



RESEARCH ARTICLE

Problems and prospects of tourism financing in Sikkim

Tara K. Sharma

Abstract

In Sikkim, tourism is an industry that has a variety of positive economic and social effects. Utilizing both forward and backward connections with other economic sectors like agriculture, industry, and other service sectors, not only increases foreign exchange earnings and the country's limited resources but also provides opportunities for employment on all fronts, including direct, indirect, and induced employment. However, it has always struggled with administration and insufficient finances. Keeping this in mind, the current study aimed to examine the problem and prospects of tourism financing in Sikkim. The primary data was gathered from 385 respondents (Investors, Stakeholders, and Tourism Businesses) from Sikkim, who were randomly selected from the targeted population. The responses have been collected through a structured questionnaire, and SPSS 25 has been utilized for data analysis. The findings revealed that there is a significant impact of tourism financing on the development of local communities, and there is a significant relationship between the involvement of financial institutions and the development of tourism projects. It has been concluded that tourism financing in Sikkim has resulted in the progress of tourism in the state, which led to the development of local communities and the development of tourism projects.

Keywords: Tourism, Tourism financing, Financial challenges, Economic growth, Sikkim.

Introduction

The "United Nations World Tourism Organization (UNWTO)" describes tourism as the actions of people who leave their customary surroundings for a period of time that often does not exceed a full calendar year in order to engage in pleasure, business, or other activities. In terms of employment and GDP, the tourism industry is currently considered the fastest-growing in the world. The main factors are the socio-economic development of society as a whole and the interconnectedness of the global community in which people live. Its dimensions are changing quickly in the current era. Eco-tourism, agrotourism, rural tourism, and homestays have grown to be important parts of the tourism business as more people are keen to spend their vacations in the natural world (Das, 2019).

Sikkim is a wonderland with lush green terrain, a vast range of flora and wildlife, emerald mountain lakes, flowery meadows, and attractive tea gardens. The warmheartedness of the people; the incredible art and craft-making abilities, especially those of the womenfolk; the amazing cane and the bamboo creations of craftsmen; the fascinating folk songs and dances; the fusion cuisine of India, Nepal, and Bhutan, including momos, churpi, thukpa, Gundruk, a variety of exotic pickles made from chilies and bamboo shoots, etc. Most significantly, the state's culture of unity among its many different ethnic and tribal groupings is what sets it apart. Because of this, tourism in the state is enhanced (Devi, 2020). According to official sources, the Sikkim tourist sector directly or indirectly supports about 75% of the local population, but the main problem of concern has been tourism financing, as usual (Shiraz, 2022).

However, increasing amounts of investment are necessary for the growth of every economic sector. The tourism industry is not an exception; it unquestionably requires ongoing, significant investment. Sikkim needs massive investment in the majority of its socio-economic sectors because it is a developing nation with poor infrastructure and little capital. Since making such an investment is not simple, different sources and funding strategies are suggested. A significant quantity of cash is also needed for the superstructure and infrastructure of tourism, which is a capital-intensive business. In addition, greater funding and investment are required for the development

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of linked sectors and support services. Consequently, investment finance is required for all aspects of the tourist business, not just for the superstructure and infrastructure of the industry (Gautam, 2008).

The Significance of Sikkim as a Tourist Destination

Prior to the state’s merger with India, Sikkim had very little increase in terms of the number of visitors visiting the country. Even following the merger, the rise in the growth rate remained low until the 1980s since many mountainous locations were still off-limits to visitors or had other restrictions on access. As additional regions became exempt from the permission regime in the most recent 10 years of the century and Sikkim acquired recognition as an up-and-coming tourist destination, tourism growth increased significantly. Between 2010 and 2017, there was a significant increase in tourism, with visitor numbers matching or exceeding the population of the state. Sikkim is blessed with amazing natural beauty, from snow-capped mountains to lush green valleys. Initially starting in the east districts (Gangtok), mostly tourism centers and circuits slowly expanded to Lachen, Pelling, Rabong, Yuksum, etc.

