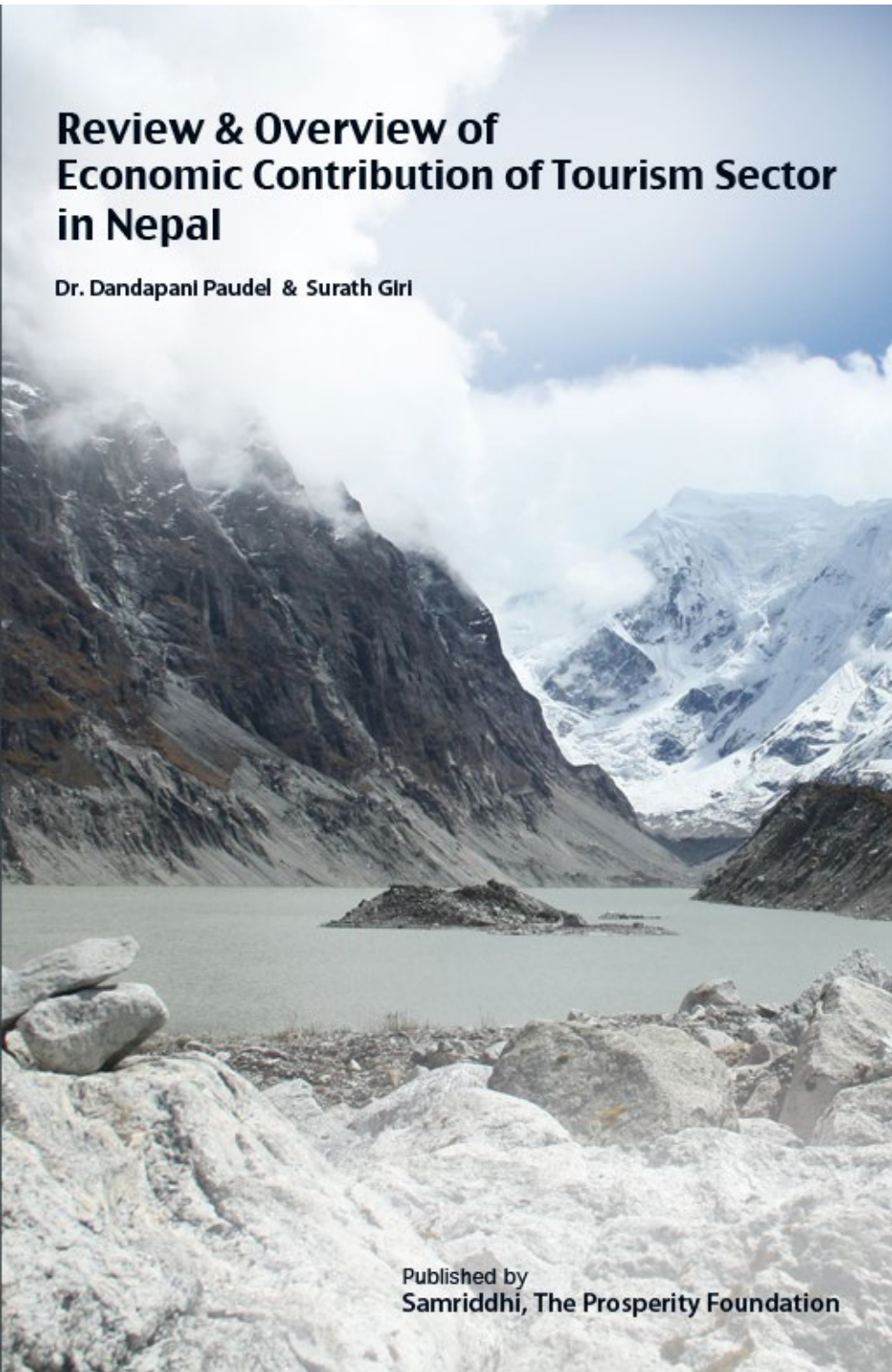


Review & Overview of Economic Contribution of Tourism Sector in Nepal

Dr. Dandapani Paudel & Surath Giri



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P. O. Box: 8973, NPC 678

416, Bhimsengola Marga, Minbhawan Kharibot

Kathmandu, Nepal

Tel. : (+977)-1-446-4616, 448-4016

Fax : (+977)-1-448-5391

E-mail: info@samriddhi.org

Website: www.samriddhi.org

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About the Authors

Research Guide

Dr. Dandapani Paudel

Economist Dr. Dandapani Paudel has not only served the Government of Nepal as a specialist in Macroeconomics Management, but has also worked with international organizations such as The World Bank, Asian Development Bank and others as a Senior Macroeconomist. Having worked as the Economic Advisor/Director of the Research Department of the Nepal Rastra Bank, Dr. Paudel is currently the Professional Member of the Board of Directors of KIST Bank Ltd. He has also been a Professional Member of the Board of Directors of Rastriya Baniyya Bank, Member of the Board of Directors of Nepal Stock Exchange Ltd. to name a few.

Research Assistant

Mr. Surath Giri

Mr. Giri is a Research Associate at Samriddhi, The Prosperity Foundation. He has authored several publications of the organization which includes handbooks, pocketbooks, policy papers and others. Besides Samriddhi Foundation, he also works for Khabar South Asia, a South Asian online magazine and dedicates a portion of his time teaching 'Entrepreneurship' to undergraduate level students.

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This detailed study report on tourism, which is one of the five sectors on the Nepal Economic Growth Agenda (NEGA) Report 2012, would not have been possible without the input and help from a lot of individuals and organizations. First of all, we would like to thank all the five research guides working with research assistants preparing five reports like this. We cannot remain without thanking the authors of this report, Dr. Dandapani Poudel and Mr. Surath Giri, for working on this study which remained a pillar behind the preparation the NEGA Report 2012.

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Samriddhi, The Prosperity Foundation

July, 2012

Preface

In today's world where every new task one encounters is started by running "How to..." followed by the task on the internet search engines, for a moment during discussions on Nepal's economic growth, most of us might have wished if finding Nepal's formula for prosperity was as easy as just typing "How to make Nepal prosperous?" on the search engine and clicking on a good website and following the step by step direction. Though changing the face of a country's economy is definitely not that simple, it has always started somewhere. Samriddhi, The Prosperity Foundation, as a policy think tank is making an effort to initiate the necessary change through the Nepal Economic Growth Agenda (NEGA). The Nepal Economic Growth Agenda, which aims at creating an environment for making better informed policy decisions concerning Nepal's economic growth scenario took its first leap in 2011 by working on key sectors that have important roles in initiating growth in Nepalese economy. After rounds of individual and group consultations for months in early 2011, the five sectors for the Nepal Economic Growth Agenda, 2012 were selected which were Agriculture, Education, Hydropower, Infrastructure and Tourism. Studies on all the five sectors were then carried out for few months by a Research Guide and a Research Assistant in each of the five sectors and a detailed report like this is available for the rest of the four sectors as well. On the basis of these five detailed reports on the five sectors, a single Nepal Economic Growth Agenda, 2012 was prepared which was released in July 2012 and was handed over to the Nepalese government.

This report, "Review & Overview of Economic Contribution of Tourism Sector in Nepal" is an outcome of the study conducted on Tourism for the Nepal Economic Growth Agenda, 2012, carried out by the Research Guide Dr. Dandapani Paudel and Research Assistant, Mr. Surath Giri.

As the issue of economic growth is slowly finding its way into mainstream political discourse and discussion on priority sectors are ongoing, this report

presents useful analysis on the current status and prevailing challenges in the sector. In this regard, the effort made through this publication takes the discussion one step ahead as it has made an attempt to look into the details and identify those constraints which have been keeping the sector from growing. The study looks upon the sector from the perspective of economic growth and recommendations are based on how the sector can grow and consequently play a greater role in the larger economic growth of Nepal. Hence, the study has some key focus points.

As a sector that plays a vital role in sustenance and advancement of Nepalese economy and is widely recognized as one of the sectors with high growth potential and comparative advantage, Tourism was one of the key five sectors in NEGA 2012. Also being the highest contributors after the remittance income of foreign exchange reserves, the main focus on tourism is around increasing the economic contribution on the economy.

Overall, the report outlines the key hurdles impeding growth in this sector and provides recommendations to remove the hurdles while introducing new ideas to build on the potential in this sector. With this, we believe this publication will be a key document to refer to in the process of policymaking to make better informed policy decisions in this area to encourage growth. Samriddhi, The Prosperity Foundation will be publishing the Nepal Economic Growth Agenda on an annual basis highlighting important issues concerning Nepal's economic growth.

Abbreviations and Acronyms

AsDB	Asian Development Bank
BNM	Bachelor in Hotel Management
B. S.	Bikram Sambat
BTTM	Bachelor in Travel and Tourism Management
CAAN	Civil Aviation Authority of Nepal
CAR	Civil Aviation Report
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
DONPWC	Department of National Parks and Wildlife Conservation
HAN	Hotel Association of Nepal
HMTTC	Hotel Management and Tourism Training Center
ICT	Information and Communication Technology
ILO	International Labor Organization
INGOs	International Non-governmental Organizations
MOCSR	Ministry of Culture and State Restructuring
MOTCA	Ministry of Tourism and Civil Aviation
NAC	Nepal Airline Corporation
NARA	Nepal Association of Rafting Agents
NATHM	Nepal Academy of Tourism and Hotel Management
NATTA	Nepal Association of Tours and Travel Agents
NDC	National Development Council
NGOs	Non-governmental Organizations
NPC	National Planning Commission
NRB	Nepal Rastra Bank
NTB	Nepal Tourism Board
NTY	Nepal Tourism Year
TAAN	Trekking Agencies' Association of Nepal
TIA	Tribhuvan International Airport
TTCR	Tourism and Travel Competitiveness Report
TURGAN	Tourist Guide Association of Nepal

TYIP	Three Years Interim Plan
TYP	Three Years Plan
UNDP	United Nations Development Program
UK	United Kingdom
USA	United States of America
VAT	Value Added Tax
WCOED	World Commission on Environment and Development
WEF	World Economic Forum
WTO	World Tourism Organization
WTTC	World Travel & Tourism Council

The Nepali year is based on the Bikram Sambat Calendar and is approximately 57 years ahead of the Gregogrian calendar (2062/1/1=2005/4/14)

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Introduction

The onset of democratic politics in 1951 after the end of an autocratic regime paved ways for tourism development in Nepal. With the advent of democracy, Nepal opened its doors to international visitors. And in less than five decades, Nepal became attractive destination for all kinds of tourists including trekkers, mountaineers, nature lovers, bird watchers, adventure seekers and religious tourists.

Explorers from all over the world have found Nepal a fascinating destination for all kinds of exploration and adventure. The ascent of Mount Everest—the highest peak of the world 8848 mt. high—in May 29, 1953 by Tenzing Norgy and Sir Edmund Hillary was a milestone that internationally established the country's image as an attractive tourist destination. This helped stimulate the twin goals of promoting and developing the Nepalese tourism sector in the following decades.

However, Nepal did not have any official records about tourists inflow or any policy guidelines for tourism sector until 1962, although the Department of Tourism was established in 1959 under the first Five Year Plan.

In those days, tourists crossed into Nepal via India and China. Nepal did not have an aviation industry then and there were no standard lodging facilities for the tourists even in Kathmandu valley. The government formally started recording tourist arrivals in 1962 with 6179 visitors in the first year. This encouraged people to invest in building hotels and other

tourism related facilities. Since then, the number of tourists coming to Nepal has been increasing every year, except during the first half of the last decade when the Maoist insurgency was at its peak.

In spite of being recognized as one of the sectors with high growth potential with comparative advantage, tourism industry has only been able to contribute about 3-4 percent of the Gross Domestic Product (GDP). But it has helped to generate thousands of jobs and brought in valuable foreign currency reserves at a time when the industrial sector is severely hit by energy crisis and exports have plummeted.

Nepal earned US\$ 330 million in revenue from tourism in 2010 (T&T Competitiveness Report, 2011) and the sector was one of the highest contributors of foreign exchange reserves next to remittance inflow, helping the country retain a positive balance of payment despite the huge trade deficit. With a healthy average spending per visitor per day of US\$ 65.30 (2010 prices) (National Planning Commission [NPC], 2010), tourism plays a vital role in sustaining the economy with an average per capita of US\$ 712 (2012 prices).

