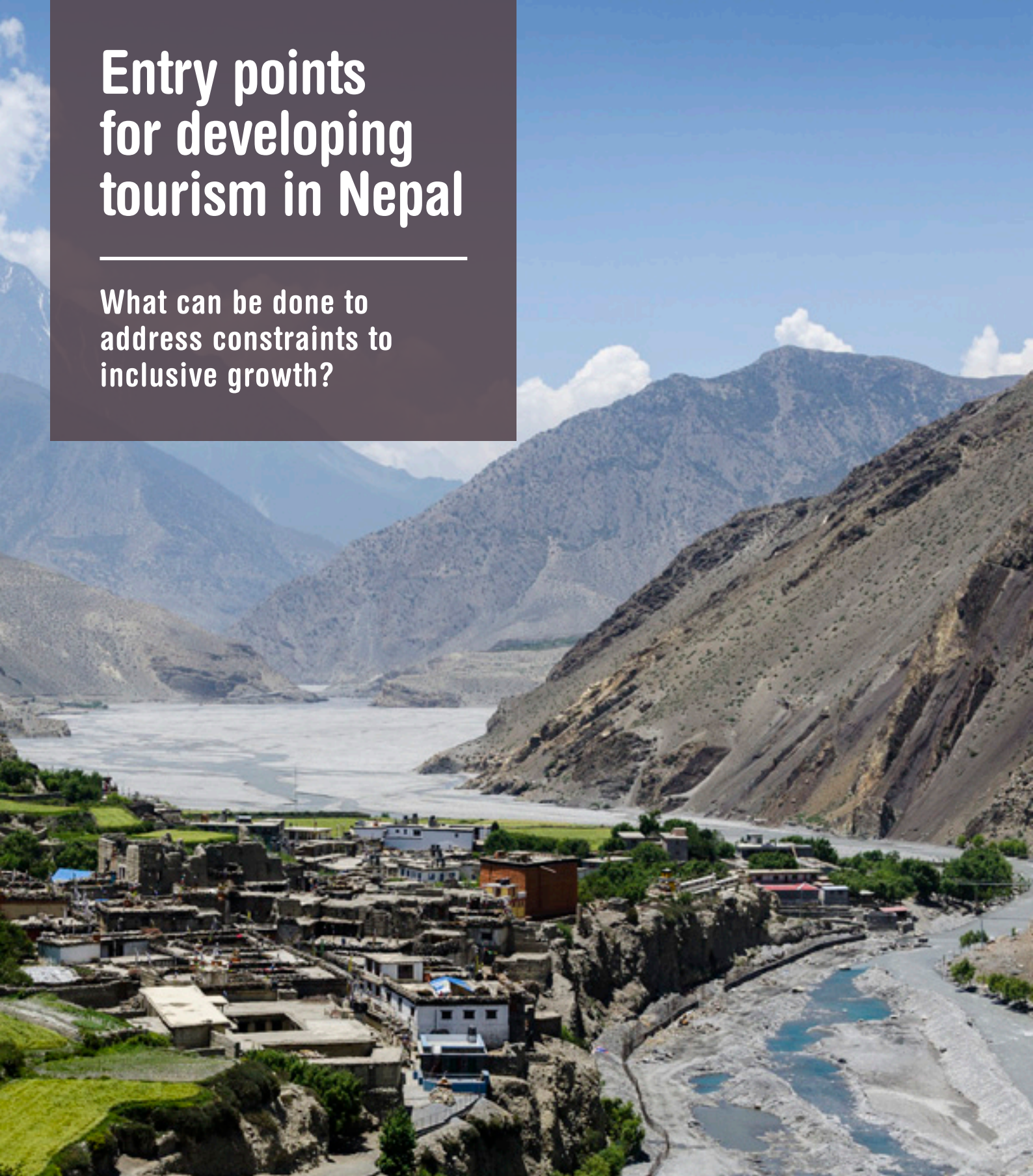


Entry points for developing tourism in Nepal

What can be done to
address constraints to
inclusive growth?



Research
& Policy in
Development

Centre for
Inclusive Growth
Practical solutions for Nepal

Harry Jones

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Harry Jones¹

June 2013

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Acronyms

ACAP	Annapurna Conservation Area Project	NATO	Nepal Association of Tour Operators
ADB	Asian Development Bank	NATTA	National Association of Tour and Travel Agencies
CAAN	Civil Aviation Authority of Nepal	NEF	Nepal Economic Forum
CAMC	Conservation Area Management Committee	NIB	Nepal Investment Board
CIG	Centre for Inclusive Growth	NMA	Nepal Mountaineering Association
DDC	District Development Committee	NMDP	Nepal Market Development Programme
DFID	Department for International Development	NTB	Nepal Tourism Board
DNPWC	Department of National Parks and Wildlife Conservation	NTNC	National Trust for Nature Conservation
DoLIDAR	Department of Local Infrastructure Development and Agriculture Roads	ODI	Overseas Development Institute
EGA	Embroidery and Garment Association	PA	Protected Area
EU	European Union	PPP	Public–Private Partnership
FDI	Foreign direct investment	REBAN	Restaurant and Bar Association of Nepal
GDP	Gross Domestic Product	TAAN	Trekking Agency Association of Nepal
HAN	Hotel Association Nepal	TDC	Tourism Development Committee
IFC	International Finance Corporation	TIA	Tribhuvan International Airport
LGCDP	Local Governance and Community Development Programme	UK	United Kingdom
MCAP	Manaslu Conservation Area Project	UN	United Nations
MoFALD	Ministry of Federal Affairs and Local Development	UNDP	UN Development Programme
MoFSC	Ministry of Forest and Soil Conservation	UNESCO	UN Educational, Scientific and Cultural Organization
MoLD	Ministry of Local Development	UN RCHCO	UN Resident Coordinator and Humanitarian Coordinator’s Office
MoTCA	Ministry of Tourism and Civil Aviation	US	United States
MPPW	Ministry of Physical Planning and Works	VAT	Value-added Tax
NAC	Nepal Airlines Corporation	VDC	Village Development Committee
NARA	Nepal Association of Rafting Agents	WTTC	World Travel and Tourism Council
NATHM	National Academy of Tourism and Hotel Management	WWF	Worldwide Fund for Nature

Executive Summary

This paper is focused on three questions:

1. How is tourism contributing to inclusive growth in Nepal, and how can this contribution be improved?
2. How do institutions, incentives, structural factors and knowledge and information shape the drivers and constraints around the key policy issues?
3. What can realistically be done to make improvements, what are the most promising entry points and what are the prospects of success?

In 2012, tourism contributed 9.4% to Nepal's gross domestic product (GDP), including indirect and induced effects, and direct earnings from foreign tourists have grown at an average of 12.4% over the past 10 years. It is estimated that the sector supported 1.2 million jobs, and has provided a steady and comparatively good income for a large number of Nepalis, including reasonable incomes for poorer people.

Nepal has unique assets for tourism development, and a great diversity of products; key attractions include trekking and adventure activities, religious and cultural sites and nature tourism. The country

has an established niche in international tourism, with tourist arrivals exhibiting strong and stable growth, and growth and opportunities from neighbouring markets as well as a stable contribution from traditional source markets. There are, however, some worrying trends that could threaten the chances for developing tourism as a central pillar of an inclusive economy. Value captured per tourist has declined sharply, low-end businesses have mushroomed and there are signs of overcrowding and degradation of key assets. Constraints to the development of the sector include broad systemic problems such as poor infrastructure, political instability, human resource constraints, economic governance issues, a poor investment environment and a lack of government leadership.

Three problems are particularly important for preventing the slide towards a 'low-value, high-volume' model that would not be sustainable. The table below outlines the importance of destination level management, national investment and the environment for high-value services, along with the associated drivers and constraints, and then recommendations on the most promising entry points for action. If action is taken on these, the sector can guarantee growth and inclusion by better development and protection of key assets, and through improved use and redistribution of tourism revenues.



	Destination-level management	National-level connectivity and investment	Barriers to high-value services
Key problem	There is a lack of concerted action to manage and develop areas, including inadequate services, problems with installing small and medium infrastructure and poor planning and zoning. Related to this, there is also poor management of tourism attractions, with many being degraded and significant worries about safety and sustainability. These factors also hamper the ability to develop new products.	There is poor national-level management of, and public investment in, tourism destinations, with the most urgent aspect being poor connectivity. Problems with an inadequate road network are longstanding, and there are too few airports in the hills and mountains and poor management of domestic air travel, reducing the ability to develop new areas for tourism and increasing pressure on existing destinations.	There are a series of problems hindering businesses from providing high-quality services or catering to high-value clients. The investment climate disincentivises higher-value investment, while businesses also face additional costs associated with innovation, growth and high visibility. These reduce value capture and have an impact on trends of degradation.
Drivers and constraints	The foundations for destination-level management are set by the ethnic make-up of the destination. The absence of local elections constrains formal mechanisms for good governance, and norms of patronage prevail – but do not always necessarily inhibit good enough governance. Private sector incentives relating to destination development vary, but there are many factors that push businesses towards making important contributions to the local area, including tangible common interests in some places. However, the management of tourism is more frequently characterised by poor partnership between key players, with a fragmented appreciation of problems faced and a lack of platforms for building shared solutions. Some of the knowledge and experience required to facilitate action on local problems is available, but there is insufficient technical capacity and challenges relating to politicisation.	The distribution of public investment in general and transport infrastructure in particular reflects the political geography of Nepal, with only sparse investment outside the capital. Public investment tends to be distributed according to clientelistic norms, rewarding decision-makers' constituencies, which also hinder the ability to build quality infrastructure. The tourism industry has not formed an effective lobby, owing to fragmentation, national tourism management bodies are weak, and inter-ministerial coordination is challenging. Government roads bodies are stronger, but tourism potential is not usually a consideration, and there is a lack of information on areas of high potential. A strengthening economic lobby in government could represent an opportunity to promote tourism-related investments, but there is a lack of public consensus on the goals of infrastructure spending and hence a technocratic approach may cause backlash and blockages.	The tourism sector is affected by the legacy of conflict, and by continued instability. The behaviour of entrepreneurs in reaction to these incentives reduces the number of higher-quality businesses. Although there is a cadre of bright, innovative young entrepreneurs, overall a 'copycat' mentality prevails as a way to ensure tourism is a solid additional livelihood strategy. The history of poor relations between government and business hinders the ability for the government to catalyse and lead the sector, and perceptions of unethical business practices become a self-fulfilling prophecy. Corruption in government hinders innovation and the enforcement of quality standards and pervasive rent-seeking sees considerable value leaked from the sector. Politicised labour unions pose a serious hindrance to higher-value businesses. Information on service quality is increasingly available to tourists, but it is not clear what sources tour operators, core supply actors, use.
Recommendations	Prospects for improving destination management vary, but there are genuine opportunities for change in some places. Central aims should be building the involvement of tourism businesses in local governance, and strengthening local services with sectoral cross-benefits. Working with local businesses and possibly the Ministry of Federal Affairs and Local Development, support would need to include institutional development, technical assistance and seed funding, and would need to be flexible and results-led.	A direct approach to improving national-level public investment in tourism is unlikely to succeed in the short term, but there are other entry points. Efforts should be made to facilitate coherent private sector leadership of the sector, 'crowding in' investment anchored to comprehensive long-term plans, catalysed by public seed funding and encouraging FDI. This would help the tourism industry to drive the development of large-scale infrastructure planned as public–private partnership projects. Technical assistance, international funding and other support would be required. Improving data collection and analysis and strengthening human resources at product level are also worthwhile national-level investments.	A considerable difference would be made by improved regulation and enforcement by the government, but is unlikely in the near future. Instead, self-regulation, in particular at the local level, could make a real difference to product quality, as could a consumer-led approach strengthening independent sources for tour operators and tourists. Impact assessments and community monitoring for tourism-related levies could catalyse product upgrading, with the right support, and instruments should be explored that can help small businesses respond more constructively to risk.

Introduction

This paper is focused on three questions:

1. How is tourism contributing to inclusive growth in Nepal, and how can this contribution be improved?
2. How do institutions, incentives, structural factors and knowledge and information shape the drivers and constraints around the key policy issues?
3. What can realistically be done to make improvements, what are the most promising entry points and what are the prospects of success?

The paper is structured as follows. Section 1, following this introduction, answers Question 1, looking at the current contribution to inclusive growth; mapping the sector, including institutional setup, market and industry structure and value capture; and analysing the sector and highlighting three key problems. Section 2 answers Question 2, examining the political economy dimensions around the key problems identified in the previous section. Section 3 draws out the implications of these for promoting action and change on these issues, providing recommendations for domestic and international actors.

Background and methodology

This study was carried out by the Nepal Centre for Inclusive Growth (CIG), a project funded by the UK Department for International Development (DFID). The CIG works to find practical solutions to promote economic growth and social inclusion in Nepal, using technical assistance, facilitation and other in-kind support. The study was commissioned along with three others (on labour migration, roads and petroleum imports) in order to map and scope sectors for potential CIG involvement, to identify potential entry points for CIG support and to provide guidance relevant to designing and managing a project in the sector. These papers have, however, been revised in order to be of relevance to a

wider audience, providing recommendations for a variety of actors and purposes.

The study employed the following components:

- A systematic review of academic literature relating to tourism in Nepal, its key drivers and the political economy of tourism;
- A review of available documentation relating to the sector from government, private sector, civil society and international agencies;
- 43 expert informant interviews carried out using the semi-structured interview technique, in Kathmandu, Pokhara, Gorkha, Ghandruk, Sauraha and Langtang and over the telephone between May and December 2011 and in May 2013. As is common practice when carrying out studies involving political economy issues, interviewees have been kept anonymous, but included individuals representing a number of government departments, the private sector, civil society, academia and international agencies, and included Nepalis and internationals.

The study builds on recent work at the Overseas Development Institute (ODI) aimed at making political economy analysis a practical tool for in-country programming. Research led by the Politics and Governance programme looks at *political economy constraints to service*

delivery, and how these have been overcome in practice.² Using the conceptual categories of structural features, institutional characteristics, actor incentives and strategies employed, this work is building a systematised approach to exploring governance aspects of service delivery at sector levels. Meanwhile, the *knowledge, policy and power* framework developed by the Research and Policy in Development programme (Jones et al., 2012) incorporates the role of knowledge, information and ideas into political economy analysis. This approach looks at political context, the role of actors, different types of knowledge and knowledge interaction processes, allowing for an understanding of how political economy factors shape the influence of knowledge and information, and how knowledge and ideas influence political economy and power dynamics.

It should be noted that this paper does not focus on providing new analysis of key problems and priorities (although some analyses and calculations have been carried out to support the work). Instead, the aim is to synthesise existing material on problems in order to refine the key priorities, and to draw out their relevance for broader concerns around inclusive growth. The majority of the new empirical data in this report relates to Sections 2 and 3, the political economy dimensions, and the analysis of entry points and prospects for successful action.

2. For example, see Foresti, O'Neil and Wild, 'The politics of delivery: our findings so far' (2013)



1

Tourism and inclusive growth

This section looks at tourism and its relation to inclusive growth in Nepal. First, we give a brief snapshot of the current status of the sector relating to inclusive growth. Next, we present the strengths and opportunities, followed by weaknesses and threats. Following this, we present three key issues that represent the most ‘binding’ constraints to the development of the sector.

