Journal of Political Science
(A Peer-Reviewed, Open Access Journal and Indexed in NepJOL)
ISSN 2362-1273 (Print); ISSN 2773-8132 (Online)
Volume 21, Special Issue, August 2021
http://ejournals.pncampus.edu.np/ejournals/jps/

Published by
Department of Political Science, Prithvi Narayan Campus, TU, Pokhara, Nepal
Email: polsc@pncampus.edu.np; *URL: www.pncampus.edu.np*

Local Government Financing Practice and Challenges in Developing Countries with Reference to Nepal

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***DOI**: https://doi.org/10.3126/jps.v21i1.39282*

Submitted 30 June 2021; Reviewed 5 July 2021; Accepted 10 July 2021; Published 20 Aug. 2021

Abstract

The fundamental problem confronting most local authorities, especially those managing cities in developing countries, is the widening gap between the availability of financial resources and municipal spending needs. One of the main reasons for this increasing fiscal gap is the rapid growth of urban populations, which creates an ever-increasing demand for public services, new public infrastructure, and its maintenance. Most cities in developing countries depend mostly on central government transfers, with lesser revenues derived from property taxation and service charges. The main aim of this study is to review the scholarly published documents regarding the responsible governing system of the local government in the developing economy and to observe the challenges to them to manage fiscal imbalances. Looking at the practice of fiscal federalism and economic decentralization, there is no uniformity in the global experience. Developed countries are at the forefront of this agenda while developing countries have different experiences. It is important to find the right path with the appropriate solution to the problem seen from the international experiment and move forward accordingly. It is important not only to make laws but also to achieve prosperous prosperity through their proper use and for that it is important to understand that the implementation of the law should be done in the right spirit.

***Keywords**: Fiscal federalism, fiscal transfer, resource gap, financial sustainability, local revenue*

Introduction

Local authorities in all parts of the world play an increasingly important role in the delivery of fundamental basic public services. But authorities also face great challenges (UN-HABITAT, 2015). Most local authorities in developing countries are facing increasingly bigger challenges as a result of rapid and chaotic urbanization and due to the impacts of frequent natural disasters caused by climate change. The recent global financial and economic crisis has further aggravated these challenges. The fundamental problem confronting most local authorities, especially those managing cities in developing countries, is the widening gap between the availability of financial resources and municipal spending needs. One of the main reasons for this increasing fiscal gap is the rapid growth of urban populations, which creates an ever-increasing demand for public services, new public infrastructure, and its maintenance. Most cities in developing countries depend mostly on central government transfers, with lesser revenues derived from property taxation and service charges. The more lucrative sources of revenue potentially suitable for financing urban areas, such as income taxes, sales taxes, and business taxes, continue to be controlled by the central governments. Where local authorities are able to derive revenues from property taxes and service charges, meaningful tax increases are sometimes refused or delayed by central governments for fear of eroding political support from the urban population; or even rejected by the local authorities themselves for fear of political backlash from local taxpayers. In most countries, there are huge vertical imbalances at the subnational level in terms of sharing responsibilities and available fiscal resources. Stated differently, many central governments refuse to pay the political and financial costs of the decentralization of roles and responsibilities. In addition to addressing vertical fiscal imbalances, two other important factors could significantly contribute to more efficient and equitable delivery of public services: (a) introducing more responsive and accountable governance practices and (b) ensuring that public service provision becomes more viable in peri-urban areas and smaller cities and towns. Some 40 experts and practitioners, including local government officials, participated at the conference. The conference was organized around four themes: (a) Political economy challenges facing urban authorities in generating revenues from within, and solutions to these challenges; (b) Challenges in the use of various mechanisms for mobilizing financial resources for urban development and solutions to these challenges; (c) Innovative governance mechanisms and institutions to support the efficient and equitable provision of public services in metropolitan areas; (d) Public service provision in peri-urban areas and small towns in developing countries. Each of the four themes was first introduced by a formal presentation by international experts and then followed by discussion of several case studies with participation of the entire audience. The experience of the City of Barcelona spanning over the past 30 years was included among the presented cases. This report presents the four papers that were prepared to frame and guide the discussion on the four themes. The report closes with a summary of the key messages in each of the four thematic papers (UN-HABITAT, 2015).

