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Original Article

Effectiveness of the Implementation of Fiscal Federalism at the Local Level



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Abstract

This study was carried out in the initial stage of the implementation of federalism, which has adopted fiscal federalism. The current public finance management system adheres to intergovernmental fiscal transfers. During the study, civil servant adjustment by the federal government was ongoing. This study examines the effectiveness of implementing fiscal federalism at the local level. It further analyses the local level's own source revenue. Following the Constitution of Nepal (2015), the Local Government Operations Act (2017) defined Metropolitan, Sub-Metropolitan, Municipality, and Rural Municipality as Local Levels as well as Local Governments. The qualitative method was adopted to accomplish the study and fulfill the effectiveness of implementing fiscal federalism. Available literature and data were analysed and interpreted with relevant themes. Besides, some quantitative data have been presented for analyzing the source revenue at the local level. The study found it interesting that not only do the federal and provincial governments transfer the budget to the local government, but the local governments also collect and share the budget for province governments. It seems to be top-down transfer and bottom-up sharing. Besides some confusion, conflict, and mismanagement, the effectiveness of the implementation of fiscal federalism seems positive because local governments are the nearest and dearest to people. Moreover, the own source revenue collection practice and tendency show that it will increase in the future.

Keywords: *Intergovernmental fiscal transfer, Own source revenue, Effectiveness, Practice*

Introduction

Nepal has adopted a federal system as per the provision of the Constitution of Nepal - 2015. Indeed, federalism is in the preliminary phase in Nepal.

Likewise, fiscal federalism is also new for Nepal. Fiscal federalism is in practice as guided by the Constitution. The Nepal government declared the base year of implementing fiscal federalism through the 2018/2019

budget speech. The budget is allocated according to the four pillars of norms of intergovernmental fiscal transfer into governments, including fiscal equalization, conditional, supplementary, and specific grants. The FY2017/2018 budget laid the foundation stone of fiscal federalism because it followed the two basic pillars of fiscal federalism for intergovernmental fiscal transfer. The budget initiated intergovernmental fiscal transfers to provinces and local levels through financial equalization grants and conditional grants. Due to the transition, fiscal federalism had not been fully operated in the beginning. Despite this, when the first time local level was announced in 2017, the government provided one billion rupees equally for each in FY2016/2017 for their internal management.

Fiscal federalism provides intergovernmental fiscal transfer, which is implemented with the provision of the constitution, acts, laws, bylaws, guidelines, etc. On the other hand, Nepal's public finance structure has shifted paradigm due to the intergovernmental fiscal transfer system. It replaces the previous grant system. The three tiers of government are in function with their rights and

responsibilities so that the federal system is intensively practiced in Nepal. As per the constitution, the local level refers to the Rural Municipality, Municipality, Sub-Metropolitan, and Metropolitan. Each local level has its own financial rights and duties, and budget. The local-level executive rights are included in the constitution, part 17, clause 214. In part 5, clause 59 of the Constitution of Nepal, the exercise of financial powers of the three-tier governments is listed. Similarly, the list of the powers of the local level is included in Schedule 8, and in Schedule 9, the list of concurrent powers of the federal, province, and local levels is explained.

The study focuses on the effectiveness of implementing fiscal federalism and analyses the source revenue of the local governments. Moreover, I have mentioned key pillars of fiscal federalism in short.

Pillars of Fiscal Federalism

Nepal implemented fiscal decentralization as a local self-autonomous government act (1998) and regulations (1999) after the restoration of democracy before the constitution of 2015. Now, as a federal republic

country, fiscal decentralization is totally replaced by fiscal federalism. The constitution has arranged the three tiers of government with devolution of power.

