

# TOURISM INVESTMENT AND FINANCE

## ACCESSING SUSTAINABLE FUNDING AND SOCIAL IMPACT CAPITAL



Sustainable Tourism: International Cooperation for Development  
**ONLINE TOOL KIT AND RESOURCE SERIES**

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# Table of Contents

|   |     |
|---|-----|
| Table of Contents.....  | 1   |
| Acronyms.....   | 2   |
| Preface.....  | 4   |
| Unit 1: Identify Trends and Opportunities.....  | 6   |
| Unit 2: Evaluate Investment Environment .....   | 21  |
| Unit 3: Project Identification.....   | 33  |
| Unit 4: Financial Feasibility.....  | 49  |
| Unit 5: Project Definition, Design, and Promotion.....                                | 55  |
| Unit 6: Identify and Access Funding .....   | 63  |
| Unit 7: Monitor and Evaluate Sustainable Tourism Investment and Finance Projects..... | 80  |
| Glossary.....   | 92  |
| References .....  | 95  |
| Annex A: RFP Example from TourismROI.com.....   | 100 |
| Annex B: Tourism Sector Diagnostic Tool Investment Drivers.....                       | 103 |

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# Acronyms

AED — Academy for Educational Development  
ADB — African Development Bank  
AFD — French Development Agency  
AI — African Investor  
BRIC — Brazil, Russia, India, and China  
CI — Conservation International  
CEED — Center for Entrepreneurship and Executive Development  
CREST — Center for Responsible for Travel  
CSR— Corporate Social Responsibility  
DANTEI — Development Assistance Network for Tourism Enhancement and Investment  
DAI — Development Alternatives, Inc.  
DMO — Destination Management Organization  
ESTA — Ecuador Sustainable Tourism Alliance  
FDI — Foreign Direct Investment  
GDP — Gross Domestic Product  
GEF — Global Environment Fund  
GDA — Global Development Alliance  
GIIN — Global Impact Investing Network  
GSTA — Global Sustainable Tourism Alliance  
GSTC — Global Sustainable Tourism Criteria  
GW — The George Washington University  
IC — Investor's Circle  
IDB — Inter-American Development Bank  
IFC — International Finance Corporation  
IFI — International Financial Institutions  
IPA — Investment Promotion Agency  
IPI — Investment Promotion Intermediaries

IRIS — Impact Reporting and Investment Standards  
IRR — Internal Rate of Return  
LDC — Least Developed Countries  
MDG — Millennium Development Goals  
MIGA — Multilateral Investment Guarantee Agency  
NGO — Nongovernmental Organization  
NPV — Net Present Value  
OPIC — Overseas Private International Corporation  
ODA — Official Development Assistance  
P&L — Profit and Loss  
SEAF — Small Enterprise Assistance Funds  
SGB — Small and Growing Businesses  
SIFT — Sustainable Investment and Finance in Tourism Network  
SMEs — Small and Medium Sized Enterprise  
ST — Sustainable Tourism  
SWOT — Strengths, Weaknesses, Opportunities, and Threats  
ROI — Return on Investment  
TI — Transparency International  
TNC — The Nature Conservancy  
T&T — Travel and Tourism  
UNCED — United Nations Conference on Environment and Development  
UNCTAD — United Nations Conference on Trade and Development  
UNDP — United Nations Development Program  
UNEP — United Nations Environment Program  
UNWTO— United Nations World Tourism Organization  
USAID — United States Agency for International Development  
WBG — World Bank Group  
WEF — World Economic Forum  
WTO — World Tourism Organization  
WTTC — World Travel & Tourism Council

# Preface

As one of the world's largest industries, tourism has grown rapidly and continuously for more than half a century and has become a significant source of global employment and economic output. The World Travel & Tourism Council (WTTC) reported that in 2010 tourism directly contributed to 2.8% of global GDP, accounted for 259 million direct jobs, and 4% of global investment.

Including indirect impacts, WTTC estimates that in 2011 the industry will contribute nearly US\$6 trillion to global output, or 9% of world GDP. Travel and tourism investment is expected to reach US\$652.4 billion in 2011 and is forecast to increase to US\$1.5 trillion by 2021 (World Travel & Tourism Council and Oxford Economics, 2011).

Tourism is also the top export earner in 60 countries and the primary source of foreign exchange earnings for one third of developing countries and one half of least developed countries (UNCTAD, 2010).

Developing countries particularly benefit from the tourism industry's positive economic, environmental, and social impacts, through the creation of jobs, preservation and celebration of indigenous culture, reduction of poverty, and promotion of environmental conservation (environmentally-friendly alternative livelihoods). In Tanzania, for example, "gross tourism receipts accounted for less than 10% of total export earnings in the 1980s. By 2000, tourism was the top export earner, above coffee and cotton, and now accounts for over 35% of total goods and services exports" (UNCTAD, 2010).

International development agencies and developing countries have recognized the numerous positive impacts of tourism and actively pursue tourism development to promote economic growth and development assistance objectives.

Tourism can also have negative impacts. Particular attention must be paid to environmental and social concerns, as well as pressure placed on non-renewable resources and infrastructure. Assessing and managing these impacts is a core function of the investment promotion process outlined here.

This Guide provides development practitioners with the information and tools necessary to successfully facilitate the financing of small-scale, sustainable tourism projects, and to transfer these skills to their clients and counterparts.

More specifically, it is designed to assist organizations and individuals working with micro, small, and medium-sized enterprises to conduct pre-feasibility studies, understand the market and financial analysis process, prepare investment briefs, identify potential sources of financing, understand how deals and joint ventures are structured, and work with governments to remove barriers to investment and provide broader access to credit. It also includes lessons learned from past experiences and successful efforts to facilitate sustainable investment and financing.

There are elements of this process that will likely require the assistance of specialists and third-party professionals, particularly for larger projects or where commercial sources of debt and equity financing are required. In working with outside investors, project sponsors will also, in most cases, require the assistance of legal advisors, to help navigate the legal requirements of the host country.

We would like to thank Chris Seek, Keith Dokho, and Melissa Moye, without whose review and insight this toolkit would not have been possible. The Global Sustainable Tourism Alliance Management Partners — FHI360, The George Washington University, Solimar International, and The Nature Conservancy — also provided helpful guidance.

We would also like to express our deep appreciation and gratitude to Donald E. Hawkins, Annessa Kaufman, and Kristin Lamoureux of The George Washington University, who shared their knowledge and experience in the production of this publication, and to the UN World Tourism Organization and its Themis Foundation for permission to utilize information from their publications and to pilot test this publication.

Last, we would last like to thank Roberta Hilbruner, who helped make the development and publication of this Guide possible, and whose unparalleled championship of sustainable tourism has positively affected innumerable destinations and people throughout the world.

Sincerely,

Jim Phillips and Jamie Faulkner

# Unit 1: Identify Trends and Opportunities

At the end of this unit, participants will be able to:

- Understand and find additional information on global tourism trends
- Become familiar with sustainable tourism investment trends and opportunities
- Become familiar with basic investment concepts and learn about institutions actively providing access to capital for sustainable investment projects
- Understand the benefits of sustainable tourism investment for local communities and economies

Global, regional, national, and local tourism and investment trends all influence the viability of a proposed project. Understanding these trends is the first step in identifying investment opportunities, quantifying market potential, determining capital requirements, and assessing financial feasibility.

## GLOBAL TOURISM TRENDS

Demographic and psychographic changes, such as the aging of populations in industrialized countries (the primary market for most international travel destinations), increasing interest in more active and educational pursuits (“sight doing” vs. “sight seeing”), and greater concern for the environment are just a few trends shaping destination development across the globe.

The rapid emergence of new outbound travel markets, like China, India, Brazil, and Russia (BRIC) is another major trend, both in terms of travel demand and sources of investment for tourism projects.

## RESOURCE 1.1

### OUTBOUND MARKET DATA: EUROPEAN TRAVEL COMMISSION (ETC)

The ETC is a world leader in the collection, analysis, and reporting of tourism data. Its most recent quarterly report provides insights into trends in major outbound markets, including the growth of the Chinese market, increasing at a rate of over 10% per year over the past decade, and the lack of growth in more traditional markets (2000–2010), including Germany (0.1%), the UK (0.4%), and the US (1.7%).

[www.etc-corporate.org/resources/uploads/ETC-%20Apr-May%202011%20Trends%20and%20Outlook%20-%20final.pdf](http://www.etc-corporate.org/resources/uploads/ETC-%20Apr-May%202011%20Trends%20and%20Outlook%20-%20final.pdf)

The removal of barriers to travel, including the easing of entry requirements and the adoption of open skies policies (for new airline routes, code sharing agreements, etc.) are also increasing travel supply and demand.

Visitor expectations are also changing, as are motivations for travel. While cultural heritage tourism remains one of the largest and fastest growing global travel markets, new market niches are emerging on a daily basis. The primary trend is increasing market fragmentation, as the internet, social media, and other tools increasingly allow travelers and the travel trade to tailor trips to more specific and more specialized interests (e.g., landscape photography and Arabic cooking). This trend is creating a wide variety of opportunities for emerging destinations to create travel experiences that can, if effectively promoted, quickly find markets.

Another important trend is the increasing interest in nature-oriented travel, as the environmental threats of population growth, the rapid expansion of extractive industries (oil, gas, minerals), and global climate change become better known. While many of the world's most unique and outstanding natural attractions are located in developing countries, these same resources are also some of the most threatened, by resource extraction, the changing climate and the encroachment of human populations on fragile, biodiversity-rich ecosystems.

Sustainable tourism development has significant potential to create alternative, sustainable livelihoods and alternative sources of income for developing economies, and help place an economic value on threatened natural resources.

## BOX 1.1

### ENVIRONMENTAL IMPACT EXAMPLE: MILLION DOLLAR REEF SHARKS

A recent study by Mark Meekan of the Australian Institute of Marine Science estimates that the value of a reef shark killed to make shark fin soup to the tiny island nation of Palau is about US\$108. According to the study, the estimated value of that same shark to Palau's shark diving industry, which contributes more than \$18 million annually, was more than \$179,000 per year, or \$1.9 million over the shark's lifetime.

The study also noted that shark diving contributes more than \$800 million per year to the Bahamian economy, more than \$100 million to Thailand's economy, and accounted for more than 25% of travel-related spending for visitors to the Great Barrier Reef, one of the world's most popular natural attractions.

<http://www.nytimes.com/2011/05/02/science/earth/02shark.html>

The broader trend emerging from the fragmentation and specialization of international travel markets, the growing desire for more active travel pursuits, and the increasing interest in the natural environment, is evident through the acceleration in the rate of growth of visitor arrivals and spending in the developing world.

While the long-term trend in total international arrivals has remained fairly steady, at 4–5% per year, overnight arrivals in many developing regions and countries have far exceeded that average, often at the expense of more traditional vacation destinations like Western Europe and North America. Over the past decade that trend has been most pronounced in Africa and the Middle East, with Latin America, Eastern Europe, and parts of southern Asia not far behind (Figure 1.1).

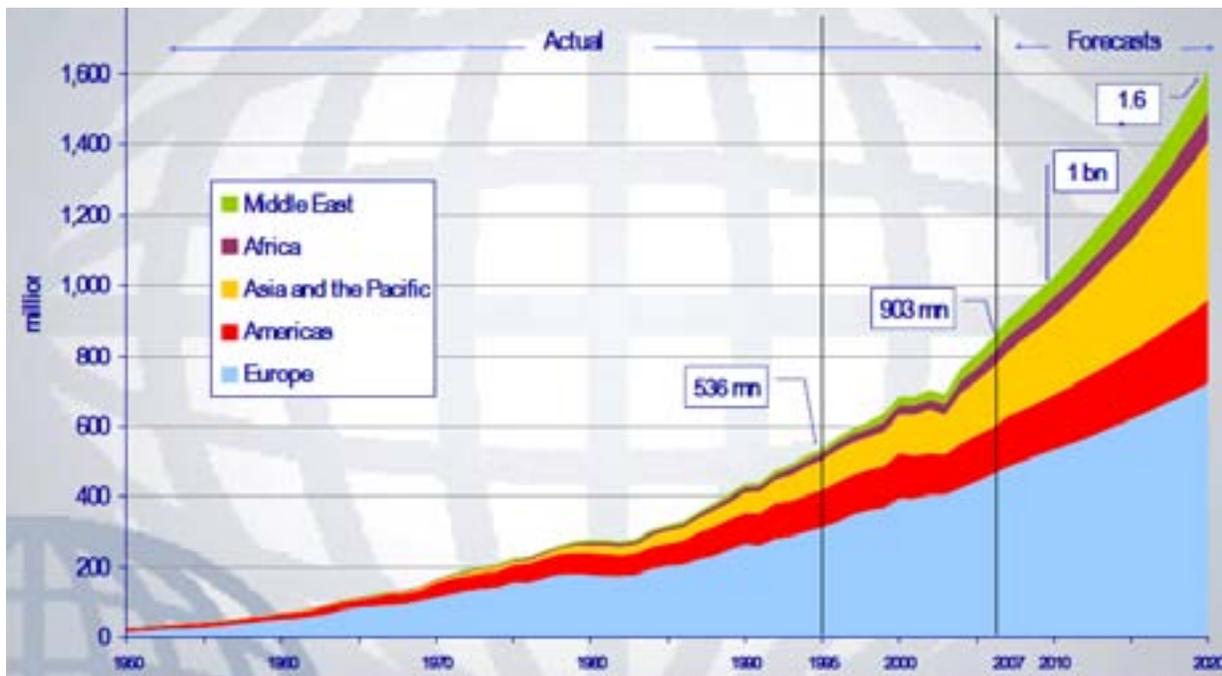


Figure 1.1. International Tourism Arrivals, 1950–2020: Current Situation and Forecasts (UNWTO, 2008)

## TOURISM ECONOMIC IMPACT

The direct economic impacts of tourism development are primarily measured in terms of visitor spending on accommodations, entertainment, attractions, food and beverage, and transportation, for both domestic and international travel. There are also, however, significant indirect and induced impacts that should be measured, resulting from the recirculation of that spending within local economies, and the jobs created and income generated by companies that supply the industry.

The World Travel and Tourism Council estimates that the total impact of travel and tourism on global economic output will reach \$9.2 trillion by 2021 (Figure 1.2).

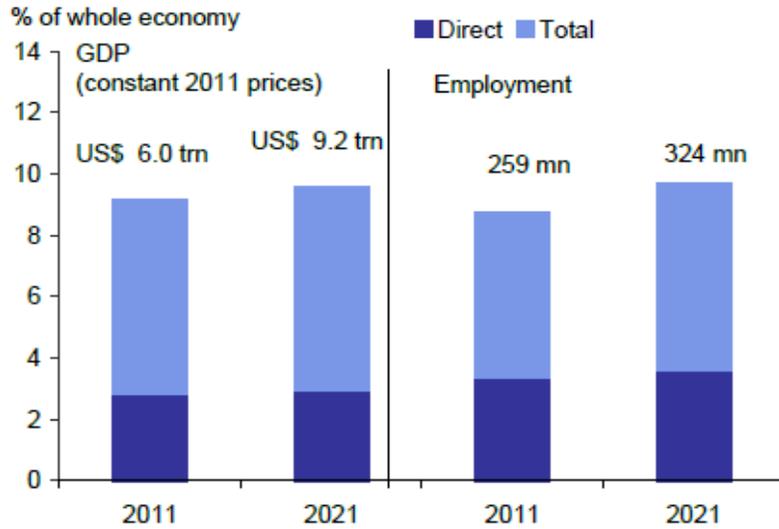


Figure 1.2. World Travel & Tourism Outlook (WTTC & Oxford Economics, 2011b)

Despite the recent financial crisis, tourism has contributed approximately 3% to global output over the past decade, including an estimated \$1.8 trillion in 2010, or a nearly 80% increase over 2000 levels (Figure 1.3).

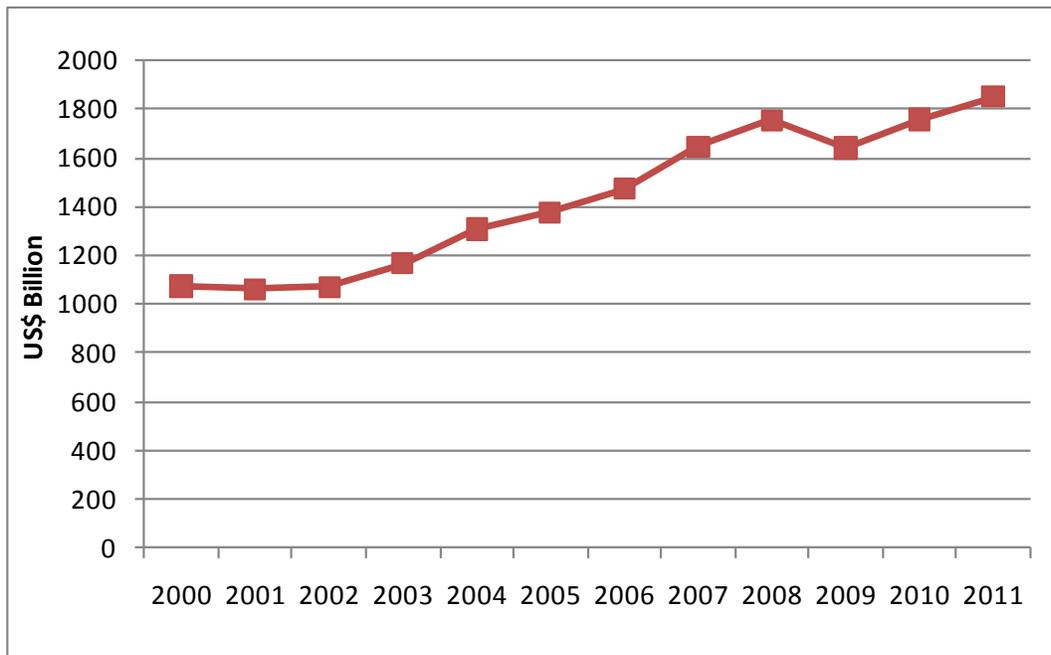


Figure 1.3. Travel & Tourism Direct Contribution to GDP (World Travel and Tourism Council, 2011b)

## RESOURCE 1.2

### ECONOMIC IMPACT OF TOURISM — WORLD TRAVEL AND TOURISM COUNCIL

To better understand tourism's impact on a destination's economy, and for regularly updated tourism data, trends and indicators refer to these World Travel and Tourism Council resources:

Tourism Research, [www.wttc.org/eng/Tourism\\_Research](http://www.wttc.org/eng/Tourism_Research)

Monthly Update on Travel and Tourism Indicators, [www.wttc.org/eng/Tourism\\_Research/Economic\\_Research/Monthly\\_Update\\_of\\_Tourism\\_Indicators](http://www.wttc.org/eng/Tourism_Research/Economic_Research/Monthly_Update_of_Tourism_Indicators)

Tourism Economic Impact, [www.gwu.edu/~iits/Sustainable\\_Tourism\\_Online\\_Learning/Faulkner/WTTC\\_economic\\_impact.pdf](http://www.gwu.edu/~iits/Sustainable_Tourism_Online_Learning/Faulkner/WTTC_economic_impact.pdf)

One of the fastest growing regions (in terms of visitor arrivals and spending) over the past decade is sub-Saharan Africa, where sustainable tourism has the potential to reduce poverty and protect threatened ecosystems and cultures. Sub-Saharan Africa is home to the world's ten poorest countries, based on estimated per capita GDP (World Travel & Tourism Council and Oxford Economics, 2011a), and home to some of the planet's fastest growing tourism destinations.

Table 1.1. World's Fastest Growing Economies (The Economist, 2011)

|                   | 2000–2010 |                   | 2011–2015 |
|-------------------|-----------|-------------------|-----------|
| <b>Angola</b>     | 11.1%     | <b>China</b>      | 9.5%      |
| <b>China</b>      | 10.5%     | <b>India</b>      | 9.5%      |
| <b>Myanmar</b>    | 10.3%     | <b>Ethiopia</b>   | 8.1%      |
| <b>Nigeria</b>    | 8.9%      | <b>Mozambique</b> | 8.1%      |
| <b>Ethiopia</b>   | 8.4%      | <b>Tanzania</b>   | 7.2%      |
| <b>Kazakhstan</b> | 8.2%      | <b>Vietnam</b>    | 7.2%      |
| <b>Chad</b>       | 7.9%      | <b>Congo</b>      | 7.0%      |
| <b>Mozambique</b> | 7.9%      | <b>Ghana</b>      | 7.0%      |
| <b>Cambodia</b>   | 7.7%      | <b>Zambia</b>     | 6.9%      |
| <b>Rwanda</b>     | 7.6%      | <b>Nigeria</b>    | 6.8%      |

The World Bank predicts that Africa is on the brink of an economic takeoff, much like China 30 years ago and India 20 years ago (World Bank Group, 2011a). More than half of the world's fastest growing economies are in Sub-Saharan Africa (Table 1.1) and it is predicted that Africa's economy will grow at an average rate of 7% over the next 20 years, catching up to and eventually surpassing China's growth rate (The Economist, 2011).

## SUSTAINABLE TOURISM TRENDS

The rapid growth of tourism in many developing countries also introduces new threats to the environment. Water and energy consumption, utilization of natural resources, and increased wastes are just some potential negative environmental impacts. Through sustainable forms of tourism development many of these impacts can be mitigated.

Additional toolkits in this course series provide additional details, tools, and information related to supplementary tourism trends. The complete listing of the courses are listed on the inside cover of this publication with information on how to access them.

Sustainable tourism development is also smart business, as a growing numbers of travelers increasingly seek environmentally friendly vacation destinations. According to the UNEP Green Economy Report (2011), global spending on ecotourism is increasing by 20% per year.

