

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

In broad sense, finance is the science of money. This is very old concept and dates back to the period when finance was not separated from economics. During the period when finance was not separated from economics, 'finance' was considered very narrowly. Finance in those days, meant procuring only long term fund and excluded working capital and its management from its scope. Since 1950AD, finance emerged as a distinct and important discipline with more significance meaning. In modern time finance is concerned with investment decision financing decision and dividend decision and their execution. In other words finance includes planning the asset mix, capital structure and profit allocation and includes all their operation that are preformed in executing these decision.

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

This study is only concern with Bidur Municipality Finance. To operate this municipality obviously financial resource is required which is fulfilled by its own sources of revenue and depend on subsidy provided by the central government. This study is concern with the revenue and expenditure pattern of Bidur Municipality. Many research works have been done on the Municipal finance. But no any research or analysis has been done on financial structure of Bidur Municipality. This is one of the main reasons of selecting this study.

Bidur Municipality is situated at the heart of Nuwakot district of Nepal. The country consists more rural areas than the urban areas. More than 80 percent of the people live in the villages where limited public utilities are available. But now-a-days people are migrating from village to town or urban areas. It is happened because of availability of more public utilities, better law and order situation in the urban areas.

Mainly two types of government are existence in Nepal namely the central government and local level government.

Central government governs all parts of the country. It generates income to maintain law and order and develop the country while local level government mainly works to develop its local area.

Nepal has adopted decentralized system of government. Under this system, there exist two level of government central and local. Further the local government system consist of two tiers: basic local government in the form of Village Development Committees (VDCs) in the rural areas and Municipality in the urban areas and a higher level of local government at the district level in the form of District Development Committees (DDCs) There are now 75 DDCs, 3915 VDCs and 58 Municipalities.

Since local governments know the felt need of local people, they can prioritize the preference and predilections of local people. This is why there is a common practice around the world to set up local government to manage local affairs in an effective way. Local government can play even more important role as a part of the public sector in a mountainous country like Nepal like Nepal where it is very difficult for the central government to reach to the local people in an effective and efficient manner. In such a country, local government could be made responsible for providing many public services.

Local government is empowered to generate revenue by means of various taxes, fees and user charges. It is logical to assume that tax payers' willingness to pay tax increase when they know that the tax paid by them is going to be used locally for their benefits. Collection of tax paid by government is likely to make local governments more accountable to their voters by making proper use of local fund. Municipality is one of the forms of local governing system on all over the world, irrespective of political system followed by the country. It is not possible to he central government alone to identify development needs of all levels. Similarly the government alone may not be able to carry out all types of development works required to make the country developed socially, economically and its other aspect according to time and situation.

In Nepal, most of the local governments are very weak. They lack managerial and administrative capacity and financial resources. They generate the little revenue and provide only a few services through the centrally transferred money. Some governments are not in a position to carry out even minimum functions. There is, therefore, a need to strengthen the local governments.

In such a country like Nepal, decentralization which helps to improve public sector performance and promote voters' preferences has been discussed much in theory. However, not much progress has been made so far in practice. The situation looks a little favorable now. The Local Self Government Act 1999 has attempted to address issues such as: which function should be allocated to the local bodies? Which taxes should collect? And what other revenue resources should they be allowed to mobilize? Are its plans and policies being implemented? This new law has enhanced both responsibilities and authorities of the local governments. It provides more autonomy to the local bodies. Its implementation is yet to be seen, however.

Very little is known about the municipal system that existed in Nepal prior to the 1960. The scanty information indicates that the first municipality was

established in Lalitpur in 1918 AD. This was followed by the Kathmandu Municipality which was set up at first as the 'cleaning office' in December 1919. As the name suggests, this office was mainly responsible for the cleaning of Kathmandu.

The "cleaning office" was converted into an elected body over the years. The year 1947 was notable in the evolution of Kathmandu Municipality in the sense that in February of that year, prime Minister Padma Shamsheer announced administrative reforms, including the establishment of an elected Municipality in Kathmandu. Accordingly, Kathmandu city was divided into 2 wards and Kathmandu Municipality was constituted 21 elected members in March 1947. The third Municipality was established in Bhaktapur in the form of "Chebhadel" in 1949.

Until the end of the first half of the twentieth century, there were only 3 municipalities in Nepal. All these municipalities were located in Kathmandu valley.

In 1952, two more Municipalities were set up in the Eastern parts of Nepal: One in Biratnagar and other in Bhadrapur. Additional seven municipalities were created until 1960, reaching.

Since the 1960s, several municipalities have been created under various laws. For example, 1962, municipal act was enacted in the name of Nagar Panchayat Act 1962 in order to create and manage municipal affairs. According to this Act, Government of Nepal (GN) was authorized to declare an urban area with a minimum population of ten thousand as a municipality (Nagar Panchayat). A municipality with nine thousand would be divided into nine wards and the municipality with higher population would be divided into more wards, up to 33 wards, depending upon the size of the population.

The 1992 Act was replaced by a new Municipal Act 1990, which was also replaced by the Municipal Act 1992. Under the Act 1992, GN would declare an area with a minimum population of 20,000 with electricity, roads, drinking water, communication facilities and education facilities as a municipal area. A municipality would be divided into minimum nine wards. a municipality was treated as an elected autonomous and organized body. Under this act, municipalities were classified into three categories as Municipal Corporation, Sub-municipal Corporation and Municipality.

The Municipality Act 1992 was replaced in 1999 by the Local Self Governance Act 1999 on April 29, 1999. Part 3 of the Local Self Governance Act deals with the municipality. According to this act, GN may specify any area with population of at least twenty thousand (ten thousand in the hilly and mountain areas) and with electricity, roads, drinking water and communication facilities as a municipal area. A municipality will be divided at least into nine wards consisting of equal population to the extent possible. This law does not specify the maximum number of ward of a municipality.

Under the 1999 Act, a municipality is treated as an autonomous and corporate body. It consist of one Mayor, one deputy mayor, ward chairman, depending upon the number of wards of a municipality and two members of the municipal councils. The local people elect Mayor, deputy mayor and ward chairman.

Under the 1999 Act, GN is empowered to appoint a secretary for the municipality to carry out the day-to-day works of the municipality. The role of secretary is a very much a controlling one, emanating from the old top down governance hangover in the minds of administrators and central level politicians. They are paid from the central budget and their transfer and promotion is also done by GN. They are supervised by the municipalities. They are paid from the municipal budget. This means that both are paid from the

municipal budget. This means that both GN and municipalities control municipal administration.

Bidur Municipality was established in 2043 B.S.(1987 AD). It is situated in 68 km far from Kathmandu valley in the North-West direction. The total area of Bidur municipality is 34.55 sq. km. The villages it comprises are Battar, Devighat, Pipaltar, Majhitar, Bidur, Trishuli, Raising, colony, Lamatar and Aangutar. Bidur is one of the most important places of Nuwakot district. It can be considered as the heart of Nuwakot district. Bidur Municipality has 11 wards. It has a religious important place. The famous Sat Talle Durbar is also located here. And other important palaces are Bhairabi Mandir, Jalpa Devi, Ram Mandir, Panchakanya Mandir etc. Bidur is situated near the river Trishuli. In this Municipality, there are two Hydro-electricity centres; one generates 24000 KW and another 14000. Bidur Municipality is bordered by Khanigaun, Madanpur and Suryamati VDCs in the East, Charghare, Khadgabhanjyang and Kalyanpur VDCs in the West, Tupche and Gerku VDCs in the North and Belkot and Jiling VDCs in the South. Agriculture is the main economic activities of this municipality. Business and services are developed in the urban core of Bidur Municipality.

1.2 Evolution of Municipality in Nepal

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

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

After the revolution of 2007 B.S. 'Nagar Panchayat Act 2007' was introduced, under this act, five municipalities were officially established. They were Patan, Kantipur, Bhaktapur and Tansen were named, and then the number of municipalities became seven. Seven more municipalities were declared between the periods 2009-2019 BS and then the total number of municipalities became fourteen. Bidur Municipality was established in 2043 B.S.

Bhairahawa was developed as municipality during the year 2020-2025 and in total number becomes 15. Within 2026-2031, also only one municipality was added and so the total number became 16. Only two municipalities were developed within these 11 years. By the end of 2037 BS there were twenty-three municipalities. As the demand and the process of establishing municipalities were increasing, the total number of municipalities became 33 by the end of 2043.

Table 1.1
Evolution of Municipalities in Nepal

Periods	Name of Municipalities	Numbers
1976	Kathmandu	1
2008	Patan, Bhaktapur, Biratnagar, Birjung	4
2008-2009	Bhadrapur, Tansen	2
2009-2019	Janakpur, Rajbiraj, Pokhara, Butwal, Nepalgunj, Dharan, Illam	7
2020-2025	Siddharthanagar	1
2025-2031	Hetauda	1
2032-2037	Mahan, Hinged, Birendranagar, Mahendranagar, Tribhuwannagar Dhankuta, Bharatpur	7
2038-2043	Dipayal, Inaruwa, Kalaiya, Damak, Banepa, Kapilvastu, Jaleswor, Dhulikhel, Bidur, Malangwa	10
2043-2048	Byas, Tulsipur, Gaur	3
2052	Upgraded Municipalities as Kathmandu Municipality into metropolis and Biratnagar, Pokhara, Lalitpur, Birjung Municipalities into sub-metropolis	-
2053	Amargandhi, Baglung, Bhimeshwor, Dasarathchand, Guleria, Itahari, Kamalamai, Khadbari, Kirtipur, Lekthnath, Madhayapurthimi, Meechinagar, Narayan, Panauti, Prithivinarayan, Putalibazar, Ramnagar, Ratnagar, Siraha, Tikapur, Triyuga, Waling	22
Total Municipalities		58

Source: *Booklets From MLD/Udle/GTZ*

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

1.3 Statement of the Problem

Urban population growth rate is not only very high in Nepal but also increasing in trend. Communication of urban resident has become a big issue and challenges for urban development efforts. Encroachment of open space and public places are common in all municipalities. Narrow streets, heavy pollution and traffic congestion, lack of drainage and sewerage facility, tall haphazardly constructed buildings are basic features of urbanization in Nepal. Our city neither has good plans nor is equipped with necessary information and basic urban infrastructure services. Personal development for the city management has low priority. Municipal employees have neither career opportunity the newer challenges of urban management for which they are staffed.

Similarly, the basic needs of the people, which the municipality has to provide, are unlimited and likewise, the internal resource of income of the municipality is limited as the process of collecting them unsystematic. In this way, the study will provide the guideline for the decision makers of the municipalities for budget formulation and planning of the municipality under the present study.

Bidur municipality started working in accordance with Municipality Act 2048 from the year 2043. A lot of fund has been mobilized by the municipality for the overall development of the Municipality.

The municipality has to work in the following areas such as drinking water supply, sanitation, electricity supply, education, health hygiene. In order to attain this, the municipality has to raise adequate funds from various resources; local as well as central. In this context, the mobilization and rising of resources and their utilization has been the subject of academic interest. This necessitates analyzing properly both the aspects of resources mobilization and their expenditure on different sectors. The difficulties the local authorities are facing in order to carry out these duties have also been the matter of concern.