People have raised deep concerns at the Local level. The local government recognizes the nearest and dearest government of the people. As the delegated power, local government tries to enhance its own source revenue, but it seems criticized more or less. Chaos and unclerness are raised among people, stakeholders, and elected representatives about the local tax. When implementing fiscal federalism, the critics are exposed through media, people, and elite groups, so I have focused on the effectiveness of the implementation of fiscal federalism. Thapaliya et al. (2018) did not find the effectiveness of fiscal federalism at the local level, so this study tried to examine the effectiveness of the implementation of fiscal federalism at the local level and analyze their own source revenue.

Commonly, fiscal federalism has four pillars. Fiscal federalism is the practice of assigning work responsibilities with the right to mobilize resources for delivering public services to smaller

units within the same geography. Although fiscal federalism is prevalent in countries where there is a federal governance system, Non-Federal countries are found to be transferring finance through fiscal decentralizing. For example, Nepal's decentralization act (2039) and regulation (2040) also practised fiscal decentralization. Similarly, the local self-governance act (1998) and regulation (1999) practiced financial decentralization. There has been decentralization with the deposition of rights in fiscal federalism. In federalism, the working units operate the source by making laws. Making these units run as a complete government is the essence of fiscal federalism. That is why fiscal federalism is an aspect of federalism. Due to the deposition of work, the financial subsidy is transferred to the lower government to make it effective and to fulfill it, understanding the essence of federalism. According to Ahmed and Brosio (2006), political federalism involves the use of political approaches.

Revenue Collection and Expenditure Rights

As per the constitution, local levels have rights and responsibilities. They

have got the right to collect revenue as per fiscal federalism because there is always a relation between finance and function. It is said that finance follows the function. To carry out responsibility for one's own expenses, collecting revenue has no alternative. According to Prasad (2015), the power of sub-national tax is needed for meaningful financial decentralization, which increases financial autonomy, competence, and accountability. There is a constitutional and legal law for local levels to collect taxes. Tax is the mandatory payment amount that a citizen must pay to the government in accordance with the law, without expecting direct tax benefits and a means of raising funds to achieve public purpose. Taxes should always be based on affordability. Local tax rates include property taxes, income (landlord tax) and goods or services (entertainment tax, advertising tax, vehicle tax and business tax). Revenue means customs duty, excise, income tax and excise tax that are required to be paid or submitted to the government of Nepal in accordance with prevailing federal law, and the term also refers to other taxes and non-tax revenue pursuant to the existing federal law. "Non-tax" means the amount of customs, service fees, royalties, dividends, fines, bonds and

so-called interest in accordance with applicable federal law.

In federalism, local levels also have the responsibility of expenses. Therefore, local levels have the right to spend the amount of money in their funds to perform the assigned tasks and responsibilities.

Intergovernmental Fiscal Transfer

As per Nepal (2016), intergovernmental fiscal transfer is the third infrastructure for successful financial decentralization. It is a mechanism for the upper-level government to transfer the budget to the lower level. Nepal's constitution ensures budgetary flow through intergovernmental financial transfer. As Lamichhane (2016) states, financial decentralization strengthens the financial authority of the local governments. Fiscal federalism plays an important role in expanding the financial decentralization used in the past or opening its nuts and bolts. According to Kelly (2016), change is taking place for social and economic growth worldwide. Such decentralization is not only aimed at improving the competent and responsive government service flows but also focuses on equal resources and

service flows that play a role in creating a more responsive government. Town Development Fund ([TDF], 2015) states that despite the weaknesses, the Local Autonomous Governance Act added a new dimension to fiscal decentralization.

There is a trend of intergovernmental financial transfers around the world to reduce the financial gap. In Nepal, equitable grants, conditional grants, supplementary grants, and special grants are provided under intergovernmental fiscal transfer. Equalization grants should be spent on the work specified in the constitution. This grant is not a full-fledged grant. Conditional grants are spent addressing national policy, national standards, and national and international work. Likewise, subsidy grants are based on demand, whereas special grants are spent on specific (especially social) areas. Royalty is distributed to all citizens to develop a sense of belongingness in national natural resources and heritage. Similarly, there is an intergovernmental fiscal handover through revenue sharing. The collection of excise from value-added tax and internal production has allocated 70 percent to the federal government and 15/15 percent to the province and local

levels each. Brodeway and Shaa state that intergovernmental fiscal transfer plays a major role in most countries' financial management in local government (as cited by Khanal, 2016). The Intergovernmental Finance Management Act (2017) and the Local Government Operations Act (2017) have paved the way for the implementation of fiscal federalism in the country.

