
Factors Affecting Financial Condition of Urban Municipalities in Nepal

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Abstract

The study attempts to examine the factors affecting the financial condition of urban municipalities in Nepal. This cross-sectional study employs quantitative approach and is based on field survey using structured questionnaire. A field survey was undertaken from 12th November 2022 to 5th May 2023 to collect data from urban municipalities in Nepal located in all seven provinces. The 37 sample urban municipalities were selected employing stratified random sampling method. From the sample municipalities a total of 267 responses were collected from municipal leaders, officers, administrators and academicians. Data was collected from field survey using self-administered questionnaires consisting of 5-point Likert scales. Data was analysis using correlation and multiple regression analysis. The financial condition of urban municipalities was found to be satisfactory. Metropolitan cities have relatively better financial condition in dimension of ability to meet short-term obligation ($M=3.72$), revenue generation capacity ($M=3.94$), and financial independence ($M=3.75$). Positive impact of governance factor ($\beta = 0.32$, $p < .001$), economic factor ($\beta = 0.18$, $p < .001$) and structural factor ($\beta = 0.06$, $p < .001$) was found on financial condition. The study identified several dimensions that influence the financial condition of urban municipalities. Factors such as immigration, quality of life of citizens, and literacy rate have emerged as critical factors in shaping the financial condition of municipalities. Economic factors, including the capacity to meet commitments, resource

availability, and cost management were also significant. Effective municipal governance, characterized by strong leadership, good governance practices, and transparency, played a crucial role in financial sustainability. In contrary, external factors, such as central government policies and municipal independence didn't influence financial condition.

Keywords: Financial condition; Municipal finance; Urban municipalities; Nepal

1. Introduction

Financial condition is the financial capability of a local government to fulfil its obligations, to anticipate unexpected events and to execute its financial rights efficiently and effectively (Giroux & McLelland, 2003). Finance is usually considered to be the overriding factor in determining the viability of any institution or organization, including the local government, which will be forced to discontinue its operations without sound financial management systems (Beland et al., 2020; Kanyane, 2011). The good financial condition of a local government not only plays an important role to its economy (Henley, 2022), but also has significant impact on the political, social and economic conditions in its jurisdiction (Carmeli, 2008; Kelkar, 2019), including environment and inclusion (Cahill & Joseph, 1992). A local government can deliver its quality services effectively and efficiently thereby assure the sustainability of service deliveries to its residents if and only if there is a good financial condition of the local government (Lacuzzi, 2022). Hence, maintaining sound financial condition of local government units is a policy priority for all countries implementing fiscal federalism including Nepal.

The financial condition of urban municipalities in Nepal is a crucial component of local governments (ADB, 2012). Their financial position and sustainability are significant not only for economic growth, but also for the successful implementation of federalism in Nepal (Dahal, 2021) as the country has been declared a federal democratic republican state in 28 May 2008. A federal system of government was, however, established in Nepal only in 2015 by the country's new constitution. According to the concept of a federal system, Nepal has been divided into seven provinces, 77 districts and 753 local levels. Now, each province has a separate government in addition to the federal government at the center. With this transformation, Nepal has entered a new period of local government autonomy. During this time, the central government decentralized and delegated many facets of its control over local governments (Adhikari, 2010). Financial decentralization, which gives local government the authority to handle revenue, expenditure, and finances, is hence one part of the new local autonomy (Drew & Dollery, 2014; Maclean, 2022; Zafra-Gomez et al., 2009).

Nepal after the promulgation of current constitution on September 20, 2015 has transformed from a unitary system of government to a federal system. Recently, it has passed through the restructuring of the State towards federal set up of three layers of governments – federal, provincial, and local. It has adopted a policy to promote the devolution of power with generous decentralization and to improve accountability and outreach of public service delivery by granting more authority and resources to local governments (Chaudhary, 2019). The

