

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

All human activities can be categorized economically into two groups; consumption activities and production activities. Relatively favorable consumption activities and production activities are the symbol of development. Such activities can better addressed by the local government. So the role of local government has increased with the increased aspirations of the people for better life such as better health facilities, better education institutions, sanitation and luxuries along with the opportunities for higher income. Country like Nepal are moving in the path of development and the changed situation of the country has put the duty on the government to work for the benefit of the people. Solocal government being strengthened in such developing countries not only in the developed countries.

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

To fulfill the aim of balanced growth and development of all sector/ region in the economy Nepal has adopted the decentralized system of government: center level and local level. The center level government is mainly concerned to generate income to maintain law and order while the local level is concerned with the development works at the local level. The local level government can further be categorized as Village Development Committees (VDCs) in rural part and municipalities in the urban part

under the District Development Committees (DDCs). To meet the aspirations of the local people for the local development and involve them in governance system, the government of Nepal has been managing such bodies, irrespective of the political regime. However the structure, powers and duties they enjoy may vary according to particular system of government, the stage of development and other various aspects. The government can declare a settlement as a municipality, if the population is more than twenty thousand with income more than one million rupees having the basic minimum facilities like electricity, road, drinking water, sanitation and communication facilities though the population provision for the municipalities in hilly and mountainous areas is only ten thousand (The Local Government Regulation, 1999).

With the establishment of the local level administration arises the planning of capital structure asset mix and decisions related to finance. Since the declaration of the municipalities in 1902 A.D. there had not been scientific financial system in the municipalities. The municipalities started the financial planning and budgeting in the systematic form with the introduction of 'Nagar Panchayat Act 1962'. With the increased demand of services by the public, the municipalities have widened their territory of income: professional tax, vehicles tax, entertainment tax, business fees, fines, property tax and so on along with the grants and subsidy from the central government.

1.1.1 History of Municipality in Nepal

In Nepal, the history of local bodies/government is not new, it has a long history. Villages are not basic units of administration in Nepal and it had continued to exist as the core of the community life since a long period. The modern history of municipality was introduced during the Rana regime in Nepal. "BhotahitySawal", as the first institution, was established according to the concept of municipality in 1902 AD at the time of Rana Prime Minister, Chandra Shumsher. There were "Faant" in BhotahitiSawal known as: Upper Faant and Lower Faant (Timsina, 2005).

Upper Faant was related with general administration whereas Lower Faant functioned in social services (cleaning). That is why it was known as "SafaiAdda". The delegates for both the Faants were appointed by Rana and they were as BadaHaakim. During

the time rana Prime Minister BhimSumsher, there were eighteen delegates in the executive board out of which ten were nominated by Prime Minister and eight were elected. In 1919 and 1920 A.D., “GathanSawal” of Patan and Kantipur municipalities was introduced. These improvements were made in the development process of municipality (ibid).

After the political revolution of 1951 A.D. Nagar Panchayat Act 1951 was introduced and there after 5 municipalities were officially established. Patan, Kantipur, Bhaktapur, Biratnagar and Birgunj were those five municipalities. In 1953 A.D. Nepal RajyaNagarpalikaAin was introduced which further introduced seven new municipalities.

After the restoration of democracy in 1991 A.D., the concept of decentralization rose. Municipal Act 1992 came on the ground. This act has given the following criteria to divide the municipality.

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

Till 1997 the number of municipality reached 58. Kathmandu was declared metropolitan in 1996 A.D. Lalitpur, Biratnagar, Pokhara were upgraded into sub-metropolitan in 1997 and Birgunj in 1999 A.D. Presently Nepal has 75 district, 3276 VDCs and 217 municipalities. Among 191 municipalities there is one metropolitan, 12 sub metropolitan and 204 municipalities.

Nepal has two-tier system of local governance, with village and municipal bodies as the lower tier and district bodies as the higher. The village bodies are called Village Development Committees (VDCs) with municipalities serving the same function in town areas. The district bodies are the District Development Committees (DDCs). The current structure of local governance in Nepal was put in place after the restoration of democracy in 1990 and the current functions, duties, and power of the

Local Governance (LG) is in effect after promulgation of [Local Self Governance Act in 1999](#) (Sharma, 2011).

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

1.1.2 Local Self Governance Act, 1999

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

1.2 Statement of the Problem

The local government has to play a vital role here to satisfy both the central government as well as the local people. It has to abridge the people's need and other facilities with its own resources accompanied by the government budget. The increasing local expenditure has to be managed properly which calls for financial adjustments. The national plans and programs have to be reformulated at both the central as well as local levels (MoLD, 2001 A.D.).

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

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

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

Thus the main concerns of the study are:

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

1.3 Objectives of the Study

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

The specific objectives are as follows:

1. To analyze the revenue and expenditure of Dhulikhel Municipality.
2. To measure the degree of fiscal decentralization and fiscal autonomy of Dhulikhel Municipality.
3. To evaluate the financial performance of Dhulikhel Municipality.

1.4 Significance of the Study

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

Although municipal finance is one of the most important and talked subjects among the politicians, policy makers, donors and so on but limited research works have been

done in this field. So this study will be helpful to those stakeholders and concerned ones about municipal finance. The interested researchers on municipal finance will be beneficial by this work.

1.5 Limitations of the Study

This study has following limitations.

1. The local government in this chapter refers to the financial management at the municipality level.
2. The study is based mainly on the secondary data covering the fiscal year 2010/2011 A.D. to 2014/2015 A.D.
3. The findings got from this case study may not be generalized to other municipality of the country.
4. The research is bound by limited time period and cost.

1.6 Organization of the Study

The study is divided into five chapters. The first chapter deals with introduction. It includes the general background of the study, statement of the problem, objectives of the study, significance of the study, limitations of the study, and organization of the study. The second chapter deals with the review of literature. This chapter deals with concept of municipality finance, patterns of municipal system, functions and duties and power of municipality and its financial system. Some important studies made both on national and international context are included in this chapter. The third chapter deals the research methodology to complete the research work. The fourth chapter is busy in explaining the expenditure and revenue pattern of DM during the period of five years till the date. It includes a detailed analytical description of different source of revenue and their contribution to the total revenue as well as the major area of expenditure. The final chapter includes conclusion of the study and recommendations which is helpful in formulating and implementing policies. References are presented after the last chapter, closes the study.

CHAPTER TWO

LITERATURE REVIEW

Review of literature means reviewing research studies or other relevant proposition in the related area of study, So that all the past studies and their conclusions may be known and further research can be conducted. A literature review is an evaluative report of studies found in the literature related to selected area. The review should describe, summarize, evaluate and clarify this literature. It should give a theoretical basis for the research and help to determine the nature of research. Limited number of works that are central to study area rather than trying to collect a large number of works that are not as closely connected to topic area. A literature review goes beyond the search for information and includes the identification and articulation of relationships between the literature and respective field of research. While the form of the literature review may vary with different types of studies, the basic purposes remain constant.

Doing a careful and thorough literature review is essential when we write about research at any level. It is basic homework that is assumed to have been done vigilantly, and a given fact in all research papers. By providing one, usually offered in our introduction before we reach your thesis statement, we are telling our reader that we have not neglected the basics of research. It not only surveys what research has been done in the past on our topic, but it also appraises, encapsulates, compares and contrasts, and correlates various scholarly books, research articles, and other relevant sources that are directly related to our current research. Given the fundamental nature of providing one, our research paper will be not considered seriously if it is lacking one at the beginning of our paper. Research Methodology refers to the rationale and philosophical assumptions that underline a particular study relative to the scientific method used with a view to explaining the researcher's ontological and epistemological views (Patton, 1989 from Google).

2.1 Conceptual Review: Local Government and Its Fiscal Decentralization

The concept of municipality relates the concept of local government. According to Black J., the meaning of local government is "A unit of government which does not claim sovereign powers. Thus the states of federal countries such as Germany or the

USA are not local governments whereas French departments and UK countries. The powers of local government are entirely delegated from above. Their finance may be provided from the central government, or they may be empowered to levy taxes themselves. They may have discretion from over some policies or be required to administer policies laid down centrally. They may be any number of layers of local government, possibly with overlapping functions” (Dictionary of Economics).

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

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

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

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

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

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

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

2.2 History of Municipality System in Various Part of the World

2.2.1 ENGLAND

In England the concept of municipality emerged with the development to the industrial revolution of 18th century. Borough, probably the oldest local government authority in England. The industrial revolution in town, urban areas spring up over night with no provision for civil amenities. As a result a royal commission of inquiry was appointed in 1883 was passed by a parliament, which forms the basis of the organization and power of the borough even today. According to this act, the council was made by government electors for a term of 3 years. The council was given power to enact by laws for the government of borough. It was given power over property, police, street lighting market and harbors. Between 1835 to 1882 the act was amended 50 times. The municipal corporation act of 1892 confided all the amendments, which

together with its various amendments has been largely suppressed by the local government act 1833 (Nigam; 1968)

In case of England the local government is divided into metropolis and non-metropolis area. The metropolis area includes six districts, but all districts do not have same administrative system. For example, London boroughs are single tier authorities. However, Scotland has two-tier system and belongs to metropolis category (Chandler; 1991).

2.2.2 USA

In USA, a local government unit may be the city, incorporated town or village. In most countries a local government unit is classified as urban or village on the basis of the character of its people, that is whether urban, semi-urban or rural. But in USA it is on the basis of the number of inhabitants. Local government units, which have 2,500 population or more, are usually considered as urban units, and rest are rural units. An urban or rural unit of local government may be Quasi-municipal Corporation or Municipal Corporation. There are three types of urban areas namely cities, counties, and special district. The government of urban units is required to provide all the necessary services for the inhabitants. (Gupta; 1968)

2.2.3 Japan

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

2.2.4 India

The history of municipal government in India can be divided into four periods. The pre-period when municipalities were created to serve imperial needs, the period from

1882 to 1919 when many attempts were made to turn them into self-governing units, the period from 1919 to 1935, the period of administrative failure and the period of reconstruction from 1935 to the present day. The basic objective of the reconstruction was to recognize the whole of local government with a view of making them a training ground of democracy and an effective organ of administration.