Nepal celebrated the year 2011 as Nepal Tourism Year (NTY) with a goal of increasing tourist arrivals and tourism income. Although record number of tourist arrival was registered in the NTY, tourism income stayed below the targeted goal. The total number of tourist who visited Nepal in 2011 was 736,215 (MOCTCA, 2012), which is only 1.05 percent of the 70 million outbound Chinese tourists and only 6.05 percent of the 12 million outbound Indian tourists in the same year.

1.1 Justification

The tourism industry can have multiplier effects in the Nepalese economy. It holds an unparalleled potential in terms of revenue generation, employment opportunities, and infrastructural development. It also has a positive relationship with environmental conservation.

Nepal's small-size economy with technological backwardness, geographical remoteness and landlockedness does not offer us too many avenues for investments and trade in other sectors. Yet, hydropower and tourism are the two sectors in which Nepal has a comparative advantage. A number of macro and micro level researches have been conducted in the recent past on various aspects of tourism but there is a need for a macro level numerical analysis on trends and patterns of the tourist inflow with a thorough review of existing policies.

This study aims to make a macro level analysis with applied conclusion and recommendations that could aid policymakers, tourism entrepreneurs, academicians, and researchers in further study.

1.2 Objectives

The major objectives of the study are as listed below:

- Analyze the trends and patterns of the contribution made by the tourism sector in the economy with its multiplier effects;
- Review the government's policies and programs, and assess its institutional efficacy and efficiency in attracting tourists to Nepal;
- Appraise critical problems challenging the tourism sector;
- Make a comparative study of the tourism product development and competitiveness with other countries who have similar tourism products and markets;
- Carry out an econometric analysis of the relationship between economic growth and tourism receipts, among others;
- Make an assessment of the impact of Maoist insurgency both on the economic growth and the tourism receipts;
- Recommend applied policy prescriptions and programs.

1.3 Research Methodology

The study has adopted a qualitative and numerical approach as the main stay of the research. The analysis and conclusions have been based on secondary data from Ministry of Tourism, Nepal Tourism Board, Economic Survey of the government of Nepal, publications of Nepal Rastra Bank and various other tourism related national and international publications.

1.4 Limitations

The research is an independent publication of Samriddhi, The Prosperity Foundation which maintains an independent, neutral and applied character. The study was completed in a short period of time with limited resources and a belief that the report should be concise rather than voluminous.

Reivew of Literature, Policies & Programs

2.1 Literature Review

Developing countries have traditionally been dependent upon exports of primary goods and therefore they have current account deficits in the balance of payments. In recent years these countries have switched to tourism for foreign exchange earnings. The reason why Nepal has current account surplus is its increasing remittance income followed by tourism receipts.

If one considers the risks involved in foreign employment and the labor demand in the domestic market, the exodus of manpower has direct adverse impact on local production and productivity. It also pushes the wage levels resulting in rising cost of living.

The empirical model shows a strong relationship between political stability and macroeconomic performance, with particular reference to the tourism sector (Ranasinghe and Deyshappriya, 2010). The trend of tourist arrivals is relatively more reflective of the per capita income of the countries they come from and the travel costs, and less dependent on other factors such as exchange rate and price differential between the country of origin and the host country (NRB, 1990).

There are number of research studies on tourism in Nepal both at the macro and micro level. At the macro level, studies have focused on

rural tourism, environmental impact on mountain ecosystem, impacts of Himalayan deforestation and other socio-cultural impacts including income and employment generation from tourism sector. And at micro level, studies have focused on particular villages, districts and destinations with environmental impact on local income and employment, assessment of landscape change, local ecotourism enterprises, as well as conflicts between national park and local people.

The studies have made an analysis of the state of tourism in Nepal and raised key economic and environmental issues pertaining to the development of local communities (Banskota and Sharma, 1995). A lucid analysis has been done on reflection of our past mistakes and milestones, challenges and opportunities with the trials and tribulations faced by Nepalese tourism at the very start of the 21st century (Grandon, 2007).

The available theoretical literature on tourism is too sophisticated with idealistic approach adopted in some of the recent research studies as opposed to the well defined concept of the purpose of visit and socio-cultural, economic and environmental benefits by opening an window for “earth led priorities and perspectives”. (Gren & Huijbens, 2012)

Similarly, the issue of tourism as a social science has been put in question. Could it be that social science is no longer a useful academic lens or grouping for tourism? (Tribe & Xiao, 2011)

Also, there is a growing concern that the tourism study has been dominated by policy led and industry sponsored work to an extent that the analysis inadvertently tends to internalize industry led priorities. (Franklin & Crag, 2001, Shaw & Williams, 2004)

Nevertheless, such arguments help to broaden the horizon of independent and applied study in tourism rather than confining it to a purely theoretical rhythm. In other words, it is necessary for the future study on tourism to bridge the gaps between theory, policy and practice in the tourism industry.

2.2 Policy / Program Review

2.2.1 Tourism Master Plan 1972

The Tourism Master Plan was formulated in two phases between 1972 – 75, and from 1976 - 80. The plan proposed distinguishing the nature of tourists visiting the country in terms of the purpose of visit. The tourists were put into five major categories—those who came for sightseeing, trekking, recreational activities, researchers and international pilgrims.

The plan promoted few destinations, particularly Kathmandu, and recommended some trekking destinations. The focus was on the development of the religious pilgrimage centers and national parks. Similarly, the plan also envisioned development of resorts, preservation of monuments and rich cultural heritages, identification of mountain viewpoints and establishment of Ministry of Tourism and Culture to bring tourism related departments under the proposed Ministry.

2.2.2 Tourism Infrastructural Development Project (TIDP)

In 1990, under an Asian Development Bank (AsDB) funded initiative, a multinational management consultant Touche Ross Management reviewed government plans and policies and made specific suggestions for the growth and promotion of tourism sector. The company prescribed short and long term action plans to (i) release existing bottlenecks in tourism industry; (ii) increase tourism income; and (iii) establish premium tourist products; together with development of infrastructures, tourist destinations, accommodation, technical assistance and economic linkage (Baskota and Sharma, *ibid.*).

As a result, AsDB funded Tourism Infrastructural Development Project (TIDP) was initiated to upgrade tourism infrastructure in Kathmandu, Pokhara and Gorkha. The five year project under the Department of Tourism cost US\$ 11.58 million, of which US\$ 10.4 million was funded by AsDB.

The project invested in improving access roads around Pokhara and Gorkha, upgraded Pokhara airport and developed eco-tourism circuit around Pokhara–Ghalegoan–Sikles.

2.2.3 Second Phase of TIDP

The second tourism infrastructural development project was started in July 1996. The project was launched with an aim to enhance tourism infrastructure in major destinations, particularly Pokhara and Manaslu area. The project also prepared to upgrade domestic airports in Biratnagar, Lukla, Bharatpur, Jomsom and Jumla. An estimated US\$ 22.9 million was allocated, of which US\$ 17.2 million was supported as loan assistance by AsDB. However, the final cost of the project came down to US\$17.33 million. The primary objective of the second TIDP was to promote tourism through sustainable economic growth, conserving environment and attractiveness of tourist areas, improving access, and producing skilled manpower for tourism industry. The scope and objective of the project is listed below:

- Improvement of the urban environment of Pokhara and protection of scenic beauty of Phewa Lake through investment in public environmental education, sanitation facilities, road access, sewage and solid waste management.
- Development of the Manaslu area as a major tourist destination.
- Upgrading the domestic airports with high number of tourist visits to improve access to tourist destinations.
- Strengthening the local governance in managing tourism infrastructure and services effectively.

2.2.4 Tourism Policy 1995

Tourism Policy of 1995 was the first consolidated tourism policy of Nepal. The major thrust of the policy was on income generating activities

at the central as well as local level; promotion of natural, cultural and human environment; establishing linkages between tourism and agro-based cottage industries; and, involvement of local communities in tourism (Dhakal, 2011).

The major objectives of the tourism policy were:

- To develop tourism as an important sector of the national economy by developing linkages between tourism and other sectors;
- To diversify tourism so as to improve employment opportunities in the rural areas, increase foreign currency earnings and enhance national income;
- To improve natural, cultural and human environment to develop tourism industry;
- To maintain international image in tourism through quality service and security; and,
- To develop and promote Nepal as an attractive tourism destination.

The policy recognized private sector as an engine of growth and the role of government as a catalyst by leading, coordinating and facilitating the development of tourism.

2.2.5 Tourism Vision 2020

In May 2009, government of Nepal put together its vast knowledge and experience gained from decades of plans, policies and programs to come up with a Tourism Vision 2020. The vision developed by Ministry of Tourism and Civil Aviation (MOTCA) values tourism as a major contributor to a sustainable Nepalese economy. The vision aims to develop Nepal as an attractive, safe and unique destination through conservation and promotion, leading to equitable distribution of tourism benefits and greater harmony in society. The vision also declared the year 2011 as Nepal

Tourism Year to further encourage tourist arrivals, after the large inflow in 2007 and 2008 .

The twin goals of the tourism vision 2020 are as follows:

- Increase annual international tourist arrival to two million by 2020, and,
- Augment economic activities and increase employment opportunities in tourism sector to one million.

2.2.6 Tourism Policy 2009

The objective of the policy is to develop the country as an internationally attractive, pleasant and safe destination. The goal is to sustainably promote national heritage for tourism, to increase national income and uplift the living standard of the people.

The following constitutes the objectives of tourism policy:

- To create self-employment opportunities for local people through diversification and expansion of tourism sector and to integrate rural tourism for poverty reduction and increasing their living standard.
- To develop Nepal as an attractive and primary destination for tourism through development and promotion of natural and cultural heritage.
- To expand and promote tourism through accessible, secure and dependable air and land transport.
- To use natural resources in a sustainable way by conserving the environment while developing tourism infrastructure.

The policy envisions the establishment of second international airport, development of regional airports, and organizational restructuring of Nepal Airlines Corporation (NAC) into a public-private partnership

venture. The successful implementation of the policies could help to boost tourism development in Nepal (Dhakal, *ibid.*).

2.2.7 Development plans, policies and programs on tourism

Tourism related development approaches and activities were directly or indirectly addressed to promote and sustain the sector by achieving multiplier effects in the economy. The approaches adopted in each plan period is listed below:

- *Third Plan (1965-70)*: Establishment of hotels and extension of aviation facilities;
- *Fourth Plan (1970-75)*: Enhancement of tourism with trade. However, the plan was not backed by required policies;
- *Fifth Plan (1975-80)*: Focus was on conservation of natural and cultural heritage, identifying new potential areas;
- *Sixth Plan (1980-85)*: Increase in the number of tourists and duration of their stay to augment tourism income by promoting import substitution industries and creating more jobs in tourism industry;
- *Seventh Plan (1985-90)*: Diversification and expansion of tourist destinations with the development of basic infrastructure and conservation of local environment, history, religion and culture;
- *Eighth Plan (1992-97)*: Development of linkages between tourism and other sectors with diversification of adventure tourism destinations. For the first time, the plan envisioned the concept of monitoring and managing tourism and related activities by the local communities and non-government organizations (NGOs);
- *Ninth Plan (1997-2002)*: Establishment of backward and forward linkages with the national economy, marketing through effective

publicity, enhancing employment and income earnings, preserving natural and heritage sites, identifying new routes and evaluation of costs on inputs, outputs and investment, etc. For this, the programs focused on local tourism and international contacts. The Visit Nepal Year 1998 program helped promote Nepal internationally as a prime tourist destination and reestablished the country's image.

