Fiscal Mechanism of Dhangadhi Sub-Metropolitan City: Revinue Generation and Expenditure Allocation

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Abstract

This study explores the connection between revenue sources and expenditures in achieving the goals outlined in the development plan. It examines the revenue and expenditure patterns of Dhangadhi Sub-metropolitan City over a five-year span (2076–2080). The study first assesses the structural trends in revenue generation and spending. Then, it evaluates the effectiveness of current revenue sources and suggests additional avenues for revenue enhancement. Finally, it establishes a link between revenue streams and expenditures. A combination of descriptive and analytical research methods was employed. To examine revenue and expenditure trends, descriptive statistical tools were utilized. Additionally, insights were gathered through panel discussions and key informant interviews. The interviewees were selected from various sectors, including poultry farming, healthcare, trade, education, hardware supply, hospitality, and public transport. Findings indicate that the service sector consistently drives more than two-thirds of the local economy, while manufacturing has remained relatively weak, contributing less than 10 percent. Expanding the tax base could significantly enhance revenue collection. Currently, the city follows a centralized approach—pooling all revenue into a single fund before allocating expenditures. However, discussions suggest that a more structured approach, with designated revenue and expenditure portfolios, might be beneficial. These insights could serve as a valuable resource for both policymakers and taxpayers in Dhangadhi Sub-metropolitan City.

Key words: Development plan, economic policies, expenditure allocation, and revenue generation.

Introduction

Background of the Study

Nepal's federalization process began in 2015 with the adoption of a new constitution, officially establishing the country as a Federal Democratic Republic. Under this system, governance is divided into three tiers: central, provincial, and local. The nation is further segmented into seven provinces and 753 local government units. The constitution lays the groundwork for fiscal federalism, outlining expenditure responsibilities and revenue sources for each level of government. All three tiers possess the legal authority to draft laws, formulate budgets, and mobilize resources.

Under this decentralized framework, sub-national governments are expected to generate their own revenue (OSR) through various local taxes and fees, as stipulated in key legislative acts, including the Constitution of Nepal (2015), the Local Governance Operation Act (2017), the National Natural Resource and Fiscal Commission Act (2017), and the Intergovernmental Financial Management Act (2017). These laws also regulate fiscal transfers and revenue-sharing mechanisms. As a result, sub-national revenue streams comprise three key components: fiscal transfers, shared revenue, and locally collected taxes and service fees. Additionally, the Local Government Operations Act (2017) and the Intergovernmental Financial Management Act (2017) define both exclusive and concurrent tax rights between provincial and local governments.

For sub-national governments, fiscal transfers such as equalization and conditional grants and revenue-sharing mechanisms, including VAT and excise duties on domestic production, have been the primary revenue sources. However, the contribution of local taxes remains minimal, accounting for just one to two percent of total provincial and local revenue. In contrast, the central government's primary revenue streams customs duties, VAT, excise duties, corporate income tax, and personal income tax make up nearly 90 percent of its total revenue.

According to the 2021 Multidimensional Poverty Index Report by the National Planning Commission, approximately 28.6 percent of Nepal's population lives below the poverty line, meaning one in four people experience poverty. The report has set a target to reduce this figure to 11.5 percent by 2024. However, the financial resources required to achieve this goal and the revenue sources that could support such efforts remain unclear. This study, therefore, seeks to identify potential income sources that can fund these expenses and contribute to poverty reduction.

The Nepalese Fiscal Federalism Update Report 2023, published by the World Bank, provides insights into macro-fiscal conditions at the provincial and local levels. It examines legal, policy, and institutional frameworks surrounding fiscal federalism and assesses the progress of public financial management in sub-national governments. However, the report does not address revenue generation strategies in depth. Similarly, the 2020 Sustainable Development Goals (SDG) progress evaluation report, covering the period from 2016 to 2019, outlines goals, achievements, and targets but lacks a thorough analysis of revenue sources needed to finance proposed expenditures.

Most existing studies and reports focus primarily on budgeting and spending, leaving a critical gap in understanding revenue structures and their connection to expenditures. This raises a key question: What are the structural patterns of revenue sources, and how can they be linked effectively to expenditure planning?