Subnational Borrowing

Debt is another element of fiscal federalism. In the context of Nepal, sub-national borrowing has emerged as a shining case. The National Natural Resources and Fiscal Commission recommends that the federal government fix the local debt. There is a provision for borrowing from various financial units to conduct large development projects at the local level. Being the engine of development of cities and municipalities, they can borrow a loan, develop infrastructure and develop the economic sector and can bring social transformation. It is found that in 2006 B.S., former municipal panchayat had also practised lending loans.

Local governments provide a facility that local levels can borrow loans with or without having a mortgage. It was found that the TDF Act (1996) was used to lend loans to the municipalities. Hence, in federalism, a dispute has occurred about whether the TDF loan is internal borrowing or not. After the formation of the TDF, the municipality appears to have started borrowing in a planned way.

Furthermore, fiscal discipline is an aspect of fiscal federalism. It is the responsibility of any government to adhere to financial discipline while spending the budget received from the financial handover and the budget received from internal sources and other means. Similarly, every government needs institutional development and necessary mechanisms to perform constitutional rights and work edits. Fiscal federalism can be mobilized only after having budgets and working bodies.

Methodology

The study adopted a qualitative design. The study units were the local levels. Following the cluster sampling, provinces and districts were selected, and seven municipalities were selected

using convenience sampling. As such, out of 7 provinces, 77 districts, and 293 municipalities, the study was limited to 7 local levels from 7 districts. Among those seven local levels, two were Sub-metropolitan cities and five were municipalities. No rural municipality or metropolitan city was taken as a sample. One local level was chosen from each province.

Province No. 1, Dharan Sub-metropolitan (Sunsari district), and Madhesh Province, Pacharautha Municipality (Bara district), were chosen. Likewise, from Bagmati Province, Nagarjun Municipality (Kathmandu district) was chosen. Similarly, from Gandaki Province, Gorkha Municipality (Gorkha district), from Lumbini Province, Nepalgunj Sub-metropolitan (Banke district), from Karnali Province, Lekbesi Municipality (Surkhet district), and from Sudurpaschim Province, Godawari Municipality (Kailali district) were purposively selected.

Two Mayors, one Deputy Mayor, and four Chief Administrative Officers, and seven groups of civil societies were selected as the key informants in the study. Similarly, open-ended interviews and seven focus group discussions were

used. Moreover, I also applied reflective and systematic thinking (Dhakal, 2019) to understand the social world of the participants better. Likewise, different articles and documents were observed as secondary sources of data. In this study, a desk review was done for federalism, fiscal federalism, and fiscal decentralization, and reviewed the yearly development programs of the selected local levels.

The study was qualitative in nature, so data were presented by deriving themes from the data. However, numerical data are also collected by means of the checklist, especially in regards to own source revenue presented in a table, and analyzed descriptively to supplement the qualitative evidence. While conducting the fieldwork and data analysis, I followed the norms of research ethics in social sciences and adhered to the “responsible research practice” (Dhakal, 2016).

Discussion of Findings

The study divided this section into two parts. The first part discusses the effectiveness of the implementation of fiscal federalism, and the second part analyzes the source revenue of the sample local levels.

