Effect of Governance on Tourist Arrival in Nepal

Naniram Sapkota
Nepal Open University
sapkotanrs10@gmail.com

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ABSTRACT

It is believed that governance has a direct impact on all sectors of the state. This paper aims to examine the effect of governance on the tourism sector by adopting the Worldwide Governance Indicators (WGIs) produced by Kaufmann et al. (1999). For analyzing tourism sector performance, the annual number of tourists arriving in Nepal and their average length of stay have been taken separately from 2005 to 2019 as dependent variables. The six indicators of WGIs are taken as independent variables which include political stability and absence of violence, government effectiveness, voice and accountability, regulatory quality, rule of law, and control of corruption. The data were collected from secondary sources and analyzed by descriptive statistics using multiple-line graphs and regression models. The result shows that most of the WGIs insignificantly explained both the number of tourists and their length of stay. The finding differs for political stability and the absence of violence which significantly explains the relationship with the average length of stay per tourists. In a nutshell, the study concludes that governance-related indicators have not found a significant impact on tourist arrival in Nepal. Further, the findings of this study suggest reforming the existing level of all worldwide governance indicators for better performance of the tourism sector.

Keywords: Governance, Infrastructure Development, Tourism Sector, Tourist Arrival, Worldwide Governance Indicators (WGIs)

1. Introduction

"Good governance is essential for sustainable tourism development, as it provides the necessary le-

gal and regulatory framework, institutional capacity, and stakeholder engagement to ensure that tourism is developed in a way that is socially, environmentally, and economically responsible." - Harrison and Schipani (2007). Good governance decreases the uncertainty and transaction costs of tourism services on the supply side. However, on the demand side, it affects the branding of tourist destinations (Kim, Saha, Vertinsky, & Park, 2018).

Tourism has emerged as one of Nepal's most important economic sectors, contributing significantly to employment and foreign exchange earnings. Nepal has been officially open to international tourists since 1951 (MoCTCA, 2014) and has experienced a steady increase in tourist arrivals over the past decade till 2019, with the number of visitors rising from 790,118 in 2010 to 1,173,072 in 2018 (Nepal Tourism Board, 2019). Tourism is an important contributor to Nepal's economy, accounting for 6.7% of the country's GDP and employing over a million people (World Bank, 2019). Similarly, tourist spending has also been on the rise, with total foreign exchange earnings from tourism increasing from USD 247 million in 2010 to USD 817 million in 2018 (Nepal Rastra Bank, 2019). Detotto et al (2021) concluded that higher perceived governance quality has a positive and significant impact on tourism revenue. However, the tourism industry tends to be highly sensitive to negative environmental factors such as natural disasters, serious social conflicts, war, economic crises, and terrorist acts (Hung, et al., 2007; Ulak, 2020: 109). Also, tourism is an "open" industry and subject to political, social, environmental, and technological trends (Neupane, 2021).

While there is a growing body of literature examining governance in the tourism sector globally, not much research has been found to connect good governance and the performance of the tourism industry in Nepal. In this context, this study seeks to investigate the relationship between governance and tourists' arrival in Nepal, by analyzing the various dimensions of governance indicators such as voice and accountability, political stability, governance effectiveness, regulatory quality, rule of law, and control of corruption with the number of international tourists and their length of stay between 2005 and 2019. In other words, this paper aims to investigate whether good governance attracts tourists. For this, four main parts construct this paper. The first part consists of an introduction of the topic, the second part includes a literature review, the third part elaborates on the research methods and the fourth part involves the analysis and discussion of the study.

2. Literature Review

Tourism development in Nepal has grown rapidly over the past few decades, driven by the country's rich natural and cultural heritage, including the Himalayan Mountain, historic temples, and diverse wildlife. According to the World Bank, the tourism sector is a major contributor to Nepal's economy and provides employment opportunities to a significant number of people, especially in rural areas. The relationship between governance and tourism development has been the subject of much

scholarly research in recent years. While governance has been identified as a key factor in promoting sustainable tourism development, there is limited empirical research on the specific mechanisms through which governance influences tourism development in Nepal. This study examines the relationship between governance and tourism development in Nepal, with a specific focus on the worldwide governance indicators (WGIs) and their effects on tourism arrival.