- *Tenth Plan (2002-07)*: Adoption of long term vision with numerical targets, earnings, direct or indirect employment and contribution to GDP, promotion of rural tourism through qualitative improvement, and conserving heritage sites and monuments. The major objectives of the Plan was to ensure sustainable development and promotion of historical, cultural and religious heritage as well as improvement of transport services to make it more secure, reliable and easily accessible.
- *TYIP (2007- 09)*: Continuing from the tenth plan, TYIP had similar objectives like (i) conserving and promoting natural, cultural and archaeological heritage; (ii) developing major tourist destinations and infrastructures with a view of diversifying tourism for employment generation, and (iii) involving private sector in construction, development, expansion and operation of infrastructures like aviation service as a safe and reliable means of transportation. Detail strategies and working policies was prescribed in order to attain the set objectives on the assumptions of improvement in the law and order situation, strengthen institutional capacity and involve local stakeholders in the government programs.
- *TYP (2009-11)*: The plan focused on reduction of poverty through employment generation, maintaining regional balance and economic growth through expansion of tourism at the local levels.

Review of Challenges

Tourism sector of Nepal currently faces multiple problems and challenges ranging from infrastructural bottlenecks to security challenges brought on by internal and external factors. Some of the major challenges are outlined below:

- The poor performance of Nepal Airlines Corporation (NAC) as a carrier of the national flag in the international sky has remained a major bottleneck in Nepal's tourism development. The Tourism Policy 2009 recognized this issue and called for restructuring of NAC and reforming its management into Public-Private Partnership (PPP) model. However, the government inaction has limited the prescription to the papers.

- One of the reasons for tourists coming to Nepal is to conquer its high peaks. But out of 1,300 identified peaks only 326 have been opened for expeditions so far. This is only 25 percent of Nepal's snow-capped mountains. The rush of tourists every year in Everest, Annapurna and Langtang area shows, if given impetus, mountaineering alone could bring in millions of dollars in revenue. The government must identify new peaks and promote them internationally.

- The tourism business in Nepal is unevenly spread because most of the tourists throng in to only few places, with concentration around central (70%), eastern (28%), and western (2%) regions. Places like (i) Pokhara (52%), (ii) Annapurna (26%), (iii) Lumbini (6%), (iv) Chitwan (21%), (v) Langtang (4%),(vi) Nagarkot (31%), (vii) Everest (15%), (viii) Dhulikhel

(7%), (ix) Bhaktapur (54%), and (x) Lalitpur 48%) attract maximum number of tourists (NTB, 2008). These places have been well promoted over the years because they are accessible and have good infrastructural facilities. However, in the last decade new destinations have been explored that have high potential. The government must start investing in these places and promote them. This will not only bring in more tourists but increase the duration of their stay in the country.

- It has been a decade since the local people in Pokhara collectively allocated land for a regional international airport, but the government has not taken any concrete steps towards construction of the same. A regional international airport and expansion of the existing domestic airport in Pokhara could prove crucial in boosting up tourism potential of the western, mid-western and far western region. Similarly, the domestic airport in Bhairahawa, which is close to Lumbini, the birth place of Buddha also needs upgrading. The government must also ensure commercial feasibility of these airports. At present, only 10 out of 55 airports in Nepal meet their operational costs and make marginal profit.

- The tourism sector, second to the manufacturing sector, also has a great potential for foreign direct investment (FDI). There is no convincing reason why the government has adopted policy of allowing FDI on tourism merely to hotels. There are equally lucrative areas for investments such as travel and trekking agencies, adventure sports, etc. De-limiting investments in these areas would not only improve the quality service at par with international standards but also help in overseas' marketing of Nepal's tourism. If there is environment for investment, investments will flow into infrastructures like airports and mass transportation system, as well as multinational chain of hotels, tour and travel agents, etc.

- There are currently 27 international airlines operating in Nepal (CAR, 2010); and Nepal has already had bilateral air service agreements with 31 countries. More countries can be approached for bilateral air service agreements to enhance the flow of tourists. Similarly, renowned airlines such as Lufthansa, Singapore Airlines and Aeroflot that have

stopped operating in the country due to high operational costs including expensive landing, parking and hanger fees, should be approached for resuming their services. The government must revise its tariffs and make it more competitive in order to encourage well-known international airlines to operate in Nepal.

- The Ninth Plan tried to address various problems like limited international seat capacity, inadequate physical facilities, lack of modern navigational equipments at the airports and the need to upgrade destinations, services and facilities in order to expand the length of stay of the tourists. The plan also aimed to establish forward and backward linkages with other sectors of the economy, pollution control and building institutional capacity both in public and private sectors.

- The Tenth Plan highlighted the need for packaging new tourist destination and development of rural tourism. The plan also tried to address the problem of reduction in the air seats due to termination of flights by NAC and other international airlines. Among other things, the plan called for enhanced coordination between public and private sector.

- The TYIP / TYP has also highlighted the problems and challenges of the tourism sector, for instance: the lack of data base on cultural, historical and memorial heritage, weak publicity and promotional activities and infrastructural development, implementation of Pashupati and Lumbini development Master Plan, need for improving the management of NAC, and increasing the potential of adventure and eco-based tourism.

In addition to the above mentioned problems and challenges, the country has also gone through many internal and external crises that obviously have had impacts on Nepal's tourism sector. The suspension of Indian Airlines flights following the hijacking of one of its flight in 1999, the brutal massacre of the royal family in 2001, the Maoist insurgency and the royal takeover and frequent strikes and protests, as well as international events like the 9/11 attacks on the US, war in Iraq and Afghanistan and calamities like Tsunami and the outbreak of SARS disease in east Asia, have all had critical adverse impact on Nepal's tourism.

Overview of Tourism Sector in Nepal

4.1 Overview of Tourism Sector

4.1.1 Theoretical concept with evolutionary paradigm

Tourism in Nepal is categorized on the basis of kinds of tourists and the nature of their traveling. Broadly, they can be categorized as: eco-tourism, cultural and religious tourism, adventure tourism, and sustainable tourism which includes responsible, ethical and nature based green tourism. The rationale of eco-tourism, cultural and religious tourism is to promote low-cost products and services by conserving the environment, respecting people's traditions and practices, and enhancing the local livelihood as well.

Over the years, the principle of sustainable tourism has focused on four pillars, namely: (i) economic sustainability—that is profitable in both the short run and the long run; (ii) ecological sustainability—development that is compatible with fragile ecological balance, conserves biological resources and preserves diversity; (iii) cultural sustainability—increase peoples' control over their lives and is compatible with local culture and values; and (iv) local sustainability—that is designed to benefit local communities and enhance their livelihood (MacKercher, 2003).

Cultural and religious tourism, in particular, is more sensitive due to sentimental and psychological values attached to faith. Tourists in

this category value the objective of the journey more than travel related costs and benefits. Similarly, adventure tourism which is relatively new category in comparison to other types of tourism, involves more risks and uncertainty.

But for any kind of tourism, sustainability remains the core concern. Therefore, it is imperative that touristic activities should not adversely affect the available avenues and resources, and the benefits of the present do not compromise with that of the future. It is true that every tourist tries to allocate her/his limited resources to optimize the utility of traveling but the service providers must not forget that sustainability of the business depends on maintaining competitive edge of the product.

The World Commission on Environment and Development (WCOED) in 1987 defined sustainable tourism as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs.” The commission identified (i) inter-generational equity; (ii) intra-generational equity; (iii) public participation; (iv) environmental protection, and (v) cautious approach on risk and uncertainty, as the key principles for sustainable tourism. Similarly, the World Tourism Organization (WTO) defines sustainable tourism as “tourism which leads to management of all resources in such a way that economic, social and aesthetic needs can be filled while maintaining cultural and community sustainability”.

4.1.2 Contribution of tourism in the economy

Among its multiple contributions, the major concern with the development-led vision of tourism is the contribution it makes to country's economy. As such, there are many direct and indirect stakeholders who benefit from tourism related activities by (i) involving in the production of commodities and services; (ii) establishing tourism related industries; and (iii) making investment and spending in tourism related ventures. Obviously, tourism contributes both directly and indirectly by boosting

income, employment, and creating multipliers in other sectors of the economy. The World Travel and Tourism Council (WTTC) in its latest economic impact report has defined the economic contribution of tourism as follows:

- The direct contribution to the economy is reflected in the spending by residents and non-residents for business and leisure purpose, and government spending on tourism related activities. Also, direct contributions include income and employment generated through tourism-related infrastructures such as hotels, airlines, airports, travel agents, recreation services, etc.
- The indirect contribution includes the GDP and jobs supported by tourism related investments, government spending on tourism activities and domestic purchases of goods and services by the sectors dealing directly with the tourists, including, for example, purchases of food and cleaning services by hotels, fuel and catering services by airlines, and IT services by travel agents.
- The induced contribution measures the GDP and jobs supported by the spending of those who are directly / indirectly employed by the tourism sector.

4.1.3 Nepalese Perspectives

The popular touristic activities that attract travellers to Nepal include mountaineering, trekking, mountain flights, rafting (river sports), bungee jump, mountain biking, Para-gliding (sky sports), and jungle safari. Nepal has nine national parks namely, (i) Shey Phoksundo, (ii) Sagarmatha, (iii) Makalu Barun, (iv) Chitwan, (v) Langtang, (vi) Shivapuri, (vii) Khaptad, (viii) Rara and (ix) Bardia. Similarly there are three wildlife reserves namely (i) Shuklaphanta, (ii) Koshi Tappu and (iii) Parsa, and three conservation areas, (i) Kanchanjunga, (ii) Annapurna, and (iii) Manaslu. The hunting reserve in Dhorpatan also offers a unique hunting, fishing, jungle safari, animal watching and birds watching experience.

With such a diverse offering, Nepal could become a major destination for adventure seekers besides other tourists. For this, there is a need to package adventure tourism products in terms of levels of risks and uncertainty. Similarly, comfort in traveling and accommodation are other basic requirements.

Tourism is one of the fastest growing sectors in most of the developing countries. Due to its pristine scenic beauty, high snow capped mountains and rich cultural heritage, coupled by low traveling costs, Nepal has been listed as one of the most popular tourist destinations. However, tourism has both the positive and negative impacts on the people's livelihood, environment and the economy.

The impact analysis of the tourism sector has revealed that the tourism sector positively helps a country in terms of (i) employment generation, (ii) infrastructural development, (iii) cultural preservation, (iv) environmental protection, (v) foreign exchange earnings, and (vi) expansion of healthcare and education centers, among others. However, if the country cannot manage the sector effectively, it can also lead to adverse situations including environmental and cultural degradation, higher dependency of the economy leading to unsustainability, less opportunities for local people and goods due to branded goods and services, high costs for preserving beauty and protecting the wildlife, illicit trade including drug peddling and trafficking of endangered species.

The tourism sector can no doubt create higher multiplier effects by developing linkages in the economy. The macro approach of the tourism is to assist the economy in reducing the imbalances in the service accounts of the balance of payments through increased foreign currency earnings.

However, the number of outbound Nepali tourists has been gradually increasing even with the low income status of the country. This has had effect on foreign exchange reserve. But the real reason for this is the mass exodus of unskilled and semi-skilled labor due to rising unemployment in the economy, rather than the leisure outbound tourists. If one compares the net impact of the capital outflow due to manpower

flight, with the net capital earnings in terms remittance, the later is at least 16 times greater than the former. The capital flight due to other formal and informal means is a greater cause of concern rather than the outflow due to outbound Nepalese workers, who have in return contributed marvelously to the foreign exchange earnings of Nepal.

4.1.4 Tourist arrivals and duration of stay

Looking at the trend in the tourist arrivals over the years, the periodic annual average was on a higher side in the 1990s whereas the first half of the first decade of the 21st century saw a sharp decline in the tourist arrival due to insurgency. Figure 1 shows in absolute terms, majority of the tourists who came to Nepal before the conflict intensified, travelled by air route. However, there was a sharp decline in favor of land route during the intensified conflict period between 2000-2005, wherein the tourists entering Nepal through land routes reached 40.0 percent of the tourist arrivals. Since the data does not include Indian tourists travelling by land, it is difficult to draw any concrete inference about whether or not quality tourists prefer travelling by land route.

