Growth of Internal Revenue of Baglung Municipality, Gandaki Province, Nepal

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Abstract

This paper aims to quantify municipalities' internal revenue streams. After the promulgation of Nepal's new constitution in 2015, municipalities include provisions for an independent, three-tiered administration to ensure effective services to the people as well as for a balanced level of economic growth. This study attempts to analyze the growth rate of the internal revenue sources of Baglung Municipality based on the audited financial information of the municipality in the fiscal years from 2018–19 to 2022–23. From the study, a consistent positive growth trend is observed except revenue from other sources. Simply, it can be a positive sign for the local economy. Similarly, of the expenditure, skill development training expenditure for municipal staff has impacted positively for municipal internal revenue generation. This impact is also found statistically significant with strong positive correlation between the variables. Additionally, this study finds that the successful implementation of federalism at local level requires strong leadership, co-ordination among the different levels of government, strong financial plan, diversification of revenue sources, effective and efficient tax collection processes and engagement of local community to gather potential tax revenue sources. Showing the need of creating policies centered on providing effective services to the citizens, this paper will help to make municipals more effective.

Keywords: Internal revenue, growth rate, municipal finance, revenue structure, Baglung

Introduction

The growth of municipal internal revenue sources is a crucial aspect of local government and financial management. Baglung Municipality like other local governments, relies on its internal revenue sources for funding the development of infrastructure and other vital services within its jurisdiction. Understanding the growth rate of these revenue sources provides valuable insights into the municipality's financial stability and its capacity to meet the evolving needs of its residents.

Baglung Municipality has 15,182 households, 57,823 total populations, and a population density of 589.97. This municipality contains 14 wards. It is located at a height between 650 and 2600 meters above sea level. The municipality office, on the other hand, is situated 3,350 feet above sea level. This is the first municipality of this region. It had 9 wards previously and restructured into 14 wards after the new practice of fiscal federalism of Nepal. Most of the wards of this municipality are under the rural area (Census, 2021). In this municipality, there are some historically, economically and culturally important places such as a local airport, one government campus, Shaligram museum, Gandaki province sub-hospital, Panchkot Dham, famous Kalika temple, world longest suspension bridge (Internal document of Baglung Municipality Office, 2023) etc. These all are the potential areas of this municipality for internal revenue generation. Economic conditions, population dynamics, local tax policies, and fiscal relations play significant roles in shaping the revenue generation capacity of every municipality of anywhere.

The internal revenue of a municipal government typically involves the various streams of revenue generated within the municipality's jurisdiction. There is a diversity of

revenue sources available to municipal governments, including property taxes, sales taxes, fees, grants-in-aid, and other forms of local revenue. The funds generated from these sources are crucial for delivering local services and developing infrastructure. Several studies have discussed the various sources of revenue such as income tax, property tax, entertainment tax, business tax, gift tax, profit tax, use tax, agriculture tax, forest tax, dog owner tax, civil level activities tax, sales tax, boat tax, advertisement tax, animal tax, local government reform fee, license fee and transfer from higher level. Additionally, strong bases such as local taxes, fees and transfer have been mentioned (Bahl & Linn, 1992; Adedokun, 2006; Schroeder, 2007; Nallathiga, 2008; Shah, 2005 & Shah, 2006). But their studies do not show how to generate internal revenue at the local level regarding the developing countries like Nepal. Understanding the composition and volatility of these revenue streams is essential for fiscal planning and sustainability at local level. Whatever the potentials area of revenue generation that the municipal governments they have, efficient tax administration, revenue forecasting, accountability, citizen participation in the revenue generation process, and financial transparency are the crucial components of effective revenue measurement and management. Municipal governments also need to balance revenue needs with the expectations and demands of their constituents.

