



Research Article/ Sustainable Tourism

Fiscal Federalism and Sustainable Tourism in Nepal: Strengthening Local Communities in Pokhara Metropolitan City

Lok Nath Poudel, PhD Scholar 

Faculty of Humanities and Social Sciences, Pokhara University, Nepal

ABSTRACT

This paper aims to examine the policy/practice mismatch of the management of tourism revenues of iconic tourism attractions in Pokhara-Phewa Lake, Gupteshwor, and Mahendra Cave under the execution of fiscal federalism in Nepal. Although the Constitution of Nepal requires local sharing of benefits, the gaps in implementation still exist. This study is presented via the mixed-method approach, which incorporates legal examination of

the Constitution and Intergovernmental Fiscal Arrangement Act, 2074, surveys, and interviews, which show that the revenue system is disjointed and opaque. The results indicate poor enforcement, little government royalty, and extralegal control, without being able to pay the communities to receive the impacts of tourism and vulnerabilities to climate change. The study suggests a modified policy framework that should focus on the involvement of local communities in the decision-making in tourism. One of the vital suggestions is to ensure an efficient collection of royalty through the revenue sharing policies by earmarking and the statutory requirement of the democratically managed Community Tourism Benefit Fund. The rationale of this framework is to operationalize fiscal federalism, share benefits fairly, empower local communities, and safeguard the natural heritage of Pokhara Metropolitan City that will be compatible with sustainable development.

KEYWORDS: Fiscal federalism, sustainable tourism, revenue sharing, transitory payments, climate resilience, community benefit fund

Article History:

Submitted 15 January 2026

Reviewed 16 March 2026

Revised 07 April 2026

Accepted 08 April 2026

Corresponding Author:

Lok Nath Poudel

lokupoudel3@gmail.com

Article DOI:

<https://doi.org/10.3126/ajhss.v3i1.92789>

Copyright Information:

Copyright 2026 © The author/s. The publisher may reuse the published articles with prior permission of the author/s.

This journal is licensed under a Creative Commons Attribution 4.0 International (CC BY 4.0) License.



ScanToAccess

INTRODUCTION

The administrative and fiscal authority has been devolved to the lower government with autonomy after the declaration of the Constitution of Nepal as a historic restructuring towards a federal

republic system. This restructuring means decentralizing power, increasing the degree of participatory governance, and equitable development through devolution of greater legislative, executive, and fiscal powers to provincial and local governments. It includes a fundamental rearrangement of the state structure, going to the extent of bringing government nearer to the people as Chaudhari (2019) mentions, "Local levels are formed in the sense that it ensures the citizens' access to the services to their doorsteps. Good governance is essential to make success at the local level" (p. 44). Chaudhari asserts that local government is the nearest government of the people that formulates the policies for the well-being.

Furthermore, after restructuring the government system of Nepal, a separate and concurrent power of different governments is provisioned in the constitution. Schedule 8 explicitly assigns the local government's authority over "tourist guides, tourism and hospitality services" and "conservation of watersheds, wildlife, and forests" (The Constitution of Nepal, 2015). This provision has given the authority of managing nature-based tourism and the related management with proper policy to the local government. Therefore, tourism is not just a means of revenue generation. It can be far more utilized to uplift the standard of local people directly making them involved in tourism business and related activities. It is the baseline implementation of federalism with service delivery, inclusiveness, and accountable government.

Pokhara Metropolitan City, a tourism capital, has a huge possibility of tourism development as its topography is punctuated by the good-natured Phewa Lake and a system of limestone caves like Gupteshwor Mahadev and Mahendra, which are the foundations of a thriving tourism economy. These natural gifts are part of the local people involved in

tourism and their prosperity, livelihood, job, and income. Therefore, the management of such natural phenomena that functions as "common-pool resources" (Ostrom, 1990) where one user's consumption subtracts from another's and exclusion is difficult that is the main weight carrier of fiscal federalism.

The legal arrangement that governs the mode of operation of this act can be explained as the Intergovernmental Fiscal Arrangement Act, 2074 which stipulates the legalization of the sharing of natural resource royalties including tourism proceeds between the three government levels. Its principle is that there is fair benefit-sharing in which communities who must face the socio-economic and environmental effects of resource exploitation should be compensated accordingly and this way, the fiscal policy would be in accordance with distributive justice.

Despite this, there is accumulating literature and initial evidence that there is a deep gap between this constitutional vision and reality on the ground. The essence of the legislature has not been matched in the implementation of fiscal federalism along with other issues. The scholars like Khanal (2024) argue, "The process of fiscal decentralization has been marred by inefficiencies, and bureaucratic resistance, particularly at the local and provincial levels, leaving local governments with mandates but insufficient corresponding fiscal authority or technical capacity" (p. 76). This criticism points to the internal failure of the system where the decentralization of responsibilities has taken place without providing the adequate resources and capabilities at a local level.