Current contribution to inclusive growth

The total contribution of tourism to the economy of Nepal is estimated to have been NRs. 147.2bn (\$1.69 billion) in 2012, around 9.4% of gross domestic product (GDP) (WTTC, 2013). The ‘direct’ contribution³ from tourism businesses was NRs. 67.2 billion (\$771 million, 4.3% of GDP), while the remainder was indirect contributions such as investment related to tourism (e.g. aircraft and hotels), government spending, goods and services purchased along the supply chain (e.g. food, fuel) and the ‘induced’ income contributions (including spending by people directly or indirectly employed in the sector). **This total contribution is expected to grow by 7.2% in 2013, and 4.5% per year for the next 10 years (ibid.).**

Spending within Nepal by international tourists⁴ was worth NRs. 28.8 billion (\$368.8 million) in 2011,⁵ and this has grown by an average of around 12.4% per year over the past 10 years (MoTCA, 2012). However, recent years have seen a levelling-out of earnings from foreign tourists, despite sustained growth in international arrivals (trends in visitor spending can be seen in Figure 1, and the causes of this levelling out are investigated below).

International tourist spending has tended to account for between 20% and 25% of total exports over the past five years (WTTC, 2013), placing the sector alongside foreign aid and remittances as one of the principal sources of foreign exchange. It is expected to have attracted NRs. 12.5 billion in 2012, around 5% of all investment (ibid.), with an estimated NRs 6.6 billion of foreign direct investment (Upreti et al., 2013). Direct contributions to government revenue included NRs. 245 million from mountaineering expeditions in 2011 and NRs. 237 million from national parks in the most recent fiscal year.

The inclusiveness of the sector is difficult to assess because of insufficient information (see Box 1 for our working definition of inclusiveness), but some evidence can be brought to bear.

BOX 1: A WORKING DEFINITION OF INCLUSIVENESS

There is no single agreed definition of what it means for growth to be ‘inclusive’. For the purposes of this paper (and the others in the series), we use a broad definition, encompassing a variety of dimensions. The inclusiveness of a sector is judged by the extent to which:

1. Participation and
2. Benefits

are distributed between people from:

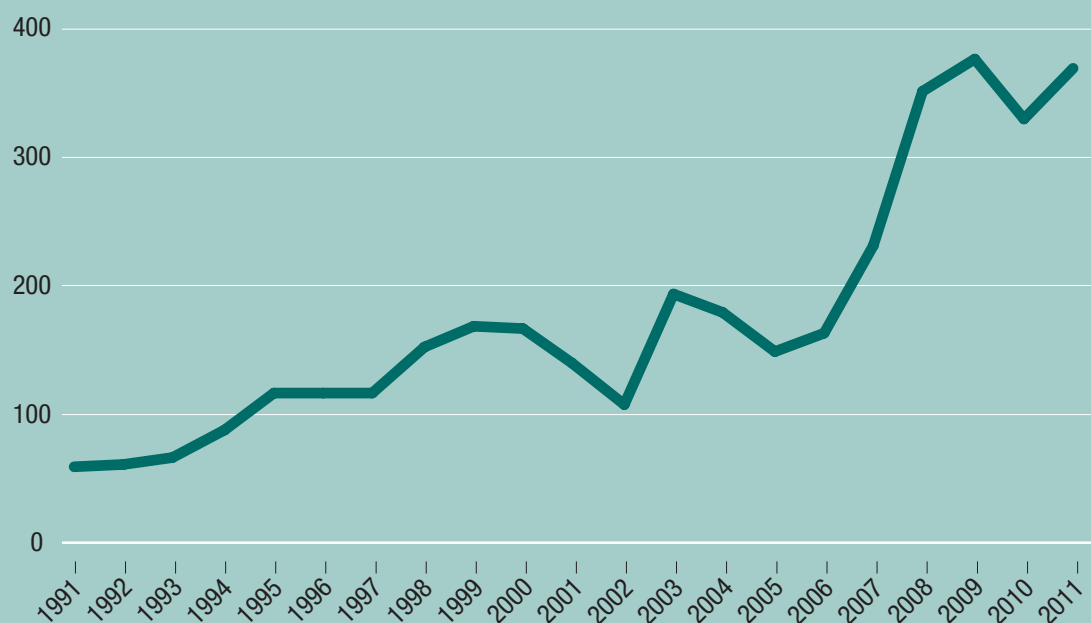
- a. Different wealth quintiles;
- b. Different social/ethnic groups; and
- c. Different geographic areas.

The empirical discussion in each paper will focus on only those dimensions on which there are sufficient data or evidence, and no normative presumptions will be made as to what is the most desirable form.

-
3. ‘Direct’ refers to total spending ‘internal’ to the sector, the total spent by residents and non-residents on travel and tourism for business and leisure, including commodities (accommodation, transportation, attractions and entertainment), industries (accommodation services, food and beverage services, retail trade, transportation services, cultural and recreational activities) and sources of spending (residents, businesses and government domestic spending on travel and tourism, and visitor exports).
 4. Various labelled ‘visitor exports’ or gross foreign exchange earnings from tourism.
 5. Official Nepal government data are not yet available for the year 2012.

Figure 1: Foreign exchange earnings from tourism, US\$ million, 1991-2011

SOURCE: MOTCA (2012).



There is broad participation in the sector: **tourism is estimated to have supported 553,500 jobs directly and 1,255,500 jobs in total⁶ in 2012** (WTTC, 2013). Tourism is a labour-intensive service sector and tends to provide a large number of jobs for unskilled and low-skilled workers (likely to be in the lower wealth quintiles); there are some indications that this is also the case in Nepal, and anecdotal evidence suggests that it offers broader opportunities to different ethnic groups than many other sectors in the country (key informant interviews; NMDP, 2013). Many of these opportunities are in rural areas and parts of the country that otherwise offer very little (e.g. in hill and mountain areas characterised otherwise by subsistence agriculture). The gender distribution of these jobs is not clear, although some studies show a very low ratio of women to men in some areas (Banskota, 2012).

Tourism has provided a steady and comparatively good income for a large number of Nepalis, including reasonable incomes for poorer people. According to one estimate, average earnings per capita in the service sector between 1990 and 2009 were \$1,107, compared with \$319 in agriculture (40% of the labour force) and \$353 in manufacturing – and while the growth rate in

services kept pace with inflation over that period, real earnings in manufacturing and agriculture decreased by 6% and 3%, respectively (Basnett, 2013), and more recent figures suggest that this average has continued to increase.⁷ Comparing wealth quintiles, previous research suggests that large proportions of benefits from tourism accrue to elites and merchant classes in Kathmandu and other urban centres (Bhattarai et al., 2005; Uphadaya, 2011). However, efforts within the industry to fix and raise the minimum wage have helped ensure greater inclusivity, with the daily minimum wage rate rising from NRs. 74 in 2000 to NRs. 300 (\$3.50) in 2011 and the monthly minimum salary rising to NRs. 6,600 (\$76) (Rimal, 2011). The available evidence suggests these minima are implemented (Upreti et al., 2013), and that, in fact, earnings for low-skilled workers often exceed this. For example, porters will often earn NRs. 1,000 per day for the four months of the year they work (NMDP, 2013).

6. 'Total' here includes indirect and induced contributions as defined above.

7. For example, drawing on the WTTC figures above gives an average annual income of NRs. 117,000 or \$1,350.

Geographically, these benefits have been relatively concentrated, but they have spread to people in rural areas and the relevance of this is reduced by high labour mobility. The majority of tourist flows are concentrated in a 'tourism triangle' between the Annapurna region, Sagarmatha (Everest) and Chitwan National Park (e.g. 95% of all trekkers are within this region).⁸ There are a small number of empirical case studies of the distribution of benefits between the localities visited by tourists and Kathmandu (Banskota, 2012; ODI, 2012; Dongol, 2012; Rai, 2012; Shahi, 2012), but it is difficult to make generalisations from this work and results must be interpreted with various caveats.⁹ There is limited evidence on the relationship between tourism and improved incomes for people living in poorer areas, and there are some indications that tourism leaves less income in poorer destinations in Nepal (e.g. between 9% and 30% of revenue from trekking excursions remains locally for expeditions to Dolpo; ODI, 2012), meaning that economic and geographic dimensions of exclusion coincide. However, more established destinations that are nonetheless outside major economic centres do seem to retain significant amounts of revenue. For example, in Sauraha, Nagarkot and Bhaktapur tourism has created 1,393 permanent jobs paying an average annual salary of NRs. 83,000 (\$1,100), and between 40% and 62% of trekking revenue from trips to Gorkha and Manaslu remains in the local area, mostly going to locally hired, relatively low-skilled workers (ODI, 2012; see Figure 2). The relevance of a geographic understanding of inclusion is somewhat diminished by high labour mobility within Nepal – as well as 2 million Nepalis travelling to India each year for seasonal work and an additional 2 million further afield, there is a high degree of labour migration within the country (Jones and Basnett, 2013).

There are some functioning mechanisms for the redistribution of tourist revenues back to the destination areas. A variety of mechanisms have been established, including entry fees collected for PAs being used to fund development activities for populations within or adjacent to the areas, and the channelling of a portion of tourism revenues to local government bodies.¹⁰ Many of these mechanisms do not function well in practice (Pusush Dakhal, 2005); where fees are collected centrally in Kathmandu, it seems that little of the assigned funds reach the destination districts. For example, two-thirds of the years covered in a study on the redistribution of funds for Upper Mustang, which is due around \$1 million per year, saw

no funds at all returning to the region (ibid.). Where fees are locally collected, for example with the Annapurna Conservation Area Project (ACAP), there seems to be a higher degree of efficacy (ibid.).

Sector mapping

This section maps out the tourism sector in Nepal using the available evidence, including the tourism market, the industry structure and the policy and institutional environment.

Tourism market

International arrivals have exhibited strong and stable growth since the country opened for tourism in 1962. That first year saw 6,179 arrivals, and 9 of the past 20 years have set new record arrival numbers. **2011 saw 736,215 international tourist arrivals, with the real total likely to exceed 1.2 million** (MoTCA, 2012; NTB, 2011), and an increase of 22% over the previous year. Official figures register all international arrivals by air and all non-Indian arrivals by land; Indian land arrivals have been estimated at 500,000 per year (NTB, 2011).¹¹ The only reversals of the growth trend have

8. In FY 2010/11 147,165 foreigners visited Annapurna, Langang, Sagarmatha and Shivapuri, out of a total of 155,265 national park entries (not including Chitwan)

9. In addition, careful caveats are needed to the ODI Value Chain Analyses quoted here. The VCAs do not include basic salaries of staff, tips or overheads, which means that some Kathmandu-accrued money has not been represented in the figures. Also, they focus on first level accruals without breaking down final value capture at each level, e.g. spending Rs. 100 on a trek for a soft drink may only leave Rs. In the district and hence again, a greater proportion of the money is likely to be spent in Kathmandu than the VCA figures suggest.

10. Some receipts and royalties collected at the central level flow into the government coffers and are hence redistributed through general government expenditures; amendments to the Local Self-governance Regulation specify that 30% of revenue collected centrally thanks to tourist activities in a district are to be reinvested through the local district development committees (DDCs); parastatal organisations such as the ACAP and associations such as the Nepal Mountaineering Association are authorised to collect revenue from tourists and to recycle it locally (for environmental protection and local development efforts); and national parks feature specified 'buffer zones' around them, into which a specified portion of park entry fees are to be reinvested for local development efforts.

11. The number of Indian visitors not recorded in official figures (given the open border) were estimated to be a further 500,000 in 2010, an increase of 74% from the previous year (NTB, 2011).

Figure 2: Value chain analysis for a 9-person, 22-day trip to Gorkha and Manaslu

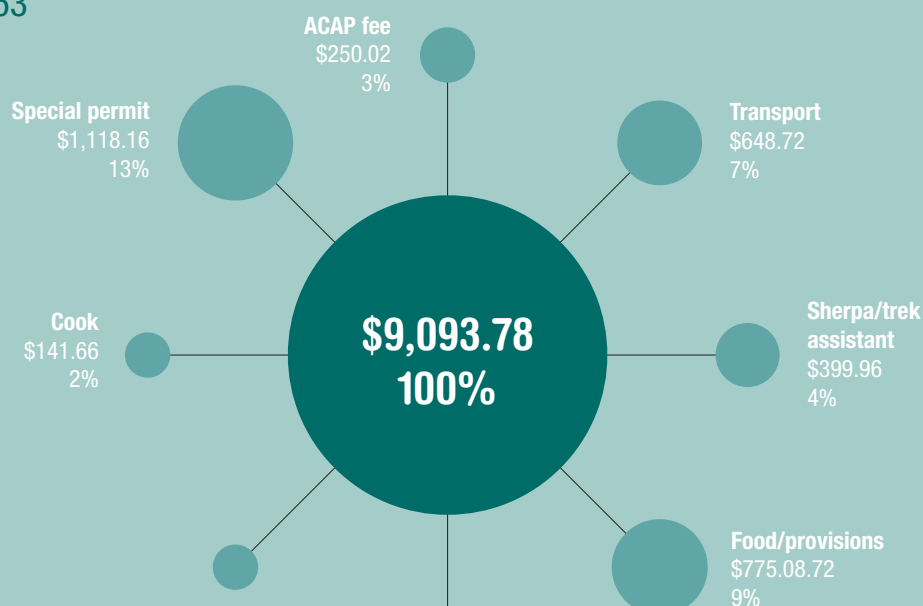
SOURCE: ODI (2012).

National

Value

\$3,483.63

38%

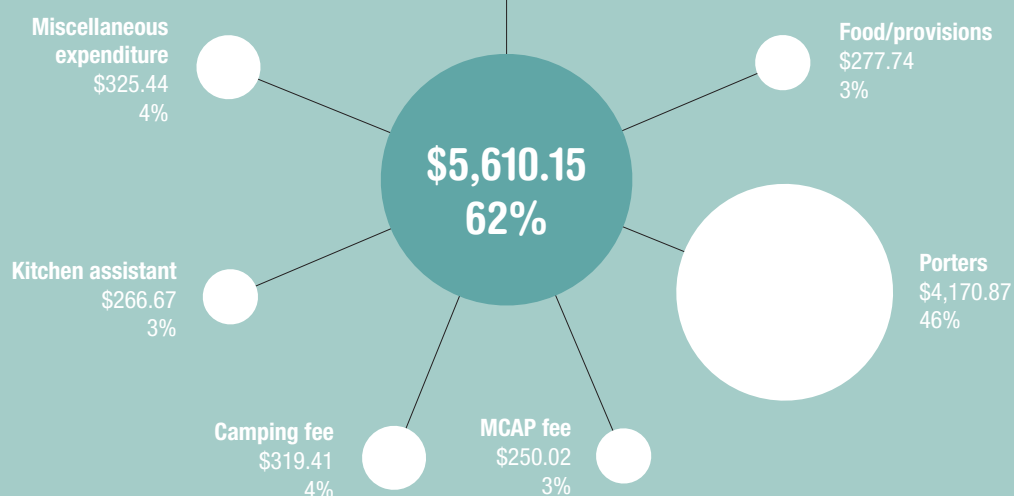


District

Value

\$5,610.15

62%



been in times of high conflict and instability,¹² but arrivals have been back on the increase since the reinstatement of democracy and peace talks from 2006, bettering pre-conflict numbers by the following year. Numbers (official arrivals figures) have grown at an average of 15% for the past five years, and at this rate will exceed 1 million by 2014 and 2.5 million by 2020.¹³

There is a high and stable average length of stay by tourists, increasingly outside the traditional peak seasons. The average length of stay for tourists was 13.12 days in 2011 and has tended to be between 10.5 and 13.5 for the past four decades.¹⁴ As an illustration, for tourists in Sri Lanka (often considered a comparable or competitor in tourism stakes) the average stay over the past 10 years has been between 9 and 10 days.¹⁵ While March, October and November are still undoubtedly the peak season, with 33% of all visits in total, February, April, August, September and December all exceeded 50,000 visitors, with 42% between them.