Fig. 1: Tourist Arrivals Mode

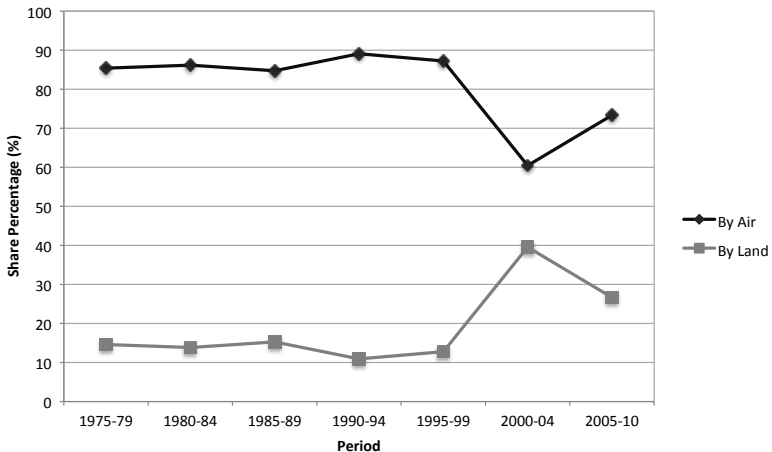


Fig. 2: Average Length of Stay (Days)



Source: Economic Survey, 2010/11, MOF

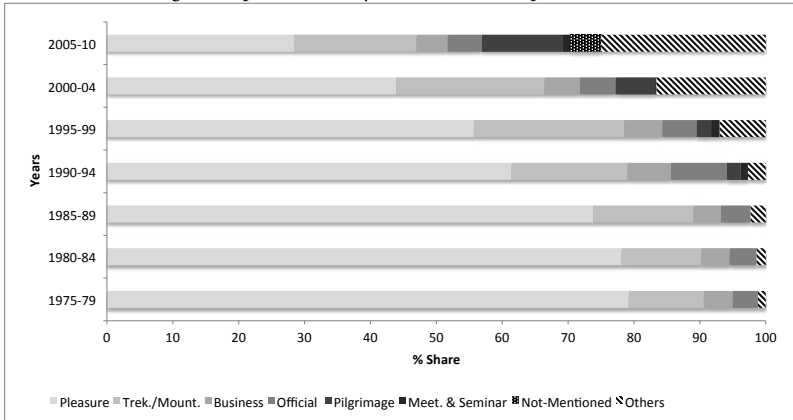
4.1.5 Purpose of visit

Tourists mostly travel with a consumerist mindset and seek choices in goods and services to optimize their needs. Their decisions are based on preferred brands of goods and services, influence of local environment and culture, knowledge and information about quality of hospitality in the destination country, and so on. Hence, attracting tourists is ultimately based on the effective marketing campaigns and ability of the host country to create a positive environment for the tourists to extend their length of stay. Schiffman and Kanuk observe—the study of consumer behavior focuses on how individuals make decisions to spend their available resources (time, money, effort) on consumption related items (Abdallat and Eman, n.d.).

There are various reasons why tourists visit a place but they come back only if their interests and enthusiasm are met by the end of the visit. As such, tourists who travel to Nepal basically come to spend their leisure time. They engage in various activities like trekking, mountaineering, bird-

watching, adventure sports, etc. However, the pleasure of engaging in these activities comes only if there is peace with law and order. The sharp decline in tourist arrival to Nepal in the first half of the last decade points to this fact. Even in the present post conflict transition, there is still a psychological threat and a lag effect which has hindered normal inflow of the tourists.

Fig. 3: Purpose of Visit by the Tourists in Nepal (% Share)



Source: Economic Survey, 2010/11, MOF

As seen in figure 3, there has been a slow diversification of tourists in favor of trekking, mountaineering and pilgrimage. But increasing number of unclassified tourists visiting the country has made it difficult to assume whether these are proper tourists or non-resident Nepalis traveling to meet families. There is an urgent need to classify this group in a database to avoid confusion in future.

4.1.6 Earnings from tourism and other related indicators

The earnings from tourism has been increasing over the time despite a negative impact on the number of arrivals specially in the second half of Maoist insurgency period. The periodic annual average earnings which was about NRs. 306 million in the late 1970s peaked at NRs. 17,483 million

in the second half of the 2000s. The tourism receipts, as a percentage of both the merchandise exports and exports of goods and services sharply declined in the last decade compared to earlier period when the export base was very small. Similarly, tourism income as a share in total foreign exchange earnings has also gone down. But this is mostly due to significant rise in remittance income.

Fig. 4: Earnings from Tourism in Relation to Different Measures



TR = Tourism Receipts.

Source: Economic Survey, 2010/11, MOF.

The contribution of tourism in the GDP remained consistently at 2-3 percent during the 1980s and in the last decade. But, in the 1990s it had reached 3-4 percent. Since the ratio of tourism receipts to GDP is considered a better proxy index for measuring tourism specialization, it can be inferred that Nepal is far behind other tourist destination countries in terms of specialization. However, per tourist receipt has significantly increased since the 1990s which either points to rising global inflation or spending habits of the tourists.

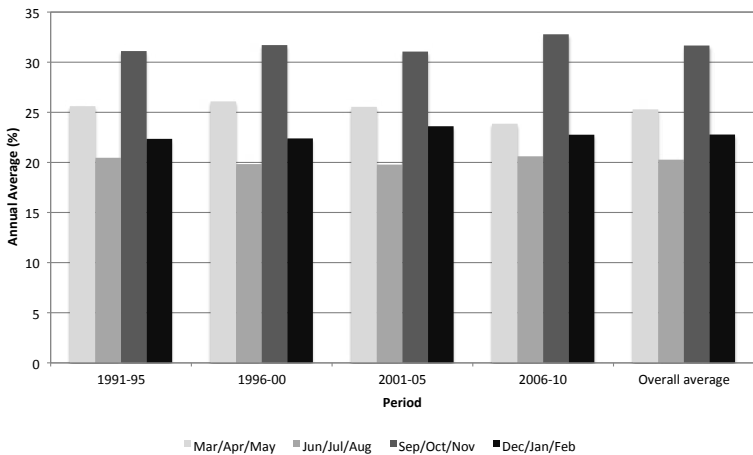
In 1980s, average per tourist receipt was about NRs. 4,000. The figure increased eight folds to NRs. 35,000 in the next two decades. As

such, a small increase in tourist arrivals can also help to earn more but continuous depreciation of the Nepalese currency could have caused the figure to go up as well. All indicators had registered substantially higher growth during the 1990s showing positive liberalization impact on the overall macroeconomic stability.

4.1.7 Seasonal effects on tourism

Seasonality is one of the most important indicators of tourism which can help tourists derive optimum satisfaction by traveling to the destination country in the best season. In Nepal, spring and autumn are the best seasons; due to an optimal climate most tourists prefer traveling to Nepal in these seasons. Nepal registers high tourists inflow during autumn and spring followed by winter and the monsoon. About 57 percent of the tourist arrivals was recorded in the peak seasons. In order to draw maximum benefits, the tourism industry must package seasonally attractive tourism products, programs and policies.

Fig. 5: Distribution of Tourist among Seasons



Source: Nepal Tourism Statistics of various years.

Spring = March/April/May; Monsoon = June/July/August; Autumn = September/October/November; and Winter = December/January/February.

4.1.8 Tourist arrivals by major regions

Among the tourists who came to Nepal on the time series basis, Western Europeans top the list, although on a declining trend which was still about one thirds (32.5%) of the total tourist arrivals on the whole period average. North America, also on a declining trend, stood second contributing more than 8 percent of the total tourist arrivals followed by Australia and the Pacific (3.1%), and Eastern Europe (1.8%). The number of Indian tourists who had a larger share of about one-third in the past has been on a decline, recording the period average of about one fourth.

In recent years, other Asian countries have also shown an encouraging trend with a record of more than two thirds in the later period. Countries like China, Japan, South Korea, Thailand, Malaysia and Singapore, have potential to contribute significantly to Nepalese tourism sector.

Table 1: Tourist Arrivals by Major Regions and Countries

Major Regions	1992-97	1998-03	2004-09
Western Europe	37.47	32.83	27.27
Asia Others	17.49	27.02	36.61
India	31.12	24.63	21.39
North America	8.22	9.13	6.943
Australia & Pacific	3.17	3.19	2.85
Eastern Europe	1.12	1.64	2.53
C&S America	0.49	1.13	1.23
Africa	0.35	0.43	0.28
Others	0.11	0.00	0.88

Source: Economic Survey, 2011, MOF

Looking at the county-wise ranks, the top five countries in terms of tourist inflow to Nepal were: (i) India, (ii) Peoples Republic of China, (iii) Sri Lanka, (iv) USA, and (v) UK (MOTCA, 2010).

4.1.9 Countries with significant tourism receipts

Tourism receipts as a direct contribution to GDP in percent is an indicator for measuring tourism specialization. Among the group of competing tourist countries in the region, Cambodia's tourism ranks the highest (9.5%) in terms of contribution to the GDP, followed by Thailand (7.1%) and Laos (5.8%). Nepal has to do more in achieving tourism specialization, necessary to boost up revenue and growth, with only 4 percent of GDP stemming from tourism.

Table 2: Receipts, Size, Population and Income of the Competitor Countries

Country	Direct Tourism Receipts as % of GDP	Size (Sq. Km)	Population ('000)	Per Capita GDP in US\$
Cambodia	9.5	181,035	14,805	1,024
Thailand	7.1	513,120	65,479	5,394
Laos	5.8	236,800	6,500	1,203
Vietnam	4.3	331,210	91,519	1,374
Nepal	4.0	147,181	28,900	712
Sri Lanka	3.4	65,610	20,653	2,877
China	2.6	9,640,821	1,339,724	5,413
Bangladesh	2.2	147,570	148,000	678
India	1.9	3,287,263	1,210,193	1,388
Myanmar	1.4	676,578	60,280	832

Sources: World Travel and Tourism Report, CIA Fact Book.

4.1.10 Competitive score and rank index

Nepal ranks moderately well in terms of competitiveness in travel and tourism. Out of 139 countries sampled for the years 2009 and 2011 by World Economic Forum (WEF), Nepal has impressive figures in most categories. (see Table 3)

Table 3: Nepal’s Ranking (out of 139 countries) on Factors Related to Tourism

Hotel price index - 2	Purchasing power parity - 7
Visa requirement – 10	Carbon dioxide emissions - 11
Timeliness of T&T data -12	World heritage natural sites- 24
Protected areas – 29	Total known species – 30
Hospital beds 36	T&T Govt. expenditure - 36
GATS commitments- 43	Govt. priority on T&T industry- 49

Source: *The T&T Competitiveness Report 2009 and 2011*, WEF

Note: Lower ranks show better performance.

Among the major groupings of human, cultural, and natural resources, Nepal had relatively better ranking of 97 with a score of 3.6 out of 10 for the year 2009 compared to the similar rank of 101 and a score of 3.5 for the year 2011. The slight decline in the ranking is mainly due to a deterioration in human and cultural resources.

There has been a notable improvement in tourism regulations as well, with satisfactory rank (106) and score (4.0) in the year 2011 compared to previous years, attributed to government policies, regulations, environmental sustainability and hygiene standards.

However, the business environment and infrastructure need improvements as reflected in the rank (120) and score (2.5) from the year 2009 to the level of rank (128) and score (2.6) in 2011. This is a cumulative effects of all the mentioned reasons.

Nepal needs to identify major problems leading to lower ranks in some categories and work to improve them in future. As such, the focus must be on improving ground transport infrastructure, human resource, tourism infrastructure, ICT infrastructure, security, air transport system, cultural resources and hygiene, on a given priority basis to get more tourists to visit and revisit the country with longer duration of stay.

