

CHAPTER- I

INTRODUCTION

1.1 Background of the Study

In the 21st century, in the context of the developing countries like Nepal, the role of the government has been increased and crucial to work for the welfare of the people. That's why, local government is being strengthened in any countries whether developed or developing ones. All human activities can be categorized economically into two groups: consumption activities and production activities. These consumption activities and production activities are the symbol of development. Such activities can be better addressed by the local government. So, the role of government has increased with the increased aspiration of the people for better life such as better health facilities, better educational institution and luxuries along with the opportunities for higher income.

Resource mobilization refers to the collection and utilization of resources in an organized way to produce results according to the given system of governance. It is based on a flow concept in which the inflow and outflow of resources are the concerns of "who gets what and how much from whom". Basically, the flow of local resource is the concern of fiscal issue of the local government which focuses on how the local government generates the revenue measured in monetary unit to meet the level of expenditure incurred to provide services for the benefit of the local people. Therefore, the fiscal decentralization in relation to the local government is considered as an important means of the system of governance. The critical issues of governance in the context of local resource mobilization are: Who controls? Who decides? And how optimally resources are collected and distributed to use? and so on. Fiscal decentralization refers to the process of granting autonomy to the local self government to mobilize financial resources which shows how much central government cedes fiscal impact to sub-national governments. It is a bottom up

planning approach with the aim of converging the people's participation. Nepal is a country rich in diverse resources. Considering the eminent role to be played by local institution to mobilize these resources, Nepal has adopted the principle of decentralization since 1960 and various acts and laws were enacted since then to strengthen the efforts. According to the present Local-Self Governance Act (LSGA)-1999, local resources consisting of the grants provided by the central government (matching and non-matching grant), local revenue (tax and non-tax) and loan (internal and external) could have been implemented by the respective local bodies. This paper, therefore, has attempted to analyze the present status of revenue collection and expenditure practices as well as its scope and challenges of Village Development Committees (VDCs) and District Development Committees (DDCs).

In economics a resource is defined as a service or other asset used to produce goods and services that meets human needs and wants. Economics itself has been defined as the study of how society manages its scarce resources. Economics recognize three categories of resources, also referred to as factors of production: land, labor, and capital. Land includes all natural resources and is viewed as both the site of production and the source of raw materials. Labor or resources consists of human effort provided in the creation of products, paid in wage. Capital consists of human-made goods or means of production (machinery, buildings, and other infrastructure) used in the production of other goods and services, paid in interest.

Resource is an important component to uplift the socio economic condition of people. Availability of resources may differ in different part of the world; however, in any forms or types it is available everywhere at local level. Particular types of resources may available in particular place, such particular resource needs to utilize by combining with other resources in appropriate proportion to produce something otherwise it may be idle. Production of something can enhance the socio economic condition of the people, because idle resource does not possess utility. The identification and

utilization of available resources in appropriate proportion is a greater challenge.

Nepal is a rich country in resources with its diversification such as geographical (Hill, Mountain, Terai), social (more than 100 ethnic groups lives together here and there with harmony), cultural (different caste and ethnic groups of people celebrate own culture), natural (forest, water, mine etc.) and human capabilities as well. These resources are useful to fulfill the demand for goods or services of one place from other. For example, the demand for herbs of Terai people can be fulfilled from mountain and demand for food of Mountain's people can be fulfilled from Terai. are either misused or simply not harnessed effectively, so that the country is in low profile in the world from the human development point of view. Even having such diversify resources, whatever the reason, the country is facing the shortage of resources in development endeavor. Identification and mobilization of such resources is a challenging task for the socio economic development of the country. Nepal has been adopted the principle of decentralization as a means of governance in order to mobilize local resources. Governance for the resource mobilization refers to the process, which seeks to make different parts of society to act in a manner that steers society collectively towards desired goals. In this sense governance is the way through which the country's economic and social resources can be mobilized for development. It is characterized by the participation, rule of law, transparency, responsiveness, equity, accountability, effectiveness, efficiency and strategic vision. The system of governance is an exercise of power over the resources in order to its use and management.

Decentralization principle is a system of idea, which refers to institutional transformational practices of power, authority, resources, and responsibility to carryout public functions from center to subordinate government. It includes the dispersal of administration or governance in sectors or areas. It is the policy of delegating decision-making authority down to the lower levels in an organization, relatively away from and lower in a central

authority. It is a bottom-to-top approach in making decision and flow of ideas, with the implications of the end-to-end principle. In present democratic world, decentralization is considered as a partner in-between the institutions. The main principle component of decentralization is a local government, which is closer to the people than central government. However, it is observed that, local government varies widely in capacity, accountability, viability and legitimacy. These aspects affect in governance wherein authority, responsibility and resources are reallocated between the center and subordinate level according to the principle of subsidiary. The transformation process denotes power, responsibilities and resource sharing from center to local bodies.

The principle of decentralization has been adopted in Nepal in the context of local government for mobilizing the local resources with devolving the power and function to the local bodies in order to fulfill the needs and aspiration of people. Conceptually, it is believe that, the development cannot be delivered only from outside. It needs to be born within any particular social system. It is also proved that, rolling of a ball requires pumping of adequate air from outside. Considering the economy as a ball, providing of adequate resources requires to produce consumption or capital goods or services in order to develop the socio economic condition of people. The resource mobilization should be, in such a way that has to reflect the process of rainfall in normal environment, from which the people would be benefitted without giving heavy burden to the resource givers.

1.2 Statement of the Problem

Different National and International Organization have given stress on local autonomy to mobilize the local resources. Looking at surface rural development and living standard of poor Dalit, ethnic groups, indigenous women and vulnerable people residing in rural areas haven't been improved as expected and cannot have much information regarding revenue generated from the management of resource at the VDCs and DDCs level and their utilization. Hence, this research concentrates on finding out the source of revenue and their

allocation in Jogmai VDC of Ilam district. This study mainly concerns on revealing out the truth whether the VDC is capable to mobilize its revenue and to support the poor or not. The study had been studied in micro level. In the study area there are some problems some of them are listed below:

-) Lack of education in the local people
-) Lack of awareness
-) Lack of participation in local programs

1.3 Objective of Study

General objective of the study is analyses the financial resources mobilization in Jogmai V.D.C.

Specific Objectives of Study

1. To examine the different sources of financial resources in Jogmai V.D.C.
2. To analyze the patterns of expenditure in different sectors of under study.
3. To access the expenditure of the VDC to the vulnerable people.

1.4 Significance of the Study

The sustained and increased development of a country is possible with the active participation of the local bodies in the economy. From the same concept, government of Nepal has launched the LSGA in 1999. This Act has provided authority to mobilize the internal revenue to the respective VDCs.

The much prior studies and research wither the VDC is efficient to mobilize its antenatal revenue in maximum level not have been done. Thus, this study is the milestone knows the performance of the local bodies like VDC in the light of the present issue of fiscal decentralization in country as well.

1.5 Limitation of the Study

The study is mainly based on secondary sources of data. Analyze the trend and pattern of revenue and expenditure of Jogmai VDC, based open which we infer the actual performance of the VDC. However, I can not go for primary data to assess the impact of VDC expenditure to the disadvantaged and Dalit groups. Thus, the major limitation of the study is lack of their impact analysis of the VDC expenditure based on primary data. Due to the lack of sufficient knowledge, lack of time, and resource for data collection for research, the findings might not be accurate as expected.

1.6 Organization of the Study

This thesis is organized in to five chapters. The first chapter deals with the introduction. It includes the background of the study, statement of problem, objective of the study, significance of the study, limitation of the study, organization of the study. The second chapter presents the review of literature. The third chapter deals with the research methodology. It includes of study area, research design, nature and source of data, universe and sampling, data collection technique and tools, interviewed with key informants, observation, data analysis. The fourth chapter presents the data presentation and analysis with profile of the study area. The last chapter of the study includes summary, conclusion and suggestion. Appendices and reference have been kept at the end of this report

CHAPTER-II

LITERATURE REVIEW

2.1 Background of Local Bodies

Local resources are the physical or virtual entity available at the local level that to be utilized in optimal proportion for economic development which otherwise remains idle. On the other hand, use of any resources beyond its capacity can result in its rapid depletion and deterioration which may cause damage to the sustainability of local resources. Therefore, the optimum use of local resources is critical. Conceptually, it is believed that rural development cannot be delivered only from outside (Axin, 1978, p. 16). It needs to be evolved within any particular social system. Thus, it can be said that local resources play a vital role in socio- economic development of local people and local government being close to local community is an important organization for bringing desired change through developing the feeling of convergence. The desired change is a result of increased power in rural social system and power refers to both authority and influence (Axin, 1978, p108). In this concern, who has authority and who can influence to mobilize local resources is a great issue. In fact, the flow of relation mentioned such as Local people → bare economic needs + local common social needs → common local problems → problem solving needs → local government (Muttalib and Khan, 1982) is pertinent.

