

**Government Expenditure in Urban Development in Comparison to Development Budget in Nepal - by Deo S.K.**

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**Abstract**

*Urban development has become a critical focus in Nepal's national development agenda due to rapid urbanization and the increasing need for sustainable infrastructure, housing, and public services. This study examines the trends, patterns, and proportion of government expenditure allocated to urban development in comparison to the overall development budget of Nepal. Using secondary data from government budget documents, economic surveys, and planning reports, the study analyzes how urban development spending has evolved over time and evaluates its alignment with national development priorities. The findings reveal that although urban development is gaining importance, it still constitutes a relatively small share of the total development budget. The research highlights challenges such as budget underutilization, uneven regional allocation, and limited integration of urban planning into national strategies. The study concludes that enhancing transparency, increasing targeted investment, and adopting a more holistic urban policy framework are essential for maximizing the impact of urban development expenditure in Nepal. Not only that, proper approval of policies from the concerned ministry should be approved in time to overcome unexpected urban population growth. Similarly, the budget on urban development with respect to the national development budget should be highly prioritized to make the city prosper and smart.*

**Keywords:** Development Budget, Government Expenditure, Urban Development,

## **Background**

The dynamics of public expenditure in developing economies significantly influence the trajectory of structural transformation, particularly in the context of rapid urbanization. Nepal presents a compelling case where administrative urban expansion has not been matched by proportional fiscal prioritization. Urban development in Nepal has become increasingly important due to rapid urbanization, rural-to-urban migration, and the need for improved infrastructure. Government expenditure in urban development includes investments in housing, roads, water supply, sanitation, solid waste management, smart cities, and urban transport systems. Urbanization in Nepal has accelerated following the promulgation of the Constitution of 2015, which institutionalized a federal governance structure and expanded the number of municipalities. This administrative reclassification has intensified demands for infrastructure, housing, sanitation, and urban services. However, fiscal responses to these demands remain uneven and often inadequate.

After 2015, Nepal became one of the fastest-urbanizing countries in Asia. Unlike the global patterns of urbanization and economic growth that are taking place along with industrialization, Nepal's pace of urbanization is unique where the percentage of classified urban dwellers increased from 17 percentage in 2011 to 66.08 percentage in 2017 without the corresponding pace of industrialization to support the growing urban population. Nepal's unique pace of urbanization is marked by an increase in the number of municipalities from 217 in 2014 to 293 in 2015 when the new constitution was promulgated. An increase in the territories of officially defined urban areas has created several fuzzy boundaries between the growing urban areas and rural settlements. Recent fiscal evidence shows that Nepal's budget has expanded to nearly NPR 1.96 trillion, yet capital expenditure remains below 21% of the total outlay (Fiscal Nepal, 2026a). This imbalance suggests that the growth of the state apparatus has not translated into proportional development investment. Within this constrained capital envelope, urban development competes with other infrastructure sectors, often resulting in suboptimal allocation.

During the intercensal period of Nepal 2001–2011 reclassification was the main component of urban growth; which contributed 38.8 percentage share in urban growth. Government of Nepal declared 72 new municipalities on May 8, 2014 that added approximately 2.8 million population to the existing 4.4 million. Urban population reached 7.2 million. At the same time period migration contributed 22 percentage of share in urbanization of Nepal. Empirical studies on Nepal

highlight persistent issues of budget credibility and execution inefficiency. The International Budget Partnership (2023) identifies a widening gap between planned and actual expenditure, particularly in capital projects. Similarly, Fiscal Nepal (2026b) notes that recurrent expenditure consistently exceeds 60% of the total budget, constraining fiscal space for development.

