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Working committee member on tourism

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INTRODUCTION

Tourism industry of Nepal has contributed to Nepal's economic growth for many decades. It is closely tied to development of human capital, preservation of natural and cultural heritage, and raising foreign exchange earnings for Nepal. Government of Nepal (GoN) has recognized this fact through its various policies and periodic plans. In the recent decade, tourism has been recognized as a priority sector with the formulation of second Tourism Policy in 2008 and other initiatives.

This paper has been prepared for the Nepal Economic Summit, 2014 by the Working Committee on Tourism, comprised of representatives from the government, private sector, development agencies and civil society organizations. The paper borrows from existing researches that have been done by various agencies involved in the tourism sector in Nepal. As the larger theme of the Nepal Economic Summit 2014 is 'promoting reforms to establish Nepal as an investment destination', this paper focuses on information that is relevant to increasing investment in the tourism sector. The paper is structured in two sections: Section A titled 'Tourism Today' analyses the existing status, potential, trends, policies and institutional framework for increasing investment in various sub-sectors of tourism in the present context; Section B titled 'Tourism for Tomorrow' brings together discussion points to bring in more investment in the tourism industry to ensure its growth in future.

SECTION A: TOURISM TODAY

Tourism industry is closely tied to Nepal's historical development process with tradesmen and missionaries passing through Nepal as an important route since medieval times. Modern Nepal saw a surge of tourism during 1960s owing to influx of tourists brought in by Nepal's outward looking orientation, which then gave rise to a steady flow of tourist arrivals. Revenue from tourism industry in 2012 accounted for about 38 percent of the contribution of merchandise export, 20 percent of the total value of the goods and non-factor services, 5 percent of total

foreign exchange earnings and about 1.8 percent of the GDP (NRB, 2013). In order to present a dynamic tourism industry of today, following categorization has been adopted:

Existing Scenario & Potential

Nepal's potential in tourism has been one of the most talked about subject in all economic growth related discourses. Along with the majestic mountains, varied landscape, diverse flora and fauna, pleasant weather conditions and other natural aspects, Nepal's rich culture, heritage and ancient architecture have remained appealing to the people of the world. Hence, there is no doubt that tourism can be the driver of Nepal's economic growth. However, conditions such as political instability, poor security situation and limited infrastructure and marketing have been some of the weaknesses in the sector. With a growing middle class in China and India, the outbound tourist, particularly from the former, has driven growth in global tourism. This is a great opportunity for Nepal's tourism sector. Other prospects like health tourism and education tourism can also be expanded and the private sector can play a key role in expanding these opportunities. Overcoming existing weaknesses and tapping the undeniably huge potential in the sector can help escalate Nepal's economic growth.

Arrivals & Access

In 1962, tourist arrival was recorded at around 6000 which has grown to a record number of nearly 800,000 in the year 2011 and 2012 (MoCTCA, 2013). Tourist arrivals have been closely tied to the internal political situation of the country whereby, periods of revolution have seen a slump and periods of stability have seen a growth trend. 1994 to 1998 marks the first major surge in tourist arrivals which then took a downward turn during the conflict for a period of 2000 to 2006. With the signing of the peace accord and return of some security, the tourism sector has experienced a growing trend. The tourism sector has seen record growth in 2011 and 2012. The growth rate of tourist arrival over the last five years has averaged around 8.8 percent (MoCTCA, 2013). None-the-less, Nepal has only captured 0.1 percent

of the global tourism market and 5.7 percent of South Asian market. South Asia saw a growth of 4 percent in tourist arrivals in 2012 and the Asia and the Pacific recorded the highest growth rate of 9 percent in 2012 (UNWTO, 2013). This shows that there is still a lot of potential for growth of the Tourism industry in Nepal with worldwide interest in travelling to Asia growing despite the economic downturn faced in recent years.