federal Nepal. In this context, this paper tries to critically analyze the practice and challenges of such provision not only in the Nepalese context but also in the context of developing countries globally and trying to highlight the challenges faced by the local governments. The recommendations are expected to be supportive for the government in establishing the proper fiscal federalism model for federal Nepal. Initially, the government of Nepal adopted 744 local body systems fulfilling the requirement of the new constitution of Nepal 2015. All old municipalities and villages (which were more than 3900 in number) were restructured in total 744 new Municipalities and Villages. Later on, further nine local governments were instituted and There are altogether 753 local governments in Nepal at present. Currently, there are six metropolitan cities, 11 Sub-metropolitan cities, 276 Municipalities, and 460 Rural Municipalities in Nepal.

Financial condition may be defined as the ability of a local government or school district to balance recurring expenditure needs with recurring revenue sources, while providing services on a continuing basis (DLGSA, 2019). The literature on fiscal federalism has been strongly influenced by the geo-political context in which it originated. The traditional normative approach of fiscal federalism was based on the assumption of a benevolent government. Much of the recent literature drops this assumption and takes government and politicians and officials as self-interested players. Thus, the normative approach has largely given way to a political economy approach (Ahmad & Brosio, 2006). This behavior negates the maxim of rule of law and adds to the larger attitude of Nepal's transitional politics within which powerful people benefit from the subversion of institutions that are meant to safeguard public interest through such mechanisms as the separation of power. It remains unclear about the extent to which power is abused and resources misappropriated over the long period, Nepal has passed through transitional politics.

The result is the possibility of widespread misappropriation of public resources and the capture of public authority by agents not endorsed by the people. Individually, political party leaders are keen to seat themselves to the central government, and thereby do not see incentives to push forward the agenda of local election. They are reluctant to share the power they have with the common citizens (Adhikari, 2010). Instead, the maxim of consensus in national-level politics—in the absence of a competitive political environment embedded in the vagaries of ongoing political transition—has institutionalized a politics of convenience within which the political leaders negotiate their own interests with each other. Thus, the satisfaction of vested interests of the parties within the status quo has led to a curious collective silence in reviving elected and accountable local governments in Nepal.

This has happened despite the fact that the Election Commission was ready to conduct the election and even the Danish government showed interest in providing funds for it (Sharma, 2011). Till April 2017, the lack of commitment of the government and the major political parties has sidelined the demands for setting up elected local governance. Local people are therefore denied their right to elect representatives who will look after developmental, para-juridical, and administrative services in the respective jurisdictions. Elected officials would more readily available to the service of local people, whereas many of the Village Development Committee (VDC) secretaries at present are stationed in district headquarters.

The motivation of elected officials to earn repute for next election means that they would strive to serve the best and become more transparent and accountable. Even within the unelected set-up of local governments that exist today, the effective implementation of local governance legislation has been impaired due to ambiguities and contradictions within the law. The Local

Self-Governance Act (LSGA) itself has overlapping rights and responsibilities between VDC and District Development Committee (DDC) in respect to agriculture, water, forest, irrigation, hydropower, and environmental management. The LSGA authorizes the DDCs, municipalities, and VDCs as planners and program implementing bodies, rather than separating their roles—for one as facilitator and others as implementers.

Methodology Used

The main aim of this study is to review the scholarly published documents regarding a responsible governing system of the local government in the developing economy and to observe the challenges to them to manage fiscal imbalances. Descriptive and analytical design is used to attain the objectives. Different articles, reports, conference papers, and regulations regarding local government published nationally and internationally were collected, reviewed and analyzed to draw the conclusion. Characteristics of these documents are legal documents formulated and enacted by the government of Nepal, Research reports, official reports, thematic papers on the relevant issues, research papers related to the issues, and theoretical description related to the topic. The concepts and issues of local government finance and challenges faced by them globally are tried to interpret in the local context. Analytical and interpretive approach is used to draw the conclusion of this paper.