In the context of municipal resource generation, Public Choice Theory examines how elected officials and bureaucrats make decisions regarding taxation, spending and resource allocation based on their self-interest, and how voters respond to those decisions (Buchanan & Tullock, 1962). Benefit principle argues for the use of user fees and charges, where those who use specific municipal services, like water or trash collection, pay for them directly (Singh, 1996). Similarly, as per the Tiebout Model, municipalities compete for residents and businesses by offering different bundles of services and tax rates, leading to efficient resource allocation (Zimmerman, 1998; Kandel, 2008). According to Ability to Pay Principle, taxation should be based on an individual's or business's ability to pay rather than direct benefit received (cited in Singh, 2008). Fiscal decentralization theory argues that when local governments have more control over revenue sources, they can tailor policies to local needs, encourage local economic development, and enhance accountability (Agarwal, 2005; Kandel, 2008; Bahl, 1999). Tax competition theory highlights the need for municipalities to strike a balance between offering competitive tax rates and generating sufficient revenue to provide essential public services (Slemrod, 2004). Finally, Bailey (1999) has conceptualized four models (Benevolent Despot Model, Fiscal Exchange Model, Fiscal Transfer Model and Leviathan Model) about local governments and their revenue sources management and generation (quoted in Shah, 2006, pp.10-11). Based on this theoretical background, this study measures the growth rate of internal revenue sources of Baglung Municipality over the study periods.

There are different factors which the literatures observed affects for the measurement of growth rate of internal revenue sources of municipal government. They are existing scenario of revenue streams, determinants of revenue growth, revenue administration and collection mechanism, the shift of fiscal powers and responsibilities from higher levels of government to municipalities, revenue raising practices across the different municipalities, local development and service delivery system, legal and institutional framework etc. A comprehensive review of the literature on measuring municipal internal revenue sources provides valuable insights into the financial health and sustainability of local governments. It also offers a foundation for policy makers and concerned authorities to make informed decisions and implement strategies that promote effective and equitable revenue generation at the municipal level.

Tax revenue such as integrated property tax, land tax/land revenue, house rent tax, *Bahal Bitauli* tax, motor vehicle tax, use tax, advertisement tax, entertainment tax, business tax, other tax and non-tax revenue such as revenue from other sales, revenue from transportation, parking fee, registration fee, recommendation fee, individual incident registration fee, relationship fee, other fees, penalty, pollution fee, other revenue etc. are the internal revenue sources of Baglung Municipality (Internal Document of Baglung Municipality Office, 2023). These items are based on the audited report of fiscal year 2018/019 of this municipality. After this fiscal year, some items of internal revenue such as registration fee, motor vehicle tax, entertainment tax, advertisement tax, and royalty are taken under intergovernmental fiscal transfer. But in this study, all of these items are considered as internal revenue sources. Revenue from VAT, excise duty, royalty from electricity, forest, internal grants and loans items are excluded as internal revenue sources and this study conducted accordingly.

Research Questions

By synthesizing this body of knowledge, this study is mainly based on how Baglung Municipality generates internal revenue sources during the first practice of new

fiscal federalism? Moreover, the central question guiding this study is "What is the growth status of internal revenue sources of Baglung Municipality, Gandaki Province, Nepal and what factors influence this growth?" In addressing this question, this paper aims to gain insights into the fiscal health of Baglung Municipality, the sustainability of its revenue generation efforts, and the potential challenges or opportunities that may arise in its path toward economic growth and development.

Data and Methods

This study examines the Baglung Municipality's revenue figures and calculates the growth rate while taking into account of all internal revenue sources. The research issue for this study is "how does a municipality generate internal revenue after being established as an autonomous government during the new first practice of fiscal federalism?" The final audit report from the Baglung Municipality office is used to compile data for the fiscal years from 2018–19 to 2022–23. In Baglung district, there are now ten local-level governments including four municipalities. Out of the four municipalities, Baglung Municipality has been selected as a representative unit purposively. The growth rate of internal revenue sources is determined using the model that is shown below. And computed results are analyzed descriptively.