This indicates that local people have few common economic needs that can be solved by mobilizing the local resources through the local government. The local government is a representative body, representing a particular set of local views, conditions, needs and problems, depending on the characteristics of population and the economic elements (Muttalib and Khan, 1982, p. 6). But they have meager resources to meet their local needs, while development programs involve heavy expenditure and sophisticated technical know-how

(Muttalib and Khan, 1982, p. 5). This means that resources are limited at the local level for the desired economic change with the desired speed. Therefore, local resource mobilization is considered a critical issue. It is proved that rolling of a ball requires pumping of adequate air for it from outside. Considering the economy as a ball the collection of productive resources is necessary condition and mobilization of the resources is sufficient condition like a pumping of air. Like the ball needs to be rolled to score a goal, the resources need to be channelized and mobilized to get desired results. The local resource mobilization should reflect the process such as rainfall in normal climatic environment from which all the people would be benefited without giving heavy burden to the resource givers (i.e. tax or non-tax payers). For example, according to science, in a normal climatic environment, the water becomes vapor after heating to certain degree temperature where it is available on the surface of the earth, and then it further becomes water over the sky due to the decreasing temperature and falls as rainfall on the earth without any partiality.

This is a contextual issue of fiscal system. The impoverished state of the finances of most local authorities in the less developed countries is a severe handicap to responsible local government, since the back bone of local government is financial autonomy (Muttalib and Khan, 1982). The financial autonomy refers to the degree of devolution of power to the local bodies in order to collect and mobilize local resources. The local fiscal structure comprises of local revenue and expenditure as reflected in the local budget, adopted and executed in accordance with the local government act. The local government may have various revenue sources such as internal and external.

The internal revenue sources determine the extent and limit of financial independence of the local government. The internal revenue consists of tax and non-tax sources. It is said that a local tax should-like any other-be convenient and certain, fair between persons in like circumstances and be economical in collection (Muttalib and Khan, 1982, p. 573). But, the core problem is that the

tax base and tax power given to local government in rural areas of less developed countries is usually inherently weak - the base being narrow, stagnant and both costly and politically hard to collect and local collection and enforcement power being often undercut by central interference or apathy . In this regard, Ragnar Nurkse, a well-known economist says: "I believe that public finance assumes a new significance in the face of the problem of capital accumulation in underdeveloped countries"(Singh, 1991, p. 17). Tax is an important source of local resources. The tax theory is divided into ability to pay and benefit principles. The benefit principle of taxation is suitable for local taxation whereas ability to pay principle is suitable for central government taxation. But, in developing countries, like Nepal, in general, there are only a few available tax bases. Therefore, the local government has been weak to levy the tax. In fact, taxes are paid as a price for the benefits received from public services. Therefore, benefit principle becomes workable only when benefit from local services can be approximately identified. This is a critical issue to identify tax base in order to collect more amount of local resource.

In the modern economic world, the economic reform processes have cutbacks in state spending. But yet, in developing countries, the local authorities have to rely for their revenues on government grants (Singh, 1991, p571). It is a challenge of local government. So, the policy issue in this context is still debatable. The subject matter of the theory of public expenditure is the optimum allocation of national resources between the satisfaction of private and public wants.

The importance of the theory considered as canon of economy, benefit, surplus, elasticity, productivity and equitable distribution. The developing countries face the challenges of containing deficits without falling into recession or harming longer-term development prospects. This indicates that the demand for investment is more than the revenue. Therefore, the government compelled to make deficit budget. The basic rule of optimum

resource allocation is the equality of marginal social costs and benefits (Khanal, 2008).

The marginal social benefit refers to the gains to the society from public expenditure and cost refers to the benefits from private sector productions which are foregone due to the transfer of resources to the public use. Hence, the benefit to the society from the last rupee spent on education, for instance, must be the same as those from the last rupee spent on defense. For the expenditure purpose, the Central Government provides a broad base for local finance through Local Government Act in respect of sources of revenue, nature of expenditure mode of formation, adoption and execution of budgetary proposals, the need for government sanction, local audit etc. (Muttalib and Khan, 1982, p. 182). In this context, fiscal decentralization should be considered as intergovernmental fiscal relations that show how different level of governments acts and interacts with each other on fiscal issues i.e. revenue collection and expenditure with reference to their functions and responsibilities. There are four key elements of fiscal decentralization usually called "four pillars" or "building blocks" of fiscal decentralization.

They are expenditure responsibilities, revenue assignment, inter-governmental fiscal transfer and sub-national borrowing (borrowing authority only for pre- specified objectives). It is a process of devolving fiscal decision making power and management responsibilities to the local government. The process or governmental system assumes that local governments have a certain degree of fiscal discretion and autonomy in resource planning and its mobilization. Local fiscal allocations must include a bias to efficient rather than to fair and equitable allocation of resources, a shift from the tendency to allow equal shares for all (Shotton, 1999, p. 9). The term efficient refers to doing things right. This is the concern of fiscal decentralization planning for efficient and effective operation of local resources. The decentralized planning generates additional resources and encourages more efficient use of existing resources. It makes the local authorities more accountable and efficient for

local level planning in the use of local resources. In Nepal, there is a two tier system of development planning i.e. Central Level Planning and Decentralized or Local Level Planning system.

In this regard, the government of Nepal has been enacted the law “Local Self-Governance Act, 1999” (LSGA, and financial regulation 1999), in which local resources are defined grants provided by the central government (matching and non matching grant), local revenue (tax and non-tax) and loan (internal and external). The law devolved the fiscal autonomy with jurisdiction power and functions to the local bodies, which enhances the scope to identify and determine the resource base and project as the need and aspiration of local people. Therefore, the local bodies are becoming effective in Nepal and enhancement in the accountability of the local representative institutions. At present, a negative effect has been observed in the local level service delivery due to the vacancy of the elected people’s representatives at the local bodies. For the long period, devolution of financial responsibilities to the local level has been halted. However, the responsibilities of local representatives have been handover to the local level personnel by forming the Local Service Act.

It is observed that, the DDC’s and VDC’s budget has mostly supported by the central government’s grant. To reduce the dependency on central grant, the knowledge about local resources and its identification is an important issue, which needs to collect and mobilize for the socio-economic development of the local people and country as well. The accessibility and control over the resource is the most important aspect, which could maintain supply and demand of resources through rational choice. Thus, the efficient and effective collection and expenditure process of local resources has to be determined to uplift the quality of life of people. The process and effectiveness of a process may vary from country to country, place to place, and culture to culture. This paper has attempted to analyze the practices as well as the scope and a challenge resource mobilization of local bodies.

The government of Nepal has been practicing different forms of decentralization ranging from delegation, de-concentration and devolution of authority (MLD, 2006:8). In the Panchayat (non-party system of government) period, various laws were enacted including financial regulation. However, the promulgated law and rule could not stand for a long time which was changed from time to time. There are various laws concerning decentralization such as Village Committee Act 1992. Due to contradiction between the central and local governments as well as in between the local governments (DDC and VDC) with regards to power and sharing of resources and duplication of role and responsibilities, the government of Nepal has enacted “Local Self-Governance Act-1999” and "Financial Regulations 2000" by integrating the then three Acts as mentioned above. Promulgation of Act and Regulations is a landmark decision of the government of Nepal to practice the fiscal decentralization principle democratically. The major aim of present financial regulations is to clarify the functions, duties and responsibilities of the local bodies to collect and mobilize resources and making them accountable and responsible. This paper seeks to analyze the practices of Kathmandu and Jhomsa VDCs as well as Syuchatar and Bungkot VDCs of respective districts. The financial resource mobilization (revenue and expenditure) practices of the districts and VDCs, on the basis of primary data, are explained below.

Revenue Assignment Revenue assignment model may differ in different countries such as collection by the center and allocation to the local, collection by the local and distribution to the center, and collection by one local government and allocation to other local government also can be found in practice. However, all these models are practiced in Nepal. But, in practice, it is found that central government has provided resources to local institutions. In addition to it, the local institutions could generate own resources and there is also a practice of sharing local resources among local governments basically between DDC and VDC. The following headings could make this clear in this regard.

Traditional thinking has been changed with the realization that national development is also a local responsibility and for overall progression, genuine partnership is essential between central and local government. Therefore, to serve both national and local interest, rural local government financing need to examine with own local taxation or raising other forms of local revenue, grant from central government, local borrowings or assistance from foreign sources. Recent trend shows that policy makers and donors are emphasizing on rural local governments fiscal capacity from local economic and rural development front to integrate development programmes through citizen participation, incorporate gender issue and disadvantaged groups in policy decisions, aid in poverty reduction, environmental initiatives at the local level, encourage local governments autonomy and innovation in addressing local needs. Fiscal capacity of rural local governments is related to fiscal decentralization that commands a prudent mechanism in mobilizing local financial resources.