An analysis of Nepal's 16th five-year development plan highlights a fundamental issue—a lack of proper estimation of revenue sources in relation to planned expenditures. This shortcoming may contribute to the failure of development plans to achieve their intended objectives. For instance, before purchasing an expensive car, an individual must first assess their income sources to determine affordability. Likewise, effective development planning requires an accurate estimation of revenue generation before committing to expenditures. As Robbins (1998) pointed out, resource allocation is a crucial component of planning, making revenue estimation just as important as expenditure estimation.

Dhangadhi Sub-metropolitan City, located in Nepal's Sudurpashchim Province, plays a vital role in the regional economy. Its revenue comes from multiple sources, including local taxes, service fees, fiscal transfers from central and provincial governments, and revenue-sharing mechanisms. A significant

portion of this income is allocated to essential public services such as infrastructure development, education, healthcare, and sanitation, reflecting the city's commitment to improving residents' quality of life.

The relationship between revenue and expenditure in Dhangadhi is evident in its budgetary process, where the funds generated directly influence allocations for development projects and operational costs. However, challenges persist in optimizing revenue collection and ensuring efficient expenditure management to meet the demands of urbanization and poverty alleviation. Strengthening the city's economic foundation and enhancing fiscal discipline will be key to achieving sustainable development and improving public service delivery. Service sector contributes around 76 percent in the economy of Dhangadhi Sub metropolitan, followed by agriculture sector, which contributes around 18 percent and around 5 percent contribution made by manufacturing sector. Where the recurrent expenditure covers around 60 percent and capital expenditure covers around 40 percent. In this regards this study addresses the following research questions: What is the structural pattern of revenue and expenditure in Dhangadhi Sub-metropolitan City? Are the current tax policies and revenue sources effective, or are there opportunities for improvement? How can revenue sources be more effectively linked to planned expenditures? To answer these questions, the study first examines the structural patterns of revenue and expenditure in Dhangadhi. It then evaluates the relevance of existing revenue sources and explores additional avenues for income generation. Finally, it establishes a framework for linking revenue streams to planned expenditures in a more structured and effective manner.

Review of Literature

Dhanasekaran (2001) explored the relationship between tax collection and government spending in India, employing Geweke's and Granger's causality tests. The study analyzed data from key sources, including the Reserve Bank of India's Annual Reports, Reports on Currency and Finance, and the Government of India's Economic Survey, covering the period from 1960–61 to 1995–96. Findings indicated no long-term connection between tax revenue (TR) and government expenditure (GE). While Geweke's test showed no causality when GE was the dependent variable and bidirectional causality when TR was the focus, Granger's test pointed to a unidirectional link from GE to TR. These differences highlighted the significance of model specification in assessing the interplay between revenue and expenditure.

Saunoris (2015) conducted a long-term panel data analysis to examine government revenue and expenditure relationships in the Republic of Serbia. Using data spanning from 1951 to 2008 across 48 contiguous U.S. states, the study applied fixed-effects models and a six-equation error correction approach, incorporating per capita normalization and logarithmic transformations. The results suggested that reductions in government spending, grants, and additional income played an indirect role in budgetary adjustments. Supporting the tax-spend hypothesis, the findings demonstrated that increased tax revenues led to higher government spending. Debt levels and grants significantly shaped fiscal trends, underscoring their influence on budgetary management. States with high debt burdens exhibited distinct fiscal patterns, with deficits leading to further debt accumulation. The study recommended cost-cutting strategies, measures to control long-term debt growth, and legislative interventions to enhance fiscal discipline.

Ullah (2016) examined the theoretical relationship between government spending and revenue in Malaysia. Relying on publicly available data, the study investigated the impact of income and

expenditure on Malaysia's economic sustainability. The analysis revealed a notable trend: while direct taxes constituted the primary revenue source, fluctuations in indirect tax revenue and non-tax income largely influenced shifts in government spending. The study underscored the importance of aligning revenue strategies with expenditure frameworks to support long-term economic stability.

Acharya (2017) assessed changes in India's government revenue and expenditure between 2011–12 and 2015–16. Focusing on total government expenditure in relation to key independent variables—including total income, tax revenue, non-tax revenue, and other revenue sources—the study utilized secondary data from official government reports and adopted a descriptive research approach. A critical observation was that government spending was rising at a pace faster than revenue growth, intensifying fiscal imbalances and widening the deficit over the study period.