Growth Rate of Revenue: Year $_N$ Revenue – Year $_{N-1}$ Revenue/Year $_{N-1}$ Revenue

Where, $_N$ = Revenue of current year
$_{N-1}$ = Revenue of previous year

In this study using above model trends, pikes or declines in revenue growth over the specific period of Baglung Municipality has been examined. Similarly, for examining the effect of skill development training expenditure on municipal internal revenue generation, the following simple linear regression model and correlation coefficient were also used as the supporting data analysis tools using SPSS software in this study.

$$Y = \beta_0 + \beta_1 x + e$$

Where, Y = Dependent variable (Revenue generation), X = Independent variable (Expenditure on skill development training), β_0 = the intercept, β_1 = the coefficient of X, e = the error term

Results and Discussion

The municipalities of Nepal are given the authorities to collect various taxes, fees and fines, property rental and other service charges as internal revenue. They can also generate revenue from federal government, province government and other national and international financial institutions and development agencies as well, as external sources. As mentioned by Bird (2001) good local tax and tax base should be relatively immobile, adequate to meet local needs, easy to export to non-residents, visible to ensure accountability, reasonably fair and easy to administer (UN-HABITAT, 2009, p. 22). It supports to generate adequate internal revenue so as to meet the requirements of local people and it also boosts-up the growth rate of municipal internal revenue sources as per new first practice of fiscal federalism. Since, fiscal federalism involves determining how revenue is collected, shared, and spent to meet the needs of the different levels of governments and its citizens.

Municipal Resource Structure

It is observed that besides internal sources of revenue for the municipal government, there are fiscal transfers from

Table 1

Major sources of revenue of Baglung Municipality

S.N.	Sources	Components	Remarks
1.	Internal sources of tax revenue	Integrated property tax, land revenue and tax, house rent tax, advertisement tax, entertainment tax, professional tax, motor vehicle tax, *Bahal Bitauri* tax, use tax etc.	
2.	Internal sources of non-tax revenue	Service fee, recommendation fee, license fee, application fee, appraisal fee, building permit fee, registration fee, animal house fee, parking fee, fines and penalty etc.	
		Equalization, conditional, special and complementary grants from federal government and equalization and complementary grants from province government	Grants-in-aids
3.	External sources of revenue	Loans from different organization	Shared taxes/transfer revenue
		House and land registration fee, VAT, vehicle tax, sales tax, royalties etc.	

Sources: Baglung Municipality Office, Baglung, 2023.

the province and the federal government in the form of shared taxes and grants-in-aid. The revenue structure of Baglung Municipality has been presented in Table 1.

Growth of Municipal Internal Revenue

The growth of municipal internal revenue is a vital indicator of a municipal government's financial health and capacity to meet the needs of local people. A sustained increase in tax and non-tax revenue signifies economic vitality and population growth. It can provide the

revenue to total internal revenue, percentage share of house rent tax is higher than others. The percentage share of integrated property tax to total municipal internal revenue has been found 13.46 percent during these years which is accounted, the second highest source of tax revenue items. Similarly, the percentage share of non-tax revenue to total internal revenue source is 43.30 percent. An aggregative, during these five fiscal years, of the total non-tax revenue items registration fee is found the strongest. It indicates that municipal services have

Table 2

Internal revenue sources of Baglung Municipality (Rs. In "000")

