



# Local Economic Development (LED) in Local Governments in Madhesh Province of Nepal

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**Received:** November 18, 2022; **Accepted:** March 14, 2023; **Published:** March 30, 2023.

**Citation:** Rai, D. R. (2022). Local Economic Development (LED) in Local Governments in Madhesh Province of Nepal.

*International Journal of Business Innovation*. 2(1). e30807. <https://doi.org/10.34624/ijbi.v2i1.30807>

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**Abstract:** Nepal was restructured in 2015 and formed seven provinces according to the new constitution. Out of them, Madhesh province is located in the mid-southeast part of Nepal consisting of 136 local governments in 8 districts. Clause 21(4) of the Intergovernmental Fiscal Arrangement Act (2017) states that local government has to be capable of covering the administrative cost with internal revenues and the revenue shared by the central and provincial governments. Present laws and policies of the Nepal government have delegated exclusive power to the local governments. Section 5(1) of the Federation, Province, and Local Level (Coordination and Inter-relation) Act (2020) has provisioned power to the federal, provincial, and local governments to enact necessary laws, policies, and plans on the matters of respective powers delegated by the constitution and implement such powers for the local development. Based on this, local government has to formulate laws and frame development plans. This research has been carried out to understand what municipalities have done and what can be the way forward for strengthening the local economy. To study the aimed objective, mixed methods have been applied. Evidence revealed that the percentage of unregistered businesses is 68. The percentage of the LED budget is 5, actual expenditure is 3, and priority is 4. Out of the LED budget, emphasis on the agriculture sector is high since municipalities have allocated 68% of the total LED budget to this sector. Municipalities are suggested to establish regular progress reviews because the achievements measurement system is lacking.

**Keywords:** municipalities; LED; internal revenue; fiscal policies; approaches; local government

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## 1 Introduction

It is said that *local economic development is an ongoing process, where problems are resolved, not solved, because current solutions give rise to new problems to tackle as competitive factors change* (Malizia et al., 2021, p. 3). Therefore, the process of local economic development (LED) should keep on and on. To keep on the process of LED moving, the Nepal government has established the mechanism. According to clause 24(1) of the Local Government Operation Act [LGOA] (2017), the local government may emphasize economic development that leads to maximum use of local resources and skills which directly benefits the backward class, region, and community (Local Government Operation Act, 2017). This act suggests to the local government formulate policy and program, prioritize of program, set a thematic program, make arrangements to avoid the duplication of the program, and maintain mutual compatibility and supplementary among the plan and programs in clause 67. According to MoFAGA (2018) & NPC (2021), components of LED are agriculture and food security; livestock; irrigation; industry and commerce; tourism; cooperatives; and financial institutions.

National Planning Commission [NPC] (2022) has recommended seven components of economic development viz. a) agriculture (food security, food governance, seeds, fertilizers, market promotion, pricing, technology, processing, warehouse etc.); b) land management and cooperatives (land classification, land record information management system, cooperatives and community farming); c) industry (local industrial area identification, forest and mining product, herbs processing, domestic product promotion, infrastructure development, business innovation, technology, women entrepreneurship development etc.); d) commerce and supply (warehouse development, market development, e-commerce, black marketing control, supply statistic management etc.); e) international trade (import replacement program, export promotion etc); f) culture and tourism (entertainment, culture, research, business, pilgrimage, mountaineering, heritage, historical, art, literature etc.); and g) forest and environment (nature and forest protection for tourism, wild animals, bio diversity).

To achieve the target sustainable development goal (SDG), all layers of government have to prioritize investment promotion and capacity development programs for private, cooperative, and other sectors (NPC, 2022). The NPC (2021) expresses that local government should include private investment mobilization, small and cottage industry promotion, productive infrastructure construction, industrial corridor development, industrial village construction, income-oriented and skill-building training operation, construction of multi-technical schools, and development of the industry of special products. The NPC has envisioned “an industrial village at each local level”, “a product at each local level” and “a product in a household”. Four sectors have been provisioned by Nepal Government to assess the LED condition of the local government (Local Economic Development Assessment Procedure, 2022). They are a) economic policy and plan, b) economic development infrastructure, c) economic empowerment and d) entrepreneurship development and industrial promotion.

Clause (1) of Article 60 states that the federation, state, and local levels may impose taxes on matters falling within their respective jurisdiction and collect revenue from these sources (The Constitution of Nepal, 2015). Schedule 8 of (The Constitution of Nepal, 2015) declared that

*the local taxes are wealth tax, house rent tax, land and building registration fee, motor vehicle tax, service charge, fee, tourism fee, advertisement tax, business tax, land tax (land revenue), penalty, entertainment tax, land revenue collection. (p. 250)*

Clause 11(d)(1) of LGOA (2017) explains further that

*the local government can formulate policies, laws, standards, enforcement, and regulation relating to property tax, house rent tax, house registration fee, vehicle tax, service charge, tourism fee, advertisement tax, business tax, land tax, entertainment tax, tourist service fee, adventure service fee, etc. within the preview of the federal and provincial law. (p. 10)*

Municipalities should collect the taxes value added tax and excise duty from the domestic product of the locality and deposit 70% in the federal divisible fund account, 15% province account, and 15% in the municipality (Intergovernmental Fiscal Arrangement Act, 2017). Likewise, the vehicle tax collected by municipalities is divided 60:40 between provinces and municipalities, and royalties from natural resources collected by the federal government are divided 50:25:25 to federal, provincial, and local governments. Except for these two taxes, the income from all other sources is the internal revenue of the municipality. Based on this provision, local government can increase the internal revenue and the local economy can be strengthened. In connection with strengthening local revenue, clause 21(4) of the Intergovernmental Fiscal Arrangement Act (2017) states that local government has to be capable of covering the administrative cost by revenues collected by them and the amount received from revenue shared by the central and provincial government. But NNRFC is not able to determine the actual status of internal revenue and revenue collection capacity of local governments (NNRFC, 2020).

According to the report of the Office of the Auditor General (OAG), the administrative cost of municipalities in Madhesh province ranges from 0.01%-27.1% whereas internal revenues range from 0.01%-7% in total expenditure for fiscal years 2018/19 to 2020/21. The average internal income (including revenue sharing) of 136 local governments in Madhesh province is 2%, 18%, and 27% in the fiscal year 2017/18, 2018/19, and 2019/20 respectively (Finance Comptroller General Office [FCGO], 2021). The question is about how the internal revenue of municipalities can be increased so that municipalities are self-sustained and support to building the national economy is a challenge in this condition. The hot issue about the difficulties to meet Nepal's Sustainable Development Goals (SDGs) vision of a country as an enterprise-friendly middle-income by 2030 (NPC, 2017). To respond to this difficulty, more taxing power to local government has to be delegated to improve municipal performance (Khanal, 2016). To graduate Nepal from the list of least developed countries (LDC) to a developed country as aimed in NPC (2017),

Nepal needs to build up a regional or local economy because local economies are the only “true” economies (England, 2018). For building the local economy strong, the dynamic rain barrel model comes to my mind. This model is about the water flowing in and out of the barrel (Darling, 1991). As water flows in the barrel, the water level rises and visa-versa. If the water is put into motion by a stirrer or motor, the water level rises with the speed of the motor. If we see the municipality as a barrel and money as water, the level of money rises with the speed of LED activities in the municipality.

### 1.1 Brief of the Madhesh Province

Madhesh province is formed into eight districts namely Saptari, Siraha, Dhanusha, Mathottari, Sarlahi, Rautahat, Bara, and Parsa after the adoption of the Constitution of Nepal (2015). This province is located on the flat plains of Tarai and Chure, the south of the Siwalik hills, the mid-southern part of Nepal. The area of this province is 9661 square kilometers (MPPPC, 2020b). The population of this province is 6,126,288 (CBS, 2022). There are 136 local governments (LGs) of which 6,621 elected representatives have been selected recently. The temperature ranges from 38-40 degree Celsius in the summer and 5-10 in the winter in this province. Koshi, Bagmati, Kamala, and Lakhandei rivers are major rivers of this province that can be sources of electricity, drinking water, and irrigation. There is a passenger serviceable railway from Janakpur to Jayanagar in India. Mahendra Highway, Postal Highway, Tribhuvan Highway, and BP Highway are major connecting roadways. This province has three airports namely Rajbiraj Airport, Janakpur Airport, and Simara Airport. According to MPPPC (2020), the average economic growth rate of this province is 6.5% and per capita income is USD 645. The contribution of this province to the national GDP is 12.8%, people under the poverty line is 47.9% and the human development index is 0.497.

### 1.2 Objectives of the Study

This study has been carried out to find out what the municipality has done for LED and what has to be done for effective and sustainable LED.

### 1.3 Delimitations of the Study

This study could cover 19 out of 136 municipalities due to the unavailability of documents and contact with the municipal authorities. Due to the local-level election of 2022, I hardly could manage the meeting with the local authorities. Newly elected authorities didn't participate to discuss the LED since they had no idea about the ongoing actions regarding LED. I was unable to meet the right persons who engaged in the planning and budgeting of the municipalities due to the transfer. The planner and implementer of the program budget were then different and responses were not complete from an authority who is in service now. Therefore, I collected the information from available persons in the municipality. I could read the document available in the Central Bureau of Statistics (CBS)

of Nepal. CBS has maintained the data up to 2018 only. There is not any new data collected by the Madhesh province.