Table 4: Travel and Tourism Competitiveness Score and Index

Areas of Tourism Competitiveness	2009 Score	2009 Index (Out of 139)	2011 Score	2011 Index (Out of 139)
Total	3.3	118	3.4	112
<u>Regulatory Framework</u>	<u>3.7</u>	<u>49</u>	<u>4.0</u>	<u>106</u>
• Policy Rules & Regulations	3.1	127	3.7	115
• Environmental Sustainability	4.2	87	4.3	84
• Safety and Security	3.8	123	3.6	127
• Health and Hygiene	2.3	114	3.3	102
• Prioritization of Travel & Tourism	4.9	39	4.9	43
<u>Business Environment & Infrastructure</u>	<u>2.5</u>	<u>120</u>	<u>2.6</u>	<u>128</u>
• Air Transport Infrastructure	2.3	109	2.3	116
• Ground Transport Infrastructure	2.3	123	2.4	135
• Tourism Infrastructure	1.1	130	1.4	130
• ICT Infrastructure	1.6	130	1.7	133
• Price Competitiveness in the T&T Industry	5.5	10	5.3	10
<u>Human, Cultural & Natural Resources</u>	<u>3.6</u>	<u>97</u>	<u>3.5</u>	<u>101</u>
• Human Resources	4.0	118	3.7	129
» Education & Training	3.3	121	3.1	131
» Availability of Qualified Labor	4.7	119	4.3	128
• Affinity for Travels & Tours	4.8	61	4.8	48
• Natural Resources	4.1	37	4.2	34
• Cultural Resources	1.4	119	1.4	124

Source: The T&T Competitiveness Report 2009 and 2011, WEF

4.1.12 Country ranking and contribution

The World T&T Council (WTTC), in its economic impact report has classified 181 countries in terms of their competitive ranking order. The competing destinations selected are those that offer similar tourism products and compete for the same tourist market, but are not necessarily geographical neighbors (WTTC, 2012).

Nepal's total contribution of tourism to GDP reached to 8.8 percent with a country ranking of 90th. In terms of direct contribution to the GDP,

the country 75th out of 181 countries with a 4.0 percent share in 2011. Out of the group of competing countries, Cambodia gets highest direct contribution (9.5%) with an impressive rank whereas Myanmar has the lowest (1.4%) in the group and ranks 171.

Looking at the direct and total contribution of tourism to employment, Nepal has set a rank of 89th and 106th respectively with a share contribution of 3.3 percent and 7.7 percent respectively to the total employment.

Table 5: International Tourism Competitiveness Ranking, 2011
{% Share / (Ranking Number)}

Country	T&T's Direct Contribution to GDP (Rank)	T&T's Total Contribution to GDP (Rank)	T&T's Direct Contribution to Employment (Rank)	T&T's Total Contribution to Employment (Rank)	Tourism Investment Contribution to Capital Investment (Rank)	Visitor Exports' Contribution to Total Exports (Rank)
Bangladesh	2.2 (130)	4.7 (155)	1.9 (144)	4.1 (159)	1.7 (172)	0.5 (176)
Cambodia	9.5 (23)	22.1 (28)	8.0 (26)	19.2 (30)	12.8 (31)	20.2 (46)
China	2.6 (114)	9.2 (87)	2.9 (105)	8.1 (95)	3.1 (138)	2.4 (155)
India	1.9 (146)	6.4 (126)	5.0 (53)	7.8 (102)	5.1 (97)	3.8 (128)
Laos	5.8 (43)	18.2 (34)	4.9 (54)	15.9 (41)	9.8 (47)	21.6 (43)
Myanmar	1.4 (171)	3.2 (175)	1.1 (173)	2.8 (175)	0.9 (180)	1.1 (169)
Sri Lanka	3.4 (88)	8.4 (101)	3.0 (96)	7.5 (110)	4.1 (121)	12.6 (69)
Thailand	7.1 (30)	16.3 (38)	4.7 (58)	11.4 (64)	6.9 (71)	11.4 (75)
Vietnam	4.3 (69)	10.0 (80)	3.7 (82)	8.6 (89)	8.4 (56)	4.0 (125)
World Average	5.2	14.0	5.3	13.6	8.3	15.9
Nepal	4.0 (75)	8.8 (90)	3.3 (89)	7.7 (106)	4.9 (100)	24.5 (40)

Source: WTTC Economic Impact 2012.

In terms of tourism investment contribution to capital investment, Nepal ranks 100th, whereas in the case of visitor exports' contribution it tops the group with a ranking order of 40th. However, the ranking is also affected by Nepal's plummeting exports in general and increase in tourism receipts. Nevertheless, compared with the global average, for most indicators Nepal has maintained a reasonable ranking.

4.1.13 Time series contribution of tourism with long term forecast

The WTTC provides a time series data and long term forecast on direct and total contribution of travel and tourism to GDP, employment, capital investment and total export in disaggregated form. The indicators for Nepal reveal a fairly increasing trend with the exception of the year 2010. The forecast figure is expected to double in all the selected heads, except employment by 2022.

In the absence of methodology to calculate the shared patterns of tourist spending in many heads like lodging, consumptions, transportation, recreation, and so on, it is difficult to derive a weighted basket of tourism expenditure and to chart out concentration of the tourist expenditures and its real impact on other variables.

The expenditure of the outbound Nepalese tourists shows an erratic trend over the time but it was close to NRs. 12.8 billion, which is a quarter of the total tourism receipts in 2011 and the figure is expected to increase three folds by 2022. Obviously, the growing number of Nepalese working abroad will not only have an impact on such expenditure, it will also stimulate remittance income at the same time.

However, it is essential to develop a data base on disaggregated form to monitor, evaluate and quantify the changes.

Table 6: The Economic Contribution of T&T in Nepal
(NRs. in Billion)

	2006	2007	2008	2009	2010	2011	2012E	2022F
1. Direct contribution of T&T to GDP	23.7	29.5	40.6	50.9	47.9	53.5	61.0	130.1
2. Other Final Impacts (indirect & induced) Domestic Supply Chain	12.3	15.2	21.0	26.4	24.8	27.7	31.5	67.3
3. Capital Investment	5.6	4.9	5.3	7.0	9.8	12.0	13.7	32.9
4. Government Collective Spending	2.5	3.0	3.6	4.7	5.6	6.1	7.0	14.3
5. Imported Goods from Indirect Spending	-1.5	-1.5	-2.8	-2.6	-2.8	-3.8	-4.4	-7.2
6. Induced	10.6	12.6	16.3	20.3	20.6	23.5	26.8	61.5
7. Total Contribution of T&T to GDP (Sum of 1 to 6)	53.2	63.7	84.1	106.7	105.8	119.1	135.7	298.9
Employment Impacts (in 000)								
8. Direct Contribution of T&T to Employment	331.3	381.7	485.7	508.1	413.2	412.7	428.1	562.4
9. Total Contribution of T&T to Employment	771.9	856.8	1041.8	1102.8	945.5	952.4	988.2	1340.6
10. Expenditure of Outbound Travel	7.6	11.2	15.7	16.1	13.7	12.8	12.9	34.9

Source: WTTC, *Economic Impact 2012*

E = Estimated

F = Forecast

4.1.14 Marketing strategies for tourism

Tourism is among few industries with competitive advantage and an officially recognized alternative economic activity in the country. The topographical and geo-strategical location of Nepal between two rising economic giants India and China puts it in an ideal situation to exploit the progress of its neighbors. The rise in disposable income of the people in these countries will see more outbound Indian and Chinese tourists in future and Nepal's tourism industry must be prepared to cash in on the opportunity.

The concept of Michael Leifer regarding regionalization is “if you can lock regional neighbors in the Asia-Pacific, into a constructive network of cooperative relationships then the nexus of economic advantage will hopefully have the effect of countries [acting as] good regional citizens and unlikely to engage in adventurist policies” (cited in Chang, 1998). For effective marketing, competitive indicators can be developed for comparison with other tourist destinations and used as indicators to monitor the increase in numbers, expenditure and other positive socioeconomic impacts resulting from tourism growth. (Dwyer and Kim, 2003).

The thrust of the marketing strategy is to enhance the image and of the country and for this, Nepal can foster strategic alliance with other tourism business groups in the region (Asia and the Pacific) to promote the destinations jointly and penetrate further into regional and global market. (Sharma, 2006)

For many years, Kathmandu has been an entry point for the tourists as it has Nepal's only international airport. In the recent past, the growing number of tourists taking connecting flights or land routes directly to their destinations from TIA shows that Kathmandu has been gradually losing its image as a cultural hub for tourism due to pollution, traffic congestion and mismanagement.

So, while there is a need to address the existing problems to restore Kathmandu's image as a traditional tourist destination, other major tourist destinations like Lumbini and Pokhara could also be directly linked by regional international airports. North America, Western Europe and Australia, are the conventional tourism markets for Nepal and tour operators of Kathmandu have a good link with these markets due to regular flights from countries in these regions.

Besides these, Hindu and Buddhist tourists from India and East Asian countries as well as China and Sri Lanka can be attracted by offering quality tourist package programs, activities and facilities. But to achieve this, the government and the private sector must work in close cooperation to address the needs as explained above.

Among other things, the operational time of Tribhuvan International Airport can be extended to 24 hours and its management upgraded to make it into a world class airport with fuss free immigration and transit, smooth baggage collection, hygienic sanitation facilities, internet facilities, reliable and reasonable taxi facility and most importantly warm hospitality from the airport staffs. (UP ZRS, 2008).

Looking at the size of India and China's population, if Nepal can attract even a small percentage of their outbound tourists every year, it will bring in billions of dollars into the country. Due to cultural and religious affinity with both the countries, Nepal has a competitive edge with comparative advantage to attract them. Also, the consumption habits of the emerging markets will lead to greater spending by tourists on domestic products for food and beverages.

Indian tourists mostly go to holy places like Pashupatinath, Muktinath and Ram Mandir in Jankpur. But Nepal can also push for regional markets like China, Japan, Thailand, South Korea, Malaysia, Singapore, etc. Every year, thousands of tourists from these countries travel to Nepal with the twin goals of adventure and pilgrimage to Lumbini, the birth place of Buddha.

Nepal still ranks 19th in terms of preferred destination by outbound Chinese tourists. There is a need to package targeted tourism products for the Chinese market. For instance, the Chinese prefer traveling comfortably and spend lot of leisure time in the host nations, especially during Chinese New Year (October) eve and the Golden Week (May-June). If the tour operators can design attractive and adventurous packages as per their liking and market it effectively, the number of Chinese tourists coming to Nepal could significantly increase in the next season.

Tourism in Nepal is highly urban centric. When the tourists are not climbing/trekking in the mountains or rafting in the rivers, they mostly travel around cities like Kathmandu and Pokhara. It may be a bad idea to develop hill stations tourism on the regional basis to diversify the tourism sector. But this requires lot of infrastructure investment, especially good inland routes through major entry points. This could attract thousands of tourists, both from India and China during the summer when the mercury is tipping in major cities of these countries. Also, the government could operate cross border shuttle flights from major cities in both countries.

The government must look to expand tourism market both in volume and value. For this, careful attention must be paid to changing characteristics of the tour and travel business in the region. The legacy of Kathmandu–Pokhara–Lumbini as a golden triangle route and recently, Pokhara–Chitwan–Lumbini as a preferred route can be replicated in other destinations by packaging and promoting them.

At the local level, the rural community development should focus on building suitable tourism infrastructure. The village tourism, also packaged as cultural tourism can compliment eco-tourism through local participation, with skill training in a home stay and exhibition of local cultural practices. The products packaged thus must also be promoted nationally and internationally through print and electronic media.

Marketing is an effective tool for promoting tourism and Nepal has successfully promoted its tourism industry in its conventional markets.

But future marketing strategy of Nepal's tourism industry must focus on exploring new markets.

While the domestic and regional private sector are necessary partners in this strategy, the government must also mobilize its embassies and consulates abroad to spread positive message, especially regarding the political environment back home and liaise with the foreign governments to promote tourism in Nepal. To do this more effectively, the government must immediately establish a Tourism Desk at its Embassies and Missions in countries that have higher tourists' inflow to Nepal.

There is no established mechanism of marketing tourism but Nepal can learn effective marketing strategies from the more successful countries who have tested and specialized in tourism. Experience of leading touristic destinations like Aruba, Bahamas, Vanuatu, Fiji, Samoa, Cyprus, Jamaica, Mauritius, Malta, etc., who have had attained higher degree of development and growth through tourism, could hold valuable lessons for Nepal.

4.2 Econometric analysis

4.2.1 Economic contribution of tourism receipts

In supporting major economic objectives of the tourism sector and factors affecting the tourism receipts, the study attempts to apply econometric analysis to assess and evaluate the major theme.

