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FINANCING SUSTAINABLE TOURISM IN KHYBER PAKHTUNKHWA

Mobilising Local Resources

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Message From

Mr. Muhammad Abid Khan Wazir

Director General, Culture & Tourism Authority

Khyber Pakhtunkhwa is a land blessed with many marvels of nature. It has been endowed with mighty mountains, raging rivers, and lush green hills. Swat, Chitral, Galiyat, and the Naran-Kaghan belt are among some of the existing and most popular tourist destinations for visitors from the entire country as well as global explorers. The increasing number of tourists in recent years are a blessing for the local economy, and for the tourism to continue to benefit the economy, we must plan to ensure that development is sustainable, that our natural assets are protected and that investments in facilities and infrastructure are commensurate with the growth in tourism.

In this context, the KP Culture & Tourism Authority, under the auspices of Sports, Tourism, Archaeology, Culture, Museums and Youth Affairs Department, is focusing on developing the tourism in KP to fully utilise its potential. This involves developing new tourist destinations, but also improving the existing ones. Our focus is on sustainable tourism, which does not compromise the environmental and cultural integrity of the tourist areas and maintains a healthy balance between the objectives of promoting tourism and preserving forest, wildlife, biodiversity, and local cultural heritage.

I appreciate the efforts of the teams of the Sustainable Energy & Economic Development (SEED) programme and the Consortium for Development Policy Research (CDPR) on putting together this policy note on options to finance sustainable tourism in the province. It focuses on viable financing mechanisms that would allow the development of sustainable tourism, recommending the ring-financing of revenue generated in the tourist areas for developing infrastructure and tourism related services in those areas. In addition, it has also given some insightful recommendations regarding improving the existing institutional arrangements in the tourism sector of KP.

We look forward to working closely with all our counterparts, especially the teams who have compiled this note, in order to achieve our shared goal of strengthening sustainable tourism in the province.

Message From

Mr. Amer Sultan Tareen

Secretary Sports, Tourism, Archaeology, Museum, Culture & Youth Affairs Department

Pakistan is increasingly being seen as an international tourist destination, with its scenic mountains and rivers, beaches, and green hills. Khyber Pakhtunkhwa is particularly gifted in this area, being the home of the some of the most beautiful tourist areas. Not only is it blessed with natural beauty, but is also has been an important historical region, dating back centuries, and has a vibrant culture that attracts people from all over the globe.

Owing to all these factors, KP has always been one of the favourite domestic tourist destinations. It has recently received a greater number of tourists than ever before. The government has also taken up tourism as one its chief priorities and has been focusing on further increasing the number of tourists and tourist destinations within the province. Given this goal, it is also important for us to simultaneously work on improving the tourists' experience in our province, ensuring they have all facilities available, while also protecting the interests of locals of the tourist areas.

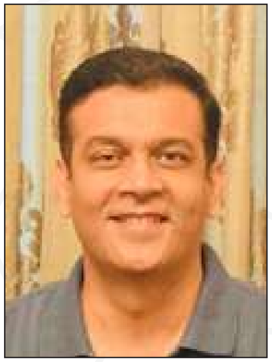
For this, we need to promote sustainable tourism in KP and Pakistan. This policy note by the FCDO-funded Sustainable Energy & Economic Development (SEED) programme and the Consortium for Development Policy Research (CDPR) is a great and timely initiative in this regard, as it focuses on a new approach to tourism financing that has proved to work well in many other countries. It calls for apportioning the revenues from existing taxes in tourist areas as tourism cess, which will the be earmarked for sustainable tourism development within these areas only. The challenges of this approach have also been discussed at length, and this is a discussion that must be taken up at all public and private platforms invested in this sector.

The note makes other important recommendations as well, including the streamlining of the institutional setup of the tourism sector and introducing mechanism to institutionalise the voices of private sector stakeholders and the community. These are all important steps in the right direction, and we hope to work together with all stakeholders in the future to promote sustainable tourism in KP.

Message From

Dr. Omar Mukhtar Khan

Team Leader, Sustainable Energy & Economic Development (SEED) Programme



Tourism has always been an important sector in Pakistan, particularly Khyber Pakhtunkhwa. Reportedly, 2 to 3 million tourists visited KP and the northern areas during the Eid holidays in 2021, generating an estimated Rs 4 billion in revenue for the province. Despite this, the true potential of tourism in KP is underutilised, and even the existing tourist spots have not been developed properly, leading to many problems for tourists as well as the locals.

In recent years, the KP government has been focusing increasingly on this sector in the province, with special attention to the concept of sustainable tourism, i.e., tourism which does not harm the environment, wildlife, or people of the tourist areas while providing an enjoyable experience for the visitors. This policy note by the Foreign, Commonwealth & Development Office's (FCDO) Sustainable Energy & Economic Development (SEED) programme, in partnership with the Consortium for Development Policy Research (CDPR), puts forth important recommendations in line with the vision of GoKP's Tourism Department.

We have many global role models for sustainable tourism, which have been successful in exploiting their natural beauty and cultural history to boost their economies. These international best practices show that tourism development and management at a local level tends to be more efficient and transparent. Under this mechanism, tourism and hospitality related taxes are collected at the local, city or municipal level and are ear-marked to be spent on tourism infrastructure, marketing or for environmental and con-servation projects at the local level. This policy note, with input from various local stake-holders, examines the scope of such a financing mechanism in KP and is, thus, an important first step towards the government's goal. Moreover, it has also chalked out a way forward for the implementation of these recommendations, highlighting the crucial institutional changes that will be required for efficient management of tourism in the province.

I congratulate the SEED and CDRP teams on their efforts. We are committed to continuing our partnership with the GoKP and closely working together to develop sustainable tourism in KP.

Executive Summary

The objective of this policy note is to give a preliminary assessment of ring-fencing revenue generated in the tourist areas of Khyber Pakhtunkhwa (KP) for developing specific tourism related infrastructure and services to promote sustainable tourism in these areas. This evaluation is done keeping in view international best practices, recent institutional changes governing tourism in KP and existing revenue and expenditure systems of the province. A stakeholder analysis, that entailed a workshop and interviews with relevant public and private sector players, informs the analysis and helps outline some preliminary findings and possible areas of further research.

International best practices show that an efficient and transparent mechanism of tourism development and management is through local governments. Tourism and hospitality related taxes are collected at the local, city or municipal level and are spent on tourism infrastructure, marketing or for environmental and conservation projects at the local level. Other charges such as fees, levies, tolls etc. are for specific services such as entry charges to resorts, museums, parks etc. The revenues collected are spent on the maintenance, management, and improvement of these tourism related services. This is essentially what ring-fencing or hypothecation of tourism tax revenue means.

Such earmarking of tax revenue for use in a particular sector or a specific service is thought to increase transparency and accountability of a government with the taxpayers, creating willingness to pay taxes particularly in countries with low tax compliance. However, hypothecation of taxes can lead to the loss of a government's autonomy to allocate resources according to its preferences and plans. Also, as tax revenues are pro-cyclical, complete reliance of a public good or service on one source of revenue (strong hypothecation) can lead to resource constraints in times of low economic activity jeopardising the provision of that good or service. Finally, as tax revenues are dependent on the extent of economic activity of a region, ear-marking these for use in that region can create enclaves of prosperity accentuating geographical income disparities. While discussing the possibility of earmarking tourism taxes for sustainable tourism development in the context of KP, these issues need to be kept in mind.

