Financial Resource Mobilization in Pokhara Sub-Municipal Corporation

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ABSTRACT

Local bodies can play a vital role in nation building process through efficient mobilization of local financial resource. Financial resource mobilization includes both raising the adequate revenue and optimal allocation of funds to meet the local people’s needs. Municipality finances its expenditures with internal and external revenues. It has to increase its efficiency in allocating financial resources to maximize the marginal productivity of resources.

POVERTY IN NEPAL HAS persisted for decades. It is deep-seated and complex phenomenon for which there are no quick and easy solutions (NPC 2003). Peoples' expectations have risen after the restoration of democracy in 1990. Development activities have largely failed to meet the aspiration of the people. The Tenth Plan's sole objective is to achieve a remarkable and sustainable reduction in the poverty level-from 38 % to 30%-by the end of this plan. To achieve this objective, financial, human and natural resources have to be mobilized efficiently. HMG/Nepal, indeed, plays a vital role in the allocation of nation's resources. But, because of the proximity to people's needs and local resources, local government can be more effective in identifying and allocating the local resources.

The lacking of financial resources is a major cause of economic backwardness of underdeveloped country like Nepal. No doubt, insufficient financial resource is an important responsible factor, but in fact, inefficient and irrational allocation of resources is also equally responsible for nation's economic stagnation. The local finance can play a significant role in nation building process. Keeping this reality in view, local government should be strengthened and empowered in mobilizing the local financial resources. The Constitution of the Kingdom of Nepal, 1990 has highlighted the norms of local self-governance in its directive principles and policies of the state. It has emphasized the equitable allocation of financial resources for the development of basic infrastructure in all regions. In accordance with the spirit of the constitution, the Village Development Committee (VDC), District Development Committee (DDC), and Municipality Acts were enforced in 1991. Similarly, in the process of strengthening local government, Local Self-Governance Act has been enacted in 1999. This act has defined the jurisdiction of local governments regarding the local resource mobilization. The Tenth Plan also has emphasized the empowerment of the local bodies with respect to the mobilization of local resources.

PSCM, situated at the southern foot of the Annapurna Himalayan range, is the second largest urban center of Nepal (Pokhara Sub-Metropolis 2004). This is one of the fastest growing cities of Nepal with the annual population growth rate of around 7.4 %, which is very much above the national average. The importance of local government finance has been further increased due to the rapid growth of urban areas. This growth poses **a serious problem to urban local bodies because they** need to create additional services (Singh 1982), such as education, health care, housing, and other urban infrastructures. PSMC has to enhance its revenue base on one hand, and on the other, it has to improve its efficiency in allocating limited available financial resources to meet the growing needs and expectations of local inhabitants and increase the marginal productivity of local resources.

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1. Sources of Revenue

Tax revenue, non tax revenue, loans, and grant-in-aid are the sources of revenue of any municipalities. Financial resources provide energy for smooth operation of municipalities and stimulate their activities. In fact, financial resource is a critical base, without which even the viability and existence of municipality would be questionable (Shrestha 1996). Hence, in general, the municipality should be entrusted the authority to generate its own financial resources through taxes and fee/charges, empowered to borrow loans, and entitled to the grant-in-aid from HMG/Nepal. In order to address the local people's needs and preferences, municipality should be empowered to modify the tax rates/service charges according to local situation (Khadka 1998). The faster increase in total expenditure of the municipality necessitates exploring the possibilities of mobilizing additional resources from different sources to the maximum possible extent. PCMC has financed its expenditure with internal and external sources. As per Local Self-Governance Act, 1999, borrowings and grant-in-aid are considered as the external sources of revenue. These sources are not reliable and consistent sources of financing (Agrawal 1980) because they depend upon the higher level government's policy, will of the donors, and economic environment of the country. The repayment of the principal and interest, in case of borrowing, would be a net burden and threats to the financial stability of the municipality. External financing should play only supplementary role in financing the municipal expenditure.

Internal source of revenue comprises of the house and land tax, local tax, rent, service charge, fee, fine and deposit, forfeiture and other income sources. These are the independent and reliable sources of municipal revenue. The optimum exploitation of these internal sources ensures the financial viability of municipality. Hence, priority should be given to raise the revenue from internal sources to the maximum possible extent.

As indicated in Table 1, the internal revenue of PSMC has been increased gradually during the study period. The actual value of internal source of revenue was Rs. 47,206 thousand in fiscal year (FY) 1998/99 and increased to Rs. 80,984 thousand in 2002/03.

