



Report on:

***Conceptualization and operation of
the Tourism Satellite Accounts System in Bhutan***

By

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Executive summary

Tourism is primarily a business enterprise that contributes to the economy of most nations. However, much of tourism's economic contributions have been underestimated, because direct tourism revenues are often hidden amongst other supporting industries. The Tourism Satellite Accounts (TSA) System allows the capture of such tourism receipts. The aim of this report is to examine and identify the essential income receipts required to capture Bhutan's tourism contributions to the economy. The report provides some insights into the challenges in tracing and capturing tourism receipts, since there is a lack of baseline information. The objective is to provide some inputs to the conceptualization and operation of TSA in Bhutan. The methods involved a review of the literature, an understanding of Bhutan's tourism system and discussions with a tourism officer at the Tourism Council of Bhutan (TCB). A limitation of this report is that the perspectives presented are non-numerical. The outcome of the report will help assist in future policy planning for both the government and the public sectors. Furthermore, a recommendation is made for resource allocation required to establish the implementation of TSA for the national interest.

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Abbreviations

Anonyms	Long Description
DOI	Department of Immigration
DRC	Department of Revenue and Customs
GDP	Gross Domestic Product
GVA	Gross Value Added
GVATI	Gross Value Added of Tourism Industries
IDEC	Import Duty Exemption Certificate
INR	Indian Rupees
KPI	Key Performance Indicator
ME	Multiplier Effect
MoFA	Ministry of Forest and Agriculture
NSB	National Statistics Bureau
RMA	Royal Monetary Authority of Bhutan
SNA	System of National Accounts
TCB	Tourism Council of Bhutan
TDF	Tourism Development Fund
TDGVA	Tourism Direct Gross Value Added
TDGDP	Tourism Direct Gross Domestic Product
TSA	Tourism Satellite Account
USD	United States Dollar
WTO	World Tourism Organization

1. Introduction

Tourism plays a key role in the economic activity of any nation. A tourism business venture is based primarily on a business model that seeks to maximize its capital investments. It is not a social enterprise. The aim of this report is to provide some insights and suggestions on the essential requirements needed in order to capture the economic contributions of tourism income receipts in Bhutan. The objective is to provide some inputs to the *conceptualization and operation of Tourism Satellite Accounts (TSA)*. The method used involved a meeting with Mr. Phuntsho Gyeltshen, tourism officer at TCB, some literature review, and some understanding of the state of Bhutan's tourism system. One limitation is that this report comes from a non-economist and non-statistician, which means that the inputs are based on insights and knowledge of Bhutan's tourism system and therefore perspectives presented are non-numerical but only suggestions.

TSA is an extension to the existing System of National Accounts (SNA) that was established in 1968. TSA measures the economic significance of a nation by revealing the size and role of tourist economic activity embedded in the SNA (UNWTO 2010).

According to UNWTO,

the purpose of a Tourism Satellite Account is to analyze in detail all the aspects of demand for goods and services associated with the activity of visitors; to observe the operational interface with the supply of such goods and services within the economy; and to describe how this supply interacts with other economic activities (UNWTO 2010, p.iii).

The main objective of TSA is to allow a robust internal consistency of tourism statistics. TSA compares tourism related statistics to the rest of the nation's statistical system and at the same time, provide the basis for international comparability (World Tourism Organization., 2001). By adopting TSA, Bhutan would have, "an instrument for the improvement of the coverage and the quality of tourism statistics, as well as for the macroeconomic analysis of tourism" (UNWTO 2010, p.4).

The report is set out in the following 7 sections. Following the introduction in section 1, the conceptualization of TSA in section 2 defines primary and other data income indicators. This is followed by section 3 on discussions in the methodology of TSA, as recommended by UNWTO (2001, 2010) and a preliminary report by Dr. Sarath Divisekera (2012). Section 4 examines operational challenges, with discussions on the draft indicators adopted, and its limitations. The multiplier effect in section 5 explains the significance of tourism income receipts and recommends focusing on the supply chain and income receipts for data sources. A brief discussion ensues in section 6, with conclusions provided in section 7.

2. Conceptualization

A preliminary TSA study on Bhutan by Dr. Sarath Divisekera (2012) suggested that foreign tourism accounts for around 8.5% of Bhutan's national output. Given that the tourism sector is Bhutan's second largest revenue contributor to the national economy, and the largest foreign revenue income earner, it is timely to show the economic impacts and contributions of tourism revenue. By doing so, the importance of tourism and its position as a top priority for development and understanding could be further strengthened, especially from the supporting segments of industries.