Neighbouring countries represent key growth markets. Neighbouring countries provide the largest numbers: in 2011, Indians were the largest group, with around 20% of the total, according to official figures (and closer to 55% including estimated entries by land), followed by Chinese 8.4% and Sri Lankans 8.1%. A large proportion of recent rises in tourist arrivals are accounted for by India and China, with Indian arrivals more than doubling in the past 10 years, and Chinese numbers more than 7 times their number a decade ago. Chinese numbers are likely to increase significantly (Boyd, 2011)¹⁶ as are Indians (Sharma, 2006).

Traditional source markets remain relatively stable, and there is a high diversity of visitor country of origin. While the relative importance of Western tourists has declined, they remain a strong source market and absolute numbers have increased. The US and the UK are the fourth and fifth most frequent countries of origin (5.8% and 5.3%), actually ranked second and third according to total number of tourist days in the country,¹⁷ with modest growth over the past 10 years. The diversity of significant source markets is illustrated by the fact that even the top five groups make up less than 50% of all arrivals.

Domestic travel and tourism represents a very significant market, but very little is known about the phenomenon. Domestic tourism is likely to have represented 55-65% of tourism GDP in 2012, with domestic travel spending estimated to have accounted for 65.7% of direct spending in the sector (WTTC, 2013), while actual foreign

exchange earnings were equivalent to around 53% of the estimated direct contribution last year (MoTCA, 2012; WTTC, 2013). Aside from this estimated proportion of the value contributed by the sector, very little is known on numbers, source areas, destinations or activities.

Further information about foreign tourists is scarce, but some evidence is available. Regular surveys or studies on the habits and tendencies of visiting tourists are not carried out, and only some of the routinely collected information is both reliable and useful. The following can be said about visiting tourists:

- **The typical age of tourists is 31-45, which has traditionally been the largest demographic.**¹⁸ This age group has been the biggest demographic for some time, with the largest numbers for 19 of the past 20 years and typically close to one-third of all visitors.
- **Overall demographics have been shifting towards older tourists.** People aged 46-60 years are now second, and have steadily increased over the past 20 years; 16-30 is still an important group.¹⁹
- **Female tourists are a growth market.** In 2011, 52% of arrivals were female, the first time that their numbers had exceeded male visitors (over the past 20 years typically around 40% of visitors were female; MoTCA, 2012).

12. Periods of decline tally with, and are attributed to (NEF, 2011a) episodes such as the Indian border blockade of 1989, the Maoist insurgency 1996-2006 and the royal massacre (and beginning of a 'war on terror' in South Asia) of 2001.

13. Some factors might suggest this forecast should be revised down. For example, some commentators suggest the current growth rate is a post-conflict 'bounce' and will be replaced by a more modest growth rate in the future.

14. Of the five top visiting nationalities, (recorded) tourists from India averaged 10.10 days, China 15.63, Sri Lanka 10.13, the US 10.26 and the UK 14.79.

15. http://www.slttda.gov.lk/statistics_at_a_glance

16. The total outbound tourists from China increased 50% between 2005 and 2009, and are projected to double between 2010 and 2020.

17. India: 1,307,031; USA 1,008,783; UK 814,380; Sri Lanka 600,636; China 571,007.

18. The largest age group of visitors in 2011 was the 31-45-year category, with 212,176 (28.2%) (MoTCA, 2012). Second and third were 46-60 (24.2%) and 16-30 (23.2%), followed by 61 and over (11.2%) and 0-15 (4.5%).

19. Numbers of 46-60 year olds were 177,983 in 2011, compared with an average of around 60,000 between 1991 and 1995.

- **There is a relatively high proportion of repeat visitors to Nepal.** Around 19% of the total in 2011 were visiting not for the first time (MoTCA, 2012), while in the past 10 years this figure has been frequently close to 30% (NTB, 2008). Higher proportions of visitors from traditional source markets are repeat visitors (NMDP, 2013).
- **The majority of tourists do not visit as part of a regional tour;** 31% who visited Nepal also travelled in India, and 14% in Thailand, but 55% visiting Nepal did not travel anywhere else on their trip (NTB, 2008).
- **Both package tourists and independent travellers represent significant groups.** Firm data are not available, but according to interviews with tour operators and hotel owners, the majority of non-Indian tourists arrive on group bookings through outbound operators in their respective source markets, with varying group sizes. An NTB survey (2008) found that the average age of tourists on a package tour was 43, compared with 37 for independent travellers, so the ageing demographic could be a sign of increasing numbers of tourists travelling on packages.

There is a striking trend of decreasing spend per tourist. Average income per tourist has shown instability and a general downward trend, with the 2011 figure of \$500.9 the lowest since 2001 (MoTCA, 2012). The average length of stay per tourist has been relatively constant over this time, and the downward trend can be seen most clearly in the average income per tourist per day, with the 2011 figure of \$38.2 the lowest since 1996, almost halving since the highs in 2003 and 2008 of \$79.1 and \$73.0 respectively (ibid.).²⁰

There is no strong evidence showing the dynamics behind this drop. While some questioned the veracity of these figures, on balance the evidence suggests they should be taken seriously.²¹ But there is very little firm evidence disaggregating value capture, with Nepal Rastra Bank figures disaggregating foreign exchange receipts between industry subsectors dominated by the category 'tourists', effectively meaning that 80% of the money spent is obscured (MoTCA, 2012).²² No (known) study has looked in detail at the value captured on a macro level or at the subsector level, and the satellite accounting system named in the Tourism Policy has not been implemented.

There is a lack of reliable information on the activities undertaken and attractions visited by tourists. The primary source is a self-reported 'purpose of visit' list on the arrivals form and

collected by MoTCA. This has many ambiguous overlapping categories,²³ and wide, seemingly random, variations year-on-year. The situation is further complicated by the likelihood that many tourists undertake a variety of the activities listed (but can tick only one box). The true numbers are further obscured by the fact that Indian tourists (representing between 20% and 55% of arrivals) are not counted in many of the official figures for entry permits and tickets, internal flights etc. Some estimates can nonetheless be made but they must be interpreted with a considerable amount of caution.

Cultural, religious and pilgrimage tourism is a major market, and is likely growing. Nepal has a strong cultural heritage, with 13 UN Educational, Scientific and Cultural Organization (UNESCO) world heritage sites, including religious sites of great significance to Buddhism and Hinduism (including Lumbini, the birthplace of Buddha, Pashupatinath and Swayambunath temples in Kathmandu, Janakpur and Manakamana in

20. By way of comparison, Sri Lanka (often considered a direct competitor of Nepal in tourism) has averaged between \$61 and \$84 over the past 10 years, with figures showing a steady and consistent increase in value captured per person per day.

21. While official figures show a sharp decrease in revenues per tourist, some have argued that this indicates an increase in businesses underreporting tourist revenues in order to avoid tax. It has not been possible as part of this study to look into this issue in serious depth, but some considerations can be highlighted for either side of the argument. Government stakeholders in particular subscribe to the underreporting thesis. Businesses report tourist revenues to Nepal Rastra Bank, based on which they submit tax returns, so it is clearly in their interest to deflate figures. However, speaking for taking the figures seriously, there would seemingly need to be an explanation for why underreporting might have suddenly spiked in the past three years; moreover, this would buck a trend of overall improvements in tax reporting and collection over the same period. Interviewees not from government tended to agree that there was a real issue of decline in tourism revenues, even if there was some level of tax avoidance. They spoke of their direct experiences of decreasing high-value tourists, rising costs and reducing margins, and while they were often ready to criticise competitors and other industry players on a number of fronts, they did not attribute this trend to large increases in fraud. Informed commentators also have begun to take this position (NEF, 2011b). Therefore, on balance, the author takes the position that the trend may be more about decreasing value capture than increasing underreporting.

22. NRs. 23,039.9 million was listed under 'tourist', indicating presumably that this was Nepali currency taken out by tourists, the destination of which is then unknown. This was 80.09% of the NRs. 28764.3 million total.

23. The categories are ambiguous and overlapping, including 'holiday/leisure' and 'travel/visit', as well as specific activities such as rafting, trekking and mountaineering. The list is also incomplete, for example 'visiting friends or relatives' is not included.

Gorkha district). It is likely that around 100,000 visit Nepal primarily for this purpose,²⁴ and probably at least 400,000²⁵ visit cultural and religious sites while in the country.²⁶

Trekking, mountaineering and adventure tourism are important markets. Nepal boasts eight of the world's ten highest mountains, including Mount Everest, the highest, as well as a wide variety of spectacular landscapes and vibrant rural cultures. The Annapurna, Sagarmatha and Langtang regions each has a number of signature trekking routes and well-developed tourism services, while activities such as rafting, paragliding and mountain biking are seeing increasing numbers. In 2011, it is likely that around 200,000 tourists took part in trekking activities.²⁷ Key costs include permits,²⁸ guides,²⁹ porters,³⁰ accommodation³¹ and food.³² A total of 4,266 undertook mountaineering expeditions (with an expedition to Everest costing in the region of \$30,000-100,000 per person), at least 4,000 went rafting³³ and over 8,000 took paragliding flights.³⁴

Nature and wildlife tourism is also popular. Along with the diversity of landscapes, Nepal is replete with a huge diversity of flora and fauna. Chitwan National Park in the Terai is by far the most popular attraction, drawing 122,332 foreign visitors in 2011, the single most visited protected area in Nepal.³⁵ **Business tourism has remained a small but**

steady market, typically accounting for between 8% and 18% of visitors (7.2% in 2011; MoTCA, 2012). Many tourists also partake in leisure activities including yoga, meditation and golf.

Key tourist hubs receive very high numbers of visitors. Hubs in order of visitor numbers are:

- Kathmandu, gateway for all international air arrivals, and the central hub for most internal travel, is likely to have received at least 750,000 foreign visitors last year.³⁶
- Pokhara, gateway to the Annapurna mountains and the west of Nepal, received over 300,000 last year.³⁷
- Sauraha, the base for exploring Chitwan National Park, received probably at least 100,000 visitors last year, and this is likely to rise next year as accommodation inside the park has been shut down.³⁸

There are some signs that key attractions are reaching carrying capacity, or beginning to degrade. There are issues of overcrowding in many destinations, in some with a direct impact on the comfort and enjoyment of tourists (e.g., it is reported that many popular trekking routes are essentially at full capacity during peak seasons – NMDP, 2013); in others there are severe safety implications (e.g. overcrowding at high altitude,

24. Official figures show a steady increase in pilgrimage being the listed purpose to 63,783 in 2011 (8.7%), up from an average of around 7,500 between 1991 and 1996 (MoTCA, 2012). Added to this number, it is likely that a reasonable proportion of the unrecorded Indian visitors visit primarily for pilgrimage purposes – presuming the same proportion as those recorded ones would give a total figure of 101,000.

25. Many different sites around the country see more than 100,000 visitors. For example, Pashupatinath Development Trust recorded 143,887 foreign visitors in 2011, and Lumbini recorded 128,259 foreign, non-Indian visitors in 2011, with Indians an unknown portion of the 585,000 total.

26. Entry fees range from NRs. 50 at Lumbini to NRs. 750 for Kathmandu Durbar Square and NRs. 1,100 for Bhaktapur, and a variety of formal and informal guides can be hired. <http://welcomenepal.com/promotional/wp-content/uploads/2012/08/ENTRY-FEES-to-Heritage-Sites.pdf>

27. Entry numbers for national parks and conservation areas were 261,987 in the most recent fiscal year, minus the 122,332 for Chitwan (not a trekking destination), plus 60,000 to cover Indian tourists often not counted, and trekkers going on treks in areas not requiring permits. This is in line with Nepal Market Development Programme's (NMDP's) (2013) estimate, and also extrapolating the recorded percentage of tourists visiting for trekking purposes (20%) to the actual number of tourists (1.2m) – 240,000.

28. For example NRs. 2,000 for ACAP, \$500 for 10 days in Upper Mustang, trekking information management system charge is additional, \$20. <http://welcomenepal.com/promotional/wp-content/uploads/2012/08/Trekking-Permit-to-Restricted-Areas.pdf>

29. Typically \$15-30 per person per day

30. NRs. 400-1,200 per day.

31. NRs. 200-600 per night typically.

32. NRs. 100-500 for a meal.

33. Typically \$30-60 per day.

34. Around \$100 for a flight with a reputable firm.

35. The entrance fee to Chitwan National Park is NRs. 500 per day

36. Source of estimate: 545,221 arrived by air in 2011 directly into Kathmandu, plus assume that 50% of the 190,994 non-Indian land arrivals travelled to Kathmandu, and 20% of the Indian land arrivals (500,000).

37. Source of estimate: 84,423 non-Indians arrived by air (http://www.myrepublica.com/portal/index.php?action=news_details&news_id=47573), and in previous years around double the air arrivals have come by coach (Adhikari and Seddon, 2002) giving 170,000, and add to this an estimated 50,000 Indian tourists.

38. This is based on 122,332 visiting Chitwan, the majority of whom will stay outside the park.

TABLE 1: REGISTERED TOURISM BUSINESSES, 2001-2011

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Travel agency	691	738	788	877	948	1,026	1,167	1,320	1,496	1,739	1,936
Trekking agency	580	611	645	705	740	793	872	977	1,096	1,240	1,378
Rafting agency										10	33
Tourist guide	1,900	2,001	2,071	2,149	2,202	2,271	2,343	2,458	2,548	2,661	2,835
Trekking guide	2,745	3,094	3,457	3,930	4,395	4,663	5,098	5,356	5,987	6,747	7,303
River guide										24	44
Tourist police								52	52	50	53
Paragliding Co.											16
Ultralight Co.											1
Skydiving											2
Domestic airlines											17
International airlines											29
Domestic airport											54

SOURCE: MoTCA (2012).

and for paragliders in the sky), which could damage the country's image with international tourists. Worse, there are indications that some attractions themselves are degrading, with products dependent on natural beauty particularly susceptible given poor solid waste management (Brown et al., 1997).

Industry structure

The little available evidence seems to show a **mushrooming of low-value tourist services, possibly approaching a saturated market** (on the supply side). There is very little reliable information on the structure of the tourism industry in Nepal, or analysis on the key players in the market. Official figures record only registered businesses, often only for the Kathmandu Valley, while there are very few other efforts at primary data collection. Some broad trends can tentatively be inferred from the available information, however. Figures show a high level of growth in tourist enterprises, but the vast majority of this has been in lower standard services, with a large number of unregistered enterprises. This suggests a large increase in competition, with a large amount of unfilled capacity.

