“CRITICAL ANALYSIS OF REVENUE GENERATION OF AZAD JAMMU & KASHMIR: CHALLENGES & WAY FORWARD”

By

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ABSTRACT

This thesis provides a critical assessment of AJK's revenue generation, identifies the obstacles, and offers a solution for future sustainable economic growth and development in Azad Kashmir. The study uses a mixed-method approach that includes case studies, interviews with key stakeholders, and a review of the literature. Two important sectors i.e., Power development organization and Inland Revenue Department with the potential to generate considerable amounts of revenue are acknowledged and evaluated as case studies by the critical examination of AJK's revenue generation.

According to the conclusions of this investigation, AJK confronts difficulty in expanding its revenue sources outside conventional sectors such as agriculture and tourism. According to the analysis, AJK has a limited tax base and a poor tax-to-GDP ratio when compared to international standards. Infrastructural restrictions were also noted as a significant challenge to revenue generation in AJK. The region confronts constraints in utilising its hydropower capacity, which can have an influence on economic activity and revenue production possibilities. With its attractive landscapes, historical sites, and cultural legacy, AJK has tremendous tourism potential. However, due to limited infrastructure, a lack of promotion and marketing activities, and security concerns, the region faces obstacles in fully realising this potential.

The thesis makes a number of policy solutions to solve these issues, such as boosting access to finance, fostering public-private partnerships, and tackling instability due to Kashmir Issue. In order to promote sustainability and equitable growth, the thesis also underlines the value of incorporating local people in the revenue creation process.

Overall, this individual research paper will help understanding the dynamics of revenue generation can help Azad Kashmir formulate policies on taxation, investment, trade, and other economic activity. Policymakers can analyse the performance of existing policies, identify areas for improvement, and establish evidence-based policies to increase income creation in the region by analysing revenue data. This can lead to improved policy results and more informed decision-making.
INTRODUCTION

Despite having plenty of resources, AJK has experienced a number of difficulties in generating revenue, which has barred proper economic progress and development.\(^1\) It is crucial to conduct a critical study of AJK’s revenue generation in order to pinpoint problems and offer solutions for long-term, sustainable economic growth and development. Azad Kashmir has enormous economic development potential, especially in industries like agriculture, forestry, tourism, and energy. The administration of Azad Kashmir must create enough revenue to support programmes that can address these problems in order to address these concerns and advance development. (Dawn, 2016).

CPEC Potential for Azad Kashmir

In the upcoming years, the Neelum-Jhelum Hydroelectric Power Plant and the Karot Hydropower Project are anticipated to have a considerable positive economic impact on the area. Additionally, it is anticipated that the region would experience new chances for growth and investment as a result of the ongoing construction of the China-Pakistan Economic Corridor (CPEC). (Khalique M. et al., 2020) conducted research on CPEC and its potential benefits to the economy of Azad Jammu and Kashmir and it was concluded in the study that CPEC will contribute to the socioeconomic development and expansion of industries. Simultaneously, it will contribute to the development of infrastructure, industry, tourism, connectivity, energy, food, livestock and the social fabric in Azad Jammu and Kashmir.

MHP Potential for Azad Kashmir

In addition to alleviating Azad Kashmir's electricity shortfall, MHP projects can generate cash through the sale of electricity to the regional grid or to nearby communities. MHP projects can also aid rural development by bringing energy to isolated areas and facilitating the construction of small businesses like workshops and mills. (The Third Pole, 2018).\(^2\) The Azad Kashmiri administration has recognised the MHP's potential and is working to advance its growth. The Micro Hydropower Development Program (MHDP), which was established in 2003, offers financial and technical assistance to business owners in order to help them create MHP projects. Many MHP projects have been successfully established by the programme in the area, creating jobs and revenue for nearby people (Siraj, M., & Khan, H., 2019).

\(^1\) ‘Revenue generation is AJK’s biggest problem’, Dawn (2016).
In District Hattian Bala, Azad Jammu and Kashmir, a study by (Siraj, M., & Khan, H., 2019) investigates the effects of Micro Hydropower (MHP) projects on households' income, consumption, and diversification of livelihood options. The potential impact of MHP and other control factors on households' adoption of livelihood strategies was examined using a multinomial logistic model. The findings demonstrated that household adoption of non-farm and varied livelihood options is positively and significantly influenced by MHP-micro hydropower. The results suggested that MHP programmes in Pakistan's northern regions could aid in enhancing household consumption and income through the adoption of high-income livelihood methods.

**Inland Revenue Potential for Azad Kashmir**

By transferring authority from the AJK Council to the AJK government with the 13th amendment to the interim constitution of Azad Kashmir, not only was the liberated territory of AJK made financially independent and autonomous, but it would also assist the government of Pakistan in directly addressing the related issues, allegedly enshrined in the amended AJK constitution, reciprocally with the close coordination of the AJK government (The International News, 2018).