Institutional and Legal Arrangements

In the Constitution of Nepal 2015, there is the provision of rights of three tier of governments in section 74 (4), section 214 (2), section 221 (2) and section 226 (1). In annexure 8 of the constitution, areas concerned with the rights of local governments are specified. As per such specification, there are different 22 rights of the local government as: municipal police; cooperative institutions; FM Radios; local taxes and fees, fines and penalties; local service management; local data management; local development projects management; school education; health and sanitation; local market management, environment protection, and bio-diversity management; local road, agri-road and irrigation; municipal meeting, arbitration, and local court management; local record management; senior citizen, disable citizen welfare; land ownership certificate distribution; drinking water management; small hydro and alternative energy project management etc. Similarly, the annexure 9 of the constitution has specified the areas of common rights of central, provincial, and local governments. It includes 15 different rights like cooperatives; education; sports; newspaper; health; agriculture; electricity; drinking water; irrigation; fees and service charges; royalties from natural resources; tourism fees; forestry; environment; social security; disaster management; poverty alleviations etc. (GoN, 2015).

Government of Nepal formulated and enacted the law to ensure reasonable service in uniform manner from the local government as 'Local Government Operation Act-2074'. In the act, the fiscal rights of local government are specified under part 9 section 54 to section 67. Under this act right to impose and collect local taxes, fees, charges, fine penalties; raise the debt; formulate the local revenue advisory committee; supervision of source and determination of budget limit; formulation and implementation of the budget, etc. are included (MoFALD, 2017).

Similarly, The Constitution of Nepal has made provision under article 60 (3) the amount of fiscal transfers the province and local level entities are to receive shall be as recommended by the National Natural Resources and Fiscal Commission (NNRFC). Article 60 (8) made provision, while distributing the revenue, the matters such as national policy; national needs; the autonomy of provinces local level entities; the service delivery of the provinces and local entities and the fiscal rights given to them; their capacity to generate revenue; feasibility and use of revenues; their contribution to development works; regional imbalance; poverty and inequality; exclusion, emergency works and support to meet temporary needs to be considered. According to the article 251 (1) the function of NNRFC is to determine the extensive grounds and measures, regarding the distribution of revenue from the federal consolidated fund to the federal, provincial and local level entities.

For an efficient mobilization of the resources, NNRFC has adopted criteria to distribute revenue generated by the resources as: (a) Condition of revenue and the capacity to levy, (b) Capacity to invest, (c) Portion of the achievement to be obtained, (d) Portion of the consumption of the obtained achievement, (e) Condition of Infrastructure and necessity, (f) Economic condition and geographical structure.

The Commission shall recommend to the Government of Nepal the amount of returns by determining on the following criteria as obtained from the mobilization of natural resources as pursuant to Sub-section (1):- (a) The location of the mobilized resources, (b) The affected area by the mobilization of natural resources, (c) Dependency upon the mobilized natural resources, (d) Benefited population by the returns, (e) Dependent population on the natural resources, (f) Conservation of natural resources and the participation in the sustainable management.

As per NNRFC, the criteria to be taken while distributing revenues: The Commission shall recommend to the Government of Nepal by determining the detailed criteria and framework of revenue distribution among the Government of Nepal, the State and Local Level and between the State and Local Level on the following criteria :- (a) Demography and demographic details, (b) Area, (c) Human Development Index, (d) Necessity of expenditures, (e) The efforts made to collect revenue, (f) Infrastructure development, (g) Special conditions.

Similarly, the Criteria to be taken while recommending grants: The Commission shall undertake the following criteria while recommending to the Government of Nepal and the State while availing fiscal equalization grants by the Government of Nepal to the State and Local Level and by the State to the Local Level under prevailing law :- (a) Human Development Index such as education, health, drinking water of the State and Local Level, (b) Status of balanced development of other States and Local Levels, (c) Status of economic, social or any other kinds of discrimination of the State and Local Level, (d) Status of infrastructure development and necessity of the State and Local Level, (e) The services to be provided to the people by the State and Local Level, (f) Condition of revenue and its capacity to be levied of the State and Local Level, (h) Necessity of expenditures the State and Local Level.