S.N.	Particulars	Fiscal Years					Total	%
		2018/019	2019/020	2020/021	2021/022	2022/023		
A.	Tax revenue	22904.98	32479.00	43647.15	51022.98	55947.31	206001.42	56.76
1	Integrated property tax	6873.48	7458.19	7077.06	18530.89	8961.35	48900.97	13.46
2	Land tax/Land revenue	135.81	79.24	24.37	72.44	347.83	659.69	0.18
3	House rent tax	9097.80	10937.89	13375.95	14224.24	16642.36	64278.24	17.69
4	*Bahal Bitauli* tax	13.60	0.00	139.40	193.54	316.15	662.69	0.18
5	Motar vehicle tax	64.85	7367.00	13929.47	8022.15	15391.36	44774.83	12.32
6	Use tax	0.00	0.00	0.00	0.00	0.00	0	0.00
7	Advertisement tax	10.25	0.00	480.00	0.00	0.00	490.25	0.13
8	Entertainment tax	0.00	0.00	0.00	0.00	0.00	0	0.00
9	Business tax	5810.19	5592.60	7208.73	6652.41	13054.74	38318.67	10.55
10	Other tax	899.00	1044.09	1412.18	3327.31	1233.52	7916.1	2.18
B.	Non-tax revenue	13464.68	27805.84	38979.76	35512.09	41564.89	157327.26	43.30
11	Revenue from other sales	114.00	699.85	509.77	0.00	0.00	1323.62	0.36
12	Revenue from transportation	139.25	49.90	33.25	0.00	0.00	222.4	0.06
13	Parking fee	34.81	0.00	143.75	78.74	553.70	811	0.22
14	Registration fee	7551.26	2873.73	25047.94	22228.11	20819.85	78520.89	21.61
15	Recommendation fee	103.05	3064.20	3560.47	4895.73	4638.84	16262.29	4.48
16	Individual incident registration fee	128.99	87.95	141.65	669.71	796.95	1825.25	0.50
17	Relationship fee	186.60	130.30	147.85	198.20	220.00	882.95	0.24
18	Other fees	1758.71	15822.61	1230.46	709.20	6711.52	26232.5	7.22
19	Penalty	231.40	4295.62	4520.10	1674.53	2686.40	13408.05	3.69
20	Pollution fee	0.00	0.00	1524.19	417.56	5137.62	7079.37	1.95
21	Other revenue	3216.62	781.67	2006.07	4640.32	0.00	10644.68	2.93
22	Other income	0.00	0.00	114.28	0.00	0.00	114.28	0.03
A+B = Total Revenue		36369.66	60284.83	82626.92	86535.07	97512.20	363328.68	100.0

Sources: Results computed on the basis of data from Baglung Municipality audited report of five fiscal years, 2023.

municipal governments with the financial resources required to invest in infrastructure, public services and community development. Moreover, municipal government has actively diversified its revenue streams by exploring innovative fee structures and pursuing grants, and partnerships, further contributing to this growth. This upward trend not only bolsters the ability to provide essential services and infrastructure improvements but also ensures a more sustainable financial future for the community for new Nepal.

Table 2 presents the five years' aggregate internal revenue pattern and its percentage share of each revenue items to total internal revenue of Baglung Municipality. During these fiscal years, the percentage share of tax revenue to total internal revenue has found 56.76 percent. Out of tax

increased after the new first practice of fiscal federalism in Baglung Municipality.

Table 3 presents the overall internal revenue scenario of Baglung Municipality. Out of total internal revenue, initial three years from 2018/19 to 2020/21 fiscal years, covered percentage tax revenue to internal revenue has been found decreasing gradually and after subsequent fiscal year, it is found increasing. As per the responses obtained from the concerned municipal authorities, it has happened due to the new first practice of fiscal federalism. In Nepal, when fiscal federalism policy began, delivery of vital public services expanded to the communities so as to increase non-tax revenue from 37.02 percent to 42.63 percent. Aggregately, over the five specific fiscal years,

tax revenue and non-tax revenue have decreased and

property tax Rs. 6873.48 thousand in fiscal year 2018/019.