In India the structure of local government are different in state to state. The municipalities in India are formed according to the law of state. The classification of the municipalities in some states has been on the basis of their revenue. Thus the state government declared the area as municipality depending on their own act. (Agrawal, 1960)

2.3 Review of Previous Studies

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

2.3.1 Review of International Empirical Studies

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

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

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

According to World Bank (2011), the Local and Municipal Governance and Finance learning program covers issues in tax and expenditure analysis, budgeting, public services delivery, public management, and corruption control of relevance to

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

Sobhan (2005) has stated that decentralization can help in expanding the ownership and control over the productive assets, enhancing their access to knowledge based society, strengthening the capacity of poor to compete in the market place by restructuring the monetary policy to deliver credit and provide savings instruments to the poor, designing institutions for the poor and empowering the poor.

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

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

2.3.2 Review at National Level

Timsina (1996) had studied the municipality finance in Nepal. He had focused on the income and expenditure pattern of Biratnagar municipality. He had concluded that the local government has the potentialities and capabilities to identify the needs and aspiration of local people. Similarly the local government could mobilized financial resources in the forms of various taxes, service charges and fees.

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

Shrestha (2002) has presented International Working Paper of Georgia University about intergovernmental fiscal relation of Nepal that the practice of decentralization in Nepal is almost four decades old. This makes it perhaps the oldest decentralization process in South Asia. The statutory local government institutions were created as early as 1962 immediately after the replacement of the multi-party democratic system with the so-called party-less Panchayat System in 1960 through a royal takeover. Since then, several intermittent efforts were made to strengthen these institutions in different ways and in different times, often sailing with political waves. With the popular movement of 1990 which restored multi-party democracy in Nepal. Nepal's decentralization policy was brought in the forefront of national agenda of reforms and continues to be the main means to translate democracy and development at the grass-roots level. Consequently, District Development Committee, Municipality, and Village Development Committee Acts were passed in 1992 reestablishing local government institutions at the district, town, and village levels. This paper gives an overview of intergovernmental fiscal relations in Nepal, and highlights the issues and direction of reforms for the effective fiscal decentralization in the country. The analysis presented here is based on extremely limited sub-national fiscal data. Nevertheless, it is hoped that the paper could serve as a basis for further exploration in the field of intergovernmental fiscal relations in Nepal.

Timsina (2005) has attempted to explore the financial performance of Bhadrapur Municipality of Jhapa District. The financial position of Bhadrapur Municipality over

the years, found to be fluctuated. Heavy amount of the resources was spent on regular expenditure and less on developmental expenditure. Further, average per capita income was higher than per capita expenditure which was not positive for development and social justice.

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

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

Adhikari (2011) has made a study and analyzed income and expenditure of Bharatpur Municipality, Chitwan, District, Nepal. The study concluded that Bharatpur Municipality could not mobilize its resources in optimal way due to maoist insurgency and lack of identification of the resources of the municipality. House and land tax, land revenue and natural resources revenue are the major sources of the internal revenue. The regular expenditure increased faster than capital expenditure.

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

Lamichhane (2012) has found that the share of local expenditure is much lower (about 4.84 percent) as compared to total national expenditure (95.16 percent). Therefore local governments cannot deliver sufficient services to the people as demanded in the local level. On the contrary, due to the political instability in the country, and the

absence of the elected representatives in local government bodies, the allocated budget at the local level have not been properly used or has remained unspent.

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

Gaire(2013) has studied the government finance in Nepal a case study of Jhapa District Development Committee. The research work was based on secondary data of fiscal year 2063/064 to 2067/068. The major findings of this study were, the average tax revenue as a percentage of internal revenue was five percent, and throughout the study periods. Revenue sharing was the major component of the non-tax revenue which has contributed around 86 percent on average. The main sources of external revenue were central grants which has contributed around 86 percent share to total revenue during the study periods. Financial gap which shows the relation between actual income and expenditure were positive in all the study periods.

The study has made some conclusion that central grants received by the DDC were only the source of external revenue. It shows that local bodies are heavenly dependent on central grants or foreign aids. It is essential to look for better mobilization of internal sources of revenue for sustainable developments of DDCs. The respective DDCs must pay attention to gear up the volume of internal revenue concerning the gradual increment in expenditure for better financial autonomy of DDC.

K.C. (2015) has studied the municipal finance of GhoraiMunicipality. The study was based on secondary data of fiscal years 1998/99 to 2013/014. The objective of the study was to analyze the trend and pattern of income and expenditure of respective municipality. From this study it was found that the main external source of revenue was grants. Further it was also found that the municipality was not adopting the planed and systematic of collecting revenue because of this problem the municipality was unable to collect the sufficient amount of revenue through internal source. Though there is lower volume of total revenue but the current expenditure of respective municipality were tremendous.

The study has made some recommendation that GhoraiMunicipality must reduce its regular expenditure by reducing the expenditure on unnecessary things and should increase the development expenditure by increasing the expenditure on social programs and development activities. The internal source was so strong that the municipality could be independent so another recommendation was made on identification of other sources of revenue. Further it was also found that the GhoraiMunicipality was not properly utilizing the grants received in the form of administrative and development grants so concern municipality must find the potential sectors and used the grants in such areas.

Neupane(2016) has studied the municipal finance in Nepalrelated to KirtipurMunicipality. The study was based on secondary data of fiscal years 2005/06 to 2014/15. The general objective of this study was to find the trend of revenue sources and pattern of expenditure. From this study it was found that internal revenue was the prominent source of revenue .it occupies around forty percent of total revenue and the rest are external source and balance forward. In internal source the main contribution was given by local tax which occupies around seventy percent of internal revenue. It was found that the revenue collected from external sources was mainly grants which were around 95 percent and rest from miscellaneous. From this study in respective municipality it was found that regular expenditure was lower than the development expenditure. It was round 25.68 percent in regular expenditure and rest in development expenditure. The development expenditure was almost investment type which is undertaken in to two headings social programs and capital investment. Around eighty three percent of development expenditure was spent on capital investment and rest in social programs.

The study has made some recommendation that KirtipurMunicipality must identify other potential sources of revenue, which are available within municipal area. Further it was recommended that KirtipurMunicipality must increase its expenditure on social programs compared to capital investment. As a recommendation the researcher has suggested that, the respective municipality was not utilizing the sufficient volume of grant obtained from central authority so it must utilized the available grants effectively.

The reviewed researches show that the local governments have not sufficient fiscal autonomy. They heavily depend on the central government for strong financial

support as a baby needs his mother's finger to walk with. Though there are many researches about municipal finance but most have not used different tools that measure the financial autonomy, dependency, tax autonomy etc. so there is sufficient scope for analyzing the fiscal condition (income and expenditure) of Dhulikhel municipality independently.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

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

3.2 Introduction of the Study Area

Dhulikhel is the administrative centre of Kavrepaanchok district, Nepal. Dhulikhel is one of the smallest municipality of Nepal, and Dhulikhel is popular for its natural beauty and ancient traditions. Two major highway B.P. highway and Araniko highway passes through Dhulikhel. Araniko highway connects Kathmandu, Nepal's capital city with Tibet's border town of Kodari. Dhulikhel has been for centuries an important trading centre on the commercial route linking Nepal to Tibet. Since time immemorial, people of Nepal travel to Tibet to bring home salt and gold. Likewise, the Tibetans every year with their flocks of sheep enter into Nepal during Dashain, the greatest Hindu festival. They use to purchase chilies and other daily necessities in Nepal and return to their homeland. In those days, a whole day walk from Kathmandu to Dhulikhel was comfortable for Tibet trippers with easily available of food and water at Dhulikhel at the evening for overnight stay. After adjoining with Tibet by motorable road in 1965, Dhulikhel got a face lift and developed as a tourist destination. Recently, though the town has transformed itself into a tourist paradise with an array of all modern amenities. Dhulikhel is well noted for its rich cultural antiquities. The local legend has it that the place derived its name from Newari word 'dhunkhyo': 'dhun' means Tiger and 'Khyo' means Playing Area. Thus implying an ancient forest, where tiger used to play. Naturally enough till today, Dhulikhel remains a unique repository of Newar civilization replete with numerous art and architectural monuments with a distinct local identity (A Tourist Guide to Dhulikhel).

3.2.1 Geographical Features

Dhulikhel, one of the five municipalities of Kavrepalanchok district is located at 27.36'992" north latitude and 85.33'432" east longitudes. Dhulikhel municipality

covers the area of 1401 hector. and situated at 3500- 5000 ft above the sea level. Dhulikhel municipality is situated in east, Banepa municipality in the west, Raviopi VDC and Panchakhal municipality in the north, Panauti municipality in the south and Kavre VDC in the east of Dhulikhel municipality. It is 30 kilometers far from the capital city of the country (Municipal Profile of Dhulikhel Municipality).

3.2.2 Demographic Features

According to the population census of the year 2011, the total population of Dhulikhel municipality is 19,210. Out of which 9,404 are male and 9,806 are female. The sex ratio is 95.90. The population density of the municipality is 4,477 per sq.km. Literacy of Kavre district is 79.42 percent. The population growth of the district is 0.10 percent. Newar, Tamang, Brahmin, Chhetri, Magaretc are the main castes of Dhulikhel (census, 2011).

3.3 Research Design

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

3.4 Nature and Sources of Data

The nature of the study is descriptive as well as analytical. In order to meet the aforesaid objectives of the study, secondary sources of data from the record of Dhulikhel Municipality is used. Besides these, different books, magazines, newspapers, publications of MoLD, online publications and library documents are used for the final shape of this work.