In addition, the implementation of revenue-sharing remains as mentioned by Shah (2019). He claims, "There are various controversial and overlapping issues required clarity in process of

implementation" (p. 151), a situation often dictated more by "political bargaining between central and provincial elites" than by principles of equity or ecological sustainability (Paudel, 2021, p. 112). The analysis highlights that fiscal mechanisms are often political creations as opposed to elite controlled policies aimed at equity or sustainability. This is a failure of governance that is especially bad in the tourism industry.

The federal government has controlled the authority of main revenue sources rather than devolving to sub-national governments. According to Subedi (2013), "Many taxes are more efficiently collected at the central level, to avoid tax competition and interstate tax distortions, so transfers are necessary to enable local levels to carry out their expenditure responsibilities" (p. 80). The centralization concept has hindered strengthening the sub-national governments. This is beyond decentralization that hinders to enhance reliance on other governments.

Nature-based tourism mainly promotes the conservation strategy following sustainable development connected with socio-economic integration to local communities. As Stronza and Durham (2008) assert that when financial benefits from nature-based tourism are not equitably distributed, such projects can replicate extractive economic models, eroding a local support for the conservation of the very resources upon which tourism depends. It remarks that tourism gets undermined if local communities are excluded from the revenue generation, promoting the external operators and elites. Additionally, the exclusive principle to local people causes a failure ethically and practically.

In Pokhara Metropolitan City, the cave ecosystems are highly vulnerable as the change of the environment due to climate change. The people related to the business will be marginalized as the depletion of the natural beauty and friendly

environment as Veni et al. (2020) suggest, "The challenge is critically compounded by the escalating climate crisis. Cave ecosystems, central to Pokhara's geo-tourism, are acutely sensitive to climatic shifts such as altered rainfall patterns." This scientific discovery means that the physical basis of the tourism product in Pokhara is directly endangered by environmental change.

Natural beauties of Nepal are vulnerable to escalating environmental threats that are caused by climate change which induced adversities. In addition, it has brought tourism-dependent communities face a climate threat. In this regard, Karki (2024) asserts,

Climate change poses a significant threat to fundamental aspects of human security, including economic well-being, food security, and societal stability. In the aftermath of any large-scale natural catastrophes or disasters due to climate change, conflicts may arise due to various factors, including vested interest of foreign powers, differences in priorities, and resource allocation. (p. 143)

He defines that this is a compound vulnerability because livelihoods are threatened by both abrupt shocks and insidious degradation. Despite these overlapping problems, the fiscal federalism system of Nepal, and its tourism revenue management systems in particular, do not have mechanisms that are integrated to deal with these climate vulnerabilities.

Despite these intersecting challenges, Nepal's fiscal federalism framework, and its tourism revenue management systems specifically, lack integrated mechanisms to address these climate vulnerabilities. Notably, the concept of "transitory payments" – compensatory financial transfers for temporary or permanent losses incurred by communities due to development projects-has been applied in sectors like hydropower (Bastakoti &

Davidson, 2016). Yet it is noticeably missing in tourism fiscal policy, which demonstrates a considerable adaptive gap.

This paper, thus, bridges the areas of research and policy gaps. It argues that institutional fragmentation, procedural opaqueness, and lack of involvement in community welfare and climate resilience imperatives are common in the current management of the tourism royalties in terms of fiscal federalism. This failure not only compromises the equity and sustainability aspirations of federalism, but it compromises the long-term sustainability of the tourism economy of Pokhara Metropolitan City.

Based on this issue, this study is structured on how is the revenue model of cave and lake tourism royalties is controlled and the character of its investment is on local population; how the main shortcomings of the policy and practices of revenue are collection and distribution of the natural resources on the basis of fiscal federalism in Nepal; and how a royalty distribution and transitory payment policy framework be designed to increase community resilience.

An analysis of the legal framework underpinning the implementation of fiscal federalism must be essential to gain a complete understanding of these issues. The powers provisioned in constitutional schedules outlined in the Constitution are in the Constitution of Nepal, which draw up a topography of common and exclusive jurisdictions. For instance, Schedule 8 gives the municipalities the power over not only the local tourism, but also the collection of local taxes, fees, and royalty, and offers a clear mandate to local management (The Constitution of Nepal, 2015). It is the natural position of the municipalities under this structure that their economic governance is at the local level directly correlating their fiscal freedom with their service provision and growth. Therefore, the successful execution of these provisions is highly

reliant on complementary provincial and federal statutes that specify revenue-sharing policies and avoid overlaps in jurisdiction.

Nevertheless, Schedule 5 and 6 reserve the areas of federal and provincial governments in environmental protection and in the case of Schedule 9, the powers of state tourism are also concurrent with financial powers. This design generates a natural ambiguity; although the local government is charged with the paramount role of local tourism, the federal and provincial governments have a legitimate and overlapping interest, and this is the constitutional seedbed of governance confusion in Pokhara Metropolitan City. The Intergovernmental Fiscal Arrangement Act, 2074 is meant to deal with fiscal imbalances. Section 7 requires that the royalties on natural resources are shared, with a default percentage of 50 to Local, 25 to Province and 25 to the Federal Government (Intergovernmental Fiscal Arrangement Act, 2074). It depicts that federal government has extensive access to the royalties collected from natural resources.