Basically, finance of Bidur Municipality is facing various problems:

- i. Drinking water, street lighting and telephone lines are inadequate in this municipality.
- ii. More public health services are required to meet the requirement of growing population.
- iii. Infrastructure like city roads is not in well condition in Bidur Municipality.
- iv. Lack of adequate technical and professional man power to plan, regulate and implement projects.
- v. Lack of strong administrative mechanism to promote development activities.
- vi. Revenue and expenditure pattern are found flexible over the fiscal year for development activities in Bidur Municipality.

These are main issues of this research. Furthermore, financial resources, which are to be mastered to improve the performance of municipality, will be considered. This has demanded a research of the municipality finance in Nepal. This study helps to the businessmen, politicians, the government/semi government/officials. It also helps the man who likes to study again over the same subject. Thus, this study is very important.

1.4 Objectives of the Study

This study intends to focus on the overall situation of the financial system of Bidur municipality. Therefore, the objectives of this study are:

- a. To study the trends and patterns of municipality finance in Nepal.
- b. To assess the existing and potential sources of revenue and expenditure pattern of Bidur municipality.
- c. To recommend policies that can improve the financial system of Bidur municipality.

1.5 Significance of the Study

The urban population growth rate was 6.4 percent per annum during the period 1991-2001 which was only 5.6 percent during 1981-1991. This figure noticeably shows the increasing trend of urbanization in Nepal. Furthermore, the urban growth rate of last decade is almost three times higher than the national average of 2.25 percent. It demands more infrastructure, services and facilities to accommodate the populace. But necessary physical and social infrastructure have not increased equal in the pace of urban population is becoming polluted and unhealthy because of lack of sanitation amenities and services urban poor have less access to basic services are provision. it is also becoming ineffective and insufficient due to lack systematic urban management practices. Air quality of urban area is not healthy as compared to the rural area. Vehicle emission, uncontrolled industrial gases and existence of industrial units in residential area are declining air quality urban areas. Approximately 25 percent of urban household do not have proper toilet provision. Bidur municipality is also suffering from this kind of problems.

So, all these issues demand for more financial resources to improve the performance of municipalities. Municipality finance is a macro sectoral study but this study has focused on micro level i.e. the financing in a municipality Bidur. Municipality finance is one of the most talked about subject among politicians, businessmen as well as tax payers in Bidur. But not much research work has been done in this field. So the proposed study on the municipality finance helps to understand how the municipality works. It is also the major subject concerned to the people. In Nepal, the functions of municipalities are different from that of other countries regarding its revenue and expenditure methods. So it is essential to study its financing system.

1.6 Limitations of the Study

There are some limitations of this study which are given below:

- i. This study is mainly concerned with one municipality. So this study may not represent the extent of the problem for the country as a whole.
- ii. It is based on the limited time frame.

- iii. The financing of this may not be relevant to other municipalities.
- iv. This study only based on the financial management of Bidur Municipality.

1.7 Organization of the Study

The whole research study is divided into five chapters.

The first chapter is the introductory portion which deals with background of the municipality, evolution of the municipality in Nepal, statement of the problems, objectives of the study, limitations of the study, and summary of the organization of the study.

The review of literature constitutes the second chapter which covers the concept and patterns of local governments, the objectives of local self-governance Act 1999 and empirical studies.

The third chapter deals with the research methodology.

The fourth chapter analyzes the revenue and expenditure pattern of the Bidur municipality during the period of five fiscal year 2061/62 to 2065/66. It includes a detailed analytical description of different sources of revenue and their contribution to the net total revenue as well as the major area of expenditure.

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

CHAPTER - II

REVIEW OF LITERATURE

2.1 Concept and Patterns of Local Governments

Review of literature gives a clear knowledge as to what is relevant for the research in order to get findings. So it is necessary to review important books and research works conducted by different institution and articles reviewed here.

Financing refers to the provision of monetary resources to operate a system that may also be a sector where it is required. Finance may be short - term, medium term and long term. When finance was not separate from economics, finance got narrow meaning, which is finance meant procuring only long-term fund but excluded short term and medium term fund. But now finance is concerned with investment decision and their execution. Finance may be required for consumption or for investment purpose.

A number of factors contribute to the structural composition of municipal finance: pattern of local policy, size and level of local units, local functions and government control. The decentralized and de-concentrated pattern for local policy has an immense impact on municipality finance. The degree of functional autonomy with considerable amount freedom levy access and local taxes along with sufficient liberty to formulate, legislate and excite budgetary proposal determines the degree in government interference in municipal activities.

The size of municipality is an important factor that determines the adequacy of municipal finance. A municipal authority sizeable in terms, of hypsography and human settlement has greater prospects for better financial position that the one with comparatively smaller size in terms of its area and population, usually it is economically viable. Function assigned to the municipalities is getting another

factor for determining the scope and scale of municipal finance. It is almost a universal phenomenon that with the increasing involvement of the units of local government in nation building activities the flow of government grants in aid has also increased.

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

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

Thus, this chapter is designed to analyze the basic pattern of some selected developed and developing countries, such as UK, USA, India, Japan, and

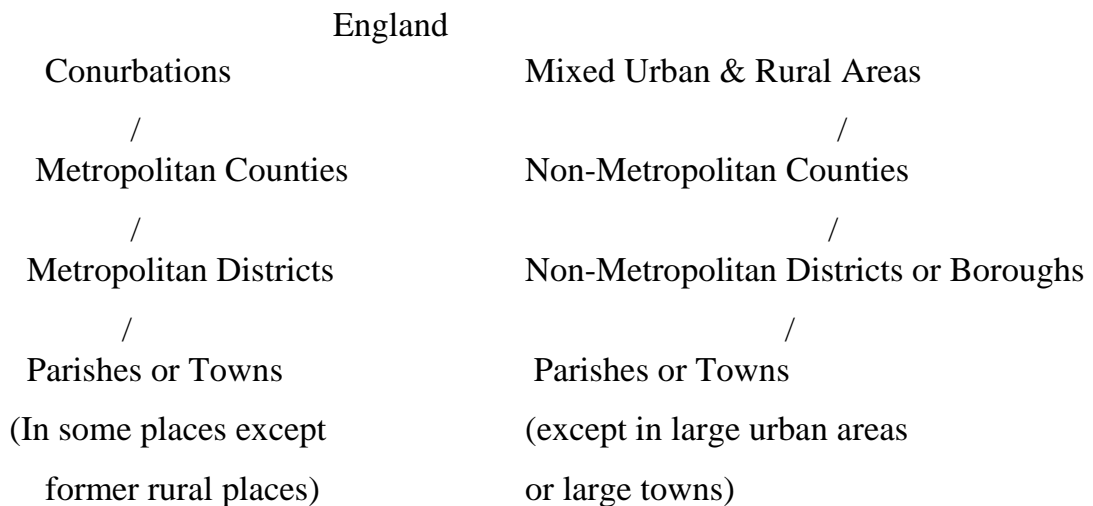
Nepal. If U.S.A. and UK represents the Western patterns of local governance, India, Japan, and Nepal represents the traditional pattern, modified under the impact of Western culture. However, no effort is made to analyze fully any of the traditional patterns of Local Government.

Great Britain

Among the modern states, Britain occupies a unique position in the study of the theory and practice of Local Government. First, it offers a mode of the Local Government which has kept up its story traditions of decentralized pattern in spite of the steady invasion by the Central Government of the sphere formerly left entirely too local authorities. Then, among the leading countries, Britain is one in which local history and spontaneous local growth has determined the shape and size of the local areas and the local political process.

Before 1835, the boroughs were privately organized bodies. In 1835, the Municipal Corporations Act reconstituted them on new and uniform lines. Thus they emerged as public authorities to be elected by rate-payers. But the government of the towns was left unsupervised by the Central Government. In the previous year under the poor law, the elective boards of guardians were made responsible for its administration.

The Local Government system is now based on four sub- systems. The total picture of the entire country is shown below:



London	Wales
Greater London Council	Counties
/	/
London Boroughs	Districts or Boroughs
/	/
City of London Corporation	Communities or Towns (except in larger urban areas)

In the present set up of Local Government, Metropolitan County, which is the top tier, is wholly a new-comer without any tradition. The second tier, viz., Metropolitan Districts were formed out of amalgamation of former authorities or parts there of ranging in status from county to Boroughs to Rural Districts, while the greater part of metropolitan areas have a two-tier system, the remainder has a third level. Each Metropolitan county has a population of one million. The typical Metropolitan Districts is nearer the 2, 50,000 mark. Non-Metropolitan counties average more than half a million; a Non-Metropolitan District commonly has around 10,000 inhabitants.

France

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

Today the French pattern of Local Government presents a very complex phenomenon. Geographically, it is, however, a very simple, four-tier system of administration. The country is divided into Departments; each department in subdivided into Arrondissement, each Arrondissement into canton and each

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

USA

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

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

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

Today, country the largest and the most typical unit of rural Local Government. The traditional and most important unit of Local Self-Government is the Town in the six New England States. The New England Town Meeting is compared with the three pure forms of democracy, namely, the Greek City State, the Swiss Canton and the Indian Village Gram Sabha. Townships exist as political subdivisions of the state and the county as well as units for the conduct of local affairs. They are rural counterparts of municipalities. They are of two types :

first, those which are akin to the New England Town Meetings with a Board for the execution of their decisions; second; those where a member of the Township Board constitutes the administrative authority.

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

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

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

India

The history of municipal government may be divided into four periods: (a) the pre-1982 period when municipalities were created to some imperial needs. (b) the period from 1982 to 1919 when attempts were made to turn into self-governing units, (c) the period between the two reform of 1919 and 1935, a period of administrative failure and (d) the period of reconstruction from 1935 to present day. The basic objective of the reconstruction was to recognize the

whole of local government with a view to making them a training ground of democracy and an effective organ of administrative (Agrawal, 1960).

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

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

Japan

The concept of Local Self-Government was alien to Japan when it was transplanted there after the Second World War by the occupying authorities. For the purpose of local administrative organization Japan is divided into major and minor authorities.

The major authorities are as follows:

- i. 'Ken' (Rural Prefectures)
- ii. 'Fu' (Urban Prefectures)
- iii. 'Do' (Hokkaido)
- iv. 'To' (Metropolis of Tokyo)

The minor authorities are:

- i. 'Shi' (Cities except those designated as Special Cities)
- ii. 'Machi' or 'Cho' (Towns)
- iii. 'Mura' or 'Son' (Villagers)

To sum up, the salient features of the Japanese Local Government are as follows:

1. Responsibility for the management of local authorities belongs to the local residents (instead of the Central Government, as was the practice before the Second World War).
2. The local political chief is modeled on the presidential form of executive elected directly by popular vote.
3. Direct democratic devices like referendum, initiative and recall have been prescribed for the local authorities.
4. A system of administrative boards with executive, quasi-judicial and quasi-legislative powers was introduced.
5. The councils are aided and assisted by standing committees in the examination and deliberation of local affairs.