It is contended that fiscal decentralization is the most critical part of decentralization which has raised challenges as an important theme of governance in developing countries (Crook and Manor, 1998; Devas, 1997; Fukasaku and deMello, 1999; Manor, 1998; Shah, 1998; World Bank, 1999). Contemporary study shows that fiscal decentralization has induced fiscal responsibility and financial resource mobilization (Bird and Vaillancourt, 2006; Loughlin et al., 2006). But the evaluation report of OECD (2004) showed that the local government revenue sources as the share of total local government funding is declining in most of the developing countries. The reasons of such decline are: firstly, not proper addressing of legal, fiscal and institutional frameworks and the local government incentive system; secondly, disincentives of central transfer system in improving revenue mobilization (DANIDA, 2000); thirdly, weak incentives to collect taxes (NEDA, 1999); fourthly, unfavorable local government tax assignments leading to unpopular tasks that are difficult to collect; fifthly, inefficiency in assessment, rating and weak enforcement in revenue collection; and finally, tax evasion tendency of most of the wealthiest part of the population and lack of sanctions and oversight in tax administrations

(USAID, 1998). All these obstacles emphasize on fiscal decentralization and has turned to the question of how and what specific revenue sources might be most feasible. The feasibility of own revenue generation at the rural local government level depends on local fiscal efforts and fiscal and non-fiscal supports of the national government. According to Iben Nathan (in Blair, ed., 1989, p.50), “local resources mobilization is the efforts of local administration to raise finances from a locality in order to fund activities within that area”. The size and freedom of the local government are considered crucial aspects that determine the structures and generation of revenue and adequacy of local finance. In theory, it is contended that a sizeable local government in terms of human settlements and productive land area have better prospects of more revenue generation (Hye, 1985, p.180). But rural local government revenue generation in developing countries is always a great challenge and the mechanisms by which local financial resources can be mobilized have raised some pertinent issues, like revenue raising ability, effects on economic efficiency, equity implications and administrative feasibility (Bahl, 1984). Fiscal decentralization in South Asian countries have been initiated but the existing pattern of rural local governments self financing is not impressive. Bangladesh is not an exception. Rural local governments in Bangladesh are devolved with some revenue power and functions but practically they cannot exercise their mandated responsibilities due to shortages of funds and institutional capacities. Besides insufficient central allocation, institutional weaknesses are also continuing for the lack of effective mechanism to coordinate and integrate the role and functions of rural local governments’ functionaries, sectoral agencies, NGOs, cooperatives as well as private sectors (Aminuzzaman, 2004; Haque, 2002).

Understanding the realities, recent concentration of Bangladesh government on poverty reduction strategy has integrated local governments’ role to instill rural development, combating rural poverty and attainment of Millennium Development Goals. In this respect, the relatively small scale Union Parishad (UP), the lowest tier rural local government, closest to the rural

people, has offered realistic possibilities to play the vital role. Therefore, the objective of the study is to examine the trend and performance of UPs own financial resources mobilization.

Ever since Nepal embarked into devolution of decentralization, the local bodies (DDC, Municipality and VDC) have always remained focal points for overall development at local levels. Specifically, after the restoration of multi-party democracy in 1990 the powers and development functions to local bodies were devolved through the enactment of Local Self- Governance Act (LSGA), 1991 and of Local Self Governance Regulation (LSGR) 1992. The local bodies are empowered to raise internal revenues through various tax and non-tax measures. However, the local bodies; particularly the VDCs in the mountain and large parts of hill regions face financial constraints due to low or absent of resource base and hence largely depend upon government grant to fulfill the financial requirement for the development projects/programs. The Ministry of Local Development (MoLD) provides grants to local bodies annually to carryout development activities in their respective areas. The MoLD has promulgated Local Body Grant Directive; 2057, Local Body Block Grant Implementation Procedures; 2063 and more recently “Grant Mobilization Procedures 2067” for local bodies. These regulatory frameworks are designed to manage the government grants in an effective, participatory and inclusive manner maintaining transparency and accountability at local level. However, attainment of these parameters at VDC is critical due to long absence of elected representatives. Alternative arrangements that exist at present have to ensure engagement of community notably, peoples belonging to marginalized and vulnerable communities and women in proper utilization of government grants. Institutional capacity of VDCs is found inadequate to assume and absorb decentralized responsibilities and resources. There is a weak monitoring mechanism with regard to community engagement. All Party Mechanism has also been dissolved and no alternative has so far been surfaced.

There is a need to strengthen the capacities of communities to monitor and evaluate service delivery and informed decision-making. One important aspect of community engagement is to educate the community on available budgets and establish realistic expectations about budgetary expenditures. There is a need to institutionalize community involvement in decision making regarding planning, monitoring and implementation of government budgets at local level. Similarly, local bodies; notably VDCs, should ensure that communities are participating in the VDC development activities in an inclusive, transparent and democratic manner and that all segments of the community are adequately represented. A resource is a source or supply from which benefit is produced. Typically resources are materials, energy, services, staff, knowledge, or other assets that are transformed to produce benefit and in the process may be consumed or made unavailable. Benefits of resource utilization may include increased wealth, meeting needs or wants, proper functioning of a system, or enhanced well being. From a human perspective a natural resource is anything obtained from the environment to satisfy human needs and wants.[1]From a broader biological or ecological perspective a resource satisfies the needs of a living organism (see biological resource).

The concept of resources has been applied in diverse realms, including with respect to economics, biology and ecology, computer science, management, and human resources, and is linked to the concepts of competition, sustainability, conservation, and stewardship. In application within human society, commercial or non-commercial factors require resource through resource management.

Panchayat Act 1962, District Panchayat Act 1962, Local Administration Arrangements Act 1966, Decentralization Act 1979, etc. The working approaches of these laws were characterized by top down approach. Generally, in the context of financial regulation, the central government mobilized almost all of the resources through the district office line ministries. After the restoration of democracy in 1990, at first, three laws were enacted with regard

to local bodies named as Village Development Committee Act 1992, Municipality Act 1992, and District Development

Resource mobilization refers to the collection and utilization of resources in an organized way to produce results according to the given system of governance. It is a sociological theory that has emerged out from the part of the study of social movements. According to this theory, it is a core group of sophisticated strategists that works towards harnessing the disaffected energies, attracting money and supporters, capturing the media's attention, forging alliances with those in power, and creating an organizational structure (Kendall, 2006). This indicates the collection and utilization of resources through any system of governance are prerequisites to achieve the desired goals of the society. Resources are the input that the organization can either convert into products or services, or into increasing its own capabilities (Axin, 1978, p158). Resources, if considered as an isolated factor, don't result in productivity, hence, coordination of resources is important in order to produce the outcome. Therefore, the organization plays a significant role to coordinate the given state of art or technology with the available resources to produce a stipulated output in an economically efficient manner to achieve the desired goal. The size and quality of the resources are also important in determining how effective the organization is going to be. It is known that mobilization refers to organizing the resources for a particular task or to produce output. Thus, it can be said that resources and mobilization are like two sides of the same coin which can not possess value without two sides. Resource mobilization is, therefore, the scheme of collecting funds for financing a plan for the socio-economic development of the country. Resource mobilization is a flow concept which concerns with "who gets what and how much from whom", which is mostly determined by the governance system and institutions responsible to implement. There may be various resource mobilization systems of governance and mobilizing institutions like the central government, local government, private organizations and others. The problem of the institution-builder is to mobilize, that is to attract these resources to the organization and

to mount programs of action consistent with the capabilities of these resources at any point of time (Axin, 1978, p.158).

In this context, local government is an important institution to mobilize the local resources. More and more local government units carry out new roles in mobilizing resources for development. Basically, local resource mobilization is the concern of fiscal issue determined by the degree of fiscal decentralization, a system of governance relating to fiscal power which focuses on how the local government generates the revenue measured in monetary unit to meet the local level of expenditure incurred to provide services to the local people. In the democratic society, decentralization is considered as a tool to develop partner institution in-between the local communities and the central institution known as local government which is closer to the people than central government. The World Bank distinguishes the conceptual and empirical distinction of decentralization in three dimensions: fiscal, administrative and political. Conceptually, fiscal decentralization refers to the process of granting autonomy to the local self-government to mobilize financial resources (Rajkarinkar, 2001, p15). It also signifies how much central government cedes fiscal impact to sub-national governments. The impacts of intergovernmental finances on the main economic objectives of government road, electricity etc. of the country are found to be very poor in Nepal. This paper, therefore, has attempted to analyze the local resource mobilization practices (i.e. revenue collection and expenditure practices) and key issues of its scope and challenges based on present LSGA-1999 and financial regulation 2000. For this, the author has selected Kathmandu (comparative dominance of urban fiscal character) and Jogmai (comparative dominance of rural fiscal character) districts representing valley and hilly region of Nepal and respective VDCs of these districts with an attempt to show the urban and rural fiscal characteristics as regards to the local resource mobilization practices.

To fulfill the aim of balanced growth and development of all regions in the country, Nepal has adopted the decentralized system of government:

Central level and local level. The local level government can be further divided as village development committee (VDCs) in rural areas and municipalities in the urban areas under the district development committees (DDCs). Local bodies as such, irrespective of the political regime, have been set by the government of Nepal to meet the aspirations of the local people for local development and engage them in the government system. However, to govern such bodies, the structure, powers, of government, the stage of development and other various aspects. The government of Nepal has implemented the Local Self Government Act (LSGA) in 1999 giving the authority to the local body to have economic activities in local level. Clearly, the preamble of the act states that the act is brought to: make provisions conducive to the enjoyment of the fruits of democracy through the almost participation of the sovereign people in the process of governance by the way of decentralization, institutionalizing 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 the development of their own region and the balanced and equal distribution of the fruits of development.

Activating a person or a thing for certain action or service organize people with certain objectives in resources mobilization implies to push to society to toward positive direction .

in this regard organizing the people in a community for certain purpose is called mobilization .In simple word mobilizing people at the municipality /village development committee from community based organizations for poverty alleviation and Governance of local institutions sustainable manner is resources mobilization . American journals of sociology ,1985 The Local Self-governance Act (LSGA, 1999) provides extensive authority and responsibilities to the local bodies (DDCs and VDCs) for the local level development activities in Nepal. DDC in particular is the key body with full responsibilities to manage district level development activities (Acharya, 2010). On the chapter 7 of

LSGA, 1999, the revenues sources of VDCs are broadly categorized as: taxes, fees. The revenue generated is not directly distributed but used in the development work. In the chapter 6 articles 43 of the act, it is mentioned that while selecting the project the priority is given to the following projects:

-) Projects, which are production-oriented and from which consideration may be obtained sooner.
-) Projects raising living standard, revenue and employment and giving direct benefits to the rural people, and contributing to the alleviation of poverty.
-) Projects which can be operated with low cost and larger people's participation.
-) Projects to be operated through local means, resources and skills
-) Projects providing direct benefits to the women as well as backward class and children.
-) Projects that can contribute to protect and promote the environment.

