

## 4

# Government Policies, Incentives' Structure, and Institutional Development

### National Tourism Policy

#### *Evolution of Tourism Development Policy in Pakistan*

Tourism has been a major contributor to the economy of Pakistan. However, no organised efforts had taken place prior to 1993 to make tourism a vibrant sector of the economy. Interventions for the development of tourism were undertaken as isolated activities, depending on the need for such activities.

Activities by organisations involved in tourism, e.g., hoteliers, tour operators, and so on, were undertaken solely on the basis of their own requirements to handle tourists and the profitability of the business units. There was an absence of policy initiatives to plan for the tourism sector and to create development linkages between this sector and other sectors through provision of incentives (in other sectoral policies) for development of this sector.

Of late, however, tourism has been declared an industry, which has led to the need for cohesively organised efforts for the development of this sector. The National Tourism Policy of 1993 is the first of such efforts to streamline tourism and bring it on a par with the other sectors.

#### *Factors in the Slow Development of Tourism*

There are many factors that have constrained the development of the tourism sector despite its potential; the main ones are given here.

- Tourism received low priority in the 6th and 7th Plans; even so, the actual release of funds was less than the plan targets.
- Tourism marketing through publicity did not receive the necessary investment/attention.

- Lack of basic infrastructure in the Northern Areas and the NWFP has further served to restrict tourist flow. Compounded with this are the problems associated with restrictions on chartered flights, visa restrictions, and problems regarding customs and police registration procedures.
- The private sector did not invest as envisaged in the plans due to a lack of concessions and initiatives. The only improvement visible was in the increase in accommodation in four and five star hotels. Accommodation for budget-conscious tourists, along with reliable transport facilities, guide facilities, shopping, and indoor recreation were not developed.
- The Russian invasion and the subsequent civil war in Afghanistan put a halt to the overland traffic through Afghanistan and Iran. Moreover, terrorist activities have negatively impacted on the tourism image of the country.
- No institutional mechanism exists to deal with the safety problems of tourists, particularly during emergencies.

#### *National Tourism Policy (NTP)*

The NTP of 1993 was formulated and announced to achieve a breakthrough in the tourism sector. The highlights of the policy are as below.

- Tourism shall henceforth be accorded the status of an industry
- All tourism facilities will be treated as industrial concerns and will qualify for similar benefits, concessions, and treatment extended to other recognised industries.
- 'Deemed Export Status' has been granted to the tourism industry, including hotels.
- Monetary incentives provided to export industries shall henceforth be admissible to tourism-related projects also.
- All tourism-related projects established between July 1990 and June 1995 will qualify for an eight-year tax holiday, if established in areas where such concessions to other industries are allowed.

- Concessions for duty-free imports admissible to industries in the prescribed areas will also be allowed for tourism projects.
- Concessionary loan financing admissible for tourism projects in the Northern Areas will henceforth be available to projects established in the Hazara division, Chitral, Murree *tehsil*, and the coastal areas of the country (excluding Karachi).
- Accommodation facilities for pilgrims visiting various shrines in Multan and Sehwan Sharif will also qualify for loans at concessionary rates.
- All tourism projects will henceforth be eligible under the Non-repatriable Investment Scheme.
- All machinery and equipment for the hotel industry and recreation, amusement, aviation, and transport sectors not manufactured in Pakistan will be allowed free import under the non-resident investment (NRI) scheme.
- Provincial governments will allot State land for tourism projects on a long-lease basis.
- Federal and evacuee land, where available, will be similarly allotted.
- Land adjacent to government rest-houses will be leased out on nominal lease basis for construction of two to three star hotels and motels.
- Income from log cabins, log lodgers, campers, and cabanas built in the Kirthar National Park, by the Keenjhar and Haliji lakes, in Khunjerab Park, and the Northern Areas will not be taxed for a period of five years.
- Youth hostels and camping grounds established by the PTDC will be leased out to the private sector for operation.
- Kitchen and other hotel equipment not manufactured in Pakistan can be imported free of duty and sales' tax.

- Incentives admissible to other industries will be made available to tourism zones or enclaves established exclusively for foreign tourists.
- Imports of four-wheeled drive tourist coaches with seating capacities for 15-20 persons will be permitted in built-up condition for registered travel agents and tour operators. Customs' duty and sales' tax on such vehicles will be realised in five equal installments against a bank guarantee.
- Approved travel agents and tour operators will be provided with telephone, telex, and fax facilities on a priority basis.
- Special equipment for Adventure Tourism can be imported free of customs' duty and sales' tax.
- Henceforth, chartered flights will be allowed to operate on a point to point (city to city) basis under a regulated programme.
- Tourist helicopters/small planes in the private sector will be allowed to operate.
- Pakistan Railways will operate steam locomotives and narrow gauge trains under a package programme.
- Seventy-two hour transit visas shall henceforth be granted free of cost on arrival to tourists at entry points, subject to overall policy considerations.
- Multiple entry visas will also be granted by Pakistani Missions abroad if such a request is made at the time of visa application.

(Source: National Tourism Policy, Ministry of Tourism, GOP)

### *Implications of the Policy and Gaps Therein*

The tourism policy is expected to have long-term effects by providing impetus to the private sector whose involvement is essential for the development of the tourism industry. The policy announced also focusses on the needs of the sector, such as cheap accommodation and related facilities, and has provided incentives accordingly. The ultimate success will depend on how the policy is implemented, *ceteris paribus*.

