CENTRAL ASIAN JOURNAL OF EDUCATION AND INNOVATION

Research Article CAJEI

Received: 5 September 2026 Accepted: 10 September 2026 Published: 11 September 2026

Vol. 5 • No. 9 • 2026

TOURISM REVENUE AND ITS CONTRIBUTION TO LOCAL GOVERNMENT FINANCE: EVIDENCE FROM UZBEKISTAN

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DOI: 10.5281/zenodo.22704917

ABSTRACT: This paper examines how tourism revenue in Uzbekistan is assigned across levels of government. Inbound arrivals have risen sharply in recent years, and the resulting activity concentrates in a small number of historic regions, Khorezm among them. The study combines official statistical data with institutional analysis of the legal instruments governing the tourist fee. It finds that proceeds of the fee accrue not to the local budgets of the districts in which they are collected but to an extra-budgetary fund established at national level. The costs tourism imposes are therefore local while the dedicated revenue it generates remains central. Five practical recommendations conclude the paper.

Keywords: tourism revenue, local government finance, tourist fee, fiscal decentralisation, Khorezm region

1. Introduction

Tourism has become one of Uzbekistan's most dynamic economic sectors. Inbound tourist trips rose from 1,504.1 thousand in 2020 to 7,957.2 thousand in 2024, an increase of 20.1 per cent in the final year alone [1]. Exports of tourism services grew from 2.14 billion US dollars in 2023 to 3.52 billion in 2024, measured against a national target of five billion dollars by 2030 [2].

This growth is not distributed evenly. It concentrates in a small number of historic regions. Travel companies operating in Khorezm region served 497.5 thousand persons in 2024 — 25.2 per cent of the national total, the second-highest figure of any territory after the city of Tashkent [1]. Khiva, the region's historic centre, receives visitor volumes wholly out of proportion to the resident population of the district.

Concentration of this kind carries a fiscal dimension that is easily overlooked. Visitors consume local public goods: streets, water supply and sewerage, sanitation, public order, and above all the maintenance of the heritage fabric that attracts them. These costs fall on district and regional budgets. Whether the revenue that tourism generates reaches those same budgets is a separate question, and one determined by law rather than by economics.

The present paper examines that question. It asks how tourism revenue in Uzbekistan is assigned across levels of government, and whether the current assignment corresponds to the level at which tourism's fiscal costs are actually borne.

2. Literature Review

The theoretical case for assigning particular revenues to subnational government is long established. Oates [3] set out the underlying logic of fiscal federalism: where the benefits of a public service are geographically bounded, decisions about that service — and the revenue supporting it — are better located at the level of government whose jurisdiction matches those boundaries. Efficiency gains arise because local preferences and local costs are known locally.

Which revenues are suitable for local assignment is a narrower question. Bird [4] reviewed the subnational taxation literature for developing countries and concluded that taxes levied on immobile bases, particularly property, are the natural candidates for local government. Such bases cannot readily be shifted across jurisdictional boundaries, and their burden falls broadly on those who benefit from local services.

Tourism sits comfortably within this logic. Gooroochurn and Sinclair [5] observed that tourists consume public goods for which they do not directly pay — roads, security and historic buildings among them — and demonstrated, using Mauritian data, that taxing tourism can be more efficient than taxing other sectors, since much of the welfare incidence falls on non-residents. Kato, Kwak and Mak [6] pursued the implication directly, examining how a local property tax may be used to appropriate gains from tourism for the host community, and observing that the instrument remains largely unused for this purpose.

The literature also counsels caution regarding rates. Adedoyin et al. [7] estimated tax elasticities for the Maldives using fully modified ordinary least squares and found that a ten per cent increase in tourism tax reduces demand by 5.4 per cent. Revenue capture and destination competitiveness therefore stand in tension, and the calibration of any tourism levy matters as much as its assignment.

What this literature does not address is the Central Asian case. No peer-reviewed study examines the assignment of tourism revenue across levels of government in Uzbekistan. The present paper responds to that gap.

