ARCHITECTURAL AND CULTURAL HERITAGE TOURISM PRODUCTS IN NEPAL

An Assessment of New Private Sector Investment Opportunities in the Tourism Sector in Annapurna Conservation Area
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The report was developed under the leadership of Raihana Rabbany, Private Sector Development Specialist, and IFC’s core tourism team consisting of Wouter Schalken, Senior Tourism Specialist, and Sanjay Kumar Jha, Consultant. Contributing in no small measure were Ashim Nepal, Associate Operations Officer, John Perrottet, Senior Tourism Specialist, WBG, Louise Twining-Ward, Senior Tourism Specialist, WBG, and Natalia Juanco Corral, Consultant.

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Foreword

Across the world, the tourism industry creates jobs, earns foreign exchange, and generates tax revenues for developing countries. The sector is dominated by small and medium-sized businesses that provide a wide variety of services ranging from accommodation to transport, guiding, food and beverage, and tour-operating services.

IFC supports the tourism industry because of its strong development impact. It is easily accessible to rural entrepreneurs, allows for local approaches and products, has a bias towards female participation, and enables excellent supply-chain linkages. Our activities in tourism are aimed at promoting private sector-investments leading to sustainable and inclusive growth.

In Nepal, tourism development also enables the creation of cultural, adventure, and sightseeing experiences that have appeal and significance among its established global, loyal market of visitors—ranging from pilgrims to mountaineers, hikers, and wellness and sightseeing travelers. But the COVID-19 pandemic has hit the tourism industry especially hard. The potential loss to the country’s GDP from the collapse of tourism activities is estimated at $460 million. Around 230,000 jobs are at risk; 20,000 tour and trekking guides are unemployed, and 2,600 trekking agencies are closed, some maybe permanently.

Now, as outbound markets begin to show signs of recovery, it is time to implement strategic adjustments to Nepal’s tourism sector and implement policies that will align the destination with the new market reality.

IFC’s immediate aim in Nepal is to help attract more private investors. Tourism is a priority area for IFC. We have been supporting this sector through investments and advisory projects. IFC’s Tourism Advisory project in Nepal supported the Government of Nepal in the COVID response phase by bringing together key stakeholders to develop an integrated communication strategy. We are also working to strengthen the market position of tourism SMEs while actively seeking to facilitate investment by international brand operators or support local quality brands that are able to attract higher-paying clients in heritage tourism.

In the long term these efforts will improve the competitiveness of the destination by attracting a wider range of tourists, including more affluent travelers who seek international-standard facilities and comfort. This will help make the tourism economy in Nepal more resilient and aligns with the expected changes in visitor profile in a post-COVID-19 market.
This report looks at how to pivot Nepal’s broad appeal to specifically attract a greater number of higher-end tourists. While backpackers have long recognized that Nepal is one of the most beautiful countries in the world, it is now time to broaden the market and offer a competitive product to tourists who prefer to travel in comfort and experience authentic heritage products. Arrivals of higher-spending tourists will have a huge impact across the supply chain, as businesses upgrade and upskill to cater to a different class of tourists. This will also have ripple positive effects across Nepal’s economy.

The report presents four tangible opportunities for Nepal to attract these higher-value visitor segments through examples of development across the country’s most-frequented destination: the Annapurna Conservation Area. These four examples are practical investment opportunities and are described with associated development/management models. They are easy to implement and provide a blueprint for replication across the country. As the pandemic and its economic devastation starts fading into the past, Nepal should be positioned to benefit from the return of tourism activity with a more conscious traveler from across the world seeking authentic, personal, and meaningful heritage experiences. Nepal has the attractions to welcome these visitors and should be ready with an enhanced product that matches the country’s appeal.

Babacar Sedikh Faye
Resident Representative, Nepal
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Executive Summary

WHY INVEST IN NEPAL

The five-year IFC Nepal Country Strategy (FY17-21) identifies tourism as a key sector and sets an ambitious target to facilitate private sector investments in tourism across Nepal to drive employment and diversify economic growth. A key element of the strategy is to change the existing low-value, high-volume tourism model, which presents a disincentive for investment in the industry.

Not least due to the global pandemic, Nepal’s tourism stakeholders are now looking to offer a higher-value product to attract high-spending global customers that seek to experience the country’s spectacular natural and cultural attractions. This changing focus towards wellness and authentic experiences, offered with international health and hygiene standards, will attract an additional market segment that is different from the traditional low-budget tourists that come to Nepal.

Nepal’s tourism arrivals, before the pandemic, was booming—growing at 31 percent a year. In 2019, Nepal welcomed over 1.17 million visitors. The government has been making coordinated efforts to attract more travelers to the country by highlighting its scenery, heritage, wellness, and adventure options. New roads are providing better access for higher-value tourists. The example of neighboring Bhutan shows that high-value tourists, seeking Himalayan experiences, are willing to pay premium prices for comfortable and luxury accommodation.

BUILDING A GREENER, RESILIENT, AND INCLUSIVE TOURISM SECTOR IN NEPAL

Capturing these new market opportunities requires investments to sustainably enhance operating standards to follow international protocols while, at the same time, utilizing the authentic and unique appeal of heritage properties found across Nepal. There is a clear opportunity to build back a tourism system that is greener, more resilient, and more inclusive;
with a focus on improved quality of products and service, especially in mountain regions, to be able to earn significantly higher returns per visitor-night. Adding to this, opportunities derived from digital innovation and improved supply-chain linkages—particularly in agricultural products—will create an inclusive tourism economy with strong resident/community participation along the entire value chain.

The Annapurna Conservation Area is well-known for its spectacular mountain landscapes and its wide range of trekking and climbing opportunities. It already accounts for 60 percent of trekking holidays in Nepal. However, its cultural and heritage resources remain largely untapped. The Annapurna Circuit Trail is one of the most famous treks in the world. The trail is between 160 km and 230 km depending on where trekkers start and end. The construction of a new road has greatly improved the quality of life for local people and has opened up the area to a wider range of tourists. On the flip side, it has changed the trekking experience. Hikers now share the road with vehicles, and some are opting to go elsewhere as a result.