International donors, IFIs, and the private sector support this trend. The Sustainable Investment and Financing of Tourism (SIFT) project, for example, defines and promotes sustainability criteria for tourism-related investment as well as provides relevant data, tools, and financing options to integrate sustainability into the tourism development and investment process (Center for Responsible Travel, 2009).

## TOURISM INVESTMENT TRENDS

According to the WTTC, overall travel and tourism related investment totaled nearly \$612 billion in 2010 and is expected to reach \$652 billion in 2011 (Figure 1.4), or 4.5% of total global investment.

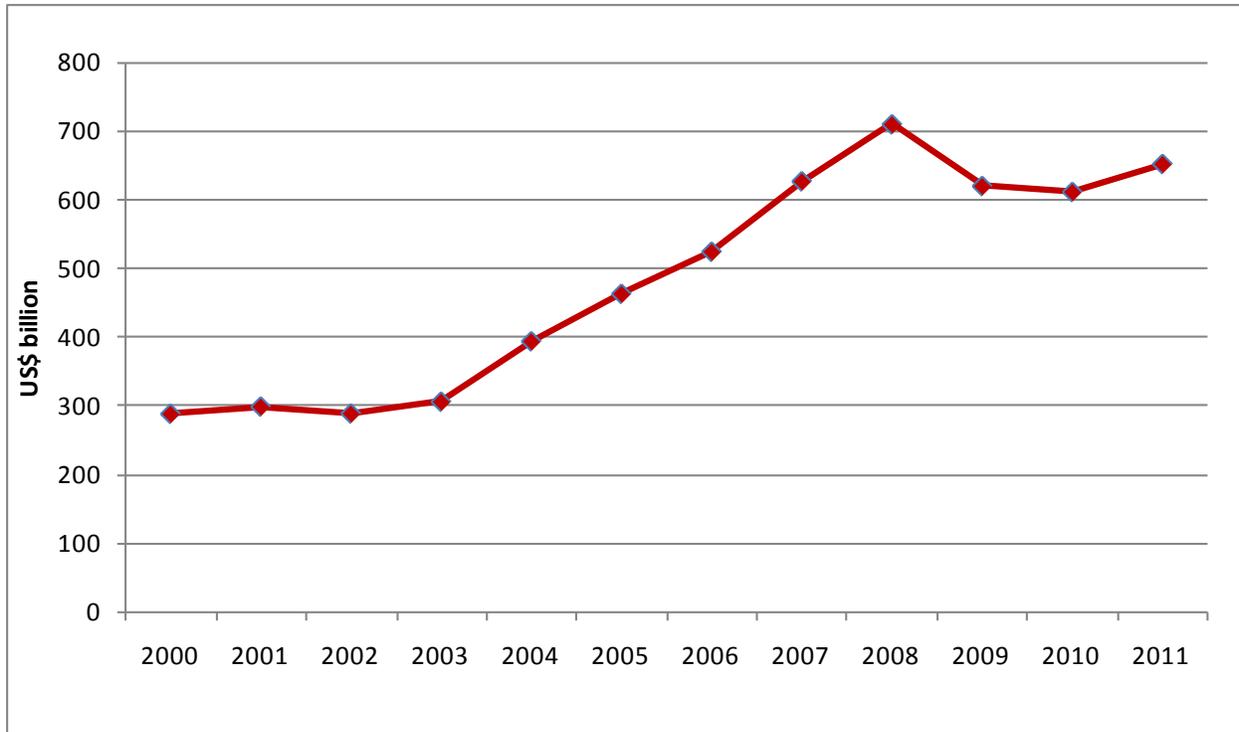


Figure 1.4. Travel and Tourism Capital Investment (World Travel and Tourism Council, 2011b)

In 2010, travel and tourism investment in Africa comprised 9.2% of total investment, or more than US\$1.2 billion, and is projected to reach \$2.7 billion by 2020 (Shanna, 2010).

One of the most important trends shaping tourism-related investment, and investment in developing countries in general, is investment in projects using a *Triple Bottom Line* approach, which seeks returns on investment that are financial, social, and environmental (Figure 1.5).

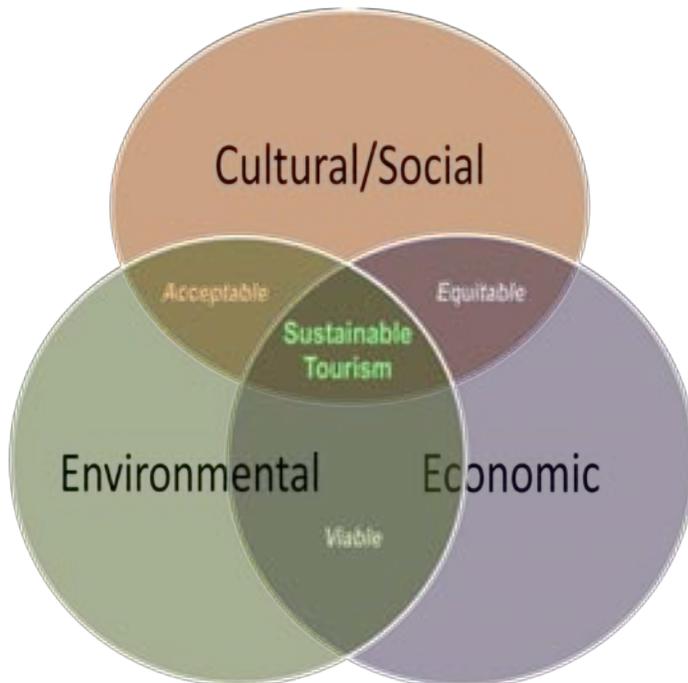


Figure 1.5. Triple Bottom Line (Elkington, 1994)

A related trend is *social investing*, where the primary focus is on using investment to affect social change. Also referred to as *socially responsible investing* (SRI), the aim is to evaluate social impacts of investments, both positive and negative. According to The Social Investment Forum ([www.ussif.org](http://www.ussif.org)), SRI now accounts for more than 10% of total U.S. investment (US SIF: The Forum for Sustainable and Responsible Investment, undated).

A more recent and closely related trend is *impact investing*, which in general is more project- or venture capital-focused, as opposed to social investing, which typically focuses more on portfolio investment (minority stakes in a range of investments, through securities and other more traditional investment vehicles).

Impact investing blends philanthropy and private equity to more sustainably achieve philanthropic objectives through the development of self-financing initiatives and enterprises that generate triple bottom line returns.

Recently, networks of angel investors, professional venture capitalists, and foundations such as the Investor's Circle ([www.investorscircle.net](http://www.investorscircle.net)) have been created to promote impact investment by sharing knowledge, experiences, and resources, and provide funding for projects.

Some of the leading organizations in the impact investing movement include:

- Acumen Fund, [www.acumenfund.org](http://www.acumenfund.org)
- Avantage Ventures, [www.avantageventures.com](http://www.avantageventures.com)

- Verde Ventures, [www.conservation.org/sites/verdeventures/Pages/partnerlanding.aspx](http://www.conservation.org/sites/verdeventures/Pages/partnerlanding.aspx)
- E+Co, <http://eandco.net>
- Grassroots Business Fund, [www.qbfund.org](http://www.qbfund.org)
- Global Partnerships, [www.globalpartnerships.org](http://www.globalpartnerships.org)
- Bamboo Finance, [www.bamboofinance.com](http://www.bamboofinance.com)
- Root Capital, [www.rootcapital.org](http://www.rootcapital.org)
- TBL Capital (TBL), [www.tblcapital.com](http://www.tblcapital.com)
- Truestone Impact Investment Management Limited, London - Fund of Funds, [www.truestoneinvestment.co.uk/wp-content/documents/IMTruestone\\_Global\\_Impact\\_Fund-Fund\\_summary.pdf](http://www.truestoneinvestment.co.uk/wp-content/documents/IMTruestone_Global_Impact_Fund-Fund_summary.pdf)
- TreeTops Capital, [www.treetopscapital.com](http://www.treetopscapital.com)
- Jonathan Rose Companies, LLC, [www.rose-network.com](http://www.rose-network.com)
- GIIRS Pioneer Funds, [www.giirs.org/for-funds/pioneer](http://www.giirs.org/for-funds/pioneer)
- LGT Venture Philanthropy, [www.lgt.com/en/private\\_kunden/philanthropie/index.html](http://www.lgt.com/en/private_kunden/philanthropie/index.html)
- Origen Private Equity Limited, <http://origenprivateequity.com>
- BlueVine Ventures LLC, <http://web62331.aiso.net/about.html>
- WillowTree Impact Investors, [www.willowimpact.com/about-us/company/personal-commitment.html](http://www.willowimpact.com/about-us/company/personal-commitment.html)

The US Government is also a major supporter of impact investing. The Overseas Private Investment Corporation (OPIC) recently issued its first ever call for proposals to catalyze support for impact investments — “a fast-growing sector that is drawing investors with the promise of targeting and delivering positive social and environmental impacts to emerging markets while at the same time generating profits” (Overseas Private Investment Corporation, 2011).

Private capital has an important role to play in helping solve development challenges, especially when development budgets are under pressure. With this call, OPIC seeks to catalyze the field’s growth, by encouraging innovation, mitigating risks and committing capital to attract more private investment. — OPIC President and CEO Elizabeth Littlefield (Overseas Private Investment Corporation, 2011)

USAID also leads in promoting impact investing. It collaborated with the Rockefeller Foundation, Global Impact Investing Network (GIIN), and JP Morgan Chase to develop Impact Reporting & Investment Standards (<http://iris.thegiin.org>) (IRIS), which rates social and environmental returns on financial investments.

Another strategy is *community investing* which provides underserved communities with access to capital and credit. In tourism terms, investments typically focus on micro- and small enterprises and infrastructure-related projects (sanitation, health, transportation, electrification) that serve both local residents and visitors. The Community Investment Center conducts research and provides information and contacts, including a searchable database of community investment specialists around the world ([www.socialfunds.com/ci/index.cgi](http://www.socialfunds.com/ci/index.cgi)).

Investors behind sustainable tourism projects can allocate funds to community project components such as accommodations (guest houses, home stays, ecolodges, etc.). Other small business creation initiatives empower women and young people and include sustainable local food production and handicrafts to sell to tourists. Community-based tourism focused on local women's groups and co-operatives allow entry for women into the workforce in many developing countries.

An example of a successful community investment initiative is UNEP's Small Grants Program on behalf of the Global Environment Facility (GEF) in Costa Rica. Supporting the development of rural community-based tourism as a sustainable livelihood, the Costa Rican Association of Community-based Rural Tourism (ACTUAR) ([www.actuarcostarica.com/app/cms/www/index.php](http://www.actuarcostarica.com/app/cms/www/index.php)) strengthens community-based rural tourism throughout the country. GEF assisted ACTUAR by funding Los Campesinos Reserve in the Savegre River Basin, east of Quepos and Manuel Antonio National Park. The local lodge required upgrades to increase capacity and improve operation sustainability. The Small Grants Program provided \$2,500 to construct a small tourist receiving area and restrooms. Once business increases, the loan can be repaid.

*Microfinance* is another significant financing mechanism focused on poverty alleviation and sustainable development. It provides financial services (loans, savings accounts, transfers) to the poor. Specifically it provides credit to budding entrepreneurs with little or no collateral in amounts considered far too small (typically between \$100 and \$1,000) to interest commercial lenders (Figure 1.6). Microenterprises include small retail shops, artisanal manufacturing, and street vendors. One example of a micro-lending program is Kiva.org, a non-profit organization ([www.kiva.org](http://www.kiva.org)) that supports microfinance by connecting individuals capable of providing no cost funding to microfinance institutions around the world that then make loans and manage repayments.

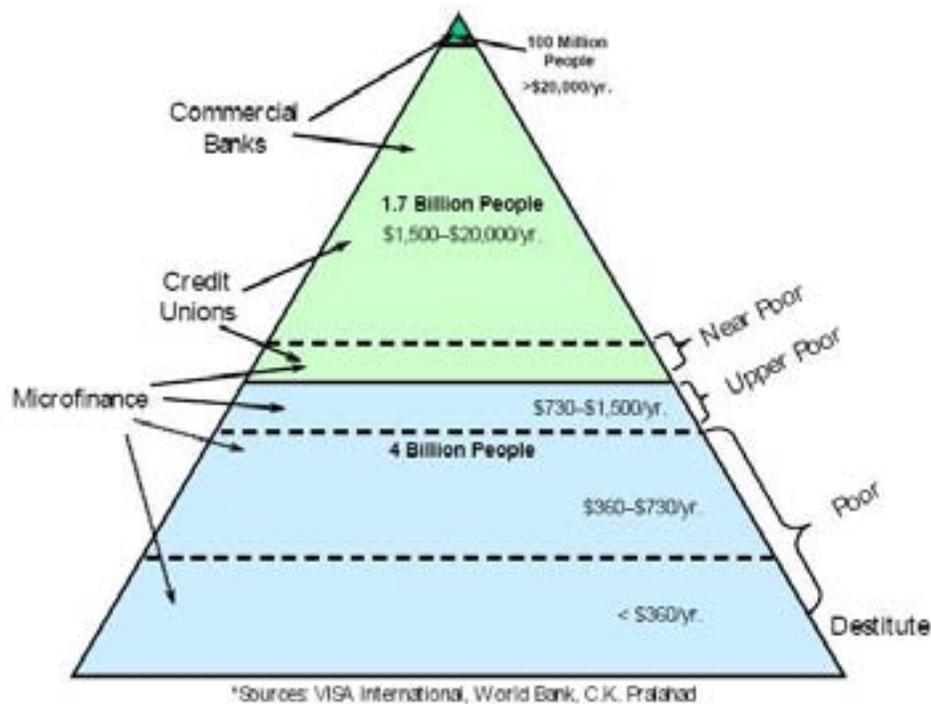


Figure 1.6. Microfinance Can Reach the Lower Income Levels (Prahalad, 2009)

### RESOURCE 1.3

## GENDER & TOURISM — WOMEN'S EMPLOYMENT AND PARTICIPATION IN TOURISM — SUMMARY OF UNED-UK'S PROJECT REPORT

The report explores issues related to women's employment in the tourism industry and women's local participation in tourism planning and management. Discussions include gender stereotyping, micro-credit, etc., as well as brief spotlights on individual countries.

[www.gwu.edu/~iits/Sustainable\\_Tourism\\_Online\\_Learning/Faulkner/Women,Gender&Tourism.doc](http://www.gwu.edu/~iits/Sustainable_Tourism_Online_Learning/Faulkner/Women,Gender&Tourism.doc)

## DIASPORA INVESTMENT

Diasporas are transnational communities maintaining connections with their countries of origin. Remittances from migrants and their descendants can be the largest source of financial inflows

to many developing countries (Figure 1.7). Diaspora investors can contribute to sustainable development by transferring resources, knowledge, and capital back home.

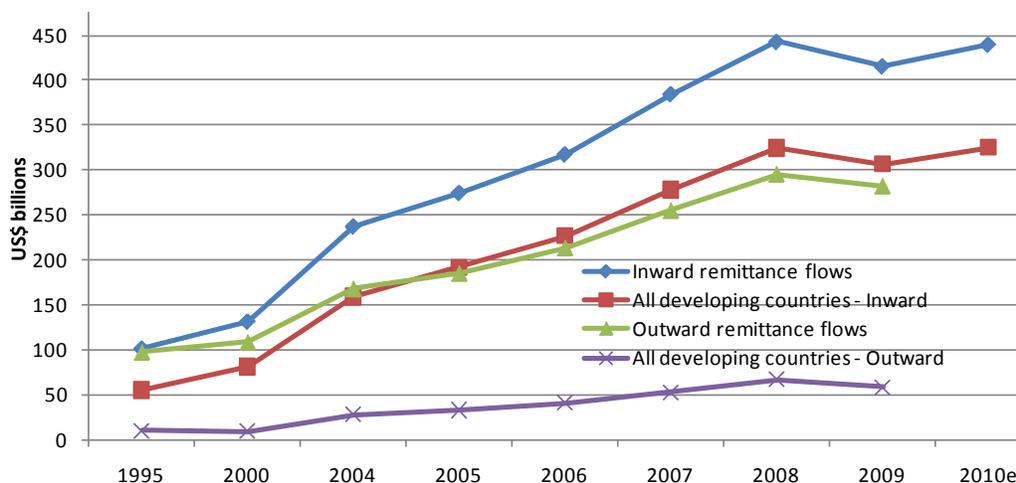


Figure 1.7. Remittance Flows (Ratha, Mohapatra & Silwal, 2011)

## RESOURCE 1.4

### DIASPORA INVESTMENT — USAID AND MIGRATION POLICY INSTITUTE DIASPORA INVESTMENT IN DEVELOPING AND EMERGING COUNTRY CAPITAL MARKETS

This report goes beyond the traditional impact of remittances and diaspora investment on financial market development and discusses additional vehicles to mobilize diaspora wealth via capital markets:

- 1) Deposit accounts denominated in local and foreign currencies
- 2) Securitization of remittance flows allowing banks to leverage remittance receipts
- 3) Transnational loans allowing diaspora to purchase real estate and housing in countries of origin
- 4) Diaspora bonds allowing governments to borrow long-term funds
- 5) Diaspora mutual funds mobilizing pools of individual investors for collective investments in corporate or sovereign debt and equity

[www.gwu.edu/~iits/Sustainable Tourism Online Learning/Faulkner/diasporas-markets.pdf](http://www.gwu.edu/~iits/Sustainable_Tourism_Online_Learning/Faulkner/diasporas-markets.pdf)

## SUMMARY

International tourism and investment trends point to rapidly expanding opportunities for poor communities and countries to pursue tourism for sustainable economic growth. In summary, sustainable tourism can impact:

### **Foreign Direct Investment**

Tourism investments make up a significant share of global investment, averaging 9.4% of global investment in 2010 and reaching as high as 50% in some regions (e.g., the Caribbean).

### **Employment**

Tourism is a labor-intensive industry. In addition to tourism-related services, the industry requires a variety of activities and inputs, including food production, construction, transportation infrastructure, water and waste management, and energy production. Providing more than 230 million direct and indirect jobs, travel and tourism represents 8% of the global workforce. By providing employment to less privileged groups, such as women and youth, tourism also promotes economic equality and broad-based economic development.

### **Rural Economic Development**

Sustainable tourism creates stronger linkages within local economies. Purchasing goods and services from local businesses and recruiting and training local staff creates employment, enhances income, and provides employment alternatives that can counter migration of people from rural to urban centers in search of work. Infrastructure improvements also support other types of rural economic activities (e.g., agriculture and transport of agricultural products) and results in an overall higher standard of living for rural communities.

### **Poverty Reduction**

The generation of disposable income as a result of investors and developers employing the local community in the provision of transport, services, and food has a significant impact alleviating poverty. In Costa Rica, poverty would be meaningfully higher without tourism income (Table 1.2).

Table 1.2. Impact of Tourism on Poverty Rates in Costa Rica, 2008 (UNEP, 2011)

| Poverty Rates | With Tourism Income | Without Tourism Income |
|---------------|---------------------|------------------------|
| National      | 17.7%               | 19.1%                  |
| Urban         | 16.9%               | 18.4%                  |
| Rural         | 18.7%               | 20.0%                  |

### Environmental Benefits

Tourism-related investment in environmental protection, renewable energy, water and waste management will have long-term positive effects on countries and communities. Strengthening protected areas to maintain ecosystems and biodiversity conservation allows destinations to manage, maintain, and generate sustainable economic benefits from natural resources.

### Cultural Heritage

Tourists are increasingly seeking destinations with strong cultural heritage and authenticity. Tourism gives cultural heritage an economic value and helps protect these assets.

Understanding trends in global tourism and sustainable tourism investment is a first step to evaluate an investment opportunity. There are a variety of investment strategies, resources, and networks to finance projects that seek financial, social, and environmental returns.

#### RESOURCE 1.5

### PLACING ECONOMIC VALUE OF BIODIVERSITY: "MAINSTREAMING THE ECONOMICS OF NATURE"

- Twenty-three *biodiversity hotspots* have seen growth in tourist visits of 100%+ in the last decade.
- Whale watching alone generated US\$2.1 billion in 2008, with over 13 million participants in 119 countries.
- Revenues from dive tourism in the Caribbean (which account for almost 20% of total tourism receipts) are predicted to fall up to US\$300 million per year because of coral reef loss.
- In the United States in 2006, private spending on wildlife-related recreational activities (e.g., hunting, fishing, and observing wildlife) generated \$122 billion, just under 1% of GDP.

[www.teebweb.org/LinkClick.aspx?fileticket=bYhDohL\\_TuM%3d&tabid=1278&mid=2357](http://www.teebweb.org/LinkClick.aspx?fileticket=bYhDohL_TuM%3d&tabid=1278&mid=2357)

# Unit 2: Evaluate Investment Environment

At the end of this unit, participants will be able to:

- Evaluate the investment environment of a country
- Identify barriers to investment
- Understand enabling conditions for investment
- Identify strategies and tools for attempting to overcome common barriers

## BARRIERS TO INVESTMENT

A country's investment environment is influenced by many factors, including overall political stability; the degree to which rule of law is respected and enforced; the laws and regulations that impact access to capital and credit; the degree to which government agencies seek to facilitate or inhibit private investment; the quality and maintenance of transport and other tourism-related infrastructure; the level of and attitudes toward corruption; and tax and immigration policies, as they relate to both foreign and domestic investors and tourism-related businesses.

The investment environment is primarily a function of government policy. While business practices can also impact the attractiveness of a potential investment destination, those practices are permitted or prohibited by government policy.