There are, however, critical implementation gaps. The Act is characterized by the ambiguous definitions of what constitutes the element of royalties in tourism, lacks definition on the identified collection agency, has no requirement that funds are earmarked to conservation or compensation, and has low enforcement mechanisms. Such a dysfunctional operational layer is the reason behind the empirical facts in Pokhara Metropolitan City: ad-hoc sharing in Gupteshwor Cave is not caused by legal compliance, Phewa Lake is not managed by laws, and Mahendra Cave is not governed at all.

The available literatures indicate that the confusion in the tourism revenue management in Pokhara Metropolitan city is neither accidental nor occasional but rather inherent as the interface between the

constitutional and operational realms, and the inability to enforce sustainable and responsible spending by law. Therefore, this paper attempts to create a constructive, practical policy framework by synthesizing empirical evidence of the study of Pokhara Metropolitan City together with the theories of fiscal federalism, commons governance, and climate justice. The final goal is to suggest a framework in which the tourism incomes could be converted into more than just the sources of income into the active tool of developing climate-resilient communities and the ecological and economic sustainability of the most popular attractions in Pokhara Metropolitan City, hence the developmental potential of federalism.

RESEARCH METHODS

This paper employed a sequential exploratory and mixed-method approach, which is considered the most suitable method in exploring the multi-layered and compound problem of tourism revenue governance. This is a mixed-method approach that entails a primary, preliminary qualitative stage aimed at investigating contextual and institutional peculiarities of the problem. The results of which were, in their turn, directly used to make a follow-up quantitative survey. This direction played a significant role in making sure that the quantitative tool was rooted in the local realities, language of respondents, and themes that arose in the ground, thus increasing the validity, relevancy, and accuracy of the numerical data gathered. Finally, both the qualitative and quantitative strand of data were merged in the process of analysis and interpretation that enabled triangulation and gave a more detailed, intricate, and strong vision of the research problem than either of the two strategies could have provided on their own.

The study was carried out in Pokhara Metropolitan City and neighboring areas

in Gandaki Province, Nepal. The study specifically focused on the three significant tourism areas, which include Phewa Lake, Gupteshwor Mahadev Cave, and Mahendra Cave that were chosen due to their representativeness of various and common forms of governance of natural attractions. The sample size of the quantitative survey (N=31) was purposely chosen so that the main respondent groups that are of relevance in tourism governance would be included. In this sample, residents who were directly impacted by tourism (n=14), elected members, local officials and public-school teachers (n=9), community leaders (n=6), and formal tourism workers (n=2) were included in the sample, representing a continuum of variance on the revenue management.

To collect the qualitative data, key informants as well as members of the Gupteshwor Cave Management Committee, representatives of Phewa Lake Boat Association, officials of Pokhara Metropolitan City, teachers from Bindabasini Secondary School, and local community activists were interviewed in 15 in-depth interviews to provide more experience and institutional insights.

It was conducted in two phases of data collection that took place in December 2025. The Constitution of Nepal, Intergovernmental Fiscal Arrangement Act, 2074, annual reports of the audit conducted by the Gupteshwor Cave Management Committee and the city specific policies were consulted and studied for the qualitative data collection. This was then succeeded by the semi-structured in-depth interviews that examined topics of past historical revenue management practices, the perception of transparency and equity, the perceived effects of tourism, and climate change with policy reform proposals being made. The interviews were to be carried out using Nepali language via mobile and direct meeting and then transcribing

verbatim and translated to English to analyze. Based on the emerged themes of this qualitative enquiry, the quantitative phase was later planned.

The developed questionnaire was in a structured form and was given covering information on demographics. This included tenure within the system, perception of the impact of tourism on revenue and system transparency, and preferences on revenue control, expenditure prioritization, and management models. In case of data analysis, a parallel and integrative process has been used. The qualitative data was analyzed using SPSS software based on the thematic analysis. Inductive coding of interview transcripts and field notes was done, with early codes subsequently clustering into overarching themes of analysis, including, but not limited to, lack of transparency, instable government, demand for community funds, and climate vulnerability that were further refined and interpreted based on research questions and theoretical basis. An analysis of quantitative data was performed on IBM SPSS Statistics software.

Central tendency, dispersion, and shape of distribution were used to analyze the relationship between variables such as respondent profile and management preferences. Charts were used to visualize the data and make comparisons and interpretations of distributions. Strict ethical considerations were observed during the study. All the study participants received prior informed consent of the purpose of the study, their right to withdraw an assurance of anonymity and confidentiality. All data were stored safely and personal identifiers taken out of transcripts and datasets to ensure privacy of the participants.