Nepal

In Nepal, the history of the municipalities dates back to 1902 A.D. During the Rana regime, Rana Prime Minister Chandra Shumsher first introduced 'Bhotahity Sawal' as a municipality. The Ranas appointed delegates in Bhotahity Sawal who were known as Bada Hakim. At the time of Bhim Shumsher in 1919 A.D, some improvements were made in the development

process of municipality. 'Kantipur' was declared as a municipality in the same year.

After the political revolution of 2007 B.S., Nagar Panchayat Act 2007 was introduced and there after 5 municipalities were officially established. After declaration of Nepal Municipal Act 2059 B.S. the process of establishing new municipalities moved forward and there were 35 officially established municipalities by the end of 2018 B.S. After restoration of democracy and promulgation of constitution in 2047 B.S. which has engrossed with the concept of a more decentralized form of government made string commitment form strong. Local municipality and frequently the 'Municipal Act 2048 B.S.' came on to horizon. As result now there are 58 municipalities in Nepal.

After the restoration of democracy in Nepal and subsequent promulgation of the constitution, the Nagar Panchayat Act was revised and introduced Nagar Palika Ain 2048.

This Act has provisions of dividing municipalities as follows:

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

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

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

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

2.3 Municipal System/Pattern

Nepal has adopted a unitary system of government. Under this system, there exist two levels of government: central and local. Further, the local government system consists of two tiers: basic local governments in the form of village development committees in the rural areas and municipalities in the urban areas and a higher level of local government at the district level in the form of district development committees. There are now 75 DDCs, 3,913 VDCs and 58 municipalities.

Municipalities constitute the local government in the urban areas of Nepal. The total municipal population was 3644735 in 2006/07, which was about 14 percent of the estimated total population of Nepal in that year. While the share of urban population in the total population is still not much, the urban population has been increasing rapidly in the recent past, there by increasing the demand for public services in the urban areas. Rural population is largely deprived of modern public services. Further, a large part of the economic activities is concentrated in the urban areas where there is more scope to generate revenue than in the rural areas. Thus, since there has been both increasing demand for public services and scope to generate revenue in the urban areas, municipal finance is crucial in the local finance of Nepal.

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

With and without any obligation, these local institutions need to be preformed their regular development and other activities and implement accordingly. Due to the chaos political and internal conflict situation more and more people are

pouring into the near by city centers and that creates immense pressure for municipal authorities to provide “basic urban services” to “internally displaced people –IDP” as well as their permanent urban dwellers. With all these uncertainty and fragile political situation, most of our cities are becoming more populous than ever since due to internal political conflict. Basically, Nepalese municipal bodies will have to allocate more funds in capital expenditure to meet the basic urban services created by locally displaced and migrated people as well as the general of urban population growth.

2.3.1 Functions

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

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

2.3.2 Public Utilities

Public utilities to be provided by the municipalities may include water supply, sewerage and drainage, electricity, telephones, roads, rivers, streams, ponds,

deep water, wells, lakes, river cutting, floods and soil erosion, water, air and noise and solid wastes.

2.3.3 Social Services

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

2.3.4 General Urban Services

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

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

2.4 Sources of Financing Municipal Expenditure

Municipal expenditure is financed through various sources viz. taxes, non-tax sources, grants and loans. Taxation is the largest source of financing municipal expenses. The tax revenue actually constitutes an important element of the

municipal total income. This is followed by non-tax revenue in some years and by grants in other years. Municipalities also use loans to finance some of their activities.

Municipal expenditure is divided into three main heading: Regular expenditure, Social expenditure and Capital expenditure. Of them, capital expenditure is the largest, which is followed by the current expenditure. Social expenditure is not significant.

Table 2.1

Heading	Rs. in Millions	Percent
Tax Revenue	1589	59.40
Non-tax Revenue	734	27.44
Grants	317	11.85
Loans	35	1.31
Total	2675	100.00
Balance Forward	480	
Grand Total	3155	

Financing Sources of Municipal Expenditure

Source: *Detailed Revenue/Expenditure breakdown, GTZ/Udle, 2008*

Total income of all municipalities was Rs. 3155 million in 2007/08. Out of this tax revenue was Rs, 1589 million while non-tax revenue was Rs. 734 million. Grants and loans were Rs. 317 million and Rs. 35 millions respectively while Rs. 480 million was the balance forward in that fiscal year.

2.4.1 Taxes

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

been given autonomy to fix the rates within the range as per the local conditions.

While municipalities have been authorized to levy various taxes since the early 1960s, they are confined to depend heavily on local development fee for revenue. As indicated in Table 4.2 in 2007/08, municipalities generated Rs.1247 million from local development fee out of total municipal tax revenue of Rs.1589 million. The local development fee constituted 78.48 percent of total municipal tax revenue in 2007/08.

Table 2.2
Composition of Municipal Tax Revenue

Heading	Rs. in Millions	Percent
Local Development Fee	1247	78.48
Vehicle Tax	46	2.89
Professional Tax	65	4.09
House, land tax and integrated property tax	192	12.08
Other Direct/Indirect Taxes(house rent, contract, local market, sales taxes)	27	1.70
Others taxes and arrears	12	0.76
Total Tax Revenue	1589	100.00

Source: *Detailed Revenue/Expenditure Breakdown, GTZ/Udle, 2008*

House, land tax and integrated property tax has been the second largest source of tax revenue of municipalities. This source generated Rs.192 millions in 2007/08, which was 12.08 percent of the total tax revenue. Professional tax has been the third largest source of municipal tax revenue. This tax provided Rs.65 million revenue in 2007/08. Relatively speaking, professional tax provided 3.88 percent of total tax revenue in 2005/06. Vehicle tax has been the fourth largest source of municipal tax revenue. This tax provided Rs.46 million revenue in 2007/08. Relatively speaking, vehicle tax provided 2.89 percent of total tax revenue in 2007/08.

In 2007/08, Other Direct/Indirect taxes (house rent, contract, local market, sales taxes) and others taxes and arrears provided only Rs.27 million and Rs.12 million, respectively. The contribution of other direct/indirect taxes and other taxes to the total tax revenue was 1.70 and 0.76 percent, respectively in 2007/08.

2.4.2 Non-tax Revenue

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

The existing composition of revenue under which municipalities generate more than 78 percent of their total tax revenue from the local development fee also indicates the need to make use of the non-tax sources. This is because the future of the local development fee is uncertain in the contest of the possible entrance of Nepal to the World Trade Organization. It is, therefore, recommended elsewhere in this study that municipality should develop property taxes as their major source of revenue. But it would not be possible to develop these taxes overnight.

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

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

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

The breakdown of non-tax revenue of municipalities may be seen from table 2.3

Table 2.3
Composition of Non-tax Revenue

Heading	Rs. n Million	Percentage
Service fees	182	24.80
Building Permit Fee	208	28.34
Market/shopping/building rent	62	8.45
Bus park fee	34	4.63
Others	248	33.78
Total	734	100.00

Source: *Detailed Revenue/Expenditure Breakdown, GTZ/Udle, 2008.*

Municipalities do not generate much revenue from non-tax sources. For example, in 2007/08 they generated Rs.734 million from non-tax sources. Not all municipalities use all sources and not all sources are equally important from the revenue point of view for each municipality. Of the non-tax sources, building permit fee was the biggest source in 2007/08 providing Rs. 208 million, which was about 29 percent of total non-tax revenue in 2007/08. Municipalities also generated Rs.182 million from the service fee. Rents from market, shops and buildings have provided Rs.62 million revenue. Service fees and rental income from market/shops/buildings were the second and the third largest sources of revenue, providing about 25 and 8 percent of the total non-tax revenue, respectively.

2.4.3 Grants

Municipalities receive money in the form of grants also, to carry out their functions. Municipalities get grants from NG/N, DDCs or Town Development Fund (TDF). As indicated in table 2.4, NG/N grants are given in the form of an

administrative grants and development grants. Administrative grants are given to support NG/N employees posted at the municipal offices, while development grants are provided to carry out development activities at the local level. All municipalities receive NG/N administrative grant. NG/N-development grant is provided the most important grants. This type of grant is provided only to those municipalities whose internal revenue is less than one crore. They also receive grants for the operation of fire fighter.

Table 2.4
Composition of Municipal Grants

Type of Grants	Rs. in Millions	Percent
NG/Administrative Grants	72	24.91
NG/Development Grants	117	40.49
DDC and Other Grants	88	30.45
TDF Grants	12	4.15
Total Grants	289	100.00

Source: *Detailed Revenue/Expenditure Breakdown, GTZ/Udle, 2008*

Of the grants sources, NG/Development Grants was the biggest source in 2007/08 providing Rs.135 million, which was about 43 percent of total grants in 2007/08. Municipalities also generated Rs.90 million from the DDC and other grants. NG/Administrative grants provided Rs.76 million.

2.4.4. Loans

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

Table 2.5
Composition of Municipal Loans

Type of Loans	Rs. in Millions	Percent	Rs. in Millions	Percent
	2004/05		2005/06	
TDF Loan	14	53.8	15	42.86
Other Loan	12	46.15	20	57.14
Total	26	100.00	35	100.00

Source: *Detailed Revenue/Expenditure breakdown, GTZ/Udle, 2006*

The total amount of loan raised by municipalities in 2005/06 was Rs.35 million, while it was Rs. 26 million in 2004/05. The share of TDF and other loan in the total loan vary from year to year. For example, the share of TDF loan in the total municipal loan was 53.85 percent in 2004/05 while the share of non-TDF loan was about 58 percent in 2005/06.

Not all municipalities have made use of this source. There is a lack of detailed provisions relating to loans. Municipalities also lack technical know-how to develop economically viable projects to meet the requirements of the commercial banks or their financial institutions.

2.5 Issues

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

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

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

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

2.6 Directions for Reform

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

2.7 Definition of the Variables

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

2.7.1 Local Government

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

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

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

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

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

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

2.7.2 Local Government Finance

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

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

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

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

2.7.3 Municipality

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

In this study municipality means Bidur municipality which is situated at the heart of the Nuwakot district. Its population is 78,863 and has an annual

income of more than 39 million rupees (FY 2060/61). Politically and administratively this municipality has been divided into 9 wards.

2.7.4 Municipal Government

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

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

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

2.7.5 Revenue

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

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

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

i. Local Taxes

Local taxes means the revenue which are collected by the means of Octroi/Local development fee, vehicle tax, professional tax, house tax, house

rent tax, contract tax, local market tax, sales tax (cattle/fish), unclaimed land tax, tax arrears and other taxes. Local taxes are the main source of income of Bidur municipality.

ii. Fees and Fines

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

iii. Property Rental

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

iv. Sources of Other Revenue

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

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

a. Grants

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

b. Loans

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

c. Miscellaneous Income

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

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

2.7.6 Expenditure

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

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

a. Current Expenditure

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

b. Debt Payment

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

c. Ordinary Capital Expenditure

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

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

- a. Investment on Capital and
- b. Expenditure on Social Programs

a. Investment on Capital

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

b. Expenditure on Social Programs

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

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

Udle

Urban development through local effort (Udle) was established in the year 1987. This organization has been financed by the federal republic of

Germany/GTZ. In 1992, Government of Nepal approved the municipal Act. This gave a new thrust to the national policy of decentralization by requiring the municipalities of Nepal to be responsible for the management of their urban areas. To fulfill this challenge, municipalities were in need of some assistance. The Urban development through local efforts programmed provides this assistance as a joint initiative of Government of Nepal and GTZ on behalf of the Federal Republic of Germany.