Policies that directly and indirectly impact tourism planning, financing, regulation, and promotion define the viability of a proposed investment project. Some of the most common investment-climate-related barriers include:

**Insufficient information available to analyze opportunities** — Investors often lack reliable, comparable, and timely tourism data and other information necessary to adequately forecast and plan for development. The inability to gauge potential demand increases project risk. Key information includes:

- Reliable visitor data, by month, year, point of entry, destination, country of origin, average length of stay, average daily expenditure, purpose of travel, etc.
- Industry performance data, including hotel occupancy and average daily rates, by region and accommodations category, number of visitors to specific regions and visitor attractions, utilization rates, environment carrying capacity, etc.
- Reliable or comparable data on tourism investment flows

**Political stability** — More commonly referred to in the investment community as *political risk*, this is typically defined as the amalgamation of all non-market factors that can negatively impact an investment. They include civil insurrection or terrorism (both very effective at driving away visitors), regime change, and respect for rule of law (the degree to which new governments respect agreements, rules, and regulations established by previous governments).

## RESOURCE 2.1

### POLITICAL RISK INSURANCE

Two organizations, the Multilateral Investment Guarantee Agency (MIGA), a member of the World Bank Group, and the Overseas Private Investment Corporation (OPIC), an agency of the US Government, provide, for a fee, insurance against political or non-market risks for a wide variety of investment types in countries around the globe. Risks that are typically insurable include

- Currency inconvertibility
- Expropriation
- Political violence
- Terrorism

There are also additional types of coverage available for other types of investment.

More information on MIGA programs can be found here: [www.miga.org](http://www.miga.org)

More information on OPIC programs can be found here: [www.opic.gov/insurance](http://www.opic.gov/insurance)

**Government support (or lack thereof) for tourism and tourism-related investment is also critical** — National, regional, and local governments, in both the industrialized and developing world, are locked in fierce competition for investment flows. The most commonly used tools to attract investment include tax incentives, subsidies, streamlining of the investment approval process, and facilitating access to credit (loan guarantees and the like).

Many governments, particularly in developing countries, do not have enough resources or simply choose not to compete and sometimes, wittingly or unwittingly, erect barriers to investment, including currency controls, limited access to financing, burdensome investment approval processes, and simple bureaucratic inefficiency.

It is important to understand how the country or region being evaluated stacks up in these terms, very early in the investment opportunity identification process, and to assess whether or not potential obstacles identified can effectively be overcome.

Another area in which governments compete that is more specifically related to tourism is in destination promotion. The image of the country as an attractive and safe vacation destination is critical to the success of tourism development and investment promotion efforts. Billions of dollars are spent each year on destination promotion and image building. If the country is unwilling or unable to invest in promotion, or suffers from a poor image, this needs to be factored in the decision making process.

## RESOURCE 2.2

### INTERNATIONAL FINANCE CORPORATION (IFC), DOING BUSINESS REPORTS

Viewed by many as the most authoritative global guide to international business, the IFC's annual Doing Business Report ranks 183 countries on a range of measures related to the ease of doing business, including

- Starting a business
- Dealing with construction permits
- Registering property
- Getting credit
- Protecting investors
- Paying taxes
- Trading across borders
- Enforcing contracts
- Closing a business

The report also tracks efforts by countries to improve their business environments, and thus proves a powerful incentive for countries to adopt more pro-business policies.

[www.doingbusiness.org/~media/FPDKM/Doing%20Business/Documents/Annual-Reports/English/DB11-FullReport.pdf](http://www.doingbusiness.org/~media/FPDKM/Doing%20Business/Documents/Annual-Reports/English/DB11-FullReport.pdf)

**Legal and Regulatory Transparency** — The investor needs a complete and easily understood picture of rules, regulations, and requirements governing investment. In some countries, the investment code is simply a guideline and the investor must research and examine other legislation, including the tax code, labor laws, property laws, and rulings and judgments from relevant authorities. Because all rules might not be in one place, the cost of gathering information and the risk of violating obscure laws are considerably increased. Specific regulations of concern include:

- **Zoning laws:** Laws that control the location of businesses and type of and limits to development in an area (height, density, type of business, construction, environmental impact, etc.)

- **Licenses and approvals:** Restrictions may apply to one category of tourism business but not another, i.e., tour operators vs. travel agents. Licenses and approvals to create and operate a business can present the investor with confusing application procedures and lengthy waiting periods.
- **Access to land and foreign ownership restrictions:** Many countries control foreign ownership and investment by specifying a minimum level of local ownership. Land is of particular concern, as many countries restrict foreign ownership or leasing of land. These regulations often have a significant impact on the types and terms of financing available for project development.
- **Import restrictions:** In addition to subjecting the investor to excessive delays or denials to import required equipment and supplies, other restrictions include mandatory waiting period for import permits, licensing for commodity imports, additional foreign exchange requirements to pay for imports, outright bans on certain products, quotas that limit quantities, prior approval of the Ministry of Finance or Central Bank for an advance payment for imports, delays obtaining duty-free status, etc.
- **Taxes and custom duties:** Such costs impact profit margins and international price competitiveness, since businesses often pass on those costs to the consumer.
- **Foreign exchange controls and remittances:** Access to foreign exchange at market rates is especially important for tourism-related businesses, where many (often most) transactions involve foreign exchange. Obstacles to accessing foreign exchange or remitting profits can forestall investment. Outright blocks, delays, and limits on repatriation of profits, as well as other restrictions, such as requiring central bank approval for repatriation of funds or to set up an offshore escrow account negatively affect a country's ability to attract investment.
- **Air access:** Adequate aviation infrastructure is essential for airlines and tourists to access destinations at a reasonable price. Lack of direct air routes and a limited number of flights, difficult flight connections, and high airfares all limit tourist flows. While this barrier often transcends government policy (e.g., a lack of demand may drive up costs), sometimes governments actively restrict air access to protect a national airline or for other reasons. The preferred approach of the United States and many partner nations is an Open Skies policy which eliminates obstacles to free and fair airline competition.
- **Tourism-related infrastructure:** Inadequate infrastructure — water supply, transportation, waste and sewage treatment, electricity, and communications — can be a major impediment to tourism investment. Infrastructure requirements are compounded since tourists tend to create more waste and use more water and energy than average residents in a destination. Unreliable infrastructure also increases costs and negatively impacts the visitor experience.
- **Environmental degradation:** Environmental sustainability is a growing concern for competitive tourism destinations; in particular, issues such as coastal zone management, water pollution, and waste management. Environmental regulations that are clearly defined and enforced reduce uncertainty and risk and increase long-

term project viability. Environmental concerns are especially important for tourism-related investments, as most investments take advantage of natural resources.

- **Access to capital and credit:** As a capital-intensive industry, tourism projects often require substantial investments in land, construction, equipment, furnishings, marketing, transportation, and working capital. In developing countries, underdeveloped capital markets, political risk, and government restrictions limit access.

Commercial banks, venture capital firms, and institutional and individual investors often lack the expertise to work with small- and medium-sized tourism enterprises. Typical reasons for limited capital availability include

- Tourism development projects being viewed as high risk due to poor past performance, lack of experience and knowledge of the tourism sector.
  - An extended payback period due to high upfront development costs and developer unwillingness to make long-term commitments in light of excessive uncertainty.
  - Lack of capital markets, stock exchanges, and other vehicles that provide liquidity and exit strategies.
- **Materials and supplies:** In many destinations tourism development requires the importation of construction and other materials and specialized equipment. Imports add significant costs to a business, particularly when the government imposes import duties.
  - **Cross-sector linkages:** Weak cross-sector linkages may exist between tourism and agricultural production or manufacturing, which hurt investor ability to develop a competitive product. Difficulties in meeting standards stem from inadequate market and technical knowledge, a shortage of business skills, and absence of economies of scale.
  - **Labor challenges:** Tourism is a service-oriented, labor-intensive industry requiring semi-skilled and skilled workers and well trained managers. Common labor constraints include
    - Lack of basic skills training to deliver the service quality required by international tourism companies and visitors
    - Visa and permitting requirements for employing skilled foreign employees
    - Lack of trained managers
    - High turnover rates
    - Labor laws that restrict businesses hiring practices

## BOX 2.1

### “BEHIND-THE-BORDER” BARRIERS TO INVESTMENT

Many investment barriers have a greater impact on domestic investors than foreign. In Asia, the Asian Partnership for Cooperation (APEC) recently completed a study of these “behind-the-border” barriers cover a raft of domestic policies, rules, procedures, and laws (or lack thereof) that unnecessarily impede investment in domestic businesses.

The barriers come in many forms from excessive regulation, unclear property rights, and poor legal systems to a lack of appropriate laws that foster competition. All these barriers have a deleterious effect on investment and impede growth through one of three channels.

- They can unnecessarily increase costs, making businesses less profitable and therefore less attractive for investment. Examples would be excessive regulation, complex licensing procedures, and poor infrastructure such as inadequate roads that increase transport costs.
- Barriers can increase risk that chills the incentive to invest. Examples would be unclear property rights, poor contract enforcement, and the uncertainty of government policy and its enforcement.
- Barriers can limit business competition that, while perhaps helping a favored few firms obtain monopoly status, increases costs for other firms, impeding their competitiveness and stifling innovation.

[www.apec.org/Groups/Committee-on-Trade-and-Investment/~media/Files/Groups/IEG/07\\_cti\\_ieg\\_BTBTB\\_Study.ashx](http://www.apec.org/Groups/Committee-on-Trade-and-Investment/~media/Files/Groups/IEG/07_cti_ieg_BTBTB_Study.ashx)

## INVESTMENT COMPETITIVENESS

As discussed, The World Economic Forum’s (WEF) Travel & Tourism Competitiveness Report (2011) specifically highlights investment as a key indicator of competitiveness in travel and tourism. It ranks 139 countries based on an assessment of three tourism-specific measures and 14 sub-measures (Figure 2.1).



Figure 2.1. Travel & Tourism Competitiveness Index (World Economic Forum, 2011)

Much as with the IFC Doing Business Reports, several countries use this annual ranking to implement reforms and improve their competitive position. While all these variables have an impact on the investment environment, most present long-term challenges that can often only be addressed through major investments in infrastructure, training, and programs to promote tourism awareness.

Many developing countries simply do not possess the resources to make these kinds of investments, so short- and medium-term efforts should focus primarily on the first column, improving the regulatory framework. One of the most important — and one that many developing countries fail to do — is to make tourism development a national priority.

## OVERCOMING COMMON BARRIERS

Overcoming investment barriers is a complex, long-term task, typically beyond the reach of individual investors. The most reasonable approach investors and project promoters can take to overcome investment barriers involves

- Understanding which major barriers their project will likely face.
- Identifying tools to mitigate those barriers, e.g., political risk insurance.

- A realistic assessment of whether or not a project has a reasonable chance of being implemented with the time and resources available.
- The odds of being able, through negotiation, to overcome specific barriers, e.g., the terms of a concessions agreement or ownership requirements. This process begins with a discussion with government officials related to the specific barrier and with other investors who have attempted to overcome similar barriers.

For development practitioners that seek to engage governments regarding investment climate and competitiveness, a number of tools and templates are available.

For sustainable tourism investment, UNEP's chapter on tourism in the latest Green Economy Report outlines typical barriers to developing sustainable tourism and recommendations for improving the policy environment. Annex 2 outlines the drivers and likely implications of sustainable investment.

Seven strategic areas — energy, climate change, water, waste, biodiversity, cultural heritage, as well as linkages with the local economy — correspond to specific sustainability drivers. Recommendations include the following.

**Private Sector Orientation:** Engaging the tourism industry through private sector organizations is a key step to develop sustainable and productive small and medium tourism enterprises. Governments can improve enabling conditions with industry by accomplishing some of the following tasks:

- Tourism promotion organizations, resource management agencies, and destination management organizations should link tourism products more closely with marketing and communications strategies.
- Encourage corporate social responsibility that uses triple bottom line reporting, environmental management systems, and certification within both larger firms and smaller firms. It is essential to educate and engage SMEs and provide concrete measuring and evaluation performance metrics. .
- Engage international development institutions such as multilateral and bilateral cooperation agencies and development finance institutions to inform, educate, and work together within the tourism industry to integrate sustainability into policies and management practices.
- Promote internationally recognized standards for sustainable tourism to monitor tourism operations and management such as Global Sustainable Tourism Criteria (Resource 2.3).
- Achieve economies of scale through clustering. Clustering strengthens backward and forward linkages in tourism value chains and drives sustainability in the entire industry. By involving tourism enterprises in clusters economies of scales, technological and organizational know how, and higher market share can be achieved.

## RESOURCE 2.3

### GLOBAL SUSTAINABLE TOURISM CRITERIA

Launched at the World Conservation Congress in October 2008, The Global Sustainable Tourism Criteria is a set of 37 voluntary standards that any tourism business should implement to sustain the world's natural and cultural resources while ensuring tourism meets its potential for poverty alleviation.

[www.sustainabletourismcriteria.org/index.php?option=com\\_content&task=view&id=58&Itemid=188](http://www.sustainabletourismcriteria.org/index.php?option=com_content&task=view&id=58&Itemid=188)

**Destination Planning and Development:** It is critical to include goals for environmental sustainability in a destination's development strategy. Refer to Unit 9 regarding destination management, for more information about carrying capacity and sustainable tourism promotion.

**Fiscal and Government Investment Policies:** Creating a sustainable tourism industry requires policies that

- Encourage investment sustainability and promote sustainable use of natural resources.
- Define and commit critical government green economy investments in protected areas, cultural assets, water and waste infrastructure.
- Use tax policy to encourage investment in sustainable tourism activities.
- Provide clear price signals to orient investment in water, electricity, and waste management services.

**Finance and Investment:** Poor understanding of the benefits of sustainable investing is a major obstacle in many countries. Approaches to overcoming this challenge include

- Private sector awareness programs and policy coordination to improve understanding of sustainable investing
- Promoting external funding, including FDI, private equity and portfolio investment aligned with sustainable financing strategies to supplement local and regional funds for local tourism development
- Adoption of rules, regulations, standards, and certifications that promote sustainable investment, and discourage investments that harm the environment, through
  - Voluntary standards
  - Zoning laws and environmental impact analysis
  - Tax incentives that support sustainable investment
  - Fees and levies that more fully reflect the true cost of unsustainable investments

- Partnerships to distribute costs and risks of funding sustainable tourism investments for small and medium enterprises such as technical, marketing, or business administrative assistance and support

## OTHER TOOLS

In addition to IFC Doing Business Reports, the following indicators, benchmarks, and tools can assist in evaluating and comparing the investment environment in a given country against other investment destinations.

### **IFC Tourism Sector Diagnostic Tool**

This tool supports responsible tourism development and builds on other tools. It generates information allowing countries to identify impediments to tourism investment and take actions to remove them. The tool also accomplishes the following:

- Increases investment attractiveness
- Improves sustainable development preparedness
- Strengthens relationships
- Improves knowledge management
- Builds on existing tools

The tool diagnoses three critical interdependent drivers (see Annex B for driver details):

- Destination image
- Market demand
- Investment climate

Key outputs after the tool is implemented and results analyzed include

- State of play assessment
  - Factors impeding sustainable tourism development
  - Interventions to be considered by IFC or others
- Proposed IFC Intervention Report
- Substantial case for IFC future tourism programs
- Mapping and ranking of countries to assist with M&E and prioritization of resources

For more information, see

[www.gwu.edu/~iits/Sustainable\\_Tourism\\_Online\\_Learning/Faulkner/Tourism\\_Sector\\_Dignostic\\_Tool.pdf](http://www.gwu.edu/~iits/Sustainable_Tourism_Online_Learning/Faulkner/Tourism_Sector_Dignostic_Tool.pdf).

## **Transparency International's Corruption Perceptions Index**

The index ranks countries by their perceived levels of corruption, as determined by expert assessments and opinion surveys. With governments committing huge sums to tackle the world's most pressing problems from the instability of financial markets to climate change and poverty, corruption remains a major obstacle to progress. To access the entire CPI report, see [www.qwu.edu/~iits/Sustainable Tourism Online Learning/Faulkner/CPI report.pdf](http://www.qwu.edu/~iits/Sustainable_Tourism_Online_Learning/Faulkner/CPI_report.pdf).

## **Index of Economic Freedom**

*The Wall Street Journal* and The Heritage Foundation (2011) developed this index. Economic freedom is essential for productivity, efficient movement of labor, capital, and goods and protects citizens from corruption and coercion. Economic freedom is measured through ten components:

- Business freedom
- Trade freedom
- Fiscal freedom
- Government spending
- Monetary freedom
- Investment freedom
- Financial freedom
- Property rights
- Freedom from corruption
- Labor freedom

Highlights from the 2011 Index are available at [www.qwu.edu/~iits/Sustainable Tourism Online Learning/Faulkner/Index2011 ExecutiveHighlights.pdf](http://www.qwu.edu/~iits/Sustainable_Tourism_Online_Learning/Faulkner/Index2011_ExecutiveHighlights.pdf).

## SUMMARY

Overcoming policy-related barriers and making the investment climate more competitive is a complex, challenging, and often long-term task. Incremental, short-term progress can, however, be made, either by addressing a specific barrier that affects investment in general or barriers that impact a specific project.

The first step (discussed in more detail in the next unit) is to identify barriers and their potential impact through benchmarking, interviews with other investors, and investment intermediaries, e.g., investment promotion agencies, financial institutions, and investment consultants and promoters. Once barriers have been identified, a market assessment can qualify risks that those barriers pose and how that risk might be mitigated.

Deciding not to proceed with an investment is also a part of the process of climate reform. Government officials, investment promotion agencies, and others should be made aware of the reasons behind the decision not to invest so that they can attempt to address those barriers and make the country a more attractive destination for investment in the future.

# Unit 3: Project Identification

At the end of this unit, participants will be able to:

- Identify key stakeholders and decision makers
- Assess site and community needs
- Assess environmental impact
- Assess infrastructure and access

Project identification approaches vary widely, depending upon objectives, size and type of project, types of communities, overall business and financing environment, and other factors. But most important is to determine the market for the proposed project.

Developers should assess various factors to determine the appropriateness of a market for the proposed investment. The most important include the following.

## Access to Markets

In analyzing access constraints there are three primary variables that need to be assessed:

- **Travel time, associated travel cost, and level of difficulty**, including discomfort, inconvenience, and visitor safety, in reaching the destination
- **Market profiles**, most importantly interests, preferences, price sensitivity, and time constraints of targeted market segments
- **The quality and uniqueness of the attraction and experience** offered.

These three variables must be analyzed in combination. There are several ways to illustrate the interplay between them. One is the *value for money*. That is, will the potential client feel that the attraction or activity is worth the cost incurred to do it? Answering that question requires a careful evaluation of

- **Total costs** including the cost of transport, accommodations (if an overnight stay is required), guide services, food and beverage, etc.
- **Disposable income of the client** that influences how much that client has available to spend on the activity.
- **Profile of the client**, most simply, the perceived level of interest in the activity or experience, and the amount of time the client has available to participate in it.

# PRACTICE EXERCISES TO DETERMINE MARKET SUPPORT FOR A TOURISM PROPOSAL

## Case Study

Three communities located on a Caribbean island would like to develop tourism. The target market for all three are cruise ships that call daily on a nearby port during the winter season (December 15 to April 15) and weekly deliver more than 10,000 passengers. In the off season, that total drops to 3,000 per week.

The ships carry more than 1,500 passengers each. Most ships are on seven-day cruises, which sell for \$1,200 per person, including airfare to and from the home port, accommodations, and onboard meals. They are in port for approximately seven hours from 8:00 am to 3:00 pm. The average passenger age is 64. Their average annual household income is \$60,000.

**Community One:** The community, 50 km from port, boasts only a short distance away a beautiful river, waterfall, and a natural pool. The trail to the waterfall is moderately difficult climb in sections but the walk only takes 15 minutes from the village.

The road from the port to the village is paved most of the way, but the last 12 km are unpaved, fairly rough, not well maintained, and during the rainy season (June through October) sometimes impassible without a four-wheel-drive vehicle. Total travel time from the port to the village is approximately 90 minutes in the dry season.

**Community Two:** This community does not have any spectacular natural attractions nearby, but it is one of the last relatively intact examples of the island's culture, exemplified through its music, dance, food, and dress.

It is also 50 km from port, but the road is paved and well maintained to within a half kilometer of the village. The community maintains the unpaved portion and is easily passable year-round. Total travel time from the port is approximately 45 minutes.

**Community Three:** This village maintains a weaving tradition (mats, baskets, wall hangings, etc.) and other handicrafts. Village women have practiced their techniques for generations and developed their own style. The people are relatively poor by national standards. The village is somewhat run down, and not very picturesque. The very few visitors can spy open garbage pits along the main road. Most residents are farmers.

Community Three is located less than 20 km from port; the road is mostly paved and in fairly good condition. Total travel time is 25 minutes.

## Assignment

Evaluate the potential market support for each proposal. Factors to be considered include

- The demographic profile (age, level of disposable income, education level, occupation, time available for excursions, etc.) and psychographic profile (hobbies, interests, passions, etc.) of targeted visitors
- Travel time to each destination
- Difficulty of travel (in vehicle and on foot) and the client disposition to make the trip
- Quality of the attraction and experience relative to the interests of the targeted market

The evaluation should include

- **A brief profile of the target market.** Use imagination, knowledge, and perceptions of this market to define, beyond provided information, its demographic and psychographic characteristics, including occupations, interests, level of education, etc.
- **A description of the potential product and experience.** Based on the profile above and the information in the brief, include a rough estimate of costs and potential income for the community.
- **A numeric rating of the potential market support** for each of these proposed attractions. Use a rating from 1 to 5, with 1 being very little potential market support and 5 being very high support.
- **Ideas and recommendations for how the product offer could be improved.** This should include how it might generate higher income for the community with additional investment.
- **What other kinds of information are needed.** Before drawing final conclusions, indicate other information necessary to determine market support.