Goyal and Sharma (2018) employed a Structural Vector Autoregression (SVAR) model to evaluate the effects of different categories of government expenditure in India, including total, capital, and revenue expenditures. By integrating monetary policy responses and supply-side influences, the study examined both short- and long-term fiscal multipliers. The results showed key distinctions: revenue expenditure (revex) had a short-term stabilizing effect, whereas capital expenditure (capex) exhibited a substantially higher long-term impact. The cumulative effect of capex was estimated to be between 2.4 and 6.5 times greater than that of revex. Additionally, the study highlighted how supply-side factors influenced the two expenditure types differently, emphasizing the importance of disaggregating spending analyses to refine fiscal policy.

The IIDS (2020) report focused on revenue generation potential in two provinces—Lumbini and Gandaki—as well as two local governments, Pokhara Metropolitan City and Butwal Sub-Metropolitan City. While this study provided valuable insights, it was geographically limited. The current research aims to expand its scope to a nationwide level, establishing broader linkages between revenue sources and expenditure management.

Other key reports, such as the Sustainable Development Goals Progress Evaluation Report 2020 by the National Planning Commission, have outlined existing conditions and targeted goals for government spending. Similarly, the Nepalese Fiscal Federalism Update Report 2023 from the World Bank has reviewed fiscal policies and public financial management strategies. The Multidimensional Poverty Index 2021, published by the National Planning Commission, assessed Nepal's progress on poverty reduction and set future targets.

However, apart from the IIDS (2020) study, most reports have primarily focused on expenditures and policy outcomes rather than systematically evaluating revenue generation potential and forecasting. This study aligns with the IIDS (2020) report but seeks to extend its findings beyond the two selected provinces, offering a more comprehensive analysis of revenue structures at both provincial and national levels.

Essel (2025) analyzed the revenue mobilization strategies and local government performance in Ghana. The study examined the influence of revenue mobilization channels and strategies on local government performance. The study used mixed method and sequential explanatory design based on primary data, which were collected through questionnaire and interview. The findings shown that revenue mobilization channels and strategies have been significant and positive relation with local level government performance. Where the local level government dynamics and stakeholder's engagement offers valuable contribution to local level government performance.

Conceptual Framework

The structural patterns of sources of revenues and expenditures has been examined using secondary data. Furthermore, the relevancy of sources of revenue and linkages between sources of revenues and expenditures has been analyzed using focus group discussion with key informants of Dhangadhi Sub-metropolitan City. The following conceptual framework provides a holistic approach to the study.

