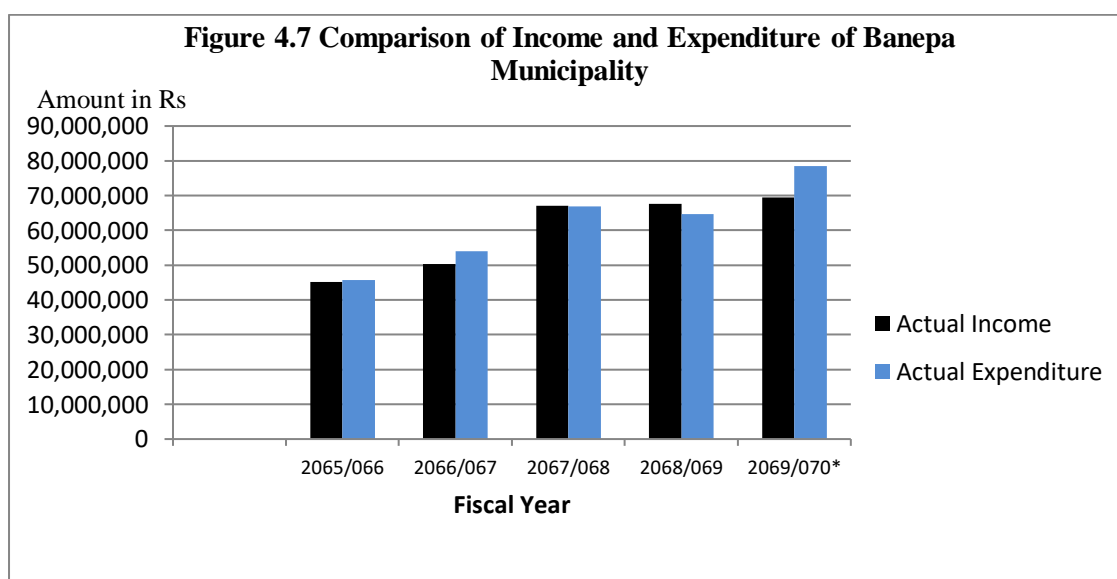
The comparative study of actual income and actual expenditure of particular period gives the financial gap. In other words, financial gap is the difference between actual income and the actual expenditure.

Table 4.12
Financial Gap of Banepa Municipality

| Fiscal year | Actual Income | Actual Expenditure | Financial Gap(+/-) | |
|-------------|---------------|--------------------|--------------------|-------|
| | | | Amount | (%) |
| 2065/066 | 45,256,207 | 45,686,335 | -430,128 | 0.95 |
| 2066/067 | 50,314,388 | 53,959,908 | -3,645,520 | 7.24 |
| 2067/068 | 67,057,472 | 66,923,315 | 1,342,157 | 2.0 |
| 2068/069 | 67,684,294 | 64,760,786 | 2,923,508 | 4.32 |
| 2069/070* | 69,462,096 | 78,400,000 | -8,937,904 | 12.87 |

Source: Annual Budget and Program Report of Banepa Municipality

The financial gap of Banepa Municipality looks both positive and negative. It is negative in the FY 2065/066 and 2069/070 due to the income is less than the expenditure in these fiscal years. The balance amount in the bank has been used to fulfill this gap. But rest of the fiscal years have positive financial gap.



The comparative status of income and expenditure of Banepa Municipality has been presented in the figure 4.7. There is no uniform consistency between income and expenditure.

