

MUNICIPALITY FINANCE IN NEPAL

(A Case Study of Janakpur Municipality)

A Thesis

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Arts in Economics**

By

Janak Kumar Jha

Roll No. :- 324/065

**Central Department of Economics
Tribhuvan University
Kirtipur, Kathmandu
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LETTER OF RECOMMENDATION

This is to certify that Mr. Janak Kumar Jha has prepared this thesis entitled **“Municipality Finance in Nepal: A case study of Janakpur Municipality”** for the partial fulfillment of Master’s Degree in Arts under my supervision.

This thesis is in the form as required by the Central Department of Economics, Tribhuvan University. It is forwarded to the expert committee for evaluation and acceptance.

Dr. Ram Prasad Gyanwaly
Supervisor
Central Department of Economics
T.U., Kirtipur, Kathmandu

Date: 2071/02/

APPROVAL LETTER

This thesis by Mr. Janak Kumar Jha entitled “**Municipality Finance in Nepal: A case of study of Janakpur Municipality**” has been accepted as the partial fulfillment of the requirements for the Degree of Master of Arts in Economics and here by approved by the committee.

Thesis Committee:

Chairman
(Dr. Ram Prasad Gyanwaly)

.....

External Examiner
(Dr. Ram Chandra Dhakal)

.....

Supervisor
(Dr. Ram Prasad Gyanwaly)

.....

Date: 2071/ 02 /22

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The Thesis entitled "**Municipality Finance in Nepal: A case of study of Janakpur Municipality**", for the 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 revenue and expenditure pattern of Janakpur municipality.

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Acronyms/Abbreviation

Admi.dev:	Administrative development
DDC:	District Development Committee
CEDECON:	Central Department of Economics
FiMa:	Financial Management
FY:	Fiscal Year
GTZ:	German Technical
GDP:	Gross Domestic Product
MLD:	Ministry of Local Development
MOF:	Ministry of Finance
NG:	Nepal Government
Inc.:	Increase
KTM:	Kathmandu
LSGA:	Local Self-government Act
LBFC:	Local Bodies Fiscal Commission
NGO:	Non Government Organization
TDF:	Town Development Fund
T.U.:	Tribhuvan University
UDLE:	Urban Development through Local effort
VDC:	Village Development Committee
CBS:	Central Bureau of Statistics
IDP:	Internally displaced people
LDO:	Local Development Officer
LGAs:	Local Government Associations

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CHAPTER ONE

INTRODUCTION

1.1 Background

Nepal is administratively divided into five development regions and seventy five administrative districts. Districts are further divided into smaller units, called Village Development Committee (VDC) and Municipality. Currently, there are 3,915 VDCs and 58 Municipalities in the country. GON in this fiscal year has declared 72 new municipalities in the country comprising 132 VDCs, which have on one side increased the number of municipalities to 99 and on the other side it has decreased the number of VDCs to 3783 in the country.

Each VDC is composed of 9 wards, Municipality ward ranges from 9 to 35. The capital of Nepal is Kathmandu, which is the only one Metropolitan city. This purpose of this study is to analyze revenue and expenditure pattern of Janakpur Municipality.

Local Self-Governance Act, 2055B.S. and its Regulation 2056B.S. is the main governing act and regulation of local level institutions i.e. District Development Committee (DDC), Municipality and VDC. It is one of the major outcome of democracy restored after mass revolution of 2046 B.S. The Act has protected and promoted the interest of a locality to some extent. A local body represents not only the local opinion but also helps the central government to formulate genuine policies for the betterment of the locality and in turn the country with this background, it would be pertinent to explain some of the key components of local government: First, in a democracy institutionalization of politics is a must.

In a modern representative democracy, often named as delegate democracy, various institutional mechanisms are being made to be participated by the ordinary citizens. In a modern political system, especially in a liberal one, people's knowledge at all levels is well recognized and their capability is highly valued. The second dimension of local government is autonomy. A greater degree of local autonomy through decentralization means more responsibility for the local government and the residents of the local communities. The third important dimension of local government is finance; how to collect revenue and make the institutions financially self-reliant.

The history of decentralization and local self-government in Nepal is not long and thus it is not very fascinating. As we know, Nepal has had a long history of a highly centralized system of government and the principle of local government had never been seriously thought over in the past. Local bodies have been operating as local agents or as branches of the central government performing its duties and executing policy measures designed by the central authority and relying heavily on it for administrative, functional, and financial support.

No doubt, the successive governments after 1990 have made some noises about decentralization. A New Era was therefore opened in 1992, when elections for local bodies were held, for the first time, based on multiparty system. With the adoption of the 1990 constitution, Nepal became one of the democratic countries in the world in terms of distribution of political power, although, the central government has not been demolished yet. Nepal, of course, has received much more attention in political science literature that provides a framework for the study in democratization; but, the some cannot be said of local self-government, which is still a little known issue in Nepal.

A decentralized system of government can hardly be achieved without meeting the conditions mentioned above. One cannot deny the fact that there has been a strong political-administrative system of centralization, if not concentration. Despite its growing importance, local government is still a neglected organ and the controlling power of the central government is still difficult not only in legal terms but also in practice.

Janakpur, also known as **Janakpurdham**, is one of the historical and religious city of Nepal. Janakpur is the administrative headquarters of Dhanusa District of the Janakpur Zone and has a population of approximately 103,083. The city is located about 123km south-east of Kathmandu, 20 km from the Indian border at 26° 42' 44" N, 085° 55' 18" E Janakpur has a substantial tourism industry due to its significance in the Hindu religion and is home to the only operational railway in Nepal, the Janakpur Railway which links Janakpur with Jainagar neighbouring Indian town and is also the only means of transportation of most of the VDCs of constituency number two and three. Janakpur lies in the central development region. It is spread in 2,608 hectors of land and is divided into 16 wards. It lies in the constituency number four of the district. It has many peculiarities that other big towns in the country don't possess. It is basically popular for its religious importance. Janaki temple is the most striking attraction for the holy people from inside and outside the country. The main occupation of the people of the municipality is business which is more dependent on tourism. As the Indian border lies very near to the municipality, trade has also made remarkable impact on the economic activities of the people. There are many villages in the municipality. The major occupation in the villages is agriculture. There is a famous industry Janakpur Cigarette Factory which is in a situation to collapse.

Source: Janakpur Darpan2068/69, Yearly Bulatine of Janakpur Municipality.

1.2 Evolution of Municipality in Nepal

If we turn back to the history of municipalities, first we find 'Bhotahity Sawal' ward declared in 1959 B.S. (1902 AD) under the regime of Rana Prime Minister Chandra Shumser. It was divided in two sections i.e. "Phaant"; upper Phaant and lower Phaant meaning upper department and lower department. The delegates on the both of the Phaant were appointed by Rana and delegates were known as Bada Hakim: since the Phaant was divided into two parts, both sections had their own separate responsibilities. Generally the upper section has to look into the whole administration and that the lower section had to look for social services i.e. cleaning and washing of the Sawal. There were some changes and were specific numbers of delegate under the regime of Bhim Shumser. He declared that

were would have 18 delegates on the executive Board and out of them 10 were nominated by the government where as 8 were elected. In this way, there were some improvement in the development process of municipality in 1976 B.S. (1919 AD) and Kantipur was declared as municipality in the same year 1976 BS. After 1976, this process of growing municipality could not take speed rather it was stopped for larger period of time.

After the revolution of 2007 B.S. “Nagar Panchayat Act 2007” was introduced, under this act, five municipalities were officially established. They were Patan, Kantipur, Bhaktapur and Tansen were named, and then the number of municipalities became seven. Seven more municipalities were declared between the periods 2009-2019 BS and then the total number of municipalities became fourteen. Janakpur Municipality was established in 2019 B.S.

Bhairahawa was developed as municipality during the year 2020-2025 and in total number becomes 15. Within 2026-2031, also only one municipality was added and so the total number became 16. Only two municipalities were developed within these 11 years. By the end of 2037 BS there were twenty-three municipalities. As the demand and the process of establishing municipalities were increasing, the total number of municipalities became 33 by the end of 2043. In this current Fiscal Year (FY 2068/69), GON has declared 72 new municipalities in the country comprising 132 VDCs.

Financing the increasing activities of municipalities in Nepal has become an important aspect of the local government. This study in this area and recommendation to overcome difficulties and exploring the alternative and new source of financing would be crucial in municipality development of Nepal.

Table 1.1

Evolution of Municipalities in Nepal

Periods(in A.D.)	Name of Municipalities	Numbers
1919	Kathmandu	1
1951	Patan, Bhaktapur, Biratnagar, Birjung	5
1951-1952	Bhadrapur, Tansen	7
1952-1962	Janakpur, Rajbiraj, Pokhara, Butwal, Nepalgunj, Dharan, Illam	14
1963-1968	Siddharthanagar	15
1968-1974	Hetauda	16
1975-1980	Mahan, Hinged, Birendranagar, Mahendranagar, Tribhuwannagar, Dhankuta, Bharatpur	23
1981-1986	Dipayal, Inaruwa, Kalaiya, Damak, Banepa, Kapilvastu, Jaleswor, Dhulikhel, Nuwakot, Malangwa	33
1986-1991	Byas, Tulsipur, Gaur	36
1995	Upgraded municipalities as Kathmandu Municipality into metropolis and Biratnagar, Pokhara, Lalitpur, Birjung municipalities into sub-metropolis	-

1996	Amargadhi, Baglung, Bhimeshwor, Dasarathchand, Gularia, Itahari, Kamalamai, Khandbari, Kirtipur, Leknath, Madhyapurthimi, Mechinagar, Narayan, Panauti, Prithivinarayan, Putalibazar, Ramnagar, Ratnanagar, Siraha, Tikapur, Triyuga, Waling	58
2011	Taplejung, Phidim, Birtamod, Urlabari, Myaglung, Bhojpur, Diktel, Katari, Mohanpur-Kalyanpur, Kanchanpur-Roopnagar, Ramnagar-Mirchaiya, Dhanusha Dham, Sakhuwa-Mahendra Nagar, Nigaul-Gaushala, Manthali, Hariyon, Chandranigahpur, Jeetpur, Chautara, Panchkhal, Shankrapur, Karyabinayak, Champapur, Neelkanth, Lamjung, Khairenitar-Dulegaunda, Kushma, Beni, Tamghaas, Sandhikharka, Gaindakot, Sunwal, Bandipur, Pyuthan, Salyan, Kohalpur, Rajapur, Bajhai-Chainpur, Mangalsen, Sanfebagar and Chandan Nath.	41
2014	<p>Eastern Region</p> <ol style="list-style-type: none"> 1. Taplejung municipality, Taplejung 2. Phidim municipality (Pachthar), 3. Suryaodaya Municipality (Ilam), 4. Kankai Municipality (Jhapa), 5. Shani-Arjun Municipality(Jhapa), 6. Birtamod Municipality (Jhapa) 7. Urlabari municipality (Morang), 8. Belbari Municipality (Morang), 9. Pathari Sanischare municipality(Morang), 10. Sundar Dulari Municipality(Morang), 11. Koshi Haraichha Municipality(Morang), 12. Rangeli Municipality(Morang), 13. Duhabi-Bhaluwa Municipality(Sunsari), 14. Chainpur Municipality (Sankhuwasabha), 15. Myanglung Municipality (Terathum), 16. Bhojpur Municipality,Bhojpur 17. Diktel Municipality (Khotang), 18. Katari municipality(Udayapur), 19. Shambhunath Municipality(Saptari), 20. Kanchan Rup Municipality (Saptari), 21. Mirchaiya municipality (Siraha), 22. Mirchaiya municipality (Siraha), 23. Siddicharan Municipality(Okhaldhunga) and 24. Beltar-Basaha Municipality (Udayapur), 	72

Central Region

1. Hariban Municipality (Sarlahi),
2. Chandrapur Municipality(Chandranigahapur,Rautaht),
3. Gadimai Municipality(Bara),
4. Chutara Municipality(Sindhuplchok),
5. Panchkhal Municipality(Kavre),
6. Nilkantha Municipality(Dhadhing).
7. Dhanushadham Municipality (Dhanusha),
8. Chhireswornath Municipality(Dhanusha),
9. Gaushala Municipality (Mahottari),
10. Lalbandi Municipality (Sarlahi),
11. Ishworpur Municipality(Sarlahi),
12. Thaha Municipality(Makawanpur),
13. Nijgadh municipality (Bara),
14. Khirahani Municipality (Chitawan) ,
15. Chitrawan Municipality (Chitawan)

Western Region

1. Suklagandaki Municipality (Tanahu),
2. Bandipur Municipality (Tanahu),
3. Kusma Municipality (Parbat),
4. Resunga Municipality (Gulmi),
5. Sandhikharka Municipality(Arghakhachi),
6. Sunawal Municipality (Nawalparashi),
7. Besisahar Municipality(Lamjung),
8. Gaidakot Municipality (Nawalparasi),
9. Chapakot Municipality(Syanja),
10. Rampur Municipality(Palpa),
11. Kawasoti Municipality(Nawalparasi),
12. Devchuli Municipality (Nawalparasi),
13. Bardaghat Municipality(Nawalparasi),
14. Sainamina Municipality(Nawalparasi),
15. Beni Municipaty (Mayagdi),
16. Lumbini Sanskriti Municipalty(Rupandehi),
17. Dev Daha Municipalty (Rupandehi),
18. Tillotama Municipality(Rupandehi),
19. Krishannagar Municipality(Kapilvastu),
20. Shivaraj Municipality(Kapilvastu)

	<p>Mid-Western region</p> <ol style="list-style-type: none"> 1. Kohalpur Municipality (Banke), 2. Sharada Municipality (Salyan), 3. Managalsen Municipality(Achham), 4. Safebagar Municipality(Achham), 5. Rajapur Municipality(Bardiaya), 6. Pyuthan Municipality, (pyuthan) 7. Dullu Municipality (Dailekh), 8. Chandan Nath Municipality (Jumla) <p>Far Western Region</p> <ol style="list-style-type: none"> 1. Jaya Prithivi Municipality(Bajhang), 2. Lamkichuha Municipality (Kailali), 3. Attariay Municipality (Kailali), 4. Api Municipality (Darchula), 5. Punarwas Municipality (Kanchanpur), 6. Belauri Municipality (Kanchanpur) 	
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Source: *Booklets from MLD/UDLE/GTZ and CBS, 2011*, Setopati Nepal's Digital Newspaper-2014, May-8

1.3 Statement of the Problems

Janakpur municipality started working from the year 2019. A lot of fund has been mobilized by the municipality for the overall development of the Municipality. The municipality has to work in the following areas such as drinking water supply, sanitation, electricity supply, education, health hygiene. In order to attain this, the municipality has to raise adequate funds from various resources; local as well as central.

own source of revenues. However, central government introduced Local Development Fee (LDF-collected from custom entry point at 1.5% on imported consignment Until 1998 A.D. "octroi" was main sources of revenue. After the enactment of Local Self-Governance Act, 1999A.D. , Nepalese municipalities had to say final good-bye to "octroi" which contributed more than two thirds of municipal) to replace the "octroi". Nepal became the member of World Trade Organization (WTO) in 2004 that is why LDF has to be abolished by 2011. It means all the municipalities will have to develop their own sources of revenue. Janakpur municipality will also have to manage itself.

In this context, the mobilization and raising of resources and their utilization has been the subject of academic interest. This necessitates analyzing properly both the aspects of resources mobilization and their expenditure on different sectors. The difficulties the local authorities are facing in order to carry out these duties have also been the matter of concern.

So the major research questions are :

- How can local government raise its resources?
- How resources are mobilized on different sectors ?

1.4. Objectives of the study

This study will intend to focus on the financial system of Janakpur municipality. Its specific objectives are :

- (a) To assess the source of revenue and expenditure pattern of Janakpur municipality.
- (b) To compare its revenue sharing with National Average and other municipalities.
- (c) To find the better & potential sources of revenue in Janakpur municipality
- (d) To identify the major problems occurring of financial development in Janakpur municipality.

1.5 Organization of the study

The whole research study will be divided into six chapters. The first chapter will be the introductory portion which deals with background of the municipality, evolution of the municipality in Nepal, statement of the problems, objectives of the study, limitations of the study, and summary of the organization of the study.

The second chapter i.e. the review of literature will cover the concept and patterns of local governments, the objectives of local self-governance Act, 1999 and empirical studies. The third and fourth chapter will deal with the research methodology and municipal finance in Nepal.

The fifth chapter will analyze the revenue and expenditure pattern of the Janakpur municipality during the period of five fiscal year 2064/65 to 2068/69. It will include a detailed analytical description of different sources of revenue and their contribution to the net total revenue as well as the major area of expenditure.

Finally, Finding of the study, conclusion of the study made and recommendations made based on such study that might be helpful in formulating and implementing policies are the contents of the last chapter. Appendix and References presented after the last chapter will close the study.