FiMa

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

TDF

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

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

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

2.8 Empirical Studies

Local Government may be described as government by popularly elected bodies charged with administrative and executive duties in matters concerning the inhabitants of a particular district or place and vested with powers to make bye-laws for their guidance (Local and Municipal administration, 1971) A strong system of local government is clearly almost beyond the needs of discussion. Harold J. Laski has rightly said that "We can not realize the full benefit of democratic government unless we begin by the admission that all problems are not central problems, and that the results of problems not central in their incidence require decision at the place and by the persons, where and by whom the incidence is most deeply felt" (Local & Municipal Administration, 1971).

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

Pandey (1977), in her study has concluded that one of the most essential factors for development is financial resources. NG has to mobilize it to a maximum possible extent. It should use the resources economically and efficiently. Besides this it should try to generate additional resources by taxing the people who enjoy government services. Generating resources by increasing tax base and tax rate is the only way out of development. Besides this in her opinion growth rate of expenditure should be checked and leakages should also be minimized by the government.

Shrestha (1981), concluded that the government expenditure in different plan periods indicates its great ambition to uplift the Nation's economic status in rapid pace.

Chapagain (1995), had studied the municipal finance in Nepal. He had studied the financial aspect of Lalitpur Municipality. He has concluded that the lack of understanding of the responsibility of paying taxes on the part of tax payers has caused the tax management more complex and hard. And the problem has aggravated with respect to time.

Timsena (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 aspirations of the local people. Similarly the local government could mobilize financial resources in the forms of various taxes, service charges and fees.

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

Gautam (2002) has studied municipality finance in Nepal. His study is based on the case study of Nepalgunj Municipality. He has mainly used secondary sources of information in his study. His study was mainly focused on the trends and patterns of municipality finance in Nepal. He has also focused on possible potentials of the new sources of revenue and expenditure pattern of the municipality. He has concluded that the collected revenue was not fully utilized by the municipality. This has caused a high balance forward in his municipality. He has also concluded that the potentialities of sources of revenue are presented in the municipality but the authorities have not paid

attention to it. He has also concluded that the municipality should take firm decision in collecting taxes.

Jha (2003), has studies Municipality finance of Jaleshwar Municipality. He has used primary as well as secondary data in his study. His study has focused on the sources of revenue and expenditure pattern. He has concluded that the local tax is the main internal sources of revenue and other taxes are the main sources of revenue for the country.

Shah (2006) had studied municipality finance in Nepal. His study is based on the case study of Janakpur municipality. He had concluded revenue was not fully utilized by the municipality. This has caused a high balance forward in this municipality. He had also concluded that the potentialities of sources or revenue are present in the municipality but the authorities have not paid attention to it. He has also concluded that the municipality should take firm decision in collecting taxes.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Selection of the Municipality

Bidur municipality is the only one municipality on Nuwakot district. Bidur being the administrative and market centre plays a vital role in the development of this district. However, in my knowledge no one has done any financial research of this municipality. This is one of reasons to select this municipality as a study area. Besides this, Bidur municipality was established nearly before 23 years but economically and financially it is still very weak. The other and the main reason to select this municipality are to find the financial aspect of this municipality and provide some constructive suggestions.

3.2 Research Design

The design of this study is analytical as well as descriptive. On the hand the researcher has used descriptive method to study the systematic collection and presentation of data to give a clear picture of a particular situation and attempt to obtain a complete and accurate description of a situation where as on the other hand, the researcher has used analytical research to use fact or information already available of the materials. In fact, the research designs the conceptual structure with in which the research is conducted.

3.3 Population and Sample

At present, there are 58 municipalities operating within Nepal. Out of them, due to resource and time constraints only Bidur municipality has been chosen for the study purpose among the total municipality.

3.4 Duration of the Study

The study attempts to analyze the revenue and expenditure pattern of the municipality of five years from the period fiscal year 2061/062 to 2065/66.

3.5 Data Collection

3.5.1 Sources of the Data

This study is mainly based on secondary data. Secondary sources were used to find the economic condition of the municipality, and revenue and expenditure pattern of this municipality. Secondary data is obtained from reviewing important available documents.

3.5.2 Collection of the Secondary Data

The balance sheet of revenue and expenditure of all the municipalities were collected from Udle, which was prepared by Ministry of Local Development, Municipal Management section of Nepal/GTZ.

The balance sheet of revenue and expenditure of Bidur Municipality were collected from budgeting section of Bidur Municipality. The information of the physical condition of Bidur municipality and its structure were provided by the Bidur municipality. The loan provided by TDF to Bidur municipality was collected from the TDF office, Kathmandu. Other statistical data's (e.g. municipality's population, growth rate and literacy rate) were collected from the Central Bureau of Statistics, Nepal.

3.6 Tools Used/ Method of Data Analysis

The available data from secondary sources are presented and analyzed as per required tables. After collecting data, the data are manually processed which are obtained as income and expenditure. The obtained data is analyzed by some statistical tools like mean, percentage, growth rate etc. The secondary sources have been descriptively analyzed. After data tabulation necessary diagrams and charts are presented.

CHAPTER - IV

ANALYSIS AND PRESENTATION OF DATA

4.1 General Information of the Study Area

Bidur municipality is mid town of hilly region of Nepal. It was established in 2043 BS with 9 wards which have now increased to 11 wards. The municipality finance in Nepal has changed from time to time. Government enacted the new “local self governance act, 1999”, which discontinued the local development fee. The local development fee was the major single source of revenue of the Nepalese municipalities. This decision was one step forward to fiscal decentralization. But it is yet to be assumed that the municipalities can mobilize their own sources of revenue in the sustainable way by implementing their newly assumed limited taxing powers. It is obvious that the power to tax is essential for promoting sustainable and accountable local government.

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

while ensuring a higher flow of revenue to municipalities and making fiscal decentralization a success.

4.2 Revenue Pattern

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

Table 4.1
Total Revenue

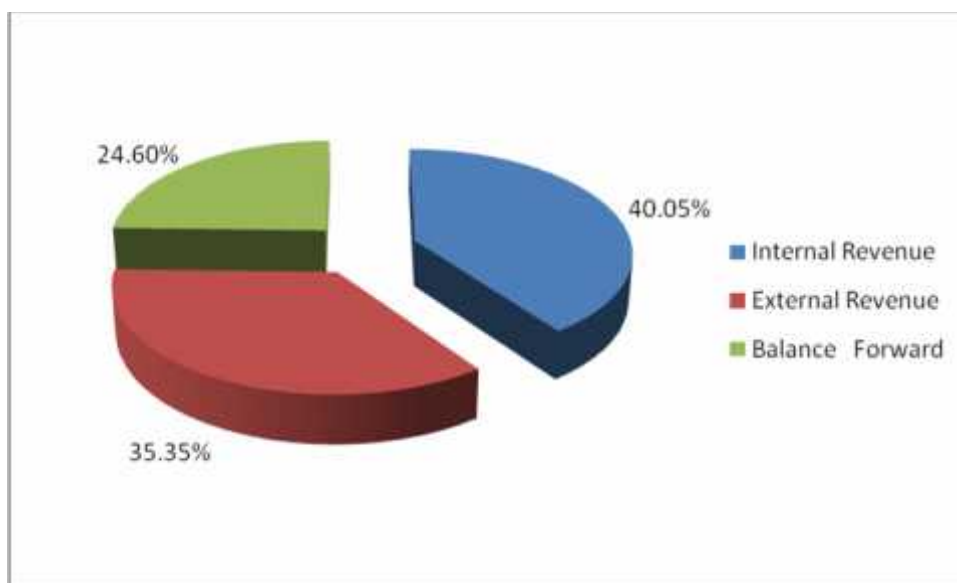
(In Rs.)

Fiscal Year	Internal Revenue	External Revenue	Balance Forward	Total Revenue
2061/062	8645633 (51.31)	3100000 (18.40)	5102045 (30.28)	16847678 (100)
2062/063	8920472 (40.10)	7450000 (33.49)	5874209 (26.41)	22244681 (100)
2063/064	10103658 (45.81)	3235000 (14.67)	8718869 (39.53)	22057529 (100)
2064/065	9845000 (34.99)	14982000 (53.25)	3307095 (11.76)	28134095 (100)
2065/066	8927500 (28.03)	18134826 (56.95)	4782900 (15.02)	31348754 (100)
Average	40.05	35.35	24.60	100

Source: *Detailed Revenue/Expenditure breakdown, GTZ/Udle, 2008*

Table 4.1 shows the composition of total revenue with its percentage share. The highest percentage on total revenue comes from internal revenue. In average, it contributes 39.53 percent to total revenue. The contributions from external revenue and balance forward are not consistent. In fiscal year, 2061/062, external revenue contributed about 18 percent while in the FY 2064/65 its contribution drastically increased up to mere 54 percent of total revenue. On the other hand, balance forward decreased from 30.28 percent (FY 2061/62) to 15.02 percent (FY 2065/66) of total revenue

Figure 4.1
Distribution of Total Revenue
Average 5 Year Periods from FY 2061/62 to 2065/66



4.2.1 Own Resources of Revenue

The per capita own source revenue of Bidur municipality is lower than the average per capita revenue of all municipalities. It has been increasing but less than the average increment. Table 4.2 tells that the per capita own source revenue of the Bidur municipality had always been less than the average per capita own source revenue of all municipalities. With the help of this it can be said that the Bidur municipality had been resigning revenue than it should be. In connection to rising revenue its performance can be considered very poor.

Table 4.2
Per Capita Own Source of Revenue

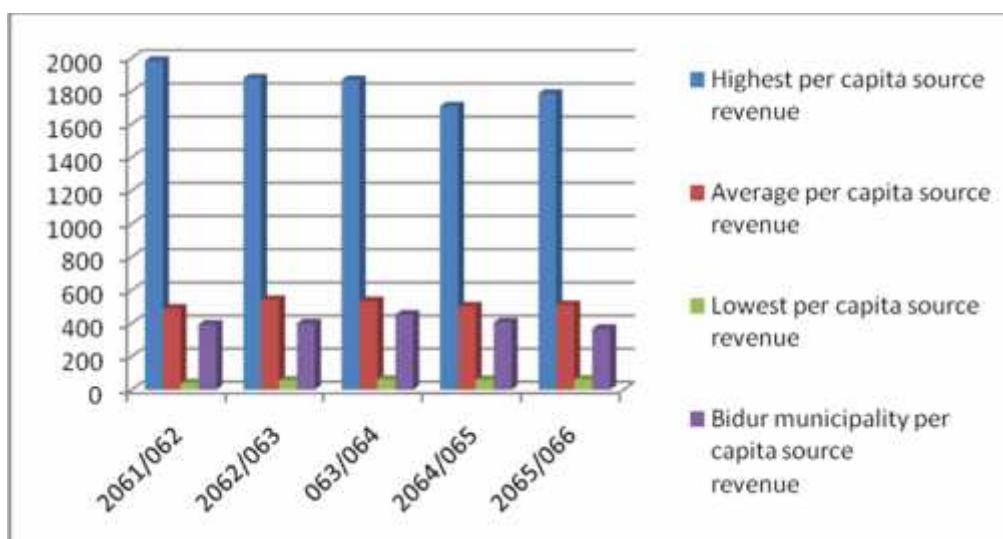
(In Rs.)