“Trekking along the Yuksam- Dzongri- Goechala trail”, which had started to gain popularity in the days prior to the merger, is now a popular type of adventure tourism. In 1988, the state government decided to open Tsongmo Lake to visitors. Since Gangtok, the state’s capital is just 35 km away, it quickly became the most convenient place for visitors from West Bengal to see snowfall. Following this, Nathula was made accessible, allowing travelers to go all the way to the old mountain pass’ Chinese border. Similarly, relaxing permissions in “West Sikkim, Zuluk in East Sikkim, Gurudangmar Lake, Yumthang Valley, and Yumesamdong in North Sikkim” saw an increase in tourist traffic. These were watershed moments in Sikkim’s tourist history. This was additionally supported by the decision of the government in 2010 to permit central government employees to take advantage of leave travel concessions by air to the “Northeast region (NER)”, as only in recent years has the government extremely appreciative “Go East Policy” has attempted to break-down the barriers to NER socio-economic development (Das, 2019).

The Role of Tourism in Economic Growth

Tourism and economic growth are discussed in several ways. In accordance with the theories, foreign exchange earnings from tourism expenditure play an essential part in a nation’s ability to flourish economically. Foreign exchange income is then used to purchase capital goods that are used to produce goods and services. As a result, the economy of the host nation grows (Kibria & Hossain, 2020). Tourists’ demand for lodging, food, transportation, and services – as well as entertainment – leads to an increase in goods and services production, income, and job creation – all of which contribute to economic growth (Balaguer & Cantavella-Jorda, 2002). The impact of tourism on the economy as a whole can

be described as a multiplier effect, i.e., the growth of the tourism sector drives the growth of other sectors that supply or consume tourism products (Naseem, 2021). Tourism can also drive investment in new infrastructures and competition, generate economies of scale, and facilitate the dissemination of technical knowledge (Brida, et al., 2008).

Tourism has also been recognized as a factor in economic growth in a report from the “United Nations World Tourism Organization” (UNWTO, 2011). In addition to this, UNWTO also mentions other factors that contribute to “economic growth in the tourism industry”. One of these factors is the formation of local employment, which can be broken down into three primary sections: induced employment, indirect employment, and direct employment. Direct employment is generated by people working in tourism-related institutions, such as hotels, restaurants, and tourist stores. Indirect employment is created by people working in industries that provide goods and services related to tourism, such as agriculture, fishing, etc. Figure 1 represents the impact of tourism on economic growth.

Sources of Tourism Financing

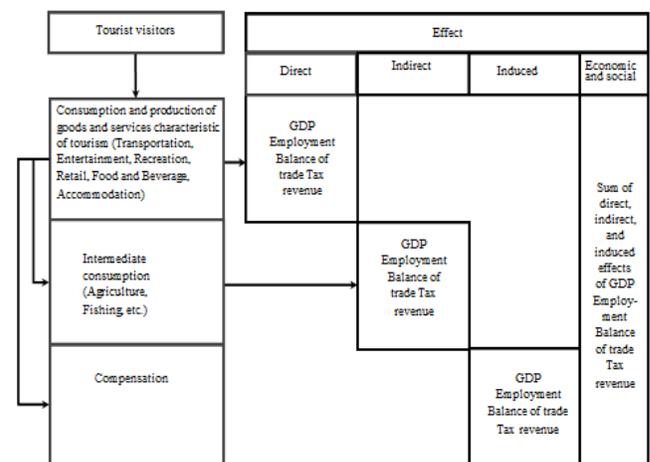
Travel and Tourism (T&T) businesses are currently in a period of potential growth. However, in order to succeed, the sector must be aware of and address the issues of budgeting and fundraising. Seven potential sources of funding for T&T initiatives have been outlined below (Diaz & Kien, 2019).

Government budget

Tourism has a budget allocation in the government’s proposed budget for the financial year 2022-2023. The budget also provides an estimate of the government’s expenditure and revenue.

International grant

Global grants are non-refundable funds (or products) provided or paid by grant providers, which are often intergovernmental organizations, e.g., “United Nations



Source: Gwenhure, Y., & Odhiambo, N. M. (2017). Tourism and economic growth: A review of international literature. *Tourism: An International Interdisciplinary Journal*, 65(1), 33-44.

Figure 1: Impact of tourism on economic growth

Educational, Scientific and Cultural Organization (UNESCO)", partner governments, corporations, and foundations whose aim is to promote tourism-related activities.

Development bank loans

Another form of tourism funding is through development bank loans (e.g., African Development Bank and Asian Development Bank).

State-owned enterprises funds

State-owned enterprises (SOEs) may issue grants or loans to fund the implementation of tourism-related initiatives and projects.

Private domestic investors

Another option is to get funding from local private individuals or businesses.

Private overseas investors

Foreign private individuals or corporations that provide capital to tourism-related ventures may also be a viable option if investments cannot be obtained locally.