3.5 Tools and Techniques of Analysis

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

3.5.1 Measurement of Fiscal Decentralization

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

1. Financial Autonomy Ratio (FAR)

FAR is used to provide an indication of local government independence from central funding. It is defined as the ratio of locally raised revenues to total local expenditures or the ratio of LGU revenue from local sources to LGU total expenditures. (Ebel and Yilmaz, 2002).

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

Mathematically,

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

Where,

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

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

2. Local Fiscal Dependency Ratio (LFDR)

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

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

Mathematically,

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

Where,

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

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

The World Bank Benchmark for LFDR is:

Strong-below 33 percent,

Weak-Above 50 percent

3. Relative Growth (RG)

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

Mathematically,

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

Where,

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

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

4. Tax Autonomy

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

Mathematically,

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

Where,

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

5. Financial Autonomy Index (FAI)

FAI is used to measure the degree of financial independency of a LGU from CG. It is also defined as the ratio of locally raised revenues to total revenue. (MoLD, 2001 A.D.)

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

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

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

The World Bank Benchmark (MoLD, 2001 A.D.) for Autonomy index is,

Strong-above 75 percent,

Weak-below 60 percent

3.6 Analysis of Income of Municipality

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

3.6.1 Internal Income of Municipality

The Local Self Governance Act (LSGA) 1999 has categorized the internal sources of revenue of the municipality in the following subheadings:

a) Tax Revenue

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

b) Non-tax Revenue

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

3.6.2 External Revenue

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

3.6.4 Municipality Expenditure

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

3.6.4.1 Regular Expenditure

Regular expenditure includes the running costs of the municipality office such as salary given to the municipality staffs, allowances given to staffs and executive committee, travel and daily allowance while going to DDC and MoLD, service expenditure, furniture for office, economic assistance, land revenue refunded to DDC, maintenance and some other expenditure for administration not included in above heading.

3.6.4.2 Development Expenditure

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

CHAPTER FOUR PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction

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

4.2 Revenue Analysis of Dhulikhel Municipality

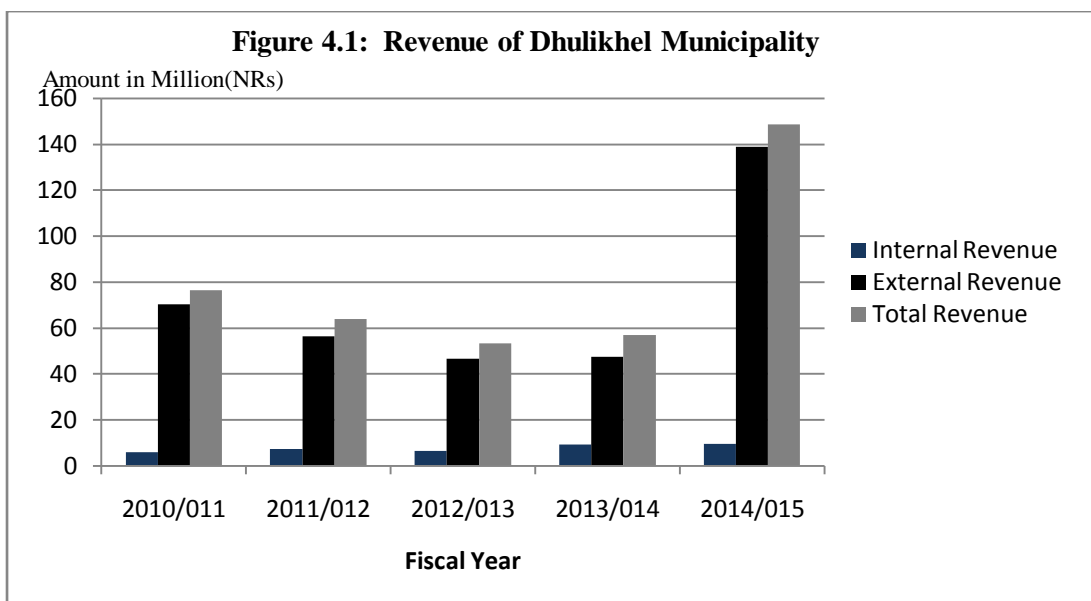
The total revenue of Dhulikhel Municipality comprises internal and external revenue. The internal revenue is composed of tax and non-tax revenue. Table 4.1 shows internal, external and total revenue of Dhulikhel Municipality.

**Table 4.1
Internal and External Revenue**

Fiscal year	Internal Revenue	External Revenue	Total Revenue
2010/011	6.10	70.35	76.45
2011/012	7.41	56.56	63.97
2012/013	6.73	46.66	53.39
2013/014	9.41	47.59	57.00
2014/015	9.62	138.98	148.60

Source: Annual Budget and Program Report of Dhulikhel Municipality

Table 4.1 shows that the internal revenue of Dhulikhel Municipality is NRs 6 million in fiscal year 2010/011. It increased to 7 million in fiscal year 2011/012. It gradually decreased to 6 million in fiscal year 2012/013. Then it slowly increased in subsequent years. From the table 4.1, it is clear that the total revenue of Dhulikhel Municipality is highest i.e. NRs 148 million in fiscal year 2014/015 and lowest in fiscal year 2012/013 which stands at NRs 53 millions.



Source: Annual Budget and Program Report of Dhulikhel Municipality

From the figure 4.1, the total revenue of Dhulikhel Municipality is highest i.e. NRs 148 million in the fiscal year 2014/015 and lowest at NRs53 million in fiscal year 2012/013. Similarly, the internal revenue is highest i.e. approximately NRs 10 millions in FY 2014/015 and the lowest at 6 millions in FY 2010/011.

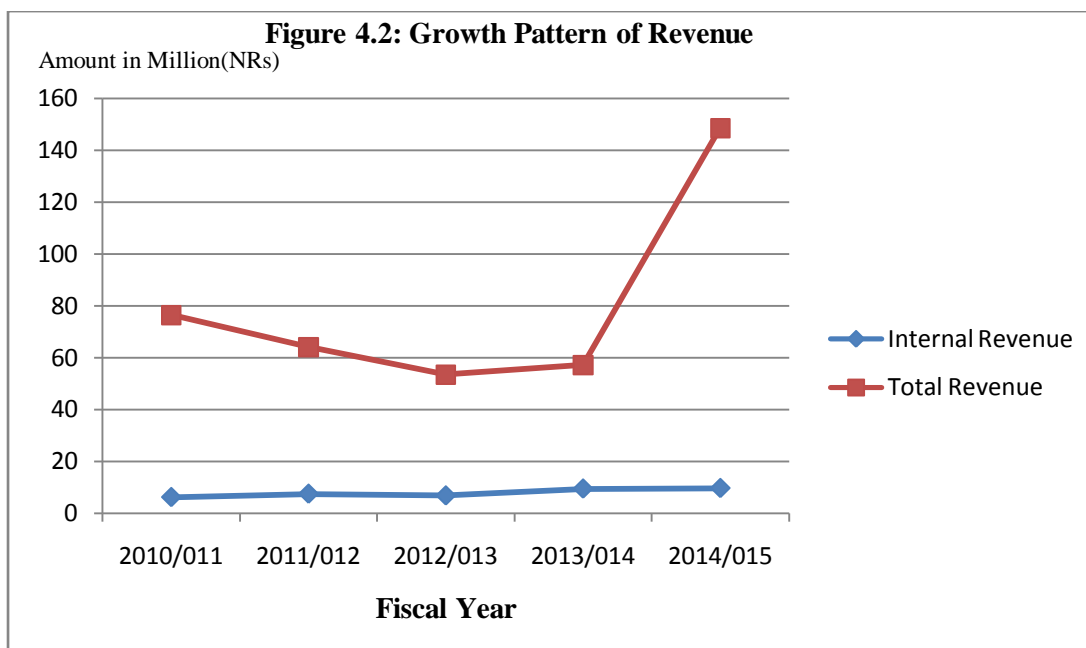
Table 4.2

Share of Internal Revenue to Total Revenue

NRs in Million			
Fiscal year	Internal Revenue	Total Revenue	Share of Internal revenue
2010/011	6.10	76.45	7.97
2011/012	7.41	63.97	11.58
2012/013	6.73	53.39	12.60
2013/014	9.41	57.00	16.51
2014/015	9.62	148.60	6.47

Source: Annual Budget and Program Report of Dhulikhel Municipality

Table 4.2 shows that the share of internal revenue to total revenue. The share of internal revenue is 7.97 percent in fiscal year 2010/011 and 11.58 percent in fiscal year 2011/012. It is 12.60 percent, 16.51 percent, and 6.47 percent in the fiscal years 2012/012, 2013/014 and 2014/015 respectively. The share of internal revenue to total revenue has gradually increased from fiscal year 2010/011 to 2013/014 and finally it decreased in fiscal year 2014/015.



Source: Based on Table 4.2

Figure 4.2 shows that the total revenue has been decreasing continues up to fiscal years 2012/013, gradually increasing in FY2013/014 and heavy increases in FY2014/015 whereas the internal revenue is increasing up to FY 2011/012 and decrease in FY2012/013 and again increasing in subsequent years of the study period. Due to the fall in external revenue, the total revenue curve continues to fall till FY 2012/013 and there is rise after this fiscal year due to recovery in these components.