There are currently two main visitor segments to the Annapurna Conservation Area: Firstly, Buddhist and Hindu pilgrims heading to Muktinath, an important site for both religions. And second, adventure tourists, including those seeking soft adventure—hikers and trekkers—and those pursuing more strenuous activities—mountaineers seeking to scale the high peaks. The new road has opened up the region to new markets, including self-driven and leisure tourists, keen to see the mountains but preferring to do so through a car window.

PRIVATE INVESTMENT CAN HELP OFFER RICHER EXPERIENCES

While the Annapurna Conservation Area is arguably one of the most beautiful regions in the world, it is surprising that a higher level of accommodation infrastructure has not been built to accommodate the growing segment of global soft-adventure tourists. New accommodation offerings will be needed to attract this different and higher-spending market to the area. IFC’s team of sustainable tourism and finance professionals made two visits to the area to assess opportunities to create higher-value tourism products. This report—Architectural and Cultural Heritage Tourism Products in Nepal: An Assessment of New Private Sector Investment Opportunities in the Tourism Sector in Annapurna Conservation Area—is a result of these visits.

The report sums up the status of tourism in the Annapurna Conservation Area and proposes definite ways to channel private-sector investments that will attract tourists by offering a richer experience and benefit the local economy by increasing incomes and creating jobs. In that way, this report demonstrates how an investment in Nepal will yield not
just financial returns, but social and cultural returns as well. It examines how investors can leverage the Annapurna Conservation Area’s triple offering of landscape, architecture, and culture to offer a tourist experience unparalleled anywhere else in the world. It presents four potential investment concepts rooted in heritage preservation and restoration: a Boutique Hotel in Tukuche, a Heritage Lodge in Jharkot, a network of lodges along the trail, and a coffee shop franchise in Lower Mustang and Manang.

Nature-based tourism is firmly established as an important and competitive sector in the local economy and the demand is only growing. All four investment models offer huge opportunities to investors, who will see both the earning potential of such enterprises as well as the immense social impact they can have on the people of Nepal.

**LAYOUT OF THE REPORT**

The report is presented in four sections and an annex.

**SECTION 1**, Introduction: This section gives a brief picture of the Annapurna Conservation Area, its main trekking path, and major towns in the area. While the area is well-known for its natural splendors, it also has a rich cultural diversity and unique architectural heritage. The Introduction provides the context for the rest of the report, which seeks to synthesize these three elements to build a richer tourism experience.

**SECTION 2**, Proposals for Accommodation Investment in the Annapurna Conservation Area: This section lists four concrete investible proposals to develop the tourism circuit in Lower Mustang and Manang, which are the principle regions within the Annapurna Conservation Area.

The first proposal is to develop a street in Tukuche village along the lines of the Albergo Diffuso model, first made famous in Italy. The second proposal seeks to apply the Adaptive Reuse of Heritage Buildings model to a Jharkot Heritage House. The third proposal is to establish a Network of Lodges, a branded lodging franchise company to provide a lodge-to-lodge experience for trekkers along the Seven-Passes trail. The final proposal is to set up franchised coffee shops along the trail, where customers can rest, freshen up, buy local souvenirs, and even witness small cultural events.

**SECTION 3**, Action Points to Improve Nepal’s Visitor Profile: Here, we present what needs to be done by both government and private sector to attract higher-spending tourists to Nepal. These are the following:

**Need for Building Codes**: Prevent modern buildings from clashing with the area’s heritage architecture.

**Create Holistic Destinations**: Develop soft-adventure tourism that also offers non-hiking products to attract families and higher-spending tourists.
Self-Drive Tourism: Explore opportunities to promote self-drive tourism in the western part of the Annapurna Conservation Area.

Hospitality Training: Train local people to serve higher-value tourism.

Reduce Barriers to Investment: Address issues such as high interest rates, land acquisition issues, and the challenges of working with local municipal regulations.

Stop all Free Accommodations: Put an end to the existing practice of providing free accommodation and charging only for food.

Internationally-accepted bathroom design: Ensure hotels and lodges in the region have appropriate bathroom designs.

SECTION 4, Afterword: Way Forward: This section sums up the need to attract investment to promote high-value tourism in the region and discusses the future roadmap, which includes a series of pitch books that will present the proposed investment models. These pitch books will include information required by investors, including financial information.

ANNEX, A Closer Look at Three Investment Models: This section delves deeper into the three models introduced in Section 2. The Albergo Diffuso, the Adaptive Reuse of Heritage Buildings, and the Network of Lodges models are discussed in greater detail with an emphasis on requirements and benefits. It also provides examples of how these models have worked in other countries.
SECTION 1: Introduction

This Assessment Report is a result of two separate field visits made to Lower Mustang and Lower/Upper Manang to assess the potential for new investment opportunities and models in tourism in the Annapurna Conservation Area (ACA). This report is part of IFC’s Creating Markets for Tourism project, which seeks to create a more beneficial, inclusive, and competitive tourism system in Nepal by identifying investment opportunities for tourism products that attract different and higher-spending market segments, improve local supply-chain linkages, and limit their impact on the environment. The project is implemented in the Annapurna Conservation Area, which is one of the country’s primary tourism destinations.
The continued management of ACA by NTNC is under review in 2021.

The Annapurna Conservation Area (ACA) is the largest protected area in Nepal, covering an area of 7629 square kilometers, and managed by an autonomous non-governmental organization, the National Trust for Nature Conservation (NTNC). Among other features, ACA contains the tenth highest peak in the world, Mt. Annapurna (8,091 meters) and the world’s deepest river valley, the Kali Gandaki gorge. ACA is rich in biodiversity, harboring 1,226 species of flowering plants, 102 mammals, 474 birds, 39 reptiles, and 22 amphibians. The world’s largest rhododendron forest is located in ACA’s Ghorepani region and Tilicho Lake is one of the world’s highest-altitude freshwater lakes.