RESULTS AND DISCUSSION

The results of this study were mainly aimed at illustrating the views of local and neighboring residents of Pokhara

Metropolitan City regarding tourism development and its effectiveness. The respondents' reaction shows that they have strong discontent with the current management of tourism revenue and its management, which they view as being less transparent and unfair. Their experiences depict that there is an unequal distribution of tourism benefits among the affected community and they are beyond economic benefits. The perception of the respondents has created a cross-cutting agreement amongst the respondents to reform a system that focuses transparency, local development, and responding to community harms.

Results

According to demographic and perceptual data, the work reality of revenue management at three key tourism destinations indicates that there has been a systemic violation of constitutional and legal provisions. The analysis of Gupteshwor Cave, Phewa Lake, and Mahendra Cave below shows how the ad-hoc, informal, and extra-legal community management of these areas individually fail to uphold the principles of fiscal federalism and sustainable development. This qualitative analysis places this directly within the realms of perception of the respondents of the survey in the context of the actual governance failures they undergo to bridge statistical trends with the actual fiscal practices.

Table 1
Frequency Distribution

Variable	Category	Freq.	Percent %	Cumul. %
Gender	Male	26	83.9%	83.9%
	Female	5	16.1%	100%
Profile	Elected Members/ Officials/ Teachers	10	32.3%	32.3%
	Residents	14	45.2%	77.4%
	Tourism Workers	1	3.2%	80.6%
	Community Leaders	6	19.4%	100%

Source: Survey 2025

Table 1 details the demographic composition of the 2025 survey sample, which informs the analysis of fiscal federalism and sustainable development in Pokhara Metropolitan City. According to the table, this information depicts a cohort that has a strong local institutional and residential bond, an advantage in examining the governance at the community level, but one that is severely limited by a strong sense of gender imbalance. As can be seen, the major strength of the table is the distribution of the profile variable. The sample is specifically selected based on the keys: 77.4% of the sample consists of the Residents (45.2%), and Elected Members/Officials/Teachers (32.3%).

The data depict a sample that has been formulated in a strategic way to obtain the views of individuals. At the same time, the high proportion of local residents experience the environmental and social impacts of tourism, will be brought in the foreground of the analysis. Such imbalance probably excludes or underestimates the unique views, roles, and weaknesses of women in tourism-based economies, especially in terms of resource control, distribution of benefits, and climate resiliency.

To sum up, the sample structure is to investigate the implementation gap of tourism revenue distribution as done by the federal government of Nepal. The deep reflection of the local institutional actors and the local residents makes it easier to analyze the policy implementation and community acceptance based on the ground. The data are hence well-placed to respond to the main research questions, which are in regard to awareness, benefit flows, and institutional coordination.

Table 1 is an appropriate source of the demographic data of informed local actors, which serves as an analysis of understanding their expressed specific perceptions of the impacts of tourism and its governance. In order to measure these

perceptions and to shift the categorical analysis to the scalar analysis, Table 2 shows the measures of central tendency and dispersion of key variables, which show the statistical shapes of community experience with tourism in Pokhara Metropolitan City.

Table 2 below reveals the values of central tendency and dispersion of major perceptions of the community as far as tourism governance is concerned in Pokhara Metropolitan City. As shown in Table 2, the data shows a deep-rooted population, which is feeling ambiguous economic returns on tourism yet has a clear and one-unified vision of managing revenue more transparently and collaboratively.

The information initially gives an authoritative position to the respondents. There is a heavy concentration in the tenure of living in the area towards lifelong residence (median is equal to mode, high mean of 3.58, low standard deviation of 0.91). This means that the sample will be of people who have extensive historical and experiential experience of local socio-economic developments, which gives their evaluation of the effects and management of tourism great credibility, which is essential to the suggested community-based policy guideline.

The perceived effect of tourism on income, however, gives an opposite picture and a gist of the issue. The standard deviation is great (1.84) and the difference between the median (3, "no change" and mode (6, "not applicable) is evidence of deep fragmentation. It implies that the existing fiscal transfer mechanism is incapable of establishing a positive household-based economic connection to the tourism industry and that there is an essential equity void.

This vagueness is carried to the views on existing governance. The transparency of the system has a median of mode is 2, though with high standard deviation

Table 2
Central Tendency and Dispersion Measures

Variable	N	Mean	Median	Mode	Std. Dev.	Min	Max	Range
Tenure of living in area	31	3.58	4	4	0.91	1	4	3
Tourism effect on income	31	3.74	3	6	1.84	1	6	5
Transparency of system	31	2.77	2	2	1.18	1	5	4
Revenue prioritization	31	2.84	2	2	1.42	1	6	5

Source: Survey 2025

(1.18), which is indicative of the mixed experiences, as the proposal suggests, the unstable government and uncoordinated institutional action. It is this ambivalent doubt that puts into context the prescriptive decision made by the community on the future. The most direct data is the revenue prioritization data. The high central tendency of investing in community infrastructure is a clear community directive of not giving direct cash transfers but rather allocating towards long-term communal goods.