In Pakistan and in KP, tourism is a provincial subject under the Khyber Pakhtunkhwa Tourism and Culture Authority (KPCTA). The KPCTA is an autonomous body with powers to collect tourism levies, fee, fines etc. which go into a tourism fund. The fund is supposed to be used for tourism marketing, research, development etc. One of the key tasks of KPCTA is the establishment of independently functioning Integrated Tourism Zones (ITZs). The province also has development authorities such as Galliyat Development Authority (GDA) and Kaghan Development Authority (KDA) that are autonomous and have development of tourism as part of their administrative domain. These authorities also collect a range of taxes, fees, fines etc. and overlap in terms of geographical and administrative jurisdiction with KPCTA and proposed ITZs. Local bodies' jurisdiction can also potentially overlap with the Authorities, although currently these are not functional or active. Overall, the tourism administration and management system are like a spaghetti bowl with multiple departments, overlapping jurisdictions, regulations, and numerous taxes/levies.

The revenue and tax collection in the province is done by KPRA and the Estate and Excise Departments. Sales tax on services, property tax and excise taxes are collected and deposited in a central provincial fund managed by the Finance Department. There is no institutional mechanism which would allow hypothecation or ring-fencing of tax revenue collected from tourist areas for tourism development. The only institutional mechanism by which ring-fencing can be done is through KPCTA and the Development Authorities. As GDA is the oldest authority, it can potentially serve as a model for KDA and the upcoming Upper Swat Development Authority. GDA collects property tax, conservancy charges, water tax and toll tax – this money is spent on tourism related projects and infrastructural development in the Galliyat. The GDA model, therefore, is the closest to ring-fencing albeit without one critical ingredient – formalised local community and stakeholder participation in the decision-making process. Therefore, given this context, the central recommendations, and areas of further work in order of priority are:

Streamline institutional structures to reduce jurisdictional overlaps:
The first-best and perhaps the most challenging recommendation to implement would be to minimize overlaps of the various tourism related departments and authorities in KP; clear delineation of mandate and jurisdiction of each department/authority and simplifying regulations and tax liabilities for tourism related businesses and investment. At the same time, greater information, cooperation, and coordination across departments is required to encourage private investment and reduce roadblocks in the form of unexpected regulations or approvals from different departments. Also, jurisdictional clarity and improved inter departmental coordination will avoid multiplicity of taxes, duplication of development programs, multiple and redundant regulations, and wastage of resources.

Therefore, an area of future work could be a comprehensive mapping and review of tourism and revenue related government departments in KP to see where exactly overlaps exist in administrative function and regulations. Moreover, as the revenue and expenditure jurisdiction of development authorities, such as the Galiyat Development Authority (GDA), is extensive and covers the main tourist areas of KP, a thorough assessment of their performance, capacity and capability of using locally generated revenues for infrastructure development and service delivery needs to be undertaken.

Institutionalise stakeholder input in development authorities:
In the absence of local body/government jurisdiction on tourism and with multiplicity of government departments in the tourism domain, a second-best solution is to institutionalize stakeholder and community voice into the structure of the tourism and development authorities. This would ensure that the decision of spending locally collected revenues by the respective authorities is reflective of the preferences of the local stakeholders and is thus less ad-hoc. It will also create stakes for the private sector and the local community in the authority, increasing willingness to pay taxes and fees etc. for specific projects and services related to tourism. For that, it is recommended that development authorities such as GDA have formal working committees of the Board, with private sector stakeholder participation to prioritize tourism related infrastructure and service delivery projects.

Implementing user fee or levies for specific projects:

Tourism service charges and environment conservation and protection can be done effectively through specific programs financed by a user fee or a specific levy. Tourists and local businesses may be willing to pay for services they receive. Some examples are solid waste collection and disposal system where initial investment is made by the relevant development authority and the operation or service is financed by a user fee. Sewerage system and treatment plant installed by the authority and maintained through a monthly fee could be another service intervention. Such interventions and programs can easily be piloted in locations such as Kaghan, Naran and the Galliyat. If successful, these can be scaled up and extended to other tourist hotspots in KP. Such strong and narrowly defined hypothecation of revenues is observable and transparent and thus likely to succeed then broad earmarking, where revenue goes to the tourism sector (authority) and not a well-defined program or intervention. However, this area requires further research work where service delivery gaps are identified in tourist areas through institutionalised public-private dialogue, and then specific interventions designed and tested before a large-scale implementation.

Remove tax exemptions:

It is recommended that the federal and provincial tax exemptions in Swat and Chitral be withdrawn post 2023 and the same tax rates (sales tax, income tax etc.) be applied across all KP. Also, the proposed ten-year tax exemption to businesses locating in ITZs needs reconsideration. Removal of such tax exemptions will reduce distortions in investment decisions, geographical disparity in business opportunities and raise considerable revenue which could be spent on tourism infrastructure development and related services.

Apportion existing provincial taxes/excise duties as tourism cess:

Introducing additional taxes or a tourism cess for the specific purpose of tourism development is not recommended keeping in mind increased cost to tourists and businesses. Existing sales tax or excise tax on hotels could be apportioned as tourism cess and the proceeds can be spent on sustainable tourism development in areas where revenue is generated from. Alternatively, a tourism cess on tourism and hospitality businesses and services could be introduced with an equal and concurrent reduction in sales tax. The objective here is not to increase the overall tax liability of tourism related businesses in KP but to ring fence a portion of the tax revenue for tourism development. The revenue from this apportioning could supplement the KPCTA tourism fund or add to provincial government transfers to relevant development authorities for spending on tourism related schemes. These revenue receipts can also be used for community development projects around the tourist resorts by allocating these funds into the local government budgetary pool. All these options will however require legislative action and might be difficult to implement given the centralized structure of finance and budgetary processes in the province.

Introduction

1.1 Growth of Tourism in Khyber Pakhtunkhwa

1.2 Key Objectives and Structure of the Note

01

1.1 Growth of Tourism in Khyber Pakhtunkhwa

Khyber Pakhtunkhwa (KP) is richly endowed with natural beauty, has an ancient history and a diverse cultural heritage making it an attractive destination for both international and domestic tourism. The province is also the gateway to the northern areas of Pakistan, which have historically attracted adventure tourists and professional mountaineers from world over. KP itself boasts some of the most spectacular natural resorts in the country such as Swat, Chitral, Kaghan, Naran and the Galliyat region. Improved security environment in the province and better road connectivity, has resulted in a surge of domestic tourism to KP and the northern areas in the last five years. Despite international travel restrictions because of Covid-19, the easing of lockdowns in the country since last year has led to an unprecedented rise in domestic tourists particularly in the summer season. Estimates range from 2 to 3 million tourists visiting KP and the northern areas during the Eid holidays in 2021, generating an estimated Rs 4 billion in revenue for the province[1].

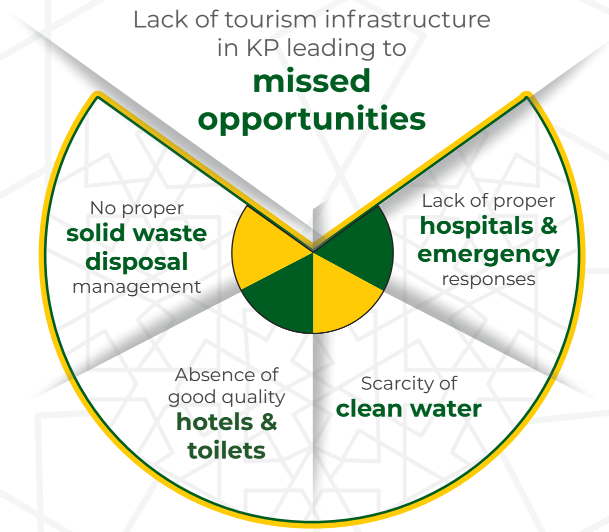
Rs. 4bn

3mn tourists in KP generated

Revenue in 2021

This phenomenal growth in domestic tourism has resulted in the creation of much needed economic opportunities in the region and provided a welcome boost to the hospitality sector and tourism related services in these areas. However, the surge in tourist numbers has put forward a new set of challenges for the provincial government. Despite improved roads and highways, tourist hotspots of KP lack basic infrastructure facilities such as solid waste disposal systems, adequate hotel and toilet facilities, clean drinking water, internet connectivity, hospitals, and emergency response services etc. These areas, therefore, are often unable to cope with large influx of tourists especially during peak seasons. Moreover, there are no effective mechanisms in place to monitor and control the degradation of the fragile environment and ecosystem of the natural resorts caused by unregulated commercial activity and large tourist inflows.