The area is also rich in cultural diversity. It is home to over 125,000 residents of different cultural and linguistic groups. Gurung and Magar are the dominant ethnic groups in the south, while Thakali, Manang, and Loba are dominant in the north. Each group has its own language, culture, and traditions. There are also Brahmin, Chhetri, and other occupational castes, although, in smaller numbers. Hindu, Buddhist, and pre-Buddhist religions and mixtures thereof are prevalent across the region.

Tourism is an important sector across Nepal contributing 6.7 percent to GDP in 2019 (WTTC Country profile) and it is not surprising that the natural and cultural features of ACA have made it the most popular trekking destination in the country. With stunning mountain ranges, deep gorges, traditional villages, a rich cultural diversity, and important spiritual sites—the Annapurna Conservation Area is an important and popular tourist destination in Nepal.

There are two main tourism segments in ACA: pilgrimage tourism, for Buddhists and Hindus.

ⁱ The continued management of ACA by NTNC is under review in 2021
heading to Muktinath, and trekking tourism, which includes soft adventure, such as hiking, and expeditions scaling peaks over 6,000 meters.

According to the Nepali Ministry of Forestry and Environment, ACA accounts for 60 percent of trekking holidays in Nepal. Nature-based tourism is firmly established as an important and competitive sector of the local economy. There are over 1,000 hotels and lodges, tea shops, and hundreds of other subsidiary services to cater to the thousands of trekkers, pilgrims, and their supporting staff.

Most lodges and hotels cater to low-budget travelers, with some charging only for meals and not for accommodation. A recent study found that hotels in ACA on average have a 38 percent occupancy rate, and charge around $10 a night for room and board.

More recently (2017), the trekking trail has been partly upgraded to a motorable road, which has altered the tourism landscape and negatively impacted the experience of the Around Annapurna 20-day Trekking Trail. Different, shorter trails are now being offered; more vehicles enter the area, which could potentially attract new types of tourism, such as the higher-value leisure/wellness tourists, along with increased visitation by pilgrims.

Post COVID-19, UNWTO expects visitors to pay more attention to authentic experiences in less-crowded areas, where residents benefit from their visit. ACA offers excellent prospects for regional economic development through increased tourist expenditure and associated revenue. But for tourism to capture increased benefits to the local communities, new products need to be developed in both Lower Mustang and Lower Manang to attract these different and higher-paying customers.

In Lower Mustang, the town of Jomsom and its airport, has become a gateway for visitors to the Hindu temple at Muktinath and trekkers passing over the Thorong La Pass. The improved access allows for more time to explore the larger area and its heritage villages, agricultural fields, and undertake trips to the hidden kingdom of Upper Mustang.

**IFIC’S TOURISM VISION FOR LOWER MUSTANG**

Lower Mustang is recognized as a cultural circuit, structured along the old Annapurna Circuit, with the heritage settlements of Marpha and Tukuche as major attractions. Equally, the Muktinath-Kagbeni area has reinforced its position as a pilgrimage center at national and international level; facilitated by the development of Jomsom as a tourism hub.

At Manang, there is a need to diversify away from the over-reliance on hard-adventure trekkers, who currently make up approximately 80 percent of visitors. The region has a limited number of accommodations and the upgrading of the trekking trail to an actual road is a deterrent to hiking tourism. Therefore, IFC’s vision here proposes to “reposition the Annapurna circuit with shorter
The Manang area is a desired destination for adventure seekers seeking unspoiled and unexplored areas. The Annapurna circuit is being repositioned, offering short treks and other activities for nature lovers.

It is in this context that IFC proposes new models to attract investment to Lower Mustang and to create a circuit of lodges in Manang. These models are discussed in greater detail in Section 2.
SECTION 2: Proposals for Accommodation Investment in the Annapurna Conservation Area

This section describes four investible proposals to develop higher-value tourism in Lower Mustang and Manang.

INVESTMENT PROPOSAL 1: THE ALBERGO DIFFUSO MODEL AT TUKUCHE—LOWER MUSTANG

Just south of Jomsom, lies Tukuche, a charming Thakali village of 662 habitants at an altitude of 2580 meters. It is accessible by road from Jomsom (1 hour) and Pokhara (8 hours), both of which have domestic airports. The road is currently in a poor state but is continuously being improved.

Tukuche’s streets are lined with old stone houses, apple orchards surround the village, and the backdrop of snow-capped mountains gives it a fairy-tale appearance. The village has two main streets that run parallel to each other and are lined with Thakali houses, notable for their stone walls and ornate wood balconies. Some of the old houses are already falling into disrepair, with roofs fallen in or walls broken down. Most house owners are said to be living in Kathmandu or Pokhara, while their houses either sit empty or are rented out.

These beautiful abandoned homes should be converted into quality tourism accommodations. Tukuche was the center of the old trade route where Tibetan traders came down with salt and wool and exchanged it with grain that came from the south. Tukuche was also a center of tax collection during the Rana era. Local residents are particularly proud of having hosted the Japanese monk, Kawaguchi (around 1899), who spent some time in the building that is now the distillery.

There are currently ten guesthouses in Tukuche, with a total of around 100 rooms and 250 beds. The average cost of these hotels is...
approximately $10 per night for full board. In ACA, the average daily spend is $39 per night. Tukuche lies on the Annapurna Circuit and has long been a place for hikers to halt. The nature of trekking a circuit means these tourists usually stay only for a night. ACA accounts for 60 percent of all trekking holidays in Nepal. Muktinath, an important pilgrimage site for Buddhists and Hindus, is about 30 kilometers from Tukuche and, on occasion, pilgrims may halt overnight in the village.

Hoteliers in Tukuche are members of the Tourism Entrepreneurs Association of Manang. The owner of the Dutch bakery is head of the local Tourism Committee.

TOURISM IN TUKUCHE

Tourism operations in Tukuche are in a state of transition. The village used to be popular with visitors hiking the 20-day Around the Annapurnas Trail. Because of the nature of trekking tourism, tourists only stayed for a night and service levels were kept basic and cheap. With the upgrading of most of the trail into a motorable road, fewer hikers pass through Tukuche.