Per capita source revenue of all municipalities	Fiscal Year				
	2061/062	2062/063	063/064	2064/065	2065/066
Highest per capita source revenue	1984.34	1878.45	1868.53	1710.51	1785.95
Average per capita source revenue	489.73	543.41	534.72	503.68	512.19
Lowest per capita source revenue	40.85	57.04	62.62	60.40	62.20
Bidur municipality per capita source revenue	393.20	400.87	453.63	407.93	367.51

Source: *Detailed Revenue/Expenditure breakdown, GTZ/Udle, 2008*

The table 4.2 shows that the per capita revenue of own sources of Bidur municipality increasing for three consecutive fiscal year but decreasing in 2064/065 than after increases in 2065/066. Nevertheless, the per capita revenue of own source of Bidur municipality was less than average per capita revenue of all municipality thought out the study period. Table 4.2 also indicated that Bidur municipality has been generating less revenue than average municipality of Nepal.

Figure 4.2
Per Capital Revenue of Bidur Municipality with Highest, Average and Lowest Value of All Municipalities



The main component of own sources of revenue of Bidur municipality are: local taxes, fees, fines, property rental and other revenue. The contribution of the components of own sources of revenue of Bidur municipality during the period under consideration is discussed further in the table 4.3.

Table 4.3

Composition of Own Source of Revenue of Bidur Municipality

(In Rs.)

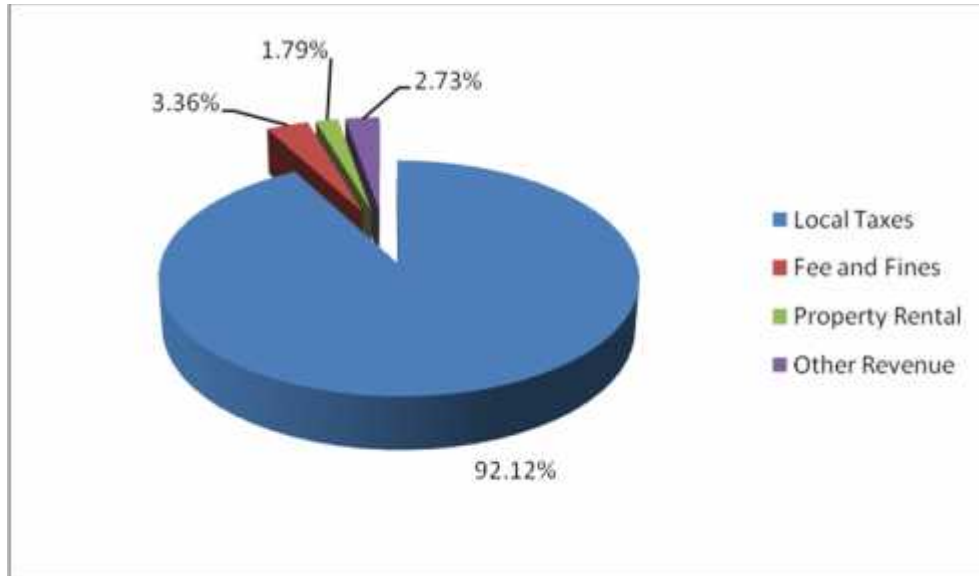
Heading	Fiscal Year					Average
	2061/062	2062/063	2063/064	2064/065	2065/066	
Local Taxes	8153456 (94.31%)	8501867 (95.31%)	9341691 (92.46%)	8546000 (86.81%)	8094000 (90.66%)	8527402 (92.12%)
Fee and Fines	176621 (2.04%)	247285 (2.77%)	537058 (5.32%)	277500 (2.82%)	476000 (5.34%)	311101 (3.36%)
Property Rental	130200 (1.51%)	150850 (1.69%)	168000 (1.66%)	160000 (1.62%)	220000 (2.46%)	165810 (1.79%)
Other Revenue	185356 (2.11%)	20470 (0.23%)	56909 (0.56%)	861500 (8.75%)	137500 (1.54%)	252347 (2.73%)
Total	8645633 (100%)	8920472 (100%)	10103658 (100%)	9845000 (100%)	8927500 (100%)	9256660.8 (100%)

Note: the figure in parenthesis represents percentage.

Source: *Detailed Revenue/Expenditure breakdown, GTZ/Udle, 2008*

In table 4.3, local taxes have the major contribution in the own source of revenue of Bidur municipality. Its contribution to own source revenue in average is around 92 %. The annual growth rate of local taxes is fluctuating. Fees and fines command second highest share in own source revenue during the period of study. The share of property rental and other revenue count negligible in own source revenue. It indicates that Bidur municipality had not been able to exploit other potential sources of revenue. Hence it should try to exploit other potential sources of revenue.

Figure 4.3
Distribution of Internal Sources of revenue
Average 5 year period from 2061/62 to 2065/066



4.2.1.1 Local Taxes

Local development fee, vehicle tax, and vehicle tax, professional tax, house and land tax, house rent tax, property tax, local market tax, sales tax: cattle/fish, unclaimed land tax and other taxes are included in local tax revenue. Table 4.4 gives the percentage share of the components of local taxes in local taxes. Though the share of local development fee in local tax is fluctuating in trend. It has increased 93.52 to 95.83 in FY 2061/62 to 2063/64 and it decreased in 2064/65, which is contributed 83.97 percentage. It again increased 88.66 to 91.18 percentage in FY 2065/66 to 065/66. commands the highest percentage share in local tax. Though nominal, the second highest share in local tax is that of property tax. In average, its percentage share in local tax revolves round 5 percent only. The contribution from professional tax is 3 % on average during the period under consideration. The municipality also collects taxes from vehicle tax, house rent tax and other taxes, but the contribution of these taxes in total is no significance. So, it is evident that, the rate of local development, property tax and professional tax is very important in the collection of local

taxes revenue; and the contributions of rest of the components are very nominal during the study period.

Table 4.4
Composition of Local Taxes of Bidur Municipality

(In percentage)

Heading	Fiscal Year					
	2061/062	2062/063	2063/064	2064/065	2065/066	Average
Local Dev. Fee	93.52	93.90	95.83	83.97	88.66	91.18
Vehicle Tax	0.35	0.44	0.43	0.47	0.43	0.42
Property Tax	-	-	-	11.70	8.65	4.07
Professional Tax	2.41	3.06	1.59	2.34	1.24	2.13
House and Land Tax	1.79	2.34	1.90	1.17	0.62	1.56
House Rent Tax	0.16	0.07	0.16	0.12	0.19	0.14
Local Market Tax	0.00	0.00	0.00	0.00	0.00	0.00
Other Taxes	1.77	0.20	0.09	0.23	0.22	0.50
Total	100.00	100.00	100.00	100.00	100.00	100.00

Source: *Detailed Revenue/Expenditure breakdown, GTZ/Udle, 2008.*

Local tax collection system applied by the municipality is one of the main reasons for poor collection of the local taxes. Bidur municipality usually collects local taxes through contractors. Contractors usually play a middle man's role and their main objective is to make profit. To make profit they charge much more than the tax levied by the municipality. For example on 100kg of vegetables Rs3 is the tax rate levied by the municipality, but the contractor of the local market is found taxing much more than this amount. The high tax rate imposed by the contractors has kept the smaller vegetable sellers off the market. Because of this reason the vegetable market itself was closed.

4.2.1.2 Fees and Fines

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

Table 4.5
Fees and Fines

(In Percentage)

Heading	Fiscal year					
	2061/062	2062/063	2063/064	2064/065	2065/066	Average
Service fee	14.87	8.99	28.57	8.96	13.64	15.00
Recommendation fee	0.37	0.45	0.21	0.54	0.21	0.36
Application fee	1.22	0.67	2.00	0.73	1.05	1.13
Appraisal fee	24.92	36.45	35.00	35.64	20.99	30.62
Building permit	58.66	53.43	34.22	53.77	62.96	52.62
Other fees/fine	0.00	0.00	0.00	0.18	1.15	0.27
Total	100.00	100.00	100.00	100.00	100.00	100.00

Source: *Detailed Revenue/Expenditure Breakdown, GTZ/Udle, 2008*

The contribution from the building permit fee is highest during the study period, at 52.62 percent on average. The percentage of revenue from building construction permit fee has increased from 58.66% on 2061/62 to 62.96% on 2065/66. This is because building construction in the municipality has been increasing constantly. The contribution from other Appraisal fee is second position with 30.62 percent on average. Service fee and Application fee also contribution 15 percent and 1.13 percent respectively during the study period. The share of recommendation fee is at 0.30 percent on average during the study period. The contribution from other fees and fines are nominal during the study period.

Bidur municipality has been receiving revenues from fines too. Collection of fine in Bidur municipality is in increasing trend. This indicates violation of the rules and regulation by the people of this municipality is in the increasing trend, which is neither good for the people not the municipality. That is to say the less the revenue from fine the better would be the society. Hence the authority of this municipality should pay attention to improve the civic sense of the people of this municipality.

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

4.2.1.3 Property Rental

Another source of municipality revenue is property revenue which includes taxes on market/shops/building, Bus Park, fish pond and equipment /others. In Table 4.6, fish pond has the major contribution in the own source of revenue of Bidur municipality. The contribution from the equipment/ others is highest during the study period, at 40.82 percent on average. The contribution from Bus Park is second highest during the study period, at 30.86 percent on average. The share of market/shops/building and equipment/other is 19.64 percent and 8.64 percent on average during the study period.

Table 4.6
Property Rental

(In Percentage)

Headings	Fiscal year					
	2061/062	2062/063	2063/064	2064/065	2065/066	Average
Market/ shops/building	15.36	9.94	20.83	25.00	27.27	19.68
Bus park	30.73	23.20	20.83	25.00	54.54	30.86
Fish pond	46.08	53.03	47.62	43.75	13.64	40.82
Equipment/others	7.83	13.83	10.72	10.72	4.55	8.64
Total	100	100.00	100.00	100.00	100.00	80.00

Source: *Detailed Revenue/Expenditure Breakdown, GTZ/Udle, 2008*

Revenues from property rental were also an important source of revenue of Bidur municipality. Land suitable to rent market, shops, buildings and ponds suitable to farm fish is the main properties owned by Bidur municipality. These properties are rented out to the public as well as to various institutions.

Ponds suitable to farm fish are one of the main properties of Bidur municipality. But the trend shows that the revenue from property rental is not a reliable source of revenue. It is because it has a fluctuating trend.

4.2.1.4 Other Revenue

Revenue of Bidur municipality through other revenue sources includes tender form sale, confiscations deposit and other revenue/sale and auction sale. The highest contribution in other revenue is miscellaneous sale/revenue in an average. Its contribution is 36.28% during the study period. The confiscation deposit has the second position in other revenue contributing 33.85% in an average during the research period. Tender form sale contribute 29.87% in other revenue sources of Bidur municipality.