The aforementioned rise in the number of tourists has been driven significantly by the Chinese market. Nepal stands to benefit from this outflow of tourist from our neighbouring giants. As per the tourism statistics released by the MoCTCA, in the last five years, the number of tourist arrivals from China has

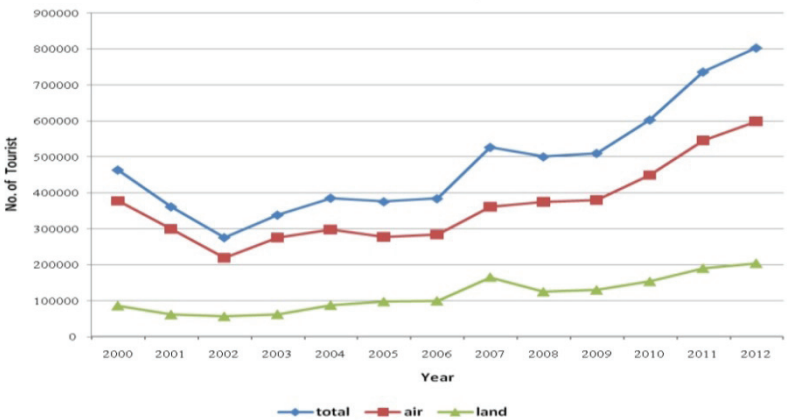
arrivals in Nepal in 2012 (MoCTCA, 2013).

Air transportation has been the favoured method for tourist arrivals in Nepal accounting for around 75 percent of arrivals in 2012 (Ibid). 26 international airlines have a weekly schedule of 235 flights on average coming in to Tribhuvan International Airport (TIA) (CANN). The seasonality of tourism travel in Nepal gives rise to variation in the availability of seats during summer and winter season.

New Delhi, India accounts for the highest number of tourist arrivals as a port of departure for Kathmandu. This has also been the most lucrative business route for flight operators coming in and out of Kathmandu. The price variation that exists in this market today also

presents a potential for more investment in this sector. With bilateral air service agreements and Memorandum of Understanding (MoUs) signed with 36 countries and a capacity of 5.25 million in and out bound seats with Nepal, only around 60 percent of this agreed capacity was filled in 2012 (CAAN, 2012). This also represents a potential area of investment in Nepal. Bhairahawa records the largest arrivals of tourist via land averaging around 40 percent in 2012. Kodari followed closely in terms of arrivals via land as a port of entry (MoCTCA, 2013). Bhairahawa's popularity also stems from its' proximity to Lumbini, the birth place of Lord Buddha. Therefore, land travel via this sector also presents potential area of investment.

CHART 1: TOURIST ARRIVALS, 2000-2012



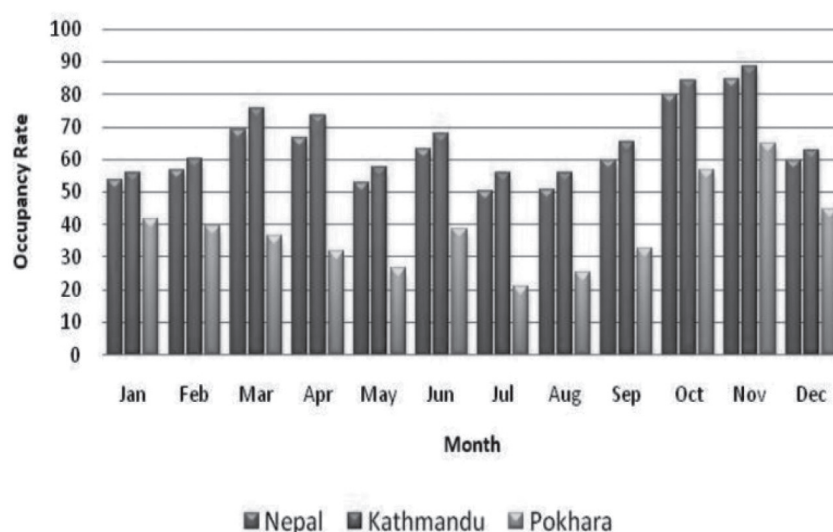
Source: MoCTAC, 2013

increased over 20 percent Furthermore, India has traditionally been the largest nation for tourist arrivals, commanding around 20 percent of all tourist arrivals in 2012. Close geographical proximity, political and economic ties, and similar cultures, makes the growing Indian outbound tourist market a highly lucrative one for Nepal. China was the second largest nation for tourist arrivals accounting for 8.9 percent of all tourist arrivals in Nepal in 2012. However it is a new and growing market with its particular interests and needs. There is much potential in investments in tourism products that are targeted to meet the need of this market. Sri Lanka is another such market which has seen considerable growth in the past decade. Sri Lanka was the third largest nationality for tourist

Destinations & Infrastructure

Nepal is blessed aplenty with natural beauty and tourism efforts have largely been focused on it. Nepal also has to offer cultural heritage that is truly world class and people that are friendly and hospitable. There are ample UNESCO World Heritage Sites in Nepal that are rich in culture and history. There are two natural UNESCO World Heritage Sites (Kathmandu and Lumbini) which gives Nepal a high score for UNESCO's Natural Resources. However, there are still 15 sites vying for World Heritage accreditation. Private participation in restoration and operation of these sites could be yet another potential area of investment.