Table 4.3

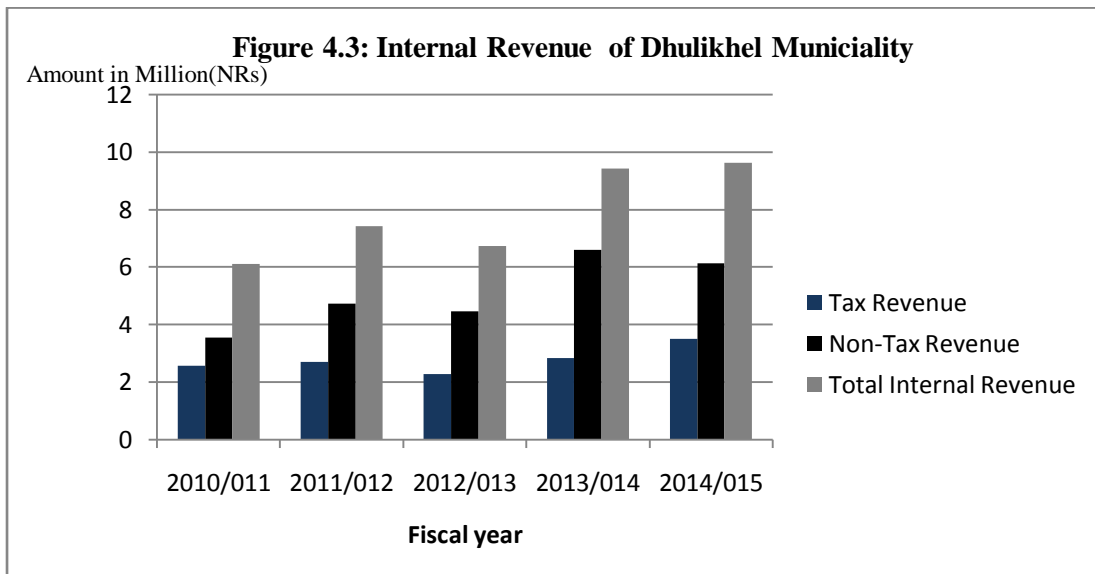
Breakdown of Internal Revenue

Fiscal Year	NRs in Million		
	Tax Revenue	Non-Tax Revenue	Total Internal Revenue
2010/011	2.57	3.53	6.10
2011/012	2.70	4.71	7.41
2012/013	2.27	4.46	6.73
2013/014	2.83	6.58	9.41
2014/015	3.49	6.13	9.62

Source: Annual Budget and Program Report of Dhulikhel Municipality

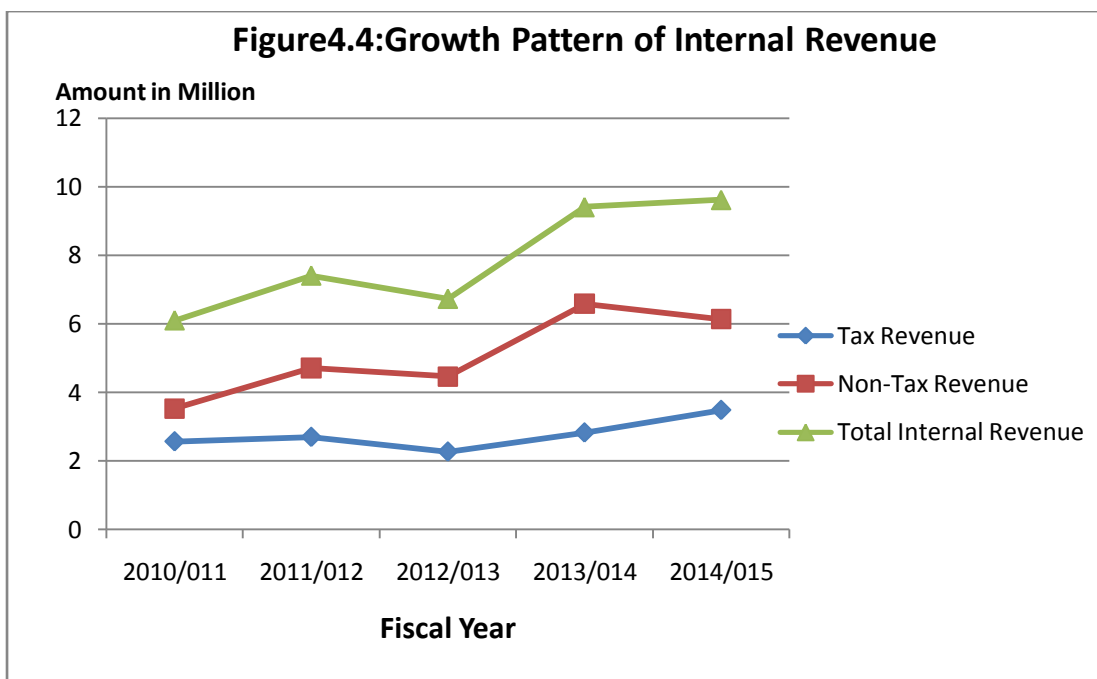
Breakdown of internal revenue of Dhulikhel Municipality is depicted by the table 4.3 where the tax revenue is NRs 2 million in fiscal years 2010/011, 2011/012 and 2012/013 but it is approximately Rs 3 millions in fiscal year 2013/014. It is highest in fiscal year 2014/015 approximately at NRs 3 million. Similarly, the non-tax revenue

is confined to approximately at NRs 3, 4, 4, 6 and 6 million in the fiscal years 2010/011 to 2014/015 respectively.



Source: Based on Table 4.3

According to figure 4.3, the internal revenue of Dhulikhel Municipality is highest in fiscal year 2014/015 i.e. standing at NRs 9 million whereas fiscal year 2010/011 has the least internal revenue of NRs 6 million. The internal revenue decreased in fiscal year 2012/013. The reason of fall in internal revenue is due to fall in tax and non-tax revenue. It got pace of increase from fiscal year 2013/014 and continued in fiscal year 2014/015.



Source: Based on Table 4.3

Figure 4.4 depicts the general growth pattern of the internal revenue of Dhulikhel Municipality. The non-tax revenue is increasing fiscal year 2011/012 and decreasing in fiscal year 2012/013 then increasing in fiscal year 2013/014. So non-tax curve shows the fluctuated in figure. The tax revenue has decreased in fiscal year 2012/013 then smooth pace between approximately Rs 2 million to Rs 4 million throughout the study period.

Table 4.4

Share of Tax Revenue to Total Revenue and Total Internal Revenue

NRs in Million

Fiscal Year	Tax Revenue	Share in Internal Revenue	Share in Total Revenue
2010/011	2.57	42.13	3.36
2011/012	2.70	36.44	4.22
2012/013	2.27	33.73	4.25
2013/014	2.83	30.07	4.96
2014/015	3.49	36.28	2.35

Source: Annual Budget and Program Report of Dhulikhel Municipality

The share of the tax revenue to total revenue and total internal revenue of Dhulikhel Municipality is shown in the table 4.4 above. The tax revenue as the share of internal revenue covers approximately 42.13 percent, 36.44 percent, 33.73 percent, 30.07 percent and 36.28 percent in fiscal years 2010/011 to 2014/015 respectively. As the share of

total revenue, it has 3.36percent, 4.22percent, 4.25percent and 4.96percent in fiscal year 2010/011 to 2013/014 respectively. The share decreased to 2.35percent in fiscal year 2014/015 whereas there is negligible increase in fiscal year 2010/011 to 2013/014. Looking above table, it is clear that there is not consistent pattern of tax revenue.

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

NRs in Million

Fiscal Year	Non-Tax Revenue	Share in Internal Revenue	Share in Total Revenue
2010/011	3.53	57.87	4.62
2011/012	4.71	63.56	7.36
2012/013	4.46	66.27	8.35
2013/014	6.58	69.93	11.54
2014/015	6.13	63.72	4.13

Source: Annual Budget and Program Report of Dhulikhel Municipality

Table 4.5 shows the share of non-tax revenue to the internal revenue and total revenue of Dhulikhel Municipality. It contributes 57.89 percent, 63.60 percent, 66.23 percent, 69.93 percent and 63.74 percent in internal revenue and total revenue 4.62 percent, 7.36percent, 8.35 percent, 11.54 percent and 4.13 percent in the fiscal years 2010/011 to 2014/015 respectively.

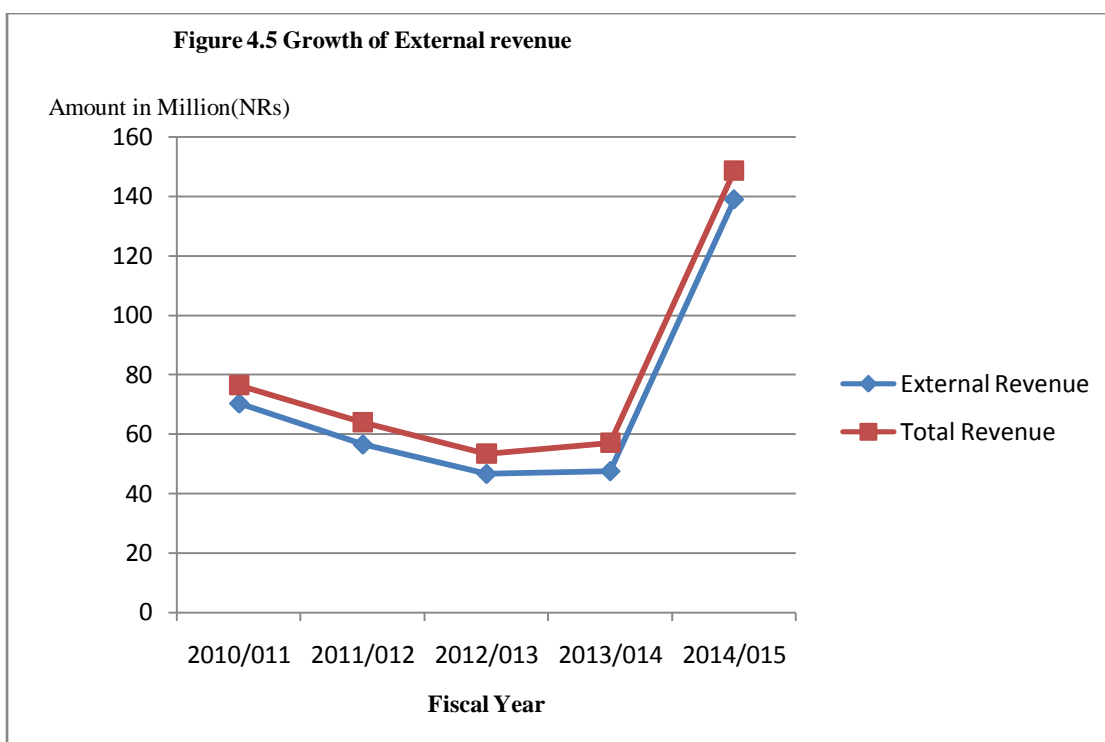
Table 4.6
Share of External Revenue to Total Revenue

NRs in Million

Fiscal Year	External Revenue	Total Revenue	Share of Total Revenue
2010/011	70.35	76.45	92.02
2011/012	56.56	63.97	88.41
2012/013	46.66	53.39	87.39
2013/014	47.59	57.00	83.49
2014/015	138.98	148.60	93.53

Source: Annual Budget and Program Report of Dhulikhel Municipality

Table 4.6 depicts the external revenue and its share in total revenue. It covers 92.02 percent, 88.41 percent, 87.39 percent, 83.49 percent, and 93.53 percent of the total revenue from fiscal year 2010/011 to 2014/015 respectively.