A 15 per cent projected increase in tourists from 1994 onwards was anticipated as a result of major structural changes, such as introduction of chartered flights; five-year tax holidays for the tourism industry throughout the country; provision of 'industry' status to the tourism sector and 'Deemed Export' status to tour operators and travel agents; relaxation of restrictions on liquor sales; import of air-conditioned coaches and equipment for Adventure Tourism free of customs' and sales' tax; and, finally, the liberalisation of the visa policy.

The tourism policy reflects the government's commitment to removing the problems of this industry. In 1993/94 the government allocated Rs 901.2 million for the promotion of tourism.

It has been decided that the Asian Tourism Conference will be held in Pakistan in 1995. Pakistan has also been elected to the Executive Council of the World Tourism Organisation for 1993-97.

Help is also forthcoming from donors. UNESCO has committed a field mission to explore the Silk Route and prepare an inventory of the assets of the route especially for Tourism. The European Commission has committed help for training facilities in the travel trade and hotel industry for 1994/95. Currently, there is only one Institute of Tourism and Hotel Management located in Karachi. Another Institute is to be set up at Swat that will also train trekking and mountaineering guides, airline crews, hotel and travel trade personnel, and high and low altitude porters.

The Austrian Government is to provide a grant for training facilities and hotel machinery and equipment. A major portion of the civil work costs will also be borne by Austria.

Hotels play a leading role in the development of tourism. Keeping this in mind, the Federal Budget 1994/95 has taken steps to overcome some of the problems faced by this sector. All hotels with room rents of up to Rs 450 are now exempted from excise duty.

The demand by hotels to be brought on a par with laundry/dry cleaning shops and bakeries, which do not pay any central excise duty, has been granted. Hotels providing these facilities no longer need to pay 10 per cent central excise duty. However, a five per cent duty on catering service has been levied.

In order to improve the efficiency and profitability of PIA (the national carrier), to cut down on unnecessary costs, and to provide better services to air travellers, the 'Open Skies' policy has been introduced. Permission has also been given to private airlines to operate and the main companies are the Shaheen Air and Aero Asia.

However, efforts need to be made to ensure continuity in policies as this is the major drawback for all policies in Pakistan.

The tourism policy needs to fill the gaps so as not to exclude and isolate the local people. A participatory method needs to be evolved so that local people are involved in decision-making and implementation and not treated as a 'tourist object' to be viewed from a distance.

### **Review of Other Sectoral Policies**

In less developed countries with managed economies, such as Pakistan, government policies have an impact on all macro-activities. This happens, firstly, through direct involvement, which also includes the offering of incentives and concessions to the private sector to promote tourism; and, secondly, through measures in other sectors of the economy/society. Thus, besides the tourism policy, other government policies can also interact with the tourism sector provided such an interaction/impact is built into these policies.

The move towards deregulation of the economy is expected to have a long-term positive impact on this sector also. A private-public partnership will help achieve the necessary development targets that the public sector as such is not geared to carry out successfully. In the NWFP itself, this last job has been entrusted to the Sarhad Tourism Corporation.

The environmental, agricultural, industrial, and energy policies announced/pursued by the federal government are normally expected to contribute to the development of the different sectors of the economy in an integrated way. The impacts of these policies are expected to lead to: development of agricultural productivity and the improvement of the production base in all the areas; rural development through industrialisation; better infrastructural development; and the development of human resources.

However, in the context of tourism development in mountain areas, most of the policies do not impact on the development of mountain areas directly. *They do not seem relevant to the specific needs of these areas, nor has any*

*other policy been specifically designed for this purpose.* The industrial policy does provide some incentives which, if taken up by the private sector, will lead to development of some of the backward areas of the NWFP (including the mountain tourism areas). This would, however, depend on the existence of industrialists and entrepreneurs who are able to use the incentives provided. The incentives that directly affect the mountain areas are those under the category of fiscal and monetary incentives. These include eight-year tax holidays for industries set up in this area; exemption from levies on import duty, import surcharges, and sales' taxes on imported machinery; and exemption from sales' tax for five years. The rest of the incentives are expected to affect the mountain areas, as they do the other areas of the region. The details of these policies are contained in the subsequent sections.

### *Environmental Policy Objectives of the Eighth Plan*

In Pakistan, concern for the environment started in the early 1970s when some policy initiatives were taken by the government and NGOs were involved in conservation activities. It is only in the recent past that major initiatives have been taken and in 1985 that the Environmental Protection Ordinance was promulgated. In 1993, the Environmental Protection Council approved the National Environmental Quality Standards for municipal and liquid industrial effluents, gaseous emissions, and motor vehicle exhaust and noise for immediate enactment. In March 1992, the cabinet approved the National Conservation Strategy (NCS) and set up a Cabinet Committee for implementing environmental action programmes. Workshops and seminars have been held on environmental awareness and Impact Assessment (EIA), and EIA guidelines for the energy sector have also been approved. To introduce environmental concerns into formal education and the institutional set-up, two studies have been completed. These are the 'Coordinated Environmental Education Programme' and the 'Strengthening of Environmental Management in Pakistan.'

For the efficient implementation of the NCS, a NCS Implementation Unit has been set up along with the Pakistan Environmental Protection Agency, both in the Ministry of Environment and as an Environmental Section in the Planning and Development Division with linked structures (the EPA) in all the provinces. The Eighth Plan focusses on the conservation of natural resources and sustainable development. A two-pronged strategy is envisaged: first, through greater participation of the people in development and in environmental management and, second, by taking note of long-range environmental issues in economic development. Efforts are to be made to improve environmental legislation and its enforcement, initiating EIA

procedures for public and private investment planning and implementation, and including environment in public development expenditures.

