

# Tourism, Microfinance and Poverty Alleviation



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Calle Capitán Haya, 42  
28020 Madrid, Spain

## **Tourism, Microfinance and Poverty Alleviation**

Recommendations to Small and Medium-Sized Enterprises (SMEs) and to Microfinance Institutions (MFIs)

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## Foreword

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Since the World Summit on Sustainable Development held in 2002, the World Tourism Organization (WTO) has been committed to making a more decisive contribution to the Millennium Development Goals established by the United Nations in 2000, especially regarding the first of these, poverty reduction, which states the aim of reducing by half the number of people living with less than one dollar a day by 2015.

If tourism is developed and managed in a sustainable manner from the economic, environmental and socio-cultural points of view, it can significantly help to improve living conditions for local populations in different destinations. Amongst the reasons for this are its fast geographical expansion and constant growth, the wide variety of economic activities it involves, the fact that it can be developed in isolated locations where other activities would be impossible, and the fact that it is largely made up of small and micro enterprises.

WTO has produced two technical works. The first shows the capacity of tourism for reducing poverty levels, and the second gives practical recommendations to governments and private and non-governmental agents for maximizing the benefits from tourism for poor people.

However, the potential of tourism to fight poverty in developing countries, especially the least advanced countries, is closely linked to access to finance. In its new capacity as a specialised United Nations agency, WTO recognizes this constraint and aims to contribute to the International Year of Microcredit declared by the UN for 2005. By providing the destitute with the means to develop their own source of revenue, microfinance helps improve the living conditions of over 60 million of the almost 3 billion people who are excluded from basic financial services.

By joining up with PlaNet Finance, WTO aims to achieve synergies with an organization that is recognized in the field of microfinance and to offer public and private agents, especially small and micro tourism entrepreneurs living in impoverished areas, with a practical tool to help them use microcredits in tourism projects.

This publication resulting from collaboration between WTO and PlaNet Finance gives an overview of the impact of tourism on poverty reduction. It helps to bring tourism and microfinance together, identifying opportunities for tourism to reduce poverty in developing countries and pinpointing the potential role and the reality of microfinance in solutions for tourism micro projects.

The report also aims to promote cooperation between microfinance institutions (MFI) and the tourism sector as a whole, encouraging these institutions to adapt their conditions for granting loans to the specific characteristics of tourism activity. WTO and PlaNet Finance will be continuing their efforts in this direction.

The World Tourism Organization would like to thank Professor François Vellas for drawing up this study, as well as Meriem Taouzi, Delphine Bazalgette and Fatim Zahra Benharbet from PlaNet Finance Morocco who, under the supervision of Sébastien Duquet, carried out research in Morocco.

The World Tourism Organization is the only inter-governmental institution, which serves as a worldwide tribune for matters relating to tourism policy and other problems in the sector. Its Members comprise 152 countries and territories as well as 350 affiliate members from the public and private sectors. WTO's mission is to foster and develop tourism as an important means of promoting peace and understanding amongst nations, economic development and international trade.

PlaNet Finance is an organization for international solidarity. Its mission is to reduce poverty worldwide by developing microfinance. PlaNet Finance supports microfinance institutions and speeds up their growth by bringing them together and providing them with services to strengthen their technical capabilities and their financial resources. PlaNet Finance works with the private sector (banks, financial institutions, international organizations and governments) to consolidate microfinance.

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# Introduction

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The great increase in tourism means that most countries consider it to be an economic activity of the future and something of a “passport for development”. However, for many developing countries, growth in the tourism sector is still held back by a lack of funds and because it is difficult for the poorest populations to gain access to appropriate loans.

The World Tourism Organization is keen to find solutions to the many problems involved in financing tourism development initiatives, especially in developing countries and the least developed countries. It has therefore carried out a study with microfinance institutions (MFI) and, in particular, with PlaNet Finance, into the possibilities of adapting microcredit to the specific needs of the tourism sector.

Microcredit is one of the best methods for fighting poverty, which today affects more than one billion people who live with less than 1 dollar per day, and 2.7 billion who have less than 2 dollars per day. Access to microfinance helps to fight poverty on a large scale, according to the 2004 report by United Nations on the « Millennium Development Goals ». As stated by Mohammad Yunus, the creator of the Grameen Bank and the initiator of microcredit in Bangladesh, microcredits have grown very fast, reaching 7.5 million families in 1997 and 65 million in 2004, 12 of them in Bangladesh. The aim is to provide microcredits to more than 100 million families by the end of 2005.