Tourism cannot stand alone by itself as an industry (Hall & Lew, 2009). This is because tourism is dependent on a host of auxiliary industries such as infrastructure, transportation, immigration services, health, law and order, emergency services, etc., to support its key mandate of providing hospitality and tourist products and services (Gabbay, Siddique, & Ghosh, 2003). Externalities such as infrastructure (e.g. directions and road signage), electricity and water supply, public amenities (e.g. use of public toilets) are often not accounted for in the tourism sector despite tourists availing such services (Hall, Jenkins, & Kearsely, 1997). The purpose of this report is to suggest how to best obtain the necessary information segments of tourist revenue spread for the TSA.

2.1. Primary data sources

In order to obtain the necessary information of tourist revenue spread, an appropriate starting point would be to use two primary sources of information database, currently available at TCB, namely:

1. Tashel (on-line visa application system), and
2. IDEC (on-line tax exemption system for tour operators/hoteliers on import of tourists buses, adventure and hotel equipment),

These two systems mentioned above can help facilitate to capture data necessary to establish statistics for TSA (Tourism Council of Bhutan., 2012)

The Tashel system captures tourist itinerary and cost provisions. This then provides robust information on the distribution of net tourists revenue, after deducting the royalty fee and the TDF fee. Therefore, tourist spending in terms of the costs for: hotel accommodation, food, transportation, tour guide fee, visa fee, entrance fee for visitations is easily obtainable.

The IDEC system also provides a picture of tourism related expenditure by the various stakeholders (Tourism Council of Bhutan., 2012).

2.2. Other income indicators

Some complementary indicators suggested by WTO (World Tourism Organization., 2012, p.51) include the following:

Inbound and outbound tourism expenditure:

1. over GDP
2. over exports of goods
3. over export of services
4. over exports of goods and services
5. over current account credits
6. over current account debits

The following section three discusses methodology on TSA.

3. Methodology

Although a model of the TSA methodology is recommended and provided for by UNWTO (2001, 2010), Dr. Sarath Divisekera (2012,p.51), proposed three conventional approaches: expenditure approach (GDP-E) ¹Income approach (GDP-I)² and the output method (GDP-P)³ (for further details, refer to “Tourism contribution to Bhutan GDP: Some preliminary Estimates”. However, he pointed out that there are statistical discrepancies inherent in the application of any one approach, because depending on which method is used, that method provides only the supply or the demand side of the economic output. As tourism is a direct result of tourist consumption activity, the need to capture tourist spending (consumption of goods and services) requires a combination of all three approaches. He concludes by suggesting that optimum approach to tourism’s contribution to GDP, “is a weighted average of the contribution of domestic output of every commodity to GDP, with the weights being the tourism’s share of output of each commodity” (p.5). Such an approach is also suggested by WTO, as an aggregate of relevant indicators to represent the size of tourism in an economy:

- Internal tourism expenditure;
- Internal tourism consumption;
- Gross value added of tourism industries (GVATI);
- Tourism direct gross value added (TDGVA);
- Tourism direct gross domestic product (TDGDP) (World Tourism Organization., 2010,p.45).

¹. GDP-E method adds all market value of the domestic output in terms of total spending on all final goods and services

². GDP-I method adds up all income earned by households and business in a single year.

³. GDP-P method adds together the value of output produced by each of the productive sectors in the economy using the concept of value added

The key emphasis here is to ensure that economic leakages are identified and that steps are taken to prevent such leakages from leaving that economy, which the TSA model can assist to determine.

Furthermore, the UNWTO (2010) has recommended 10 summary tables that measures underlying data:

- inbound, domestic tourism and outbound tourism expenditure
- internal tourism expenditure
- production accounts of tourism industries
- the Gross Value Added (GVA) and Gross Domestic Product (GDP) attributable to tourism
- employment
- investment
- government consumption, and
- non-monetary indicators

However, due to the availability of each nation's economic baseline, not every nation has in place the required data for TSA. Similarly, Bhutan needs to develop its own TSA following the UNWTO's guideline, but adjusting to what is currently available with a view for future adjustments. Section 5 deals with recommendations for baseline data as also outlined in sections 2.1. & 2.2. The next section examines the operations of TSA in Bhutan.

