Introduction

The international tourism economy has experienced historic lows throughout the world, caused by the global COVID-19 pandemic. Travel and Tourism contributed $3.0 trillion USD to Asia and the Pacific (APAC) Gross Domestic Product (GDP) in 2019 and one third of all new jobs over the past five years were created by the sector\(^1\). In the period from January-April 2020, APAC suffered the largest decrease in tourism arrivals worldwide (-51%)\(^2\), and it’s estimated that across the region the COVID-19 crisis will result in the loss of 59.7 million-115.0 million jobs and a decrease in GDP of $980 billion- $1,888 billion USD (33%-64% decrease over 2019)\(^3\).

A firm platform for the travel and tourism recovery process is required which will ensure that finance reaches millions of individuals and serves to protect the region’s most valued cultural, historical, and environmental assets upon which the industry depends. The original paper, *A Marshall Plan for Tourism; Can it be built?* developed by EplerWood International in March 2020 calls for a coordinated effort to finance the recovery of tourism destinations, which should include support for (1) Sustainable infrastructure, (2) Development of data management units for both tourism supply and demand, 3) Support of responsible SMEs which have expansive supply chains that are both rural and urban, and 4) Creation of revitalization programs for vital socio-historical and natural attractions.\(^4\)

EplerWood International (EWI) and the Pacific Asia Travel Association (PATA) have developed this new Concept Paper to review how the current crisis can potentially be alleviated in Southeast Asia and the Pacific via a destination-focused sustainable finance program that is developed to enable a sustainable recovery, address ailing destination infrastructure, and reequip tourism SMEs as value creators.

The document, *Destinations at Risk, The Invisible Burden* authored by EWI together with the Center for Sustainable Enterprise at Cornell’s Johnson College of Business with support from the Travel Foundation
summarized the peril destinations face if they continue to use an unrestrained growth model which has allowed visitors to overwhelm local resources and degrade vital assets which will force a devaluation of the local tourism economy in the long term. Many destinations in Southeast Asia were “buckling” under these impacts, and experts have noted that now is the time to prioritize high-value tourism, sustainable business models, training, and sustainable infrastructure to ensure long-term prosperity.

It must be recognized that most destination management organizations (DMOs) are ill equipped to manage a recovery as they are not mandated to work with local authorities on key recovery requirements. For example, DMOs are not in charge of the health of the destination assets and infrastructure upon which tourism depends (energy, sanitation, environment, commerce, culture), nor are they in the position to support the businesses that are vital to the recovery, except in terms of destination marketing.

DMOs will need to have a full command of destination data, not only on visitation but the underlying vital resources and assets upon which tourism depends. With this in place, there can be a more organized and data-informed process of rehabilitating needed infrastructure for the support of sustainable tourism enterprises and tourism destinations, such as what is presently being supported by ADB in the Maldives. The additional value to the destination, from improved management and infrastructure systems cannot be measured only by visitor numbers or gross economic impact, but rather will require new net economic impact measures and per tourist value, tied to the costs of managing tourism and meeting the UN Sustainable Development Goals (SDGs) and Paris Climate Agreement.

If new metrics are not in place, there will be a race to the bottom and investment will go towards short-term increases in tourist numbers without ensuring genuine economic development nor meeting larger climate and sustainability goals.

This concept paper looks at two vital questions for recovery:

1) **Can there be a set of sustainable finance mechanisms that reach small- and medium-sized tourism businesses to promote long-term regeneration and steady renewed economic momentum?**

2) **Can blended finance mechanisms address the need for long-term investment in sustainable growth management and infrastructure?**

Blended funds that address the vital needs of both local populations and sustainable infrastructure have proven to be a viable mechanism for unlocking new impact finance opportunities. The capital flows in international development finance have been changing dramatically since 2010, with private debt and portfolio equity doubling the total investment of Official Development Portfolios. And private financiers are doing so with more streamlined impact criteria based on long-term development frameworks which will stress renewable energy, clean drinking water, sanitation and other SDGs. Private local businesses which formulate their goals using triple bottom line metrics will be ideal partners in this process of rebuilding, as they are in a position to help spread the benefits and co-finance the process of rebuilding sustainable local, supply chains.