## 2 Review of literatures

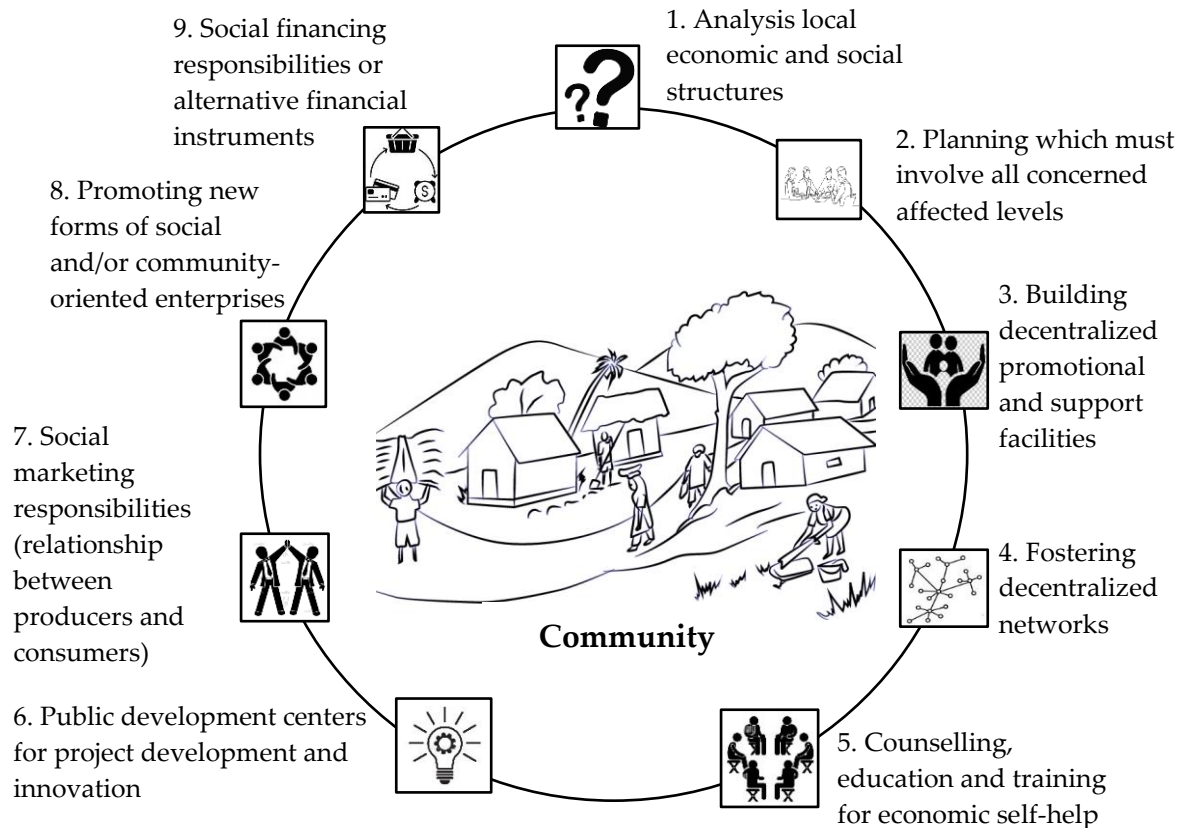
The word development has many aspects. There may be different indicators to measure the level of development in different places or persons. The meaning of development varies as per condition, time, and place. Development is *a process of improving the quality of all human lives and capabilities by raising people's levels of living, self-esteem, and freedom* (Todaro & Smith, 2012, p. 5). Development is about change, improvement, and vitality (Cavaye, 2019). Change and improvement can be economic, political, social, and environmental. Except for others, economic development is wider than economic growth because it ensures equitable income distribution, greater employment, and poverty alleviation. *Economic development is the increase in the number of people in a nation's population with sustained growth from a simple, low-income economy to a modern, high-income economy* (Reed, 2017, p. 3).

Management of the entire local territory such as infrastructures, and economic and social capital in the locality is locality development so that it generates balanced development of all sectors minimizing negative and maximizing positive externalities (Helmsing, 2001). The quality of life is improved, the competitiveness of local economic activities is enhanced and outsiders are attracted to invest in such a conducive environment.

Birkhölzer (2005) and UCLG (2016) express that LED is a systematic process that needs time and patience. Local governments have to consider economic governance, enterprise development, locality development, livelihood development, and workforce development dimensions for LED. According to Birkhölzer (2005), the local development process consists of three phases. The first phase is building ground in the community (1. analysis of local economic and social structure, 2. planning which must involve all concerned affected levels, 3. building decentralized promotional and support facilities, and 4. fostering decentralized networks). The second phase is about community development that consists of 1. counseling, education, and training for economic self-help, 2. public development centers for project development and innovation, and 3. social marketing responsibilities (relationship between producers and consumers). In the third phase, local governments have to facilitate 1. promoting new forms of social and/or community-oriented enterprises and 2. social financing responsibilities or alternative financial instruments.

LED is a process in which relationships between local governments, communities, civic groups and organizations, and the private sector are established to manage existing resources to create jobs and stimulate the economy of a well-defined area (Helmsing, 2020). Every local government has its unique and special local conditions—its own internal and external environment. Therefore, Local Economic Development (LED) strategies have to be formulated in their context (Trousedale, 2005). Local governments have to face challenges and gaps and then search the solutions within their particular region and socio-political

contexts (Birkhölzer, 2005; Shannon, 2018). Local government should attempt to coordinate efforts and improve the environment for the support of LED.



**Figure 1.** Local economic development concept

Source: Birkhölzer, K. (2005). Local Economic Development and its Potential

## 2.1 Local Authorities' Role in Supporting Growth

LED is thinking globally and acting locally (Helmsing, 2001). Therefore, institutions supporting the local economy, the complementarity of investment decision-making, and localise externalities have to be ensured for coming up with the economic actors for LED (Helmsing, 2020). Local authorities have a very important role in supporting economic development. In England, power has been shifted to local communities and businesses for economic growth (Shannon, 2018). The key responsibilities of local authorities are leadership and coordination, ensuring a responsive supply, leveraging private funding, developing infrastructure, and trading standards, and use of statutory powers. All parts of England are covered by (at least) one Local Enterprise Partnership (LEP). In Belgium, the federal, regional, and community (municipal) governments have no hierarchy. Each government has its specific competence. However, municipalities mainly implement decisions taken at the federal and regional levels and take action on local importance. In the United States, local governments often take responsibility for several aspects of economic



development including regulations, infrastructure investment, marketing, and tax incentives (Morgan in Shannon 2018). Shannon (2018) has concluded that the role of local authorities has increased for economic development in developed countries. The LED in different cases is as follows.

## 2.2 Sectoral vision and outcomes of Madhesh province

Madhesh province has the following vision and expected outcomes for the period of 2019/20 – 2023/24 (MPPPC, 2020a).

**Table 1.** Sectoral Status and expected outcome of Madhesh province

Sectors	Particulars	Baseline FY 2018/19	Expected outcome FY 2023/24
Agriculture	Family with food security	52.60%	80%
Irrigation	Utilization of irrigation	70%	90%
	Availability of irrigation	260 thousand hector land	455 thousand hector land
Fisheries	Fish production per head	5.86kg	10kg
Cooperatives	Accessibility of cooperative within half an hour per family	30.08%	75%
	Total capital in cooperative	16 billion	44 billion
	Number of cooperative employees	17 thousand	804 thousand
Industry	Contribution to provincial GDP	13%	15.5%
	Number of industrial employees	82 thousand	105 thousand
Commerce and Supply	Contribution to provincial GDP	13.26%	19.48%
	Number of commercial employees	134 thousand	197 thousand
	Number of tourists who stayed	609 thousand	981 thousand
Tourism	The tourism information center in operation	2	One in 8 districts
	Number of hotels in operation	49	62
	Direct employment in tourism	2000 persons	3221 persons

Source: (MPPPC, 2020a)

## 2.3 Some examples of LED

In El Salvador, the Center of Entrepreneurial Services for Women (SEM in Spanish) Project contributed to the development of micro and small enterprises, job creation, and the improvement of access for women to business development services. Women were

recognized as key agents for LED then the women in business activities started to expand the possibilities of women in business development and increased the positive impact in terms of their participation in local governance structures. In Chile, Public-Private Council formed by the Chilean government's Chile Emprende Programme gradually developed a public-private partnership (Klaveren, 2007b). This partnership aimed at articulating and interconnecting traditional economic activities of the territory named "coastline of the poets" with tourism. Many micro and small enterprises benefited from the program and became able to link their services to others and increase their clientele by making new touristic packages. Through the efforts, the tourist industry developed, fishermen got benefitted, and associativity among enterprises increased. The Integrated Support Programme for the Reactivation of Employment in Argentina (AREA) was implemented in the most crisis-affected city of Rosario, in Santa Fe, Argentina (Klaveren, 2007a). This program was designed to boost the local economy by supporting labor insertion and promoting small enterprises through a strategy of LED involving public and private actors. An information system was created to collect detailed strategic information about the local industrial system and the provincial labor market. The local actors were able to find information about the general characteristics of the market, facts and figures and export possibilities, characteristics of the local infrastructure, technological advances and activities related to the promotion of enterprises, and investment opportunities among others. The information contributed to the decision-making process of actors in the public and private sectors. The information and related initiatives made possible for efficient use of resources. Three values emerged from the collaborative experience of local stakeholders: a) acceptance that both public and private actors are responsible for territorial development; b) trust among them plays a central role in the construction of social and human capital, and c) a comprehensive strategy is required to tackle different elements and to complement the efforts made in each one of them.

In Nicaragua, The departmental competitiveness agenda of the Granada project was operated by the public entity of Nicaragua (Kester, 2007). It was decided to elaborate on a more dynamic process of planning for a shorter period and with well-defined responsibilities. Actors for developing the agenda were the private sector (main actor), the local government (coordinator), the territorial councils (departmental coordinator), and some institutions of the national government (facilitator). In Granada, a series of variables were defined regarding the use of land, availability of natural resources, infrastructure, educational level, and the unemployment rate among others. Moreover, local government policies and the role of institutions were also analyzed.

In Viet Nam, value chain development was established as a promising way to go about LED. It shapes rooted economic activities, mobilizes local resources, creates room for dialogue, and develops cooperation among a wide range of stakeholders. The value chain tackles constraints at the enterprise level and business environment. Experiencing the integrated approach of the value chain that contributes to local economic growth and job creation, the Integrated Small Enterprise Development (PRISED) project was started in six provinces of Viet Nam to stimulate local economic growth (Empel, 2007). The chains are



made up of raw material suppliers, producers or processors, traders, wholesalers/exporters, and retailers. The value chain approach consists of four steps viz. 1) overview sub- sectors; 2) select value chain; 3) analyse value chain; and 4) interventions.