Commercial bank loans

If financing cannot be obtained from the aforementioned sources, commercial loans provided by banks are available to small, medium sized, and large-scale enterprises for the purpose of financing the implementation of tourism-related initiatives and projects.

The remainder of the paper is divided into five sections. Section 2 provides an explanation of the reviews of numerous authors from previous research. Section 3 explains the study's research procedures. The results and findings are detailed in section 4. Section 5 contains the discussion. The conclusions, implications, limitations, and recommendations for further studies are provided in section 6. Finally, references are presented.

Literature Review

The review of the literature has been categorized into three sections as per the objectives, which are written below:

- Financing in tourism
- Tourism in sikkim
- Problems and prospects of tourism in india

The aforementioned three sections of the paragraph aid in diversifying and acquiring various points of view on the subject in order to move toward the objectives.

Financing in tourism

Badulescu, *et al.* (2020) previously established that travel and tourism activities contribute to the country's national economic expansion. Similarly, Ohlan (2017) also presented proof of the significant long-term and short-term effects of tourism on India's financial growth and economic progress. In a related study, Shahbaz, *et al.* (2017) displayed proof that tourism has become crucial for raising overall income levels. Similarly, Liao, *et al.* (2018) reported that sustainable local economic

growth was largely attributable to the tourist industry, which has emerged as an innovative engine of development working in close concert with the financial sector. With an integrated methodology, the study measured the linkage coordination and the ever-changing interaction between finance and tourism. The author analyzed the dynamic relationship and coupling coordination between tourism and finance and tested the consequences of coordination on the growth of regional economies. Whereas Nassani, *et al.* (2019) concentrated on the impact of growth in global tourism on women's economic independence *via* a variety of mediating financial factors. The findings demonstrated the catalytic role played by financial intermediaries in enabling women to gain economic independence via foreign travel. To be more specific, the results supported the hypotheses that (i) finance-led growth, (ii) growth-led tourism, (iii) tourism-induced women's empowerment, and (iv) growth stimulated women's empowerment.

On the other hand, Spenceley, *et al.* (2019) examined the challenges of managing park and protected area tourism. There has been a focus on the connections between the increasing park supply, the expanding popularity of park tourists, and the park administration's approach to budgeting and resource management. The author found that parastatal management structures with stronger ties between tourist skills, funding, and conservation management practices have been recognized as crucial to the development of both sustainable tourism and successful parks inside such parks. In a related study, Diaz & Kien (2019) focused on the significant issue that projects and activities related to tourism were facing. Lack of finance has been a major obstacle to the expansion of tourism, which has caused a number of well-known destinations to progressively decline. The authors reached the conclusion that training managers in the tourism and travel industry have transformed into crucial talent in a world where competition for luring visitors continues to rise. A potential new academic field called "tourism finance" would manage funding and investment sources to ensure the financial viability of businesses, non-profits, and governmental entities engaged in the tourism and travel industry.

Tourism in Sikkim

Batabyal and Das (2022) found that Sikkim's economy has been growing at a double-digit rate over the past three decades, and the state has also produced a sizable quantity of new human capital. Sikkim's growth record has been relatively stable relative to those of other Northeastern states. Increases in tourism have been proven to have a multiplier effect on the economy, benefiting not just the employment market but also the transportation industry, the information technology sector, and the retail sector. Similarly, Das (2019) examined the tourism industry in Sikkim. It explored the various issues and challenges associated

with tourism and concluded that effective policies must be implemented to promote sustainability through inclusive growth. It has been suggested that these policies should aim to enhance the capabilities of tourism stakeholders and establish regulatory frameworks that ensure a high-quality experience for tourists visiting the state. Whereas, Sharma (2022) discovered how transportation has impacted the growth of the tourism sector in Sikkim, India. The study also examined the number of visitors to Sikkim and found that the number of visitors visiting the city each year has been shown to increase by 12.76% on average, while the number of taxi rides has increased by 4.67%. The study further suggested that to fulfill the future demand for tourism transport, the percentage rate of rise in taxis should be equivalent to the percentage rise in tourist inflows. In a related study, Chakrabarty & Sadhukhan (2020) stated that both domestic and foreign travelers head for Sikkim in large numbers. Current tendencies indicate that Yuksam has entered a period of rapid expansion in visitor numbers, which might have major repercussions for the community's infrastructure, natural resources, culture, and eco-tourism offerings.

