

LOCAL GOVERNMENT FINANCING IN NEPAL

(A Case Study of Hetauda Sub-Metropolitan City)

A Thesis

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KRISHNA CHANDRA THING

T.U. Reg. No.: 6-1-40-468-2006

Roll. No. : 43/2068

Central Department of Economics

Tribhuvan University, Kirtipur

Kathmandu

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RECOMMENDATION LETTER

This thesis entitled **LOCAL GOVERNMENT FINANCING IN NEPAL (A Case Study of Hetauda Sub-Metropolitan City)** has been prepared by **KRISHNA CHANDRA THING** under my guidance and supervision. I hereby recommend this thesis for examination by the thesis committee as a partial fulfillment of the requirement for the degree of Master of Arts (MA) in Economics.

Sanjay Bdr. Singh
Thesis Supervisor
Central Department of Economics
Tribhuvan University

Date: 08/03/2073

APPROVAL LETTER

We certify that this thesis entitled **LOCAL GOVERNMENT FINANCING IN NEPAL (A Case Study of Hetauda Sub-Metropolitan City)** submitted by **KRISHNA CHANDRA THING** to the Central Department of Economics, Faculty of Humanities and Social Sciences, Tribhuvan University, in partial fulfillment of the requirements for the Degree of Master of Arts in Economics has been found satisfactory in scope and quality. Therefore, we accept this thesis as a part of the said degree.

Approved by

Prof. Dr. Ram Prasad Gyanwaly
(Head of the Department)

Prof. Dr. R. K. Shah
(External Examiner)

Sanjay Bdr. Singh
(Thesis Supervisor)

Date: 14/03/2073 B.S.
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LIST OF ACRONYMS

ADDCN	Association of District Development Committees of Nepal
DDC	District Development Committee
FAI	Fiscal Autonomy Index
FAR	Fiscal Autonomy Ratio
FY	Fiscal Year
GDP	Gross Domestic Product
GIZ	Deutche Gesellschaft Für Internationale Zusammenarbeit
GoN	Government of Nepal
LBs	Local Bodies
LFDR	Local Fiscal Dependency Ratio
LSGA	Local Self -Governance Act
LSGR	Local Self -Government Regulation
MoFALD	Ministry of Local Development and Federal Affairs
NAVIN	National Association of VDCs in Nepal
VDC	Village Development Committee

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Local governance is set of institutions, mechanism and process through which citizens can express their interest and needs and exercise their rights at the local level. Local governance includes the interaction with local government institutions, civil society, government organization, local bodies, private sector among with the machineries of the state.

The concept of decentralization has been applied in the form of local government, which is a self-governing body involving an administration in every locality by a body of representatives of local community. The local body/governments upholds a considerable amount of responsibilities, liabilities and discretionary power from the central government. The local government takes the sole responsibility and right to perform the welfare functions for its residents viz. the construction of roads, drinking water management, health centers and facilities, etc. to the local people.

The municipality is the town, city or district with its own local government (Homby, 2005). The municipalities are the local bodies created for the urban areas to look after the local affairs like sanitation, public health, drinking water. The main source of finance of municipal committee are taxation, grant in aid, share of taxes levied and collected by state government and income of municipal undertakings (Lekhi, 2007).

The government can declare a settlement as a Nagar Palika (municipality), if the minimum annual income of the area is two million and the total population of the settlement is 20 thousand people. In this way, villages are diverted into municipality.

The history of the Municipality in Nepal is back to 1919AD. A small form of Municipality was first established in December 1919 AD by the Prime minister Chandra Shamsar which was SAFAI ADDA. The task of SAFAI ADDA was cleaning of some main motor able roads.

Global Historical Perspective

The impetus behind the concept of local government and municipal finance in many parts of the world emerges as de-concentration of central government departments and public utilities to be looked by regional outstations for better provisions and

regulation of services. The concept of municipal finance arises after the independency of central governments in providing better service delivery and effective facilities in the local level. All the countries have a unique history and systems of local municipal financing. USA has the largest and the most typical unit of rural local government. The traditional and most important unit of local self- government is the town in the New England states which is compared with the three pure forms of democracy namely, the Greek city state, the Swiss Canton and the Indian village Gram Sabah. The local government in USA operates in a political framework which is entirely different from those of Britain and France. The history of local government and its municipal finance in case of feudal Japan started from local self- government in Tokugawa Japan. It has been said that in the latter part of the era there was “complete local autonomy” in the fiefs. The municipalities of Japan are cities (shi), towns (machi or son). The designation of city is given to municipalities that exercise certain social welfare functions that are performed for towns and villages by the prefecture. Local government in Sweden was established through the municipal administration act of 1862. It was realized that the fulfillment of certain municipal duties for a larger administrative unit than the regular municipalities which led to the Municipality under the administration of country council. In Denmark, the local government too has rights to manage their own affairs under central government supervision. The primary local government will be responsible for all other local government affairs (Shah, 2006).

National Perspective

In Nepal, the history of Municipality was introduced during the Rana regime. After the revolution of 1950 A.D. the Nagar Panchayat Act, 1950 was introduced and the five municipalities Patan, Kantipur, Bhaktapur, Biratanagar, and Birgunj were formed. Again, the Act of 1952 was introduced and two municipalities Bhadrapur and Palpa were declared. Similarly, during the same period, seven other municipalities were declared which were Janakpur, Hanuman Nagar and Pokhara, Butwal, Dharan, Nepalgunj and Illam.

It was in the year 1962 A.D. (2019 B.S.) that the government introduced the “Nagar Panchayat Ain”. This act first introduced the concept of local tax in Nepal and municipalities were directed to develop financial planning and budget which was the very beginning of the modern concept of public finance in Nepal. With the inception

of this act, the municipalities were provided the authority to levy taxes on some specific areas such as house rent tax, business and professional tax, vehicle tax, entertainment tax etc. With some limitations from which municipalities could collect some of administrative and development grants from the central government. Development grants were mainly provided to those municipalities fulfills the resource gap having income less than two million rupees from their own resources.

After the restoration of democracy and subsequent promulgation of constitution of 1990 A. D. has endorsed the concept of more decentralized form of government, made strong commitment for strong local Municipality and subsequently Municipality Act 1991 A.D. came into existence and the three bays Tanahau, Tulsipur, and Gaur were declared as municipalities. After this Local Self Governance Act, 1999 Act, 1999 A.D. came into existence followed by Local Body Financial Administration Rules 2007 A.D.

1.2 Statement of the Problem

In Nepal, generally municipalities are taken as urban areas. Due to high growth rate of population and other circumstances many of villages are participating in the race of urbanizations.

In most of municipalities, the basic needs of the people which it provides are unlimited but the sources of income are limited. The income process is unsystematic. In the developing country like Nepal there are few available tax bases. Consequently, central government keeps most of the production resources of tax revenue and local authorities have to rely for their revenues on government grants, minor taxes, license fees and charges collected for their services. In order to have an effective local government, local authority must have power to impose and collect its own taxes. Without self- imposition and collection of revenues the local development bodies cannot fulfill their development requirements in their chosen areas. Only a minor share of taxing power has been assigned to the local authorities. The existing gap between central and local government is very wide (Paudel, 2009).

The uncontrolled migration of the human resource form village to town is not a new phenomenon in Nepal, which has certainly invited various problems at both urban and rural levels. Despite the majority of population still engaged in agriculture and animal

husbandry, permanent settlements seeking education, business, and employment, permanent settlements seeking better opportunities have not been decreased.

The increased demand of migration has led to the increase in the supply and demand functions regarding basic needs like food, shelter and clothing which, in fact, has put a greater pressure upon the local government of the cities and towns. The responsibilities of the Municipality are so vast that the existing resource constraint they have not been able to fulfill most of the responsibilities that are supposed to fulfill. The resource constraint further aggravated as the contribution of the government, development fund and administrative fund to the municipalities are drastically curtailed in order to make the municipalities self-reliant by giving them the autonomy to mobilize the local resource.

In the case of Nepal, numerous municipalities are comparatively small in the sense that they have a very limited financial resource and are on the way to progress and development. These municipalities have been only involved in petty functions like garbage collection, street cleaning services, creation of city parks, construction of public toilets etc. The essential services viz. provision of drinking water facilities, establishment of health services, mobilization of fire brigades and protection, infrastructural development like in education and establishment of other social overheads have been largely provided by the central government.