### 3 Methodology

Quantitative and qualitative research methods both were used in this study. An inductive research approach has been adopted in this study. First of all, the literatures were reviewed. This study selected 19 out of 136 municipalities of Madhesh province. For the empirical purpose, this study has followed stratified random sampling. The strata were formed based on the district. Then samples were selected randomly based on the availability of data and information. Among all municipalities, 9 municipalities and 10 rural municipalities were selected for the study. The primary data were collected from interviews with the chief of the municipalities and intellectuals. A focused group discussion was conducted related to LED with the stakeholders. The secondary data were collected from electronic publications, journals, policy papers, reports, laws, books, and newspapers. The collected data were processed then a descriptive statistical data analysis tool was used for the analysis. The findings of data were then validated after the interview with chief administrative officers, intellectuals, trainers, and local economic development experts.

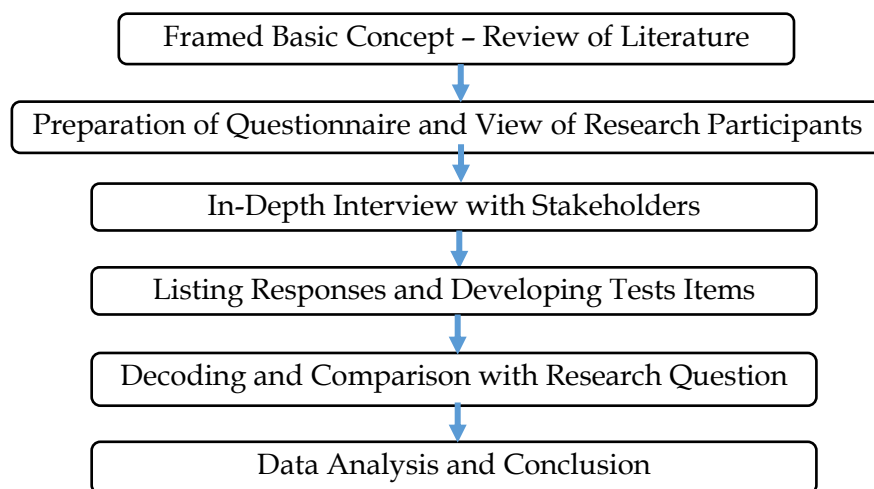


Figure 2. Research design

## 4 Results and Discussions

### 4.1 Discussion on LED theories

The thematic axes of LED are a) economic governance, b) enterprise development, c) livelihood development, d) locality development, and e) workforce development (UCLGA, 2018). The components of LED are a) governance; b) strategy; c) human development; d) territorial promotion; e) provision of services (Canzanelli & Agostinucci, 2011). There are three approaches viz. decentralized sectoral approaches, local government

approaches, and direct community support approaches for local development (The World Bank, 2004).

As per UCLGA (2018), LED approaches are:

1. Public-private partnership approach: to assess/seize economic comparative advantage;
2. Small business approach: for innovation, private investment, and job creation;
3. Regional approach: leveraging the resources of surrounding areas;
4. Sector-cluster approach: supporting the most promising sectors by bringing together businesses, educational institutions, NGOs, and government.

Swinburn & Murphy (2003) and UCLG et al. (2020) express that the effort of successful private and government-owned companies improves the quality of life of people. But most of them are private. UCLG et al. (2020) recommend three types of private companies that can be the target of LED:

1. External investors set up a subsidiary in a given location or even move the entire company;
2. Local companies which have been in operation for quite a while;
3. Start-up companies that are preparing their launch or have recently entered into business.

LED is to think globally and act locally (Helmsing, 2001). Therefore, LED initiatives mobilize local actors, organizations, and resources, and develop new institutions and local systems. According to Helmsing (2001), new-generation LED initiatives evolving are a) community-based economic development, b) business or enterprise development, and c) locality development.

According to Malizia et al. (2021), the economic development theories are seen as follows.

1. Economic base theory: Knowing external demand for regional growth;
2. Staple theory: Focusing export in strengthening specialization;
3. Trade theory: Introducing existing patterns of trade, the impact on the domestic economy, and the type of public policies to increase well-being;
4. Regional growth theory: Finding and constantly recreating a specific and appropriate role of a local economic system;
5. Spatial concentration and diffusion theory: Examining economic growth as a process that involves changing industrial structure and spatial structure, both between and within labor market areas;
6. Entrepreneurship theory: Embracing the nature of opportunities, entrepreneurs, and the decision-making framework within which an entrepreneur functions;
7. Regional innovation theory: Encouraging the rapid diffusion of knowledge, skills, and best practices within a geographic area larger than a city, but smaller than a nation;

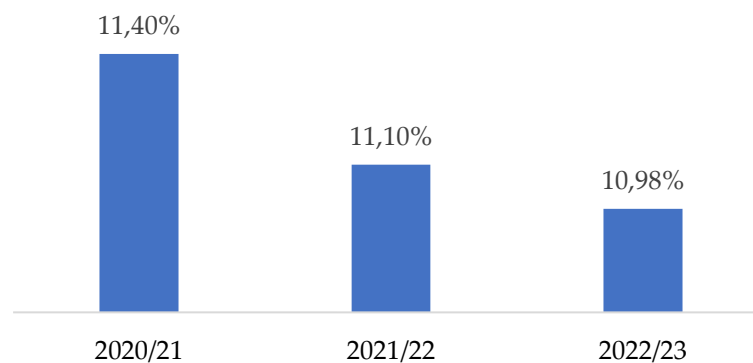
8. Theories of agglomeration: Being enterprises close to one another to take advantage of different efficiencies.

According to Birkhölzer (2005), the common underlying principles of LED are as follows.

1. For the common good: All local economic initiatives should be based on a strong local and/or community identity and commitment.
2. An integrated holistic approach: An integrated or holistic understanding of the terms “economy” or “economic”— production of goods and services, the reproductive sphere of environmental, social, and cultural activities.
3. Serving unmet needs: Paradigm shift of all economic activities – about serving needs.
4. Re-establishing local economic cycles: All these activities should not be carried out as single, isolated activities, but put together like local economic cycles.
5. Building and improving social capital: Resources are the capacity, knowledge, and abilities of the local people. It is striking that especially in localities or areas of economic crisis these capacities of the local people are often underemployed and even neglected.
6. Community-centered development: Start LED with at the first glance non-economic activities which are centered on community building and community development.

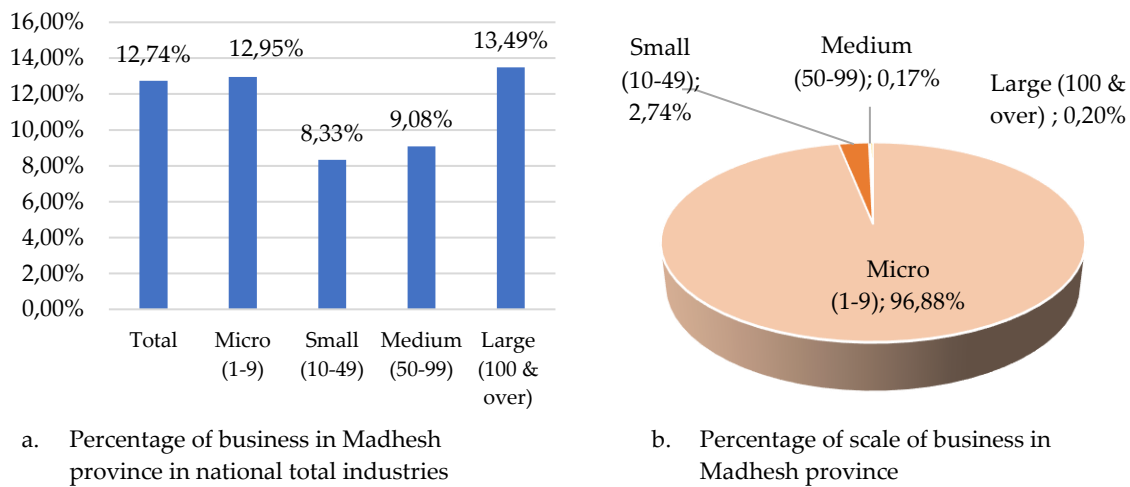
## 4.2 Provincial status on the LED

Weightage on LED in the medium-term expenditure framework of Madhesh province is in Figure 3 (Madhesh Province Policy and Planning Commission [MPPPC], 2019).