1.6 Limitations of the study

Some possible limitations of this study are given below :

- a) This study will be case study of Janakpur municipality only. Thus, the finding of this study can not be directly used on other municipalities because it has its own unique characteristics.
- b) Dependence on secondary data and based on the balance sheet of five fiscal years only (i.e. between 2063/64 and 2067/68) of Janakpur municipality is another limitation of this study

CHAPTER TWO

REVIEW OF LITERATURE

This chapter is designed to analyze the basic pattern of some selected developed and developing countries, such as UK, USA, India, Japan, and Nepal. If U.S.A. and UK represents the Western patterns of local governance, India, Japan, and Nepal represents the traditional pattern, modified under the impact of Western culture.

2.1 Concept and Patterns of Local Governments

The concept of municipality is related to the concept of Local Government. Robson (1963) argues that Local Government conceptualizes the territorial, non-sovereign community possessing the legal right and the necessary organization to regulate its own affairs. For Jackson (1965), the term Local Government indicates the management of local affairs and services by popularly elected councils, chosen within the area administered by a council. In other words, local government promotes the well beings of the local people. As the municipalities are an integral part of the local government, it stimulates the decentralization of central government for better performance and regulation of services in the country.

The concept of Local Government is relatively modern, although some of its components did exist in ancient and medieval periods in all countries because of political, administrative, socio-economic or geographic necessities. The common running thread throughout its stages of development has been one of the essential features that are the 'operational freedom' of varying degrees within the overall framework of the policy of the country. It is from the seed of operational freedom that the modern concept of Local government or Local Self-Government has ultimately blossomed into full-fledged form. Politically, as a local democracy; administratively, as local administrative organization, along with well-defined territorial jurisdiction over definite human settlements, constituting a distinctive social entity organized within the broad legal framework, enjoying a certain degree of autonomy to regulate its own affairs; are the major elements of the local self-government.

FRANCE

France offers a model of Local Government which is in sharp contrast to that of Great Britain in many respects. In 1789, the constituent Assembly abolished the intend ants and replaced the provinces by 86 Developments which were to be presided over by a perfect. Then, under the Directory and under Napoleon various innovations were attempted, including the introduction of popularly elected municipal councils. However, the existing pattern is regarded as the creation of Napoleon and more remotely of Richelieu.

Today the French pattern of Local Government presents a very complex phenomenon. Geographically, it is, however, a very simple, four-tier system of administration. The

country is divided into Departments; each department is subdivided into Arrondissement, each Arrondissement into canton and each canton into communes. Of the four-tiers, those at the top and the bottom can claim to be the real units of Local Government because they are so recognized legally, so constituted politically, and so organized administratively. The Department is the largest unit, while the commune is the smallest. Each of them is a body corporate, has its own budget, own property, can sue or be sued, and can enter into contracts. Source :- (Jackson, 1976)

ENGLAND

In England the concept of municipality emerged with the development of the industrial revolution of 18th century. The borough is probably the oldest local government authority in England. The industrial revolution of the concentration of population in towns, urban areas sprang up overnight with no provision for civil amenities. As a result, a royal commission of inquiry was appointed in 1883. On the basis of its report, the municipal corporation Act 1833 was passed by parliament, which forms the basis of the organization and powers of the borough even today. According to this Act, the council was made by government electors for a term of 3 years. The council was given power to in Act by laws for the good government of the borough. It was given powers over property, police, street lighting markets and harbours. Between 1835 to 1882, the Act was amended fifty times. The municipal corporation Act of 1882 codified all the amendments, which together with its various amendments has been largely superseded by the local government Act 1833 (Nigam S.R.,1968).

In case of the England the local government is divided into metropolis and non-metropolis area. The metropolitan area includes six districts, but all district do not have some administrative system. For example, London boroughs are single-tier authorities. However, Scotland has two-tier system and belongs to metropolis category, with the regions having more important functions than the districts (Chandler J.A.,1991).

USA

At the farthest end of the spectrum of the different patterns under scrutiny is the Local Government in the United States where the concept of decentralization appears to be in operation in a more practical form, sometimes along with its excesses. With a federal polity, the system of Local Government in the USA operates in a political framework which is entirely different from those of Britain and France. The Local Government functions within the constitutional orbit of the federating units, namely states, while each state has its own system of Local Government, the fundamental principles and institutions of governance are, by and large, common throughout the USA. In practice, the states exercise their right to regulate local authorities to a relatively small degree.

The major classes of Local Government in the US fall into three groups:

- (i) Counties, Towns and Townships;
- (ii) Municipalities; and
- (iii) Special Districts

The county is the English transplant. Today, it is the largest and the most typical unit of rural Local Government. The traditional and most important unit of Local Self-Government is the Town in the six New England States. The New England Town Meeting is compared with the three pure forms of democracy, namely, the Greek City State, the Swiss Canton and the Indian Village Gram Sabha. Townships exist as political subdivisions of the state and the county as well as units for the conduct of local affairs. They are rural counterparts of municipalities. They are of two types : first, those which are akin to the New England Town Meetings with a Board for the execution of their decisions; second; those where a member of the Township Board constitutes the administrative authority.

Incorporated places or municipalities comprise a second group. They include cities, boroughs, villages and towns. They practice one of the three forms of Local Government:

- (i) Mayor-in-council form;
- (ii) Commission form; and
- (iii) City Manager form

All the forms have attracted the attention of students of Local Government despite their relative deficiencies. The first of these places emphasis on checks and balances. The second refutes the 'dichotomy' of legislative vs. executive powers. The third, having derived inspiration from business management, highlights the desire to enable the Local Government to function more efficiently by employing a professional administrator as the Chief Executive. Finally, there are special districts that form the third group of local units. They are numerous in variety and are both rural and urban in character. They are created to perform specific functions or projects, such as Special Districts for Water Supply, Road, Irrigation, Housing, Mosquito, education, etc.

Source :- (Chandler,1991)

JAPAN

Since local autonomy is considered as classroom of democracy, however, the Japan's municipality history had an experience of improvement of everything from central bureaucracy for the long time. As the capitalism rises, which leaped to develop a class consciousness between workers and employers go up and this consciousness clicks the idea that they are their own master in municipal affairs, which pressurized the government to lift a short of amusement on September 30, 1898 and technical recognition of Tokyo as a local autonomy was practically recognized. It was Goto Shiemi who assumed the mayor ship in Tokyo, then emerging financial capital, in 1920 his statement, "Tokyo, which is far cry from what self government should really be like" gave enthusiasm among citizens to have efficient local government and this helped to give them regime a Tokyo, first municipality real local government (Tokyo, The Making Metropolis, 1994).

INDIA

The history of municipal government may be divided into four periods: (a) the pre-1982 period when municipalities were created to some imperial needs. (b) the period from 1982 to 1919 when attempts were made to turn into self-governing units, (c) the period between the two reform of 1919 and 1935, a period of administrative failure and (d) the period of reconstruction from 1935 to present day. The basic objective of the reconstruction was to recognize the whole of local government with a view to making them a training ground of democracy and an effective organ of administrative (Agrawal, 1960).

The modern concept of local self-governing institutions in the legally constituted form, enjoying administrative and financial freedom, is a British contribution. It was evolved in stages as a matter of, first, financial necessity, and then, political strategy, though in all sincerity. Today, the Local Government in India comprises two broad components: rural and urban namely, Panchayati Raj and the Municipal Government. Every state/ Union Territory having Panchayati Raj set-up has invariably village Panchayats. The Village Panchayats are elected directly by the voters. The Panchayat Presidents and Vice-Presidents are elected directly in some states and indirectly by the members of Panchayats in other states for varying terms of 3 to 5 years, except in Maharashtra where the Panchayat Samiti is elected for a 6-year term.

In India, urban local authorities fall in five categories: Municipal Corporations, Municipalities, Notified Area Committees, Town Area Committees and Cantonment Boards. The Cantonment Boards, the local authorities in the capital city and the cities and towns in the Union Territories, all are under the Central Government. Among them, the Cantonment Boards are semi-democratic in character, with officials dominating their composition. The rest of the urban local authorities are under the state Governments. Unlike Panchayati Raj bodies, which are organized in a graded fashion, urban authorities stand on their own democratic authority below the state Directorate of Municipal Administration.

Source: - (Agrawal, 1996)

India is the largest democratic country in the world. It is the neighboring country of Nepal. It is the second largest in Asia and seventh largest and second most populous country in the earth. It has made enormous economic and political paces since it achieved independence more than sixty years ago. The statutory recognition to local governments was accorded with the 73rd constitutional amendment in 1992 for rural decentralization. The 74th constitutional amendment in 1992 was for urban decentralization. The purpose of the amendments of the constitution was to transfer of administrative, fiscal and political responsibilities to locally elected bodies namely panchayat raj institutions such as districts, intermediate (between the village and district), village and urban local bodies (Fraschini, 2006).

There are three tiers of local government, with different names in different states. They are village (Gram Panchayat), block (Panchayat Samitis) and district (Zilla Parishads). The panchayat gives the common term "Panchayati Raj" to India's system of rural local government (Singh, 1997). There are 28 states, seven union territories and 3,694 municipalities in urban areas. At the same time, there are altogether 246,977 rural councils that include 459 zilla panchayat (districts-third tier), 5,930 panchayat samitis (blocks-second

tier) and 240,588 gram panchayat (village-first tier) (UCLG, 2008). The Panchayats are a linked-system of local bodies among village panchayats), panchayat samities at the intermediate level, and district panchayats. According to Mathur (2006), the urban local bodies are divided into three categories such as municipal corporation (larger urban area), municipal council (small urban area) and nagar panchayat (transition from rural to urban). There are altogether 242,328 villages, 6,097 intermediate governments and 543 district government in India. The average rural population per village panchayat is 3,278 (Alok, 2006).

Likewise, there are 236,350 gram (village) pachayats, 6,795 pachayat samities, 531 zilla panchayats and 9 autonomous district councils as rural local bodies; and 109 municipal corporates, 1,432 municipalities and 2,182 nagar pachayat as urban local bodies in India (Fraschine, 2006). The number of rural and urban local bodies varies in literatures.

Political governance structure in India

- 1) Central Government (Parliament)
- 2) 28 States Government (Legislative)
- 3) Municipal Corporate Urban Local Self Government
- 4) Zilla Parisad (District Legislative Body)
- 5) Municipapalities (Urban Local Self Government)
- 6) Gram Panchaya (Village Local Self Government)

Prior to the amendment of constitution, the sources of income earmarked for local government, were only for providing civic services and welfare functions, but not for development functions. But after the constitutional amendments and enactment of conformity acts in the State in 1994, significant portion of development functions of the State were devolved to local governments. In 1996, the State government earmarked one-third of its development plan size as devolved funds for bottom-up planning in development sectors transferred to local government.

Indian experience shows that attempt to decentralize below the state level has come about more from the center than the states. Many states did not find it necessary to decentralize below their level until the constitution was amended. Of course, there are cases of some states such as Karnataka takes a proactive approach to decentralization. Such initiative is an exception rather than a rule. Thus, sub-state decentralization in India is mostly a 'top-down' process (Rao, 2000).

However, the push to decentralize below the state level has been stronger on the center side than on the states side. So the process of local government reform is still under way and the local governments play a very limited role both in raising revenues and in spending (Rao, 2002).

A very few revenue productive tax powers have been devolved to local government in India. Urban local government can collect local revenue from property tax. Moreover, the tax on entry of good into local areas can obtain a significant amount of revenue in some cities like Mumbai in India. Tax powers are mostly restricted to powers of property tax and a few land based taxes (Shah, 2007). The 80th amendment of the constitution after the recommendation of the 10th Finance Commission (1995-2000), certain percent of all union tax has been devolved to states (Alok, 2006).

Local government finance challenging of the 21st century, second global report of decentralization and local democracy, Gold 2010 Note: Fiscal year of tax revenue and public expenditure is not mentioned in the report.

The important indicator of fiscal autonomy is the share of revenue expenditure to be covered with own sources and the percentage of own sources on the total revenue.

The constitution of India has explicitly mentioned the principle of separation of tax responsibility across the level of governments. For example, the taxes assigned to the central government are not again assigned to the states and vice versa (Rao, 2007). On the contrary, the central government has right to levy excise duties on manufactured products. Similarly, states can levy taxes on the sale and purchase of goods. Till now, most states levy sales taxes at the point of manufacture or on imports from one state to another. Therefore, there is substantial overlap and duplication in the consumption tax system in India. However, the weights of revenue sharing formula by individual states are population (25%), distance from the state with the highest per capita GDP (50%), area (10%), tax efforts (7.5%) and fiscal discipline (7.5%) (Rao, 2007)

Finance Commission (FC) and Planning Commission (PC) oversee the fiscal transfer in India. The development sectors are carefully looked after by PC, which covers both current and capital parts whereas FC take cares the recurrent expenditure (Shrivastava, 2002). By the year 2000, the revenue sharing principle was based on a tax-by-tax basis from central to states. The very important central taxes such as income tax and union excise taxes were shared to states. Nevertheless, the other taxes like the corporate taxes and custom duties were not shared to states. However, after the 80th amendment to the constitution, except central sales and consignment taxes other taxes are distributable between central and states. The vertical dimension of revenue sharing between centre to states ranges from 23.66 % to 44.06 % which stands at around 35% in recent years (Shrivastava, 2002).

The thirteenth finance commission has made very positive recommendation in favor of local government in India that 7.42% of the eligible allocations for panchayati raj institutions (PRIs) and 10.57% of urban local bodies (ULBs) should be ensured. The state governments should delegate funds, functions and functionaries to the local bodies and expenditure of PRIs should be increased to at least 5% of GDP. Local bodies should be given authority to levy tax on properties of the central government. Each panchayat should be given a minimum grant of Rs. 10 lakh (one million) irrespective of population or any other criteria and there should be provision of a special grant of Rs. 5 crore (50 millions) to each zilla (district) to meet local needs. Similarly, the finance commission should directly devolve funds to autonomous district councils instead of routing it through State government (Finance Commission, 2009).

In the same way, according to the provision of constitution, each state government has to specify the responsibility and resource assignment of local bodies such as urban and rural. To ensure the resource allocation to the local bodies, each state has to appoint a state level FC with five years tenure. The major responsibility of state is to strengthen the finances of their local bodies for effective service delivery.

China

The People's Republic of China is one of the biggest countries in the world in terms of territory and population and it ranks third in geographic area. The base of government system of China is unitary. China is divided into three regions (East Coast, Middle, and

West). The government of China has a five-tier hierarchical structure such as central government, provinces (31), autonomous prefecture (333), county level units (2,861), and township level units (44,067). There are 22 provinces, 4 municipalities and 5 autonomous regions. There are two special administrative regions like Macao and Hong Kong in China, (Qiao and Shah, 2006). The Constitution of China provides for three levels of sub-national administration-the province, the county and the township- and in actual implementation, there are two more levels: the prefecture under the province and village under the township (Zhang and Zou 1998). The hierarchical organigram of the government structure of China is as follow.

Political governance structure in China

- 1) Central Government
- 2) 22 Provinces (Average pop. 55.6 million)
- 3) Four Municipalities (Average pop. 17.7 million)
- 4) 333 prefecture-level units (Average pop. 3.8 million)
- 5) 2,861 county-level units (Average pop. 441,000)
- 6) 44,067 township level units (Average pop. 29000)
- 7) Five Autonomous Regions (Average pop. 19.7 million)

Source: Qiao and Shah (2006)

The taxes concerning national interests and macroeconomic adjustment were assigned to the centre and the taxes relevant to provincial economic development and microeconomic adjustment were assigned to the provinces. Under the first category came tariffs and custom, consumption taxes, income taxes from state-owned-enterprises (SOEs), taxes on banks, insurance companies and financial institutions, taxes on rail roads and business taxes. Other revenues assigned to the centre included the profits from SOEs. Under the provincial category came business taxes (excluding banks and financial institutions), company income taxes, personal income tax, urban maintenance and development tax, house property tax, agricultural related taxes, tax on contracts and animal slaughter. There are two other tax revenues that are shared by the centre and the provinces. The value added taxes (VAT) are shared by 75% and 25 % respectively. Taxes on security exchanges are shared equally or fifty-fifty (Zhang and Zou 1998).

Local government does not have authority to decide tax base and rate. However, based on the decision made by the central government, local government collect revenue from urban maintenance and construction, vehicle purchasing, agriculture and animal husbandry, special products, contracts, housing property, urban and township land use, farmland occupation, resources, land appreciation, vehicle and vessel use, fixed asset investments, slaughter, and banquets. Moreover local government levy taxes on educational surcharge, stamp tax, and population charge (Qiao and Shah, 2006).

Local governments are based on a hierarchical system with a characteristic of leadership at different levels in China. The lower levels of governments are being subordinate to higher level, and this feature is recognized in the constitution. Local governments are not recognized as independent authority and power on fund raising under the existing centralized fiscal system (Fraschni, 2006).