The length of stay in Nepal for tourists averaged around 12 days in 2012. Tourists from Scandinavia averaged around 20 days and were the group registering the longest stay in Nepal (MoCTCA, 2013). Besides established trekking routes, Kathmandu, Pokhara, Lumbini and Chitwan register the highest number of tourists. Due to the development of these markets, infrastructure in these locations is relatively better off than other places of Nepal. Due to a concentration of tourists in these areas, the market size is conducive to more investment in these locations.



Source: MoCTAC, 2013

Nepal has always promoted trekking as one of its major tourism products. In terms of trekking routes, Manaslu usually receives the highest number of visitors with Mustang, Lower Dolpa, Upper Dolpa, Kanchanjunga and Humla registering significant trekking patrons in comparison to other routes. Protected areas in Nepal include ten national parks, three wildlife reserves, one hunting reserve and six conservation areas and twelve buffer zones covering an area of 34,185.62 sq. km that is 23.23 percent of the total area of the country (MoFSC, 2013). Tourism packages that include all these protected areas have yet to realize their full potential and therefore, offer further opportunities of investment in this sector.

Mountaineering is another tourism product that attracts a significant number of tourists to Nepal. Nepal has opened up a total of 326 peaks in its northern belt for mountaineering expeditions. These include peaks that have been opened for both Nepali and foreign nationals. 2012 recorded around 1200 summiteers of such mountaineering expeditions while Nepal Mountaineering Association (NMA) issued

approximately 1300 permits (MoCTCA, 2013). The value chain industry around mountaineering is at its nascent stage. This provides a lot of potential for investment in mountaineering equipment, training and packaging of the available mountain peaks.

Nepal has approximately 730 hotels catering to travellers registered with the Tourism Industry Division at the MoCTCA. Five star hotels are largely centred on Kathmandu and Pokhara and registered an occupancy rate of around 62 percent in 2012 (MoCTCA, 2013). The categorization of hotels ranges from Tourism Standard to One to Five stars. Altogether, there are approximately 34,000 beds available in these hotels catering to tourists and locals. There are some registered home stays as well.

Value chain development is an important aspect of investment in the tourism industry. In 2012, Nepal had 2,116 registered travel agencies and tour operators, 1,524 trekking agencies and 40 rafting agencies (MoCTCA, 2013). The number of registered companies to provide these services has also been growing over the years. Therefore, tourists have ample opportunities for engagement through these services in Nepal facilitating further investment in hotels and other infrastructures.

In order to support the tourism industry, Nepal has also invested in human resource development. The number of participants in the courses offered by National Academy of Tourism and Hotel Management has seen a steady rise. The enrolment in academic courses increased from 162 participants in 2010 to 229 participants in 2012 (MoCTCA, 2013). Similarly, the enrolment and graduation numbers are considerably higher in the travel and tour operator and trekking sector.

Nepal has a total of 11,120.93km of roads that are classified for usage by motorised vehicles, of which a total of 5436.34km are paved with various grades of bitumen coverage. These include national highways that link the east to the west of Nepal. In addition, there are mid hill roads, postal roads and feeder roads (both major and minor) that link various destinations (Department of Roads, 2012).

There is a network of 45 domestic airports and 1 international airport that provide air travel connection to passengers traveling to various parts of Nepal. All of them can operate under Visual Flight Rules and some of them have been upgraded to Instrumental Flight Rules. Eight new airports are under construction and will further provide connectivity to tourists (CAAN).