4. Operation

As mentioned in the previous section, TSA model can vary from nation to nation, although UNWTO has recommended a streamlined approach. The current draft TSA model suggested by Phuntsho (2012, p.1), proposes to adopt the following tables outlined below:

- Inbound tourism expenditure
- Domestic tourism expenditure
- Outbound tourism expenditure
- Domestic tourism final consumption
- Production of tourism commodities
- Domestic supply and consumption by product
- Employment and labor use
- Tourism collective consumption
- Non-monetary indicators

One suggestion is to ensure that all relevant sectors of tourism revenue receipts reporting is identified and enforced. In identifying the relevant tourism sectors, one observation made during the course of the discussion, is the separation of exit surveys between the international and the regional visitors. Whilst there are merits in carrying out different sets of questionnaires, it is proposed to have a standardized questionnaire for both visitor segments, in order to rule out any inconsistencies, so that robust comparisons can be made. This means using the

same set of questionnaire for both segments with the tick box for international and regional visitor that will lead to indicate INR or USD spending. This will help facilitate cross checks in a more robust manner.

It has been noted that TSA is new to Bhutan and gathering data from the different government departments such as NSB, MoFA, RMA, DOI, DRC, etc., can be challenging if the concept and functions of TSA and its benefits are not fully understood. To this end, a Workshop involving these identified stakeholders is being planned for January 2013, as is further outline under the section 4.2.

4.1. Income indicators

As mentioned in section 2.2, other complementary income indicators include inbound and outcome tourism expenditure as suggested by WTO (World Tourism Organization., 2012). These include income and expenditure over GDP, exports of goods and services, and current account credits and debits.

These incomes and expenditures appear to capture quite a substantive tourism income receipts as well as traces its flow. The crucial observation is to note the net value of tourism income receipts retained within the local economy, in order to quantify the tourism net contribution to the economy and its leakages. The next sub-section outlines some limitations to the project.

4.2. Limitation

There appears to be three limitations to the TSA project. Firstly, there is an absence of any baseline data, second, there are issues of access to such data, and thirdly, there is a perceived lack of support coming from various governmental stakeholders. These limitations could be attributed to the lack of understanding of the tourism system, which could be a result of the 'silo' approach of government ministries working mechanism. However, this challenge can be solved by adopting a holistic approach involving all concerned sectors, once the working mechanism, functions and benefits of TSA is explained. Such limitations are being addressed by the coming TSA Methodology Training Workshop, that will address the issues mentioned above, on methodology in using the TSA involving a spectrum of governmental departments, and tourism stakeholders in January 2013.

In addition, there is currently neither economist, nor statistical expertise available within TCB. It is understood that efforts are being taken to address this shortage through request to NGO's in assisting to find and fund such dedicated positions in order to better manage the conceptualization and operation of the TSA located at TCB. Ultimately, whatever method is applied, cross checks must be ensured in order to identify economic leakages, as these can then be turned into key performance indicators (KPI) in preventing such leakages to occur.

Maintaining the tourist revenue within Bhutan's economy is the key to future sustainability, because of the multiplier effect (ME) it has. Once the tourism revenue earned leaves the country (for example payments for food import for tourists), the ME chain is broken, which in turns leads to unwanted economic impacts. The next section examines the ME, and discusses the sources in the supply chain in the Bhutanese context.

5. Multiplier effect

The multiplier effect (ME) of 1.5 is an accepted norm for tourism employment creation (Richardson & Fluker, 2004), whereas a ME of up to 10 is believed to be the power of the tourist dollar on the local economy (Hall & Lew, 2009; Mill & Morrison, 1992). Thus, it is crucial to be able to map out the flow of the tourist revenue into the local economy, as the impacts and implication are enormous. The question remains as to how to capture and demonstrate this effect. In short, how can TCB show the ME trail?

Two key sources are proposed:

1. Follow the supply chain of tourist product and services
2. Obtain income receipts of business and government departments

5.1. Supply chain

Tracing tourist products and services can be effectively captured along the supply chain (Kaplinisky, 2000; Samson, 2011). This can provide one key approach to identifying the related tourism economic contributors. Inherent in the supply chain, are differences in the supply chain providers because of the characteristics of international and regional tourists spending that require some attention.

5.1.1 International tourists

In the Bhutanese context, it is easier to capture international tourist revenue because of the pre-booked itinerary with a tour operator, using the Tashel on-line visa system. The only additional spending is the extra spending on drinks, souvenir handicraft items bought, occasional personal item shopping and tips for the driver and tour guide (Tourism Council of Bhutan, 2011).