Source: Based on Table 4.6

Figure 4.5 shows the growth process of the external revenue of Dhulikhel Municipality. The external revenue decreased continuously from FY 2010/011 to 2012/013 but after FY 2013/014 it increased throughout the study period. Fall in the grants (as shown in table 4.15) of CG causes this downward of the external revenue curve. FY 2014/015 has the highest external income and FY 2012/013 has the lowest.

Table 4.7

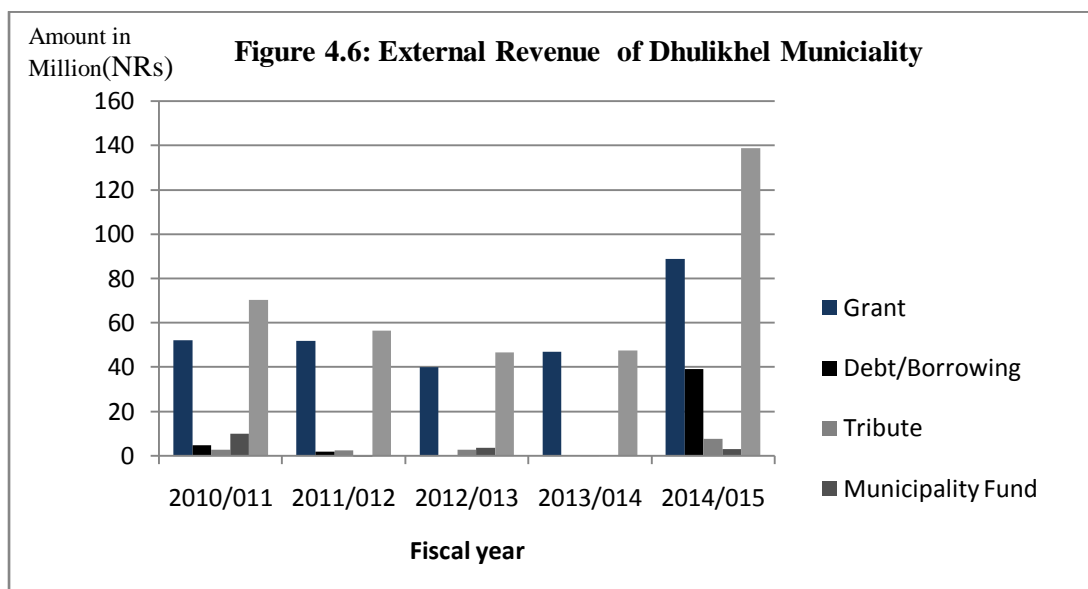
Breakdown of External Revenue

Fiscal Year	Grant	Debt/Borrowing	Tribute	Municipality Fund	Total External Revenue
2010/011	52.40	4.98	2.91	10.06	70.35
2011/012	51.93	2.11	2.49	0.03	56.56
2012/013	40.22	-	2.76	3.68	46.66
2013/014	47.20	-	0.39	-	47.59
2014/015	88.97	39.23	7.66	3.12	138.98

Source: Annual Budget and Program Report of Dhulikhel Municipality

Breakdown of external revenue of Dhulikhel Municipality is depicted by the table 4.7 where the grant is NRs 52.40, 51.93, 40.22, 47.20 and 88.97 million in fiscal years 2010/011, 2011/012, 2012/013 2013/014 and 2014/015 respectively. It is highest in fiscal year 2014/015 approximately at NRS 88.97 million. Similarly,

Municipality receive debt 4.98, 2.11 and 39.23 million in fiscal years 2010/011, 2011/012 and 2014/015. In the two fiscal years 2012/013 and 2013/014 municipality not receive debt/borrowing. Tribute contributed external revenue of municipality are 2.91, 2.49, 2.76, 0.39 and 7.66 million in fiscal years 2010/011, 2011/012, 2012/013 2013/014 and 2014/015 respectively. Similarly, the municipality fund revenue confined to approximately at NRs 10.06, 0.03, 3.68, and 3.12 million in the fiscal years 2010/011 2011/012, 2012/013 and 2014/015 respectively.



Source: Based on Table 4.7

According to figure 4.3, the external revenue of Dhulikhel Municipality is highest in fiscal year 2014/015 i.e. standing at Rs 138.98 million whereas fiscal year 2012/013 has the least external revenue of NRs 46.66 million. The external revenue decreased in fiscal year 2012/013. The reason of fall in internal revenue is due to fall in grant and not receive the debt revenue. It got pace of increase from fiscal year 2013/014 and continued in fiscal year 2014/015.

4.3 Expenditure Analysis of Dhulikhel Municipality

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

4.3.1 Total expenditure of Dhulikhel Municipality

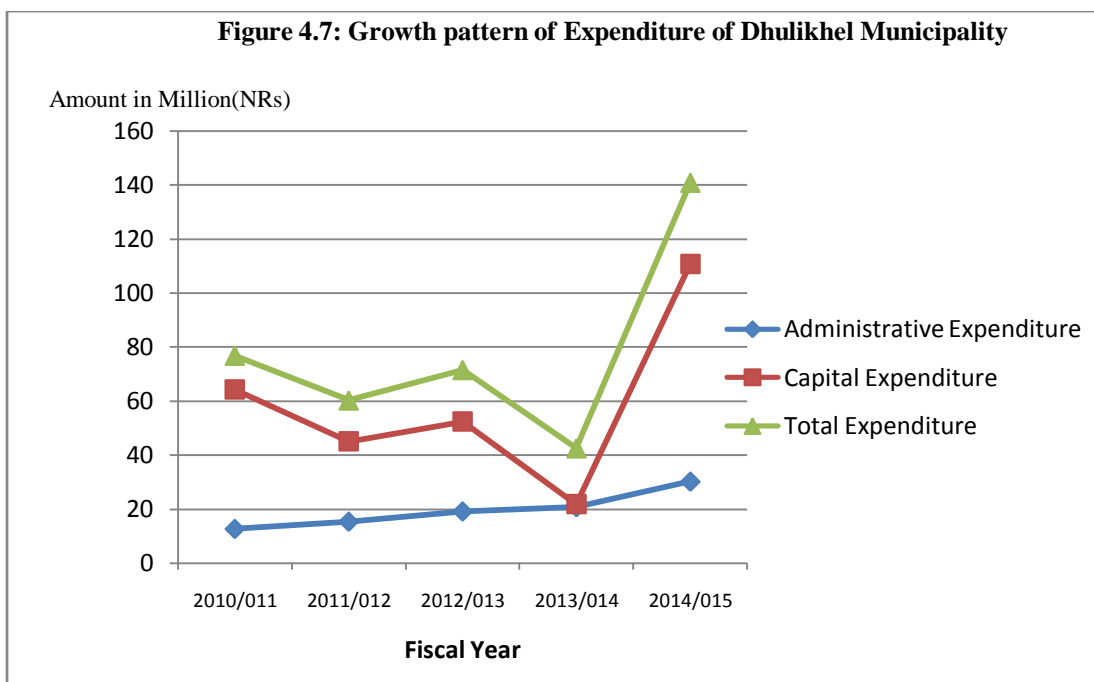
All expenditures made by Dhulikhel Municipality are categorized under two broad headings-Administrative Expenditure and Capital Expenditure. Table 4.8 shows the capital and administrative expenditure of Dhulikhel Municipality in different fiscal years.

Table 4.8
Total Expenditure Dhulikhel municipality

Fiscal Year	NRs in Million		
	Administrative Expenditure	Capital Expenditure	Total Expenditure
2010/011	12.66	64.21	76.87
2011/012	15.35	44.94	60.29
2012/013	19.14	52.43	71.57
2013/014	20.74	21.79	42.53
2014/015	30.22	110.75	140.97

Source: Annual Budget and Program Report of Dhulikhel Municipality

Table 4.8 shows the expenditure of Dhulikhel municipality. The administrative expenditure was highest at NRs 30.22 million in FY 2014/015 while it was the lowest at NRs 12.66 million in FY 2010/011. It stands at NRs 15.35, 19.14, 20.74 million in the fiscal years 2011/012, 2012/013 and 2013/014 respectively. The capital expenditures remained at NRs 64.21, 44.94, 52.43, 21.79, and 110.75 million in the fiscal years from 2010/011 to 2014/015 respectively. These make the total expenditure NRs 76.87, 60.29, 71.57, 42.53 and 140.97 million in the subsequent fiscal years.



Source: Based on Table 4.8

Figure 4.7 shows that administrative expenditure has an increasing trend, whereas capital expenditure has not any uniform pattern of growth. It has decreased from FY 2010/011 to FY 2011/012 and came to the lowest in FY 2013/014 among the study period due to the fall in amount of capital expenditure and again increased for FY 2014/015.