Table 3

Tax revenue and non-tax revenue items as percentage of total internal revenue

S.N.	Particulars	Fiscal Year					% age point
		2018/019	2019/020	2020/021	2021/022	2022/023	
A.	Tax revenue	62.98	53.38	52.82	58.96	57.37	-5.61
1	Integrated property tax	18.9	12.37	8.57	21.41	9.19	-9.71
2	Land tax/Land revenue	0.37	0.13	0.03	0.08	0.36	-0.01
3	House rent tax	25.01	18.14	16.19	16.44	17.07	-7.94
4	*Bahal Bitauli* tax	0.04	0	0.17	0.22	0.32	+0.28
5	Motar vehicle tax	0.18	12.22	16.86	9.27	15.78	+15.6
6	Use tax	0	0	0	0	0	0
7	Advertisement tax	0.03	0	0.58	0	0	-0.03
8	Entertainment tax	0	0	0	0	0	0
9	Business tax	15.98	9.28	8.72	7.69	13.39	-2.59
10	Other tax	2.48	1.73	1.71	3.85	1.26	-1.22
B.	Non-tax revenue	37.02	46.12	47.18	41.04	42.63	+5.61
11	Revenue from other sales	0.31	1.16	0.62	0	0	-0.31
12	Revenue from transportation	0.38	0.08	0.04	0	0	-0.38
13	Parking fee	0.1	0	0.17	0.09	0.57	+0.47
14	Registration fee	20.76	4.77	30.31	25.69	21.35	+0.59
15	Recommendation fee	0.28	5.08	4.31	5.66	4.76	+4.48
16	Individual incident registration fee	0.35	0.15	0.17	0.77	0.82	+0.47
17	Relationship fee	0.51	0.22	0.18	0.23	0.23	-0.28
18	Other fees	4.84	26.25	1.49	0.82	6.88	+2.04
19	Penalty	0.64	7.13	5.47	1.94	2.75	+2.11
20	Pollution fee	0	0	1.84	0.48	5.27	+5.27
21	Other revenue	8.84	1.3	2.43	5.36	0	-8.84
22	Other income	0	0	0.14	0	0	0

Sources: Results computed on the basis of data from Baglung Municipality audited report of five fiscal years, 2023.

increased by (-) 5.61 and (+) 5.61 percentage point respectively.

Table 4 shows the major five components of tax revenue and its growth during the first new practice of fiscal federalism in Baglung Municipality. As indicated in this

The revenue from this source has found fluctuating and reached at Rs. 8961.35 thousand in fiscal year 2022/023. The percentage increase in integrated property tax in 2022/023 over 2018/019 is 30.38. Similarly, revenue from

Table 4

Tax revenue from its major five components and its growth (Rs. In "000")

Major five tax revenue	FY 2018/019	FY 2019/020	FY 2020/021	FY 2021/022	FY 2022/023	Growth in Rs.	% increase in 2022/23 over 2018/19
Integrated property tax	6873.48	7458.19	7077.06	18530.89	8961.35	2087.87	30.38
House rent tax	9097.80	10937.89	13375.95	14224.24	16642.36	7544.56	82.93
Motar vehicle tax	64.85	7367.00	13929.47	8022.15	15391.36	15326.51	23633.79
Business tax	5810.19	5592.60	7208.73	6652.41	13054.74	7244.55	124.69
Other tax	899.00	1044.09	1412.18	3327.31	1233.52	334.52	37.21
Total	22745.31	32399.76	43003.39	50756.99	55283.33	32538.02	143.05

Sources: Results computed on the basis of data from Baglung Municipality audited report of five fiscal years, 2023.

table, municipality generated revenue from integrated

motor vehicle tax, business tax, and other tax except house

rent tax has been found fluctuating in between these fiscal years. Revenue from house rent tax has increased in each fiscal year. However, the percent increase in motor vehicle tax, business tax, house rent tax and other tax in 2022/23 over 2018/19 is 23633.79, 124.69. 82.93, and 37.21 percent respectively.

percentage increment in major five components of non-tax revenue items in 2022/23 over 2018/19 is 196.04.

Finally, aggregate growth of internal revenue of Baglung Municipality has been depicted in Table 6.