Therefore, there is a need to understand the revenue generated by these institutions from internal sources of local bodies. It is also essential to find out the amount expended and its pattern with respect to the poor population in VDC. Many tax and revenue powers have been given to local bodies but in practice, they are doing very little some of the important local taxes are property-base tax, professional based tax, entertainment tax, export tax and natural resources utilization tax.

Most of the VDCs in Nepal are excessively depending on external sources such as grants and subsidy provide by the GON and DDC. VDCs n Eastern Development Region has the highest internal revenue i.e. 25.02 percent and Far Western Development Region has the lowest i.e. 13.46 percent A (GON,2009). However, the average internal revenue of all VDCs is declining over the years. In the present condition, natural resources export tax like herbs boulders, sand, animal hides and bones are the main internal sources of the

DDCs. There are no alternatives for the DDCs to mobilize these resources properly (GON, 2009)

Conceptual Issues on Local Resources Mobilization

The large numbers of people of South Asia are facing the problem of poverty, inequality, deprivation and the combined inability to gain access to social goods, is challenging issues for the politician, planners and administrator. So that, development planning, still considered an important tool for social change, which is being applied consistently in attempts to achieve the economic growth with equity. The bottom up approach in resource mobilization becomes most effective to address the need and aspiration of people. The wave of globalization and the fruits of democracy (freedom in political, economic, social activities), affect the concept of resource mobilization as well and adopted the economic reforms process. The economic reforms processes have cutbacks in state spending in development endeavour. However, the policy issue in the context is still debatable. Fiscal decentralization with devolution of power and function to the local bodies is a necessary component as a means of governance in regards to local resource mobilization.

Resources:

Resources are important element in the development/livelihood framework, which enables the individual/family to undertake directly or indirectly for production and its use as a means of survival. It consist of human, physical, financial, social and natural things, which is considered as a productive capital. The different productive capital can be defined such as; Natural capital comprises land, water, forest, and other forms of biological resources that can be used for generating means of living/development. Physical capital comprises of roads, buildings, irrigation canals, pumps, etc used for generating income. Human capital is an important factor, who works as human labour. The usefulness and effectiveness of human capital depend heavily on the education, training, and healthy condition of the people.

Financial capital is the stock of money to which the poor household has to access. The saving and credit and the sale ability of other assets comprise in financial capital, which is important for generating means of living. Social capital has been recently considered as an important asset required for generating means of livelihood. Social capital can be defined as reciprocity within communities and between households based on trust deriving from social ties. Trust Capital is a conviction resulting from human interaction with honesty, inspiration, competence, foresight through appreciation and respect for the prosperity of human beings. These productive capitals have to be mobilized optimally to produce something.

Resource Mobilization

Resource mobilization refers to the scheme of collecting funds for financing a plan. It indicates that resources have to be collected as a fund and mobilize it as a factor of production to achieve the plan's objective. The level of production may be optimal if it is produced according to the market demand, for which, the proportion of factor's combination must also be optimal. It is possible, if appropriate mechanism or system of production is established and authority is capable. The mechanism refers to the governance system, in which the process of collection of resources and utilization of such resources has to be determined. The process needs to follow by the authority to decide optimal combination or proportion of factors in order to produce something optimally, which may enhanced the productivity. The factor's productivity and it's availability also affects in quantity of output. Thus, any factor, generally measured in terms of finance fund, which is collected and mobilized to produce something, as the market demand, may be defined as the resource mobilization.

In the context of resource mobilization, the question always emerges about who collect and how can be collected and mobilizes the resources effectively and efficiently? It is proved that, the resources, in the hand of people who can mobilize efficiently, can be more effective, to collect and to be mobilized. In fact, resource mobilization is a sociological theory that forms a

part of the study of social movements in collective way. In this regard, development scholars developed the theory of resource mobilization mainly in two different aspect.

- J Economic Aspect: This approach argues that grievances are not enough to lead to the creation of a movement, and instead that access to and control over resources is the most important factor.
- J Political Aspect: This approach focused on the political struggle in resource mobilization instead of economic access and control over the resources.

The chief aim of theory of resource mobilization is to harnessing the disaffected energies, attracting money and supporters, capturing the media's attention, forging alliances with those in power, and creating an organizational structure. This view indicate that individuals are rational, so that they involved for goal oriented activities, without such resources, social movements cannot be effective, and further that dissent alone is not enough to engender any social change. Thus, following rational choice theory, individuals are viewed as weighing the costs and benefits of movement participation and deciding to act only if benefits outweigh costs. therefore, efficient and effective organization is most important component for resource mobilization. The theoretical concept can only give system or mechanism to implement the idea. This paper has attempted to analyze the practices of local bodies in regards to local resource mobilization with some agreed process or system of governance, which is determined in the Local Self Government Act 1999 (LSGA) and fiscal regulation 1999, of Nepal.

2.2 Previous Study of the Local Bodies

Local Resource Mobilization Practices in Nepal

The government of Nepal has been practiced to improve the principle of decentralization with different forms of decentralization ranging from delegation, de-concentration and devolution of authority. The practice of

decentralization principle to local bodies, in a documented way, begins from 1960. In the Panchayat (non party system of government) period various laws were enacted including financial regulation. However, the promulgated law and rule could not stand for a long time, which was changed time to time. The laws were Village Panchayat Act 1962, District Panchayat Act 1962,

Local Administration Arrangements Act 1966, Decentralization Act 1979The practices of working plan and process of these laws were characterized by top down approach. Generally, in the context of financial regulation, the central government was mobilized almost all of the resources through the district office line ministries. According to the directive principle of constitution 1990, at first, three laws were enacted in regards to local bodies named as Village Development Committee (VDC) Act 1992, Municipality Act 1992, District Development Committee (DDC) Act 1992. Due to contradiction between central and local government as well as in between the local governments in regards to power and sharing of resources and duplication of role and responsibilities, by integrating these three laws, the government of Nepal has enacted “Local Self-Governance Act, 1999 (LSG, 1999)”(and financial regulations 1999). In the preamble, it is mentioned that “...the process of governance by way of decentralization”. Therefore, this law is a landmark decision of the government of Nepal, to be practice of decentralization principle including financial regulation democratically. The chief aim of present financial regulation is to discharge function, duty and responsibility to the local bodies to collect and mobilize resources with making accountable and responsible to them. In fact, all the resources are productive factors, mobilization of these resources and enhancement of its productivity can play vital role in development endeavor. The volume and effectiveness of local resources is mainly depends on the efficiency, skill, ability etc of local bodies.

Scope and Challenges of Local Resource Mobilization

To identify scope and challenges of local resource mobilization various discussion were made with the DDC and VDC personnel. They are explained by following points.

-) Central resources have been transferred to local bodies significantly, especially in the VDC, has increased from Rs. 50 to Rs. 300 to Rs. 500 to Rs. 10000 thousands, which has added new dimension in the domain of decentralization.
-) Nepal is rich in human, cultural, social, geographical diversities, if it can be identified and capitalized appropriately, resource can be generate adequately.
-) Higher literacy rate, greater communication and transportation facilities has enhanced the awareness of local people, which may leads to raise the needs and aspiration of people and ultimately they may participate in development Endeavour.
-) Present LSGA focused on aspects of transparency, accountability, responsiveness and so on, this may leads to raise the social and trust capital, through which people may inspired to participate in development activities.
-) Human resources is also an important factors of production if it is mobilized properly development can take place. In this regard, it can be said that after the promulgation of new constitution people will participate in all aspects of development.

Challenges

Resource mobilization mainly depends upon the system of governance, rule of law, efficiency of authorities, and so on, which is a challenging task, they are explained below.

- J) LSGA, 1999, has given the local bodies the responsibility of protecting and utilizing the fallow land, but it has not transferred the ownership. This provision has created contradiction to use it. It becomes more problematic because some VDCs has been selling such land, like Bungkot, without any plan.
- J) Even in the tax actually collected, the ratio of indirect tax is predominant. As the representatives prefer the indirect tax, it has been a challenge to attract the local bodies toward direct taxes.
- J) There is very low involvement of private sector and the NGOs in the local government function of service delivery. There is lack of coordination and cooperation and the assumption has not been established that they are complementary to each other. The different line ministries/departments working their own way, so that local bodies are facing the problem of duplication.
- J) There is a tax overlap among the different local government levels, especially with regard to natural resources such as sand, stone and gravel, and between the central government and local bodies incase of the vehicle tax. This has led to conflict between central government and local bodies. Determination of sharing of tax is critical.
- J) Local bodies have little flexibility in fixing tax rate. The rate of land tax is so nominal; VDC does not have authority to increase the tax rate. It is mere transfer of power, without organizational capacity and authority.
- J) Internal sources of revenue and expenditure capacity of the local bodies may differ from VDC to VDC and between one DDC and another, which leads to horizontal fiscal imbalance. To deal individually is a difficult task.