Among the available methods, the growth theory model which deals with the interactions among factor supplies, productivity growth, savings and investment in the process of growth (Balaguer and Jorda, 2000), is one of the most useful ones. However, it cannot be applied to the Nepalese context mainly due to insufficiency and unreliability of the available data. Therefore, the growth accounting model in terms of factors affecting real GDP, which attempts to quantify the relationships of different determinants is used to determine the level and direction of the dependency of economic growth on various factors. The model specification has been chosen on the basis of earlier studies with the focus on country specific factors while

measuring the impact of economic contribution of tourism in terms of real GDP and growth in the following log-linear form.

$$\text{LnRGDP}_t = \beta_0 + \beta_1 \text{LnRGDP}_{-1} + \beta_2 \text{LnGCEX}_t + \beta_3 \text{LnTR}_t + \beta_4 \text{DUM} + v_t$$

Where,

LnRGDP = Real GDP in log or economic growth,

LnRGDP₋₁ = One year lag Real GDP in log,

LnGCEX = Government capital expenditure in log,

LnTR = Tourism receipts in log,

DUM = {1 for normal period

{0 for Maoist insurgency period

v = A random error term.

The real economic growth of a country depends on specific factors such as previous year's growth rate, gross domestic investment, total government expenditure as a proxy for the size of the government, export trade as a proxy for the openness of the trade and economy, government's capital expenditure as a proxy for investment, tourism income, and other environmental effects.

For the purpose of this study, the ten year period of Maoist insurgency is used to observe the impact on macroeconomic performance as a dummy variable, defined as 1 for normal period and 0 for insurgency period.

For the purpose of this study, investment parameter has been dropped from the equation in favor of capital expenditure.

4.2.2 Regression analysis of growth equation

As elucidated in the methodology, this section presents empirical findings of the dependency of the real GDP on the selected independent

variables on the basis of time series data with the view of neutralizing biases incurred in the cross-section approach. The summary of growth equation as estimated by Ordinary Least Squares (OLS) technique is presented in the table below:

Table 7: Summary of Growth Equation

$$\text{Function: } LnRGDP = \beta_0 + \beta_1 LnRGDP_{-1} + \beta_2 LnGCEX + \beta_3 LnTR + \beta_4 DUM + v$$

(Sample: 1976 – 2010)	Particulars	β_0	β_1	β_2	β_3	β_4
No. of Obs. = 35 SE of regression = 0.2087	Coefficients	1.0717	0.8187	0.3778	-0.1522	0.0876
	Standard Error	0.06092	0.1141	0.1565	0.1428	0.0975
	(T-Statistics)	(1.7589) *	(7.1769) ***	(2.4151) **	(-1.0666)	(-0.8983)
	R^2 / Adjusted - R^2	F – Statistics		DW – Test		
	0.9765 / 0.9734	311.8437 (0.0000)		2.1616		

*** Significant at 1 percent level; ** Significant at 5 percent level; * Significant at 10 percent level.

So far as the total gross investment and capital expenditure of the government are concerned, they normally move simultaneously because of their functional objectives, and if simultaneity prevails, the single equation model becomes inappropriate and the result may be inconsistent and biased (Paudel, 1995). In other words, they are interdependent and there would be endogeneity problems. Hence, for the purpose of this study the investment parameter was dropped from the equation in favor of capital expenditure.

Similarly, the total trade volume, when dominated by exports and / or the imports could naturally affect the real economic growth, but recently Nepalese economy has been witnessing an alarming trend of annual trade deficits. The Nepalese import trade, unlike in the past has not contributed

to value addition of the exports and does not show significant positive effects on the domestic production and productivity.

Theoretically, such situation does not support rational selection of trade volume as a proxy indicator to openness of the trade. It is therefore, the export trade which is considered a better proxy for trade liberalization and openness of the economy, and is used as a determinant of real GDP / economic growth in the international market. But, the estimation done by using export trade as an independent variable in growth equation remained vague and inconclusive even after repeated trial with various applicable options. Ultimately, the export trade was dropped from the equation.

Going by the regression results, the coefficient on the intercept is merely significant at 10 percent level. It is obvious, if it is not highly significant, there are chances of excluding more appropriate determinants in the specification function. As such, one can easily argue that Nepal's real economic growth still largely depends on monsoon as a pass through effect from a single larger contributory sector—agriculture. Together with this, inflation, productivity of the factors of production, etc. also remain key variables, data/information that are not readily and sufficiently available.

The one lag in real GDP has had a significant relationship with the current year real GDP which is obviously an impulse of the good in the past for the good in future. Agriculture is still the single largest contributor to GDP but the increase or decrease in productivity of the sector depends on combination of various factors like irrigation, availability of fertilizers and manpower rather than explicitly on any one factor. Therefore, the result may not be compatible and comparable with those countries which have had different country specific factors as discussed earlier.

The government's development / capital expenditure which is considered as a simultaneous proximity with the gross domestic investment has shown a significant positive relationship with real economic growth with the level of significance at 5 percent. For every percentage of change in

development / capital expenditure, it brings about 0.3-0.4 percent change in the real GDP / economic growth, other things remaining the same. Also, it can be considered as a proxy parameter to investment. Thus, it can be inferred that there is a significant impact of capital expenditure or investments on real GDP / economic growth, subject to price stability in particular, and macroeconomic stability in general.

The tourism receipts have not supported the conviction that it has ability to positively impact real economic growth. Instead, it shows an inverse relationship with the real growth rate. But the coefficient is insignificant. There have been many complex issues that have been the decomposition factors in the patterns of the expenditures of the international capital inflows which could have had both positive and negative impact on the real economic growth. As such, the impact of foreign tourism capital on the economic growth is mixed.

However, there is a positive relationship between tourism receipts and economic growth at higher level, especially in bigger economies with higher tourism specialization. Langa and Pigliaru (2000) were first to theoretically investigate the link between tourism specialization and economic growth. Sequeria and Campos (2008) draw a conclusion that tourism specialization does contribute to economic growth both in developed and developing countries. Similarly, Jimenez (2008) found that domestic tourism has been an important factor for Spanish growth, whereas international tourism seems to be more important for the Italian economy (Adamou and Clerides, 2009). This means that one has to keep in mind country specific factors and the level of specialization while evaluating the empirical results.

The concerning factor for Nepal is that it has been unable to retain the tourism receipts. The study by Hagen (ibid.) shows that only 36 percent of the money (generated from tourism) was retained (by Nepal), the remaining 64 percent went ultimately to producers and travel agents abroad.

Moreover, tourists mostly carry the essential items they need from their home country, from the items they use in kitchen to rest room, food and beverages, cosmetics, mountaineering and trekking equipments, etc. are mostly carried in a luggage. In case of the Indian tourists traveling by land routes, even the transportation facilities are their own. So, as long as statistical authorities of Nepal do not develop the decomposition of the tourists' expenditures into various domestic and imported products in its own market, it is difficult to draw inference regarding the level and direction of the direct contribution made by tourism in economic growth. But the indirect and induced impact should not be underestimated either, particularly the contribution to employment generation and other multiplier effects. So, the need is to be more focused and make effort to increase consumption of domestic products by tourists to increase tourism receipts and enlarge its share in domestic economy.

The dummy variables used to gauge the impact of the Maoist conflict on the real GDP / economic growth and thereby, macroeconomic performance shows a negative relationship, although the results of coefficient is insignificant. It is natural that the period of conflict had a significant impact on all sectors of economy; development works were halted and the capital expenditure siphoned out through regular expenditure without any productive impact.

Overall, the explanatory power of the model is significant. The estimated equation is also significant at 1 percent level based on the F-statistics. There is no serial correlation problem as indicated by the Durbin-Watson (DW) statistic. As a rule of thumb this metric should be around 2. The coefficient of determination as represented by the adjusted - R² has shown that all the explanatory variables jointly explained 97 percent of the total variation in the real GDP.

4.2.3 Factors affecting tourism receipts

One of the stated objectives of the study is to analyze the determinants of tourism receipts. There are multiple factors that directly or indirectly

affect tourism receipts, such as, infrastructure of the destination country, exchange rates, price differential between the destination country and the country of origin of the tourist, per capita income of the country of origin of the tourist, competitive and comparative edge of the destination country.

Also, the determinants vary for the tourists from different countries. For instance; infrastructure, political stability and even higher level of development are important to tourists from America while travel costs and health issues are more relevant for tourists from Europe (Naude and Saayman, *ibid.*). But traveling to the developing and least developed countries is certainly cheaper than the developed countries due to differences in the quality of life and costs of living.

Therefore, the specification of the estimating equation has been chosen by referring to earlier studies, and focusing on country specific factors while measuring their impact on tourism receipts in the following log-linear form:

$$\text{LnTR}_t = \beta_0 + \beta_1 \text{LnNER}_t + \beta_2 \text{LnAHB}_t + \beta_3 \text{DUM} + v$$

Where,

LnTR = Tourism receipts in log,

LnNER = Nepalese currency exchange rate with US\$ in log,

LnAHB = Availability of the hotel beds in Nepal in log,

DUM = {1 for normal period

{0 for conflict period

v = A random error term.

4.2.4 Regression Analysis of tourism receipts equation

As stressed in the methodology, this section presents empirical findings of the dependency of tourism receipts on selected independent variables on the basis of time series data, neutralizing the biases of the cross-section approach. The summary of the tourism receipts equation as

estimated by Ordinary Least Squares (OLS) technique is presented in the following table.

Table 8: Summary of Tourism Receipts Equation

$$\text{Function: } LnTR = \beta_0 + \beta_1 LnNER + \beta_2 LnAHB + \beta_3 DUM + v$$

(Sample: 1976 – 2010)	β_0	β_1	β_2	β_3	AR(1) ¹⁴⁺
Coefficients	-4.6703	1.3909	0.5589	0.4596	0.3561
Standard Error	2.2396	0.3186	0.3318	0.1703	0.1985
(T-Statistics)	(-2.0853) **	(4.3663) ***	(1.6847) *	(2.6986) **	(1.7944) *
R ² / Adjusted - R ²		F – Statistics		DW Test	
0.9688 / 0.9642		209.7302 (0.0000)		1.8263	

*** Significant at 1% level. ** Significant at 5% level * Significant at 10% level.

+ Base figure AR(1) indicates the lag and superscript denotes the number of iterations in achieving convergence.

Note: AR(1) = The Cochrane - Orcutt procedure is adopted to improve the serial correlation problem as indicated by DW test

Due to the importance of the role of per capita income of the country of origin of the tourists and the price differential, a due emphasis was given to include them in the specified function. Also the estimation was performed by using the world per capita income as a proxy and the price differential in both ways of Nepal–world price–Nepal as independent variables in the tourism receipts equation. But the results remained very vague and inconclusive even after a repeated trial with different applicable options. So, the two variables were finally dropped. The Africa's experience with tourism suggests that political stability, tourism infrastructure, marketing and the level of development are key determinants of tourism. But level of income in the country of tourist's origin, price differential and the cost of traveling, lodging and fooding in the host country are equally important determinants (Naude and Saayman, *ibid.*).

Most of the tourists who came to Nepal in the sample period were from already established tourist destinations markets like USA, Europe,

Australia and India. To be sure, the rise of per capita and disposable income in China and other Asian markets in recent years have brought in thousands of tourists from these countries as well. But per capita income and the price differential as a proxy by world average might not be well represented for countries from where tourists travel to Nepal for its historical, cultural, religious and aesthetic value.

To better understand this, Nepal should maintain a country-specific and regional database not only on the tourist arrivals but also on the tourist receipts, length of stay, and the purpose of visit and revisit, so as to conduct multi-purpose studies.

It is empirically tested that the coefficient of the intercept β_0 , which is fairly significant at 5 percent level, of the selected determinants for the tourism function seems more reasonable.

The Nepalese exchange rate with US Dollars as a common currency proxy in terms of the use has shown a highly significant relationship with the tourism receipts. As such, a 10 percent change in the Nepalese currency value increases the number of tourists by 13%. The coefficient is highly significant at 1 percent level. Despite the consumption habits of the tourists and irrespective of whether or not the country belongs to developed world, the cheaper exchange rate of Nepal with their country encourages the tourists numbers to go up.

The available infrastructure is a basic factor not only for the tourists but also for the airlines to establish routes to fly. The availability of the hotel rooms and beds are necessary tourism infrastructure, while the road network is taken as complementary infrastructure in the tourism sector. The more the hotel rooms (beds), the higher the capacity and hence, the more competitive the country's tourism sector (Naude and Saayman, *ibid.*).

