

**MUNICIPALITY FINANCE IN NEPAL: With Special Reference in
Janakpur Municipality**

A Thesis

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Arts in Economics**

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LETTER OF RECOMMENDATION

This is to certify that Mr. Santosh Kumar Sah has prepared this thesis entitled **“Municipality Finance in Nepal: with special reference in Janakpur Municipality”** for the partial fulfillment of Master’s Degree in Arts under my supervision.

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

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APPROVAL LETTER

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LIST OF ACRONYMS

Admi.dev: Administrative development

DDC: District Development Committee

CEDECON: Central Department of Economics

FiMa: Financial Management

FY: Fiscal Year

GTZ: German Technical

NG: Nepal Government

Inc.: Increase

KTM: Kathmandu

LSGA: Local Self-government Act

NGO: Non Government Organization

TDF: Town Development Fund

T.U.: Tribhuvan University

UDLE: Urban Development through Local effort

VDC: Village Development Committee

CBS: Central Bureau of Statistics

IDP: Internally displaced people

CHAPTER ONE

INTRODUCTION

1.1 Background

Nepal is a land locked country and home place of natural beauty. There are five development regions and seventy five administrative districts. Districts are further divided into smaller units, called Village Development Committee (VDC) and Municipality. Currently, there are 3,915 VDCs and 58 Municipalities in the country. Each VDC is composed of 9 wards, Municipality ward ranges from 9 to 35. The capital of Nepal is Kathmandu, which is the only one Metropolitan city. This purpose of this study is to analyze revenue and expenditure pattern of Janakpur Municipality.

People think that local self-government means community government which coordinates the activities that are concerned with the local community. However, this concept limits its scope; local self-government practices reveal that it is not just about local services. Local institutions of villages, towns, districts, provinces, counties, etc are the sole foundations which can protect and promote the interest of a locality. A local body represents not only the local opinion but also helps the central government to formulate genuine policies for the betterment of the locality and in turn the country with this background, it would be pertinent to explain some of the key components of local government: First, in a democracy institutionalization of politics is a must.

In a modern representative democracy, often named as delegate democracy, various institutional mechanisms are being made to be participated by the ordinary citizens. In a modern political system, especially in a liberal one, people's knowledge at all levels is well recognized and their capability is highly valued. The second dimension of local government is autonomy. A greater degree

of local autonomy through decentralization means more responsibility for the local government and the residents of the local communities. The third important dimension of local government is finance; how to collect revenue and make the institutions financially self-reliant.

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

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

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

Janakpur lies in the central development region with many peculiarities that other big towns in the country don't possess. It is basically popular for its religious importance. Janaki temple is the most striking attraction for the holy people from inside and outside the country. The population and household of the municipality are 74192 and 13734 respectively (population census, 2001). The main occupation of the people of the municipality is service and business. As the Indian border lies very near to the municipality, trade has also made remarkable impact on the economic activities of the people. There are many villages in the municipality. The major occupation in the villages is agriculture. There is a famous industry Janakpur Cigarette Factory. There is also a railway station linking Janakpur with Jayanagar.

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

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

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

Table1.1**Evolution of Municipalities in Nepal**

Periods	Name of Municipalities	Numbers
1976	Kathmandu	1
2008	Patan, Bhaktapur, Biratnagar, Birjung	5
2008-2009	Bhadrapur, Tansen	7
2009-2019	Janakpur, Rajbiraj, Pokhara, Butwal, Nepalgunj, Dharan, Illam	14
2020-2025	Siddharthanagar	15
2025-2031	Hetauda	16
2032-2037	Mahan, Hinged, Birendranagar, Mahendranagar, Tribhuwannagar Dhankuta, Bharatpur	23
2038-2043	Dipayal, Inaruwa, Kalaiya, Damak Banepa, Kapilvastu, Jaleswor Dhulikhel, Nuwakot, Malangwa	33
2043-2048	Byas, Tulsipur, Gaur	36
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, Lekhnath, Madhayapurthimi, Meechinagar, Narayan, Panauti, Prithivinarayan, Putalibazar, Ramnagar, Ratnagar, Siraha, Tikapur, Triyuga, Waling	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 Problems

Janakpur municipality started working in accordance with Municipality Act 2048 from the year 2019. A lot of fund has been mobilized by the municipality for the overall development of the Municipality.

The municipality has to work in the following areas such as drinking water supply, sanitation, electricity supply, education, health hygiene. In order to attain this, the municipality has to raise adequate funds from various resources; local as well as central.

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.

1.4. Objectives of the study

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

- (a) To study the trends and patterns of municipality finance in Nepal.
- (b) To assess the source of revenue and expenditure pattern of Janakpur municipality.
- (c) To study the potential sources of finance and explore the possibilities of rising the internal sources of revenues of Janakpur municipality.
- (d) To recommend the policies that can improve the financial system of Janakpur municipality.

1.5 Organization of the study

The whole research study is divided into six 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 and fourth chapter deals with the municipal finance in Nepal and research methodology.

The fifth chapter analyzes the revenue and expenditure pattern of the Janakpur municipality during the period of five fiscal year 2056/57 to 2060/61. 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, conclusion of the study made and recommendations made based on such study that might be helpful in formulating and implementing policies are the contents of the last chapter. Appendix and Bibliography presented after the last chapter closes the study.

1.6 Limitations of the study

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

- (a) This study has considered only Janakpur municipality. The finding of this study can not be directly used on other municipalities because it has its own unique characteristics.
- (b) Due to the time and financial limitation this study can not be considered a complete study. Hence, time factor has played a significant role to limit this study.
- (c) This study is basically based on the balance sheet of five fiscal years of Janakpur municipality. The time period covered in this study is five years between 2056/57 and 2060/61.

CHAPTER TWO

REVIEW OF LITERATURE

2.1 Concept and Patterns of Local Governments

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

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

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:

England

Conurbations / Metropolitan Counties / Metropolitan Districts / Parishes or Towns (In some places except former rural places) London Greater London Council / London Boroughs / City of London Corporation	Mixed Urban & Rural Areas / Non-Metropolitan Counties / Non-Metropolitan Districts or Boroughs / Parishes or Towns (except in large urban areas or large towns) Wales Counties / Districts or Boroughs / 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 presided over by a perfect. Then, under the Directory and under Napoleon various innovations were attempted, including the introduction of popularly elected municipal councils. However, the existing pattern is regarded as the creation of Napoleon and more remotely of Richelieu.

Today the French pattern of Local Government presents a very complex phenomenon. Geographically, it is, however, a very simple, four-tier system of administration. The country is divided into Departments; each department is subdivided into Arrondissement, each Arrondissement into canton and each canton into communes. Of the four-tiers, those at the top and the bottom can claim to be the real units of Local Government because they are so recognized legally, so constituted politically, and so organized administratively. The Department is the largest unit, while the commune is the smallest. Each of them is a body corporate, has its own budget, own property, can sue or be sued, and can enter into contracts.

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 relatively small degree.

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

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

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

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

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

All the forms have attracted the attention of students of Local Government despite their relative deficiencies. The first of these places emphasis on checks and balances. The second refutes the 'dichotomy' of legislative vs. executive powers. The third, having derived inspiration from business management, highlights the

desire to enable the Local Government to function more efficiently by employing a professional administrator as the Chief Executive. Finally, there are special districts that form the third group of local units. They are numerous in variety and are both rural and urban in character. They are created to perform specific functions or projects, such as 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 Hami. 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 tax are 58 municipalities in Nepal.

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

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

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

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 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).

According to Bahl, 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 (Bahl, 1983).

Sarita Pandey 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 (Pandey, 1977).

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

Sanjay Chapagain 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 (Chapagain, 1995).

R.N. Timsena 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 (Timsena, 1996).

B.H. Pahadi 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 (Pahadi, 1997).

Rishikesh Gautam had studied municipality finance in Nepal. His study is based on the case study of Nepalgunj 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 (Gautam, 2002).

2.4 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.

2.4.1 Local Government

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

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

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

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

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

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

2.4.2 Local Government Finance

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

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

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

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

2.4.3 Municipality

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

In this study municipality means Janakpur municipality which is situated at the heart of the Janakpur district. Its population is 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 16 wards.

2.4.4 Municipal Government

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

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

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

2.4.5 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, in which revenue is the past participle of revenue meaning to return (Dictionary of Economics, 1996).

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

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

(i) Local Taxes

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

(ii) Fees and Fines

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

(iii) Property Rental

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

(iv) Sources of other revenue

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

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

(a) Grants

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

(b) Loans

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

(c) Miscellaneous Income

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

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

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

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

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

- (a) Provide financial and technical support to the municipalities for the implementation of social infrastructure and revenue generating projects.

- (b) Strengthen the technical and financial capacity of municipalities to implement, operate and maintain the projects.

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

CHAPTER THREE

MUNICIPAL FINANCE IN NEPAL

3.1 Municipal System/Pattern

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

Municipalities constitute the local government in the urban areas of Nepal. The total municipal population was 3,487,785 in 2004/05, which was about 14 percent of the estimated total population of Nepal in that year. While the share of urban population in the total population is still not much, the urban population has been increasing rapidly in the recent past, 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.

Since last July 2002, the country is local governments (District Development Committee, Village Development Committee and Municipalities) are running without elected local representatives and another couple of months will go these local institutions without elected political representatives. But, with and without any obligation, these local institutions need to be 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.

