SUPPORTING ECONOMIC TRANSFORMATION

PATHWAYS TO PROSPERITY AND INCLUSIVE JOB CREATION IN NEPAL

Background Paper: Tourism sector

Sonia Hoque, Overseas Development Institute

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For further information about the ODI's *Supporting Economic Transformation* (SET) please contact Sonia Hoque, Programme Manager (s.hoque@odi.org.uk).

CONTENTS

MAIN FINDINGS AND RECOMMENDATIONS

Developing the tourism sector is often identified as a key priority for Nepal's development, and, given that much of the activity in tourism is labour-intensive, growth in the sector can also be expected to be employment-intensive. Nepal also has a distinct natural comparative advantage in the area: tourism has the potential to bring in significant foreign exchange while also being an attractive economic activity that is accessible by the poor in rural parts of the country.

In January 2017, a survey was carried out of firms across various sub-sectors in tourism to identify constraints to growth (and labour demand). This found that firms generally felt the major challenges in the growth of the industry were linked to demand for their services. A lack of skilled workers exacerbates these problems.

The top two cited constraints were related to the demand side – that is, not labour-related, but ones that hinder demand for skilled workers nonetheless. These were lack of adequate infrastructure to facilitate tourism and weak government support in promoting Nepal as a tourism destination. However, once probed, all firms discussed labour supply constraints as a major issue too – namely, lack of skilled, experienced workers (with the latter being particularly valued) and the loss of good workers to migration abroad.

Key priorities and recommendations for improving demand for labour in tourism

The demand for labour in tourism is naturally linked to the demand for tourism services. Firm interviews suggested that the following could improve demand for tourism, and therefore labour demand:

- The Nepal Tourism Board should increase country-level promotion and work more closely with the private sector and the Department of Tourism on its strategy.
- A 'one window' mechanism should be created for tourism operators to interact with government authorities, so as to mitigate reported confusing processes whereby firms must engage with several ministries with regard to operational issues (e.g. related to tourist permits).
- It is key to work with international airlines to begin operating direct flights to Nepal from major markets and to focus on addressing the issue of the EU blacklisting domestic airlines. This can represent a 'quick win' and should be done in parallel with increased promotion of Nepal as a destination in those markets.

Key priorities and recommendations for improving supply of labour in tourism

This study found that firms were forced to hire people with little experience and to provide on-the-job training. The following three policy recommendations could help ease skills constraints:

- Incorporate long-term placements and internships for university students to fully gain the practical skills needed to work in the hospitality industry. Putting these in place would also help bring in more people with the necessary theoretical and business skills to the tourism industry.
- Implement training for locals in the vicinity of rural/regional destinations so they can benefit from employment opportunities. Lower-caste individuals are also often found in rural and poorer areas, so this may have a positive impact on these groups in terms of access to employment in tourism.
- Support women to secure employment in hotels and office-based roles (as this is where they are generally employed currently, and respondents said they particularly valued female workers).

This study suggests further research in the following areas:

- Estimates of the contribution of tourism to overall employment (clarifying which sub-sectors are included) and also the contribution to employment for local people living near tourism sites;
- The barriers to women working in tourism (perceptions of safety, cultural barriers, etc.);
- If and how particular groups are excluded or disadvantaged in tourism employment and the likelihood that training people will lead to increased job opportunities.

INTRODUCTION

Background

This paper on tourism is part of a larger report exploring inclusive job creation in Nepal. Research into key sectors was commissioned in early 2017 to inform broader analysis of keys trends in labour markets and to provide recommendations on which areas labour market interventions should target. Key sectors were selected that had good growth and export prospects and accounted for a substantial share of employment across the country, and/or because they had been targeted for special attention by government, for example through the Nepal Trade Integration Strategy (NTIS). The research into selected sectors consisted of reviewing the literature and conducting surveys with firms in January 2017. The other sectors reviewed were agro-processing, light manufacturing and information and communication technology.

Tourism sector characteristics and contribution to employment in Nepal

Nepal's location and geography give it a clear natural comparative advantage in tourism, and the industry has the potential to bring in significant foreign exchange while also being an attractive economic activity accessible to the poor in rural parts of the country. The spatial structures of the sector in Nepal also bode well for inclusive job creation; although most economic activities related to tourism are concentrated in locations like Kathmandu, Pokhara, Chitwan and Lumbini, activities such as trekking, mountaineering and home-stays take place in rural and remote areas. This means direct and indirect employment potential is high for a wide range of people, and there is a large range of skills (from low to high) required across the sector, from basic housekeeping jobs in hotels to professional trekking and mountaineering guide work.

Given that much of the activity in tourism is labour-intensive, growth in the sector can also be expected to be employment-intensive and should therefore be supported. However, measuring the current contribution of tourism to employment is challenging, and variations in estimates reflect this. For example, some studies estimate every one tourist generates nine direct or indirect jobs (Pradhan et al., 2014),[1] yet the Nepal Tourism Employment Survey 2014 carried out by the Ministry of Culture, Tourism and Civil Aviation (MoCTCA) has much lower estimates, stating that the ratio of tourists to employment in 2013 suggests just one job was generated from every six tourists (although the survey caveats that it does not fully capture the economic impacts of tourism).