1. Local taxes: Income tax of collective enterprises, agricultural tax, contract tax License plate tax of using vehicles and ships, real estate tax of cities, tax on slaughtering animals, tax on animals trade, tax on country fair trade, tax on urban maintenance and construction, income tax of local state-owned enterprises, adjustment tax of local state-owned enterprises;

2. Shared taxes: Product tax, business tax, increment tax, resource tax, building tax, salt tax Income tax of individuals, bonus tax, Tax on industrial and commercial integration, Income tax of joint-venture enterprises, and Income tax of foreign enterprises

3. Non-tax revenues: Revenue from monopoly, Revenue from benefit fee from projects Revenue from penalty and compensation, revenue from a set quota, revenue from trust and management, revenue from assets, revenue from contribution, revenue from assistance revenue from bonds and credits and revenue from allowance.

The central government collects more revenue and transfers to provincial and sub-provincial government as the intergovernmental fiscal transfer in order to carry out the assigned activities at the lower level (Dollar and Hofman, 2008).

Denmark

Denmark is one of the OECD countries having a unitary system of governance. Human Development Index (HDI) shows that Denmark is categorized at 16th rank (UNDP, 2009b) out of 182 UN member states. It is categorized under a very high HDI country. Until 1970, there were more than 1300 urban and rural municipalities. In 1970 a reform was implemented and only one type of municipality emerged. The large numbers of municipalities were merged into 275 and the 24 counties into 14. Moreover, in 2007, the Danish Government passed another reform and the counties were abolished and replaced by five regions. The number of municipalities is now 98 (LGDK, 2009).

Political governance structure in Denmark

- 1) Central Government
- 2) 5 Regions
- 3) 98 Municipalities

2009).Municipalities receive revenues from income and company taxes, land and property taxation, the central government grants and fees paid by the citizens for specific services.

The municipal councils themselves decide the tax rates within some limitations set by regulation and by the result of the yearly negotiation between MoF and LGDK (LGDK, 2009).

NEPAL

In Nepal, the history of the municipalities dates back to 1902 A.D. During the Rana regime, Rana Prime Minister Chandra Shumsher first introduced 'BhotahitySawall' as a municipality. The Ranas appointed delegates in BhotahitySawal who were known as BadaHami. At the time of BhimShumsher in 1919 A.D, some improvements were made in the development process of municipality. "Kantipur" was declared as a municipality in the same year.

After the political revolution of 2007 B.S., Nagar Panchayat Act 2007" was introduced and there after 5 municipalities was officially established. After declaration of "Nepal Municipal

Act 2059 B.S. the process of establishing new municipalities moved forward and there were 35 officially established municipalities by the end of 2018 B.S. After restoration of democracy and promulgation of constitution in 2047 B.S. which has engrossed with the concept of a more decentralized form of government made string commitment form strong. Local municipality and frequently the 'Municipal Act 2048 B.S.' came on to horizon. As result now tax are 58 municipalities in Nepal.

After the restoration of democracy in Nepal and subsequent promulgation of the constitution, the Nagar Panchayat Act was revised and introduced "Nagar Palika Ain 2048". This Act has provisions of dividing municipalities as follows:

- (a) Metropolitan City: With minimum of 300 thousand population and annual income of Rs.70 millions and necessary facilities like electricity, roads, drinking water, communication and so on and already being a municipality.
- (b) Sub-Metropolitan City: With minimum population of 100 thousand and minimum annual income of Rs.20 million and necessary facilities of town like electricity, roads, clean drinking water, communication and so on and already being a municipality.
- (c) Municipality: Sub-city area with minimum population of 20 thousand and minimum annual income of Rs.1 million rupees including minimum urban facilities like electricity, road, drinking water, and other facilities.

To conclude, the developing countries have one features in common i.e. the local bodies are instituted from 'above'. For example, the cantonment Boards, the local authorities in the capital city and the cities and towns in the Union territories, all are under the central Government authorities. On the other hand, in most of the developed countries, they are developed from below. For example, the local Government functions within the constitutional orbit of the federal units, viz. states and each states has its own system of local Government. In practice, the states exercise their right to regulate local authorities to relatively very small degree.

Source: - (MOLD, 2007)

2.2 The Objectives of "Local Self-Governance Act 1999"

- (i) Make provisions conducive to the enjoyment of the fruits of democracy through the utmost participation of the sovereign people in the process of governance by way of decentralization.
- (ii) Institutionalize the process of development by enhancing the participation of all the people including the ethnic communities, indigenous people and down-trodden as well as socially and economically backward groups in bringing out social equality in mobilizing and allocating means for the development of their own region and in the balanced and equal distribution of the fruits of development.

- (iii) Have institutional development of local bodies capable of bearing responsibility, by providing such responsibility and power at the local level as is necessary to formulate and carry out plans, and
- (iv) Constitute local bodies for the development of the local self-governance system in a manner that they are able to make decisions on the matters affecting the day-to-date needs and lives of the people, by developing local leadership;

2.3 Functions, Duties and Power of Municipality

In Nepal, Local Self-Governance Act 1999 has provided the function of municipality which are as follows:

I. In addition to executing or causing to be executed the decision and directions of the municipal council, the functions and duties to be performed by the municipality mandatory in the municipal area shall be as follows:

(a) Relating to Finance:

Under this function municipality prepares budget, plans and programmes; keeps accounts of income and expenditure; raises taxes, charges and fees and expend money to execute the decision of the municipality.

(b) Relating to Physical Development:

Under this work municipality frame land use map and specify the industrial, residential and agriculture, recreation areas; prepare house plan; carryout plan on drinking water and drainage; develop green zones, parks and recreational areas; arranged for public toilet in various places and building community building and rest houses in municipality area.

(c) Relating to Water Resources, Environment and Sanitation:

Associated with this function of municipality are to preserve rivers, streams, ponds, deepwater, lakes, stone water tap, etc.; to carryout irrigation plans; to control and prevent the possible river cutting, floods and soil erosion; to assist in environment protection Act by controlling water, air and noise pollution; to protect the forest, vegetation and other natural resource; to carryout sanitation programmes; to carry and manage the Act of collection, transportation and disposal of garbage and solid water; and to generate and distribute electricity in the municipality area.

(d) Relating to Education and Sports Development:

Under this function, municipality establishes, operates and manages pre-primary school with own source; provide support in the operation and management of school being operated and make recommendation for the establishment and dissolution of such school; manages in providing primary level education in mother tongues, provides scholarships to the students of oppressed ethnic communities, who are extremely backward on economic point of view; prepare and implement programmes of adult education in the municipality area. Similarly, the municipality opens, operates and manages libraries and reading halls; prepares and implement sports development programmes and develops sport by constituting municipality level sports development committee.

(e) Relating to Culture:

To prevent cultural and religious heritage of municipality, it prepares an inventory of culturally and religiously important places and maintains, repairs protects and promotes them. Similarly, municipality protects promotes and uses archaeological objects, languages, religion and culture with in municipality area.

(f) Relating to Work and Transport:

Under this function, municipality prepares plans of unhitched and pitched roads, bridges and culverts, except those which are under the responsibility and control of Nepal Government, and construct maintain and repair the same; arrange bus park and parking places of other vehicles with in the municipality area.

(g) Relating to Health Service:

Operates and manages the municipal level hospitals, Ayurvedic dispensaries, health centres and health posts; formulate programmes relating to family planning, mother and child welfare, extensive vaccination, nutrition, population, education and public health and implement them; arrange for presentation of epidemic and infectious diseases; ban the sale, distribution and consumption of such type of consumer goods which may causes adverse effect on public health are the functions of municipality related to health services.

(h) Relating to Social Welfare:

Under this function, municipality arranges for cremation of heirless dead person, and makes arrangement for orphanages for helpless people, orphans and children bereaved of parents; carryout programmes relating to the interests and welfare of the women and children and Acts relating to the control of immoral profession and trade.

() Relating to Industry and Tourism:

To Act a motivator to the promotion of cottage small medium industries, and protect, promote expand and utilise natural cultural and touristy heritage with in the municipality area are the functions relating to industry and tourism of municipality.

Table : 2.1 Sources of internal revenue of local government in selected countries

S.N.	Countries	Sources of revenue of local government
1	India	Own Tax on : Octroi, Real Estate, and others Own non-tax on : Water and sewerage, Building Licenses, Vehicles & animals Investment income, fine Shared tax : Stamp duty, Electricity, Motor Vehicle tax Grant (State Government and other agencies)
2	South Africa	Property tax, service charges for water, electricity, sanitation, traffic fines, late library book fines and penalties for overdue payment of service charges .The equitable share is an amount of money that a municipality receives from the national government each year. The constitution has provision that all revenue collected nationally must be divided fairly among national, provincial and local spheres of government. The local government equitable share is meant to ensure that municipalities can provide basic service and develop their areas. The amount a municipality gets depends mainly on the number of low- income people in the area; rural municipalities usually get more. Most municipalities only get a small part of their operating budget from the equitable share (Joseph and Rensburg, 2002).
3	Uganda	The LG tax base is now extremely narrow, and the revenue autonomy has been significantly decreased. The abolished tax sources and the insufficient and late compensation have impacted negatively on most of the LG core operations, and on the good governance performance, particularly in the LLGs, which were entirely rely on G-Tax. LGs now finance less than 5 % of their expenditures from own source (DEGE, 2008).
4	Brazil	Service tax, Urban Property tax, Frontage Tax, Property Tax, Federal and States transfers (Steffensen, 2006).
5	Switzerland	Income and wealth tax, tax on profits and capita, household tax, Immovable property, gains tax, real estate tax, transfer tax, lottery tax, dog tax, entertainment tax, trade tax, miscellaneous tax (Schelker, 2005)
6	Germany	Tax revenues (trade taxes and land taxes), financial transfers from the state and the federation, payments, such as fees and contributions for the services they furnish, Share in personal income tax; share in the tax on Economic affairs; share in VAT (Bosch and Espasa, n.d.)
7	Denmark	Major sources of tax are local personal income, company taxes, land and property taxation; user fee and central government grant such as equalization, general and specific grants (Bosch and Espasa, n.d.)
8	China	Urban maintenance and construction, vehicle purchasing, agriculture and animal husbandry, special products, contracts, housing property, urban and township land use, farmland occupation, resources, land appreciation, vehicle and vessel use, fixed asset investments, slaughter, and banquets. Moreover local government levy taxes on educational surcharge, stamp tax, and population charge (Qiao and Shah ,2006)

Notes: CG= Central Government; LGs =Local government, LLGs=Lower Level of Government, ULGs=Upper Level of Governments

Source: Collected from various publications by author

2.4 Empirical Studies

Local and Municipal Administration described "Local Government" as 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 bye-laws for their guidance. A strong system of local government is clearly almost beyond the needs of discussion. Harold J. Laski has rightly said that "We cannot realize the full benefit of democratic government unless we begin by the admission that all problems are not central problems, and that the results of problems not central in their incidence require decision at the place and by the persons, where and by whom the incidence is most deeply felt"

Source: - Local and Municipal Administration (1971)

According to Bahl (1983) urban governments in the developing countries are commonly faced with problems of urban management that far surpass those experienced by their counterparts in the industrialized countries. The prevalence of poverty and generally low incomes makes it difficult at every level of government to raise fiscal resources for the provision of urban services at an increased pace.

Gyanwaly (2004) concludes that LSGA, 1999 has made provision for VDCs, DDCs and municipalities to impose various taxes, service charges, fees and sales of some of their properties to generate revenue. It has provided ample opportunities to local authorities to become financially more independent. However, a very few items have been instrumental to generate revenue, while the contribution of other sources is almost negligible. For example, octroi/local development tax, house and land tax, building permit fee and service charges have significantly contributed to mobilize revenue for municipalities. The resource utilization tax has been more revenue generating for DDCs. The tax revenue is a single effective item to mobilize internal resources in VDCs. The municipalities are relatively better to effectively mobilize revenue than that of the VDCs (26.0 percent) and DDCs (13.0 percent). Trends in internal resource mobilization in VDCs and DDCs are not encouraging. The share of development and capital expenditure in the total expenditure is 48.0 percent in VDCs and municipalities. The local bodies comprise a high proportion of current expenditure, which is a common characteristic of all local bodies.

Pandey (1997) has studied the finance in Nepal. She had used secondary source of data. Her objective was to show relationship between revenues and outlay of government, to explain causes of growing government expenditure, to highlight different sources of plan finance. She has concluded that one of the most essential factors for development is financial resources. NG has to mobilize it to a maximum possible extent. It should use the resources economically and efficiently. Besides this it should try to generate additional resources by taxing the people who enjoy government services. Generating resources by increasing tax base and tax rate is the only way out of development. Besides this in her opinion growth rate of expenditure should be checked and leakages should also be minimized by the government.

Chapagain(1995) had studied the municipal finance in Nepal. He had studied the financial aspect of LalitpurMunicipality. His objectives wereto analyze source of revenue and identify new source of revenue, to study the process of collecting finance and pattern of expenditure. He has concluded that the main source of tax revenue is octroi. The income must be increased through efficiency but not due to increasing grants. The lack of understanding of the responsibility of paying taxes on the part of tax payers has caused the tax management more complex and hard. And the problem has aggravated with respect to time

Pahadi(1997) had studied the municipal finance of Janakpur Municipality. He had used secondary sources of information. His objective was to analyze the sources of income and expenditures pattern of Janakpur municipality. That is to say formulation of the budget by this municipality is the main concern of Pahadi's study. He had also focused on social and economic condition of the municipality. He had concluded that the Octroi/Local dev. fee was the main sources of internal revenue and the contribution of other taxes were nominal

Gautam(2002) had studied municipality finance in Nepal. His study is based on the case study of Nepalgunjmunipality. His study focused on social economic condition of theNepalgunjmunipality and to know the process of collecting finance and pattern of expenditure in Nepalgunjmunipality.He had used secondary sources of information. He had concluded revenue was not fully utilized by the municipality. This has caused a high balance forward in this municipality. He had also concluded that the potentialities of sources or revenue are present in the municipality but the authorities have not paid attention to it. He has also concluded that the municipality should take firm decision in collecting taxes.

Shah(2006) had studied municipality finance in Nepal. His study is based on the case study of Janakpur municipality. He had usedboth primary and secondary data in his study.His study is concerned with the analysis of various potential sources of revenue and patterns of expenditure to identify an appropriate system of finance for Janakpur Municipality. His analysis is mainly based on the potential sources of revenue and expenditure pattern of Janakpur Municipality during the fiscal year 2056/57 to 2060/61. He has concluded that own-source of revenue and external sources of revenue were the two main components of total revenue. The most important source of income is internal sources revenue.Local tax is the main internal source of revenue.The local taxes have the major contribution in the own source of revenue of Janakpur municipality. Its contribution to own source revenue hovers around 92%. The annual growth rate of local taxes is fluctuating

2.5 Definition of the variables

In this study some variables (independent and dependent) are used. The variables used in this study are defined in the following section.

2.5.1 Local Government

Local government was found in existence even in the ancient period, probably because of this reason Muttalib and Khan argue that the concept of local government is very old (Muttalib & Khan, 1982).

It is an ancient institution in the sense that sort of local government had been in existence in every phase of the history of almost all the nations. However, the form and the functions of the local government differ from one phase to the other. The local government of today has a new concept known as modern concept.

Unlike in the past, when local government had not invariably been an elected body the present local governments in most of the democratic country are generally elected by the local people there by promoting democratic values at grassroots level.

According to William A. Robson “Local government may be said to involve the conception of territorial, non-sovereign community possessing the legal right and the necessary organization to regulate its own affairs.” (Gupta: 1968).

According to W. Eric Jackson “The term local government indicates the management of local affairs and services by popularly elected councils, chosen within the area administered by a council”.(Gupta,1968,page-1).

In this study local government signifies Janakpur municipality. Janakpur municipality is formed by the people of this municipality by the means of election. The elected representatives govern the municipality.

2.5.2 Local Government Finance

Finance can not be isolated from other aspects of local government. In other words, finance is an important part of any form of government. Finance is an essential component of a functional local government. Local government has to have some sources of finance besides the central government.

In this study local government finance means the finance which is required to operate the Janakpur municipality and is generated by its own sources.

According to Hepworth, local government finance is concerned with raising the resources necessary to meet the expenditure needed to provide local government services, allocating those resources between the various services and ensuring that value for money is being obtained (Hepworth, 1971).

The grant received from central government is also considered sources of finance in this study.

2.5.3 Municipality

In Nepal, municipalities are defined on the basis of population, sources of income and other facilities. Generally, a semi-urban area with a population of at least twenty thousand, and annual source of income of at least five million rupees and having electricity, roads, piped water, communications and similar other facilities are defined as municipality. However, in the cases of mountain and hilly areas, a population of at least ten thousand and an annual source of income of minimum five hundred thousand rupees are the necessary conditions to qualify as a municipality. In the hilly and mountain region motor able road is not necessary to qualify municipality (LSGA, 1999).