To effectively address such challenges there is a need to promote sustainable tourism and development systems in KP, as in the rest of the country. One way that has been successfully employed by other countries is to create a system that entails self-sustaining revenue mobilization and expenditure mechanisms through which resources generated in tourist destinations are used specifically for the development and maintenance of tourism infrastructure and service delivery at the source of revenue. Local taxes on tourism and hospitality services, tolls and user charges that can be applied flexibly and adjusted readily, can be potential instruments for revenue collection. These taxes can be hypothecated i.e., structured in a way that the revenue raised is ring fenced for specific types of use within that geographical location instead of going into the provincial revenue pool. Studies have shown that local tax collection which is earmarked for specific public good or service provision within that area, creates incentives to pay which otherwise might be weak or absent in a centralized tax collection and expenditure system.



[1]Buneri, (2021). KP earns an estimated Rs4bn tourism revenue during Eid holidays

1.2 Key Objectives and Structure of the Note

The objective of this policy note is to give a preliminary assessment of the viability and challenges of ring-fencing revenue generated in the tourist areas for developing infrastructure and tourism related services in those areas. This evaluation is done in the context of the recent institutional changes governing tourism in KP and the existing revenue and expenditure systems of the province. There have been significant changes in the KP tourism administrative landscape since 2018. The recently established KP Tourism Authority under the KP Tourism Act 2019 envisions the creation of Integrated Tourism Zones in the province[2]. These zones would have autonomy to frame regulations, provide single window facilities for private sector investors and use funds collected through various fees and levies for tourism promotion and development. At the same time the Khyber Pakhtunkhwa Revenue Authority (KPRA) has significantly reduced services tax on hospitality and related services to provide an incentive for private sector investments in the tourist areas.

The note therefore outlines the tax and tourism governance structures in KP and reviews best practices and experiences of both developed and developing countries in tourism related revenue generation and administration. The review has been supplemented by input from various stakeholders to contextualize and understand the issues and problems in instituting and directing local taxes towards sustainable tourism management and administration in KP. These stakeholders include representatives of the private sector related to the tourism and hospitality industry in the province, public finance management experts, relevant provincial government departments including the KP Culture and Tourism Authority, Galiyat Development Authority, KP Revenue Authority, KP Department of Excise and Taxation and the Sustainable Tourism Development Foundation.

The note is structured as follows: A rationale for tourism taxes is given along with best practices across countries followed by a detailed review of the current structure of provincial and local taxation and tourism in KP. Based on the existing institutional structure, international best practices and stakeholder review, issues and challenges in ring-fencing revenue generated in tourist areas are identified and explored. Finally, the note highlights areas of further research and puts forward some preliminary recommendations for immediate, medium and long-term action.

[2]There are four ITZs proposed: Ghanool in Mansehra, Mankiyal in Swat, Madaklash in Chitral and Thandiyani in Abbottabad.

Tourism Taxation: Rationale and International Best Practices

2.1 Levies

2.2 Value-Added Taxes

2.3 Fiscal Incentives

02

This section reviews selected literature on tourism taxation and finance to outline experiences of other countries and prevalent best practices and workable models in tourism tax collection and spending. This will inform the preliminary recommendations put forward in the note.

Tourism Taxation is an example of hypothecation or ring-fencing of tax revenue for a specific purpose i.e., tourism management and development. Hypothecation, ring fencing or ear marking taxes for use in specific sectors, projects or programmes is generally categorised into two broad types – strong/hard and weak/soft. Strong or hard hypothecation is when a particular government service, project or program is completely financed by the earmarked tax, user fees or levy with no other sources of finance. While weak hypothecation is when the tax, fees or levy partially finances the service, project, or programme. Most of the tax revenue hypothecation examples around the world, including for tourism development, fall in the weak or soft category and are supplemented by resources from the central budgetary pool. This is because of the pro-cyclical nature of tax revenues and the potential of revenue shortfalls in times of economic downturns. There is also a further categorisation of hypothecation – broad and narrow. Broad hypothecation is when tax revenues are earmarked for a sector such as education, health, or tourism. On the other hand, narrow hypothecation refers to tax revenues being used for a very specific and observable service, project, or programme. e.g., toll taxes for road maintenance, waste disposal charges, entry fees to a museum or a park etc[3].

The main benefit of earmarking tax revenue for use in a particular sector or for a specific service is that it increases transparency and accountability of a government with the taxpayers enhancing willingness to pay taxes. This is in some sense analogous to consumers purchasing a private good or service from the market. Earmarking tax revenues is particularly effective in countries with low tax compliance and a general lack of public trust in governments and their effectiveness in providing public goods and services. Evidence shows that earmarking is most effective and efficient when it is for the provision of a specific good or service in accordance with the preferences of the consumers[4].

However, hypothecation of taxes has some serious issues and limitations. Firstly, by tying resources to a particular sector or programme, it limits a government's autonomy to allocate resources according to its preferences (social welfare functions) and strategic plans and is therefore often opposed by bureaucrats and policy makers. Also, as tax revenues are pro-cyclical, complete reliance of a public good or service on one source of revenue (strong hypothecation) can potentially lead to resource constraints in times of low economic activity jeopardising the provision of that good or service. Finally, as tax revenues are dependent on the extent of economic activity of a region, ear-marking these for use in that region can create enclaves of prosperity exacerbating geographical income disparities. While discussing the possibility of ear marking tourism taxes for sustainable tourism development in the context of KP, these issues need to be kept in mind[5].

[3] Seely (2011). Hypothecated Taxation.
[4] Mitha (2018). Hypothecation, health taxation and hysterisis
[5] ibid

Broad usage of **tourism taxes worldwide**

Now coming to tourism taxation, taxes can be levied on tourist activities for several reasons.

a) Broadly, they can help generate revenues for local governments, which can then be directed towards maintaining tourist destinations, or they can help regulate tourist flows within the area, according to season, length of stay or locality.

b) Revenues from tourism taxes have also been used to curb the negative impacts of tourism; overdevelopment of tourist activities can lead to a degradation of environment and natural resources, which can be regulated by imposing specific taxes. For example, in 2019 New Zealand introduced an arrival tax of NZD 35 for foreign visitors which funds sustainable tourism and conservation projects.

c) Additionally, in some countries[6], revenues have been used to build more resilient systems of tourism, which are less sensitive to shocks such as climate change and pandemics.

d) In some countries, tourism taxes have also served a regenerative function where revenues have been dedicated to introducing initiatives to protect nature, restore cultural heritage and strengthen local communities. An example of this is the Sustainable Tourism tax in the Balearic Islands, which is channeled into a Sustainable Tourism Fund used for initiatives that aim to protect the environment, promote sustainable tourism, recover cultural heritage and conduct scientific research[7]. In the Maldives taxes on tourism is the largest source of revenue for funding Male, where most of the citizens live. Without this transfer, there would strong political opposition to developing enclave tourism[8].

The form and amount of tax levied can vary with the type of tourist destination and influx of tourist activity. Generally, taxes on tourism can take the form of sector-specific levies, value-added tax and fiscal incentives (elaborated below). Their impact on demand is determined by the destinations' relative price elasticity of demand. Destinations such as coastal regions are more sensitive to price changes as compared to those with unique attractions or ones that are frequented for business purposes. The latter have a competitive advantage—tourists' reason for traveling cannot be substituted.

In order to ensure the sustainability of tourist practices, taxation has to serve a regenerative purpose. For this reason, there is a case for separating tourism tax revenues from general revenues. Studies find that there is an overarching consensus among different actors within the tourism sector that tourism tax should be a specialized tax where the revenues should be allocated and invested as such[9]. Using revenues to preserve and regenerate local ecology and cultural heritage in communities that may consider tourism an invasive practice can build public legitimacy and support in the long run.