Globally, urban expansion has led to the loss of fertile agricultural areas by 18 to 20 percentage. Relatively, highly populated rural jurisdictions are rapidly being captured within the areas defined as urban. Like most of Asian countries that have experienced a massive reduction in fertile cropland due to urbanization, Nepal has experienced the loss of agricultural lands, especially in areas that are proximate to roads and adjacent to existing urban areas. Our observation reveals that areas that are close to large urban areas have witnessed the loss of 3–4 percentage of crop production area. Such areas are receiving capital flows from the Nepali remitters who aspire to live in an urban environment when they return but may not be able to afford a residential structure in the well-established urban centers. Structures are being built in areas that emulate the urban environment, but which are not fully urban as measured by acceptable international norms.

Like in its neighbors India and China, rural jurisdictions in Nepal are sparsely populated, while municipalities are relatively densely populated. However, rural jurisdiction and municipalities do not exist in isolation from each other. They are linked through administration, education, employment, and exchanges of labor, agriculture, and factory products, which include basic and non-basic economic activities, which in geographic term is called the functional relationship. In a functional relationship, even the non-contiguous areas may be closely linked together for various reasons. The concept of “asare development,” referring to last-minute fiscal spending, reflects deeper systemic inefficiencies (Nepali Times, 2025). Such practices undermine the quality and sustainability of infrastructure projects.

Kathmandu valley is the hub of Nepal’s urbanization. Over half of Nepal’s urban population reside in the hills and the rest in the Tarai. Physiographic and connectivity characteristics are important determinants of urbanization which result wide variation in the regional levels of urbanization. The level of urbanization in the Kathmandu valley (three districts) and Pokhara valley (Kaski district) comes to 96.97 percentage and 79.52 percentage respectively, while it is only 18.28 percentage for the rest of the hills. Similarly, inner Tarai valleys<sup>2</sup> have a level of urbanization of 41.97 percentage compared to 38.94 percentage for the rest of the Tarai.

Urbanization picture is dominated by few large and medium cities. Kathmandu is the only city with over a million people. In terms of size class of urban centres, 14 urban centres (4 in the hills, 10 in the Tarai) in 58 municipalities, and 2 urban centres (in the hills) in the added 159 municipalities with over 100,000 population have 31.24 percentage of Nepal's urban population. The rest 68.76 percentage inhabit in 201 municipalities. This distribution reveals an urban hierarchy that is truncated towards the lower end notwithstanding the fact that urban boundaries are notorious both for including large rural tracts on the one hand, and ignoring urban sprawl beyond municipal boundaries, on the other.

Urbanization refers to the process of growth in proportion of population living in urban areas. It is a complex socio-economic process that transforms the rural into urban settlements; that also makes change in dominant occupations, life style, cultural and behavior change. In urbanization process because of the concentration of an increasing share of economic activities and innovations cities develop into hub, for the flow of transport, trade and information. Cities become the place where higher quality and basic services are accessible. Urbanization is a territorial response to structural changes in economy. A distinctive division of labor, technology in the production of goods, trade of variety of goods and services, high level of spatial and economic interaction and relatively high density/ diversity of population are basic tenets associated with urbanization.

### **Objective and Research Question**

The main research question is: To what extent does government expenditure on urban development align with the overall development budget in Nepal? The main research objectives is: To analyze the share of urban development expenditure within Nepal's overall development budget.

### **GENERAL REVIEW**

The Shreemadbhagavadgeeta, a seminal-influential philosophical scripture of the Sanatan Vedic tradition, presents a timeless dialogue on human ethics, duty, and liberation that resonates deeply with the contemporary global vision of sustainable development (Badal 2024). Gautama Buddha, the emblem of peace and love, pioneer of Buddhism, was born in Kapilabastu, Lumbini, Nepal. The peace and love. Compassion in Buddhism is the basic element of Sustainable development. Thus Buddha is the pioneer of sustainable development. Buddha's text Dhammapada in the present

sustainable era is more relevant than past (Badal, 2021). Thus budget planning and implementation must be guided by Geeta and Buddha.