governments of all levels have been bestowed with powers to carry out various functions in their respective areas, with constitutionally listed rights granted under the exclusive rights of the Federal Government, State Governments, Local Governments (Acharya & Zafarullah, 2020). The local levels have been constitutionally authorized to mobilize to generate financial resources and collection of revenues to undertake their responsibilities (Dollery & Robotti, 2008; Navarro-Galera et al., 2015; Tang, 2022). Nepal has the policy to make the local government units financially sound so that they can deliver quality services to the public as well as promote economic growth of the local level and contribute to the national economy. This new federal structure has brought significant changes to the governance system, including the decentralization of power and resources to the local government units. However, concerns have been raised about the financial viability and sustainability of these units (Choi et al., 2008; Friyan & Yuliana, 2020). Municipalities in Nepal, both rural and urban, face significant challenges in managing their finances effectively. Despite the importance of this issue, there is limited empirical research on the financial condition of municipalities in Nepal, particularly in the context of the new federal structure.

The financial conditions among local governments may vary and create the need for local government stakeholders; central, provincial and local legislatures, and local communities to be concerned for soundness of local governments in managing finance (Gorina & Joffe, 2018; Rotulo & Kondilis, 2020). The central government simply gives local governments general guidelines for managing local finances (Cohen & Manes-Rossi, 2017; Malinowski, 2022; Sohl et al., 2009). As a result, local governments' financial situations may differ. The need for an effective tool to monitor the soundness of a wide range of local governments in managing finances (i.e. planning, budgeting, taxation, and financing) arises from this variation in financial condition (BIsongno et al., 2014; Fox & Menon, 2008), which forces local government stakeholders, including central governments, central and local parliaments, and communities, to act (Mahbob et al., 2017). As a result of financial decentralization in Nepal, there is a greater need for information about the factors affecting financial health of local governments.

Hence, research in the area of improving financial health of the Nepalese municipalities is crucial. In this context, the purpose of this research is to identify the factors affecting financial condition of local governments. The study contributes to the existing literature on municipal finance and fiscal federalism by empirically investigating the financial determinants of health of municipalities. The study draws on theories of public governance, public finance, and organizational behavior, as well as empirical research on municipal finance and federalism, to develop a comprehensive understanding of the factors affecting the financial health of municipalities in Nepal.

2. Methods

2.1 Nature of the Study

This cross-sectional study employs quantitative approach to identify the factors that affect the financial condition of urban municipalities in Nepal. The causal comparative research design has

been adopted to identify the factors that affect financial condition of different urban municipalities.

2.2 Study Area, Sampling and Data Collection

This research was an empirical one and data were collected from urban municipalities in Nepal. This research is based on primary data. Primary data was collected through a self-administered questionnaire survey. The population of this research comprised of all the urban municipalities in Nepal. The urban municipalities in Nepal are classified as metropolitan city, sub-metropolitan city and urban municipalities for the administrative purposes. The primary sample units (PSUs) of this research were the urban municipalities of Nepal. There are total of 763 local government units in Nepal which are classified as metropolitan city, sub-metropolitan city, urban municipalities and rural municipalities. The first three categories are classified jointly as urban municipalities. The rural municipalities are excluded from the study. Currently, in Nepal, there are six metropolitan cities, 11 sub-metropolitan cities and 276 urban municipalities. The study is based on sample of 37 urban municipalities including from the three strata of municipal type, viz., metropolitan city, sub-metropolitan city, and urban municipality using stratified random sampling method. The sample size corresponds with margin of error of 6 percent and confidence interval of 95 percent. The sample municipal units are representative of all seven province of Nepal and also cover the five ecological zones as stated by the annexure of local government operation act 2017 as Himal, Mountain, Inner Terai, Terai, and the Kathmandu valley (Pandey et al., 2018). The sample urban municipalities by types and ecological zones are presented in Table 1.

Table 1. Sample urban municipalities by types of municipality and ecological zone

SN	Description	States*							Total Sample Units
		KS	MD	BG	GN	LM	KR	SP	
1.	Metropolitan City	1	1	1	1	0	0	0	4
2.	Sub-metropolitan City	1	1	1	0	1	0	1	5
3.	Municipalities from Terai	1	3	0	0	1	0	2	7
4.	Municipalities from Inner Terai	1	0	1	1	1	1	0	5
5.	Municipalities from the Kathmandu Valley	0	0	2	0	0	0	0	2
6.	Municipalities from Mountain Ecological zone	0	0	0	2	2	2	1	7
7.	Municipalities from Himal Ecological zone	1	0	2	1	0	2	1	7
Total		5	5	7	5	5	5	5	37