Problems and prospects of tourism in India

Chawla and Jain (2017) brought attention to the fundamental opportunities and challenges facing the tourist industry in Uttar Pradesh. According to the study's authors, the trip and tourism/excursion sector in India has been influenced by factors such as rising incomes, changing lifestyles, innovations in the industry, and governmental support in the form of subsidies or other forms of financial assistance. However, the industry has also faced challenges such as a lack of a high-quality tourism foundation, universal worries about the safety of tourists, different tourist tax structures in different countries, and a shortage of skilled workers. Whereas, Frey & Briviba (2021) analyzed the resources on Assamese cultural tourism in North East India to identify the issues and the prospects of the sector as well as the relationship between the development of culture and tourism. The authors came to the conclusion that cultural tourism, with careful planning, might become a significant industry that generates cash and jobs. It could also work as

a catalyst for more cultural activity and awareness, which would have a wide variety of positive social effects.

On the other hand, Melkani and Kumar (2021) examined the goals-oriented exploration of the fundamentals of tourism administration to understand the challenges of re-routing tourist traffic and making the region a hotspot for visitors. In addition to unstructured development, aesthetic pollution, inefficient public transportation systems, climate change, ozone layer depletion, and traditional modes of providing information, the authors concluded that lack of management and unplanned construction by private and government players have caused these states to lose their luster. Similarly, Yunus and Indrasari (2017) explained the positives and negatives of working in the tourist sector. The study concluded that East Java's tourism sector continues to be optimistic for the region's economic future, especially in light of the fact that it has historically worked hand-in-hand with the creative industries throughout the business life cycle, with both sectors regularly playing roles as perpetrators and instigators within the region's core small and medium-sized enterprise (SME) sector within the context of the "Asian Economic Community (AEC)".

Methodology

As per the objectives and hypothesis shown in Table 1, the research has been qualitative and quantitative in nature. The basic data-gathering technique has been the foundation of the study. The study employed both a survey approach and an experimental methodology. The study has been conducted in the Sikkim state of India. The study has utilized both primary and secondary data. The primary data was gathered from a sample size of 385 respondents via a structured questionnaire and a survey from investors, stakeholders, and tourism businesses by utilizing a random sampling technique. The data were carefully gathered and analyzed using various tools (Ms. Excel for descriptive statistics and IBM SPSS for inferential analyses) and techniques (Mean, SD, Regression, and Correlation).

Results and Interpretations

This section outlined the results and data interpretation. The results have been divided on the basis of demographic

Table 1: Analytical framework of objectives

S. No.	Objective	Hypothesis	Used statistical test	Description
1.	To analyze the perceptions of stakeholders regarding tourism financing	H1: There is a significant relationship between stakeholders' perceptions of tourism financing and tourism financing.	Correlation	A statistical indicator of how closely two variables are changing at the same pace.
2.	To Investigate the role of financial institutions in supporting tourism projects	H2: There is a significant correlation between the involvement of financial institutions and the development of tourism projects.	Correlation	A statistical indicator of how closely two variables are changing at the same pace.
3.	To examine the impact of tourism financing on local communities.	H3: There is a significant impact of tourism financing on the development of local communities.	Regression	A compendium of statistical methodologies for ascertaining the degree of association between two variables.

profile and objectives, and hypothesis. Inside the objectives and hypothesis, the result has been shown with the use of a table and their explanation.

Table 2 shows the “Demographic Characteristics of the respondents” in the context of their gender, age group, education level, occupation, residential area, and awareness of tourism development. According to the table, out of 385 respondents, 70.60% of the respondents are male, and 29.40% of the respondents are females who belong to rural and urban areas and specify their age groups, education level, occupation, and awareness of tourism development. The majority of the respondents are somewhat aware of tourism development.

To Analyze the Perceptions of Stakeholders Regarding Tourism Financing

H1: There is a significant relationship between stakeholders’ perceptions of tourism financing and tourism financing.

Table 3 shows the descriptive statistics of stakeholders’ perceptions of tourism financing and tourism financing. Descriptive statistics represent the standard deviation and mean values of the variables. According to Table 3, the mean value of stakeholders’ perceptions of tourism financing is 18.2623, and the mean value of tourism financing is 21.2104.

Table 4 is the correlations table, which shows the “correlation between stakeholders’ perceptions of tourism financing and tourism financing.” As per the table, there is a significant relationship between stakeholders’ perceptions of tourism financing & tourism financing, as the significant value is 0.023, which is smaller than 0.05.