There are also difficulties estimating the number of jobs in tourism to date, both indirectly and directly, and further research would be useful to understand the labour intensity of the sector, particularly in the various industries/sub-sectors included under tourism (as some may be better targets for intervention than others). For example, the World Travel & Tourism Council (WTTC) defines direct employment contribution as employees of hotels, travel agents, airlines and passenger transport; indirect contribution includes restaurant and leisure industries supported by visitors. The Industrial Enterprise Act of 2016, however, states that the tourism industry comprises all hotels, restaurants and tour/travel agencies plus activities such as skiing, water rafting, cable cars, pony trekking, hot air ballooning, etc., yet official Tourism Statistics by MoCTCA (2015) do not mention these services. Furthermore, the WTTC notes contributions from both domestic and international visitors, whereas MoCTCA does not count domestic travellers. These differences in measurement and definition result in widely varied estimates of the contribution of the tourism sector to overall employment, particularly between government estimates (reporting just 138,000 jobs in the 2014 Tourism Employment Survey) and the WTTC (reporting over 1 million jobs in the same year).

In terms of workforce characteristics, the Tourism Employment Survey found 24% of employees were seasonal, 80% were male, 68% were aged 20–40 years and 19% were high-skilled employees. The proportions of Dalit and Terai-Madhesi employees were just 5% and 3%, respectively. These findings are

[1] However, the survey had much lower estimates of the number of people employed directly by tourism than the World Travel & Tourism Council (WTTC) in the same year (138,000 vs. 478,000). There is a lack of reliable data in tourism and employment statistics in Nepal, which leads to variations in assessments of tourism on employment. This can be an area for further research.

consistent with the findings of this survey, and interviews gleaned some insights into the reasons for these compositions.

Trends in existing tourism sector literature

Overall, the tourism sector is undoubtedly a high priority for the government, and it is one of the key sectors identified by the National Planning Commission (NPC) during a seminar convened to develop its Vision 2030. The 13th periodic plan of the NPC also aims to encourage the private sector in attracting tourists, improve transportation connectivity for tourist destinations, take steps to increase the stay of tourists[2] and increase the average dollar spent, among others things. The government has also declared 2018 'Visit Nepal Year', and aims to promote tourism by identifying new tourist sites and improving the civil aviation sector (Republica, 2016) (the latter was a constraint several interview respondents in this study identified).

However, it is widely reported that the sector is not currently adequately supported for growth, or to generally prosper. A report from a seminar organised by the NPC in March 2016 on discussing strategy for Vision 2030 (NPC and ADB, 2016) mentions several times the need to invest more in developing tourism products and relevant infrastructure, which is also in line with a major finding of the survey carried out for this report. Poor infrastructure, service delivery below global standards and lack of an investor-friendly climate are some of the challenges that have held back the development of this sector. Improvements in these areas will enable Nepal to attract and serve a larger number of tourists. There is also a growing potential market given the large expanding middle-class across Nepal's borders – namely, in India and China. Similarly, as incomes rise in Nepal (attributed mainly to remittances from workers abroad), the number of domestic tourists will also rise, creating further scope for investments in the sector (Shakya, 2016). Domestic tourists are not currently included in official government tourism statistics, but arguably should be in future data; respondents in this survey mentioned the increase in the number of domestic tourists in Nepal (as well as Chinese and Indian tourists) several times during interviews.

Beyond infrastructure, the literature also notes that the quality of facilities in Nepal's tourism destinations and service delivery do not meet the expectations of higher-paying international visitors, who consequently opt to travel elsewhere (Samarth, 2016). This challenge also was discussed often in interviews, blamed on difficulties finding skilled, experienced workers. Offering high-quality services, as well as hygiene standards being up to international expectations, is essential in attracting medium- to high-end tourists, and developing a successful reputation in such areas of tourism is an important factor to consider, although notoriously difficult to measure.

A study on sectoral patterns of growth by the International Labour Organization in 2014 states that measures are needed to strengthen the linkages of the tourism sector with other sectors such as agriculture (dairy products, food crops, fruits, vegetables) and manufacturing (e.g. wearing apparel, craft products, etc.). This was not a strong outcome of the firm interviews carried out for this study, but one major hotel did mention that it sometimes had issues with the quality of local food produce (particularly meat), leading it to import food from India, and it suggested local produce needed to improve in quality to be served to their guests. The same report suggests that, in addition to physical facilities related to tourism being improved, supply of skilled manpower is an important prerequisite for uninterrupted growth of the sector in Nepal. This was also a common view among interview respondents.