**This paper explores how a mix of finance mechanisms can address the needs of small- and medium-sized businesses in Southeast Asia and the Pacific, while also developing a stable platform for sustainable growth and investment in the future of tourism in the region.**
Destination Investment Strategy

To drive effective impact investment in tourism recovery, we recommend a destination-centered approach. Destinations represent the critical natural, cultural and social capital that attract travelers, and all segments of the travel and tourism sector intersect at the destination level. Research has shown that historically the entities responsible for protecting these assets have received inadequate financial and technical resources, which in turn has resulted in:

1. A lack of governmental regulatory power in almost all emerging economy nations to limit and manage the growth of tourism,
2. Little relevant revenue generation capacity to finance sustainable infrastructure to service the growth in the tourism economy, and
3. A lack of technical training in destination management at the local authority level, where it is most needed.

Destinations are largely managed by DMOs, which generally invest funds in marketing, without any significant allocation for “product maintenance,” or the careful management of destination assets. To date, tourism recovery packages in Asia and the Pacific have focused on helping the sector to weather a period of decreased demand. As additional funding packages are developed, there is a risk that lobbying will result in a scenario where only large tourism companies receive funds, which will not incentivize the preservation of key destination assets nor the recovery of small and medium enterprises, which represent 80% of the sector. EWI and PATA recommend a comprehensive strategy that injects revenue into the top revitalization needs of tourism destination hotspots and the regeneration of local SME supply chains. A Sustainable Tourism Data and Investment Hub would drive this strategy and bring the work to fruition in each destination. (See Figure 1)

A strategy focused on destinations, if guided by sustainable tourism research and data-driven tools, has the potential for multiplier effects and critical benefits including:

- Rebuilding the tourism sector to become an engine for sustainable economic growth; driving material growth in GDP and jobs, contributing meaningfully to local economies, and offering improved livelihoods for a wide range of people working within the local economic system.
- Building business models that are linked to local communities such that benefits are realized at tourism destinations, including helping to address the vulnerabilities of those in informal tourism jobs (three in four workers in Asia and the Pacific).
- Creating higher quality tourism experiences by better aligning tourism products with consumer demand and directing funds to transition existing SME’s and create new SME’s that are aligned with the fund’s sustainability and quality criteria.
- Supporting broader state and multi-national efforts to achieve goals laid out in the 2030 Sustainable Development Agenda and Paris Climate Agreement.
• Helping to address the impacts of overtourism through science-based frameworks that measure resources and infrastructure in use by tourism and data-driven systems to manage vital tourism assets.

These additional benefits, and a focus on the soft infrastructure necessary to collect and report associated metrics, also create an appealing environment for impact investment.

Ideal destinations for investment—called Destination Hotspots—can be identified by applying the following screens:

• Tourism direct and indirect economic impacts in the destination contribute meaningfully to the national economy
• Selected tourism destinations draw both international and domestic tourists with adequate facilities and potential for growing the domestic market
• Destination has been heavily impacted by the COVID-19 pandemic
• Destination has significant natural and/or cultural capital that is essential to tourism products
• Infrastructure that supports the tourism industry is insufficient or under pressure and destination is likely to benefit from upgrades that lower total invisible burdens (Appendix A) on the local economy measured via a holistic accounting system
• Destination is primed to transition to a new era of tourism governance with stakeholders committed to managing both supply and demand
• Destination is linked to SMEs that are compelling candidates for funding, especially tour operators and island resorts as they tend to engage a broad segment of the tourism value chain, help to attract high-value tourists, and can help drive impactful investment in communities

Although further research will be required to determine which Destination Hotspots are best targets, preliminary work has been done to identify four target countries and Destination Hotspot candidates. The four target countries—Thailand, Vietnam, The Maldives, and Fiji—were selected based on the above screens and the team’s experience in APAC. In Southeast Asia, we have prioritized destinations outside of major cities as these tend to have even greater challenges to overcome downturns and are more tourism dependent. For the island nations, we have recommended targeting the entire nation as qualified SMEs are likely to be geographically dispersed and island linkages are essential for the tourism sector.