According to the National Urban Development Strategy (NUDS), 2017, urbanization in Nepal has accelerated over the last two decades. However, this growth has been largely unplanned, leading to problems like housing shortages, poor infrastructure, and increased vulnerability to natural disasters. The strategy emphasizes the need for increased government investment to ensure sustainable and inclusive urban growth. A central feature of Nepal's fiscal structure is the persistent dominance of recurrent expenditure, which accounts for more than 60% of the national budget. This leaves a relatively constrained share for capital expenditure, typically below 21%, within which urban development must compete with other sectors such as energy and transportation (Fiscal Nepal, 2026a, 2026b).

**Government Budget Allocation Trends:** As outlined in the Economic Survey of Nepal (various years), government expenditure on urban development has seen fluctuations, often influenced by political instability, capacity issues at the local level, and donor dependency. Urban infrastructure development, housing, road networks, and sanitation receive budget allocations under the broader development budget, but urban development often receives a smaller share compared to rural and agricultural programs.

**Comparative Studies on Budget Allocation:** Studies by Shrestha (2019) and Acharya (2021) have shown that while overall development budgets have increased annually, the proportion allocated to urban development remains comparatively low. These studies point out inefficiencies in planning and poor implementation capacity at the municipal level, which restrict effective budget utilization. **Fiscal Federalism and Urban Investment:** With the implementation of federalism post-2015, fiscal decentralization has aimed to empower local governments. According to World Bank (2020), urban municipalities now receive grants from both the federal and provincial governments. However, challenges such as unclear fiscal authority, lack of technical manpower, and overlapping roles have hampered efficient investment in urban areas.

**International Perspectives and Best Practices:** Comparative research (UN-Habitat, 2022) suggests that in other developing nations, urban development is prioritized as a key driver of economic

growth. Investments in smart cities, green infrastructure, and integrated transport are highlighted as best practices. Nepal can learn from these examples to enhance the effectiveness of its urban expenditure. Critical Issues in Budget Execution: Various audits and reports (Office of the Auditor General, Nepal) indicate underutilization of allocated budgets in urban development. Issues include delayed project execution, lack of coordination, and weak monitoring and evaluation mechanisms. Since 1952/54 the urbanization process in Nepal is increasing continuously. Formally data regarding urbanization was collected from the census year 1952/54. The first urban population in the first scientific census was 2.9 percent kept increasing up to 66.2 percentage by the census 2021.

## **Methodology**

This study adopts a descriptive and analytical research design. The descriptive aspect explores the trend and pattern of government expenditure in urban development, while the analytical component assesses how urban development expenditure aligns with the overall development budget of Nepal. Qualitative approaches are utilized for a comprehensive analysis.

Secondary Data: Data is derived from government reports, including: Annual Budget Speeches of the Government of Nepal, Economic Surveys (Ministry of Finance), Red Books (Detailed expenditure), Reports from the Ministry of Urban Development, National Planning Commission (NPC) publications, Central Bureau of Statistics (CBS), Timeframe: The study analyzes data from the last 5 years (e.g., FY 2019/20 to FY 2023/24).