Effectiveness of Fiscal Federalism

Loan Borrower/Non-Borrower Local Levels

Out of seven, three local levels (Dharan Sub-metropolitan, Gorkha Municipality and Nepalgunj Sub-metropolitan) had borrowed loan from the TDF. It means three out of seven local levels selected for this study had borrowed loans from the TDF. According to the constitution of Nepal 2015, the local government can take out an internal loan for the budget-making process. The National Natural Resource and Fiscal Commission has allocated the boundaries of internal loans for federal, provincial, and local governments. None of the local level had budgeted borrowed loans in the fiscal year 2018/2019. However, some of the municipalities had previously borrowed an internal loan from TDF for infrastructure development. There was a practice of borrowing and paying back loans by old municipalities, but new municipalities largely lacked this practice. Debt is also considered an important pillar of fiscal federalism.

On the other hand, for those local levels that borrowed loans, only a municipality had made a loan procedure, and two had not made it. Borrowing the loan without managing the loan procedure can affect transparency and good governance.

Arrangement of Sub-National Treasury

All local levels have arranged sub-national treasury. First, they have made a sub-national treasury for income, by which the expenditure process is adopted. It seems that the mandatory provision of the constitution, which is more related to fiscal federalism, is being implemented. The sub-national treasury helps local levels to collect own source revenue as well as different grants from federal and provincial governments.

Estimates of Revenues and Expenditures

All local levels have made a local act to estimate the revenue and expenditure as per the provision of the constitution, part 19, section 230, and sub-section 1. The study found that local levels follow the constitution, which ultimately shows that fiscal federalism is in practice at the local level.

Deficit Budget

The provision of a deficit budget for local government is one of the benchmarks in fiscal federalism. Out of seven, only Godawari Municipality had presented a deficit budget, but the source of the deficit budget (Constitution of Nepal, section 230-2) was not managed. The study indicated that the local level was trying to cast the deficit budget but not able to manage the sources.

Revenue Improvement Action Plan

Three municipalities had made revenue improvement action plans. But the names were differing. Dharan Sub-metropolitan called it a 'revenue development action plan,' Nepalgunj Sub-metropolitan named it an 'intensive economic municipality development plan,' and Godawari Municipality named it a 'revenue development plan.'

Without a revenue improvement action plan, local levels are unable to collect revenue effectively and efficiently. Furthermore, without revenue improvement action plans, unnecessary things might be collected, and necessary things could be left out.

The Constitution of Nepal 2015, Local Government Operations Act 2017, and Intergovernmental Finance Management Act 2017 have delegated authority to distribute different types of revenue sources, identify potential revenue, and collect revenues from local governments. Providing services to locals is the main task at the local level. Internal revenue increment is inevitable to smoothly flow the services to the citizens. Revenue collection depends on the efforts of the local governments and the cooperation of their citizens. Property, business, and natural resources lie in revenue.

Revenue Section and Staff

All the municipalities that are included in this study had a revenue section. Since revenue collection is a major pillar of financial federalism, having a revenue section is positive. Ultimately, revenue is used for local development.

A minimum of one and a maximum of seven staff were working in the revenue sections of municipalities. As per the Chief Executive Officers, two of the municipalities (28.6 %) said that they had adequate staff, whereas five municipalities were understaffed. Due to inadequate staff members, target

achievement seemed problematic in those understaffed local levels. Moreover, capable staffs and technology help collect revenue properly.

Fiscal Federalism in Learning

Local levels are in the process of learning and practising fiscal federalism. One of the Mayors said that management of fiscal federalism is not difficult; administrative and other managerial works seem difficult for us. Likewise, another Mayor expressed that municipalities are trying to make fiscal federalism effective. The representatives of the local levels are more focused on crafting acts, regulations, rules, and laws in the starting years.

Ward Budget

The budget, which came from the federal and provincial governments, was tied to a Sub-National Treasury, and thereby, expenses were made. A municipality transfers its budget further to its ward offices. In fact, they distributed one billion for each ward without adopting any scientific processes in the fiscal years 2017/2018, and 2018/2019.