3.2 Functions

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

Decline in the voluntary activities on the one hand and rise in the urban population on the other have put pressure for the supply of public services to be provided by the municipalities in their respective areas. In this context, municipalities were entrusted to carry out a number of activities under the

municipal act. Municipal functions have been expanded further under the Local Self-Governance Act 1999. Municipal functions can be divided into three broad categories as follows:

3.2.1 Public Utilities

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

3.2.2 Social Services

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

3.2.3 General Urban Services

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

While the list of municipal functions is very long, activities of the municipalities are limited in practice. Municipalities are involved in some urban service-related activities. For examples, they have been involved to a limited extent in garbage

collection, street cleaning, street lighting, the creation of city parks, construction of public places, and local roads. They have been weak and lack managerial and administrative capacities and financial resources to carry out their functions effectively. Many functions performed by local governments in many other countries are performed by NG/N in Nepal.

3.3 Municipal Expenditure

The size of the municipalities in terms of budget is small. In 2003/04, the latest year for which figures are available, total expenditure of 58 municipalities was Rs. 2,160 million. The total expenditure of municipalities was percent of the total expenditure of NG/N in 2003/04.

Municipal expenditure is divided into three main headings; 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. The position in 2003/04 may be seen from Table 3.1.

Table 3.1
Composition of Municipal Expenditure
(2003/04)

Heading	Rs. in Million	Percent
Capital Expenditure	1,019	47.17
Current Expenditure	897	41.53
Social expenditure	244	11.30
Total Expenditure	2,160	100.00

Source: *Based on Appendix-II*

On average, municipalities spend the largest amount in the form of capital expenditure and lowest amount in social activities. In 2003/04, the amount of capital, current and social expenditure was Rs.1, 019 million, Rs. 897 million and Rs. 244 million, respectively.

Capital expenditure is made in the purchases of vehicles, furniture, machinery, equipment, land and buildings. This type of expenditure is also made in the form of construction of building and various types of projects. Expenditure in the field of various development and construction projects constitutes about 80 percent of total capital expenditure.

Not only the level of services varies considerably across the municipalities in terms of level of expenditure, but there is also a variation in type of services provided by the municipalities. For example, some municipalities spend more in health, some in education; still some in sport and culture. This indicates the priority of the function by municipalities, which are the reflections of the demand for the type of services by the local people and the selection of the most needed service due to the limited availability of financial resources.

3.4 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.

Largely the own source revenue of the municipalities (i.e., tax and non-tax revenue) meets municipal expenditures. For example, in 2003/04, the tax and non-tax revenue met all current expenditure of the municipalities. On an average, their own source revenues met more than 75 percent of total expenditure.

Table 3.2

**Financing Sources of Municipal Expenditure
(2003/04)**

Heading	Rs. in Millions	Percent
Tax Revenue	1237	57.70
Non-tax Revenue	592	27.61
Grants	289	13.48
Loans	26	1.21
Total	2144	100.00
Balance Forward	375	
Grand Total	2519	

Source: *Based on Appendix-I*

Total income of all municipalities was Rs. 2,519 million in 2003/04. Out of this tax revenue was Rs, 1,237 million while non-tax revenue was Rs. 592 million. Grants and loans were Rs. 289 million and Rs. 26 millions respectively while Rs. 375 million was the balance forward in that fiscal year.

3.4.1 Taxes

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

While municipalities have been authorized to levy various taxes since the early 1960s, they are confined to depend heavily on octroi/local development fee for revenue. As indicated in Table 3.3 in 2003/04, municipalities generated Rs.986 million from octroi/local development fee out of total municipal tax revenue of

Rs.1, 237 million. The octroi/local development fee constituted 80 percent of total municipal tax revenue in 2003/04.

Table 3.3
Composition of Municipal Tax Revenue
(2003/04)

Heading	Rs. in Millions	Percent
Octroi/Local Development Fee	986	79.70
Vehicle Tax	34	2.75
Professional Tax	48	3.88
House, land tax and integrated property tax	142	11.48
Other Direct/Indirect Taxes(house rent, contract, local market, sales taxes)	21	1.70
Others taxes and arrears	6	0.49
Total Tax Revenue	1,237	100.00

Source: *Based on Appendix-I*

House, land tax and integrated property tax has been the second largest source of tax revenue of municipalities. This source generated Rs.142 millions in 2003/04, which was 11.48 percent of the total tax revenue. Professional tax has been the third largest source of municipal tax revenue. This tax provided Rs.48 million revenue in 2003/04. Relatively speaking, professional tax provided 3.88 percent of total tax revenue in 2003/04. Vehicle tax has been the fourth largest source of municipal tax revenue. This tax provided Rs.34 million revenue in 2003/04. Relatively speaking, vehicle tax provided 2.75 percent of total tax revenue in 2003/04.

In 2003/04, Other Direct/Indirect taxes (house rent, contract, local market, sales taxes) and others taxes and arrears provided only Rs.21 million and Rs.6 million, respectively. The contribution of other direct/indirect taxes and other taxes to the total tax revenue was 1.70 and 0.49 percent, respectively in 2003/04.

3.4.2 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 80 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 3.4.

Table 3.4
Composition of Non-tax Revenue
(2003/04)

Heading	Rs. n Million	Percentage
Service fees	122	20.61
Building Permit Fee	191	32.26
Market/shopping/building rent	52	8.78
Bus park fee	26	4.39
Others	201	33.96
Total	592	100.00

Source: *Based on Appendix-I*

Municipalities do not generate much revenue from non-tax sources. For example, in 2003/04 they generated Rs.592 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 2003/04 providing Rs. 191 million, which was about 33 percent of total non-tax revenue in 2003/04. Municipalities also generated Rs.122 million from the service fee. Rents from market, shops and buildings have provided Rs.52 million revenue. Service fees and rental income from market/shops/buildings were the second and the third largest sources of revenue, providing about 21 and 9 percent of the total non-tax revenue, respectively.

3.4.3 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 3.5, NG/N grants are given in the form of an administrative grants and development grants. Administrative grants are given to support NG/N employees posted at the municipal offices, while development grants are provided to carry out development activities at the local level. All municipalities receive NG/N administrative grant. NG/N-development grant is provided the most important grants. This type of grant is provided only to those

municipalities whose internal revenue is less than one crore. They also receive grants for the operation of fire fighter.

Table 3.5
Composition of Municipal Grants
(2003/04)

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: *Based on Appendix-I*

Of the grants sources, NG/Development Grants was the biggest source in 2003/04 providing Rs.117 million, which was about 41 percent of total grants in 2003/04. Municipalities also generated Rs.88 million from the DDC and other grants. NG/Administrative grants provided Rs.72 million.

3.4.4 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 3.6
Composition of Municipal Loans
(2002/03 and 2003/04)

Type of Loans	Rs. in Millions	Percent	Rs. in Millions	Percent
	2002/03		2003/04	
TDF Loan	12	46.15	10	38.46
Other Loan	14	53.85	16	61.54
Total	26	100.00	26	100.00

Source: *Based on Appendix-I*

The total amount of loan raised by municipalities in 2003/04 was Rs.26 million, while it was Rs. 26 million in the same in 2002/03. 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 46.15 percent in 2002/03 while the share of non-TDF loan was about 62 percent in 2003/04.

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.

3.5 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 weal, 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.

3.6 Directions for Reform

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

CHAPTER FOUR

RESEARCH METHODOLOGY

4.1 Selection of the Municipality

Janakpur municipality is the only one municipality on Dhanusha district. Janakpur 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 economic research of this municipality. This is one of reasons to select this municipality as a study area. Besides this, Janakpur municipality was established nearly before 40 years but economically and financially it is still very weak. The other and the main reason to select this municipality are to find the financial aspect of this municipality and provide some constructive suggestions.

4.2 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 2056/57 to 2061/62.

4.3 Data Collection

4.3.1 Sources of the Data

Primary and secondary sources were used to collect data. Secondary sources were used to find the economic condition of the municipality, and revenue and expenditure pattern of this municipality. The rest of the data were collected by conducting a sample survey. The survey was conducted by the author of this study.

4.3.2 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 Janakpur Municipality were collected from budgeting section of Janakpur Municipality. The information of the physical condition of Janakpur municipality and its structure were provided by the Janakpur municipality. The loan provided by TDF to Janakpur 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.

4.3.3 Method used to collect primary data

Primary data was collected and used for of this study. The data was collected from businessman, farmers, politicians and educated people using personal interviews. Random sampling method was used to collect information. The tentative lists of businessman, farmers, politicians and educated people were prepared. The informants were randomly selected from the prepared lists. Fifty of each of them was selected for the interview purpose. However, only about 20 of each of them were consulted randomly for interview due to time, resources and the interviewer personal problems. Collection of data was started on the month of Jestha 2062 and it took ten days to complete on hundred interviews.

In this study all types of businessman were chosen in the interviews. Businessman having income of more than Rs. 10, 00,000 per month as well as small businessman like betel shop keeper having income of less than Rs. 5000 per month were interviewed.

In the same manner elected politicians as well as not elected but active politicians like teachers, students were interviewed. Big farmers having more than five bighas of agriculture land and small farmers having less than half a bigha of land were interviewed.

Only one type of questionnaire was used to collect information from all types of interviewers. The questionnaire is presented in Appendix. Except politicians other people were not interested as well as eager to provide information. Hence it became very difficult to collect data. The indifference of the people might have reduced the accuracy of the data.

On an average it took one and half-hours to complete a single questionnaire. Even though the questionnaire was in Nepali, the interviewers often had difficulties to understand some of the questions. Consequently many questions required further classification.

To analyses the data some statistical tools like mean percentage, growth rate etc. are used. This is average, average percentage, increasing percent, percentage etc.

4.4 Variables Used

The variables used on the revenue side of the study are local taxes, fees and fines, property rentals, grants, loans, miscellaneous income etc.

The variables used on the expenditure side of the study are current expenditure, debt payment, ordinary capital expenditure, development expenditure etc.