While pilgrimage tourism is on the rise, this segment is also characterised by short stays and these tourists therefore rarely stop overnight in the small towns and villages between Besisahar and Muktinath. This segment tends to travel through specialist operators who work at scale and seek larger accommodations. However, according to operators, the single-family pilgrimage segment is growing rapidly (field assessment 2019).

Tukuche has all the makings of a Heritage Village with its numerous buildings characterized by rich local architecture and the way in which stone has been used in construction. It invites visitors to meander through the small streets and alleys and reflect on history and
heritage, which is so obvious everywhere you look. A big attraction is the distillery located in a well-preserved heritage building that produces brandy from apples grown in local orchards (not yet for sale on the market in 2020). The distillery itself has tourism potential as it is big enough to house a restaurant or guestroom.

In addition, there are four gompas (Buddhist monasteries), a cultural museum, and a Thakali library. There is easy access from here to Chhairo, a Tibetan refugee settlement accessible only on foot. The main attraction is the 300-year-old Chhairo Gompa and a visit will automatically require a two-night stay in Tukuche.

Currently, the town has ten small lodges, with two more in the pipeline. The existing lodges are all located in heritage homes, while the upcoming lodges are new constructions that ignore local building styles.

**COMPETITIVE EDGE**

Why will tourists to Nepal choose to stay at an *Albergo Diffuso*?

**High-quality service and accommodation**

There are very few upmarket hotels in the Nepalese Himalayas. Most hotels cater to budget travelers. Tourists from Bhutan, India, and elsewhere in Nepal, indicate that there is a sizable market ready to pay for upscale accommodations in adventure destinations.

Albergo Diffuso Tukuche will have “first mover” advantage, by being the first heritage preservation project in Annapurna. More projects are likely to follow and a successful cluster can be built across Marpha, Jomsom, and Kagbeni.

**Part of a holistic destination**

The location of the Albergo Diffuso in a mountain village will provide a variety of activities for guests during their visit—allowing for extended lengths of stay. Activities will include hiking, mountain biking, birdwatching, cooking classes, heritage tours and spiritual and wellness experiences around local monasteries.

**Accessible**

Tukuche is easily accessible from Jomsom and Pokhara. Both cities have regional airports. Despite this accessibility, Tukuche has a ‘remote’ feel, nestled between high Himalayas.
APPLYING THE ALBERGO DIFFUSO (SCATTERED HOTELS) MODEL TO TUKUCHE

Tukuche requires a low-volume, high-value anchor hotel—similar to Moksha Mustang, the high-end hotel that has benefited Jomsom tourism—to provide impetus and act as a catalyst for tourism revival in this most charming of heritage villages. Since many buildings are abandoned or in a state of disrepair, this turnaround can best take place through an Albergo Diffuso concept of refurbishing dilapidated and abandoned homes to convert them into hotel rooms and suites. Our proposal is that the street parallel and closest to the Kali Gandaki River, which has several abandoned buildings, be converted into an Albergo Diffuso Boutique Hotel. This proposal would of course require buy-in from residents living on this street, local village members, and the local authority. Each group of scattered hotels can be complemented with a restaurant, café, and wellness facilities.

After Tukuche, other projects will likely follow and a successful cluster can be built around Marpha, Jomsom, and Kagbeni. Marpha especially is a good candidate as it is located just north of Tukuche and is a well-maintained heritage village of traditional stone houses. The houses are uniform in their white color, with their doors and windows outlined in dark red. Firewood is piled on top of roofs, an old symbol of wealth. The old center of town is pedestrian only. Marpha is very clean, with less garbage than the team encountered in any other village, and the view from the top of the main Nyigma monastery is beautiful.

Marpha is well known for agricultural outputs, especially apples. Farmers here have created a variety of products that target the tourist market.
directly, with dried fruits and jams being the most popular. There is a local distillery that makes
apple brandy under the brand Marphak. Its tourism value is still small. Packaging and presentation
of most products need to be improved and distribution, through lodges and hotels, initiated.
Together with a possible visit to the distillery and tasting room, Marpha has real potential to add
brand value to the destination and create additional profit centers for tourism entrepreneurs
through short supply-chains of quality, potentially-certified agricultural outputs.

To learn more about the *Albergo Diffuso* model and how it is applied in other parts of the world,
see Annex.

### BENEFITS OF **ALBERGO DIFFUSO**

- **Nothing new needs to be created**: Albergo Diffusos make use of existing infrastructure,
with limited upgrades, to accommodate the modern tourist.

- **Heritage is preserved and shared**: Heritage buildings and cultural traditions are
preserved and celebrated. Local cuisine, festivals, and handicrafts become part of the
tourism experience around the *Albergo Diffuso*.

- **Provides a unique tourism experience**: Albergo Diffusos provide tourists access to the
whole village and its cultural heritage.

- **Local benefits**: Beyond job creation, local residents can reclaim pride in their homes and
villages and view them in a new light.

### INVESTMENT PROPOSAL 2:
**JHARKOT HERITAGE HOUSE**

Jharkot village is located at an elevation of 3519 meters between Kagbeni, on the banks of the Kali
Gandaki River, and the Hindu pilgrimage site of Muktinath. It is accessible by a short drive from
Jomsom, which has a regional airport. Its population is around 60, but swells to around 400 in high
season.
TOURISM SITUATION ANALYSIS

Due to its proximity to Kagbeni, Jomsom, and Muktinath, not many tourists opt to stay in the village. Those that do are most likely pilgrims. There is therefore an opportunity to create higher-quality hotels for pilgrims in Jharkot. Pilgrim-tourists are typically from other countries in South Asia or domestic tourists. They travel in larger groups and seek convenience and comfort in their accommodations.

There are currently two existing hotels in Jharkot. Room costs are around $4 to 5 a night. Foreign tourists from outside the region are mainly from France, Switzerland and Germany and spend between one and three days at the village.