3. Methodology

The study combines descriptive analysis of official statistics with institutional analysis of the legal instruments governing tourism revenue. Tourism indicators were drawn from the National Statistics Committee of the Republic of Uzbekistan [1], and export figures from the country commercial guide of the United States International Trade Administration, which cites the same statistical authority [2]. The assignment of the tourist fee was established from Cabinet of Ministers Resolution No. 475 of 25 August 2022 and its third appendix, the Regulation on the procedure for collecting the tourist (hotel) fee [8]. The characterisation of intergovernmental fiscal relations draws on the Public Expenditure Review for Uzbekistan [9].

Monetary conversions of the fee rates are the author's own calculations from the basic calculation amount in force. The study is institutional and descriptive in character; it does not estimate revenue elasticities or model fiscal outcomes

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4. Analysis and Results

Table 1. Tourist (hotel) fee rates in Uzbekistan, 2026

Category of payer	Rate, % of BHM	Per night, soum
Resident of Uzbekistan (per day)	0.4	1,648
Foreign citizen, up to 10 rooms	5	20,600
Foreign citizen, 11–40 rooms	10	41,200
Foreign citizen, more than 40 rooms	15	61,800

Source: compiled by the author on the basis of [8]. Soum amounts are the author's calculation at a basic calculation amount (BHM) of 412,000 soum. Children under sixteen are exempt; a partial night is charged as a full night.

The instrument. Uzbekistan operates a dedicated tourism levy. The tourist (hotel) fee is collected by accommodation providers for each night of stay, at rates expressed as percentages of the basic calculation amount and differentiated by the size of the establishment and the residence status of the guest (Table 1). The design is conventional and broadly consistent with international practice.

The assignment. The proceeds, however, do not accrue to the local governments of the districts in which they are collected. Under the Regulation approved by Resolution No. 475, collected sums are transferred to an extra-budgetary tourism support fund established at national level under the tourism administration [8]. The fee is therefore a centrally assigned revenue resting on a locally generated base. Whatever its merits as a means of financing sectoral development, it does not function as an instrument of local finance.

The fiscal context. The significance of this assignment depends on the wider intergovernmental system. Uzbekistan's public finances are characterised as highly centralised, with subnational governments possessing little autonomy over revenue management and resource allocation and operating in practice as extensions of the central government within a system of discretionary transfers [9]. Regional and district budgets consequently have limited capacity to finance the incremental costs that visitor concentration imposes upon them.

The resulting mismatch. Combining these observations yields the central finding. Khorezm region accommodated 177.2 thousand persons in its hotels during 2024, and its travel companies served a quarter of all clients served nationally [1]. The tourism activity is local. The heritage maintenance, congestion and infrastructure burden it generates is local. The dedicated revenue it produces is not. This is precisely the configuration that the assignment literature identifies as inefficient: the jurisdiction bearing the marginal cost receives no marginal revenue with which to respond, and therefore holds no fiscal incentive to invest in the destination.

The scale of the misallocation should not be overstated. The fee is modest — a foreign guest in a large hotel pays roughly five US dollars per night — and full local assignment would not by itself transform regional finances. The argument concerns incentive alignment rather than revenue scale.

5. Conclusion and Recommendations

Tourism in Uzbekistan generates its dedicated revenue centrally and its costs locally. Five measures follow from the analysis presented above.

First, a defined share of tourist fee receipts should be assigned to the district and regional budgets in which the fee is collected, in accordance with the benefit principle underlying the assignment literature [3]. Even a partial share would establish the fiscal link that is presently absent.

Second, the property tax base of accommodation enterprises should be examined as a complementary local instrument, following Kato, Kwak and Mak [6], since it rests on an immobile base and accrues naturally to the local level.

Third, any increase in the effective rate should be calibrated against the likely demand response, given the elasticity established by Adedoyin et al. [7]. Revenue objectives ought not to be pursued at the expense of destination competitiveness.

Fourth, collection data should be published by region. At present no disaggregated figure for tourist fee receipts by territory is publicly available, which impedes both evaluation and accountability.

Fifth, the recurrent fiscal costs of heritage maintenance in destinations such as Khiva should be identified explicitly within regional budget planning, so that the cost side of tourism is measured rather than assumed.

Future research should quantify these costs at district level and estimate the revenue that regional assignment of the fee would generate..

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