Additionally, research also suggests that local governance and representation is vital to balancing stakeholder interests and to gain political support for any tax regime. In Iceland, Barcelona and Balearic Islands, tax revenues are locally governed, and the decision-making process involves members of the hospitality industry, municipal governments, community groups, non-governmental organizations (NGOs) and academics. Furthermore, research from the US and Istanbul shows that earmarking tourist taxes through a local body facilitates higher-yielding investments for the tourism sector and local governments in the long-run[10].

[6] For example Sweden, Germany and Switzerland.
[7] Group NAO (2020) Tourism Taxes by Design – White Paper
[8] United Nations Environment Programme and World Tourism Organisation (2005). Making Tourism More Sustainable: A Guide for Policy Makers.
[9] Group NAO (2020) Tourism Taxes by Design – White Paper
[10] ibid

2.1 Levies

Tourism-specific levies usually include occupancy tax, entry and exit taxes, fees for hotels and tour licenses, beach and park admission fees, hunting and fishing permits etc. Before imposing levies governments must consider whether they can effectively generate revenue, and if they can be easily administered and complied with by taxpayers. Globally, revenues from levies are usually hypothecated. For example, in Nottingham, revenues generated from the Workplace Parking Levy (WPL) are ring-fenced for the initiatives undertaken under the Local Transport Plan. A consumer study from Italy demonstrates that consumers' willingness to pay (WTP) for tourism taxes is determined not just on the vacation and tourist type but also on how the revenue is used. Another important consideration in the imposition of levies is the recent rise in the sharing economy through digital platforms such as Airbnb. Charging levies on traditional accommodation, while ignoring accommodation accessed through the sharing economy can distort competition within the market. To address this, local authorities in Paris require platforms such as Airbnb to collect and remit tourist taxes on behalf of accommodation providers[11].

Can levies be an **effective tool** to generate revenue from tourism?

2.2 Value-Added Taxes

The value-added tax (VAT) is an indirect tax which can be imposed on tourism-related goods and services. Literature suggests that tourism-specific VAT should be avoided to minimize compliance costs, in favor of an evenly distributed rate across all actors in the economy (Group NAO, 2020). Multiple rates can complicate tax administration and compliance and can create opportunities for rent-seeking. In some cases, governments have used VAT refunds as an incentive to promote tourism related services. For example, in Dubai, 5% of VAT is refunded for organizations who work in the exhibitions and conferences sector[12].

[11] Local Government Association. A Tourist Levy: What, Where and How

[12] Group NAO (2020) Tourism Taxes by Design – White Paper

2.3 Fiscal Incentives

Fiscal incentives can take the form of tax holidays, exemptions from customs duties, initial capital allowances, and accelerated depreciation on buildings. They are usually granted to promote investment in a sector. When providing incentives, governments must distinguish between different types of tourism to avoid unnecessary distortions. Where tourism is based on unique attractions, or business uses, the destination has a competitive advantage and its demand is relatively inelastic. In such cases, fiscal incentives are futile. However, where the inverse holds true, fiscal incentives can be used to encourage businesses[13]. For example, tax credits could be given to tourist related activities and businesses focused on the protection and preservation of natural resource and environment. Similarly, to encourage female participation in hospitality and tourism related services, grants can be given to women proprietors to help setup or run businesses.

There are a number of problems associated with fiscal incentives. They are often granted on a discretionary basis–not through tax law–and can potentially introduce a range of problems, including a bias towards large foreign firms, administrative burdens, reduced competitiveness and corruption. Despite the problems associated with incentives, they are employed by governments because tourism has a high price elasticity of demand, positive externalities are associated with its development, and because initial investments can pay off in the long run. An example of this is Mauritius, where the government offered incentives to boost tourism in the 1980s but abolished them later when the sector had developed considerably. Generally, sector-specific incentives should be reduced or eliminated over time, in favor of even applied tax rates for all investments. A clear timeframe for this must be established so the incentives can be gradually phased out[14].

Countries tend to grant fiscal incentives to infant industries to

Promote Investment

in the sector through the following actions:

- Tax holidays
- Initial capital allowance
- Exemptions from custom duties
- Accelerated depreciation on buildings

Some of the drawbacks of fiscal incentives in tourism industry

- Granted on discretionary basis
- Bias towards big foreign firms
- Administrative burden
- Reduce competitiveness & corruption

[13] Corthay & Loeprick,(2022). Taxing Tourism in Developing Countries: Principles for improving the investment climate through simple, fair, and transparent taxation.

[14] ibid

Current Structure of Provincial and Local Taxation and Tourism Management

3.1 Tourism Act, 2019 and Khyber Pakhtunkhwa Tourism and Culture Authority (KPCTA)

3.2 Galliyat Development Authority Act, 2016

3.3 Kaghan Development Authority Act, 2020

03

TASEER BEYG | 2017

This section provides a summary of KP taxation departments and tourism management and development authorities to give context and a baseline to the discussion and analysis of ring-fencing tax revenues for sustainable tourism.

Articles 118-124 of the Constitution of Pakistan clearly states that all revenues received by the provincial government will go into a consolidated fund known as the Provincial Consolidated Fund credited to the public account of the province. The Provincial Government has the power to authorize expenditures from the fund and budgetary allocations for various sectors are specified in the Annual Budget. There are three departments which directly control tax collection in KP - The Khyber Pakhtunkhwa Revenue Authority (KPRA), Revenue & Estate Department and Excise and Taxation Department.

KPRA, a corporate entity established under the Khyber Pakhtunkhwa Finance Act, 2013, has the mandate to administer and collect Sales Tax on Services & Infrastructure Development Cess. KPRA has emerged as the largest tax collection authority of KP and collects a substantial amount of tax from the hospitality and tourism sectors as well. It has designed and implemented a pro-tourism tax package containing reduced tax rates (lowered tax rates from 8% to 5% for non-corporate hotels) and amnesty from penal liabilities for hospitality sector businesses at the hill stations of Kaghan Valley and Galliyat ensuring that all taxable hospitality businesses in the area start immediate adequate compliance and continue to stay compliant in the future.

Moreover, the tourist areas of Chitral and Swat, which fall under the Provincial Administered Tribal Areas, PATA, enjoy a sales tax exemption till 2023. The surge in domestic tourism and the resultant increase in hospitality services such as hotels and restaurants in the main tourist areas has caused a significant increase in sales tax revenue from the hospitality sector in the last couple of years (see Table 1). However, the revenue generated by KPRA goes into the provincial pool and there is no constitutional provision which would allow ring-fencing a part of the revenue for expenditures in the area from which the tax is collected.

Source: KPRA Annual Reports[15] (various years)

The Excise and Tax department charges a tax on hotels which is levied and collected annually. The tax is payable by the owner or management of an establishment at the rate of 10% of room rent per day, on the basis of fifty percent of the total number of rooms available in the concerned hotel. However, in accordance with constitutional provisions this money also goes into the collective provincial pool.

Although the revenue from the tourism industry going to the Provincial Consolidated Fund cannot be ring-fenced in a way that the proceeds are invested back into the tourism sector, the various Development Authorities operating within the province have the mandate to do that. The Tourism Act of 2019 establishes a Tourism Authority for KP and sets up a Tourism Fund which is managed by the Authority and can be spent directly on tourism development in the region. Additionally, the more localized acts such as the Galliyat Development Authority, Kaghan Development Authority and the upcoming Upper Swat Authority follow similar models. These authorities have the autonomy to decide how and where to spend the revenue generated through various instruments at their disposal, described in Annex A (a).

[15] Khyber Pakhtunkhwa Revenue Authority, KPRA. Annual Report (Various Years).