An example of the type of initial market assessment that might result from this exercise is found at

[www.gwu.edu/~iits/Sustainable Tourism Online Learning/SIFT/BalePreliminaryInformationMemorandumApril20\\_lowres.pdf](http://www.gwu.edu/~iits/Sustainable_Tourism_Online_Learning/SIFT/BalePreliminaryInformationMemorandumApril20_lowres.pdf).

### Assessment of Tourism Development Potential of Three Caribbean Communities

#### *Community One*

While this community appears to have significant tourism development potential, based upon the quality of natural attractions, likely has the least near-term potential of the three for the identified target market, due to

- **Total travel time:** The excursion would require a total of 3.5 hours of travel time, 90 minutes each way from port to community, plus 15 minutes walking, each way, to the waterfalls. The ship is only in port for seven hours and for ships of this size it would likely

take 30–45 minutes to disembark and re-board passengers, leaving very little time to complete the excursion and allow passengers any time to participate in other activities.

- **Level of difficulty:** The road over the last 12 km is rough and the hike to the waterfalls is relatively strenuous. At 64 years of age, very few passengers would be willing to participate and the cruise director (responsible for selecting and marketing excursions) would likely not recommend this one, based on the level of difficulty, travel time, and potential liability.
- **Seasonality:** While peak season is during dry season, there are also significant numbers of passengers in the rainy season. The road condition (sometimes impassable during rainy season) would prevent tour operators from offering the excursion year round, making the tour more costly to market.

Additional investments include paving the last 12 km of road to the village to reduce travel to less than two hours, round trip. At an average cost in the Caribbean of \$100,000 per kilometer, this would require an investment of \$1.2 million. The village might also improve the waterfall trail to make the journey shorter, safer, and less strenuous.

The village might study other potential markets, including overnight visitors in hotels, backpackers, and the domestic market.

#### *Community Two*

This community likely has better market development potential than Community One, but the potential is still limited by

- **Travel time:** With a 90-minute round trip, this excursion can be much more easily marketed, but would still use a considerable amount of visitors' time and limit the time they would have to experience the community.
- **Product:** Based on the presented demographic profile and passenger surveys of similarly priced cruise ship packages there may not be a great deal of interest in local culture. This is a relatively inexpensive travel package and the average household income is relatively low, potentially suggesting lower levels of education and interest in foreign cultures, and less willingness to spend money on excursions. The majority of passengers are likely to be interested primarily in shopping and walking around the town where the port is based.

The cruise ship director could research potential passenger interest in culture, including a survey of cruise ship passengers, test marketing, e.g., offering the excursion free to passengers for a week or two and interview them after the trip.

The village could explore bringing performers, artisans, cooks, etc. to the port to provide culture, which would allow visitors more time to experience the culture and more money to spend on goods and services provided by community members.

### *Community Three*

While this community may appear to have the least interesting product, it likely has the most near-term development potential, based upon

- **Travel time:** This is a short trip that most passengers can easily complete and the cost is likely fairly low. The most expensive component of cruise ship excursions is often transportation.
- **Product:** As outlined in the discussion of Community Two, the preliminary demographic profile of this target market suggests that their primary interest is likely shopping, based upon surveys and spending patterns of cruise ship passengers on similar types of cruise packages.

At a minimum, Community Three needs funding and technical assistance for village beautification and solid waste disposal.

The community could also explore setting up a colorful stall near or within the port to sell its handicrafts instead of bringing tourists to the village.

### **Assignment**

Evaluate the potential market support for each proposal. Factors to be considered include

- The demographic profile (age, level of disposable income, education level, occupation, time available for excursions, etc.) and psychographic profile (hobbies, interests, passions, etc.) of targeted visitors
- Travel time to each destination
- Difficulty of travel (in vehicle and on foot) and the client disposition to make the trip.
- Quality of the attraction and experience relative to the interests of the targeted market

The evaluation should include

- **A brief profile of the target market.** Use imagination, knowledge, and perceptions of this market to define, beyond provided information, its demographic and psychographic characteristics, including occupations, interests, level of education, etc.
- **A description of the potential product and experience.** Based on the profile above and the information in the brief, include a rough estimate of costs and potential income for the community.
- **A numeric rating of the potential market support** for each of these proposed attractions. Use a rating from 1 to 5, with 1 being very little potential market support and 5 being very high support.
- **Ideas and recommendations for how the product offer could be improved.** This should include how it might generate higher income for the community with additional investment.
- **What other kinds of information are needed.** Before drawing final conclusions, indicate other information necessary to determine market support.

An example of the type of initial market assessment that might result from this exercise is included at the end of this unit.

A second way to assess market access is *value for effort*. For many travelers (typically those with high levels of disposable income) cost is secondary and often relatively unimportant in choosing travel destinations and experiences.

The question to be answered is relatively simple: is the effort (measured primarily in terms of time and discomfort) required to reach a destination worth that effort in terms of the quality and uniqueness of the experience?

Answering that question will require evaluation of

**Effort:** Travel time, including distance from popular circuits or tourist routes (i.e., how easily the destination or attraction can be integrated into existing circuits), modes of transport (air, train, boat, road), discomfort likely to be experienced with each mode, and relative costs.

**Quality, uniqueness, or adventure:** The expression “life is a journey, not a destination” applies equally well to international travel. Sometimes the most interesting and rewarding part of a travel experience is arriving at the destination. For example, for many visitors to Machu Picchu, the train ride from Cusco or hiking the Inca Trail is the most memorable part of the trip.

**Quality of the destination and attraction:** Is the payoff worth the time, hassle, discomfort, and expense of the trip? The answer directly relates to the difficulty and quality of the travel experience, and the profile of the targeted market.

**Profile of the targeted market:** Why are targeted clients visiting country X? Is it for the culture, scenery, food, wine? Is it mountain climbing, trekking, wildlife viewing, sea kayaking, diving? Combinations of the above? How long are they there? How pre-packaged is the typical trip? And most importantly, will the experience be of interest to targeted markets?

The only way to answer these questions is through market research.

## CONDUCTING MARKET RESEARCH: TOOLS AND TECHNIQUES

There are two basic forms of market research used to assess market potential of a tourism-related investment project, primary and secondary research. Each has its own value. Secondary research is typically the most logical starting point.

## Secondary Research

**Data collection:** The quality and availability of tourism-related data varies significantly in the developing world. In some countries data is collected and reported in great depth, completed on a timely basis, and made available online. In others data may be years out of date, poorly assembled, unreliable, and difficult to access.

In most countries the following should be available and collected:

**Total number of overnight visitor arrivals** by source market (typically country of origin) over at least the past five years. The longer the data series the better as it provides a clearer picture of arrival trends and growth rates. In some countries there is also a significant day visitor or transit market, the largest category of which is often cruise ship passengers.

The day-visitor market is typically only of interest for projects located near ports and border crossings and that specifically target day visitors. It is important to make sure that overnight and transit visitors are segregated in the data.

**Total number of overnight visitor arrivals by point of entry** for the past five years or more. Unless the project is located near an international border crossing or cruise terminal, the most important aspect is to understand how many visitors arrive by air, to which airport, and from which countries. This data helps to define potential access constraints for a project and understand visitor flow dynamics.

If a million overnight visitors come each year, but 70% arrive through a border crossing on the opposite side of the country, the actual market for the project is likely a fairly small percentage of that market, i.e., it is very easy to overestimate market potential based on national arrivals. Point of entry can also provide important clues about purpose of travel, as discussed below.

For some projects it may also be important to analyze domestic travel, though this is often quite difficult since data tend to be much less reliable, as there are no international border crossings or international flight manifests available. Other types of secondary research, like analysis of national census data, national parks entrance logs, and hotel registration, and primary research will likely be required to estimate potential domestic demand.

**Total number of overnight visitors by purpose of travel** is often fairly unreliable, or in many cases not collected; but it is critical to understand market potential. Purpose of travel is typically estimated with 1) immigration cards, 2) visitor surveys, and 3) hotel data.

The four most common travel purposes are

- Vacation or leisure
- Business

- Visiting friends and relatives
- Meetings and conventions

These categories also often break down into sub-categories.

#### Vacation or Leisure

- Honeymoon
- Fishing
- Adventure
- Cruise (when the country is a home port for cruise ships)
- Pre-packaged holiday or made your own travel arrangements

#### Business

- Trade show or exhibition
- Etc.

The most reliable source of travel purpose is exit surveys conducted on a periodic basis by a country or region's tourism authority, often in an airport departure lounge. In the past, immigration card data was considered to be somewhat unreliable and tended to overstate the size of the leisure market, because many business travelers checked "vacation" to avoid visa fees and requirements. This is less common as visa requirements have been eased or eliminated for business and leisure travel from most major outbound travel markets (North America, Europe, SE Asia, etc.).

The purpose of segmenting data by country of origin and purpose of travel is to make sure that the size of the target market is not grossly overestimated. Relying on government press releases for size and rate of growth of inbound tourist arrivals is in most cases a mistake. The data needs to be examined in much more detail.

**Average length of stay and arrivals by month** is used to quantify the number of visitor days, define seasonal trends, and in general gain a better understanding of visitation patterns. If a destination receives millions of visitors per year, but 90% arrive primarily during the summer, a proposed investment that requires significant capital expenditures and has high fixed operating costs may not be viable for a destination with extreme seasonality.

**Visitor spending data** can also be very valuable in assessing potential market support for a proposed project, but typically only when collected with exit surveys. These surveys estimate per person or per group expenditures for lodging, food and beverage, excursions, souvenirs, etc. In general, national (aggregate) visitor spending (also reported as tourism income) divided by the number of visitors (to arrive at an estimate of average spending per visitor) is of relatively little use in assessing market potential.

Examples of the Bahamas Ministry of Tourism's high quality survey research (exit surveys) can be found at [www.tourismtoday.com/home/statistics/exit-study-reports](http://www.tourismtoday.com/home/statistics/exit-study-reports).

### **Access to Secondary Data**

This data can sometimes be difficult to find online. The national tourism authority in many cases needs to be contacted directly. It is often also valuable to visit a statistics department in person. Technicians may have data or research not online. In many developing countries no data is available online, only in hard copy.

Many tourism authorities, both national and international, also produce valuable reports. Several international and regional organizations that conduct and publish tourism-related research are listed below. An example of how this data can be used is included in the business plan located at [www.gwu.edu/~iits/Sustainable\\_Tourism\\_Online\\_Learning/SIFT/Ukuku\\_Lodge\\_Feasibility\\_Study.doc](http://www.gwu.edu/~iits/Sustainable_Tourism_Online_Learning/SIFT/Ukuku_Lodge_Feasibility_Study.doc).

### **Sources of Tourism Data and Research**

**National Tourism Authority:** Ministry of tourism, tourist board, etc.

**National Statistics Authorities:** Central bank, department of statistics, immigration department, etc.

**Regional Tourism Authorities:** Within a country

**National or Regional Hotel and Tourism Associations  
Chambers of Commerce**

**Regional Tourism Organizations:** European Travel Commission, Caribbean Tourism Organization, Pacific Asia Travel Association, etc.

**International Organizations:** UN World Tourism Organization

**International Travel and Tourism Associations:** World Travel & Tourism Council, International Air Transport Association

There are also companies that aggregate and analyze data, conduct tourism-related research, and prepare detailed reports. These reports can be quite expensive but are sometimes worth the price, depending on the project's needs. They include:

World/European Travel Monitor, [www.ipkinternational.com](http://www.ipkinternational.com)

Economist Intelligence Unit, [www.eiu.com/public](http://www.eiu.com/public)

Travel and Tourism Research Association, [www.ttra.com](http://www.ttra.com)

Internet search engines can also be valuable market research tools. Thousands of academic and industry-related tourism research reports and studies are published and posted online every year, mostly free of charge. Try a variety of search terms, starting from the very specific (ecolodge development in Costa Rica) and work toward the more general (tourism trends in Central America).

## RESOURCE 3.1

### MARKET STUDIES

A wide variety of organizations, including government agencies, industry trade associations, and research firms regularly publish and upload analyses of travel markets, both general and specialized.

One example is the birding market, or avitourism. A simple online search of “bird watching market” yielded links to the following reports, all available for free download:

Avitourism in South Africa, [www.economic.gov.za/publications/avitourism\\_booklet.PDF](http://www.economic.gov.za/publications/avitourism_booklet.PDF)

Birding in the United States, [http://library.fws.gov/pubs/birding\\_natsurvey06.pdf](http://library.fws.gov/pubs/birding_natsurvey06.pdf)

Guided Birding Tours an Examination of the Market, Important Tour Parameters, and Participant Demographics,

[www.fs.fed.us/ne/newtown\\_square/publications/technical\\_reports/pdfs/2004/317papers/che317.pdf](http://www.fs.fed.us/ne/newtown_square/publications/technical_reports/pdfs/2004/317papers/che317.pdf)

### Primary Research

Primary research requires more time, effort, and expense, but is essential for estimating market demand for an investment project; most importantly, lenders and investors will likely require it as a part of the due diligence process.

The simplest way to identify and prioritize primary research needs is by reviewing the tourism supply chain (Figure 3.1). While travelers can connect with destinations and attractions through a variety of channels, the dominant channel particularly for the world’s largest outbound travel market, Europe, and long haul travel from North America, is through inbound or ground operators, tour operators, and travel agents.

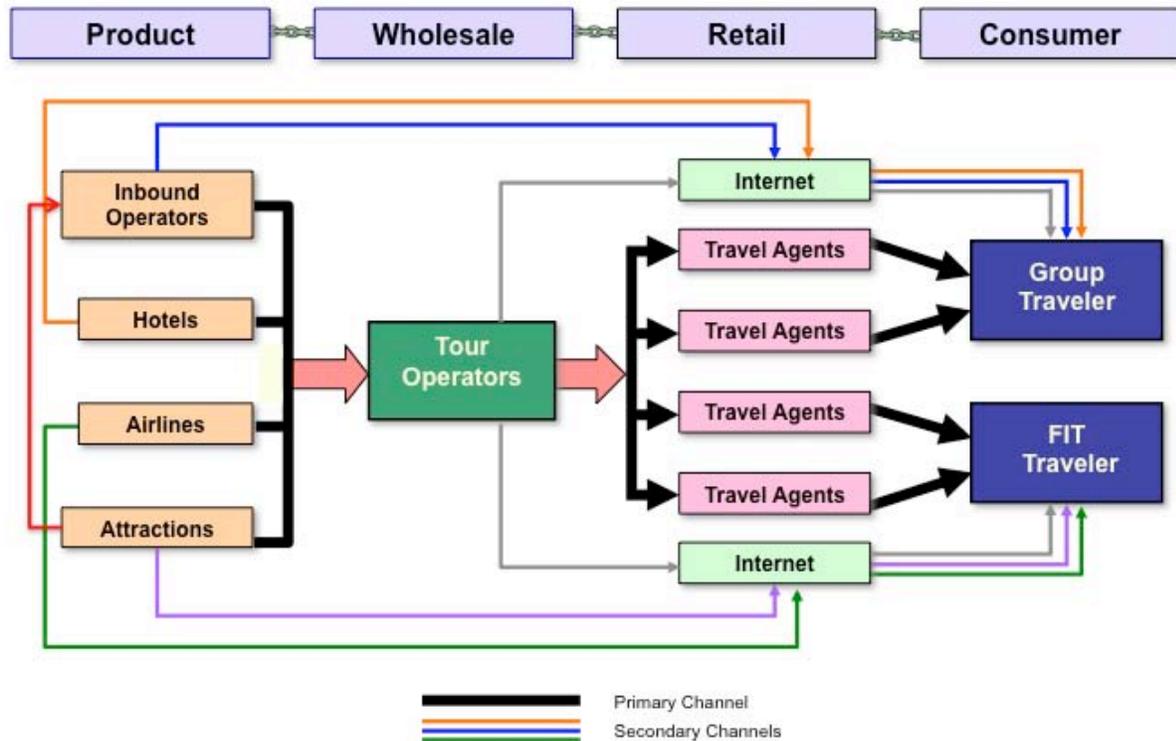


Figure 3.1. Tourism Supply Chain (Solimar International, 2004)

### Definitions

First, for those less familiar with the tourism travel trade, a few definitions:

**Outbound Tour Operators:** Tour organizers and resellers in source market countries (and the destination country, if the domestic market is being targeted), including tour wholesalers and retailers.

**Inbound Tour Operators:** Also referred to as ground operators or ground handlers, these companies organize in-country logistics and deliver tourism-related services to visitors on pre-arranged or customized itineraries, including airport pick-up, local ground transport, hotel bookings, guide services, restaurant reservations, etc. They typically work in partnership with outbound operators in source markets to arrange itineraries.

**Specialty Tour Operators:** As markets become more fragmented and specialized, more specialty tour operators appear. Examples include operators that organize trips for bird watching, natural history, archeology, mountain climbing, cultural tours, etc. If a project focuses on a specialized activity or interest, these operators will be most valuable sources of market-related information and a critical partner to promote the project once it becomes operational.

**Travel Agents:** Primarily retailers of à la carte travel-related services, most commonly airline tickets and hotel reservations, tickets to attractions, etc. In some developing countries the terms travel agent and tour operator are sometimes used interchangeably or the above definitions reversed.

There are major differences between major outbound markets. In Europe the leisure travel market is much more vertically integrated, with large, dominant, mass-market tour operators that arrange itineraries, produce online and printed catalogues of travel packages, and sell those packages both to travel agents and directly to consumers, through brick and mortar retail operations and via the internet. Many larger operators also own charter airline operations and hotels and resorts.

In the United States the industry is much more fragmented and travel agents are more commonly used for travel booking.

### **Travel Trade Interviews**

Depending on the type of project, the interview process should begin with local inbound operators, particularly for attractions and activities, and particularly in destinations that have a significant group travel component.

For other investment projects, like lodges and guest houses, it may make more sense to begin with source market tour operators, as many negotiate directly with accommodations providers in organizing trips and itineraries; but ground operators will need to be interviewed as well.

### **The Interview Process**

There are three basic approaches:

**In-person Interviews:** This is the most effective and the most time-consuming approach. These interviews are most appropriate for local ground operators as they are typically all located in the capital city of the country or primary tourism hub. The benefit of in-person interviews is that a great deal more market insight can be gained in a face-to-face discussion. In-person interviews can also identify and build relationships with potential partners that can help market the project once it becomes operational.

**Telephone Interviews and Surveys:** This is a more practical for interviewing outbound operators in source markets and can be a very effective tool for people with good phone conversation skills.

**Online Surveys:** This is the cheapest, simplest, and most efficient method, but likely the least effective way to collect market intelligence. Using inexpensive online services like Survey Monkey (<http://es.surveymonkey.com>) and Zoomerang ([www.zoomerang.com](http://www.zoomerang.com)), an online survey can be created and uploaded in an hour or two and then e-mailed to dozens or hundreds of travel intermediaries. It is, however, an impersonal approach and the response rate will likely be much lower than the two above methods. If one requires a very large sample size (more than 50 companies) this approach can be effective. For smaller sample sizes the first two methods yield better results. An example tour operator survey can be found at [www.gwu.edu/~iits/Sustainable Tourism Online Learning/SIFT/GSTA Intl Birdwatching Tour Ops.pdf](http://www.gwu.edu/~iits/Sustainable_Tourism_Online_Learning/SIFT/GSTA_Intl_Birdwatching_Tour_Ops.pdf) while a presentation of the results can be found at [www.gwu.edu/~iits/Sustainable Tourism Online Learning/SIFT/ethiopia birdwatching survey.pdf](http://www.gwu.edu/~iits/Sustainable_Tourism_Online_Learning/SIFT/ethiopia_birdwatching_survey.pdf).

Several methods can be used to obtain e-mail addresses for tour operators.

**Ground Operators:** The best source is the local tourism association, chamber, or tour operator (ground operator) association. One or the other typically exists in most countries.

**Outbound Tour Operators:** Sources include the local tour operator association, the local (national) tourism authority (ministry or tourism or tourist board), and internet search engines.

### **Competitive Industry Research**

This is typically conducted through on-site inspections of potentially competitive projects and in-person interviews with project owners and managers. A detailed understanding of the competitive context and the characteristics of potential competitors provides a great deal more information and insight than simply an estimate of potential demand. Each potential competitor can also provide valuable information about customer preferences, pricing, management, design, financing strategies, and other variables.

Wherever possible, in-person interviews should be arranged with facilities managers. These interviews can be challenging to arrange if the manager understands that you are working on a potentially competitive project. The further from the site of the proposed project (e.g., in another province or district) the competing facility is, the easier it is to secure an interview.

Where interviews are not possible, a simple site visit can also provide useful information.

### **Complimentary Industry Research**

Interviews with facilities and attractions managers that could benefit from the proposed project or would not view it as a competitive threat should be much more willing to be interviewed.

For example, if a developer plans or sets up community tours, nearby hotels, lodges, and national parks should be quite willing to talk about their clients, including spending and season patterns, average length of stay, etc. These facilities can also be important sources of secondary data, e.g., number of visitors by country or origin, by month, to a nearby national park or lodge, room rates, entry fees, average group size, etc.

### **Consumer Research**

Methods for conducting primary consumer research are very similar to those used to conduct travel trade research.

**Interviews:** Interviews can take the form of exit surveys (e.g., at the local bus terminal or nearby airport), onsite surveys (e.g., in national parks, hotel lobbies, etc.), and focus groups, where a group is selected to participate in a meeting to discuss attributes of a destination or attraction, a proposed project, etc.