CHAPTER FIVE

ANALYSIS OF REVENUE AND EXPENDITURE PATTERN OF JANAKPUR MUNICIPALITY

5.1 General Information of the Study Area

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

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

approach so expected to be instrumental in retaining central government's control over tax system, while ensuring a higher flow of revenue to municipalities and making fiscal decentralization a success.

5.2 Revenue Pattern

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

Table 5.1
Total Revenue
(2056/57 to 2060/61)

Fiscal Year	Internal Revenue	External Revenue	Balance Forward	Total Revenue
2056/57	21138692 (91.62)	1497919 (6.49)	436141 (1.89)	23072752 (100.00)
2057/58	25590579 (97.23)	600000 (2.28)	128934 (0.49)	26319513 (100.00)
2058/59	29000918 (92.63)	781316 (2.50)	1526385 (4.88)	31308619 (100.00)
2059/60	27023195 (89.56)	2329878 (7.72)	820858 (2.72)	30173931 (100.00)
2060/61	29339447 (74.17)	1069349 (2.70)	9147945 (23.13)	39556741 (100.00)
Average	89.04	4.34	6.62	100.00

Source: *Detailed Revenue/Expenditure breakdown, GTZ/Udle, 2004.*

Table 5.1 shows the composition of total revenue with its percentage share. The highest percentage on total revenue comes from internal revenue. In average, it contributes 89 percent to total revenue. The contributions from external revenue and balance forward are not consistent. In fiscal year, 2056/57, external revenue contributed about 6 percent while in the FY 2060/61 its contribution drastically decreased down to mere 3 percent of total revenue. On the other hand, balance forward increased from 0.5 percent (FY 2057/58) to 23 percent (FY 2060/61) of total revenue

Table 5.2

**Revenue Per Capita of all Municipalities and Janakpur Municipalities
(2056/57 to 2060/61)**

Per capita revenue of all municipalities	Fiscal Year				
	2056/57	2057/58	2058/59	2059/60	2060/61
Highest per capita	2811.25	2620.50	2153.03	1948.42	2588.14
Average per capita	558.77	634.07	732.60	643.63	722.40
Lowest per capita	132.69	142.63	155.79	125.66	153.53
Janakpur municipality per capita	279.42	304.49	421.99	394.47	501.59

Source: *Detailed Revenue/Expenditure breakdown, GTZ/Udle, 2004.*

The table 5.2 shows that the per capita revenue of Janakpur municipality was initially increasing for three consecutive fiscal years but decreases in 2059/60 then after again increases in 2060/61. Nevertheless, the per capita revenue of Janakpur municipality was less than average per capita revenue of all municipalities throughout the study period. Table 5.2 also indicates that the Janakpur municipality has been generating less revenue than average municipality's of Nepal.

Figure 5.1

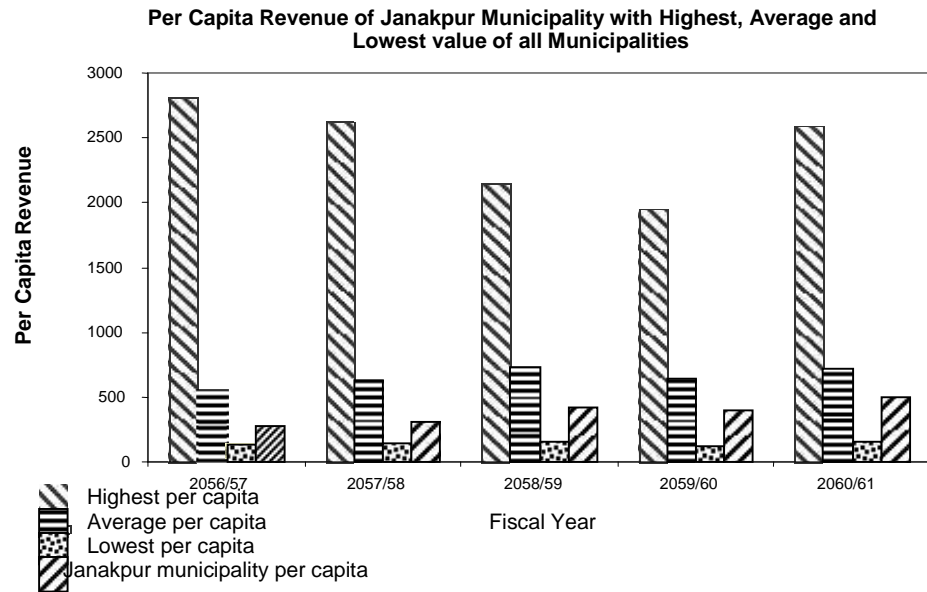


Figure 5.1 shows the per capita revenue of Janakpur municipality with highest, average and lowest values of all municipalities from the fiscal year 2056/57 to 2060/61.

5.2.1. Own resources of Revenue

The per capita own source revenue of Janakpur municipality is lower than the average per capita revenue of all municipalities. It has been increasing but less than the average increment. Table 5.3 tells that the per capita own source revenue of the Janakpur 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 Janakpur municipality had been resigning revenue than it should be. In connection to rising revenue its performance can be considered very poor.

Table 5.3

**Per Capita Own Source of Revenue
(2056/57 to 2060/61)**

Per capita source revenue of all municipalities	Fiscal Year				
	2056/57	2057/58	2058/59	2059/60	2060/61
Highest per capita source revenue	1899.34	1788.45	1779.53	1610.51	1685.95
Average per capita source revenue	389.37	443.41	543.73	507.68	506.19
Lowest per capita source revenue	30.58	54.00	62.62	60.40	62.20
Janakpur municipality per capita source revenue	256.00	296.06	390.89	353.28	372.03

Source: *Detailed Revenue/Expenditure breakdown, GTZ/Udle, 2004.*

The main component of own sources of revenue of Janakpur municipality are: local taxes, fees, fines, property rental and other revenue. The contribution of the components of own sources of revenue of Janakpur municipality during the period under consideration is discussed further in the table 5.4.

Table 5.4**Composition of own source of revenue of Janakpur municipality with annual growth rate
(2056/57 to 2060/61)**

Heading	Fiscal Year										
	2056/57	Annual Inc. %	2057/58	Annual Inc. %	2058/59	Annual Inc. %	2059/60	Annual Inc. %	2060/61	Annual Inc. %	Average
Local taxes	20417880 (96.59)	7.35	24764488 (96.77)	21.29	27317161 (94.19)	10.31	24853467 (91.97)	-9.02	24411138 (83.20)	-1.78	24352826.8 (92.54)
Fee and fines	720812 (3.41)	115.86	707540 (2.76)	-1.84	1173149 (4.04)	65.81	1502814 (5.56)	28.10	3762860 (12.82)	150.39	1573435 (5.72)
Property rental	0 (0)	-100	59415 (0.23)	0	510608 (1.76)	759.39	528241 (1.95)	3.45	456635 (1.56)	-13.55	310979.8 (1.1)
Other revenue	0 (0)	-100	59136 (0.23)	0	0	-100	138673 (0.51)	0	708814 (2.41)	411.14	181324.6 (0.63)
total	21138692	8.94	25590579	21.06	29000918	13.33	27023195	-6.82	29339447	8.57	26418566.2

Note: the figure in parenthesis represents percentage.

Source: *Detailed Revenue/Expenditure breakdown, GTZ/Udle, 2004.*

In table 5.4, local taxes have the major contribution in the own source of revenue of Janakpur municipality. Its contribution to own source revenue hovers around 92 %. The annual growth rate of local taxes is fluctuating. Fees and fines command second highest share in own source revenue during the period of study. The share of property rental and other revenue count negligible in own source revenue. It indicates that Janakpur municipality had not been able to exploit other potential sources of revenue. Hence it should try to exploit other potential sources of revenue.

5.2.1.1 Local taxes

Local development fee, vehicle tax, octroi and vehicle tax, professional tax, house and land tax, house rent tax, contract tax, local market tax, sales tax: cattle/fish, unclaimed land tax and other taxes are included in local tax revenue. Table 5.5 gives the percentage share of the components of local taxes in local taxes. Though the share of local development fee in local tax is gradually decreasing (90 % in 2056/57 to 78 % in 2060/61), it commands the highest percentage share in local tax. Though nominal, the second highest share in local tax is that of house and land tax. In average, its percentage share in local tax revolves round 8 percent only. The contribution from local market tax is 5 % on average during the period under consideration. The municipality also collects taxes from vehicle tax, professional tax, house rent tax, sales tax: cattle fish, unclaimed land tax and other taxes, but the contribution of these taxes in total is no significance. So, it is evident that, the rate of local development, house and land tax and local market is very important in the collection of local taxes revenue; and the contributions of rest of the components are very nominal during the study period.