Central governments are more able to deal with a revenue flow that is unstable than are local government, precisely because the latter cannot usually borrow. Local government cannot run deficits, and they provide more essential services that are not easily postponed. Similarly, the issue is that higher taxes on natural resources can address the national deficit issues and can help keep the domestic tax burden lower. Moreover, shifting natural resource revenues of local government would allow it (versus the national government) more latitude or autonomy to direct investment. A major reservation about sharing natural resource revenues local government is that they will squander waste the money. One concern is just that sub-national governments do not have the capacity to deliver many types of public services at adequate levels. Although fiscal decentralization ha emerged as a focus of public sector reform in many less-developed nations, the substantial body of theory and research on public finance in developing countries (Paul, 2001).

The fiscal design needs to be restructured because functions and responsibilities assigned to local bodies are unclear, and overlap with the central government's role and responsibilities. Local revenue power is limited. The grant system lacks transparency. Moreover, implementation of decentralization has been difficult due to the civil conflict. Despite some progress, the internal conflict in the country has stalled and even reversed the process of devolution (ADDCN, 2009).

As Nepal has recently been declared as federal state, the study of local government systems, its income and expenditure, the pattern of its expenditure seem to be relevant in the changing context. Moreover, Hetauda sub metropolitan city is transforming into a business transit hub.

The Local Self Governance Act 1999 A.D. envisages to:

- i. Make provisions conducive to the enjoyment of the fruits of democracy through the utmost participation of the sovereign people in the process of governance by way of decentralization.
- ii. Institutionalize the process of development by enhancing the participation of all the people including the ethnic communities, indigenous people and down-trodden as well as socially and economically backward groups in bringing out social equality in mobilizing and allocating means for development of their own region and in the balanced and equal distribution of the fruits of development.
- iii. Have institutional development of local bodies capable of bearing responsibility, by providing such responsibility and power at the local level as is necessary to formulate and carry our plan, and
- iv. Constitute local bodies for the development of the local self-governance system in a manner that they are able to make decisions on the matters affecting the day-to-day needs and lives of the people, by developing local leadership.

This study therefore, aims to answer the following research questions

- i. What is the revenue and expenditure of Hetauda sub-metropolitan city?
- ii. What is the degree of fiscal decentralization and fiscal autonomy of Hetauda sub-metropolitan city?

1.3 Objectives of the Study

The general objectives of the study is to assess the overall financial situation, its resource collection and mobilization as per the needs and demand of Hetauda Sub-metropolitan city.

The specific objectives of the study are:

- i) To assess the revenue and expenditure pattern of Hetauda Sub-metropolitan city.
- ii) To measure the degree of fiscal decentralization and fiscal autonomy of Hetauda Sub-metropolitan city.

1.4 Significance of the Study

Economic research on micro level is essential to find out exact and reliable data and information. Though municipal finance is a macro sartorial study will be focused on micro level i.e. the financing in a Municipality Hetauda Sub-metropolitan city Makwanpur. Sub-metropolitan city is one of the most important subject for business men, politicians as well as tax payers. But not most research have done in this field. Most of the studies are limited to micro level efforts, so the proposed study on the Municipality finance helps to understand how the Municipality works and what are the sources of revenue.

Studies indicate the poor or lower transfer of national budget to the local bodies as compared to the increase of national revenue and total annual budget of government of Nepal. According to the legal provision, municipalities mobilize more local development fee ate their own jurisdiction. Therefore, the dependency on central grant of municipalities is lower than DDCS and VDCs. As the government of Nepal has already expressed strong commitment on the devolution of responsibility and revenue onto the local government through the policy and program, now, Nepal is at the new juncture of restructuring of state in terms of tire of governments number and size of both state and local governments functions of all tires of governments and bases of resource sharing among all tires of governments.

1.5 Limitations of the Study

The study has following limitations which may lead the study up to a case study but not to more specific findings.

- a) This study is concerned with only Hetauda Sub-metropolitan city of Makwanpur.
- b) This study may not be applicable at macro level because it does not cover the situation of whole nation.
- c) The study is mainly based on secondary data is taken from different sources as per the requirements.
- d) The study is bound by limited period of time and cost.

1.6 Organization of the Study

The study is divided into five chapters. The first chapter deals with the introduction. It includes the general background, objectives, significance of the study. The second chapter deals the review of literature. Third chapter consists of the research methodology and the forth chapter deals with the detail analytical description of revenue and expenditure of Hetauda sub-metropolitan city. The final chapter constitutes the summary, conclusions, and recommendations derived from the study.

CHAPTER II

LITERATURE REVIEW

The concept of municipal finance is relatively modern despite the existence of its components in ancient and medieval periods in all countries because of political, administrative, socio-economic or geographic necessities. The modern concept of Local governance has ultimately blossomed from the concept of operational freedom of varying degrees that can be exercised within the overall framework of the policy of the country. The major elements of the local self-government are politically, as a local democracy; administratively, as a local administrative organization along with well-defined territorial jurisdiction over definite human settlements, constituting a distinctive social entity organized within the broad legal framework, enjoying a certain degree of autonomy to regulate its own affairs etc. The citizen centered local governance, a new concept in the development of local government focuses on the citizens' needs and aspirations. The citizen-centered local governance carries out reforms on the institutions of local governance and requires agreements on basic principles. Three basic principles are advanced to initiate such a discussion:

Responsive governance: This principle aims of for governments to do the right things that is, to deliver services consistent with citizen preferences.

Responsible governance: The government should also do it right that is, manage its fiscal resources prudently. It should earn the trust of residents by working better and costing less and by managing fiscal and social risks for the community. It should strive to improve the quality and quantity of and access to public services. To do so, it needs to benchmark its performance with the best-performing local government.

Accountable governance: A local government should be accountable to its electorate. It should adhere to appropriate safeguards to ensure that it serves the public interest with integrity. Legal and institutional reforms may be needed to enable local governments to deal with accountability between elections reforms such as a citizen's cheater and provision for recall of officials. A framework of local governance that embodies these principles is called citizen.

2.1 Municipal Finance in Sweden

Local governments are one of the important elements of the Sweden welfare state; they account for about 38 percent of total public sector expense and 28 percent of

Sweden's total employment. Education and social services (childcare, care of elderly and disabled and assistance to individuals and families) constitute to 60 percent of municipal expenditures. The municipal council's predominant task is healthcare, which accounts for 75 percent of their total expenditures.

The expenditure responsibilities in above areas remain with local authorities but the responsibility for results achievement is shared between local and national governments and this operationalized through a system of grants between national and local governments.

Revenue Generation

The three major sources of local government revenue in Sweden are taxes (67%) of total grants from central governments (20%) and user fees (7%). There is no local property tax in Sweden, but local income tax is UW major source with the tax base determined by national government and local government deciding tax rate. Tax collection, however, is the responsibility of national government. Local tax varied between 265 to 344 percent and tax base per capita varied from 71 to 173 in 1997 (Nallathuja, 2012).

2.2 Municipal Finance in Denmark

Local governments or sub-national governments in Denmark are major public service actors providing wide range of services like health, education, social services, care for elderly, housing, public protection, fire, transportation and other traditional local services. The division of functions between the two counties and municipalities is determined largely by economic efficiency. Counties are responsible for medical care, hospitals, specialized social institutions, tertiary education and major roads. Municipalities are responsible for primary schools, day nurseries, social assistance, elderly care, public protection, fire protection, housing, infrastructure and local roads. Although most of the program expenditure responsibilities reside with sub-national governments, in practice, accountability is shared among three levels of government.

Revenue Generation

Sub-national governments in Denmark possess greater taxation than their counterparts in other countries. The main sources of own revenue are property taxes, local income taxes and user fees. While property taxes are set, administered and collected by municipalities, personal income tax is piggy-backed to national government and is

sizeable in amount (about 40-60% of revenue and 15-16% of GDP). User charges received increasing attention after 1980s and account for 20 percent of own-source revenue for sub-national governments in Denmark and are designed to control excess demand and for cost recovery (Nallathuja, 2012).