**Surveys:** Surveys can be conducted at the same locations as those listed above. The difference between consumer interviews and surveys is that the latter deliver statistically significant results. In general sample sizes need to be much larger and the process, including both administration and tabulation of results, more rigorous.

For example, for a survey, participants should be selected at random to eliminate interviewer bias in the survey process.

In general, market research for a proposed project do not require statistically significant visitor surveys. If the national tourism authority has conducted exit surveys, they can serve as a very good alternative source of demographic data. A very detailed overview of the Japanese Outbound Travel Market can be found at [www.gwu.edu/~iits/Sustainable\\_Tourism\\_Online\\_Learning/SIFT/JapanOutboundTravel\\_2007.pdf](http://www.gwu.edu/~iits/Sustainable_Tourism_Online_Learning/SIFT/JapanOutboundTravel_2007.pdf).

Another method for consumer research is an online survey, using the same tools described earlier. This is a simple, efficient method for better understanding views and preferences of visitors to a destination, if the researcher has access to e-mail addresses of past visitors.

### **Completing the Market Analysis**

The final task in estimating potential market support for a project is to organize and analyze all of these research outputs into:

**A market overview**, providing a summary of the estimated size of the potential market, seasonal trends, spending patterns, price sensitivities, and other demographic and psychographic characteristics.

**Charts** that make it easy for the reader to understand patterns and profiles of visitation and visitors.

**A quantitative analysis** of projected visitor demand, typically in the form of a spreadsheet that estimates utilization or occupancy, by month or by season, for the proposed project.

**Projected market mix and penetration rates**, if more than one market is being targeted. An example of how this data can be presented is included in the business plan located at [www.gwu.edu/~iits/Sustainable Tourism Online Learning/SIFT/Ukuku Lodge Feasibility Study.doc](http://www.gwu.edu/~iits/Sustainable_Tourism_Online_Learning/SIFT/Ukuku_Lodge_Feasibility_Study.doc).

This analysis will then feed directly into the project's financial analysis discussed in the next section.

## RESOURCE 3.2

### BENCHMARK: DEVELOPMENT BANK OF SOUTH AFRICA – PREPARATION OF PRIVATE INVESTMENT STRATEGY FOR TOURISM

This report outlines the process the Development Bank of South Africa implemented for analyzing Mozambique as a tourism destination for possible private sector investment. Sections include:

1. Product – key assets
2. Key destinations – priority zones and routes
3. Key tourism statistics
4. Plant – accommodation capacity
5. Accessibility
6. Highlights of tourism development strategy
7. Historical pattern of tourism investment – previous investment projects
8. Existing and future markets
9. Investment initiatives – current investment projects and proposals
10. Donor assistance – technical assistance, capacity building and financial assistance
11. Key Issues – obstacles impacting current and future development in the tourism sector in Mozambique

[www.tourisminvest.org/mozambique/downloads/tourism%20sector%20background/Strategies,%20plans/Preparation%20of%20a%20Private%20Investment%20Strategy%20for%20Tourism.pdf](http://www.tourisminvest.org/mozambique/downloads/tourism%20sector%20background/Strategies,%20plans/Preparation%20of%20a%20Private%20Investment%20Strategy%20for%20Tourism.pdf)

## SUMMARY

Identifying, assessing, and quantifying potential market support for a proposed investment opportunity is undoubtedly one of the most important steps in the investment process. Without sufficient market support the project will likely fail, regardless of how well designed or financed.

Surprisingly, this is one of the most common failings of donor-funded tourism product development efforts — investing or promoting investment on the basis of need or the potential to fulfill geographic or other development objectives. The second most common is a failure to market products once they have been developed.

The following section outlines the steps involved in determining the financial feasibility of a project which is a key aspect of the business plan.

# Unit 4: Financial Feasibility

At the end of this unit, participants will be able to complete a:

- Pre-feasibility study
- Feasibility study

Some fairly significant experience in financial modeling and business planning is typically needed to undertake a full feasibility study. Therefore, we investigate pre-feasibility studies.

## PRE-FEASIBILITY STUDY

The purpose of a pre-feasibility study is to ensure a solid basis for undertaking a full feasibility analysis, which often requires an independent, third-party professional, particularly when commercial bank financing is sought.

A pre-feasibility study is not required to obtain outside financing. It is simply an intermediate step in the financial analysis process, especially useful when project sponsors are unsure of whether a project makes financial sense, needs additional financing to complete a more detailed feasibility study, or are selecting between multiple investment options.

The steps in completing a pre-feasibility study include

- Evaluation of possible sites, in terms of size, access, infrastructure, topography, views, etc.
- Assessment of potential access constraints and market demand, based primarily on secondary research and the competition
- Assessment of the business and regulatory environment in an attempt to identify potential obstacles and risks to successful project development, as discussed in the course, *Project Development for Sustainable Tourism* (Gutierrez, 2011) found online in the NRM portal
- Assessment of the socio-cultural context, including the willingness of local communities to support the project and potential costs and benefits to those communities, as discussed in the course, *Business Planning for Sustainable Tourism* (Humke, 2011), found online in the NRM portal

- Assessment of positive and negative environmental impacts which virtually all environmental authorities require be performed by qualified professionals. In many cases authorities will conduct their own environmental impact assessment.
- Identification of development options, including site selection, review of design concepts, and pricing strategies.
- Identification of potential partners, in terms of marketing, finance, design, and construction, as appropriate
- Initial or order-of-magnitude estimate of operating and development costs
- Preliminary projection of cash flow from operations and a break-even analysis

A more detailed description of each step follows in the discussion of a feasibility study. Preparation of a full feasibility study also requires completion of each step.

## FEASIBILITY STUDY

The requirements for completion of a financial feasibility study vary widely, depending upon the following factors:

- Estimated capital costs of the project
- Capital structure and type of financing sought
- Complexity of the project
- Project risk to investors and lenders

For example, for a community tourism project with estimated development costs of US\$20,000 in an area already frequented by tourists, with a significant percentage of that capital provided by community members, a relatively simple business plan prepared by the project sponsor will often be sufficient, depending upon the solicited source of outside financing.

For a \$3 million lodge project in a relatively remote area, for which project developers seek equity investors and bank loans, a much more rigorous analysis will be required, potentially requiring that an independent accounting or consulting firm conduct the study.

To determine requirements for a feasibility study project developers should consult potential creditors (e.g., commercial banks, investment banks, international financial institutions) and equity financing investors. These sources should offer very clear guidelines for their due diligence expectations.

In addition to steps outlined for a pre-feasibility study, the objectives of a feasibility study are to

- Estimate total development costs, including *soft costs* (e.g., design, architecture, engineering, environmental impact studies, and financing) and *hard costs* (construction, furniture fixtures and equipment, etc.).

- Define project financial structure in terms of capital structure, debt equity ratio, debt service coverage ratio, and working capital requirements
- Project cash flow, profitability (gross operating margins), and debt service
- Do a sensitivity analysis, estimating cash flow and profitability under different scenarios (high or lower prices, high or lower utilization, or occupancy rates, etc.)
- Estimate residual value, internal rate of return, and net present value

The most effective way to illustrate these concepts is through an example.

## CASE STUDY

The indigenous community of Oyacachi located near the center of one of Ecuador's largest protected areas, Cayamba Coca Ecological Reserve (400,000 ha) would like to develop an ecolodge. The community, consisting of approximately 100 households and nearly 500 residents, is organized in four cooperatives dedicated to trout farming, dairy production, handicrafts, and tourism.

The village nestles into a spectacular valley with dramatic vistas, waterfalls, hot springs, and a river that runs through the center of the valley and the village. The endangered Andean bear lives there and the river supplies nearly 70% of Quito's fresh water. At an altitude of more than 3,000 m, the village is part of a unique and threatened ecosystem with a variety of native flora and fauna found nowhere else on earth.

Dairy farming is the largest of the four cooperatives. It periodically burns mountainsides to create suitable pasture for cattle grazing, technically illegal within a national park and a threat to the ecosystem; nonetheless, since the community has few economic alternatives and a long history that predates the park's declaration, officials allow the practice.

Tourism to the community consists almost exclusively of weekend visits by locals from nearby communities to bathe in the thermal baths constructed with support from international donors. The community charges \$1 per person to use the baths. While the community receives more than 15,000 such visitors per year, total tourism revenue amounts to little more than that entrance fee. Current visitors enjoy very little disposable income to spend on food and beverage, handicrafts, etc. After deducting operating costs, the cooperative only earns a few thousand dollars each year.

When occasional foreign visitors (mostly independent backpackers) do find their way to the village, the place's beauty captivates them. Despite that superlative, the community does not find itself on any major tourism circuits or in the itineraries of any major tour operators (most foreign visitors come to Ecuador on pre-arranged packages and itineraries, centered on

excursions to the Galapagos Islands). These operators handle tens of thousands of visitors per year.

It is, however, fairly close to major tour circuits. Travel from Quito, the capital and primary entry and exit point for foreign tourists, and Otavalo, a major market town attraction in this part of the Andes, is roughly three hours by car. A significant part of the journey (in terms of time, not distance) is through the national park over relatively well-maintained dirt and gravel roads, draped in dramatic and unique landscapes. Four-wheel-drive vehicles are not even required.

There may be significant potential to develop the Ukuku Lodge & Spa, but the journey will be far more complicated than arrival by car. The land is communally owned; all decisions are communal via an executive board and then a community vote. The village is also within a national park and the government has not clearly defined guidelines for lodges (or any type of commercial development) within protected areas.

The full business plan and feasibility study can be found at [www.gwu.edu/~iits/Sustainable Tourism Online Learning/SIFT/Ukuku Lodge Feasibility Study.doc](http://www.gwu.edu/~iits/Sustainable_Tourism_Online_Learning/SIFT/Ukuku_Lodge_Feasibility_Study.doc). They might serve as guides for the preparation of feasibility studies for similar projects. The ongoing process has so far generated several lessons learned.

### **Lessons Learned**

Investment promotion for larger projects (over \$1 million) with external debt and equity financing is a time-consuming process. The lodge project was promoted through a donor funded three-year program and was not identified until half way through the second year. If investment promotion is being pursued through a donor-funded project, get an early start, e.g., in year one of the donor-funded project. Projects that will require private sector investment promotion will likely take longer to implement than any other project component.

If pursuing a project in a protected area, make sure the rules of the game are in writing. While the government was very supportive of the project, it had no written concessions policy (rules, regulations, and fees associated with enterprise development within a protected area) for lodge development in protected areas. Government officials assured that a concession agreement could be worked out fairly quickly. In fact, the complications of finalizing a concessions agreement prevented completion of the investment process before the end of the project.

Permitting and licensing should also be one of the first areas to be explored in defining investment opportunities, and should play a major role in evaluating the feasibility of proposed investment promotion projects. In some countries the process is poorly defined and very time consuming.

A major project objective was significant community ownership (eventually leading to 100%), but that, combined with communal land and voting, complicated and extended the investment

promotion process. And because a small but vocal minority did not support the project (which was not known until fairly late in the process), the principal outside investor backed away from the project. If the project requires full community support, get that support confirmed upfront.

A high percentage of investment promotion projects will fail for a variety of reasons. The most common is a failure to secure financing, caused by the investment environment, licensing and permitting issues, insufficient community support, environmental concerns, access constraints, low market demand, or questionable profitability.

There are a number of other, more general lessons from other projects that should be taken into consideration in evaluating the market and financial feasibility of a proposed investment project. They include

**Seek professional assistance in preparing cash-flow projections and returns on investment.** Predicting the future is at best always uncertain, without the added complications of adjusting for expected inflation, rates of market penetration, currency fluctuations, operating and development costs, etc. The tendency to plan without professional help is to overestimate potential market demand (income) and underestimate operating and development costs (operating expenses and capital investment required).

Regardless of how simple the project may appear (e.g., not in a protected area, not requiring a lengthy buy-in process, etc.), the process will likely take much longer than might seem reasonable. A suggested rule of thumb is to take the stated amount of time required by authorities to obtain permits and approvals, the amount of time you think you'll need to prepare the business plan, recruit investors, etc., and increase it by at least 50%.

Try to anticipate obstacles down the road. Explore potential obstacles at the outset in as much detail as possible and focus on overcoming those that appear to be most challenging. What often happens by applying a linear approach (e.g., step 1, identify the best site, step 2, estimate potential market demand, etc.) is that a great deal of time, effort, and money has already been spent by the time the sponsor gets to the step that has the potential to kill the project in its tracks, and ends up having less time and fewer resources to overcome that obstacle. Hope for the best, but plan for the worst.

## RESOURCE 4.1

### INTER-AMERICAN DEVELOPMENT BANK (IDB) SUSTAINABILITY SCORECARD FOR PRIVATE SECTOR TOURISM PROJECTS

The IDB developed a self-evaluation scorecard to guide tourism developers interested in obtaining financing for projects that maximize benefits to the environment and local community and minimize impacts.

Scorecard categories:

1. General Information
2. Norms to determine project sustainability
  - a. Practices for sustainable management
  - b. Practices that maximize social and economic benefits to the local community and minimize possible negative impacts
  - c. Practices that maximize benefits to cultural heritage and minimize possible negative impacts
  - d. Practices that maximize benefits to the environment and minimize possible negative impacts
  - e. Practices that minimize cumulative negative impacts on tourism destination

<http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=35784242>

## SUMMARY

Feasibility analysis is a critical component of the investment promotion process when outside investors or lenders are involved. Before committing capital, both require a realistic analysis, and in most cases, prepared by an independent professional concerning the financial potential of a project and the risk involved.

For smaller projects with donor funding such as a matching grant program, a pre-feasibility is likely sufficient and can be prepared by the project sponsor or grant applicant. Unit 5 will discuss steps to define, design, and present sustainable tourism projects to potential funders.

# Unit 5: Project Definition, Design, and Promotion

At the end of this unit, participants will be able to:

- Define, design, and present sustainable tourism investment projects to potential sources of debt and equity financing
- Write a project definition, design, and promotion which consist of several steps that depend on the type, scope, scale, and complexity of the project proposal. Some of these steps may not be necessary for smaller projects.

## RECRUIT PARTNERS AND SERVICE PROVIDERS

Project partners and providers fall into the following categories.

- Travel intermediaries and other marketing and market development partners (Most should be identified during the market analysis described in Unit 3.)
- Financial analysts and advisors (for financial feasibility analysis and deal structuring)
- Landscape architects and site planners
- Architects
- Engineers
- Legal advisors
- Cost estimators
- Materials providers
- Builders
- Trainers
- Managers

## PROFILE AND PROMOTE AN INVESTMENT OPPORTUNITY

Consider the following sequence of steps.

1. Complete market and financial feasibility study

2. Identify and secure sources of funding for the project design and promotion process
3. Prepare, as required, site plan, architectural plan, renderings
4. Identify potential sources of debt and equity financing
5. Prepare an investment prospectus explaining the objectives, risks, strategies and past performances
6. Define a legal structure (e.g., corporate structure)
7. Prepare loan applications
8. Recruit investors

## RESOURCE 5.1

### OPIC IMPACT INVESTMENT CHECKLIST

OPIC developed a checklist to guide impact investors as they prepare applications for the OPIC Impact Investment Call for Proposals. While meant for investors, the checklist can provide guidelines to understand the process for promoting investment opportunities. The checklist includes the following components:

- General information
- Investment strategy
- Team and organization
- Track record
- Fundraising, OPIC financing and structure of the investment vehicle

Additional attachments available include:

- Staffing matrix
- Current Investment Pipeline
- Track Record

[www.opic.gov/impact-investment/checklist](http://www.opic.gov/impact-investment/checklist)

## PROJECT DEFINITION AND INVESTMENT PROMOTION FINANCING

For new projects (as opposed to the expansion of ones already in operation) the most challenging part of the project definition and promotion process is often securing funding for all preparation necessary to present the project to potential investors. Without this preparation funding, the project likely will need a seed investor.

Seed investors nevertheless sift through many, many project proposals before they choose one promising enough to invest their money. They know that most projects never get beyond project definition. For example, feasibility studies often indicate that the proposed projects are not financially viable, or the permitting process may be too costly or complex to complete, or a community is too difficult to work with, or additional debt and equity required will never be successfully secured. In such cases, seed monies would be lost.

To compensate for that risk, seed investors may require a significantly large ownership stake based on the amount of seed capital provided. For example, a seed investor might require a 2% ownership stake for every 1% of total equity invested during the project definition phase, illustrated below:

|   |             |
|---|-------------|
| Total seed capital required for project definition      | \$100,000   |
| Total equity financing required for project development | \$1,000,000 |
| Ownership stake for seed investor                       | 20%         |

Social or impact investors may not require compensation (an additional ownership stake or return) for the additional risk assumed during project definition phase, as their primary metric in evaluating investment opportunities is not typically a strict financial risk/reward calculation.

It is also possible to secure funding for components of the process, such as a feasibility study, from government and non-governmental organizations that provide grants for project definition studies, most typically on a matching basis (i.e., some initial seed money may still required).

In terms of funding investment promotion, it is often possible to conclude agreements with investment promotion partners (discussed later) on a success-fee basis, i.e., the promoter is only paid if the project is fully funded. This is a common approach to investment promotion and typically based on a percentage of the total debt and equity financing secured. Those fees are included in the estimate of total funding required for project implementation.

This approach also works with some service providers that contribute to the design process. For example, many architectural firms base their fees on a percentage of total development costs, rather than a fixed fee, and agree to complete initial site plans, floor plans, renderings, and elevations (to be included in the investment prospectus) free of charge, or in exchange for having out-of-pocket expenses reimbursed, to help secure project financing.

## SITE AND ARCHITECTURAL PLANS

These plans likely require professional design services from landscape planners and architects. As discussed, these services can sometimes be secured on a success-fee basis, where planners and architects prepare drawings and renderings to promote investment (to give potential investors a visual sense of the project) and get compensated after the project acquires its funding.

## IDENTIFY POTENTIAL SOURCES OF FINANCING

This is covered at length in Unit 6.

## PREPARE INVESTMENT PROSPECTUS

This document is the primary investment promotion tool to obtain equity financing for project implementation. It is, in essence, an executive summary of the feasibility study supplemented with site plans, architectural renderings, photographs, and project objectives such as environmental conservation, creation of alternative livelihoods, cultural preservation, etc.

The components or table of contents of the investment prospectus will be tailored to the project. The core components generally include

- **Confidentiality terms:** This may or not include a written confidentiality agreement that the recipient (the potential investor or promoter) will be required to sign before receiving the prospectus.
- **Legal disclosures and disclaimers:** This explains in detail the legal basis upon which the investment is being promoted.
- **Executive summary:** This briefly highlights all components of the investment proposal.
- **Project overview:** This includes location, objectives, and scope and scale of the project.
- **Market analysis:** This demonstrates market support for the project.
- **Financial analysis:** This summarizes the financial feasibility of the project.
- **Investment analysis:** This projects the expected return on investment.
- **Marketing strategy:** This outlines the strategy and tactics to promote the project to targeted markets.
- **Management strategy:** This indicates how the investment will be managed and by whom, including both finance and operations.
- **Identification of investment risks:** This section not only identifies risks but details how the project sponsor will mitigate them.
- **Next steps:** This section is for investors interested in exploring the opportunity in more depth.

## RESOURCE 5.2

### DEBT FINANCING RESOURCE: VERDE VENTURES

The venture capital arm of Conservation International, Verde Ventures, provides debt and in some cases equity financing for sustainable tourism projects. The application process is explained at [www.conservation.org/sites/verdeventures/loans/apply/pages/apply.aspx](http://www.conservation.org/sites/verdeventures/loans/apply/pages/apply.aspx).

The most effective way to explain the process of putting together an investment prospectus is through an example presented in Appendix A.

## DEFINE LEGAL STRUCTURE

A legal structure will be required to finalize financing arrangements (disbursement of funds from investors to the project). It includes:

- **Corporate structure:** the structure is typically set up in the country of investment, although a separate corporate structure may exist in the investors' home country. The types of permissible and advisable corporate structures will be based on the governing jurisdiction of where the legal entity is registered and will require local legal counsel to provide advice and process necessary paperwork.
- **Stockholders Agreement:** Articles of incorporation define the rights and obligations of investors, how decisions regarding the investment will be made, how dividends will be paid, etc.

## PREPARE LOAN APPLICATIONS

In general, it is preferred to mix both debt and equity financing. The primary benefits of debt financing are

- **Reduction in the amount of equity financing (capital)** needed from investors
- **Financial leverage** or increasing investor returns, achievable when the cost of borrowing is lower than the projected return on investment, or internal rate of return. For example, if the overall or "equity only" IRR for a project is 15% per year (the projected return if the project has no debt, averaged over the period of financial projections, typically 5 to 10 years) and the cost of borrowing is 9% per year, investor returns can be increased, for example, to 20% per year, depending on the proposed debt/equity ratio.

Most lenders require a substantial equity commitment in order to provide loans, typically anywhere from 20–80% of total development costs, to ensure that

- The borrower is at significant financial risk if the project fails and has a significant incentive to ensure project success.
- The project will earn enough income to repay the loan, per the agreed terms. This concept is expressed in terms of the projected debt service coverage ratio, or ratio of net income projected each year to the required debt service payment. Most financial institutions require a debt service coverage ratio of at least 2:1, or projected annual net income that is at least twice the amount of debt service payments for any given year.

The inherent risk of debt financing is that project cash flows in below expectations insufficient then to repay the loan. In that event the project enters into default.

A loan default can be remedied through several different methods, few of them favorable to the borrower, depending on terms of the loan. One is to renegotiate the terms to extend the repayment period (length or “maturity” of the loan) or defer (postpone) loan payments for a specified period.