Table 5.5**Composition of local taxes of Janakpur Municipality
(2056/57 to 2060/61)****(In percentage)**

Heading	Fiscal Year					
	2056/57	2057/58	2058/59	2059/60	2060/61	Average
Octroi/Local Dev.Fee	90.02	88.74	82.66	78.22	78.27	83.58
Vehicle Tax	1.86	0.00	0.00	0.00	0.00	0.37
Octroi and Vehicle Tax	0.00	0.00	0.00	0.00	0.00	0.00
Professional Tax	0.58	1.12	1.04	0.80	1.45	1.00
House and Land Tax	0.00	0.06	13.67	12.22	15.48	8.28
House Rent Tax	0.40	4.90	0.15	0.13	0.37	1.19
Contract Tax	0.00	0.00	0.00	0.00	0.00	0.00
Local Market Tax	6.01	4.69	2.46	8.62	4.42	5.24
Sales Tax: Cattle/Fish	0.37	0.00	0.00	0.00	0.00	0.07
Unclaimed Land Tax	0.02	0.02	0.02	0.01	0.02	0.02
Tax Arrears	0.00	0.00	0.00	0.00	0.00	0.00
Other Taxes	0.74	0.46	0.00	0.00	0.00	0.24
Total	100.00	100.00	100.00	100.00	100.00	100.00

Source: *Detailed Revenue/Expenditure breakdown, GTZ/Udle, 2004.*

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

5.2.1.2 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 5.6
Fees and Fines
(2056/57 to 2060/61)
(In Percentage)

Heading	Fiscal year					
	2056/57	2057/58	2058/59	2059/60	2060/61	Average
Service fee	0.96	0.94	0.00	0.00	0.00	0.38
Industrial service fee	0.00	0.00	0.00	0.00	0.00	0.00
Recommendation fee	1.75	2.87	5.26	4.69	8.77	4.67
Radio license	0.00	0.00	0.00	0.00	0.00	0.00
Application fee	1.78	0.00	0.00	0.00	0.00	0.36
Appraisal fee	12.18	0.82	2.90	4.43	3.54	4.78
Building permit	79.44	85.10	85.17	80.65	82.38	82.55
Registration fee	0.00	0.00	1.67	1.50	1.04	0.84
Animal house fee	1.27	0.15	2.21	0.71	0.77	1.02
Other fees/fine	2.62	10.11	2.78	8.02	3.50	5.41
Total	100.00	100.00	100.00	100.00	100.00	100.00

Source: *Detailed Revenue/Expenditure breakdown, GTZ/Udle, 2004*

The contribution from the building permit fee is highest during the study period, at 82.55 percent on average. The percentage of revenue from building construction permit fee has increased from 79.44% on 2056/57 to 82.55% on 2060/61. This is because building construction in the municipality has been increasing constantly. The contribution from other fees and fines is second position with only 5.41 percent on average. Appraisal fee and recommendation fee also contribution 4.78 percent and 4.78 respectively during the study period. The share of animal house fee is at 1.02 percent on average during the study period. The contribution from the service fee, 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.

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

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

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

5.2.1.3 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 5.7, equipment/ others has the major contribution in the own source of revenue of Janakpur municipality. The contribution from the equipment/ others is highest during the study period, at 39.87 percent on average. The contribution from fish pond is second highest during the study period, at 30.91 percent on average. The

share of market/shops/building and Bus Park is 5.48 percent and 3.74 percent on average during the study period.

Table 5.7
Property Rental
(2056/57 to 2060/61)

(In Percentage)

Headings	Fiscal year					Average
	2056/57	2057/58	2058/59	2059/60	2060/61	
Market/shops/building	0	26.74	0.65	0.00	0.00	5.48
Bus park	0	0.00	18.70	0.00	0.00	3.74
Fish pond	0	73.26	9.16	0.00	72.13	30.91
Equipment/others	0	0.00	71.49	100.00	27.87	39.87
Total	0	100.00	100.00	100.00	100.00	80.00

Source: *Detailed Revenue/Expenditure breakdown, GTZ/Udle, 2004*

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

5.2.1.4 Other revenue

Though the classified subcomponents of other revenues of Janakpur municipality include: sand gravel sale, land/building sale, auction sale, tender form sale, confiscation deposit and miscellaneous revenue/sale, the only tangible contribution to other revenue solely comes from miscellaneous revenue/sale in the three fiscal year (2057/58, 2057/60 and 2060/61). In fiscal year 2057/58, the amount of miscellaneous revenue/sale was only Rs 59139 which increased by twelve times on 2060/61(Detailed Revenue/Expenditure breakdown, GTZ/Udle, 2004).

5.2.2 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.

Table: 5.8

Percentage of external revenue of all municipalities and Janakpur municipality
(2056/57 to 2060/61)

(In percentage)

Heading	Fiscal year					Average
	2056/57	2057/58	2058/59	2059/60	2060/61	
All municipalities	22.99	19.25	17.07	13.67	15.03	17.59
Janakpur municipality	6.49	2.28	2.49	7.72	2.7	4.34

Source: *Detailed Revenue/Expenditure breakdown, GTZ/Udle, 2004.*

Table 5.8 shows the percentage of external revenue of all municipalities and Janakpur municipality of their total revenue from fiscal year 2056/57 to 2060/61. The average percentage of external revenue of the total revenue of all municipalities during the study period is about 17 percent while that for Janakpur municipality is merely 4 percent. This clarifies the fact that Janakpur municipality is not highly dependent on external sources of revenue.

The main component of external sources of revenue of Janakpur municipality is: miscellaneous income, grants and loans. The contribution of the components of external sources of revenue of Janakpur municipality during the period under consideration is discussed further in the table 5.9. In table 5.9, grants have the major contribution in the external source of revenue of Janakpur municipality. Its

contribution to external source revenue hovers around 83 %. The annual growth rate of grants is fluctuating. Miscellaneous income commands the second highest share in external source of revenue during the period of study. The share of loans is negligible in external source revenue.

Table 5.9**Composition of external source of revenue of Janakpur municipality
with annual growth rate
(2056/57 to 2060/61)**

Heading	Fiscal Year										
	2056/57	Annual Inc. %	2057/58	Annual Inc. %	2058/59	Annual Inc. %	2059/60	Annual Inc. %	2060/61	Annual Inc. %	Average
Miscellaneous	71519 (4.77)	-79.57	0 (0)	-100	61316 (7.85)	0	125878 (5.40)	105.29	269349 (25.19)	113.98	105612.4 (8.64)
Grants	830400 (55.44)	4.45	600000 (100.0)	-27.74	720000 (92.15)	20	2204000 (94.60)	206.11	800000 (74.81)	-63.70	1030880 (83.40)
Loans	596000 (39.79)	1092	0 (0.00)	-100	0 (0.0)	0	0 (0.00)	0	0 (0.00)	0	119200 (7.96)
Total	1497919	25.35	600000	-59.94	781316	30.22	2329878	198.20	1069349	-54.10	1255692.4

Note: The figure in parenthesis represents percentage.

Source: *Detailed Revenue/Expenditure breakdown, GTZ/Udle, 2004.*

5.2.2.1 Miscellaneous income

Advanced refund, cost sharing and other miscellaneous are included in miscellaneous income. Table 5.10 gives the percentage share of the components of miscellaneous income.

Table 5.10

Composition of Miscellaneous income of Janakpur municipality
(2056/57 to 2060/61)

(In percentage)

Heading	Fiscal Year					
	2056/57	2057/58	2058/59	2059/60	2060/61	average
Advance refund	0	0	8.37	0	0.56	1.78
Cost sharing	0	0	0.00	0	0.00	0.00
other miscellaneous	100	0	91.63	100	99.44	78.22
Total	100	0	100.00	100	100.00	80.00

Source: *Detailed Revenue/Expenditure breakdown, GTZ/Udle, 2004.*

Other miscellaneous commands the substantial percentage share in miscellaneous income. The nominal share in miscellaneous income is that of advance refund. In average, its percentage share in miscellaneous income revolves round 2 percent only. There is no contribution from cost sharing in miscellaneous income during the period under consideration. In three fiscal years (2056/57, 2057/58 and 2059/60), the share of advance refund on miscellaneous income is also zero. This shows that miscellaneous income completely depends on only one component viz., other miscellaneous. Considering these trends, it can be said that the miscellaneous income of Janakpur municipality is not a reliable source of income.

Even though miscellaneous income has not been a reliable source of income but the officials of this municipality should try to use cost sharing scheme of NG which they

have not used in the study period. If they can exploit this source of income, miscellaneous source of income can become a reliable source of income.

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

5.2.2.2 Grants

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

Table 5.11

**Composition of Grants of Janakpur municipality
(2056/57 to 2060/61)**

(In percentage)

Heading	Fiscal Year					
	2056/57	2057/58	2058/59	2059/60	2060/61	Average
NG/Administrative Grant	72.25	100.00	100.00	36.30	100.00	81.71
NG/Development Grant	0.00	0.00	0.00	0.00	0.00	0.00
Dist.dev.board/others	0.00	0.00	0.00	0.00	0.00	0.00
TDF grants	27.75	0.00	0.00	63.70	0.00	18.29
Total	100.00	100.00	100.00	100.00	100.00	100.00

Source: *Detailed Revenue/Expenditure breakdown, GTZ/Udle, 2004.*

Table 5.11 show that the administrative grants given by the central government to support their employee's posted in the municipality has a constant except of fiscal year 2059/60.No development grants given by central government, which indicates that the development works were not 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 2056/57 it shares 28 percent whereas in the consecutive two only in fiscal year 2059/60, it share was 64 percent. In the fiscal year 2060/61, the TDF grant is zero percent.

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.

5.2.2.3 Loans

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

So there is no share from town development fund in loans. However, Janakpur municipality has taken loan from other internal sources only in fiscal year 2056/57 amounting about six lacks (Source: Detailed Revenue/Expenditure breakdown, GTZ/Udle, 2004.)

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

5.3 Balance Forward

Balance forward is nothing but the left over money that was supposed to be spent on the previous fiscal year. Balance forward is not revenue in real sense but in accounting this is also considered as one component of revenue. Table 5.12 shows that the percentages of balance forward of all municipalities and Janakpur municipality with respect to their total revenue.

Table 5.12

Percentage of balance forward of all municipalities and Janakpur municipality.
(2056/57 to 2060/61)

(In Percentage)

Heading	Fiscal Year					
	2056/57	2057/58	2058/59	2059/60	2060/61	average
All municipalities	7.32	10.81	8.71	7.46	14.90	9.84
Janakpur municipality	1.89	0.49	4.87	2.72	23.13	6.62

Source: *Detailed Revenue/Expenditure breakdown, GTZ/Udle, 2004.*

The percentage of balance forward of Janakpur municipality is less than that of all municipalities. The amount of balance forward of Janakpur municipality has fluctuated during the study period. In fiscal year 2057/58 it was 0.5 percent while in fiscal year 2060/61 it increased to 23 percent.