* *KS – Koshi, MD – Madesh, BG – Bagmati, GN – Gandaki, LM – Lumbini, KR – Karnali, SP – Sudur Pashchim*

From the sample urban municipalities information on factors affecting financial condition was collected from respondents employing as structured questionnaire survey. The questionnaire

comprised of 5-point Likert scales. The respondents comprised of municipal leaders, officers, administrators, and academicians. Data was collected employing purposive sampling from sample municipalities through field survey from 12th November, 2022 to 5th May, 2023 . The purposive sampling method was used to select sample units having sound information on financial aspects of urban municipalities. Out of 350 questionnaires distributed, responses were received from 283 respondents with a response rate of 81 percent. Removing questionnaire with incomplete responses, the valid and final sample of 267 was used in the study. A pre-test of the scales used in the study was undertaken in Pokhara with 25 participants. The survey questionnaire was finalized incorporating the results from pre-test.

2.3 Data Analysis Tools

Both descriptive and inferential tools have been used for analyzing data. The OLS multiple regression analysis has been used to identify the impact of structural, economic, governance and external factors on financial condition. This research employs multiple regression model to analyze the impact of municipal structural, governance, economic and external factors on financial condition of the urban municipalities. A summated score of each factor is computed from the Likert scale and the scores have been used as the dependent and explanatory variables. As this research is based on cross-section data, the OLS estimation is used. The model has been diagnosed for checking assumptions of multicollinearity, normality and heteroscedasticity. The model specification is:

$$FCM_i = \alpha_0 + \beta_1 ECF_i + \beta_2 STF_i + \beta_3 GOF_i + \beta_4 EXF_i + \varepsilon_i$$

Where, FC = Financial condition of municipality

α = Intercept term;

β_1 to β_4 = Regression coefficients;

ECF = Economic factor;

STF = Structural factor;

GOF = Governance factor;

EXF = External factor;

ε_i is the error term.

2.4 Reliability and Validity

Measures have been undertaken to ensure reliability and validity of measurement instruments. The reliability and validity of scales used in questionnaire survey is accessed via internal consistency reliability measure Cronbach's Alpha, Composite reliability and Average variance extracted. Additionally, pre-testing of the questionnaire and expert opinion has been undertaken. The result of the test is as follows:

Table 2. Reliability and validity of scales

Construct	No of Items	Cronbach's Alpha	Composite Reliability	AVE ^φ
Economic Factor	10	0.723	0.711	0.52
External Factor	4	0.722	0.785	0.57
Governance Factor	9	0.711	0.791	0.61
Structural Factor	6	0.722	0.772	0.54
Financial Condition	6	0.756	0.808	0.63

^φ AVE = Average Variance Extracted

2.5 Ethical Considerations

Proper care has been taken during the study to ensure that breach of research ethics is not undertaken. Prior acceptance and informed consent has been taken from the respondents before approaching them with survey questionnaire. The questionnaire is accompanied by a covering letter that explains the aim of the study and identifies the researchers, asks for the questionnaire to be completed, explains the nature and importance of the study, and assures participants that their responses would be treated in confidence. In addition, unethical activities such as violating non-disclosure agreements, breaking participant confidentiality, and misrepresenting results is avoided. It has been ensured that respondents are not affected in any way as a result of the research. To avoid discomfort, the number of follow-ups reminding them for completion of questionnaire has been limited to a maximum of three times. All the information collected from the respondents during the study has been used for academic purpose only and kept confidential.

3. Results

3.1 Respondents' Profile

Table 3 presents the description of respondents of the questionnaire survey. The respondents comprised of mayors (9.4%), municipality administrators (30.3%), planning officers (25.5%), academicians, mainly university teachers (28.1%) and others (6.7%). The results reveal that largest proportion (39.3%) of respondents are from urban municipalities followed by sub-metropolitan cities (35.2%). Only 25.5 percent respondents are from metropolitan cities. As per geographical ecological zone, majority (52.4%) are from mountain ecological zone. Respondents from urban municipalities in Terai and Himal ecological zone are 32.2 and 15.4 percent, respectively. The result depicts that majority of respondents are male (56.9%), aged 35 to 50 years (47.9%) and have education masters level or above (54.7%).