**Destination Hotspot Candidates**

**Thailand**

• Tourism contributes 19.7% of country's GDP and 21.4% of jobs\(^\text{18}\). In 2019, the country received 39.8 million international visitors\(^\text{19}\) and there were 166 million domestic trips\(^\text{20}\).
• Due to COVID-19 Thailand will suffer the second highest percent decrease in GDP (9-18%), skilled wages (12-23%), and unskilled employment (17-31%) in the world\(^\text{21}\).
• Possible Impact Issues: climate, marine ecosystems, terrestrial ecosystems, waste management, cultural assets, poverty alleviation, women

**Top Hotspot for Consideration**: Phuket | **Alternative Hotspots**: Pattaya, Chiang Mai, Bangkok
### Vietnam
- Tourism contributes 8.8% of country’s GDP and 9.1% of jobs\(^{22}\). In 2019, the country received 18.0 million international visitors\(^{23}\) and there were 85 million domestic trips\(^{24}\).
- International tourism is critical for economic recovery, and there is potential to jumpstart this recovery through regional ASEAN tourism\(^{25}\). SMEs represent 97% of Vietnam’s economy\(^{26}\).
- Possible Impact Issues: climate, marine ecosystems, terrestrial ecosystems, waste management, energy, poverty alleviation, women

**Top Hotspot for Consideration:** Ha Long Bay  |  **Alternative Hotspots:** Hoi An, Hue, Sa Pa

### The Maldives
- Tourism contributes 56.6% of country’s GDP and 59.6% of jobs\(^{27}\). In 2019, the country received 1.7 million international visitors\(^{28}\).
- COVID-19 is expected to have an outsized impact on the economy of Small Island Developing Nations (SIDs), especially those dependent on tourism. Tourism is the largest industry and employer in the Maldives, and is vulnerable to external shocks\(^{29}\). A recent assessment of impacts recommended that the government build sustainability into tourism recovery packages, implement hospitality training/upskilling, and implement data systems to measure the benefit of tourism for the country.
- Possible Impact Issues: climate, marine ecosystems, terrestrial ecosystems, waste management, clean water, poverty alleviation, women.

**Top Hotspot for Consideration:** focus on entire island nation

### Fiji
- Tourism contributes 34% of country’s GDP and 26.3% jobs\(^{30}\). In 2019, the country received .9 million international visitors\(^{31}\). In the South Pacific, Fiji is the most developed and draws the most tourists.
- COVID-19 is expected to have an outsized impact on the economy of SIDs, especially those dependent on tourism. Tourism drives regional air connectivity across the South Pacific, which is key to trade in the region and is at risk of severe impacts\(^{32}\).
- Possible Impact Issues: climate, marine ecosystems, terrestrial ecosystems, energy, waste management, clean water, poverty alleviation, women.

**Top Hotspot for Consideration:** focus on entire island nation  |  **Alternative Hotspots:** Mamanuca and Yasawa Islands, Coral Coast, Taveuni

In each Destination Hotspot, a Sustainable Tourism Data and Investment Hub that houses financial, data management, and technical assistance services will be established to support effective investment, governance, and impact measurement in the destination. Figure 1 details this concept. Future work will develop the Sustainable Tourism Data and Investment Hub concept within the context of the selected Destination Hotspots and impact fund financial structure.
Tourism SMEs and Access to Finance

While acknowledging the critical importance of all elements of the Sustainable Tourism Data and Investment Hubs, within the scope of this preliminary work to assess sustainable tourism investment and financing in Southeast Asia and the Pacific, we focus on providing a market landscape for SME financing. The rationale for selecting SMEs as the initial target audience is:

- SMEs are 80% of the sector with millions of livelihoods depending on some form of assistance to this part of the industry.\(^3\)

- The Southeast Asia and Pacific regions are heavily dependent on tourism and SME development is key for their economies. As the impacts of the COVID-19 pandemic on the region deepened, the SMEs in the service and tourism sectors are among the most affected. ILO estimates that countries such as Vietnam and Singapore might lose more than 30% of travel and tourism jobs and the broader Southeast Asia and Oceania region will lose an estimated 15%.\(^4\)

Background on SMEs’ challenges in accessing external finance in sustainable tourism

In Southeast Asian countries (ASEAN member states), SMEs across all sectors account for between 88.8% and 99.9% of total establishments and between 51.7% and 97.2% of total employment.\(^5\) Although the definition of SMEs varies across countries, for consistency purposes, this paper will define SMEs as firms with fewer than 200 employees.