Figure 1

Conceptual Framework
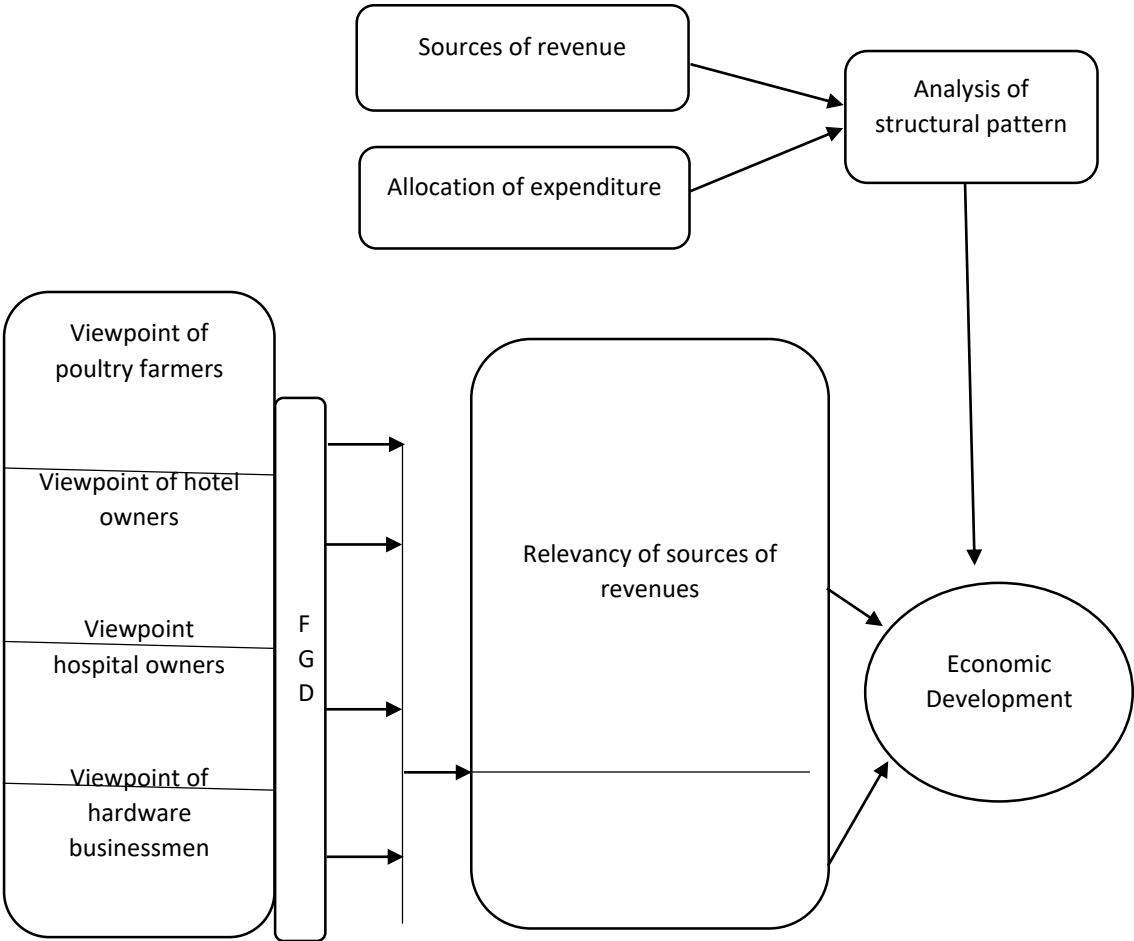
The conceptual framework establishes a structured approach to examining the interplay between revenue sources, expenditure allocation, and economic growth. It begins with an in-depth assessment of revenue streams and expenditure patterns, aiming to identify underlying structural trends. To enhance these findings, discussions with key stakeholders such as poultry farmers, hotel operators, hospital administrators, hardware traders, private school proprietors, and IT entrepreneurs are conducted through Focus Group Discussions (FGDs). The insights gathered from these diverse perspectives shed light on sector-specific challenges and opportunities, offering a well-rounded view of fiscal dynamics.

Next, the framework evaluates the significance of various revenue sources and their direct and indirect links to expenditure, emphasizing the ways in which these elements interact to shape economic outcomes. By establishing these connections, the study provides a deeper understanding of how resource allocation influences development. In the final stage, the analysis focuses on the broader impact of these financial mechanisms on economic progress, offering practical recommendations to optimize fiscal management and support long-term, sustainable growth.

Methodology

The study adopted a combination of descriptive and analytical research approaches. To examine secondary data, descriptive statistical tools such as mean, median, and standard deviation were applied. Additionally, primary data was analyzed and substantiated through Focus Group Discussions (FGDs). The research design was structured to explore diverse perspectives from various economic stakeholders in Dhangadhi Sub-metropolitan City, including poultry farmers, hotel proprietors, hospital administrators, hardware traders, private school operators, and IT business owners. Their insights on revenue sources and expenditure distribution were gathered through FGDs and key informant interviews, providing a deeper understanding of fiscal dynamics and development challenges.

A mixed-methods approach was utilized, integrating qualitative and quantitative techniques for comprehensive data analysis. Qualitative inputs from interviews and discussions were thematically analyzed to detect recurring trends, while quantitative data from government reports, financial records, and statistical datasets were examined using inferential statistical tools like correlation and regression analysis. The triangulation of qualitative and quantitative findings ensured the credibility and reliability of the study by cross-referencing insights from multiple data sources.

To assess the impact of revenue sources and expenditure distribution on economic development, the study linked analyzed data to key indicators such as employment levels, GDP contributions, and sectoral growth. A multiple regression model was constructed to analyze the relationships between variables, with economic development as the dependent variable and revenue generation and expenditure allocation as independent variables:

Regression Model: $G_t = \beta_0 + \beta_1 R_t + \beta_2 E_t + \epsilon$ (Gujarati, 2012)

Where:

> **G** represents the economic growth of DSMC.
>
> **R** denotes revenue generation.
>
> **E** signifies expenditure allocation.
>
> **ϵ** accounts for error terms.