The digital tax system was linked with the national tax system in 2021, and this was a historic step towards national harmony and unity. It has also assisted AJK in collecting more taxes (The Express Tribune, 2021). The new mechanism has done away with direct contact between taxpayers and tax collectors. People's time has been saved by the digital system, which also gives taxpayers access to internet information.³

**Statement of the Problem**

Azad Jammu and Kashmir (AJ&K) faces significant challenges in generating adequate revenue to finance its developmental needs. Therefore, the lack of financial resources limits the government's ability to invest in critical infrastructure, education, health, and other public service sectors, thereby exacerbating the economic and social challenges faced by the region. This study aims to identify the challenges faced by the region and propose potential solutions to achieve sustainable revenue generation and economic growth in AJK.

Following research questions will be used for an in-depth analysis of the existing revenue generation in Azad Kashmir, issues and challenges related and future potential.

1. What are the main sources of revenue generation in Azad Kashmir and how have they evolved over time?
2. What are the key challenges facing revenue generation in Azad Kashmir, and how do they compare with challenges faced by other regions with similar characteristics?
3. What are the potential future scenarios for revenue generation in Azad Kashmir, and what policies and strategies should be adopted to ensure sustainable revenue generation in the long term?

**Scope & Significance of the Study**

The scope of the study is aimed to determine the existing revenue-generating strategies used in Azad Kashmir and assess their efficacy. With another objective to examine the difficulties the Azad Kashmir revenue generation system has and to suggest workable and long-lasting solutions to these problems in order to enhance Azad Kashmir's ability to generate income. The study has significance for two reasons. One, after 13th amendment in Interim Constitution of Pakistan the transfer of administrative and financial powers to Government of AJ&K has been a major shift in terms of financial independence and secondly increasing investment in hydropower generation has changed the dynamics of future revenue generation in Azad Kashmir.

**Delimitations of the study**

The study is primarily focused on two case studies i.e., Power Development Organization and Inland Revenue Department hand draws a little attention on other sources of revenue generation in AJ&K.

**Literature Review**

**Overview of the existing literature on revenue generation in developing countries**

(Javid, A. Y., and Arif, U., 2012) analysed the fiscal performance of developing Asian nations from 1984 to 2010. According to the findings, factors that significantly influence the revenue to GDP ratio among nations include per capita GDP, agriculture value addition, trade openness, debt, and population growth. Controlling corruption, maintaining law and order, and having a high-quality bureaucracy are institutional characteristics that greatly improve revenue performance. Most ASEAN nations are performing well over their capacity, according to the
fiscal effort indices obtained for Asian nations, although certain South Asian economies are not generating as much money as they could. While there is a general reduction in revenue effort in the 1990s, revenue performance improves in the 1980s and again in the 1920s. The findings imply that in order to solve this issue, sound policy measures such as expanding the revenue base and enhancing institutional quality are required (Profeta, P., & Scabrosetti, S., 2010). The architect of revenue reforms must be country-specific, necessitating a thorough examination of the nation's institutional makeup, institutional performance, and revenue capability. (Adam Smith International, 2023).

**Tax Revenue in mobile Money**

The impact of mobile money adoption on tax revenue performance in a significant sample of 104 developing countries over the period of 1990-2019 is examined in a paper by (Apeti, A. E., and Edoh, E. D., 2023). According to estimates using the entropy balancing method, countries that use mobile money have much higher tax revenues than nations that do not. This result holds up to a variety of robustness tests, and it may be influenced by time perspective, the type of mobile money service, and some structural factors, such as the degree of development, the level of corruption, the proportion of rural population, the rate of inflation, the level of education, the average and 25th percentiles of tax revenue samples, the effectiveness of revenue administration, and the maturity of the markets in a given country. Mobile money improves both types of tax revenue, having a greater impact on direct tax revenue, according to a first level of tax revenue disaggregation into direct and indirect tax revenue. The major ways that the use of mobile money improves tax performance in developing nations include a wider tax base (measured by GDP per capita), improved institutional quality, and simplified tax payment procedures (Profeta, P., & Scabrosetti, S., 2010).

**Impact of Conflicts on Tax Revenue**

(Van Den Boogaard, V. et al., 2018) examined how conflict affects tax revenue mobilisation. This study examines the long-term patterns of tax revenue mobilisation before, during, and after crisis periods in a number of conflict-affected nations since 1980 using a recently updated dataset. This research provides an empirical rebuttal to beliefs about the role of taxation in creating war and state building by providing detailed snapshots of tax experiences.

