

Preparation of tourism accounts for Himachal Pradesh

The aim of the study, given in the World Bank Terms of Reference, is the preparation of Tourism Satellite Accounts (TSA) for Himachal Pradesh to measure the goods and services associated with tourism according to international standards, concepts, classifications, and definitions. The broader objective of TSA, given in the Terms of Reference (ToR), is to assist the Government of Himachal Pradesh (GoHP) to develop credible quantification of different aspects of tourism in a way that:

- Provides a coherent and credible set of tourism accounts that can be compared across states in India and internationally.
- Develops quantitative estimates of value added tourism, thus analysing the importance of tourism in the state economy.
- Identifies employment generation in tourism and the role tourism plays in job creation for different types of workers.
- Offers a framework for developing impact models of tourism on economic activity and employment by identifying relationships between tourism industries and the rest of the economy.
- Measures productivity within tourism and compares it with other sectors. This aspect will depend completely on the available data.

Completion of this framework along with analysis of existing data will assist in understanding and presenting data coverage and key gaps in HP data. It will help focussing on needs for the HP survey data to validate estimates based on national level data assumptions used in this study.

About the report

This report on the preparation of Tourism Satellite Accounts (TSAs) for Himachal Pradesh was undertaken by TERI and Metroeconomica. This report was submitted to the Government of Himachal Pradesh in mid-August 2013. The project was started in May 2013. This final report tries to highlight the data gaps at various points that limited the scope of the study. This report gives details about the small pilot survey conducted by TERI using the rapid appraisal method to understand the specific tourist expenditures in the state and help in validation of some of the information that has been used from the national level estimates as proxies for the state level accounts.

This project also supports the World Bank objective of a Development Policy Loan to support inclusive green growth and sustainable development in Himachal Pradesh and support the state in the improved management of its natural resources across growth engines of the economy. Preparation of TSAs will enable understanding of the contribution of the tourism sector to the growth of the state, the details of various kinds of expenditures linked to tourism, and the implications for sustainable use of resources. It will also act as an effective tool to measure socio-economic impact of tourism. Combining the findings from TSAs with the estimates of natural resources used to support the tourism sector and the implications on the environment, can provide information for more informed decision making. The consultations with the state officials also indicated that since the contribution of tourism is actually hidden in different sectors, estimating separate TSAs would help in estimating the actual contribution of the sector to the economy and help in making appropriate decisions in the context of investment and planning for the sector to meet future needs.

Executive summary

- Tourism is a very important economic activity for Himachal Pradesh (HP). It contributes to both, the gross domestic product (GDP) and employment in the state. It is also an important contributor to the state government's finances¹, although an accurate estimate of tourism's share in the government's revenues is lacking.
- The tourism potential of HP is well acknowledged. The State Government of HP has a long term vision to increase the share of this sector in the State's economy. To realize this potential fully, a major increase in facilities for visitors is needed (especially hotels and road networks). The current study aims to contribute to this goal by providing the policy makers and planners with the relevant information. This has been done by developing Tourism Satellite Accounts (TSA) for HP based on internationally agreed methodologies. TSAs at the sub national/state level cannot present the full range of information that is possible for national level TSAs. This study aims to present whatever information is feasible for HP, given the methodology and the data availability. The estimates of tourist's expenditure for HP have been calculated as an average per tourist expenditure for different kinds of tourists and tourist visit purpose taken from all India studies. In a previous study², for the states of Kerala and Madhya Pradesh, regional TSA was estimated for 2009–10 by using India average and state specific data.
- Estimates using TSA methodologies indicate that the contribution of inbound tourists (foreign and domestic) to Himachal Pradesh's GDP may be as high as 26 per cent. The specific contribution of foreign tourists in the state's economy is estimated to be the largest and over 20 per cent³. The current contribution of domestic tourists within HP to the state's GDP is estimated to be a little more than 1 per cent.
- It is quite likely that the estimates given above for the total contribution of tourism to the state's GDP are on the higher side compared to the official estimate of 8-10 per cent for basic contribution of tourism to the state's economy⁴. A major drawback of applying all India tourist expenditure assumptions to the state is that they may not correctly reflect the high proportion of low budget foreign tourists (backpackers) coming to Himachal Pradesh. As there are no official data on the numbers and expenditure of low budget tourists in the, this study undertook a sensitivity analysis based on assumptions for the percentage of low budget tourists in total foreign tourist trips and their per trip expenditure. This analysis suggests that if, for example, about 40 per cent of foreign travellers to HP were low budget travellers then the total contribution of tourism to the state's GDP may reduce to about 20 per cent from 26 per cent.
- This study report estimates that the total jobs (employees as well as self-employed, excluding casual labourers) in the state attributable to tourism connected industries was 4, 00, 000 (0.4 million) for 2009-10. This equals 14 per cent of the total jobs in the state (employees as well as self-employed, excluding casual labourers) as against the all India average of 8 per cent.
- Based on data of number of registered establishments in HP and employment intensity figures from the national level, the total estimated employment in registered hotels/guest houses was calculated as 28,504.
- The Tourism Satellite Accounts for the state will help in promoting the tourism sector as an engine of inclusive and green growth. The TSA indicates which visitors make the largest contribution to the state's development through their expenditures and what kind of visitors should be targeted the most. The initial figures show, for example, while the number of tourists who are from the state itself or from other States are much greater in number than visitors from overseas, the latter have 79 timer higher level of spending than the tourists from India. Other data collected as part of the TSA indicate that which kinds of visits have the highest spending and what areas of expenditures are demanded by the domestic tourists. Tourists travelling for holidays, leisure, and recreation account for the highest contribution to the overall

expenditure incurred by domestic tourists from within HP. This could help planners to decide to encourage which complementary services in the future, targeting growth particularly for these high potential visit purposes. A detailed survey of tourists should be carried out in the near future to elicit visitor perceptions on what services they are looking for and identifying the gap areas⁵.