2.3 Local Government Models

The Nordic Model

Local governments in Norway, Denmark and Sweden, therefore assumed responsibility not only for local service delivery but also for social protection and social welfare functions. Local governments in Nordic countries serve their residents from cradle to grave. They deliver property oriented as well as people oriented services. In modern times, the central governments in Nordic countries have assumed wider regulatory and oversight functions, but the predominance of local government—more than 30 percent of gross domestic product (GDP) in Denmark—and its autonomy are still preserved because of citizen satisfaction, with local government performance. The New Vision of Local Governance, 27 local governments (average jurisdiction of fewer than 10,000 inhabitants) that is primary self-financing. In Denmark and Sweden, nearly 75 percent and in Norway, 64 percent of local expenditures are financed from own-source revenues. Personal income taxes (piggybacking on a national base) are the mainstays of local finance (almost 91% of tax revenues) and property taxes contribute a pitiful 7 percent of tax revenues (Shah, 2006)

The Swiss Model

Local governments enjoy autonomy not only in fiscal matters but also in such areas as immigration, citizenship, language and foreign economic relations. This tradition of strong local government is further strengthened through direct democracy provisions in the Swiss constitution, including (a) people's initiatives, (b) referenda, and (c) petitions. Switzerland consists of 26 cantons and 2,842 communes. Each canton has its own constitution, parliament, government, and courts. The communes are handmaidens of the cantons. They perform some delegated tasks such as population registration and civil defense, but they have autonomous competencies in education and social welfare, energy supply, roads, local planning, and local taxation (GOS, 2003).

The French Model

In the French model, the primary role of local governments is allow citizens at the grassroots level a sense of political participation in decision making at the national level. The public service delivery remains the primary responsibility of the national government, and its agencies may be directly involved in the delivery of local services. The average size of local government jurisdiction is small (covering fewer than 10,000 inhabitants), and local governments have a limited range of autonomous service delivery responsibilities. Local governments use a mix of local revenue instruments and rely significantly on central financing. This model, with its focus on strong central command and dual supervision, proved very popular with colonial rulers from France, Portugal, and Spain, as well as with military dictators, and was widely replicated in developing countries (Humes, 1991).

The German Model

The German model emphasizes subsidiary, cooperation, and administrative efficiency. It entrusts policy-making function to the federal level and service delivery responsibilities to geographically delineated states and local governments, to which it gives a great deal of autonomy in service delivery. All purely local services are assigned to local governments. The average local government covers 20,000 inhabitants, and local expenditures constitute about 10 percent of GDP. General revenue sharing serves as a major source of local finances (Shah, 2006).

The British Model

Local governments play a dominant role in maintenance, garbage collection, water, and sewage and a limited role in such people-oriented services as health, education, and social welfare. Property taxes are the mainstay of local governments. Local governments typically derive two-thirds of their revenues from central transfers. They do not have access to personal income taxes. The role of the chief executive is weak, and local councils play a strong role in local decision making. The average local government is large, covering about 120,000 inhabitants, and local expenditures account for about 12 percent of GDP (McMillan, 2002)

The Chinese Model

This model places strong emphasis on making provincial and local governments an integral and dependent sphere of national government. This is accomplished in two

ways: through democratic centralism, which integrates the local people's congress with the national people's Congress through a system of elections, and through dual subordination of local governments, whereby provincial and local governments are accountable to higher-level governments in general, but the functional departments are also accountable to higher-level functional agencies and departments. The personnel functions are also integrated among various orders of government. Because of its integrative nature, the model permits a large and expansive role for provincial and local governments in service delivery. The average local government jurisdiction is very large. Sub provincial local government expenditure 51.4 percent of consolidated public expenditures. Sub provincial local governments employ 89 percent of the total government workforce. Some clearly central functions such as unemployment insurance, social security, and social safety nets are assigned to provincial and local governments. Local autonomy varies directly with the fiscal capacity of a local government, with richer jurisdictions calling their own tunes while poor jurisdictions follow the pied piper of higher-level government (Shah, 2006)

The Japanese Model

The local government system introduced in Meiji Japan in about 1890 had elements of the French and German models. It emphasized control, as in the French model of local governments, through the Ministry of Interior appointing heads of regional governments (governors of prefectures), who controlled local districts and municipalities. The local government simply implemented policies determined by the central government. In the post-World War II period, direct elections of governors, mayors, and councils were introduced. The practice of agency delegation (German model) was retained, and local governments were expected to perform functions mandated by the central government and its agencies. The Ministry of Home Affairs, which had a supportive role for local governments, was introduced in 1960 (Muramatsu and Iqbal, 2001). Income taxes are the mainstay of local government finance, contributing 60 percent of own-source tax revenues, followed by property taxes (about 30%) and sales taxes (about 10%) (Shah, 2006).

The North American Model

In the early period of North American history, local communities functioned as civic republics governed by mutual consent of their members. The framers of the U.S. constitution did not recognize local governments. The civil war led to the centralization of powers in the United States. Subsequently, the formal institutions of

local government were created by states. The judiciary further constrained the role of local government through recognition of Dillon's rule : local governments may exercise only those powers explicitly granted to them under state legislation. Subsequently, most states have attempted to grant autonomy to local governments in discharging their specified functions through home rule provisions (Bowman and Kearney 1990). Local governments in Canada are faced with circumstances similar to those in the United States. Thus, the North American model recognizes local government as a handmaiden of states and provinces but attempts to grant autonomy (home rule) to local governments in their specific areas of responsibility- predominantly delivery of property-oriented services. Local governments perform an intermediate range of functions. The average jurisdiction of local government in the United States is about 10,000 and in Canada about 6,000 inhabitants. Property taxes are the dominant source of local revenues. Local government expenditures constitute about 7 percent of GDP (Shah, 2001).

The Australian Model

The Australian constitution does not recognize local governments. It is left to the states to decide on a system of local governance in their territories. Most states have assigned a minimal set of functions to local governments, including engineering services (roads, bridges, sidewalks, and drainage); community services (old-age care, child care, fire protection); environmental services (waste management and environmental protection); regularity services (zoning, dwellings, buildings, restaurants, animals); and cultural services (libraries, art galleries, museums). Local governments raise only 3 percent of national revenues and are responsible for 6 percent of consolidated public sector expenditures. Property taxes (rates) and user charges are the mainstay (about 70 percent) of revenues, and central and state grants finance about 20 percent of local expenditures. Transportation, community amenities, and recreation and culture command two-thirds of local expenditures. Local government in New Zealand bears a close resemblance to the Australian model (Shah, 2006).

The American Model

America has the most typical form of rural local government. The traditional and most important unit of local self-government is the town in the six England states. The New England Town Meeting is compared with the three pure forms of democracy, namely the Greek City State, the Swiss Canton and the county as well as units to conduct the

local affairs. They are rural counterpart of municipalities. The concept of decentralization appears to be in operation in a more practical form in the Local Government of the United States. With the Federal Policy, the system of local government in USA operates in a political framework which is entirely different from those of Britain and France. The local government functions within the constitutional orbit of the federating units, namely states, while each states has its own system of local government, the fundamental principles and institutions of governance are by and large, common throughout the USA. In practice, the states exercise their right to regulate local authorities to relatively small degree. The major classes of local government in the US fall into three groups:

- i. Counties, Towns and Townships
- ii. Municipalities and
- iii. Special Districts

Incorporated places or municipalities comprise a second group which includes cities, boroughs, villages and towns. They practice one of the three forms of local government

- i. Major-in- council form
- ii. Commission form
- iii. City Manager form

Finally, there are special districts that form the third group of local units. They are numerous in variety and are both rural and urban in character. They are created to perform specific functions or projects, such as School Districts. Special Districts for Water Supply, Road, Irrigation, Housing, Mosquito Eradication etc (Chandler, 1991).

The South African Model

South Africa is one of the most diverse countries in the world. There are three tiers of governance system namely central, provincial and local. The local governments are focused on growing local economies and providing infrastructure and services. In accordance with the constitution and the organized local government act, 1997 (act 52 of 1997), a local government association has formally been recognized. According to the provision of the constitution, there are three categories of municipalities. As directed by the constitution, the local government: municipal structures Act, 1998,

(Act 117 of 1998), contains criteria for determining when an area must be a category-A municipality (metropolitan municipalities) and when municipalities fall into categories B (local municipalities) or C (district municipalities). The act also determines that category-A municipalities can only be established in metropolitan areas. The constitution of South Africa, 1997 has focused on three important natures of inter-governmental relationships. It has recognized three “spheres”, rather than tiers of government. It means that national, provincial and local governments are equal, separate, and autonomous in terms of decision-making and service delivery in accordance with the constitution. It is also envisaged that the relationship between the spheres would be cooperative rather than hierarchical. It focuses on establishing harmony between all spheres of government to cooperate and negotiate political and budgetary issues. Based on the principle of subsidiarity, the functions have ideally been performed by the lowest possible sphere of the government (Heymans, 2006).