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4 Revenue reform can facilitate government stability and independence, Adam Smith International, [https://adsmithinternational.com/services/revenue-reform/](https://adsmithinternational.com/services/revenue-reform/)
prior to, during, and after conflict. They suggested that, despite this, initiatives for post-conflict state formation should place a focus on strengthening tax systems due to the fundamental significance of revenue to larger economic goals. While this reflects the pressing need for funding during post-conflict reconstruction operations, it's also critical to take into account the wider governance consequences of taxation. Strengthening taxation represents a potentially unique entry point for restoring state capacity, legitimacy, and bargaining over the role and activities of government in situations where state capacity has been undermined, wider state-society relations are strained, and there are significant divisions between former combatants. Such procedures are likely to be contentious and politically difficult, but they demonstrate how essential budgeting and taxation are to establishing functional government and fortifying links between post-conflict states and their inhabitants. (Owens, J. 2015).

**Revenue Mobilisation in developing Countries**

(Cottarelli, C., 2011) in International Monetary Fund's report on "Revenue mobilisation in developing countries" mentions that in many developing nations, there is a significant need for more money, but there are other benefits to better revenue generation. Achieving the Millennium Development Goals, for example, may require low-income nations to increase their tax-to-GDP ratios by about 4 percentage points. Infrastructure improvements also pose significant challenges (United Nations, 2005). However, the effectiveness of the measures is also important. For example, increasing revenue by taxing taxpayers who already pay enough can exacerbate distortions and perceived inequities; however, reducing reliance on trade taxes can result in real structural gains that outweigh temporary revenue challenges. (Kiser, E., & Karceski, S. M., 2017). Fundamentally, better tax systems can serve as a catalyst for improvement in broader governance relations since taxation is so important to the exercise of state authority.

**Research Methodology**

The research methodology used for such the topics is mostly qualitative. Research tools such as Cost Benefit Analysis and Gap Analysis are used. Two case studies of the crucial

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7 Citizen-State Relations Improving governance through tax reform, OCED, 2010
departments of revenue generation in Azad Kashmir i.e., Inland Revenue Department and Power development Organization are also made part of this research. Primary Data is collected through AJ&K Central Board of Revenue, Inland Revenue Department and Power Development Organization in Azad Kashmir. Secondary data has been collected from available literature/ Research articles, AJ&K Central Board of Revenue annual report, AJ&K Statistical Year Book 2020 & other official documents, websites, official notifications, reports, newspapers, web pages and other relevant documents.

Organization of the Paper

The paper is organized in sections and sub-sections. Preliminaries of the Research and introduction are followed by three sections. Section-I deals with the Critical Analysis of existing revenue generation strategies of Azad Kashmir, two case studies based on Power Development Organization and Inland Revenue Department. Section-II is focused on the Cost Benefit Analysis and Gap Analysis. Section –III deals with an analysis of issues and challenges. And Section-IV describes the lessons learnt. The three sections are followed by conclusion and recommendations with a strategic action plan.
SECTION I

1.1 Critical Analysis of the revenue generation practices in Azad Kashmir

1.1.1 Remittances

Remittances can rise as a result of international migration, and remittances have a big impact on revenue production. The World Bank estimates that remittances to developing nations would reach $540 billion in 2020, making them a crucial source of revenue (World Bank, 2021). Remittances can raise household income and spending, which can boost the economy and generate more money (Adams & Page, 2005). In district Bhimber, AJK, (Hashim K. et al., 2021) carried out a study to investigate the effects of global migration on human socio-economic development. The findings showed that migration improved their living conditions, stabilised their employment, and raised their income.

1.1.2 Agriculture

Azad Kashmir's government has launched a number of initiatives to support agricultural practises in the area, including giving farmers subsidies and upgrading the agricultural industry. 4.1 million people make up the AJK's entire population as of 2018, according to estimates based on the 2017 census. A significant portion of the population relies on the agriculture and forestry sectors for their livelihood, with farm income making up 30–40% and off-farm income accounting for the remaining 60–70%. The agricultural industry is crucial to the nation's economic development, food security, creation of jobs, and reduction of poverty, especially in rural areas. About 38.5 percent of the labour force is employed by it, and it contributes 19.2 percent to the GDP. (Pakistan Economic Survey, 2020-21) The livelihood of more than 65 to 70 percent of the population is based on agriculture. Less arable land, climate change, water scarcity, and widespread population and labour migration from rural to urban areas have all slowed agricultural development rates. Hence, enhancing agricultural output necessitates the implementation of novel strategies. (Asaleye, A. J., et al., 2023)

1.1.3 Forestry

Azad Kashmir had 210kha of tree cover, extending over 15% of its land area. In 2021, it lost 4.20ha of tree cover, equivalent to 1.56kt of CO₂ emissions (Global Forest Watch, 2010).