As stated by Sharma et al. (2012), growth in tourism does not always follow the general logic of economic growth, wherein, at a certain level of capital formation, infrastructural growth and supporting policies, a sector can 'take off'. Rather, there must be good coordination among all stakeholders, policy initiatives need to be decentralised, communities must be taken into consideration and institutional arrangements should be in place to attend to issues as they arise. Related to this, the results of this survey imply that coordination among stakeholders can be a significant obstacle to private tourism sector when firms have to interact with the government at the operational level, particularly for large projects (which have high

[2] Econometric analysis shows that the average length of stay by tourists has a stronger impact on employment generated by the sector than the number of tourist arrivals. Hence, from a policy perspective, it is important to adopt measures to encourage tourists to stay longer (Islam, 2014).

potential for linkages). These obstacles make it difficult to operate efficiently and the consequences filter through to tourists; this is discussed later in this paper.

Table 1 highlights some important statistics on employment in tourism, Table 2 gives details on tourists themselves and Table 3 shows some key statistics on the overall sector

Table 1. Key tourism employment statistics for 2014

Sub-sector (selected)	% of total employment in tourism	% women workers	% workers aged 20–39
Star hotels	42%	22%	62%
Tourist standard hotel	18%	26%	67%
International airline	12%	17%	41%
Domestic airline	14%	20%	66%
Trekking/travel/rafting agency	12%	11%	89%

Source: MoCTCA (2014).

Table 2. Key tourist statistics for 2014

Indicator	
Tourists by arrival	790,118
Air	585,981
Land	204,137
Average length of stay (days)	12.44
Top three countries of nationality	India, China, US
Revenue from tourism	
Total earnings ($'000s)	**471,769**
Average income per visitor per day ($)	**48**

Source: MoCTCA (2015).

Table 3. Key sector statistics for 2015

Indicator	2015
GDP (direct contribution)	NPR 85.3bn (4.0% of total GDP)
GDP (total contribution)[3]	NPR 173.7bn (8.1% of GDP)
Employment (direct)	426,500 jobs (3.2% of total employment).
Employment (direct and indirect)	918,500 jobs (6.9% of total employment).
Visitor exports	NPR 60.5bn (28.6% of total exports)
Investment	NPR 15.2bn (3.1% of total investment)

Source: WTTC (2016).

Sector policies that are currently in place

Three sets of agencies are involved in the governance, management and functioning of the tourism sector. These are government agencies, the public–private Nepal Tourism Board (NTB) and the private sector. The tourism industry is regulated by MoCTCA, and the Department of Tourism was established in 1962 (under MoCTCA) with the stated objective of stimulating tourism, promoting Nepal as a tourist destination abroad and formulating plans and policies and implementing them.

The first Tourism Act was enacted in 1978, and this was followed by various other policies and rules related to Nepal's tourism industry. The Hotel, Lodges, Restaurants, Bar and Tourist Guide Rules (1981), the Mountaineering Rules (1979), the Trekking and Rafting Rules 2044 (1985) and the Travel and Trekking Agency Rules 2037 (1980) are some of the major regulations that govern this sector. Until 1997, when the NTB was established, the government under MoCTCA was responsible for monitoring, promotion and marketing of the tourism sector as well as policies.

The NTB was established to develop Nepal internationally as an attractive and reliable tourist destination, through the development, expansion and promotion of tourism, and comprises a mixture of representatives from government and the private sector. It was conceived as a platform for mobilising both the government and the private sector in the strategic planning and development of the tourism sector. However, the NTB has not yet been able to develop a clear strategic direction for Nepal's tourism development, and interviews with the private sector in Nepal confirmed this. Interviewees from the NTB discussed human resource constraints as the main hindrance, as well as infrastructure and limited budget. Interviewees also mentioned that they did not work directly with involved ministries, which reflects poor coordination at the government level. Promotion activities by the NTB would likely be more effective if they were strategically and collaboratively planned with the relevant ministries rather than being a transferred responsibility.

One prominent policy document is the Tourism Vision 2020, which aims to attract 2 million tourists and generate 1 million employment opportunities in tourism by 2020, from around 500,000 (the latest number of direct jobs as estimated by the WTTC). The Tourism Policy of 2008 is another major document for the sector and states its aim is 'to improve living standards by contributing to national income while sustainably using national heritages'. This policy is provided for the National Tourism Council (chaired by the prime minister) and the Tourism Development Coordination Committee (chaired by the MoCTCA minister). In addition, the policy aims to promote rural, agro, health, adventure and educational tourism.

[3] Includes capital investment, collective government spending and supply chain effects.

Survey methodology and framing questions

A survey of 11 firms in the tourism sector was carried out in Kathmandu through in-depth semi-structured qualitative interviews. Firm size (by number of employees) ranged from small (7) to large (800). Interviewed firms worked across a number of sub-sectors: hotels (including five-star luxury and mid-range), tour operators (trekking, rafting, expeditions etc.) and tourist attractions. For a full list of firms interviewed please see Annex A.