**Figure 3.** Percentage of LED budget among all thematic sectors of Madhesh province  
Source: Medium-term Expenditure Framework (2020/21 - 2022/23), Madhesh Province

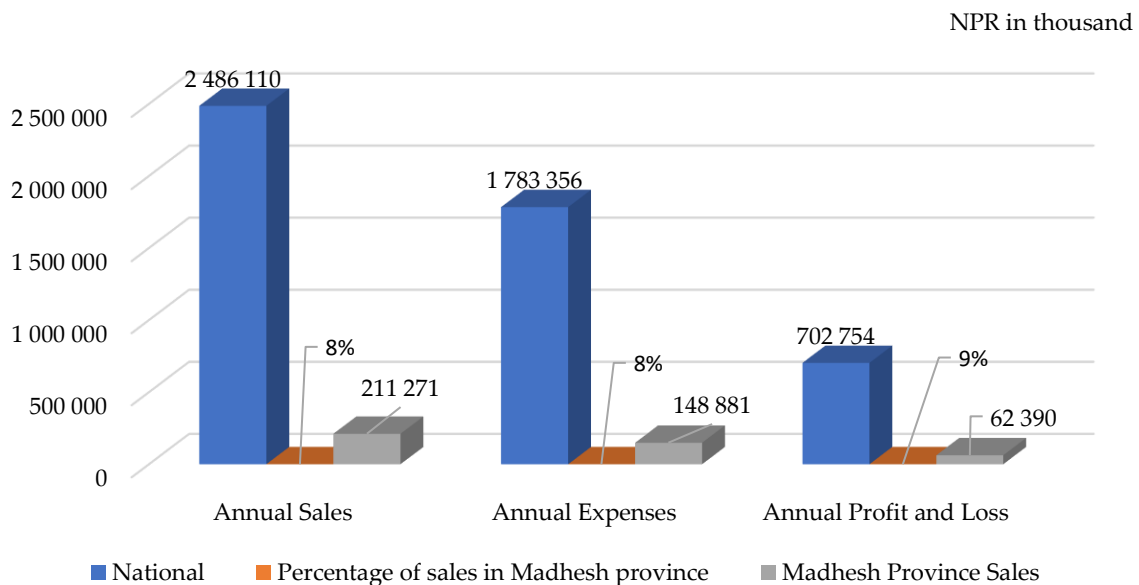
As per the set plan, mid-term evaluation and yearly progress reports of Madhesh province are not available. The percentage of the micro (1-9 persons engaged) scale industry is 96.88; small (10-49 persons engaged), 2.74; medium (50-99 persons engaged), 0.17; and large (100 &+ persons engaged), 0.020% (CBS, 2020). The number of establishments by kind of business place, and scale of industry in Madhesh province is as follows.



**Figure 4.** Number of establishments by the scale of business in Madhesh province in 2018

Source: National Economic Census 2018: National Profile

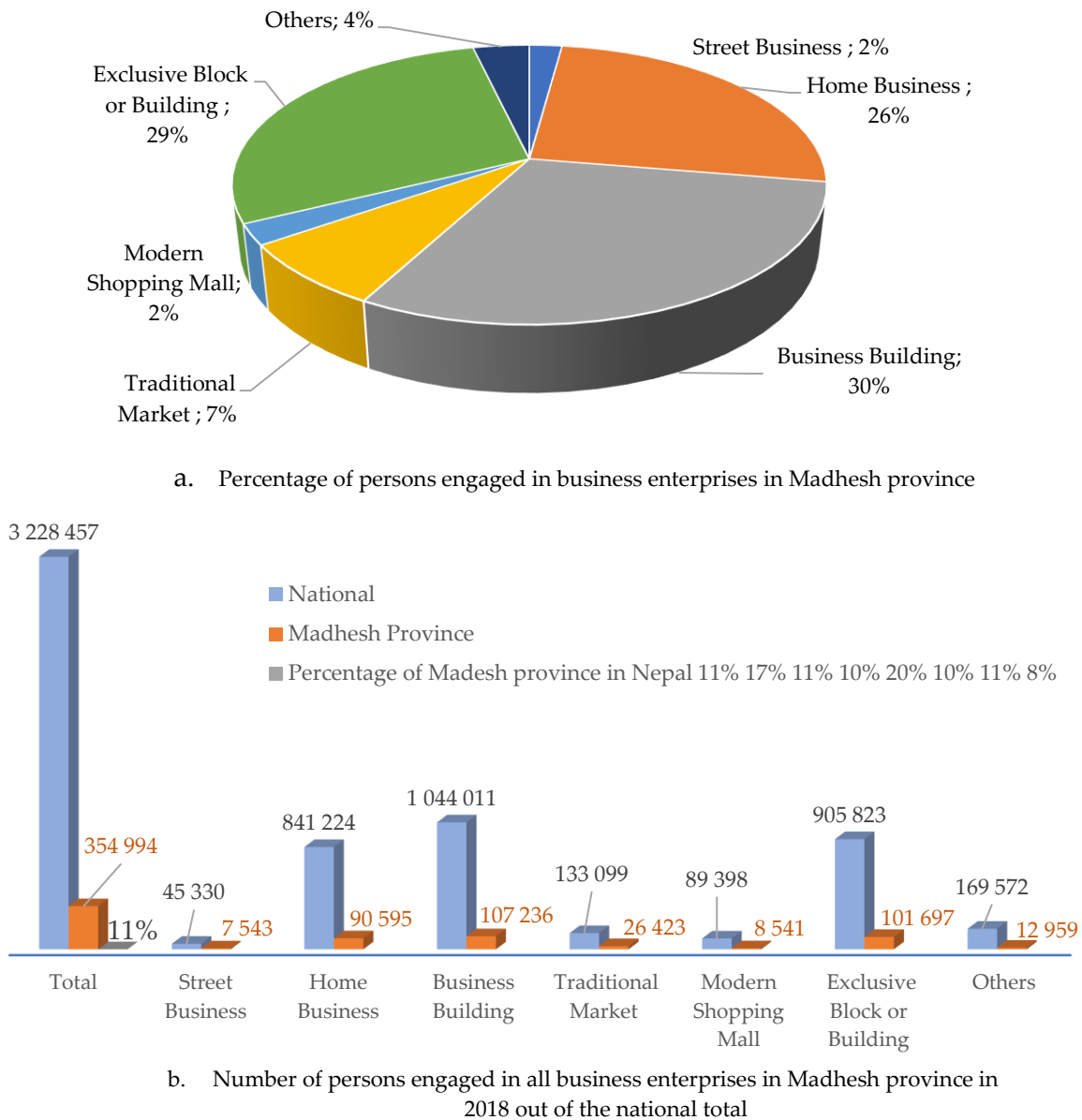
The annual sales, expenses, profit, and loss of all enterprises of Madhesh province are as follows.



**Figure 5.** Annual sales, expenses, and profit and loss of all enterprises of Madhesh province in 2018

Source: National Economic Census 2018: National Profile

The percentage of persons engaged in Madesh province in the business building has the highest employment contribution i.e. 30% (CBS, 2019a). Likewise, the employment contribution in the business of exclusive block/building is 29%; home business, 26%; traditional market, 7%; others, 4%; modern shopping mall and street business, 2% each.

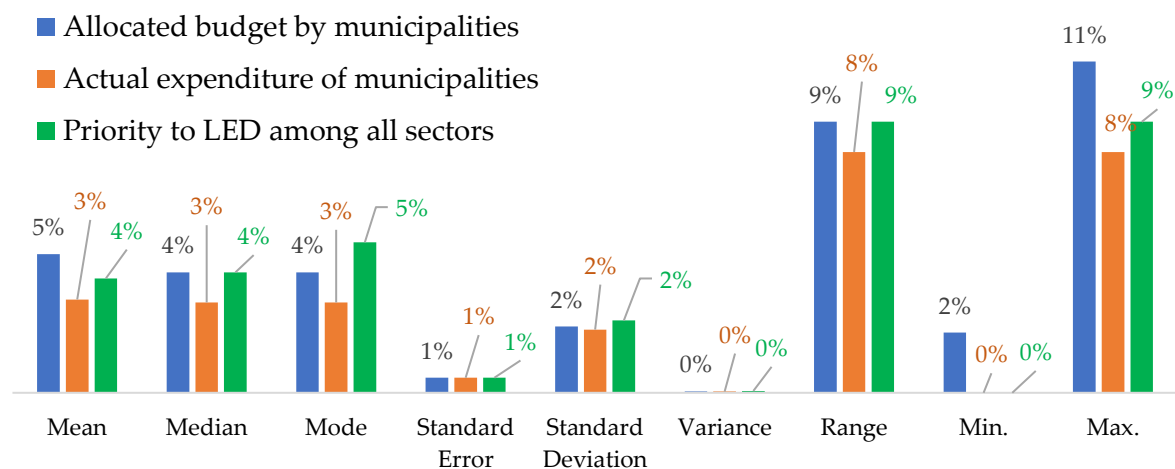


**Figure 6.** Number of persons engaged in all business enterprises in Madhesh province in 2018  
Source: National Economic Census 2018: National Report

### 4.3 LED status of selected municipalities

The weightage to LED in the budget is very low allocated by the municipalities in the Madhesh province. While the budget allocation by municipalities to LED is observed, it ranges from 2% to 11% (range 9%) in the selected municipalities of Madhesh province. The average percentage of the LED budget is 5% (median: 4% and mode: 4%). The budget may have deviated by 2% which means that the LED budget has spread out in the mid-level. Likewise, actual expenditure ranges from 0% to 8% (range 8%). The mean value of the actual expenditure is 3% (median: 3% & mode: 3%). Actual expenditure has been deviated by 2% which means the actual expenditure is spread out less. The priority given to LED among all other sectors in selected municipalities has a range from 0% to 9%. The mean value of

priority given to the LED sector is 4% based on the comparison of other sectoral expenditures of selected municipalities reported by the Office of the Auditor General (OAG). The standard deviation of the priority to the LED sector is 2%. The priorities of selected municipalities for the LED sector are very low i.e. 4%. Therefore, the municipalities in Madhesh province need to plan the LED strategically and implement and review the progress to ensure sustainable LED (Victorian Auditor-General's Office, 2018). The size of the LED budget allocation has to be based on the population size, geographical considerations, and characteristics of the localities (UNCDF, 2022).



**Figure 7.** Position of LED in selected municipalities

Source: Municipalities website and Audit Report of the Office of the Auditors General (OAG) Nepal for the fiscal years 2018/19, 2019/20, and 2020/21.

#### 4.3.1 The number of establishments in selected municipalities

Business enterprises have been classified into 21 groups (CBS, 2017)<sup>1</sup>. According to CBS (2019a), the number of wholesale and retail trade is highest in Madhesh province. The average percentage of the number of other business enterprises is less than 11.

Since every municipality and provincial government have emphasized agriculture and fishing most in their fiscal policy, the data doesn't agree that municipalities and provincial government have supported the agriculture and fishing sector to be established as an enterprise because the number of enterprises in this category is very low which is equal to and below 2% (CBS, 2019b). All business enterprises related to tourism are below 10%.