Table 5.13

Total balance forward of Janakpur municipality
(2056/57 to 2060/61)

(In rupees)

Heading	Fiscal Year				
	2056/57	2057/58	2058/59	2059/60	2060/61
Balance forward	436141	128934	1526385	820858	9147945

Source: *Detailed Revenue/Expenditure breakdown, GTZ/Udle, 2004.*

The maximum and minimum amounts of balance forward of Janakpur municipality were Rs 9147945 and Rs 128934 in fiscal year 2060/61 and fiscal year 2057/58 respectively (table:5.13). This means the balance forward of this municipality is in an increasing trend, though fluctuating in fiscal years 2057/58 and fiscal year 2059/60. It indicates that the fiscal plan prepared by this municipality is defective. It

also indicates that the officials of this municipality either do not have sufficient vision to develop their municipality or they do not work hard enough for the development of this municipality. Whatever may be the reason, an ever increasing amount of balance forward suggests that the developmental works are not taking place the way it should be in Janakpur municipality.

5.4 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 5.14
Total Expenditure
(2056/57 to 2060/61)

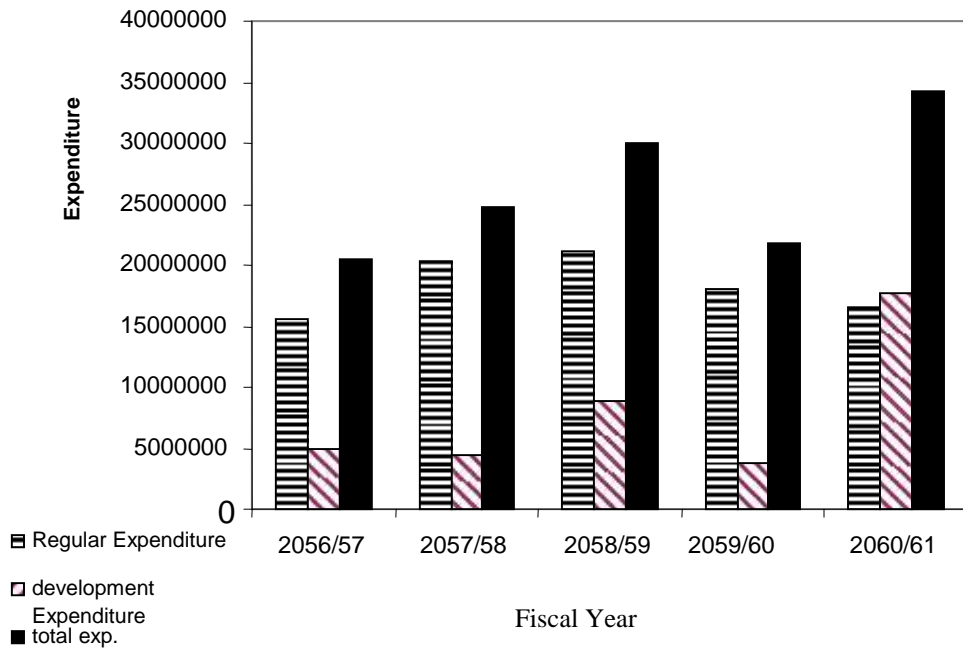
(In percentage)			
Fiscal Year	Regular Expenditure	Development Expenditure	Total Expenditure
2056/57	15633490 (76.32)	4851735 (23.68)	20485225 (100.00)
2057/58	20330754 (82.00)	4462372 (18.00)	24793126 (100.00)
2058/59	21173872 (70.44)	8886242 (29.56)	30060114 (100.00)
2059/60	18035386 (82.52)	3819951 (17.48)	21855337 (100.00)
2060/61	16608071 (48.43)	17681858 (51.57)	34289929 (100.00)

Source: *Detailed Revenue/Expenditure breakdown, GTZ/Udle, 2004.*

Total expenditure includes regular expenditure and development expenditure. Table 5.14 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.

Fig: 2

**Expenditure Pattern
(2056/57 to 2060/61)**



5.4.1 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 5.15

Composition of regular expenditure of Janakpur municipality
(2056/57 to 2060/61)

(In percentage)

Year	Current Expenditure	Debt Payment	Ordinary Expenditure	Regular Expenditure
2056/57	15628490 (99.97)	0 (0.00)	5000 (0.03)	15633490 (100.00)
2057/58	18926754 (93.09)	1404000 (6.91)	0 (0.00)	20330754 (100.00)
2058/59	19769872 (93.37)	1404000 (6.63)	0 (0.00)	21173872 (100.00)
2059/60	16198040 (89.81)	1524000 (8.45)	313346 (1.74)	18035386 (100.00)
2060/61	14115073 (84.99)	1287000 (7.75)	1205998 (7.26)	16608071 (100.00)

Source: *Detailed Revenue/Expenditure breakdown, GTZ/Udle, 2004.*

The highest share in regular expenditure is that of current expenditure. It commands more than 80 percent in total regular expenditure. The share of debt payment seems somewhat stable around 6 percent of regular expenditure. The negligible share in regular expenditure is of ordinary capital.

5.4.1.1 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. The percentage of current expenditure of all municipalities and Janakpur municipality of their respective total expenditure, from the fiscal year 2056/57 to 2060/61, are presented in the table 5.16.

Table 5.16

The percentage of current expenditure of total expenditure of all municipalities and Janakpur municipality
(2056/57 to 2060/61)

(In Percentage)

Heading	Fiscal Year					
	2056/57	2057/58	2058/59	2059/60	2060/61	Average
All municipalities	41.83	42.18	41.10	44.34	38.65	41.62
Janakpur municipality	76.29	76.34	65.77	74.11	41.16	66.73

Source: *Detailed Revenue/Expenditure breakdown, GTZ/Udle, 2004.*

Table 5.16 shows that the average percentage of current expenditure of Janakpur municipality with respect to its total expenditure was significantly higher than that of all municipalities. This indicates that the employees of municipality are either extravagant or inefficient. The current expenditure of Janakpur municipality should be abated by increasing efficiency of the employees and by reducing extravagance.

Table 5.17

**Current Per Capita Expenditure of highest, average and lowest value of all municipalities and Janakpur municipality
(2056/57 to 2060/61)**

Heading	Fiscal Year				
	2056/57	2057/58	2058/59	2059/60	2060/61
Highest	675.98	855.12	775.42	624.47	653.27
Average	208.98	235.36	273.70	232.92	239.41
Lowest	58.01	67.36	63.10	42.17	58.89
Janakpur Municipality	189.27	218.96	266.47	211.76	178.98

Source: *Detailed Revenue Expenditure breakdown, GTZ/Udle, 2004.*

Table 5.17 shows that the per capita current expenditure of Janakpur municipality was usually less than the average per capita current expenditure of all municipalities. A lower per capita current expenditure of Janakpur municipality than the national average indicated working condition of this municipalities is not better than the average municipalities of the country. Considering other aspects like the logistics of the municipality and quantity and quality of the services delivered by this municipality to its people it looks like a lower per capita current expenditure of this municipality has to do with wasteful of resources. Hence the authorities should try to use their resources more economically and efficiently.

Table 5.18**Composition of current expenditure of Janakpur municipality
(2056/57 to 2060/61)**

(In percentage)

Heading	Fiscal Year					
	2056/57	2057/58	2058/59	2059/60	2060/61	average
Salaries	60.34	65.02	68.48	77.72	72.22	68.76
Allowances	25.36	18.08	15.27	9.66	6.85	15.05
Travel and per diem	0.45	1.05	1.60	0.86	2.45	1.28
Services	1.61	1.37	1.15	0.92	2.89	1.59
Rent	0.92	0.71	0.61	0.74	1.41	0.88
Repair & maintenance	1.25	2.06	1.32	1.59	1.06	1.45
Office supplies	0.77	1.08	2.37	2.09	4.13	2.09
Newspapers	0.27	0.45	0.44	0.26	0.44	0.37
Fuel	4.54	3.92	0.81	1.35	1.59	2.44
Clothes/food/allowance	1.68	1.64	1.64	2.31	3.73	2.20
Other material	0.32	0.26	0.61	0.00	0.00	0.24
Health supplies	0.03	0.00	0.00	0.00	0.00	0.01
Food(prisoners/animals)	0.00	0.00	0.00	0.00	0.00	0.00
Financial asst./donations	0.56	0.57	1.86	0.63	0.35	0.80
Contingencies	1.92	3.78	3.82	1.87	2.86	2.85
Wards adm. expenses	0.00	0.00	0.00	0.00	0.00	0.00
total	100.00	100.00	100.00	100.00	100.00	100.00

Source: *Detailed Revenue Expenditure breakdown, GTZ/Udle, 2004*

Current expenditure includes: salaries, allowances, travel and per diem, services, rent, repair and maintenances, offices supplies, newspaper, fuel, clothes/food allowance, other material, health supplies, food (prisoners/animals), financial assistance/ donations, contingencies and wards administration expenses. The substantial part of current expenditure goes to salaries and allowances (table: 5.18). These two command about 84 percent of current expenditure.

In comparison to salaries and allowances, expenditure on other headings was nominal. Without the human resources, municipality can not function but municipality should try to use human resources efficiently and economically. The salary and allowances that have to be paid to the employees should not hamper the

developmental activities of the municipality. Besides salary and allowances, the expenditure on other headings have fluctuating trend. The fluctuating trend indicates wistful use of financial resources by the officials. The trend of the regular expenses should not be unusual.