Table 4.9

Share of Administrative and Capital Expenditure to Total Expenditure

Fiscal Year	NRs in Million		
	Administrative Expenditure (%)	Capital Expenditure (%)	Total Expenditure (%)
2010/011	16.47	83.53	100
2011/012	25.46	74.54	100
2012/013	26.74	73.26	100
2013/014	48.76	51.24	100
2014/015	21.44	78.56	100

Source: Annual Budget and Program Report of Dhulikhel Municipality

Table 4.9 shows the share of administrative expenditure and capital expenditure to the total expenditure of Dhulikhel municipality. The share of administrative expenditure is 16.47 percent, 25.46 percent, 26.74 percent, 48.76 percent, and 21.44 percent in the fiscal years from 2010/011 to FY 2014/015 respectively. Similarly, the share of

capital expenditure remained 83.53 percent, 74.54 percent, 73.26 percent, 51.24 percent and 78.56 percent in the fiscal years from 2010/011 to 2014/015 respectively.

4.3.2 Achievement of Administrative Expenditure

The achievement of administrative expenditure can be obtained by comparing to the administrative expenditure with the total expenditure. In another way, it can be expressed as the percentage of total expenditure. Table 4.10 shows the achievement of the administrative expenditure.

Table 4.10
Achievement of Administrative Expenditure

NRs in Million				
Fiscal Year	Administrative Expenditure	Total Expenditure	Achievement (%)	Remarks
2010/011	12.66	76.87	16.47	average
2011/012	15.35	60.29	25.46	weak
2012/013	19.14	71.57	26.74	weak
2013/014	20.74	42.53	48.76	weak
2014/015	30.22	140.97	21.44	average

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

Source: Annual Budget and Program Report of Dhulikhel Municipality

Table 4.9 shows the achievement of the administrative expenditure. As per the benchmark of Local Self-Governance Regulation 2000, it looks average in the fiscal years 2010/011 and 2014/015. But rest of the fiscal years it looks weak achievement.

Table 4.11
Expenditure on Education and Health

Fiscal Year	Total Expenditure	Education	NRs in Million		
			Share in total Expenditure	Health	Share in total Expenditure
2010/011	76.87	6.91	8.99	0.33	0.43
2011/012	60.29	0.26	0.43	0.12	0.20
2012/013	71.57	6.16	8.61	1.18	1.65
2013/014	42.53	0.66	1.55	0.15	0.35
2014/015	140.97	0.66	0.47	25.82	18.32

Source: Annual Budget and Program Report of Dhulikhel Municipality

Table 4.11 shows the expenditure of Dhulikhel municipality in health and education. The share of education expenditure is 8.99 percent, 0.43 percent, 8.61 percent, 1.55 percent, and 0.47 percent in the fiscal years from 2010/011 to FY 2014/015 respectively. Similarly, the share of health expenditure is 0.43 percent, 0.20 percent, 1.65 percent, 0.35 percent and 18.32 percent in the fiscal years from 2010/011 to 2014/015 respectively. The share of health is less than the share of education except in FY 2014/015.

Table 4.12
Expenditure on Interest and Principal Payment

Fiscal Year	Total Expenditure	Debt Payment	NRs in Million
			Share in total Expenditure
2010/011	76.87	0.02	0.03
2011/012	60.29	0.55	0.91
2012/013	71.57	0.62	0.86
2013/014	42.53	0.62	1.46
2014/015	140.97	0.39	0.28

Source: Annual Budget and Program Report of Dhulikhel Municipality

Table 4.12 shows the debt payment of Dhulikhel Municipality. The share of the debt payment (interest and principal) is 0.03, 0.91, 0.86, 1.46 and 0.28 in the fiscal years 2010/011 to 2014/015.

4.3.3 Comparison of Income and Expenditure

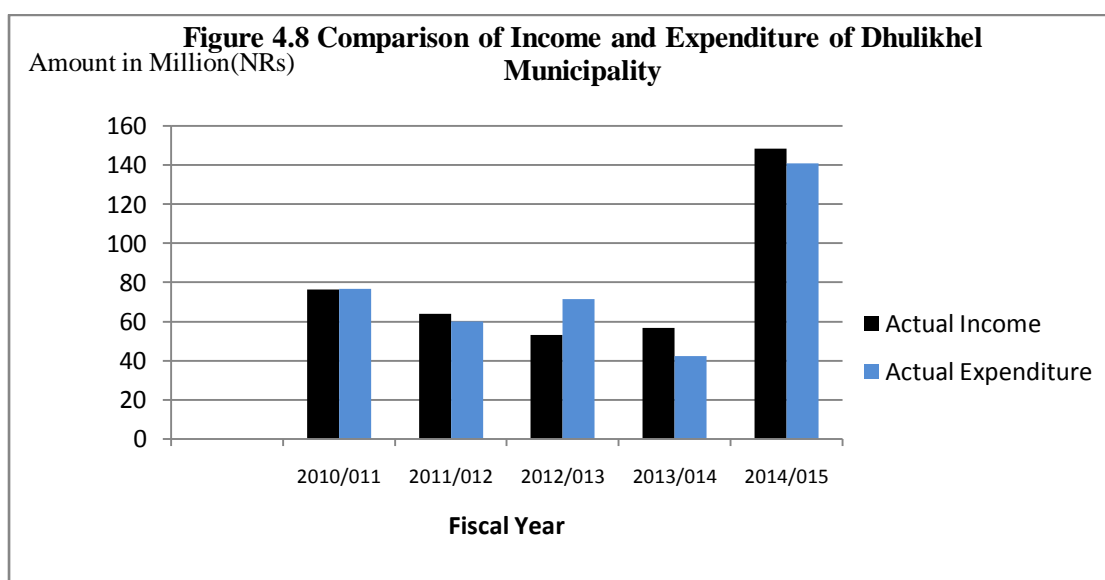
The comparative study of actual income and actual expenditure of particular period gives the financial gap. In other words, financial gap is the difference between actual income and the actual expenditure.

Table 4.13
Financial Gap of Dhulikhel Municipality

Fiscal Year	Actual Income	Actual Expenditure	NRs in Million	
			Financial Gap(+/-) Amount	(%)
2010/011	76.45	76.87	-0.42	0.55
2011/012	63.97	60.29	3.68	5.75
2012/013	53.39	71.57	-18.18	34.05
2013/014	57.00	42.53	14.47	25.39
2014/015	148.60	140.97	7.63	5.13

Source: Annual Budget and Program Report of Dhulikhel Municipality

The financial gap of Dhulikhel Municipality looks both positive and negative. It is negative in the FY 2010/011 and 2012/013 due to the income is less than the expenditure in these fiscal years. The balance amount in the bank has been used to fulfill this gap. But rest of the fiscal years have positive financial gap.



The comparative status of income and expenditure of Dhulikhel Municipality has been presented in the figure 4.8. There is no uniform consistency between income and expenditure.

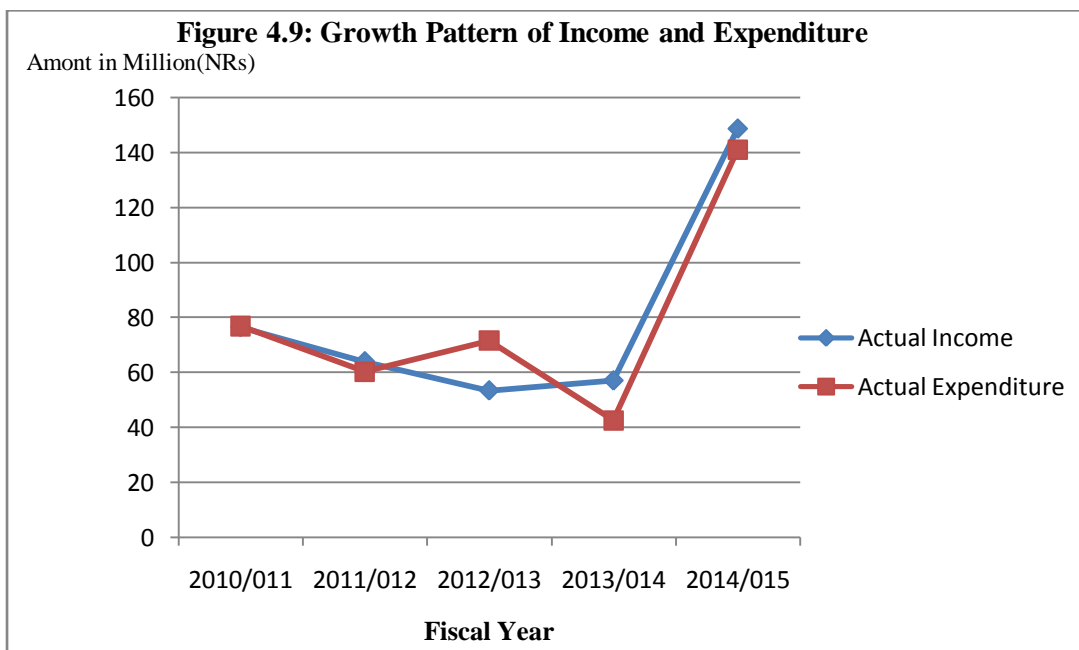


Figure 4.9 shows the growth pattern of income and expenditure of Dhulikhel Municipality. Income has consistent decreases up to FY 2012/013 and slight growth in FY 2013/014 and highly growth next fiscal year whereas expenditure has decrease in FY 2011/012 and there is slight increase in FY 2012/013 but again decrease in FY 2013/014 and gone upward in the next fiscal year.