Altogether, the table measures the lived experience behind the research problem, a well-informed community that fails to see tourism as a tangible financial gain. At the same time, it offers empirical data on a solution, showing a unanimity about spending revenues on communal infrastructure by using a more open system. This duality eloquently upholds the necessity of the integrated policy framework that is proposed to be developed, the one that bridges the gap between macroeconomic revenue creation and the benefit at the micro-level of the community.

Although Table 2 indicates that there is fragmentation of economic benefits and transparency, it does not indicate where the community perceives that authority is now at the moment. To see the perceived locus of control in the form of the tourism revenue which is one of the important factors to consider in any governance reform, Table 3 shows the frequency

distribution of the respondents regarding the body that handles such funds.

Table 3 illustrates the frequency distribution of the perception among the respondents on the controlling body of tourism revenue management and distribution. In sharp contrast to the results on the existing control, this information on perceived control indicates the remarkably clear and focused attribution of power to a particular government level, which presents a very important clue to the suggested policy framework.

Table 3
Perceived Control over Tourism Revenue Management

Perceived Controlling Body	Frequency	Percentage %
local community	11	35.5
Local government directly	13	41.9
Gandaki province	1	3.2
Federal	4	12.9
Private operator	1	3.2
Do not know	1	3.2
Total	31	100

Source: Survey 2025

The most salient one is the obvious focus of perception on Local government directly (41.9%). This observation is crucial and does not agree with the

diagnosis of the proposal of the government being unstable and the absence of institutional coordination. It further implies that, to the extent of revenue management, most of the respondents in the local municipality perceive the local to be the de facto responsible party. This centrality of the municipality is once again supported by the large relative attribute of the local community (35.5%). A combination of the two local categories makes up more than three-quarters (77.4) of responses, which means there is a strong coalescence that control is, or ought to be, vested at the local level.

Such a localist agreement is also highlighted by the low attribution of control to other actors. Federal government (12.9%), Gandaki province (3.2%), or private operator (3.2%) perceptions of control is a marginal one. It is also worth mentioning that the category of do not know is also minimal (3.2%). This low percentage is directly opposite to the high level of uncertainty of Table 3 of the analysis done above that the respondents have a clear and unified answer regarding a conceptual controlling body, though the real system may be opaque.

The information proves that the normative expectation set by community members is already in line with the constitutional principle: power should be locally based. The fact that the higher governments and private operators were attributed lowly challenges the political bargaining model and provides the rationale of creating a framework that institutionalizes this locally trusted authority.

Finally, this table is an important piece of evidence to the policy framework. It shows that regardless of the muddiness of the present system functioning, there is an implicit agreement among the respondents on which the legitimate locus of control in tourism revenue is the local government,

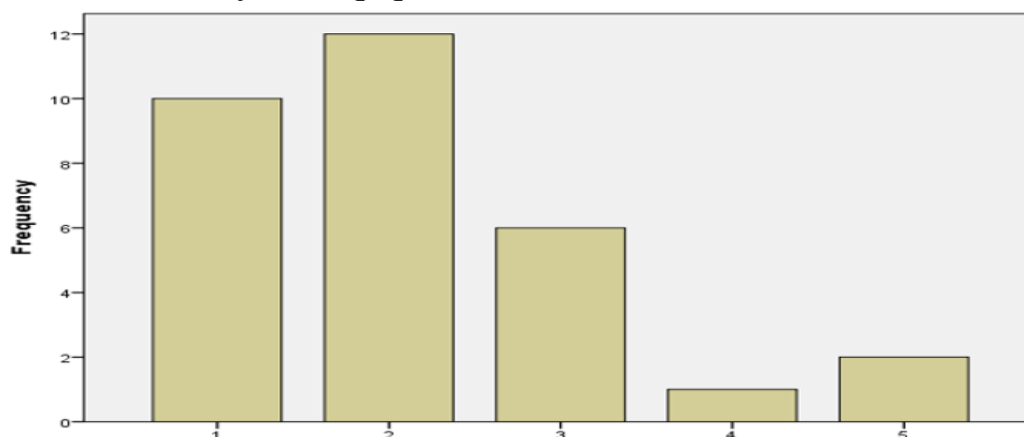
often together with the community, itself. Basing the proposed model of strengthening local communities by having a firmer and more responsible fiscal federalism, this consensus will serve as a sturdy social and perceptual base.

Since it has been established that the control is considered to be at the local level in the first place (Table 3), the logical follow-up question is on which model the community prefers to exercise this control. In order to render this prescriptive aspect, Figure 1 confirms that there is a strict tendency of the respondents towards a particular kind of governance to provide tourism revenue in the future.

Figure 1 below shows the inclination of the respondents on a good model of governance in management of tourism revenue. According to the chart, the evidence shows that there is a conclusive and practical agreement with one hybrid model having an absolute majority with respect to purely governmental, private or community-based policies. As defined, the most striking thing is the fact that the overwhelming choice is a committee with local government (Category 2) which is clearly the tallest bar in the chart. This great interest in a framework where municipal authority is formally incorporated with the representation of communities gives the research purpose direct empirical evidence to suggest and design an integrated policy framework.

