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**Transparency in Financial and Fiscal Affairs at Municipal Level
The Lessons from the Gandaki Province, Nepal**

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Abstract

This article examines the transparency in financial and fiscal affairs at municipal level in terms of tax revenue misuse, allocation of resources, information on tax revenue collection, local tax system, decision making process, stakeholder engagement, mechanism for public participation, delivery of vital public services, local budget, tax and fees collection procedure, financial allocation and audited statement of municipal revenue and expenditure related information posted in the public places. Descriptive method and purposive sampling procedure were adopted to carry out this study. It is found that majority of the respondents believed that there are misuses of tax revenue; the policy involved in rising for municipal resource mobilization has been found positive but it has to restructure and re-improve as per the time frame; majority of the respondents were found known about the local budget and tax and fees/fines collection procedure but a few respondents were familiar with financial allocation to sectors; almost all the respondents pointed out to municipal authorities to be punished for the reduction of municipal tax. Finally, summarizing the results and discussions pertaining to these issues it can be said that there is miscellaneous response and less transparency in financial and fiscal affairs. It is necessary to focus on improving information dissemination at public places. Promoting citizen participation in developmental activities, strengthening institutional capacity, building public trust in local governance and creating the harmonization of existing policy concerning to the municipal government effectively can enhance transparency and accountability in municipalities.

Keywords: accountability, financial and fiscal affairs, municipal government, revenue, transparency

Introduction

The municipal governments are powerful institutions at the local level. This concept, in many parts of the world, has emerged as a deconcentration of central government, departments, and public utilities for better provision and regulation of services to the people. Now, Nepal has entered into a new era and has adopted a federal system of government. Under this system, there are three levels of government: central, province and local. The local government system consists of two tiers: basic local governments in the form of rural municipalities in rural areas and municipalities in urban areas. This category is based on population size, revenue generation and infrastructure development. A higher level of local government at the district level in the form of District Coordination Committees (DCCs). In Nepal, the concept of municipality emerged in 1902, bearing the same

purpose as in other parts of the world. At first, a small form of the municipality in Nepal was established in 1902 AD. under the name of "*Bhotahity Sawal*", during the regime of Rana Prime Minister Chandra Shamsher which was divided into two sections: "*Upper Faant* and *Lower Faant*." The delegates on both *pants* were appointed by the Ranas. The *Upper Faant* had to look at the general administration and *Lower Faant* had to look at sanitation services (Internal Documents of MoLD, 2007).

With time, some changes were made in the history of the municipality in the time of Bhim Shamsher. After the revolutions against the Rana regime in 1950 and Panchayati System in 1989, Nagar Panchayat Act (1950), Municipality Act (1991), Local Self-governance Act (1999), Local Self-governance Regulation (1999) and Local Government Operation Act (2017) were gradually promulgated. Based on these Acts Nepal's total number of municipalities has reached 293 including

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six Metropolitan Cities, and 11 Sub-metropolitan Cities, in which about 66.17 percent of the population is living (ADB, 2010; Internal Documents of MoLD, 2016; CBS, 2023).

Municipal finance refers to the sources of revenue and expenditure of the municipal authority i.e. taxation on capital or rental value of real property and expenditure carried out on development works and day-to-day expenditure. In Nepal, tax, fees, aid and grants are the major sources of finance for the municipalities. The Local Government Operation Act (2017) provides the authority to municipalities to generate revenue from such sources. They are also authorized to generate revenue from non-tax sources such as user charges, regulatory fees, rental incomes and income from the sales of local resources. They get grants from the Nepal government, Provincial Government, District Coordination Committees (DCCs) and Town Development Fund (TDF) in the form of administrative and development grants. However, owing to political instability and existing banking crises within and abroad, most of the municipal governments are highly dependent on higher-level transfer and have to use their development grants even to meet their regular expenditure.