4.4 Fiscal Autonomy and Decentralization of Dhulikhel Municipality

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

Table 4.14
Fiscal Autonomy Ratio (FAR)

NRs in Million

Fiscal Year	Internal Revenue	Total Expenditure	FAR (%)	Remarks
2010/011	6.10	76.87	7.93	-
2011/012	7.41	60.29	12.29	Increased
2012/013	6.73	71.57	9.40	Decreased
2013/014	9.41	42.53	22.12	Increased
2014/015	9.62	140.97	6.82	Decreased

Source: Annual Budget and Program Report of Dhulikhel Municipality
FAR of Dhulikhel Municipality is presented through Table 4.14. FAR has increased in fiscal years 2011/012 and 2013/014 and decreased in fiscal years 2012/013 and 2014/015. The increasing internal revenue in comparison to increasing expenditure is the reason of increased FAR in the both fiscal years.

Table 4.15
Fiscal Autonomy Index (FAI)

NRs in Million

Fiscal Year	Internal Revenue	Total revenue	FAI (%)	Remarks
2010/011	6.10	76.45	7.98	Weak
2011/012	7.41	63.97	11.58	Weak
2012/013	6.73	53.39	12.60	Weak
2013/014	9.41	57.00	16.51	Weak
2014/015	9.62	148.60	6.47	Weak

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

Source: Annual Budget and Program Report of Dhulikhel Municipality
Table 4.15 depicts the FAI of Dhulikhel Municipality. FAIs are 7.98 percent, 11.58 percent, 12.60 percent, 16.51 percent and 6.47 percent in the fiscal years 2010/011 to 2014/015 respectively. As per the World Bank benchmark, it is weak in all the fiscal years.

Table 4.16
Local Fiscal Dependency Ratio(LFDR)

Fiscal Year	Total Grants	Total Revenue	NRs in Million	
			LFDR (%)	Remarks
2010/011	52.40	76.45	68.54	Weak
2011/012	51.93	63.97	81.18	Weak
2012/013	40.22	53.39	75.33	Weak
2013/014	47.20	57.00	82.81	Weak
2014/015	88.97	148.60	59.87	Weak

World Benchmark: Strong-Below33 percent and Weak-Above 50 percent

Source: Annual Budget and Program Report of Dhulikhel Municipality

Table 4.16 shows the Local Fiscal Dependency Ratio of Dhulikhel Municipality. LFDR for Dhulikhel Municipality is 68.54 percent, 81.18 percent, 75.33 percent, 82.81 percent and 59.87percent in the fiscal years 2010/011, 2011/012, 2012/013, 2013/014 and 2014/015 respectively. As per the World Bank benchmark, it is weak in all the fiscal years.

Table 4.17
Tax Autonomy

Fiscal Year	Total Tax Revenue	Total Internal Revenue	NRs in Million
			Tax Autonomy
2010/011	2.57	6.10	42.13
2011/012	2.70	7.41	36.44
2012/013	2.27	6.73	33.73
2013/014	2.83	9.41	30.07
2014/015	3.49	9.62	36.28

Source: Based on Table 4.1 and Table 4.3

Tax autonomy of Dhulikhel Municipality is shown in Table 4.17. Tax autonomy of Dhulikhel Municipality is 42.13, 36.44, 33.73, 30.07 and 36.28 for the fiscal years 2010/011 to 2014/015 respectively. Tax autonomy is highest in FY 2010/011 because of the lowest non-tax internal revenue generated in this fiscal year.

**Table 4.18
Relative Growth**

						NRs in Million
Fiscal Year	Internal Revenue	Change in Internal Revenue	Total Revenue	Change in Total Revenue	Relative Growth	Remark
2010/011	6.10	-	76.45	-	-	-
2011/012	7.41	1.31	63.97	(12.48)	-10.50	Weak
2012/013	6.73	(0.68)	53.39	(10.58)	-6.43	Weak
2013/014	9.41	2.68	57.00	3.61	74.24	Average
2014/015	9.62	0.21	148.60	91.60	0.23	Weak

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

Source: Based on Table 4.2

Table 4.17 depicts the relative growth of internal revenue and total revenue Dhulikhel Municipality. The relative growth for the fiscal year 2010/011 to 2014/015 is -10.50, -6.43, 74.24 and 0.23 respectively. It is average for fiscal years 2013/014 and it is weak rest of the fiscal years

The above analysis of the fiscal decentralization of Dhulikhel Municipality, FAR has increased for two fiscal years but the case is opposite for second and fifth fiscal years. FAI is weak in all the fiscal years. LFDR is also weak in all the fiscal years. The relative growth seems average for fiscal years 2013/014 and weak rest for the fiscal years. The analysis shows that the fiscal autonomy of Dhulikhel Municipality has no consistent pattern.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECCOMENDATIONS

5.1 Major Findings of the Study

Summary of major finding are as follows:

1. The revenue of Dhulikhel municipality is found fluctuated and unstable over the study period and is highest i.e. NRs 148 million in fiscal year 2014/015 and lowest in fiscal year 2012/013 which stands at NRs 53 millions.
2. The internal revenue is found fluctuated and unstable over the study period. The share of internal revenue to total revenue is 7.97 percent, 11.58 percent, 12.60 percent, 16.51 percent and 6.47 percent in the fiscal years from 2010/011 to 2014/015 respectively.
3. In average, tax revenue has contributed 35.73 percent share in internal revenue. It covered 42.13 percent of internal revenue in FY 2010/011. In addition, the share of the tax revenue to total revenue is highest in FY 2013/014 i.e. 4.96 percent.
4. Non-tax revenue contributed 57.87 percent, 63.56 percent, 66.27 percent, 69.93 percent, 63.72 percent share in internal revenue whereas it was found 4.62 percent, 7.36 percent, 8.35 percent, 11.54 percent, 4.13 percent share in total revenue from FY 2010/011 to 2014/015 respectively.
5. The external revenue is found highest approximately NRs 139 millions in FY 2014/015 when its share is 93.53 percent in total revenue. On average, it contributed 88.97 percent in total Revenue.
6. The average share of capital and administrative expenditure is found to be 72.23 percent and 27.77 percent over the study period and the achievement of administrative expenditure found average in two fiscal years 2010/011, 2014/015 and weak rest of the fiscal years.

7. Financial gap shows the relationship between actual income and actual expenditure which is negative in FY 2010/011 and FY 2012/013 and is positive in rest of the fiscal years of the study period.
8. The income of the municipality does not meet its expenditure and external source of revenue fulfills its need.
9. FAR shows the relation of internal revenue with total expenditure of the LGU. It is 11.71 percent in average in the study period. Decreasing internal revenue in comparison with increasing total expenditure is the main reason of decreased FAR.
10. Dhulikhel Municipality has weak FAI in all fiscal years of the study period as per the World Bank benchmark.
11. Tax autonomy of Dhulikhel Municipality is 42.13 percent, 36.44 percent, 33.77 percent, 30.07 percent, and 36.28 percent in the fiscal years 2010/011 to 2014/015 respectively. It is significantly high in the fiscal year 2010/011 and it is poor in FY 2013/014.
12. Local fiscal dependency ratio is very high in all fiscal years and it seems LFDR weak in all of the fiscal years of the study period.
13. Relative growth of Dhulikhel municipality measures the growth of internal revenue in relation to the growth of total revenue is -10.50, -6.43, 74.24 and 0.23. It seems average in fiscal year 2013/014 and weak in all other fiscal years.

5.2 Conclusion

Central grant is the main source of external revenue i.e. central grant of DM which covers 73.54 percent on average in total revenue. External revenue is the main source of revenue which shows the dependency of LGU on external resource of revenue. For the sustainable development, the internal revenue should be better mobilized. The share of tax revenue to total revenue is negligible i.e. below 5 percent. This shows that major source of internal revenue has neither significant contribution to local development nor consistent growth as per its expenditure. Non-tax revenue of municipality has no consistent pattern of growth over the time rather it seems unstable.

Share of the administrative expenditure to total expenditure increases throughout the study period so it did not meet LSGR-2000 benchmark. The financial gap is negative for FY 2010/011 and FY 2012/013 but positive for all the fiscal year of the study period. The source for higher expenditure than income is the reserve cash balance in banks. The expenditure on education and health is very low.

The main reason of decreased financial autonomy in fiscal years 2012/013 and 2014/015 is the decreasing internal revenue in comparison to the increasing expenditure whereas the scenario is opposite for rest of the fiscal years of the study period. Tax autonomy is 35.73 percent on average and highest 42.13 percent in FY 2010/011. It is because of low non-tax internal revenue in comparison to other fiscal years. Tax revenue should be increased and consistent for sustainable development. The relative growth is weak in FY 2011/012, FY 2012/013 and FY 2014/015, average for fiscal years 2013/014 but strong is important for growth of the municipality.

The internal revenue is fluctuating pattern throughout the study period. The consistency is absent in generating revenue from internal mobilization.