Travel and trekking agency numbers have grown rapidly, dominated by micro enterprises. Over the past 10 years, the number of travel agencies has tripled, trekking agencies more than doubled and registered trekking guides tripled (see Table 1). In 2011, there were 1,938 registered travel agencies

(1 for every 379 visitors), up from 691 10 years ago (1 for every 523 visitors), an average growth rate of 11%. Trekking agencies rose from 580 to 1,378 over that time, (increasing from 1 per 174 trekkers to 1 for every 63 trekkers per year).³⁹ It is believed that there are now a large number of unregistered agencies and guides, and it is estimated that over 80% of trekking agencies have fewer than five permanent staff (NMDP, 2013). While the smaller businesses rely on walk-in customers, larger tour and travel agencies are core supply actors, with links to international agencies, and business-to-business sales making up large proportion of revenues (ibid.).

There is an over-capacity of tourist accommodation. There are 2,604 accommodation enterprises in the major tourist sites and the total number of tourist beds per day in the country has been found to be 69,040 (Sedai, 2011). This equates to more than 25 million per year compared with 9.5-13.5 million required in 2011,⁴⁰ so annually between 38% and 53% of capacity is used; for the peak month of

39. 'Trekkers' counted as visitors listing trekking as their purpose.

40. Official figures for visitor numbers and length of stay have been used since nothing is known about the length of stay of Indian land visitors and the number of arrivals is only very loosely estimated. Presuming that 500,000 is correct, and extrapolating the average length of stay of registered Indian visitors (8), would mean that around 13.6 million tourist bed nights are required

TABLE 2: TOURIST ACCOMMODATION IN THE KATHMANDU VALLEY, 2009-2011

Category	No. of hotels			No. of rooms			No. of beds		
	2009	2010	2011	2009	2010	2011	2009	2010	2011
Five star	8	8	8	1,539	1,539	1,539	2,897	2,897	2,897
Four star	2	2	2	190	190	190	362	362	362
Three star	11	13	15	372	501	596	774	957	1,107
Two star	27	28	29	1,138	1,183	1,213	2,263	2,348	2,396
One star	26	26	16	564	564	564	1,374	1,374	1,374
Tourist standard	348	387	423	5,010	5,903	6,650	9,976	11,525	12,805
Total	422	464	503	8,813	9,880	10,752	17,646	19,463	20,941

SOURCE: MoTCA (2012).

October 61-78% is used.⁴¹ Official figures show that the average occupancy rate for five-star hotels in 2011 was 61.63%, exceeding 70% in only two months (77.43% and 85.96% in October and November, respectively); for three-star hotels it was an average of 64.4% (MoTCA, 2012).

Low-end services make up the vast majority of accommodation, and account for nearly all of recent growth. There are a variety of categories for tourist accommodation to be registered under: tourist standard hotel,⁴² lodge,⁴³ resorts,⁴⁴ star hotels⁴⁵ and homestays;⁴⁶ however, it is estimated that only 24% of all accommodation enterprises are registered (MoTCA, 2012). Official figures show that small-scale and low-value accommodation represents 95% of the growth in capacity over the past three years in the Kathmandu Valley,⁴⁷ which typically represents more than 50% of the accommodation in the country (see Table 2). Much of this growth is likely to be in tourist hubs rather than end destinations, as PAs all enforce strict limits on numbers of lodges (etc.). Available figures on unregistered accommodation indicate that they tend to be smaller than the average registered enterprise (Sedai, 2011).⁴⁸ There is no firm evidence available on the ownership of accommodation.

There are a large number of tourism associations, which are generally seen as proactive in working for their members' interests. Tourism-related associations include:

- The Trekking Agency Association of Nepal (TAAN): approximately 1,000 members;
- The Nepal Mountaineering Association (NMA): 800 members approximately, promotes and protects mountain environments, issues climbing permits;

- The National Association of Tour and Travel Agencies (NATTA): 500 members, advisory and arbitration services, promotion;
- The Nepal Association of Tour Operators (NATO);
- The Restaurant and Bar Association of Nepal (REBAN): training, events, promotion;
- The Hotel Association Nepal (HAN)
- The Embroidery and Garment Association (EGA);
- The Taxi Drivers' Association;

41. The higher figure in this calculation assumed that 1/12 of the 500,000 extra Indian tourists stayed for 8 days each in October. The real number is likely to be lower as a large proportion of the Indian visitors by land stay short amounts of time, and travel for pilgrimage events rather than during peak trekking season.

42. Minimum 10 rooms, 25% the number of bathrooms for rooms.

43. Minimum 5 rooms, 25% the number of bathrooms for rooms.

44. Located far from dense settlements, minimum 2 bathrooms.

45. Requiring adequate space, drainage facilities etc., and with minimum 15, 20, 30, 50 and 70 rooms for 1-, 2-, 3-, 4- and 5-star category in turn.

46. Located in a 'homely environment', minimum 1 room with 2 beds and 1 bathroom, maximum 4 beds.

47. These figures show an average growth rate of 9% in the number of hotels and similar growth in the number of rooms and beds (MoTCA, 2011). All of this growth comes from the lower end, with four- and five-star not growing at all in three years, and one- to three-star standard making up only 5% of the growth.

48. The total amount of accommodation is thought to be 3.5 times the official number of recorded enterprises, but only 2.4 times the number of beds.

BOX 2: TOURISM POLICY CONTEXT

Tourism services in Nepal are governed by the following statutory instruments:

Policies: Civil Aviation Policy, 2006 (2063); Tourism Policy, 2008 (2065)

Acts: Civil Aviation Act, 1958 (2015); Nepal Airlines Corporation Act, 1962 (2019); Tourism Act, 1978 (2035) amended in 1997 (2053); Airport Operation Regulation 1981 (2038); Aviation Safety Regulation, 1989 (2046); Immigration Act, 1992 (2049); Civil Aviation Regulation, 1995 (2052); Nepal Tourism Board Act, 1997 (2053); Civil Aviation Authority of Nepal Act, 1996 (2053); Nepal Tourist Board Regulation, 1998 (2055); Industrial Entertainments Act, 1992 (2049), amended in 1997 (2054); Foreign Investment and Technology Transfer Act, 1992 (2049); National Parks Act, 1973 (2030), amended in 1994 (2051)

Directives and Working Procedures: Internal Procedural Directive, 2064 (2021); Home Stay Working Procedure, 2067 (2010)

Rules/Regulations: Trekking and Rafting Rules, 1985 (2044); Hotel, Lodges, Restaurants, Bar and Tourist Guide Rules, 1981 (2038); Travel and Trekking Agency Rules, 1980 (2037); Mountaineering Rules, 1979 (2036); Mountaineering Expedition Regulation, 2002 (2059); Immigration Regulation, 1994 (2051); Rafting Regulation, 2006 (2063); Travel and Trekking Agency Regulation, 2005 (2062)

- The Nepal Association of Rafting Agents (NARA); and
- The Himalayan River Guide Association.

Associations fulfil a number of functions for their members, including product development, training and certification and marketing. They are generally seen as effective in protecting the interests of their members, while some are seen to have increasing capacity to deliver other services (NMDP, 2013).

Policy and institutional context

Tourism services in Nepal are governed by a range of policies (see Box 2). The **Tourism Act** (1978, amended last in 1996) **sets out standards and procedures for tourism businesses in Nepal**. It includes regulations on the registration of tourist businesses and workers – travel and trekking agencies, hotels, tourist standard lodges and restaurants, mountain expeditions and tour guides. Without registering and being classified, businesses cannot advertise to tourists or work with travel agencies. The Act also lays out required procedures and standards to be followed such as publishing price lists, acquiring licences, submitting reports etc.

Government policy sets broad goals for the development of tourism, with occasional specific targets, but without strong focus or prioritisation.

Policy goals and objectives relating to tourism development are shaped predominantly by the Tourism Policy 2006 (2065) (Nepal, 2006), and the Tourism Vision 2020 (Nepal, 2009). The key elements are as follows:

- **Goals:** The top-level goal of the Tourism Policy is ‘to improve living standards by contributing to national income while sustainably using national heritages’, with more specifics in Vision 2020, with the two headline goals of achieving 2 million foreign tourist arrivals by 2020 and increasing employment in the sector to 1 million. The Tourism Policy sets no monitorable targets.
- **Developing tourism:** Both emphasise the need to both diversify and expand tourism, while also developing and conserving destinations, but there is not a clear prioritisation: the Tourism Policy does not emphasise any area or region over another; Vision 2020 does name districts but there are 18 listed, spread evenly throughout the country. The Tourism Policy lists 13 subsectors, whereas Vision 2020 highlights 5 clusters.⁵⁰

49. Product clusters: culture, heritages and peoples; cities and leisure; outdoors and adventure; religion and pilgrimage; and nature and wildlife (Nepal, 2009).

TABLE 3: PRIORITISED TOURISM DESTINATIONS ACCORDING TO TOURISM VISION 2020

Development region	Ecological belt			
	Mountain	Hills	Terai	Total
Eastern	Solukhumbu	Ilam	Sunsari	3
Central	Rasuwa	Kathmandu / Kavre / Sindhupalchowk	Chitawan	5
Western	Manang	Kaski	Kapilvastu / Rupandehi	4
Mid-western	Mugu	Pyuthan	Bardia	3
Far-western	Bajhang	Doti	Kanchanpur	3
Total	5	7	6	18

SOURCE: NTB (2009).

- **Development model:** Some suggestions on the type of tourism development are given, with the intention of ensuring an equitable distribution of benefits signalled in the Tourism Policy, which also gives some attention to ‘rural tourism’, and Vision 2020 emphasising that benefits should also reach women and marginalised groups. The need to sustainably use natural resources is also highlighted, as is the role of conservation areas. However, no further specifics on mechanisms and targets for achieving this are given.
- **Infrastructure development:** Infrastructure and connectivity are cast as a central tool for developing tourism. There are a number of specifics mentioned with relation to air travel, including building a second international airport and two ‘regional’ ones, as well as maintaining and upgrading existing domestic airports and ensuring aviation safety. The intention to develop other infrastructure through a public–private partnership (PPP) modality is noted, and Vision 2020 states that this will be achieved through coordination between government bodies.
- **Investment and human resources:** Promoting an enabling investment environment, and building capacities and human resources are the other main mechanisms specified. On the former, the policy suggests tourism should be declared a ‘basic industry’ and that relationships between government and business should be ‘harmonious’. Both highlight the role of the National Academy of Tourism and Hotel Management (NATHM), which is to become the ‘apex body’ for human resource development, and the need to build community capacities.
- **Marketing:** There are a number of provisions made for promoting Nepal to key international markets, in particular in Vision 2020. The need to develop an established brand and sub-brands, to run campaigns in partnerships with the private sector and to target key regional and neighbouring markets is signalled.

The Ministry of Tourism and Civil Aviation (MoTCA) is responsible for formulating and implementing tourism policy.⁵⁰ The 1972 Master Plan on Tourism recommended the establishment of a Ministry of Tourism, which was done in 1978, and a number of roles and responsibilities were outlined in the 1978 Tourism Act.⁵¹ Civil aviation affairs were included in its portfolio in 1982, and cultural affairs in 2000, before cultural affairs were transferred to the Ministry of Education in 2003 to leave us with the present day MoTCA. MoTCA’s main role is monitoring compliance, classifying hotels and other tourist businesses and sanctioning non-compliance through, for example, suspending standard classification, cancellation of licences etc. MoTCA also has oversight of the Civil Aviation Authority of Nepal (CAAN), the Nepal Tourism Board (NTB), NATHM (the apex body for human resource development) and Nepal Airlines Corporation (NAC – the national flag carrier).

50. MoTCA is split into five divisions – administration and tourism promotion; tourism industry; planning, policy and infrastructure; airlines and airport; aviation authority and safety – and a legal section.

51. The Department of Tourism was established in 1962, with the stated objectives of stimulating tourism, promoting Nepal as a tourist destination abroad, formulating tourism policies and plans and implementing programmes; however, most view the starting point of tourism policy in Nepal to be the first tourism master plan, which was developed in 1972 (Bista, 2009).

NTB is responsible for tourism marketing and promotion. Established by an Act of the Constituent Assembly in 1997 (2053), this was set up as a PPP, entirely funded by tourist arrival fees (and now other PPP efforts such as the trekking information management system), and managed by an independently recruited chief executive officer with a board composed of public and private sector representatives. As well as outlining its primary responsibilities, the Act laid out the ambition for it to one day take over regulatory and product development activities. It is currently ‘overseen’ by MoTCA.

Overseen by the National Trust for Nature Conservation (NTNC) and the Ministry of Forest and Soil Conservation (MoFSC), protected areas (PAs) are key bodies. There are a variety of different types of PA, including national parks, wildlife reserves, conservation areas and buffer zones, covering a total of 34,185.62 km², or 23% of the total area of the country. They are set up to manage and protect the environment and natural resources of the area, and also to provide funding and management for local development efforts. There are differing levels of power and resource sharing, with the Annapurna and Manaslu Conservation Area Projects (ACAP and MCAP) run by local communities with oversight by the NTNC (on a renewable concession from MoFSC), Kanchenjunga Conservation Area overseen by the Worldwide Fund for Nature (WWF) and the national parks and wildlife reserves managed directly by the Department of National Parks and Wildlife Conservation, (DNPWC), within MoFSC. Although there are some aspects of the legal framework not in accordance with international best practice on participation and local benefits (Paudel et al., 2011), independent studies have confirmed strong legitimacy, capacity and effectiveness in some of these bodies (e.g. ACAP – Baral and Stern, 2009).

Many key powers and responsibilities relating to tourism development are distributed among various other ministries. Nearly all of the key levers for promoting tourism mentioned in the Tourism Policy are the responsibility of other ministries.

- Responsibility for national-level road transport infrastructure lies with the Department of Roads in the Ministry of Physical Planning and Works.
- District Development Committees (DDCs), the local development bodies under the Ministry of Federal Affairs and Local

Development (MoFALD), have responsibility for local infrastructure provision and the development of livelihoods and income generation opportunities. They therefore have a key role in destination and product development and management, and the Tourism Policy signals the intention to establish tourism development units in DDCs with tourism potential; however, it is not clear to what extent this has occurred.

- The investment environment is largely influenced by the Ministry of Finance and the Ministry of Industry, which also play the central role in private sector regulation.
- Visas and various entry permits are dealt with by the Immigration Department in the Ministry of Home Affairs.
- The Tourism Policy announced the formation of two high-level national tourism councils to coordinate between ministries: the National Tourism Council (chaired by the prime minister) and the Tourism Development Coordination Committee (chaired by the minister for tourism).

Tourism policies have not consistently been backed up with practical plans and budgets. Following on from the lack of prioritisation and specificity in the Tourism Policy, there have been few attempts by MoTCA to develop detailed action plans, allocate specific responsibilities, set timeframes, milestones or targets or monitor progress. The budgets of MoTCA (NRs. 1.06 billion in 2011, \$12.2 million) and NTB (NRs. 620 million, \$7.18 million) are not commensurate with ambitions and tend to be allocated to recurring expenditures. NTB has made some efforts, with annual plans and progress reports (in some years), as well as regular publication of annual tourism statistics.