According to ADB–OECD’s study “Enhancing Financial Accessibility for SMEs: Lessons from Recent Crises,” SMEs in Asia Pacific face many structural challenges in accessing finance, both on the demand and supply side.\(^6\) Compared to larger firms, SMEs are less attractive to lenders due to their insufficient collateral and guarantees, small borrowing size, and lack of information infrastructure. From the
In the lenders' perspective, SME financing is often unattractive and difficult due to: (1) high transaction costs compared to the lending amount including cost of monitoring and screening, (2) geographical limitation to cover isolated areas, especially for the remote islands in the Pacific and (3) available product offerings that are not suitable for SME financing needs. While the capital market (equity and bonds) is still underdeveloped, most SMEs still rely on formal financing institutions for loans and generally are financed by state-owned banks.

Financing for sustainable tourism is even more challenging. On the supply side, there is a lack of suitable finance instruments for sustainable tourism projects and standardized criteria for green investment. On the demand side, there are not sufficient incentives for SMEs to adopt sustainable practices due to high transaction costs. At the same time, there has been insufficient public intervention by policymakers to enforce sustainable tourism development policies at the government level. 37

Addressing a large financing gap for tourism SMEs in Southeast Asia

In 2017, the International Finance Corporation (IFC) estimated that 65 million micro, small and medium enterprises (MSMEs) in East Asia and the Pacific have an unmet financing need of 2.110 trillion USD, representing the largest global financing gap at 46%. 38 In Thailand and Vietnam, the funding gap for MSMEs totals up to 40.7 billion and 23.6 billion USD respectively, accounting for 10-12% of the countries’ GDP (refer to Figure 2).

<table>
<thead>
<tr>
<th>No</th>
<th>Countries</th>
<th>Share of all Enterprises (%)</th>
<th>Contribution to GDP (%)</th>
<th>Contribution of tourism to GDP (%)</th>
<th>MSME Finance Gap (USD)</th>
<th>MSME Finance Gap/GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Thailand</td>
<td>99.7%</td>
<td>42.2%</td>
<td>19.7%</td>
<td>40,743,237,597</td>
<td>10.0%</td>
</tr>
<tr>
<td>2</td>
<td>Vietnam</td>
<td>98%</td>
<td>45.0%</td>
<td>8.8%</td>
<td>23,609,833,957</td>
<td>12.0%</td>
</tr>
<tr>
<td>3</td>
<td>Maldives</td>
<td>80.0%</td>
<td>-</td>
<td>56.6%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>4</td>
<td>Fiji</td>
<td>60.0%</td>
<td>18.0%</td>
<td>34.0%</td>
<td>1,084,830,273</td>
<td>25.0%</td>
</tr>
</tbody>
</table>

Figure 2. The contribution of tourism SMEs and financing gap in selected target countries 41
Due to the lack of data available on the funding gap for SMEs in the tourism sector, we will use the total contribution of tourism to the economy as an indicator to suggest the importance of financing the tourism industry. We will also overlook microenterprises because in the tourism supply chain they are fully dependent on SMEs to survive and are therefore their revival is reliant upon thriving SMEs. According to a 2020 WTTC report, the tourism sector in Southeast Asia contributes 380.2 billion USD, roughly 12.1% of the total economy. Dominating 80% of the tourism industry, the SME portion of the travel and tourism sector contributes approximately 305.6 billion USD in Southeast Asia or 9.69% of the total regional GDP. Financing tourism SMEs is therefore essential for the sector to recover and such investment will help to sustain millions of livelihoods and help fight the high risk of families falling into poverty throughout the region.