BENEFITS OF ADAPTIVE REUSE

- **Sustainability**: Sustainability begins with preservation. Adaptive reuse is basically large-scale recycling. It reduces the need for new materials and other costs of demolition and waste disposal.

- **Climate friendly**: Many heritage buildings were built with features that respond to the climate and location. These authentic structures provide the atmosphere that today’s discerning traveler seeks, while retaining the knowledge and wisdom of previous generations.

- **Heritage is preserved and shared**: Local heritage buildings are protected and greater appreciation and preservation of local culture is encouraged. Other aspects of the village—such as cuisine, festivals, and handicrafts—become part of the overall visitor experience.

- **Provides a unique tourism experience**: Historic buildings provide a glimpse of the past, while lending character and serving a new practical purpose. They contribute to the sense of place and atmosphere that is appealing to tourists.

- **Local benefits**: Adaptive reuse can invigorate a community by creating alternative livelihoods and meeting the changing needs of the population.
APPLYING THE “ADAPTIVE REUSE” MODEL TO JHARKOT

Our proposal is for an adaptive reuse development of the Heritage House in Jharkot and identified in the photo below. This abandoned residential building can be converted into a boutique luxury hotel.

To learn more about the Heritage House model, see Annex

COMPETITIVE EDGE

Why tourists and tour operators will choose Jharkot:

**High-quality service and accommodation**

There are very few upmarket hotels in the Nepalese Himalayas. Most hotels cater to budget travelers. Tourists from Bhutan, India, and elsewhere in Nepal, indicate that there is a sizable market ready to pay for upscale accommodations in adventure destinations. A boutique hotel in Jharkot will have first mover advantage. More projects are likely to follow and a successful cluster can be built across Marpha, Jomsom, and Kagbeni.

**Part of a holistic destination**

The location of a heritage boutique hotel in a mountain village will provide a variety of activities for guests during their visit—allowing for extended lengths of stay. Activities will include hiking, mountain biking, birdwatching, and cultural activities, including cooking classes and heritage tours. Spiritual and wellness elements with local monasteries also have tremendous potential. Jharkot is an easy drive—or hike—to Kagbeni, Jomsom and Muktinath, expanding opportunities for exploration.

**Accessible**

Jharkot is a short drive from Jomsom and its regional airport. Despite the short distance, it feels a world away from the bustle of the regional center. This atmosphere and the convenience of being close to Jomsom will appeal to guests.
INVESTMENT PROPOSAL 3: NETWORK OF LODGES — MANANG

Manang village is the main settlement of the valley, both from tourism and historical points of view. Manang village is the epicenter of all social, political, cultural, and administrative activities in the valley. The Gangapurna mountain peak and the Gangapurna Glacier are very close to Manang village. Manang village also has a cultural museum, movie theater, restaurants, and other recreational facilities. Manang village has amazing background views of snow-covered mountains, but the foreground aesthetics—modern buildings with no character—are not in sync with the heritage character of the village.

The Network of Lodges concept is a chain of branded lodges along a specific trek, with the first lodge situated in a gateway like Pokhara or Kathmandu. Typically, there should be a minimum of three lodges, but five to seven being the optimum. The lodges will have different owners and managers but will attempt to jointly attract groups hiking along a trek as a lodge-to-lodge model. The lodges will be mid-end, with rates between $25 and $100, depending on the season, lodge, and type of room. The facilities will be comfortable and superior to the other market offerings. The lodges will have between 10 and 15 rooms each and collectively employ over a hundred people.

ANNAPURNA TREKKING PATH OPPORTUNITIES

The Annapurna trekking paths offer myriad opportunities to set up networks of lodges, as these treks can take several days and branded lodges at daily intervals will have many takers. The treks range from between ten and seventeen days, depending on where trekkers choose to begin and end their trek. The circular 17-day trek is still considered by many to be the best in Nepal for its dramatic scenery and diverse cultures. The trek typically begins in Dharapani or Chame, because approaching the daunting Thorong-La pass (over 5,000 meters) from the east is more manageable. It is also possible to start the trek in Jomsom, instead of ending there.
The concept of *Network of Lodges* has already been introduced in ACA along the Seven-Sisters Trek and in southern ACA. Guests can stay exclusively in lodges along a chain for a real ‘hut-to-hut’ experience, with a day’s walk from one lodge to the next. Depending on the target market, other itineraries are promoted, such as the Annapurna Sanctuary Trek, which include a mix of branded and local lodges.

To learn more about the *Network of Lodges* model, see Annex

**INVESTMENT PROPOSAL 4: COFFEE HOUSE FRANCHISE CONCEPT—LOWER MUSTANG AND MANANG**

A BUSTLING HIMALAYAN COFFEE SHOP IN LOWER MANANG

Location is everything in tourism development. In small, rural settlements, visitors prefer recognizable service providers and branded outlets offer a sense of security and quality. This creates an opportunity for lodge-owners to cooperate with providers of specialist products and services. A good example is a coffee shop that serves Nepalese coffee and tea, showcases local art, and hosts music nights. Such coffee shops, offering cultural events, add value to the attached hotel and
attract more customers. This kind of gathering place is lacking along the circuit and could be added to existing or new developments through lease or franchise agreements. They can also incorporate souvenir shops (surprisingly absent from many of the villages) and sell local handicrafts.

**BRANDED COFFEE:** We believe there are opportunities for Nepalese or international coffee chains to expand into Lower Mustang and Manang, possibly through a partnership with local lodges through a franchisee model. The franchisee would benefit from a recognizable brand and consumers would benefit from the consistency and oversight of the parent company. The franchisees would be responsible for all capital and running costs, including rent, salaries, brand signage, furniture, and staff training. If the franchise is located in a hotel, the coffee shop can provide breakfast and food to guests while serving specialty coffees, which will find many takers among overseas visitors. Besides, these shops can serve both hotel and outside customers and, if priced affordably, even locals, thus providing a gathering/resting place in towns and villages that lack them.

Moreover, the shops can sell local souvenirs or hold cultural events that highlight local music, food, art, and culture. Such offerings will add value for travelers. A high-quality espresso machine will constantly send out the aroma of brewing coffee and act as a welcome beacon for travelers needing to refresh and rejuvenate in a short time.