Table 4.7
Other Revenue

(In Percentage)

Headings	Fiscal year					
	2061/062	2062/063	2063/06	2064/065	2065/066	Average
Tender forms sale	100	1.66	19.55	-	28.16	29.87
Confiscation deposit	-	-	58.68	80.29	30.28	33.85
Misc. revenue/sale	-	98.34	21.77	19.71	4.56	36.28
Total	100	100.00	100.00	100.00	100.00	80.00

Source: *Detailed Revenue/Expenditure breakdown, GTZ/Udle, 2008*

4.2.2 External Sources of Revenue

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

municipalities. Sometimes TDF provides loans to the municipalities to run developmental works.

The main component of external sources of revenue of Bidur municipality is: Grants, loans and miscellaneous income. The contribution of the components of external sources of revenue of Bidur municipality during the period under consideration is discussed further in the table 4.8. In table 4.8, grants have the major contribution in the external source of revenue of Bidur municipality. Its contribution to external source revenue hovers around 97 %. The annual growth rate of grants is fluctuating. Loans command the second highest share in external source of revenue during the period of study. The share of miscellaneous income is negligible in external source revenue.

Table 4.8

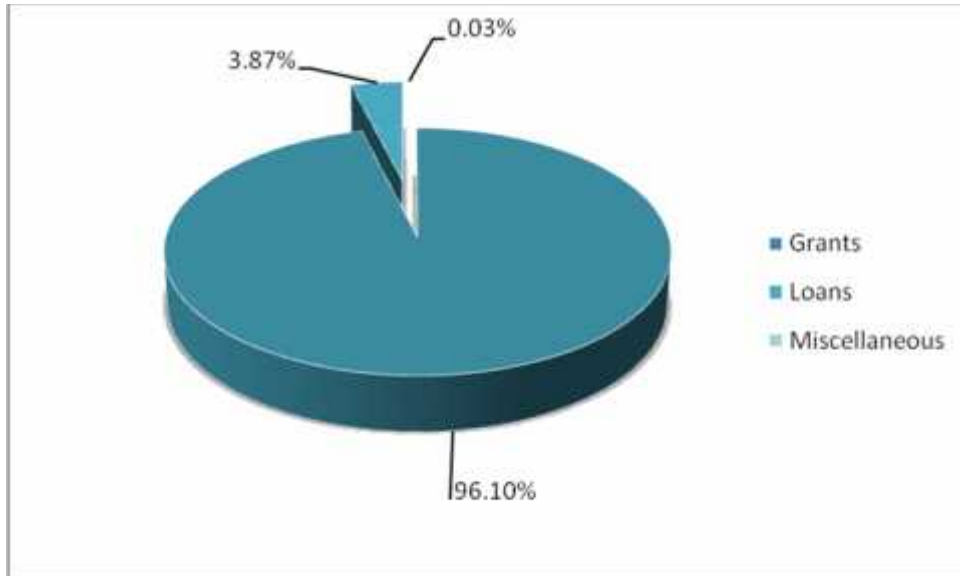
Composition of External Source of Revenue of Bidur Municipality

Heading	Fiscal Year					
	2061/062	2062/063	2063/064	2064/065	2065/066	Average
Grants	31000000 (100%)	7450,000 (100%)	3000139 (92.74%)	14968516 (99.91%)	14935843 (82.36%)	8690899 (96.10%)
Loans	0 (0.00)	0 (0.00%)	230009 (7.11%)	11968 (0.08%)	3186289 (17.57%)	685653 (3.87%)
Miscellaneous	0 (0.00)	0 (0.00)	4853 (0.15)	1498 (0.01%)	12694 (0.07%)	3809 (0.03%)
Total	31000000 (100%)	7450000 (100%)	3235000 (100%)	14982000 (100%)	36425000 (100%)	9380361 (100%)

Note: The figure in parenthesis represents percentage.

Source: *Detailed Revenue/Expenditure Breakdown, GTZ/Udle, 2008*

Figure 4.4
Distribution of External Sources of Revenue
Average 5 Year Periods for FY 2061/062 to 2065/066



4.2.2.1 Grants

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

In Bidur municipality grants are the highest external sources of revenue than other. The average percentage of fiscal year from 2061/062 to 2065/066 the average of grant is 96.10. The individual year's grants in different leading are given in the following table.

Table 4.9
Composition of Grants of Bidur Municipality

(In Percentage)

Heading	Fiscal Year					
	2061/062	2062/063	2063/064	2064/065	2065/066	Average
NG/Administrative Grant	22.59	52.18	69.30	56.70	90.00	58.15
NG/Development Grant	64.51	39.13	30.70	43.30	10.00	37.53
Dist.Dev.Board/Others	0.00	0.00	0.00	0.00	0.00	0.00
TDF Grants	12.09	8.69	0.00	0.00	0.00	4.32
Total	100.00	100.00	100.00	100.00	100.00	100.00

Source: *Detailed Revenue/Expenditure Breakdown, GTZ/Udle, 2008.*

According to the table 4.9 the main grants revenue source of Bidur municipality NG/Administrative grant. FY 2061/062 and 2062/2063 TDF board has provided grant to Bidur municipality during the study period TDF has been providing grants irregularly.

As percentage term, NG/development grant has contributed 37.53. Like wise TDF grant has contained 4.32 percent in average during from the FY 2061/062 to 2065/066. No grant from district development board it affected the development work of this municipality.

The revenue that has a fluctuating or no trend can not be considered reliable. Hence, this source of revenue can not be considered as a reliable source of revenue. Getting grants is not bad by itself but it should be used in developmental works properly. Grants can be a boon in the initial stage of development but in the long run it can make the officials of the municipalities idle and effortless. The officials usually do not put serious effort to exploit their own sources of revenue if they can get easy money. Hence grants should be tied to the growth rate of own source of revenue.

4.2.2.2 Loans

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

So there is no share from town development fund in loans. However, Bidur municipality has taken loan from other internal sources in fiscal year 2063/64 amounting two lacks thirty thousand, in FY 2064/065 amount eighty thousand and in FY 2065/066 amounting around 64 Lakhs (Detailed Revenue/Expenditure Breakdown, GTZ/Udle, 2008).

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

4.2.2.3 Miscellaneous Income

Advanced refund, cost sharing and other miscellaneous are included in miscellaneous income.

Other miscellaneous commands the substantial percentage share in miscellaneous income. The main components of miscellaneous income are that of advance refund. It has contributed Rs. 5002 and Rs. 15000 and Rs 25,000 in the FY 2063/064, 2064/065 and 2065/066 respectively. There is no contribution from cost sharing in miscellaneous income during the period under consideration. Considering these trends, it can be said that the miscellaneous income of Bidur municipality is not a reliable source of income.

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

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

4.3 Balance Forward

Balance forward is nothing but the left over money that was supposed to be spent on the previous fiscal year. Balance forward is not revenue in real sense but in accounting this is also considered as one component of revenue. Table 4.10 shows that the total of balance forward of Bidur municipality.

Table 4.10
Total Balance Forward of Bidur Municipality

(In rupees)

Heading	Fiscal Year				
	2061/062	2062/063	2063/064	2064/065	2065/066
Balance forward	5102045	5874209	8718869	3307095	4782900

Source: *Detailed Revenue/Expenditure breakdown, GTZ/Udle, 2008*

The maximum and minimum amounts of balance forward of Bidur municipality were Rs 8718869 and Rs 3307095 in fiscal year 2063/64 and fiscal year 2064/65 respectively (table: 4.10). This means the balance forward

of this municipality is in decreasing trend during the FY 2061/62 to 2063/64 it is in increasing trend, though fluctuating in fiscal years 2065/066. It indicates that the fiscal plan prepared by this municipality is defective. It also indicates that the officials of this municipality either do not have sufficient vision to develop their municipality or they do not work hard enough for the development of this municipality. Whatever may be the reason, an ever increasing amount of balance forward suggests that the developmental works are not taking place the way it should be in Bidur municipality.

4.4 Expenditure Pattern

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

Table 4.11
Total Expenditure

(In percentage)

Fiscal Year	Regular Expenditure	Development Expenditure	Total Expenditure
2061/62	8593432 (78.31)	2380037 (21.69)	10973469 (100%)
2062/63	5105789 (82.01%)	1120024 (17.99)	6225813 (100%)
2063/64	13350309 (71.20)	5400125 (28.80)	18750434 (100%)
2064/65	12397175 (52.88)	1106011 (47.15)	23457286 (100%)
2065/66	12119618 (44.56)	15078808 (55.44)	27198426 (100%)
Average	10313264.6 (59.54%)	7007821 (40.46)	17321085.6 (100%)

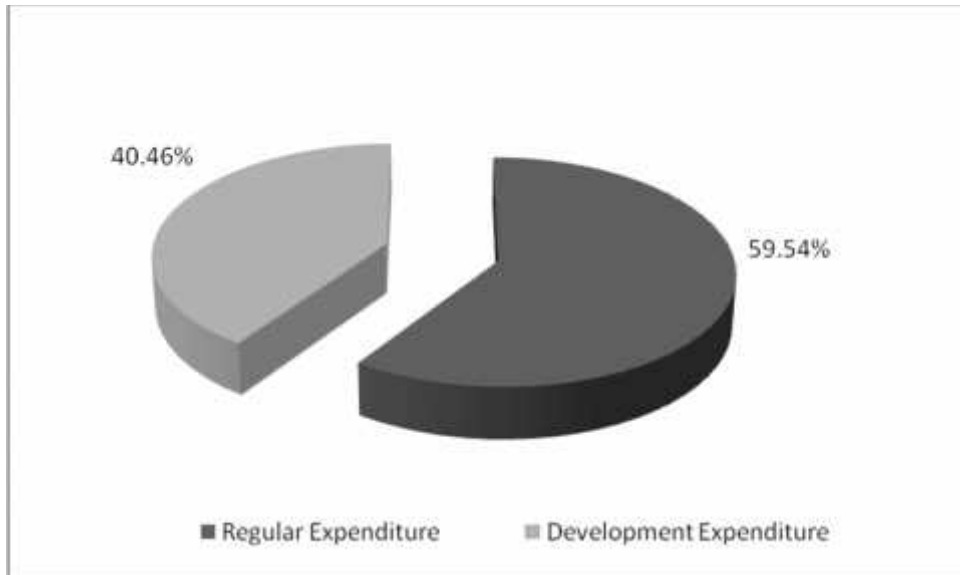
Source: *Detailed Revenue/Expenditure Breakdown, GTZ/Udle, 2008.*

Total expenditure includes regular expenditure and development expenditure. Table 4.11 shows the percentage share of regular and development expenditure on total expenditure. The share of regular expenditure on total expenditure is more than that of development expenditure. Only on the last year under consideration, development expenditure commands more than regular expenditure in total expenditure.