<sup>1</sup> Central Bureau of Statistics of Nepal has merged some of the categories and presented the data in 10 groups. Number of agriculture, forestry and fishing (NSIC A); mining, electricity, gas, water supply & construction (NSIC B,D,E&F); transportation and storage, information and communication (NSIC H&J); accommodation and food service activities (NSIC I); financial and insurance activities (NSIC K); education (NSIC P); Human health and social work activities (NSIC Q) and Real estate, professional, scientific, administrative, arts, entertainment and other (NSIC L,M,N,R&S).



### 4.3.2 Registration status of the number of businesses and persons engaged

#### Registered business enterprises

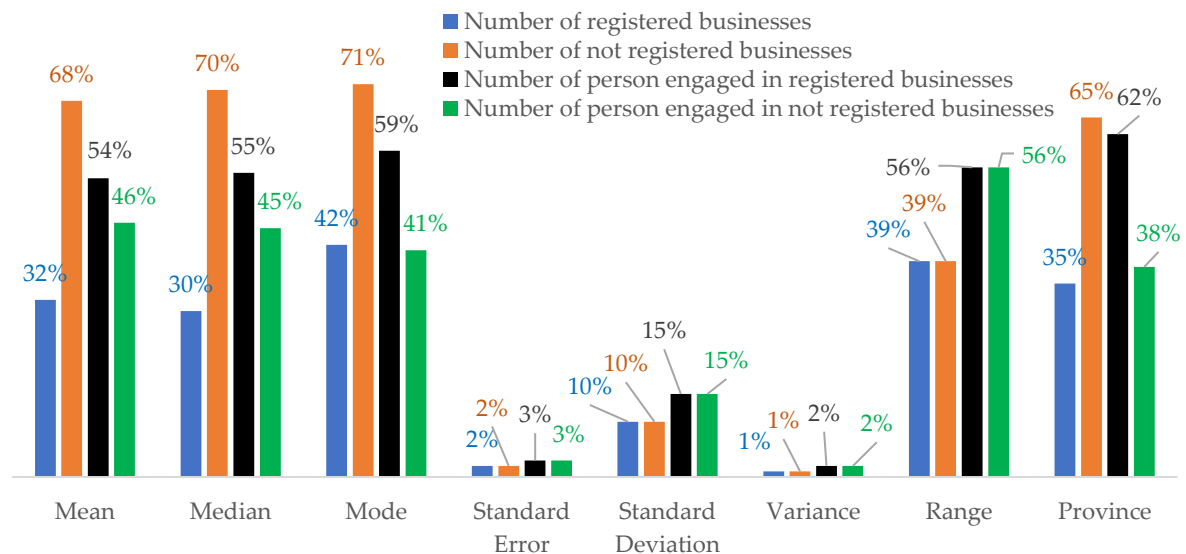
The mean percentage of the number of registered business enterprises in Madhesh province is 32% (median: 30% and mode: 42%) and the standard deviation is 10%. The range and variance are 39% and 1% respectively. Therefore, the study confirmed the percentage of mean as a percentage of the number of registered business enterprises.

The average percentage of the number of persons engaged in registered enterprises in this province is 54% total number of persons engaged in business enterprises (mean: 54%, median: 55%, and mode: 59%) and this percentage is deviated by 15%. Likewise, the range and variance are 56% and 2% respectively. Therefore, the study confirmed the percentage of mean as a percentage of the number of persons engaged in registered business enterprises.

#### Not registered business enterprises

The percentage of unregistered business enterprises is 68% because the mean, median, and mode percentage of unregistered business enterprises are 68%, 70%, and 71% respectively. The range and standard deviations are 39% and 1%.

The percentage of the mean, median, mode, standard deviation, variance, and range of the number of not registered business enterprises are 46%, 45%, 41%, 15%, 2%, and 56%. The study confirmed percentage of the number of persons engaged in not registered business enterprises is mean i.e. 46%.



**Figure 8.** Percentage of registered and unregistered business enterprises in Madhesh province and selected municipalities with persons engaged

Source: National Economic Census 2018: Provincial Summary Report Province 2

#### 4.3.3 *The number of persons engaged by NSIC in selected municipalities*

According to NSIC, business enterprises are classified in agriculture, forestry, and fishing (NSIC A); mining, electricity, gas, water supply & construction (NSIC B,D,E&F); transportation and storage, information and communication (NSIC H&J); and financial and insurance activities (NSIC K) each have contributed 3% or less for the employment. Human health and social work activities (NSIC Q); real estate, professional, scientific, administrative, arts, entertainment, and other (NSIC L,M,N,R&S); and accommodation and food service activities (NSIC I) sector business enterprise each have covered 4% to 7% of employment. Education (NSIC P); manufacturing (NSIC C); and wholesale and retail trade (NSIC G) have contributed 15.9%, 19.8%, and 42% respectively.

#### 4.3.4 *The number of business enterprises by type of business place in Madhesh province and the selected municipalities*

The percentage of the number of street businesses, business buildings, traditional markets, modern shopping malls, exclusive blocks/buildings, and those not stated in Madhesh province are 3%, 35%, 31%, 18%, 1%, 6%, and 5% respectively. The standard error, standard deviation, and variance are normal and close to the mean percentage.

**Table 2.** Percentage of number of establishments by type of business place in Madhesh province and the selected municipalities

Type of Business Place	Mean	Standard Error	Standard Deviation	Range	Minimum	Maximum	Province
Street Business	3%	1%	3%	14%	0%	14%	5%
Home Business	35%	2%	9%	32%	17%	49%	36%
Business Building	31%	3%	12%	49%	14%	63%	34%
Traditional Market	18%	3%	13%	57%	0%	57%	14%
Modern Shopping Mall	1%	1%	3%	9%	0%	9%	2%
Exclusive Block or Building	6%	1%	3%	8%	3%	11%	6%
Others	5%	1%	6%	22%	0%	22%	3%
Not Started	0%	0%	0%	0%	0%	0%	0%

Source: National Economic Census 2018: Provincial Summary Report Province 2

#### 4.4 **Fiscal policies and strategies of the municipalities regarding LED**

In the case of the municipality, the development of smaller business enterprises is often constrained by their relatively low-level capital, small size, narrow economic foundation, slow economic cycles, lack of support for the loan, and a lack of distinctiveness and dependency (SACN, 2019). In such conditions, provincial and local governments should play a very important role to create a conducive business environment, especially in

political, social, economic, and legal sectors. These governments must be regulators, stimulators, initiators, and motivators as the best guiding agent for the promotion of new establishments, easy investment, and sustainability because LED revolves around the favorable business environment for business enterprises to operate and thrive (Bodhanya, 2014).

#### **4.4.1 *Fiscal policies and efforts of the provincial government for the partnership with municipalities***

Schedule 6, 7, and 9 of the Constitution of Nepal (2015) has arranged the exclusive and concurrent power of federal, provincial, and local governments. Section 8(5) of the Federation, Province and Local Level (Coordination and Inter-relation) Act (2020) states that two or more local levels may, by enacting law execute any infrastructure construction or any other project or operate it jointly related to the matters falling under the exclusive or concurrent powers of the local government. Therefore, it is realized that specific work plans have to be developed and implemented through extensive consultations and coordination with local governments for provincial and local economic development (DRCN, 2020).

The first periodic plan for the fiscal year 2019/20 – 2023/24 of Madhesh province has not asserted the interprovincial and municipalities partnership in agriculture, livestock, fisheries, cooperatives, industry, commerce, supply, and tourism sector development. The strategy and action plan set in this document has emphasized spatial and place-based approaches, special agriculture zone, entrepreneurship, cooperativism, and modernization. Only, the strategy and action plan for the irrigation sector has cited the interprovincial and municipalities partnership. Therefore, it is perceived that Madhesh province may have difficulties to meet the target set for economic development.

#### **4.4.2 *Fiscal policies and efforts of the selected municipalities***

LED enabling policies must state 1) decentralization of responsibility, authority, and capacity; 2) how to create an enabling environment for LED; 3) how to build partners alliance; 4) what are the structures of governance and management; 5) how to encourage entrepreneurship and attract investment; 6) how to nurture innovation; 7) what to do to promote the green economy; 8) how to mitigate poverty, inequality, and social exclusion; 9) how can local culture can be fostered; 10) how to consider the social economy, solidarity economy, and the third sector; 11) how to focus gender; and 12) how to evaluate the performance (UCLG, 2016). Schedule 8 of the Constitution of Nepal (2015) has stated the power of local governments (LGs) to manage and protect local resources. Therefore, LGs are responsible to organize all assets within the municipality for local prosperity. Section 5(1) of the Federation, Province and Local Level (Coordination and Inter-relation) Act (2020) has provisioned power to the federal, provincial, and local governments to enact necessary laws, policies, and plans on the matters of respective powers delegated by the constitution and implement such powers for the local development. Selected municipalities have not formulated master or periodic development plans till now. The fiscal policies of the selected municipalities are as follows.

### *Policies and laws related to LED*

Chhireshwornath municipality and Bodebarsayan municipality announced that the municipality formulates an agriculture policy, land utilization policy, and policy on cooperatives. To this date, Bodebarsayan municipality has formulated an agricultural enterprise promotion act and cooperatives act but Chhireshwornath municipality has not prepared any laws and policy as a commitment made. Dakneshwori municipality has committed to formulating an agriculture development strategy. This municipality has formulated the cooperative act and agricultural business promotion act. Except for these municipalities, other municipalities have formulated agriculture, cooperative, and monitoring-related acts. But municipalities have not formulated regulations related to these acts.