In this study municipality means Janakpur municipality which is situated at the heart of the Janakpur district. Its population is 103,083 and has an annual income of more than 39 million rupees (FY 2068/69). Politically and administratively this municipality has been divided into 16 wards.

2.5.4 Municipal Government

Municipal government is very valuable not only on account of the services it renders for the common welfare of the civic community. But the services provided by the municipal government are mostly equitable and unbiased.

According to T. Appu Rao “The municipal government fulfils all the domestic needs of a civilized community”. (Gupta: 1968).

In this study municipal government means elected members of the Janakpur municipality which strives to provide public utility services to the residents residing in this municipality.

2.5.5 Revenue

The term revenue was once used as equivalent to the modern “income”; however how revenue is usually used to denote annual income of a government. Both the concept and the word came from French language, in which revenue is the past participle of *revenir* meaning to return (Dictionary of Economics, 1996).

Here in this study the term revenue is used as the municipal revenue or income. The main sources of municipal revenue are various taxes. Mainly revenue has two components namely own sources of revenue and external sources of revenue.

Own source of revenue is important and main source of almost all the municipalities. Some of the main components of own source of revenue are as follows:

(i) Local Taxes

Local taxes means the revenue which are collected by the means of Octroi/Local development fee, vehicle tax, professional tax, house tax, house rent tax, contract tax, local market tax, sales tax (cattle/fish), unclaimed land tax, tax arrears and other taxes. Local taxes are the main source of income of Janakpur municipality.

(ii) Fees and Fines

Service fee, industrial service fee, recommendation fee, radio license fee, application fee, appraisal fee, building construction permit fee, registration fee, animal house fee, water tariff are the main sources of revenue of Janakpur municipality. The people violating the rules and regulation of this municipality are fined. This is another source of income to this municipality.

(iii) Property Rental

Market/shops/building, Bus Park, fish pond, equipment and other properties are rented in this municipality. This is one of the sources of revenue of Janakpur municipality.

(iv) Sources of other revenue

The other sources of revenues is generated by selling sand and gravel, by selling land and building, auction sale, by selling tender forms, confiscation of deposits, miscellaneous arrears and so on. In this study the revenue collected from the above mentioned headings is defined as other sources of revenues.

External sources of revenue are also an important source of financing local government (Municipality). The main components of the external sources of revenue are Grants, Loans and Miscellaneous Income.

(a) Grants

Janakpur municipality has been receiving grants from various sources. Janakpur municipality has been receiving administrative as well as development grants from NG/Nepal. It has also received grants from district development board and TDF.

(b) Loans

Money borrowed by the municipality that has to be paid back in the future is defined as loan. Janakpur municipality had borrowed from TDF to develop the municipal. Janakpur municipality usually borrows the money that has to be paid back along with the stipulated rate of interest, however sometimes it has taken loan free of cost. Money borrowed by Janakpur municipality with or without cost is defined as loans in this study.

(c) Miscellaneous Income

The main components of miscellaneous income are advance refund, and cost sharing scheme of TDF. Besides this there are some minor sources of incomes which are included as miscellaneous income of this municipality.

To develop the municipality both sources of revenue (i.e. own source of revenue and external source of revenue) have played a vital role.

2.5.6 Expenditure

Expenditure is the outflow of cash from the local government to operate the general administration, and for conducting the social and developmental works. Regular and development expenditure are the two main components of the total expenditure.

Regular expenditure is mainly consumption type of expenditure. Mainly, it included the following expenditure: (a) Current expenditure, (b) Debt payment and (c) Ordinary capital expenditure.

(a) Current Expenditure

In this study current expenditure means the expenditure made on the following headings: salaries, allowances, travel and per diem, services, rent, repair and maintenance, office supplies, newspaper, fuel, clothes/food allowance, other material, health supplies, food for prisoners, animals, financial asst./ donations, contingencies, and ward administration expenses.

(b) Debt Payment

In this study, debt payment means the payment made by the municipality to its creditors. It includes the amount of money borrowed by the municipality as well as the stipulated interest.

(c) Ordinary Capital Expenditure

In this study, the expenditure on furniture, vehicles, machinery and equipments is defined as ordinary capital expenditure.

Development expenditure is the investment types of expenditure. The components of development expenditure are

- (a) Investment on capital and
- (b) Expenditure on social programs
- (a) Investment on Capital

In this study investment on capital means the investment on the following heading, land/building purchase, building construction, construction of roads, fences, water supply system, sewerage system and construction of this type.

(b) Expenditure on Social Programs

The expenses made for the progress or uplift the basic needs of the local society is defined as expenditure on social programs. In this study the expenses made on education, health, forestry, cultural, sports, disaster relief, and financial assistance and so on are included as expenditure on social programs.

In this study some terms are used, the meaning and function of the terms are given below:

Udle: Urban development through local effort (Udle) was established in the year 1987. This organization has been financed by the federal republic of Germany/GTZ. In 1992, His Majesty's Government of Nepal approved the municipal Act. This gave a new thrust to the national policy of decentralization by requiring the municipalities of Nepal to be responsible for the management of their urban areas. To fulfill this challenge, municipalities were in need of some assistance. The Urban development through local efforts programmed provides this assistance as a joint initiative of His Majesty's Government of Nepal and GTZ on behalf of the Federal Republic of Germany.

FiMa: Financial management is one of the main functions of Udle. FiMa assists municipalities to enhance their efficiency in collecting and managing their revenue. FiMa helps to establish computerized accounting system to manage its revenue. It also helps to increase the amount of revenues collected by the introduction of an up-to-date property register linked to taxation records. FiMa operates in collaboration with the municipal management section of the Ministry of Local Development.

TDF: Town Development Fund (TDF) is a fully autonomous financial institution, which administers grants and loans to municipalities under its own capacity (TDF, Act, 1997). The TDF was established in 1989, named as Town Development Fund Board as a semi-autonomous body with an overall goal of improving urban development in Nepal by providing financial and technical assistance to municipalities. The main objectives of TDF are to:

- (a) Provide financial and technical support to the municipalities for the implementation of social infrastructure and revenue generating projects.
- (b) Strengthen the technical and financial capacity of municipalities to implement, operate and maintain the projects.

TDF provides three types of financial support to municipalities that are loans, soft loans, and grants.

Conclusion of the literature review: From above literature review it is concluded that in developed countries like USA, China, Japan, Own source of revenue is the main source of revenue, where as in developing countries like India and Nepal external source of revenue is the main source of revenue.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Selection of the Municipality

Janakpur municipality is one of the historical municipality of Madhes-Terai districts and is the headquarter of Janakpur Zone and Dhanusha district. Janakpur being the administrative and market centre plays a vital role in the development of this district. After removal of monarchy and establishment of full democracy, in my knowledge very few research has done of this municipality related with its financial aspects. This is one of reasons to select this municipality as a study area. Besides this, Janakpur municipality was established nearly before 40 years but economically and financially it is still very weak. The other and the main reason to select this municipality are to find the financial aspect of this municipality and provide some constructive suggestions. Last, but not the least Janakpur Municipality is also the place from where I myself belong.

3.2 Duration of the Study

The study has attempted to analyzed the revenue and expenditure pattern of the municipality of five years from the period fiscal year 2064/65 to 2068/69.

3.3 Data Collection

3.3.1 Sources of Data

The study has based mainly on secondary sources of data to find the economic condition of the municipality, and revenue and expenditure pattern of municipality.

3.3.2 Collection of Secondary Data

All secondary data has collected from Janakpur municipality, Town Development Fund Board (TDFB), Urban Development Through Local Effort (UDLE), Ministry of Local Development, Central Bureau of Statistics (CBS) and Libraries. Such as the balance sheet of revenue and expenditure of all the municipalities will be collected from UDLE, which was prepared by Ministry of Local Development, Municipal Management section of Nepal/GTZ.

Further, the study has based on various reports, books, journal and booklets published by different sectors. Different research concerning 'Municipality Finance' had also been considered during study.

3.4 Presentation and Analysis of Data

The collected data has been presented in tables and diagrams; and interpretation has been made. Further, the data has been analysed statistically. Mainly quantitative analysis has been done.

3.5 Statistical Tools to be Use

Simple statistical tools like Tables, Bar Diagrams; and Regression Analysis had been used to verify the relationship between variables.

3.6 Variables to be Use

The variables that had used on the revenue side of the study are local taxes, fees and fines, property rentals, grants, loans, miscellaneous income etc. The variable revenue has been taken as independent variable (X).

The variables that has been used on the expenditure side of the study are current expenditure, debt payment, ordinary capital expenditure, development expenditure etc. The variable expenditure has been taken as dependent variable (Y).

Following correlation equation is used given as

$$R_{xy} = \frac{N \sum xy - \sum x \sum y}{\sqrt{[N \sum x^2 - (\sum x)^2] [N \sum y^2 - (\sum y)^2]}} \dots\dots\dots(1)$$

R = Correlation coefficient between the variable

X= Revenue

Y= Expenditure

N= Number of observations

CHAPTER FOUR

MUNICIPAL FINANCE IN NEPAL

4.1 Municipal System/Pattern

Nepal has adopted a unitary system of government. Under this system, there exist two levels of government: central and local. Further, the local government system consists of two tiers: basic local governments in the form of village development committees in the rural areas and municipalities in the urban areas and a higher level of local government at the district level in the form of district development committees. There are now 75 DDCs, 3,913 VDCs and 130 municipalities.

Municipalities constitute the local government in the urban areas of Nepal. The total municipal population was 3,487,785 in 2004/05, which was about 14 percent of the estimated total population of Nepal in that year. While the share of urban population in the total population is still not much, the urban population has been increasing rapidly in the recent past, thereby increasing the demand for public services in the urban areas. Rural population is largely deprived of modern public services. Further, a large part of the economic activities is concentrated in the urban areas where there is more scope to generate revenue than in the rural areas. Thus, since there has been both increasing demand for public services and scope to generate revenue in the urban areas, municipal finance is crucial in the local finance of Nepal.

Municipalities are governed under the section three of the Local Self-Governance Act 1999. It deals with such issues as: which functions should be allocated to the municipalities, which taxes should they collect, and what other revenue sources should they be allowed to mobilize. This law has enhanced both responsibilities and authorities of the municipalities.

Since last July 2002, the country's local governments (District Development Committee, Village Development Committee and Municipalities) are running without elected local representatives and another couple of months will go these local institutions without elected political representatives. But, with and without any obligation, these local institutions need to be performed their regular development and other activities and implement accordingly. Due to the chaotic political and internal conflict situation more and more people are pouring into the nearby city centers and that creates immense pressure for municipal authorities to provide "basic urban services" to "internally displaced people –IDP" as well as their permanent urban dwellers. With all these uncertainty and fragile political situation, most of our cities are becoming more populous than ever since due to internal political conflict. Basically, Nepalese municipal bodies will have to allocate more funds in capital expenditure to meet the basic urban services created by locally displaced and migrated people as well as the general of urban population growth.

4.2 Functions

In Nepal, it has long been the practice in local areas to construct and maintain local development activities such as drinking water supplies, local roads, and irrigation canals, public places etc. voluntarily by the local people. These practices, however, have been disappearing gradually, particularly due to the emergence of a system in which money comes from NG/N and where it has been grossly misused in two ways: by the recipient local politicians in the case of grants and by the officials of NG/N in the case of projects directly run by the central government offices.

Decline in the voluntary activities on the one hand and rise in the urban population on the other have put pressure for the supply of public services to be provided by the municipalities in their respective areas. In this context, municipalities were entrusted to carry out a number of activities under the municipal act. Municipal functions have been expanded further under the Local Self-Governance Act 1999. Municipal functions can be divided into three broad categories as follows:

4.2.1 Public Utilities

Public utilities to be provided by the municipalities may include water supply, sewerage and drainage, electricity, telephones, roads, rivers, streams, ponds, deep water, wells, lakes, river cutting, floods and soil erosion, water, air and noise and solid wastes.

4.2.2 Social Services

Municipalities may be involved in such social services as pre-primary schools, primary education, adult education, informal education, libraries, reading halls, languages and sports, archaeological objects, health, Ayurvedic dispensaries, health posts, family planning, mother and child welfare, epidemics and infectious diseases, social welfare and housing, religion and culture, and social welfare.

4.2.3 General Urban Services

Municipalities can carry out general urban services such as refuse collection, park and recreation, street lighting, street cleaning, markets and abattoirs, cemeteries, fire protection, housing plan, drinking water, drainage, green zones, parks, recreational areas, public toilets, community buildings and rest houses; municipal roads, bridge, culverts and bus parks; cottage, small and medium industries, natural, cultural and tourist heritage.

While the list of municipal functions is very long, activities of the municipalities are limited in practice. Municipalities are involved in some urban service-related activities. For examples, they have been involved to a limited extent in garbage collection, street cleaning, street lighting, the creation of city parks, construction of public places, and local roads. They have been weak and lack managerial and administrative capacities and financial resources to carry out their functions effectively. Many functions performed by local governments in many other countries are performed by NG/N in Nepal

4.3 Structure and Pattern of Municipal Expenditure

The size of the municipalities in terms of budget is small. In 2066/67, the latest year for which figures are available, total expenditure of 58 municipalities was Rs. 6040 million. The total expenditure of municipalities was percent of the total expenditure of NG/N in 2066/2067(2010/2011)

Municipal expenditure is divided into five sub-categories,viz. current expenditure,debt expenditure,social expenditure, ordinary capital expenditure and capital expenditure. The following table shows the expenditure structure of municipalities in Nepal.

Table 4.3.1

Expenditure of municipalities

(2066/67)

Heading	Rs. in Thousand	Percent
Current Expenditure	1473915	24.40
Debt payment	28169	0.47
Social expenditure	752446	12.46
Ordinary capital	300355	4.97
Capital investment	3485416	57.70
Total expenditure	6040328	100

Source: *esthaniya nikayako bitiya bislation,2068*

The table shows that around 58 percent of the total expenditure goes for capital investment and proportion of current expenditure is quite high. A detailed survey of each expenditure head has been given below.

4.3.1 Current Expenditure

Current expenditure in table 3.2 covers salaries, allowances, services,rent,repair and maintenance,office supplies,newspaper, fuel, cloth/food allowance,other materials,health supplies, financial assistance/donation, contingencies, etc.

Table 4. 3.2

Current Expenditure of municipalities

(2066/67)

Headings	RS	Percent
Salaries	871333713	59.12
Allowances	156352593	10.60
Contingencies	62355686	4.23
Others	383872920	26.04
Total	1473914912	100

Source: *esthaniya nikayako bitiya bislation,2068*

The table shows the highest resource allocation was on salaries followed by allowances, and contingencies.

4.3.2 Debt Payments

The expenditure made for the payment of dept is known as dept payments. In the fiscal year 2066/2067 it was just 0.47 percent of the total expenditure.

4.3.3 Social Programs

Expenditure made on education, health, forestry, cultural/sports, disaster relief, financial assistance, etc are kept under the headings of social programs. In fiscal year 2066/2067 expenditure on social programs was only 12.46 percent of the total revenue. The details are given below.

Table 4.3.3
Social Expenditure of municipalities
(2066/67)

Headings	RS	Percent
Health	99069996	18.09
Financial assistance	97138929	12.91
Culture/sports	37859757	0.50
Others	518376898	68.80
Total	652445580	100

Source: *esthaniya nikayako bitiya bislation,2068*

4.3.4 Ordinary Capital

Expenditure on furniture, vehicle and machinery are kept under this headings. Expenditure on ordinary capital was only 4.79 percent of total expenditure in fiscal year 2066/2067. The details are given below

Table 4.3.4
Ordinary Capital Expenditure of municipalities
(2066/67).

Headings	RS	Percent
Furniture	3927607	18.09
Vehicles	8937790	12.91
Machinery	287489528	0.50
Total	300354926	100

Source: *esthaniya nikayako bitiya bislation,2068*

4.3.5 Capital investment

From the perspective of growth and development investment expenditure is regarded an almost important economic activity .

Capital Investment is made in the purchases of land and buildings . This type of expenditure is also made in the form of construction of building and various types of projects. Expenditure in the field of various development and construction projects constitutes about 80 percent of total capital Investment. In the fiscal year 2066/67 investment expenditure was 57.70 percent of the total expenditure. The following table gives the details description of capital investment of all municipalities.

Table 4.3.5
Capital investment of municipalities
(2066/67)

Headings	RS	Percent
Land/Building purchase	3777051	0.11
Building construction	68821789	1.97
Town level projects	0	0.00
Other Development/Construction	3412817001	97.92
Total	3485416849	100

Source: *esthaniya nikayako bitiya bislation,2068*

4.4 Sources of Financing Municipal Expenditure

Municipal expenditure is financed through various sources viz.Tax revenue(Local tax), non tax revenue(fees and fines, rental income of property), miscellaneous income and grants.