In simplified terms, there are two types of loans to finance tourism and other projects.

**Project or non-recourse financing:** This loan is only secured (collateralized) by the assets created through the project. That is, if a loan is secured to build a hotel and the borrower defaults, the lender becomes the owner of the hotel (hotel as collateral). The lender may or may not recover the full value of the loan through sale of the asset. The loan, then, has no recourse to other borrower assets in order to recoup funds loaned.

**Collateralized financing:** In this case the borrower pledges other assets, besides the assets to be created by the project. This collateral backs the loan if the borrower goes into default. Collateral can also be provided by third parties, for example, loan guarantees (a promise to repay a loan, in cash, if the borrower defaults). Governments (“sovereign” guarantees) can provide loan guarantees, typically in return for significant social and economic benefits the project is expected to deliver.

Sovereign guarantees are much more difficult to secure these days. The USAID Development Credit Authority (DCA) supported worthwhile development projects and promoted local commercial bank lending.

While project or non-recourse financing is quite common in more developed countries, in many developing countries, it is often not available from local financial institutions. Borrowers seeking loans are required to pledge other assets, often in excess of the loan value, to secure lending commitments. Locally available debt financing is a serious challenge to the investment promotion process in these countries, which is one reason for programs like the DCA. For many projects, debt financing from outside the country will be required as discussed in Unit 5.

In most instances portfolio investors (those that invest in a variety of projects, rather than putting most of their assets into a single project) do not pledge other assets beyond those being invested, and thus project promoters need non-recourse financing.

In summary, if a significant percentage of project development can be covered with loans, investors will earn a significantly higher return on their investment than if the project is financed with 100% equity.

The loan application process is typically a long one (6–12 months in many cases, depending upon the lender and type and size of the loan). It is best to get the process started (initiating discussions with financial institutions and filling out loan applications) as early as possible.

## RECRUIT INVESTORS

The investor recruitment process can take a variety of forms and include a number of steps, depending upon the location, scale, scope, project financial requirements, investment environment, etc. Consider the following methods to research investors.

- **Identification and analysis of investors that have invested in projects with similar characteristics:** For example, for an ecolodge investment in Ecuador, the first and most logical place to look for potential investors is by identifying owners of similar lodges in the country.
- **Identification of potential investors by nationality:** Common examples are investor networks within a country, or networks of nationals that live abroad, known as diaspora investors. Diaspora investment promotion works best in countries with large and relatively affluent diaspora populations, for example, the Lebanese and Ethiopian communities in France and the United States, respectively.
- **Identification by investment objective:** For example, projects with fairly high projected financial returns on investment (relative to project risk) appeal first to investors motivated primarily by financial return, for example, venture capital firms. For investors motivated more by social or environmental returns, impact investment networks, private foundations, etc., are a more likely target. For those motivated by a desire to give back to their home countries, diaspora investment should be a high priority.

This research compiles a database of potential investors and investment intermediaries (discussed below).

Once a database of potential investors exists, the investment opportunity needs to be communicated. Methods include

- **Networking:** Attending conferences that attract the targeted investor types is a highly effective method to both identify and recruit investors.
- **Mailings:** The prospectus, in both soft and hard copy, is the primary recruiting tool distributed to targeted investors.
- **Presentations:** Either at already-scheduled events or at events to be organized, on a stand-alone basis or as an adjunct to events that attract the targeted audience or are focused on a similar theme. For example, a presentation, workshop, reception, or exhibition at relevant tourism trade fairs.
- **Investment Intermediaries (Promoters):** Some companies specialize in investment promotion and securing debt financing, often on a success-fee basis.

## SUMMARY

Project definition, design, and promotion can be challenging and time consuming, depending upon capital requirements and project complexity. It is also a high-risk process. Many projects never make it past definition and design. Resources spent in developing the concept may be lost if financing cannot be obtained. It is important to learn as much as possible at the outset about potential obstacles to project development and get an early start in defining strategies to overcome them.

## Unit 6: Identify and Access Funding

At the end of this unit, participants will be able to:

- Understand available types of financing
- Understand how to select the best type of financing
- Identify vehicles for accessing project financing

Project financing (recruiting investors and securing loans) is typically the most challenging task in the project development process, particularly for small- and medium-sized projects (\$50,000 to \$3 million). There are a number of potential sources and programs for microenterprise development (\$1,000–\$50,000), and a range of commercial and IFI sources (e.g., IFC, IIC) for larger projects (\$4+ million). The challenge is the “missing middle.”

The most commonly used vehicles for debt financing small- and mid-sized projects are development and commercial banks in the country where the project is promoted. The challenge in securing loans from local commercial banks is the lack of non-recourse financing. In most developing countries additional collateral, in many cases in excess of the total amount of financing sought, is required, e.g., if a project sponsor wants to borrow \$100,000, he or she must pledge (provide as collateral) assets in excess of \$100,000 to secure the loan (another business, a residence, etc.). If the loan is not repaid according to the terms of the loan agreement, those assets become the property of the lender.

National development banks typically provide non-recourse or limited recourse (collateral with a value less than that of the loan) financing. The primary challenges encountered with these banks include 1) lack of capital, 2) poor track record with tourism projects, and 3) tourism not being designated a priority sector (meaning that loans cannot be made for tourism-related projects). This final challenge harkens back to our earlier discussion about the importance of governments understanding the economic development potential of tourism and making industry development a priority.

Some NGOs, foundations, donors, and venture capital firms fill this financing gap, but their resources are limited, their lending requirements fairly stringent, and most prefer to invest in the expansion of existing businesses (with a successful track record) and shy away from start ups.

In light of these obstacles, many — perhaps most — project sponsors prefer “layer cake” project financing, for which local financing conditions determine the consistency of each layer. Typically the cake includes a mix of the following, from most to least common:

- 1) Cash equity, sometimes covering 100% of development costs, from wealthy individuals. These individuals often include the project sponsor, which is why ecolodges and other medium-sized tourism investments in many developing countries tend to be owned by foreigners; they see the potential, have the market and industry expertise, and the capital to invest.
- 2) Local development bank financing, if available. Though such banks often require that the project's majority owners are national citizens. Because locals often lack the expertise to operate a tourism enterprise whose customers come from abroad, foreign investors enjoy yet another advantage.
- 3) Local commercial bank loans, with collateral typically valued at 125% of the value of the loan.
- 4) Commercial bank financing from another country, frequently from the home country of the project sponsor, with significant collateral and equity (at least 50–60% of total project costs) and an excellent track record.
- 5) Loans from programs like Verde Ventures (primarily for expansions, not start ups) and venture capital and impact investment organizations discussed in Unit 1 and in more detail later in this unit.
- 6) Donor-funded projects, where grants, non-recourse financing, or loan guarantees are provided.

Since most sustainable tourism projects fall within the “financing of the missing middle” category, lack of capital is one of the most significant stumbling blocks to sustainable tourism development in the developing world, and to increasing local ownership of tourism-related businesses.

Impact investing, social investing, travel philanthropy, donor-funded efforts to improve access to credit, and related efforts are all part of the solution. Each is discussed in more detail later in this unit.

## TYPES OF PROJECT FINANCING

There are as many ways to finance a project as there are project types. The options run from single investor who provides all required financing as equity to thousands of investors and lenders each providing a small share of required capital through donations, interest-free loans, or micro-investments, etc.

Likewise, there is no single strategy or checklist suitable for every investment opportunity. Every project is unique, and several factors influence how it gets financed, including local access to credit, community priorities, project sponsors, other stakeholders, capital requirements, the amount of financial leverage, the level of project and country risk involved, and resources available for project design and promotion.

Every potential investor and credit provider is also unique. Each has his own priorities, investment criteria, evaluation process, and appetite for risk. The following reviews the types of financing.

Financing options can be broken down into three broad categories.

**Public:** Governments, international donors, and multilateral development organizations (International Finance Corporation, World Bank, regional development banks, etc.), where funds come, at least initially, from public sources.

**Private:** Including for-profit and not-for-profit organizations, like conservation organizations, where funds come from non-governmental sources (individuals, foundations, companies, etc.).

**Public/Private:** Where funding mixes public and private investment and lending. For example, governments provide tax breaks, subsidies, guarantees, or infrastructure to secure targeted private investment (Figure 6.1).

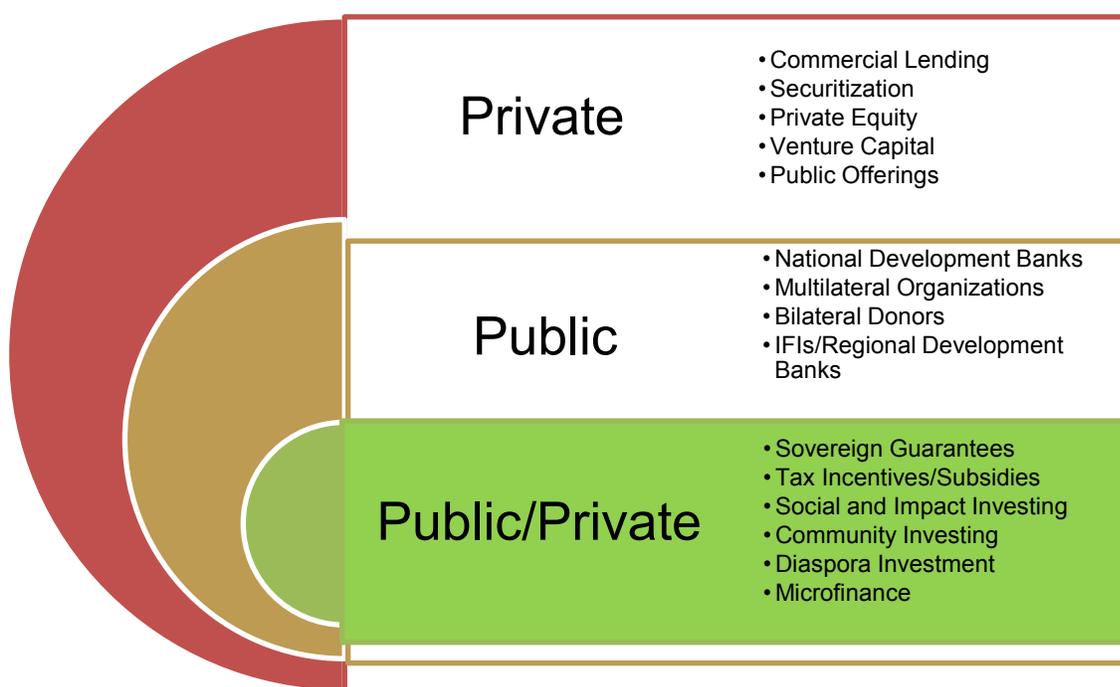


Figure 6.1: Public and Private Financing Options (Faulkner, 2011)

There are also three types of project financing to promote sustainable tourism projects:

**Grants:** From both public and private sources, through donor-funded economic development projects, competitions, matching programs, etc. The key feature of a grant is that the provider has no expectation that funds will be repaid or that a financial return will be earned. The

provider likely expects non-financial social and environmental returns. For three years, National Geographic Society and Ashoka Foundation provided up to \$25 million in competitive grants for geotourism projects ([www.changemakers.net/competition/geotourism2008](http://www.changemakers.net/competition/geotourism2008)). While this specific competition has concluded, every year NGOs, foundations, and donor-funded projects announce new competitions on international, national and regional levels.

**Equity Financing:** Both in cash and in-kind (i.e., the value of land contributed to a project, labor that a community provides, or professional services that a partner provides at low or no cost) should be included as part of the project's equity investment. Any resources that reduce capital requirements can potentially be counted as equity.

The defining features of equity financing are that it is risk capital for which providers are entitled to a proportionate share of any economic returns (full participation on both the upside and the downside). If the project fails, the investor is out of luck. The funds invested are not recoverable. In return for accepting that risk, the investor is also entitled to a pro rata share of financial returns earned by the project.

**Debt Financing:** An individual or organization provides capital with a clearly defined expectation of having that capital returned within a specified time period. In most cases that financing comes with a cost that reflects the opportunity cost of using that money elsewhere, and the returns that could be earned from alternative uses, balanced against risks that the funds might not be repaid on time or in full.

There are a wide variety of debt financing instruments available that vary in terms of cost, risk exposure, and maturity (repayment period), or types of guarantees required. In general terms, the lower the risk and the shorter the maturity, the lower the cost will be.

## PROVIDERS OF PROJECT FINANCING

Various options exist for obtaining debt and equity financing and grant funding for project implementation. Many are available at national or local levels, by donor organizations, government agencies, and NGOs. While some programs are advertised in the local press, it is wise to seek opportunities by contacting government agencies, donors, and industry associations.

Some better known international and regional sources of sustainable tourism project financing include the following.

**Conservation Organizations:** Conservation International, The Nature Conservancy, African Wildlife Foundation, Rare, and a few others provide grants and debt and equity financing to projects that meet their financial, environmental, and social objectives for lending and investing. These organizations tend to be very selective, and the processing time is often significant. The Nature Conservancy, for instance, launched its EcoEnterprises Fund II in January 2011 that invests in 10-12 small businesses capable of delivering triple-bottom-line results. The fund focuses on expanding existing businesses ([www.ecoenterprisesfund.com](http://www.ecoenterprisesfund.com)).

**International Financing Institutions (IFIs):** This group includes global finance providers, like the World Bank Group, and regional ones, like the Inter-American, Asian, and African Development Banks.

Most IFIs have a private sector “window” or facility that provide debt and less commonly equity financing, on commercial terms, for private-sector projects that meet their financial, social, and environmental lending criteria. The primary difference between these lenders and more traditional, commercial ones is the degree of risk they assume to support private sector development and stimulate private investment in developing countries.

The private sector window of the World Bank is the International Finance Corporation ([www.ifc.org/ifcext/about.nsf/Content/Products\\_Services](http://www.ifc.org/ifcext/about.nsf/Content/Products_Services)). At the Inter-American Development Bank it is the Inter-American Investment Corporation ([www.iic.int/apply/home.asp](http://www.iic.int/apply/home.asp)). In Europe, The European Bank for Reconstruction and Development ([www.ebrd.com/pages/about.shtml](http://www.ebrd.com/pages/about.shtml)) funds projects in Central and Eastern Europe and Central Asia.

The Global Environmental Facility ([www.thegef.org/gef/whatisgef](http://www.thegef.org/gef/whatisgef)), a partnership between 182 member countries, UN agencies, the World Bank, regional development banks, and others is one of the leading providers of financing, including grants, for projects in the developing world that support environmental conservation.

Most IFIs do not finance small- and mid-sized (up to \$5 million) projects on an individual basis, because the cost of processing the loan, or managing the investment, significantly reduces or exceeds the return that might be earned.

Many of these organizations do, however, set up specialized funds (regional, or for a specific sector or objective), typically with local partners and sometimes with private investors. The benefit to these organizations is that the funds and loans are managed by partners which cuts IFI processing and overhead costs. The IFC, for example, has contributed \$1.6 million of an eventual \$8 million Business Partners Rwanda SME Fund to assist 70 SMEs in Rwanda ([www.ifc.org/ifcext/africa.nsf/Content/SelectedPR?OpenDocument&UNID=CD3D82728C5C7B1E422578A3003D88A7](http://www.ifc.org/ifcext/africa.nsf/Content/SelectedPR?OpenDocument&UNID=CD3D82728C5C7B1E422578A3003D88A7)).

**Private Equity:** In the broadest sense, private funds invested in start-ups and early stage businesses where both the risks and the potential rewards are significantly higher than investment in established businesses. The primary objective of private equity is to earned high financial returns on investment.

Private equity can take a variety of forms, including:

- Angel investors (individuals)
- Private equity funds (typically focused on shares in businesses that have the potential to become publically traded)
- Venture capital funds

These investors, however, often balk at sustainable tourism projects in developing countries due to high risk and not so high returns.

**Financing Mechanisms:** A mechanism that benefits several projects at the same time with a single credit line or guarantee scheme can overcome the missing middle (Box 6.1).

## BOX 6.1

### K-GREEN HOTEL LOAN LINE OF CREDIT

To reduce impacts of coastal hotel development on biodiversity, Thailand's second largest bank launched a US\$40 million subsidized credit facility.

The French Development Agency providing the funding to underwrite the loan facility which supports mainly waste water treatment, solid waste management, water consumption management, and other activities identified by WWF as key threats to Thailand's marine resources.

The subsidized credit facility benefits hotels and recreational businesses if they adopt an environmental management system and green certification (Figure 6.2).

Conditions for the soft loans include 1) passing an initial pre-screening by the bank and application of non-specialist criteria covering environmental, social, and biodiversity factors; and 2) an evaluation of the extent to which the investment would reduce impacts on biodiversity and commitments made by the applicant to implement low or no costs changes to operational practices to improve biodiversity conservation.

If successful, this pilot program will reduce the negative impacts of tourism on marine biodiversity on a large scale and will also serve as a model for the use of capital to promote best practices in tourism.

[www.kasikornbank.com/EN/Business/Credit/TermLoan/Pages/K-Green%20Hotel%20Loan.aspx](http://www.kasikornbank.com/EN/Business/Credit/TermLoan/Pages/K-Green%20Hotel%20Loan.aspx).

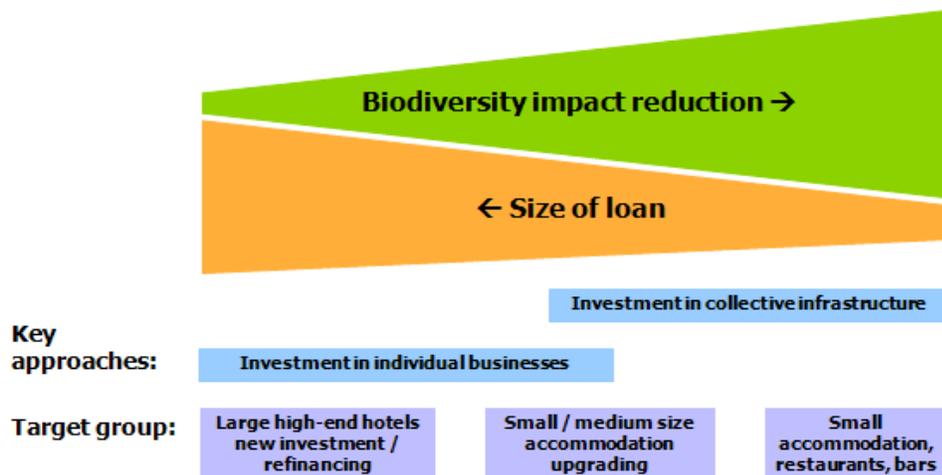


Figure 6.2. Maximizing Biodiversity Impact Reduction (De Long Camp, 2010)

**Social Investment:** Similar to private equity, social investment invests funds primarily from private sources. The key difference is that investors have a broader set of objectives than simply maximizing financial returns, including social and environmental returns (triple bottom line). Social investment includes

- Community investing
- Most micro-finance
- Impact investing
- Diaspora investment
- Socially responsible investing

This and public/private partnerships are the most likely solution to financing the “missing middle” projects.

## VEHICLES FOR ACCESSING FUNDING

UNWTO and GW developed the Development Assistance Network for Tourism Enhancement & Investment (DANTEI) in 2004 to address tourism-relevant information gaps between host countries and destinations, donors, government and NGO aid recipients, researchers, investors and development practitioners. Its website ([www.dantei.org](http://www.dantei.org)) is a valuable tool for potential development assistance recipients to learn about funding including multilateral and bilateral sources. The site also describes foreign direct investment opportunities and resources for entrepreneurial development, business referral and information networks, foundations, and the Multilateral Investment Guarantee Agency.

Through still in early stages of development, the Sustainable Investment and Finance in Tourism (SIFT) Network assists project sponsors, private investors, multilateral and bilateral donors, and financing institutions in support of sustainable tourism projects by sharing data and tools.

Annexes of the preliminary SIFT report include lists of resources and development and lending organizations and sustainability criteria used by the institutions to finance tourism projects. A review of regional and national agencies and initiatives and policies applicable to the SIFT Network is also included.

- Annex 2 Multilateral and Bilateral Development Organizations: Sustainable Financing Criteria for Private Sector Tourism Projects
- Annex 3 of the UNEP SIFT Manual also includes a variety of potential investors with a focus on broad corporate social responsibility principles including
  - Banks
  - Principal investment firms
  - Investor networks

- Not-for-profit investment funds
- Annex 4 includes a list of investor and developer participants with potential interest in the SIFT Network and contact information available at [www.gwu.edu/~iits/Sustainable\\_Tourism\\_Online\\_Learning/Faulkner/SIFT\\_Concept\\_paper\\_24Nov09.doc](http://www.gwu.edu/~iits/Sustainable_Tourism_Online_Learning/Faulkner/SIFT_Concept_paper_24Nov09.doc).

The Small Enterprise Assistance Funds (SEAF) is an organization that partners with entrepreneurs in emerging and transition markets to grow their companies through customized financial solutions and expert business assistance. More information is available on the SEAF website ([www.seaf.com](http://www.seaf.com)).

The Center for Entrepreneurship and Executive Development (CEED) provides practical knowledge, market access connections, and access to risk capital that entrepreneurs need to build prosperous businesses ([www.ceed-global.org](http://www.ceed-global.org)). CEED also sponsors annual regional conferences that bring together entrepreneurs, investors, and other business people to highlight business trends and global opportunities for regional entrepreneurs ([www.ceed-slovenia.org/web/Pages/Regional%20Conference%202011/default.aspx](http://www.ceed-slovenia.org/web/Pages/Regional%20Conference%202011/default.aspx)).