5.1.2. Regional tourists

The regional tourist segment poses a bigger challenge as apart from hotel rates, there are other definite ways to capture other auxiliary expenditures. The range can vary from food and drinks, to local transport (taxis and inter-district buses),

souvenirs, handicraft products, personal shopping (clothes, electronic gadgets,) entrance fee to museums and other tourists sites, telephone call cards, pharmaceutical goods, tipping (Pelden, 2012). For this purpose, it is recommended to locate sources of tourist revenue receipts as listed in the “Information booklet for regional tourists” (see pages 25-28; 42-51 for comprehensive list of supply chain providers of tourist products and services available to regional visitors (Tourism Council of Bhutan., 2008).

5.2. Income receipts

Tourism income receipts are crucial to map the flow of tourism revenue earned. Both private and government businesses at some point interacts with tourism activities. For example, government business through visa fee, import duties, custom taxes, sales taxes, etc., and private business through tourism products and services such as sale of handicrafts, hospitality services, restaurants, coach hire, etc.

Figure 1. Example of tourism income receipt components

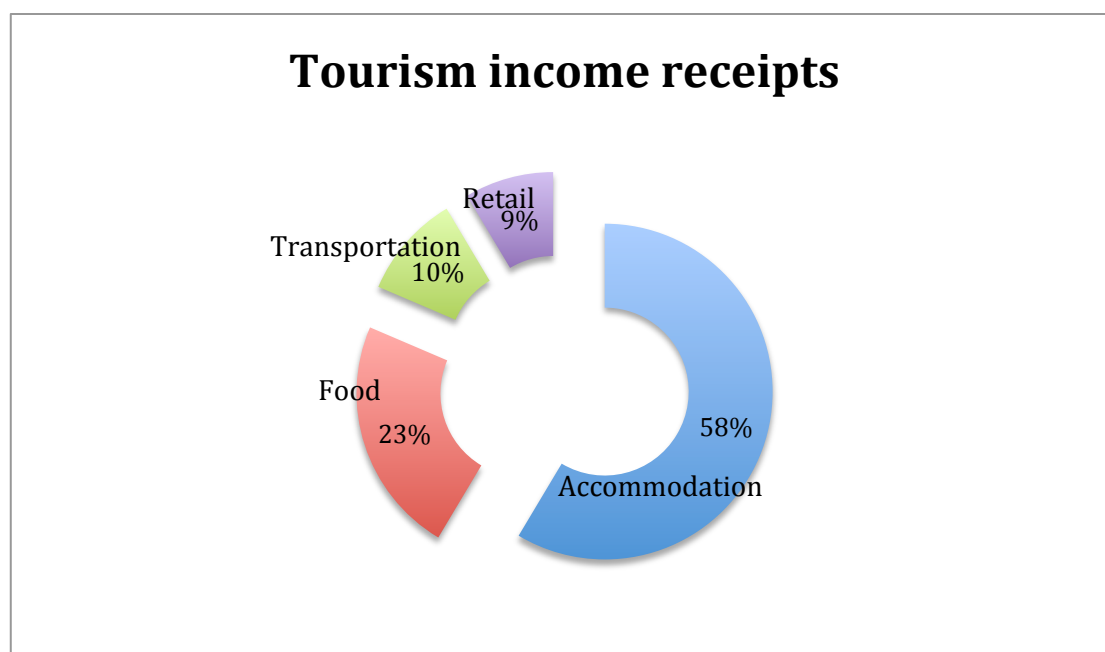
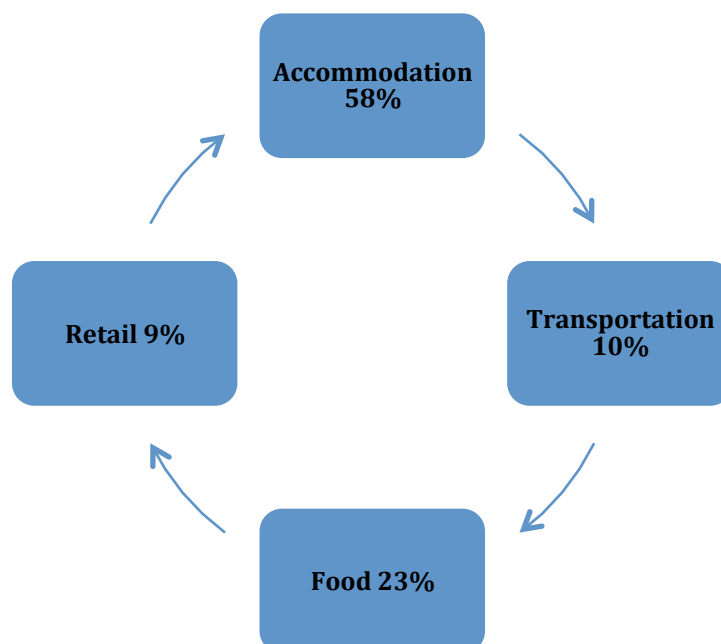