To Investigate the Role of Financial Institutions in Supporting Tourism Projects

H2: There is a significant correlation between the involvement of financial institutions and the development of tourism projects.

Table 5 shows the descriptive statistics of the involvement of financial institutions and the development of tourism projects. Descriptive statistics represent the standard deviation and mean values of the variables. According to Table 5, the mean value of involvement of financial institutions is 20.8805, and the mean value of development of tourism projects is 17.8156.

Table 6 is the correlations table, which shows the “correlation between involvement of financial institutions and the development of tourism projects.” As per the table, there is a significant relationship between the involvement of financial institutions and the development of tourism projects, “as the significant value is 0.045, which is smaller than 0.05”.

To Examine the Impact of Tourism Financing on Local Communities

H3: There is a significant impact of tourism financing on the development of local communities.

Table 2: Demographic profile

S No.	Demographic Characteristics	Category	N	%
1.	Gender	Male	272	70.60
		Female	113	29.40
2.	Age group	18–24 years	66	17.10
		25–34 years	105	27.30
		35–44 years	124	32.20
		Above 45 years	90	23.40
		Primary education	81	21.00
3.	Education level	Secondary education	108	28.10
		Bachelor’s degree	105	27.30
		Master’s degree	91	23.60
		Businessman	114	29.60
4.	Occupation	Employed	94	24.40
		Retired	83	21.60
		Self-employed	94	24.40
5.	Residential area	Rural	113	41.00
		Urban	272	37.40
		Not aware	73	19.00
6.	Awareness of tourism development	Somewhat aware	169	43.90
		Very aware	143	37.10

Table 3: Descriptive statistics

	Mean	Std. deviation	N
Stakeholders’ perceptions of tourism financing	18.2623	2.68508	385
Tourism financing	21.2104	3.08050	385

Table 4: Correlations

		Stakeholders’ perceptions of tourism financing	Tourism financing
Stakeholders’ perceptions of tourism financing	Pearson Correlation	1	-.116*
	Sig. (2-tailed)		.023
Tourism financing	N	385	385
	Pearson Correlation	-.116*	1
	Sig. (2-tailed)	.023	
	N	385	385

*Correlation is significant at the 0.05 level (2-tailed).

Table 7 represents the “R-value, which shows the simple correlation that is 0.159, which indicates a high degree of

correlation. The R2 value indicates how much of the total variation in the dependent variable, development of local communities, can be explained by the independent variable.”

Table 5: Descriptive statistics

	Mean	Std. deviation	N
Involvement of financial institutions	20.8805	3.08917	385
Development of tourism projects	17.8156	2.84491	385

Table 6: Correlations

Correlations			
		Involvement of financial institutions	Development of tourism projects
Involvement of financial institutions	Pearson correlation	1	-.102*
	Sig. (2-tailed)		.045
	N	385	385
Development of tourism projects	Pearson Correlation	-.102*	1
	Sig. (2-tailed)	.045	
	N	385	385

*. Correlation is significant at the 0.05 level (2-tailed).

Table 7: Model summary

Model Summary				
Model	R	R square	Adjusted R square	Std. error of the estimate
1	.159a	.025	.023	2.95081

a. Predictors: (Constant) tourism financing

Table 8: ANOVA

Model		Sum of squares	df	Mean square	F	Sig.
1	Regression	86.672	1	86.672	9.954	.002
	Residual	3334.886	383	8.707		
	Total	3421.558	384			

a. Dependent Variable: Development of local communities

b. Predictors: (Constant) Tourism financing

Table 9: Coefficients

Model	B	Unstandardized coefficients		t	Sig.
		Std. error	Beta		
1	(Constant)	20.518	1.048	19.584	.000
	Tourism financing	-.154	.049	-.159	.002

a. Dependent Variable: Development of local communities

Table 8 is the ANOVA table, “which reports how well the regression equation fits the data (i.e., predicts the dependent variable). This table indicates that the regression model predicts the dependent variable significantly well. This indicates the statistical significance of the regression model 0.002, which is less than 0.05, and indicates that, overall, the regression model statistically significantly predicts the outcome variable (i.e., it is a good fit for the data).”

The coefficients Table 9 gives the data required to make predictions about the effect of tourism financing, as well as determine whether the “development of local communities” is statistically significant to the model.