3.1 Tourism Act, 2019 an Khyber Pakhtunkhwa Tourism and Culture Authority (KPCTA)

The Tourism Act, 2019 establishes the Khyber Pakhtunkhwa Tourism Authority (KPCTA) which is responsible for administrative, financial and regulatory control over all activities undertaken with the approval of the Provincial Tourism Strategy Board (also formed under the Tourism Act). The KPCTA is responsible for framing licensing regulations for tourism products, activities and services and may, by regulation, require a payment of a tourism levy from persons engaged in tourism services or from tourists. The Act also establishes a tourism fund which is to be kept in a scheduled bank and spent with the Board's approval. Sources of income for the fund include grants from the government, rents and profits, gifts and grants from private entities, proceeds of charges, fees and taxes levied by the Authority, funds generated from tourism activities (for a detailed list refer to Appendix-A.[16]

(a) The fund is intended to be used to finance research, development and marketing of tourism in the province. It will also be used to finance the development of Integrated Tourism Zones and for training and capacity building of the hospitality sector (for a detailed list refer to Appendix A(b)).

The most significant program of KPCTA is the demarcation and establishment of Integrated Tourism Zones (ITZ). Once an area has been demarcated as an ITZ, it is to be governed by the rules and provisions of the Act and the laws and regulations of other departments (such as the Forest Ordinance, Environmental Protection Act, Local Government Act) are no longer applicable to the area designated as an ITZ. The ITZ has been envisioned as providing a one window service to the private sector to reduce the regulatory burden of seeking permits, licenses etc. from various government departments by the private sector. To ensure that environmental and cultural integrity is not compromised, the Authority aims to maintain a healthy balance between the objectives of promoting tourism and preserving forest, wildlife, biodiversity, and local cultural heritage.[17]

[16]The Khyber Pakhtunkhwa Tourism Act (2019).

[17]The removal of all external regulations from ITZs in areas which are natural forest and wildlife reserves is problematic and can potentially cause de-forestation, loss of wildlife and environmental damage and degradation – going against the basic objectives of sustainable or eco-tourism. This particularly applies to the planned Thandiyani ITZ which is in Ayubia National Park – a protected forest reserve. It is imperative to conduct a rigorous base-line analysis of the forest and natural habitat of these areas and assess the degree of damage caused by the ITZ on the natural environment and habitat. Such a baseline assessment should be done through an external organization and not conducted internally by KPCTA or ITZs consultants etc.

3.2 Galliyat Development Authority Act, 2016

The Galliyat Development Authority (GDA) is responsible for all development works including environmental upgradation, tourism development, housing schemes and uplift of the local community in the Galliyat region of KP. As part of its mandate the authority can impose fines, levy and collect fees and charges as approved by the Galliyat Development Authority Act. Furthermore, the authority has the power to recover all arrears of taxes (fees & charges) rents and other moneys, within the Galliyat areas, through arrears of land revenue. The Authority also collects fees or user charges for the services it provides or facilities it extends to the public, including fee or charges on account of conservancy, maintenance of public parks, green belts and green areas, within the Galliyat areas.

The GDA is the oldest Authority in the region and operates independently with a high degree of autonomy. The four main taxes collected by the GDA include property tax, conservancy tax/fee, water tax and road/toll tax. The GDA can also levy betterment fees and collects tax on transfer of immovable property and charges for land regulation. From the stakeholder interviews with GDA officials, it was apparent that the Authority has considerable financial autonomy allowing it to develop and implement plans and schemes for infrastructure upgradation and tourism related projects. In addition, the planned Thandiani ITZ under the KPCTA will be developed and managed by GDA.

The GDA has an independent board comprising ex-officio members of the KP government and representatives of the private sector who have some form of affiliation with the Galliyat region The decisions on planning and development of the region lies with the Board. The GDA has no direct and formal engagement with the private sector businesses providing tourism and hospitality services in the area nor has a formal mechanism of involving local businesses and communities in the planning and development decisions of the area. From the stakeholder interviews it was evident that such involvement is considered by GDA to potentially cause 'conflict of interest'.[18] Nonetheless, the current revenue collection and expenditure model of GDA is closest to the idea of ring-fencing revenues to expenditures for tourism related development, albeit without the extent of local stakeholder/community involvement present where tourism revenues and expenditures are managed through a local government system. Local governments in the Galliyat region are limited to rural areas or villages, with a mandate circumscribed to the provision of services such as health, sewerage etc. The tourist areas of Galliyat fall under the administrative control of GDA and have no local government involvement as such.

[18]Article 4 (1a) of the Galliyat Development Authority Act stipulates that there will be 5 members from the private sector on the board, with no conflict of interest. Due to this clause members from the private sector are those individuals, selected by the provincial government following submission of CVs by potential candidates, who have some technical expertise and may or may not be affiliated with the region in some manner but do not own or operate any business in the region.

3.3 Kaghan Development Authority Act, 2020

The Kaghan Development Authority (KDA) is responsible for devising all development works and embedding other measures in the objective of environmental upgradation, tourism development, housing schemes and uplift of the local community. As part of its mandate the authority can collect levies, fees, taxes and user-charges with respect to the services and facilities made available to the public, including fee or charges on account of conservancy, maintenance of public parks, green belts and green areas or facilities within the region. Some relevant taxes collected by the authority include local taxes on services, toll/road tax and conservancy fee (for detailed schedule see Appendix B[19]).

With the establishment of KPCTA and independently administered ITZs along with Authorities like KDA and GDA and the proposed upper Swat Development Authority, there is likely to be an overlap of jurisdiction in terms of both revenue collection and in planning and development of the tourist areas. Also, other departments of the province such a Forestry, Environment and Wildlife still exercise significant regulatory powers over these areas. This overlap and lack of clarity of jurisdiction was acknowledged by the relevant officials in the stakeholder meetings. Their view was that as most of these authorities, with the sole exception of GDA, are new, it will take some time to develop and define jurisdictions and improve inter departmental coordination.

[19]The Kaghan Development Authority Act (2020).

Issues and Challenges

04

4.1 Tax compliance and exemptions

4.2 Constraints in imposing Tourism Cess

4.3 Mitigating threat to Environment and Ecology of the Region from Increased Tourist Activity

4.4 Complicated Regulatory Landscape

4.5 Lack of Private-sector Stakeholder Engagement with Development Authorities

4.6 Lack of Skills and Revenue Leakages

4.7 Lack of Data on Tourism

4.1 Tax Compliance and Exemptions

The first order problem identified by KPRA stakeholders was the endemic lack of tax compliance of tourism related service providers such as hotels, restaurants, guest houses etc. in KP. Most of these private establishments are informal and outside the services tax net. Also, as tourism related business activity in KP is seasonal, there is no consistency in tax collection. Tourism service providers and business owners try to maximize the short window to earn as much revenue as possible to tide them over the inevitable dry spells. This seasonality in earning in turn lowers the degree of tax compliance.

According to KPRA, in the last two years there has been a significant increase in sales tax compliance and registration of hospitality related businesses particularly in Galliyat. Extensive registration drives dovetailed with process simplification and reduced tax rates augmented voluntary compliance, resulting in a 31% increase in overall registration[20]. Another important reason cited by KPRA officials was the assurance made by the KP finance minister to spend a significant portion of the revenue generated from Galliyat into the provision of infrastructure development and public service provision in the area. Although there is no legal/constitutional provision and administrative mechanism to hypothecate sales tax revenues, the resultant increase in business registration and revenue is indicative of the potential of increased tax compliance and revenue generation from ring-fencing.

Private sector stakeholders indicated that while tourism is often referred by government officials and politicians as an 'industry', the sector has not formally been given the status of an industry. By giving tourism sector in KP the status of an industry, all tourism related businesses would qualify for lower industrial electricity tariff rates. According to some private sector stakeholders, this would be a significant economic incentive for unregistered hotels, restaurants, rest houses etc. to formalize and come into the tax net. However, this policy would only be viable if the resultant tax revenue increase is large enough to compensate for the loss in revenue from the electricity subsidy.