## **Data Analysis, Findings and Interpretation**

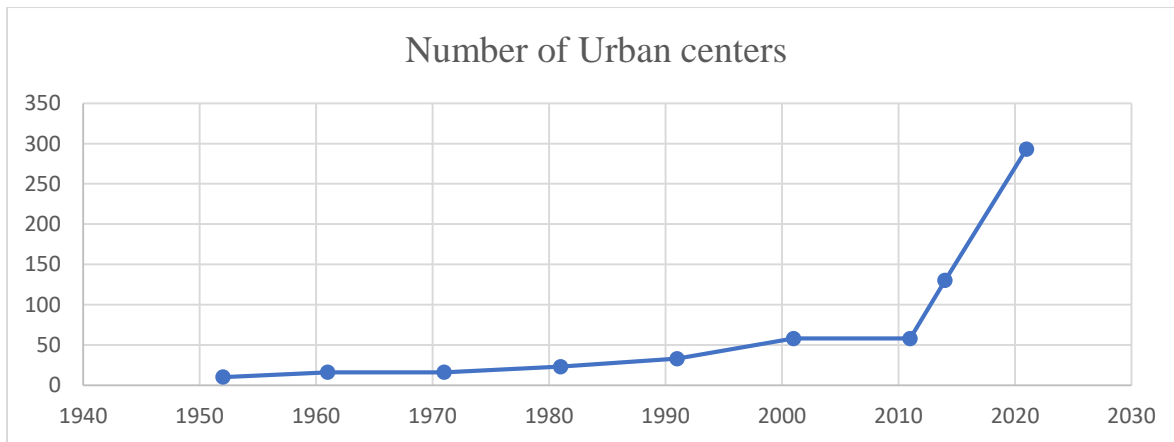
Urban development expenditure remains limited in both relative and absolute terms. More critically, the issue is not merely one of allocation but also of utilization. Evidence indicates that expenditure performance in the urban sector is significantly low, with capital budget execution rates often falling below 20% in mid-fiscal assessments (Corporate Nepal, 2025). The complete data for urban population and average annual growth is presented in the given table.

**Table 1: Trends of urbanization in Nepal 1952/54 – 2021**

SN	Year	Number of Urban centers	Urban Population (%)	Average annual Urban growth (%)
1	1952/54	10	2.9	N/A
2	1961	16	3.6	1.65
3	1971	16	4	3.23
4	1981	23	6.4	7.55
5	1991	33	9.2	5.89
6	2001	58	13.9	6.65
7	2011	58	17.1	4.9
8	2014	130	27.2	8.0
9	2021	293	66.2	N/A

(Source: CBS, 2014)

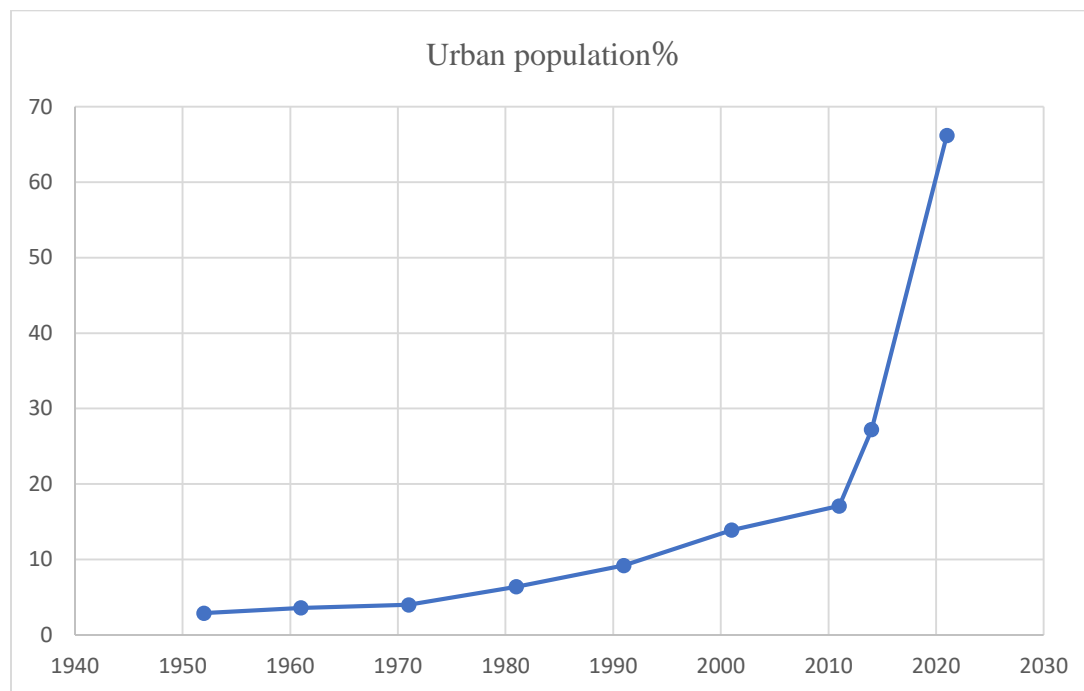
**Figure 1 Trends of number of urban growths in Nepal, 1952/54- 2021**