5.3 Recommendations

Though the authorities to mobilize the local resources have been given to the local bodies in Nepal but we do not find change as it has to be. The developmental pace of local area is not satisfactory at all and the life standard of disadvantaged marginalized people seems as miserable as it used to be. Different efforts of LGUs have to be

accelerated for health, educational and infrastructure related programs. The revenue mobilization of local bodies must be transparent and progressive for better result. Making a base on conclusions of the study, the following recommendations are listed for the concerned stake holders:

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

APPENDIX A

TAX RATE THAT CAN BE LEVIED BY A MUNICIPALITY

House and land tax

Up to 1 million Rs	none
Up to 1 million thereafter	Rs. 300 Lump sum
Up to 3 million thereafter	0.05 percent
Up to five million thereafter	0.25 percent
Up to ten million thereafter	0.50 percent
For the remaining amount	1.50 percent

Land Revenue

Per Kattha	Rs 1 to Rs 65*
Per Ropani	Rs 1 to Rs 100*

Land Tax

Per Kattha	Rs 10 to Rs 260*
Per Ropani	Rs 15 to Rs 400*

Rent Tax

House, shop, garage, godown, shed, factory, land or pond	Maximum 2%
Temporary shop, bazaar in unregistered land (per sq. meter.)	Monthly Rs. 2 to Rs 20

Commercial Tax

1. Wholesale and retail business of Cigarette, liquor, jewellery, video, cassette recorder and player
Rs 750 to Rs.10,000
2. Wholesale and retail business of construction materials, computer, electric, goods, camera, television, radio, carpet, petroleum materials and the like Rs. 500.00 to Rs. 5,000
3. Wholesale and retail business of foods of daily use, cotton, Fabrics Rs. 360 to Rs. 10,000.
4. Vehicle seller Rs. 360 to Rs. 10,000
5. Tax on Professional Services
Doctors Rs. 360 to Rs. 3,000

Kaviraj(Aurvedic doctors)	Rs. 360 to Rs. 1,000
Engineers	Rs. 360 to Rs. 3,000
Legal Practitioners	Rs. 360 to Rs. 3,000
Auditors	Rs. 360 to Rs. 3,000
Dentists	Rs. 360 to Rs. 3,000
Researcher and Consultants	Rs. 360 to Rs. 3,000
Computer Analysts and Programmers	Rs. 360 to Rs. 3,000
Insurance Agents	Rs.360 to Rs. 3,000
Surveyors	Rs. 360 to Rs. 3,000
Translators	Rs.360 to Rs. 3,000
Veterinary Doctors	Rs.360 to Rs. 3,000
Share Brokers	Rs.360 to Rs. 3,000
Goods Carrier and Companies	Rs.750 to Rs. 3,000
Institutional Painters	Rs.500 to Rs. 15,000

Tax on Industries/services

Construction Business	Rs. 2,000 to Rs.10,000
Production-oriented Industries:	Rs. 2,000 to Rs. 10,000
Energy-oriented Industries	Rs. 2,000 to Rs. 5000
Agricultural and forest products	Rs. 1,500 to Rs. 10,000
Mineral Industries	Rs. 1,500 to Rs. 10,000
Tourism Industries	Rs.10,000 to Rs. 50,000
Service Industries	Rs. 400.00 to Rs. 7000.00
Construction Business	Rs. 1,000 to Rs. 10,000
Production-oriented Industries	Rs. 2,000 to Rs.10,000
Energy-oriented Industries	Rs.2,000Rs. 5000
Agricultural and forest product Industries	Rs.1,500 toRs.10,000
Mineral Industries	Rs.1,500 to Rs.10,000
Tourism Industries	Rs.10,000 toRs.50,000
Service Industries	Rs.400 toRs.7000
Construction Business tax	Rs. 1,000 to Rs. 10,000
Communication Services	Rs.360 to Rs.1,500
Courier services	Rs. 360to Rs. 1,500
Printing and publication	Rs. 360 to Rs. 3,000

Tax on Financial Services

1. Commercial banks of carrying on financial transactions excluding those under the full ownership of Government of Nepal Rs. 5,000 to Rs.50,000
2. Head office of a finance company with financial transactions Rs. 5,000 to Rs.10,000.00
3. Branch offices of finance companies Rs.1,000 to Rs. 3,000
4. Insurance Companies Rs. 5,000 to Rs. 10,000
5. Foreign currency exchange Rs.1,000 to Rs. 3,000.00
6. Securities transactions Rs.1,000 to Rs. 3,000
7. Cooperative banks Rs.1,000 to Rs. 3,000.00

Health services

- (1) Non-governmental hospital Rs. 1,500toRs. 5000
- (2) Nursing home Rs. 2,500 toRs.5,000

(3) Clinic and lab Rs. 500 to Rs.3,000

Education services

(1) Private sector school, campus, university Rs.360to Rs.1,000

(2) Training and Research centre Rs.1,000 toRs.3,000

(3) Typing, computer and language training centers Rs.1,000 toRs.3,000

(4) International non-governmental organization Rs.2,500 toRs.5,000

5. Repairing and Maintenance services :

(1) Heavy equipment, bus, truck , car, motorcycle, tempo, cycle repairing facilities. Rs. 100 toRs.3,000

(2) Radio, T.V., watch, pressure cooker, heater, telephone set, electric goods repairing centre Rs.100 toRs.1,500

Tax on Other services

(1) Advertisement service Rs.360 toRs.1,500

(2) Foreign employment service Rs.1,000Rs.5,000

(3) Native employment service Rs.360Rs.1,500

(4) Secretarial service Rs.1,000Rs.5,000

(5) Housing company and real estate Rs.1,500Rs.5,000

(6) Beauty parlour, hair dressing, dry cleaners, photo studio, tailoring etc. Rs. 360 toRs.1,500

(7) Painting service to prepare signboard Rs. 360toRs. 1,500

(8) Animal slaughterhouse Rs. 1,000toRs. 3,000

(9) Meat-sellers Rs. 360toRs. 1,500

(10) Flowers and plants seller Rs.360toRs. 1,000

(11) Pool house Rs. 360toRs. 1,000

(12) Rosin professional Rs. 360 to Rs. 1,000

(13) Glass, plywood seller Rs. 360toRs. 1,000

(14) Pots seller Rs. 360 toRs.1,000

(15) Steel, wood, furniture seller Rs. 500toRs. 1,500

(16) Toys, gift seller Rs. 100toRs. 500

(17) Cable, Net working (on the basis of customers number)Rs. 5000to Rs. 50,000

Other Business

(1) Park, picnic spot Rs.750 to Rs. 1,000

(2) Casino Rs. 5,000 to Rs.100,000

- | | |
|---------------------|------------------------|
| (3) Tour operator | Rs. 2,500Rs. 4,000 |
| (4) Massage parlour | Rs. 1,000 to Rs. 3,000 |

Haat Bazaar or Mobile shop

- | | |
|--------------------------------|-----------------|
| (1) Each quadruped | Rs 2 to Rs. 25 |
| (2) Each duck or chicken | Rs. 1 to Rs 5 |
| (3) Vegetables and fruits shop | Rs 1 to Rs. 3 |
| (4) Others | Rs. 1 to Rs. 10 |
- (5) An annual tax of Rs. 100 to Rs 5,000 per transactions and level of the service and business not included in the classification above.

Vehicle tax

Vehicles Registration and Annual Vehicle Tax

- | | |
|--|-----------------------|
| (a) Bus, truck, lorry and other heavy vehicle; | Rs. 1,000 to Rs 3,000 |
| (b) Car and jeep on hire | Rs. 200 to Rs 500 |
| (c) auto-rickshaw on hire | Rs.100 to Rs. 300 |
| (d) Mini-bus on hire; | Rs. 500 to Rs. 1,000 |
| (e) Private car, auto-rickshaw, mini-bus | Rs.100 to Rs. 300 |
| (f) Scooter, motorcycle, and other vehicle | Rs. 50 to Rs. 200 |
| (g) Car and rickshaw | Rs.15 to Rs. 25 |

Property Tax

- | | |
|---|--------------------------|
| Upto One Million Rupees | Rs. 25 to Rs.200 |
| From One Million one to Two Million Rupees | Rs. 250 to Rs. 400 |
| From Two Millionone to Three Million Rupees | Rs. 500 to Rs. 1,000 |
| From Three Million one to Five Million Rupees | Rs. 1,200 to Rs. 3,000 |
| From Five Million One to Ten Million Rupees | Rs. 3,500 to Rs. 10,000 |
| From Ten Million One to Twenty Million Rupees | Rs. 12,000 to Rs. 20,000 |
| From Twenty Million One to Fifty Million Rupees | Rs. 25,000 to Rs. 60,000 |
- Above Fifty Million One Rupees Two Rupees per Thousand

Rate of the Entertainment Tax

Cinema Hall, Video Hall, Cultural Program hall, Theater Music, EntertainmentExhibition Ground, historical place, archeological place and religionimportance gift 2-5% (no entrance fee to Nepalese citizen to enter historical place, archeological place and religion importance gift).

magic show, circus, etc.	Rs.200 to Rs.500
Commercial Video	Rs.200 to Rs.500
parking charge as fixed by the Municipality Council	
The Property Valuation Services Charge (not exceeding)	Rs. 1 per Rs.1000

Note:The exact amount is to be fixed by municipal council.

Source: Local self Governance Regulation, 2000

APPENDIX B

Breakdown Internal Revenue of Dhulikhel Municipality

Amount in Rs

Particulars	FY 2010/011	FY 2011/012	FY 2012/013	FY 2013/014	FY 2014/015
Local Tax	2,567,617	2,698,392	2,272,440	2,827,787	3,487,183
Service charges	292,673	612,510	887,525	1,704,298	1,923,900
Fees	2,317,324	1,901,624	2,652,088	3,335,940	2,785,726
Sales	-	-	-	-	72,000
Rent	50,500	42,066	71,500	142,360	142,340
Deposit seized	-	898,215	-	-	-
Advance return	146,600	9,974	142,200	6,875	-
Others	671,805	1,176,677	606,133	1,264,805	1,114,886
Penalties	50,509	74,325	97,004	123,282	92,059
Total	6,097,028	7,413,783	6,728,889	9,405,347	9,618,094

Source: Audited Financial Statement and development planning of Dhulikhel Municipality.

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ABBREVIATIONS/ACRONYMS

A. D.	Anno Domini
BM	Banepa Municipality
CEDECON	Central Department of Economics
CG	Central Government
DDC	District Development Committee
DM	Dhulikhel Municipality
FAI	Financial Autonomy Index
FAR	Financial Autonomy Ratio
FY	Fiscal Year
GDP	Gross Domestic Product
LFDR	Local Fiscal Dependency Ratio
LG	Local Government
LSGA	Local Self-Governance Act
LSGR	Local Self Government Regulation
LGU	Local Government Unit
MoLD	Ministry of Local Development
RG	Relative Growth
VDC	Village Development Committee
WB	World Bank