The tourist destination of Swat and Chitral in KP fall under the erstwhile Provincially Administered Tribal Areas (PATA). To give an impetus to economic activity and tourism in these areas, FBR and KPRA has given tax exemptions to businesses registered locally till 2023. These income and sales tax exemption has attracted large scale investments from outside KP in the hospitality sector. For example, Pearl Continental Hotel in Malamjaba has an owning company which is registered in Mingora, Swat, making it a local business and thus qualifying for the tax exemptions. These tax exemptions can only be justified in the short run as an initial fiscal impetus to attract private investments. Overtime such incentives would create distortions in investment decisions leading to regional disparities in economic opportunities.

Given the unique natural beauty of both Swat and Chitral, there is no expectation of significant decline in tourist numbers nor a resultant fall in private sector investment in tourism from a removal of the tax benefits. In fact, it is likely that there will be a substantial increase in tax revenues in KP generated from these areas which would eventually benefit both Swat and Chitral. The benefits would be even more pronounced if tax revenues post 2023 from Swat and Chitral are ring-fenced.

KPRA and FBR can remove the exemptions post 2023 and the same tax rates across income and services can be applied throughout KP. The proposal of a ten-year tax exemption for businesses located in ITZs also needs careful re-consideration for the same reasons.

[20] Government of Khyber Pakhtunkhwa (2021-22). White Paper Fiscal Year 2021-22.

4.2 Constraints in imposing Tourism Cess

As discussed in the previous section, constitutional provisions make direct ring-fencing of taxes for tourism development difficult. Alternatively, it was suggested by KPRA officials that ring-fencing tax revenues for tourism development could be possible through the introduction of a cess. According to the financial rules of the province, a cess must be used for a specific and defined purpose. The tobacco cess and infrastructure development cess in KP are examples. The KPRA stakeholders were of the view that given existing low tax compliance levels, despite reduced sales tax of 5% on hospitality and tourism related services in KP, an additional cess would cause dissatisfaction amongst businesses and might impact future investment in tourism and hospitality. Thus, the introduction of a tourism cess has to be accompanied by lowering of other tax liabilities, so that the overall tax burden on tourism and hospitality service providers does not increase.

Another possible option could be to apportion a percentage of the existing sales tax rate or the excise tax on hotels (bed tax) into a tourism cess, without increasing the overall sales tax rate or excise rate. In fact, some representatives of the hospitality sector, viewed the current excise tax on hotels to be a simpler and easier instrument to implement compared to the sales tax. However, representatives of the KP Tourism department indicated that it would be difficult to justify such apportioning to the finance department, especially given the rise in funding on tourism development in recent years. They were also of the view that as cess must be levied for a specific purpose, it would be challenging to establish a direct relationship between cess revenue and tourism related expenditures under the current centralized structure of the finance department.

For example, if the excise tax on hotels is converted to a tourism cess, the Excise, Taxation and Narcotics Control Department of KP would be the relevant tax collection authority. The cess revenue collected from a particular tourist area would have to be allocated to the development authority of that specific area i.e., hotel tax or cess collected from Naran would be given to KDA as part of the annual budgetary transfer. Alternatively, the cess revenue could go into KPCTA tourism fund or to local governments for community development projects.

The above is an example of broad hypothecation, where the cess revenue generated from a specific tourist area is spent on tourism related development but not on a specific project or scheme in that area. Also, the hypothecated cess revenue is soft, i.e., supplemented by other sources of revenue such as annual transfers by the provincial government to KPCTA and development authorities.

Existing sales taxes or excise taxes on hotels could be apportioned as tourism cess and proceeds spent on sustainable tourism development in areas where the revenue is generated. Alternatively, a distribution formula could be devised by the finance department by which a certain percentage of tax revenue collected from a tourist area would be spent on tourism related infrastructure development in that area via transfers to KPCTA, development authorities or local governments.

All the options listed above would require legislative approval and would need to have an administrative mechanism to ensure investment and spending on tourist areas where the tax revenue is being generated. Currently the only institutional mechanism available for local revenue generation for tourism related spending is KPCTA and the Development Authorities in KP. These authorities have their own mandated instruments of revenue collection which can be spent directly on tourism related projects.

4.3 Mitigating threat to Environment and Ecology of the Region from Increased Tourist Activity

With increased number of tourists and an unregulated rise in commercial activity, the environment and ecology of natural resorts in KP and especially in the planned ITZs, are under a serious threat of irreversible damage and degradation. Conservation and environment taxes are used world over and are sometimes tied to income tax rebates to ensure private sector

> Pigouvian taxes/levies can be used to regulate the flow of tourists and to mitigate negative externalities caused by commercial activities such as de-forestation, pollution, solid waste disposal etc. The provision of a public good or a service can be connected directly to a fee or a charge to create willingness to pay which might otherwise be absent with a non-specific environmental Cess or a tourism tax.

compliance[21]. Measuring the magnitude of negative externalities and determining appropriate tax rates for businesses to internalize externalities is however difficult. Alternative ways of reducing such externalities effectively can be through localized interventions managed by relevant development authorities in KP and by relabeling taxes as user fee for specific conservation services. Such interventions fit into the category of narrow and strong hypothecation of tax revenues discussed in the review of international best practice earlier.

For example, for solid waste management, a system of waste collection and disposal could be introduced where a nominal service fee is charged from local businesses and resident of the area. Such a system is already operational in the Galliyat region under GDA and is financed through conservancy charges which are a part of the annual property tax collected by GDA. However, according to private sector stakeholders, places like Naran and Kaghan, which receive the highest number of tourists every year in KP, have nonexistent waste collection and disposal systems leading to increased pollution and degradation of the fragile environment and ecology of the area. As a pilot project, The Kaghan Development Authority (KDA) could invest in a solid waste incinerator for Naran and provide waste collection and disposal services by charging a nominal fee to local hotels and restaurants. The waste incinerator can also be a waste to energy conversion plant which burns municipal solid waste to produce steam in a boiler that is used to generate electricity. Such sustainable interventions, if successful, can be scaled up to other tourist areas. Moreover, fines can also be imposed on hospitality service providers and tourists if they litter or pollute the environment. The development authorities and KPCTA have such levies, fees and fines mandated, but few have converted these into specific operational programs.

Stakeholders from the Galliyat highlighted lack of a sewerage system and treatment plant facility in places like Nathiagali which has resulted in the contamination of natural spring waters used by the villages in the area – an evident negative externality of increased tourism and commercial activity on local communities. It was suggested that instead of imposing conservation taxes or an environmental Cess, a workable model would be through a public-private partnerships. For example, GDA could make the initial investment by setting up the sewerage plant and the private sector would pay user-charges for the facility. The direct linkage of tax/fees with service provision would create willingness to pay and make the intervention sustainable. Also relabeling taxes into user fee for a service makes payments more palatable for the public.

[21] A **Pigouvian tax** is a tax on a market transaction that creates a negative externality, or an additional cost, borne by individuals not directly involved in the transaction. Examples include tobacco taxes, sugar taxes, and carbon taxes.

4.4 Complicated Regulatory Landscape

Provision of public goods and services and government revenue generation is more efficient, transparent, and accountable when it is under a municipal or local bodies system. As was noted in the literature review, in many countries tourism related services fall within the domain of local governments. In Pakistan, and in KP particularly, most of the expenditure functions and revenue collection remain centralized in the provinces while the jurisdiction of local bodies seems to overlap with the Development Authorities. Since the 18th Amendment led devolution, tourism has become a provincial subject with overlapping jurisdiction of KPCTA and provincial development authorities such as GDA, KDA and the upcoming Upper Swat Development Authority. These overlapping jurisdictions and functions of the various layers of government and bureaucracy create opacity and a spaghetti bowl of laws, regulations, and taxes, increasing the cost of business and investment for the private sector.