The Investors' Circle (IC) is a network of angel investors, professional venture capitalists, foundations, and others who use private capital to promote the transition to a sustainable economy. IC investors focus on the following areas:

- Energy and environment
- Food and organics
- Education and media
- Health and wellness
- Community and international development

IC indexes the most successful companies that have received funding. It also lists examples of sustainable and social organizations focused on socially responsible investment that has resulted in substantial internal and external returns ([www.investorscircle.net](http://www.investorscircle.net)).

The Social Venture Network connects and inspires a community of business leaders and social entrepreneurs to build a just and sustainable economy.

The Social Venture Network achieves this mission by:

- Hosting forums, information, and initiatives that enable leaders to work together to transform the way they do business
- Sharing business practices and resources to help companies generate healthy profits and serve the common good
- Supporting diverse community of business leaders to implement positive social change
- Creating vibrant community relationships

- Sponsoring conferences that exchange ideas and encourage relationships and partnerships
- Offering programs that support the spiritual, professional, and personal development of members

The Aspen Network of Development Entrepreneurs (ANDE) is a global network of organizations that invest money and expertise in emerging markets. ANDE members include investment funds, non-governmental organizations, research institutions, and private philanthropic foundations that invest money and expertise to help entrepreneurs develop and grow small businesses in emerging markets. Focused on small and growing businesses (SGBs) that create economic, environmental, and social benefits for developing countries, ANDE builds sustainable prosperity in the developing world.

The Overseas Private Investment Corporation (OPIC) mobilizes private capital to help solve world challenges and advance US foreign policy. As the US Government's development finance institution, the organization works directly with the private sector to assist American businesses achieve revenues in emerging markets and develop jobs and growth opportunities at home and abroad. OPIC provides investors with financing, guarantees, political risk insurance, and support for private equity investment funds.

As mentioned, social entrepreneurs and private social impact investors gain momentum and presence in business activities. Socially responsible investing gains popularity in the financial sector, changing the ways individuals and organizations invest. Other social/impact investing organizations include

- Acumen Fund, [www.acumenfund.org](http://www.acumenfund.org)
- Avantage Ventures, [www.avantageventures.com](http://www.avantageventures.com)
- Bamboo Finance, [www.bamboofinance.com](http://www.bamboofinance.com)
- BlueVine Ventures LLC, <http://web62331.aiso.net/about.html>
- E+Co, <http://eandco.net>
- Emerging Markets Private Equity Association, [www.empea.net](http://www.empea.net)
- GIIRS Pioneer Funds, [www.giirs.org/for-funds/pioneer](http://www.giirs.org/for-funds/pioneer)
- Grassroots Business Fund, [www.gbfund.org](http://www.gbfund.org)
- Global Partnerships, [www.globalpartnerships.org](http://www.globalpartnerships.org)
- I3N (Intelicap Impact Investment Network)
- Jonathan Rose Companies, LLC, [www.rose-network.com](http://www.rose-network.com)
- LGT Venture Philanthropy, [www.lgt.com/en/private\\_kunden/philanthropie/index.html](http://www.lgt.com/en/private_kunden/philanthropie/index.html)
- Origen Private Equity Limited, <http://origenprivateequity.com>

- Root Capital, [www.rootcapital.org](http://www.rootcapital.org)
- TBL Capital (TBL), [www.tblcapital.com](http://www.tblcapital.com)
- Truestone Impact Investment Management Limited, London - Fund of Funds, [www.truestoneinvestment.co.uk/wp-content/documents/IMTruestone\\_Global\\_Impact\\_Fund-Fund\\_summary.pdf](http://www.truestoneinvestment.co.uk/wp-content/documents/IMTruestone_Global_Impact_Fund-Fund_summary.pdf)
- TreeTops Capital, [www.treetopscapital.com](http://www.treetopscapital.com)
- WillowTree Impact Investors, [www.willowimpact.com/about-us/company/personal-commitment.html](http://www.willowimpact.com/about-us/company/personal-commitment.html)

## RESOURCE 6.2

### ENVIRONMENTAL GRANTMAKERS ASSOCIATION

The association publishes a comprehensive list of ecotourism partners and resources as well as foundations engaged in ecotourism specific activities (2008, pp. 17–25). The list of foundations includes the following information.

- Foundation name
- Grantee
- Grant amount
- Description
- Year founded

[www.gwu.edu/~iits/Sustainable\\_Tourism\\_Online\\_Learning/Faulkner/ecotourism\\_conservation\\_strategy\\_for\\_funders.pdf](http://www.gwu.edu/~iits/Sustainable_Tourism_Online_Learning/Faulkner/ecotourism_conservation_strategy_for_funders.pdf)

All these organizations recognize the importance of the private sector in achieving economic growth and assisting entrepreneurs in emerging markets, potential investors, and public institutions address sustainability issues. The networks also serve as a forum for knowledge sharing, capacity building, technical assistance, education and advocacy, and set standards for sustainable tourism criteria.

## BOX 6.2

### ECOTOURISM — BELIZE LODGE AND EXCURSIONS (BLE)

To protect the natural and cultural resources in southern Belize, the regional Belize Lodge and Excursions, Ltd. joined with conservation partners to maintain the long-term ecological integrity of the region.

BLE helped to create the Boden Creek Ecological Preserve (BCEP) through an EcoEnterprises Fund investment with Root Capital, Conservation International, and Dutch private investors. BCEP now owns 12,600 acres of pristine lowland tropical broadleaf forest in southern Belize. These lands were acquired by BLE and used to manage BLE's terrestrial hospitality and excursion operations. BCEP focuses on protecting, monitoring and managing the natural habitats. To review the entire case study See

[www.ecoenterprisesfund.com/pdf/BLE%20Deal%20Sheet%20Dec%202008\\_FINAL.pdf](http://www.ecoenterprisesfund.com/pdf/BLE%20Deal%20Sheet%20Dec%202008_FINAL.pdf)





- Collateral deposit/account balance with minimum of 50% of amount initially disbursed
- Outcome activities agriculture and livestock, trade, housing, etc.

The Microfinance International Corporation (MFIC) ([www.mfi-corp.com](http://www.mfi-corp.com)) expands affordable and professional financial services to emerging and developing markets where such services are inaccessible. By leveraging migrant remittances for the development of the financial sector in developing countries, the MFIC delivers financial services to the poor and provides greater economic benefits by linking revenues to asset building activities.

Encouraging sustainable solutions, MFIC links remittances to other financial products such as saving accounts, micro-loans, mortgage loans or business loans, resulting in increased capacity and broader economic reach of remittance receipts. Building sustainability of microfinance institutions in developing countries lacking strong financial sectors can increase overall benefits and encourage further investment.

Beyond migrants' remittances, the Migration Policy Institute and USAID outlined vehicles to mobilize diaspora wealth through capital markets (Terrazas, 2010).

- Deposit accounts denominated in local and foreign currency
- Securitization of remittance flows allowing banks to leverage remittance receipts for greater lending
- Transnational loans allowing diasporas to purchase land or real estate in their countries of origin
- Diaspora bonds allowing government to borrow long-term funds from diasporas
- Diaspora mutual funds mobilizing pools of individual investors for collection investments in corporate and sovereign debt and equity
- Diaspora private equity funds coupled with financing with managerial expertise
- Mechanisms to mobilize savings of institutional investors such as pension funds of diasporas

Loan guarantees are also useful to access credit. Governments assume private debt obligations if the borrower defaults. Programs are established to provide credit resources to smaller enterprises. The Central Bank of Barbados, for example, established the Tourism Loan Guarantee Facility to provide credit enhancements to financial institutions for short-term facilities in the hotel sector. Guarantees may cover facilities for debt service and new short-term loans to hotels and enterprises providing accommodation for tourists in Barbados ([www.bdsfinance.com/tourism-loan-guarantee-facility](http://www.bdsfinance.com/tourism-loan-guarantee-facility)).

The United States Export-Import Bank finances arrangements for the export of US goods to international buyers by establishing links to suppliers. Providing guarantees and insurance the bank assumes the risk of default allowing other financial institutions or vendors to lend credit to a borrower unable or unwilling to accept credit risk.

The USAID Development Credit Authority (DCA) is one of the most effective tools used in developing countries to facilitate access to credit. Financing tools available include loans, guarantees, grants, or a combination of vehicles. The credit authority provides the following to encourage investment opportunities ([www.usaid.gov](http://www.usaid.gov)).

- Access to local private capital through credit guarantees
- Risk shared to encourage lending. DCA covers up to 50% of a lender's risk and often includes training and technical assistance to strengthen local financial institutions.
- Mobilization of local private capital with credit guarantees
- Benefits of credit demonstrated. Guarantees provide local partners with access to less expensive credit allowing local institutions to expand financial services to underrepresented economic sectors and social groups
- Maximize agency resources by leveraging impact with credit to finance development activities

DCA provides greater sustainable development impact beyond traditional assistance programs.

## BOX 6.3

### FOREIGN INVESTMENT ADVISORY SERVICE, WORLD BANK

For organizations working to improve the investment environment and investment facilitation process, one of the world's best sources of research, information, and technical assistance is the Foreign Investment Advisory Services (FIAS), a part of the International Finance Corporation, World Bank Group. FIAS conducted a study in 2009 to identify keys to successful investment promotion. They include:

#### **Foster a Private Sector-Minded Culture**

1. Build a staff with public and private sector experience
2. Offer salaries and bonuses closer to private sector standards
3. Secure operational freedom and high-level reporting channels
4. Establish and concentrate efforts in a few priority sectors
5. Coordinate facilitation with networks and partners sub-nationally and overseas
6. Maintain English-speaking staff in sufficient numbers and with the full range of facilitation skills
7. Continually train and develop staff, especially in soft skills

#### **Accumulate Deep Business Knowledge**

8. Establish a minimum level of in-house research capacity
9. Develop account managers into reservoirs of knowledge on particular sectors
10. Ensure the accumulation of knowledge and its relevance

#### **Implement Internal Systems for Consistently Good Facilitation**

11. Make facilitation a priority within the overall strategy, including by training and dedicating an adequate proportion of staff
12. Maintain the equipment and practices to be easily reached and to quickly return calls and e-mails
13. Demonstrate professionalism and dynamism through the Website with frequent news updates of importance to investors
14. Follow detailed guidelines on the content, style, timeframe, and quality assurance of inquiry responses

[www.ifc.org/ifcext/fias.nsf/AttachmentsByTitle/InPractice\\_Investment+Promotion+Essentials/\\$FILE/InPractice\\_GIPB.pdf](http://www.ifc.org/ifcext/fias.nsf/AttachmentsByTitle/InPractice_Investment+Promotion+Essentials/$FILE/InPractice_GIPB.pdf)

## SUMMARY

Once a project is viable and the investment climate understood a clear investment road map can be presented to potential investors. There are a variety of sources, vehicles, and types of investment available. Examples of investment sources range from private investor networks, social impact venture capitalists, foundations and NGOs and diaspora. Micro-finance loans, loan guarantees, and community funding and mobilizing local investors are potential types of investment vehicles. Each unique project demands its own requirements, resources, and risks driving the type of investment best suited for the opportunity.

# Unit 7: Monitor and Evaluate Sustainable Tourism Investment and Finance Projects

At the end of this unit, participants will be able to:

- Understand effective measurement and evaluation strategies
- Understanding possible measures and indicators to track and monitor
- Understand how to measure actual investment and investment impact
- Incorporate monitoring and evaluation into ongoing investment operations

Monitoring and evaluating (M&E) social and environmental impacts of sustainable tourism projects should be incorporated in the program design.

## DEFINING PROJECT OBJECTIVES

Monitoring includes collecting data and measuring progress towards a goal. Evaluation includes data analysis to gauge the extent of the impact and the efficiency with which they are being met. With appropriate information program managers adjust strategies and objectives to reach and even improve desired outcomes.

Key M&E questions include (Khan, undated)

- Is the project efficiently achieving its goals or does it need adjustment?
- Are the original assumptions standing up through experience or do they need to be modified? Do the goals need modification?
- Are the time tables being met or do they need updating?
- There are additional benefits emerging that were not predicted at the outset of the project?

## EFFECTIVE MEASURING AND EVALUATION STRATEGIES AND FRAMEWORKS

To learn more about measuring and evaluation strategies, refer to Gutierrez (2011), Unit 6 “Major Activities, Monitoring Plans and Project Timelines.”

## POSSIBLE MEASURES AND INDICATORS TO TRACK AND MONITOR

Indicators allow destinations to track their progress towards a goal as well as demonstrate achievements and shortfalls. “An indicator is something that helps you understand where you are, which way you are going, and how far you are from where you want to be” ([www.sustainablemeasures.com/node/89](http://www.sustainablemeasures.com/node/89)). A good indicator proactively signals a problem, ideally, before it overwhelms. Traditional indicators measure economic, social, and environmental impacts. Indicators reflect program designers’ assumptions. If designers assume that linkages exist between the three dimensions of the Triple Bottom Line, then they choose indicators that cast light on those linkages. If at the time they design the project, they do not direct their indicators to those linkages, then those dimensions will remain separate (Figure 7.1).

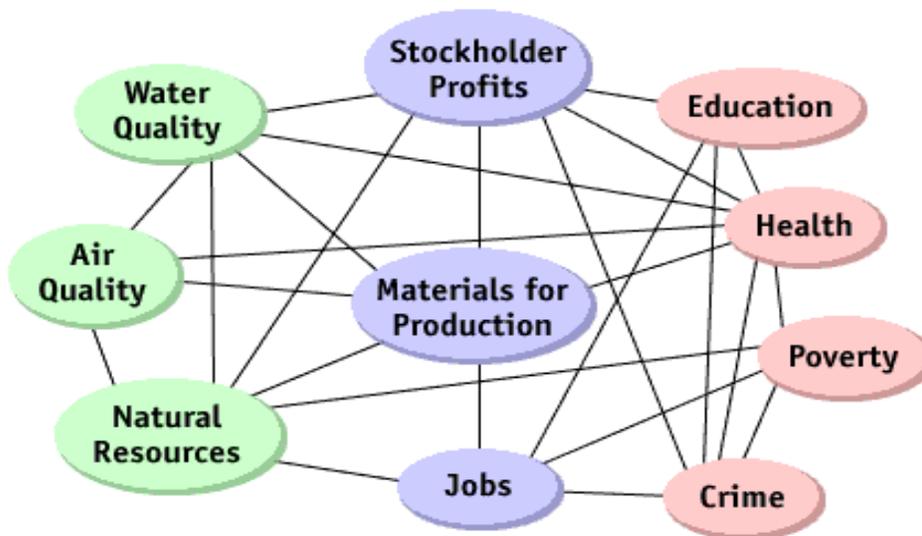


Figure 7.1. Linkages between Three Dimensions of Environment, Economics, and Society (Sustainable Measures, undated). Each line represents assumptions about the relationship between the connected elements, for which one or more indicators could measure those relationships.

While no rules dictate the number and types of indicators a project should monitor, several factors that should influence that decision including a variety of quantitative and qualitative sources, accessibility, reliability, as well as feasibility (Table 7.1).

Table 7.1. Indicator Types (Hawkins & Lamoureux, 2008)

| Indicator   | Example  | Potential Sources of Information   |
|---|--|--|
| <ul style="list-style-type: none"> <li>• <b>Socio-cultural impacts</b></li> </ul> | Social services available to community (% derived from tourism activities)   | <ul style="list-style-type: none"> <li>• Government agencies (US examples)                             <ul style="list-style-type: none"> <li>○ Environmental Protection Agency</li> <li>○ Census Bureau</li> <li>○ Bureau of Economic Affairs</li> <li>○ Bureau of Labor Statistics</li> <li>○ Dept. of Housing and Urban Development</li> </ul> </li> <li>• Non-governmental organizations</li> <li>• School systems</li> <li>• Health officials</li> <li>• Town clerks</li> <li>• Department of Public Works</li> <li>• Environmental regulatory agencies</li> <li>• Planning commissions</li> <li>• Direct observation</li> <li>• Stakeholder perceptions</li> <li>• Universities</li> </ul> |
| <ul style="list-style-type: none"> <li>• <b>Environmental impacts</b></li> </ul>  | Terrestrial flora and fauna health index based upon periodic surveys of tour operators, local communities and experts  |  |
| <ul style="list-style-type: none"> <li>• <b>Economic impacts</b></li> </ul>       | Ratio of income attributable to tourism vs. non-tourism income-generating activities   |  |
| <ul style="list-style-type: none"> <li>• <b>Performance indicators</b></li> </ul> | Tourism employment relative to total in region; tourism wages; revenues generated by tourism, GDP and % tourism's contribution — national and regional level |  |

A country's tourism satellites accounts provide statistical economic data measuring the relative size and importance of the travel and tourism industry. As an international standard, the accounts report accumulated effects from accommodations, food and beverage establishments, and air transportation across multiple industries into national economic accounts. These comprehensive and comparable tourism-specific data can measure backward and forward linkages and contributions to GDP, tourism exports, imports, etc.

One challenge inhibiting investors from implementing sustainable tourism is the lack of data regarding the investment impact. Social and environmental impacts are difficult to quantify and often have long-term positive effects not easily measured immediately.

## RESOURCE 7.1

### THE GLOBAL IMPACT INVESTMENT NETWORK (GIIN)

The GIIN established the Impact Reporting and Investment Standards (IRIS) for impact investors to develop a standard set of social and environmental performance metrics. IRIS objectives include increasing the use of non-financial data in the business sector by establishing performance comparisons and benchmarks while simplifying reporting requirements for companies and their investors.

<http://iris.thegiin.org/iris-standards>

ANDE has incorporated IRIS into its measurement of overall performance of investments. Transparent and consistent metrics of investments in emerging markets is critical to increase public awareness of positive benefits and barriers encountered by investments. The IRIS framework currently consists of six parts.

1. **Organization description:** Organization mission, operational model, and location
2. **Product description:** Description of organization's products and services and target markets
3. **Financial performance:** Commonly reported financial indicators
4. **Operational impact:** Indicators describe organization's policies, employees, and environmental performance.
5. **Product impact:** Indicators describe performance and reach of the organization's products and services.
6. **Glossary:** Definition of common terms referenced in the indicators

Current sector-specific categories of indicators include agriculture, education, energy, environment, financial services, health, housing/community facilities, and water (GIIN Global Impact Investing Network, <http://iris.thegiin.org/iris-standards>).

## MEASURING ACTUAL INVESTMENT AND INVESTMENT IMPACT

The World Bank Group's Multilateral Investment Guarantee Agency created a toolkit for FDI promotion that includes M&E of investment promotion. Figure 7.2 shows the steps to measure actual investment; descriptions of those steps follow.

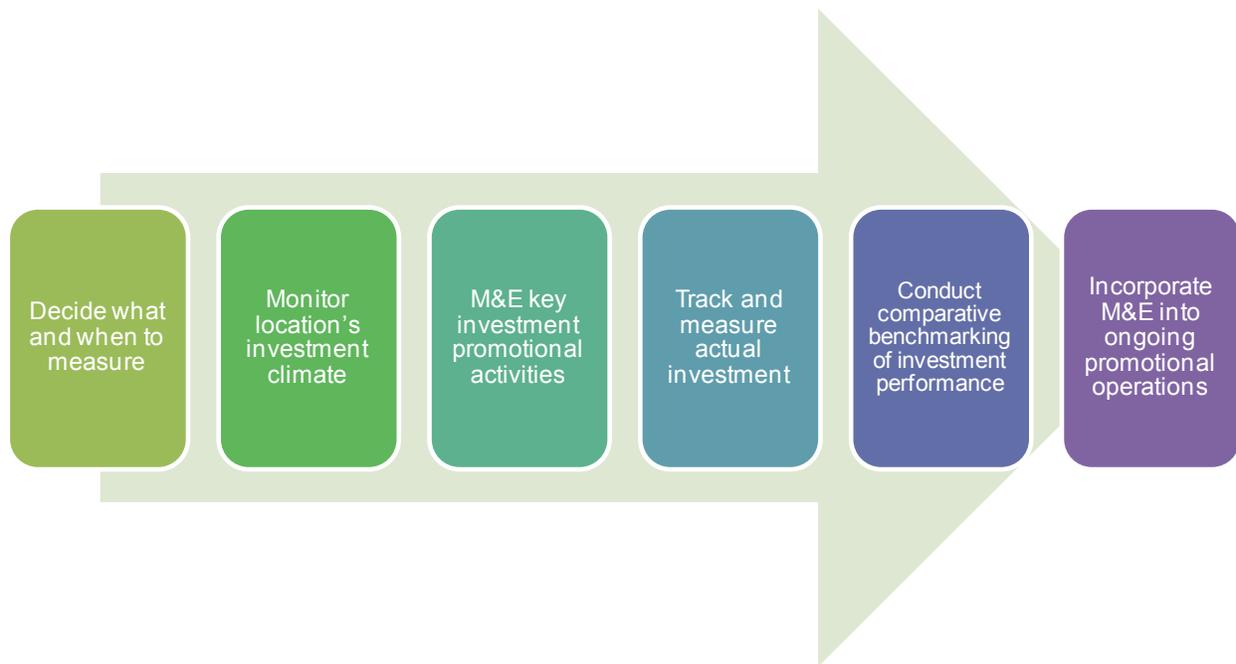


Figure 7.2. MIGA Steps to Measure Actual Investment (World Bank Group IFC and the Multilateral Investment Guarantee Agency, 2011)

1. **What and when to measure:** Reviewing investment promotion goals and priorities can provide the indicators and activities for what and when to measure.
2. **Monitoring location's investment climate:** This information gauges the destination's competitiveness. It may come from a SWOT analysis, international media coverage, and investor opinions. With these data, analysts would understand the role of any investment promotion intermediaries
3. **Monitor and evaluate key investment promotion activities:** If IPAs exist, analysts should consider the cost effectiveness of awareness and image building activities, investor targeting and investment generating, other major expenditures such as overhead costs, consultants, and website development.
4. **Measuring actual investment:** It is useful to track additional investment and reinvestment at a destination as well as disinvestment (investment relocated).
5. **Conducting comparative benchmarking of investment performance:** A comparative analysis enables promotion agencies to compare activity effectiveness among similar locations.
6. **Incorporating M&E in ongoing investment operations:** M&E activities should never cease. The organizational culture should value M&E as the axis for learning.