Similarly, Fiscal refers to treasury and financial refers to money. Fiscal transparency refers to clarity to users; reliability reflects the government's true financial position; frequency reflects the regularity of reports which are published; timeliness reflects the dissemination of the reports; relevance reflects the public information which needs to make effective decisions and openness as well. And financial transparency is the practice of sharing financial information with the concerned people. As mentioned by Salaman, transparency refers to openness, communication and accountability and is used as means to establish trust in the system, public persons and institutions. He further mentions information transparency (public statement and disclosure of information); participatory transparency (being able to take part in decision-making through fair representation); and accountability transparency (holding officials responsible when laws are violated) (<https://campusontorio.pressbook.pub>). Similarly, Averill and Gottlieb (2021) argue that a transparency theory fills and bridges the gap between introspective fact and metaphysical fact (<https://researchgate.net>). This research is mainly based on the study of these issues in terms of tax revenue misuse, information on tax revenue collection, local tax system, local budget, tax and fees collection procedure, financial allocation and audited statement of municipal revenue and expenditure related information posted in the public places. Bahl and Linn argue that the issue of fiscal autonomy is important even if political control is centralized. Even under highly centralized political

systems, there is continuing struggle by metropolitan governments to gain more fiscal and managerial autonomy (Korea and China) (1992, p. 510). Developing countries continue to suffer from an unsatisfactory and often dysfunctional governance system including inappropriate allocation of resources, inefficient revenue system and weak delivery of vital public services. In most of the councils' of Tanzania, there is a huge gap between reported and projected revenue due to poor administrative capacity to assess the revenue base, poor administrative capacity to enforce the taxes, explicit and international tax evasion and resistance from taxpayers, corruption including embezzlement of revenue, external pressure on the local tax administration to relax on revenue collection. With this, they recommend redesigning the current revenue structure and strengthening the financial management (Bahl and Linn, 1992, p. 472).

Dahal highlights the importance of autonomy, accountability, financial resource base, control and supervision system, consumer committees, adaptation and innovation in the context of local government institutions (1994, p. 49). Similarly, Jharemarks that the major problem of municipal taxation in India lies in the mechanism of tax collection. Municipal bodies are not effectively administering the existing taxes. Whatever taxes are administered by the local bodies, they are not in a position to collect the revenue (1998, pp. 65-73).

Shah states the tools to address the issues of fiscal prudence, fiscal stress, citizen accountability and public integrity (2005, p. xxi). The author also highlights the simple tools for evaluating revenue performance in developing countries and mentions that revenue yields are affected by the composition of revenue bases, tax rates and effort. Revenue bases vary from country to country. Developing countries place greater reliance on taxes on commodities and services, while developed countries make a greater effort to tax corporate and individual income directly (Shah and Purohit, 2005, pp. 71-81). Learning from the practices of different countries, Bagchifound corruption prevalent in every local body in these countries (Philippines, Thailand, and Rep-of Korea, Bolivia, Botswana, Paraguay, Peru, South Africa, United States, Africa and Asia). They depend heavily on transfers from above (2007, p. 107).

Similarly, Silwal states the various sources of revenue for municipalities of the western development region and finds less transparency regarding generation and mobilization in the sample municipalities. Finally, he argues that municipalities should have fiscal autonomy on the one side and they should search for an effective alternative for sustaining them in internal resources on the other to achieve rapid development targets (2008). This article based on

Salamon's theory, highlights the exact scenario of information transparency, participatory transparency and accountability transparency at the municipal level. In Nepal, the issues/gaps such as transparency in financial and fiscal affairs at municipal are still found unknown and untested. This attempt is, therefore, the first of its kind to examine mainly the transparency in financial and fiscal affairs at the municipal level in terms of tax revenue misuse, information on tax revenue collection, local tax system, local budget, tax and fees collection procedure, financial allocation and audited statement of municipal revenue and expenditure related information posted in the public places of *Gandaki* Province, Nepal.