2.4 Review of International Studies

There are various studies on the local Government and municipal finance in the international sphere, out of which some are reviewed as:

Jakson (1959) has studied on the Local Government in England and Wales and found that the organization of local government in every civilized country is similar in outline. It resembles that of the present time in England are curies compromise between ancient forms and modern needs. The boroughs and borough councils although reformed by the comparatively recent municipal corporation large nationwide business with local branches controlled and infected by a central office. The degree of local independence and the measure and mode of central control vary with circumstances.

Agrawal (1960) has analyzed on the Municipal Government in India and found that the municipality history of India dates back some hundred and thirty six years. According to municipality evolution history in India, the emergence of these kinds of organization in India was due to financial exigencies which the central government has to face in the 19th century. According to Agrawal the municipality in India served as an efficient instrument of relief to the imperial finances and later as an agency for providing relief to the district officer from some of the details of their task and works. It was lord Ripans government which considers municipal institutions desirable as an

instrument of political and popular education through which the people of India could be trained to take an intelligent share in the administration of their own affairs.

Ebel and Yilmaz (2002) have forwarded their view that there is no set of prescribed rules to determine how a country is being decentralizing. The measure of decentralizing is difficult. But, according to Loehr and Manason (1999), the following four indicators can be used for measuring fiscal decentralization:

- i. Revenue Decentralization Ratio (RDR)
- ii. Expenditure Decentralization Ratio (EDR)
- iii. Modified Expenditure Decentralization Ratio (MEDR)
- iv. Fiscal Autonomy Ratio (FAR)

Bahl (2003) has described on Restructuring Local Government Finance in Developing Countries with special reference to South Africa and concluded that the urban government in the developing countries is commonly faced with problems of urban management that far surpass those experienced by their counterparts in the industrialized countries. The prevalence of poverty and generally low incomes makes it difficult for every government to raise fiscal resources for the provision of urban services at an increased pace.

UNCDF (2004) has published a report entitled Local Government Initiative: Pro-Poor Infrastructure and Service Delivery in Rural Asia and concluded that local government (VDC, municipality and DDC) have some revenue raising powers, but the local revenue base is limited and stagnant. Due to the lack of sufficient fund to meet the assigned expenditure, there is a high degree of dependency of DDCs and VDCs upon central government transfers (representing 75% of 36 total LG revenues) is very high. On the other hand, the local government expenditures are small in scale as compare to central government. It is accounted that only 4 percent of total public expenditure is mobilized by local government in Nepal. Central transfers to DDCs have been mainly channeled down through sector ministries to their concerned departments. The fiscal decentralization policy is now to switch to “devolved” funding through a mix of conditional and unconditional grants to the DDCs themselves- but implementation is stalled because of the current suspension of local elected bodies.

Shah (2006) has found on the Capitalization and the Theory of Local Public and concluded that the concept of local governance has emerged as a significant issue in the process of democratization. The local government means to specific institutions or entities created by national constitution, by state provincial or state legislation, or by executive order to deliver specified services to a relatively small geographically outlined area. However, local governance is the broader concept.

Qiao and Shah (2006) have stated on Local Government Organization and Finance and concluded that the current system of local government organization and finance in China has some positive features. Local government assumes a predominant role in the delivery of public services. In this role, they are guided primarily by national mandates, yet they have significant opportunity to adopt and innovate to meet local circumstances. They have done a phenomenal job in improving infrastructural deficiencies. Good quality infrastructure is after all, seen as an important inducement to investors to pump capital into their jurisdiction. New investment enables local government to enlarge their tax bases and local leadership to assure greater political clout. These benefits provide strong incentives for local government to focus on local economic development policies. They also stimulate a great spirit of competition to uplift local economies.

Kelly (2010) has visualized on Decentralization can help to reform the governance system by improving efficiency (links mix and level of services to the local citizen demand), improving political and financial accountability (brings government closer to the people), and improving effectiveness (mobilizes citizen's participation, innovation and ownership and allows competition in public services as best practices). Finally it can be said that decentralization is in essence a political decision not mechanical dilemma.

2.5 Empirical Review in the Context of Nepal

Timalsena (1996) has depicted about municipal finance in Nepal with special reference to Biratnagar Municipality focusing on the income and expenditure pattern of the Municipality. His study was based on primary data with secondary inputs and based on various books, reports and organizational reports. Moreover, his study also includes different issues of financing and its alternative sources of effective mobilization of financing sources. He found that the local bodies can mobilize

financial resources in the form of taxes, service charges and fees and concluded that the local bodies all municipalities and municipal corporations are increasing their financial resources through professional tax, vehicle tax, roof-top tax and rent tax.

Pahadi (1997) has viewed about the municipal finance of Nepal with special focus on Janakpur Municipality. His study is based on the secondary source of data. The study focused on social and economic condition, sources of income and pattern of expenditure, administration and budget formulation policy of the Municipality and concluded that the local tax main internal source of revenue.

Gautam (2002) has showed the municipal finance in Nepal. His study is based on the revenue and expenditure pattern of Nepalgunj Municipality. He has concluded that the revenue utilization capacity of the Municipality was very low which has caused high balance of the general revenue. He had also concluded that despite the huge potentiality of revenue to explore the potential areas of revenue.

Adhikari (2006) has studied on the entitled “Towards Local Democracy in Nepal” and has mainly focused on the context of decentralization of district planning. He has captured the theoretical framework of decentralization and planning process. It has just touched the revenue and expenditure assignment of local government in general and district development committees in specific. The study has highlighted the role of local government associations such as ADDCN, NAVIN and MuAN in the decentralization process in Nepal. Furthermore, the study has explored and analyzed determinant factors of successful planning, participating, decentralization and development management of the district level.

Kandel (2006) has analyzed on expenditure pattern of local government and submitted to Asian Development Bank of Nepal has focused on expenditure patterns of local governance in the context of rural poverty alleviation. The study has reviewed the various aspects of the responsibility given to the local bodies (LBs); present status of LBs expenditure in Nepal; the present status of poverty in the rural sector of Nepal; and the rural poverty reduction strategy adopted in Nepal. He has tried to identify the role of LBs in poverty reduction strategy of Nepal, and the central government’s responsibility that can transferred to local bodies in the context of rural poverty alleviation. Besides, the policy improvements needed to strengthen local bodies to reduce rural poverty in Nepal also has been analyzed.

Kandel (2009) has studied on Design of Fiscal Federalism for future Nepal and concluded that fiscal federalism is one of the important of federal state and only fiscal decentralization can only ensure devolution of fiscal power to local government bodies. Similarly, expenditure assignment needs to be preceded revenue assignment. Equalization fund should be transferred to the local government bodies on the formula based grant system (Pyakuryal at 2009). There are tremendous causes against the borrowing of sub-national government. According to this school of thought, there may be high chance of loan amount politically. It is hard to repay the loan and create the burden for future generation and it may put the potential revenue resources in future.

Adhikari (2010) has described on Income and Expenditure analysis of Bharatpur Municipality. The study concluded that due to the ongoing Maoist insurgency, the Municipality could not mobilize its resources in an optimal way. He further painted out that the Municipality lacked proper identification of resources for better revenue generation. The major sources of internal revenue were land revenue, house and land tax and natural resources revenue. The regular expenditure of the Municipality. had a faster growth than the development expenditure.

Sharma (2014) has depicted about the municipal finance in Baglung DDC focusing on the revenue and expenditure of the area and concluded that the local bodies are heavily dependent on the central government's grant and foreign grant as well. His study reveals that 86 percent of the total revenue of Baglung district constitutes the central grants which show high dependency on the central grants. For the sustainable development of the place, internal resources must be fully mobilized.