## RESOURCE 7.2

### CHECKLIST FOR TRACKING INVESTMENT AND DISINVESTMENT

#### If investing

- Name of investor
- Name and address of investor's parent company
- HQ country of investor's parent company
- Nature of investment/disinvestment
  - Greenfield
  - Acquisition
  - Privatization
  - Expansion
  - Reduction or closing
  - Relocation to another country
- Date investment/disinvestment announced
- Date investment/disinvestment occurred
- Value of investment/disinvestment in local currency
- Total number of full time jobs created or lost
- Total number of part time jobs created or lost
- Total number of temporary jobs created
- Address or location of investment
- Sector of investment by standard industry classification (SIC) code
- Primary contact information at investment company
- Projected type, volume, and value of exports

#### If disinvesting

- Reasons
  - Unfavorable developments in investment climate
  - Relocation to another location
  - Company closure following restructuring
- Relocation of company
- Who made relocation decision?

[www.fdipromotion.com/](http://www.fdipromotion.com/)

## IFC EVALUATION FRAMEWORK FOR INVESTMENTS

The IFC established a development outcome ratings system that rates a project's overall impact on its host economy

([www.gwu.edu/~iits/Sustainable\\_Tourism\\_Online\\_Learning/Faulkner/IFC\\_DE\\_Evaluation\\_Framework\\_FINAL.pdf](http://www.gwu.edu/~iits/Sustainable_Tourism_Online_Learning/Faulkner/IFC_DE_Evaluation_Framework_FINAL.pdf)). The framework uses four performance dimensions — financial, economic, environmental/social, and private sector development to rate completed projects (World Bank Group, 2011b).

The rating uses a six-point scale — highly successful to highly unsuccessful — and the top three ratings are considered a “success.” Project-specific indicators also incorporate impacts on different stakeholders. The rating system's components follow:

### RESOURCE 7.3

#### WORLD BANK FINANCES

The World Bank is increasing its due diligence through a new financial data website that makes its work more transparent. The website makes Bank financial data available in an interactive, visually compelling, and machine readable format.

Data include information about World Bank's investments and assets as well as resources the Bank manages on behalf of other funds.

The website includes tools that allow users to visualize datasets and share information through social media channels such as Twitter and Facebook. Users can download data with a mobile application. <https://finances.worldbank.org>

Data available in the website include information about World Bank's own investments and assets as well as on resources the bank manages or administers on behalf of other global funds. The website includes tools that allow users to visualize data sets and share information through social media channels such as Twitter and Facebook. The information can also be downloaded in a mobile application.



## PERFORMANCE DIMENSION

- 1) Financial. Was the project financially beneficial for financier?
  - a. Includes measures of investment profitability
  - b. Calculate project's rate of return
  - c. Measures ongoing performance via return on assets, equity, or invested capital
  - d. Profitable investments attract other investors
- 2) Economic. Was the project economically beneficial taking into consideration economic impacts across all stakeholders?
  - a. Assesses project's impact on society
  - b. Stakeholders include customers, employees, governments, and suppliers
  - c. Economic rate of return is the internal rate of return on investment after accounting for all project costs and benefits
- 3) Environmental/social. Did project comply with IFC's environmental, social, health and safety policies, and guidelines and substantially positively impact social or environmental conditions?
  - a. Assesses project effects on neighboring communities and the environment
  - b. Does new infrastructure increase destination accessibility?
- 4) Private sector development. Did project create conditions conducive to the flow of private sector capital into productive investment? Were there...
  - a. Improvements in legal and regulatory framework (e.g. corporate governance)?
  - b. Increased linkages?
  - c. Improved technical learning?
  - d. Complementary products that increased demand of indirect products such as food suppliers, restaurants, linen, etc.?
  - e. Competitors that benefit consumers through lower prices, increased innovation, and differentiation to create new options for customers?

## EXIT STRATEGY

Many firms struggle to determine when they finally leave the project in local hands and can discontinue technical assistance. An exit strategy, nevertheless, should be part of a strategic plan for an impact investment project. Tom Gibson, a capitalization consultant and adviser to small business funds, defined exit strategy characteristics during the Aspen Institute Roundtable discussion on Impact Investment in Community-Based Sustainable Tourism (DAI, 2010).

- Business earns positive cash flow, becomes self-sustaining, everyone is paid back
- Equity investors sell shares and start over

- Loan is paid back
- Investors, fund managers, and businesses themselves are all in agreement the objective has been fulfilled

## SUMMARY

Specific, effective, measurable, timely, and feasible indicators measure social and environmental impacts of sustainable tourism investment projects. Tracking impacts allows stakeholders to understand where a project's status with respect to its goals. Indicators demonstrate achievements (and failures) to other potential investors. Well defined measurements also allow stakeholders to modify strategies and goals.

To measure investment and impacts requires that analysts identify the data sources for the indicators and the frequency with which they will be measured. Financial, economic, environmental/social, and private sector development indicators should be combined with performance measurements easily compared with other destinations and projects. Tourism satellite accounts allow for economic comparison across destinations. Without a tool to measure sustainable investment, it is much more difficult to communicate successes (while failures are easy to demonstrate), understand issues, overcome barriers, and encourage future investment based on previous achievements.

Recommendations from the Aspen Institute Roundtable discussion include the following activities to measure sustainable tourism projects as well as engage players to share resources and knowledge.

- Create a mechanism to bring all players together to align technical assistance, access to finance and investment, and legal framework enhancement
- Develop information-sharing resources such as a tourism investment website or GIS mapping tools to track investment opportunities, lessons learned, and success stories
- Customize financial instruments based on demands of different investors
- Share success stories to promote further investments, community and environmental benefits, and contribute to sustainability goals.

## Box 7.1

# GENERATING TOURISM INVESTMENT IN MOZAMBIQUE

**Background** – strong natural coastal and heritage assets exist

## Identifying Trends and Opportunities

### Opportunities within Destination

- Strong assets
- Supportive sustainability strategic policy from Ministry of Tourism
- Market demand

### Business and Investment Environment Analysis

- Identify investment barriers
  - Negative perceptions on tourism investment — lack of understanding of the value creation
  - Access to land
  - Lack of sub-division rights for secondary developers
  - No concessioning framework for investment
  - Missing community participation in protected areas and other tourism activities
- Create enabling conditions
  - Government support and priorities identified
- Overcome barriers
  - Clear leadership from government
  - Proactive participation and involving local government in site level assessments

### Pre-feasibility Analysis

- Risk analysis
  - Identified sites and potential barriers
- Market analysis

### Design and Present Sustainable Tourism Projects

- Project identification
  - Site assessment
    - Resort locations identified
    - Site selection based on market demands, accessibility, land availability and sustainability
  - Feasibility analysis
    - Market demand
    - Financial
    - Break-even
  - Profile and Promote and Investment Opportunity
    - Secured land use rights
    - Ensured access
    - Removed administrative and other burdens
    - Amended investment regulations to allow resorts to apply for special economic zone status
    - Streamlined process by decreeing ‘zones of tourism interest’ for additional investment in surrounding areas
    - Developed potential vague and informal concepts but allowed flexibility for investors to design and develop project for site

## BOX 7.2

# GENERATING TOURISM INVESTMENT IN MOZAMBIQUE

## Identify and Access Funding

- Vehicles for accessing funding
  - Designed investor profiles to sell investment opportunities
  - Strategy based on market demand and Ministry of Tourism and government objectives
- Available investment types
  - Target both large international developers for resorts and local/regional investors for smaller sustainable eco-lodges
  - 15 expressions of interest for domestic, regional, and international investors
  - Evaluated RFPs
  - Flexibility and modifications needed to identify best investor
    - Economic crisis deterred more risk adverse foreign investors
    - Local investors less risk adverse ties to local culture
- Select best type of investment
  - Secured partnership with foundation and regional investor – Bell Foundation and A Hi Zamani Chemucane to develop Elephant Reserve eco-lodge
  - \$3 million, 50 jobs secured
  - 50-year concession rights awarded to community
  - 25-year agreement with 40% shareholding

## Utilizing Business Development and Investment Promotion Agencies

- Develop investment promotion marketing plan
  - Launch event
  - Newsletter promoting anchor investment program
  - Anchor investment sites brochure — marketing collateral
  - Ministry of Tourism received over 100 inquires over 3 month period

## Results

- Annual net income of \$550,000 and 60 jobs
- Sustainable social and environmental impact outcomes
  - Job creation
  - Concessioning framework
  - Allocate land to 'Tourism Interest Zones'
  - Investment identification model and manual destination can replicate
  - Community partnerships
  - Enhanced capacity and experience
  - Strengthened image and reputation of Mozambique as future investment destination

## Monitor and Evaluate Sustainable Tourism Investment and Finance Projects

- How and what to measure and track and monitor
  - Investor after-care implemented to measure developmental impacts from investment
  - Supply chain training

Access a presentation of the assessments and results

[www.gwu.edu/~iits/Sustainable\\_Tourism\\_Online\\_Learning/Faulkner/Generating\\_Tourism\\_Investment\\_in\\_Mozambique\\_final\\_Shaun.ppt](http://www.gwu.edu/~iits/Sustainable_Tourism_Online_Learning/Faulkner/Generating_Tourism_Investment_in_Mozambique_final_Shaun.ppt)

The Development Bank of South Africa presents the Private Investment Strategy for Tourism

[www.gwu.edu/~iits/Sustainable\\_Tourism\\_Online\\_Learning/Faulkner/Mozambique\\_private\\_investment\\_strategy\\_for\\_tourism.pdf](http://www.gwu.edu/~iits/Sustainable_Tourism_Online_Learning/Faulkner/Mozambique_private_investment_strategy_for_tourism.pdf)

# Glossary

**Bilateral Aid:** Official development finance or aid mobilized from one country to a recipient country.

**Biodiversity Hotspots:** Over 50% of the world's plant species and 42% of all terrestrial vertebrate species are endemic to 34 areas that hold especially high numbers of endemic species, yet their combined area of remaining habitat covers only 2.3% of the Earth's land surface. Each hotspot faces extreme threats and has already lost at least 70% of its original natural vegetation.

**Break-even Analysis:** Calculation of the point at which cost or expenses and revenue are equal.

**Carrying Capacity:** Maximum population size of the species the environment can sustain indefinitely given the food, habitat, and other necessities available.

**Collateralized Financing:** Assets pledged as security for a loan. In the event that a borrower defaults on the terms of a loan, the collateral may be sold, with the proceeds used to satisfy any remaining obligations. High-quality collateral reduces risk to the lender and results in a lower rate of interest on the loan.

**Community Investment Institutions:** The use of investor capital to finance or guarantee loans to individuals and organizations historically denied access to capital by traditional financial institutions. These loans are used for housing, small business creation, and education or personal development in the US, or are made available to local financial institutions abroad to finance international community development.

**Concessions Policy:** Rules, regulations, and fees associated with enterprise development within a protected area.

**Community Investing:** Provision of credit to underserved communities.

**Cost Estimating:** Prediction or forecast of resource costs required by the scope of an asset investment option, activity, or project including risks and uncertainties.

**Creditors:** Investors including private and public sector individuals, corporations, and institutions saving funds in order to purchase a claim on future earnings.

**Debt Financing:** Requires regular repayment of borrowed funds regardless of borrower's economic circumstances.

**Debtors:** Includes both sovereign (government) and corporate borrowers seeking funds from domestic and foreign sources.

**Development Credit Authority:** Allows USAID to provide credit to pursue non-traditional investments for development purposes. Financing tools available include loans, guarantees, grants, or a combination of vehicles provided to achieve strategic objectives with credit assistance.

**Diaspora:** Migrants and their descendants who maintain ties with their countries of origin.

**Diaspora Bonds:** Long-dated sovereign debt agreements marketed to diasporas granting access to fixed term funding (typically) at discounted interest rates.

**Discount Rates:** Interest rate used in determining the present value of future cash flows.

**Ecotourism:** Responsible travel to natural areas that conserves the environment and improves the wellbeing of local people.

**Equity Financing:** Relies on risk sharing between lender and debtor and offers potentially large payouts during favorable economic conditions and little to no returns during economic crises. Provides investment vehicles including rotating funds, micro and traditional loans to equity and debt in addition to accessing and monitoring risks associated with investment.

**Feasibility Analysis:** Once the pre-feasibility analysis is complete and the investment project deemed viable, a more detailed assessment determining the viability of the project is undertaken.

**Financial Intermediaries:** They link savers with investors within and across countries including credit associations, microfinance operators, traditional banks and brokers, hedge funds, and other financial markets.

**Financial Leverage:** More long-term liabilities than shareholder equity.

**Gearing:** Fundamental analysis ratio of a company's level of long-term debt compared to its equity capital, expressed in percentage form.

**Geotourism:** Incorporates the concept of sustainable tourism while allowing for enhancements that protect the character of the locale. Extends beyond the ecotourism principle that tourism revenue can promote conservation and nature travel to encompass culture and history as well: all distinctive assets of a place.

**Hard Costs:** Costs associated with moving materials such as construction. Opposite of soft costs.

**Hurdle Rate:** Minimum amount of return a person requires before they make an investment.

**Impact Investing:** An investment strategy whereby an investor proactively seeks to place capital in businesses that can generate financial returns as well as an intentional social and environmental goal.

**Inbound Tour Operators:** Also referred to as ground operators or ground handlers, these companies organize in-country logistics and deliver tourism-related services to visitors on pre-arranged or customized itineraries, including airport pick-up, local ground transport, hotel bookings, guide services, restaurant reservations, etc. They typically work in partnership with outbound operators in source markets to arrange itineraries.

**Internal Rate of Return:** The discount rate often used in capital budgeting that makes the net present value of all cash flows from a particular project equal to zero. Generally speaking, the higher a project's internal rate of return, the more desirable it is to undertake the project. As such, IRR can be used to rank several prospective projects a firm is considering. Assuming all other factors are equal among the various projects, the project with the highest IRR would probably be considered the best and undertaken first. (*Investopedia*)

**Investment Promotion Agency:** Organizational structures advocating investment opportunities, maybe government, private sector or NGO or quasi-government organizations.

**Microcredit:** Provision of credit services to individual borrowers with little to no collateral provided by legally registered institutions.

**Microfinance:** Financial services provided through small loans for poor and low-income individuals usually lacking access to capital or banking institutions.

**Migrant-backed Loans:** Allows migrants overseas to guarantee loans for individuals back home.

**Multilateral Aid:** Official development finance or aid mobilized from a representation of several governments to a recipient country.

**Mutual Funds:** Professionally managed collective investment pooling money from multiple investors to buy stocks, bonds, short-term money markets instruments, or other securities.

**Net Present Value:** Time series of cash flows defined as sum of the present values of the individual cash flows.

**Non-recourse Financing:** A loan where the lending bank is only entitled to repayment from the profits of the project the loan is funding, not from other assets of the borrower.

**Open Skies Policy:** A policy to eliminate all barriers to free and fair airline competition.

**Outbound Tour Operators:** Tour organizers and resellers in source market countries (and the destination country, if the domestic market is being targeted), including tour wholesalers and retailers.

**Payback Period:** The number of years it takes to return or pay back the original investment.

**Political Risk:** The amalgamation of all non-market factors in a country that negatively impacts an investment. They include civil insurrection or terrorism (both very effective at driving away visitors), regime change, and respect for rule of law (the degree to which new governments respect agreements, rules, and regulations established by previous governments).

**Pre-feasibility Analysis:** Completed in order to determine if a project is technically feasible and meets minimum requirements and whether or not the project is worth a second, more detailed and more costly feasibility study.

**Private Equity Funds:** Collective investment designed to invest in various equity securities. Typically limited partnerships with fixed terms.

**Project Cash Flows:** Projecting cash flows against operating expenses and debt and equity requirements over a certain period of time, the main source is gross operating profits.

**Remittances:** Transfer of money by a foreign worker to their home country.

**Residual Value:** The value of the project in terms of its selling value.

**Return on Investment:** Average annual profit expressed as a percentage to the initial investment.

**Sensitivity Analysis:** Financial analysis determining how different values of an independent variable impact a specific depending variable under a given set of assumptions, e.g. impact interest rates have on the price of a bond.

**Social Impact:** Impact activities have on the well being on an individual, families, and communities.

**Social Investing:** Use of investment to effect social change, also socially responsible investing.

**Soft Costs:** Costs associated with the manipulation of information such as studies and designs. Opposite of hard costs.

**Solidarity Lending:** Lending practice where small groups borrow collectively and group members encourage one another to repay, important building block of microfinance.

**Specialty Tour Operators:** Based on the rapidly growing trend that markets become more fragmented and specialized. Examples include operators that organize trips for bird watching, natural history, archeology, mountain climbing, cultural tours, etc. If a project is focused on a specialized activity or interest, these operators will be one of the most valuable sources of market-related information, and a critical partner in helping to promote the project once it becomes operational.

**Travel Agents:** Primarily retailers of à la carte travel-related services, most commonly airline tickets and hotel reservations, tickets to attractions, etc. In some developing countries the terms travel agent and tour operator are sometimes used interchangeably, or the definitions (above) reversed.

**Triple Bottom Line:** Returns on investment that are social and environmental as well as economical.

**Value for Money:** Judgment of the value of an attraction or activity relative to the cost incurred in its realization.

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# Annex A: RFP Example from TourismROI.com

**Title:** Strengthening Sustainable Ecotourism in and around the Nyungwe National Park in Rwanda

**Solicitation Number:** USAID-RWANDA-RFP-696-09-007

**Agency:** Agency for International Development

**Office:** Overseas Missions

**Location:** Rwanda USAID-Kigali

## SYNOPSIS

The United States Government, represented by the US Agency for International Development (USAID), is seeking proposals from qualified organizations interested in providing the services to implement the new USAID program concerning strengthening sustainable ecotourism in and around the Nyungwe National Park in Rwanda, as described in the attached solicitation.

This is a full and open competition, under which any type of US organization (large or small commercial [for profit] firms, educational institutions, and non-profit organizations) is eligible to compete. The procedures set forth in FAR Part 15 shall apply.

USAID plans to award a cost reimbursement completion-type contract. The anticipated ceiling price is over \$10,000,000.00 over a maximum five-year period of performance contingent on availability of funding. The offeror must propose costs that it believes are realistic and reasonable for the work. The proposals will be evaluated as part of a Best Value determination for contract award.

USAID encourages the participation to the maximum extent possible of small business concerns, small disadvantaged business concerns and women-owned small business concerns in this activity as the prime contractor or as subcontractors in accordance with Part 19 of the FAR.

Any amendments to this solicitation will be issued and posted on the website along with the RFP. Offerors are encouraged to check the FedBizoOpps website ([www.fbo.gov](http://www.fbo.gov)) periodically.

It is the responsibility of the recipient of this solicitation document to ensure that it has been

received from the internet in its entirety and USAID bears no responsibility for data errors resulting from transmission or conversion processes.

### **General Information**

Notice Type: Combined Synopsis/Solicitation

Original Posted Date: June 25, 2009

Posted Date: August 6, 2009

Response Date: Aug 17, 2009 3:00 pm

Original Response Date: Aug 17, 2009 3:00 pm EST

Archiving Policy: Automatic, 15 days after response date

Original Archive Date: September 1, 2009

Archive Date: September 1, 2009

Original Set Aside: N/A

Set Aside: N/A

Classification Code: R -- Professional, administrative, and management support services

NAICS Code: 541 -- Professional, Scientific, and Technical Services/541990 -- All Other Professional, Scientific, and Technical Services

### **1. Dates**

Publish Date: 6/25/2009

Revised Date:

Closing Date: 8/17/2009

### **2. RFP**

Tender Type: Request for Proposal

Agreement Type:

Estimated Value:

Category of Goods/Services: Professional, administrative, and management support services

### **3. Contact Information**

Contracting Authority: Department of State  
Contact Name: Aster K. Mekonnen, Sr. A&A Specialist  
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# Annex B: Tourism Sector Diagnostic Tool

## Investment Drivers

### UNDERSTAND INVESTMENT DRIVERS

PPT Tourism Sector Diagnostic Tool PDF  
IFC-PEP Pacific PPT; (Bartlett, 2011)

Tourism Sector Diagnostic Tool guiding principles — Sustainable tourism development requires approach recognizing and reconciling motivations, needs and functions of three critical interdependent tourism development drivers

1. Destination Image — supply and management
  - a. Local social, political and environmental conditions impacting tourism
  - b. Tourism HR capacity
  - c. Supporting infrastructure supply
  - d. Transport infrastructure supply
  - e. Tourism prioritization and leadership
  - f. Destination management capacity
  - g. Sustainable tourism planning and regulation
  - h. Tourism specific controls and regulations
  - i. Tourism offering
2. Market Demand
  - a. Marketing and promotion effectiveness
  - b. Market perceived destination image and appeal
  - c. Market access to destination and the visitor experience
3. Investment Climate
  - a. Investment image
  - b. Availability of tourism project dependent resources
  - c. Access to finance and financial services
  - d. Political and economic conditions
  - e. Regulatory and legal framework
  - f. Policy framework and institutional support for investors

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