Methods and Materials

This study has concentrated on transparency in financial and fiscal affairs at the municipal level with special reference to the *Gandaki* Province of Nepal. *Gandaki* Province is one of the seven federal provinces established by the current constitution of Nepal which was promulgated on 20 September 2015. The total area of the province is 21,504 sq. km which is 14.57 percent of the country's total area (CBS, 2023). For this study, fifteen municipalities established during different historical periods from 1952 to Federal Nepal based on old and new municipalities are selected purposively. The municipalities include Baglung, Galkot, Jaimini, Dhorpatan, Beni, Kusma, Phalewash, Putalibazar, Walling, Byas, Gorkha, Gaidakot, Besisahar, Sundarbazar including Pokhara Sub-metropolitan City.

In this study, different survey instruments are developed and then they are applied for primary data collection selecting the study area and respondents purposively. The questionnaires are utilized for collecting data from university and school teachers in the study areas. Since they are considered stakeholders on the one side and evaluators of policy and programs conducted by the municipal government on the other. They can evaluate and judge whether the municipal activities relating to financial and fiscal affairs conducted time and again are effective at the local level or not.

Most of the items included in the questionnaire were common. The questions asked of the respondents were both closed and open-ended. At first, the questionnaire was pre-tested in Baglung Municipality and subsequently in other municipalities. The same questionnaire was given to the respondents at different times.

It consisted of fifty items. Among the items asked for them, most of the items were common. The purpose of the items contained in the questionnaire was to collect the opinions regarding municipal

revenue collection system and its mobilization pattern since they are both the stakeholders and evaluators of policy and programs conducted by the municipalities. There were only forty-five university and school teachers in the sample. Most of the questions were close type and only five questions were open-ended. Answers to the various parts of the questionnaires ranged from two categories to multi-categories responses.

There were altogether 45 respondents that were selected at least three from the fifteen municipalities of the sample area. Of the questions, 5 questions were only related to university and school teachers/experts. The contents of the questions included tax revenue misuse, information on tax revenue collection, local tax system, local budget, tax and fees collection procedure, financial allocation and audited statement of municipal revenue and expenditure-related information posted in the public places and who be punished to reduce the misuse of municipal tax revenue, delivery of vital public services, decision-making process etc. The responses obtained are presented in frequencies and percentages.

The researcher himself explained verbally the purpose of the study meeting them in their respective areas. Almost all the respondents suggested leaving the questionnaires to them and collecting them after contacting them on the phone. Most of the respondents returned the given questionnaires on time. However, some respondents had taken longer time and the researcher had to go to them time and again to amass the filled-up questionnaires given to them. The obtained data were presented in various tables and analyzed by using the descriptive method

Results and Discussions

It is well known that revenue sources of local governments can vary significantly depending on the specific jurisdiction, its tax policies, local economic conditions, population size, and the services provided by the government. Of the revenue sources, a tax is a mandatory payment or charge collected by local, provincial, and federal governments from individuals or businesses to cover the cost of local services, goods, and infrastructure development such as schools, public safety, transportation, parks, utilities, and other activities. Taxes help to fund public wants and services and to build and to maintain the infrastructure (Gorton, 2023) based on the developmental needs of people in time and context. It is used for the betterment of the economy. In this context, transparency in financial and fiscal affairs is one of the serious issues. This research work is based on different forms of transparency about the activities, the tax, and its proper use. Tax and revenue collection is an area open to damaging corruption. For state officials, tax and revenue

collection opens opportunities to take bribes and embezzle funds. Private businesses and individual taxpayers may corruptly influence officials to evade tax obligations and save large sums of money (CMI, 2023). Measuring transparency in the financial and fiscal affairs of a local government is essential for promoting accountability and ensuring the efficient use of public resources. No universally standardized method for measuring transparency, several indicators and approaches can be utilized to examine the transparency levels. In this situation, this part of the analysis contains opinions and suggestions they made and in the same way, their responses are expected to be most valuable for the assessment of transparency in financial and fiscal affairs at the municipal level.

Table: 1

Participatory Transparency: Misuse of Tax Revenue (N=45)

Description		Response	
		N	%
Do you think that the tax revenue is misused?	Yes	31	68.89
	No	14	31.11
	Don't Know	0	0.0
	Total	45	100.0

Source: Field Survey, 2022.