Table 5

Non-ax revenue from its major five components and its growth (Rs. In "000")

Major five non-tax revenue	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23	Growth in Rs.	% increase in 2022/23 over 2018/19
Registration fee	7551.26	2873.73	25047.94	22228.11	20819.85	13268.60	175.71
Recommendation fee	103.05	3064.20	3560.466	4895.73	4638.84	4535.79	4401.54
Other fees	1758.71	15822.61	1230.461	709.20	6711.52	4952.82	281.62
Penalty	231.40	4295.62	4520.095	1674.53	2686.40	2455.00	1060.94
Other revenue	3216.62	781.67	2006.066	4640.32	0.00	-3216.62	-100.00
Total	12861.04	26837.83	36365.03	34147.89	34856.62	25212.21	196.04

Sources: Results computed on the basis of data from Baglung Municipality audited report of five fiscal years, 2023.

The study has found that the percentage increase in motor vehicle tax in 2022/23 over 2018/19 is 23633.79 which is quite interesting. Observing the scenario of the study period, the tax revenue from its 6/major five components

It is found that tax revenue and non-tax revenue has been found fluctuating over the period. There are now both increased and decreased trends. While observing the average of two-yearly revenue growth of Baglung

Table 6

Aggregate growth of internal revenue of Baglung Municipality (Rs. In "000")

Fiscal Year	Tax Revenue	Percent	Non-tax Revenue	Percent	Total Internal Revenue	Yearly Growth	Two Yearly Growth	Average of Two Yearly Growth
2018/19	22904.98	62.98	13464.68	37.02	36369.66	0		
2019/20	32479	53.88	27805.84	46.12	60284.83	23915.17	46257.25	23128.63
2020/21	43647.15	52.82	38979.76	47.18	82626.92	22342.08		
2021/22	51022.98	58.96	35512.09	41.04	86535.07	3908.16	14885.29	7442.64
2022/23	55947.31	57.37	41564.89	42.63	97512.2	10977.13		
Revenue Growth	33042.33	54.04	28100.21	45.96	61142.54	10977.13		
% increase in 2022/23 over 2018/19	144.26		208.70		168.11			

Sources: Results computed on the basis of data from Baglung Municipality audited report of five fiscal years, 2023.

has increased by 143.05 percent.

Similarly, non-tax revenue from its major five components and its growth has been shown in Table 5. Revenue obtained from non-tax items mentioned here has been found fluctuating and some item such as, other revenue has become negative growth over the study period. Out of non-tax revenue sources, the growth of recommendation fee is found highest. An aggregate, over the study period, the

Municipality, it is found that the period 2019/20 to 2020/21 recorded as an impressive increase of Rs. 23,128.63 thousand internal revenues per year which is more than three times the rate of increase the subsequent two fiscal years. Similarly, the percentage increment of tax revenue and non-tax revenue over these fiscal years is 144.26 and 208.70 respectively. The percentage increase of non-tax revenue is found higher than the tax revenue.

As recorded in the table, internal revenue source has increased by 168.11 percent over the five years.

Relationship between the Expenditure of Skill Development Training and Total Revenue Generation

This (Table 7) shows the results of regression analysis.

The value of R-squared (0.75) indicates that 75 percent of the variance in total revenue can be explained by expenditure on skill development training to the municipal staffs.

The Beta value for expenditure on skill development training is 0.878, which suggests that there is strong positive relationship between expenditure and internal revenue and it is also found statistically significant.

Relationship between the Expenditure of Skill Development Training and IPT Generation

Finally, Table 7 also shows the regression result of expenditure on skill development training and integrated property tax (IPT). The R squared value is 0.842 which indicates approximately 84.2 percent of the variance in

Table 7

Regression analysis of expenditure on skill development training and total revenue, internal revenue and IPT

Variables	R^2	B	Beta	F	T	P-value	r
Expenditure and total revenue	0.750	78.261	0.870	9.359	3.059	0.055	0.870
Expenditure and internal revenue	0.770	64.889	0.878	10.046	3.170	0.050	0.878
Expenditure and IPT	0.842	93.746	0.918	16.045	4.006	0.028	0.918

Note: a. Dependent variable: Total revenue
b. Predictors: (constants): Expenditure on skill development training.