Table 3. Respondent's profile

	Frequency	Percentage		Frequency	Percentage
A. Municipal Type			B. Geographic Ecological zone		
Metropolitan	68	25.5	Himal	41	15.4
Sub-Metropolitan	94	35.2	Mountain	140	52.4
Municipality	105	39.3	Terai	86	32.2
Total	267	100	Total	267	100
C. Age Category			D. Educational Level		
Less than 35	71	26.6	Intermediate or below	29	10.9
35 to 50	128	47.9	Bachelor	92	34.5
More than 50	68	25.5	Master and Above	146	54.7
Total	267	100	Total	267	100
E. Gender			F. Job Title		
Male	152	56.9	Mayor	25	9.4
Female	115	43.1	Administrator	81	30.3
			Planning Officer	68	25.5
			Academician	75	28.1
			Other	18	6.7
Total	267	100	Total	267	100

3.2 Financial Condition of Urban Municipalities

Table 4 depicts the financial condition of urban municipalities in Nepal in terms of liquidity, long term solvency, revenue generation capacity, quality of public service, financial resourcefulness and financial independence. As the mean scores of all the scale items are larger than 3 (the neutral point in 5-point Likert scale used), the respondents perceived that urban municipalities in Nepal to be likely to achieve the dimensions of financial condition. The result show that metropolitan cities have relatively better financial condition in dimension of ability to meet short-term obligation, revenue generation capacity, and financial independence. The urban municipalities are found to be more likely to repay long-term liabilities and having capacity to increase financial resource. The sub-metropolitan cities are found to have weaker financial condition as compared to metropolitan and urban municipalities.

Table 4. Financial condition of urban municipalities by municipal type

Financial Condition of Urban Municipalities	Aggregate	Municipal Category		
		Metropolitan	Sub-Metropolitan	Urban Municipal
Generate revenues to cover operations	3.88 (0.906)	3.94 (1.020)	3.86 (0.824)	3.86 (0.903)
Capacity to increase financial resource to respond to increased commitments	3.77 (0.874)	3.69 (0.950)	3.74 (0.891)	3.85 (0.806)
Maintain the quality of public services needed as desired by community	3.75 (0.938)	3.54 (1.057)	3.82 (0.892)	3.82 (0.886)
Ability to achieve financial independence	3.70 (0.945)	3.75 (1.070)	3.70 (0.960)	3.68 (0.849)
Capacity to repay short-term liabilities	3.69 (1.025)	3.72 (0.975)	3.63 (1.097)	3.71 (0.997)
Capacity to repay long-term liability	3.67 (0.952)	3.53 (0.954)	3.68 (0.882)	3.75 (1.007)

3.3 Importance of Dimensions Influencing Financial Condition of Municipalities

The perceived importance of municipal structural dimensions on financial condition of urban municipalities in Nepal are presented in Table 5. The results show that among the six dimensions, immigration, quality of life of citizens, and literacy rate have higher influence on financial condition. Dependency rate and population size are found to have relatively lower influence on financial condition. For metropolitan cities, literacy rate and immigration are important dimensions of financial condition while for urban municipalities quality of life is the most important dimension.

Table 5. Importance of structural factors for financial condition

Structural Factors of Financial Condition	Aggregate (Mean Score)	Municipal Category		
		Metropolitan	Sub-Metropolitan	Urban Municipal
Immigration	3.96 (0.789)	3.93 (0.886)	3.94 (0.745)	3.99 (0.766)
Quality of life of citizens	3.93 (0.750)	3.93 (0.719)	3.80 (0.712)	4.05 (0.789)
Literacy rate of citizens	3.87 (0.786)	3.97 (0.846)	3.77 (0.679)	3.90 (0.831)
Socio-economic status of citizens	3.76 (0.756)	3.78 (0.750)	3.73 (0.750)	3.78 (0.772)
Population size	3.73 (0.811)	3.85 (0.885)	3.68 (0.793)	3.69 (0.776)
Dependency rate	3.72 (0.771)	3.54 (0.762)	3.83 (0.798)	3.73 (0.737)

Note. *The values in the parentheses are standard deviation.*

The importance of differences in dimensions of municipal economic factors on their financial condition is presented in Table 6. The result depicts that capacity to meet commitments, availability of resources, and cost of providing services are three important economic dimensions that affect financial condition. For metropolitan cities, growth of business and industry is found to be the most important dimension for financial condition. Similarly, for urban municipalities availability of resources and level of employment are found to be the important dimension for financial condition. Achieving budget balance and source of revenue generation are perceived to be relatively less important economic dimensions.