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It serves as a supply of raw materials for the wood industry, a major driver of the AJK economy. Sawmills, furniture manufacturing facilities, and paper mills all contribute significantly to the region's economic output in the AJK wood sector. Since 42% of the total land is covered by forests, (Akhter N. et al., 2016) conducted a study to evaluate the contribution and impact of forestry resources on the economy of the State of Azad Jammu & Kashmir. The findings indicate that forestry resources have a significant role in the state's national income. The primary and secondary data indicate that 16000 people are taking advantage of job opportunities related to forestry resources.10

1.1.4 Tourism

Tourism makes a significant contribution to the state's economy, offers improved employment opportunities, and aids in fostering development. Also, it aids in the transformation of social ideals. (Khan, M. et al., 2022) examined the socioeconomic effects of tourism on Rawalakot residents' quality of life. The researcher discovered that tourism creates employment to be the most important influence. Locals' incomes are increased as a result. In the case study, tourism made a significant contribution to the inhabitants' income growth. The majority of jobs in the Rawalakot area are given by businesses like hotels, transportation, tea shops, tour operators, small shop proprietors, and shop employees. In addition to these, new jobs are produced for the construction of structures, which is somehow tied to tourism. The growth of the tourism industry significantly aided in generating income and raising living standards. Women might also find work in the tourism sector (Schönherr, S., Peters, M., & Kuščer, K., 2023).

1.1.5 Hydropower Projects

(Atiq-ur-Rehman, A. U. R., and Anis, H., 2008) examined the effects of hydropower projects on AJK's economic development and the potential impact of their implementation on a number of local and national economic and social sectors. According to this analysis, Pakistan now has an overall energy shortfall of roughly 5000 Megawatts. Hence, only AJK is able to cover more than 90% of the current energy demand for the entire nation. In addition to the power sector's direct and explicit benefit from hydropower projects, these initiatives could be very helpful in raising a variety of local and national economic and social indicators.11 Azad

Kashmir has a lot of potential for producing electricity because of its hilly terrain and plentiful water supplies (Annandale, David D. and Hagler Bailly Pakistan (Pvt) Ltd. 2014). Many hydropower projects are already up and running in the area, including the Mangla Dam, the Neelum Jhelum Hydropower Project, and the Gulpur Hydropower Project, among others.

1.1.6 Tax Money

Tax money is used to fund a variety of government projects, including public service delivery, infrastructure development, and social welfare programmes (World Bank, 2020). The revenue is also used to fund economic development projects such as investment in critical industries like agriculture, forestry, and tourism, as well as to create jobs and drive economic growth. The annual target assigned is 8900.000 million for year 2022-23 (Inland Revenue Department, GoAJ&K, 2023).

<table>
<thead>
<tr>
<th>Quarter-wise</th>
<th>Relevant Quarter</th>
<th>Bifurcation of Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>15%</td>
<td>July to September</td>
<td>1335.000</td>
</tr>
<tr>
<td>25%</td>
<td>October to December</td>
<td>2225.000</td>
</tr>
<tr>
<td>25%</td>
<td>January to March</td>
<td>2225.000</td>
</tr>
<tr>
<td>35%</td>
<td>April to May</td>
<td>3115.000</td>
</tr>
<tr>
<td>100%</td>
<td></td>
<td>8900.000</td>
</tr>
</tbody>
</table>

*Table 1 Annual Target assigned 2022-23*

In terms of creating new avenues, there is need to amend tax laws according to the ground realities, incentivize the potential investors through concessions & tax credits, benefiting from proximity of Mirpur and Bhimber to GT road, turning tourism to account and introducing ITMS in inland revenue department.

1.2 Case Studies

1.2.1 Case study- Power Development Organization

In 2014, the Government of AJ&K reconstructed the Power Development Organization (formerly the Hydro Electric Board) to plan and carry out the development of identified hydro potential. It has potential of 8535.92-9000 (MW) (The Express Tribune, 2022) and is meeting the present demand upto 25% and has the potential to meet the anticipated Power Demand by

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2025-30 by 85%. The Annual Expenditure for year 2022-23 is 700.524 million. (Annual Development Programme, 2022-23)

<table>
<thead>
<tr>
<th>TOTAL HYDROPOWER POTENTIAL IN AJ&amp;K</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identified Capacity</td>
</tr>
<tr>
<td>(84 Projects)</td>
</tr>
</tbody>
</table>

*Table 2 Table 2 Total Hydropower Potential in AJ&K*
Source: Power Development Organization

A number of projects with a total capacity of more than 8000 MW have been discovered in the Jehlum, Neelum, and Poonch river catchments. If these hydroelectric projects are built, they can make a substantial contribution to the state's social and economic growth while also providing inexpensive and reliable energy for Pakistan's future needs. (Sibtain, M., Li, X., et al., 2021). To manage the development of indigenous resources, the AJK government is enthusiastically supporting efforts to discover, undertake site investigations.