The other models get significantly less and more sporadic support. The bars of direct by Pokhara (Category 1) and independent community (Category 3) have the same height with the implication that pure top-down governmental control and pure bottom-up autonomy are considered equally attainable, but clearly secondary, options. The bar of "Public private partnership" (Category 4) is significantly shorter, which reflects a high level of skepticism toward the respondents about the decision to give primary control of the

Figure 1
Governance Model for Managing Tourism Revenue



Source: Survey 2025

public tourism revenues to the commercial interests. The lowest bar, denoting ward level citizen (Category 5) committees, is an indication that even though hyper-local governance can be appealing, it is not perceived as the best level of governance to handle the revenue coming off big city-wide attractions.

Overall, the above figure is a strong prescriptive evidence. It shows that the respondents are clearly and unanimously inclined towards collaborative governance models in small groups (i.e., committee-based) to address the issue of instable government and the problem of the absence of institutional coordination. Such a preference of such a hybrid structure, neither direct municipal control, nor private alliance, but rather complete autonomy of community management, provides an accurate outline of the desired blueprint of the proposed research.

The fact that the majority of respondents agreed on the need to implement a collaborative local governance model (Figure 1). It begs the question of how revenues on a model should be distributed. In order to determine community concerns about what to spend on, Figure 2 elaborates on how the respondents view the priorities of tourism income to the local communities

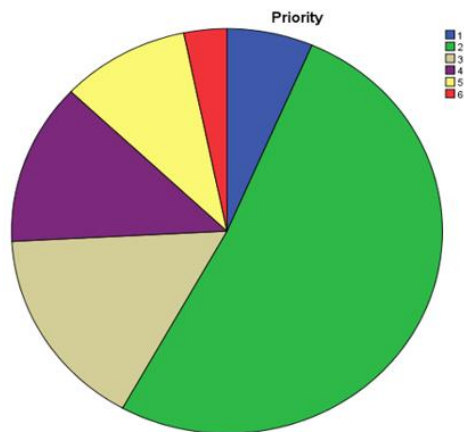
as a way of giving directives on policy formulation.

Figure 2 shows the priorities of respondents in terms of revenue distribution to the local people through tourism. The data show a solid and evident agreement of the necessity of investing in tangible and long-term community assets, but at the same time, fails to connect with an urgent and, perhaps alarming, need of climate resilience revealed in the research proposal. As shown in the figure, the most conspicuous one is the majority segment in the case of the community infrastructure to be invested in (Category 2). It is the most popular, which is reflected in its size as it creates an opinion among the population, authorities, and community members. The given can be regarded as direct and empirical evidence of the issue identified in the proposal as the low level of direct community benefits. It demonstrates that the community chooses the type of benefit they want to receive is not direct cash transfers but joint investment in common good and provides a clear guideline.

The other priorities are divided into small segments. Other categories like direct cash benefit (1), environment conservation (3), support local education and health (4), and alternative livelihood program (5) are other secondary

considerations. Among them, the most important result of the chart is the extremely small size of the segment named climate change adaptation (Category 6). Such a low priority is the stark contrast of the main idea of the proposal on the intensifying hazards and on the climate-sensitive tourism-related royalties. It empirically confirms the identified gap between the community awareness and the systemic necessity to fund climate resilience, as one of the key challenges to policy design.

Figure 2
How Tourism Revenue is Prioritized to Benefit Local Communities



Source: Survey 2025

Overall, this figure above has diagnostic and prescriptive use. Prescriptively, it provides a community imperative to concentrate funds on infrastructure, with the direct communications to that objective as being to strengthen local communities. It reveals a critical weakness diagnostically in that the current spending priorities of the community are not in line with the climate adaptation strategies needed to ensure the long-term sustainability of the cave and lake tourism in Pokhara Metropolitan City. Therefore, any workable policy framework cannot afford to merely direct funds to infrastructure but must also consider ways of establishing local capacity and acceptance of climate investment.

Discussion

In Pokhara Metropolitan City, Gupteshwor Cave is a prototype of large amounts of revenue generation through ad-hoc sharing. The financial reports of FY 2080/81 indicate a prosperous business with an overall revenue of NPR 55.68 million, most of which is through ticketing (NPR 48.15M). The site shows an ad hoc yet distorted acknowledgement of the Intergovernmental Fiscal Arrangement Act; it pays 15 per cent of ticket revenue to the federal government a negotiated amount, as opposed to the statutory 25 per cent, but pays nothing in terms of provincial share of revenue, which is 25 per cent. The local share is also run independently with large items such as NPR 7.5 million to a local campus and NPR 20.47 million to infrastructure being arrived at without extensive participatory planning. The model depicts partial compliance that is biased by local politics, lack of provincial participation and total absence of earmarking to conservation or community compensation.