Policy and Regulatory Framework

The policy and regulatory framework for tourism in Nepal has undergone significant changes over the past few years. The government of Nepal has adopted various policies and strategies aimed at promoting tourism development, such as the Tourism Policy 2009, the National Tourism Strategy Plan for Nepal: 2014-2023 (2013), and the Visit Nepal 2020 campaign. These policies and strategies have focused on promoting investment in tourism infrastructure, improving the quality of tourism services, and enhancing the marketing of Nepal as a tourist destination.

However, some scholars have criticized the policy and regulatory framework for tourism in Nepal for being fragmented, inconsistent, and lacking in coordination. For instance, Maharjan and Rai (2019) argue that the tourism sector in Nepal is characterized by a lack of clear policies and regulations, which has resulted in an ad-hoc and uncoordinated approach to tourism development. Similarly, Karki (2018) argues that the regulatory framework for tourism in Nepal is weak and ineffective, which has led to a proliferation of unregulated and informal tourism activities.

Empirical Reviews and Conceptual Framework

Zaman (2016), Ahmad and Saleem (2014), Han et al. (2014), and Canfield (2011) have revealed the positive, predictive, and significant relation between worldwide governance indicators and different dependent variables such as economic growth, human development, domestic product, educational outcomes or country growth (Khadka, 2021). However, some other researchers found some dimensions of WGIs that negatively correlate to educational outcomes and others such as government effectiveness with GDP in South Asian countries.

Specifically in the tourism sector, the past findings reveal a positive relationship with WGIs. Detottoa, Giannonia & Goaveca (2021) established the idea that good governance enhances the growth performance of the tourism industry. In addition, Khan et Al. (2021) concluded that governance has a positive effect on tourism development as well as components of tourism, i.e. foreign visitors' spending, domestic spending, and the contribution of tourism to employment. They further concluded that all governance indicators, i.e. government effectiveness, political stability, regulatory quality, rule of law, and voice and accountability propagate tourism development. A similar study conducted by Bhuiyan et al. (2022) concluded that good governance can promote sustainable tourism development in China. Similarly, Daryaei et al. (2012) conducted

research about the effect of good governance on tourism which found a positive relationship between governance indicators and the development of the tourism industry.

Moreover, tourism growth is dependent on a number of factors such as development and improvement of infrastructure, information, facilities, access, transportation options, safety and security (Goeldner, Ritchie, and McIntosh, 2000), which are all needed in the case of Nepal. Additionally, tourist demand is subject to change from unpredictable internal and external influences, notably political instability and international conflict, which has consequently hindered the pace of arrivals in the country (Thapa, 2003). The tourism sector in Nepal faces a number of challenges, including inadequate infrastructure, environmental degradation, and the need to balance the interests of local communities, tourists, and the environment. Effective governance is, therefore, crucial to ensure tourism development in Nepal. Hence, this study has assumed WGIs are the key factors affecting tourist arrival in Nepal in terms of number of the tourists and their length of stay as shown in the following figure.