<table>
<thead>
<tr>
<th>POWER DEMAND IN AJK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Description</td>
</tr>
<tr>
<td>Present Demand</td>
</tr>
<tr>
<td>Anticipated Power Demand by 2025-30</td>
</tr>
</tbody>
</table>

*Table 3 Projects in Public Sector*
Source: Power Development Organization

### Table 4 Commissioned Power Stations
Source: Power Development Organization

<table>
<thead>
<tr>
<th>Status</th>
<th>No. of projects</th>
<th>Capacity (MW)</th>
</tr>
</thead>
<tbody>
<tr>
<td>In operation</td>
<td>23</td>
<td>80.12</td>
</tr>
<tr>
<td>Under Construction</td>
<td>03</td>
<td>54.4</td>
</tr>
<tr>
<td>Under Implementation</td>
<td>07</td>
<td>148.00</td>
</tr>
<tr>
<td>Feasibility Study Completed.</td>
<td>08</td>
<td>131.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>41</strong></td>
<td><strong>413.52</strong></td>
</tr>
</tbody>
</table>

### Table 5 Gross income of AJK PDO
Source: Power Development Organization

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Power station</th>
<th>Capacity (MW)</th>
<th>Estimated Annual Income 2022-23 (MRS)</th>
<th>Annual Expenditure 2022-23</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>05 Power Stations in Private Sector</td>
<td>1055.48</td>
<td>1000.00</td>
<td>700.524</td>
</tr>
<tr>
<td>2</td>
<td>22 Power Stations in Operation</td>
<td>80</td>
<td>780.00</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>1780.00</strong></td>
<td></td>
<td><strong>700.524</strong></td>
</tr>
</tbody>
</table>

### 1.2.2 Case Study- Inland Revenue Department
Tax revenue is critical in AJ&K for sustaining the regional government's budget and satisfying its expenditure requirements. Tax income can also be utilised to stimulate economic growth, provide job opportunities, and encourage investment in many sectors of the economy. The existing tax potential of AJ&K consists of Banking Companies, Telecom sector, Non-

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resident companies, Tax on deposits and Industrial units. The Major Sectors Tax collection tax year 2022 is given as below.

<table>
<thead>
<tr>
<th>Banking Companies</th>
<th>Telecom sector</th>
<th>Tax on Deposits</th>
<th>Industrial units</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.3 bn</td>
<td>2 bn (including sales tax)</td>
<td>5 bn</td>
<td>2 bn (including sales tax)</td>
</tr>
</tbody>
</table>

*Table 6 Major Sectors Tax collection*

Source: Management Information wing AJ&K IRD

The Direct Tax collection in last two years is given as below;

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Target Assigned (M)</th>
<th>Collection (M)</th>
<th>Increase / (%) achieved</th>
</tr>
</thead>
<tbody>
<tr>
<td>2021-2022</td>
<td>20,600</td>
<td>21,299</td>
<td>699 M (103%)</td>
</tr>
<tr>
<td>2020-2021</td>
<td>16,500</td>
<td>17,094</td>
<td>594 M (104%)</td>
</tr>
</tbody>
</table>

*Table 7 Direct Tax collection in 2020-22*

Source: Management Information wing AJ&K IRD

Indirect Tax collection in last two years is given below.

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Target Assigned (million)</th>
<th>Collection (million)</th>
<th>Increase / (%) achieved</th>
</tr>
</thead>
<tbody>
<tr>
<td>2021-2022</td>
<td>7,900.000</td>
<td>7950.130</td>
<td>50 (101%)</td>
</tr>
<tr>
<td>2010-2021</td>
<td>5750.000</td>
<td>5978.698</td>
<td>228.989 (104%)</td>
</tr>
</tbody>
</table>

*Table 8 Indirect Tax Collection in 2020-22*

Source: Management Information wing AJ&K IRD
The income tax collection from 2016 to 2021 is given as below.