As the tourist arrivals increase every year, there is ample opportunity for Nepal to increase its revenue absorption capacity by developing high value products. The tourism receipts of Nepal showed an increasing trend between 2006 and 2009 although the arrivals had gone down. However, owing to the fact that Nepalese tourism industry is a highly price competitive market and scores well on this category in the Global Competitiveness Ranking (World Economic Forum, 2013), much care has to be taken to bring in the kind of investment that will increase Nepal's competitiveness while increasing its tourist spending absorption capacity with strategic high value products targeted to a niche market.

GON EFFORTS TO PROMOTE TOURISM: POLICIES, PROGRAMS & INSTITUTIONAL FRAMEWORK

Nepal has adopted a method of periodic planned development aided by National Vision and Strategy documents. In the tourism sector, GoN has increased its investment over the years through its annual budgetary expenditure program. In 2012, the Ministry of Industry spent NRs 3.9 billion in its development programme. A large proportion of this (NRs 1.6 billion) was spent on civil aviation. Last year, the Government took aggressive steps to raise the budget of the tourism sector. The budget for FY 2012-13 was NRs 7.9 billion, an tourism increase of 103 percent (MoF, 2012).

The direction of policy and regulatory framework for the tourism sector is currently shaped by Tourism Policy, 2008 (2065 B.S); Civil Aviation Policy, 2006 (2063) and Tourism Vision 2020. Tourism Policy, 2008 gives a leading role to the private sector and the government plays only a supporting role. The policy focuses on partnership approach between the private sector, public sector and the community with particular emphasis on rural tourism, community based tourism and home-stays. The current tourism structure gives the government regulatory and development roles, the private sector an operational role, and the Nepal Tourism Board a promotional role. The goals of Tourism Vision 2020 are to: a) Increase international tourist arrivals to Nepal to 2 million by 2020 and b) Expand economic opportunities and increase employment opportunities in the tourism sector to 1 million by 2020. Currently, the ministry is working on drafting a policy to implement Tourism Vision 2020.

GoN, with MoCTCA at the forefront, has introduced several programmatic efforts in infrastructure

development as well. TIA is under its first phase of expansion and upgrading with the support of Asian Development Bank (ADB). Civil Aviation Authority of Nepal has taken up the USD 92 million the project titled 'Air Transport Capacity Enhancement Project (ATCEP)' (CAAN, 2013). Initial upgrades have focused on extending the current runway, building a new rapid exit taxiway, expanding international aprons with a further 9 parking stands and enhancing aircraft landing systems to international requirements. All of these efforts target increasing airport capacity and credibility amongst international air carriers to develop new routes to Nepal. Certain upgrades are designed to address European Union concerns on airport safety and therefore may encourage direct air traffic growth from these market segments.

Similarly, Gautam Buddha Airport in Lumbini is being developed as a Regional airport that is expected to ease the traffic volume at TIA. Estimated at just over USD 90 million, this project will be funded by loans, grants, CAAN budgeting and the ADB South Asia Tourism Infrastructure Project (SATIP). Expansion plans will be implemented in two phases, the first to include runway extension to 3,000m, aircraft parking stands, new domestic and international terminals. At the end of phase one, airport capacity will be 600,000 passengers per year (in and out bound) and upon final completion via phase 2, the airport will aim to service 5 million passengers annually. Not only this, the government has also been making efforts to ensure greater utilization of the Gautam Buddha International airport by developing market centres around the areas of Lumbini.

Pokhara airport is another airport that has been earmarked for construction that will ultimately enable international regional flights. Land has been acquired as far back as 1975 by the government 3km east of the current domestic airport. Plans have been made to construct a 2,500m by 50m blacktop runway, domestic and international terminals with supporting cargo hangers etc.

Domestic airports have also received due importance in the GoN plans and programs. Lukla, Talcha

(Rara) and Simikot airports have been identified for upgrading by CAAN and are incorporated into phase 1a of the Air Transport Capacity Enhancement Project (CAAN, 2013). Air traffic services systems, snow plugs, and meteorological equipment are to be integrated into Rara and Simikot airport. Lukla airport will receive runway landing guidance lighting upgrading, abbreviated Precision Approach Path Indicator (APAPI) and a Visual Approach Guidance System (VAGS) equipment. The installation of this equipment will vastly improve air safety and reduce operational insurance costs for air carriers bound to that airport.

