



## **Our Support to Revenue Mobilization in the Municipalities of Nepal**

### **Background**

Nepalese Municipalities are under ever-increasing pressure to keep pace with rapid urbanisation, which entails more spending on infrastructure and its maintenance as well as the provisions of social services. The lack of budget of the municipalities to finance these augmented demands has highlighted the importance of additional and innovative resource mobilization tools. The potential resources in the municipalities need yet to be mobilized to address the financing needs of the cities. Besides, most of the municipal bodies have not yet built up the institutional capacity to mobilize the potential prospects of resources.

Nepal's membership in the World Trade Organisation (WTO) requires the abolition of the Local Development Fee (LDF), levied, through a surcharge of 1.5% on imports, as the WTO regime does not allow other taxes coupled with the customs duty. As the collection of LDF adds up to an average of 73 % of the total tax revenue of municipalities there is an added pressure to explore additional avenues for improved resource mobilisation.

### **What is Revenue Mobilization?**

The revenue mobilisation efforts of municipalities help to increase the number of bankable projects. Property, land and house taxes could only serve the purpose if local bodies are capacitated to raise and manage them. Although user charges can be levied, there is still the need to raise awareness that the provision of services is costly and that they have to be paid for according to the "user pays" principle to reduce the gap between revenue and expenditure.

Some municipalities have initiated Public, People, Private Partnership Projects (PPPP) for the creation and management of municipal services. The Dhangadhi municipality, for example, has constructed a vegetable market under the built-operate-transfer (BOT) system with the assistance of *udle*. The project not only serves citizens, but also benefits private parties and creates revenue for the local government.

Only financially strong local governments can manage the urbanisation process smoothly. The immediate need is to cut the fiscal gap at the local level. To achieve this municipalities have to link their financial plans with their periodic plans and implement them with a participatory monitoring mechanism in place. To achieve this, innovative revenue sharing schemes are also required.



## Our Approach

*Udle* advises municipalities in mobilizing and managing the following resources:

- IPT management: This tax has a relatively high potential and buoyancy in most municipalities in Nepal. It has a wider tax base, and under its net, every citizen can financially contribute to city development.
- Business/professional tax management: This tax has good potential in medium to bigger cities.
- Public private partnership (PPP): PPP projects have been initiated in medium sized municipalities such as Dhangadhi and Butwal. There are further opportunities for PPP projects in other municipalities.

Just to mention one example, in terms of IPT management *udle*'s approach is based on a comprehensive set of integrated services. We support our partners by providing advisory services aimed at:

- Design and implementation of the revenue improvement action plan (RIAP) of the municipality;
- Sensitizing stakeholders and taxpayers;
- Improving institutional and legal frameworks IPT, PPP;
- Introducing and monitoring mechanism for IPT and PPP; and
- Strengthening institutional capacities

## Our Success

With technical support of *udle* selected municipalities have successfully implemented projects in the following areas:

- Selected municipalities have internalized PPP projects
- IPT has been implemented systematically in dozens of municipalities
- Capacity development to ensure sustainability

As a result, the own source revenues of municipalities have increased significantly.

## Contact

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