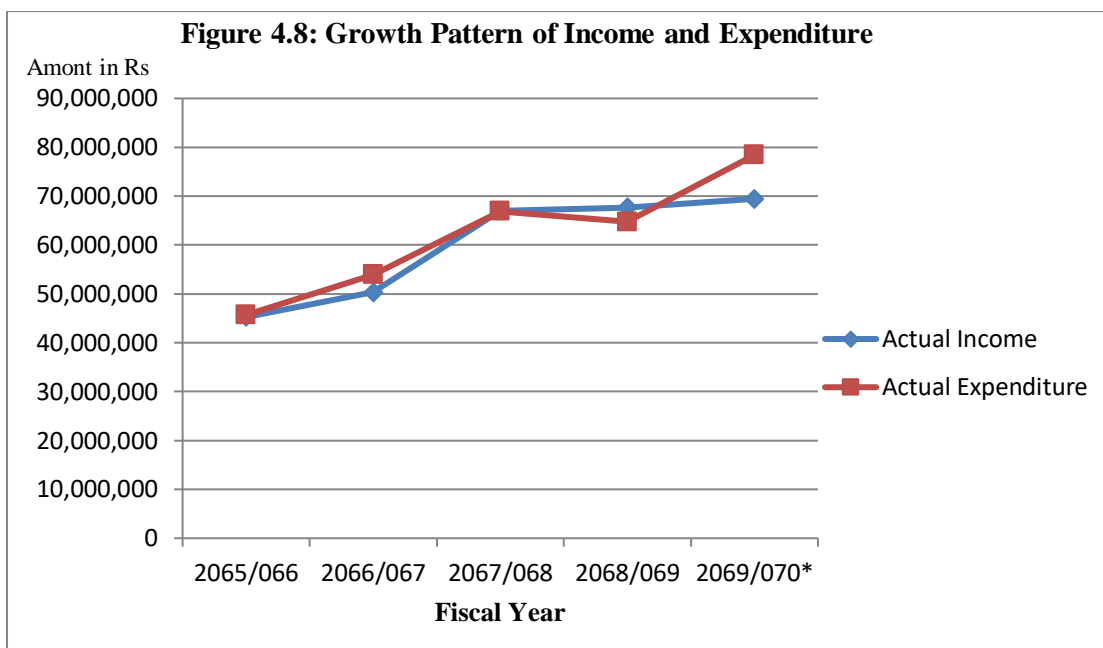


Figure 4.8 shows the growth pattern of income and expenditure of Banepa Municipality. Income has consistent growth whereas expenditure has consistent growth up to FY 2067/068 and there is slight decrease in FY 2068/069 but gone upward in the next fiscal year.

4.4 Fiscal Autonomy and Decentralization of Banepa Municipality

This section of the study deals with the analysis of fiscal autonomy and fiscal decentralization of the municipality. The main tools of measuring the fiscal autonomy and the decentralization are FAR, FAI, LFDR, Tax Autonomy and relative Growth. The degree of fiscal autonomy and fiscal decentralization are present in the following tables.

Table 4.13

Fiscal Autonomy Ratio (FAR)

| | | | | Amount in Rs |
|-------------|------------------|-------------------|----------|--------------|
| Fiscal year | Internal Revenue | Total Expenditure | FAR (%) | Remarks |
| 2065/066 | 31,811,928 | 45,686,335 | 69.63 | - |
| 2066/067 | 12,327,486 | 53,959,908 | 22.85 | Decreased |
| 2067/068 | 7,208,478 | 66,923,315 | 10.77 | Decreased |
| 2068/069 | 12,496,305 | 64,760,786 | 19.3 | Increased |
| 2069/070* | 17,195,000 | 78,400,000 | 21.93 | Increased |

Source: Annual Budget and Program Report of Banepa Municipality

FAR of Banepa Municipality is presented through Table 4.13. FAR has decreased in fiscal years 2066/067 and 2067/068 and increased in fiscal years 2068/069 and 2069/070. The increasing internal revenue in comparison to increasing expenditure is the reason of increased FAR in the last two fiscal years.

Table 4.14
Fiscal Autonomy Index (FAI)

| Amount in Rs | | | | |
|--------------|------------------|---------------|---------|---------|
| Fiscal year | Internal Revenue | Total revenue | FAI (%) | Remarks |
| 2065/066 | 31,811,928 | 45,256,207 | 70.29 | Average |
| 2066/067 | 12,327,486 | 50,314,388 | 24.50 | Weak |
| 2067/068 | 7,208,478 | 67,057,472 | 10.75 | Weak |
| 2068/069 | 12,496,305 | 67,684,294 | 18.46 | Weak |
| 2069/070* | 17,195,000 | 69,462,096 | 24.75 | Weak |

World Benchmark: Strong-above 75 percent and Weak-Below 60 percent

Source: Annual Budget and Program Report of Banepa Municipality

Table 4.14 depicts the FAI of Banepa Municipality. FAIs are 70.29 percent, 24.50 percent, 10.75 percent, 18.46 percent and 24.75 percent in the fiscal years 2065/066 to 2069/070 respectively. As per the World Bank benchmark, it is of average in FY 2065/066 but weak in all the rest of the fiscal years.

Table 4.15
Local Fiscal Dependency Ratio (LFDR)

| Amount in Rs | | | | |
|--------------|--------------|---------------|----------|---------|
| Fiscal year | Total Grants | Total Revenue | LFDR (%) | Remarks |
| 2065/066 | 13,429,534 | 45,256,207 | 29.67 | Strong |
| 2066/067 | 37,761,431 | 50,314,388 | 75.05 | Weak |
| 2067/068 | 45,249,065 | 67,057,472 | 67.47 | Weak |
| 2068/069 | 32,281,000 | 67,684,294 | 47.69 | Average |
| 2069/070* | 36,167,096 | 69,462,096 | 52.06 | Weak |

World Benchmark: Strong- Below 33 percent and Weak-Above 50 percent

Source: Annual Budget and Program Report of Banepa Municipality

Table 4.15 shows the Local Fiscal Dependency Ratio of Banepa Municipality. LFDR for Banepa Municipality is strong 29.67 percent only in the fiscal year 2065/066 and average 47.69 percent for FY 2068/069 but it is weak 75.05 percent, 67.47 percent, 52.06 percent for the fiscal years 2066/067, 2067/068 and 2069/070 respectively.