GoN also has made several efforts in quality control and standardization. Homestay working procedure 2010, Hotel standards 2013, Tourism Industry Service Delivery Directive 2013 outline MoCTCA's efforts into improving the quality of tourism services available in Nepal. In addition to directives and standards, GoN has also offered incentive schemes time and again to promote investment in this sector. Some of the major incentives include providing special benefit package to civil servants and a member of their family to promote domestic tourism (working procedure finalized in 2011) and providing a grant of NRs. 5 lacs to agencies that are able to bring in more than 100 foreign passport holders to Nepal via air (working procedure finalized in 2011).

Ministry of Culture, Tourism and Civil Aviation (MoCTCA) leads the GoN's effort in tourism industry promotion in Nepal. There are several governmental and semi-governmental agencies that fall under the Ministry and are responsible for various functions including infrastructure development, facilitation of industry and promoting Nepal as a tourism destination. MoCTCA itself has six regional offices spread across Nepal. Primarily, while the MoCTCA is responsible for providing a larger policy framework, agencies like Nepal Tourism Board (NTB – established under the public private partnership model), Civil Aviation Authority of Nepal (CAAN), Nepal Academy of Tourism and Hotel Management (NATHM) and Nepal Airlines Corporation (NAC) work closely with the private sector to promote tourism in Nepal. Besides, government agencies, there are several private

sector associations representing the various sub-sectors engaged in the tourism value chain including Hotel Association of Nepal (HAN), Nepal Association of Tour and Travel Agents (NATA), Trekking Agencies Association of Nepal (TAAN), Nepal Mountaineering Association (NMA) and National Association of Rafting Agents (NARA) among many others.

GoN has also closely worked with development partners to promote tourism sector in Nepal, especially from the perspective poverty alleviation. Some of the major efforts made in the last decade include Tourism for Rural Poverty Alleviation program (TRPA – in partnership with UNDP, SNV and DFID), Marketing Assistance to Sustainable Tourism Products (MAST – in partnership with UNEP/DTIE, SNV Nepal and Leeds Metropolitan University), Great Himalayan Trail (GHT – in partnership with SNV and DFID) among many others.

In order to increase tourist arrivals and as a part of its marketing and promotional strategy to promote Nepal as a tourism destination, GoN has initiated several programs including Visit Nepal 1998, Visit Nepal 2011 and Visit Lumbini, 2012. In addition, it is currently working on restructuring NAC and NTB while procuring additional airplanes for NAC to capacitate it for international flights. In addition to this, MoCTCA has regular activities such as trade and tourism fairs and participation in international events to showcase Nepal as a tourism destination.

Recently, the GoN has also engaged in developing a comprehensive Tourism Development Strategy that integrates the efforts made by various policies and provisions and addresses contemporary market conditions. The Tourism Development Strategy has adopted diversification and improvement strategy for the short term followed by consolidation and expansion strategy in the medium term resulting in a sustained growth as a long term strategy. It has incorporated major stakeholders and developed action points for GoN to act upon. This strategy document is expected to lead to a sustained growth of tourism sector in Nepal. Similarly, the Ministry has prepared a separate

strategy to develop the mountaineering sector by addressing current challenges and measures to increase the inflow of tourists.

On the other hand, the Central Bureau of Statistics (CBS) is also preparing to conduct a study on the actual contribution of tourism in Nepal's GDP.

SECTION B: TOURISM FOR TOMORROW

While the tourism development strategy looks at the strategic nature of investments in tourism sector, it is imperative to have a public discourse about the nature and type of investment that this sector has been attracting along with bottlenecks and challenges faced by investors. This section aims to initiate this discourse and has been further subdivided into two parts. The first part outlines the major issues that are based on the existing scenario and investment environment of the tourism industry of Nepal today. A strategic discourse on these issues will provide a framework for promoting investment in the tourism sector for the future. The second section aims to outline some key reform agendas that can be implemented immediately to retain existing investment and promote further investment in the tourism industry.

Discussion Agenda for a strategic discourse on promoting investment

Capitalizing on air travel revenue

Air transport is where Nepal has been losing out on a large percentage of the tourism yield. Living and travelling in Nepal is not expensive as tourist spending in hotels, restaurants, transportation, etc. is much lower than many countries in the world. Nepalese tourism industry is a highly price competitive market and scores well on this category in the Global Competitiveness Ranking (World Economic Forum, 2013). Air travel into and out of Nepal is where a large chunk of tourist spending is done. Nepal Airlines, in

the recent past has been struggling to capture this tourist spending. Since the proliferation of multiple international airlines in Nepal, this revenue has been captured by international carriers. Given the growing number of tourist arrivals by air into Nepal, there is considerable potential for Nepali carriers, existing or new, to capitalize on this market.