This steep increase in microcredit suggests it will move into new sectors apart from small-scale retail, repairs and handicrafts. Tourism, which is largely made up of small and medium enterprises (SMEs) with many individual entrepreneurs, could be considered a sector in which microcredit could be introduced on a large scale.

But the specific characteristics of the tourism sector must be taken into account. This is the purpose of this report, which covers the potential, but also the limits for adapting microfinance to the tourism sector, especially international tourism.

Five main points will be analysed:

- The characteristics of tourism in the world and in developing countries
- Tourism and poverty
- SMEs and the tourism sector
- Financing tourism SMEs and microcredits
- Recommendations for SMEs, MFIs and governments



## Chapter 1

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# **Tourism in the world and in developing countries**

Current trends in international tourism confirm a marked increase in arrivals and in international tourism receipts. Most developing countries are now participating in the economic activity of international tourism, especially the newly industrialized countries, which have become new countries for tourism. There are increasing numbers of tourists in Africa and the Middle East, in South America and the Caribbean, and in the Asia Pacific region. These regions have more than doubled their share of the world tourism market since 1975. In 2003 they accounted for 31% of international tourist arrivals and 29% of total tourism receipts.

However, it is still difficult for many developing countries to reap benefits from tourism because of a lack of transport and accommodation facilities to meet the requirements of international tourists. The economic activity of tourism is classified within the services sector. But in some ways it is similar to an industrial activity, having certain characteristics of heavy industry in that it needs large investments and long repayment periods, especially in the field of hotel accommodation and the hospitality sector.

Not only does the tourism accommodation sector need direct investment but it also requires infrastructure in the form of airports, drinking water networks, power supply and surface transport. Such investments are beyond the means of certain of the least developed countries, especially when tourism locations are in places to which access is difficult.

Moreover, tourism is a services sector that needs large numbers of qualified staff, but many developing countries do not have the necessary training facilities to meet these needs.

Under such conditions, for most developing countries tourism is a sector of interest for the future but also one, which is difficult to develop because of a lack of suitable means and tools. The paradox is that there is an ever-increasing disparity between the standard of living and customs of international tourists and those of local populations. With no political actions and technical assistance, there is therefore a risk that tourism development will ignore the specific characteristics of each country or the visitors' requirements.

## **1.1 Tourism in the world**

World tourism is characterized by a very sharp increase in international tourism flows with regard to both arrivals and receipts. These trends are amplified by the great concentration and regionalization of tourist flows.

These two characteristics explain why European countries are in the lead in worldwide tourism. Europe benefits from the effects of tourism regionalization because almost three-quarters of international tourism relates to movements of residents in one country to another within the same region. Worldwide tourism demand is characterized by considerable growth in both quantity and quality, both of which have a direct influence on the world tourism market.

### 1.1.1 Growth in world tourism

International tourist arrivals in the world have more than tripled in about thirty years. In 1975, the World Tourism Organization recorded 222 million international tourist arrivals, with 760 million in 2004. Growth in international tourism receipts has been faster and more regular than that in tourist arrivals. World tourism receipts amounted to just US\$ 102 billion dollars in 1980 and in 2003 they reached US\$ 523 billion.

#### World tourism: arrivals and receipts (1970-2003)

Year	Arrivals (millions)	Receipts (US\$ billions)
1970	165	18
1990	457	268
1993	519	322
2003	691	523

Source: WTO, 2004

### 1.1.2 Tourist movements by region

Although it has seen slower growth than other regions of the world, Europe continues in the lead in terms of international tourist arrivals with 58% of the world total. However, in terms of receipts, the European countries only have 54%. Eastern Asia and the Pacific, as well as the Americas, have seen a proportionally higher level of receipts, which can be explained by a larger proportion of business tourists and tourists with high purchasing power, as well as longer stays. Trends in international tourist arrivals and receipts by region show that Africa and Southern Asia are well behind. They have insufficient infrastructure to achieve real development of the tourism sector, as well as limitations especially in transport, which make it difficult for them to compete with other regions.