Nepalese Practice

As per the constitution of Nepal, equitable distribution of resources among the federal, provincial, and local level government considering inter-governmental fiscal transfer is the significant component of fiscal federalism. The expenditure and revenue assignments, the important element of fiscal federalism, of the federal, provincial and local level have been clearly mentioned in the schedules of the Constitution. The government of Nepal has to provide fiscal transfer and revenue sharing to the province and local level to fulfil the revenue gaps. The three tiers of government have to play a significant role for providing broader public services such as education, health, and infrastructure development. It is also the responsibility of the central government to maintain the quality of the services delivered by the province and local level entities. In the same way, the Government of Nepal may need to mobilize the province and local levels for implementing comprehensive national policies and programs. Therefore, there is the provision of revenue distribution, fiscal equalization grant, and conditional grant to address the responsibilities of the province and local levels such as service delivery and development; and to implement the central policies and programs from these levels.

Intergovernmental Fiscal Management Act 2017 has been enacted and implemented with the objective of managing the matters related to revenue rights, revenue sharing, budget management, public expenditure, and fiscal discipline among the federal, provincial and local level entities. This Act has basically included the issues such as revenue and expenditure responsibilities, inter-governmental fiscal transfers, internal loans that can be taken by province and local entities as the important elements of fiscal federalism. Further, to establish the ownership of taxpayers over the tax paid, the Act has provisioned to distribute the amount collected from Value Added Tax (VAT) and Excise duty in the ratio of 70 percent, 15 percent, and 15 percent respectively to the federal, provincial and local level entities.

NNRFC recommended for revenue sharing and fiscal equalization grant for the F.Y. 2018/19 by developing the revenue sharing criteria based on: met the criteria enshrined in the National Natural Resources and Fiscal Commission Act 2017 and Inter-Governmental Fiscal Management Act 2017; developed different indices using proxy values where disaggregated data were not available; studied and analyzed the data received from the local level entities; sample data, representing the different geographical regions; categories of the province and local entities; the intensity of settlement; collected to validate the used data; conducted studies to estimate service delivery cost, to evaluate socio-economic discrimination and to assess the capacity of local governments. NNFRC also interacted with Ministers, Chief Secretary as well as Secretaries of the provinces. It has estimated expenditure needs based on minimum expenditure and infrastructure development needs of different levels of government; revenue projection based on revenue rights; information received from local level as well as the secretariat of Local Body Fiscal Commission. In that allocation, NNFRC has developed and used the indices as: Human Development Index (HDI); Human Poverty Index (HPI); Infrastructure Index (II). Socio-economic Discrimination (Disparity) index- Disparity Index (SDDI) and Underdevelopment Index (UI). While preparing this index, the weightage was given as 70 percent for infrastructure development, 20 percent for service delivery cost, and 10 percent for socio-economic discrimination. For this purpose, the data received from CBS and other government agencies as well as the studies conducted by NNRFC have been considered. While preparing the indices, data were made more realistic by using the arithmetic mean for province level and the geometric mean for local level, as the number of provinces was less while that of local level were more (NNFRC, 2018). Developed required composite indices based on different indices developed by the Commission.