(Source: Study, 2025)

The first graph of Trends of number of urban growths in Nepal, 1952/54- 2021, shows that number of urban centers has been increasing in every 10 years period of time in rapid way. Within 1950-2010 i.e. within 60 years, 283 numbers.

**Figure 2: Trends of urban population growth**



(Source: 2025)

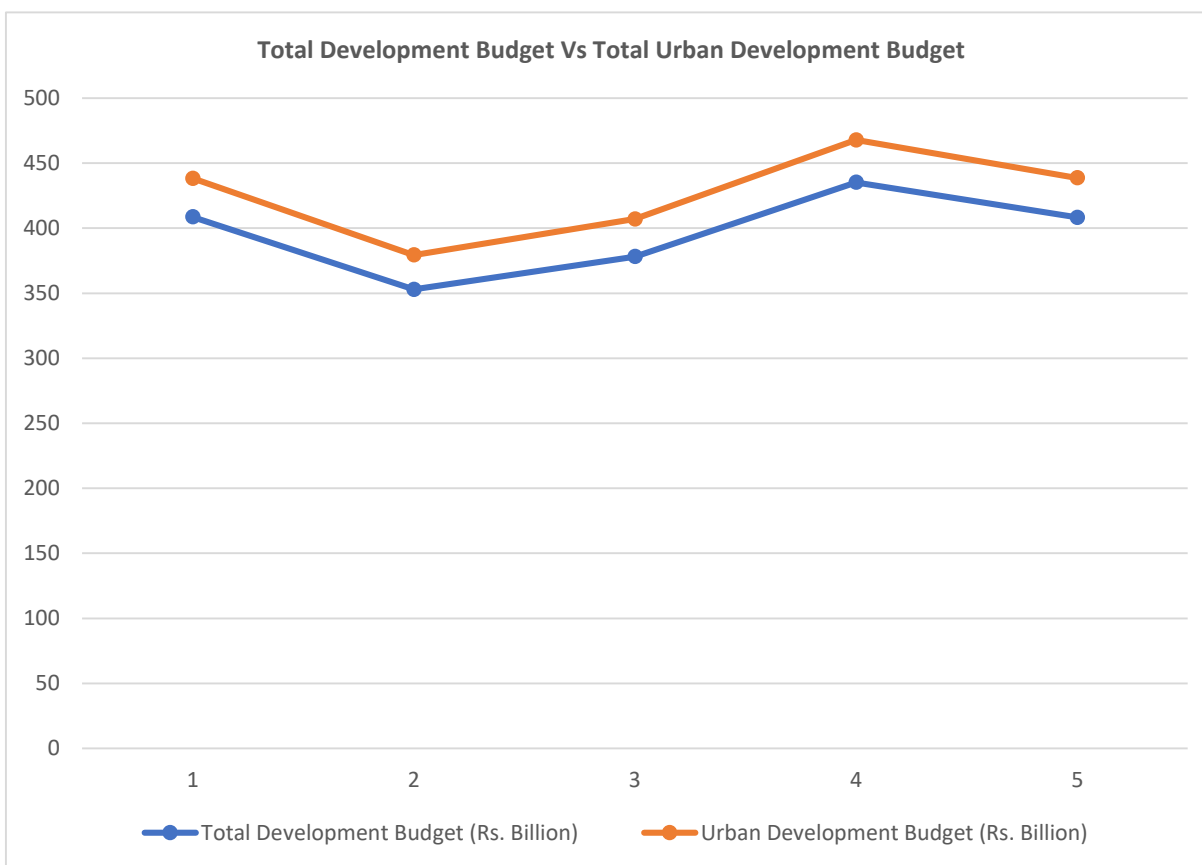
Similarly, the second graph of Trends of urban population growth, shows that population of urban areas has been increasing in every 10 years period of time in rapid way. Within 1950-2010 i.e. within 60 years, 66.2 percentage populations.