Sector analysis and key problems

This section begins with a brief analysis of the strengths, weaknesses, opportunities and threats relating to securing inclusive growth through tourism in Nepal, and follows on by presenting three key problems for the sector.

Strengths, weaknesses, opportunities and threats

Nepal has strong natural endowments and some unique assets for tourism development. These assets give the country a comparative

advantage in the sector, and means there is considerable potential for establishing it as a key pillar of the economy, to the extent to which the endowments and heritage can be properly developed and managed.

The country has an established image and niche within international tourism. This is demonstrated by the broad and steady increase in visitor numbers, and various high-profile endorsements such as being recently listed by the Lonely Planet as a ‘top 10 budget destination’. There have been some notable recent improvements in marketing, such as with the Great Himalaya Trail product, but the extent to which the strength of the niche owes to marketing is unclear, and either way this points to marketing not currently being a major constraint.

Diversity (of attractions, activities and locations) is a considerable strength of the tourism sector in Nepal. The potential to engage in a diverse set of activities is an attraction in itself, and also means there is potential for developing a number of subsectors. This also means there is some level of stability with respect to changing international tourist trends and tastes.

High diversity in visitors’ country of origin provides additional stability. Nepal has a very low ‘tourism concentration ratio’, indicating a wide diversity of tourist-generating regions and low reliance on tourists from any one particular country (Pearce, 1987). This provides stability to withstand adverse trends in target countries.

There seem to be **considerable opportunities for the development of new markets, products and services.** Other countries with similar portfolios for tourism have emerged from conflict and shown two- and three-fold increases in the value of their tourism industry in the period between five and fifteen years after conflict, and this indicates the potential for Nepal to expand the sector over a relatively short timeframe (NMDP, 2013):

- **Neighbouring markets:** With the burgeoning middle class in India and China, tapping more effectively into these markets represents a considerable opportunity. These are very different from Nepal’s traditional tourist visitors, and may hence need careful supplementing of existing product offerings or the development of new products.
- **Domestic tourism:** Little is known about domestic tourism in Nepal but, given

that its value is estimated to be at least equal to international tourism, it is poorly understood and underemphasised by government, international agencies and some in business.

- **Pilgrimage:** Religious tourism is a growth market, and there is a wealth of cultural and religious sites suitable for development as pilgrimage products. These assets currently remain underdeveloped and it is likely that very little money is captured from tourists visiting for these purposes. In particular, there is a dearth of higher-value offerings.
- **High-value products:** There is space for the development of high-value tourism products. For example, a number of areas are suitable for development as mountaineering destinations, and high-value services can be established around existing products.
- **Supplementing trekking products:** There is a gap in the market for shorter treks (popular especially with older visitors) and treks in the rain shadow during monsoon (out of peak season), and areas near the centre of the country are suitable for development as high-volume trekking routes.
- **Nature tourism:** There is also considerable potential to develop nature tourism – despite the fact that 23% of the land area is covered by national parks and PAs, the vast majority of visitors are currently focused on a small number of these areas.
- **Business and events tourism** could be developed in a number of areas, building on the steady flows currently witnessed. Pokhara would be an ideal destination, if international and national connectivity could be improved.

Increasing numbers with decreasing value capture, along with signs of key assets reaching carrying capacity and degrading, represent the central problem for the Nepali tourism industry. This assessment is supported by the available information presented in the sector mapping, and by expert informants interviewed for the study. These trends threaten to undermine the continued viability of Nepali tourism, and of establishing the sector as a mainstay of the economy in the medium to long term. Continuing a shift to a ‘high-volume, low-value’ type of tourism would be particularly unwise, and these trends show there are some underlying issues to be addressed in order to ensure the country obtains maximum benefit to the economy from the tourism sector.

Given its almost unparalleled natural and cultural assets for tourism, Nepal's main problem is internal – one of properly developing and managing its offering.⁵² Many of the underlying weaknesses that constrain the operation and development of tourism in Nepal are symptomatic of broad, systemic problems, including:

- **Poor infrastructure**, including poor coverage and low quality of roads, and unreliable domestic air services, increases the costs and reduces the value captured from tourists. Poor availability of services such as electricity and sanitation means it is costly to provide adequate facilities and levels of services, especially in more remote parts of the country.
- **Political instability** gives rise to a number of broad uncertainties and encourages certain behaviours, which both cause challenges for private sector investment and operation. Specific challenges related to this include events such as strikes and closures, which prove costly to tourism businesses as well as damaging to the image of the country.
- **Human resource constraints**, such as low levels of education and literacy, and deficiencies in vocational education and skills training, reduce private sector capacity. This presents challenges to businesses looking to provide higher-quality services, and also constrains poorer people from benefiting from tourist flows in both rural and urban areas.
- **Economic governance** issues affect the sector, such as poor implementation of public investment, macroeconomic problems with respect to balance of payments, poor monitoring and enforcement of regulations around business standards and practices and rent-seeking and corruption by political parties and others.
- **A poor investment environment** stems predominantly from political and administrative instability, a lack of consistent planning and implementation, insufficient government support arrangements and escalating labour disputes (as well as the challenges of unreliable electricity) (Upreti et al., 2013).
- **A lack of leadership** in the sector further constrains its development, with few decisive actions taken to articulate a vision, to signal intentions to domestic and international investors or to prioritise between the many activities and destinations.

While the relieving of the issues above would be sufficient to enable the healthy development of the sector, it is not necessary that they be addressed at scale in order to do so. With respect to political instability, for example, tourism businesses are often exempted from strike action, with tourist vehicles allowed to ply the roads even when a full shutdown is in force. Or, with respect to infrastructure, one or two specific transport routes could make a major difference to developing certain areas for tourism. While at one extreme the dynamics of tourism development in 'enclaves' has rightly been criticised for lack of inclusiveness (e.g. Williams, 2002), it is testament to the fact that profitable businesses and a functioning sector can be built in the absence of many supportive enabling conditions at a national scale.

Addressing some constraints to the development of the sector is likely to have wider knock-on effects, catalysing and enabling additional efforts.⁵³ In other words, not all of the factors constraining the development of Nepali tourism are equally 'binding', with some likely to have a broader systemic impact than others and hence deserving higher prioritisation.⁵⁴ With international visitor numbers continuing to rise, and signs of carrying capacity being reached, marketing is not currently the most pressing issue. Strengthening human resources for tourism is important, but may not have strong knock-on effects while semi-skilled workers can earn many times domestic salaries by working abroad, which may continue until Nepal is able to reap greater value from tourist flows. And improving the national investment environment is important, but is unlikely to be feasible for a number of years until political instability reduces – and until then there are more pressing challenges.

52. Although 'threats' would normally be listed along with the weaknesses, representing external challenges, these are not currently the most important issues.

53. The focus on ensuring aid is catalytic has achieved attention recently, to make sure it is directed so as to promote additional development-enhancing changes in policies and institutions, and so it 'crowds in' and complements other financial flows to the greatest extent possible (Rogerson, 2011).

54. The importance of focusing government efforts on 'binding' constraints has been emphasised by Hausmann et al. (2005); while there is no formal definition, the general idea is of a constraint on development which, if addressed, would have a more significant impact on development than the addressing of other constraints.

The following three problems represent the most urgent and pressing problems for the sector, and addressing these issues could catalyse broader systemic change.

Destination-level management

There is a lack of concerted actions to manage and develop areas, including problems with installing small and medium infrastructure, inadequate services such as water, waste management and electricity and poor planning and zoning. Related to this there is also poor management of tourism attractions, with many being degraded and significant worries about safety and sustainability. This also severely hampers the ability to develop new products.

There are serious problems for nearly every one of the country's established destinations, such as:

- In Pokhara there are issues of ad hoc and haphazard land use development (Adhikari and Seddon, 2002), which is damaging the image of key areas. Phewa Tal, the lake that is the signature attraction of the city, faces problems with pollution, waste and siltation, which have led to dangerously low water quality and may mean there is no lake remaining in 40 years' time (the current area is already less than half its original size) (Adhikari and Seddon, 2002).
- In Lumbini visitor numbers are thought to top 800,000 with very little revenue collected, and there are reports of degradation of key attractions, with only one of seven pillars that mark the key pilgrimage sites still standing.
- In Chitwan National Park there has been a decline in some key species and their natural habitat, as well as the expulsion from the park of a business that pays more than 70% of the taxes collected for the district not to mention services provided in-kind towards the upkeep of the park.
- In Kathmandu poorly managed and unplanned urban development and poor waste management contribute to an unattractive environment for tourists, while some key cultural sites are degraded. Recently, there has been conflict over the preservation of houses in key world heritage sites which threatens their sustainability (Maharjan, 2012).

- On Mount Everest overcrowding results in queues for the summit that are hundreds of people long, which are causing serious safety hazards and contributed to some of the recent deaths on the mountain. The gateway to Everest, Lukla, has big challenges with waste management and insufficient water services, and annual flight problems see thousands of tourists stranded for days with diminishing supplies and overcrowded conditions.
- In Upper Mustang the promised 60% of revenues to be recycled to the local area does not arrive, and with the government-specified limit of 2,000 visitors per year not enforced, it is forecast that the destination will be undermined within short order owing to unmanaged tourist flows and associated development (Lonely Planet, 2013).

These trends reduce value capture and inclusion and in the medium term threaten the viability of the sector as a whole. The actual and potential consequences of these trends are hard to quantify, but likely to be quite large. The destinations facing problems with degradation mark out the most popular attractions for foreign tourists and see the vast majority of tourists between them – so losing them would be a serious blow to the sector. Inadequate management is also part of the reason for poor value capture overall, and also with relation to money remaining in tourist localities, especially in poorer and more remote areas. Poor local value capture means slower development of those areas and the products they offer, dragging on the value of the sector overall as well as the extent to which different geographic areas are 'included' in it.

Better destination-level management could have a number of positive knock-on effects. It could give impetus and funding to installing the requisite small- and medium-sized infrastructure, in particular improving local transport and trekking links and providing services such as water and energy. It could also strengthen the ability of the tourism sector to weather issues relating to political instability, with a stronger platform for negotiation between local players, and similarly to pressure government and others to provide services for rents extracted. Steady and rational management of destinations, in the common interests of local stakeholders, could also provide some of the stability required by potential investors.

National-level connectivity and public investment

There is poor national-level management of, and public investment in, tourism, with the most urgent aspect being poor connectivity. Problems with an inadequate road network are longstanding, and make access to many areas with tourism potential very difficult. Bus operators work as a cartel, creating additional challenges in the provision of tourist services.⁵⁵ There are insufficient airports serving hill and mountain areas, and the existing ones are not kept or managed well. Domestic airlines are frequently unreliable and have a poor safety record (with an average of over one crash per year). International arrivals already exceed the official capacity of the one international airport by 50%, and plans to develop a second international airport have made very little headway for 20 years.⁵⁶

Poor connectivity reduces the ability to develop new areas. Reaching many destinations requires devoting multiple days to the journey, making them effectively ‘off the map’ for most tourists. Few tourists visit places such as Humla, Dophla or Kanchenjunga because the long travel times and uncertainty around flights make them impossible to fit into most average lengths of trip – for example, visiting Humla requires devoting eight days to the journey from Kathmandu to the trekking trail and back, compared with the average of thirteen days in-country.⁵⁷

This is not yet constraining growth, but increases pressure on established destinations. As there is already stable and continued growth in the overall value of the sector and arrival numbers, and a good deal of diversity in the attractions on offer, inability to reach other destinations is a bottleneck to net growth in the future.⁵⁸ However, there are some indications that flows to key hubs and destinations is exceeding the capacity to manage them, so the difficulties in expanding tourism in ‘new’ areas does have a more immediate effect. Other connectivity problems further contribute to the possibility of an undermining of existing products. For example, poor air safety has a high reputational risk.⁵⁹ In addition, large public investments (as with transport infrastructure) are one of the main tools with which the government can provide leadership to the sector, to try and influence its development and private sector investment to ensure maximum benefit to the country. Without making such investments this function has been surrendered.

Poor national connectivity is an issue for the inclusivity of the sector only in the long term. Often, poor connectivity is taken as a constraint to geographic inclusiveness of the sector, but this is not necessarily the case in the short term: when new areas are opened up for trekking, it takes years if not decades for the local private sector capacity to grow, during which time little revenue is left in the local area. The impact of transport infrastructure on the economic growth of an area is complex (Jones and Demenge, 2013), and will not always be positive: the most immediate effect of a new road or airport may be to increase migration away from remote areas, and the undermining of local markets through imported goods. However, a number of contributing factors, such as strengthening local capacity and marketing, could enable the development of new routes to contribute to the geographic inclusiveness of the sector *over the long term*.

55. Recent news shows that cartels form very quickly, even on roads that have only been open for a year.

56. There are a variety of faults highlighted with the management of Tribhuvan International Airport (TIA), but of particular concern should be the fact that it is designed to handle only 1,000 passengers a day (NEF, 2011a) – the actual number is likely to be closer to at least 1,500 per day in 2011 (without even considering seasonal peaks). Four sites have been proposed for building a second international airport, but current progress is unclear (despite announcements having been made for some over a decade ago), and it is also unclear whether there are any plans for linking them with tourist destinations.

57. For example, as it is six days’ walk from the nearest road and without a nearby airstrip, a trip to the Manaslu Conservation Area tends to require a minimum of twenty days in-country. Travelling to Humla requires taking two connecting flights, each of which has only one service per day, which is frequently cancelled owing to poor weather or when the airline feels it will make more money from operating its plane on another route – requiring a travel time of +/- three days for each leg. This is followed by a one- to two-day trek to reach the actual trail.

58. There is space for the development of one or two more ‘high-volume’ trekking destinations within the existing area of higher connectivity, such as routes around and between Langtang and Manaslu, which could add space for 60,000-80,000 visitors per year (NMDP, 2013). However, with trekker numbers at around 200,000 and visitors growing by 15% per year, these destinations would soon be filled also. Similarly, the lack of a second international airport is not currently constraining growth, but may do so when TIA operating at over-capacity begins having more visible consequences or knock-on effects.

59. Although until now lack of safety in the air has not obviously led to reduced arrivals, this may change with different magnitude of accidents or higher frequencies.

Barriers to high-value products and services

There are a series of problems that hinder businesses in the provision of higher-quality services and catering to higher-value clients. The investment climate is part of the issue, as turmoil and instability disincentivise large investments in one or two businesses and instead promote more inefficient spreads of investment. A low level of public product and destination-level investment further constrains higher-value investment. In particular, insufficient government provision of infrastructure and services imposes considerable costs, as do low levels of skills and poor human resource development. There are few incentives for businesses to upgrade their products or invest in human capital.

There is a crowding of the market by small and low-value business, and limited higher-value enterprise. ‘Unhealthy competition’ entails companies competing on price alone, undercutting each other and paying little attention to the quality of products provided to tourists. Poor adherence to and enforcement of business standards reduce the incentive to focus on quality. A prevailing ‘copycat’ mentality and government barriers to innovation further hinder the quality of offerings. Interviewees reported fewer higher-quality tour operators selling packages into Nepal, and there has been very little growth at the higher end of tourist services over the past five years.