Nepal (2014) has analyzed on the revenue and expenditure analysis of Banepa Municipality and concluded that the average share of the internal revenue of the Municipality is 29.75 percent and the average share of external revenue is 70.24 percent while the average share of administrative expenditure is 40.63 percent and the share of capital expenditure is 59.37 percent respectively. The achievement of administrative expenditure is weak and has a Local Fiscal Dependency Ratio and Fiscal Autonomy Index.

Mishra (2015) has reviewed on the revenue and expenditure analysis of Birgunj Municipality and concluded that the main source of the Municipality is internal

revenue and it has consistent growth for all fiscal years under the study which shows that Municipality doesn't depend on the other sources of revenue. The share of revenue expenditure to the total expenditure declines throughout the study period while the share of capital expenditure to the total expenditure increases continuously.

CHAPTER- III

RESEARCH METHODOLOGY

This chapter includes the brief description about research methodology used to fulfill the objectives of this research study. It includes research design, source of data collection and statistical tools used in the study. This chapter is concerned with detail discussion of the methodology used in the study by covering the procedure of getting research problems answers as per the objectives.

3.1 Research Design

The design of this study is analytical as well as descriptive. On the other hand, the researcher has used descriptive method to study the systematic collection and presentation of data to give clear picture of a particular situation. In order to study the financial position of Sub metropolitan city, a descriptive and analytical method is followed.

3.2 Nature and Sources of the Data

In this study, secondary data is used as main sources of data. The available data sources are used to find the economic condition of Hetauda Sub metropolitan city. The secondary data is also obtained by receiving important available documents. The important sources of information are

- a) Records of Hetauda sub metropolitan city
- b) Government of Nepal Ministry of Federal Affairs and Local Development
- c) Records and reports on different aspects of the study, articles, books and dissertation on related topic.
- d) Central bureau of statistics, 2011
- e) Records and reports of different organizations

3.3 Data Processing Procedure

Most of the data used in the study is processed according to the needs of the study. The obtained data is presented in various tables with supporting interpretation and tabulated according to their need.

3.4 Techniques of Data Analysis

Data is analyzed descriptively and statistically. For the descriptive analysis necessary tables, diagram and charts are presented. Simple statistical tools are used to analyze data. Fiscal Autonomy Ratio (FAR), Local Fiscal Dependency Ratio (LFDR), Fiscal Autonomy Index (FAI) are used to find out the degree of fiscal decentralization and fiscal autonomy.

3.4.1 Measurement of Fiscal Decentralization

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

1. Financial Autonomy Ratio (FAR)

It is defined as the ratio of locally raised revenues to total local expenditures. FAR shows the degree of financial autonomy. Higher the ratio better is the fiscal autonomy of local government,

Mathematically,

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

Where,

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

Total local expenditure means total expenditure of the local government; administrative and capital expenditures.

2. Local Fiscal Dependency Ratio (LFDR)

It is defined as the ratio of intergovernmental transfer to total local revenue. LFDR measures the degree of financial dependence of local government upon the central. Heavier dependence of local government upon central government, higher is the ratio.

Mathematically,

$$\text{LFDR} = \frac{\textit{Total Inter Governmental Transfer}}{\textit{Total Local Revenue}}$$

Where,

Total Intergovernmental Transfer means the grant including loans received by local government from central government. Total local revenues means revenues of the local government including internal revenues, grants, loan and borrowing.

The World Bank Benchmark for LDFR is Strong-below 33 percent and Weak-above 50 percent.

3. Financial Autonomy Index

It is defined as the ratio of locally raised revenues to total revenues. It is used to measure the degree of financial independency of local government. 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 for Autonomy index is Strong-above 75 percent, Weak-below 60 percent.

4. Tax Autonomy

It is defined as the ratio of total tax revenue to total internal revenue. It is used to measure the total potential or contribution of the total revenue to the Sub metropolitan city to the total internal revenue generation. Higher value of tax autonomy reveals the higher collection of tax revenue from different local sources and better functioning of the Sub metropolitan city and vice versa. Tax autonomy shows to what extent the local government units have the sources and power for imposing local taxes.

Mathematically,

$$\text{Tax autonomy} = \frac{\textit{Total Tax Revenue}}{\textit{Total Internal Revenue}}$$

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. Relative Growth

It is defined as the ratio of change in internal revenue to the change in total revenue. It is used to determine the total change in the total internal revenue corresponding to the total change in total revenue. It represents the growth rate of internal revenue and total revenue. Higher relative growth signifies strong growth in the collection of the

internal revenue and vice versa. It is also used to determine the significance of internal revenues as compared to the total revenue. For better fiscal autonomy, higher growth rate of internal revenue in comparison to total revenue is preferred.

Mathematically,

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

World Bank Benchmark: Strong-above 75 percent and Weak-below 60 percent.

Change in internal revenue 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.

CHAPTER –IV

PRESENTATION AND DATA ANALYSIS

This chapter deals with all the relevant quantitative data collected during the revenue and expenditure analysis of Hetauda Sub metropolitan city. The obtained data are presented in and interpreted thereafter as shown in the tables.

4.1 Introduction

The government of Nepal added 26 municipalities in September 2015. The total number of municipalities in the country reached 217. In May 2014, the government had added 72 new municipalities and 61 in December after a break of 18 years.

4.1.1 Brief Introduction of Hetauda Sub-Metropolitan city

Hetauda sub-metropolitan is situated in the confluence of the two prominent national highways viz. Tribhuvan highway and Mahendra highway. It is one of the most happening destinations of the nation. Long established as a livable city of the nation the development of the city initiated in a way along with the declaration of Sub metropolitan city in 1969 A.D. nonetheless the development was sluggish. The development of the city really caught up its momentum when the city was announced headquarter of the Makwanpur district in 1982 A.D. and striving to be regional headquarter of the Central Development Region. The needy mixture of the unique culture proudly presented and diverse ethnicities makes Hetauda in ideal place for the development.

The total area of Hetauda sub-metropolitan city is 261.5 square kilometer and its adjoining borders are Bara and Parsa districts in the South, Namtar, Bhaise, and Makwanpur Gadhi VDCs in the North East. Population density is 1894 per square. According to the census of 2011 A.D, the population and households are 1529.3 and 34270 respectively and population growth rate is 2.36%. The major languages spoken are Tamang, Newari, and Hindi. The main residing in the Hetauda are Brahman, Newar, Tamang, Chepang, Chhetri, Magar, DhiraiDhami etc. castes that follow the Hindu and Buddhist religions.

4.2 Revenue Analysis of Hetauda Sub-Metropolitan City

Table 4.1

Internal and External Revenue

(NRs. in million)

Fiscal Year	Internal Revenue	% of Total Revenue	External Revenue	% of Total Revenue	Total Revenue
2003/04	40.22	68.34	18.63	31.56	58.85
2004/05	41.44	85.09	7.26	14.91	48.70
2005/06	46.59	58.25	33.39	41.75	79.98
2006/07	44.96	36.31	78.87	63.69	123.83
2007/08	46.74	53.99	39.83	46.01	86.57
2008/09	56.45	45.87	66.61	54.13	123.06
2009/10	58.94	21.94	209.67	78.06	268.61
2010/11	39.74	18.75	172.23	81.25	211.97
2011/12	55.23	28.18	140.77	71.82	196.00
2012/13	58.74	33.97	114.19	66.03	172.93

Source: GIZ/MoFALD, 2014

Table 4.1 shows the internal revenue of Hetauda sub metropolitan city is 40 million in the FY 2003/04 and also depicts the increasing trend of internal revenue from FY 2003/04 up to FY 2006/07. The internal revenue is decreased in the FY 2006/07 and 2010/11 in the comparison of their previous years. Table 4.1 shows the fluctuation trend of internal revenue collection. From the table it is clear that the total revenue of Hetauda sub metropolitan city is highest in the FY 209/10 with Rs. 268 million and lowest in the FY 2004/05 with Rs. 58 million. At the end of the study period FY

2012/13, the internal revenue is Rs. 58.74 million and the external revenue is Rs.114.19 million.

Table 4.1 also shows the share of internal revenue to the total revenue. In the FY 2002/03, the share of internal revenue is 68.34 percent and 33.93 percent in the FY 2012/13. The table shows the gradual decrease in the share of internal revenue to total revenue. Its share was 85.09 percent in FY 2004/05 and 28.18 percent in the FY 2011/12. At the end of study period, the share of internal revenue has increased to 33.97 percent compared to previous fiscal year. The fluctuation in the data due to the uneven collection of local tax such as vehicle tax, land and house tax, yearly registration tax business tax etc.