Table 6. Importance of economic factors for financial condition

Dimensions of Economic Factors	Aggregate	Municipal Category		
		Metropolitan	Sub-Metropolitan	Urban Municipal
Availability of resources	3.84 (0.806)	3.76 (0.848)	3.78 (0.805)	3.93 (0.775)
Capacity to meet commitments	3.85 (0.823)	3.81 (0.935)	3.81 (0.780)	3.91 (0.786)
Cost of providing services	3.82 (0.782)	3.79 (0.802)	3.79 (0.788)	3.88 (0.768)
Capability to recover costs	3.81 (0.791)	3.76 (0.794)	3.82 (0.855)	3.84 (0.735)
Level of employment	3.81 (0.794)	3.76 (0.813)	3.70 (0.760)	3.92 (0.805)
Financial efficiency	3.79 (0.794)	3.68 (0.871)	3.79 (0.788)	3.88 (0.730)
Status of infrastructural development	3.79 (0.781)	3.71 (0.793)	3.81 (0.780)	3.83 (0.778)
Growth of business and industry	3.77 (0.839)	3.88 (0.802)	3.65 (0.876)	3.81 (0.822)
Source of revenue generation	3.74 (0.764)	3.79 (0.856)	3.60 (0.738)	3.84 (0.709)
Achieve budget balance	3.72 (0.789)	3.59 (0.815)	3.80 (0.756)	3.74 (0.797)

The significance of municipal governance factors on financial condition of urban municipalities in Nepal are presented in Table 7. Among the nine factors of municipal governance municipal leadership, good governance, and transparency are found to be more important for financial condition. For metropolitan cities in addition to municipal leadership, budgeting and accounting procedures as well as municipal human resources were found to be important. For urban municipalities, municipal leadership, good governance, and lack of political interference were found to be important dimensions.

Table 7. Important of municipal governance factors for financial condition

Municipal Factors	Governance	Aggregate	Municipal Category		
			Metropolitan	Sub-Metropolitan	Urban Municipal
Role of municipal leadership		3.81 (0.782)	3.81 (0.815)	3.77 (0.739)	3.86 (0.802)
Good governance		3.78 (0.805)	3.57 (0.919)	3.83 (0.771)	3.86 (0.739)
Transparency		3.72 (0.810)	3.54 (0.888)	3.77 (0.782)	3.78 (0.772)
Budgeting and accounting procedures		3.71 (0.748)	3.62 (0.829)	3.76 (0.683)	3.73 (0.750)
Municipal human resource capability		3.70 (0.741)	3.69 (0.758)	3.66 (0.741)	3.75 (0.757)
Political interference		3.70 (0.776)	3.57 (0.816)	3.67 (0.739)	3.81 (0.681)
Anti-corruption practices and measures		3.70 (0.776)	3.56 (0.904)	3.73 (0.750)	3.76 (0.701)
Public participation in municipal governance		3.70 (0.740)	3.65 (0.806)	3.69 (0.672)	3.75 (0.757)
Local government management		3.64 (0.769)	3.54 (0.888)	3.74 (0.671)	3.62 (0.764)

The importance of following external dimensions on influencing financial condition of urban municipalities is presented in Table 8. The result reveal that central government policies and municipal independence are important dimensions for financial condition. The findings show that although municipal independence is most important for metropolitan cities, central government policy is most important for urban municipalities.