Bases considered to recommend the framework (formula) of revenue sharing for the F.Y. 2018/19 In line with the above mentioned Constitutional and legal provisions, recommendations are made regarding the revenue distribution from the Government of Nepal to the province and local level governments. The section 21 subsection 4 of the Inter-Governmental Fiscal Management Act 2017 provisioned that the province and local governments have to limit their administrative expenditure within the amount received from revenue distribution and their internal income; section 23 subsection 4 of the same Act mentioned that deficit budget cannot be prepared for administrative expenditures. Hence, a minimum amount of revenue distribution has also been recommended for the province and local governments. The extensive grounds and measures regarding the distribution of revenue for the fiscal year 2018/19 was determined based on the following measures/bases: (a) Population and demographic factors (70 percent) The features such as population and ratio of dependent population affect the size of legislative and government of the province and local level which in turn influences the administrative expenses of these levels. The increase in population increases the scope of service delivery, the operational cost, and this ultimately affects the service delivery cost. Therefore, 70 percent weightage has been given for the population and demographic factors. Out of the weightage given to the population, 80 percent weightage is given to the total population and 20 percent weightage to the ratio of dependent population. The population data was sourced from National Census 2011. (b) Area (15 percent) The expenditure needs of the province and local levels are influenced by their area. A geographical factor not only increases the service delivery cost but also raises the operational cost significantly. Due to this reason, 15 percent weightage is given to the area of the province and local level. (c) Human Development Index (5 percent) The amount received from the distribution of revenue is basically used for administrative expenses. However, the province and local level entities have to accomplish the constitutional obligation related to human development as well. Therefore, 5 percent weightage has been given to the HDI of the province and local level. (d) Under Development Index (10 percent) The Underdevelopment Index has been given 10 percent weightage in order to address the expenditure needs and development status of province and local level entities (e) Minimum amount received in Revenue distribution. A minimum threshold of NRs. 30 million is ensured for each local level through revenue distribution, as the internal revenue source and the amount provided on the above basis may not be adequate enough to address the administrative expenses of some local level entities. The province and local governments receive equal percent from the revenue collected in the form of VAT and Excise duty levied on internal production. In the case of the province level, as the number of provinces being less than that of the local level, the minimum amount is not recommended assuming that the amount received through the revenue distribution will be adequate to address their administrative expenses (NNFRC, 2018).

On the other hand, local governments have a right to raise their own revenues from tax and nontax revenue. A tax is a mandatory financial charge or some other type of levy imposed upon a taxpayer whether an individual or other legal entity by a governmental organization in order to fund various public expenditures. The government requires a huge number of resources for carrying out various development and welfare activities in the country which it collects by imposing taxes. In other words, raising government revenue to meet the ever-increasing government expenditure has become an important objective of taxation (Ghimire, 2019). As per the local government operation act local government has the rights to collect property tax; house and land rent tax; house and land registration fees; vehicle tax; land tax; entertainment tax; advertisement tax; business tax; and herbs, disposable waste, and animal tax as tax revenues. In non-tax revenue tourism fees, service charges and fines, and penalties can impose and collect by the local bodies. There are some common taxes which can imposed by provincial and local governments commonly. This includes vehicle tax; house and land registration fees; advertisement tax and entertainment tax (Sharma, 2021). For this purpose, constitutional provision is made the local and provincial governments need to formulate the required laws and regulations. But the till the mid July 2020, less than 15 local government units able to formulate and emaciation of more than 15 such laws (MoFAGA, 2020). Most of the local bodies did not able to collect sufficient revenue to meet the cost-of-service delivery and developmental requirements in the concerned fiscal year and depend upon the fiscal transfer from provincial as well as central government.

International Challenges Observed by the Scholars

Local authorities in all parts of the world play an increasingly important role in the delivery of fundamental basic public services. But authorities also face great challenges, for a sustainable and responsible fiscal future, cities in developing countries must make use of significant sources of tax revenues as well as non-tax revenues collected through user charges and fees. Adequacy of own revenues is the key to an improved ability to deliver needed goods and services and to better accountability of local officials to their constituents, and in the provision of public infrastructure necessary for business development. Some observations expressed by the different scholars in their own words observed as:

Martinez-Vazquez (2015) suggested: 'On mobilizing financial resources for public service delivery and urban development' in order to fulfill their mandate in a fiscally responsible manner, local governments in developing countries must have available significant sources of own tax revenues and also non-tax revenues in the form of user charges and fees. Adequacy of own revenues is the key to an improved ability to deliver needed goods and services and to better accountability of local officials to their constituents. Furthermore, unlike tax sharing and other transfers – uniquely bring an element of horizontal accountability of public officials to their constituents on the revenue side of the budget. Given that effective fiscal decentralization requires meaningful revenue autonomy, we need to ask what form of autonomy is preferable and then how much revenue autonomy is needed. The most desirable form of autonomy at the sub-national level is to allow elected authorities to set the tax rates for a closed list of taxes set in national level legislation. The desirable degree of revenue autonomy should allow the wealthiest sub-national governments – those with the largest tax bases – to finance most of their expenditure responsibilities with own revenues. No design of a decentralized system of finance ever reaches a perfect balance between expenditure assignments and revenue assignments at the sub-national level. Transfers need to be used to address vertical and horizontal imbalances, including tax sharing, unconditional equalization grants, and conditional grants. In addition, disciplined access to credit is an appropriate source for financing sub-national government capital investment responsibilities. Because borrowing can lead to overspending, there is a need for controls, most commonly through explicit government rules. Sub-national governments cannot always count on the availability of capital grants and borrowing to finance their infrastructure needs. Increasingly, sub-national governments have introduced innovative approaches to financing infrastructure. The most common of these innovative avenues are several methods for capturing the increment in land value resulting from public investments. Although, welcome as a complementary tool, these alternative revenue sources cannot be seen as a long-term solution to the shortage problems for operating budgets, which need to rely heavily on the existing conventional revenue tools. User charges and fees, property taxes, betterment levies, vehicle and transportation taxes, local business taxes, excise, and sales taxes are good sub-national level taxes. Value added taxes, local border taxes, and corporate income tax (profit tax) are not good sub-national level taxes. Desirable properties of local-level taxes include: buoyancy, with revenues roughly changing in proportion to the economic base; horizontal equitability, providing equal treatment to taxpayers in similar circumstances; relative efficiency, causing low distortions in economic activity; incurring relatively low administrative costs; and being politically acceptable.

Smoke (2015) on his thematic paper called 'On urban government revenues: political economy Challenges and opportunities' suggested: although there is a well-developed set of public finance principles for choosing and designing local government revenues, and it is often used as the anchor for developing intergovernmental and local fiscal reform, urban revenue performance in developing countries is commonly mediocre or worse. This state of affairs persists both because the mainstream principles do not adequately consider key factors that influence local revenue generation and because the principles are not always appropriately implemented. Underlying this situation is a set of diverse, complex political economy considerations that rarely get the attention they deserve. These range from the behaviors of national politicians and bureaucrats who shape the rules of the intergovernmental fiscal game and how they are implemented, to local political economy dynamics among elected councilors, local government staff, and citizens. These actions and interactions play out in a broader context that also influences the options for effective local revenue reform and decentralization in general. Insufficient understanding and inattention to these dynamics can result in serious flaws in revenue reform design and implementation. Some remedial actions to improve local revenue generation can be taken by urban governments on their own, but others require national-level action or support, or at least recognition of what is feasible locally given constraints imposed by higher levels. Even where local action can be productive, urban officials must be mindful of essential linkages among the elements of the local governance system. Pursuing a state-of-the-art but revenue-specific reform without attention to other relevant factors, such as expenditure policies, fiscal transfers, or accountability mechanisms, is unlikely to result in improved local revenue performance. Given the complex array of actors and interdependencies involved in urban revenue generation and the common need for considerable policy and system modifications in many developing countries, it is important to be strategic in pursuing urban government revenue reform. Sudden dramatic changes are likely to overwhelm local capacity and may even provoke pushback from those parties most affected by the reforms. Particularly critical at the local level is to invoke the social contract - to ensure that those citizens who will pay more to their local government under revenue reforms feel that they are getting some benefit from doing so, and are being treated fairly in the process.

Slack (2015) has suggested on the paper entitled, 'On innovative governance approaches for Metropolitan areas in developing countries': Improving the level of service delivery in metropolitan areas in developing countries is always a question of resources; but it is also a question of governance. Governance determines how efficiently costs are shared throughout the metropolitan area, how service delivery is coordinated across local government boundaries, how effectively local residents and businesses can access governments and influence their decisions, how accountable local governments are to their citizens, and how responsive they are to their demands. A review of governance models around the world does not point to one model that works best. The types of governance structures and initiatives that have emerged in various metropolitan areas reflect the local and national context; differences in constitutional provisions, division of responsibilities, assignment of revenue sources, history and politics of the country, and various other factors. The criteria used to evaluate governance structure in a metropolitan area are: (a) economic efficiency, (b) economies of scale, (c) externalities, (d) equity, and (e) access and accountability. There are some examples of initiatives that have worked well in specific contexts – one-tier consolidated structures where the geographic boundary reflects the economic region (such as in Cape Town); two-tier government structures (as in Barcelona); voluntary cooperation among municipalities within the metropolitan area (as in Sao Paulo); national government financial incentives to create regional bodies (such as in the United States); open initiatives (as in Seoul) and participatory budgeting (used in Brazilian municipalities) which encourage citizen participation and greater accountability. Metropolitan areas everywhere face the challenge of how to balance regional and local interests. As the world becomes more urbanized and metropolitan economies evolve, there is a need for a regional vision and for many services to be delivered on a regional basis (including transportation, land-use planning, and economic development). Most countries would thus be well advised to move towards developing more effective systems of governance for the whole metropolitan area if they want to improve service delivery. A strong regional structure that encompasses the entire economic region is essential to ensure that services are delivered in a coordinated manner across municipal boundaries; and to be able to improve service delivery by reaping the benefits of economies of scale and internalizing externalities. At the same time, some services are very local and would benefit from more local provision (for example in the cases of local streets, parks and recreation). Social participation in metropolitan governance is very important, even at the regional level, because it holds both the government and public responsible; it encourages both parties to accept outcomes of the choices they make; and it encourages governments to prioritize their actions.