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**BENEFITS OF A COFFEE SHOP**

There are several benefits of having a coffee shop franchise in a mountain hotel:

- The coffee shop can provide breakfast to hotel guests, if other breakfast options are unavailable.
- Specialty coffee, highly appreciated by international tourists, is available throughout the day to hotel guests and contributes to a higher-end visitor experience.
- The coffee shop can serve both hotel and outside guests.
- The coffee shop can sell souvenirs to hotel and outside guests.
- Most towns lack a gathering place and coffee shops can fill that gap with a welcoming atmosphere and events highlighting local music, art, and culture. These events would add value to travelers too.
COMPETITIVE EDGE: Since there are currently no options to get high-quality coffee outside of Jomsom, an investor will have first-mover advantage. Not to mention that tying up with a recognizable brand will increase visibility across the region as a place to come to for fresh coffee and quality food.

COMPETITIVE EDGE

A customer will visit a franchise coffee shop in Manang or Lower Mustang for the following reasons:

First-Mover Advantage
There are currently no options outside of Jomsom to enjoy high-quality specialty coffee.

Recognizable Brand
Customers will recognize and trust the brand, which will have increased visibility across the region.

High-quality Coffee
The brand will project consistency and quality and customers will appreciate that the coffee is always hot and fresh.
SECTION 3: Action Points to Improve Nepal’s Visitor Profile

If Nepal is to become an important tourist destination that attracts higher-spending travelers, several issues need to be addressed, both from the government and the industry sides. During our survey, we noticed a few issues that need attention. In this section, we present action points that can be done in the short and medium term to improve the country’s visitor profile.

IMPLEMENT BUILDING CODES

The cultural heritage of Lower Mustang has huge potential as a tourism attraction if correctly preserved and rehabilitated. Unfortunately, in every Heritage Village we visited, we encountered uncontrolled growth, lack of building codes, and new construction that has no architectural language and is in total contrast to the vernacular stone architecture. Efforts are needed to convert existing modern buildings into aesthetically pleasing experiences.

There is a need for policy to ensure preservation of the country’s rich architectural heritage. Most likely, this should be formed at the municipal level. Supporting municipalities to create planning, design, and development guidelines and building codes to conserve these important and unique structures is of paramount importance. The consulting team identified five villages in Lower Mustang that must begin to create building codes before they all become a hodge-podge of architectural styles: Tukuche, Marpha, Jharkot, Kagbeni, and Thini.

CREATE HOLISTIC DESTINATIONS

Lower Mustang has been identified as a location for soft trekking and pilgrimage, while both Lower and Upper Mustang are ideal for soft and hard adventure. The new road opens up the possibility for tourists who like adventure, but prefer not to trek. This includes families, older tourists, or tourists
with disabilities. Soft-adventure tourists are seeking a diversity of experiences on their holidays (while hard adventurers are typically passionate about a single type of activity, like mountaineering or mountain biking). Therefore, there is a need to expand offerings at the destinations to address needs of soft-adventure tourists, which include natural, cultural, and heritage experiences. This may include activities like cooking classes, day biking and hikes, via ferrata, and culinary experiences.

**PLAN FOR SELF-DRIVE TOURISM**

As the road improves, and increased accommodation offerings appear on the Western side of the circuit, we predict an increase in self-drive tourism. This would see tourists renting cars in Pokhara or Kathmandu and driving themselves. We recommend preparing to receive self-drive tourists, with proper information about the driving skills required, proper signage for driving tourists, and increased safety measures on the road.

**OFFER HOSPITALITY TRAINING**

Higher-value accommodations produce a higher number of jobs per room. An increase in the quality of accommodations will generate the need for trained people to staff kitchens, front offices, housekeeping, and coffee shops. Ensuring that local people have the training required to work in these hotels will be important to benefit the communities.

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**REDUCE BARRIERS TO INVESTMENT**

Potential investors identified several barriers they face to investing in tourism accommodations in Nepal:

- **High interest rates:** one investor commented that interest rates can be up to 12.5 percent though the government has the ability to lower them for certain sectors (as they did for solar investments).
- **Risk is hard to manage:** for example, the road in ACA.
- **Land acquisition process is unclear:** In the Land Acquisition Act of 1977, permission to use public land for development projects lies with the federal government. The ambiguity in defining power between federal and provincial governments, and the lack of clear procedures, has not allowed the bodies to enact their own laws.
- **Working with local village municipalities is challenging:** they do not easily see the benefits of foreign direct investment (FDI).
STOP ALL FREE/LOW-COST ACCOMMODATIONS

ACA is one of the most scenic places on the planet, but the problem is that trekkers often manipulate locally-owned and operated hotels and lodges to obtain free (they only pay for food) or dirt-cheap accommodation. No accommodation should be charging less than $20 a bed, let alone give it away for free. In our interviews, we noticed a sense of fear from local operators that if they did not make their accommodations free, they would lose business. This is not true because any tourist travelling from Europe, Australia, or North America is spending from $1,000 to $2,000 on air fare and would not have a problem paying $20 for a night’s accommodation.

For Annapurna Circuit to regain its former standing as a quality destination, free or very low-cost accommodations should be abolished.

UPGRADE BATHROOMS TO INTERNATIONAL STANDARDS

One of our findings is that majority of hotels and lodges in the ACA region still have bathroom designs that are 50 years old (the shower area has no partition). This means that when a guest is taking a shower, soapy water gets sprayed all over the bathroom and on the commode. All modern bathrooms must have an enclosed shower area to ensure that the entire bathroom floor does not become wet.
SECTION 4: The Way Forward

Nepal has recovered from various crises in the last 10 years and has shown exceptional resilience in re-establishing itself as a tourism destination. But, in a post-pandemic world, it is critical for the country to develop a coordinated strategic plan to ensure that recovery leads to improved value, inclusiveness, and sustainability in its tourism system.