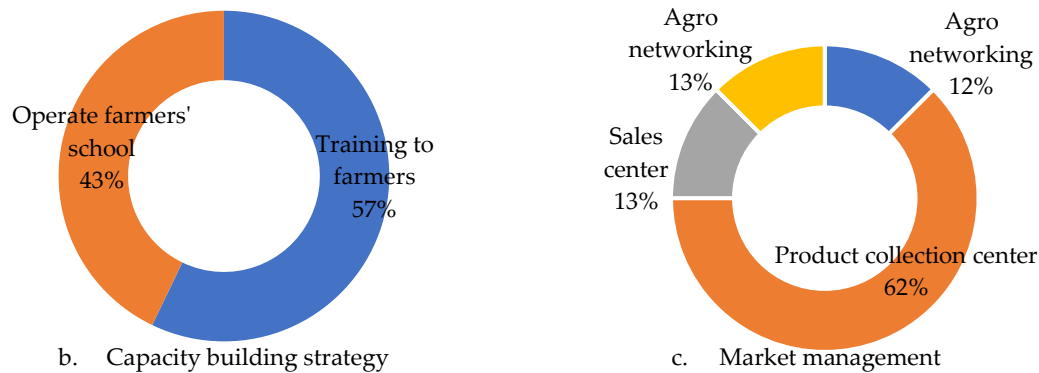
## **4.5 Subsectors of LED in selected municipalities**

### **4.5.1 Agriculture sector development**

*Farmers' record management.* Out of 19 selected municipalities, only 3 municipalities (i.e. 16%) have aimed for farmers' record management through a survey of the municipal area. These municipalities identify the farmer and provide the farmer identity card and formulate the group.

*Farmers' management, motivation, training, and support.* Among 17 municipalities, 53% of selected municipalities have prioritized infrastructure development such as cold storage, road, sales center, and old infrastructure maintenance. Capacity-building activities such as training and farmers' school operation have been prioritized by 41% of the municipalities. Agro electrification, farming material distribution, and subsidy to agro entrepreneurs have been promised by 35% of selected municipalities. Municipalities have then prioritized product collection centers and award distribution for the best-performing farmers. Municipalities have not planned the stepwise action to be taken for the development of farmers as year-wise fiscal policies are studied. Also, the budget allocation has not been observed consistent with the policies.

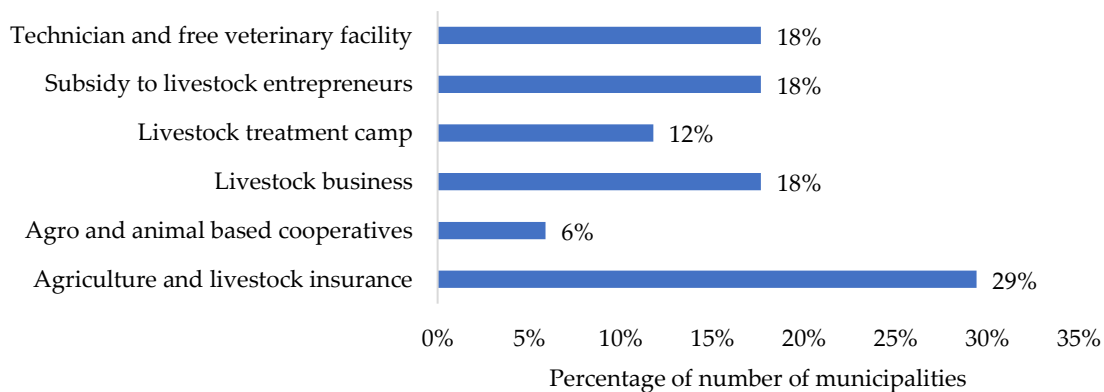




**Figure 9.** Agriculture sector development

Source: Fiscal policies of selected municipalities from 2018/19 – 2020/21

*Livestock development.* Selected municipalities have agriculture and livestock insurance; enterprise-oriented livestock farming from self-oriented production; birds and animal insurance program; modernized enterprising birds business; livestock camp; advanced animal farming; 80:20 contribution of municipality and entrepreneur for commercialized livestock farming; technician service and free veterinary facility; subsidy to livestock entrepreneurs; agro and animal-based cooperatives; animal health camp; and free medicine distribution. Each program needs a detailed project operation plan. Municipalities have not formulated such a plan so that the project can give better benefits to people. The following chart depicts the major programs adopted for livestock development by 17 out of 19 selected municipalities. It is observed that all municipalities have declared distribution-based policies.



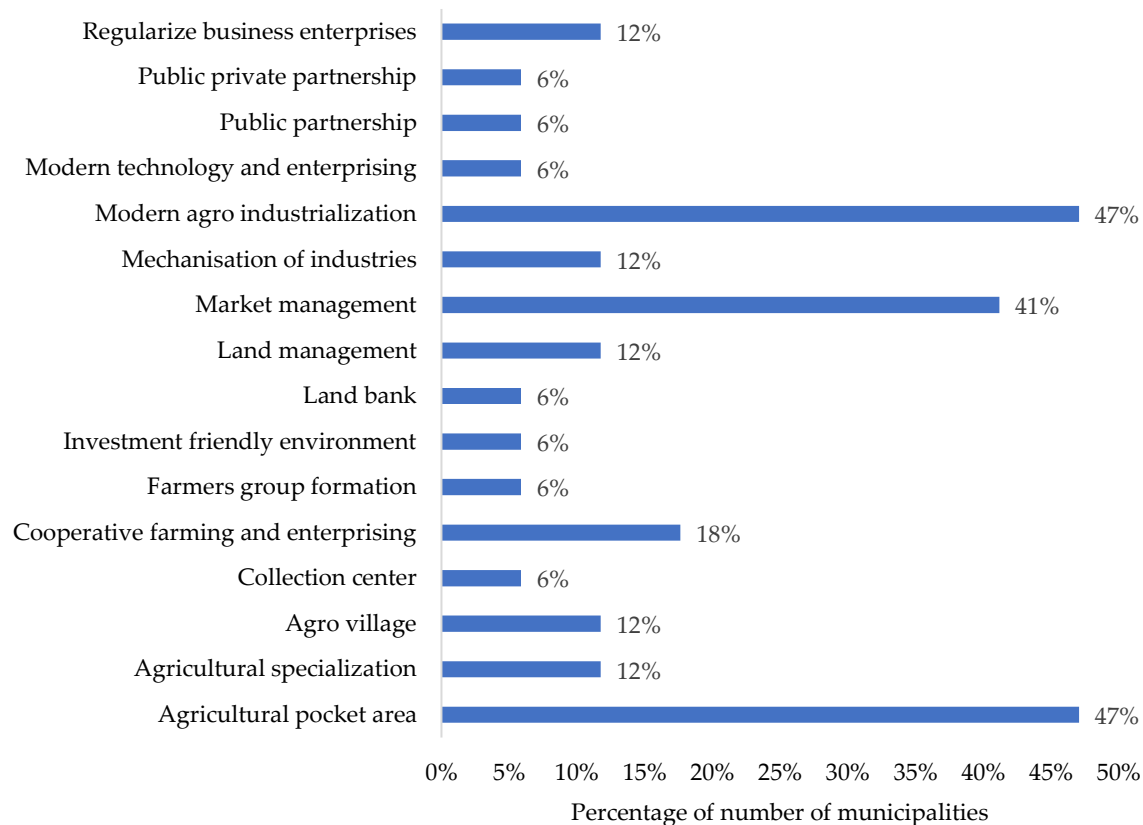
**Figure 10.** Livestock management in fiscal policies of selected municipalities

Source: Fiscal policies of selected municipalities from 2018/19 – 2020/21

*Irrigation system development.* Only six municipalities out of 19 selected municipalities have emphasized the plan for irrigation development. The designated programs are irrigation system development; deep boring, canal maintenance, and small irrigation

program; beneficiary and municipality contribution for irrigation; small irrigation in 85% subsidy; a partnership in irrigation; and solar irrigation system.

*Agricultural industries development.* For industrial development in the agricultural sector, selected municipalities have designed market management for agricultural products; land bank concept for barren land; use of a labor-oriented mechanism for the poor; use of modern technology and machine for enterprising; agricultural specialization; industrialization and commercialization of agriculture; investment-friendly environment; development of the pocket area of agriculture in each ward; agriculture small enterprises special program; collective cooperative farming; development agriculture production zone; development of the agricultural pocket area and micro industry; developing agriculture enterprises through cooperatives; developing collective farming system; developing model agro village; developing one ward one pocket area; and one village one entrepreneur.



**Figure 11.** Agricultural industries development in fiscal policies of selected municipalities

Source: Fiscal policies of selected municipalities from 2018/19 – 2020/21

Figure 11 demonstrates the fiscal policies of the municipalities for agro-industries development. Municipalities have prioritized modernization of the agro-industries, establishing agricultural pocket areas and market management. However, while reading the documents, municipalities have not framed detailed action plans and regulations regarding these matters.



### *Budget for sector-wise development in the agriculture sector*

The study has revealed that almost 0% budget has been allocated to identifying farmers and providing the farmers' cards. Municipalities have allocated 26% of the agricultural total budget for farmers' management such as training, market management, controlling black marketing, micro enterprising, cold storage construction, sales center construction, rewarding, soft loan management, etc. Likewise, irrigation infrastructure development (20%) is second, agriculture industries development (19%) is third and livestock support (14%) is the last priority of the municipalities. As fiscal policies declared much more about the development of the agricultural industries, the budget allocation is very low. The data have deviated highly and ranged from 2% to 78%.

**Table 3.** The average percentage of the sector-wise agricultural budget of the selected municipalities for FY 2019/20–2021/22

Sector	Mean	Standard Error	Standard Deviation	Variance	Range	Minimum	Maximum
Farmers' record management	0%	0%	1%	0%	2%	0%	2%
Farmers' management, motivation, training, and support	26%	4%	19%	4%	73%	0%	73%
Livestock development	14%	3%	14%	2%	46%	0%	46%
Irrigation system development	20%	6%	25%	6%	78%	0%	78%
Agricultural industries development	19%	5%	20%	4%	54%	0%	54%

Source: Fiscal policies of selected municipalities from 2019/20 – 2021/22

### **4.5.2 Industry and commerce development**

The selected municipalities have declared the following fiscal policies for industry and commerce development.

*Capacity building.* The training for small and cottage industry and market management; capacity building and empowerment through training and technology; modernizing and commercializing traditional skill, knowledge, and profession; fostering one household one employee; handloom training for skill enhancement by establishing shared service center, etc.