From a methodological point of view, it is important to note that surveyed firms do not represent a stratified sample of the sector, either in Nepal or within the survey sub-regions, as the final representation is largely composed of firms that responded positively to queries during fieldwork. It is therefore important to note that the survey results should be used as indicative rather than as representing an authoritative view of the sector. As the tourism sector encompasses firms that are active in different value chains and rely on different sets of inputs, the survey results should be interpreted as illustrative rather than representative of issues in any particular industry. Given the small sample size, the survey results should not be taken as representative of the tourism sector overall, but can be used to indicate pervasive constraints and challenges to general and job growth, which future studies can investigate.

SURVEY RESULTS

Firm characteristics

A number of tourism-related firms were interviewed to cover a wide range of sub-sectors, although this meant it was difficult to draw out common characteristics across the 11 firms. However, there were important commonalities across firms within sub-sectors. For example, **tour operators generally had fewer than 20 core office-based staff, but up to 500 staff when including all guides, drivers and porters** who work in trekking regions (on a contract/seasonal basis). The largest firm interviewed was domestic airline Buddha Air, which stated that its workforce had increased 300% since 2013. Most small tour operators interviewed had a few core staff, plus seasonal contracted workers as trekking guides, etc.; it was not always clear how employers classified seasonal staff. The Nepal Tourism Employment Survey (MoCTCA, 2014) found that around a quarter of all people employed were seasonal. Major five-star hotels had an average of 325 employees and stated that turnover was low, as **experienced staff prefer to work in such hotels** (which are few in number in Nepal). Those offering niche tourism products and services claimed not to have much competition, but smaller tour operators said there were hundreds of operators in Nepal (almost 5,000 in the latest Tourism Statistics), making it a very competitive environment for this group.

Hiring employees was generally not seen as an issue, with many vacancies filled through personal contacts, **but finding skilled workers with prior experience (which is highly valued in tourism) is a major challenge.** Some companies claimed that *all* of the staff they hired were unskilled for the industry, and they **trained workers themselves through on-the-job training and shadowing** to equip them to work. It is worth noting that **employers look for some non-technical characteristics** when hiring unskilled workers, including hygiene and appearance; this is discussed later in this paper.

Some firms had plans for expansion, although these varied and were often uncertain (dependent on demand and the general growth of tourism, and improved infrastructure, e.g. expanding capacity at airports). One respondent described a **'lack of corporate culture'** in Nepal, explaining that, for cultural reasons, there was **not a big appetite to grow firms.** This respondent also talked about long-term employees developing specific skills and then leaving to start their own enterprises (which hinders growth). This has led to the emergence of many small trekking, travel and rafting agencies, often **managed by ex-guides who do not have strong business management skills**. This coincides with findings from Pradhan et al. (2014), who found a **lack of management skills** among firm owners in tourism.

Constraints to firm/sector growth

Given the heterogeneity of the firms interviewed and the products and services they offer, there were various firm-specific issues. However, several constraints on both the demand and the supply side were common among the majority of respondents, and in some cases across all the sub-sectors. Although the **top two cited constraints were related to the demand side – that is, not labour-related** but hindering demand for skilled workers nonetheless (lack of infrastructure and weak government support in promotion) – **supply-side constraints were also strongly prevalent once respondents were probed** about their labour force constraints.

Demand-side constraints

Inadequate infrastructure was the most commonly cited challenge to the tourism industry. Respondents explained that **lack of good-quality, well-connected roads and airports was hindering the development** of areas with high potential for tourism activities. Nepal's most appealing areas for tourism are physically dispersed, from Mount Everest to the far east and Pokhara (Annapurna region) and both Chitwan National Park and Lumbini to the south. **Infrastructure (both land and air) is critical** to enable access to these destinations for international tourists arriving in Kathmandu. Respondents described limited numbers of poor-quality roads, which are frequently blocked with traffic and make travel difficult. Related to this, **poor regulation of driving licences** means inexperienced and low-quality drivers are sometimes hired to transport tourists, presenting a significant reputational and safety risk; some tour operators said that finding highly skilled drivers was a challenge.

The poor image of Nepal as a tourism destination was also cited as a major reason for low growth in the industry. Respondents stated that **the 2015 earthquake, years of political instability and lack of country-level promotion** relative to other destinations in the region (including Thailand, Sri Lanka, Bhutan) had led to lacklustre growth in numbers of tourists, which increased gradually until 2012 when they started to decline annually, with a severe drop of 32% in arrivals in 2015 (although this is expected to recover) (MoCTCA, 2015).

Supply-side constraints

Lack of skilled/experienced workers was cited as one major supply-side constraint, with difficulties sourcing skilled workers in hospitality (in particular cooks in hotels and restaurants). Unsurprisingly, **experience is considered particularly important** in this type of customer service-based industry. Employers said they usually hired people with little experience and provided on-the-job training. **Graduates are readily available but do not possess the practical skills needed** to work in the industry (personable, good communication skills, hygiene, sales experience, etc.).