**Potential pipeline for tourism SMEs financing**

The tourism supply chain is complex and encompasses many other sectors in vertical and horizontal value creation. In addition to financial return, investment in sustainable tourism offers environmental and social benefits, while generating significant returns in areas such as energy, water, waste, and biodiversity. A range of historically successful tourism SMEs will require external funding including businesses focused on travel planning and booking, accommodation, local food producers, the IT sector, food and beverage (F&B), transportation (arrival, local and departure), tour guides, cultural monuments and parks, and leisure activities/entertainment as seen in Figure 3.

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**Figure 3. Tourism Supply Chains, GIZ Tourism Planning in Development Cooperation Handbook**
Financing mechanisms for sustainable tourism

In order to ease SMEs' challenges in accessing finance, ADB Institute (2017) suggested some efficient remedies that have been proven in some countries in Asia which could be replicated in other countries. Those include: (1) diversifying financing channels such as Government Credit Guarantee Schemes, SME banks, municipal investment trust fund, (2) developing credit risk infrastructure e.g. SME Credit Risk Databases, Credit Bureaus, and SME Credit Rating.

OECD identifies the following financial instruments as potentially suitable for sustainable tourism:

<table>
<thead>
<tr>
<th>Public Instruments</th>
<th>Private Instruments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Direct</strong></td>
<td><strong>Indirect</strong></td>
</tr>
<tr>
<td>• Investing in companies whose processes or services contribute to reducing negative environmental impacts while increasing productivity</td>
<td>• Subsidized loans or grants (including ODA in most emerging markets)</td>
</tr>
<tr>
<td></td>
<td>• market-based loans</td>
</tr>
<tr>
<td></td>
<td>• (partial) credit guarantees</td>
</tr>
<tr>
<td></td>
<td>• insurance for green assets.</td>
</tr>
</tbody>
</table>

The gap in investment and financing for sustainable tourism development can be bridged by better connecting tourism SMEs with existing financing instruments, especially those suitable for green investments. There is a high correlation between the financial condition of small business and its environmental, social and economic measures. For example 62% of SMEs in good financial health in the tourism sector are more likely to embrace energy and water savings, waste recycling, social projects and the use of local products. A blended financing approach might be able to bridge this gap, combining debt financing, which is more common among tourism SMEs, with equity or hybrid instruments that are more practical for high-growth startups.

Regional examples of financing mechanisms for tourism SMEs

1. **Blended Grants and Venture Capital financing**
   - Funder: ADB Ventures
   - Beneficiary: TakeMeTour
   - Type of Financing: Reimbursable Grants with option to convert to equity
   - Ticket Size: $150,000
Asian Development Bank (ADB) Ventures, partnering with Tourism Authority of Thailand, to provide TakeMeTour $150,000 in Seed grant funding for LocalFarm product development and market validation.49

LocalFarm is a platform that enables more than 50 sellers, farmers and gardeners, to market seasonal produce directly to consumers, helping mitigate the impacts of the COVID-19 pandemic on SMEs who rely heavily on the tourism sector. The platform charges suppliers no fees or commissions for access. The reimbursable grants will give ADB Ventures the option to claim a future equity stake in the company.

2. Women Accelerating Vibrant Enterprises in Southeast Asia and the Pacific (WAVES) 50

- Funder: ADB
- Beneficiary: Women-led SMEs in Indonesia, the Pacific and Vietnam
- Type of Financing: Performance-based lending (through sovereign loans), gender bond and technical assistance grants
- Ticket Size: 34.4 Million

The WAVES Program will target 16,775 growth-oriented women’s businesses in Indonesia, the Pacific and Vietnam to enable them to become thriving SMEs. The program focuses on three pillars — access to finance, capacity development, and enabling environment. Recipients of these funds span key sectors including manufacturing, trade, hospitality/tourism, and services.

Conclusions and Future Work

This Concept Paper is the first to structure a sustainable financing strategy targeted directly at the needs of the travel and tourism economy in Southeast Asia and the Pacific regions. It will require a deeper evaluation of the destinations being proposed, the status of the tourism SMEs in the region, and appropriate impact finance instruments. The concept proposed here of using a regional development strategy opens many opportunities and helps to structure financing, invest in pivotal locations, and ease efforts to scale up recovery mechanisms in future. This paper serves as an initial assessment of the problem of destination recovery in Southeast Asia and the Pacific. The next step, as demonstrated in Figure 4, requires confirmation of how the work will align with the interests and needs of potential partners, and a feasibility review of how financing mechanisms can be combined to achieve financial and impact targets in specific Destination Hotspots.