Figure 4.5

Distribution of total expenditure

Average 5 Years Period from FY 2061/062 to 2065/066



4.4.1 Regular Expenditure

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

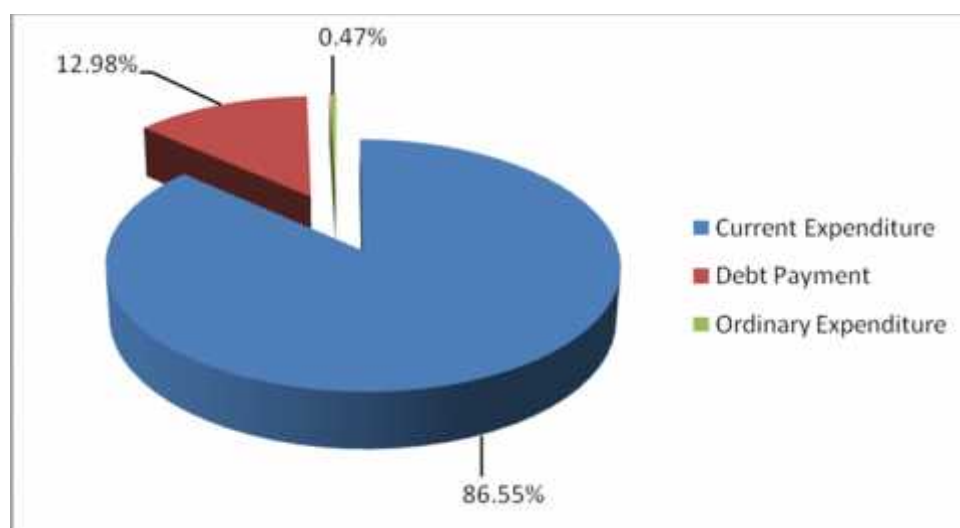
Table 4.12
Composition of Regular Expenditure of Bidur Municipality
(In percentage)

Fiscal Year	Current Expenditure	Debt Payment	Ordinary Expenditure	Regular Expenditure
2061/062	99.55	0.00	0.45	100.00
2062/063	78.28	19.84	1.88	100.00
2063/064	87.22	12.78	0.00	100.00
2064/065	85.37	16.43	0.00	100.00
2065/066	82.33	17.67	0.00	100.00
Average	86.55	12.98	0.47	100.00

Source: *Detailed Revenue/Expenditure breakdown, GTZ/Udle, 2008.*

The highest share in regular expenditure is that of current expenditure. It commands more than 86 percent in total regular expenditure. The share of debt payment seems around 12 percent in average of regular expenditure. The negligible share in regular expenditure is of ordinary capital.

Figure 4.6
Distribution of Regular Expenditure
Average 5 Years Period from FY 2061/062 to 2065/066



4.4.1.1 Current Expenditure

Municipal office has to spend to run itself. Expenses made to run office is known as current expenditure. Current expenditure of a municipality includes administrative expenditure, official expenditure and other expenditure. The main components of other expenditure are financial assistance, donation, other material and contingency fund. Expenses on salaries, allowances travel and per diem, services, rent, repair and maintenances, office supplies and other miscellaneous expenditure are most important factors of current expenditure of Bidur municipality.

Table 4.13
Composition of Current Expenditure of Bidur Municipality
(In percentage)

Heading	Fiscal Year					
	2061/62	2062/63	2063/64	2064/65	2065/66	Average
Salaries	46.40	35.76	48.42	48.29	61.40	48.05
Allowances	32.41	42.56	30.28	28.97	8.99	28.64
Travel and Per Diem	0.95	2.16	1.44	1.53	1.30	1.46
Services	3.67	3.99	2.62	3.35	2.89	3.30
Rent	2.37	0.18	0.43	0.63	0.86	0.89
Repair & maintenance	0.66	1.61	2.08	1.49	2.18	1.60
Office Supplies	5.20	4.59	0.96	5.03	6.58	4.47
Fuel	2.23	2.85	2.42	2.68	4.13	2.86
Clothes/Food/Allowance	0.45	0.90	0.53	0.67	0.99	0.71
Other Material	1.04	1.24	3.42	0.42	2.18	1.66
News Paper	0.85	0.69	0.69	0.90	0.46	0.72
Financial Asst./Donations	2.66	0.68	0.68	0.84	0.44	1.06
Contingencies	1.11	2.79	6.03	5.20	0.44	4.55
Total	100.00	100.00	100.00	100.00	100.00	100.00

Source: *Detailed Revenue Expenditure Breakdown, GTZ/Udle, 2008*

Current expenditure includes: salaries, allowances, travel and per diem, services, rent, repair and maintenances, offices supplies, newspaper, fuel, clothes/food allowance, other material, health supplies, food, financial assistance/ donations and contingencies The substantial part of current

expenditure goes to salaries and allowances (Table 4.13). These two command about 73 percent of current expenditure.

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

4.4.1.2 Debt Payment

Debt payment of Bidur municipality was zero in FY 2061/62. The amount of debt payment in 2064/65 and 2065/66 was same. The percentage of debt payment to that of total expenditure is highest in 2062/63. In fiscal year 2063/64, the share of debt payment to total expenditure decreased to 12 percent. The contribution of debt payment in total expenditure is 12.98 percent in average during the study period.

4.4.1.3 Ordinary Expenditure

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

The sub-components of ordinary capital are furniture, vehicle and machinery equipment. Only in the first two fiscal years in FY 2061/62 to 2062/63. There has been investment in ordinary capital on vehicle.

Expenditure on vehicle is occurred only in these two fiscal years 2061/062 and 2062/063 are Rs 20018 and 40684 respectively. Similarly expenditure on

furniture in the same years are Rs. 18652 and Rs. 19304 respectively. Except these two fiscal year, these are zero ordinary expenditure (Detailed Revenue Expenditure Breakdown, GTZ/Udle, 2005).

4.4.2 Development Expenditure

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

Table 4.14
Composition of Development Expenditure

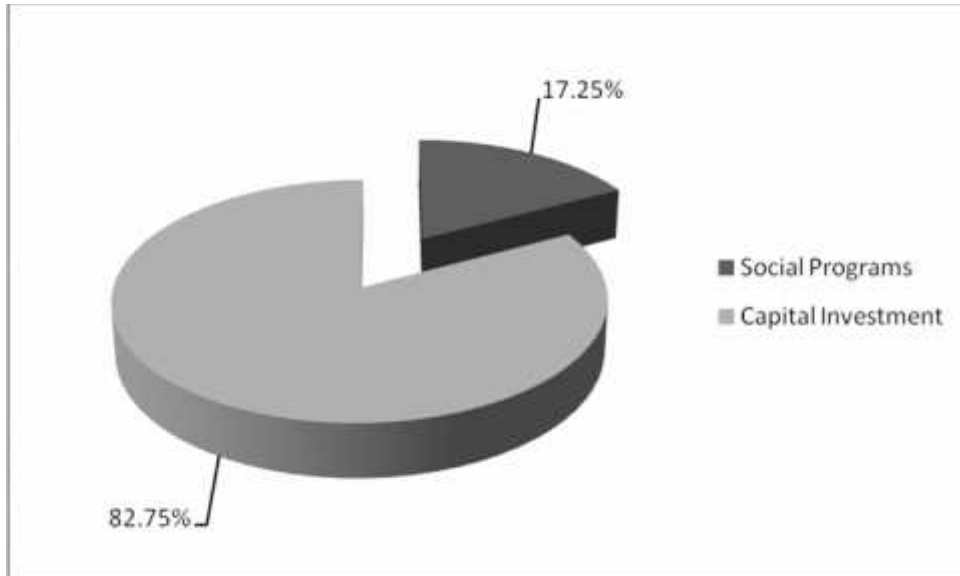
(In percentage)

Fiscal Year	Social Programs	Capital Investment	Development Expenditure
2061/62	78066 (3.28%)	2301971 (96.72%)	2380037 (100%)
2062/63	82210 (7.34%)	1037814 (92.66%)	1120024 (100%)
2063/64	373689 (6.92%)	5026436 (93.08%)	5400125 (100%)
2064/65	1519660 (13.74%)	9540451 (86.26%)	11060111 (100%)
2065/66	3989853 (26.46%)	11088955 (73.54%)	15078808 (100%)
Average	1208695 (17.25%)	5799125 (82.75)	7007820 (100%)

Source: *Detailed Revenue Expenditure Breakdown, GTZ/Udle, 2008*

Development expenditure of Bidur municipality is under taken in two headings namely, social programs and capital investment. In the beginning this research period, there was less investment made on social programs. From FY 2064/65, the percentage share of social programs on development expenditure is increasing. The development expenditure on social programs and capital investment on average percentage of total amount are: 17.25 and 82.75 percent respectively for the period 2061/062 to 2065/066. This is shown in table 4.14.

Figure 4.7
Distribution of Development Expenditure
Average 5 years period from FY 2061/062 to 2065/066



4.4.2.1 Expenditure on Social Programs

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

The expenditure of Bidur municipality on social programs is all about 17.25 percent of its total development expenditure, on average of the period 2061/062 to 2065/066 (according to table 4.15). Under social programs leadings, its expenses on the field of education, health, forestry, cultural, sports, disaster, financial assistance and miscellaneous areas.

Table 4.15
Composition of Social Programs Expenditure

(In percentage)

Fiscal Year	2061/62	2062/63	2063/64	2064/65	2065/66	Average
Education	0.00	1.90	53.10	0.00	0.00	10.98
Health	0.00	3.27	18.45	4.98	3.82	6.10
Cultural/Sports	0.00	4.37	1.13	0.00	0.00	1.10
Fin. Assistance	0.00	38.34	7.44	6.43	6.43	13.58
Miscellaneous	0.00	52.12	19.97	79.35	89.75	68.24
Total	100.00	100.00	100.00	100.00	100.00	100.00

Source: *Detailed Revenue Expenditure Breakdown, GTZ/Udle, 2008*

The above table 4.15 shows, Bidur municipality expresses the highest amount in miscellaneous area. Likewise its significant amount goes on financial assistance, education health and other areas are nominal in the field of cultural and sports, Bidur municipality spend in only two fiscal year 2062/063 and 2063/064 i.e. Rs. 3592 and Rs. 4222 respectively.

On the expenses on miscellaneous, financial assistance, education, health and cultural sports covered 68.24, 13.58, 14.98, 6.10 and 1.10 percentage of the total social programs expenditure respectively.

4.4.2.2 Capital Investment

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

Table 4.16
Composition of Capital Investment

(In percentage)

Fiscal Year	Land/ Building Purchase	Building Construction	Town Level Project	Other Dev./ Construction	Total Capital Investment
2061/62	53.88	0.00	0.00	46.12	100.00
2062/63	22.66	6.77	0.00	70.57	100.00
2063/64	0.29	4.19	0.00	95.52	100.00
2064/65	2.71	0.00	0.00	97.29	100.00
2065/66	1.37	0.00	0.00	98.63	100.00
Average	16.18	2.19	0.00	81.63	100.00

Source: *Detailed Revenue Expenditure Breakdown, GTZ/Udle, 2008*

The substantial amount of investment is made on other development/ construction in all fiscal years. Its percentage share on capital investment is about 89 percent. There has been some investment on building construction in some fiscal years of the study period.