Globally, recovery measures are being aligned under the guidance of industry organizations and governments in both destinations and source markets. Looking at international trends, it seems clear that Nepal will have to adhere to the new global post-COVID 19 reality to reopen for tourism. This means

- Increased focus on recognizable health and hygiene standards, which will affect capacity, traveler experience, and supply-side costs
- Bilateral agreements between specific markets and destinations in the initial recovery phase that will require application of electronic registration (for example, vaccination passports)
- Competitive measures at destinations, including the reductions in government fees and levies, including visa fees.

Worldwide, structural and lasting changes in the tourism market can be expected:

1. Consolidation of the market into several larger demand and supply-side companies (agencies and accommodation providers) with strong balance sheets, thus reducing competition.
2. Digital innovations that will impact leisure travel and distribution channels and require a highly improved digital presence and associated network coverage.
3. Likely changed demand over the next one to three years, starting with a preference for smaller ‘own group’ travel to nature, wilderness, and wellness destinations.
Nepal therefore requires a clear roadmap to establish an improved and appropriate tourism offering in preparation for this new market system.

This requires the Government of Nepal to address the following issues with clear time-frames:

- **Standard operating procedures and other requirements for tourism accommodation to start operating, including rural accommodation in the hills and mountains.**
- **Confirmation by provinces/village councils that residents are comfortable with visitors and the trekking areas can be opened; supported by road/air access operations.**
- **Visa requirements and documentations needed for entry (for example, digital health certificates, online visas, waived fees) by source market.**
- **Acceptable insurance coverage (liability and travel insurance covering COVID-19 treatment and/or quarantine).**

These measures should ensure that both tourists and operators feel safe to return to Nepal. Communication will be key, along with clear government rules and policies to be shared online for all stakeholders.

To safeguard Nepal's competitive position in the medium to long term, a different product offering needs to be created. This requires the government to incentivize product diversification and standards-improvement to attract more diverse markets and increase daily spends by visitors.

**FINALLY**

This document has shown that the potential for a sustainable utilization of heritage resources in the Annapurna Conservation Area are excellent. This strategy can contribute to improving tourism competitiveness by attracting a higher-value tourist, while inspiring product quality and innovation that match the needs and interests of the global, post-COVID-19 market.
ANNEX: A Closer Look at Three Investment Models

1. THE ALBERGO DIFFUSO OR SCATTERED HOTEL CONCEPT

The Albergo Diffuso concept originated in Italy, and directly translated, means ‘scattered hotel.’ It is a type of hotel that is spread across various heritage buildings in the same street or, in some cases, across a small village. For example, all the elements of a normal hotel (reception, gym, rooms, restaurant, common spaces, etc.) are in different buildings within a short walking distance of each other (usually a radius of not more than 200 meters). Albergo Diffuso is a tool to revive and rehabilitate heritage villages. Over 80 villages in Europe have been successfully converted into Albergo Diffusos.

BENEFITS:

• Nothing new needs to be created; Albergo Diffusos make use of existing infrastructure, with limited upgrades to accommodate the modern tourist.

• Heritage is preserved and shared; not only are local heritage buildings protected, but so too is local culture, as the cuisine, festivals, handicrafts, etc. of the village become part of the holistic tourism experience that grows up around the Albergo Diffuso.

• It gives a unique tourism experience; by providing tourists access to a whole village and its cultural heritage, their experience is expanded and improved.

• Reduces abandonment of heritage villages.

• Local benefits: beyond job creation, local residents can reclaim their pride in their homes as they view their heritage buildings in a new light.
REQUIREMENTS:
The following is needed for a village to host an Albergo Diffuso:

• Support of the local municipality or local administration and a critical mass of home owners (at least seven rooms are required; one house can have more than one room if needed).
• Willingness of all parties to work together.
• A management entity that all parties agree to is put in place.
• The village has other services or activities to offer guests.
• There are still local residents in the village (it cannot be totally abandoned).
• There may be a need to amend local rules and regulations so that the Albergo Diffuso can benefit from any tax or other governmental benefits that are awarded to traditional accommodations.

OWNERSHIP MODEL:
There are two main ownership models, both of which require the support of the local municipality/administration:

1. One investor purchases or leases all components of the hotel and runs it.
2. A consortium of investors or homeowners agrees to do it together.

2. ADAPTIVE REUSE OF EXISTING HERITAGE BUILDINGS

Adaptive reuse is the process of retrofitting old buildings, while allowing them to retain their historic integrity, and meeting the needs of modern hotel guests. Adaptive reuse is different from restoration or preservation, which involve restoring a building to its original state. Adaptive reuse actually changes the intent of a structure to meet the modern user’s needs. In the case of Lower Mustang, it would be converting abandoned residential buildings and forts into hotels, visitor centers, museums, etc. In the pursuit of sustainable development, Lower Mustang communities have much to gain from adapting and reusing abandoned buildings. Bypassing the wasteful process of demolition and reconstruction alone makes adaptive reuse attractive. Environmental benefits, combined with energy savings and the social advantage of repurposing a place with valued heritage, make adaptive reuse an essential component of sustainable development. Historic buildings provide a glimpse to visitors of the past while lending
character and serving a new practical purpose in modern Lower Mustang communities. In many ways, an adaptive-reuse project can invigorate a community by meeting the changing needs of the population.

Adaptive-reuse projects in the Lower Mustang must include restoration of the buildings’ façades and parts of the interiors to look as they did in times past. Older buildings often showcase aesthetics that modern buildings simply cannot afford. Built when skilled labor was cheap, these structures often boast a higher attention to detail than those built today. Architectural elements include sculpted stone, columns and capitals, elaborate masonry, vaulted ceilings, and carved wood—all of which can be prohibitively expensive today. Adaptive reuse of such buildings allows a building to retain much of its character and aesthetics by incorporating these elements into the new framework.

Preserving historic buildings is crucial to retaining Lower Mustang’s heritage and history. It is also environmentally friendly and practical, basically large-scale recycling. It reduces the need for new materials and the other costs of demolition. Preservation maximizes the use of existing materials and infrastructure, reduces waste, and preserves the historic character of older towns and cities. The energy embedded in an existing building can significantly reflect the embedded energy of the entire life of the building.