- In order to provide future data on the tourism sector's progress in India and to aid planning decisions, it is recommended to periodically update the TSA tables. This would include updating key tables to take into account any changes in numbers of tourists visiting HP and any new data on per tourist expenditures for the different kinds of tourists. The principal responsibility for enabling this would lie with the Tourism Department of GoHP with any necessary input from other departments. This report provides an explanation of key TSA tables (Chapter 4) and the information required for their future updating consistent with the key UN methodological guidance document (UN, 2010). As per the information from the Statistics Department of the Government of Himachal Pradesh, currently a process⁶ is being designed to generate the detailed TSA for the state that could provide valuable inputs to the process.
- An important issue in future updation and improvement of the TSA tables is the need to reflect the specific characteristics of the tourism sector in HP. National level assumptions used in the calculation of TSA tables in this report need to be refined to better reflect the state level specificities of expenditures and proportions of different types of tourists (luxury, mid-range, and budget) visiting HP. Currently there is a lack of official data on expenditure and visits by these different types of tourist to HP. Therefore, further survey information and research is needed to understand the differences in expenditures of these tourists. In particular, this would show the numbers of visitors, including back packers for trekking and other adventure activities, and would allow more accurate estimates of total tourist expenditures and contribution to GDP.
- The aim of tourism development is not only creating jobs and increasing output but also to do it sustainably and not to destroy the natural resource base, on which the tourism depends to a large extent. The discussion in the report on sustainability indicates the kind of pressure tourism lies on environment. These needs to be minimized and the state has a responsibility to establish regulations that keeps such pressures to a minimum. The main problems identified in similar studies in other states of the country, include water supply and disposal, solid waste disposal, and congestion in sites of special value and interest. More funds are need to be spent by the government to address some of these increased pressures, particularly regarding planning of infrastructure (including that for tourism) to manage these pressures in a sustainable way.
- The financing of tourism development has to come in large part from private capital and HP has indicated the levels required to attain its growth targets. The state has to ensure that such capital does not face undue restrictions, while ensuring that environmental and other regulations are satisfied. Furthermore, some funding has to come from the state itself and more will need to be spent on improving local infrastructure so that visitors find the experience of coming to the state pleasurable enough to recommend it to others. In part this can be funded from the increased tax revenues that tourism brings and another part will have to come before the increased revenues materialize. Payments for environmental services (PES)⁷, such as eco-certification and charging entrance fees to tourists might also offer a valuable long term solution within the tourism industry as tourism relies heavily on the existence of sound natural environments.
- In the field of publicity and promotion, the Department of Tourism should strengthen its efforts for further promoting Himachal nationally and internationally as an attractive tourist destination, as it is currently doing under the caption 'Unforgettable Himachal'.

- Sources of revenue can be developed for the state from the tourism programme. A number of countries have a tourism tax (e.g., Bhutan) and some locations introduce a special tourist tax. The international experience with such taxes has been mixed. There have been legal challenges (e.g., in the Balearic Islands in Spain and in Sardinia where the tax had to be rescinded). Other regions, however, have managed to collect a modest tax in the form of a service fee for the provision of high quality environmental services to visitors. As long as these services are genuinely supplied, tourists willingly to pay for them. A detailed study of the issue needs to be carried out for HP. The capital city of HP, Shimla had introduced the 'green tax' in 2012 that was being charged at the rate of Rs 100 for two-wheelers, Rs 200 for cars and jeeps, Rs 300 for mini-trucks and similar vehicles, and Rs 500 for trucks and buses at four entry points to generate revenue of Rs 6 crore annually that would have been used to promote a cleaner and greener Shimla. However in March 2013, the Himachal Pradesh High Court restrained the Shimla municipal corporation from levying this green tax.

¹ The public expenditure on tourism is qualitatively estimated, however, to be low relative to other states (HVS Study).

² Study was conducted by National Council of Applied Economic Research and commissioned by the Ministry of Tourism, Government of India. This was a long term study involving more time and resources. Compared to this, our study was a short duration study with limited resources, which did not permit any conduct of detailed survey for the state of HP to estimate data specific to the state and use that for estimating the TSAs.

³ To arrive at these percentages, we have also used the data that Gross State Domestic Product (GSDP) at factor cost at constant (2004-05) prices in 2011-12, which was estimated to be IRs 41,939 crore (Economic Survey of HP 2012-13)

⁴ The guess estimate of a more comprehensive contribution of tourism to the state's GDP, as provided by the government officials, was 14-15 percent.

⁵ It has also been highlighted by the local officials and other stakeholders that health and medical tourism currently is not very strong in HP and using national level figures may over-estimate the contribution of tourism to the state's economy. However, there is significant potential to increase this kind of tourism in the state.

⁶ This refers to the National level study that is being done for five states in India including HP, and the report is still work in progress.

⁷ PES schemes offer financial incentives for local actors to provide a wide range of ecosystem services untouched by normal market transactions. PES schemes are designed to stimulate transactions in which a well-defined environmental service is bought by at least one user from at least one provider. The payments involve a positive incentive to the provider, and are conditional on performance. Whether incentives are conditional on measures of the service or the actions of providers depends on the feasibility and cost of monitoring. Because of the difficulty in measuring many environmental services directly, payments may be based on either the actions of the service providers or on indirect ecological indicators.