The tourism related activities in Phewa Lake are executed through informal system that causes systemic fiscal leakage. Its 715 boats with a population of around 1900 families are run by a Boat Association which collects fees on operators and tourists. The association, however, only remits NPR 500 per boat to the local government yearly. Most importantly, it was verified in interviews that there is no direct collection of royalties, tickets and revenue shares related to lake-based tourism by Pokhara Metropolitan City. This is a gross malfunction of fiscal federalism: a major national asset produces a significant amount of private revenue but makes a negligible contribution to the national purse to maintain it, conserve it, or benefit the community. The case is fully beyond the constitutional and legal structure, and it is a vivid example of the results of an

unspecified collection agency and poor statutory enforcement.

Mahendra Cave is an example of full extralegal community management. The cave is full on operation of the Bindabasini Secondary School which keeps all income to meet its operational requirements. Although such is beneficial in hyper-locality, it is a legal vacuum regarding intergovernmental finance. It does not add to municipal or provincial common goods, does not have formal structures in place to make sure there is environmental sustainability or climate responsiveness and there are no avenues of compensating the wider affected community. Schedule 7 power in solitude and as a matter of fact effectively defeats the collaborative approach to federalism as envisaged by the constitution.

An alternative to the most efficient model to manage tourism revenue was the Committee with Local Government model, which was the most popular among all the respondent groups, 53.3% of the total respondents. Moreover, in terms of spending priorities, the mode revealed that the main interest was paid to infrastructure investment, in line with the actual spending in such locations as Gupteshwor Cave, and the indication was that tangible, local development is considered by the respondents as a valid and a primary usage of tourism income.

One of the most important and universal conclusions that can be drawn on both the qualitative and quantitative data is the total lack of formalized systems to deal with the cost of the community and climate vulnerability. Qualitatively, the "No provision of transitory payments" was clearly pointed out as one of the major systemic failures. In proposing a system of that kind, as interviewees were requested to do, they were based on principles of restorative justice and practicality, "Analysis of investment loss," "Analysis of daily livelihood effect" (Bastakoti & Davidsen, 2016), and a mechanism of

participatory distribution, to be funded by taking more tax to the related respondent or entrepreneur. This is in line with the theoretical idea of transitory payments as finance of compensatory loss because of development. The quantitative data supplements the statistical evidence: the large variability of the income effect of tourism is an objective indication of the disproportionate and even negative concentration of the effects. These social and environmental costs are effectively externalized through the current fiscal system, which breaks the equity principle of federalism and contributes to the vulnerability of the climate situation to community members, who must endure noise or crowding, cultural and climate-related hazards without a formal system of reparation and protection.

The overall findings of the study provide a good example of how tourism revenue management has currently been in Pokhara Metropolitan City under fiscal federalism, where the system is inefficient, unfair, and maladaptive to the needs of the community. Nevertheless, the same outcomes also give an explicit, evidence-based reform agenda, which is focused on collaborative governance, investment into local infrastructure, systemic transparency, and the establishment of a tool to counter community harms. To close the gap between this desired situation and the existing dysfunctional reality, the model is a combination of needed legal reform, fiscal redesign, and participatory governance that are designed based on five pillars that are the direct results of the study.

First, it demands legal clarification and unified collection, using a proposal to have a tourism asset governance act which would classify major sites and provide that Pokhara is the only collector of all revenue, and as a result, eliminate the loopholes as witnessed by the Phewa Lake.

Second, it requires earmarked sharing per amended act where it is no longer necessary to split the revenues 50-25-25 but to legally separate a large share (e.g., 40 percent) of the local share to a separate fund which makes the sustainable development imperatives legally embedded in fiscal law.

The third pillar is the formation of the community tourism benefit fund, the most important innovation of the framework. This fund would be managed by a tripartite board made up of the representative of Pokhara, elected citizens and technical experts.

Lastly, the framework redefines higher-level government roles, where the federal and provincial governments become standard of higher capacity and an auditor instead of a primary revenue claimant a role that respondents succinctly required by stating that the federal government only needed to play the additional role of inspection and evaluation. The framework aims to reshape the fiscal contract as a division of spoils into a mutually supportive, active task of creating social and ecological resilience through the combination of the principles of fiscal federalism. It gives a logical roadmap to make sure that, instead of an industry that is possibly extractive, tourism in Pokhara becomes a regenerative power that builds the local communities, protects natural heritage, and delivers the developmental promise of the federal transition in Nepal.

CONCLUSION AND RECOMMENDATIONS

The study aimed to investigate the application of fiscal federalism in the management of tourism revenues in the natural attractions of Pokhara Metropolitan City. The results viewed in the framework of Nepal legal-institutional environment are a stark display of a disordered system. Although the control of revenues of Phewa Lake, Gupteshwor Cave, and Mahendra Cave are decentralized, and mostly unrelated to the

concept of equity, accountability and sustainability, the designated authority devolves the control of revenues in accordance with Schedules 8 and 9 and sharing requirements of the Inter-Governmental Fiscal Arrangement Act, 2074.