Sustainability begins with preservation. Historic buildings were designed with many sustainable features that responded to climate and site. When effectively restored and reused, these features can bring about substantial energy savings. Considering historic buildings’ original climatic adaptations, today’s sustainable technology can supplement inherent sustainable features without compromising the unique historic character.

Additionally, research has shown that even sustainably-constructed new-built structures do not recoup energy outlays for approximately 30 years when measured against a renovated existing building.

3. THE NETWORK OF LODGES CONCEPT

A network of lodges allows for a type of hut-to-hut hiking on established trails. It allows people to hike for days without carrying overnight equipment (some hut-to-hut routes facilitate transfer of baggage via porters, pack animals, or vehicles) and, importantly, is a more expensive option, introducing a higher-value type of tourism to mountain areas that typically cater to lower-value trekking tourists.

Hut-to-hut hiking can be simple; for example, the Tour to Mont Blanc has simple refugios or cabins, with basic bunks that tourists can sleep in as they circle the peak. But it can also be more luxurious. In Peru, Mountain Lodges of Peru runs a seven-day trek along the Salkantay Trail. Their lodges feature hot tubs and five-star dining. The size of lodges in these models can vary from six beds to over 300.
The lodges involved in the network are most likely new constructions or recent constructions that require upgrading. For the most part, they do not include refurbishing heritage homes, unless by chance such a structure is located along the designated trail.

Within ACAP, the network of lodges concept can be explored away from the new road, to open up new wilderness areas to nature-based adventure lovers who want and expect a quiet, pristine environment on their trip to Nepal.

**MODEL**

We recommend that the network of lodges be in such a way that tourists can hike a trail while continuously staying in the same level of accommodation. To ensure consistency, the lodges would need to have a formal association, though they would not necessarily need to be owned by the same company.

It is also possible to start with mid-range tented accommodations to gauge interest in a certain route.

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*Trek Guatemala* offer simplified glamping. While the tents are normal, inside the raised beds have down duvets and real reading lights. *Trek Guatemala* charges $100 per night.

*Wolwedans in Namibia*: The simple bed in the desert is a top seller and retails at over $700 a night. The bed itself has no value, but the pristine wilderness and high levels of service delivered around this site command premium prices.

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**EXAMPLE OF A TREK**

**DONA LAKE TREK**

The Dona Lake Trek or the Rhododendron Trek itinerary was presented by Tripple Gurung, a hotel operator, as an eight-day trail that would be suitable for a series of accommodations. The trail starts in Tal and ends in Dharapani, and crosses waterfalls, Gurung villages, views of Manaslu Hemal, and ends at the stunning Dona Lake.
BENEFITS
The benefits of a network of lodges are:

High Value: Not only do guests to the lodge pay a higher daily rate than they would if they were camping, they also spend a significant number of days within the same network, increasing the value to the collective or the company. The introduction of a higher value tourism product into rural areas has multiplier effects as it requires high-quality food, linens etc., that command higher prices. These can typically be sourced locally (though training may be required).

Tourist convenience: If the network of lodges follows one trail, and the tourist can book the entire journey at once, and is guaranteed a consistent level of service, this will be seen as highly convenient both to the FIT\textsuperscript{2} tourist and any outbound operators who may resell these packages to their client base. Operators in Nepal report a renewed interest in the destination from mid to higher-end outbound operators who are searching products like this.

Linkages: Lodges require a range of goods and services that can be procured from nearby communities. This includes food, handicrafts, linens, etc.

Local job creation: Lodges require cleaning staff, management, serving staff, etc. These positions can be filled by nearby community members.

Scheduled departures: Scheduled departures provide more consistency to the supplier, who can better plan.

Enhance conservation of area around lodges: If the network of lodges is located in a remote area, it will also contribute to additional conservation awareness in these areas, as the lodge management and staff can have responsibilities around conserving their surroundings and/or reporting back to ACAP management. They may also have specific responsibilities when it comes to trail maintenance.

KEY CONSIDERATIONS

Access: Ideally, the huts are reached only by walking. This causes logistical challenges in terms of bringing in supplies and taking out waste, as well as emergency response situations. But, lodges around the world manage these challenges by, for example, having their own vegetable gardens, buying as locally as possible, composting, etc.

Lodge size: Around the world, mountain lodges vary in size and style. While hiking huts in Europe tend to be small and basic, with between 8 and 18 beds, some in the U.S. have a capacity of over 100. Since the objective in Nepal is to increase the economic value of tourism to ACAP, we suggest that lodge sizes should be around 30 beds, to accommodate two hiking groups at a time (with the average size of a hiking group being 12). The lodge should

\textsuperscript{2} Free Independent Traveler
also have accommodation for porters and guides. The style should maintain a sense of place and contain comforts such as hot water, fans, western toilets, etc. and command a price between $70 and $100 per night. Ideally, the lodges will use reusable energy sources, like solar and provide the following:

- Comfortable single or double beds (no bunk beds)
- A restaurant with full board and good food hygiene
- Western toilets
- Hot water showers
- Insect free in summer/warm in winter
- Highly-trained staff
- Luggage transfer options: one of the key reasons travellers choose a network of lodges is the opportunity to hike with a day pack while heavier luggage is transported from lodge to lodge. Normally, travelers are limited and guided in the type and weight of their luggage (a 20 kg duffel bag, for example). This is a service that could be provided by local entrepreneurs.

**Trails:** It is important to ensure that the trail meets consumer demand. For example, stretches between each lodge should not be more than 12 to 18 kilometers per day. Higher-value tourists typically have less holiday time available than budget tourists; so, the trek should be between five and seven days. The trails could be a circuit (with the start and end being at the same place) or a traverse (where the trail goes from A to B, and hikers have alternative transportation to return from the end point). The trails should be in areas of outstanding natural beauty.

**Marketing:** A good consumer and marketing plan needs to be in place to ensure key target markets are aware of the new product.
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