-) The Bungkot VDC does not have own building because of damaged in the period of Maoist revolution. So that the VDC is facing the problem to run the office as well as developmental activities.
-) Politicize in all aspects of decision making is a challenging issue of local bodies which has been affected in resource mobilization as well.
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-) Politicize in all aspects of decision making is a challenging issue of local bodies which has been affected in resource mobilization as well.
-) Resources diverted or delayed disbursement by political or administrative pressures is a great problem of local bodies. And also facing the procurement problems.
-) Equipping local bodies with financial, administrative and technical capacity to enable them is felt need, to fulfill this, all sections of agencies are equally responsible, to acquire capability in such areas is a challenging task.

Traditional thinking has been changed with the realization that national development is also a local responsibility and for overall progression, genuine partnership is essential between central and local government. Therefore, to serve both national and local interest, rural local government financing need to examine with own local taxation or raising other forms of local revenue, grant from central government, local borrowings or assistance from foreign sources. Recent trend shows that policy makers and donors are emphasizing on rural local governments fiscal capacity from local economic and rural development front to integrate development programmed through citizen participation, incorporate gender issue and disadvantaged groups in policy decisions, aid in poverty reduction, environmental initiatives at the local level, encourage local governments autonomy and innovation in addressing local needs. Fiscal

capacity of rural local governments is related to fiscal decentralization that commands a prudent mechanism in mobilizing local financial resources.

www.ccsenet.org/ass Asian Social Science Vol. 6, No. 11; November 2010 ISSN 1911-2017 E-ISSN 1911-2025 96 It is contended that fiscal decentralization is the most critical part of decentralization which has raised challenges as an important theme of governance in developing countries (Crook and Manor, 1998; Devas, 1997; Fukasaku and deMello, 1999; Manor, 1998; Shah, 1998; World Bank, 1999). Contemporary study shows that fiscal decentralization has induced fiscal responsibility and financial resource mobilization (Bird and Vaillancourt, 2006; Loughlin et al., 2006). But the evaluation report of OECD (2004) showed that the local government revenue sources as the share of total local government funding is declining in most of the developing countries. The reasons of such decline are: □ firstly, not proper addressing of legal, fiscal and institutional frameworks and the local government incentive system; secondly, disincentives of central transfer system in improving revenue mobilization (DANIDA, 2000); thirdly, weak incentives to collect taxes (NEDA, 1999); fourthly, unfavorable local government tax assignments leading to unpopular tasks that are difficult to collect; fifthly, inefficiency in assessment, rating and weak enforcement in revenue collection; and finally, tax evasion tendency of most of the wealthiest part of the population and lack of sanctions and oversight in tax administrations (USAID, 1998). All these obstacles emphasize on fiscal decentralization and has turned to the question of how and what specific revenue sources might be most feasible. The feasibility of own revenue generation at the rural local government level depends on local fiscal efforts and fiscal and non-fiscal supports of the national government.

Local resources mobilization is the efforts of local administration to raise finances from a locality in order to fund activities within that area". The size and freedom of the local government are considered crucial aspects that determine the structures and generation of revenue and adequacy of local

finance. In theory, it is contended that a sizeable local government in terms of human settlements and productive land area have better prospects of more revenue generation (Hye, 1985, p.180). But rural local government revenue generation in developing countries is always a great challenge and the mechanisms by which local financial resources can be mobilized have raised some pertinent issues, like revenue raising ability, effects on economic efficiency, equity implications and administrative feasibility (Bahl, 1984). Fiscal decentralization in South Asian countries have been initiated but the existing pattern of rural local governments self financing is not impressive. Bangladesh is not an exception. Rural local governments in Bangladesh are devolved with some revenue power and functions but practically they cannot exercise their mandated responsibilities due to shortages of funds and institutional capacities. Besides insufficient central allocation, institutional weaknesses are also continuing for the lack of effective mechanism to coordinate and integrate the role and functions of rural local governments' functionaries, sectored agencies, NGOs, cooperatives as well as private sectors (Aminuzzaman, 2004; Haque, 2002). Understanding the realities, recent concentration of Bangladesh government on poverty reduction strategy has integrated local governments' role to instil rural development, combating rural poverty and attainment of Millennium Development Goals. In this respect, the relatively small scale Union Parishad (UP), the lowest tier rural local government, closest to the rural people, has offered realistic possibilities to play the vital role. Therefore, the objective of the study is to examine the trend and performance of UPs own financial resources mobilization.

Resource is an important component to uplift the socio economic condition of people. Availability of resources may different in different part of the world, however, in any forms or types it is available everywhere at local level. Particular types of resources may available in particular place, such particular resource needs to utilize by combining with other resources in appropriate proportion to produce something otherwise it may be idle. Production of something can enhance the socio economic condition of the

people, because idle resource does not possess utility. The identification and utilization of available resources in appropriate proportion is a greater challenge.

Nepal is a rich country in resources with its diversification such as geographical (Hill, Mountain, Terai), social (more than 100 ethnic groups lives together here and there with harmony), cultural (different caste and ethnic groups of people celebrate own culture), natural (forest, water, mine etc.) and human capabilities as well. These resources are useful to fulfill the demand for goods or services of one place from other. For example, the demand for herbs of Terai people can be fulfilled from mountain and demand for food of Mountain's people can be fulfilled from Terai are either misused or simply not harnessed effectively, so that the country is in low profile in the world from the human development point of view. Even having such diversify resources, whatever the reason, the country is facing the shortage of resources in development endeavor. Identification and mobilization of such resources is a challenging task for the socio economic development of the country. In this regard, since 1960ⁱ Nepal has been adopted the principle of decentralization as a means of governance in order to mobilize local resources. Governance for the resource mobilization refers to the process, which seeks to make different parts of society to act in a manner that steers society collectively towards desired goals. In this sense governance is the way through which the country's economic and social resources can be mobilized for development. It is characterized by the participation, rule of law, transparency, responsiveness, equity, accountability, effectiveness, efficiency and strategic vision. The system of governance is an exercise of power over the resources in order to its use and management. Therefore, the issues of governance are who controls? Who decides? And how it is use and distributes the resources? and so on. Thus, to establish a system, the decentralization has been accepted as an important means of good governance.

Decentralization principle is a system of idea, which refers to

institutional transformational practices of power, authority, resources, and responsibility to carryout public functions from center to subordinate government. It includes the dispersal of administration or governance in sectors or areas. It is the policy of delegating decision-making authority down to the lower levels in an organization, relatively away from and lower in a central authority. It is a bottom-to-top approach in making decision and flow of ideas, with the implications of the end-to-end principle. In present democratic world, decentralization is considered as a partner in-between the institutions. The main principle component of decentralization is a local government, which is closer to the people than central government. However, it is observed that, local government varies widely in capacity, accountability, viability and legitimacy. These aspects affect in governance wherein authority, responsibility and resources are reallocated between the center and subordinate level according to the principle of subsidiary. The transformation process denotes power, responsibilities and resource sharing from center to local bodies.

The principle of decentralization has been adopted in Nepal in the context of local government for mobilizing the local resources with devolving the power and function to the local bodies in order to fulfil the needs and aspiration of people. Conceptually, it is believe that, the development cannot be delivered only from outside. It needs to be born within any particular social system. It is also proved that, rolling of a ball requires pumping of adequate air from outside. Considering the economy as a ball, providing of adequate resources requires to produce consumption or capital goods or services in order to develop the socio economic condition of people. The resource mobilization should be, in such a way that has to reflect the process of rainfall in normal environment, from which the people would be benefited without giving heavy burden to the resource givers. For example, the water becomes vapor after heating certain degree temperature, where there is available on the surface of the earth, then it further becomes water and fall as rainfall on the earth (everywhere water lake as well as dry land) without any partiality. Similarly productive resources should be collected from there and those persons, where

and who have ability to give then distribute and utilize it for the benefit to all as a right.

In this regard, the government of Nepal has been enacted the law “Local Self-Governance Act, 1999” (LSGA), (and financial regulation 1999), in which local resources are defined grants provided by the central government (matching and non matching grant), local revenue (tax and non-tax) and loan (internal and external). The law devolved the fiscal autonomy with jurisdiction power and functions to the local bodies, which enhances the scope to identify and determine the resource base and project as the need and aspiration of local people. Therefore, the local bodies are becoming effective in Nepal and enhancement in the accountability of the local representative institutions. At present, a negative effect has been observed in the local level service delivery due to the vacancy of the elected people’s representatives at the local bodies. For the long period, devolution of financial responsibilities to the local level has been halted. However, the responsibilities of local representatives have been handover to the local level personnel by forming the Local Service Act.

It is observed that, the DDC’s and VDC’s budget has mostly supported by the central government’s grant. To reduce the dependency on central grant, the knowledge about local resources and its identification is an important issue, which needs to collect and mobilize for the socio-economic development of the local people and country as well. The accessibility and control over the resource is the most important aspect, which could maintain supply and demand of resources through rational choice. Thus, the efficient and effective collection and expenditure process of local resources has to be determined to uplift the quality of life of people. The process and effectiveness of a process may vary from country to country, place to place, and culture to culture. This paper has attempted to analyze the practices as well as the scope and a challenge resource mobilization of local bodies.

The large numbers of people of South Asia are facing the problem of poverty, inequality, deprivation and the combined inability to gain access to

social goods, is challenging issues for the politician, planners and administrator. So that, development planning, still considered an important tool for social change, which is being applied consistently in attempts to achieve the economic growth with equity. The bottom up approach in resource mobilization becomes most effective to address the need and aspiration of people. The wave of globalisation and the fruits of democracy (freedom in political, economic, social activities), affect the concept of resource mobilization as well and adopted the economic reforms process. The economic reforms processes have cutbacks in state spending in development endeavour. However, the policy issue in the context is still debatable. Fiscal decentralization with devolution of power and function to the local bodies is a necessary component as a means of governance in regards to local resource mobilization.