Table 8. Importance of external factors for financial condition

Dimensions of External Factors for Financial Condition	Aggregate	Municipal Category		
		Metropolitan	Sub-Metropolitan	Urban Municipal
Central government policies	3.79 (0.750)	3.75 (0.760)	3.72 (0.768)	3.89 (0.725)
Municipal independence	3.72 (0.776)	3.85 (0.675)	3.5 (0.796)	3.75 (0.806)
Federal grants	3.64 (0.708)	3.62 (0.754)	3.57 (0.595)	3.72 (0.766)
Relationship with central government	3.62 (0.763)	3.51 (0.723)	3.56 (0.784)	3.74 (0.760)

3.4 Factors Affecting Financial Condition

A correlation matrix of four municipal factors, viz., structural, economic, governance and external factors with financial condition of urban municipalities in Nepal were calculated and the result is presented in Table 9. The results show that all the four factors have significant and positive correlation with financial condition. The findings highlight that structural factor has the strongest positive correlation with financial condition among the four factors. External factor has moderate positive correlation with financial condition. Economic and governance factors have weak but significant positive correlation with financial condition.

Table 9. Correlation matrix: Relationship of four municipal factors with financial condition

Municipal Factors	STF	ECF	GOF	EXF	FCM
Structural Factors	-				
Economic Factors	-0.073	-			
Governance Factors	-0.029	0.085	-		
External Factors	-0.015	0.213**	0.248**	-	
Financial Condition	0.749**	0.344**	0.394**	0.508**	-

** means the coefficient is significant at 5% level of significance ($P < .05$)

STF = Structural Factor; ECF = Economic Factor; GOF = Governance Factor; EXF = External Factor; FCM = Financial Condition of Municipality

A multiple regression model with financial condition as dependent and structural, economic, governance and external factors as independent variables was computed and the output is presented in Table 10. The result reveal that structural, economic, and governance factors have significant relationship with financial condition of urban municipalities in Nepal. The three factors have positive impact on financial condition. Improvement in municipal governance is found to be the inevitable factor impacting financial condition followed by economic and structural factors.

Table 10. Factors affecting financial condition: Output of multiple regression model

Predictor	Estimate	SE	t-stat	<i>p-value</i>	Std. Estimate
Constant	1.4659	0.2663	5.504	<.001	
Governance Factor	0.3297	0.0465	7.0867	<.001	0.392
Economic Factor	0.1831	0.0465	3.9349	<.001	0.217
Structural Factor	0.0663	0.0171	3.8811	<.001	0.209
External Factor	-0.0055	0.0367	-0.0152	0.988	-0.0085

R-Squared: 0.247; Adjusted R-Squared: 0.236; F-stat: 21.5 (p<.001)

The R-squared value depicts that around 25 percent variation in financial condition of urban municipalities in Nepal has been explained by explanatory variables used in the model. The value of F-statistics is significant at 1.0 percent level of significance indicating the overall fit of the model. It justifies the overall applicability of the model. The VIF values are found to be less than 5 indicating absence of multicollinearity problem. The normal probability plot of the regression residuals revealed a linear pattern revealing that the error terms are normally distributed.

4. Discussion

This research aimed to identify the factors that effect financial condition of urban municipalities in Nepal. The results provides valuable insights into their financial condition, sustainability, and performance. The findings contribute to the existing literature on municipal finance and offer an opportunity to understand the specific context of urban municipalities in Nepal. The study findings align with prior research that emphasizes the importance of revenue generation and financial stability for effective municipal governance (Reivenbark et al., 2010; Gomes et al., 2013). The ability of urban municipalities in Nepal to generate sufficient revenue and manage their finances positively impacts their capacity to provide essential public services and infrastructure. Furthermore, the analysis highlighted ecological variations in the financial condition of urban municipalities which have been recognized in previous studies on ecological disparities in municipal finance (Bahl et al., 2022; Kleynhans and Coetzee, 2019). The results also corroborate with prior literature that emphasizes the impact of demographic factors, such as population growth and education levels, on municipal finance (Ritonga, 2012; Wang et al., 2017). The findings support prior research that highlights the significance of economic factors, such as resource availability and cost management, in municipal finance (Gomes et al., 2013; Alam et al., 2017; MacLean, 2022). Additionally, findings align with prior literature that emphasizes the role of effective governance and leadership in achieving financial sustainability and accountability (Bahl, 2022; Sharma, 2023). The study also revealed that municipal leadership, budgeting and accounting procedures, and municipal human resources were

particularly important for metropolitan cities, while good governance and lack of political interference were emphasized for urban municipalities.