The NCS agenda during the Eighth Plan will focus on the following.

1. **Creating a Coherent Statutory Framework:** Legislative measures to be taken for effective environmental protection and resource management.
2. **Strengthening of Regulatory, Technical, and Participatory Institutions:** All types of institutions will be encouraged in the public sector and private sector, as well as local and community participatory institutions. The Environmental Section in the Planning and Development Division will be strengthened. The capacity of the apex NCS Implementation Unit as well as the Planning and Development Units in the Federal Ministries (directly related to the environment) will be strengthened. The federal and provincial Environmental Protection Agencies (EPAs) that are responsible for setting up realistic pollution standards and for their enforcement will be developed. In the private sector, NGOs will be provided with full support.

Although some laws relating to the environment exist, they are not effectively implemented. A compendium of 58 laws has been prepared covering resource conservation and pollution management. These laws have been brought to the notice of the provincial government for effective enforcement. To overcome the deficiencies of the existing laws, a comprehensive Act on the Environment will be formulated.

3. **Formulating and Implementing a Communications' Programme:** government, private sector, and NGOs will be involved in promoting environmental awareness and highlighting environmental concerns through various media.

Fourteen core areas have been identified and projects are being formulated for their implementation.

1. Maintaining soils in croplands
2. Increasing irrigation efficiency
3. Protecting watersheds
4. Supporting forestry and plantations

5. Restoring rangeland and improving livestock
6. Protection of water bodies and sustaining fisheries
7. Conserving biodiversity
8. Increasing energy efficiency
9. Developing and deploying renewables
10. Preventing and abating pollution
11. Managing urban wastes
12. Supporting institutions for common resources
13. Integrating population and environmental programmes
14. Preservation of cultural heritage.

For effective implementation of the National Conservation Strategy (NCS) programme, all the provincial governments are required to formulate a conservation strategy indicating their action plans.

### *Management Issues*

Environmental degradation is caused by the combined effects of large development projects and the combined effects of innumerable small, urban and rural consumers and producers who use natural and man-made resources. Management needs to decentralise decision-making and use economic incentives to internalise environmental externalities. Besides conserving and developing natural resources and abating pollution, strong linkages are needed between economic policies, instruments, and allocations for the conservation/protection of the environment. The measures recommended are given below.

- (a) **Efficient project formulation:** To meet the need not only for stopping degradation but also for sustainable development, all environment-related foreign-assisted projects will have to conform to the NCS requirements.
- (b) **Environmental Impact Assessment:** To undertake qualitative assessment of environment impacts, EIA guidelines have been developed. Environmental monitoring programmes should be carried out by the project proponent, following the completion of systems' construction, and this will be a part of the operation and maintenance process. Appropriate technologies for the assessment of EIA have to be adopted. Another recommendation is the establishment of environmental management for in-service training of government officials.

- (c) **Regulatory Command and Control Techniques:** For the control of environmental degradation, techniques should include health or ecology-based ambient quality standards, technology-based standards for effluent treatment and disposal, and enforcement procedures for facilities. The Environmental Quality Standards devised need to be implemented along with the implementation of the various laws and regulations already devised.
- (d) **Institutional Mechanisms:** New mechanisms and institutions at all levels of government are required for environmental management. The relationship between environmental NGOs, government protection and planning agencies, and the broader development decision-making process need to be streamlined.
- (e) **System of Incentives:** In order to promote natural resource management and conservation, a system of economic incentives can be used to affect the behaviour of the majority of environment users in a predictable self-regulatory way.

### *Report of the Task Force on Agriculture*

This committee was set up to prepare a report that is to be the basis of the agricultural policy .

### Background

The agricultural sector is the mainstay of the economy, provides about 75 per cent of the foreign exchange, employs about 50 per cent of the labour force, and is the main source of raw materials for industry. Over 70 per cent of the population are rural inhabitants. The progress of this sector thus impacts directly on the lives of the majority of the people. In the past, agriculture played a significant role in the growth of the national economy but, in the last two years, the growth rate in this sector has slowed down and was negative during the last fiscal year. This was mainly due to the changed economic environment and lack of new technologies. Except for cotton and the livestock sub-sector, the growth rates in all the sub-sectors in agriculture were below the population growth rate. There is a gap in the demand and supply of agricultural commodities. On an average Pakistan has been importing Rs 8 billion worth of wheat, Rs 15.2 billion worth of edible oils, Rs 4.5 billion worth of tea and coffee, and Rs two billion worth of sugar. Besides the outflow of foreign exchange, this jeopardises the food security situation in the country.

## Major Constraints in this Sector and Recommendations

**Rural Infrastructure:** There is a crucial need for infrastructure. The disparity between urban and rural development in infrastructure in all areas stands out. Lack of attention to the development of infrastructure has constrained the development of the agricultural sector. The qualitative difference between the infrastructure of the rural-urban areas is also significant. Those in the rural areas seem immature and the basic minimum standards of functionality are missing; for example, sometimes there are school buildings but no teachers. The three main areas that need immediate attention are roads, education, and power.

**Public Sector Investment:** There has been a declining trend in public investment in this sector over the years. It was 9.5 per cent between 1955 and 1960, and it dropped to 3.5 per cent in the period from 1986 to 1993. There is a need to increase public sector investment in this area, even if intra-sectoral priorities have to be altered.