Larger and higher-value businesses face additional costs. Businesses with small numbers of employees are not required to pay value-added tax (VAT) and do not face problems of industrial action. Larger, better-established and higher-value businesses tend to be more frequently targeted by rent-seeking activities, given their higher visibility and perceptions of success.

It is likely that these factors are contributing to the reduction in value capture. The constraints to higher-value services have a direct impact on the overall level of value capture in the sector. Furthermore, they are likely to have an effect on trends of degradation: a more stable environment and more consistent enforcement of standards would see businesses on the whole able to take more responsible actions, and hence trends of degradation may decrease. Higher value capture could also help address challenges with human resources, because at the moment tourism businesses are frequently unable to compete with wages offered by employment abroad.



2

The political economy of tourism

This section outlines the drivers and constraints around the three ‘binding constraints’ to the development of tourism in Nepal. It looks at the dynamics behind each of the issues, looking at how political economy factors shape the prospects for addressing it and what the role of knowledge is. For each, the points are arranged to move from structural characteristics to institutional features, incentives facing actors, strategies employed and then the role of knowledge, information and beliefs in stability and change.

Drivers of destination management

The foundations for local-level governance are set by the ethnic make-up of a destination, although this does not fully determine the outcome. Common social or ethnic identities are a key ingredient in allowing for a coherent platform for governing and managing an area in the common interests of its residents. Nepal in general has a very large number of different ethnic, cultural and social groups, and many areas are highly mixed. This means that good management of many destinations faces an uphill battle, while areas with limited ethnic diversity (e.g. Sherpas in Sagarmartha) have proven to be more successful in governing the areas and managing tourism.

A key absence in shaping local-level management is the current lack of formal accountability mechanisms at the local level, and the basic transparency required for this. There have not been local elections for over 15 years, and will not be for an unknown amount of time, with the Ministry of Local Development centrally appointing the heads of all local government bodies – DDCs, village development committees (VDCs) and municipalities. The lack of formal mechanisms (e.g. elections) limits the incentives for local governments to respond to the needs and preferences of their constituents (Jones, 2010). This problem is compounded by the fact that heads of local government bodies are rotated on a regular basis (between six and eighteen months seems to be the typical stay), which further reduces incentives and places additional practical difficulties on building the informal relationships required to function for accountability and responsiveness.

Norms of patronage are widespread, but do not necessarily inhibit good (enough) local governance. Positions of power are distributed according to loyalty and group membership,

and are then used to serve the interests of client groups (Jones, 2010). This sees local government often serving specific portions of the population: often, those in power will look to serve their caste or ethnic group, or their area of origin. This can have some positive implications for local-level governance, in areas where one or two groups make up the majority of the population. However, it can also lead to corruption and rent-seeking behaviour, with initiatives of some local government bodies and also business associations frequently seeming to impose tolls and collect levies without any indication that the money raised will be used for the development of the area or the sector.

Two types of patron-client dynamics suggest different prospects for local governance. On the one hand, Nepal has a strong tradition of local-level democratic norms and institutions. There is a wide variety of governance and management arrangements set up without central directive for the management of common pool resources such as community forestry groups. These are recognised as effective, legitimate and highly successful not just by Nepali standards – they are also championed internationally as examples of ‘good practice’ (Ostrom, 1990).

On the other hand, there is a history of extractive relationships between the centre and the periphery in Nepal (Whelpton, 2005). Present-day manifestations of these patterns are MoLD-appointed heads of DDCs and local political party representatives, usually centrally placed individuals bound to serve Kathmandu elites (Jones, 2010). In the past, such arrangements co-existed with a functioning micro-level democracy in the Panchayat system, so it is not necessarily the case that local institutions for democratic governance will trump this trend. For example, many schemes designed to ‘recycle’ tourism revenues to tourist-receiving areas function just to fill coffers in Kathmandu.

In some locations there are formal bodies in local government for the management of tourism, such as tourism development committees (TDCs). There has not been any analysis of these institutions, which in many cases are relatively new. Although the intention to set up such committees is part of official government policy, often they come into existence only for donor projects. The functioning of TDCs is likely to be strongly influenced by the local manifestation of the previous two features of the institutional make-up of local level management: lack of formal accountability of government bodies and patron–client relationships.

Management is influenced by the extent to which the natural boundaries of tourist flows are clear and coincide with administrative and ethnic/social boundaries. Opportunities for developing, improving and protecting tourism products and services are generally focused around specific locations and a ‘watershed’ of tourist flows into and around a particular area; similarly, the constraints and challenges to overcome in doing this are likely to be more easily addressed on a geographically constrained basis. With a clear and limited boundary, stakeholders face a more manageable task in dealing with potential free-riders, tackling common problems and capturing the broader benefits of a collaborative effort. And, given the need to interact with a variety of overlapping problems of common pool resource and public good provision, where the contours of ‘good management’ are similar to the natural ‘boundaries’ of tourist flows this is likely to make the task more manageable (Ostrom, 1990).

Incentives relating to destination development vary in the extent to which they promote or hinder good local management. One axis of variation relates to the nature of the products they rely on and their position in the value chain. Competition between destinations offering similar types of tourist product has in some instances contributed to strong and inspired local management of tourism (e.g. Bandipur). However, local stakeholders are more likely to be driven towards stable and rational local management of assets and resources where destinations rely on a single attraction or activity and hence have clear common interests; conversely, areas characterised by multiple tourist activities, or multiple different industries and sectors, face bigger challenges to overcome for collective action.

There are many incentives for the private sector to make major contributions to local governance and management initiatives, but not always. Businesses, especially where successful, high

profile or longstanding, often face pressures to contribute to their local area, for example through employing locals or providing small-scale infrastructure. This is particularly noticeable in poorer regions and more remote areas, where successful tourism enterprises support a surprising extent of local public goods and services, but also occurs in more affluent and urban areas. In some places, short-term and self-interested behaviour is incentivised by a precarious economic existence, and/or challenges of instability and uncertainty; where tourism has been stable and growing for years, local actors have been less likely to see issues as zero-sum and more likely to invest in collective solutions to their problems.

Concerted efforts to build relationships and trust have made some difference to local management. Within the confines of the structural conditions, institutional make-ups and prevailing incentives, the specific strategies employed and actions undertaken by stakeholders have had some influence also, with a few notable positive examples. Successful efforts have often been led by highly respected and often politically relatively neutral individuals, where destinations are characterised by a small number of key players together with efforts to build trust and hence collaboration and good management. Meso-level institutions for the management of resources and local governance (such as ACAP), where built purposefully but organically around local democratic norms, have proven to be legitimate and effective management bodies (Baral and Stern, 2009).

However, more often **the management of tourism is characterised by poor partnerships** between local-level stakeholders, even between different subsectors of the industry. Hotel owners, restaurant and bar owners, taxi drivers etc. often contest and come into conflict over local management, seeing issues as ‘zero-sum’ and with their respective associations refusing to compromise. The national trend of poor relationships between the public and private sectors is also germane, as this constrains the ability of government to catalyse or facilitate any kind of change in the sector.

In many destinations, there is broad recognition of problems and challenges faced, but this ‘citizen knowledge’ is fragmented. Divergent values, interests and identities inhibit the possibilities of bringing perspectives together to form a comprehensive, coherent and collective image of the issues. Where there is some kind of prominent symbol of an area that faces visible

problems – such as the pollution and siltation of Phewa Lake in Pokhara – this can help build shared recognition on the need for action, and in many cases some causes and consequences of local problems have been elucidated further through the contributions of scientific knowledge (such as environmental assessments in Pokhara and Sagamatha). However, as many of the challenges faced are partly caused by the behaviour of different groups, information and perspectives on this are more divisive, and hence harder to integrate; there is little help in the form of credible, research-based knowledge on these issues.

Suitable platforms for collectively prioritising problems, and initiating solutions, are on the whole missing. As most of the problems faced involve distributed costs (e.g. environmental damage affects many, but often indirectly and through intangible causal chains), and partly distributed benefits (the tourism sector would benefit, but so would other groups), majoritarian or entrepreneurial policy and decision-making is required (Jones et al., 2012). However, with the lack of local elections, there is no public platform or broad public attention to the issues, or strong mechanisms to translate this into action. There are some mechanisms, for example where tourism or businesses associations represent the majority of local interests, are relatively transparent and founded on relatively democratic principles, which can offer ‘second-best’ possibilities for motivating and organising action;⁶⁰ similarly, where communities are relatively homogeneous, informal and traditional spaces for dialogue and leadership can facilitate problem assessments and agreement on action.

Some of the knowledge and practical experience required to facilitate action on local problems is available, but there are gaps and challenges of politicisation. There are some clear challenges:

- **Social mobilisation gaps:** With its history of micro-level democracy, there is a cadre of ‘social mobilisers’ and others with experience of enabling collective action. However, there is a gap between the micro level and the scale at which most local challenges occur, and entrepreneurship to aggregate up to this level is generally missing.
- **Low accessibility of technical knowledge and expertise:** One key gap is with respect to scientific and technical knowledge about how to address problems (e.g. environmental science, engineering), which is generally scarce outside of Kathmandu, with local bodies

having limited resources to obtain it. Without this, the legitimacy of collective solutions can erode owing to inefficient and ineffective interventions.

- **Lack of independent monitoring:** Implementing collective solutions to many of these problems requires credible monitoring and enforcement. Unfortunately, with many individuals, local bodies and national agencies often politicised, few domestic actors are perceived as independent enough to carry this out. Limited ability to draw on expertise and technical knowledge to do this further contributes to this problem.

Drivers of national connectivity and public investment

The sparse nature of the transport network and of public investment outside Kathmandu reflects historical strategies of neglect. Strategic and nation-building concerns have played a major part in holding back the development of much of the country. Ruling elites pursued nearly two centuries of a ‘no roads’ policy, designed to consolidate their power in two ways. First, denying a functioning transport system denied the British the means for invasion; second, leaving the majority of the population faced with a poor, subsistence lifestyle and minimal ability to organise reduced internal threats to ruling dynasties (Molesworth, 2001; Whelpton, 2005).

The distribution of public investment in general and transport infrastructure in particular reflects the political geography of Nepal to a large extent. Continuing the above trend, the major links that have been built reflect political and security concerns to co-opt, integrate and reward. Most starkly, the central region and Kathmandu, as the location of the main power bases in the country, have the highest density of roads, whereas the limited power and political importance of the East, Mid-West and Far-West in particular are reflected in their lower road densities. The East–West highway was driven predominantly by the king’s nation-building concerns (Blaikie et al., 1980), with the Terai a key economic heartland as well as home to the open border with India, and the ‘hub and spoke’ layout of the network prioritises access from the capital, while travelling

60. For example, Pokhara Tourism Council is made up of the local chapters of all tourism associations, and holds regular elections with a strong level of perceived legitimacy and healthy political competition.

between nearby districts requires long round trips. There is sensitivity around installing significant infrastructure in the North, near the border with Tibet, owing to Chinese security concerns.

These factors mean there is lower pressure to put airports or roads in hill and mountain areas, where places of natural beauty are often highly remote and of limited political importance. On the other hand, sites in the Terai continue to gain in power, and, as **identity issues and federalism** continue to rise up the political agenda, this *may* result in a more even geographic distribution of political power and hence greater chances for previously low-priority areas to stake their claims on resources.

Transport infrastructure tends to be distributed according to patronage and clientelistic norms, as with much public spending. Choices around which roads to fund, and how to route them, are driven by the need to benefit constituencies (usually the ethnic group or party members of politicians or politically appointed civil servants). Demands from and competition between such groups represent the dominant underlying dynamic shaping connectivity in Nepal, and hamper the chance of any formal decision-making process. As a government document acknowledges, ‘allocations for infrastructure or budgets for development works are mainly influenced by demands made to government bodies either directly through “delegations” of local government leaders or through their local representatives’ (DoLIDAR, 2009: 12).

These same incentives hinder the ability to build links of sufficient quality and constrain the effective implementation of public investment more generally (Jones, 2010). Limited resources mean it is often possible to build only a small number of routes effectively. However, practice reflects the interests of decision-makers, who spread resources across a large number of routes in order to win the allegiance of large numbers of communities.⁶¹ **They are interlinked with rent-seeking and corruption**, which further hinder quality. Positions of power and influence are often bought or distributed according to loyalty to patronage groups, on the understanding that this will be repaid by the position holder’s ability to direct resources (e.g. allocating construction contracts).

The tourism industry does not form an effective lobby, owing to fragmentation. Tourism in general, and particularly in Nepal, where the sector is so diverse, covers a wide variety of economic activities and relies on a diverse set of resources. It is influenced by a variety of actors at a number of levels, in industry, government and elsewhere

(Richter, 2002), and the fate of players in the capital is tied to those at local levels, and hence to politics and instability at the periphery of the economic and political systems (Zurick, 1992).⁶² Tourism development is thus likely to be the result of a multitude of decisions and actions made by a distributed set of actors, with diverse values and interests. As such, there are major collective action barriers to overcome even where there might be real economic gain at stake through the development of the sector. The challenge is even greater because of the crowded market, and also the proliferation of tourism-related associations.

Roads-related government bodies are relatively strong, but tourism is not a consideration in planning or implementation. The Ministry of Physical Planning and Works (MPPW), and within this the Department of Roads, has a considerable budget, attracting higher-capacity civil servants as well as large amounts of donor funding and technical assistance. Priorities reflected in policies, plans and other formal documents do not consider the needs of the tourism industry, however.⁶³ Moreover, MPPW also has high political profile, and attracts political appointees owing to large opportunities for rent-seeking. This increases the space for the patronage drivers mentioned above and, again, reduces the strength of tourism’s claims on roads. Furthermore, with most major ministries distributed between coalitions on the basis of rent-seeking opportunities, inter-ministerial coordination is difficult.

Tourism national tourism management bodies are weak. CAAN, and MoTCA, within which it sits, has few powers and relatively a very small budget (with less than 1% of the budget of MPPW, for example),⁶⁴ and has witnessed very high ministerial turnover (NMDP, 2013).

61. This is not just the case with rural roads, but even in the strategic road network. For example, funding is spread across all eight potential North–South routes as opposed to being directed towards the one or two that are most promising or beneficial.

62. This stands out in contrast to a good deal of economic activity in the country, where Kathmandu can effectively go about its business regardless of the social, economic and political dynamics of more remote regions, and further adds to the challenges of building collective and consensual action in the sector.

63. Connecting by road all 75 District capitals is the primary aim.

64. The total for FY 2009/10 was NRs. 216,111,000 (over half of which was for one specific Asian Development Bank (ADB) infrastructure project) – which is equivalent to less than 1% of the budget for MPPW, less than 1% of the budget for MoLD and 1% of the budget of the Ministry of Education. In fact, 10 other ministries have budgets around 20–30 times that of MoTCA.

Despite its high public profile, the sector is marginal to politics and government, and is poorly managed; despite reasonable policies on paper, there is a history of low capacity and non-implementation, with policies not backed up by plans, resource allocations, projects or activities. The general impression is of a sector that has developed according to unplanned, uncontrolled demand (Agrawal and Upadhyay, 2006), in particular relating to airport development. As possibly the only high-value good to (occasionally) distribute, decisions on airport development are taken behind closed doors, based on competition between groups lobbying the minister (and often largely determined by the allegiance of the minister) rather than through any formal planning (or consideration of tourism potential).