The government of Nepal has been practiced to improve the principle of decentralization with different forms of decentralization ranging from delegation, de-concentration and devolution of authorityⁱⁱ. The practice of decentralization principle to local bodies, in a documented way, begins from 1960. In the Panchayat (non party system of government) period various laws were enacted including financial regulation. However, the promulgated law and rule could not stand for a long time, which was changed time to time. The laws were Village Panchayat Act 1962, District Panchayat Act 1962, Local Administration Arrangements Act 1966, Decentralization Act 1979The practices of working plan and process of these laws were characterized by top down approach. Generally, in the context of financial regulation, the central government was mobilized almost all of the resources through the district office line ministries. According to the directive principle of constitution 1990, at first, three laws were enacted in regards to local bodies named as Village Development Committee (VDC) Act 1992, Municipality Act 1992, District Development Committee (DDC) Act 1992. Due to contradiction between central and local government as well as in between the local governments in regards to power and sharing of resources and duplication of role and

responsibilities, by integrating these three laws, the government of Nepal has enacted “Local Self-Governance Act, 1999 (LSG, 1999)” (and financial regulations 1999). In the preamble, it is mentioned that “...the process of governance by way of decentralization”.ⁱⁱⁱ Therefore, this law is a landmark decision of the government of Nepal, to be practice of decentralization principle including financial regulation democratically. The chief aim of present financial regulation is to discharge function, duty and responsibility to the local bodies to collect and mobilize resources with making accountable and responsible to them. In fact, all the resources are productive factors, mobilization of these resources and enhancement of its productivity can play vital role in development endeavor. The volume and effectiveness of local resources is mainly depends on the efficiency, skill, ability etc of local bodies.

This paper seeks to analyze the practices of Kathmandu and Gorkha districts as well as Syuchatar and Bungkot VDC of respective districts. Kathmandu is a centrally located district of Nepal in which capital city lies, where 1081845 population live with 2739 sq. km. density and 4.82 population growth rate; and Gorkaha district situated Western part of the country where 288134 population live with 80 sq. km. density and population growth rate (CBS, 2001). The Syuchatar and Bungkot VDCs lies in Kathmandu and Gorkha respectively. The financial resource mobilization (revenue and expenditure) practices of the districts and VDCs are explained below.

Local level planning includes district, village and municipal level planning. In the context of local resource mobilization, Nepal has initiated the principle of fiscal decentralization, as a strategy, which is known as participatory governance approach involving multi-stakeholders in planning process for their affairs. For this, National Planning Commission (NPC) provides the budget estimates (ceiling) to the local government. Development planning system is, therefore, a complex power relationship between centralized and decentralized actors. National Development Council (NDC) is an apex central planning authority under the chair of Prime Minister, and NPC

is exclusively an advisory body for formulating development plans and policies under the directives of the NDC. NPC, as a central planning authority, formulates national development plan with the help of line ministries and development projects, and facilitates the local bodies in the planning process and implementation by linking local level plans with national level plans. NPC is, therefore, responsible for balancing, verifying and coordinating with local bodies and line ministries to mobilize the local resources including the planning process, whereas local planning authority has authority to identify and select the projects to implement themselves and to refer upper level institutions.

Local government is form of public administration which in a majority contexts, exists as the lowest ties of administration with in a given state. the term is used to control with offices a stats level which are referred to as the control government, national government ,or where appropriate federal government and also to supranational government which deals with governing institutions between states, local bodies generally act with in power delegated to them by legislation or directives of the higher level of government in federal states, local government generally comprises the third (or sometimes fourth)ties of government ,where in unitary states local bodies usually occupies the second or third tier of government often with greater power then higher level administrative divisions.

The question of municipal autonomy is a key question of public administration and local government very greatly between countries and even where similar arrangements exist the terminology often varies common names of local bodies entities include state , province region, department, country, prefecture district, city , township , town ,borough, parish, municipality shire, village and local service district (Sharma & Sadana, 2006).

2.3 Review of Local Bodies Revenue and Expenditure Pattern

The study has adopted two-dimensional strategy to fulfill the objectives. First, literatures related to decentralization, rural poverty, the efforts related to alleviation of poverty are gathered from national and international context and are reviewed to get theoretical base, national, and international practical experience. The literature collected includes those from central Bureau of Statistics (CBS), National Planning Commission (NPC), Ministry of Local Development (MoLD), and Local Body Fiscal Commission (LBFC), DDCs, VDCs and different websites in international context. Second, expenditure patterns and of revenue of different VDCs are analyzed to find out the exact problems in the field based on the key indicators developed from literature review. The data collected from various sources are analyzed. Where necessary, the diagrams are used to make the logic plausible.

2.4 Historical Perspective of Local Governance and Decentralization in Nepal

The Democratic era started after the enactment of Interim constitution in 2007 B.S. The article five of the constitution had made the provision of village Panchayat as units of local government. 791 Panchayats were set up by 1956 AD compared to 171 in 1950 AD. A new village Panchayat act also act also come into force in 1956 A.D., which replaced the Panchayat act, 1949. The first elected government in 1959 had recommended 7 provinces, 32 districts, 76 sub-districts, 196 blocks and 6500 gram Panchayats to share the central power to the lower level. In the same year, 33 Panchayat officers and 109 supervisors were recruited to import momentum to the initiative. But, the removal of elected government and collapse of democrat practice hindered the progress (Khanal, 2006).

During the Panchayat era (1962-90), the local authorities namely village, town and district Panchayat were functional at local level. However, they had been used extensively as an extended arm of the central government. A high commission under the chairperson Bishwa Bandhu Thapa recommended

dividing country to 75 district and 14 zones. After the restoration of Democracy in 1990, decentralization and local governance took the place in Nepal. The constitution of 1990 had clearly mentioned that "the chief responsibility of the state is to maintain conditions suitable for the employment of the fruits of democracy through wider participation of the people in the governance of the country and by way of decentralization A"(Khanal, 2006). Local self Government Act, 1999 has explicitly stated the two levels of local government village Development committees in rural areas and municipalities in urban areas and District development committees in district level. The articles 139 (2) to make special political arrangement in the local government bodies in the all party consensus in order to promote decentralization and local governance system (GON, 2007). But, unfortunately both provisions have not come into action yet. This vacant situation in local level has hampered the effective and efficient services delivery to the people (ADDCN, 2010).

With the Re-introduction of Democracy in 1990, the village Panchayat was renamed as village Department committee to manage and develop rural areas. The local self Government Act (LSGA) of 1999 was promulgated. The LSGA forms the existing legal basis for local governance in Nepal. This Act has the provision of village development Area and Ward Division as below.

1. Any rural areas in the Kingdom of Nepal specified with account the geographical situation, population, community or diversity of inhabitants are regarded as a village development area, and set out the four boundaries there. In so specifying the village development area consultation with the district development committee is taken as required.
2. In consultation with the village council, a convenient place within a village development area is specified under sub-section (1) as the central area.
3. All the village level offices shall be located in the centre of the village development area specified under sub-section (2).

4. Division of wards is done on the account of the geographical situation with the village development areas specified under section (4) into nine wards consisting of equal population to the extent possible.
5. Alteration of boundary can be done in the event of necessity to outer the boundary of any village development area specified under section 4 of any ward divided under section 5, government of Nepal shall from a committee comprising also the concerned expert and, on the recommendation of the committee as well as with the approval of the election commission, shall alter the boundary of such a village development area or ward, without affecting the election constituencies delimited for election of members of the house of representative.

2.5 Reviews of Empirical Studies

Acharya (2010) has attempted to explore revenue pattern of selected five VDCs of Morang district. His research showed that the major source of income in Dulari VDC is natural resources followed by land tax. Similarly, in Madhumalla vehicle tax has significant share in the revenue. Ramite VDCs has poor performance in mobilizing the internal revenue. And in Hattimuda VDCs commercial tax contributes large share. He concluded that Dulari VDCs is efficient in mobilizing the internal revenue.

Timilsina (1996) conducted a study of Biratnagar municipality with the objective of analyzing the income and expenditure pattern of Biratnagar municipality based on secondary data. The study showed the octroi as the major sources of revenue with 57.42 percent and balance forward being in the second position 27.19 percent. The contribution of octroi had significantly decreased from 81.56 percent to 57.42 percent in the study period. The trend of revenue showed the increment of revenue in nominal term in the study period. The trend of expenditure showed increasing expenditure by nearly 50 percent in the successive years. In expenditure composition the municipality had tried to keep the administrative expenditure with 30 percent. The major share of administrative expenditures, being salary and wage with 65.52 percent and

29.93 percent of total income. The study also showed that 40 percent of the expenditure went to development expenditure.

Pahadi (1997) concluded that Octori and vehicle Taxare the main sources of revenue in Janakpur municipality. Bohara (1990) found that Octori tax had been the major source of revenue in Tansen municipality. Chapagain (1995) derived conclusion that tax payers were irresponsible to pay tax and as such the tax collection in Lalitpur municipality. He too concluded that the tax octori made major contribution in the tax generation of the municipality. Khadyat (1995) concluded that Octori and vehicle tax contribute the major share in the revenue generation of Kathmandu municipality.

The studies incorporating the VDCs income and expenditure in relation to natural resource have been neglected by many studies. In this context, it attempts to find out whether VDC receives income from natural resources and where does it make expenditure in the favor of vulnerable people.