5.4.1.2 Debt Payment

Table 5.19
Debt Payment
(2056/57 to 2060/61)
(In percentage)

Fiscal Year	Debt Payment	Total Expenditure
2056/57	0 (0)	20485225
2057/58	1404000 (5.66)	24793126
2058/59	1404000 (4.67)	30060113
2059/60	1524000 (6.97)	21855338
2060/61	1287000 (3.75)	34289929

Source: *Detailed Revenue Expenditure breakdown, GTZ/Udle, 2004*

Debt payment of Janakpur municipality was zero in FY 2056/57. The amount of debt payment in 2056/57 and 2057/58 was same. The percentage of debt payment to that of total expenditure is highest in 2059/60. In fiscal year 2060/61, the share of debt payment to total expenditure decreased to 4 percent.

5.4.1.3 Ordinary Capital

The goods that can be used for more than one year is loosely termed as ordinary capital goods in this study like the furniture, vehicles and machinery equipment. The expenditure on ordinary capital in percentage of all municipalities and Janakpur municipality of their total expenditure are presented in table 5.20. Table 5.20 shows

that expenses on ordinary capital made by Janakpur municipality were less than that of all municipalities. In an average the percentage of expenditure of all municipalities was significantly higher than that of this municipality. The average percentage of expenditure of all municipalities was 1.45 percent of total expenditure while it was only 0.99 percent of the municipality. So the logistics of this municipality are inferior to average municipalities of Nepal.

Table 5.20

Percentage of ordinary capital of their total expenditure of all municipalities and Janakpur municipality
(2056/57 to 2060/61)

(In Percentage)

Heading	Fiscal Year					
	2056/57	2057/58	2058/59	2059/60	2060/61	average
All municipalities	2.31	1.41	1.14	0.76	1.63	1.45
Janakpur municipality	0.02	0	0	1.43	3.52	0.99

Source: *Detailed Revenue Expenditure breakdown, GTZ/Udle, 2004*

The sub-components of ordinary capital are furniture, vehicle and machinery equipment. Only in the last fiscal year there has been investment amounting Rs906220 on vehicle. Expenditure on furniture are made on two fiscal years 2056/57 (Rs5000) and 2059/60 (Rs 53885).expenditure on machinery equipment is realized on last two fiscal years. In fiscal year 2059/60, it was Rs 259461 while that increased in next fiscal year to Rs 299778 (Source: Detailed Revenue Expenditure breakdown, GTZ/Udle, 2004).

5.4.2 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 5.21

Composition of Development Expenditure
(2056/57 to 2060/61)

Fiscal Year	Social Programs	Capital Investment	Development Expenditure
2056/57	0 (0.00)	4851735 (100.00)	4851735 (100.00)
2057/58	0 (0.00)	4462372 (100.00)	4462372 (100.00)
2058/59	680304 (7.66)	8205938 (92.34)	8886242 (100.00)
2059/60	816754 (21.38)	3003197 (78.62)	3819951 (10.00)
2060/61	5440845 (30.77)	12241013 (69.23)	17681858 (100.00)

Source: *Detailed Revenue Expenditure breakdown, GTZ/Udle, 2004*

Development expenditure of Janakpur 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. Only from 2058/59, the percentage share of social programs on development expenditure is increasing.

5.4.2.1 Expenditure on Social Programs

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

expenditure on social program of all municipalities and Janakpur municipality of their total expenditure from the fiscal year 2056/57 to 2060/61 are presented in table 5.22.

Table 5.22

**Percentage of expenditure on social programs of their total expenditure of all municipalities and Janakpur municipality
(2056/57 to 2060/61)**

(In Percentage)

Heading	Fiscal Year					
	2056/57	2057/58	2058/59	2059/60	2060/61	average
All municipalities	7.54	6.96	6.42	10.04	11.29	8.45
Janakpur municipality	0.00	0.00	2.26	3.74	15.87	4.37

Source: *Detailed Revenue Expenditure breakdown, GTZ/Udle, 2004*

Table 5.22 shows that the investment in social program on Janakpur municipality was comparatively lower than that of other municipalities because the average percentage of investment is a little less than that of other municipalities. In initial two fiscal years, the percentage of expenditure on social programs in Janakpur municipality is zero percent. Then the trend seems to be increasing till 2060/61, but decreases afterwards. In an average, the expenditure in social programs on Janakpur municipality is 4 percent. This shows the local authorities are not seriously concerned developing the area.

Surprisingly, not a penny is invested in educational sector, during the study period. Even the expenses made in health sector in three fiscal years 2058/59 (Rs 680304), 2059/60(Rs 653806) and 2060/61 (Rs 4164294) is inadequate. Local authority seems to be reluctant to spend on forestry, cultural/sports and disaster relief (No expenses are made in these sectors during the study period). In the last two fiscal years, some expenses are made for financial assistance. In fiscal years 2059/60, it was Rs 162948

and fiscal years 2060/61, it was Rs 274650. In the last fiscal years 2060/61, Rs 101901 was spent on miscellaneous (Source: Detailed Revenue/Expenditure breakdown, GTZ/Udle, 2004).

5.4.2.2 Capital Investment

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

Table 5.23

Composition of Capital Investment
(2056/57 to 2060/61)

Fiscal Year	Building Construction	Other Dev./Construction	Capital Investment
2056/57	16174 (0.33)	4835561 (99.67)	4851735 (100.00)
2057/58	0 (0.00)	4462372 (100.00)	4462372 (100.00)
2058/59	0 (0.00)	8205938 (100.00)	8205938 (100.00)
2059/60	0 (0.00)	3003197 (100.00)	3003197 (100.00)
2060/61	917489 (7.50)	11323524 (92.50)	12241013 (100.00)

Source: *Detailed Revenue Expenditure breakdown, GTZ/Udle, 2004*

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

CHAPTER SIX

CONCLUSION AND RECOMMENDATION

6.1 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 Janakpur Municipality. The analysis is mainly based on the potential sources of revenue and expenditure pattern of Janakpur Municipality during the fiscal year 2056/57 to 2060/61.

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 89 percent to total revenue. The per capita own source revenue of Janakpur 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 not consistent. The components of own-source of revenue were local taxes, fees and fines, property

rental and other revenues. The local taxes have the major contribution in the own source of revenue of Janakpur municipality. Its contribution to own source revenue hovers around 92 %. The annual growth rate of local taxes is fluctuating.

The octroi/local development fee has the major contribution in the local taxes of Janakpur municipality. Local tax played a vital role to increase revenues of Janakpur municipality. The share of octroi/local development fee in local tax is 84 percent on average. It commands the highest percentage share in local tax. Though nominal, the second highest share in local tax is that of house and land tax. In average, its percentage share in local tax revolves round 8 percent only. The contribution from local market tax is 5 % 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 82.55 percent on average. The contribution from the service fee, 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. Janakpur municipality has been receiving revenues from fines too. Collection of fine in Janakpur municipality is in increasing trend. This indicates violation of the rules and regulation by the people of this municipality is in the increasing trend, which is neither good for the people not 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 equipment/ others has the major contribution in the own source of revenue of Janakpur municipality. The contribution from the equipment/ others is highest during the study period, at 39.87 percent on average. The contribution from

fish pond is second highest during the study period, at 30.91 percent on average. The share of market/shops/building and Bus Park is 5.48 percent and 3.74 percent on average during the study period. The only tangible contribution to other revenue solely comes from miscellaneous revenue/sale in the three fiscal year period. In fiscal year 2057/58, the amount of miscellaneous revenue/sale was only Rs. 59139 which increased by twelve times on 2060/61.

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. The average percentage of external revenue of the total revenue of all municipalities during the study period is about 17 percent while that for Janakpur municipality is merely 4 percent.

Grants have the major contribution in the external source of revenue of Janakpur municipality. Its contribution to external source revenue hovers around 83 %. No development grants has been given by the central government which indicates that the development works were not 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 2056/57 it shares 28 percent whereas in the consecutive two only in fiscal year 2059/60, it share was 64 percent. In the fiscal year 2060/61, 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 2 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 Janakpur municipality has not yet approached town development committee for loan. So there is no share from town development fund in loans. However, Janakpur municipality has taken loan from other internal sources only in fiscal year 2056/57 amounting about six lacks.

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 percentage of balance forward of Janakpur municipality is less than that of all municipalities. The amount of balance forward of Janakpur 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 Janakpur 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 80 percent in total regular expenditure. The average percentage of current expenditure of Janakpur municipality with respect to its total expenditure was significantly higher than that of all municipalities. This indicates that the employees of municipality are either extravagant or inefficient. The per capita current expenditure of Janakpur municipality was usually less than the average per capita

current expenditure of all municipalities. The substantial part of current expenditure goes to salaries and allowances. These two command about 84 percent of current expenditure.

The share of debt payment seems somewhat stable around 6 percent of regular expenditure. Debt payment of Janakpur municipality was zero in FY 2056/57. The amount of debt payment in 2056/57 and 2057/58 was same. The percentage of debt payment to that of total expenditure is highest in 2059/60. In fiscal year 2060/61, the share of debt payment to total expenditure decreased to 4 percent.

The negligible share in regular expenditure is of ordinary capital. The ordinary capitals made by Janakpur municipality were less than that of all municipalities. In an average the percentage of expenditure of all municipalities was significantly higher than that of this municipality. The average percentage of expenditure of all municipalities was 1.45 percent of total expenditure while it was only 0.99 percent of the municipality. So the logistics of this municipality are inferior to average municipalities of Nepal. The sub-components of ordinary capital are furniture, vehicle and machinery equipment. Only in the last fiscal year there has been investment amounting Rs.906220 on vehicle.

Development expenditure is almost investment type expenditure. It is one of the most important factors of a municipality. Development expenditure of Janakpur 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. Janakpur municipality has not been able to invest enough amount of money on social programs. The investment in social program on Janakpur municipality was comparatively lower than that of other municipalities because the average percentage of investment is a little less than that of other municipalities.