For example, KPCTA mandate of tourism overlaps with GDA and its tourism development role. The ITZs are supposed to be completely autonomous but would geographically fall under the jurisdiction of development authorities, for example the Thandiyani ITZ is to be managed and administered by GDA. Also, other departments like Forestry, Environment and Wildlife, still exercise regulatory powers over these areas. The cost of a lack of clarity of jurisdiction with multiple agencies and departments is borne primarily by private sector investors and existing businesses. The private sector stakeholders highlighted this as a serious issue which has caused unprecedented and costly delays in the execution of major investment projects in Nathiagali and Ayubia.

Moreover, once local bodies in the province are empowered and become functional, there are likely to be jurisdictional issues with KPCTA and Development Authorities over tax revenue collection, regulations, and development schemes in the tourist areas.

> There is a pressing need for better interdepartmental and inter-authority communication and cooperation with a clear delineation of mandate and jurisdiction of each department/authority. This will avoid multiplicity of taxes, duplication of development programs, multiple and redundant regulations, and wastage of resources.

4.5 Lack of Private-sector Stakeholder Engagement with Development Authorities

Although the Development Authorities in KP seem autonomous with independent boards – these are still undemocratic entities and cannot be considered a substitute to municipal or local governments that are accountable to the constituency they serve. According to a GDA representative, local businessmen are barred from membership of the board because of apparent vested interests. Hence it is apparent that the respective boards of each authority approve proposed plans and expenditures related to tourism or infrastructure development without any formalized stakeholder involvement. This isolates the private sector from the decision making process, even though there are a fixed number of seats for private sector representatives on the board of all authorities. The de-linking of the private sector stakeholders is bound to dampen any incentive to pay taxes/levies or fee to these authorities even if the money is being spent locally on improving public services and infrastructure.

Moreover, as the revenue and expenditure jurisdiction of development authorities, such as the Galiyat Development Authority (GDA), is extensive and covers the main tourist areas of KP, a thorough assessment of their performance, capacity, and capability of using locally generated revenues for infrastructure development and service delivery needs to be undertaken. This could be an area of further research work.

A simple solution is to formalize the engagement of private sector associations, such as Hotels and Restaurants Association etc. by including them as members of working committees of the board. As the Kaghan Development Authority and Upper Swat Development Authority are nascent, such structural changes in management and governance of the authorities can still be made.

4.6 Lack of Skills and Revenue Leakages

The recent surge in domestic tourism in KP, low services tax rates and tax havens in tourist areas of Swat and Chitral, have resulted in a palpable increase in investment in the hospitality sector in KP. Most of these investors are large groups and quite a few are from outside KP such as Hashoo (Pearl Continental - Malamjaba) and Hilton (Nathiagali). Due to their holding companies not being based in KP there is significant leakage of revenue generated out of KP. Furthermore, these areas generally have low levels of economic activity and development and lack a skilled workforce. Hence the extent of local involvement in tourism and hospitality industry is likely to remain small for the near future. For long term sustainability of such investments, it is imperative that economic benefits from such large private sector investments accrue to the local population also.

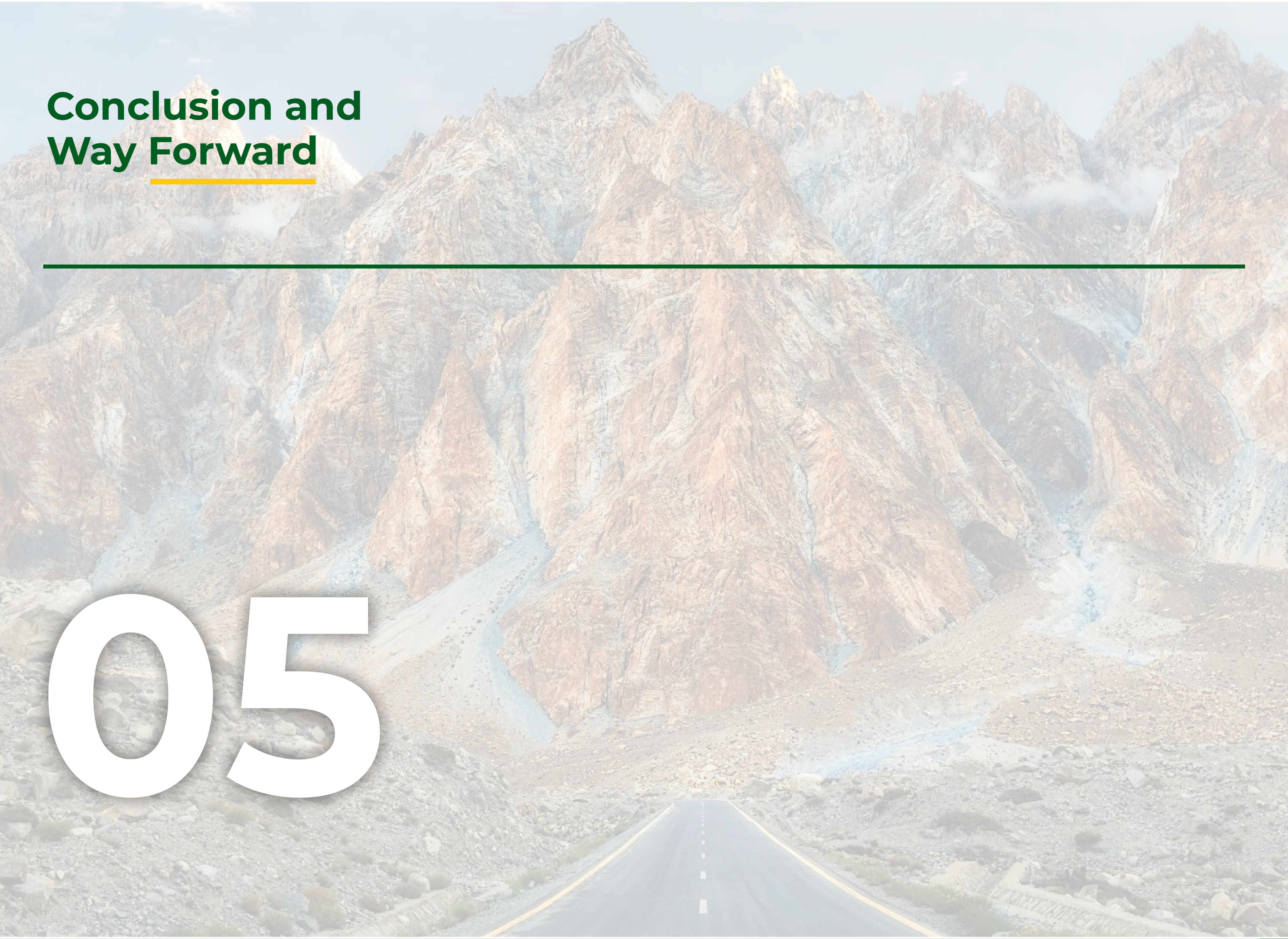
For sustainable tourism there is a need to focus on capacity building and skills training programs in hospitality and tourism services designed specifically for the local population. This can be done through revenues generated by the KPCTA and Development Authorities matched with private sector resources through Public-Private Partnerships and CSR programs. The Agha Khan Rural and Education Support model in Gilgit-Baltistan can be used as a framework to engage and train the local population in tourism and hospitality services.

4.7 Lack of Data on Tourism

There is a dearth of data on tourism, for example on tourism flows at various sites within the regionand[22] on the number and grading of restaurants and hotels, in Pakistan and KP; this was highlighted by stakeholders as a binding constraint to evidence-based policy design and management of the sector.

There needs to be a dedicated unit or department within KPCTA with the sole purpose of collecting and collating data on tourism.

[22] Pakistan Board of Investment and Trade, PBIT. Punjab Spatial Strategy: Tourism Development.