Devkot & Shrestha (2010) the impact of fiscal decentralization on growth is more than an academic question .Whether fiscal decentralization affects economic growth has become an important policy issues for both the developed and developing countries.

The present fiscal decentralization in Nepal was carried out as par the spirit of LSGA, 1999, LSGR 2000 and LBFAR 2007. In additions to many political and administrative power, these act and regulation have provided sufficient financial power to LBs. However, LBs have not sufficiently exploited the own revenues to cover the expanded expenditures.

CHAPTER-III

RESEARCH METHODOLOGY

3.1 Research Design

This study is carried out on the basis of description and analytical in nature. It has given focus on the Role of local bodies financial resources mobilization Jogmai VDCs also. This research has found out the Role of local bodies financial resources mobilization Ilam district.

3.2 Sources of Data

Both primary and secondary data are used in this study. Primary data are collected from the study area using structured questionnaire .Besides, some information were collected from asking question to the local people who are involved local bodies.

Similarly, secondary data is obtained from different secondary sources like books, different journals, VDC profile, DDC profile, Central Bureau of Statistics (CBS), Local Self Governance Act (1999) different concerned organizations and web sites.

3.3 Study Area

Jogmai VDC is the study area selected for this study. It is located in Ilam district of East development region. This district extends between 28° 7' 0" N and 82° 18' 0" E. It is 700- 3636 meter above the sea level. The total area of Ilam district is 1703sq.km. There are two parliamentary constituencies in this district. There is warm temperate and cool temperate climate in this district. In summer season, its maximum temperature reaches up to 26⁰ centigrade and in winter season its minimum temperature reaches up to 0⁰ centigrade. It is surrounded by Jhapa, and Pachather district in the north, west Bengal of India in the East, . There are 48VDCs and one Municipalities.

Among the 48 VDCs, Jogmai one of them. It is 20 km far from Ilam headquarter. It is located at the eastern part of the Ilam headquarter. The VDC

borders with west bangle at East, Ghorke VDCs at West, Nayabazzer and Jamuna VDC at North and VDC at south. According to VDCs profile (census, 2011), the total population of the VDC is 8,500. Out of which 4200 are male and 4300 are female. There are altogether 2000 households in this VDC. The majority of the people living in this VDCs are farmers. There are a few people who go to outside mainly to India, Malaysia and Dubai for employment. Besides farming, some people are engaged in governmental and non-governmental services. Likewise, some people are engaged in trade, small firm industry etc. There are four primary schools, one lower secondary school, and one higher secondary school in this VDC. The majority of the people are Tharus, followed by Chhetris, Brahmins, Rai, Limbu, Thamang Sharpa and Dalit community living in this VDC.

3.4 Universe and Sampling

This study had been purpose, accidental and random sampling for the selection .where as sample population of the study had selected on following

S.N	Streams	Total population	Sampling	Percentage	Method
1	Political leader	10(Average)	5	23	Accidental
2	Educated people	30 HHS	15	68	Random lottery
3	Stake holders	5 HHS	2	10	Purposive
Total		45	22	100	

3.5 Data Collection Techniques and Tools

The study is depended both on primary and secondary data. The primary data are collected from the fieldwork conducted during key informant interview, records observation and observation checklist using following techniques

3.5.1 Key Informant Interview

Key informant interview were applied to obtain information form the knowledgeable persons of community, VDC secretary, DDC chairman (LDO) and local political parties leader who known the aspect of the Jogmai VDC financial resources mobilization and provides the information in details about their knowledgeable and experience in Role of local bodies financial resources mobilization .

3.5.2 Observation

Observation is carried out number of times during field visit. Observation was made about present condition of local bodies and its interrelationship with local people. Important information were observed through questionnaire and check list method during field work.

S.N.	Resources	Available	Unavailable
1	Road transportation		
2	Communication		
3	Drinking water		
4	Electricity		
5	School		
6	Others		

3.6 Data Analysis and Interpretation

Data collection is used to describe a process of preparing and collecting data. The purpose of data collection is to obtain information to keep on record to make decision about important issues, to pass information onto others. Primarily data will be collected to provide information regarding a specific topic. Various techniques like table, graph ,charts, statistical tools ,computer software etc will be employed during the research stud

CHAPTER-IV

DATA ANALYSIS AND PRESENTATION

4.1 Background of the Study Area

Ilam is a municipality of Ilam District, which is in the hilly region of Mechi zone, in the Eastern Development Region of Nepal. Ilam also acts as the headquarters of Ilam District and Mechi zone. Geographically it lies in the hill region which is mostly known as Mahabharata range. The word 'Ilam' comprises two words-'I' and 'Lam'. In Limbu dialect, the word 'I' means 'winding' and 'lam' denotes to the way. Upon looking at the topography of this land, we can actually see several winding paths crisscrossing on the way. Thus it is aptly named 'Ilam'. It is also one of the important town in Mechi zone and one of the major place in Nepal for tea-production. It is famous for natural scenery and landscapes, tea production, and diverse agricultural economy. Ilam municipality is sub-divided in 9 different wards, the major governmental and district office lies in ward number 1 and ward number. Ilam also is a major hub for transportation and communication for VDC that lies in the upper part of the district. The Latitude of Ilam is 26.86. The Longitude of Ilam is 88.08. The total area of Ilam district is 1803 km. I have studied the Jogmai VDC of Ilam district which is 1300m to 3060m above the sea level. The total area of Jogmai VDC is 38.90 m². The boundary of the Jogmai VDC is Gorkh in east, in west Nayabazar VDC, india in north and in south Nayabazar and Gorkh VDC.

Table 1: Climate Zones According to Different Topography

Climate Zone	Elevation Range	Percentage of Area
Lower Tropical	below 300 meters (1,000 ft)	15.5
Upper Tropical	300 to 1,000 meters 1,000 to 3,300 ft.	33.5
Subtropical	1,000 to 2,000 meters 3,300 to 6,600 ft.	40.1
Temperate	2,000 to 3,000 meters 6,400 to 9,800 ft.	10.6
Subalpine	3,000 to 4,000 meters 9,800 to 13,100 ft.	0.3

Source: www.google.com

The total literacy rate of Ilam district is 70.80% out of total population of Jogmai VDC. Out of 70.80% 45.60 percent is of male and 34.30 percent of female. The major religion are Hindu, Buddha and Kirat. The local language of Jogmai VDC are Nepali, Rai, Thami, Sherpa., Tamang. The major castes of Jogmai VDC are Brahmin, Chhetri, rai, Thami, Tamang, Bishowkarma, Sherpa, Lapcha, das, and Gurung. The total population of Jogmai VDC is 3644. out of them 1892 are male and 1752 are female.



Source: www.google.com

4.2 Total budget of Jogmai VDC 2065-2072 (Fiscal Year)

Fiscal year	Government Of Nepal	DDC	LGCDP	Internal sources	Taxes	Total
2065/066	1823375	15000	-	70000	7280	1915655
2066/067	1323324	10000	400000	8000	296	1741620
2067/068	1816357	10000	400000	100000	12245	2348602
2068/069	2087265	58000	-	30000	2468	277733
2069-070	1718000	30800	-	58000	2000	2158800
2070/071	1100000	10000	-	30000	7000	1147000
2071/072	1124000	50000	383000	4000	-	1561000

Source: Jogmai, VDC

In the above table we can see the total budget of Jogmai VDC and its sources from 2065-2072. We can also see that in year 2067-2068 there is highest allocation of the budget and in the year 2070-2071 there is lowest allocation of the budget.

4.3 Major Sources Income of the Jogmai VDC

S.N.	Sources of income	Number of people	Percentage
1	Government donation	12	54.55
2	Non-government source	5	23.00
3	Personal donation	2	9.00
4	Local tax	2	9.00
5	Others	1	4.55
	Total	22	100

Source: Jogmai, VDC

The above table represents the major sources of income of Jogmai VDC. We can see that the major source of income of the Jogmai VDC is governmental donation. About 55.44 % of the respondents have said that the major source of income is governmental donation. About 23% of the people have said that non-governmental sources are also there for donation. About 9% of the respondents have said that personal donation are also included in the income. And 9% have said that tax is also the source of income and the rest of others.

4.4 Types of Tax Collected

S.N.	Type of tax	Number of people	Percentage
1	Transportation tax	6	27
2	House tax	9	41
3	Land	7	32
	Total	22	100

Source: Jogmai, VDC

The above table illustrates about the tax paid by the peoples. About 27 percent of the people are paying transportation tax. About 41 percent of the people are paying house tax and about 32 percent of the people are paying land tax.

4.5 Areas of Budget Expenditure in Jogmai VDC

S.N.	Sectors	Number of people	Percentage
1	Agriculture	2	9
2	Drinking water	3	14
3	Transportation	10	45
4	Infrastructure development	3	14
5	Health	2	9
6	Other	2	9
	Total	22	100

Source: Jogmai, VDC

The above table represents the sectors of the Jogmai VDC where the budget is to be expended. About 45% of the people have said that the expenditure is made in the transportation sector. About 14% of the people have said that the expenditure is made in the drinking water sector. About 14% of the people have said that the expenditure is made in the infrastructural development. About 9% of the people have said that the expenditure is made in health sector. About 9 % of the people have also said that the expenditure is made in the agricultural sector. About 9% of the people have said that the expenditure is made other sectors.