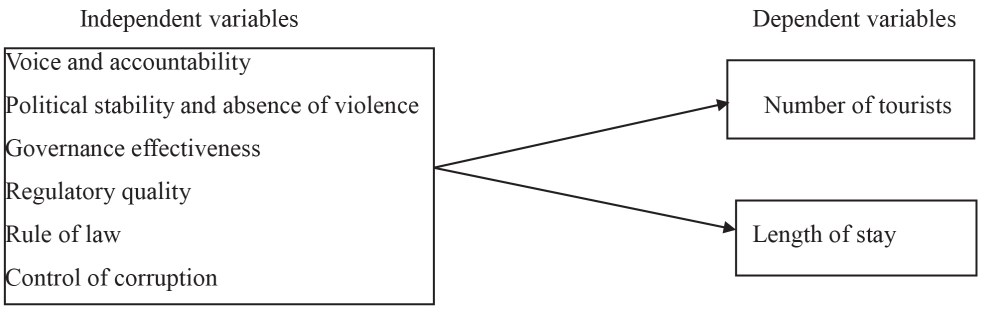

Figure 1: Conceptual Framework of the Study

The Worldwide Governance Indicators (WGI) project reports aggregate and individual governance indicators for over 200 countries and territories over the period 1996–2018. These aggregate indicators combine the views of a large number of enterprises, citizens, and expert survey respondents in industrial and developing countries. They are based on over 30 individual data sources produced by a variety of survey institutes, think tanks, non-governmental organizations, international organizations, and private sector firms (World Bank, n.d). The WGIs are widely used as a tool for assessing governance quality and its impact on various aspects of development, including economic growth, poverty reduction, and social development. Therefore, the WGIs as independent variables and number of the tourists and their length of stay as dependent variables are taken in the study which are described below in brief:

Voice and Accountability: Voice and accountability are important indicators of good governance, reflecting the degree to which citizens can participate in the political process, express their views, and hold the government accountable.

Political Stability and absence of violence: Political stability is another important indicator of good governance, reflecting the degree to which a country's political

institutions are stable and predictable.

Government Effectiveness: Government effectiveness is a key indicator of good governance, reflecting the ability of the government to provide public goods and services, implement policies, and manage public resources.

Regulatory Quality: Regulatory quality is an important indicator of good governance, reflecting the degree to which a country's regulatory framework is transparent, efficient, and effective.

Rule of Law: The rule of law is a critical indicator of good governance, reflecting the degree to which a country's legal system is fair, predictable, and transparent.

Control of Corruption: Control of corruption is another critical indicator of good governance, reflecting the degree to which a country's institutions are free from corruption, and public resources are used for public purposes.

Number of Tourists: It is the total number of international tourists visiting Nepal annually.

Length of Stay: It is the average day an international tourist spends in Nepal in a year.

3. Methodology

This study utilizes a quantitative research design that examines the relationship between governance and tourist arrival in Nepal using worldwide global indicators as independent variables and tourist arrival i.e. the annual number of international tourists and the average length of their stay in Nepal taken separately as the dependent variables. Regarding the source of WGIs, it is stated in the policy paper that the WGI project combines the several hundred individual underlying variables into six indicators (Kaufmann et al., 2010) which include the corruption perception index, political stability, rule of law, regulatory quality, and infrastructure quality. The scale of the data is rescaled into standard normal units that range from -2.5 to 2.5. The value of WGIs greater than 0.00 is said to have a positive indicator, and if it is less than 0.00, then it is said to be a negative indicator (WBG, 2020). The study uses data from the World Bank and the Tourism Statistics of Nepal Tourism Board for the period 2005 to 2019. The reason for choosing the time period is to study the trend of the last 15 years. However, due to the effect of COVID-19, the tourism sector was affected badly which overshadowed the effect of governance in the sector. Therefore, the pre-COVID period of 15 years was chosen.

In descriptive statistics, WGIs as well as the number of tourists and their length of stay were analyzed using multiple-line graphs as it is easier to observe the trend of the variables for the years. For inferential analysis, the data on WGIs and the number of tourists as well as the length of their stay are in different matric scales. The multiple-regression model of the study is as follows:

$$NT = a0 + a1VA + a2PS + a3GE + a4RQ + a5RL + a6CC + e \quad \ldots\ldots\ldots\ldots (1)$$

LS = b0 + b1VA + b2PS + b3GE + b4RQ + b5RL + b6CC + u……. (2)

Where,

NT = Number of Tourists

LS = Length of Stay

a0 & b0 = constant terms

e & u = error terms

a1 to a6 & b1 to b6 = coefficients

VA = voice and Accountability

PS = political stability and absence of violence

GE = governance effectiveness

RQ = Regulatory Quality

RL = Rule of Law

CC = Control of Corruption

4. Data Analysis and Discussion

For the study of trend analysis of WGIs and tourist arrival in Nepal, multiple line graphs are drawn. Figures 2 and 3 show the multiple-line graphs for WGIs and tourist arrival from the year of 2005 to 2019.