Migration was also mentioned in the smaller firms as a constraint linked to high turnover. Skilled workers often move abroad, drawn by the prospects of higher pay and a better life abroad. This is both to work in the Middle East in non-tourism jobs but also to countries such as Japan, to work in highly skilled tourism jobs, for example as chefs. Several respondents said they felt the **government should do more to deter people from leaving and also help returning migrants use their skills** from abroad to work in tourism.

How the Nepal government could support the tourism sector

It is worth noting that, of the above constraints, the demand-side issues (which are to a great extent government-related) were the first mentioned in almost all interviews; interviewees discussed supply-side issues related to skilled labour only when prompted. Although the survey sample is too small to be significant, this indicates that **demand-side constraints to growth are more pervasive than labour issues**. Surveyed firms had a number of suggestions on how government could support the sector:

- **Build more and better road and air infrastructure** was one of the most common responses to the question of how the government could support the growth of the tourism sector. This is unsurprising given it was the number one constraint. Road upgrading/building and airport expansion is ongoing in Nepal, and work is under-way for strategic airports such as Pokhara (financed by a loan from the Chinese government, due for completion in 2020), but progress on road-building is slow. Related to this, **another suggestion was for direct flights from major tourist markets** as a major practical requirement for tourism to grow. Currently, **there are no direct flights to Nepal from Europe or the Americas**. Costly and inconvenient routes deter potential tourists, who may opt for other countries in the region.

- **<u>Increasing country-level promotion</u>** was also suggested as a major area of government support that is currently lacking. Several respondents said that, **despite the competitive environment, individual marketing was not an issue**, and they were confident they would secure customers. However, they strongly **felt the government should be doing more to promote the country as a tourism destination globally**, saying that, although tourism is often cited as a 'priority sector' for Nepal, they had seen little evidence of support from the government and the NTB was not performing as well as it could. Indeed, it is important that Nepal is promoted widely outside of Asia as a tourist destination. Respondents referred to **Sri Lanka, Thailand and the Maldives as countries that had excelled in this area** despite some problems with image, thanks to a strong push on promotion activities at national level. Firms suggested **the government/NTB was not engaging with the private sector enough and should come up with a strategy to promote tourism abroad collaboratively with firms.**
- **<u>Create a 'one window' mechanism</u>** for interacting with government authorities was another common suggestion among respondents. Engagement with ministries and agencies was minimal for all surveyed firms, occurring usually only for regulatory compliance and operational issues (i.e. to obtain permits, licences, etc.). However, several surveyed firms spoke of **confusing processes** whereby they had to engage with several ministries for operational issues related to permits, including the Department of Forests and the Department of Immigration. A newly built tourist attraction had taken seven years to become operational (it had taken just two years to construct), which the owner said was the result of **long processes linked to intra-ministry 'power struggles'** when it had to obtain approvals, permits and licences (with each department trying to 'show its authority' over the others). Firms all suggested a 'one window' policy, whereby the Department of Tourism 'owns' tourism-related processes and queries, to speed up approvals and prevent individual cases being passed on to different ministries with conflicting priorities and demands.

CASE STUDY: Equator Expedition

Equator Expedition was established in 1990. It has approximately 115 employees and is run by a former president of the Nepal Rafting Association. The firm offers a range of services to tourists, such as rafting, kayaking, expeditions (and transport) and trekking, and includes two riverside resorts.

The respondent from Equator Expedition described challenges in operating the Mount Everest trek, which is managed by the Department of Forestry and the Department of Immigration, in terms of some permit-related processes. He described how rules that changed regularly affected tour operators. For example, one service offered (which is niche and one of the firm's stronger areas) is kayaking. Tourists are transported via bus from Kathmandu to the river areas, and kayaks are secured on top of the bus. When a road regulation changed, stating that objects could no longer be carried on top of vehicles, Equator Expedition faced significant costs; a second bus had to be hired to transport the equipment. When staff approached the Department of Tourism they were passed to the Department of Transport, which was initially inflexible; it took significant time and effort on the part of the company to secure permission to transport the kayaks. Such situations occur regularly: simple requests are passed around departments with conflicting priorities. The respondent felt a one window policy was badly needed for tourism companies to operate more efficiently.

Worker profile

Again, given the heterogeneity of the firms in the different sub-sectors, there was no typical profile for workers, although estimates provided by respondents show around 20% of workers across interviewed firms are female, which is in line with the national averages shown in Table 1. Numbers of youth vary significantly and no reliable estimate could be deduced from the interviews. **Trekking and expedition firms are heavily male-dominated**, because roles as guides or porters are physically demanding and few (if any) women apply. Several (male) respondents described women as preferring stability after marriage, and said the tourism industry could not offer this, beyond housekeeping roles in hotels. **Office-based staff were more gender-balanced** (50% female on average), with one tour operator stating a personal preference for females in sales and customer service. However, several respondents referred to 'cultural issues' with women working, especially when they are required to travel long distances, as they are **potentially 'at physical risk' when they go to work**.