Mayor is a superhero for allocating budgets in the Palika. Similarly, the ward chairs are other heroes for allocating the budget within wards. This is shameful in fiscal federalism – one-upmanship is not acceptable. In Gorkha Municipality, a ward chair who had the legislative power was directly involved in buying the materials.

Federal and Province Direction and Employee Transfer

Due to frequent direction and circulars from Federal and Provincial governments – which are not aligned, it is confusing to work at the Local Level. - A Mayor

The Constitution of Nepal 2015, part 20-232 states that three-tier governments should have cooperation, co-existence, and co-ordination, but it seems the opposite in the behavior of the actors because Local Levels are facing recurrent transfers of the Chief Executive Officers. For example, Nepalgunj Sub-metropolitan faced four-time transfers of the Chief Administrative Officers within a year. Such frequent changes of the Chief Administrative Officers would hamper the performance of the Palika,

impacting both daily administrative works and developmental works.

Opportunities and Challenges

Local levels have both opportunities and challenges. Both are intertwined and run together. Transportation tax payment task is given to the local levels. Province governments have authorized the local level to allow and renew three-wheeled vehicles. The elected representatives acknowledged that the opportunities for fiscal federalism could be seen if they could do better and manage it. They were found to be trying to address the demands and needs of the citizens by implementing laws, policy rules and commitments.

It takes time to get habitual to the new one from the old practice. Due to a lack of effective internal control at the provincial and local levels, it is difficult to make fiscal discipline accountable, and there is no situation at the provincial and local level to deploy human resources as per the constitution. Auditor General's 58th annual report (2021) indicated that for good governance and financial accountability, it is important to enhance the managerial capacity as well as to enforce necessary policies and laws.

Lack of Staff

There is no place for engineer or overseer positions at the local level. One of the officers said that they were not able to work as citizen's expectation due to lack of staff. Representatives and employees of the municipality said that there was a lack of staff before and after the adjustment of the civil servants. They also told that there is a lack of technical human resources to work in the fields, including bailiff, engineer, overseers, agriculture and vets.

Conflict

Conflict was seen between local representatives, especially between the Mayor and the Deputy Mayor. A Deputy Mayor shared such an instance as following:

I have not got any information about the meeting of the municipal council except once. I am unable to get the information about the municipality's budget yet. Mayor has built up the consumer committee from supporters only. - A Deputy Mayor

One the other hand, conflict has seen between employees and local representatives more or less. Representatives pointed out employees

for mistakes whereas employees pointed at the representatives. Due to conflicts between them, municipal tasks were affected sometimes.

I have stopped the file related to staff salary who were assigned to work on earthquake time but not worked properly. But Mayor has forwarded the file to the concerned office for further process. - A Chief Executive Officer

Thinking of Multi-Year Projects

As a strong aspect of fiscal federalism, local governments have begun preparing multi-year projects. Godawari municipality has been preparing a long-term development master plan for the coming hundred years. But there's no preparation of the technical framework for what will be the outline of the multi-year project, how it will work, the procedure, and the criteria. To organize the multiyear projects smoothly, it would be better if the essential procedures were managed by the municipality so that they could make the projects more approachable.

Tax Is the Common Concern

Prasad (2015) states in ancient times, Lichhaivi period, Malla period and Rana period, there was a history of local units collecting local taxes or fees. The revenue advisory committee of Godawari Municipality increased land tax for the current fiscal year but decided to decrease it by the next fiscal year since citizens and local representatives protested about the increment. Citizens were told to increase the range of tax rather than the rate. The presence of citizens who came to pay tax and who came to know about the tax in Dharan's tax section was praiseworthy. Old municipalities seem to be more aware of tax payments, but new municipalities are still not fully oriented. Dharan showed a good income increment.