![Income Tax Collection Graph](image)

**Table 9 Income Tax Collection from 2016 to 2021**

Source: Management Information wing AJ&K IRD

Through the landmark 13th Constitutional amendment AJ&K interim Constitution in 2018, the AJK Assembly was also given jurisdiction over taxes by Article 31, Sub Article 5, while previously the Kashmir Council maintained all taxes and funneled them to Pakistan. (The News International, 2018). Prior to 13th Amendment the tax collection was as follows (in billions):

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Actual Target</th>
<th>Revised Target</th>
<th>Collection</th>
<th>80% AJ&amp;K Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014-2015</td>
<td>11.000</td>
<td>-</td>
<td>11.038</td>
<td>8.830</td>
</tr>
</tbody>
</table>

**Table 10 Tax Collection before 13th Amendment**

Source: AJ&K CBR

Electronic copy available at: https://ssrn.com/abstract=4570292
After 13th Amendment the tax collection was as follows (in billions):

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Actual Target</th>
<th>Collection credited to AJ&amp;K Exchequer</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018-19</td>
<td>16.400</td>
<td>16.711</td>
</tr>
<tr>
<td>2019-20</td>
<td>16.500</td>
<td>17.094</td>
</tr>
<tr>
<td>2020-21</td>
<td>20.600</td>
<td>17.037 (up to 03/2022)</td>
</tr>
</tbody>
</table>

*Table 11 Tax Collection after 13th Amendment*

Source: AJ&K CBR
## SECTION II

### 2.1 Cost Benefit Analysis & Gap Analysis

#### 2.1.1 Cost-benefit Analysis of Revenue Generation by Tourism

<table>
<thead>
<tr>
<th>Costs</th>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Investing in tourism infrastructure such as hotels, resorts,</td>
<td>- Tourist spending on lodging, food, activities, and souvenirs increases</td>
</tr>
<tr>
<td>transportation, and attractions is a good place to start.</td>
<td>revenue. (Quang Hai Nguyen, 2021)</td>
</tr>
<tr>
<td>(Quang Hai Nguyen, 2021)</td>
<td>- Job creation in the tourism industry</td>
</tr>
<tr>
<td>- Expenses for marketing the region to domestic and international</td>
<td>- Local economy diversification, with less</td>
</tr>
<tr>
<td>tourists</td>
<td>reliance on other industries</td>
</tr>
<tr>
<td>- Potentially harmful environmental consequences, such as increased</td>
<td>- Increasing tax income for the</td>
</tr>
<tr>
<td>pollution or a strain on natural resources</td>
<td>municipality</td>
</tr>
<tr>
<td>(Kumail, T., Sadiq, M., Ali, W., &amp; Sadiq, F., 2023).</td>
<td>- Cultural heritage preservation and</td>
</tr>
<tr>
<td></td>
<td>promotion, which can also give</td>
</tr>
<tr>
<td></td>
<td>educational and social benefits</td>
</tr>
</tbody>
</table>

#### 2.1.2 Cost-benefit Analysis of Revenue Generation by Agriculture

<table>
<thead>
<tr>
<th>Costs</th>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Initially investing in agricultural infrastructure such as irrigation systems, crop storage facilities, and processing plants</td>
<td>- Increased agriculture production and output (Osabohien, R., et al., 2019)</td>
</tr>
<tr>
<td>- Possible environmental consequences, such as soil degradation or abuse of natural resources (Asaley, A. J. et al, 2023)</td>
<td>- New agricultural jobs are being created.</td>
</tr>
<tr>
<td></td>
<td>- Improved food security and decreased reliance on imports (Asaleye, A. J. et al, 2023)</td>
</tr>
</tbody>
</table>
2.1.3 Cost-benefit Analysis of Revenue Generation by Forestry

<table>
<thead>
<tr>
<th>Forestry</th>
<th>Costs</th>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Early investments in forestry infrastructure like nurseries,</td>
<td>• Increased production and sales of timber</td>
</tr>
<tr>
<td></td>
<td>plantations, and forest management systems (Akhter N. et al., 2016)</td>
<td>• New career opportunities in the forestry industry</td>
</tr>
<tr>
<td></td>
<td>• Potentially harmful environmental consequences, such as</td>
<td>• Increased forest health and biodiversity,</td>
</tr>
<tr>
<td></td>
<td>deforestation or soil degradation</td>
<td>with educational and recreational benefits</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(Akhter N. et al., 2016)</td>
</tr>
</tbody>
</table>