Table 1: Contribution of Internal Revenue to Total Revenue of PSMC

Fiscal Year	Internal Revenue		External Revenue	
	Amount*	%	Amount*	%
1998/99	47,206	61.17	29974	38.83
1999/2000	56,780	31.48	105677	68.52
2000/01	55,509	89.64	6,445	10.36
2001/02	70,200	32.39	14,46,559	67.61
20002/03	80,984	69.92	34,835	30.08

Source: *PSMC Office.*

* Amount in thousand

The share of internal source of revenue to total revenue was 61 % in 1998/99 and it has increased to 70 % in 2002/03. The average contribution of internal revenue to total revenue is around 57 % during the study period. On the other hand, Table 1 also shows the wide fluctuation in the revenue raised from external sources. In FY 1998/99, the external source of revenue (grant-in-aid) was Rs. 29,974 thousand; it decreased to Rs. 6,445 thousand in 200/01 and increased to 34,835 thousand in 2002/03. The contribution of external source of revenue to total revenue was 39 % in FY 1998/99; it came down to 10 % in FY 2000/01 and increased to 30 % in FY 2002/03. The average share of external revenue to total revenue is around 43 % during the study period. External source of financing has been fluctuating in an abnormal manner. This analysis concludes that internal sources of revenue are more reliable and consistent source than the external source of revenue.

2. Allocation of Financial Resources

The revenue raised from internal and external sources have to be allocated and utilized efficiently. Limited resources should be mobilized in such a way that municipality can fulfill the growing demand for urban services and increasing expectations of urban people. Due to the proximity to local people, municipality can identify the real needs of urban people. Consequently, public expenditures can be matched closely with local priorities and preferences. This results in a more efficient delivery of local public services. Local government can not often provide adequate service because they are lacking own/adequate financial mechanism (Richard, and others 1995). Therefore, the activities which are primarily of national interest ought not to be financed locally (Singh 1982).

Various legislations related to the local government are in force to make the local authority more responsible and accountable. The Local Self-Governance Act, 1999 has specified the procedures and responsibility of spending municipal fund which can be helpful in efficient allocation of financial resources. The municipal expenditures can broadly, be divided into regular expenditure, capital expenditure and social activity. Regular expenditure consists of salary, allowance, traveling expenses, rent, repair, maintenance, and other operational/consumption expenses. Capital investment is concerned with capital expenditures such as building construction and other construction expenditures. Similarly, social activities comprise the grants and financial assistance. As indicated in Table 2, the magnitude of regular expenditure and capital investment has been increasing both in absolute and relative terms. But, spending on social activities has been declining during the study period. Capital investment and regular expenditure constitute a large part of municipal expenditure. PSMC spends very little on social activities. Share of regular expenditure and capital investment were 26 % and 67 % respectively in 1998/99 and increased to 28 % and 70 % respectively in 2002/03. The average share of regular expenditure and capital investment are around

Table 2: Financial Resource Allocation Position of PSMC

Fiscal Year	Regular Expenditure		Capital Investment		Social Activities	
	Amount*	%	Amount*	%	Amount	%
1998/99	19,860	26	50,925	67	5,713	7
1999/2000	22,205	14	1,23,673	80	9,288	6
2000/01	26,416	14	1,66,358	85	1,772	1
2001/02	26,619	13	1,72,933	86	1,312	1
2002/03	25,375	28	63,185	70	1,267	2

Source: *PSMC Office.*

*Amount in thousand.

19 % and 77 % respectively during the study period. Spending on social activities has shown a declining tendency. Its share to total expenditure was 7 % in 1988/99 and decreased to 2 % in 2002/03. Except capital expenditure, other expenditures have fluctuated in wide range during the observed period.

Pace of economic and social progress of a municipality largely depends on the amount of revenue spent on developmental activities. Development expenditure can be taken as a crucial for the real and sustainable urban development. Considering the growing needs of development and rising expectations of municipal inhabitants, PSMC has been expending major portion of its revenue in developmental activities. Grant-in-aid, surplus revenue and cost sharing are the major sources of financing for developmental activities.

Table 3: Development Expenditure (in Thousand)

Fiscal Year	Development Expenditure	Total Expenditure	% of Development Expenditure
2001/02	30,684	55,1878	55.60
2002/03	32140	51,591	62.30
2003/04	45526	65018	70.02

Source: *PSMC Office.*

As depicted in Table 3, PSMC's development expenditure is increasing rapidly in every subsequent fiscal year. The total development expenditure outlay in FY 2001/02 was Rs. 30,684 thousand and it increased to Rs. 45,526 thousand in FY 2003/04. In FY 2001/02, the share of the development expenditure was 55.60 %, which increased to 70.02 % in FY 2003/04. Thus, the proportion of development expenditure to total expenditure has increased by 14.42 % during study period. This shows that the major share of municipal revenue has been expended in the development activities.

3. Conclusions

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

Municipalities must be authorized to expand their internal revenue base and modify the tax rate according to local situation, so that, they can collect adequate revenue to meet their financial needs. PSMC should upgrade the existing institutional and administrative position in order to make it more efficient, accountable and responsible to the people. It should further build up its institutional capability to execute its financial functions effectively. The municipal council should design policies more responsive to local needs; budget should be allocated according to the local priorities and preferences.

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