The internal revenue of Hetauda sub metropolitan city constitutes octroi/local development fee, vehicle tax, octroi and vehicle tax, professional tax, house and land tax, house rent tax, fees and fines, service fee (surcharges), recommendation fee, animal house fee, and property rental (markets/ shops/building/ rent, bus park and equipment).

The external revenue shows the fluctuation trend likewise internal revenue. At the start of the study period, it has decreased and increased from FY2004/05 up to FY 2006/07. The external revenue is highest in the FY 2009/10 with Rs. 209 million and lowest in the fiscal year 2004/05 with Rs. 7 million. At the end of the study, it has decreased compared to the previous year.

The external revenue of the Hetauda sub-metropolitan city consists of the advance refund, cost sharing, grants from government, grants from district development board.

Table 4.2**Composition of Internal Revenue**

(NRs. in million)

Fiscal Year	Tax Revenue	% of Int. Rev.	% of total	Non-tax revenue	% of Int. Rev.	% of total	Total internal	Total revenue
2003/04	33.67	83.71	57.21	6.35	15.79	10.79	40.22	58.85
2004/05	34.44	83.10	70.72	7.00	16.89	14.37	41.44	48.70
2005/06	37.09	79.61	46.37	9.5	20.39	11.88	46.59	79.98
2006/07	36.88	82.03	29.78	8.08	17.97	6.53	44.96	123.83
2007/08	37.11	79.40	42.87	9.63	20.60	11.12	46.74	86.57
2008/09	44.46	78.76	36.13	11.99	21.24	9.74	56.45	123.06
2009/10	44.98	76.31	16.75	13.95	23.67	5.19	58.94	268.61
2010/11	22.83	57.45	10.77	16.91	42.74	7.98	39.74	211.97
2011/12	22.65	41.01	11.51	35.58	64.42	18.15	55.23	196.00
2012/13	29.41	50.07	17.01	29.33	49.93	16.96	58.74	172.93

Source: GIZ/MoFALD, 2014

Table 4.2 shows the composition of internal revenue of Hetauda sub -metropolitan city where the tax revenue is Rs.33.67 million in the FY 2003/04, Rs.34.44 million in FY 2004/05 and Rs.37.09 million in the FY 2005/06. Whereas the non-tax revenue is approximately Rs.6.35 million Rs.7 million and Rs.9.5 million in the FY 2003/04, 2007/05 and 2005/06 respectively. The tax revenue and non-tax revenue shows no fixed growth pattern. The total internal revenue remains highest in FY 2009/10 with Rs. 44.98 million whereas lowest in FY 2011/12 with Rs.22.65 million. At the end of the study period tax revenue and non-tax revenue reached to Rs.29314 million and

Rs.29.33 million respectively which shows that the tax revenue is decreased and non-tax revenue is increasing trend in comparison to the previous years.

In the above, table tax revenue shows unusual fluctuation from the start to end of the study period. The tax revenue share of internal revenue as the share of the total internal revenue covers approximately 83.71 percent in FY 2002/03, 83.1 percent in FY 2004/05, 79.61 percent in the FY 2005/06. Whereas the contribution of tax revenue to the total revenue is 57.2 percent, 70.72 percent, 46.37 percent in the FY 2002/03, 2003/04 and 2004/05 respectively. The share of tax revenue in the total tax revenue has also fluctuation without proper trend. The fluctuation of data was due to uneven collection of local tax, vehicle tax, professional tax, home and land tax, and home rent tax.

The table also shows the share of non-tax revenue to the internal and total revenue. The share of non-tax revenue in total internal revenue shows fluctuation with highest share as 64.42 percent in the FY 2011/12 and lowest 15.7 percent in the FY 2003/04. The share of non-tax revenue in total revenue also similar trend with highest share in FY 2011/12 at 18.15 percent and lowest share as 5.19 percent in FY 2009/10.

4.3 Expenditure analysis of Hetauda Sub-Metropolitan City

The expenditure of Hetauda sub metropolitan city is carried out under two major headings viz. current (or regular expenditure) capital expenditure (development expenditure). Expenditure is the outflow of cash from the municipal body to operate general administration and for mitigating the social and development works in the municipal territory over a fixed period of the time. Expenditure made to run the Sub-metropolitan city office is regular expenditure, it comprises salary and allowances, office administration expense, furniture, economic assistance, repair and maintenance and land revenue collection.

4.3.1 Total Expenditure of Hetauda Sub-Metropolitan City

The overall expenditure pattern of Hetauda sub-metropolitan city is carried out under the two headings: Current Expenditure and Capital Expenditure.

Table 4.3**Total Expenditure of Hetauda Sub-Metropolitan City**

(NRs. in million)

Fiscal Year	Current Expenditure	% of Tot. Exp.	Capital Expenditure	% of Tot. Exp.	Total Total Expenditure
2003/04	19.99	49.72	20.21	50.28	40.20
2004/05	20.53	48.02	22.22	51.98	42.75
2005/06	18.76	37.98	30.63	62.02	49.39
2006/07	18.8	1.77	187.16	98.23	105.96
2007/08	25.84	33.39	51.53	66.61	77.37
2008/09	24.21	22.27	84.49	77.73	108.70
2009/10	31.55	18.70	137.06	81.3	168.61
2010/11	32.65	15.44	178.83	84.56	211.48
2011/12	44.81	25.25	132.69	74.75	177.50
2012/13	44.16	26.28	123.87	73.72	168.03

Source: GIZ/MoFALD, 2014

The table 4.3 shows the total expenditure of Hetauda sub-metropolitan city. The current expenditure was highest at Rs.44.81 million in FY 2011/12 while it was lowest in the fiscal year 2006/07 with Rs. 18.80 million. The current expenditure stands at Rs.19.99 million, Rs.20.53, Rs.18.76, Rs.32.65 million and Rs.44.16 million in the FY 2003/04, 2004/05, 2005/05, 2007/08, 2008/09, 2009/10, 2010/11 and 2012/13 respectively.

The capital expenditure remained highest at Rs.178.53 in fiscal year 2010/211 and lowest at Rs.20.21million in FY 2003/04. The trend of current and capital expenditure is not normal trend rather it is fluctuated and uneven.

4.3.2 Achievement of Administrative Expenditure

Local Self- Governance Regulation (LSGR) 2000, has formulated the benchmark level to check the performance of the local government or municipality. The achievement status of administrative expenditure can be obtained by comparing the administrative expenditure with the total expenditure or it can also be expressed as the percentage of total expenditure.

Table 4.4
Achievement Status of Revenue Expenditure

(NRs. in million)

Fiscal Year	Current Expenditure	Total Expenditure	Achievement (%)	Result
2003/04	19.99	40.20	49.72	Weak
2004/05	20.53	42.75	48.02	Weak
2005/06	18.76	49.39	37.98	Weak
2006/07	18.8	105.96	1.77	Strong
2007/08	25.84	77.37	33.39	Weak
2008/09	24.21	108.70	22.27	Average
2009/10	31.55	168.61	18.70	Average
2010/11	32.65	211.48	15.44	Average
2011/12	44.81	177.50	25.25	Weak
2012/13	44.16	168.03	26.28	Weak

Source: GIZ/MoFALD, 2014

Benchmark as per LSGR 2000 Strong- below 15 percent, average percent- 25 percent and weak- above 25 percent

Table 4.4 shows the achievement status of the revenue expenditure of Hetauda sub metropolitan city. According to the Benchmark formulated by LSGR 2000 the revenue expenditure achievement is weak from FY 2003/04 to 2005/06 and in FY 2007/08 and from FY 2011/12 to 2012/13. Likewise, revenue expenditure is strong in FY 2006/07 and average from FY 2008/09 to 2010/11.