Economic Growth: This variable reflects the increase in the production of goods and services within DSMC over a specific period, encompassing improvements in income, employment, infrastructure, and overall living standards.

Revenue Generation: It includes all income streams for DSMC, derived from activities such as taxation, business operations, and investments across various sectors, including poultry farming, IT enterprises, and private education.

Expenditure Allocation: This pertains to the strategic distribution of financial resources across essential areas like infrastructure projects, operational costs, social services, and technological advancements to facilitate economic progress.

By employing this methodological framework, the study provided a comprehensive examination of revenue-expenditure linkages and their role in fostering sustainable economic development.

Results and Discussion

A nation's economic progress is often measured through key indicators such as GDP and per capita income. Serving as the economic nucleus of Sudurpashchim Province, Dhangadhi Sub-Metropolitan City (DSMC) significantly contributes to the region's financial landscape. With a population of 198,792, the city accounts for roughly 9.065% of the province's GDP. In the fiscal year 2080/81 B.S., DSMC reported a GDP of NPR 3.63 billion, with its per capita income reaching USD 1,382. This figure surpasses the provincial average but remains slightly lower than the national benchmark. The city's economic vitality is fueled by its thriving trade, service sector, and industrial activities. However, the rapid pace of urbanization and an increasing population have intensified waste management concerns, posing a challenge to sustainable development.

Figure 2

Major Economic Sectors of DSMC
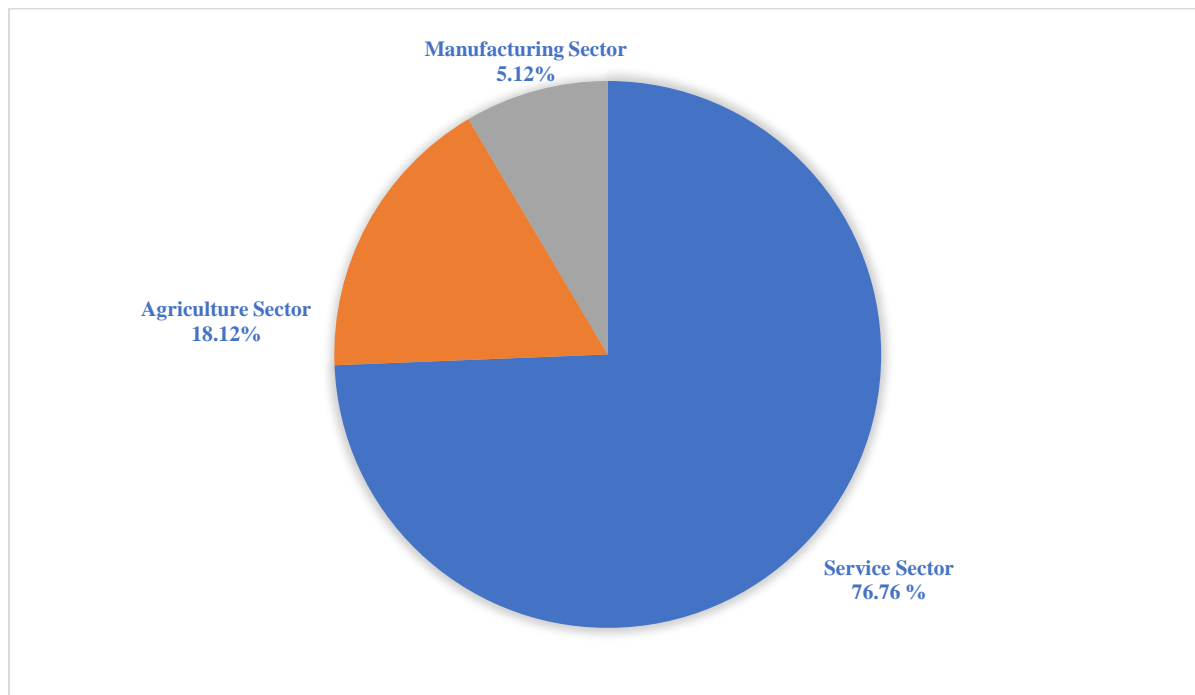
The figure illustrates the key economic sectors within Dhangadhi Sub-Metropolitan City (DSMC), with a specific emphasis on the agricultural sector. Agriculture remains a cornerstone of the city's economy, playing a crucial role in providing employment and ensuring food security. This sector includes activities such as farming, livestock production, forestry, and fishing. Despite the city's rapid