Finally, a thematic paper by the scholar Fox (2015) on his paper 'On structuring service delivery in Peri-urban and small urban areas' highlighted as consumption and delivery of services are localized and therefore access to them can vary across different parts of a city. Problems on both the delivery and financing sides are the main sources of inadequate access to urban services in these areas. Contributing factors are (a) decision-makers with different goals and motivations regarding the levels and distribution of public services, (b) higher service provision costs relative to the core of larger cities, (c) governments are too small to allow low-cost service delivery in small towns, (d) political decisions that result in uneven services across cities or demographic groups while acceptable service levels are available in other parts of the city, (e) inadequate revenues due to weak local tax systems, and (f) low effective demand for urban services. User fees are the best option for financing local services. They allow determination of the appropriate level of services and provide a financing source for service delivery. User fees are good for charging for water, sewerage, intracity transit, and electricity. User fees are poor instruments where pricing inefficiently crowds out consumers as in the case of basic education, or where the collection may be costly or inefficient. However, user fees can be regressive. Taxes must be imposed in cases where user fees are not available. Many factors determine the most appropriate size for local governments. The appropriate size may change more rapidly than the political dimensions of altering the jurisdictional size. Thus, maintaining governments with the right size may not be possible. Economies of size in delivering public services are fact specific and can differ across services. Mobilization of adequate financial resources from local sources is the key to providing efficient and effective public services in peri-urban areas of large cities and small urban centers. Small towns have low revenue bases and they need to make an extra effort to generate the same amount of revenue. Options to ensure efficient and effective delivery of services to peri-urban areas of large cities and in small towns in developing countries include (a) transfers from the national government, (b) cross subsidies, (c) single-purpose governments, (d) privatization, (e) contracting out to other municipalities, and (f) municipal.

Conclusion

Looking at the practice of fiscal federalism and economic decentralization, there is no uniformity in the global experience. Developed countries are at the forefront of this agenda while developing countries have different experiences. This is a new experiment in the case of an underdeveloped country like Nepal, which has recently embraced the aspect of fiscal federalism. This exercise is futile unless all parties are freed from the notion that any other person or organization should not exercise its inherent political, administrative, and economic rights in any way. On top of that, when the local municipalities are unable to bear the cost of services financially, the cooperation of all levels of government is naturally necessary. All the local bodies should be able to avoid deviating from the right path and moving in a contradictory direction by not paying attention to its proper exercise as they have a constitutional right. In Nepal, there are problems in the selection and use of subject matter experts and the right advisors. It is important to develop the understanding that expertise is for the benefit of the nation and not for the benefit of the party. It is important to find the right path with the appropriate solution to the problem seen from the international experiment and move forward accordingly. It is important not only to make laws but also to achieve prosperous prosperity through their proper use and for that it is important to understand that the implementation of the law should be done in the right way. The tax base should be broaden based on local needs and resources available to develop sustainability in development and bear the cost of service offered by the local government rather than its transfer from the different tier of government. Rather than focus on the transfer of fiscal grants, efforts should be concentrated on making each of the local government units fiscally viable and financially sustainable to deliver the service required to their people.

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