Local representatives represent legal ambiguity in tax disputes. According to the Local Government Operations Act 2017, local government has specified tax on various subjects, there is a problem due to un-specified rates. For example, there is a problem with the advertisement tax rate, range and types. There was a perception that the problem would be solved by the federal government. In some cases, software,

applications have also been found to cause problems in tax collection. Nepalgunj Sub-metropolitan was still in favour of integrated property tax, while Godawari was found favouring property tax. Pacharauta's Deputy Mayor said that taxes should be levied on people's finances. Sudhurpaschim province has the ability to pay taxes on the basis of tax and non-tax revenue determinations; the tax system is based on equality and justice, taking the assurance of the tax payment period. Sudurpaschim Province tax and collection of non-tax revenue report 2018 stated the cost of operating, providing, and maintaining the services, concessions, and facilities provided for non-tax revenue will also be the basis.

Thapaliya et al. (2018) state the duplication of taxes levied by the Government of Nepal at the provincial and local levels taxation, the subject of taxation as per the ability of the local people to pay taxes, the question of jurisdiction of taxation, and the cost of service facilities provided for imposing fees and customs. This is the first time the subject has been studied since fiscal federalism was implemented. The report states that the constitution of Nepal, federal laws, provinces, and local laws were created and implemented in the

first year of fiscal federalism. The 15th Plan (2019) aims at building an equitable economy through fiscal federalism and intergovernmental transfer. It aims to provide balanced and equitable resources to fulfil constitutional work responsibilities to the union, state and local levels, analyse the capacity and situation of the state and local level, address the need for expenditure and increase the financial base of all three levels. Similarly, to manage the single and shared functions of the three levels of government in a cohesive manner, to manage public resources, to make the transfer of inter-governmental finance transparent, predictable and justified, to develop public finance management capacity at the federal, province and local level, authority is shared by the federal, province and local level governments. The strategy is to maintain financial governance.

Local Government Operations Act (2017), section 3, clause 11, (2d) states that the local level can charge tax and non-tax in accordance with the Federal and Provincial acts. The three-tier governments can charge tax and collect revenue in their jurisdictions. The local level has eight tax rights: property tax, house rent tax (*gharbahal* tax), house

land registration fee (*ghar jagga* registration fee), vehicle tax, land tax (*malpot*), entertainment tax, advertising tax, and business tax. Local Government Operations Act (2017) section 55's integrated property tax has repealed the provision and made the property tax as per Nepal government's economic act (2018) section 34. Likewise, non-tax income is related to service fees and dastur, tourism fees, punishment fees (penalty/jariwana), royalties, dividends, and bank interest. Service fees are centered on investment, dastur is focused on services and facilities, and income that is not collected in time or late income is referred to as a punishment fee.

Transfer and Sharing

It is interesting that not only central and provincial governments transfer the budget to local governments, but the local governments, too, collect and share the budget. It seems to be top-town transfer and bottom-up sharing.

Fiscal federalism is not a new thing in old municipalities. For example, local body has received limited rights to income and expenditure from stone, cements, sandstone etc. This is the Municipality internal

income. But in fiscal federalism, the work responsibility, expenditure, and income responsibilities, rights, and obligations are added. The amount of VAT and customs disbursement distribution in the federal budget has been given to local bodies. Local bodies were also attracted to VAT and excise duty. Interdependence is being practiced in exchange for financial assistance. For example, stone, ballast, and sand collecting revenue is collected at the local level and submitted to the province government. - Deputy Chief Executive Officer of Dharan Submetropolitan

Tax-Related Arrangements of Nagarjun and Nepalgunj

Nagarjun has adopted the policy of developing a progressive tax system, enabling efficient taxation, expanding the tax base and controlling revenue leakage to effectively mobilize internal resources. It was found that, in order to bring pre-built homes into the tax realm, taxpayers who had to pay more than ten years of tax would get a 25% discount for once. Nagarjuna has taken effective policies by making the whole revenue system a taxpayer-friendly area by involving taxpayers voluntarily.