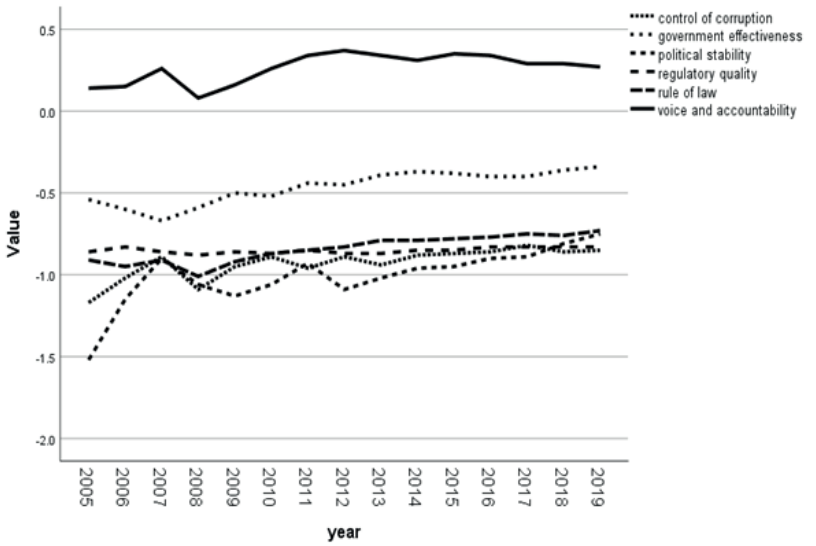

Figure 2: Line graphs for Worldwide Governance Indicators across the years from 2005 to 2019

Source: databank.worldbank.org

The values of WGI indicators lie between -2.5 to +2.5. According to the figure 2, the trend of all WGIs lines graph in Nepal (except for voice and accountability) fell below '0.00' which shows the negative values of WGIs. Out of six indicators, only one

indicator voice and accountability remained positive throughout the period. Overall, the indicators showed a steady increase with fewer fluctuations. Although remained negative, governance effectiveness showed a gradual increase from 2007. The values for rule of law and control of corruption were more stagnant around -1. The regulatory quality has also remained the same remaining near -0.8 throughout the whole period. The political stability and absence of violence was improved from -1.5 in 2005 to -1 in 2007 and steady increase with some fluctuations in 2009 and 2012.

Figure 3: Line graph for the number of tourists and their average length of stay

Source: tourism.gov.np

Figure 3 illustrates the number of tourists and their average length of stay from the year 2005 to 2019. The number of tourists till 2006 remained stable which could be because of the armed conflict in Nepal. Similarly, the figure declined significantly to less than 600 thousand in 2015 due to the devastating earthquake in Nepal. Overall, the number of tourists tripled during the period. However, their average length of stay remained stagnant over the 15 years.

Normality

To test the normality and homoscedasticity, P-P plots and scatter plots are used separately in each of the dependent variables which are presented in the figures below.

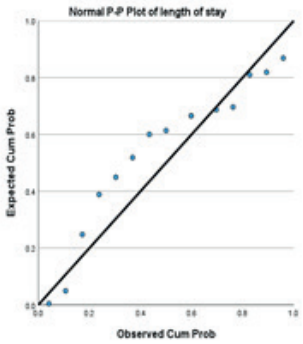

Figure 4 (a)
Normal P-P Plot (no. of tourists)

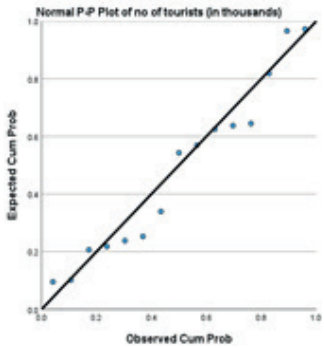

Figure 4 (b)
Normal P-P Plot (length of stay)