#### International tourist arrivals and tourism receipts (2003)

Regions	Arrivals (Millions)	Arrivals (percentage)	Receipts (US\$ billions)	Receipts (percentage)
Africa	30.7	4.4	14.4	2.8
Americas	112.5	16.3	114.5	21.9
Asia/Pacific	112.9	16.3	88.9	17.0
Europe	399.3	57.8	285.0	54.4
Middle East	28.7	4.2	13.9	2.7
South Asia	6.7	1.0	6.5	1.2
<b>World</b>	<b>690.8</b>	<b>100.0</b>	<b>523.2</b>	<b>100.0</b>

Source: WTO, 2004

The differences between the different regions are still considerable and the gaps are widening. Between 1975 and 2003, the share of international tourist arrivals more than tripled for East Asia and the Pacific, from 3.9% to 16.3% of total arrivals, whereas during the same period the proportion for Southern Asian countries only grew from 0.8% to 1%.

### 1.1.3 The main tourism countries

In terms of international tourist arrivals, France is the clear leader, with more than 75.1 million tourists, ahead of Spain and the United States. Data for the main tourism destinations confirms that the European countries carry the greatest weight (with 10 of the top 15 countries for incoming tourists).

In terms of receipts, however, the United States is in the leading position, followed by Spain and France. Canada is one of the largest tourist generating countries in relation to its population. Also, Canadian tourism spending in foreign countries is amongst the highest in the world per inhabitant. On the other hand, the countries of Eastern Europe (Russia and Poland) are amongst the twenty top countries for international tourist arrivals but record very low levels of expenditure.

**Classification of countries by arrivals (2003)**

Country	Arrivals (millions)	Share of arrivals (%)
France	75.1	10.8
Spain	52.5	7.6
United States	40.4	5.8
Italy	39.6	5.8
China	33.0	4.8
United Kingdom	24.7	3.6
Austria	19.1	2.7
Mexico	18.7	2.7
Germany	18.4	2.6
Canada	17.5	2.5
Hungary	15.7	2.3
Hong Kong (China)	15.5	2.3
Greece	13.8	2.0
Poland	13.7	2.0

Source WTO, 2004

The flow of tourism receipts and expenditure essentially takes the form of North-North exchanges between industrialized or newly industrialized countries. This means that amongst the fifteen countries with the highest tourism receipts, there is not a single developing country although there are two newly industrialized countries – China and Mexico.

**Classification of countries by receipts (2003)**

Country	Receipts (US\$ billions)	Share of receipts (%)
United States	84.5	16.1
Spain	41.8	8.0
France	37.0	7.1
Italy	31.2	5.9
Germany	23.0	4.4
United Kingdom	22.8	4.4
China	17.4	3.3
Austria	14.1	2.7
Turkey	13.2	2.5
Greece	10.7	2.1
Canada	10.6	2.1
Australia	10.3	1.9
Mexico	9.5	1.8
Switzerland	9.3	1.8
Netherlands	9.2	1.8

Source WTO, 2004

The fifteen top countries from the point of view of tourism receipts account for almost two thirds of world tourism receipts, with over 60% of the world total.

The United States have by far the highest level of receipts, with over 16% of the world total. France is paradoxical in that its receipts are proportionally very low for its level of international tourist arrivals.

**1.1.4 The latest trends and prospects**

International tourism has continued to grow, in spite of economic and health crises, mainly in Asia and Latin America, but this dynamism is still fragile and largely depends on the effects of the international economic and monetary situation. Moreover, worldwide economic growth is also subject to the economic situation in the main generating markets of the United States, the European Union and Japan.

In this international tourism market, the latest trends are towards diversification in tourism destinations and products, based on qualitative adaptation to the future of the international market. International tourist arrivals worldwide can be expected to grow at a lower rate, with new destinations especially in Africa and Asia becoming stronger. The prospects published in the WTO report « Tourism 2020 » indicate that international tourism will continue to grow at over 4% a year until 2020, but at a lower rate than from 1950 to 1990.

#### Trends and prospects for world tourism

<b>Tourist arrivals</b>	<b>Average annual rate of growth (%)</b>
1950-1970	9.9
1970-1980	5.7
1980-1990	4.7
1990-1995	3.2
1995-2000	3.4
2000-2010	4.2
2010-2020	4.5

Source: WTO "Tourism – 2020 Vision"

These estimates indicate that international tourist arrivals worldwide will increase from 668 million in 2000, to 1,006 million in 2010 and 1,561 million in 2020, with a changing distribution of tourist flows amongst the main regions. The share for the Europe and Americas regions is likely to decrease by 2020 whereas that for other regions, especially East Asia and the Pacific, is expected to show a marked increase.