Discussion

Tourism plays an essential part in fostering the economic development of a nation. It has been found true in many previous studies for example, Badulescu, *et al.* (2020) showed that travel and tourism contributed to Romania’s national growth of the economy. Ohlan (2017) provided proof of the significant influence of tourism on the long- and short-term financial advancement and economic prosperity of India. In a related study, Shahbaz, *et al.* (2017) showed evidence that tourism has been the key to enhancing the overall income level. Thus, the study primarily aimed to assess the problem and prospects of tourism financing in Sikkim. The study’s significant findings were identified through a careful process of data acquisition and analysis, employing several tools (MS Excel and SPSS) and techniques, including descriptive statistics, regression analysis, and correlation analysis.

The study found that there is a significant relationship between stakeholders’ perceptions of tourism financing and tourism financing (as the significant value is 0.023, which is smaller than 0.05), as shown in Table 4. The findings of the current study are similar to a recent study by Demiraj, *et al.* (2023), who demonstrated the drawback of excessive financial leverage due to high borrowing costs, which may result in default risk. Thus, in order to safeguard and enhance shareholder wealth, it has become essential for tourist finance management to maintain a balance between diverse sources of capital while keeping risk within control. However, in comparison to this study, the current study has covered the perception of a wide range of stakeholders instead of just shareholders.

Further, the study found that there is a significant correlation between the involvement of financial institutions and the development of tourism projects, as the significant value is 0.045, which is smaller than 0.05, as shown in Table 6. However, in the earlier studies, the focus was on the type of financing source instead of the role of financial institutions in tourism development. For example, Kilincarslan and Demiralay (2021) said that there had been numerous investment prospects in the tourist industry, and companies that engaged in it may hold revenues in order to make new investments, which might result in lower dividend payments. It’s particularly

true for small hospitality businesses that were probably in their early stages of development. In the same context, Pacheco and Tavares (2017) examined Portuguese small and medium hotels, and it was discovered that the hospitality industry adjusted real debt levels to achieve the ideal debt ratio.

Lastly, The findings revealed that there is a significant impact of tourism financing on the development of local communities (i.e., sig value = 0.002, which is below 0.05), as shown in Tables 8 and 9. The findings of the current study are similar to the study by Fauzel and Seetana (2023), who investigated economic development in Mauritius and discovered a good relationship between economic development, financial development, and tourism, however, the current study has additionally shown the impact on the development of local communities also.

As per the discussion, it is clear that the stakeholders' perceptions and the involvement of financial institutions can significantly influence the development of tourism sectors, which would result in the development of local communities and the economy however, careful choice regarding the source of finance is a must. On comparing the current studies with past studies, it has been found that the current study has explored a wide range of respondents, including investors, stakeholders, and tourism businesses, which has not been seen in past studies however, the current study has focused on only Sikkim.

Conclusion and Recommendation

Sikkim, a hilly state, had an influx of around 308,000 domestic tourists over the period from October of the previous year to March of the year 2022. Notably, January emerged as the most economically advantageous month for various stakeholders within the tourism industry, with 98,456 visitors recorded during this period. Around 16 lakh tourists visited the Himalayan state in 2019, and it is anticipated that this year's figures will increase over the next years. All hotels, stayhomes, and lodges were completely booked throughout the peak season. After some time, the state experienced a significant increase in revenue, according to SN Lachungpa, head of the Sikkim travel agents association (TAAS). In such context, the current study has focused on the problem and prospects of tourism financing in Sikkim.

The findings revealed that all three hypotheses of the study had been accepted, which shows that there is a significant relationship between stakeholders' perceptions of tourism financing and tourism financing, there is a significant correlation between the involvement of financial institutions and the development of tourism projects, and there is a significant impact of tourism financing on the development of local communities. At last, the study comes to the conclusion that tourism financing in Sikkim has resulted in the progress of tourism in the state, which led to the development of local communities and the development of tourism projects.

Recommendation

Further, it has been recommended that the government should be cognizant of the need to create tourist-friendly facilities. In order to grow the tourist industry, the state must improve its infrastructure and locate new funding opportunities. For the development of the state's tourism industry, it is necessary to improve accessibility and the identification of tourist circuits, as well as to provide standard food items and comfortable accommodations. There must be adequate coordination between the federal government and the regions to improve the tourism industry's image. However, the tourism industry must also focus on encouraging Indians to vacation within the country. The government of Sikkim must also establish a hotel management and tourism guidance institute in the state so that tourist bungalows, hotels, intermediate night accommodations, etc., are better trained and equipped.

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