Nepalgunj Sub-metropolitan has implemented the rates of revenue (taxes, services, fees, customs, etc.) recommended by the Local Revenue Advisory Committee. In the fiscal year 2016/2017, it was estimated that internal sources had 13.6 million and 25 thousand rupees, whereas revenue was collected from 11.31 million and 52 thousand rupees (nearly 75%). In the fiscal year 2018/2019, income was estimated to be 2 billion, 433.8 million, and 36 thousand rupees, whereas internal income (internal income and freight registration) was projected at 158.2 million and 52 thousand rupees. Conditional grants for development infrastructure have been received from UNICEF, ADB, UNDP, and TDF. In order to broaden the scope of revenue to increase the internal resources in Nepalgunj's revenue and tax policy, special initiation was taken with the federal government to establish a local-level right to collect taxes freely by amending the law of the financial ordinance 2018, made by the federal government to collect the integrated property tax. Nepalgunj has reduced the business tax rate for small businesses to bring in the business tax category and increased the business tax to discourage industries and businesses that have a negative impact on human health.

Internal Revenue

The study has analyzed municipalities' total internal income (own source revenue).

Table 1 Own Source Revenue of Municipalities

| Municipality | Total Internal Income(Rs) | | | Increase percentage in |
|--------------|----------------------------|-------------|-------------|------------------------|
| | FY2016/2017 | FY2017/2018 | FY2018/2019 | FY 2018/2019 |
| Nagarjun | 80000000 | 79200000 | 267747699 | 238.07 |
| Godawari | 13353000 | 13887000 | 3371000 | 142.75 |
| Pacharauta | 0 | 24308429 | 12300000 | -49.4 |
| Dharna | 81049270 | 440810890 | 587995000 | 33.39 |
| Lekbeshi | 0 | 3170253 | 4815300 | 51.88 |
| Gorkha | 0 | 46230455 | 66000000 | 42.76 |
| Nepalgunj | 95381673 | 121870165 | 1500337000 | 23.11 |

Note: 0 refers to 'not available'.

Table 1 presents the actual income for FY 2016/2017, FY 2017/2018, and the projected income for FY 2018/2019. All municipalities' income was expected to increase besides Pacharauta. Pacharauta was expected to decrease by 50 percent. Nagarjun was projected to increase revenue by 238.7 percent more than the previous fiscal year. Out of seven, Dharan projected high and Pachrauta projected low own source revenue in FY 2018/2019. Pacharuta's estimated source revenue was less than that of the past FY 2017/2018.

The study found that due to the constitutional rights guaranteed, local

levels are likely to increase revenue collection. Nepalgunj has targeted revenue collection about 15 to 20 crore rupees in the F/Y 2018/2019. The cities that created the revenue improvement action plan could systematically find and increase own source revenue. Own source income tendency proved that it will be increased in the future. TDF (2015) states that up to 2031, the internal income of the municipalities of Nepal will reach a minimum of Rs.65 087 million and 130.696 million dollars.

Conclusion

The implementation of fiscal federalism is in its initial phase, so it would be a hurry to examine its effectiveness statistically. Recently, federalism and fiscal federalism have been more intensively implemented in Nepal with the help of the constitution by the three tiers of the government. Nevertheless, fiscal federalism is still in the learning process. People have high expectations of the local governments. As per the constitutional rights and duties, local levels are strong governments. However, as of now, the performed roles demonstrate inefficiency. Local levels are in a transitional phase because the first five-year cycle was new for the newly elected representative for using devolved power. It can be said that the coming team will accelerate the proficiency.

Despite having the same rights, collecting own source revenue differs across local levels. There seems to be an imbalance in resources, so intergovernmental fiscal transfer is necessary for fiscal federalism. On the other hand, revenue collection depends on efforts at the concerned local level, too. Interestingly, the local level is eager to collect its own source revenue

what they have and try to find new titles as well. Finally, it is undoubted that if the source of revenue at the local level becomes stronger and more effective, it will ultimately help achieve the prosperity of the nation.

Disclosure Statement

The author declares that no potential conflict of interest exists.

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