**Economic Environment:** Since the fifties, there has been a strong interventionist policy and a resource transfer from agriculture to industry on the assumption that industry would make better use of the savings. The effects of this policy are visible on the following aspects: the terms of trade have become adverse for agriculture; between the eighties and the nineties, the domestic terms of trade for the major crops showed a decline of 12 per cent points. However, the barter terms of trade rose by 22 per cent points for the same period. This has helped the rural poor. The resource transfer out of agriculture is immense. Between 1980/81 to 1989/90, the net amount of transfer was Rs 156 billion. The causes of this transfer include, among others, direct taxes, implicit taxes, subsidies to industry, and consumer and foreign exchange rate misalignment.

The pricing policy shows the influence on the profit margins of the grower. The prices of the principal agricultural commodities are influenced by support prices at the lower end and by trade interventions at the upper end. Despite the intentions, in actual practice the support prices turn out to be market prices for some of the crops, because of trade interventions and monopolistic control of the public sector trading agencies. For minor crops, such as gram, onions, and potatoes, the support prices fall short due to inefficient implementation by the agencies and a lack of resources and necessary support from the government.

In the trade policy, it is seen that cotton and rice are taxed through export duties and subsidies are provided to sugar and edible oils. On the input side, subsidies to fertilisers, pesticides, and seeds have been phased out. The non-tariff restriction on export of some commodities has depressed the local prices. Thus, interventions have depressed agricultural prices on the whole. With the passage of time, subsistence agriculture has shifted to commercial agriculture with an increasing need for credit. The credit available through Agricultural Development Bank of Pakistan (ADBP), commercial, and cooperative banks falls short of the requirements of the small farmer.

***Institutional Constraints:*** Economic and trade policies emanate from institutional initiatives and control. In Pakistan most of these institutions are urban-based, and officials are not aware of the rural problems; hence, policy interventions do not provide the intended benefits. There is a need to rectify this deficiency through structural and conceptual modifications at the level of federal and provincial agencies that affect agricultural policies at policy and execution levels. There are institutional constraints in the supply of agricultural inputs, such as seeds, when the private sector is handicapped by non-availability of credit, research, and supportive regulatory controls. In the fertiliser markets, there are chronic shortages, adulteration, and black marketing. There is also a controversy about the long-term effect of the use of diammonium phosphate (DAP) and urea on the soil. These need to be investigated.

Agrochemicals are a principal component of the technology package, especially for high-value crops. There was a sharp rise in the use of pesticides during the eighties. With the relaxation of government regulatory policies, generic products have entered the market, and some sub-standard goods are also available. There are also fears about the adverse environmental effect of the use of agro-chemicals. All these need to be looked into along with a review of the procedures for registration of products and traders.

Mechanisation is a major contributor to increasing productivity. Crop technology is primitive despite the use of tractors and implements. Inputs are used below optimal level due to poor crop technology, while post-harvest losses are immense due to inadequate harvesting equipment and lack of post-harvest technology. Investments in tractors and tube-wells were mainly financed by the ADBP, but, with the decline in credit, there has been a decline in farm investments, and this is expected to have serious repercussions on

output later. There is a need to reduce custom duties on agricultural machines and to promote technology packages.

This is a power-starved sector (even though the total consumption of the sector is 20 per cent). The structures are also below average, with power breakdowns (and load shedding) affecting production. Electricity tariffs have risen sharply since 1990/91 and consumers are moving to more expensive diesel-powered tube-wells. High electricity costs are also due to departmental inefficiency, line losses, and large arrears.

Water is a scarce resource. The main weaknesses in the irrigation system are high transmission losses, lack of proper drainage, a rigid and inequitable distribution system, and low storage capacity. There is a need to use farm-level water optimisation techniques, invest more on this sub-sector, and for better management of the Indus Basin water resources.

The output prices are reviewed annually, and support price mechanisms are used for major crops. This works well for wheat, rice, and cotton but not for minor crops. Moreover, the absence of forward trading markets creates fluctuations in prices. Other problems are the lack of a marketing infrastructure, e.g., roads, storage facilities, refrigeration units and transport, and cargo services at airports. The export potential for high-value crops is also unutilised.

***Land Structure and Land Tenure System:*** A major problem here is that of fragmentation. The laws and regulations governing land ownership, transfer, and inheritance prevent the market-driven consolidation of land. Some of the other structural constraints that need review and legislative remedies are the lack of Title Deeds for ownership, high land-transfer taxes, non-availability of credit for land consolidation, and inhibiting clauses on subdivision and sale of land units that reach 'subsistence' levels.

***Resource Mobilisation and Taxation:*** There are 11 types of tax on this sector. These include Land Revenue, Development Taxes, Local Rates, Octroi, Market Fees, Indirect Taxes, Wealth Tax (for non-agrarian property), and Implied Taxes. In 1990/91, the contribution of the above taxes was Rs 47 billion, which was 19 per cent of the GDP for agriculture. There is, however, a skewed aspect to the system, with the major portion being either indirect or implied taxes that burden the poor disproportionately. Contribution of direct tax is only about two per cent of the total. Even where agriculture pays high indirect and implied taxes, it mostly accrues to sectors other than to the national exchequer. It is recommended that implied tax be removed and direct

tax be applied. It is recommended by the Task Force that the Agricultural Income Tax be imposed in a uniform manner on all provinces. It is suggested that for ease of collection, it be assessed on a presumptive basis with a progressive scale of tax rates. The first 4,000 produce Index Units (PIU) should be exempted. A flat rate of Rs two per PIU is recommended up to 6,000 PIU and a rate of Rs three per PIU on units exceeding 6,000 PIU. It is further recommended that any revision of the tax rate or exemption limits be executed through a bill of legislation and not through the discretion of the Board of Revenue.