Table 4.5
Expenditure on Health

(NRs. in million)

Fiscal Year	Expenditure on Health	Share in Total Expenditure	Total Expenditure
2003/04	0.26	0.65	40.20
2004/05	0.25	0.58	42.75
2005/06	1.21	2.45	49.39
2006/07	4.33	4.09	105.96
2007/08	5.91	7.64	77.37
2008/09	5.20	4.78	108.70
2009/10	7.64	4.53	168.61
2010/11	8.36	3.95	211.48
2011/12	10.26	5.78	177.50
2012/13	12.05	7.17	168.03

Source: GIZ/MoFALD, 2014

Above table shows the expenditure of Hetauda sub-metropolitan city on Health sector. The trend of expenditure on health gradually increasing but share to the total

expenditure is uneven and fluctuated. The share of expenditure on health to the total expenditure is highest in the FY 2007/08 with 7.64 percent and lowest in the FY 2003/04 with 0.65 percent.

Table 4.6

Expenditure on Education

(NRs. in million)

Fiscal Year	Expenditure on Education	Share in Total Expenditure	Total Expenditure
2003/04	0.52	1.29	40.20
2004/05	1.14	2.67	42.75
2005/06	0.46	0.93	49.39
2006/07	0.89	0.84	105.96
2007/08	0.99	1.27	77.37
2008/09	2.57	2.36	108.70
2009/10	1.31	0.78	168.61
2010/11	2.45	1.16	211.48
2011/12	NA	NA	177.50
2012/13	1.26	0.785	168.03

Source: GIZ/MoFALD, 2014

Table 4.6 shows the expenditure of Hetauda sub-metropolitan city on education sector. The share of education expenditure is relatively low. The expenditure on education is the highest in the FY 2008/09 with Rs. 2.57 million and lowest in the FY 2005/06 with Rs.0.46. The share of expenditure on education to the total expenditure is fluctuated and uneven and it is highest in the FY 2007/05 with 2.67 percent and lowest in FY 2012/13 with 0.78 percent.

Table 4.7**Expenditure on Debt Payment**

(NRs. in million)

Fiscal Year	Expenditure on Debt Payment	Share in Total Expenditure	Total Expenditure
2003/04	0	0	40.20
2004/05	1.63	3.81	42.75
2005/06	0	0	49.39
2006/07	0.62	0.58	105.96
2007/08	0.61	0.78	77.37
2008/09	1.03	0.95	108.70
2009/10	2.63	1.56	168.61
2010/11	1.89	0.89	211.48
2011/12	5.82	3.29	177.50
2012/13	3.81	2.27	168.03

Source: GIZ/MoFALD, 2014

Table 4.7 shows the pattern of debt payment of Hetauda sub-metropolitan city. Which shows the uneven pattern of debt payment. The highest debt payment among the study period is Rs.5.82 million in FY 2011/12 and lowest in the FY 2007/08 with Rs.0.61. This table also shows the share of debt payment to the total expenditure that is uneven pattern.

Table 4.8**Expenditure on Capital Investment**

(NRs. in million)

Fiscal Year	Expenditure on Capital Investment	Share in Total Expenditure	Total Expenditure
2003/04	16.09	10.02	40.20
2004/05	15.28	35.74	42.75
2005/06	25.39	51.04	49.39
2006/07	75.12	70.89	105.96
2007/08	44.53	57.55	77.37
2008/09	72.17	66.39	108.70
2009/10	124.08	73.59	168.61
2010/11	160.84	76.05	211.48
2011/12	100.78	56.78	177.50
2012/13	101.85	60.61	168.03

Source: GIZ/MoFALD, 2014

The table 4.8 shows the expenditure on capital investment of Hetauda sub-metropolitan city. The debt payment is highest Rs.160.84 in the FY 2010/2011 and lowest Rs. 16.09 in the FY 2003/04. The share of capital investment to the total expenditure is highest in the FY 2010/11 with 76.03 percent and lowest in the FY 2003/04 with 10.02 percent.

4.3.3 Comparison of Income and Expenditure

Financial gap can be derived from the comparative study of actual income and actual expenditure within the particular period. In other words, financial gap is the difference between actual income and actual expenditure.

Table 4.9

Financial Gap of Hetauda Sub-Metropolitan City

(NRs. in million)

Fiscal Year	Actual Income	Actual Expenditure	Financial Gap (+/-)
2003/04	58.85	40.20	18.65
2004/05	48.70	42.75	5.95
2005/06	79.98	49.39	30.59
2006/07	123.83	105.96	17.87
2007/08	86.57	77.37	9.2
2008/09	123.06	108.70	14.36
2009/10	268.61	168.61	100
2010/11	211.97	211.48	0.49
2011/12	196.00	177.50	18.5
2012/13	172.93	168.03	4.9

Source: GIZ/MoFALD, 2014

The financial gap of Hetauda sub-metropolitan city looks only positive gap. The highest financial gap is Rs.100 million in the FY 2009/110 and lowest Rs.0.49 million in the FY 2010/11. It shows that there is lack of capacity of resource utilization.

4.4 Fiscal Autonomy and Fiscal Decentralization of Hetauda Sub-Metropolitan City

This section of the study deals with the analysis of fiscal autonomy and fiscal decentralization of Hetauda sub-metropolitan city. The specific tools were used for the measurement of fiscal autonomy and fiscal decentralization are Fiscal Autonomy Ratio (FAR), Fiscal Autonomy Index, Local Fiscal Dependency Ratio (LFDR), Tax Autonomy and Relative Growth. The degree of fiscal autonomy and fiscal decentralization are presented as below.

Table 4.10
Fiscal Autonomy Ratio

(NRs. in million)

Fiscal Year	Internal Revenue	Total Expenditure	FAR (%)	Remarks
2003/04	40.22	40.20	100	-
2004/05	41.44	42.75	96.94	Decreased
2005/06	46.59	49.39	94.33	Decreased
2006/07	44.96	105.96	42.43	Decreased
2007/08	46.74	77.37	60.41	Increased
2008/09	56.45	108.70	51.93	Decreased
2009/10	58.94	168.61	34.96	Decreased
2010/11	39.74	211.48	18.79	Decreased
2011/12	55.23	177.50	31.12	Increased
2012/13	58.74	168.03	34.96	Increased

Source: GIZ/MoFALD, 2014

Fiscal Autonomy Ratio (FAR) of Hetauda sub-metropolitan city has been decreased in FY 2004/05, 2005/06, 2006/07, 2008/09, 2009/10, 2010/2011 and increased in FY 2007/08, 2011/12 and 2012/13.

Table 4.11

Fiscal Autonomy Index (FAI)

(NRs. in million)

Fiscal Year	Internal Revenue	Total Revenue	FAI (%)	Remarks
2003/04	40.22	58.85	68.34	Average
2004/05	41.44	48.70	85.09	Strong
2005/06	46.59	79.98	58.25	Weak
2006/07	44.96	123.83	36.30	Weak
2007/08	46.74	86.57	53.99	Weak
2008/09	56.45	123.06	45.87	Weak
2009/10	58.94	268.61	21.94	Weak
2010/11	39.74	211.97	18.75	Weak
2011/12	55.23	196.00	28.18	Weak
2012/13	58.74	172.93	33.97	Weak

Source: GIZ/MoFALD, 2014

World Benchmark: strong above 75 percent, average-above 60 percent and less than 75 percent, and weak-below 60 percent

The table 4.11 shows the FAI of Hetauda sub-metropolitan city. The FAI obtained in the corresponding FY from start of the study period 2003/04 to 2012/13 are 68.34, 85.09, 58.25, 36.30, 53.99, 45.87, 21.94, 18.75, 28.18 and 33.97 percents respectively. According to the benchmark determined by World Bank the FAI of FY from 2005/06 to 2012/13 shows weak index while the FAI in FY 2003/04 is strong and FAI in FY

2004/05 is strong. There is not satisfactory result of FAI because sub-metropolitan city has low internal revenue generation and heavily depend upon the external grants and debts.

Table 4.12

Local Fiscal Dependency Ratio (LFDR)

(NRs. in million)

Fiscal Year	Total Inter Government Transfer	Total Revenue	LFDR (%)	Remarks
2003/04	2.03	58.85	3.45	Strong
2004/05	1.94	48.70	3.98	Strong
2005/06	4.12	79.98	5.15	Strong
2006/07	3.72	123.83	3.01	Strong
2007/08	10.79	86.57	12.46	Strong
2008/09	24.98	123.06	20.29	Strong
2009/10	14.18	268.61	5.28	Strong
2010/11	58.19	211.97	27.45	Strong
2011/12	80.33	196.00	40.98	Average
2012/13	60.81	172.93	35.16	Average

Source: GIZ/MoFALD, 2014

World Benchmark: strong –below 33 percent, and weak -above 50 percent table 4.12 shows the show the Local Fiscal Dependency Ratio (LFDR) of the Hetauda sub metropolitan city. LFDR is found to be strong from the start of the FY from 2003/04 to 2010/11 and average in 2011/12 and 2012/13. This shows that due to the continuous increment of government grant, the dependency rate to the government is high.