Inter-ministerial coordination is a major challenge, owing to patronage and political competition. Ministerial positions are bought and fought over by individuals and political parties, for the benefits that can be accessed by those in charge. This makes each ministry (and departments within a ministry) into a 'domain' of power, serving the interests of the minister in order to capitalise on the opportunity presented by the position. In this context, ministries will tend to engage in 'turf wars' and fight to hold onto maximum resources, rather than engaging in constructive coordination and collaboration. Bodies set up to tackle coordination tend to exist only on paper, for example the National Tourism Council set up in 1992 met only five times in thirteen years, and its replacement has not been significantly more active (Purush Dhakal, 2005).

Bus cartels and other transport unions also hamper connectivity. Poor connectivity is not just an issue of transport infrastructure but is also related to problems with road users. Cartels effectively kill competition, and function as major barriers to the development of any new services. Similarly, challenges with air connectivity relate to the operation of domestic airlines companies – the next subsection covers the drivers of this corner cutting and the weakness of regulating bodies.

Improving connectivity is one of the most prominent public policy issues in Nepal, but there is no consensus on where, or to what end. The broad and deep level of agreement about building roads and other transport infrastructure stands out as a special case in a country that has many problems in establishing consensus. It can be seen in policy debates and government

action, as well as in popular attitudes and political rhetoric. However, there is a range of divergent ideas about what roads should be *for* – with adherents focusing on economic ends, social goals, political and strategic interests or administrative concerns – and to some extent they seem to be accepted as an end in themselves. This limits the space for government action to prioritise investments, as there is no agreed basis on which to do this, and further allows for the wide dispersal of resources.

There is limited knowledge about which are the areas of high tourism potential in Nepal. Very large numbers of areas claim to have high tourism potential, many of which are in highly remote areas, which presents practical problems for making such assessments. For any assessment to be truly independent and objective, and to be seen to be so, there are very large obstacles to overcome. With the norms of community- and locality-based patronage, and the competition between different areas for scarce resources, most planning and prioritisation exercises become politicised or driven by vested interests.

A strengthening economic lobby in government could represent an opportunity to promote tourism-related infrastructure investments. The greater weight being given to economic concerns under the current government may help focus investments on transport infrastructure. In particular, the recently established Nepal Investment Board (NIB), which has responsibility for some key infrastructure along with wide-ranging powers and high-capacity staff to deliver them, is an opportunity for the promotion of improved public investment and the required infrastructure. There have also been moves recently to establish a high-capacity macroeconomics unit at the centre of government.

A purely technocratic approach to choosing national-level investments may cause backlash and blockages, however. Scientific and technical knowledge tends to be best brokered on issues with commonly agreed goals (Jones et al., 2012), but there is an aforementioned lack of agreement on the ends roads should serve, and on the priority areas for tourism development. Moreover, there are also challenges related to projecting the long-term economic benefits of large transport infrastructure with respect to the development of an area, which would need to be overcome for tourism to stake a claim in this forum (especially as a great deal of building is done through PPPs, and hence potential revenues need to be predictable *ex-ante*).

Drivers of product and service quality

The tourism sector is affected by the legacy of the conflict, and by continued instability. The conflict caused a drastic reduction in flows of tourist arrivals and revenues, and this in turn hit hard many of the people who had invested in it and who relied on it for their livelihoods. Since the end of the war there has been a high level of political instability, with very few governments lasting more than a year, a significant amount of turmoil and unrest and a series of mini-crises such as fuel shortages. The effect of this is to drive many businesses to operate with a high discount factor – placing relatively high value on short-term profit ahead of longer-term, larger (but more uncertain) gains. This factor seems to apply less for businesses, subsectors and areas that have witnessed periods of steady growth, but elsewhere has the effect of slowing investment and increasing corner cutting; quality of service is often sacrificed.

There is a history of poor relations between the private sector and government. Before the 1990s, Nepal operated a controlled economy; while policies have slowly changed, their implementation is in some areas inadequate, and sceptical attitudes remain around the role of the private sector.⁶⁵ There is a low level of trust and understanding between government and the private sector, with government infrequently consulting industry in any meaningful way, and with a common perception on the part of business that any government action (or inaction) is the result of corruption. This lack of trust in the primary regulating body reduces the ability for government to effectively carry out this role, as few business people believe rules are ever even-handedly enforced. This also leads to high transaction costs associated with any interactions between the two (although, as noted above, the government approach to the sector so far has been predominantly *laissez faire*).

In particular, **government behaviour results in a disincentive to innovation.** Businesses attempting to undertake an activity or carry out a service for the first time face high costs in the face of distrust and risk aversion on the part of civil servants. Entrepreneurs have to devote a considerable amount of time (and/or money) to persuading MoTCA to permit even pursuits well-established elsewhere, with turnover at the ministry causing added uncertainties and costs. While the first company to do something bears these costs, once it has secured permissions others can take up the idea quickly without having had to make the initial investment.

Rent-seeking and corruption inside and outside of government damage the sector. Rent-seeking behaviour is prevalent, with a variety of government and non-governmental bodies finding ways to extract money from tourist flows. There are a large number of different types of fees and charges levied on tourists and tourist enterprises, at the national and local level, with formal fees and also informal levies. Little of this money is used to provide some kind of service to tourists or businesses, and, although in some instances arrangements that began as clear rent-seeking have opened space for actors to demand benefits and services in return, otherwise this must count as value lost to the sector.

Corruption in government and regulatory bodies hinders the enforcement of quality standards. Prevailing expectations of corruption undoubtedly have a firm grounding in reality, even if the actual extent may not be quite as widespread as the stereotype. As mentioned above, MoTCA has a relatively low budget, and is somewhat of a civil service backwater. With poor pay, clientelism in the civil service and limited incentives for effective monitoring, it is likely that every opportunity is taken to capitalise on limited opportunities for rents, whether this is taking money to overlook a contravention of safety standards or to quickly approve the undertaking of a new and innovative activity. With high turnover of political placements in government, amounts to be paid are probably highly variable and hence difficult even to write off as just an additional ‘cost of doing business’. On the other hand, some recent events (e.g. a crackdown on tourism businesses in Pokhara that were not paying VAT) indicate an improvement in some monitoring.

The regulation of air travel, the poor record on which is well known,⁶⁶ is likely another effect of this low capacity and space for corruption. These dynamics also hinder the ability for industry associations to provide a regulation function: they tend to function mainly to lobby and represent members’ interests (where not overly politicised), while monitoring and enforcement would involve higher capacities than present, as well as foregoing potential rents.

65. For example, it is common to encounter scepticism about the potential for markets to deliver benefits ahead of government distribution or cooperative action.

66. There has been an average of more than one crash per year for internal flights for more than twenty years, with all passengers usually killed. According to UN ratings, the safest airline in the country, Buddha Air, is advisable for use only for essential travel.

Politicised labour unions pose a serious hindrance to the higher-value businesses. Unions, supported by the political parties they are a part of, have significant power to disrupt business operations. At a minimum, this imposes additional costs (for disruptions, closures and settlements to disputes), but also there can be longer-term damage in terms of image and reputation to more established businesses, and unions have sometimes caused the closure of previously functioning enterprises. Although they have had some clear benefits for the worse-off in the sector,⁶⁷ higher-value, higher-profile and better-established businesses in particular face severe disruptions and closures by union activities.⁶⁸ This is another example of rent-seeking behaviour, as unions use muscle and political power to extract revenue from businesses. This is particularly damaging: because of the centralised but competing nature of political patronage networks, unions tend to work for the interests of their parent parties rather than members and have proven on many occasions that they are happy to risk the closure of a company (and loss of their members' livelihoods) in order to extract rents (UN RCHCO, 2011). This puts further disincentives on higher-value businesses.⁶⁹

The behaviour of businesses and entrepreneurs in reaction to prevailing incentives reduces the number of higher quality businesses. A number of trends are evident:

- The reaction to risk and instability is a driver of the high proportion of small businesses in the sector. For many, instability and the memory of hard times leads to the seeking of a quick profit; many businesses undercut the competition, sacrificing service quality and safety.
- There are diseconomies of scale. Not registering as a tour operator means not having to pay 25% taxes to the government, and other entrepreneurs try to keep their earnings under the VAT threshold, even if it means splitting the company into different entities. Firms with fewer than five employees can avoid many regulations relating to labour unions.
- Especially for people living in rural areas, setting up a small shop stocking biscuits and water, or producing arts and crafts to sell to tourists, is most usefully understood as a livelihood strategy. Rather than seeing it through a traditional lens of private sector growth, it is primarily about spreading risk, adding another potential source of income to a variety of other activities, rather than an attempt at being 'entrepreneurial' or to build an active and vibrant business.
- There is a clear 'copycat' mentality, with businesses crowding into areas and activities seemingly proven to provide returns. While the speed and spread of imitation do demonstrate clear adaptive qualities in the sector, they also reduce the ability of the sector to manage and develop products and services, and further increase the relative cost to innovative businesses that do something for the first time.

Tour operators play a key role in the market, but they are relatively fragmented. Since tourists tend to visit a number of destinations within Nepal, and partake in a number of activities, the role of tour operators is central. However, there has been a mushrooming of small operators, with distrust prevailing between them, and there are a number of competing associations. This limits their ability to effectively pressure for service quality.

There is a cadre of bright, successful tourism entrepreneurs in Nepal; even if this group is in the minority, it gives hope for the future development of the sector. Often relatively young and well educated, they have usually been educated abroad or otherwise exposed to new ideas, and have their sights set on international markets rather than being preoccupied with national power battles. In one of the few semi-functioning sectors in the economy, some people have been able to rise based on their own skills and efforts. This group brings a good deal of creativity and endeavour to the sector, and should conditions allow it to become a critical mass, could contribute to a major transformation.

Perceptions of unethical business practices and poor monitoring and enforcement become a self-fulfilling prophecy. A large proportion of people running tourism businesses believe the majority of competitors are unscrupulous and willing to resort to any means necessary to succeed. The logical implication of this belief is that operating according to the rules puts one at a competitive disadvantage, and hence it is better

67. For example, unions are credited with securing rights, safety regulations and reasonable minimum wages for many workers, which (as argued above) have had a real impact on the inclusiveness of the sector.

68. The suggestion is that unions particularly target high-profile and highly visible businesses, which means tourism is hit more frequently than other sectors. One author lists eight major labour disputes in 2008 in the hotel sector alone (Uphadaya, 2011).

69. This kind of union activity ballooned three to five years ago, although some have suggested it is now on the wane.

to ‘defect’ and to cut corners yourself. This ‘trust deficit’ has real impacts, and, when combined with perceptions of government corruption and inconsistent or ineffective monitoring, the perceived costs and benefits are likely to weigh heavily against ethical business operation. There have been recently some instances of effective enforcement (e.g. the crackdown by the revenue authority on unregistered businesses), but they would probably need to become more frequent and more widespread to make a real difference to business behaviour.

Information provided on the use to which levies and tolls are put has been limited, but seems to be potentially catalytic. Although new tolls and charges are often introduced with reference to a new service that will be provided, this is rarely consistently followed up. The establishment of these does, however, open up a space for dialogue or contestation, and clearly delineates groups of ‘losers’ and ‘winners’, which can make collective action easier. For example, information on the destination of ‘recycled’ funds is rarely available, but one study showing the failure of Upper Mustang entry fees to return to the local area (Purush Dhakal, 2005) may have partly contributed to the more organised demands residents of that area have made to receive some kind of benefits or service from the government.

Reliable information on service quality is increasingly available to tourists. Trip Advisor, other internet-based feedback mechanisms and ratings services and staples such as the Lonely Planet and others serve as relatively reliable guides to the quality of service provided – although they mostly cover hotels and restaurants, with gaps in particular relating to trekking and travel agencies and operators. As the coverage and reliability of these services increase, incentives for quality service provision will as well, in those subsectors covered. **It is not clear what sources tour operators rely on in order to judge the quality of services or to discover new products.**

3

Recommendations

This section draws out the implications of the preceding analysis, providing recommendations for government, civil society, the private sector and external agencies interested in contributing to change in the sector. In addition, Box 4 provides some suggested answers to key questions for programming.

Improving destination management

The prospects for improving destination-level management vary between different destinations, but there are genuine opportunities for change in some places. Drawing on the above analysis, the most suitable conditions are where an area is characterised by lower levels of ethnic diversity, and a limited number of non-tourism sectors; where there are stable and growing tourism flows and an established industry; and where there are clear, visible challenges, ideally relating to a common icon of the area. The most obvious choices are Pokhara/Annapurna, Lukla/Sagarmatha and Ghorka/Manaslu. Chitwan/Sauraha has urgent needs but may be harder because of a higher level of national control and intervention in the area, and Kathmandu presents very difficult prospects unless working at the level of individual attractions. The preceding analysis would suggest that a significant difference can be made to the management of these destinations, which would drive both improved inclusion and value capture, and would help protect the assets the sector relies on. In this way, **subnational-level intervention is the most promising entry point for leveraging change in the sector as a whole.** Examples of successful interventions at this level can be found in Box 3.

The central aims for improving destination-level management should be to:

- **Build the ownership and involvement of tourism businesses in local governance and government:** In many instances, tourism businesses have the interests, incentives and capacities to make positive contributions to local development in general, and the management and development of key attractions and products in particular. Suitable platforms and entry points need to be found to build the cohesion of the local tourism lobby, to enable it to have a stronger voice in local governance and to take direct responsibility for aspects of managing local development.
 - **Strengthen the delivery of local public services that have sectoral co-benefits:** Local service delivery functions of particular importance for tourism should be a major focus of any initiative. Tourism industries have a direct interest in better waste management, water and sanitation, small and medium transport infrastructure, electricity and environmental protection, and in many cases are already contributing considerable funding. Work should be done to give them a stronger role in overseeing those services, and to help ensure the services are delivered effectively.
- There are three main elements of support required in order to realise these aims. There are some clear functions and inputs needed to catalyse change:
- **Facilitation of institutional development:** Concerted efforts need to be made to institutionalise the role of tourism businesses in local management. Finding the most suitable function and forms for promoting strong partnerships, and facilitating effective management and development, will need to be carried out on a place-by-place basis, as local conditions and stakeholder constellations vary: institutional innovation is needed and formal, blueprint solutions should be avoided. Possible vehicles for this change include PPP units, formalised partnerships and umbrella associations, or even urban development corporations. In some areas, it may be important to also improve cohesion within the tourism business community and to strengthen relationships and interactions between existing lower-level bodies.
 - **Brokered technical assistance:** The dearth of technical capacity outside Kathmandu hinders the space for local efforts to undertake effective action. In order to ensure that mobilisation leads to genuine impacts, it will be necessary to bring in sufficient expertise and technical knowledge, and this will in turn contribute to local momentum. It is also important because of the poor state of partnership between players, as independent and external voices

are often the most credible way to help in the allocation of resources or monitoring adherence to collective agreements.