urbanization, agriculture continues to be essential for a large portion of the population. The figure likely outlines the proportion of agriculture within the total GDP of DSMC, offering a comparison of its significance against other sectors, such as manufacturing, services, and trade. Additionally, it may reveal trends in the sector, including its growth patterns, challenges, and the impacts of urbanization, climate change, or technological advancements.

Table - 1

Allocation of Re-current Expenditure on Staffs and Others (in Percentage)

Expenditure	2076/77	2077/78	2078/79	2079/80	2080/81
Staffs	68.59	58.67	30.99	33.08	64.20
Others	31.41	41.33	69.01	66.92	35.80
Total	100	100	100	100	100

Sources: Expenditure Report (206777 – 2080/81) of Dhangadhi Sub-metropolitan

The table outlines the recurrent expenditure for the fiscal years 2076/77 through 2080/81, breaking it down into two main categories: Staff and Other expenses. It presents both the total amounts and their corresponding percentages of the overall expenditure for each year. Expenditure on staff saw a notable decline in 2078/79 and 2079/80, before experiencing a sharp rise in 2080/81. In contrast, expenditure under the "Other" category followed an opposite trend, with significant increases in 2078/79 and 2079/80, then a decrease in 2080/81. The staff-related expenditure dropped to its lowest share (30.99%) in 2078/79 but recovered to dominate the total expenditure (64.20%) in 2080/81. On the other hand, the other category reached its highest proportion (69.01%) in 2078/79. This table effectively illustrates the distribution of expenses between staff and other costs over five years, highlighting both the trends and key shifts in their relative shares.

Capital Expenditure

Table – 2

Allocation of Capital Expenditure on Building and Others

	2076/77	2077/78	2078/79	2079/80	2080/81
Building	24.82	26.06	28.04	19.53	11.74
Others	75.18	73.94	71.96	80.47	88.26
Total	100	100	100	100	100

Sources: Expenditure Report (206777 – 2080/81) of Dhangadhi Sub-metropolitan

The data highlights a strategic shift in capital expenditure away from building-related projects toward Others, coupled with an overall reduction in capital investment by 2080/81. This reflects changing priorities, possibly due to shifting policy goals or resource constraints.

Recurrent expenditure and Capital Expenditure

Table – 3

Capital and Recurrent Expenditure

Year	Capital Expenditure	Percentage	Recurrent Expenditure	Percentage	Total
2076/77	574756906.8	0.448	708404087	0.552	1283160993
2077/78	660310295.2	0.437	850430017	0.563	1510740312
2078/79	569180176.8	0.393	879548635	0.607	1448728812
2079/80	685857902.7	0.416	961222013	0.584	1647079916
2080/81	532379915.1	0.356	964505943	0.644	1496885858

Sources: Expenditure Report (206777 – 2080/81) of Dhangadhi Sub-metropolitan

The table illustrates how total expenditure was distributed between capital and recurrent categories over five fiscal years (2076/77 to 2080/81). Capital expenditure, which includes long-term investments such as infrastructure and development projects, initially made up a larger share of the total expenditure (44.8% in 2076/77). However, this proportion gradually decreased, reaching 35.6% by 2080/81. On the other hand, recurrent expenditure, covering ongoing costs like salaries and maintenance, steadily increased, rising from 55.2% in 2076/77 to 64.4% in 2080/81. This pattern reflects a shift in spending priorities, with more resources directed toward the maintenance of daily operations rather than capital investments. The total expenditure peaked in 2079/80 at 1.65 billion but declined to 1.49 billion in 2080/81, suggesting potential fiscal constraints or a reassessment of resource allocation. This change may indicate a strategic pivot toward maintaining existing systems and services rather than embarking on large-scale new projects.