Figure 1 above illustrates an imagined example of tourism income receipt components distribution. In this imagined case scenario, it is crucial for the revenue to remain within the local economy as illustrated further in figure 2. TSA computations would most likely be able to identify tourism receipt components leaving the economy through leakages. By doing so, government authorities could enact policies to reduce the outflow of revenue. For example, assuming that food consumed by tourist represents 23% of the tourism income receipts. And given that a large proportion of food is imported from neighboring India, let us assume that 23% of such food is imported. It would then be advantageous for governmental policy intervention to prevent such leakages, if sustainability is to

be achieved. The key point here is to illustrate one of the functions TSA reporting can provide to the overall understanding and position of the significance in tracing the flow of tourism income revenue.

Figure2. Tourism income receipts kept within the local economy



The next section discusses some of the issues facing the TSA project.

6. Discussions

Whilst the sections above have outlined what is required to establish and implement the TSA project for Bhutan, it would be naïve to assume that the project can be achieved immediately. Three issues arise in the conceptualization and operation of the TSA project. First, the issue of baseline data, second, the challenge of involving all relevant sectors and third, human resource required to implement and operate the project.

As the scope and complexity of the TSA mechanism involves an array of both private and public businesses, it is imperative that a holistic approach encompassing all involved sectors be scrutinized, identified and procured accordingly. The first issue of baseline data collection requires the identification and involvement all concerned sectors. Like the many tentacles of the octopus, all hands (sectors) contribution to TSA are required to work in unison and harmony when it comes to delivery of the economic data (income and expenditure receipts) in order for TSA to function efficiently and optimally.

Failure of one sector to accept and deliver the required data, will ultimately lead to the demise of the TSA project. At such a timely and opportune moment, it is a 'sink or swim' for the TSA project in Bhutan, where it has been observed that tourism plays such a critical role due to it being the largest foreign revenue earner to the tune of \$USD47.68 million in 2011 (Tourism Council of Bhutan., 2012).

The second issue of the challenge to bring all concerned parties to the TSA project together is imperative. This is necessary in order to facilitate a full understanding of the functions and benefits of TSA. One way is by way of training, which is currently being addressed. However, training alone is not enough as there needs to be following up and monitoring to ensure that the relevant sectors deliver the data required for TSA to be effectively executed.

This leads to the third issue of ensuring that there is resource for such capacity to take place. As earlier mentioned, it would be a wise move for TCB to employ an economist and a statistician as the focus contact resource person to lead and carry out this TSA project. It would be prudent to employ someone who has some experience in the economics of tourism, its role and significance, and has the ability to also conduct research and publish findings that can highlight the position of Bhutan's tourism economic contribution to the national economy through the TSA. This person would be most useful to marketing, services delivery, and policy and planning department as the focal person, as he or she can help identify tourism income leakages that can be turned into KPI's for further policy intervention, if tourism income is to remain sustainable within the local economy. The next section concludes this report.

7. Conclusions

The above brief account of the conceptualization and operation of TSA has provided some insights to the challenges to trace and capture tourism income receipts and its multiplier effect, for the forthcoming implementation of the idea to locate the significant economic contribution of tourism revenue towards the national economy. By doing so, the outcomes will assist in policy planning and allocation of resources to action and improve areas required, if the future of tourism is to be sustainable within the local economy.

The implementation of TSA is a key factor required since there is no baseline measures and the time has arrived for serious actions to be taken, that will require a holistic approach involving both private and government sector. This is an exciting endeavor worth pursuing since tourism is the largest foreign income earner in Bhutan. That being the case, there is a responsibility to nationally recognize and prioritize efforts to better understand the economic dynamics of the benefits of tourism for the national interest.

Recommendations listed include the differing approaches as outlined by UNWTO (2001, 2010) and Divisekera's report (2012), which point towards a more holistic approach that encompasses supply chains and income receipts from

identified sectors of both private and government businesses. The key awareness is to identify the tourism income multiplier effect and its potential weaknesses given that 87% of GDP leaves the country. Turning such leakages into KPI to curb the economic outflow is in the national interest of Bhutan and will position the rightful status of tourism as a crucial economic driver. As in many projects the lack of human resources needs first to be addressed, so that both the conceptualization and operation of the TSA can efficiently and effectively be implemented.

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