4.5 Major Findings

1. Own-source of revenue and external sources of revenue were the two main components of total revenue. The most important source of income is internal sources revenue. The highest percentage on total revenue comes from internal revenue. In average, it contributes about 40 percent to total revenue.
2. The local development fee has the major contribution in the local taxes of Bidur municipality. Local tax played a vital role to increase revenues of Bidur municipality. The share of local development fee in local tax is 91 percent on average. It commands the highest percentage share in local tax.
3. The other component of own-source of revenue is fees and fines. Fees had been one of the important sources of revenue of all municipalities of Nepal. It played significant role in generating revenue.

4. External sources of revenue are also an important source of municipality's income. Grants and Loans are the main sources of external revenues. Especially grants provided by the central government to municipalities to carry out developmental works and to meet the administrative expenditure constitutes a significant amount of their total revenue.
5. Town development fund is one of the main institutions offering loan to municipalities. But, during the study period it is observed that Bidur municipality has not yet approached town development committee for loan.
6. Expenditure pattern of Bidur municipality is analyzed under two headings namely regular expenditure and development expenditure. The share of regular expenditure on total expenditure is more than that of development expenditure. Only on the last year under consideration, development expenditure commands more than regular expenditure in total expenditure.
7. Debt payment of Bidur municipality was zero in FY 2061/62. The amount of debt payment in 2064/65 and 2065/66 was same. The percentage of debt payment to that of total expenditure is highest in 2062/63. In fiscal year 2061/62, the share of debt payment to total expenditure decreased to 12 percent.
8. Development expenditure of Bidur municipality is under taken in two headings namely, social programs and capital investment. In the first two fiscal years, there was no investment made on social programs. Bidur municipality was very low. In an average, the expenditure in social programs on Bidur municipality is 17 percent.
9. There have been no investments in town level project during the study period. The substantial amount of investment is made on other development/ construction in all fiscal years. Its percentage share on capital investment is about 81.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary and Conclusion

Finance is one of the most important parts of any institution. It is important to a large institution like a country and is equally important to a small institution household. Local government also needs finance to operate their activities. Municipality is one of the forms of local government. Now-a-days, in Nepal, villages are transformed into the municipalities when they fulfill the conditions of a municipality. Municipality has the potentialities and capabilities to identify the needs of local people. Municipal finance deals with the income and expenditure pattern. To provide basic need of the people the municipality needs effectively round financing system.

The present study is concerned with the analysis of various potential sources of revenue and patterns of expenditure to identify an appropriate system of finance for Bidur Municipality. The analysis is mainly based on the potential sources of revenue and expenditure pattern of Bidur Municipality during the fiscal year 2061/62 to 2065/66.

Own-source of revenue and external sources of revenue were the two main components of total revenue. The most important source of income is internal sources revenue. The highest percentage on total revenue comes from internal revenue. In average, it contributes about 40 percent to total revenue. The per capita own source revenue of Bidur municipality is lower than the average per capita revenue of all municipalities. It has been increasing but less than the average increment. The contributions from external revenue and balance forward are also important for Bidur municipality. The components of own-source of revenue were local taxes, fees and fines, property rental and other revenues. The local taxes have the major contribution in the own source of

revenue of Bidur municipality. Its contribution to own source revenue covers around 93 %. The annual growth rate of local taxes is fluctuating.

The local development fee has the major contribution in the local taxes of Bidur municipality. Local tax played a vital role to increase revenues of Bidur municipality. The share of local development fee in local tax is 91 percent on average. It commands the highest percentage share in local tax. Though nominal, the second highest share in local tax is that of property tax. In average, its percentage share in local tax revolves round 4 percent only. The contribution from professional tax is 2 % on average during the period under consideration.

The other component of own-source of revenue is fees and fines. Fees had been one of the important sources of revenue of all municipalities of Nepal. It played significant role in generating revenue. Fees and fines command second highest share in own source revenue during the period of study. The contribution from the building permit fee during the study period is at 52.62 percent on average. The contribution from the service fee and appraisal fee is in second and third position. The application fee and registration fee are nominal during the study period. The share of industrial service fee and radio license fee are zero percent during the study period. Bidur municipality has been receiving revenues from fines too. Collection of fine in Bidur municipality is in increasing trend. This indicates violation of the rules and regulation by the people of this municipality is in the increasing trend, which is neither good for the people nor the municipality. That is to say the less the revenue from fine the better would be the society.

The share of property rental and other revenue count negligible in own source revenue. The fish pond has the major contribution in the own source of revenue of Bidur municipality. The contribution from the fish pond is highest during the study period, at 40.82 percent on average. The contribution from bus park fee

is second highest during the study period, at 30.86 percent on average. The share of market/shops/building and Bus Park is 19.68 percent and 3.74 percent on average during the study period. The only tangible contribution to other revenue solely comes from miscellaneous revenue/sale.

External sources of revenue are also an important source of municipality's income. Grants and Loans are the main sources of external revenues. Especially grants provided by the central government to municipalities to carry out developmental works and to meet the administrative expenditure constitutes a significant amount of their total revenue.

Grants have the major contribution in the external source of revenue of Bidur municipality. Its contribution to external source revenue covers around 96 %. Around 37% development grants has been given by the central government which indicates that some development works were done in the municipality as expected by the central government. No grants from district development board it affected the developmental works of this municipality. TDF has been providing grants irregularly. In the fiscal year 2061/62 it shares 12.90 percent whereas in the consecutive two only in fiscal year 2062/63, it share was 8.69 percent. In the fiscal year 2063/64, 2064/65 and 2065/66 the TDF grant is zero percent. The share of loans is negligible in external source revenue. The nominal share in miscellaneous income is that of advance refund. In average, its percentage share in miscellaneous income revolves round 0.03 percent only. There is no contribution from cost sharing in miscellaneous income during the period under consideration.

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

there is no share from town development fund in loans. However, Bidur municipality has taken loan from other internal sources only.

Balance forward is nothing but the left over money that was supposed to be spent on the previous fiscal year. Balance forward is not revenue in real sense but in accounting this is also considered as one component of revenue. The amount of balance forward of Bidur municipality has fluctuated during the study period.

Expenditure is the out flow of cash from the municipal body to run the general administration and to conduct the social and development works in the municipal area. Expenditure pattern of Bidur municipality is analyzed under two headings namely regular expenditure and development expenditure. The share of regular expenditure on total expenditure is more than that of development expenditure. Only on the last year under consideration, development expenditure commands more than regular expenditure in total expenditure.

The highest share in regular expenditure is that of current expenditure. It commands more than 86 percent in total regular expenditure. The average percentage of current expenditure of Bidur municipality with respect to its total expenditure was significantly high. This indicates that the employees of municipality are either extravagant or inefficient. The substantial part of current expenditure goes to salaries and allowances. These two command about 76 percent of current expenditure.

The share of debt payment seems somewhat stable around 12 percent of regular expenditure. Debt payment of Bidur municipality was zero in FY 2061/62. The amount of debt payment in 2064/65 and 2065/66 was same. The percentage of debt payment to that of total expenditure is highest in 2062/63. In fiscal year

2061/62, the share of debt payment to total expenditure decreased to 12 percent.

The negligible share in regular expenditure is of ordinary capital. The ordinary capital made by Bidur municipality was low. The average percentage expenditure on ordinary expenditure was 0.47 percent of the total expenditure. The sub-components of ordinary capital are furniture, vehicle and machinery equipment. Only in two fiscal year there has been investment on vehicle and furniture.

Development expenditure is almost investment type expenditure. It is one of the most important factors of a municipality. Development expenditure of Bidur municipality is under taken in two headings namely, social programs and capital investment. In the first two fiscal years, there was no investment made on social programs. Bidur municipality was very low. In an average, the expenditure in social programs on Bidur municipality is 17 percent.

Capital investment includes land/building purchase, building construction, town level projects and other development construction. There have been no investments in town level project during the study period. The substantial amount of investment is made on other development/ construction in all fiscal years. Its percentage share on capital investment is about 81. There has been some investment on land/building purchase and construction in study period.

“Local self government has a vital and significant role to play in the development process of the whole country, and a sound financial management of any organization is considered as the backbone of whole capital investment process”. Bidur municipality also needs to realize this statement and try to work accordingly.

5.2 Recommendations

1. Bidur municipality is highly dependent on local development fee. About 91.18 of own source revenue covered by the amount of local development fee. Other sources such as vehicle tax, professional tax, local market tax, house and land tax etc. generate small amount of local revenue. So, it shows that even if there are many potentialities to increase internal sources of revenue. The municipality has not yet tried to identify other potential sources of revenue available with in the municipality area. The municipality should identify the potentials sources of revenue to raise the income level of municipality.
2. The structure of the property taxes as specified under the local self-governance regulations 1999 has been very much defective. For example, despite the common practice of fixing the minimum and maximum rate of property taxes and allowing the local government to fix rate themselves within the range, the rate of Bidur are fixed by the law, meaning that municipalities have not given any autonomy to fix the rates according to him local conditions. It undermines the autonomy of municipalities. For this NG should design laws to facilities this provision.
3. Various exemptions have been provided under the municipality's taxes. For examples house and land tax is not levied on value of the house and land upto Rs. one million. Similarly, educational institutes, universities, Guthi, Public enterprises leading with water, electricity and telecommunication are exempt from municipal taxes under various laws. It narrows the tax base. Since, all individuals and organizations residing in the municipality area use the services provided by the municipalities. It is desirable to very taxes on them.
4. Property based taxation system "could be one of the major revenue source that might comes as an alternative of "Local Development Fee" however, central government should increases local government share in nationally collected taxes through automatic revenue sharing schemes.

5. For the better and result orient performance of any organizations, the existing human resource can play a very constructive role. Thus, assessments need to carry out on the existing working force of the municipality.
6. House and land tax is being collected as per the act and procedure, however; very few payers are under this tax net. Thus, to bring all the potential tax payers, Bidur Municipality should have established proper information all the potential taxpayers based on House numbering any other information database system.
7. Municipality has various types of land and building and other immovable properties but due to lack of proper inventory, other individual misuses the valuable assets. Inventory of public lands should establish to protect and it should be begin immediately.
8. To make municipal financial information more efficient and accurate, Bidur Municipality should implement corporate Accounting system" so that they will keep all the information related with assets and liabilities as well as other fiscal information.
9. Bidur Municipality needs to work o to reduce the regular expenditure. To reduce the regular expenditure development expenditure should expenses on social program.
10. Town level projects, Health supplies and other development plans should be prepared and implemented, so that balance forward could be minimized.
11. Municipality obtains grants from NG in the form of development and administration grants. It is the most important external sources of revenue for each and Bidur municipality. It has not been utilized mores effectively in Bidur Municipality, during the study period. So the municipality should utilize this type of grant effectively. There is need to mobilize other donor agencies to Bidur Municipality.
12. In formulating plans and service programmed of tie municipality, the municipality would have to maintain coordination] with governmental,

non-governmental and donor agencies implementing different services and development programs in the municipal area.

13. In formulating the plans, the municipality should have to launch plans such as land use, land-pulling, and guided land development for making the development of the municipal area balanced and planned.

The Municipality would have to encourage the non-governmental organizations for the acts of identification; formulation, operation, evaluation, repairs and maintenance of the town development programmed with in the area of each municipality.

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