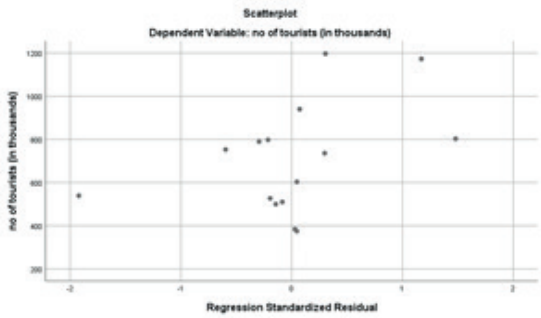

Figure 5(a)
Homoscedasticity Scatter Plot (no. of tourists)

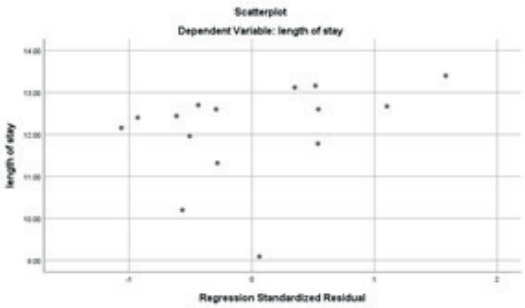

Figure 5(b)
Homoscedasticity Scatter Plot (length of stay)

As we can see the residual points cluster to the diagonal normality line plotted in the figure 4(a) and 4(b), and the residuals tend to be normally distributed. Similarly, the figures 5(a) and 5(b) tend to scatter about a horizontal line which illustrates the not very violated level of homoscedasticity.

Table 1 (a)

Model Summary (no. of tourists)

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.901a	.813	.672	145.724	1.402

a. Predictors: (Constant), voice and accountability, regulatory quality, political

stability, government effectiveness, control of corruption , rule of law

b. Dependent Variable: no of tourists (in thousands)

Tale 1 (b)

Model summary (length of stay)

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.947a	.897	.821	.48884	1.655

a. Predictors: (Constant), voice and accountability, regulatory quality, political stability, government effectiveness, control of corruption , rule of law

b. Dependent Variable: length of stay

In the tables 1(a) and 1(b), the value of R (multiple correlation coefficient) are .901 and .947 respectively which shows there is a very high level of correlation between dependent and independent variables. The value of the adjusted R square is .672 and .821 which indicates 67.2% and 82.1% of the variation in tourist arrival by number of tourists and their length of stay respectively. As stated by Singh (2007), the value of adjusted R square of more than 50-75 percent shows that the regression model is at a 'good' level to use for analyzing the results.

As the data includes time intervals, Durbin-Watson is used to test autocorrelation for assessing the degree of similarity among the given time series of 15 years. Here, the value is 1.402 which does not seem much more violated the assumption of 'No autocorrelation' although it lay outside the region of 'no autocorrelation' of 1.5 to 2.5. Further, whether the model fits the analysis or not is examined by the following ANOVA table:

Table 2 (a)

ANOVA (no. of tourists)

ANOVA[a]

Model	Sum of Squares	Df	Mean Square	F	Sig.	
1	Regression	736619.080	6	122769.847	5.781	.013b
	Residual	169884.653	8	21235.582		

	Total	906503.733	14			

a. Dependent Variable: no of tourists (in thousands)

b. Predictors: (Constant), voice and accountability, regulatory quality, political stability, government effectiveness, control of corruption , rule of law

Table 2 (b)

ANOVA (length of stay)

ANOVA[a]

Model	Sum of Squares	Df	Mean Square	F	Sig.	
1	Regression	16.736	6	2.789	11.673	.001b
	Residual	1.912	8	.239		
	Total	18.648	14			

a. Dependent Variable: length of stay

b. Predictors: (Constant), voice and accountability, regulatory quality, political stability, government effectiveness, control of corruption, rule of law

The result of ANOVA presented in the above tables 2(a) and 2(b) show that the independent variables statistically and significantly explain the dependent variables as the p-value (.013) and (0.01) are less than 5% of the level of significance. The regression model significantly fits the regression equation (Singh, 2007). As goodness of fit for the equation and significant association of the Worldwide Governance Indicators and tourist arrival, the effect of WGIs on tourist arrival, which is a major concern of this study, is examined as follows:

Table 3(a)

The effect of WGIs on number of tourists in Nepal

Coefficientsa

	Unstandardized Coefficients		Standardized Coefficients		
Model	B	Std. Error	Beta	t	Sig.
1 (Constant)	1700.031	2140.904		.794	.450
control of corruption	-587.483	1015.704	-.224	-.578	.579

government effectiveness	271.356	986.587	.108	.275	.790
political stability	820.047	400.975	.587	2.045	.075
regulatory quality	-2302.466	3186.200	-.160	-.723	.490
rule of law	2708.102	1813.440	.892	1.493	.174
voice and accountability	-1013.465	877.556	-.357	-1.155	.281

a. Dependent Variable: no of tourists (in thousands)

Table 3(b)

The effect of WGIs on length of tourists' stay in Nepal

Coefficients[a]

	Unstandardized Coefficients		Standardized Coefficients		
Model	B	Std. Error	Beta	t	sig.
1 (Constant)	.806	7.182		.112	.913
control of corruption	1.788	3.407	.150	.525	.614
government effectiveness	4.749	3.310	.417	1.435	.189
political stability	4.202	1.345	.663	3.124	.014
regulatory quality	-14.607	10.688	-.224	-1.367	.209
rule of law	-6.556	6.083	-.476	-1.078	.313
voice and accountability	5.495	2.944	.427	1.867	.099

a. Dependent Variable: length of stay

In table 3(a), out of six indicators of worldwide governance, all the indicators are found insignificant predictors of number of tourists as the values of p = 0.579, 0.790, 0.075, 0.490, 0.174, and 0.281 are greater than the 5%, i.e. .05 level of significance. In conclusion, all the six indicators of WGIs insignificantly explained the number of tourists across the years from 2005 to 2019 in Nepal.

Similarly, in table 3(b), out of six indicators of worldwide governance, all the indicators are found insignificant predictors of number of tourists as the values of p = 0.913, 0.614, 0.189, 0.014, 0.209, 0.313 and 0.099 are greater than the 5%, i.e. .05 level of significance except for political stability and absence of violence, the value is 0.014 which is less than 0.05. In conclusion, all the five indicators of WGIs insignificantly explained the length of their stay. However, political stability and absence of violence is found to be significant to explain the length of stay of the tourists.

The finding is different in comparison with other related international

studies most of which showed the positive relationship between governance and tourism sector performance. It may be because of two reasons: the first is the diminishing marginal effect of governance (DMEG) and the second is the effect of unobserved variables. By the law of DMEG, a little effort to improve governance would have a higher effect on the growth rate in low-income countries if they are at the starting phase of development. The second condition, as stated by Abu-Ismail et al. (2016), is the effect of other variables like foreign direct investment, tourist-friendly climate, and entrepreneurs' motivation in the tourism sector more than governance. Nevertheless, these causes are not sufficient, and demand for more research in this area. On the other hand, the political stability and absence of violence index is improving steadily despite being negative. In this context, it can be said that the political stability and absence of violence have played a role to some extent in extending the length of stay of international tourists in Nepal during the study period.

5. Conclusion

This study assesses whether there was an effect of governance on tourist arrival in Nepal. The tourist arrival was measured by the number of tourists and their length of stay from 2005 to 2019. The trend of governance practice in terms of WGIs has been gradually improving in the late years of the 15-year period. However, it is insignificant except for political stability and the absence of violence in terms of length of stay. Despite the low level of governance improvement, the country has made growth in the number of tourists compared to their length of stay which remained unchanged significantly throughout the period. The study concludes that governance-related indicators have not found a significant impact on tourist arrival in Nepal. Further, the findings of this study suggest reforming the existing level of all worldwide governance indicators for better performance of the tourism sector. Addressing governance-related issues requires the government to implement effective policies and regulations, improve infrastructure, and tackle corruption and political instability. These steps will create an enabling environment for tourism development, promote investment, and improve the competitiveness of the tourism industry in Nepal.

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