The Task Force also recommended that the clubbing of agricultural income with other income for the purpose of determining the income tax rate on other income be revoked. Recommendations are made regarding the restructuring of the system whereby *Ushr*<sup>1</sup> and *Zakat*<sup>2</sup> are paid by Sunni Muslims. With the payment of agricultural income tax, this means payment of two taxes concurrently. This needs to be reviewed.

The Task Force felt that the procedures for submission of Wealth Tax papers are too complex for most farmers. It is recommended that there should be no clubbing of agricultural and non-agricultural assets for calculating the taxation slab. Taxes on the two assets should be paid separately on each count. Necessary legislation needs to be drafted to make this amendment. Presently, one farmhouse, outhouses, and farm buildings, along with all types of machinery (tubewells and implements) and a four by four vehicle are exempted. The task force has recommended that the exemption also include a pick-up vehicle for farm use, and that lands belonging to a farmer in different revenue estates be treated as separate estates and that each of these land units be given exemption.

### Recommendations and an Agenda for Action

Besides the recommendations provided for each of the sections, the other principal recommendations of the Task Force include the following.

1. Development of the demand side: This includes encouraging the development of processing industry and provision of sufficient

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<sup>1</sup> *Ushr* is usually paid on produce.

<sup>2</sup> *Zakat*: These are religious taxes to be paid by Muslims.

credit so that the private sector can improve agricultural produce.

2. Establishment of broad macro-economic principles to prevent resource transfers from agriculture to other sectors.
3. Establishment of key industries to develop, guide, and monitor a new policy framework for the agricultural sector. The Pakistan Agricultural Coordination Committee has been recommended as one such institution; it is also recommended that the role of the Agricultural Prices' Commission be expanded and the institution strengthened.
4. Investment in rural infrastructure is recommended to reduce the cost of technology and to improve the quality of life of the rural people.

### Industrial Policy

Involvement of the private sector in industrial development is the major thrust of the policy. The government's role will be restricted to providing the necessary support services required by the private sector. The public sector will step in where the private sector is not forthcoming.

A massive programme of privatisation for State-owned industries is underway. A vital area offered to the private sector is that of hydel stations and thermal power plants using indigenous coal and gas; furnace oil, imported coal, and other viable resources.

The main objectives of the policy are:

1. self-reliance,
2. development of value-added exports,
3. development of skills that help to improve efficiency, productivity, and quality,
4. encouragement of labour intensive industries,
5. development of infrastructural facilities with the active cooperation of the private sector, and
6. increase in the power-generating capacity in the country to eliminate existing power shortages and to provide the additional

capacity to ensure the unrestricted growth of industrial, agricultural, commercial, and domestic consumers.

In order to provide employment opportunities to the rural areas and the non-farm sector, incentives have been provided to attract investment. These are discussed in the following sections.

### Deregulation of Sanctioning Procedures

Government sanctions are not required to set up industries, apart from those in the following categories.

1. Arms and ammunition
2. Security printing, currencies, and mint
3. High explosives
4. Radioactive substances.

In the case of provincial governments, a No Objection Certificate will not be required to set up industries, except in those areas declared by the provincial government to be negative areas.

### ***Foreign Exchange and Payment Reforms***

- For foreign loans not guaranteed by the federal government, permission is not required to establish the rate of interest or repayment period.
- Foreign-controlled manufacturing companies that export 50 per cent or more of their production can borrow working capital from domestic credit institutions without limit. Other foreign-controlled companies can borrow rupee loans equal to their equity without prior permission from the State Bank of Pakistan (SBP).
- Remittance of principal amounts and dividends is allowed through authorised dealers without prior permission of the SBP, except for companies that are subject to special procedures such as foreign banks, airlines, insurance, and shipping companies.
- Ceilings for payment of royalties and technical fees have been abolished.

- No prior permission is required from the SBP for issue and transfer of share certificates to foreign investors and Pakistani residents making investments in foreign exchange.
- Foreign banks working in Pakistan can underwrite shares of up to 30 per cent of the issue of their subscribed capital.
- Non-resident Pakistanis and foreign investors can invest in the share capital of companies through the stock exchange in foreign exchange payments. Remittance of principals and dividends is allowed without any prior permission. But capital gains' tax is payable.
- Dollar Denominated Bearer Certificates can be purchased by any resident, non-resident Pakistani, and foreign investors against payment in foreign exchange. Profits are payable in foreign exchange, and these can be encashed in local or foreign currency.
- All resident and non-resident Pakistanis can maintain foreign currency accounts when transactions for these do not need prior permission of the SBP.
- There is no restriction on bringing in, possessing, or taking out foreign currency. A currency declaration is not required.
- Re-conversion facilities for foreign exchange are available.
- Foreign exchange currency holders can obtain rupee loans with the collateral of a foreign currency account balance.

### ***Fiscal and Monetary Incentives***

- A three-year tax holiday is allowed to all industries established between December 1, 1990, and June 30, 1995.
- For backward areas, there is an eight-year tax holiday for all industries to be located in the NWFP, Balochistan (except for the Hub Chowki areas), Federally Administered Tribal Areas, Northern Areas, Azad Kashmir, the divisions of Dera Ghazi Khan and Bahawalpur in the Punjab, and the divisions of Sukkur and Larkana in the province of Sindh.