Note: Respondents were University and School Teachers/Experts

The result of the question shows that 68.89 percent of respondents are of the opinion that there is a misuse of tax revenue. In response to the question asked about the responsibility of tax revenue misuse, they blamed municipal authorities and the duty bearers. In contrast, 31.11 percent of respondents answered saying that there is no misuse of tax revenue. This data indicates that there is corruption regarding tax revenue. It is similar to the view or study of Bagchi that corruption is prevalent in every local body in the aforementioned countries.

Table: 2

Participatory Transparency: Information on Tax Revenue Collection (N=45)

Description		Responses	
		N	%
No information Received		0	0.0
Information received from	Mayors and Deputy Mayors	15	33.33
	Ward Chairpersons	15	33.33
	Ward Secretaries	45	100.0
	Others	15	33.33

Source: Field Survey, 2022.

Note: Respondents were University and School Teachers/Experts

In response to the question asked about the information on tax revenue collection, all the respondents indicated the secretary of the respective

municipality as a source of information. Among them, 33.33 per cent of respondents added that they got information from the mayors, deputy mayors, ward chairpersons and neighbours as well. The responses on 'No' information received in how much tax revenue and user charges that had been collected in the area are nil in the municipality of the sample area.

The results shown in Table 3 pertaining to the question 'Have you heard of any local tax system in Nepal' shows that all the respondents have answered positively. Regarding the question, there is not found any negative answer. They replied that they are familiar with some local taxes such as house/land tax, rent tax, entertainment tax, sanitation fee, building permit fee, business tax, vehicle tax and so on. The result of the question asked about the appropriateness of resource allocation, effectiveness of revenue collection system and effectiveness of the delivery of vital public services is found divergent. In the same way, they also remarked that the structure of the existing local tax is not appropriate and effective as per the changing scenario of Nepal. It is similar to the view of Bahl and Linn that there is an inappropriate allocation of resources, an inefficient revenue system and weak delivery of vital public services. But decision-making process within municipalities is found participatory (Table 3).

Table: 3

Participatory Transparency: Local Tax and its Collection System, Delivery of Vital Public Services and Decision-Making Process (N=45)

Descriptions	Responses		
		N	%
Have you heard of any local tax system in Nepal?	Yes	45	100.0
	No	0	0.0
Have you seen the system of allocation of resources appropriateness in the municipality?	Yes	17	37.78
	No	28	62.22
Have you found the revenue collection system efficient?	Yes	22	48.89
	No	23	51.11
Have you found the effectiveness of the delivery of vital public services?	Yes	15	33.33
	No	30	66.67
Have you found the decision-making process participatory in the municipality?	Yes	23	51.11
	No	22	48.89

Source: Field Survey, 2022.

Note: Respondents were University and School Teachers/Experts

The results show as in Table 4 obtained the different issues, it is found that 66.66 percent and 55.55 percent of respondents had seen posted

information about local government finances and taxes, fees and fines collection procedures respectively. Only 11.11 percent of respondents had heard about financial allocation to different sectors. In this regard, the majority (51.11 %) of respondents answered by saying don't know about the issues. The same situation has been found in subsequent issues. Of the respondents, a minimum of 4.44 percent and a maximum of 22.22 percent respondents stayed indifferent and left the given issues. In response to the question asked about the source of information, most of them replied that they got it from the ward office, municipality office, municipal authority, local level FM radio, newspapers, municipal bulletin and political leaders at the local level as well.

Table: 4

Information Transparency: Information on Particular Issues (N=45)

Description			Responses	
			N	%
Have you in the past five years seen any of the following information posted in public places?	Local Budget	Yes	30	66.66
		No	0	0.0
		Sometime	4	8.89
		Don't Know	10	22.22
		No Response	1	2.22
	Taxes and Fees Collection Procedures	Yes	25	55.55
		No	0	0.0
		Sometime	7	15.55
		Don't Know	10	22.22
		No Response	3	6.67
	Financial Allocation to sectors	Yes	5	11.11
		No	0	0.0
		Sometime	2	4.44
		Don't Know	23	51.11
		No Response	15	33.33
	Audited Statement of Revenue and Expenditure	Yes	0	0.0
		No	2	4.44
		Sometime	0	0.0
		Don't Know	33	73.33
		No Response	10	22.22
How to Report Corruption	Yes	0	0.0	
	No	5	11.11	
	Sometime	0	0.0	
	Don't Know	30	66.67	
	No Response	10	22.22	

Source: Field Survey, 2022.