The present research investigated the relationship between various factors and the financial condition of urban municipalities in Nepal. The results revealed that three out of the four factors (governance, economic, and structural factors) were found to be significant, indicating a strong association with the financial condition of local governments. However, external factors was not found to be significant, suggesting a limited impact on the financial condition. The findings support the common pool theory and the resource base view theory. The resource-based view approach suggests that the optimization of the three significant factors, namely governance, economic conditions, and structural factors, contributes to the financial condition of urban municipalities. This implies that local governments should prioritize the utilization of internal financial resources to achieve long-term sustainability.

The significant relationship between municipal structural factors and the financial condition indicates the importance of factors such as infrastructure, physical assets, and land use planning. These elements play a crucial role in shaping the financial health of local governments. Similarly, the significant relationship between municipal economic factors and the financial condition highlights the influence of economic conditions, including revenue generation, fiscal policies, and economic growth. Effective management of these economic factors can have a positive impact on the financial well-being of urban municipalities. Furthermore, the significant relationship between municipal governance factors and the financial condition emphasizes the significance of good governance practices, transparency, accountability, and efficient decision-making processes. Strengthening governance mechanisms can lead to improved financial outcomes for local governments.

5. Conclusion

This research investigates the factors influencing financial condition of urban municipalities in Nepal. The findings contribute to the existing literature on municipal finance and provide valuable insights for policymakers and researchers. In terms of the financial condition of urban municipalities, this research found that overall, the municipalities have favorable financial conditions with satisfactory revenue generation, financial resources, and long-term solvency. Furthermore, this research identified several dimensions that influence the financial condition of urban municipalities. Factors such as immigration, quality of life of citizens, and literacy rate have emerged as critical factors in shaping the financial condition of municipalities. Economic factors, including the capacity to meet commitments, resource availability, and cost management were also significant. Effective municipal governance, characterized by strong leadership, good governance practices, and transparency, played a crucial role in financial sustainability. In contrary, external factors, such as central government policies and municipal independence didn't influence financial condition.

6. Implications

The findings from this study contribute to the existing literature by providing empirical evidence on factors affecting financial condition of municipalities. Additionally, The findings of this research have significant implications for local government financial viability and decision-making. The results confirm the importance of revenue generation, financial stability, effective governance, and ecological considerations in shaping municipal finance. The insights gained from this study can inform policymakers, urban planners, local authorities, and practitioners in developing strategies and policies to enhance the financial condition and sustainability of urban municipalities in Nepal. Overall, policymakers can utilize the study's findings to develop targeted policies, practitioners can adopt best practices, and future researchers can build upon this research to deepen our understanding of local government financial conditions.

7. Limitations and Future Research Directions

It is important to acknowledge some limitations of this research. The research was conducted within a specific time frame and focused on urban municipalities in Nepal, which may limit the generalizability of the findings to the contexts of urban governments in other countries as well as in the case of rural municipalities in Nepal itself. Future research could explore a broader sample of municipalities and include longitudinal data to capture temporal changes in municipal finance. Additionally, further investigation into the specific factors driving variations across municipal type in financial conditions would provide valuable insights. Overall, this research contributes to the understanding of municipal finance in Nepal and highlights the need for continued efforts to improve revenue generation, financial stability, and effective governance in urban municipalities. By addressing these challenges and building upon the strengths identified, urban municipalities in Nepal can strive towards greater financial sustainability

For future researchers, this study opens avenues for further investigation. Researchers can delve deeper into specific factors affecting local government financial conditions, such as revenue sources, expenditure patterns, and debt management strategies. Comparative studies across different ecological zones or countries could provide insights into variations in financial health. Additionally, exploring the impact of external factors, such as economic downturns or policy changes, on financial conditions would contribute to a comprehensive understanding of local government finance. Extending research efforts to include longer period panel data would enable the examination of temporal changes in the financial condition and performance of urban municipalities over time. This longitudinal perspective would provide a more comprehensive understanding of the dynamics and trends in municipal finance.

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Competing Interests

The authors declare no any conflict of interest.

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