- **Financial support:** Although lack of available resources is rarely the most binding constraint, seed funding could assist as a catalyst to institutional innovation. Providing some money available outside existing (possibly entrenched) local bodies and players would provide an external ‘nudge’ to the system. The funds could be earmarked to certain types of projects, and conditions to accessing them could be put in place relating to matching funds from the public and private sectors.

There are a number of different ways in which this task could be approached, and a number of possible entry points:

- **Local private sector:** Above all, efforts should start with and answer to the local private sector in the chosen destination. As the private sector is likely to be required to input considerable amounts of time and resources, and as it is in its interest that any initiative is undertaken, genuine interest and ownership (whether expressed through individual business people or associations) is a necessary condition for action.
- **MoFALD:** As the ministry responsible for all local bodies in Nepal, MoFALD is likely to be a key player. Within MoFALD policy and programming, provisions for PPP within the Local Governance and Community

Development Programme (LGCDP) (worth approximately \$800 million over five years) offer a potential entry point.

- **Others ministries:** The Ministry of Urban Development, line ministries for services with co-sectoral benefits and PA bodies will also be key partners in some destinations.
- **International agencies:** External players have two important roles to play in any initiative. First, it may be that financial support and management capacity is needed to catalyse initiatives. Second, there will be an important brokering role to play, as internationals are often more able to be seen as neutral players at a local level in Nepal.

The challenge of improving governance and management is complex and unpredictable, given the need to build coalitions and local momentum, and any programme would need to be designed taking this complexity into account:

- **Action and results-led:** Especially in the context of limited legitimacy of local government bodies, and with the real business of local management carried out through informal channels, a focus on establishing formal committees is unlikely to have purchase. Instead, efforts should focus on making tangible changes in the locality through collaborative actions, and learning along the way the correct mix of representation and process required in order to facilitate effective action.

BOX 3: EXAMPLES OF SUCCESSFUL DESTINATION-LEVEL MANAGEMENT

Bandipur is a hilltop town between Kathmandu and Pokhara. In the 1970s, the town was sent into decline as the new highway led to a drop in its importance for administrative and trading purposes. In the 1990s, a British entrepreneur recognised the potential for tourism, and, working with the newly formed local social development committee, renovations began to the crumbling architecture. Assistance from the European Union (EU) followed, and the far-sighted decision to pedestrianise the town (paving over a road that had been built) along with extensive restoration. Bandipur is now firmly on tourist itineraries, and revenues are recycled to pay for local development activities.

The **Annapurna Conservation Area Project** was established in 1986, covering an area of 7,629 km² and home to over 100,000 residents. A strong role was given to conservation area management committees (CAMCs), which manage natural resources, collect revenues from harvest permits, implement conservation and development programmes, mobilise local groups and monitor activities. CAMCs are made of elected members of the local community, ACAP staff and the chair of their respective VDCs. An analysis of ACAP finds that the management arrangements were resilient even in the face of a number of crises such as the Maoist insurgency, working successfully to devolve responsibility to local entities, demonstrating the retention of capital stocks and performance and maintaining institutional legitimacy (Baral et al., 2010).

- **Room for flexibility:** Projects would need to have flexible overall controls, strong principles requiring local ownership embedded and rolling timeframes: if no ownership can be built for any collaborative action, it may be that current conditions are not right and support should be withdrawn. However, so long as processes are progressing and showing tangible results, it may take some time for this to naturally take its course and for it to be possible to fix on a preferred institutional form.

Improving national connectivity and public investment

A direct approach to improving the government's management of and investment in tourism at a national level is unlikely to succeed in the short to medium term. As argued above, MoTCA is has insufficient financial and human resources, as well as low political importance, and tourism promotion requires inter-ministerial coordination, which is very difficult in the current political climate. These present too many and too large barriers for effective action, so it is unlikely that there will be any effective government leadership of tourism in the near future. Working with MoTCA to help it implement existing policy would fill an important gap – there is a need for a serious strategic planning exercise, in particular to help prioritise between subsectors, and between destinations, and also to allocate actions and responsibilities. However, until the ministry has a budget and/or some political clout, plans are likely to exist only on paper. **There are, however, other entry points for national-level public investment** that could make important contributions to tourism development.

Efforts must be made to facilitate coherent private sector leadership of the sector. In lieu of significant public leadership and investment, the private sector can play this role if the challenges of fragmentation and short-termism are overcome. Strengthening the leadership of the tourism sector and hence its force as a lobby on resources at the local and national level could be done with a combination of the following three interventions:

- **Convening and 'crowding in' investment:** Efforts must be made to focus and concentrate private investment, including foreign direct investment, around a limited number of areas with potential. Only if investment is received in large enough amounts can it be truly transformative of an area, and offer clear enough signals to the market as to the future of the sector. Interventions should be designed in order to ensure positive (amplifying) feedback, so that the more investment an area receives, the more likely it will receive further investment.
- **Long-term, comprehensive plans:** Comprehensive, ambitious, long-term destination planning will be needed to anchor investment and both public and private action. If built credibly, with significant national and local ownership and associated commitments, it would provide adequate certainty for investors, and would provide the foundation for a more managed development of tourism.
- **Public 'seeding':** In order to catalyse the crowding-in of private investment, it will be necessary for some resources to be added by the public sector. This could be in the form of funding, or public assets being made available, or both. There may be a need for additional funding (in the form of a grant or loan) from multilateral agencies, to complement government investment.

The requirements for such an intervention are as follows. Leadership and possibly seed funding would be needed by a body responsible for convening the private sector and facilitating foreign direct investment, such as the International Finance Corporation (IFC), as would interest from NIB or other national government bodies to provide permissions and the public 'seeding'. Considerable technical assistance may be required to develop comprehensive plans and ensure sufficient capacity to implement. There would also need to be strong support and buy-in from local stakeholders, and a powerful and stable coalition at the national level to support implementation. As argued above, a 'technocratic' approach to decision-making over such large investments would likely lead to a backlash; instead, an open, private sector-led competition would be most suitable.⁷⁰

70. A selection process is needed for identifying areas with high tourism potential. Given the prevailing political economy dynamics, decisions over this kind of resource allocation function as behind-closed-doors competitions. Instead, competition between destinations could be brought out into the open. This could take the form of an 'investors' fair', with different areas attempting to attract investment in their plan or brand, and positive feedback could be ensured by earmarking sums of money to go towards links to areas that have attracted significant commitments of tourism investment.

Focusing investment in this way would improve the ability of the tourism industry to influence and drive the development of large-scale transport links. Strengthening the tourism lobby on national-level infrastructure would make it more likely that high-potential areas receive improved transport links more quickly, whether the construction or upgrading of domestic airports (both physical infrastructure and management capacity) or the building of major strategic roads. A wide variety of new major roads planned as PPP projects are sitting with NIB and MPPW, included in the existing plan for the strategic roads network, and also in NIB's 14 'mega' projects. Many of these would make areas with high tourism potential accessible quickly from Kathmandu or arrival points on the Indian border.⁷¹ If efforts could be made to convene and 'crowd in' foreign and domestic investment around a location that one of these links would open up, this would offer greater incentives for companies bidding for the PPP contract to develop the link, and would as such be likely to speed up the building of the road.⁷² This could also be achieved more directly by an international agency providing funding for a transport link chosen specifically to open up new areas for tourism.

Multifaceted support will be required to properly implement infrastructure projects. A number of institutional and political factors militate against the delivery of quality links, but many of them can be overcome on a case-by-case basis through skilful management of technical aspects, communication and political factors and through the design and management of financing arrangements. It may be particularly important to give such support to the building and management of airports, if and when CAAN contracts out these projects.

Improving sector data collection and analysis is another key public investment. There is an insufficient empirical basis to draw from in making sector policy and plans, and, although this is not currently the major barrier to effective government management of the sector (new improved data are unlikely to be used), improving this situation is a necessary step towards better management, and improved evidence may help focus discussions somewhat. Lack of information also constrains the private sector, as (for example) potential investors have low levels of certainty about possible returns on investments. Research could be anchored with the NTB monitoring and research department,⁷³ and would also need to be conducted closely with key actors

at destination levels as well. Analysis should begin with understanding actual tourist flows and their value, disaggregated by products and destinations, and knowledge gaps on domestic tourism should be filled urgently. Additional external funding may be required to assist with this task, although in the longer term these activities could be funded partly by selling analytical products to the private sector.

Finally, investments in human resources can be made at the national level. Providing training to improve skills and employability will, if done well, improve both the inclusiveness of the sector and the quality of services provided. It is crucial that such training is carried out at the right level: improving capacities of business in remote areas that receive few tourists is unlikely to have a lasting effect on that area in the absence of the resolution of connectivity issues.⁷⁴ Working at the national level on professions and positions within the business is more likely to succeed, and industry associations would be key partners in any effort. A proportion of training participants may seek work abroad (if the training is effective); some mitigating actions could be taken, such as including an 'exchange scheme' within packages of training, to provide foreign experience to participants within the programme.

Facilitating higher-quality products and service delivery

Decisive action on improving the environment for high-quality products and services is difficult in the short to medium term, but a number of possible entry points offer hopes of incremental gains. It seems that a large part of the problem is caused by political instability hurting the investment environment and incentivising short termism, and the stagnation of other sectors of

71. Any intervention should reduce travel time so that a full excursion to the area can be completed within 11 days (to allow the trip to fall within the average tourist stay).

72. It may be best to choose routes that will complement other sectors, for example where improved links are required for the building of large hydroelectricity projects.

73. The unit has proven to be relatively functional despite limited resources and a sometimes difficult operating environment within NTB.

74. Inclusiveness can instead be ensured through broad representation in terms of ethnicity, economic status and place of origin of participants.

the economy, which is probably contributing to the mushrooming of tourism enterprises. These two factors are unlikely to reverse in the near future, and there is also currently a lack of sufficient robust information on the nature, causes and consequences of the value capture problem. There are, however, some clear ‘strengths’ to build on, such as improving independent information on service quality, and some possibilities that promise to make some difference even in the challenging environment.

Although unlikely in the short term, a considerable difference would be made by improved rules on the licensing of tourism businesses, and improved implementation of these rules. The current licensing system for hotels, restaurants, tour agencies, trekking guides and others is not strongly linked to the quality of services offered or to the maintenance of basic standards. Altering these regulations would allow better differentiation of quality services, and also incentivise investments in higher-quality products. Changes would be needed within MoTCA to ensure these could realistically be implemented, for example establishing a unit to monitor and enforce standards that is (relatively) insulated from political interference, with skilled, well-paid staff with performance incentives. This could be financed in the long term by the revenues saved through the actions of the unit (e.g. recouping lost VAT from unregistered businesses). Improving the management of innovation could be done in a similar manner

Other government bodies could make important contributions to enforcing proper standards in the tourism business. In lieu of a conducive environment for MoTCA to monitor and enforce its standards, other bodies regulating the private sector might be able to assist by ensuring businesses in the tourism sector meet other basic standards. The most obvious option would be the Inland Revenue Department in the Ministry of Finance. Broad, effective monitoring of the payment of VAT and sanctioning non-payment could change the perceived incentives facing small and medium-sized businesses, especially if crackdowns were well publicised in the press. Considerable improvements in tax collection in recent years (albeit from a low base) suggest that this department may have sufficient skill and political clout to stand a chance of making a real difference on this issue. Additional resources to help in the expansion of the department’s activities in the tourism sector would need to be funded initially either

by additional budget allocations or external donors, but again this could be self-financing in the longer term. The Ministry of Environment could also possibly play a role in sanctioning some types of malpractice and corner cutting.

Given the current constraints, monitoring and enforcement of quality standards is most likely to improve through self-regulation, in particular at the subnational level. There are already some voluntary schemes that provide certification of having met certain standards for corporate social responsibility, ecotourism etc. These stand a chance of helping improve quality by providing incentives for businesses to sign up through visible and branded ways to display that standards are being met, and through associated capacity-building and business development services. If a critical mass were reached in a destination or sector, higher-end businesses would sign up and others would also be incentivised to come up to scratch. Also, for the same reasons that the prospects for local-level management are brighter than at the national level, initiatives to properly monitor and collectively enforce standards are more likely to succeed at a subnational level. Support should be given by government – or, failing that, by international agencies – to consolidate, subsidise and scale up such schemes.

Strengthening information available to tourists and tour operators on service quality would also make a difference. This would constitute a consumer-led approach to regulating service quality, and should work with existing established services wherever possible. A mapping would be required of current sources of such information, its reliability and coverage and how key actors including tourists and tour operators use different sources to make choices. Efforts would then need to be made to improve the coverage of key sources, and to help ensure the information is marketed to tourists and tour operators. One possible gap to address could be information on the quality of travel agent services; another path could involve improving information on services in remote areas (e.g. on trekking routes).

Impact assessments and community monitoring of tourism-related levies could catalyse product upgrading. Studies should be carried out examining where funds are channelled, how they are used and with what impact. The findings should be communicated to key groups such as residents of PAs and tour and trekking agents that are sending groups, to catalyse pressure and actions likely to improve

the extent to which services are provided for rents extracted and to ensure products are better maintained. Moreover, the exercise could be used to trigger packages of capacity-building, and the revision of revenue recycling arrangements. This would reduce leakage from the sector, and better enable the recycling of revenues into the upgrading of services. This work would likely need to be supported by international donors. Possible priorities could be ACAP and Upper Mustang entry fees.

Instruments that help small and medium-sized tourism businesses better cope with risk should be explored. It seems that instability and associated risks are a key driver of the behaviour that leads to lower-value offerings – incentivising corner cutting and a lack of investment in business development. Services and mechanisms that allow a typical tourism enterprise to spread risk without having to resort to such practices could have a useful role to play. Working to develop improved insurance services for small and medium-sized businesses would be one possible entry point.

BOX 4: KEY PROGRAMMING ISSUES

Working with established or new destinations?

On balance, it seems better to focus efforts on established destinations, rather than attempting to promote new ones. When areas are relatively recently ‘opened up’ for tourism, the natural development of the sector means that, within the timeframe of development projects (five years maximum), the majority of revenues will be claimed by Kathmandu-based tour operators and workers. Also, tourism in Nepal already boasts considerable diversity, and hence real improvements in tourist numbers to currently marginal destinations are likely to be small. Tourism can best be facilitated for new, harder-to-reach destinations through the development of transport infrastructure; as and when tourist arrivals are picking up, additional support can be provided.

Where can the greatest pro-poor impact be had?

For development partners working in the sector, there is the important question of where to focus efforts in order to reduce poverty or improve the livelihoods of the worse-off. Although this study has not attempted a comprehensive appraisal of this question, some thoughts can be offered. There would appear to be strong justifications for including a focus on the Terai. This area is home to the largest proportion of the population, and also considerable numbers of poor people, hence interventions might hope to reach more people in need. Moreover, sites in the Terai are suited for pilgrimage and nature tourism, which are currently underdeveloped, and the former of which is likely a growth area, given the rise in Indian tourists. In addition, most areas in the Terai are relatively accessible, or at least do not have severe connectivity issues.

Securing government ownership?

Given the low level of government leadership in the sector, the slow pace of action and constraints to MoTCA fulfilling its mandate effectively, realistically, international development partners may need to play a strong role in shaping support to the sector. It is vital, however, that, in place of government ownership, development partners ensure they are led by the private sector as much as possible – both in terms of strategic partners but also with respect to tools and modalities for engagement.

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