*Partnership.* Partnership policy for industrial area development and management; partnership for cost sharing; building partnership with cooperatives, private firms, and municipality (3 pillars concept); conducting skill building training in partnership with provincial government; coordinating with the neighbor municipality for partnership in establishing a beneficial business, etc.

*Enterprising development.* Supporting micro, small, and medium level industry for development, extension, and modernization; creating an investment-friendly environment; construction of industrial village; modernization and enterprising professionalism; provision of a soft loan from microfinance and banks; industries for local employment; women empowerment and involvement in business; developing an industry-friendly policy; developing regulations system for firm, shops, and businesses; create motivation package to business firms; managing producer, entrepreneurs, processing business and consumer; fostering innovative ideas; managing rebate in fee for the registration of agro-based micro-enterprises; providing training and machine; motivating to foreign returnee for enterprising by subsidy; fostering available skill, knowledge, technology, capital, etc.

*Market development.* Creating market control mechanisms; market management such as black marketing control, artificial scarcity, and monopoly by regular monitoring of the market, quality test/control, and the training to the consumer; supporting for management of price, quality, market places, etc.

Out of 17, 8 (i.e. 47%) municipalities have prioritized micro-enterprising development and 6 out of 17 (i.e. 35%) municipalities have planned for systematizing the market. 4 out of 17 (i.e. 24%) municipalities have planned for creating an investment-friendly environment to attract investment. 3 out of 17 (i.e. 18%) municipalities have planned to build the public-private partnership, managing capacity building and strengthening business firms' regulatory system. The remaining programs and projects have been designed by 1 and 2 municipalities. But these programs and projects are only in fiscal policies without a detailed action plan and modus operandi. That is why the programs and projects are not very clear for all to understand and operate.

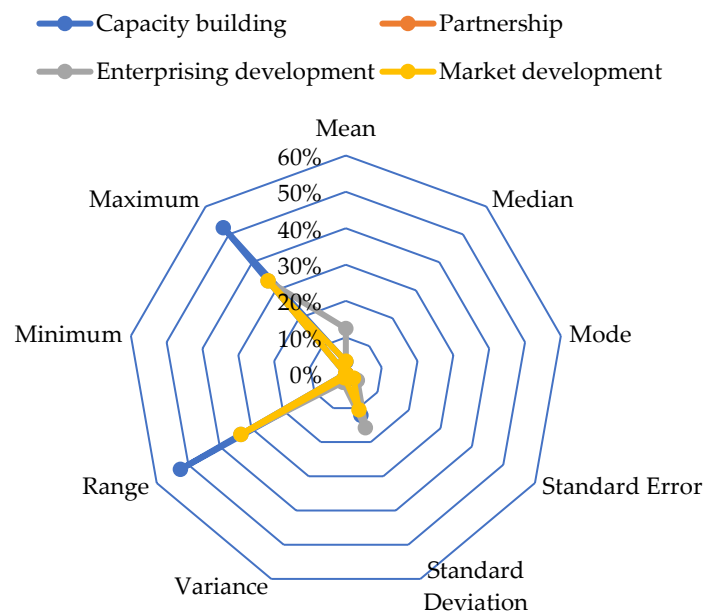
#### *Budget allocation for industry and commerce*

Among 19 selected municipalities, 37% of the selected municipalities (i.e. 7 out of 19 municipalities) have allocated the budget for only one FY. Municipalities have allocated a maximum of NPR 11 million for the FY 2019/20-2021/22. But 53% (10 out of 19 selected municipalities) of municipalities have not allocated any budget for FY 2019/20-2021/22. The model of the public-private partnership cannot be read in the allocation of the budget. As said by 47% of municipalities develop micro enterprising policies, the budget has not been allocated sufficiently. There is not any budget for creating an investment-friendly environment too.

**Table 4.** The average percentage of sector-wise industry and commerce budget of the selected municipalities for FY 2019/20–2021/22

Sector	Mean	Standard Error	Standard Deviation	Variance	Range	Minimum	Maximum
Capacity building	3%	3%	12%	1%	53%	0%	53%
Partnership	0%	0%	0%	0%	0%	0%	0%
Enterprising development	13%	4%	16%	2%	33%	0%	33%
Market development	4%	2%	11%	1%	33%	0%	33%

Source: Fiscal policies of selected municipalities from 2019/20 – 2021/22

**Figure 12.** The average percentage of different sectors for industry and commerce development for FY 2019/20–2021/22

#### 4.5.3 Cooperative sector development

Selected municipalities have planned a) cooperative education for capacity building; b) formulating local cooperative policy and strategy; c) systematizing regulation of cooperative organizations; d) establishing one ward one cooperative; e) using cooperative as economic and social development and transformation tool; f) building a cooperative network; g) providing support to industries operated by cooperatives; and h) motivate agro and animal cooperative in their fiscal policies. Most municipalities have formulated municipal cooperative acts. But municipal cooperatives' operation regulations and detailed action plans for the above-mentioned policies have not been formulated until the study period.

Out of 19, 12 municipalities have planned for cooperative development. Only one municipality has planned for developing agricultural cooperatives, capacity-building

activity in the cooperative sector, and developing policies and strategies regarding cooperatives. 24% (4 out of 12) of the municipalities want to build regulatory mechanisms for the operation of cooperatives. 12% (2 out of 12) of the municipalities want to establish one cooperative in each ward to use cooperatives as the development tool.

#### *Budget allocation for cooperative development*

Among 19 municipalities, 5 (26%) municipalities have not allocated any budget for cooperative development and 8 (42%) municipalities have allocated the budget for only one year. Although the budget was allocated, some of them have very low budgets ranging from 0% to 33%. The budget for cooperative development has highly deviated.

**Table 5.** The average percentage of the cooperative development budget of the selected municipalities for FY 2019/20–2021/22

Mean	Standard Error	Standard Deviation	Sample Variance	Range	Minimum	Maximum
25%	3%	15%	2%	33%	0%	33%

Source: Fiscal policies of selected municipalities from 2019/20 – 2021/22

#### **4.5.4** *Tourism development*

The selected municipalities have planned to formulate the internal tourism policy; develop the master plan for integrated tourism; protect historical, archaeological, agricultural and religious, cultural, and geographical tourism places; develop green and republic parks and picnic spots; use cooperatives to enhance the industry, tourism, energy, resident, education, and health; developing fish pond, boating, and fish tourism; conducting the feasibility study of tourism, disseminating, developing infrastructure, managing market and peace; constructing historical, original, cultural and identity-based pictures and audio-visual materials; beautifying religious places and establishments; and collecting data of all tourism places and managing for improvement.

Categorically, 35% of selected municipalities have planned for building historical, cultural, and geographical tourist places. 29% of selected municipalities have planned for preparing the master plan for tourism sector development. Likewise, 18% of municipalities have planned to conduct a study on the possible areas of tourism development. Agricultural and religious tourism development, use of cooperatives for tourism development, enhancing fish tourism, and construction of republic parks have been planned by 12%, 6%, 6%, and 6% of the municipalities respectively.

#### *Budget allocation for tourism development*

Whatever has been written in the fiscal policies, only 21% of the selected municipalities (4 municipalities among 19 selected municipalities) have only allocated budget. Thori municipality has only allocated the budget for tourism development for FY 2019/20, 2020/21, and 2021/22 regularly. Other municipalities have allocated the budget irregularly i.e. for a year only.

#### 4.5.5 Linkages of the budget with fiscal policies

The following table reveals the linkages of the budget with the project and program designed by selected municipalities.

**Table 6.** Percentage of the average budget allocation of the selected municipalities for FY 2019/20 – 2021/22

Sectors	Mean	Standard Error	Standard Deviation	Sample Variance	Range	Minimum	Maximum
Agricultural development	68%	7%	28%	8%	94%	5%	99%
Industry and commerce development	4%	2%	7%	1%	27%	0%	27%
Cooperative sector development	3%	1%	5%	0%	22%	0%	22%
Tourism development	4%	2%	11%	1%	40%	0%	40%

Source: Fiscal policies of selected municipalities from 2019/20 – 2021/22

As budget allocation is observed in Table 6, the budget in agricultural sector development in the total budget of LED covers 68% with a higher standard deviation. However, this percentage of the budget seemed negatively skewed. It means some municipalities have a very low budget for this sectoral development.

The mean of the industry and commerce sector development budget; tourism sector development budget and cooperative sector development budget of all municipalities is 4%, 4%, and 3% respectively. This budget is not observed enough by the municipalities as the program is lodged in the fiscal policies. Table 6 and Figure 13 depict that the distribution of the budget is not symmetrical. The longer right tail of the normal distribution states that the budget has been found positively skewed. It means that the budget represented by the municipalities has outliers. Some of the municipalities have allocated high amounts to these programs. This happened due to the pressure of political parties, individuals, and elites in the municipality.

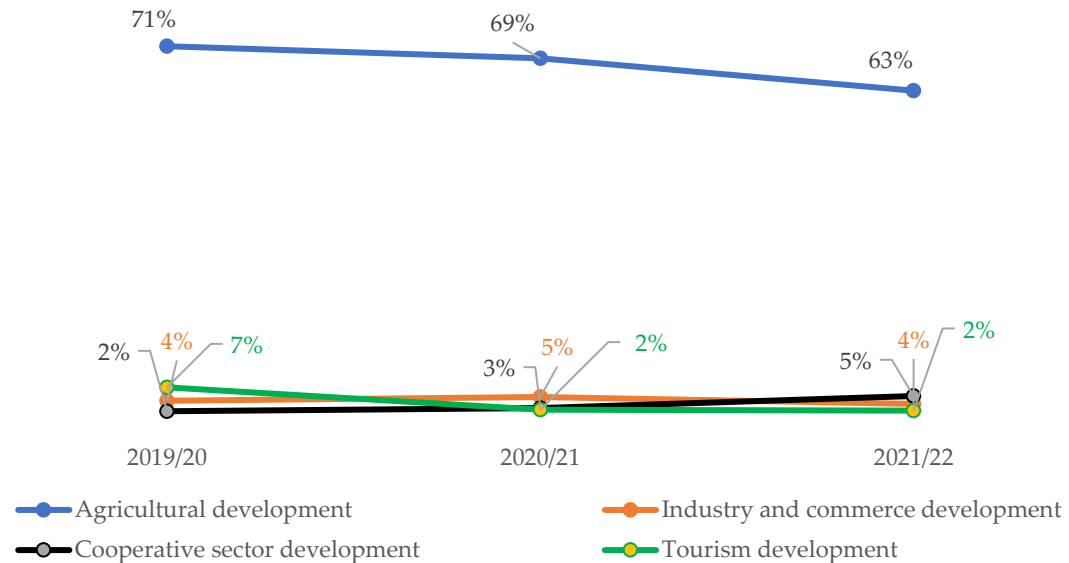
## 4.6 Discussion

Some findings and relevant scenarios of the study are as follows.