Increasing tourism receipts

In 2011, Nepal's per capita tourism receipts were similar to that of India with its massive population, and 35 times lower than that of Thailand and four times lower than that of Sri Lanka (World Economic Forum, 2013). The trend in international tourism receipt is also slightly different than the trend in number of international tourist visitors. Between 2006 and 2009 there was a sharp rise in tourist receipt. In 2009, even though international tourist arrivals increased, there was a drop in international tourism receipts (Ibid.). Between 2010 and 2011, international tourism receipt had increased, but at much lower rate than the increase in number of international tourist arrivals. Nepal needs to initiate a discourse on increasing its tourist spending absorption capacity by diversifying current concentration on trekking and pilgrimage only. With the right form of incentives, there is ample room to improve tourism yield. High quality tourism products can be a lucrative area for future investment.

Diversifying tourist destinations

Majority of the tourist concentration in Nepal has been within Kathmandu, Pokhara and Lumbini (besides the trekking routes). Although Nepal has a diverse range of climatic conditions and protected areas, infrastructural bottlenecks have prevented easy access to these marketable products. With the plans for regional international airports, there will be an opportunity of developing new tourist destinations. However, strategic investment in these destinations to make them accessible to tourists is imperative. Therefore, a discourse on diversifying tourism destinations is important to increase further investment in tourism.

An inclusive approach to tourism

Nepal still ranks as a Least Developed Country (LDC) and has a target to graduate from LDC by 2020. In order to realize this vision and involve more local investment, an inclusive approach to development of tourism has to be discussed. This includes development of tourist destinations and tourist products in poverty affected areas, especially in the Western Part of Nepal. The Eastern region already has initiated a trend of attracting domestic tourists based on its agro-enterprises (like tea estates). This kind of inclusive approach has already received the attention of development partners such as GIZ. Further discourse is required on capitalizing the aid received to develop rural locations and increase community involvement to ensure trickle down benefits of tourism industry. Owing to the large influx of remittances to Nepal, this kind of approach will also provide investment opportunities to recipients of remittances thereby channelling scarce foreign reserve resources into productive sector.

Simplifying administrative processes

One of the major constraints with regards to attracting investment in the tourism sector is also the number of administrative processes faced by tourism entrepreneurs. In order to attract more investment, a discourse on simplification of these processes requires urgent attention. The simplification of these processes can be conducted at the executive level and therefore is a feasible undertaking. Simplification will require better coordination amongst several administrative agencies and information sharing. This would significantly reduce the cost of doing business in Nepal and attract more investors. The World Economic Forum's Travel and Tourism Competitiveness Index ranks Nepal in the 106th position in terms of policy and regulatory environment (World Economic Forum, 2013). This is an area that can be improved upon with simpler processes and better implementation of existing policy and regulatory measures.

Better marketing and promotional strategy

In the age of global competitiveness, aggressive marketing and promotional strategy is required to gain the attention of global clients. Nepal needs a better marketing and promotional strategy, especially in the online marketing sector. Nepal also can access foreign markets to promote itself through its network of diplomatic missions worldwide. Destination marketing is an important aspect of attracting more tourists and thereby enlarging the market for further investment in the sector.

Tourist friendly infrastructure

Infrastructural bottlenecks are perhaps the major constraint to inviting further investment in the tourism service industry and destination development. Therefore, Nepal needs a comprehensive discussion on expanding the infrastructure in such a way that it is tourist friendly and provides access to the diverse locations with tourism potential. For this, MoCTCA needs to work in close coordination with other GoN agencies responsible for infrastructure development. Infrastructural rigidities lower Nepal's global competitiveness and prove to be a hindrance to further investment. Public Private Partnership (PPP) model can be adopted to invite investment in the development of infrastructure itself. GoN has tested this model in the past bearing good results. This could be a strategy to move forward in addition to options such as strategic partnerships, build, operate and transfer models.