Most tour operators interviewed had a large workforce below 30 years old (mostly as porters and in other physically demanding roles) but older, experienced workers were also considered an asset, particularly in luxury resorts and hotels, and also as guides for more challenging trekking routes. **Very few firms have non-Nepali workers**; only three firms have one or two Indian staff members.

Few firms had information on employees from **disadvantaged backgrounds** (socioeconomic, disabled, lower-caste) and all said they did not ask for this information, as it was **more important to find skilled workers**. A few firms mentioned that, where they had workers from lower castes and poor backgrounds, these were local staff, which suggests **an opportunity to reach such disadvantaged groups with more development of local tourist services and attractions in regions** outside of Kathmandu. Although there is aggregate information on the characteristics of tourism in Nepal, there are few studies on the impact of tourism in different destinations, which should be researched further. One study by Banskota (2012) looks at three tourism destinations to try and understand how the sector is generating employment and income in local areas. The results show **tourism can help local people improve their livelihoods and job opportunities** through increased employment in accommodation (hotels and homestays) and also through supplying vegetables, which are mostly purchased locally by tourism firms. However, this is not automatic, and it requires concerted effort to **create strong linkages in the area**. It is worth noting that three destinations that were 'easily accessible' from Kathmandu were chosen for this study (which arguably emphasises that many are not, and those destinations may see fewer beneficial impacts from tourism).

Skills levels by Council for Technical Education and Vocational Training (CTVET) definitions[4] were very hard to gauge; most respondents talked generally about challenges finding experienced workers and could not give reliable information on the proportion of the workforce in each category. The Tourism Survey 2014 reports that, overall, about 19% are high-skilled, 28% are skilled, 49% are semi-skilled and 12% are unskilled, which does not quite align with the general claim found in this survey of a pervasive lack of skilled workers. However, given that many skills involved in hospitality are difficult to define, and accounting for respondents who said experienced workers either stayed in five-star hotels for long periods or began their own firms, it would be fair to deduce that there is a genuine challenge in finding skilled workers, and that there are issues with the survey methodology rather than an intentional misrepresentation by firms of their struggle to find skilled workers.

Skills, salaries and training

Most firms provide on-the-job training to staff. For example, junior trekking guides are sent with senior guides on expeditions for training, and several firms talked about probationary periods when they hire low-skilled workers to see how they perform, before offering them a permanent role. Firms stated that the challenge of finding skilled and experienced workers had led to significant investment (usually time) in training workers. The consensus on graduates with a Bachelor's degree in Hospitality-related degrees was that graduates had very few practical skills and they always needed training.[5] **Firms described non-technical skills as being the most important in tourism** (excellent communication, friendliness, an

[4] Skills levels defined by CTVET can be broadly summarised as: Level 1 – minimum of one year of work experience in a related occupation/trade/one month of vocational training/vocational training with six months of work experience in the relevant occupation/trade; Level 2 – minimum of three years of work experience in a relevant occupation/trade/one year of training/one year of work experience; Level 3 – minimum of five years of work experience in a relevant occupation/trade/two years of work experience after one year of training/one year of work experience after skill Level 2 certificate. These classifications were used to introduce the concept to respondents.

[5] This is in line with findings by Pradhan et al. (2014), who found that 85% of employers felt that employees with formal skills training had good theoretical knowledge but lacked practical skills.

'eagerness to please', etc.) and said they hired based on these character traits and trained workers, given the shortage in skilled workers. Language skills are secondary to these. **Firms said a mixture of formal training and education but mostly on-the-job experience was key to acquire these non-technical skills**.

Not all interviewed firms provided details of salary levels. Ten firms provided ballpark figures for different types of staff. Based on this, it was estimated that staff at the following broad levels earn:

- *Junior:* Minimum wage – NPR 15,000/month
- *Intermediate:* NPR 15–20,000/month
- *Senior:* NPR 20–50,000/month

Some tour agencies also pay daily rates for guides and porters (plus accommodation and subsistence), so it is difficult to estimate a salary, given that the number of days worked can vary substantially by season/demand. Day rates for guides are dependent upon experience, ranging from NPR 600 to NPR 1,800 per day. Porters earn between NPR 500 and NPR 1,200 per day.

CASE STUDY: Four-star hotel*

One major hotel in Kathmandu had approximately 350 employees, of whom approximately 40% were women. When asked about recruitment, the respondent stated that established hotels like these did not recruit very often, as their employees tended to be long-serving staff. They explained that this owed to the level of skill required to work in a high-end hotel: service workers with experience and ability to cater for international tourists are harder to find. Similarly, they stated that it was hard for workers to find jobs in other hotels, as there are few of a similar standard.

The respondent felt the biggest constraints to growth were infrastructure- and energy-related: water supply, electricity and waste management all need improvement. Moreover, lack of focus on tourism by government was cited as a cause of poor growth in the industry overall.

Interestingly, the respondent described particular challenges in being a Kathmandu-based hotel, saying that, in the past, the city's shopping and casinos had been attractive to tourists but, following regulation changes, casinos had closed down, negatively affecting the entertainment services offered to tourists coming to the city.