<b>Table -2 Yearly Budget Allocation:</b>			
<b>Fiscal Year</b>	<b>Total Development Budget (Rs. Billion)</b>	<b>Urban Development Budget (Rs. Billion)</b>	<b>Urban Share (%)</b>
2019/20	408.59	29.74	7.28%
2020/21	352.91	26.5	7.51%

2021/22	378.1	28.95	7.66%
2022/23	435.15	32.7	7.52%
2023/24	408.26	30.4	7.45%

Source: Economic Survey of Nepal, various years; MoF, Red Book (Budget Document)

**Figure 3 Trends of flow of urban sector budget w.r.t. Total dev budget in Nep**



(Source: Study, 2025)

Similarly, the third graph of Trends of flow of Urban sector budget w.r.t. Total development budget in Nepal shows that from F/Y 2019/20 -2020/21 the budget allocated in urban development with respect to total development budget has been fallen from Rs. 29.74 billion -26.50 billion, 2020/21-2022/23 development budget has been raised from Rs. 26.50 billion -28.95 billion-32.70 billion and 2022/23-2023/24 development budget has been again fallen from Rs. 30.40 billion. While this is seen in urban share (%), from F/Y 2019/20 -2021/22 it has been increased from 7.28percentage -7.51 percentage -7.66 percentage and from F/Y 2021/22 -20223/24 it has been decreased from 7.66 percentage -7.52 percentage -7.45 percentage.

## **Results and Discussions**

The analysis of government expenditure in urban development in comparison to the overall development budget in Nepal reveals significant insights into the country's prioritization of urban infrastructure and planning. Over the years, while Nepal's total development budget has shown a gradual increase, the proportion allocated specifically to urban development has remained relatively modest and inconsistent. This indicates that although urbanization is accelerating, it has not been fully matched by a proportional increase in targeted financial investment.

The findings suggest that urban development, including infrastructure, housing, transportation, sanitation, and urban planning, requires more focused and sustained investment to meet the demands of growing urban populations. Disparities between budget allocation and actual needs have often resulted in underdeveloped urban areas, inefficiencies in service delivery, and unplanned urban sprawl. Therefore, it is imperative that the Government of Nepal prioritizes urban development more prominently within the national development budget. A strategic increase in urban expenditure, aligned with long-term urban planning and sustainable development goals, will be essential for ensuring livable, resilient, and economically vibrant cities. Enhanced transparency, monitoring, and integration of public-private partnerships can also improve the effectiveness of these expenditures. Ultimately, a well-balanced and adequately funded urban development program will contribute significantly to the nation's overall socio-economic progress.

## **Conclusion**

In Nepal, there is a strong trend of people migrating from rural areas to urban centers, driven primarily by perceived economic opportunities. This is a significant factor contributing to rapid urbanization in Nepal. Today, most of us like artificial life, so we can see many people moving from villages to cities. Nepali cities are perceived as offering access to modern amenities, communication, international trade, and safer living environments, further fueling the desire for urban migration. "Psychology of the human is motivated to live in urban areas because of the ability to use current communication means, international trade, and safe living." Nepal's new National Urban Policy (2024) aims to address existing challenges by coordinating urban development responsibilities across federal, provincial, and local levels. This policy seeks to

achieve sustainable urban development aligned with global frameworks like the SDGs, the Paris Agreement, and the Sendai Framework. It also aims to improve infrastructure indicators in urban centers by 15 percentage by 2036.

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