- All industries established in the above-mentioned backward areas have been exempted from levies on import duty, import surcharges, and sales' tax on imported machinery.
- Industries set up in the NWFP, from July 1, 1991, to June 30, 1996 are exempted from sales' tax for five years.
- A package of concessions has been announced for industries located in the rural areas defined in the context of the Rural Industrial Development Incentives.
- A series of concessions has also been provided for the approved Industrial Estates.
- A 75 per cent income tax rebate on export earnings has been provided for items.
- Quantitative restrictions and non-tariff barriers have been removed with a reduction of import duty. The negative list of imports has been reduced to less than one per cent of total imports.
- To help the trading circles to receive the duty draw back, from now, 80 per cent of the duty drawback will be paid automatically within three days and the remaining amount within one week.
- A list of industry-specific incentives has been announced covering key industries such as electronics, fertiliser, pharmaceutical, mining, dairy farming, cement, and engineering industries. (GOP 1991 and 1992/3.)

### *Energy Policy*

Energy is an essential component of development. Pakistan is deficient in energy and the shortages are overwhelming. Per capita energy consumption is less than 0.3 tonnes of oil equivalent (TOE), which is one-sixth of the world average. Of the total commercial energy supply in the country, oil accounts for 42.1 per cent, gas 36.0 per cent, electricity 16.0 per cent, and coal 5.9 per cent. Oil is by far the largest energy source and Pakistan spends about Rs 45 billion on oil imports.

Pakistan's current installed electricity generation capacity is 10012 MW. The Water and Power Development Authority (WAPDA) owns 80 per cent of this and the rest belongs to the Karachi Electricity Supply Corporation (KESC). Growth in power generation is five per cent, while demand is growing at the rate of 12 per cent. There is a shortfall which is compounded by loss in electricity through leakages and theft. The Government of Pakistan has given top priority to power production and work is underway on major hydro and thermal power projects.

A package of incentives has been announced for the private sector to generate electricity and invest in oil and gas exploration. An investment of Rs 700 billion is required in the energy sector. The public sector will invest three billion. The Ghazi-Barotha project will start next year. The hub project in Balochistan, with a capacity to generate 1,292 MW, is being completed in the private sector with foreign collaboration. The government has decided to buy the bulk of the electricity from the investors at 6.5 cent per kW, which is the most attractive offer in the region. Investors who complete an electricity generation plant within the next three years will receive a special premium. *Iqra* (education) surcharge and flood relief surcharge will be waived from all energy products. Energy projects will be exempted from import license fees.

### **Implications of and Gaps in the Agricultural, Industrial, and Energy Policies**

The agricultural policy of the government, as contained in the recommendations of the Task Force, can only have an obliquely indirect and minor bearing on the mountain regions of the NWFP and the Northern Areas, especially the areas of tourism concentration. Unless it is by virtue of the recommendations for development of rural infrastructure, in general, and credit to small farmers, there is hardly any provision for, or even an indication of, sensitivity to the problems faced by the farmers of the mountain regions. Neither is there any particular concern over the need for off-farm activities, nor the seasonality of agricultural operations and the bracing to meet its consequences, nor the impact of people and livestock on the natural resource base of the area. In fact, unless an agricultural policy is developed as part of a plan to deal with the special problems of these areas and is specifically tailored to their needs and requirements, it should not even be expected to have much bearing. Hence, there is a case for treating and planning for these areas with a clear sensitivity to their peculiar problems.

The same is more or less true of the industrial policy. Except for declaring tourism an industry (which, in fact, is a part of the tourism policy), eligible for the incentives offered to industry in general, there is nothing that will have much bearing on these areas and their people. The hotel industry may gain in some respects, but it is doubtful if these benefits will have a discernible impact on the lives of the mountain people. Some small industry may get a boost in the region as a whole and serve to absorb seasonally migrant workers from the higher mountain areas, but there is little likelihood of significant direct benefits, unless the industrial policy contains a specific component for industrialising some of the processes that suit the needs of these people such as the dehydration of surplus fruits and vegetables, processing of surplus dairy products in winter to preserve for the tourist season, and so on.

As for the energy policy, it is essentially geared towards hydel and thermal power. Installation and privatisation of small hydel power plants in the area can be a proposition, but the benefits will reach the people and the area only if power supply for the people of the area is prioritised; its tariffs are affordable by them; and, as far as possible, local participation and involvement are ensured.

However, the present need of the area is for alternative sources of energy and their development and provision to save the forest wealth and fulfill the energy requirements of the people who rely on what the natural surroundings provide for them.

## **Institutional Aspects from Central, Provincial to Local Levels**

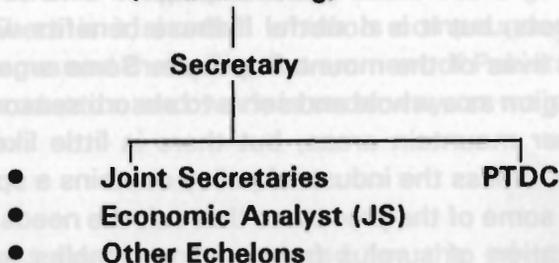
### *Public Sector Institutions*

Tourism is essentially a central subject and is the responsibility of the Ministry of Tourism.