**This respondent requested that details not be made public so this has been anonymised.*

Tourism labour market tightness

Interviews carried out for this survey indicated that there was relative tightness in the labour market for tourism. Ten out of eleven respondents mentioned lack of skilled workers as a constraint to growth in the industry. It is worth noting again that demand-side constraints were mentioned first in all cases, and three respondents talked about labour only when prompted, indicating that non-labour constraints to growth are more pressing to firms than labour issues. **The shortage of skilled workers is reflected by reports that wages have been increasing in recent years**, and firms have difficulties retaining workers (who migrate, or start their own enterprise once they become skilled). Firms also frequently reported having to hire unskilled workers and train them (on the job), given a shortage in experienced workers. It is not possible to say whether this is caused by information failure (whereby skilled workers and employers cannot find each other), as firms reported a mix of hiring processes (through personal contacts, online job adverts and being directly approached); this would need further investigation. These findings are in line with Pradhan et al. (2014), who found 95% of workers in small hotels (and 60% in large ones), but not entirely with the Employment Survey 2014, which only identified 12% as unskilled.

One must be careful not to assume that, where the tourism sector has a shortage of skilled workers, an increasing supply of workers will lead to more jobs being taken up in the sector. Findings from this survey point to the fact that, for the tourism sector in Nepal to grow and create more high-value jobs, there **needs to be simultaneous support on both the demand and the supply side for tourism services**. Without more tourists and high-quality products/services (linked to infrastructure) to offer them, more skilled workers will likely be underutilised. **However, it could be argued that skilled workers will improve the quality of tourism in Nepal** – which is another constraint – which shows the interrelated and complex nature of challenges in the tourism sector. Further research is needed to explore this link and the evidence to support the anecdotal evidence this survey collected.

CASE STUDY: Buddha Air

Buddha Air is the biggest domestic flight operator in Nepal. Employee numbers have increased rapidly, with the respondent stating that around 150 people had been hired annually for the previous four years. Finding workers is not a major challenge as they are often directly approached for employment, but retention is a challenge as the airline is losing workers who migrate abroad regularly. The respondent also stated that almost all of the people hired were inexperienced and required training, which is done internally or on the job. The respondent stated that training programmes were helpful, and should focus on practical skills to work in the industry.

However, as for most respondents, challenges outside of labour were cited as the major constraint to growth. For Buddha Air, the most pressing constraint was infrastructure. It is well known that Kathmandu Tribhuvan Airport is running at full capacity, but the airline suggested that new/upgraded airports should be developed at other popular tourist destinations around Nepal to increase access for tourists. Finally, one concerning point made by Buddha Air was the backlisting of all Nepali airlines by the EU. The respondent felt this was a harsh classification given very high safety standards, and MoCTCA should do more to have the rating removed.

CONCLUSION AND POLICY PRIORITIES

This study found that, to generate more high-value jobs in tourism in Nepal, there needs to be simultaneous support on both the demand and the supply side for tourism services. In other words, easing constraints on the supply of labour by training workers in the skills needed to work in tourism alone will *not* be enough to increase the number of jobs in the sector. The tourism sector is not constrained only by a lack of skilled workers, but also by worrying trends in demand for tourism services in Nepal, which have been declining since 2012. Therefore, increasing demand for tourism services, and improving services offered (which are, by nature, labour-intensive) must be carried out simultaneously. The former (bringing in more tourists to Nepal) is a role that must be primarily government-led and the latter (making tourism services better quality) is one that should be private sector-led, but with support in terms of coordination and funding from donors and government (e.g. in skills training, providing matching services for skilled workers and firms, etc.).

Key priorities and recommendations to improve the supply of labour in tourism

This study found that lack of skilled/experienced workers was the major labour supply-side constraint. Employers are forced to hire people with little experience and to provide on-the-job training, which has led to significant investment (usually in terms of time rather than financial) in training workers. Firms described non-technical skills as being the most important in tourism. Based on the survey and existing information on the sector, the following three policy recommendations could help ease the skills constraint:

- **Incorporate long-term placements and internships for university students:** Firms suggested that six months to a year was necessary for students to fully gain the practical skills needed to work in the hospitality industry. At the moment, it appears graduates are not highly valued by firms and firms suggested this could be resolved through placements. Putting these in place would also help bring more people with the necessary theoretical and business skills into the tourism industry.
- **Implement training for locals in the vicinity of rural/regional tourist destinations:** Respondents stressed that local people in rural/regional areas could benefit greatly in terms of

employment opportunities but often lacked the skills needed in hospitality. Training required is in both technical skills (food handling and preparation, quality control, languages, etc.) as well as soft skills (hygiene, communication, customer service). Respondents suggested bringing in foreign trainers from countries successful in tourism, and that a 'matching service' could help, whereby trained local workers are matched to employers in rural and local areas. Private firms (luxury hotels, successful tour operators) should also be consulted when designing training curricula. Many respondents said lower-caste individuals were often found in rural and poorer areas, so this may also have a positive impact on these groups in terms of access to employment in tourism. However, this needs further investigation, and this study found no evidence of particular groups being excluded or disadvantaged in tourism employment (but this may not be an accurate depiction of reality as firms are unlikely to admit bias in employing people from these groups in an interview).