Promoting investment in tourism: Key reform agendas for 2014

In 2012, the cabinet had approved the proposal prepared by a high-level committee formed under the coordination of Secretary at the Prime Minister's Office Lila Mani Paudel to enlist tourism as a priority sector and accordingly take necessary actions. This 12 member high level committee had been formed at the initiative of former Prime Minister Dr. Baburam Bhattarai in order to include the tourism industry on

the national priority list. The recommendations and suggestions proposed in the mentioned document included:

Tax incentives and customs duty discounts for tourism and aviation sectors, concession on electricity bills, special facility to lease land to attract foreign investment, incentives for investing in the tourism services in remote and less developed regions of the country, promotion of MICE (meeting, incentive, conference and exhibition) tourism, partial and complete tax discount to hotels on using non-VAT items such as agro-based products, allocation of 30 per cent of the total revenues generated through different fees (such as entrance fees at national parks and wildlife reserves, mountaineering royalties and other fees charged by the government) for the development of the local areas, encouraging inclusiveness, upgrading Pokhara and Bhairahawa airports into international airports, and more.

Following are some of the key reform agenda that will immediately enable further investment in various sub-sectors of the tourism industry. In addition, these reform agenda also target retention of existing investment in the tourism industry.

Aviation issues

Nepal has 'liberal sky' policies. Nepal currently has bilateral air service agreements with 36 countries and as demand for inbound tourist arrivals increases, there will be a need to revise bilateral air service agreements to increase capacity. Currently established provisions enable 5.25 million in and out bound seats with Nepal, of which only around 60 percent of this agreed capacity was filled in 2012 (CAAN, 2012). This also represents a potential area of investment in Nepal. Returning political stability has also prompted interest among countries like the United States and Australia to engage in air services. Furthermore the successful development of Trans-Himalayan 2 Airspace has the potential to vastly increase air traffic demand in Nepal.

There are 26 international airlines operating to/from Tribhuvan International Airport (TIA) at present. Nepal Airlines Corporation (NAC), the National Flag Carrier of the nation provides Ground handling services to 23 international airlines (except for Thai Airways and Air India which does its own ground handling) as per standard ground handling agreement (SGHA) as prescribed by IATA in its Airport Handling Manual (AHM-810). NAC has also signed Service Level Agreement (SLA) with customer airlines and has been providing the services as per the standard quality requirement of the airlines.

NAC has developed Feedback Forms to be filled by the individual airlines for each flight in order to provide better service by minimizing the number of complaints and taking measures based on the feedback. The Feedback Form identified issues that have been strongly addressed. As a result, recently on 31st January 2013, NAC was awarded with the "Token of Appreciation" for ground handling services from Airlines Operating Committee-Nepal (AOC-N), which represent all international airlines operating in Nepal.

NAC's 5 years contract with Civil Aviation Authority of Nepal (CAAN) expired on 11th February 2014 and the contract has been extended for five years under condition that it receives ISAGO (IATA Safety Audit for Ground Handling) certification within two years. NAC claims its ground handling service as up to the international standard and has pledged to receive ISAGO certification within this two years period. It has also revised the rates of ground handling services on the basis of associated costs and rates of the region. Making the aviation sector more effective and competitive is an indispensable part of developing the tourism sectors.

Taxation policies

Value added tax (VAT) charges are levied on ground handling services provided by NAC. VAT charges on ground handling services are not imposed on ground handling services in any SAARC or developed

countries. Adding VAT charges would further increase the burden of operating flights in Kathmandu. Such taxes, on top of high operating costs, can cause existing carriers to scale down or completely pull out. VAT taxes on ground handling and double taxation should be removed in the next budget. In addition to VAT tax for ground handling, taxes are levied on all amounts received while selling tickets, which in itself include tax and service charges levied by the GoN and other destination countries. A similar problem of double taxation is faced by tour operators as the tax charges included in the individual services are taxed on in the package (total turnover) as a whole as well. These issues have been raised by Board of Airlines Representatives in Nepal (BARN) with the authorities. Provisions for income tax to be levied on total turnover have already been amended in Income Tax Act 2001 and Financial Ordinance 2005. However, the Financial Bill, 1998 is yet to be amended. The provision for taxation on total turnover should be amended on the Financial Bill 1998.