Within the institutional set-up, the Ministry of Tourism is responsible for legislation, planning and policy, issuing relevant licences, research and development, sorting out complaints and controlling standards, supervising international agreements, and training in the tourism industry.

The chart below shows the organisation at the federal level.

**Culture, Sports, and Tourism Division**  
(Tourism Wing)



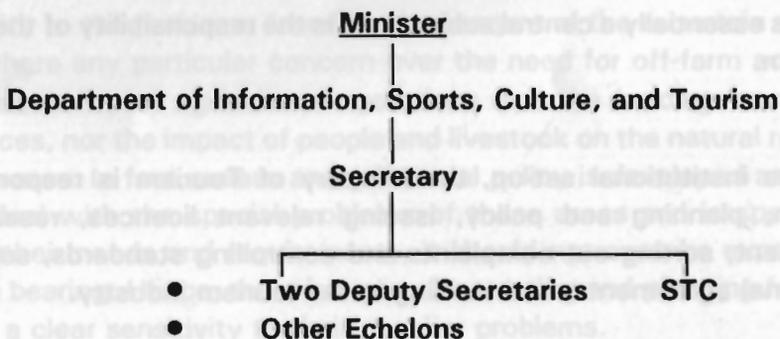
This Tourism Division is responsible for implementing the Tourism Policy. There is also a Planning, Development, and Research Wing under this division, headed by an economic analyst.

**The Pakistan Tourism Development Corporation(PTDC)**

The PTDC is under the Ministry of Tourism/Tourism Division and was established in 1970 with the objectives of implementing overseas marketing and promotion, managing information services through tourist information centres, and coordinating tourist- related activities between the government and the private sector. Besides these, the PTDC has developed a chain of accommodation and restaurant facilities and manages a chain of hotels and motels at various tourist locations. The PTDC also acts as a ground handling agent and operates a variety of vehicles through its subsidiary, Pakistan Tourist Limited.

At the provincial level, the organisational set-up is as given below.

**Provincial Level**



## The Sarhad Tourism Corporation (STC)

The Sarhad Tourism Corporation is a public limited company created to promote tourism and broaden the base of facilities in the NWFP and related areas (see Annex 7). It deals essentially with the promotion of domestic tourism. Its current Action Plan underscores the following objectives.

- To promote winter tourism and tourism in the off-season
- To encourage private initiatives in the field of tourism/co-develop facilities
- To create man-made tourist attractions
- To create trekking maps in collaboration with the forest authorities
- To develop camping sites
- To develop rest-houses into operational accommodations
- To create stop-over facilities for tourists on the main tourist routes
- To set up a Hotel Training Institute at Gulibagh (Swat)
- To train licensed tourist guides
- To commission selected studies

The Sarhad Tourism Corporation is not yet fully operational, but it is actively involved in planning for tourism. Once operational, it can be expected to have an impact on tourism in the NWFP and the adjoining areas.

At the local level, there are no institutions responsible for tourism.

### **Other Organisations/Activities that Directly Influence the Tourist Trade**

Besides the public sector, private sector organisations and NGOs are also involved in mountain tourism. They provide valuable services in areas such as those of popularising mountain tourism activities among youth and other clients, particularly in mountain climbing and trekking; training guides and liaison officers; creating awareness and educating in environmental issues and problems; and contributing to the conservation of mountain resources. These activities are essentially undertaken by NGOs. The private sector provides facilities, such as tours and transport, to tourists and is involved in the marketing of their programmes. They make the mountain areas accessible to tourists. Hoteliers in the private sector, as well as the PTDC, are involved in providing accommodation facilities and also in contributing to making food available to tourists at the place of stay (in some cases). The establishment

of accommodation facilities has also led to the growth of restaurants and food-stalls.

Public and private sector initiatives have thus led to the development of the service industry, infrastructure, and HRD through the training of guides, liaison officers, cooks, and bearers. The subsequent sections provide an overview of the different organisations in the private and NGO sectors that are involved in mountain tourism activities.

## **NGOs**

NGOs play an important role in promoting tourism. In partnership with the private sector, the two make a dynamic combination. In Pakistan, there are a few NGOs involved in supporting and promoting adventure tourism, the important ones being the Adventure Foundation of Pakistan and the Alpine Club of Pakistan.

### The Adventure Foundation of Pakistan

This is a non-profit private organisation supported by the contributions of the public and private sectors. The strategic aim is to develop leadership in young people, especially through outdoor education and adventure training, to enable participants to contribute to society via the process of self-discovery and by acquiring and using relevant skills.

Along with the development of interests and skills in outdoor, action-oriented activities, the Foundation aims to enhance environmental awareness in order to perceive, identify, and preserve the biodiversity of nature through outdoor activities. It provides a number of courses. One such set of courses is the 'Standard Courses'. These are core courses and vary with the season. Instructions in safety and first aid, use of equipment for search and rescue operations, nutrition planning and cooking, map and compass skills, route finding, and environmental awareness; all these are included.

Other courses include Special Courses; e.g., Junior Courses; Basic Skills' Courses, and Course for Counsellors. The latter course is for Wilderness Guides and Camp Counsellors. It equips specially selected volunteers to lead Foundation-sponsored Wilderness Expeditions. These expeditions include trekking, hot air ballooning, mountaineering, boating, skiing, and air sports.

In 1992, the affiliated group, the Globe Chasers' Tourists' Club organised the 'Clean up Saif-up-Maluk Operation.' The idea was to clean up the

surroundings of the Saif-up-Maluk Lake (in the Kaghan Valley). The garbage removed weighed over 900 kg. Local school children were also employed in this venture. The group is open for membership.