- **Women are found in greater numbers in hotels and office-based roles; support them to secure jobs:** Given the nature of the majority of tourist activities in Nepal, it is unlikely these will attract high numbers of women should more jobs be created. Rather, the opportunity for women lies more in office-based roles and in hotels/hospitality. Further research should be done into the barriers to women working in these roles and ways to increase their participation. Respondents spoke of cultural norms against women working and a perception of unsafe conditions for women's travel to and from work as being the main factors behind cases of a low proportion of female workers in firm workforces.

Key priorities and recommendations to improve demand for labour in tourism

The demand for labour in tourism is naturally linked to the demand for tourism services. Although we found some indications of a shortage in the supply of skilled labour, trying to address this by training more workers to work in tourism will not increase the demand for labour: the tourism sector is not constrained only by a lack of skilled workers but also by a lack of demand for tourism itself. Despite the high potential of the sector in Nepal, recent trends in tourism demand are worrying. As such, increasing demand and improving the services Nepal offers (which are heavily reliant on skilled labour) must be carried out simultaneously. Based on the survey and existing information on the sector, the following three policy recommendations could help increase demand for tourism, and labour in the sector:

- **The NTB should increase country-level promotion and work more closely with the private sector and the Department of Tourism on its strategy.** Respondents said their interactions with the NTB were minimal (only information exchange) and, given a number of problematic areas regarding Nepal's image as a tourism destination, firms alone cannot market to international tourists and attract them without a stronger national marketing push. In terms of promotion abroad, the NTB is relying heavily on ambassadors and diaspora communities in foreign countries to generate interest in Nepal, but promotion should be planned and executed by national tourism boards through various activities, such as the highly successful 'Get Sri Lankaned' campaign in 2013. Ambassadors and diaspora communities should not be expected to lead on attracting interest abroad through word-of-mouth. NTB staff also said they worked very little with ministries, and it appears that, by fully devolving promotion to the NTB, the Department of Tourism is not sufficiently engaged with this important aspect of ensuring growth. The NTB also said its training budget spend was driven by demand rather than by an effort to plan and identify skills requirements. Instability linked to a four-year delay in the appointment of a CEO for the NTB, plus an underspend of the available budget, has also held up tourism promotion. Given that the NTB was created with a mandate to provide a bridge between the public and private sector, and to promote Nepal's tourism industry, it can be said that it is not yet being fully utilised, or fulfilling its potential. The NTB should therefore work more closely with the private sector and local authorities to develop tourism products (as detailed in the 2016 NTIS), and work with the private sector to promote these abroad.
- **There is a need to develop a 'one window' system,** whereby the Department of Tourism's function is expanded to support tourism industries by granting approvals and providing other administrative services (as currently occurs under the Foreign Investment Policy, managed by the Department of Industry).

- One potential 'quick-win' in supporting tourism in Nepal is for the government to work urgently with international airlines to begin operating **direct flights to Nepal** (if physical capacity allows in Kathmandu Tribhuvan Airport), and focus on addressing the issue of the EU blacklisting domestic airlines. Given the poor-quality roads, this is yet another barrier and deterrent for international tourists hoping to travel in and around Nepal to its many sites.

Finally, it is important to note that employment potential in tourism is high for a wide range of people, and a large range of skills (from low to high) are required across the sector. Given that much of the activity in tourism is labour-intensive, growth in the sector can also be expected to be employment-intensive and therefore should be supported by the government and donors/partners. However, measuring the employment potential of tourism is challenging, as a result of the varying definitions of what is included under tourism in terms of activities and depending on whether domestic tourists are included (which firms report to be increasing but official tourism statistics exclude). Therefore, groundwork is needed on defining the sector, and measuring its activity before, or at least while, interventions in the sector are planned to ensure efforts and impacts are maximised.

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ANNEX A: LIST OF INTERVIEWED FIRMS

Table A1. Firms interviewed for this report (January 2017)

Sub-sector	Location	Firm name
Tour operator	Kathmandu	Adventure Outdoors
Airline	Kathmandu	Buddha Air
Hotel management	Kathmandu	Paradise Inn
Tour operator	Kathmandu	Equator Expedition
Tour operator	Kathmandu	Everest Miracle
Tour operator	Kathmandu	Sacred Summit
Tour operator (start-up)	Kathmandu	Zusco
Hotel (5-star)	Kathmandu	Hotel Annapurna
Tour & safari operator, hotels, restaurants	Kathmandu	Explore Nepal
Hotel (5-star)	Kathmandu	Hotel Yak & Yeti
Cable car/amusement park	Kathmandu	Chandrgiri Hills