4.6 Responsible Persons in Budget Distribution

S.N.	Responsible person	Number of peoples	Percentage
1	Political leaders	15	68
2	Local people	5	23
3	Local teacher	2	9
4	Other	-	-
	Total	22	100

Source: Jogmai, VDC

In the above table we can see that responsible persons are there in the distribution of budget. About 68% of the people have said that there are political leaders in the budget distribution. About 23% of the people have said that there are local people also in the budget distribution. And 9% of the respondents have also said that there are local teachers in the budget distribution.

4.7 Time interval for Budget Evolution

S.N.	Time interval	Number of people	Percentage
1	3 month	5	23
2	6 month	6	27
3	9 month	4	18
4	1 year	7	32
	Total	22	100

Source: Jogmai, VDC

The above table represents the time interval for the budget evolution. About 32% of the people have said that only annually the budget is evaluated. About 18% of the people have said in every 9 month the budget is evaluated. About 27% of the people have said in every 6 month the budget is evaluated. And 23% of the people have said in every 3 month the budget is evaluated.

4.8 Sectors Directly Benefited by the Budget

S.N.	Benefited Sectors	Number of people	Percentage
1	Marginalized people (Dalit/janjati)	9	41
2	Women	8	36
3	Others	5	23
	Total	22	100

Source: Jogmai, VDC

The above table represents about the sectors that are directly benefited by the budget. About 41% of the people have said that the marginalized people are benefited by the allocation of the budget. About 36% of the people have said that women are directly benefited by the allocated budget and amount 23% of the people have said that there are other sectors that are also benefited by the budget.

4.9 Future Plans for Budget Expenditure

S.N.	Sectors	Number of people	Percentage
1.	Road construction	6	27
2.	Social security	2	9
3.	Infrastructure development	2	9
4.	Education	4	18
5.	Health	5	23
6.	Communication	2	9
7.	Others	1	5
	Total	22	100

Source: Jogmai, VDC

The above table represents the allocation of the budget for the future. We can see that about 27% of the people have said that the budget must be allocated for the road construction. About 9% of the people have said that the budget must be allocated for the social security. About 9% of the people have said that the budget must be allocated for the infrastructural development. About 18% of the people have said that the budget must be allocated for the road education. About 23% of the people have said that the budget must be allocated for the road health. About 9% of the people have said that the budget must be allocated for the communication. About 5% of the people have said that the budget must be allocated for other sectors.

4.10 Development Activities Made by Local Bodies

S.N.	Development sectors	Number of people	Percentage
1	Road construction	10	45
2	Drinking water	4	18
3	Establishment of school	5	23
4	Others	3	14
	Total	22	100

Source: Jogmai, VDC

The above table represents the development activities made by the local bodies. We can see that about 45% of the people have said that the local bodies have developed the road construction. About 18% of the people have said that the local bodies have developed the drinking water. about 23% of the people have said that the local bodies have developed the schools. about 14% of the people have said that the local bodies have developed the other sectors.

4.11 Workers Working in Local Bodies

S.N.	Workers sufficiency	Number of people	Percentage
1	Yes	15	68
2	No	7	32
	Total	22	100

Source: Jogmai, VDC

The above table illustrates about the workers working in local bodies are sufficient or not. About 68% of the people have said that there are sufficient workers in the field. But 32 percent of the people have said that there are not sufficient workers in the related field.

4.12 Equal Distribution of Budget

S.N.	Distribution of budget	Number of people	Percentage
1	Yes	17	77
2	No	5	23
	Total	22	100

Source: Jogmai, VDC

The above table shows the distribution of the budget in the study area is equally distributed or not. About 77 percent of the people have said that the budget is equally distributed in the study area but about 23 percent of the people have said that the budget is not equally distributed in the study area.

4.13 Access of the Venerable People in the Resources

It is important to note at the outset that ‘vulnerability’ is an imposed category that some ‘vulnerable’ groups would challenge. While this needs to be acknowledged, it is generally held that vulnerability is generally held to refer to those individuals or groups who, due to age, ill-health, infirmity, minority status or their otherwise disempowered position in society may be open to exploitation (whether physical, emotional or psychological). This and other issues related to vulnerability are discussed in more detail within this section.

Research with vulnerable populations challenges us to consider once again ethical principles basic to research. Issues of providing informed consent, maintaining confidentiality and privacy, weighing the risks and benefits of a study and paying attention to issues of fairness are all especially important when working with groups who are vulnerable. ([www.google .com](http://www.google.com))

Venerable people are those people who are economically backward and does not have the access to the resources. In this VDC venerable people are Rai, Limbu, Magar, Dalit etc.

S.N.	Resources accessed by venerable people	Persons	Percentage
1	Yes	5	23
2	No	17	77
	Total	22	100

In the above table we can see that most of the venerable haven't access to the resources and the facilities provided by the government. About 77% of the people are deprived of the facilities and only 23% of the people have access to the resource and the facilities provided by the government.

CHAPTER -V

SUMMARY, CONCLUSION AND SUGGESTION

5.1 Summary

Resource is an important component to uplift the socio economic condition of people. Availability of resources may differ in different part of the world, however, in any forms or types it is available everywhere at local level. Particular types of resources may be available in particular place, such particular resource needs to be utilized by combining with other resources in appropriate proportion to produce something otherwise it may be idle. Production of something can enhance the socio economic condition of the people, because idle resource does not possess utility. The identification and utilization of available resources in appropriate proportion is a greater challenge.

Nepal is a rich country in resources with its diversification such as geographical (Hill, Mountain, Terai), social (more than 100 ethnic groups live together here and there with harmony), cultural (different caste and ethnic groups of people celebrate their own culture), natural (forest, water, mine etc.) and human capabilities as well. These resources are useful to fulfill the demand for goods or services of one place from another. For example, the demand for herbs of Terai people can be fulfilled from the mountain and demand for food of Mountain's people can be fulfilled from Terai are either misused or simply not harnessed effectively, so that the country is in a low profile in the world from the human development point of view. Even having such diversified resources, whatever the reason, the country is facing a shortage of resources in development endeavors. Identification and mobilization of such resources is a challenging task for the socio economic development of the country. In this regard, since 1960, Nepal has adopted the principle of decentralization as a means of governance in order to mobilize local resources. Governance for the

resource mobilization refers to the process, which seeks to make different parts of society to act in a manner that steers society collectively towards desired goals. In this sense governance is the way through which the country's economic and social resources can be mobilized for development. It is characterized by the participation, rule of law, transparency, responsiveness, equity, accountability, effectiveness, efficiency and strategic vision. The system of governance is an exercise of power over the resources in order to its use and management. Therefore, the issues of governance are who controls? Who decides? And how it is use and distributes the resources? and so on. Thus, to establish a system, the decentralization has been accepted as an important means of good governance.

The local resource management is one of the emerging issues in context of Nepal. The resources here are not properly utilized. Jogmi VDC is rich in its local resources. The utilization of the resources here may lead to economical prosperity and the living standard of the people here may be improved.

5.2 Conclusions

Jogmai has been mobilizing both internal and external source of revenue in order to meet the growing needs and expectations of local inhabitants. Internal sources of revenue are more stable and consistent than external sources. External sources of revenue are less reliable source of financing because of wide fluctuation in nature. These sources, therefore, should have the supplementary in VDC financing. As indicated above, regular as well as capital expenditures of Jogmai have been increasing gradually. It is worth noting that the share of development expenditure has been increased more sharply than that of regular expenditure. Increasing trend in development expenditures can be taken as a green signal for marching ahead in the path of economic and social development of this city. Expanding for development activities and overhead expenditures can be considered as the major cause for the increase in total expenditure. Jogmai VDC must be authorized to expand their internal revenue base and modify the tax rate according to local situation, so that, they

can collect adequate revenue to meet their financial needs. Jogmai VDC should upgrade the existing institutional and administrative position in order to make it more efficient, accountable and responsible to the people. It should further build up its institutional capability to execute its financial functions effectively.

The VDC council should design policies more responsive to local needs; budget should be allocated according to the local priorities and preferences. The internal revenue bases and volumes are very limited which proves that the local bodies have not collected the revenue adequately as provided by the rule and regulation. There is vertical and horizontal imbalance in regards to revenue generation. The causes of vertical imbalance between central and local governments are narrow tax base and limited discretion of local bodies over the tax rate and the central government's dominate role in public spending. Moreover, the causes of horizontal imbalance between the local bodies are different economic mandates and opportunities within the jurisdiction of local bodies, differences in the local natural resource conditions, and differing capacity of taxation resource mobilization. For example, Katmandu collected more internal tax resources, even the low tax base, than ilam district. Large proportion of DDC's and VDC's found are central government grant. Both; districts and VDCs have not received any borrowings.

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5.3 Suggestions

- J Shortage of technical manpower at local level is a burning problem of local government, which has to be fulfilled.
- J Locally available resources should mobilize for the exchange of goods and services.
- J Local resources should be integrate and determine the distribution mechanism to maintain the marginal social benefit equal to marginal social benefit.
- J Several alternatives should be explored to make the VDCs self-sufficient in resources and there is a distinct need for effective utilization of given power.
- J Current tax base and tax rate potentialities should be analyzed and decisive authority should be given to local bodies, councils for tax base determination.
- J Review the tax base and tax rate time to time based on identified and potential local financial resources.
- J All the local bodies should focus in the capacity development of her team for quality service delivery system.
- J Present nominated local government needs to change into local elected reprehensive for the stronger local government, which can identify the resource base and mobilize the resources effectively.

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