![Figure 4 Process for Structuring Sustainable Tourism Finance](51)
Tourism is surprisingly new to sustainable and impact finance, even though it is a powerful economic engine with $41.7 trillion in international export receipts in 2018. The Asia Pacific was the fastest growing region in 2018-2019, at 7% growth and 30% share of global receipts. There is every reason to believe it will regain momentum. While the tourism industry is at an historic low, the travel and tourism economy has recovered in the past with extraordinary robustness, making its annual economic growth impacts double the growth rate of the global GDP year after year. Given that the tourism economy grew by 5% in 2019 alone, with a global value of $1.7 trillion USD and Asia and the Pacific growing at 7%, there is clearly reason to take note of this industry’s upside potential. The historic downturns of 2020 have taken their toll. But due to underlying trends, most notably the growth of the middle class in the region, the industry is likely to revive with rapid growth rates once the pandemic has receded.

Destinations are at the heart of the value of this recovery potential. But the central role of destinations in economic recovery will only last if there is reinvestment in their public and private value to visitors and local residents. A full assessment of the cost of maintaining these assets, upon which tourism and local residents depend in the region, can set the stage for even more valuable investments in the future.

Investment in SME recovery and renewal is urgent for all tourism-dependent nations, especially those in Southeast Asia and the Pacific where tourism makes a marked contribution to GDP. If the proper incentives are in place to help SMEs to revive while incorporating safe procedures and investment in sustainability, the entire sector will see solid rates of financial return over the long term. Without such investment, the value of tourism and these businesses will degrade as the overall tourism enabling environment crumbles, due to crowding and “overtourism,” as documented in numerous news accounts.

There is urgency to this paper and the concepts it includes. Unless new procedures are put in place with proper financing to protect the value per tourist and the assets upon which the industry depends at the destination level, the region will begin to crack once again under the weight of its own success. The APAC region should lead the sustainable redevelopment of tourism, leveraging its dynamic business environment and growth, capacity to build modern technology and infrastructure, as well as its special tourism assets that must be protected to drive tangible benefits to local communities for the long term.
Examples of The Invisible Burden

01 Energy & GHG
- Cost of infrastructure upgrades (including green technology)
- Cost of managing peak demand
- Increased reliance on non-renewables

02 Water
- Cost of infrastructure upgrades (including green technology)
- Cost of desalination
- Overexploitation (leaving residents without potable water resources)

03 Solid waste
- Cost of infrastructure upgrades (including green technology)
- Uncollected waste, unsanitary waste dumps and pollution (harm to human health and ecosystems)

04 Sewage
- Cost of infrastructure upgrades (including green technology)
- Untreated sewage (harm to human health and ecosystems)

05 Natural capital
- Costs to maintain biodiversity, green corridors and protected areas
- Loss of biodiversity and ecosystem services

06 Social capital
- Higher cost of living
- Amenities for residents displaced by tourism
- Undermined community values


7 Author’s Note: The management of tourism within government entities varies substantially between countries. There is no standard organizational structure for the management of tourism impacts. Tourism Ministries and Departments work via Destination Marketing Organizations (DMOs) that seek to become Destination Management Organization (DMOs), but there is no standardized system for achieving the interactions required between tourism ministries, DMOs, and other relevant government departments.

8 Authors Note: The impediment for creating consistent, value-added development has been the lack of data on the requirements for managing the growth of tourism – where supply can genuinely and efficiently meet the demand as it grows.


11 Yago, Glen, September 17, 2019, Financing Sustainability: Democratizing Capital for Inclusive Growth Economies, Hebrew University of Jerusalem School of Business Administration, Milken Innovation Center-Jerusalem Institute https://wordpress.lehigh.edu/globalclassroom/week-3-professor-glenn-yago-2/

12 Ibid


Adapted from Resonance Corporation Structuring Innovative Financing Transactions Chart, by permission of company, Burlington, VT, 2020