Largely the own source revenue of the municipalities (i.e., tax and non-tax revenue) meets municipal expenditures. For example, in 2066/67, the tax and non-tax revenue met all current expenditure of the municipalities. On an average, their own source revenues met more than 34 percent of total revenue

Table 4.4.1
Financing Sources of Municipal Expenditure
(2066/67)

Heading	Rs.	Percent
Local tax	1742353048	23.31
Fees and Fines	618633858	8.28
Property rental	248230563	4.13
Others revenue	21938042	0.29
Own source of revenue (1+2+3+4)	2569547064	34.37
Miscellaneous income	353424016	4.73
Grant	2814221167	37.65
Loans	997651853	1.33
Balance forward	1638104852	21.91
Total revenue	7827232460	100

Source: *esthaniya nikayako bitiya bislation, 2068*

Total income of all municipalities was Rs. 7827232460 in 2066/67. Out of this Grant has taken major contribution.

4.4.1 Taxes

Municipalities are authorized to levy various taxes viz; land revenue/ bhumikar, house and land tax, unified property tax, vehicle tax, professional tax, commercial video tax and advertisement tax to generate revenue. The central government law controls the type of tax, tax base, and exemptions. In case of some taxes, rates are fixed by the law while in case of some others, only the minimum and maximum rates are given in the law and municipalities have been given autonomy to fix the rates within the range as per the local conditions.

While municipalities have been authorized to levy various taxes since the early 1960s, they are confined to depend heavily on octroi/local development fee for revenue. As indicated in Table 4.4.2 in 2003/04, municipalities generated Rs.1160679099 from octroi/local development fee out of total municipal tax revenue of Rs.1742353048. The octroi/local development fee constituted 78 percent of total municipal tax revenue in 2066/67.

Table 4.4.2

**Composition of Municipal Tax Revenue
(2066/67)**

Heading	Rs.	Percent
Octroi/Local Development Fee	1160679099	77.72
Professional Tax	94474944	5.42
House, land tax and integrated property tax	408061294	23.42
Others tax	79137711	4.54
Total Tax Revenue	1742353048	100.00

Source: *esthaniya nikayako bitiya bislation,2068*

House, land tax and integrated property tax has been the second largest source of tax revenue of municipalities. This source generated Rs 408061294 in 2066/67, which was 23.42 percent of the total tax revenue. Professional tax has been the third largest source of municipal tax revenue. This tax provided Rs 94474944 revenue in 2066/67. The contribution of other taxes to the total tax revenue was 4.54 percent.

4.4.2 Non-tax Revenue

Municipalities are authorized to generate revenue from such non-tax sources as user charges, regulatory fees, rental incomes and income from the sales of local resources. User charges are justified from both equity and efficiency point of view, since they are collected from the users of the services on the basis of actual use, and since they encourage the user to make efficient use of the services.

The existing composition of revenue under which municipalities generate more than 77 percent of their total tax revenue from the local development fee also indicates the need to make use of the non-tax sources. This is because the future of the local development fee is uncertain in the contest of the possible entrance of Nepal to the World Trade Organization. It is, therefore, recommended elsewhere in this study that municipality should develop property taxes as their major source of revenue. But it would not be possible to develop these taxes overnight.

Property taxes alone would not be sufficient to generate required revenue for the municipalities anyway. So, municipalities should adopt a policy to finance private services through user charges.

Currently, municipalities are authorized to levy user charges, fees and rents. For example, they are empowered to levy service charges on the user of services provided by them and charge fees on valuation of fixed asset and building permit. They can construct toilets,

swimming pools, guest houses, market places, and gymnasium and collect rent from their users. Municipalities also receive some income from the sale of sand, gravel, boulders etc.

4.4.2.1 Fees and Fines

It includes service fees, industrial service fee, recommendation fee, radio licenses fee , application fees, appraisal fees and other fees and fines. It covers 8.28 percent of the total revenue. The largest amount of fees and fines is collected from building permit and followed by service fees and recommendation fees . the following table shows the revenue obtained from fees and fines.

Table 4.4.2.1
Composition of Non-tax Revenue of all Municipalities
(2066/67)

Heading	Rs.	Percentage
Building Permit Fee	308258636	49.83
Service fee	157418389	25.44
Recommendation fee	81804217	13.22
Others	71152717	11.50
Total	618633858	100.00

Source: *esthaniya nikayako bitiya bislation, 2068*

4.4.2.2 Property rental

Municipalities in Nepal are also generating revenue from the rental of properties . revenue from property rent seems negligible i.e., just 4.13 percent of the total revenue. This revenue source includes rental income from market/shops/building, bus park, fishponds, equipments and others. The details of rental income are given below.

Table 4.4.2.2
Property rental of all Municipalities
(2066/67)

Heading	Rs.	Percentage
Markets/shops/Buildings	73675283	29.68
Bus park	43556596	17.55
Others	130998684	52.77
Total	248230563	100.00

Source: *esthaniya nikayako bitiya bislation, 2068*

4.4.2.3 Grants

Municipalities receive money in the form of grants also, to carry out their functions. Municipalities get grants from NG/N, DDCs or Town Development Fund (TDF). As indicated in Table 3.5, NG/N grants are given in the form of an administrative grants and development grants. Administrative grants are given to support NG/N employees posted at the municipal offices, while development grants are provided to carry out development activities at the local level. All municipalities receive NG/N administrative grant. NG/N-development grant is provided the most important grants. This type of grant is provided only to those municipalities whose internal revenue is less than one crore. They also receive grants for the operation of fire fighter.

Table 4.4.2.3
Composition of Municipal Grants
(2066/67)

Type of Grants	Rs.in Millions	Percent
NG/Administrative Grants	131561393	4.67
NG/Development Grants	1055427594	37.70
DDC and Other Grants	1614777913	57.37
TDF Grants	12454367	0.45
Total Grants	289	100.00

Source: *esthaniya nikayako bitiya bislation,2068*

Of the grants sources, NG/Development Grants was the second biggest source in 2066/67 providing Rs.1055427594, which was about 38 percent of total grants in 2066/67. Municipalities also generated Rs.12454367 from the TDF grants. NG/Administrative grants provided Rs.131561393.

4.4.2.4 Loans

Municipalities can finance their functions through commercial and / or public sector loans. In order to provide loan to the municipalities, a Municipal Development Fund is established in the name of the TDF in 1989 as a semi-autonomous body. It was later set up under the TDF Act, 1997 as a fully autonomous financial institution, capable of administering grants and loans to municipalities.

The shares of loans in total revenue was negligible i.e., just 1.33 Percent of total revenue in fiscal year 2066/67.

Not all municipalities have made use of this source. There is a lack of detailed provisions relating to loans. Municipalities also lack technical know-how to develop economically

viable projects to meet the requirements of the commercial banks or their financial institutions.

4.5 Issues

While municipalities have been assigned to carry out several public functions and are authorized to generate revenue through various sources, they have not able to play an important role in the Nepalese public sector. They have been generally weak, and have not been carrying out many functions assigned to them. They are involved in a few service related to typical community functions such as street cleaning, garbage collection, sanitation, the creation of city parks, and local roads. Some municipalities are not in a position to carry out even minimum functions. They lack managerial and administrative capabilities as well as financial resources to formulate plan and program and execute them.

These disparities indicate that the criteria used to declare a place a municipality are very broad and are insufficient to distinguish urban areas from rural areas. In fact, many places have been declared as municipalities for pure political convenience rather than on the basis of a comprehensible and consistent application of suitable criteria.

Since the Local Self-Governance Act does not make it mandatory to levy assigned taxes to municipalities, the municipalities in general have not used most of their tax authorities. They have not exploited most of the non-tax sources also. In general, several sources of revenue are either untapped or under-utilized. There is a tendency among the municipalities to execute expenditure responsibilities without generating revenue locally. They depend heavily on local development fee, which is collected by customs administration of the central government.

Municipalities must be responsible for raising the revenues needed to finance their expenditure for the efficiency and the effectiveness of public spending. To allow a municipality to make decisions about expenditure without being responsible for raising the necessary revenues is to encourage political negligence and probably wastefulness.

4.6 Directions for Reform

Municipalities are now at a crossroad. The Local Self-Governance Act and Regulations 1999 intend to develop municipalities as Local-Self Governments. Now there is a need for strong political commitment and creation of institutional and administrative capacities of municipalities to translate theory into practice. It is also necessary to fix flaws in the existing laws relating to the municipal finance. Following measures are recommended for the establishment and development of a sound municipal fiscal system.

CHAPTER FIVE

ANALYSIS OF REVENUE AND EXPENDITURE PATTERN OF JANAKPUR MUNICIPALITY

5 .General Information of the Study Area

Janakpur municipality is mid town of terai region of Nepal. It was established in 2019 BS with 11 wards which have now increased to 16 wards. Government enact the new “local self governance act, 1999”, which discontinued the octroi / local development fee. The octroi / local development fee was the major single source of revenue of the Nepalese municipalities. This decision was one step forward to fiscal decentralization. But it is yet to be assumed that the municipalities can mobilize their own sources of revenue in the sustainable way by implementing their newly assumed limited taxing powers. It is obvious that the power to tax is essential for promoting sustainable and accountable local government.

The freedom to determine and vary tax rates strengthens the accountability of the municipalities. This freedom usually enhances tax payer’s interest in the financial management of the municipalities. Especially they will be eager to know the cost of establishing public utilities and the price they pay for using them, e.g., drinking water, electricity, public telephone, social waste management, sanitation, crematorium, parks etc. certain provision made in LSGA (local Self Governance Act) 1999 and related rules can not be considered quite suitable to a small and medium size municipalities e.g., house and land tax. According to LSGA 1999, the municipalities have power to levy various new taxes of which property tax is expected to be an important potential future source of income for the municipalities. However, the degree of its potentiality is not known. The automatic revenue sharing system developed by NG/N seems reasonable but it should increase local government’s share in nationality collected taxes. This approach so expected to be instrumental in retaining central government’s control over tax system, while ensuring a higher flow of revenue to municipalities and making fiscal decentralization a success.

5.1 Revenue Pattern Of Janakpur municipality

Total revenue consists of internal revenue, external revenue and balance forward.

Table 5.1

Total Revenue
(2064/65 to 2068/69)

In rupees
(In percentage)

Fiscal Year	Internal Revenue	External Revenue	Balance Forward	Total Revenue
2064/65	34161625.44 (77.54)	9728045.45 (22.08)	165000 (0.38)	44054670.49 (100.00)
2065/66	46647580.38 (31.85)	98991511.21 (67.59)	802580 (0.56)	1464441672 (100.00)
2066/67	45284408.24 (37.11)	54246326.05 (44.45)	22498000 (18.44)	122028734.29 (100.00)
2067/68	48203114.69 (44.19)	60887054.34 (55.82)	0.00 (0.00)	109090169.03 (100.00)
2068/69	57586078.30 (37.73)	94560000 (61.94)	496000 (0.33)	152642078.30 (100.00)
Average	45.68	50.38	3.94	100.00

Source: janakpur darpan,2068/69,Yearly Buletine of Janakpur Municipality

Table 5.1 shows the composition of total revenue with its percentage share. The highest percentage on total revenue comes from external revenue. In average, it contributes 50.38 percent to total revenue. The contributions from internal revenue and balance forward are not consistent. In fiscal year, 2064/65, external revenue contributed about 22percent while in the FY 2068/69 its contribution drastically increased up to mere 62 percent of total revenue. On the other hand, balance forward decreased from 18.44 percent (FY 2066/67) to 0.33 percent (FY 2068/69) of total revenue. The contribution of internal revenue is drastically decreased from 77.54 percent(FY 2064/65) to 37.73 percent(FY 2068/69)

5.1.0 Composition of own source of revenue

Table 5.2
Composition of own source of revenue of Janakpur municipality
(2064/65 to 2068/69)

In ruppees
(In percentage)

Heading	Fiscal Year					
	2064/65	2065/66	2066/67	2067/68	2068/69	Average
Local taxes	27145077.36 (79.46)	37201213.23 (79.75)	35671721.09 (78.77)	39791525.26 (82.56)	39001313.22 (67.73)	35762170.03 (77.65)
Fee and fines	4681564.18 (13.71)	6517192.15 (13.97)	6980826.15 (15.41)	7318889.43 (15.18)	14731928.08 (25.58)	40230399.99 (16.77)
Property rental	2252815 (6.59)	2638870 (5.66)	2464461 (5.45)	1003500 (2.08)	3585227 (6.25)	2388974.6 (5.21)
Other revenue	82169 (0.24)	290200 (0.62)	167400 (0.37)	89200 (0.18)	267610 (0.46)	179315.8 (0.37)
total	34161625.54	46647580.38	45284408.24	48203114.69	57586078.30	46376561.43

Source: janakpur darpan,2068/69,Yearly Buletine of Janakpur Municipality

In table 5.2, local taxes have the major contribution in the own source of revenue of Janakpur municipality. Its contribution to own source revenue hovers around 77 %. Fees and fines command second highest share in own source revenue during the period of study. The share of property rental and other revenue count negligible in own source revenue. It indicates that Janakpur municipality had not been able to exploit other potential sources of revenue. Hence it should try to exploit other potential sources of revenue.

5.1.1 Local taxes

Local development fee, vehicle tax, octroi and vehicle tax, professional tax, advertisement tax, house and land tax, house rent tax, contract tax, local market tax, sales tax: cattle/fish, unclaimed land tax and other taxes are included in local tax revenue. Table 5.5 gives the percentage share of the components of local taxes in local taxes. Though the share of local development fee in local tax is gradually decreasing (76 % in 2064/65 to 82 % in 2068/69), it commands the highest percentage share in local tax. The second highest share in local tax is that of house and land tax. In average, its percentage share in local tax revolves round 23 percent . The contribution from professional tax is nearly 2 % on average during the period under consideration. The municipality also collects taxes from vehicle tax, professional tax, house rent tax, sales tax: cattle fish, unclaimed land tax and other taxes, but the contribution of these taxes in total is no significance. So, it is evident that, the rate of local development, house and land tax and local market is very important in the collection of local taxes revenue; and the contributions of rest of the components are very nominal during the study period.

Table 5.3
Composition of local taxes of Janakpur Municipality
(2064/65 to 2068/69) In ruppees
(In percentage)

Heading	Fiscal Year					
	2064/65	2065/66	2066/67	2067/68	2068/69	Average
Octroi/Local Dev.Fee	20844000 (76.78)	29086000 (78.19)	29438000 (82.52)	21531000 (54.10)	32297000 (82.82)	133196000 (74.89)
Professional Tax	337190 (1.24)	401540 (1.08)	1252225 (3.52)	525530 (1.32)	682180 (1.75)	31986665 (1.78)
House and Land Tax	5891695.8 (21.71)	7439979.94 (19.99)	4873670.43 (13.67)	17510362.35 (44.00)	5196803.95 (13.32)	10182502.49 (22.54)
House Rent Tax	70667.39 (0.27)	111634.89 (0.30)	106160.32 (0.29)	104537.19 (0.26)	85998.46 (0.22)	95799.65 (0.26)
Advertisement Tax	0.00 (0.00)	160000 (0.44)	0.00 (0.00)	117000 (0.29)	716870 (1.84)	993870 (0.52)
Vehical Tax	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
Other Taxes	1524.10 (0.0056)	2058.40 (0.0056)	1665.34 (0.0047)	3095.72 (0.078)	1460.81 (0.003)	9804.37 (0.019)
Total	27145077.36	37201213.23	35671721.09	39791525.26	39001313.22	100.00

Source: janakpur darpan,2068/69,Yearly Buletine of Janakpur Municipality

Local tax collection system applied by the municipality is one of the main reasons for poor collection of the local taxes. Janakpur municipality usually collects local taxes through contractors. Contractors usually play a middle man's role and their main objective is to make profit. To make profit they charge much more than the tax levied by the municipality. For example on 100kg of vegetables Rs 3 is the tax rate levied by the municipality, but the contractor of the local market is found taxing much more than this amount. The high tax rate imposed by the contractors has kept the smaller vegetable sellers off the market. Because of this reason the vegetable market itself was closed.

5.1.2 Fees and fines

Another source of revenue in the municipality is fees and fines, which includes Service fee, industrial service fee, recommendation fee, radio license, application fee, and appraisal fee, building permit, registration fee, animal house fee and other fees/fines.