In initial two fiscal years, the percentage of expenditure on social programs in Janakpur municipality is zero percent. In an average, the expenditure in social programs on Janakpur municipality is 4 percent. Surprisingly, not a penny is invested in educational sector, during the study period. Local authority seems to be reluctant to spend on forestry, cultural/sports and disaster relief (No expenses are made in these sectors during the study period). In the last two fiscal years, some expenses are made for financial assistance.

Capital investment includes land/building purchase, building construction, town level projects and other development construction. There have been no investments in land/building and town level project during the study period. The substantial amount of investment is made on other development/ construction in all fiscal years. Its percentage share on capital investment is about 98. There has been some investment on building construction in the starting and the end of the study period.

As the conclusion of UDLE/GTZ report of the financial analysis of 36 municipalities of Nepal (1994) says “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”. Janakpur municipality also needs to realize this statement and try to work accordingly.

6.2. Recommendations

1 Reduction of unnecessary expenditure: it is necessary to minimize the unnecessary regular expenditure of Janakpur municipality such as salaries, allowances and meetings allowances so that more money can be used in developmental works.

2. Increase on development expenditure: the most obligatory function of municipality is to carry out social programs for the betterment of its residents. So Janakpur municipality should allocate more development expenditures on social programs like health, education so that balance forward could be minimized.

3. Identification of other sources of revenue: Janakpur municipality should identify the potential sources of revenue to run itself independent. This municipality has lot of land in market area which could be used as business market place, public parks, and library and convention rooms. Some of these public capitals can generate revenue to the municipality which can be preceded towards the sustainable development.

4. Systematization of tax collection: the tax collection system is not systematic at present. The tax collection system should be made systematic. Equity and equality should be maintained while imposing taxes. To make tax collection system more effective, the provision of reward and punishment should be made.

5. Establishment of Eco-tourism: Janakpur municipality has religious places and many ponds. It can use these resources to attract tourist and generate revenue from that. It should provide facilities to the tourists.

6. Utilization of grants should be more effective: Janakpur municipality has been receiving grants from the central government. At present, the municipality is not using the grants effectively. Every penny should be wisely utilized.

7. Civic awareness among the local people can accelerate and support the sound municipality finance in this country.

8. People's participation: More interaction should take place between the ward offices and its residents regarding the development activities within wards. The municipal body should be transparent. Municipality should publish timely financial reports and make those available to publish and more integration program can be done with the residents to notify them regarding the development and financial situation of the municipality.

9. The central authority should bring different programs which can address the special problems of the municipality while negotiating for the grants with the donor agencies; the central authority should be competent enough to make them aware about the acute and 'quick to address' problems of the different municipalities.

APPENDIX-I
Detailed Revenue Breakdown with Aggregate of All Municipalities

Line	FY56/57	FY57/58	FY58/59	FY59/60	FY60/61
1 Octroi/Local Dev.Fee	879,674,940	987,408,748	1,066,290,567	989,238,182	986,099,138
2 Vehicle Tax	77,969,146	34,337,359	30,586,226	36,053,949	34,147,247
3 Octroi and Vehicle Tax	0	0	0	0	0
4 Professional Tax	29,761,131	32,977,660	44,184,155	51,548,925	47,586,182
5 House and Land Tax	5,101,175	18,938,657	195,453,226	143,995,513	142,044,794
6 House Rent Tax	1,378,699	3,300,999	4,454,108	4,800,552	5,586,129
7 Contract Tax	466,319	456,890	412,961	853,977	282,712
8 Local Market Tax	7,786,227	8,328,041	9,836,400	10,313,918	10,011,625
9 Sales Tax: Cattle/Fish	4,586,329	4,482,739	5,608,104	5,125,004	5,278,063
10 Unclaimed Land Tax	2,579,449	5,180,521	3,780,890	3,413,003	2,793,631
11 Tax Arrears	17,314,824	7,567,986	3,009,940	2,944,798	3,331,909
12 Other Taxes	26,576,077	63,377,835	4,551,780	124,756	53,751
13 LOCAL TAXES	1,053,194,316	1,166,447,435	1,368,168,356	1,248,412,577	1,237,215,181
14 Service Fee	67,726,485	130,508,113	99,714,858	101,475,630	122,515,450
15 Industrial Service Fee	0	0	0	0	0
16 Recommendation Fee	5,719,256	9,236,342	11,591,289	11,998,408	20,331,732
17 Radio License	237,549	160,483	5,820	1,700	221,919
18 Application Fee	1,527,588	2,393,810	1,637,272	1,800,081	1,562,662
19 Appraisal Fee	3,157,230	2,172,010	2,485,903	2,814,544	2,916,857
20 Building Permit	47,827,043	96,624,111	112,259,842	181,747,726	191,011,763
21 Registration Fee	6,411,894	3,034,438	3,393,917	4,070,649	3,791,415
22 Animal House Fee	364,361	284,942	220,125	135,646	80,036
23 Other Fees/Fines	8,792,371	10,984,394	15,214,393	19,657,954	17,337,760
24 FEES AND FINES	141,763,777	254,968,944	246,523,419	323,702,339	359,769,596
25 Market/Shops/Building	27,437,355	38,851,116	47,838,926	55,071,383	52,297,901
26 Bus Park	10,835,796	13,309,664	16,337,078	17,136,727	25,804,174
27 Fish Pond	2,190,527	1,148,695	1,096,161	936,258	1,643,334
28 Equipment/Others	9,750,220	3,871,575	2,317,794	5,504,097	2,920,283
29 PROPERTY RENTAL	50,213,898	57,181,050	67,588,959	78,648,465	82,665,692
30 Sand Gravel Sale	3,420,944	7,053,658	5,441,437	7,354,439	6,496,938
31 Land/Building Sale	3,093,142	1,672,130	22,937,385	3,526,253	3,065,926
32 Auction Sale	2,024,407	1,184,803	2,369,424	643,924	493,307
33 Tender Forms Sale	1,392,530	1,204,496	1,318,128	2,020,373	3,090,057
34 Confiscation Deposit	2,709,995	1,338,703	9,370,027	4,336,850	7,695,850
35 Misc.Revenue/Sale	15,220,833	20,343,464	48,970,823	39,464,177	64,998,580
36 OTHER REVENUES	27,861,851	32,797,254	82,455,542	57,346,016	85,840,658
37 OWN SOURCE REVENUE	1,273,033,842	1,511,394,683	1,764,736,275	1,707,970,048	1,765,491,127
38 Advance Refund	9,095,252	3,666,920	2,917,052	3,620,889	1,785,223
39 Cost Sharing	12,335,726	20,631,889	21,799,171	28,862,959	56,988,500
40 Other Miscellaneous	1,366,070	1,925,262	1,679,766	4,030,964	4,595,984
41 MISC.INCOME	22,797,048	26,214,821	26,395,990	36,514,812	63,369,707
42 HMG/Administrative Grant	34,375,945	42,525,551	78,224,263	73,125,950	72,251,540
43 HMG/Development Grant	98,882,385	115,655,988	57,477,763	92,080,321	116,973,204
44 Dist.Dev.Board/Others	176,670,764	169,635,873	226,310,517	62,449,609	87,922,348
45 TDF Grant	32,634,429	24,246,887	8,255,160	5,683,655	11,839,225
46 GRANTS	342,563,523	352,064,299	370,267,703	233,339,535	288,986,316
47 Inter/Ext Borrowing	16,728,598	5,227,284	3,680,685	12,356,217	9,854,148
48 TDF Loan	37,966,618	32,662,063	5,544,145	13,787,502	16,491,861
49 LOANS	54,695,216	37,889,347	9,224,829	26,143,719	26,346,009
50 EXTERNAL REVENUE	420,055,787	416,168,467	405,888,522	295,998,066	378,702,032
51 BALANCE FORWARD	133,815,306	233,728,830	207,135,890	161,462,829	375,368,324
52 TOTAL REVENUE	1,826,904,935	2,161,291,980	2,377,760,688	2,165,372,775	2,519,561,483