Conclusion and Way Forward

05

The objective of this policy note is to give a preliminary assessment of the viability of tourism related tax revenue hypothecation or ring fencing for sustainable tourism development in KP. For this purpose, a survey of international best practice, current structure of tourism and taxes and a stakeholder analysis was conducted. The most important and relevant findings, recommended policy interventions and areas of further research are summarized below. The tourism sector in KP promises significant economic gains both for the local community and the country at large and hence it is imperative to maximize this potential. Implementation of the proposed recommendations can facilitate the development of a locally financed model for sustainable tourism in KP.

A summary of the key recommendations and proposed way forward is presented in the table below.

Key Recommendations

Challenge

Lack of Private-sector Stakeholder Engagement with Development Authorities. and effectiveness of development authorities in terms of sustainable tourism development.

Purview	Development Authorities
Time Frame	Medium-term
Viability	High

Objective

This will ensure that the decision-making process of spending locally collected revenues by the respective authorities is more democratic and less ad hoc. It will create stakes for the private sector and the local community in the authority, increasing willingness to pay taxes and fees etc. for specific projects and services.

A comprehensive institutional assessment of the development authorities would highlight the underlying organizational issues and weaknesses. An institutional review that leads to reform and restructuring can potentially improve future service delivery and management of tourism related activities.

Solution/Intervention

Institutionalizing stakeholder and community voice into the structure of the tourism and development authorities.

Moreover, as the revenue and expenditure jurisdiction of development authorities, such as the Galiyat Development Authority (GDA), is extensive and covers the main tourist areas of KP, a thorough assessment of their performance, capacity and capability of using locally generated revenues for infrastructure development and service delivery needs to be undertaken. This could be an area of further research work.

Challenge

Constraints in imposing Tourism Cess

Purview	Provincial Government (Department of Finance)
Time Frame	Long-term
Viability	Low

Objective

These proceeds could be spent on sustainable tourism development in areas where the revenue is generated. This would however require legislative action and might be difficult to implement given the centralized structure of finance and budgetary processes

Solution/Intervention

Apportionment of existing sales taxes or excise tax on hotels as tourism Cess

Challenge

Tax compliance and exemptions

Purview	Provincial Government
Time Frame	Medium-Term
Viability	High

Objective

Removal of such tax exemptions would reduce distortions in investment decisions, geographical disparity and raise considerable revenue which could be spent on tourism infrastructure development and related services.

Solution/Intervention

Removal of tax exemptions and harmonization of tax rates.

Challenge

Mitigating threat to Environment and Ecology of the Region from Increased Tourist Activity

Purview	Development Authorities in partnership with private sector
Time Frame	Medium-term
Viability	High

Objective

Such interventions and programs can easily be piloted in locations such as Kaghan, Naran and the Galliyat. If successful, these can always be scaled up and extended to other tourist hotspots in KP. This area requires further research where service delivery gaps are identified in tourist areas, then specific interventions designed and tested before a large-scale implementation.

Solution/Intervention

Implement specific programs financed by tourism service charges, user fees or specific levies to ensure environmental conservation and protection.

Tourists and local businesses would be willing to pay for services they receive such as solid waste collection and disposal system where initial investment is made by the relevant development authority and the operation or service is financed by a user fee. Sewerage system installed by the authority and maintained through a monthly fee could be another service intervention.

Challenge

Complicated Regulatory Landscape

Purview	Provincial Government
Time Frame	Long-Term
Viability	Low

Objective

Greater information, cooperation, and coordination across departments is required for private investment to take place without encountering roadblocks in the form of unexpected regulations or approvals from different departments. The KPCTA and the ITZs propose a single window operation to promote investments in the tourist zones. However, ITZs are still at a nascent stage and require a thorough transition and implementation plan. This could be another area of future work that would entail detailed mapping of relevant government departments to see where exactly overlaps exist in administrative function and regulations and how the proposed ITZs will transition into autonomous self-financing and self-regulating entities.

The real challenge is to reform regulations to arrive at the right balance to promote responsible, eco-sensitive, tourism. Brining private stakeholders and concerned citizens on one page to achieve this will be a great step forward for governance.

Solution/Intervention

Minimize jurisdictional overlaps of the various tourism related departments and authorities in KP and simplifying regulations and tax liabilities for tourism related businesses and investment.

Challenge

Lack of Skills and Revenue Leakages

Objective

This will help build skills and capacity of locals and reduce the need to import goods and services from out of KP.

Purview	Development Authorities
Time Frame	Long-term
Viability	High

Solution/Intervention

Capacity building and skills training programs in hospitality and tourism services designed specifically for the local population.

Challenge

Lack of Data on Tourism

Objective

This will help build a database on tourism and enable evidence-based policy design and management of the sector

Purview	Provincial Government/ KPCTA
Time Frame	Medium-Term
Viability	High

Solution/Intervention

Establish a dedicated unit or department within KPCTA with the sole purpose of collecting and collating data on tourism.

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Appendix

7.1 Appendix A

7.2 Appendix B

7.3 Appendix C

07

7.1

Appendix A

a) Sources of **Tourism Fund** created under the **Khyber Pakhtunkhwa Tourism Act, 2019.**

Development and operational grants allocated by the government.
Rents and profits payable or accruing to the authority from immovable property vested in or managed by it
Proceeds and any profits from bank accounts and investments of the fund
Gifts, grants and contributions by individuals and institutions accepted with the approval of the board
Proceeds of fee charged by the authority for advisory services, registration, affiliation and licensing
Fee, fines cess imposed for violation of rules and regulations including any fine imposed and collected through tourism police or through ticketing
Sale proceeds and loyalties collected from any publications of the authority
Funds received and charged upon tourism activities and services
Grants , donation or any bequests or other gifts made to the Fund
Monies from any other source approved by the government

7.1.1 Appendix A

b) Objectives and purposes of the **Tourism Fund** created under the **KP Tourism Act, 2019.**

Finance the development of tourism products in the province
Finance the marketing of the province as a tourist destination
Finance such incentives and such activities of the Tourism police as permissible under the act and to the extent approved by the board
Finance such incentives and such activities of the Tourism police as permissible under the act and to the extent approved by the board
Finance tourism research, tourism intelligence and provincial tourism information management systems
Finance trainings and capacity development activities either of tourism hospitality training institutions as may be established under this act or transferred to the authority or by outsourcing to the private sector
Mobilize resources to support tourism related activities
Finance the development of integrated tourism zones
Finance the acquisition of land for the development of cultural and religious sites
Finance research and development of cultural activities
Finance the expenditures on tourism agencies.

7.2 Appendix B

Schedule of taxes charged by the **Kaghan Development Authority**

Local Taxes on Services
Tax on transfer of immovable property in Authority area
NOC fee for any adventure, sports activity and installation of seasonal cabins for running small businesses on the tourist spots within Authority area
Conservancy fee from hotels, restaurants and shops, license fee from shops, restaurants and commercial tents
Entry fee or Toll on roads , bridges, routes, ferries maintained by the Authority
Fee on cinemas, dramatical, theatrical shows and tickets thereof, and other entertainment

7.3 Appendix C

Workshop – List of Participants

Date: 1st March, 2022	
Name	**Designation**
Aftab-ur-Rehman Rana	Sustainable Tourism Development Foundation
Abdul Raziq	Additional Collector Headquarter, KPRA
Harir Shah	Chitral Travel - Tour operator
Mr.Javed Khilji	Director Excise
Amir Tareen (or representative)	Secretary Tourism Department
Ali Khan	Alpine Hotel, Nathiagali
Shireen Waheed	LUMS
Kiran Afzal	World Bank
Faisal Rashid	OPM
Nazish Afraz	SEED
Omar Mukhtar	SEED

7.3.1 Appendix C

Key Informant Interviews – List of Interviews

Name	Designation	Date
Syed Ali Raza Shah	Director Tourism, Galliyat Development Authority	8th March, 2022
Ali Khan	Alpine Hotel, Nathiagali	11th March, 2022
Luqman Afzal	Monal	11th March, 2022

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