Table 4.16
Tax Autonomy

| Fiscal year | Amount in Rs | | |
|-------------|-------------------|------------------------|--------------|
| | Total Tax Revenue | Total Internal Revenue | Tax Autonomy |
| 2065/066 | 2,602,644 | 31,811,928 | 8.2 |
| 2066/067 | 3,196,958 | 12,327,486 | 25.93 |
| 2067/068 | 2,177,458 | 7,208,478 | 30.21 |
| 2068/069 | 2,380,543 | 12,496,305 | 19.05 |
| 2069/070* | 4,290,000 | 17,195,000 | 24.95 |

Source: Table 4.1 and Table 4.3

Tax autonomy of Banepa Municipality is shown in Table 4.16. Tax autonomy of Banepa Municipality is 8.2, 25.93, 30.21, 19.05 and 24.95 for the fiscal years 2065/066 to 2069/070 respectively. Tax autonomy is highest in FY 2067/068 because of the lowest non-tax internal revenue generated in this fiscal year.

Table 4.17
Relative Growth

| Fiscal year | Amount in Rs | | | | | |
|-------------|------------------|----------------------------|---------------|-------------------------|-----------------|--------|
| | Internal Revenue | Change in Internal Revenue | Total Revenue | Change in Total Revenue | Relative Growth | Remark |
| 2065/066 | 31,811,928 | - | 45,256,207 | - | - | - |
| 2066/067 | 12,327,486 | (19,484,442) | 59,840,146 | 14,583,939 | -133.60 | Weak |
| 2067/068 | 7,208,478 | (5,119,008) | 67,057,472 | 7,217,326 | -70.93 | Weak |
| 2068/069 | 12,496,305 | 5,287,827 | 67,684,294 | 626,822 | 843.59 | Strong |
| 2069/070* | 17,195,000 | 4,698,695 | 69,462,096 | 1,777,802 | 264.29 | Strong |

World Benchmark: Strong-above 75 percent and Weak-Below 60 percent

Source: Table 4.2

Table 4.17 depicts the relative growth of internal revenue and total revenue Banepa Municipality. The relative growth for the fiscal year 2066/067 to 2069/070 is -133.60, -70.93, 843.59 and 264.29 respectively. It is weak for fiscal years 2066/067 and 2067/068 whereas it strong for fiscal years 2068/069 and 2069/070.

The above analysis of the fiscal decentralization of Banepa Municipality, FAR has increased for last two fiscal years but the case is opposite for second and third fiscal years. FAI is average in the first fiscal year but weak for rest of the years. LFDR is strong on only one fiscal year; rests are weak. The relative growth seems strong for last two fiscal years. The analysis shows that the fiscal autonomy of Banepa Municipality has no consistent pattern.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECCOMENDATIONS

5.1 Summary of the Study

The research work entitled “Income and Expenditure Analysis of Banepa Municipality, Kavre Palanchowk District, Nepal” is carried out into the complete form after making reviews of various national and international books, journals, publications, research papers and mainly the theoretical and empirical studies. Time series data of period FY 2065/066 to FY 2069/070 has been taken into account for research purpose. The statistical tools as well as decentralization tools have been used to fulfill the objective of the study.

5.1.1 Major Findings of the Study

1. The revenue of BM is found increased continuously and is highest i.e. approximately Rs 69 millions in FY 2069/070.
2. The internal revenue is found fluctuated and unstable over the study period. The share of internal revenue to total revenue is 70.29 percent, 24.51 percent, 10.75 percent, 18.46 percent and 24.75 percent in the fiscal years from 2065/066 to 2069/070 respectively.
3. In average, tax revenue has contributed 21 percent share in internal revenue. It covered 30 percent of internal in FY 2067/068. In addition, the share of the tax revenue to total revenue is highest in FY 2069/070 i.e. 6.18 percent.
4. Non-tax revenue contributed 91.82 percent, 74.07 percent, 69.79 percent, 80.95 percent, 75.05 percent share in internal revenue whereas it was found 64.54 percent, 15.26 percent, 7.51 percent, 14.95 percent, 18.57 percent share in total revenue from FY 2065/066 to 2069/070 respectively.
5. The external revenue is found highest approximately Rs 59 millions in FY 2067/068 when its share is 89.29 percent in total revenue. On average, it contributed 67.84 percent in total Revenue.