Revenue Sharing

Table – 4

Summary of Revenue and Expenditure

Year	Total expenditure	Recurrent	Capital	Total revenue	Surplus/deficit
2076/77	1283160993	708404087	574756907	1353158602	69997608.9
2077/78	1510740312	850430017	660310295	1673213033	162472720.9
2078/79	1448728812	879548635	569180177	1867407113	418678301.4
2079/80	1647079916	961222013	685857903	2042458902	395378985.4
2080/81	1496885858	964505943	532379915	1917634512	420748653.6

Sources: Financial Report (206777 – 2080/81) of Dhangadhi Sub-metropolitan

The table demonstrates positive fiscal performance, with consistent surpluses and increasing revenues over time. However, the reduced capital expenditure in later years might raise concerns about the sustainability of long-term development projects.

Table – 5

Correlation among Variables

Recurrent	Capital	Total revenue	
1.0000	0.1457	0.9692	Recurrent
	1.0000	0.2148	Capital
		1.0000	Total revenue

Correlation coefficients, using the observations (2076/77 -2080/81) 5% critical value (two-tailed) = 0.8783 for n = 5

The correlation matrix shows important relationships between recurrent, capital, and total revenue variables. Recurrent expenditures exhibit a very strong positive correlation with total revenue (0.9692), suggesting that they are highly reliant on revenue sources. On the other hand, capital expenditures display a much weaker positive correlation with both total revenue (0.2148) and recurrent expenditures (0.1457), indicating that they are influenced by factors other than just revenue or recurring expenses. This points to the fact that while recurrent expenditures are closely tied to revenue, capital expenditures are more independent and likely require separate planning and funding strategies. The overall findings emphasize the crucial role of revenue generation for covering ongoing needs and the necessity for distinct approaches in managing capital investments.

Table - 6

Regression Analysis

Model	Constant	Total Revenue	Total Expenditure	Capital Expenditure	Recurrent Expenditure	R^2
Model 1	182408 (0.0001)	0.0000 (0.9543)	0.0000 (0.5359)	0.0000 (0.5359)	0.0000 (0.5359)	0.99
Model 2	182408 (0.0001)		0.0000 (0.5204)	00.0000 (0.5204)	0.0000 (0.5204)	0.99
Model 3	182408 (0.0001)	0.0000 (0.0032)		00.0000 (0.2640)	0.0000 (0.0032)	0.99
Model 4	182408 (0.0001)	0.0000 (0.0069)	0.0000 (0.0218)		0.0000 (0.0351)	0.99
Model 5	182408 (0.0001)	0.0000 (0.0032)	0.0000 (0.0032)	0.0000 (0.0057)		0.99

Where the dependent variable is GDP per capita and independent variables are total revenue, total expenditure, capital expenditure and revenue expenditure

The results of the regression analysis show that in all five models, the constant term (182,408) is statistically significant, with a p-value of 0.0001, indicating that GDP per capita remains constant at this value across all models. However, the independent variables (total revenue, total expenditure, capital expenditure, and recurrent expenditure) display varying levels of significance in each model. In all instances, the coefficients for these variables are close to zero, and the p-values are generally above the 0.05 threshold, suggesting that these variables do not have a significant effect on GDP per capita. Despite this, the R-squared (R^2) value for all models is 0.99, meaning the models account for 99% of the variance in GDP per capita. These findings suggest that changes in total revenue, total expenditure, and their components (capital and recurrent expenditures) do not have a meaningful impact on GDP per capita in this analysis.

Results from Focus Group Discussion

Sources of Revenue:

Dhangadhi Sub-Metropolitan City, located in the Far-Western Province of Nepal, has a varied economy, with contributions from a range of sources. Government employees form a significant part of the formal economy, and their salaries help generate local demand. Private school and private hospital owners provide crucial services, driving employment and attracting students and patients from nearby areas, thereby benefiting local businesses. Poultry and traditional farmers are essential for the agricultural sector, providing food to local and regional markets and contributing to food security and income generation. Local businessmen and hotel owners further support the economy through trade, tourism, and hospitality services, leveraging Dhangadhi's advantageous position near the Indian border. Civil society groups advocate for policies that promote inclusive growth, ensuring that all segments of society benefit. Collectively, these groups shape a dynamic economic landscape, with agriculture, education, healthcare, trade, and tourism being key drivers of development.