2.2 Gap Analysis

<table>
<thead>
<tr>
<th>Inland Revenue Department</th>
<th>Current State</th>
<th>Future State</th>
<th>Gap</th>
<th>Remedy</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>In AJ&amp;K Taxes are imposed on products and services, real estate, and income.</td>
<td>A broad-based tax system with a higher tax-to-GDP ratio, a more diversified</td>
<td>A narrow tax base, low tax compliance, tax evasion, weak tax</td>
<td>Broaden the Tax Base: In order to generate more money, the tax base</td>
</tr>
<tr>
<td></td>
<td>The tax base, however, is narrow, and tax evasion is common, resulting in a</td>
<td>economy with increased foreign investment, improved tax administration and</td>
<td>administration, limited capacity of tax authorities, lack of</td>
<td>should be expanded. This can be accomplished by broadening the scope</td>
</tr>
<tr>
<td></td>
<td>low tax-to-GDP ratio of roughly 4.4%.</td>
<td>compliance, greater transparency in tax collection, a stronger institutional</td>
<td>transparency in tax collection, a weak institutional framework,</td>
<td>of existing taxes and imposing new taxes. Agriculture revenue, for</td>
</tr>
<tr>
<td></td>
<td>(AJK CBR, 2023)</td>
<td>framework. (Sarin, N., &amp; Summers, L. H., 2019)</td>
<td>limited economic diversification, low foreign investment, and</td>
<td>example, which is currently tax-free, may be brought into the tax</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>volatile remittances are among the challenges.15</td>
<td>net. (Amaglobeli, M. D., 2019).</td>
</tr>
</tbody>
</table>

15 The Impact of Fiscal Policy on Income Inequality: A Case Study of Pakistan, 2021
<table>
<thead>
<tr>
<th>Power Development Organization</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current State</strong></td>
</tr>
<tr>
<td>Due to issues like as low tariff rates, large transmission and distribution losses, and limited capacity to invest in new power infrastructure, the PDO has major revenue generation challenges. The PDO's revenue is insufficient to cover its operations and maintenance needs, resulting in a substantial budget imbalance.16</td>
</tr>
</tbody>
</table>

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17 The Express Tribune, ECC okays power tariff increase, [https://tribune.com.pk/story/2400604/ecc-okays-power-tariff-increase](https://tribune.com.pk/story/2400604/ecc-okays-power-tariff-increase)
SECTION III
Analysis of Issues & Challenges

3.1 Identification of the challenges faced by Azad Kashmir in revenue generation

Azad Kashmir faces a number of difficulties in generating revenue, some of which are covered below:

3.1.1 Low Resource Base: Because Azad Kashmir is a small area with few resources, it is difficult to make a sizable profit. The area is extremely reliant on tourism and hydropower production for income, making it susceptible to outside influences like weather and geopolitical tensions (Pakistan Economic Survey 2020-21).\(^\text{18}\)

3.1.2 Minimal Investment Opportunities: Foreign investors are discouraged from investing in Azad Kashmir because of its political position as a disputed territory. Also, the area lacks the required labour force and infrastructure, which makes it challenging to draw private investments.

3.1.3 Inadequate institutional capability: Inadequate institutional capability makes it difficult for Azad Kashmir to develop and put into action efficient methods for generating revenue. The area lacks the technical know-how and human resources needed to create and manage projects that generate income (United Nations, 2019).\(^\text{19}\)

3.1.4 Inadequate Infrastructure: The area's inability to draw tourism and investment is hampered by a lack of suitable infrastructure, including roads, airports, and telecommunications networks. Also, it is difficult to create and oversee revenue-generating ventures due to the lack of fundamental infrastructure (Pakistan Observer, 2021).\(^\text{20}\)

3.1.5 Political Instability: Azad Kashmir has a history of political unrest, which makes it more difficult for it to draw in foreign capital and make money. Due to its reliance on the federal government for financial support, the region is particularly susceptible to political pressures and uncertainty.

3.1.6 Access to Financing is Limited: Access to finance is limited in Azad Kashmir, particularly for small and medium-sized businesses. Lack of access to capital inhibits

\(^\text{20}\) Challenges to the tourism industry of Pakistan, [https://pakobserver.net/challenges-to-the-tourism-industry-of-pakistan-by-adv-mujeeb-ur-rehman/](https://pakobserver.net/challenges-to-the-tourism-industry-of-pakistan-by-adv-mujeeb-ur-rehman/)
businesses' ability to grow and expand, limiting income growth (Asian Development Bank, 2008). 21

3.1.7 Natural Disasters: Natural catastrophes, including as floods, earthquakes, and landslides, are common in the region and can inflict major damage to infrastructure and property. Natural catastrophes can have a substantial influence on revenue production by interrupting supply chains and lowering economic activity (SDMA, GoAJK, 2023).

SECTION IV
Learning from Successful Models Elsewhere in the World

4.1 Renewable Energy:

Many countries have successfully built a revenue-generating renewable energy sector. Countries such as Denmark and Germany, for example, have made major investments in wind and solar electricity, producing significant revenue. Because of its abundant sunshine and wind, Azad Kashmir has a substantial renewable energy potential. Azad Kashmir may create cash and support sustainable development by investing in renewable energy. (Climate Council, 2022).