### The Alpine Club of Pakistan

This is another NGO run with a small grant from the government. Its membership is open to all on payment of a small fee. It is involved in action-oriented outdoor activities. It offers courses in rock climbing and mountaineering for youth.

The Alpine Club has 25 trained Liaison Officers. It is mandatory for the Liaison Officers to attend the mountaineering course held for college boys.

The Baltoro Cleaning Operation (1993) was sponsored and organised by the tour operators of Pakistan in collaboration with the Alpine Club of Pakistan. This was a major operation for a better environment. In addition to cleaning camping sites, they undertook the cleaning of the footpath from Apaliquon to the K-2 camp and back.

### *Private Sector Organisations*

#### Tour Operators

**Waljis:** Waljis' Travels is a company with 25 years' experience to its credit. Waljis' Adventure Pakistan undertakes adventure tourism to all parts of the country. This overview will deal with those oriented towards the NWFP mountains and the Northern Areas. These include announced package tours<sup>3</sup> with travel and accommodation and food facilities for hiking, trekking, Jeep Safaris, the Yak Safari in Hunza, and so on. There are also some special tours to the Kalash Valley in Chitral, the Shandoor Polo Tournament, and many others.

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<sup>3</sup> Package tours are the outcome of the industrial process applied to tourism. The concept combines two things -- the tourist's need to have the product which he desires and the industry's need to have a product that can be "*standardised ..... made repeatable (and) susceptible to the apparatus of modern marketing*". Cf. A. J. Burkhart and S. Medlik, Tourism: Past, Present and Future, London, Heinemann, 1974, p.186.

Waljis' Adventure Pakistan selects and trains adventure guides who belong to the Hunza and Nanga Parbat region. The crews consist of trekking guides licensed by the Government of Pakistan and cooks and assistant cooks who are full-time staff who are well trained.

The meal provided during a trek is a mix of 60 per cent local and 40 per cent Western fare. However, all the items are carried from the cities as the villages passed through during a trek are unable to restock or supply the trekking teams, and it is Waljis' aim to maintain the standard of camp and kitchen, thus it prefers to use known supply sources.

The equipment supplied on trek includes roomy three-person tents used as doubles. Other items include cell foam mattresses and hygienic toilet tents. Kitchen crew are provided with fire-resistant cooking tents. On request, clients may be provided with a large mess tent with pressurised lantern, a folding table, and camp stools. All these items for the trek are brought from outside the trek area.

*Sitara Travel Consultants (Pvt) Ltd.:* Sitara has 20 years' experience in operating tours and travels. Its head office is located at Rawalpindi.

Sitara has pioneered special interest tours in Pakistan. These include jeep safaris (in the mountains), desert safaris, mule safaris, railway tours (including one with a special interest in old steam locomotives), and tours specialising in gemstones, archaeology, botany, trekking, mountaineering, and sports. The agency operates all over the country, but this report will focus on their activities in the NWFP and the Northern Areas:

Sitara has the credit of having pioneered services to and across the Khunjerab Pass into China and now provides ground services to and within China as a joint Pakistan/ China undertaking.

Sitara has trained guides in its permanent employment. The guides come from different parts of the country and are not exclusively from the Northern Areas.

All treks follow established paths and, where the routes are obscure, the guides trace out the way. Some of the guides are multilingual and are proficient in English, German, French, and Japanese. Porters carry all the gear, food, camping and cooking equipment, and fuel for the treks. The food and groceries are almost all bought in the big cities to ensure quality. In order to protect the environment, cooking is carried out on kerosene or gas stoves

during the trek. There are designated eating areas and a separate tent with a pit toilet, which is filled in before leaving the trek site.

**Sehrai Travel and Tours:** Sehrai Travel and Tours, a Peshawar-based agency, is in fact among the oldest tour and travel groups in the country. It is a pioneer in handling chartered plane tourist groups in Pakistan. It handles groups of Pakistani citizens abroad and group tours of foreign tourists within Pakistan. It offers a wide range of two to three-day excursion trips as well as one-day and half-day package tours in and around Peshawar.

The management of Sehrai Travel and Tours has passed on to a second generation of dynamic managers with fresh ideas. In recognition of his contribution to the cause of tourism in the NWFP, the owner of the agency, Mr. Zahoor Durrani, has been taken on to the Board of Directors of the newly established Sarhad Tourism Corporation.

### Hoteliers

**Serena Hotels:** The Serena chain of hotels plays a vital role in making the tourists' stay comfortable. The hotels are located in the important cities of Pakistan and the Northern Areas and draw heavily from the cultural, social, and other traditions of the area where they are located. The Serena hotels in Swat and Gilgit are the only three star, international standard hotels in the area, and they have 43 well-equipped rooms.

The Swat Serena is ideally located for going into the upper Swat Valley. The Gilgit Serena, only three km away from the Karakoram Highway, is built on the same terrain as that of the Silk Route. It is well-located for expeditions into the Karakoram. The prices are fair and the services are good.

**Green's Hotel Group:** Green's has been associated with tourists' accommodation and recreation in the NWFP for nearly half a century. They operate in Peshawar (Green's Hotel), Nathiagali (Green's), Swat-Marghuzar (Green's White Palace), and Abbottabad (Green's Lodges). These are well-appointed and fairly-priced. They attract tourists both because of their location and because of the hospitality, as well as for the delicious meat dishes for which they have become well known.