Table 5.4

Fees and Fines
(2064/65 to 2068/69) In ruppees
(In Percentage)

Heading	Fiscal year					Average
	2064/65	2065/66	2066/67	2067/68	2068/69	
Service fee	313091.5 (6.69)	447372.87 (6.86)	344627 (4.94)	344605 (4.70)	400224.82 (2.72)	369984.23 (5.18)
Industrial service fee	0.00	0.00	0.00	0.00	0.00	0.00
Recommendation fee	489420 (10.45)	477830 (7.33)	575360 (8.24)	1042320 (14.24)	1281065 (8.69)	773199 (9.79)
Radio license	0.00	0.00	0.00	0.00	0.00	0.00
Application fee	0.00	0.00	0.00	0.00	0.00	0.00
Appraisal fee	0.00	0.00	0.00	0.00	0.00	0.00
Building permit	3126184.68 (66.78)	4183248.67 (64.19)	5176086.20 (74.15)	5026553.70 (68.68)	5743653.84 (38.98)	4651145.41 (62.75)
Registration fee	45605 (0.970)	49560 (0.76)	46960 (0.67)	43485 (0.59)	6301026 (43.43)	1297327.2 (9.28)
Animal house fee	18185 (0.39)	105 (0.0016)	0.00	10700 (0.15)	50100 (0.34)	15818 (0.17)
Other fees/fine	689078 (14.72)	1359180.61 (20.86)	837792.95 (12.00)	851225.73 (11.64)	859483.42 (5.84)	919352.22 (13.01)
Total	4681564.18	6517192.15	6980826.15	7318889.43	14731928.08	100.00

Source: Janakpur Darpan, 2068/69, Yearly Buletine of Janakpur Municipality

The contribution from the building permit fee is highest during the study period, at 62.75 percent on average. This is because building construction in the municipality has been increasing constantly. The contribution from other fees and fines is second position with only 13.01 percent on average. Service fee and recommendation fee also contribution 5.18 percent and 9.79 percent respectively during the study period. The share of Registration fee is at 9.28 percent on average during the study period. The contribution from the animal house fee is nominal during the study period. The share of industrial service fee and radio license fee, appraisal fee, application fee are zero percent during the study period.

Janakpur municipality has been receiving revenues from fines too. Collection of fine in Janakpur municipality is in increasing trend. This indicates violation of the rules and regulation by the people of this municipality is in the increasing trend, which is neither good for the people nor the municipality. That is to say the less the revenue from fine the better would be the society. Hence the authority of this municipality should pay attention to improve the civic sense of the people of this municipality.

Out of 85 people only 65 have taken permission to build their house while 20 said they have not taken permission from the municipality. The reason behind not taking permission, according to them, was "it was not necessary to take permission". In this municipality many buildings are built without taking permission. This indicates that the building permit rule of Janakpur municipality is more or less limited in the paper. Hence, the authority of Janakpur

municipality should try to enforce its permission to build house rule more strictly. If they do this, this will increase their revenue too.

The low collection of revenue from fees have many reasons, the main reasons are such as: inability of the authorities to implement the rules and regulations; the level of services provided by the municipality is lot less than the fee paid by the people; unwillingness of the people to pay the fee; the low level of services people get by paying fee has made fee a kind of tax, so people try to evade it; and civic sense of the people being at the low level in the municipality.

5.1.3 Property Rental

Another source of municipality revenue is property revenue which includes taxes on market/shops/building, Bus Park, fish pond and equipment /others. In Table 5.7, market/shops/building and equipment/ others has the major contribution in the own source of revenue of Janakpur municipality. The contribution from the market/shops/building is highest during the study period, at 86.93 percent on average. The contribution from equipment/ others is second highest during the study period, at 8.59 percent on average. The share of fish pound is 4.48 percent on average during the study period. The contribution from bus park is Zero in study period

Table 5.5
Property Rental
(2064/65 to 2068/69)

(In Percentage)

Headings	Fiscal year					
	2064/65	2065/66	2066/67	2067/68	2068/69	Average
Market/ shops/building	1510000 (67.03)	2390000 (90.57)	2340111 (94.95)	826000 (82.3)	3577777 (99.79)	2128777.6 (86.93)
Bus park	0	0.00	0.00	0.00	0.00	0.00
Fish pond	175775 (7.80)	0.00	53000 (2.16)	125000 (12.46)	0.00	70755 (4.48)
Equipment/others	567040 (25.17)	248870 (9.43)	71350 (2.89)	52500 (5.23)	7450 (0.21)	189442 (8.59)
Total	2252815	2638870	2464461	1003500	3585227	100.00

Source: janakpur darpan,2068/69,Yearly Buletine of Janakpur Municipality

Revenues from property rental were also an important source of revenue of Janakpur municipality. Land suitable to rent market, shops, buildings and ponds suitable to farm fish is the main properties owned by Janakpur municipality. These properties are rented out to the public as well as to various institutions. Ponds suitable to farm fish are one of the main properties of Janakpur municipality. But the trend shows that the revenue from property rental is not a reliable source of revenue. It is because it has a fluctuating trend.

5.1.4 Other revenue

Though the classified subcomponents of other revenues of Janakpur municipality include: sand gravel sale, land/building sale, auction sale, tender form sale, confiscation deposit and miscellaneous revenue/sale, the only tangible contribution to other revenue solely comes from miscellaneous revenue/sale.

Table 5.6
Other Revenue Sources
(2064/65 to 2068/69)

In Rs						
Fiscal Year	2064/65	2065/66	2066/67	2067/68	2068/69	Average
Miscellaneous Revenue/Sale	82169	290200	167400	89200	267610	179315.8
Total	82169	290200	167400	89200	267610	179315.8

Source: janakpur darpan,2068/69,Yearly Buletine of Janakpur Municipality

In fiscal year 2064/65, the amount of miscellaneous revenue/sale was only Rs 82169 which increased by RS 267610 on 2068/69.

5.2 External Sources of Revenue

Municipalities receive revenue from external sources too. Grants are the main source of external revenues. Especially grants provided by the central governments to municipalities to carry out development works and to meet the administrative expenditure are the main source of external revenue. Similarly, district development board also provides grants to the municipalities. In the same manner town development fund (TDF) also provide grants to the municipalities. Sometimes TDF provides loans to the municipalities to run developmental works.

Table: 5.7
Composition of external source of revenue of Janakpur municipality
(2064/65 to 2068/69)

In rupees						
(In percentage)						
Heading	Fiscal Year					
	2064/65	2065/66	2066/67	2067/68	2068/69	Average
Miscellaneous	0 (0.00)	16936214 (17.11)	13331689.29 (24.58)	11735982.3 (19.28)	11735982.34 (9.28)	10747973.58 (16.05)
Grants	9728045.05 (100)	82055297.2 (82.89)	40914637.7 (75.42)	49151072 (80.72)	49151072 (80.72)	46200024.79 (83.95)
Loans	0 (0.00)	0 (0.00)	0 (0.0)	0 (0.00)	0 (0.00)	0 (0.00)
Total	9728045.05	98991511.21	54246326.05	60887054.34	60887054.34	56947998.19

Source: janakpur darpan,2068/69,Yearly Buletine of Janakpur Municipality

In table 5.7, grants have the major contribution in the external source of revenue of Janakpur municipality. Its contribution to external source revenue hovers around 83 %. Miscellaneous income commands the second highest share in external source of revenue during the period of study. The share of loans is zero in external source revenue.

5.2.1 Miscellaneous income

Advanced refund, cost sharing and other miscellaneous are included in miscellaneous income. Table 5.8 gives the percentage share of the components of miscellaneous income.

Table 5.8

Composition of Miscellaneous income of Janakpur municipality
(2064/65 to 2068/69)

In rupees
(In percentage)

Heading	Fiscal Year					average
	2064/65	2065/66	2066/67	2067/68	2068/69	
Advance refund	00 (0.00)	00 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)
Cost sharing	0 (0.00)	16936214 (100.00)	13331689.29 (100.00)	11735982.3 (100.00)	11735982.34 (100.00)	10747973.58 (80.00)
other miscellaneous	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)
Total	0 (0.00)	16936214 (100.00)	13331689.29 (100.00)	11735982.3 (100.00)	11735982.34 (100.00)	10747973.58 (80.00)

Source: janakpur darpan,2068/69,Yearly Buletine of Janakpur Municipality

Cost sharing commands the substantial percentage share in miscellaneous income. There is no contribution from Advance refund and other miscellaneous in miscellaneous income during the period under consideration. This shows that miscellaneous income completely depends on only one component viz., Cost sharing. Considering these trends, it can be said that the miscellaneous income of Janakpur municipality is not a reliable source of income.

Even though miscellaneous income has not been a reliable source of income but the officials of this municipality should try to use cost sharing scheme of NG which they have not used in the study period. If they can exploit this source of income, miscellaneous source of income can become a reliable source of income.

Cost sharing scheme of NG/Nepal signifies sharing cost of running developmental program by NG and municipality. Cost sharing scheme of the NG on the one hand helps to develop municipality on the other it indirectly initiates municipalities to increase their revenue. As already said Janakpur municipality has not yet used this source of income. This indicates that the authorities of this municipality are reluctant to develop this municipality by putting extra effort to increase its revenue.

5.2.2 Grants

The central government provides two types of grants, namely administrative grants and development grants to municipalities. Administrative grants are given to support the central level employees posted at the municipal offices while development grants are provided to carry out developmental activities at the local level. Municipalities also receive some grants from District Development Committee (DDC); The Town Development Fund (TDF), NGOs and other organizations.

Table 5.9

Composition of Grants of Janakpur municipality

(2064/65 to 2068/69)

In rupees
(In percentage)

Heading	Fiscal Year					
	2064/65	2065/66	2066/67	2067/68	2068/69	Average
NG/Administrative Grant	6426114.66 (66.05)	5200000 (6.34)	18971000 (46.38)	10725000 (21.83)	10725000 (21.83)	10409422.93 (32.48)
NG/Development Grant	0.00	0.00	0.00	0.00	0.00	0.00
Grant from NGO /other institution	1655830.39 (17.02)	68615617.2 (83.620)	18789786.76 (45.92)	25178072 (51.22)	25178072 (51.22)	27883475.67 (49.8)
Grant from Dist.dev.committee	1646100 (16.93)	8239680 (10.04)	3153850 (7.70)	13248000 (26.95)	13248000 (26.95)	7907126 (17.72)
TDF grants	0.00	0.00	0.00	0.00	0.00	0.00
Total	9728045.05	82055297.2	40914637.76	49151072	49151072	46200024.6

Source: janakpur darpan,2068/69,Yearly Buletine of Janakpur Municipality

Table 5.9 show that the grant from NGO and other institution has major contribution in grant share. The administrative grants given by the central government to support their employee's posted in the municipality has take second position in grant share. No grants from TDF and NG development.

Getting grants is not bad by itself but it should be used in developmental works properly. Grants can be a boon in the initial stage of development but in the long run it can make the officials of the municipalities idle and effortless. The officials usually do not put serious effort to exploit their own sources of revenue if they can get easy money. Hence grants should be tied to the growth rate of own source of revenue.

5.2.3 Loans

Legally municipalities are empowered to take loans from internal and external sources. Town development fund is one of the main institutions offering loan to municipalities. But, during the study period it is observed that Janakpur municipality has not yet approached town development committee for loan.

So there is no share from town development fund in loans.

Taking loans by any institution is a normal behavior when they are in need of money. However the money should be used in a productive manner, otherwise the institutions can run into a serious problem. It is because the money borrowed from other institutions or from the people has to be returned back along with the stipulated rate of interest.

5.3 Balance Forward

Balance forward is nothing but the left over money that was supposed to be spent

on the previous fiscal year. Balance forward is not revenue in real sense but in accounting this is also considered as one component of revenue.

Table 5.10

Total balance forward of Janakpur municipality
(2064/65 to 2068/69)

In rupees
(In percentage)

Heading	Fiscal Year				
	2064/65	2065/66	2066/67	2067/68	2068/69
Balance forward	165000 (0.38)	802580 (0.56)	22498000 (18.44)	00 (0.00)	496000 (0.33)

Source: Janakpur Darpan, 2068/69, Yearly Buletine of Janakpur Municipality

The maximum and minimum amounts of balance forward of Janakpur municipality were Rs 22498000 and Rs 000 in fiscal year 2066/67 and fiscal year 2067/68 respectively (table:5.10). This means the balance forward of this municipality is fluctuating. It indicates that the fiscal plan prepared by this municipality is defective. It also indicates that the officials of this municipality either do not have sufficient vision to develop their municipality or they do not work hard enough for the development of this municipality. Whatever may be the reason, an ever increasing amount of balance forward suggests that the developmental works are not taking place the way it should be in Janakpur municipality.

5.4 Pattern of revenue of all municipalities and janakpur municipality.

Table 5.11

**Revenue pattern of all municipalities and janapurmunicipality
(2065/66 to 2067/68)**

In Rs

Headings	2065/2066		2066/2067		Increment %		2067/2068		Increment %		Average%	
	All municipalities	Janakpurmunicipality	All municipalities	Janakpurmunicipality	All municipalities	Janakpurmunicipality	All municipalities	Janakpurmunicipality	All municipalities	Janakpurmunicipality	All municipalities	Janakpurmunicipality
Local income	1446258000 (23.0)	17561580 (11.99)	1408867000 (19.00)	15846408 (12.98)	-2.59	-9.7	1659409000 (20.0)	25515000 (18.09)	17.78	6.15	21	14.35
Local dev.fee	1816023000 (28.0)	29086000 (18.86)	1160679000 (16.00)	29438000 (24.12)	-36.09	1.21	1452616000 (18.0)	0 (0.00)	25.15	-100	17	14.66
Mislenous income	314196000 (5.0)	16936214 (11.56)	353424000 (5.0)	13331689 (10.92)	12.49	-0.21	518056000 (6.00)	32297000 (22.90)	46.58	142.25	40	30.11
Grant	2375747000 (36.0)	82055297 (56.03)	2814221000 (38.0)	40914367 (35.52)	295.69	-0.5	648404000 (47.00)	83215000 (59.01)	-60.42	103.38	12	54.01
loan	28072000 (0.4)	0 (0.0)	99762000 (1.3)	0 (0.00)	255.38	0	82105000 (1.00)	0 (0.00)	-17.60	0	0.9	0.00
Balance forwad	413984000 (6.0)	802580 (0.56)	1638105000 (22.0)	2249800 (18.46)	295.69	1.8	648404000 (8.00)	0 (0.00)	-60.42	-100	6.34	6.34
Total	6394280000 (100)	146441672 (100)	7475058000 (100)	122028734 (100)	16.90	-16.67	8176154000 (100)	141027000 (100)	9.38	15.56	100	100

Source: Esthaniyanikayakobitiyabislation 2068

In table 5.11, local level income of municipalities in economic year 066/67 decreased where as loan and balance forward increased. In economic year 067/68 local level income increased to 17.78% and local development fee increased to 25.15% but balanced of forward decreased than previous year. Where as local level income of janakpur municipality in economic year 067/68 increased to 6.15% but share of local development fee and loan in total income is zero .share of grant and misslenious income increase drastically. Total revenue of all munciplities is increasing every year but total revenue of Janakpur municipality fluctuating every year.

All municipalities average percentage of llocal income is 21percent, local development fee is 17 percent, grant is 40 percent and balance forwad is is 12% .Where as janakpur municipality average percentage of of llocal income is 14.35percent, local development fee is 14.66 percent, grant is 54.01 percent and balance forwad is is 6.34% From fiscal year 065/66 to 67/68

5.5 Revenue Sharing of Janakpur Municipality with National Average and other Municipalities

Table 5.12

**Revenue sharing with National Average and other Municipalities
(2065/66 to 2067/68)**

In Rs
(Percentage)

Fiscal Year	Total Revenue of Central Government	% Revenue sharing of all Municipalities on National Average				% Revenue sharing of JnakturMunicipality on National Average			
		Own source of revenue	Grant provided by central Government	Other source of revenue	Total	Own source of revenue	Grant provided by central Government	Other source of revenue	Total
2065/2066	169850000000 (100)	3262281000 (1.92)	2375747000 (1.39)	2894452000 (0.45)	6394280000 (3.76)	46647580 (0.027)	82055297 (0.048)	17738795 (0.011)	146441672 (0.086)
2066/2067	218490000000 (100)	2569546000 (1.17)	2814221000 (1.28)	2091291000 (0.97)	7475058000 (3.42)	45284408 (0.020)	40914367 (0.018)	35829959 (0.017)	122028734 (0.055)
2067/2068	245740000000 (100)	3112025000 (1.266)	648404000 (0.26)	4415725000 (1.794)	8176154000 (3.32)	25515000 (0.01)	83215000 (0.033)	94703000 (0.014)	141027000 (0.057)
Average	100	1.45	0.97	1.071	3.35	0.019	0.033	0.014	0.066

Source: EsthaniyaNikayakoBitiyaBislation 2068

Table 5.12 shows that total revenue of central Government increases from fiscal year 2065/66 to 2067/68 continuously. As all Municipalities Percentage sharing of revenue of Janakpur municipality is also decreasing during study period. The contribution of grant provided by central government on National average of all Municipalities is lower than own source of revenue. On an average contribution of grant and own source of revenue on national average of all Municipalities are 0.97 percent and 1.45 percent respectively. Whereas contribution of grant of Janakpur Municipality on National Average is higher than that of own source. The contribution of grant and own source of revenue of Janakpur Municipality on National Average are 0.033 percent and 0.019 percent respectively.

5.7 Expenditure Pattern

Public expenditure refers to the expense made by the public authorities, i.e. central government, local government and other local bodies to satisfy the common wants of the people who they can not satisfy by themselves. Expenditure is the outflow of cash from the municipal body to operate the general administration and for meeting the social and developmental works in the municipal area. Therefore, expenditure means spending or using money or assets for a specific purpose over a fixed period of time.