APPENDIX-II
Detailed Expenditure Breakdown with Aggregate of All Municipalities

Fiscal Year	2056/57	2057/58	2058/59	2059/60	2060/61
A. Current Expenditure					
* Salaries	316,330,009	462,407,018	490,696,079	474,523,445	465,029,734
* Allowances	115,658,939	76,932,216	80,015,773	48,015,773	55,718,006
* Travel and Per Diem	22,648,796	22,034,207	27,709,204	9,499,058	19,225,275
) Services	34,553,923	37,669,195	43,096,922	37,709,204	52,978,482
) Rent	12,995,869	13,129,739	20,640,337	12,697,429	14,334,672
) Repair & Maintenance	22,076,315	25,859,374	24,349,231	34,753,632	27,429,806
) Office Supplies	30,795,712	27,072,767	31,221,317	28,776,943	42,392,770
) Newspapers	5,026,799	4,002,465	7,637,377	3,543,278	3,476,364
) Fuel	43,150,625	45,359,923	43,926,112	43,435,401	50,538,030
) Clothes/Food Allowance	13,611,675	18,284,326	16,627,355	19,252,426	20,858,412
) Other Material	9,644,546	5,317,888	7,261,529	9,472,688	8,890,361
) Health Supplies	256,264	1,375,368	547,389	523,930	318,511
) Food(Prisoners/Animals)	500	245,119	1,016,443	680,860	751,701
) FinancialAsst./Donations	18,839,211	11,990,841	16,223,124	7,412,704	9,461,959
) Contingencies	35,137,283	49,518,184	76,676,238	53,218,240	63,548,891
) Wards Adm. Expenses	2,525,866	1,057,057	161,533	80,850	57,528
Total Current Expenditure	683,252,332	802,255,687	888,345,068	783,598,889	835,010,503
B. Ordinary Capital					
) Furnitures	3,997,240	2,425,146	4,799,572	3,290,831	4,457,391
) Vehicle	19,228,314	12,335,573	11,163,684	2,748,146	9,349,086
) Machinery Equipment	14,465,013	12,153,852	8,639,713	7,366,196	21,343,042
Total Ordinary Capital	37,750,567	26,914,571	24,602,969	13,405,173	35,149,518
C. Debt Payment	37,585,897	63,716,618	62,658,910	66,915,746	62,478,978
1. Total Regular Expenditure	758,588,796	892,886,876	975,606,947	863,919,808	932,638,999
D. Social Programs					
) Education	8,379,438	11,776,318	5,592,499	35,703,371	52,285,567
) Health	6,205,261	33,238,898	50,053,488	63,629,916	89,696,712
) Forestry	35,319,138	541,704	397,654	694,326	2,587,429
) Cultural/Sports	9,418,623	14,996,212	12,242,583	5,864,282	15,844,660
) Disaster Relief	787,600	1,523,480	1,243,612	165,900	953,042
) Fin. Assistance	13,766,632	22,119,767	21,827,070	19,601,989	30,041,554
) Miscellaneous	49,216,456	48,156,905	47,437,882	51,790,554	52,582,712
Total Social Programs	123,093,148	132,353,284	138,794,788	177,450,338	243,991,676
E. Capital Investment					
) Land/Building Purchase	18,316,421	63,370,978	47,777,672	49,620,831	17,477,397
) Building Construction	26,651,183	13,685,079	21,298,129	28,141,383	34,980,839
) Town Level Projects	362,000	3,657,397	50,996,457	31,689,458	61,239,113
) Other Dev./Construction	706,291,192	796,075,640	927,085,894	616,351,058	869,735,455
Total Capital Investment	751,620,796	876,789,094	1,047,158,152	725,802,730	983,522,804
2. Total Development Expenditure	874,713,944	1,009,142,378	1,185,952,940	903,253,068	1,227,514,480
3. Total Expenditure (1+2)	1,633,302,740	1,902,029,254	2,161,559,888	1,767,172,875	2,160,153,479

Source: *Detailed Revenue and Expenditure Breakdown and Basic Financial Information of 58 Municipalities of Nepal, (1999/00-2003/04), Ministry of Local Development and Urban Development through Local Efforts, Udle, Kathmandu, 2005.*

APPENDIX-III

Detailed Revenue Breakdown of Janakpur Municipality

Line	FY 56/57	FY 57/58	FY 58/59	FY 59/60	FY 60/61
1 Octroi/Local Dev.Fee	18,380,920	21,975,976	22,581,000	19,440,000	19,107,000
2 Vehicle Tax	380,240	0	0	0	0
3 Octroi and Vehicle Tax	0	0	0	0	0
4 Professional Tax	119,365	278,420	284,919	199,794	353,185
5 House and Land Tax	0	15,420	3,733,182	3,036,654	3,777,656
6 House Rent Tax	81,033	1,212,388	40,784	31,494	89,950
7 Contract Tax	0	0	0	0	0
8 Local Market Tax	1,226,507	1,162,031	673,000	2,142,328	1,078,000
9 Sales Tax: Cattle/Fish	75,360	0	0	0	0
10 Unclaimed Land Tax	3,283	5,246	4,277	3,197	5,348
11 Tax Arrears	0	0	0	0	0
12 Other Taxes	151,172	115,007	0	0	0
13 LOCAL TAXES	20,417,880	24,764,488	27,317,161	24,853,467	24,411,138
14 Service Fee(Surcharges)	6,900	6,650	0	0	0
15 Industrial Service Fee	0	0	0	0	0
16 Recommendation Fee	12,585	20,326	61,728	70,456	329,889
17 Radio License	0	0	0	0	0
18 Application Fee	12,830	0	0	0	0
19 Appraisal Fee	87,812	5,830	34,054	66,546	133,261
20 Building Permit	572,621	602,129	999,154	1,211,974	3,099,818
21 Registration Fee	0	0	19,650	22,560	39,295
22 Animal House Fee	9,190	1,087	25,918	10,730	28,790
23 Other Fees/Fines	18,874	71,518	32,645	120,548	131,807
24 FEES AND FINES	720,812	707,540	1,173,149	1,502,814	3,762,860
25 Market/Shops/Building	0	15,890	3,330	0	0
26 Bus Park	0	0	95,500	0	0
27 Fish Pond	0	43,525	46,751	0	329,352
28 Equipment/Others	0	0	365,027	528,241	127,283
29 PROPERTY RENTAL	0	59,415	510,608	528,241	456,635
30 Sand Gravel Sale	0	0	0	0	0
31 Land/Building Sale	0	0	0	0	0
32 Auction Sale	0	0	0	0	0
33 Tender Forms Sale	0	0	0	0	0
34 Confiscation Deposit	0	0	0	0	0
35 Misc.Revenue/Sale	0	59,136	0	138,673	708,814
36 OTHER REVENUES	0	59,136	0	138,673	708,814
37 OWN SOURCE REVENUE	21,138,692	25,590,579	29,000,918	27,023,195	29,339,447
38 Advance Refund	0	0	5,130	0	1,500
39 Cost Sharing	0	0	0	0	0
40 Other Miscellaneous	71,519	0	56,186	125,878	267,849
41 MISC.INCOME	71,519	0	61,316	125,878	269,349
42 HMG/Administrative Grant	600,000	600,000	720,000	800,000	800,000
43 HMG/Development Grant	0	0	0	0	0
44 Dist.Dev.Board/Others	0	0	0	0	0
45 TDF Grant	230,400	0	0	1,404,000	0
46 GRANTS	830,400	600,000	720,000	2,204,000	800,000
47 Inter/Ext Borrowing	596,000	0	0	0	0
48 TDF Loan	0	0	0	0	0
49 LOANS	596,000	0	0	0	0
50 EXTERNAL REVENUE	1,497,919	600,000	781,316	2,329,878	1,069,349
51 BALANCE FORWARD	436,141	128,934	1,526,385	820,858	9,147,945
52 TOTAL REVENUE	23,072,752	26,319,513	31,308,619	30,173,931	39,556,741

APPENDIX-IV

Detailed Expenditure Breakdown of Janakpur Municipality

Fiscal Year	2056/57	2057/58	2058/59	2059/60	2060/61
A. Current Expenditure					
) Salaries	9,430,352	12,305,612	13,539,277	12,588,788	10,193,815
) Allowances	3,963,001	3,422,596	3,019,218	1,564,405	967,521
) Travel and Per Diem	69,963	197,807	315,791	138,714,149,346	345,580
) Services	251,022	259,202	227,424	120,200	407,915
) Rent	143,674	135,000	120,957	256,800	199,441
) Repair & Maintenance	195,463	389,211	260,799	338,774	149,745
) Office Supplies	119,801	205,050	469,359	42,794	583,078
) Newspapers	41,828	86,086	86,235	219,150	62,247
) Fuel	710,096	741,682	159,917	374,745	224,908
) Clothes/Food Allowance	261,861	311,232	325,085	0	527,018
) Other Material	49,997	49,224	121,528	0	0
) Health Supplies	4,357	0	0	0	0
) Food(Prisoners/Animals)	0	0	0	101,849	0
) FinancialAsst./Donations	87,396	108,510	368,617	302,475	49,492
) Contingencies	299,679	715,542	755,664	0	404,313
) Ward Adm.Expenses	0	0			0
Total Current Expenditure	15,628,490	18,926,754	19,769,872	16,198,040	14,115,073
B. Ordinary Capital					
) Furnitures	5,000	0	0	53,885	0
) Vehicle	0	0	0	0	906,220
) Machinery Equipment	0	0	0	259,461	299,778
Total Ordinary Capital	5,000	0	0	313,346	1,205,998
C. Debt Payment	0	1,404,000	1,404,000	1,524,000	1,287,000
1. Total Regular Expenditure	15,633,490	20,330,754	21,173,872	18,035,386	16,608,071
D. Social Programs					
) Education	0	0	0	0	0
) Health	0	0	680,304	653,806	4,164,294
) Forestry	0	0	0	0	0
) Cultural/Sports	0	0	0	0	0
) Disaster Relief	0	0	0	0	0
) Fin. Assistance	0	0	0	162,948	274,650
) Miscellaneous	0	0	0	0	1,001,901
Total Social Programs	0	0	680,304	816,754	5,440,845
E. Capital Investment					
) Land/Building Purchase	0	0	0	0	0
) Building Construction	16,174	0	0	0	917,489
) Town Level Projects	0	0	0	0	0
) Other Dev./Construction	4,835,561	4,462,372	8,205,938	3,003,197	11,323,524
Total Capital Investment	4,851,735	4,462,372	8,205,938	3,003,197	12,241,013
2. Total Development Expenditure	4,851,735	4,462,372	8,886,242	3,819,951	17,681,858
3. Total Expenditure (1+2)	20,485,225	24,793,126	30,060,113	21,855,338	34,289,929

Source: *Detailed Revenue and Expenditure Breakdown and Basic Financial Information of 58 Municipalities of Nepal, (1999/00-2003/04), Ministry of Local Development and Urban Development through Local Efforts, Udle, Kathmandu, 2005.*

APPENDIX -V

Questionnaire

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

Name: (if egger)

Age:

Occupation:

Address:

Ward No.:

Please tick () mark on your choice answer.

1. To pay tax to municipality is good?

a. Yes

b. No

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

a. Yes

b. No

3. Receiving grants is good for municipality.

a. good

b. not good

4. Is present tax system appropriate?

a. Yes

b. No

5. What is the cause of low tax collection?

a.

b.

c.

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

a. Yes

b. No

c.

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

a.

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