Table 4.13
Tax Autonomy

(NRs. in million)

Fiscal Year	Total Tax Revenue	Total internal Revenue	Tax Autonomy (%)
2003/04	33.67	40.22	83.71
2004/05	34.44	41.44	83.12
2005/06	37.09	46.59	79.61
2006/07	36.88	44.96	82.03
2007/08	37.11	46.74	79.39
2008/09	44.46	56.45	78.76
2009/10	44.98	58.94	76.31
2010/11	22.83	39.74	57.45
2011/12	22.65	55.23	41.01
2012/13	29.41	58.74	50.07

Source: GIZ/MoFALD, 2014

Table 4.13 shows the tax autonomy of Hetauda sub metropolitan city. Tax autonomy is highest in the FY 2003/04 with 83.71 percent and lowest in the FY 2011/12 with 41.01 percent.

Table 4.14
Relative Growth

(NRs. in million)

Fiscal Year	Total Internal Revenue	Change in Internal Revenue	Total Revenue	Change in Total Revenue	Relative Growth	Remarks
2003/04	40.22	-	58.85	-		-
2004/05	41.44	1.22	48.70	-10.15	-12.02	Weak
2005/06	46.59	5.15	79.98	31.28	16.46	Weak
2006/07	44.96	-1.63	123.83	43.85	-3.72	Weak
2007/08	46.74	1.78	86.57	-37.26	-4.78	Weak
2008/09	56.45	9.71	123.06	36.49	26.61	Weak
2009/10	58.94	2.45	268.61	145.55	1.68	Weak
2010/11	39.74	-19.2	211.97	-56.64	3.38	Weak
2011/12	55.23	15.49	196.00	-15.97	-96.99	Weak
2012/13	58.74	3.51	172.93	-23.07	-15.21	Weak

Source: GIZ/MoFALD, 2014

World Benchmark: strong above 75 percent and weak below 60 percent. The table 4.14 shows the relative growth of internal revenue and total revenue of Hetauda sub-metropolitan city. The relative growth for the FY 2003/04 is (-12.02) and the relative growth for FY 2012/13 is -15.21. The relative growth rates are below in the study period.

The analysis of fiscal autonomy and fiscal decentralization of Hetauda sub - metropolitan city reveals that FAR decreased from FY 2004/05 to FY2010/11 and increased for the remaining fiscal year. FAI is weak for the FY 2005/6-2012/13,

average for 2003/04 and strong for 2004/05. LFDR is strong for the FY 2003/04-2010/11 and average for FY 2011/12-2012/13. The tax autonomy has aggregately decreasing trend. The relative growth all are weak from the study of the period to the end of the period. The analysis of different aspects of the Sub-metropolitan city reveals that there is no consistent and regular pattern of revenue and expenditure. The fiscal autonomy is not increasing consistently. However, overall performance of the sub metropolitan city is moderately satisfactory.

CHAPTER –V

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

This study is focused on the sub metropolitan city finance and determining the revenue and expenditure pattern and different measures of fiscal decentralization are calculated such as Financial Autonomy Ratio (FAR), Local Fiscal Dependency Ratio (LFDR), Financial Autonomy Index (FAI), Tax Autonomy and Relative Growth. The major findings of the study are:

1. The total revenue of the Hetauda sub metropolitan city showed significance increased from the beginning of the study period fiscal years
2. The internal revenue is found to be unstable and shows fluctuation over the study period. The share of internal revenue is 99.52 percent at the beginning of the study period FY 2003/04 which gradually decreased to 33.97 percent at the end of the study period on FY 2012/13 whereas external revenue was 31.56 percent in FY 2003/04 which gradually increased to 66.03 percent at the end of FY 2012/13.
3. Tax revenue showed increasing trend with some fluctuation from the beginning of fiscal year 2003/04. It covered 83.71% with Rs.33.67 million. The share tax revenue was highest in fiscal year 220/04 at 83.71%.
4. Non-tax revenue is found to be Rs.6.35 million in FY 2003/04 with 15.79 percent share in internal revenue. It contributed 20.39 percent in FY 2005/06 which gradually increased to 29.93 percent at the end of the FY 2012/13.
5. The contribution of external revenue increased consistently from 31.56 percent in FY 2003/04 with Rs.18.63 million to 66.03 percent with Rs.71.82 million in FY 2011/12. At the end of study period, the share of external revenue was 66.03 percent with 114.19 million in FY 2012/13.
6. Regular expenditure was found to be Rs. 19.09 million in FY 2003/04 which increased to Rs. 44.16 million in FY 2012/13. Capital expenditure was Rs. 20.12 million in FY 2003/04 which reached to Rs. 73.72 million in the fiscal year.

7. The share of regular expenditure is 49.72 percent at the beginning of the study period which decreased to 26.28 percent in FY 2012/13.
8. The share of capital expenditure is 50.28 percent in FY 2003/04 which gradually increased to 73.72 percent in FY 2012/13.
9. The achievement of regular expenditure is found weak in almost fiscal years under the study as per the benchmark formulated by Local Self Government Regulation (LSGR) 2000.
10. The relationship actual income and actual expenditure is revealed by financial gap. The financial gap all are positive during the study period.
11. Fiscal Autonomy Ratio (FAR) shows the relationship between internal revenue and total expenditure of the local government. The FAR is not satisfactory because the it has been decreased in the most of the fiscal years.
12. The Fiscal Autonomy Index (FAI) is weak in the most of the fiscal years during the study period. This shows that FAI is weak indicating that internal revenue collection of this city is low.
13. The Fiscal Dependency Ratio (LFDR) is strong at the most of the study period.
14. Tax autonomy of the city is 83.71 percent in the FY in 2003/04 which is the highest tax autonomy during the study period.

5.2 Conclusion

Every municipality has to perform various functions for the overall development of the local residents. To fulfill the necessities of the general people, it needs huge resource to carry out different works and run the daily business of the sub-metropolitan city. Hence, the sub-metropolitan finance must deal with the revenue and expenditure pattern in a definite and systematic way.

The internal revenue is the main source of revenue generation for Hetauda sub metropolitan city. The internal revenue has not a consistent increment for all the fiscal years under the study, which shows that the self-sustainability of Hetauda sub-metropolitan city in the low in the ending phases of study period rather than initial phase. External revenue has not a consistent pattern rather it is uneven and fluctuated. The share of eternal revenue to the total revenue has increased in comparison to the

initial phase of the study. The share of tax revenue is higher than the non-tax revenue. The consistent growth pattern of non-tax revenue shows average relationship in the revenue generation of sub -metropolitan city.

The share of current expenditure to the total expenditure declines throughout the study while the share of capital expenditure to the total expenditure increased continuously revealing that capital investment has increased with time and the performance of the sub-metropolitan city is good. The expenditure on debt payment is relatively low whereas health expense is significant and education expense is low.

5.3 Recommendations

The pace of development of Hetauda sub-metropolitan city is not satisfactory. Despite the authoritative power provided by the central body to the local governments, this sub metropolitan city hasn't yet exercised the power towards all round development. The local available research have not been fully mobilized and efforts should be directed towards accelerated development of health, education and infrastructure related sectors including transparent, result-oriented, sustainable and proportionate development for the betterment of the local people. The following recommendations are listed from the study.

- i. The sub metropolitan must find out potential areas and source of revenue for its independent functioning. The spheres of revenue generation can be explored.
- ii. Development expenditure should be increased to execute different programs like health infrastructure development and improvement of educational status of the residents.
- iii. The regular administrative expenditure should be minimized and the proportion of investment in development works should be increased.
- iv. The participatory planning and inclusive decision making processes should be followed while preparing annual and periodic plan of the sub-metropolitan city.

Focus should be directed towards the gradation of road infrastructure and sewage management as the budget allocation remained very low.

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