Taxation policies inevitably demand cooperation from Ministry of Finance and hence, it is very important that the MoCTCA plays a lead role in coordinating the change efforts mentioned here with the Ministry of Finance.

Heavy custom duties on automobiles has also made travel and tour operators difficult to purchase vehicles of international standard. This adds to cost of transportation for tourists in Nepal, which is much higher compared to similar destinations in neighbouring India, thus making Nepal less competitive in terms of fares and quality of transportation received. Although the government has been providing certain relief on custom duties by providing green number plates to vehicles associated with the tourism industry, the criteria to be eligible for a green plate is extensive and many tourism industries are unable to receive the discount in custom duties.

Incentives for investments and technology development

Tourism Policy, 2008 (2065 B.S) prioritizes development of tourism in rural and remote areas with emphasis on providing further incentives to drive investment into such areas. The incentives that are in place for development in rural and remote areas are largely in the form of tax incentives which have not been very effective. High interests that are imposed on loans for development of tourism infrastructure in these areas are a significant hurdle to investment in remote areas. Difficulty in access to land has also been a hindrance to investment. Provisions for public land leasing to private investors for development in rural and remote regions is in place in the current tourism policy.

Given that the tourism sector is a major foreign currency earner, a rapidly growing sector and has been a priority sector for the government, it should be given the national industry status and similar benefits should be extended. Tax based incentives are largely post investment incentives, that is, they are incentives given after initial investment has been made. These incentives alone are unable to drive investment, particularly in rural and remote regions. Pre-investment incentives should also be in place to provide incentives as the investment is made. Provisions for easier access to loans or soft loans should be made for investment in remote regions. Custom duties on imported material needed for infrastructure development in these regions should be waived. A legal framework should be created to facilitate a functional leasing system on both public and private land. The procedure for land acquisition should be simplified and transparent.

Business registration and administrative functions

Complicated registration process has also been highlighted as one of the hurdles for new investors. A difficult and lengthy registration process is particularly

unattractive to new investors. The registration process requires the firm to be registered with multiple parties to be operating in a fully formal manner. The process requires registration with the local authorities, central authorities and the Inland Revenue department. In addition to this, each party has different requirements for registration which makes the process even more off putting. This leads to a significant portion of the sector working informally. In addition to that, the private sector has raised concerns over the difficulty in having to work separately with different ministries (e.g. Ministry of Forestry and Soil Conservation Ministry of Physical Infrastructure and Transport, and so on) that overlook tourism related services. Therefore, there is need for the MoCTCA to work in close coordination with related ministries, especially the Ministry of Industry to address these issues.

In light of the fact that the Tourism Policy, 2008 (2065 B.S) clearly defines domestic travellers as tourists, the Ministry of Transport should be advised to enable Nepalese passengers to be able to travel in vehicles with green plates by mentioning it in relevant legal documents.

Similarly, the practice of increasing fees (for entry in tourist sites, visa fee, airfare, tourism service fee, etc.) without provisioning adequate time before implementation has discouraged entrepreneurs as the prices are announced and transactions are made well in advanced by the travel and tour agencies. Therefore, price hikes should be announced at least one year prior to implementation giving enough time for the businesses to make required changes.

In easing the process of doing business, lessons can be learnt from Rwanda, which was named the top reformer in Doing Business 2010, having jumped 76 places from 143 to 67 in the annual ranking of 183 countries, the biggest improvement ever by any country. The reforms in Rwanda have been steadily taking place since 2001, part of which a new company law was introduced which simplified the process of starting a

business and strengthened minority shareholder protections. It now takes just an average of 2 days to start a business in Rwanda compared to 45-day average on the African continent, and 13-days for the rich countries. It takes an average of 2 procedures to open a business in Rwanda compared to about 9 in Africa and 5 in the developed countries. As a result of the reforms, it takes just 1 day to check a company name, submit registration application and pay a nominal registration fee. It takes between 1 to 2 days to finally pick up a registration certificate – allowing an investor to start their business immediately (Ministry of Trade and Industry, Republic of Rwanda).

One window policy would tackle Nepal's problem by consolidating all the registration process at one place. Such 'one stop' registration for domestic investors should be done at the local level with the relevant municipality and information sharing should be carried out between all relevant departments. Such consolidation methods can be applied to centralize all tourism related administrative work in the Ministry of Culture, Tourism and Civil Aviation.

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