Table 5.13
Total Expenditure
(2065/66 to 2067/68)

(In Percentage)

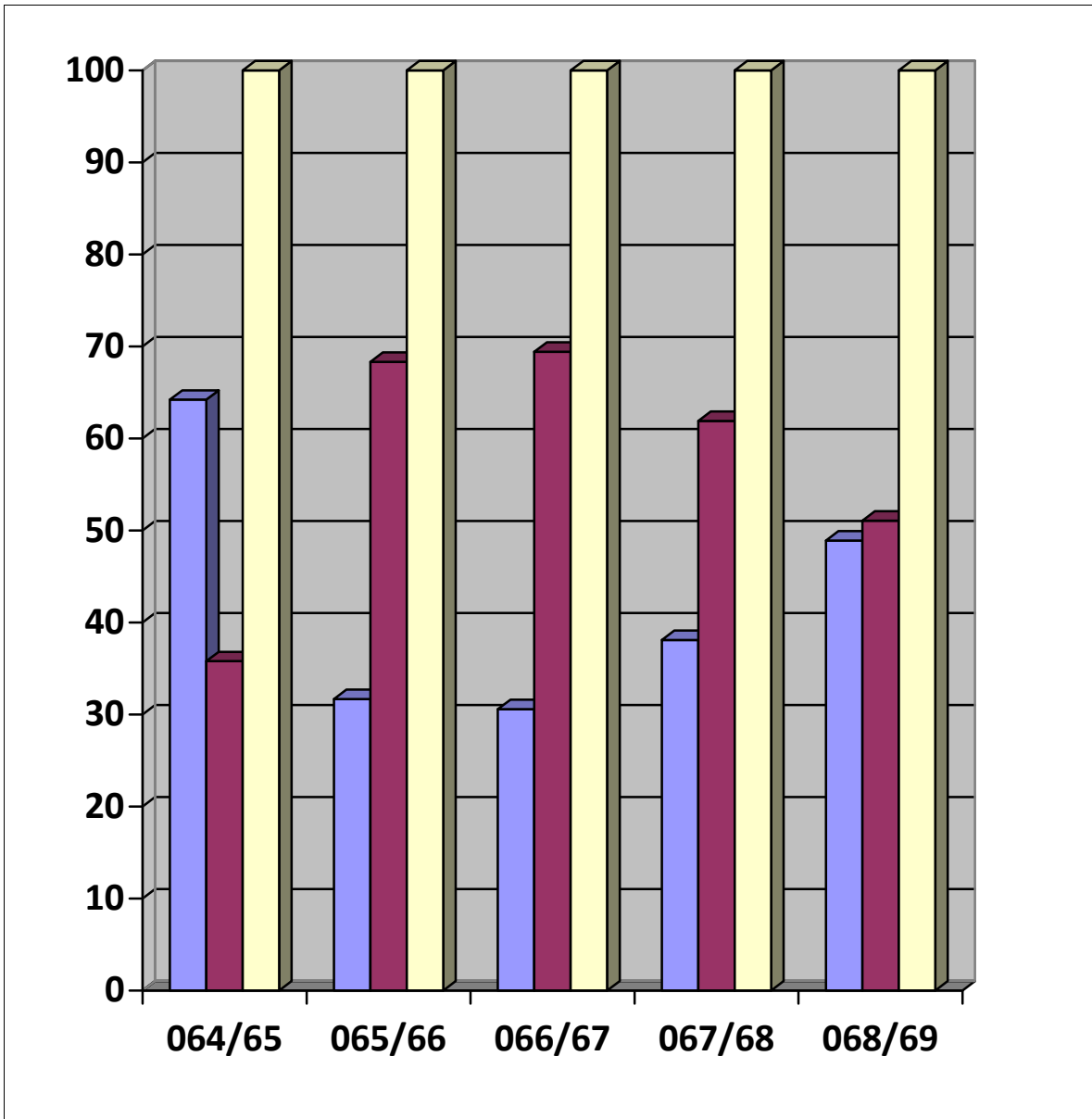
Fiscal Year	Regular Expenditure	Development Expenditure	Total Expenditure
2064/65	27968701.26 (64.21)	15583422.11 (35.79)	43552123.37 (100.00)
2065/66	39275718.95 (31.68)	84667265.8 (68.32)	123942984.75 (100.00)
2066/67	38478464.25 (30.57)	87366482.43 (69.43)	125844946.68 (100.00)
2067/68	52678051.32 (38.10)	85579521.86 (61.89)	138257573.18 (100.00)
2068/69	51074175.5 (48.91)	53325804.09 (51.07)	104399979.59 (100.00)

Source: Janakpur Darpan, 2068/69, Yearly Bulletin of Janakpur Municipality

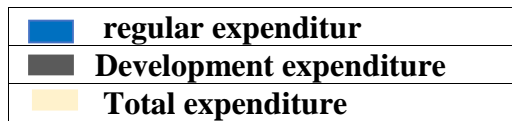
Total expenditure includes regular expenditure and development expenditure. Table 5.13 shows the percentage share of regular and development expenditure on total expenditure. The share of development expenditure on total expenditure is more than that of regular expenditure. Only on the fiscal year 064/65 under consideration, regular expenditure commands more than development expenditure in total expenditure.

Figure 5.1
Pattern of expenditure

percent



Fiscal year



5.7.1 Regular Expenditure

Regular expenditure signifies consumption type expenditure of an institution. Regular expenditure is usually divided into three parts. They are current expenditure, debt payment and expenditure on ordinary capital.

Table 5.14

Composition of regular expenditure of Janakpur municipality
(2065/66 to 2067/68)

(In percentage)

Fiscal Year	Current expenditure	Debt payment	Ordinary expenditure	Regular Expenditure
2064/65	26239232.2 (93.81)	1404000 (5.01)	325478.06 (1.08)	27968701.26 (100)
2065/66	39010741.61 (99.32)	00	264977.34 (0.68)	39275718.95 (100)
2066/67	38462464.25 (95.5)	00	16000 (0.5)	38478464.25 (100)
2067/68	52525051.32 (99.70)	00	153000 (0.30)	52678051.32 (100)
2068/69	50003575.5 (97.90)	1000000 (1.95)	70600 (0.15)	51074175.5 (100)

Source: janakpur darpan ,2068/2069

The highest share in regular expenditure is that of current expenditure. It commands more than 90 percent in total regular expenditure. The share of debt payment is zero in fiscal year 065/66 to 67/68. The share of ordinary expenditure is decreasing continuously from fiscal year 064/65 to 068/69.

5.7.1.1 Current Expenditure

Municipal office has to spend to run itself. Expenses made to run office is known as current expenditure. Current expenditure of a municipality includes administrative expenditure, official expenditure and other expenditure. The main components of other expenditure are financial assistance, donation, other material and contingency fund.

Table 5.15
Composition of current expenditure of Janakpur municipality
(2064/65 to 2068/69)

(In percentage)

Heading	Fiscal Year					average
	2064/65	2065/66	2066/67	2067/68	2068/69	
Salaries	16720161.57 (63.72)	25591807.57 (65.15)	21904785 (56.15)	25903491.57 (49.31)	32158209.67 (64.31)	59.72%
Allowances	1307138.3 (4.98)	1592744.5 (4.05)	3738286 (9.58)	4821756 (9.71)	1498192.5 (2.99)	5.13%
Travel and per diem	341611 (1.30)	392534.5 (0.99)	280520 (0.71)	374491 (0.71)	297574 (0.59)	0.87%
Services	1837702.35 (7)	1061386.53 (2.70)	453148.75 (1.16)	627690.49 (1.19)	1363699.5 (2.72)	2.95%
Rent	153400 (0.58)	299700 (0.76)	112100 (0.28)	178000 (0.33)	223334 (0.44)	0.47%
Repair & maintenance	1121585.11 (4.27)	646620.81 (1.64)	1439494 (3.68)	1467336 (2.79)	1412491.5 (2.82)	3.04%
Newspapers	36820 (0.14)	65330 (0.16)	27525 (0.07)	59569 (0.1)	28500 (0.056)	0.10%
Fuel	1210416 (4.61)	1919035 (4.88)	1102186 (2.82)	1341120 (2.55)	2332830 (4.66)	3.90%
Clothes/food/allowance	286106.35 (1.09)	514275 (1.30)	424620 (1.08)	404800 (0.70)	2706000 (5.41)	1.91%
Financial asst./donations	906767 (3.45)	4571188 (11.63)	4819301 (11.61)	13144085 (25.28)	4974956.39 (9.94)	12.38%
Contingencies	230366 (0.87)	297577 (0.57)	179034 (0.45)	249728 (0.47)	250000 (0.49)	0.57%
Wards adm. expenses	0.00	0.00	0.00	0.00	0.00	0.00%
Others tax	2087158.52 (7.95)	2323520.04 (5.91)	4529741.86 (11.61)	3952984.26 (5.57)	2757787.94 (5.51)	7.31%
total	26239232.2 (100)	39275718.95 (100)	39010741.61 (100)	52525051.32 (100)	50003575.5 (100)	100.00

Source: janakpur darpan,2068/69,Yearly Buletine of Janakpur Municipality

Current expenditure includes: salaries, allowances, travel and per diem, services, rent, repair and maintenances, offices supplies, newspaper, fuel, clothes/food allowance, other material, health supplies, food (prisoners/animals), financial assistance/ donations, contingencies and wards administration expenses. The substantial part of current expenditure goes to salaries and allowances (table: 5.15). These two command about 64 percent of current expenditure.

In comparison to salaries and allowances, expenditure on other headings was nominal. Without the human resources, municipality can not function but municipality should try to use human resources efficiently and economically. The salary and allowances that have to be paid to the employees should not hamper the developmental activities of the municipality. Besides salary and allowances, the expenditure on other headings have fluctuating trend. The fluctuating trend indicates wistful use of financial resources by the officials. The trend of the regular expenses should not be unusual.

5.6.1.2 Debt Payment

Table 5.16

Debt Payment
(2064/65 to 2068/69)

(In percentage)

Fiscal Year	Debt Payment	Total Expenditure
2064/65	1404000 (3.22)	43552123.37
2065/66	0.00 (0.00)	123942984.75
2066/67	0.00 (0.00)	125844946.68
2067/68	0.00 (0.00)	138257573.18
2068/69	1000000 (0.95)	104399979.59

Source: janakpur darpan,2068/69,Yearly Buletine of Janakpur Municipality

Debt payment of Janakpur municipality was zero in FY 2065/66 to 2067/68. The amount of debt payment in 2064/65 and 2068/69 was 3.22 and 0.95 percent of total expenditure. The percentage of debt payment to that of total expenditure is highest in 2064/65. In fiscal year 2068/2069, the share of debt payment to total expenditure decreased to 0.95percent.

5.7.1.3 Ordinary Capital

The goods that can be used for more than one year is loosely termed as ordinary capital goods in this study like the furniture, vehicles and machinery equipment.

Table 5.17
Ordinary capital expenditure
(2064/65 to 2068/69)

(In percentage)

Fiscal Year	Debt Payment	Total Expenditure
2064/65	325478.06 (0.74)	43552123.37
2065/66	264977.34 (0.21)	123942984.75
2066/67	16000 (0.01)	125844946.68
2067/68	153000 (0.11)	138257573.18
2068/69	70600 (0.06)	104399979.59

Source: janakpur darpan,2068/69,Yearly Buletine of Janakpur Municipality

The ordinary capital expenditure is negligible in comparison to total expenditure. It is maximum in fiscal year 2064/65 i.e. 0.74 percent of total expenditure and minimum in fiscal year 2066/67 i.e. 0.01 percent of total expenditure.

5.6.2 Development Expenditure

Development expenditure is almost investment type expenditure. It is one of the most important factors of a municipality. Development expenditure is closely related to the people and hence people show their concern on this expenditure.

Table 5.18

Composition of Development Expenditure

(2065/66 to 2067/68)

Fiscal Year	Social Programs	Capital Investment	Development Expenditure
2064/65	350663.75 (2.26)	15232758.36 (97.74)	15583422.11 (100)
2065/66	391616.77 (0.47)	84275649.03 (99.53)	84667265.8 (100))
2066/67	545451.9 (0.63)	86821030.53 (99.37)	87366482.43 (100))
2067/68	540356 (0.64)	85039165.86 (99.36)	85579521.86 (100))
2068/69	990307 (1.86)	52335497.09 (98.14)	53325804.09 (100))

Source: janakpur darpan,2068/69,Yearly Buletine of Janakpur Municipality

Development expenditure of Janakpur municipality is under taken in two headings namely, social programs and capital investment. investment made on social programs is increasing slightly from fiscal year 065/66 to 068/69. The share of capital investment is more than 95% in development expenditure.

5.6.2.1 Expenditure on Social Programs

Expenditure on social programs refers to that expenditure, which are invested to establish public utilities in different sectors. Janakpur municipality has not been able to invest enough amount of money on social programs. It could not invest because of many problems lack of innovative ideas and lack of fund.

Table 5.19
Social program
(2064/65 to 2068/69)

(In percentage)

Fiscal Year	Social Programs	Total Expenditure
2064/65	350663.75 (2.26)	43552123.37
2065/66	391616.77 (0.47)	123942984.75
2066/67	545451.9 (0.63)	125844946.68
2067/68	540356 (0.64)	138257573.18
2068/69	990307 (1.86)	104399979.59

Source: janakpur darpan,2068/69,Yearly Buletine of Janakpur Municipality

The expenditure on social program is not more than 2.26 percent of total expenditure. It is maximum if fiscal year 2064/65 and minimum in fiscal year 2065/66 . From fiscal year 2065/66 to fiscal year 2068/2069 social program expenditure increases to 1.86 percent to total expenditure.

5.6.2.2 Capital Investment

Capital investment includes land/building purchase, building construction, town level projects and other development construction. There have been no investments in land/building and town level project during the study period.

Table 5.20
Composition of Capital Investment
(2064/65 to 2068/69)

Fiscal Year	Building Construction	Other Dev./Construction	Capital Investment
2064/65	46524.64 (0.31)	15186233.72 (99.69)	15232758.36 (100.00)
2065/66	202138.8 (2.50)	82173510.23 (97.50)	84275649.03 (100.00)
2066/67	1327015.55 (1.53)	85494014.98 (98.47)	86821030.53 (100.00)
2067/68	2020635.77 (2.38)	83018530.09 (97.62)	85039165.86 (100.00)
2068/69	1341172.89 (2.57)	50994324.2 (97.43)	52335497.09 (100.00)

Source: janakpur darpan,2068/69,Yearly Buletine of Janakpur Municipality

The substantial amount of investment is made on other development/ construction in all fiscal years. Its percentage share on capital investment is about 98. There has been negligible investment made on building construction in the study period.

5.8 Pattern of expenditure of all municipalities and Janakpur municipality.

Table 5.21

**Expenditure pattern of all municipalities and Janakpur municipality
(2065/66 to 2067/68)**

In Rs

Headings	2065/2066		2066/2067		Increment %		2067/2068		Increment %	
	All municipalities	Janakpur municipality	All municipalities	Janakpur municipality	All municipalities	Janakpur municipality	All municipalities	Janakpur municipality	All municipalities	Janakpur municipality
Current expenditure	1192740000	22392040	1473915000	20994652	23.57	-6.24	153475954000	25409000	4.14	21.05
Debt payment	69960000	991632	28196000	0	-59.70	-100	72757000	0	158.04	0
Social dev. program	745163000	17740396	752446000	16853964	0.98	-4.9	663887000	29630000	-11.77	75.80
Ordinary capital	51685000	1561628	300355000	1175315	481.43	-24.73	51601000	1613000	-82.82	37.23
Capital investment	3074424000	81257290	3485416000	87122801	13.37	7.21	4750061000	41094000	36.28	-52.83
Total	5133945000	123942985	6040328000	126146734	17.65	1.77	7073260000	94454000	17.10	-25.12

Table 5.21 ; shows that total expenditure of all municipalities increases from fiscal year 065/66 to67/68 where as total expenditure of Janakpur municipality decreases from fiscal year 065/66 to67/68. In fiscal year 067/68 Current expnenditure of all municipalities increased to 4.14%, Capital ivestment expenditure increased to 36.28%,dept payment increased drastically , ordinary capital expenditure and social development program expenditure decreases drastically.Where as in fiscal year 067/68 Current expnenditure of janakpur municipality increased to 21.5%, Capital ivestment expenditure decreased drastically, ordinary capital expenditure and social development program expenditure increases drastically.

5.8 Balance sheet of revenue and expenditure

When the raise fund is higher than the incurred expenditure, then we have budget surplus. While in budget deficit the raised fund can not cover all the incurred expenditure.