6. The average share of capital and administrative expenditure is found to be 59.37 percent and 40.63 percent over the study period and the achievement of administrative expenditure found weak in all the fiscal years.
7. Financial gap shows the relationship between actual income and actual expenditure which is negative in FY 2065/066 and FY 2069/070 and is positive in rest of the fiscal years of the study period.
8. The income of the municipality does not meet its expenditure and external source of revenue fulfills its need.
9. Far shows the relation of internal revenue with total expenditure of the LGU. It is 28.89 percent in average in the study period. Decreasing internal revenue in comparison with increasing total expenditure is the main reason of decreased FAR.
10. Banepa Municipality has average FAI in FY 2065/066 and weak in all fiscal years of the study period as per the World Bank benchmark.
11. Tax autonomy of Banepa Municipality is 8.2 percent, 25.93 percent, 30.21 percent, 10.05 percent, and 24.95 percent in the fiscal years 2065/066 to 2069/070 respectively. It is significantly high in the fiscal years 2066/067, 2067/068 and 2069/070 and it is poor in FY 2065/066.
12. Local fiscal dependency ratio is strong in FY 2065/066 and average in FY 2068/069 but it is weak in rest of the fiscal years of the study period.
13. Relative growth of BM measures the growth of internal revenue in relation to the growth of total revenue is -133.60, -70.93, 843.59 and 264.29. It seems strong in last two fiscal years and weak in all other fiscal years.

5.2 Conclusion

After presentation and analysis of data, the following conclusion is drawn.

1. Central grant is the main source of external revenue i.e. central grant of BM which covers 54.39 percent on average in total revenue. Except in the FY 2065/066, external revenue is the main source of revenue which shows the dependency of LGU on external resource of revenue. For the sustainable development, the internal revenue should be better mobilized.
2. The share of tax revenue to total revenue is negligible i.e. below 7 percent. This shows that major source of internal revenue has neither significant contribution to local development nor consistent growth as per its expenditure.
3. Non-tax revenue of municipality has no any consistent pattern of growth over the time rather it seems highly unstable.
4. Share of the administrative expenditure to total expenditure declines throughout the study period though it did not reach LSGR-2000 benchmark.
5. The financial gap is negative for FY 2065/066 and FY 2069/0870 but positive for all the fiscal year of the study period. The source for higher expenditure than income is the reserve cash balance in banks.
6. The expenditure on education and health is very low.
7. The main reason of decreased financial autonomy in fiscal years 2066/067 and 2067/068 is the decreasing internal revenue in comparison to the increasing expenditure whereas the scenario is opposite for the last two fiscal years of the study period.
8. Tax autonomy is 21.67 percent on average and highest 30.21 percent in FY 2068/068. It is because of low non-tax internal revenue in comparison to other fiscal years. Tax revenue should be increased and consistent for sustainable development.

9. The relative growth is weak in FY 2066/067 and FY 2067/068 but strong for last two fiscal years which is important for growth of the municipality.
10. The internal revenue is fluctuating pattern throughout the study period. The consistency is absent in generating revenue from internal mobilization.

5.3 Recommendations

Though the authorities to mobilize the local resources have been given to the local bodies in Nepal but we do not find change as it has to be. The developmental pace of local area is not satisfactory at all and the life standard of disadvantaged marginalized people seems as miserable as it used to be. Different efforts of LGUs have to be accelerated for health, educational and infrastructure related programs. The revenue mobilization of local bodies must be transparent and progressive for better result. Making a base on conclusions of the study, the following recommendations are listed for the concerned stake holders.

1. The municipality should identify the new sources of revenue so that it can cover its expenditure by own revenue. Agro products, footpath trade charge, tourist entry fee may be some new sources.
2. The external revenue should link directly to the development.
3. Foreign grants, domestic borrowing and foreign can be additional revenue sources.
4. The municipality should develop a standard format for recording internal revenue and grants by categorizing its source and purpose.
5. The employees of municipality should organize in such a way that the responsibility, accountability and authority given are precisely.
6. Central government should make release the grants timely so the targeted project could be completed without delay.
7. The efforts should be maximized to minimized administrative expenditure and increase the proportion of developmental expenses.

8. Increase the participation of disadvantaged, marginalized group and women in developmental activities and increase budget for education and health.
9. The efforts should increase to achieve targets as expected to be done in the budget.