Note: Respondents were University and School Teachers/Experts

Table: 5

Accountability Transparency: Holding Officials Responsible When Laws are Violated (N=45)

Description		Responses	
		N	%
Who should be punished to reduce the misuse of municipal tax revenue?	Municipal Authorities	40	88.89
	Municipal Office itself	16	35.55
	Ward Office	15	33.33
	Journalists	20	44.44
	Municipal People	12	26.67
	Political Party Leaders	20	44.44
	Others	All more or less	100.0

Source: Field Survey, 2022.

Note: Respondents were University and School Teachers/Experts

The result from Table 5 shows that 88.89 percent of respondents demanded punishment from municipal authorities to reduce the misuse of municipal tax revenue. Only 35.55 percent and 44.44 percent of respondents pointed out the municipal office itself and journalists respectively. In the same way, they pointed out that all municipal staffs misuse municipal revenue and they protect each other. Similarly, municipal authorities and municipal staff themselves not only misuse the municipal tax revenue, but we municipal people, political leaders, and journalists, are also responsible for that. Regarding the municipal revenue, it does not care from where municipal revenue comes and where it goes. So, there should be a punishment for all less or more as said by the respondents. This data indicates the relevancy of accountability. It is similar to the view of Dahal that autonomy, accountability, control and supervision system is necessary within the municipal area.

Conclusion

Thus, this article set out to examine participatory transparency, information transparency, and accountability transparency at the municipal level of *Gandaki Province, Nepal*. It is found that the majority of the respondents believe that there are misuses of tax revenue. The study has confirmed the findings of Bagchi that corruption is prevalent in every local body. Based on the respondent's response, it can be stated that the share of own source revenue to total revenue has been found to decrease and fluctuate over the periods. The policy involved in rising municipal resource mobilization has to restructure and re-improve as per the time frame. The majority of the respondents were found to know about the local budget and tax and fees/fines collection procedure. But a few respondents were familiar with financial allocation to sectors which indicates that the allocation systems to different sectors were not found transparent. Almost all the respondents' response has

been for the stringent action to municipal authorities to reduce the misuse of municipal tax revenue. This is because there is a bit more transparency in the delivery of information (Table 4). Most of the respondents don't have information about budget allocation, revenue and expenditure and they even don't know how to report such lapses. This study concludes that transparency in financial and fiscal affairs is found questionable. A little bit of responsibility goes to the respondents for not seeking the information for the revenue they paid themselves. So, the existing policy regarding municipal government also makes the people conscious of their responsibilities.

Finally, summarizing the results and discussions pertaining to the major issues such as transparency in fiscal and financial affairs, misuse of tax revenue, information received on tax revenue collection, local tax system, information posted on public places, financial allocation to sector, tax and fees collection and fiscal corruption, it may be said that there is satisfactory response but not sufficient. The study shows that the structure of the existing local tax and its collection system, allocation of resources, and delivery of vital public services are not appropriate, efficient, and effective as in the changing era of Nepal. In this regard, the evidence from this study suggests that for fiscal and financial transparency within the municipality area, there should be the provision of access to information, regular involvement of people in the decision-making process, sharing of learning, successes and failures scenarios of municipalities, key weekly updates, confronting a difficult situation of the municipality, holding an ask me anything session within the municipality area time and again, regular public hearing program and so on. This study also suggests that improving transparency and accountability can reduce corruption and improve the effectiveness of local governance in the days to come. Regular monitoring, evaluation and feedback from stakeholders can help to identify areas for improvement and ensure accountability.

Declarations

Ethics Approval and Consent to Participate

I declare that this research/review was conducted ethically.

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