4.2 Tourism:

To create cash, several governments and regions have effectively built their tourism industries. Thailand, Malaysia, and Singapore, for example, have invested considerably in promoting their tourism industries, attracting millions of visitors each year. (Travel daily Media, 2022). Because of its natural beauty and cultural heritage, Azad Kashmir has enormous tourism potential. Azad Kashmir can produce huge cash by investing in infrastructural development and increasing tourism.

4.3 Public-Private Partnerships (PPPs):

In many nations, PPPs are an effective revenue generation approach. The government may deliver better public services and generate income by cooperating with private enterprises and leveraging their knowledge, technology, and resources. PPPs have been used successfully in a variety of industries, including infrastructure development, energy, and healthcare. (World Bank, 2021).

4.4 E-commerce:

The rise of e-commerce has created new economic prospects. Numerous countries and regions have expanded their e-commerce industries successfully, attracting millions of clients globally. For example, China's e-commerce behemoth Alibaba has transformed online shopping, producing billions of dollars in sales. Azad Kashmir may capitalise on the promise of e-commerce by investing in the development of its e-commerce industry. (Insider Intelligence, 2022).

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23 https://www.traveldailymedia.com/countries-that-rely-on-tourism-the-most/
26 https://www.insiderintelligence.com/content/countries-retail-ecommerce
4.5  **Agriculture:**

Agriculture is an important source of money in many countries. Countries like the Netherlands, Israel, and New Zealand have successfully grown their agricultural industries, exporting high-quality agricultural products all over the world (The Global Economy Ranking, 2023).\(^{27}\) Because of its fertile soil and suitable climate, Azad Kashmir has great agricultural potential. Azad Kashmir may produce large cash by investing in agriculture and cultivating high-value crops.

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\(^{27}\) Agriculture value added by country, around the world

https://www.theglobaleconomy.com/rankings/value_added_agriculture_dollars/
CONCLUSION

As per the critical examination of revenue creation in Azad Jammu and Kashmir (AJK), the area confronts major hurdles in producing sustainable revenue streams. Taxation, fees, and federal grants are the key sources of revenue for the government. Unfortunately, these sources are insufficient to support the region's development demands. AJK's limited resource base is one of its primary concerns. The region's revenue generation capacity is limited due to its small industrial sector and inadequate natural resources. Furthermore, a lack of infrastructure, political instability, and a weak economy aggravate the situation.

To solve these issues, AJK need a comprehensive strategy to diversify streams of revenue. The government should prioritise tourism development, small and medium-sized business promotion, and energy investment. Upgrading infrastructure, such as roads, bridges, and telephones, would also help to attract investment and increase revenue creation. Furthermore, increased coordination between the federal government and AJK is required to ensure equal resource sharing and development prospects. The federal government should provide technical aid and financial support to AJK in order to help it enhance its revenue generation capability.

To summarise, AJK's revenue generation issues are serious, but not insurmountable. A multi-pronged approach focusing on diversification, infrastructure development, and inter-governmental coordination can assist pave the way for the region's long-term economic success.
# RECOMMENDATIONS

## Short Term Recommendations

<table>
<thead>
<tr>
<th>Establish a shared understanding of economic development priorities:</th>
<th>A shared understanding of economic development priorities and goals is critical. Azad Kashmir stakeholders should meet to discuss and establish priority areas for economic growth. This will aid in the alignment of income generation initiatives with broader economic development objectives.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Create a comprehensive strategy:</td>
<td>A comprehensive strategy is critical for integrating income generation initiatives with broader economic development objectives. Stakeholders should collaborate to create a strategy that outlines specific revenue generation and economic development objectives, targets, and activities.</td>
</tr>
</tbody>
</table>

## Midterm recommendations

| Involve stakeholders in the development of the revenue generation strategy: | It is critical to involve stakeholders in the development of the revenue generation plan. Stakeholders should be involved in identifying possible revenue streams, evaluating their viability, and devising implementation plans. |
| Monitor and analyse progress: | To ensure that the strategy is on track and to identify areas for improvement, it is critical to monitor and evaluate progress towards income generation goals. Stakeholders should put in place a mechanism for tracking performance, measuring effect, and identifying areas for improvement. |

## Long Term Recommendations

| Assess the influence of revenue generation on economic development: | Studies should be conducted to examine the impact of revenue generation on economic development in emerging countries. This involves evaluating the efficacy of income generation initiatives in accomplishing broader economic development goals such as poverty reduction, job creation, and long-term growth. |
| Examine the influence of  | Globalization has produced new opportunities and difficulties for emerging countries' revenue generation. Further research is needed to understand the influence of globalisation on revenue generation. |

Electronic copy available at: https://ssrn.com/abstract=4570292
| globalisation on revenue creation: | activities, as well as how to use globalisation to achieve broader economic development goals. |
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