The study confirms empirically that such failures in governance are not only functional but are structural in nature in the uncertainties in the constitutional sharing of powers and fundamental failures in the Act with respect to collection powers, definition of royalties, and the lack of earmarking towards sustainable development. The dwellers of Pokhara Metropolitan City and neighboring areas have given a logical vision of change based on the principles of collaborative governance, transparency in financial flows, and accountability. The suggested framework of climate sensitive royalty distribution is a direct answer.

The study proposes the necessary legal changes to make the requirements clear and amends the Act, which is accompanied by the creation of the Community Tourism Benefit Fund that is democratically controlled and has clear goals on climate adaptation and transitory payments. This framework provides an effective framework that can be used to align practice with policy so that tourism revenues can be directly used to strengthen local communities and maintain ecological heritage. The management of natural resource revenues will be an important test as Nepal goes through with its federal ride as the result of Pokhara Metropolitan City.

Community tourism benefit fund framework is a framework which may be adapted during the national level. The policies have become pressing to the policymakers: clarify the laws on the collection, redesign the Act according to the sustainability and test community benefits in Pokhara Metropolitan City. Ultimately, the destinations like Pokhara Metropolitan City have a beacon of

federalism in the exploitation of the blessings of nature to form inclusive and resilient communities that will endure climate change. This commitment can be delivered through the relevant integrated policy framework, which must support the voice of the locals, legal clarity, and environmental constraints.

CONFLICT OF INTEREST

I hereby wish to declare that I do not have any conflict of interests to disclose. However, I declare that the manuscript has not been published before and is not being considered for publication elsewhere.

AUTHOR CONTRIBUTIONS

I declare that this manuscript is originally produced by me.

ACKNOWLEDGEMENTS

I would like to express my deepest and all-time gratefulness to Prof. Dr. Min Pun whose invaluable advice, unblinkingly supportive, and incisive mentoring have been the backbone of this study. I owe a lot of this to him because he was the one who was very wise and encouraging. The respondents and key respondents in the Pokhara Valley and the surrounding are highly appreciated because they were highly generous in terms of time, knowledge and experience that they had to share.

ABOUT THE AUTHOR(S)

Lok Nath Poudel is a PhD student, who is undertaking a PhD in Developing Studies at Faculty of Humanities and Social Science, Pokhara University, Nepal. He has been in employment of the development policies of Nepal Governments with a working experience of five years. His work covers the research on development plans and policies, particularly fiscal federalism and its effects on the development of tourism.

REFERENCES

- Bastakoti, R. C., & Davidsen, P. A. (2016). Benefit sharing and transitory payments in natural resource projects. *Journal of Development Studies*, 52(4), 517–533.
- Chaudhary, D. (2019). The decentralization, devolution and local governance practices in Nepal: The emerging challenges and concerns. *Journal of Political Science*, 19, 43–66.
- Government of Nepal. (2015). *The Constitution of Nepal*. Ministry of Law, Justice and Parliamentary Affairs.
- Government of Nepal. (2017). *Intergovernmental Fiscal Arrangement Act, 2074*. Ministry of Law, Justice and Parliamentary Affairs.
- Karki, B. (2024). The threats of climate change in Nepal: Natural catastrophes and global conflict frontiers. *Unity Journal*, 5(1), 141-156.
- Khanal, S. (2024). Agenda of federal system in Nepal: Nexus of fiscal federalism and controlled corruption. *Journey for Sustainable Development and Peace Journal*, 2(2), 75–94.
- Ostrom, E. (1990). *Governing the commons: The evolution of institutions for collective action*. Cambridge University Press.
- Paudel, R. C. (2021). Revenue sharing in Nepal's fiscal federalism: Performance and prospects. *Journal of Federalism and Development*, 15(2), 105–120.
- Shah, R. K. (2019). Fiscal federalism: Challenges and opportunities. *Research Journal of Development Studies*, 2(1), 151–170.
- Subedi, S. L. (2013). *Fiscal decentralization and municipal taxation in Nepal* (Doctoral dissertation, Tribhuvan University). Tribhuvan University.

- Stronza, A., & Durham, W. H. (Eds.). (2008). *Ecotourism and conservation in the Americas*. CABI.
- Veni, G., DuChene, H. R., Crawford, N. C., Groves, C. G., Huppert, G. N., Kastning, E. H., Olson, R., & Wheeler, B. J. (2020). Climate change and cave ecosystems. *Environmental Geology*, 79(2), 211–225.

To cite this article [APA 7th edition style]:

Poudel, L.N. (2026). Fiscal federalism and sustainable tourism in Nepal: Strengthening local communities in Pokhara Metropolitan City. *Academia Journal of Humanities & Social Sciences*, 3, 117-131. <https://doi.org/10.3126/ajhss.v3i1.92789>