Table 5.22
Balance sheet of revenue and expenditure
(2064/65 to 2068/69)

Fiscal year	2064/2065	2065/2066	2066/2067	2067/2068	2068/2069
Total revenue	44054670.49	146444167.2	122028734.29	109090169.03	152642078.3
Total expenditure	43552123.23	123942984.75	125844946.68	138257573.18	104399979.5
Surplus (+)	502547.26	22501182.45			48242098.8
Deficit (-)			-3816212.39	-29167404.15	

Source: janakpur darpan,2068/69,Yearly Buletine of Janakpur Municipality

In the above table expenditure ratio is higher then revenue in two fiscal years, 2066/67and 2067/68 there incurred the budget deficit.

While in the year 2064/65,2065/66 and 2068/69 there incurred budget surplus

5.9 Correlation analaysis

In this chapter, we study the relationship between revenue and expenditure of this municipality. It is analyzed using the quantitative techniques viz: correlation and regression analysis.

Table 5.23
annual revenue and expenditure
(2064/65 to 2068/69)

Fiscal year	Revenue(X) Rs	Expenditure(Y)RS
2064/2065	44054670.49	43552123.37
2065/2066	146444167.2	123942984.75
2066/2067	122028734.29	125844946.68
2067/2068	109090169.03	138257573.18
2068/2069	152642078.30	104399979.59

Source: janakpur darpan,2068/69,Yearly Buletine of Janakpur Municipality

5.8.1 Calculation of Correlation coefficient between the Revenue and Expenditure

Theoretically, according to Karlperson's simple correlation coefficient

$$R_{xy} = \frac{\text{cov}(X,Y)}{\sqrt{\text{var}(x) \text{ var}(y)}}$$

It can also be written as

$$R_{xy} = \frac{N \sum xy - \sum x \sum y}{\sqrt{[N \sum x^2 - (\sum x)^2] [N \sum y^2 - (\sum y)^2]}} \dots\dots\dots(1)$$

R = Correlation coefficient between the variable

X= Revenue

Y= Expenditure

N= Number of observations

Applying the correlation coefficient formula mention on equation (1) on the table we get the correlation coefficient ,i.e.

$$R = 0.751$$

This shows that there is high degree of positive correlation between 'x' and 'y' . Form this result we can say that there is linear association between two variables x and y

This means if the revenue increase consequently, the expenditure also increases through out the study period but not in same proportion

CHAPTER SIX

THE BETTER AND POTENTIAL SOURCES OF REVENUE AND PROBLEM OCCURRING IN FINANCIAL DEVELOPMENT OF JANAKPUR MUNICIPALITY

6.Perceptions of the stakeholders : An opinion of survey

In order to seek the opinion and perception of the key stakeholders (respondents), about better and potential sources of revenue and problem occurring in financial development of Janakpur municipality a set of questionnaire was developed and provided to the administrative officers of the Janakpur municipality. Moreover, the researcher also met and discussed with some Executive Board Members, some Businessman, some economist to gather the information to justify the study. The final questionnaire used to collect opinion and perception of the major stakeholders is in appendix-A

6.1The better and potential sources of revenue

Under this area, the respondents have shared very constructive and useful experience with the researcher. Based on the opinion of key respondents, the researcher has presented here some important information to find the better and potential sources of revenue for the municipality

The new areas of local resource need to be identified because municipalities are highly dependent to the grant of government of Nepal. Municipalities themselves be proactive to identify the new sources of revenue at the local level. For the identification of new sources The participation of socially, economically and politically excluded people in planning process, decision making process, resource mobilization and utilization need to be ensured by the local

The better and potential sources of revenue in Janakpur municipality are revenue from forest, tourism, electrification and registration. Similarly increment of export of local production, utilization of natural resources for the economic development, Industrialization of manufacturing products, Implementation of mega project that create employment and generate local tax.

6.2 Problem occurring in financial development of municipality

The situation is that the Municipalities are not autonomous to utilize own internal revenue in their discretion. There is no proper coordination and support from the local administration to local government bodies for financial development.

It is difficult to prepare actual annual program and budget due to the uncertainty of amount to be received by municipality from central government. The increment of illegal import and export of local productions has hampered to generate new sources of income at local level. It is not good practice to receive junk amount of money in the last month of the fiscal year from center in the name of capital expenditure. It has created a serious problem to use the money in proper way and in right place.

Although there is a Revenue Section in each municipality to look after all the activities related to the revenue forecasting, collection and its utilization, it is not functional properly due to the lack of sufficient capacity responsible of person. Moreover, due to

the absence of elected representatives, local government bodies have neither seriously taken their ownership nor given leadership. It is urgent that there should be strong inter sections coordination between Revenue section, account section, internal audit section, and planning section for effective functioning of each section with in municipalities. Municipality staffs are not mentally prepared to work independently to identify the new sources of revenue at the local level because of the political instability in the country since long ago. In the same way tax evasion, corruption is the cause problem of financial development of municipality.

Municipalities still depend excessively on the Local Development Fee, which is provided in form of grant. LDF has to be abolished until 2011; the financial/fiscal future of Nepalese municipalities seems to be uncertain at the moment. The future absence of LDF, which recently contributes 74.19% of local tax revenue in municipalities, will create a big resource crisis for municipal governments.

criteria for disbursement of grants to municipalities are not always clear and the total amount of disbursements to be made varies each year. Methods adopted by the Nepalese government for distributing grants to municipalities are neither scientific nor transparent. For the urgently needed increase of internal/local resource mobilization they have even been contra productive. With this comparatively comfortable centralized finance system in place most municipalities do not have any motivation to improve their performance in collecting taxes, fees and fines etc at local level.

CHAPTER SEVEN

FINDINGS, CONCLUSION AND RECOMMENDATION

7.1 Summary of the major findings.

The following findings are the major findings:

Sources of revenue and expenditure pattern of Janakpur Municipality

1. The average percentage of total internal and external source of revenue of five fiscal periods from 2064/65 to 2068/69 covers 45.68 percent and 50.38 percent. There is low difference between the average percentage of total internal and external sources of revenue during the study period.
2. Local taxes are the most important source of own source of revenue of Janakpur municipality. In the five fiscal periods from 2064/65 to 2068/69 the average percentage of local taxes is 77.65 percent of the total internal revenue.
3. The main sources of tax revenue are octroi/local development fee and house and land tax.
4. The other component of own-source of revenue is fees and fines. Fees and fines command second highest share in own source revenue during the period of study. The contribution from the building permit fee during the study period is at 62.75 percent on average. Municipality collects about 72.95 percent of revenue from only recommendation fee and building permit fee of total fee and fines.
5. The share of property rental and other revenue count negligible in own source revenue. The Market/shops/building has the major contribution in the own source of revenue of Janakpur municipality. The contribution from the market/shops/building is highest during the study period, at 86.93 percent on average.
6. In Janakpur municipality grants are the main external sources of revenue. The average percentage share of grants of five fiscal year from 2064/65 to 2068/69 is 83.95 percent of total external revenue.
7. Janakpur municipality total expenditure is higher than the total revenue from fiscal year 2065/66 to 2067/68.
8. The average percentage of regular expenditure and development expenditure is found 42.69 percent and 57.31 percent respectively in Janakpur municipality for the five fiscal year from 2064/65 to 2068/69. The share of development expenditure on total expenditure is more than regular expenditure in the study area.
9. In the study area there is less emphasis on social programs.
10. Janakpur municipality has not taken loan during the study period 2064/65 to 2068/2069.

11. Total revenue of all municipality is increasing gradually where as total revenue of Janakpur municipality is fluctuating .

12. Total expenditure of all municipality is increasing where as total expenditure of Janakpur municipality is fluctuating from fiscal year 065/66 to 067/68

13. In two fiscal years, 2066/67 and 2067/68 there incurred the budget deficit.

While in the year 2064/65, 2065/66 and 2068/69 there incurred budget surplus

14. In this study high degree of positive correlation has been established between the revenue and expenditure

Revenue Sharing with National Average and Other Municipalities

1. As all Municipalities Percentage sharing of revenue of Janakpur municipality is also decreasing during study period. The contribution of grant provide by central government on National average of all Municipalities is lower than own source of revenue. On an average contribution of grant and own source of revenue on national average of all Municipalities are 0.97 percent and 1.45 percent respectively. Where as contribution of grant of Janakpur Municipality on National Average is higher than that of own source . The contribution of grant and own source of revenue of Janakpur Municipality on National Average are 0.033 percent and 0.019 percent respectively.

Better and Potential sources of revenue in Janakpur Municipality

1. Analysis part shows the Local taxes (octroi/local development fee, House and Land Tax), Fees and Fines (Building permit fee, Recommendation fee). Forest, electrification, tourism, registration, industrialization and natural resource are the better and potential resource of Janakpur municipality.

The major problems occurring of financial development of Janakpur municipality

1. Government inability for distributing grant by scientific and transparent method, tax evasion, illegal transport of local product, political instability are the problem of financial development of this municipality

7.2 Conclusion

Own-source of revenue and external sources of revenue are the two main components of total revenue. The most important source of income is external sources revenue. Average external revenue is 50.38 percent and internal revenue is 45.38 percent. The components of own-source of revenue were local taxes, fees and fines, property rental and other revenues. The local taxes have the major contribution in the own source of revenue of Janakpur municipality. Its contribution to own source revenue however is around 77.65 %.

The other component of own-source of revenue is fees and fines. Fees and fines command second highest share in own source revenue during the period of study. The contribution from the building permit fee during the study period is at 62.75 percent on average. Janakpur municipality has been receiving revenues from fines too. Collection of fine in Janakpur municipality is in increasing trend. This indicates violation of the rules and regulation by the people of this municipality is in the increasing trend, which is

neither good for the people nor the municipality. That is to say the less the revenue from the better would be the society. The share of property rental and other revenue count negligible in own source revenue. The Market/shops/building has the major contribution in the own source of revenue of Janakpur municipality. The contribution from the market/shops/building is highest during the study period, at 86.93 percent on average.

Grants have the major contribution in the external source of revenue of Janakpur municipality. Its contribution to external source revenue however is around 83.95 %. No development grants have been given by the central government which indicates that the development works were not done in the municipality as expected by the central government. Negligible grants from the district development board affected the developmental works of this municipality. No grants from TDF. The share of loans is zero in external source revenue this means Janakpur municipality has not taken a loan during the study period. The contributions from balance forward are not consistent during the study period.

Expenditure pattern of Janakpur municipality is analyzed under two headings namely regular expenditure and development expenditure. The share of development expenditure on total expenditure is more than that of regular expenditure. Which is good for healthy development of any local government authority. Most of the regular expenditure is for the current expenditure and ordinary capital.

1.87 percent expenditure in social program and 98.17 percent expenditure in capital investment out of 100 percent development expenditure. Both expenditures are fluctuating in the study five fiscal years. The expenditure in social programs surprisingly, not a penny is invested in the educational sector, during the study period. Local authority seems to be reluctant to spend on forestry, cultural/sports and disaster relief (No expenses are made in these sectors during the study period). In Capital investment aspect other development construction is highly promoted than land building purchase and building construction.

Total expenditure of all municipalities is increasing whereas total expenditure of Janakpur municipality is fluctuating from fiscal year 2065/66 to 2067/68. Expenditure ratio is higher than revenue in two fiscal years, 2066/67 and 2067/68 there incurred the budget deficit. While in the years 2064/65, 2065/66 and 2068/69 there incurred budget surplus.

In this study a high degree of positive correlation has been established between the revenue and expenditure. This correlation indicates the linear association between the study variables.

At last it is concluded that the municipality should increase its revenue in such a way that local level income meets its expenditure, otherwise expenditure increases regularly and the condition of the municipality becomes worse and all types of development work would stop.

7.3. Recommendations

- 1 Reduction of unnecessary expenditure: it is necessary to minimize the unnecessary regular expenditure of Janakpur municipality such as salaries, allowances and meetings allowances so that more money can be used in developmental works.
2. Increase on development expenditure: the most obligatory function of municipality is to carry out social programs for the betterment of its residents. So Janakpur municipality should allocate more development expenditures on social programs like health, education so that balance forward could be minimized.
3. Identification of other sources of revenue: Janakpur municipality should identify the potential sources of revenue to run itself independent. This municipality has lot of land in market area which could be used as business market place, public parks, and library and convention rooms. Some of these public capitals can generate revenue to the municipality which can be preceded towards the sustainable development.
4. Systematization of tax collection: the tax collection system is not systematic at present. The tax collection system should be made systematic. Equity and equality should be maintained while imposing taxes. To make tax collection system more effective, the provision of reward and punishment should be made.
5. Establishment of Eco-tourism: Janakpur municipality has religious places and many ponds. It can use these resources to attract tourist and generate revenue from that. It should provide facilities to the tourists.
6. Utilization of grants should be more effective: Janakpur municipality has been receiving grants from the central government. At present, the municipality is not using the grants effectively. Every penny should be wisely utilized.
7. Civic awareness among the local people can accelerate and support the sound municipality finance in this country.
8. People's participation: More interaction should take place between the ward offices and its residents regarding the development activities within wards. The municipal body should be transparent. Municipality should publish timely financial reports and make those available to publish and more integration program can be done with the residents to notify them regarding the development and financial situation of the municipality.
9. The central authority should bring different programs which can address the special problems of the municipality while negotiating for the grants with the donor agencies; the central authority should be competent enough to make them aware about the acute and 'quick to address' problems of the different municipalities.
10. The central authority should bring program like Minimum Conditions/Performance Measures for municipalities in order to stimulate the local authorities' motivation to perform in an efficient, effective, accountable and transparent way and to fulfill the municipalities' duty as service deliverer for urban population

11. Besides these measures, the following other points need to be considered for betterment of municipal financial management:

- Full-fledged implementation of “integrated property tax”, “property/business tax” and “hoarding/bill board tax” in potential municipalities
- Initiation of “tax awareness campaign” – a possible and applicable model to be developed.
- Inventory of public property/assets (to be used for resource mobilization scheme and it is necessary for implementing “Corporate Accounting System”)
- Automation of “Tax Payers Register” – software to be developed with greater involvement of municipal staffs (working in finance section) as well as MLD and LBFC.
- Introduction of “Corporate Accounting System” – A details work-plan and strategy need to be developed jointly with municipal staffs as well as MLD and LBFC
- Implementation of MC/PM (Minimum Conditions and Performance Measures) for fiscal transparency, good governance and accountability.
- Central Government (MLD) should become more pro-active in supporting and committing the municipalities in developing their own local tax base and in compelling the citizens to pay for their local governments.

APPENDIX -A

Questionnaire For general person

This Questionnaire is prepared for the Janakpur Municipality to know about its Revenue, its expenditure pattern , please help me for this work.

Name: (if egger)

Age:

Occupatioccn:

Address:

Ward No.:

Please tick () mark on your choice answer.

1. To pay tax to municipality is good?

a. Yes

b. No

2. Have you got the building permit for this construction?

a. Yes

b. No

3. Receiving grants is good for municipality.

a. good

b. not good

4 The main sourece of tax income of municipality is octri/local development fee. It contribute 80% of tax income is this system is appropriate? Or it should removed ?

a.This system is appropriate

b. this system is removed

b. Tax rate should increased

c. Tax rate should decreased

d. Other

5. What is your opinion about municipality tax rate and fees ? (which include parking fee, environment fee from industries , property tax etc)

a. Municipality can allow all tax

b. Some taxes should be reduced

6. Is present tax system appropriate?

a. Yes

b. No

7. In which sector does municipality increase it's expenditure?

a. In general sector

b. In fundamental sector

c. In town development

d. Institutional development

e. Other

8. Are you satisfied with municipal expenditure on present area? If any comment please write in the blank space.

a. Yes

b. No

c.

d.....

Questionnaire For Officers

This Questionnaire is prepared for the Janakpur Municipality to know about its Revenue, its expenditure pattern , about tax system to find better and potential Source of revenue and about problem occurring in financial development, please help me for this work.

Name: (if egger)

Age:

Occupatioccn:

Address:

Ward No.:

1. Does the present practice of internal resource mobilization by Municipality is satisfactory?

2. What kinds of role need to be played by center and district government for proper management and effective resource mobilization at local level?

3. What are the problems/challenges faced at local level in course of mobilization of internal revenue?

4. What are problems and challenges to receive and utilization of the revenue from forest, tourism, electrification, and registration?

5. What are areas need to be focused for the effective mobilization of resources by Municipality?

6. What are the problems in the center government transfer system in Nepal?

7. What is your opinion to improve the center government transfer system?

1.How can we raise the revenue of janakpur municipalty? Please write in the blank space

a.

b.

c.

2. If any suggestion about municipality's revenue collection or expenditure pattern then please write some notes in the blank space.

a.

b.....

c.....

3. What types of co-ordination should be between government of Nepal and municipality ? please write your opinion in the blank space

a.....

b.....

c.....

4. Whagt are the better and potential source of revenue at local level of municipality ? please write your opinion in the blank space

a.....

b.....

c.....

5. What are the problems/challenges faced at local level in course of Financial development ? please write your opinion in the blank space

a.....

b.....

c.....

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