Expenditure Allocation:

For the fiscal year 2080/81 BS (2023/24 AD), Dhangadhi Sub-Metropolitan City has allocated a budget of NPR 1.93 billion. Of this, NPR 1.17 billion is earmarked for recurrent expenses, while NPR 756.3 million is dedicated to capital investments. The city's spending priorities include social development (44%), infrastructure (19%), economic development (5%), and administrative costs (28.8%). The budget focuses on modernizing key sectors, such as agriculture and livestock commercialization, industry promotion, tourism, sustainable infrastructure development, and urban improvements. These initiatives are designed to foster long-term economic prosperity by boosting employment and living standards.

Linkages Between Revenue and Expenditure:

Dhangadhi's revenue streams come from multiple sources, such as local taxes (including property, business, and vehicle taxes), service fees, grants from the central and provincial governments, and earnings from municipal enterprises like public markets and rental properties. The city's proximity to the Indian border boosts trade and tourism, further contributing to its economic activity. Expenditures are largely directed toward infrastructure (including roads, water supply, and sanitation), education, healthcare, and social services. A significant portion of the budget is also spent on agriculture, tourism promotion, and fostering local entrepreneurship, which helps stimulate economic growth. The city's focus on public utilities and services improves living conditions, attracts more investment, and strengthens economic activity.

The link between income and expenditure is evident in Dhangadhi's sustainable development strategy. For instance, revenue from local taxes and trade is reinvested in infrastructure and public services, improving the business climate and attracting investment. Similarly, revenue from grants and agriculture is used to support farmers and small businesses, which in turn stimulates growth. By prioritizing education and healthcare, the city ensures a skilled and healthy workforce, boosting productivity. These interconnected efforts contribute to a strong economic system, promoting long-term development for Dhangadhi Sub-Metropolitan City.

Conclusion

This research article explores the fiscal processes within Dhangadhi Sub-Metropolitan City (DSMC) in Nepal, concentrating on the generation of revenue, distribution of expenditures, and their effects on economic growth. The study investigates the revenue and expenditure patterns over a five-year span, from 2076 to 2080 B.S., analyzing the importance of current revenue sources and how they connect to the city's expenses. The purpose is to uncover potential income streams that could cover costs and aid in achieving the city's poverty alleviation objectives.

A combination of descriptive and analytical research methods was used for the study. Descriptive statistics were applied to identify the structural trends in revenue and expenditure. In addition, panel discussions and interviews with stakeholders from diverse sectors such as poultry farming, healthcare, and education were conducted to understand the links between income and expenditure. The qualitative data gathered from these interactions were analyzed thematically, while the quantitative data, extracted from government reports and financial documents, were examined using correlation and regression analysis. A multiple regression model was created to examine the relationships between economic development, revenue, and expenditure.

The results show that the service sector is the dominant economic force in DSMC, accounting for over two-thirds of the economy, whereas the manufacturing sector makes a relatively small contribution (less than 10 percent). The study also highlights that DSMC's current tax system could be more efficient by broadening its scope. Currently, revenue is pooled into a single account, which might not be the most effective method and could benefit from diversification. A shift in expenditure priorities was noted, as capital expenditure saw a decline, and recurrent expenditure grew, indicating a greater focus on sustaining existing services rather than initiating new projects. Furthermore, the study found a strong connection between recurrent expenditure and total revenue, showing that recurring costs rely heavily on available income. However, capital expenditure was found to be influenced by factors beyond revenue or regular spending. The regression analysis also revealed that changes in total revenue, expenditure, and their individual components have little to no effect on GDP per capita.

The research emphasizes the need for a balanced alignment of revenue generation and expenditure distribution to achieve long-term economic growth. In the budget for fiscal year 2080/81 B.S., DSMC allocated 44 percent of funds to social development, 19 percent to infrastructure, 5 percent to economic development, and 28.8 percent to administrative costs. The city's sources of revenue include local taxes, service fees, and grants from federal and provincial levels. The city's expenditures are directed mainly toward infrastructure, education, healthcare, social services, and supporting agriculture and local businesses. Revenue generated from taxes and commerce is reinvested into infrastructure and public services, which improves the business environment and draws further investment. The study concludes

that the sustainable economic growth of DSMC relies on accurately estimating revenue generation and strategically allocating expenditures.

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