### 4.6.1 Internal revenue and LED

Municipal authorities are aware of generating internal revenue. For more internal income, more business enterprises at the local level have to be established and operated continuously. These business enterprises pay taxes and fees that can be the source of internal revenue. A strong local economy will be the base for overall municipal development. A municipality can be independent and export the products to other areas. Moreover, the municipality can support the loan to other municipalities and then can earn more and more. Selected municipalities have not established sustainable small, medium, and large-scale

business enterprises under their initiation till now. The municipality, at this moment, has to give efforts for inviting external investors and mobilize the internal resources for LED.



**Figure 13.** Overview of the sector-wise budget of selected municipalities during the fiscal year 2019/20 – 2021/22

#### 4.6.2 Sectoral clarity and policy support

Different policies and strategies need to be implemented to address different requirements of LED considering the geographical, religious, and ethnic diversity in Nepal (Nepal Economic Forum, 2022). Technological, human, and social sciences researches are also important for local development (Kisman & Tasar, 2014). Local governments have to strengthen the local economy by simplifying regulations, reducing taxes, and introducing various fiscal benefits (Trinajstić et al., 2022). Moreover, municipalities must improve infrastructure according to local needs for LED. Supporting this statement, chief administrative officers of municipalities have stated that every municipality has engaged the program and budget in developing roads, buildings, and other infrastructures in the last five years in Nepal. However, the LED was not closely linked while planning the infrastructure development. Elected representatives such as the mayor, deputy mayor, and others have no clear idea of how LED is possible. About 90% of such leaders have no clear idea of sectoral development. On this ground, the program and policy of one fiscal year to another have not been matched. To be more clear, the LED budget was very low due to the lack of know-how to coordinate current status, social needs, and thinking over the LED.

#### 4.6.3 Data management and vision regarding LED

A thorough understanding of the local context and dynamics of the local economy through economic assessment is needed for making strategic decisions regarding LED (UN-Habitat, 2013). The situation (baseline) analysis will direct LED efforts and plan on it. As the



CBS classified the business into A to S based on Nepal Standard Industrial Classification (NSIC), business places, and size of business, municipalities have not collected data. Also, the status of registration is not clear in the municipalities. In the apathy of the database, the LED initiative and development of the business enterprises in any sector are directionless.

#### **4.6.4 Strategic options and factors for success**

When the study and database are absent, the actual position and context are not readable. In verbal communication with municipal authorities, municipalities have adopted the growth strategy of business enterprises. But evidence reveals that there is no vertical and horizontal integration or any other. The municipality is directionless and approachless to guide existing enterprises on which part it can support. The policy and program are framed randomly.

Internal support, effective marketing and promotion, peer network, learning opportunities, regular progress monitoring, and staff motivation are factors of success in the development of business enterprises (Jackson et al., 2015). Local government has to adopt six simple rules to diagnose (1. understand what people do and 2. find the fighters) and seek the solution (3. give more power to people, 4. increase reciprocity, 5. make sure the employee eating their own cook and 6. reward those who cooperative) for facilitating cooperation and engagement (Labresh et al., 2017). For the success of the enterprises, municipalities have not identified how the business enterprises of each sector have to be directed. Therefore, municipalities need to conduct an internal analysis, set municipality direction, make a strategic choice, prepare a resource plan, and measure performance regularly.

#### **4.6.5 Competitive advantage**

Kisman & Tasar (2014) states that municipalities need to earn market knowledge, create the academic ground and internalize LED because these are the main supporting poles for the LED. A study on the market and its dynamics, characteristics of private enterprises, and necessary support have not been conducted. Almost all research participants agree with this narrative. Since every municipality is unique, it has its own competitive advantage. For finding out its competitive advantage scientific and academic research has to be conducted. This is null in the selected municipality. Without the internationalization of the LED concept, planning and budgeting are framed. Moreover, planning and budgeting work is conducted in a rush and without participation (Rai, 2022). Most of the research participants have responded that the planning and budgeting are haphazard and random. Therefore, the fiscal policies and budget don't match.

#### **4.6.6 Approaches and principles**

LED is based on instruments (changing macroeconomic framework), actors (NGOs and private enterprises), and governance (Austrian Development Agency, n.d.). Birkhölzer (2005) has characterized four scenarios of LED namely 1. development from above, 2. development from outside, 3. wait and see, and 4. development from within. The

municipality has to adopt any or combined approach among these. In Madhesh province, municipalities have adopted boosting local existing companies and start-ups. The best approach to achieving LED is the collaboration of governmental authorities, the private sector, NGOs, and individuals in which each partner has a significant role to play (Nepal Economic Forum, 2022). But municipalities have concentrated less on public-private partnership approaches but strongly pleaded for a sector-cluster (pocket-based) approach. About 95% of the municipalities have planned to follow a small enterprise development approach too. For the start-up of small enterprises, skill-building training is being conducted to add and enhance the skill in enterprising. Nevertheless, without the clarity in vision and mission, such efforts have not given any outcomes for the past 5 years.

## 5 Conclusion

As clause 21(4) of Intergovernmental Fiscal Arrangement (2017), it can be understood that the Nepal government has envisioned a self-dependent local government by building a strong local economy. Nepal government has authorized the local government to exploit the local resources and strengthen the local economy. To exploit the local resources, the local government must analyze both the potentials and challenges based on the social, economic, and material needs of the communities (UCLG ASPAC, 2016). A thorough research and study are required. Based on the findings of the study, economic activities can be boosted, business enterprises can be established and operated and local revenue can be generated. For this to happen, adequate investment and reinvestment are a must. In the absence of contextual analysis and investment capacity, the local economy will have difficulty for survival. In increasing investment capacity, the growth of internal revenue must therefore be the first and overall objective of the local government. But LED is a must for increasing internal revenue. For generating internal revenue, more business enterprises have to be operated.

In totality, Municipalities have allocated the budget for capacity building for farmers and entrepreneurs. However, no exemplary success case is found. The number of unregistered and informal businesses is high. Therefore, only 11% of employees are engaged in business enterprises in this province. The provincial government (PG) and municipalities have not gathered the data of any sector so that they can know the environment in which they have to plan and implement the LED initiatives. For this to manage, the PG has the greater role of coordination and capacity development of the municipalities. Since the establishment of the new administrative structure has been five years, the lead role has to be still played by PG for governance, infrastructure, institution, and enterprise development for LED in the province.

This study has concluded that the average internal revenue (including revenue sharing) is 27% and the internal revenue (excluding revenue sharing) of 136 local governments ranges from 1% to 7% of the total revenue per year. The average budget allocation of the municipality for LED is 5% of the total budget and the actual expenditure for LED is 3% of the total expenditure. Prioritization to the LED by the selected municipality

is 4%. The reasons for the low level of internal revenue due to the weak condition of LED are as follows.

- Framing fiscal policy without context analysis, research, and study;
- Planning budgeting in a rush that lacks communication and coordination among staff and representatives;
- Lack of know-how in the planning and budgeting process;
- The pressure of individuals, political parties, and pressure groups;
- Internal conflict within local authorities and political parties;
- Weak administration and capacity of staff and lack of streamlining the previous year's program and information;
- The gap between political parties and bureaucrats;
- Lack of LED sectoral development clarity such as the process of LED, strategy, approaches, and competitive advantage;
- No database for knowing the current position of different sectors within the municipality;
- Weaknesses of entrepreneurs to participate in municipal initiatives;
- Lack of technical capacity of entrepreneurs to understand the business activities

This paper recommends to the concerned stakeholders and local governments as follows.

- The municipality has to conduct research and maintain its current position of the municipality. Based on the findings, the LED initiative has to be taken forward. Before any initiatives, the federal government necessarily needs to build the capacity of the municipality based on the research findings.
- The municipality has to build the capacity of staff and people so that everyone can understand and support the collaborative manner.
- LED is a long way process. Therefore, the memory of previous years has to be very supportive of current and future actions. Action taken each year has to be well documented.
- This study has confirmed that municipalities have followed trade theory. But municipality has to set a clear vision, mission, and approach regarding LED since LED initiatives have been random and haphazard. These elements clarify the direction to the stakeholders to choose a suitable theory and approach for the enhancement of the local economy.
- The municipality has to prepare a detailed plan and policy in consultation with citizens for successful LED initiatives.
- The municipality has to link the benefit of the enterprising with the community.

- The federal government and any other funding agencies should conduct the research on the condition of the municipality in depth. The decision has to be taken for financing based on the performance of the municipality.

There are many areas to be researched again. They are as follows.

- LED is situational. Situation analysis to find out the competitive advantage of each municipality for LED is a hot issue for further research.
- The feasibility study of each municipal zone is a virgin study area for a researcher.
- What type of LED policy is suitable for the municipality can be another research area.
- The reasons for the low priority given by the municipalities to the LED can be also an important research topic.
- The most important research topic can be the selection of the best strategic option and local economic development theory for the particular municipality of Madhesh province.

## Acknowledgment

I would like to thank all the research participants for this research.

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