

Nepal Action Research for Tourism Solutions

Fiscal Flow Analysis — Who Pays for Khumbu's Tourism Economy, and Who Gets Paid?

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Abstract

Khumbu generates an estimated NPR 1.81 billion annually in tourism-linked revenue, yet retains only 22–25% of it locally. This paper traces seven distinct revenue streams, from mountaineering royalties to visa fees, through the legal and fiscal mechanisms that determine how much of that money actually returns to the communities bearing the cost of hosting it. The findings offer an empirical baseline for one of the central governance gaps identified in the broader Nepal Action Research for Tourism Solutions project: a fiscal architecture that centralizes tourism revenue while leaving local governments to absorb the burden of maintenance, safety, and environmental stewardship.

1. Context

Khumbu hosts one of Nepal's most lucrative tourism economies, but the fiscal system governing that economy is structurally misaligned. The locality that maintains trails, funds search-and-rescue, and bears the environmental and infrastructural cost of tourism retains only a marginal share of the revenue it generates. Most money flows upward to the federal level, with local government receiving only whatever statutory split happens to apply to a given revenue category — and these splits vary widely because no single integrated policy governs them. Instead, each revenue stream is subject to its own act or regulation, producing a patchwork where similar money is treated very differently depending on which door it enters through.

This paper maps that patchwork and quantifies it, estimating both the total revenue generated by Khumbu's tourism sector and the share actually retained locally.

2. Methodology

Every revenue stream directly attributable to Khumbu tourism — mountaineering royalties, national park entry fees, aviation revenue, visa fees, and municipal fees — was traced from its point of collection to the legal mechanism governing its return (or non-return) to Khumbu. Official reports were used wherever available. Where destination-specific figures didn't exist, estimates were built from fee schedules, the closest available proxy data, and historical trends.

Retention is defined as the share of revenue that stays with, or is transferred back to, Khumbu Pasang Lhamu Rural Municipality (KPLRM) or a Khumbu-based recipient body.

Key estimation choices worth flagging:

- **Mountaineering royalty** figures come from official by-peak royalty reports (Department of Tourism and Nepal Mountaineering Association); retention uses the confirmed 25% statutory local split under the Intergovernmental Fiscal Arrangement Act 2017.
- **Lukla landing fees** were derived from CAAN aircraft/passenger movement data combined with the official fee schedule, since no collection figures are published.
- **SNP entry fee revenue** was annualized from an 11-month news-reported figure (the missing month is off-season and assumed immaterial).
- **Municipal tourism fee and visa fee revenue** both use SNP entry records as a visitor-volume proxy, since no disaggregated data exists for either.
- **Operational revenue** (business registration, property tax) and **VAT/excise revenue** could not be quantified due to restricted data access — these are flagged as data gaps rather than estimated.

3. Data Summary

Revenue Stream	Generated (NPR)	Retention Mechanism	Retained (NPR)	Confidence	
Mountaineering Royalty	~996.2 million	25% statutory split (IGFA Act 2017)	~250 million	Official figure	
Visa Fee	~534 million	0% — retained by MoF (Immigration Act 2049)	0	Estimated (proxy)	
Khumbu Municipal Tourism Fee	~142 million	100% retained by KPLRM (Local Govt. Operation Act 2017)	~142 million	Estimated (proxy)	
SNP Entry Fee	~125 million	50% local share to SNPBZMC (NPWC Act 1973)	~62.5 million	Estimated (proxy)	
Lukla Landing Fee (CAAN)	~14.2 million	0% — retained by CAAN/MoF	0	Estimated (proxy)	
VAT/Excise Divisible Pool	118.7 million (standalone)	Formula-based national distribution, not derivation-based	118.7 million	Official, but not tied to generation	
Operational Revenue	Not quantified	100% local by law	Not quantified	Data gap (SuTRA access restricted)	

4. Findings

The pattern is consistent across every quantified stream: large revenue volumes paired with weak or absent local return mandates.

Mountaineering royalty and visa fees together make up the bulk of quantified Khumbu-generated revenue, yet return only 25% and 0% locally, respectively. Aviation revenue, fully centralized under CAAN, sees 0% retention despite being generated entirely by traffic that KPLRM services and maintains. These findings directly substantiate the policy brief's high-priority gap on tourism revenue centralization, and its related finding on Lukla airport revenue lacking any local transfer mandate.

Two secondary findings are also notable:

- **A registration loophole:** many luxury trekking agencies and hotels operating in Khumbu are registered in Kathmandu rather than locally, meaning business registration, renewal, and property tax revenue never reaches KPLRM at all, an immediately closeable gap under existing law.
- **A boundary mismatch:** Mera Peak sits administratively in Makalu Barun National Park (Solukhumbu), outside KPLRM, but its royalty is counted as Khumbu-generated because its climbers fly through Lukla and pay the municipal tourism fee, illustrating how municipal and tourism-economy boundaries don't cleanly align.

5. Retention Estimate

Across the five revenue streams for which both generation and retention could be estimated, total generation is approximately **NPR 1.81 billion**, of which an estimated **NPR 454.5 million (about 25%)** returns to a Khumbu-based recipient (KPLRM or SNPBZMC combined).

Restricted to KPLRM alone, excluding the SNP share retained by SNPBZMC, retention falls to approximately **NPR 392 million (about 22%)**.

Two figures sit outside this ratio deliberately:

- The NPR 118.7 million VAT/excise transfer is a confirmed retention-side figure, but since Khumbu's own VAT/excise generation can't be isolated from the national pool, it has no matching generation figure and isn't summed into the total above.
- Operational revenue is fully retained by law but unquantifiable given restricted SuTRA access. Because this stream is 100% local, its omission means the 22-25% figures are conservative — if measurable, they would only push retention higher, not lower.

6. Implications

Out of an estimated NPR 1.81 billion generated directly in Khumbu, only about 22% returns to KPLRM (25% including the SNPBZMC share), a conservative figure given the unmeasured gaps above. This is empirical evidence for one of the most consequential fiscal misalignments in Khumbu's governance environment: the gap between constitutional decentralization on paper and continued revenue centralization in practice.

Stream-by-stream implications for reform:

1. **Mountaineering royalty and visa fees** are Khumbu's two largest revenue streams, so reforming their retention would move KPLRM's fiscal position more than any other single change. Both are generated by traffic that KPLRM bears the servicing cost for (trail wear, search-and-rescue, restoration), yet return only 25% and 0%. The pending Tourism Bill 2081 proposes a 10–40% local royalty share (still under committee review, per Tourism Times reporting), but visa revenue has no comparable reform in motion and would need an entirely new mandate.
2. **Aviation revenue** is fully centralized under CAAN with no municipal transfer mandate, even though source and locality are effectively inseparable here — making it arguably the most straightforward case for a dedicated local transfer.
3. **SNP entry fee** revenue strengthens SNPBZMC's conservation budget rather than KPLRM's municipal one, despite both drawing on the same visitor base — raising an open question about whether a formal revenue-sharing arrangement between the two bodies is needed.
4. **Operational revenue** remains unquantified, but the Kathmandu-registration loophole is an immediately closeable gap under existing law that could unlock a meaningful new source of direct local revenue.

More broadly, building this baseline required assembling official reports, proxy data, and media coverage because no single government or institutional system tracks destination-level tourism and revenue data. This reinforces the policy brief's separate priority recommendations around open tourism data systems, technicalization of MoCTCA, and a one-door policy, better data infrastructure would materially improve both governance and future research like this.

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