The value of F (9.359) indicates a better fit of the model. The value of 0.055 suggests that at the 0.055 significance level, the model is found marginally significant. Similarly, a value of the correlation coefficient (0.870) represents a strong positive correlation between the two variables. The Beta value for expenditure on skill development training indicates that for each unit increase in expenditure on skill development training, total revenue is expected to increase by 0.870 units.

Relationship between the Expenditure of Skill Development Training and Internal Revenue Generation

Similarly, Table 7 also presents the regression results of expenditure on skill development training and internal revenue generation of Baglung Municipality. The value of R squared is 0.770 which indicates that approximately 77 percent of the variability in internal revenue generation can be explained by the expenditure on skill development training. The F-statistic value is 10.046 which suggests that regression model is statistically significant at the 0.05 significance level. Similarly, the coefficient for expenditure on skill development training is 64.889. This indicates that for each unit increase in expenditure on skill development training, there is an increase of approximately 64.889 units in municipal internal revenue.

integrated property tax (IPT) can be explained by the expenditure on skill development training.

The F-statistics measures the overall significance of the regression model. The F value (16.045) and p-value (0.028) suggest that the regression model is statistically significant at five percent level. In this case, expenditure on skill development training to the municipal staffs significantly predicts IPT. The Beta value is 0.918 which indicates strong positive correlation between the variables. Similarly, the T-statistics for expenditure on skill development training is 4.006 which indicates statistically significant in predicting IPT. In an aggregate, increasing expenditure on skill development training is associated with higher IPT of Baglung Municipality.

Conclusion and Recommendations

In aggregate, the study results reveal that the revenue growth of Baglung Municipality has been found fluctuating over the period between the fiscal years 2018/19 to 2022/23. The findings show that the percentage share of non-tax revenue to total internal revenue is higher than the tax revenue. Observing the tax revenue from its major five components, motor vehicle tax has been found more impressive than others though it has fluctuating trend. The percentage increase of motor vehicle tax in 2022/23 over 2018/19 is seen 23,633.79

percent after the implementation of federalism in Nepal and its first new practice in Baglung Municipality. During this period, the percentage increase of house rent tax is 82.92 and strong aspect of this source is that it has almost found increasing trends. The percentage share of business tax over the period is 124.69 which indicates that business activities have increased. Whatever the data shows regarding business tax, it has now increased and now decreased trends. Similarly, out of major five components of non-tax revenue, recommendation fee has been found stronger than other items included under this. The percentage increase of recommendation fee in 2022/23 over 2018/19 is 4,401.54 percent. The percentage increase of internal revenue from penalty source, over the period is 1060.94 percent which indicates that governing system at the local level is again questionable.

Based on the analysis of internal revenue growth of Baglung Municipality over the last five years, a consistent positive growth trend is observed except revenue from other sources. Simply, it can be a positive sign for the local economy. Over the specific period, tax revenue has decreased by (-) 5.61 percentage point. Similarly, expenditure done on skill development training for municipal staff is found positive impact in total revenue, internal revenue and IPT generation of Baglung Municipality and strong relationship among them. It is also statistically significant. Finally, this study indicates that the successful implementation of federalism at local level requires strong leadership, coordination of Local, Provincial and Federal governments, financial plan with a rainy-day fund for economic downturns, diversification of revenue sources, effective and efficient tax collection processes, engagement of local community to gather potential tax revenue sources that benefits both municipality and its residents etc. Different studies done previously in Nepal also suggest collectively the significance of revenue diversification, effective revenue management and the need for a balanced approach to local government financing (Sharma, 2021 & Bhoosal, 2022). Finally, this study recommends for creating financial plan to address potential fluctuations in internal revenues.

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