The factor of the availability of hotel beds as a proxy to infrastructure is significant at 10 percent level. For Nepal, the coefficient is positive, with

the fact that the availability of the hotel beds has had positive impact on tourism receipts.

The dummy variable used to capture the impact of Maoist insurgency on tourism receipt is positively significant at 5 percent level. The figure was even negative in the second half of the insurgency period as the tourists shifted from air route to land route and limited their mobility and duration of stay. Despite the negative impact on tourist arrivals, the significant increase in per capita tourist receipts on average neutralized the adverse impact of the Maoist insurgency on tourism sector to great extent. The increase in per capita tourist receipts can be explained in part by the increasing of tourists coming from land route, especially the Indians, during the conflict period.

The Cochrane - Orcutt procedure was adopted to improve the serial correlation problem at AR(1) order, which itself is significant at 10 percent level. As a result, the DW test is improved to 1.83 which is not far from the rule of thumb standard of 2.

To sum it up, the explanatory power of the model is significant and ensures good fit for the estimating equation. The estimated equation is highly significant at 1 percent level based on the F- statistics. There is no serial correlation problem after using the Cochrane - Orcutt procedure at AR(1) order. As a result, the DW statistics is close to the rule of thumb level of 2. The coefficient of determination as represented by the adjusted - R² shows that all explanatory variables jointly explained 96 percent of the total variation in tourism receipts of Nepal.

Summary and Conclusion

With the onset of democracy in Nepal, especially after the ascent of Mount Everest, the highest peak of the world, by Tenzing Norgay and Edmund Hillary, Nepal became known internationally as a tourist destination in early 1950s. With the establishment of the Department of Tourism in 1959, the government initiated tourism infrastructure development, such as construction of hotels and other facilities. The Department of Tourism started recording tourist arrivals in 1962.

But even with the valuable last six decades of experience, Nepal has not been able to specialize in the tourism sector. Tourism specialization is normally measured in terms of the tourism receipts as a percent of GDP, which should be around and above 20 percent to attain the standard status of specialization. But Nepal's figure in this regard has consistently stayed below 5 percent.

Nonetheless, Nepal has been considered as a popular destination due to its multi-dimensional attractions in tourism such as the scenic beauty, cultural and natural heritage, trekking and mountaineering, ecological and topographical diversity, national parks, wildlife conservation areas and hunting reserves. But its potential has remained unexploited due to lack of marketing, weak infrastructural base, unavailability of high quality tourism products, political instability, etc. Tourist inflow, both in volume and value, is still far below its potential.

The government had initiated Tourism Master Plan in 1972 with a comprehensive policy framework, basically with the focus on purpose of visit, expansion of destinations by establishing pilgrimage centers and national parks. The government also initiated tourism infrastructural development program in 1990s with the financial support of AsDB. In the first phase of the program, infrastructures in Kathmandu, Pokhara and Gorkha was upgraded. The 2nd phase was started with an objective of (i) promoting sustainable economic growth by improving tourism environment in Pokhara, (ii) developing Manaslu as a tourist destination, (iii) upgrading selected domestic airports to improve access and (iv) strengthening local skills to manage urban infrastructure.

The tourism policy of 1995 was the first consolidated policy, aimed at generating employment and income from tourism by diversifying it, establishing linkages between tourism and other sectors, improving overall environment, providing sense of security and quality services to the tourists.

In 2009, the government announced tourism vision 2020 with a twin goal of (i) increasing the tourist inflow to two million and (ii) employing one million people in the tourism sector by the end of 2020. Further, the tourism policy of 2009 has also set objective of (i) establishing second international airport, (ii) developing regional airports and (iii) restructuring NAC in a Public-Private Partnership (PPP) model.

With the increased role of tourism in Nepalese economy, it has been included in most development plans. But from ninth plan onwards, detail policies and programs with implementing strategies were included. The expansion of destination areas and activities with a linkage chain with other sectors, infrastructural development, construction of second international / regional airports, environment protection, private sector participation, preserving and quality improvement of the destinations and tourism products and so on remained major issues in most of the later plans. However, the implementation and execution of these plans, policies and strategies remained on the weaker side.

The tourism sector has been facing multi-dimensional problems, from low retention of the tourism receipts, regional disparity in terms of tourist concentration in certain regions and destinations, reluctance in opening up new peaks for mountaineering, restriction on FDI for tours and travels agencies, lack of infrastructures in potential destinations, construction of international / regional airports in limbo and poor state of existing ones, expensive landing, parking and hanger fees, inefficient and ineffective operation of NAC, inadequate seat capacity and weak database for analyzing the prospects and problems of tourism sector in detail.

The major events like hijacking of the Indian airlines' flight, massacre of Nepal's Royal Family, 9/11 attack on USA, War in Iraq and Afaganistan, natural calamities like Tsunami, SARS disease, Maoist insurgency, power outage and frequent strikes, have had an adverse impact on the overall tourism sector in Nepal.

Nepal has high potential in mountaineering, trekking, mountain flights, jungle safari and adventure tourism like rafting, bungee jump, mountain biking and Para-gliding (sky sports), etc, which are popular among tourists. Tourism, no doubt helps in terms of employment generation, infrastructure development, cultural preservation, environmental protection, foreign exchange earnings and expansion of other amenities like healthcare and education among others. At the same time, if not managed well, it might adversely impact local goods and services in favor of imported ones, can lead to environmental and cultural degradation, high costs for maintaining the tourism destinations, and could foster illegal economic activities like drug peddling and wildlife trade.

The tourism receipts have been increasing over the time and there has been a big jump in per tourist receipts as a result of fluctuation in exchange rates. But it is also true that the government has not been successful in retaining that money in the economy and substantial percentage of what comes in, ultimately goes back abroad, e.g., payments to foreign airlines, imported goods for consumption in hotels, etc. Similarly, the availability of the hotels and hotel beds which is considered as a good proxy for tourism

infrastructure has been increasing, but with an erratic trend and in favor of non-star hotels. It is difficult to draw any conclusion on the earnings of the hotels but what is certain is, per tourist expenditure has dramatically increased. Similarly, there has also been an increase in the movement of domestic tourists in the recent years but because in absence of systematic data / information it is difficult to ascertain its impact in the economy.

All the prospects and challenges discussed above call for further inquiry, but it is clear that tourism, as a growing sector of economy has tremendous potential which needs harnessing of existing resources. It is time the government took important decisions in this direction.

Recommendations

Based on the review of the existing problems and challenges of the tourism sector and the regression analysis, following recommendations can be made for the development of tourism sector:

6.1 In order to attract more tourists and promote national flag bearer in the sky, organizational restructuring of the NAC should be immediately initiated along the Public-Private Partnership (PPP) model as has been envisaged by Tourism Policy 2009. However, there is a need to assess and evaluate the PPP model more practically, since it has not been significantly successful in Nepal.

6.2 The government should immediately (i) open up new peaks from the identified list, (ii) provide better infrastructure facilities in terms of accessibility of land/air routes to potential areas, (iii) open travel and trekking business for FDI, (iv) rationalize the landing, parking and hanger fees, (v) complete Pashupati and Lumbini development Master Plan, and (vi) install latest communication and navigational technology at the airports to ensure safety and quality, etc.

6.3 The TIA should be upgraded to a world class airport with 24 hours landing facilities, hygienic drinking water and sanitation system, efficient baggage collection, hospitality of the first meeting point, wireless internet and, fixed price and reliable transport facility, etc.

6.4 Frequent Bandhs and strikes have tarnished Nepal's image as an international tourist destination. The government must immediately adopt effective law against strikes and bandhs and the political parties must express unequivocal commitment against it.

6.5 To attract more tourists and to extend their stay, the government must ensure crime free and safe nightlife. The restaurants, bars and pubs in popular tourist areas must be allowed to run their businesses until late hours. For this additional security must be provided, with higher mobilization of the police and installing CCTV cameras in tourist areas.

6.6 Nepal needs to immediately address major problems related to those sectors with a lower rank status in the competitiveness index to ensure sustainable tourism. As such, the focus must be on improving air/ground transport infrastructure; human resource quality in tourism industry; tourism infrastructure; ICT infrastructure; safety and security; cultural resources; health and hygiene; etc on a priority basis to attract more tourists to visit and revisit the country with a longer duration of stay.

6.7 The government must bring out an urgent plan to address long hours of power outage, curb increasing pollution and improve the quality of food and beverage served in the hotels and restaurants.

6.8 While maintaining the conventional tourism markets like North America, Europe, Australia and India; Nepal must restructure its tourism market. Because of the religious and cultural proximity and short travel distant, Nepal can attract large number of tourists from the neighboring countries with Hindu and Buddhist population, especially China and East Asian countries.

6.9 The tourism products should be reviewed and packaged as per the demand of the tourists, and promoted internationally through mainstream print, electronic and social media.

6.10 Nepalese Embassies and Missions abroad should also help in promoting Nepal as safe and attractive destination by organizing tourism related promotional programs in the host country. The image of the country as a safe destination, dampened by the decade long conflict, can be restored with the help of The Embassies and Missions.

6.11 Nepal can learn from experiences of countries like Aruba, Bahamas, Vanuatu, Fiji, Samoa, Cyprus, etc., who have gained higher degree of specialization in tourism, and thereby, higher economic contribution.

6.12 Nepal needs to develop a proper tourism related database recording the numbers and types of tourist inflow, tourism receipts and consumption patterns of the tourists including the domestic and imported goods and services to compare the overall benefits in terms of receipts. The database could prove crucial in making more accurate and non-spurious comparative studies and impact analysis.

6.13 Looking at the increasing flow of local tourists, the existing laws and regulations should be made compatible and consistent to promote domestic tourism. Given sufficient impetus, domestic tourism can contribute more significantly to the economy, employment, and other sectors since there is a higher degree of consumption of domestic goods and services by locals than among the foreign tourists while traveling between various destinations.

6.14 Nepal has a high potential in religious and cultural tourism. Being a birthplace of Buddha and home to several holy places of Hindus, Nepal can attract tourists from country like India, China, Japan, Thailand, South Korea, Malaysia, Singapore, etc., from where the tourists prefer to travel to Nepal with the twin goals of adventure and pilgrimage. The government must quickly complete Lumbini and Pashupati development master plans in order to reap benefits of religious and cultural tourism in these places. Besides, there are other holy places—for the Buddhists Swayambhunath and Boudhanath stupas in Kathmandu, Namo Buddha in Kavre and, for Hindus temples like Muktinath in Mustang and Jankpur Dham in Janakpur have great religious and spiritual values.

6.15 Nepal can also develop hill station tourism in various regions of the country to diversify the tourism sector, providing better facility of inland routes and other tourist amenities in remote areas. If Nepal can operate cross border shuttle flights especially to and from various cities in India and China, it can help to bring in thousands of tourists from both sides, especially during summer when the mercury is tipping in both countries.

6.16 Government's rural community development program should focus on building tourism infrastructure at the local level. With skill training in providing home stay facilities, both for the foreign and domestic

tourists, village tourism can compliment eco-tourism by involving local communities and enhancing their livelihood.

6.17 Since autumn and spring are the peak seasons for tourism in Nepal, the package programs with seasonal facility should be developed to attract more tourists in these seasons. Keeping in mind the demand from emerging markets like China and East Asian countries, new tourism products can be packaged. For instance, short course on meditation and / or teaching / training course in Buddhism in Lumbini, etc., can be attractive tools to help the tourist inflow as well as in lengthening their stay.

6.18 The construction of a second international airport and regional airports in places like Pokhara and Bhairahawa, targeting popular destinations could help to expand the destination areas and activities with a linkage chain with other sectors. Tourists coming to Lumbini through Bhairahawa could also travel to adjoining areas, helping them to reap benefits and grow.

6.19 The legacy of Kathmandu–Pokhara–Lumbini as a golden triangle route can be replicated elsewhere. The new triangle of Pokhara–Chitwan–Lumbini is already popular and must be promoted.

6.20 The government capital expenditure should increase sufficiently to have a better impact on all sectors including tourism. Since tourism receipts shows a negative relationship with the real economic growth in the empirical test, government needs to do more to ensure that foreign exchange earnings are retained in the economy. For this, it is necessary to enlarge the share of domestic components in consumption and recreation activities of the tourists.

6.21 Looking at the fast growing trend of regional tourism, Nepalese tourism operators, should work closely with South Asian business operators. There are other benefits of working in partnership like regional promotion of the country's tourism products. Opening foreign investment window in Nepal can be helpful in establishing partnership with regional tourism business operators.

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Annexes

Annex I: Log Table of Gross Domestic Product (GDP), Government Capital Expenditure & Tourism Receipts of Nepal (1977-2010)

Year	Ln RGDP	Ln RGP_1	Ln GCEX	Ln TR	Dum
1977	3.250956	3.238046	2.175599	1.459392	1
1978	3.269676	3.250956	2.256718	1.560146	1
1979	3.279849	3.269676	2.296402	1.696444	1
1980	3.269653	3.279849	2.363349	1.804003	1
1981	3.304447	3.269653	2.436338	1.888404	1
1982	3.320562	3.304447	2.571348	1.924951	1
1983	3.307432	3.320562	2.697412	1.926445	1
1984	3.347564	3.307432	2.712969	1.748963	1
1985	3.647784	3.347564	2.739469	1.866524	1
1986	3.667565	3.647784	2.793308	2.029789	1
1987	3.676026	3.667565	2.867939	2.240699	1
1988	4.171449	3.676026	2.97442	2.224196	1
1989	4.194453	4.171449	3.090921	2.437005	1
1990	4.21456	4.194453	3.11386	2.494322	1
1991	4.24281	4.21456	3.203574	2.554804	1
1992	4.263331	4.24281	3.217821	2.700435	1
1993	4.275956	4.263331	3.288106	2.775683	1
1994	4.310475	4.275956	3.326094	2.916543	1
1995	4.32217	4.310475	3.296553	2.952947	1
1996	4.346216	4.32217	3.397601	2.978692	1
1997	4.36743	4.346216	3.423943	2.930592	0
1998	4.381685	4.36743	3.461557	2.994827	0
1999	4.400983	4.381685	3.361579	3.085212	0
2000	4.458027	4.400983	3.370711	3.081848	0
2001	4.616401	4.458027	3.451897	3.068816	0
2002	4.617096	4.616401	3.393968	2.937232	0
2003	4.633164	4.617096	3.349396	3.069953	0

2004	4.651912	4.633164	3.349396	3.258814	0
2005	4.665736	4.651912	3.363492	3.019698	0
2006	4.681635	4.665736	3.43681	2.980276	0
2007	4.69342	4.681635	3.471389	3.005395	1
2008	4.717887	4.69342	3.599117	3.270749	1
2009	4.73397	4.717887	3.728484	3.446537	1
2010	4.750885	4.73397	3.863851	3.449309	1

Where,

Ln RGDP= Real Gross Domestic Product in log

Ln RGDP_1= Real Gross Domestic Product of 1 year lag in log

Ln GCEX= Government Capital Expenditure in log

Ln TR= Tourism Receipts in log

Dum= Dummy Variable (1 for normal period and 0 for insurgency period)

Source: Authors' calculation based on data from ERS International Macroeconomic Dataset, United States Department of Agriculture and various issues of Nepal Tourism Statistics.

Annex II: Log Table of Tourism Receipts, Nepalese Exchange Rate with US\$ & No. of Available Hotel Beds (1976-2010)

Year	Ln TR	Ln NER	Ln AHB	Dum
1976	1.322012	1.085647	3.233504	1
1977	1.459392	1.09691	3.363424	1
1978	1.560146	1.090963	3.46434	1
1979	1.696444	1.079181	3.600755	1
1980	1.804003	1.079181	3.708336	1
1981	1.888404	1.079181	3.822495	1
1982	1.924951	1.113943	3.831358	1
1983	1.926445	1.142389	3.833721	1
1984	1.748963	1.190332	3.839164	1
1985	1.866524	1.25358	3.839478	1
1986	2.029789	1.299943	3.850401	1

1987	2.240699	1.33626	3.848312	1
1988	2.224196	1.346549	3.903687	1
1989	2.437005	1.408749	3.973497	1
1990	2.494322	1.456973	4.01047	1
1991	2.554804	1.504471	4.049489	1
1992	2.700435	1.630326	4.07085	1
1993	2.775683	1.659441	4.09854	1
1994	2.916543	1.692406	4.248709	1
1995	2.952947	1.698449	4.338596	1
1996	2.978692	1.742018	4.408884	1
1997	2.930592	1.756027	4.441098	0
1998	2.994827	1.792041	4.460567	0
1999	3.085212	1.832189	4.508045	0
2000	3.081848	1.839289	4.543547	0
2001	3.068816	1.868233	4.558264	0
2002	2.937232	1.885813	4.575373	0
2003	3.069953	1.890924	4.582858	0
2004	3.258814	1.867998	4.592255	0
2005	3.019698	1.857694	4.59532	0
2006	2.980276	1.859258	4.384891	0
2007	3.005395	1.848128	4.391993	1
2008	3.270749	1.813047	4.416024	1
2009	3.446537	1.885813	4.454738	1
2010	3.449309	1.876968	4.477729	1

Where,

Ln TR= Tourism Receipts in log

Ln NER= Nepalese Exchange rate with US\$ in log

Ln AHB= Available hotel beds in log

Dum= Dummy Variable (1 for normal period and 0 for insurgency period)

Source: Author's calculation based on data from various issues of Nepal Tourism Statistics & Economic Survey.

Annex III

A. Tourist Arrivals and Length of Stay

Period End-December	Number of Tourist Arrivals	By Air Share %	By Land Share %	Total in %	Length of Stay (In Days)
1975 – 79	129056	85.38	14.62	100.0	12.2
1980 – 84	171211	86.16	13.84	100.0	11.7
1985 - 89	231658	84.72	15.28	100.0	11.7
1990 – 94	300466	89.07	10.93	100.0	10.7
1995 – 99	426811	87.23	12.77	100.0	11.8
2000 – 04	364756	60.44	39.56	100.0	11.0
2005 – 10	483188	73.33	26.67	100.0	11.2
Overall Average	-	83.76	16.24	100.0	11.5

Source: Economic Survey, 2010/11, MOF

B. Purpose of Visit by the Tourists in Nepal (% Share)

Purpose	1975-79	1980-84	1985-89	1990-94	1995-99	2000-04	2005-10
No. of Tourists Arrivals	129056	171211	231658	300466	426811	364756	483188
Pleasure	79.2	78.1	73.8	61.4	55.7	43.9	28.4
Trek./ Mount.	11.4	12.1	15.2	17.6	22.8	22.5	18.6
Business	4.4	4.3	4.2	6.6	5.8	5.4	4.7
Official	3.8	4.1	4.5	8.5	5.2	5.4	5.2
Pilgrimage	0.0	0.0	0.0	2.1	2.2	6.0	12.3
Meeting & Seminar	0.0	0.0	0.0	1.1	1.3	0.2	1.1
Rafting	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Not-Mentioned	0.0	0.0	0.0	0.0	0.0	0.0	4.7
Others	1.2	1.4	2.3	2.7	7.0	16.6	25.0
Total in %	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Economic Survey, 2010/11, MOF

C. Earnings from Tourism and Other Related Indicators

Periodic Annual Average	Earnings from Tourism (Rs. in Ten Mn.)	TR as % of Merchandise Export	TR as % of Export of Good & Services	TR as % of Total Foreign Exchange Earnings	TR as % of GDP	Per Tourist Receipt on Average (Rs. 000)
1975-79	30.6	26.60	15.18	26.52	1.60	2.29
1980-84	73.1	53.16	20.30	29.98	2.58	4.27
1985-89	159.2	45.02	19.90	21.52	2.42	6.72
1990-94	518.9	43.94	24.12	20.32	3.56	17.02
1995-99	981.3	41.26	18.94	17.48	3.56	23.03
2000-04	1246.8	23.22	14.22	8.38	2.72	34.35
2005-10	1748.3	27.28	16.52	6.08	2.05	35.13
Overall average	-	37.21	18.45	18.16	2.64	17.53

Source: Economic Survey, 2010/11, MOF

D. Season-wise Tourist Arrivals

Periodic Annual Average	Mar/Apr/ May (%)	Jun/Jul/ Aug (%)	Sep/Oct/ Nov (%)	Dec/Jan/ Feb (%)	Tourists Arrivals
1991-95	25.61	20.46	31.11	22.35	322,168
1996-00	26.08	19.83	31.70	22.39	446,861
2001-05	25.54	19.78	31.06	23.61	347,106

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2006-10	23.86	20.61	32.78	22.76	504,746
Overall average	25.29	20.27	31.66	22.78	-

Source: Nepal Tourism Statistics.

E. Tourist Arrivals by Major Regions and Countries (%)

Major Regions	1992-97	1998-03	2004-09
Western Europe	37.47	32.83	27.27
Asia Others	17.49	27.02	36.61
India	31.12	24.63	21.39
North America	8.22	9.13	6.943
Australia & Pacific	3.17	3.19	2.85
Eastern Europe	1.12	1.64	2.53
C&S America	0.49	1.13	1.23
Africa	0.35	0.43	0.28
Others	0.11	0.00	0.88

Source: Economic Survey, 2010/11, MOF

Samriddhi, The Prosperity Foundation an introduction

Samriddhi, The Prosperity Foundation is an independent non-partisan, not-for-profit, research and educational public policy institute based in Kathmandu, Nepal. As the name suggests, Samriddhi works with a vision of creating a prosperous Nepal.

Initiated in 2007, it formally started its operations in 2008. The specific areas on which the organization works are:

- i. Entrepreneurship Development
- ii. Improving Business Environment
- iii. Economic Policy Reform
- iv. Discourse on Democracy

Centered on these four core areas, Samriddhi works with a three-tier approach—Research and Publication, Education and Training, Advocacy and Public Outreach.

As per the above mentioned four core areas, Samriddhi has been performing educational programs and researches—publishing several books, handbooks, articles and other publications. Samriddhi is also known for creating a discourse on contemporary political economic issues through discussions, interaction programs and several advocacy and outreach activities. With successful programs like “Last Thursdays with an Entrepreneur”, it also holds regular interaction programs bringing together entrepreneurs, politicians, business community, bureaucrats, experts, journalists and other groups and individuals making an impact in the policy discourse. It also hosts the secretariat of the 'Campaign for a Livable Nepal', popularly known as Gari Khana Deu.

One of Samriddhi's award winning programs is a five day residential workshop on economics and entrepreneurship named Arthalaya, which intends to create a wave of entrepreneurship and greater participation among young people in the current policy regime.

The organization is also committed towards developing a resource center on political economic issues in Nepal with its Political Economic Resource Center (PERC). Besides this, Samriddhi also undertakes localization of international publications on the core areas of its work. Samriddhi was the recipient of the Dorian & Antony Fisher Venture Grant Award in 2009 and the Templeton Freedom Award in 2011.

(For more information on the organization and its programs, please visit www.samriddhi.org)

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All the publications are available in Samriddhi, The Prosperity Foundation and major bookstores in the country.

“Review and Overview of Economic Contribution of Tourism Sector in Nepal” is the detailed study report prepared on the hydropower sector for the Nepal Economic Growth Agenda (NEGA), Report 2012.

The NEGA Report 2012, being a consolidated document suggesting reforms on five key sectors of the Nepalese economy, is based on five detailed reports like this where the other four sectors are agriculture, education, infrastructure and hydropower.

This study on tourism has looked upon the sector from the perspective of economic growth and recommendations are based on how the sector can grow and consequently play a greater role in the economic growth of Nepal. Overall, the report outlines the key hurdles impeding growth and provides recommendations to remove those hurdles while introducing new ideas to build on the potential in this sector.



Samriddhi, The Prosperity Foundation

P. O. Box: 8973, NPC 678
416, Bhimsengola Marga, Minbhawan Kharibot
Kathmandu, Nepal
Tel: (+977)-1-446-4616/448-4016
Fax: (+977)-1-448-5391
E-mail: info@samriddhi.org

www.samriddhi.org