#### Prospects for tourist arrivals by region (in millions)

<b>Regions</b>	<b>2000</b>	<b>2010</b>	<b>2020</b>
Europe	403	527	717
East Asia & Pacific	112	195	397
Americas	129	190	282
Africa	28	47	77
Middle East	20	36	69
South Asia	6	11	19
<b>World total</b>	<b>698</b>	<b>1,006</b>	<b>1,561</b>

Source: WTO "Tourism – 2020 Vision"

The estimated annual rate of growth for 1995-2020 is 3.1% for Europe and 3.8% for the Americas. The rates for the other regions are much higher, these being where most of the developing or newly industrialized countries are located. The figures are 6.5% for East Asia and the Pacific, 6.7% for the Middle East, 6.2% for South Asia and 5.5% for Africa.

### 1.1.5 Trends in accommodation capacity by region

As a result of the above trends, the prospects for international tourism in developing countries are very promising. Everything will depend, therefore, on the policies adopted and on how tourism enterprises adapt to the needs of international tourism.

However, if accommodation capacity is studied, this shows great international imbalance in spite of the growth in the Asia and Pacific region. For example, in 2001 African countries had only 2.8% of the world total of tourism accommodation, and South Asia only 1.2%.

**Trends in hotel and similar accommodation capacity in the world 1990-2001 (number of rooms in thousands)**

Regions	1990	1995	2001
Europe	5,341	6,042	6,586
Americas	4,315	4,927	6,102
East Asia and Pacific	2,433	3,029	3,658
Africa	338	408	493
Middle East	179	198	382
South Asia	112	149	202
<b>World total</b>	<b>12,718</b>	<b>14,753</b>	<b>17,423</b>

Source: WTO, 2005

Note: One of the challenges faced by developing countries is therefore investment in increasing hotel capacity and other tourism accommodation. New methods of financing have an important role to play in this, one such being microcredit.

## 1.2 Tourism and developing countries

Tourism in developing countries, not including the newly-industrialized Asian countries, is growing fast, with 112 million arrivals, that is, over 16.2% of international tourist arrivals in the world. In terms of international tourism receipts, developing countries have an even larger share of the world total, with 19.3%, US\$ 100 billion. The international tourism sector is therefore essential for both economic development and foreign trade for a large number of developing countries.

**Developing countries in international tourism (2003)**

Countries	Arrivals (thousands)	Receipts (US\$ millions)
<b>Developing countries</b>	<b>112,052</b>	<b>100,869</b>
Least Developed Countries	7,145	3,486
China	32,970	17,406
Nic in Asia (8)	55,276	39,111
European Union (15)	290,205	191,537
United States / Canada	57,824	75,088
Australia / N.Z.	6,458	14,287
Japan	5,212	8,848
Other countries	123,668	72,597
<b>World total</b>	<b>690,810</b>	<b>523,229</b>

Source: World Tourism Organization

NIC in Asia: Hong Kong SAR, Republic of Korea, Chinese Taipei, Singapore, Indonesia, Malaysia, Philippines, Thailand

Analysis of world flows in arrivals and international tourism receipts shows that, alongside the developing countries, the NICs (Newly Industrialized Countries) in Asia have also become « new tourism countries ». Eight of them (Republic of Korea, Chinese Taipei and Hong Kong in North-east Asia and Malaysia, Indonesia, Philippines, Thailand and Singapore in South-east Asia) accounted for 8% of international tourist arrivals in the world in 2003, with 7.5% of receipts.

### 1.2.1 Growth in international tourist arrivals and tourism receipts in developing countries

The growth in international tourist arrivals has been faster in the developing countries than in the rest of the world, especially from 1990 to 2003.

#### Trends in international tourist arrivals in developing countries and in the world (1990 – 2003)

Regions	Percentage change 1990 -2003
<b>Developing countries</b>	<b>77 %</b>
Middle East	196 %
South Asia	112 %
East Asia / Pacific	109 %
Africa	105 %
Europe	44 %
Americas	23 %
<b>World</b>	<b>53 %</b>

Source: WTO, 1990 and 2003

Developing countries have also seen favourable trends in international tourism receipts, with growth above the world average.

#### Trends in international tourism receipts in developing countries and in the world (1990 – 2003)

Regions	Percentage change 1990 -2003
<b>Developing countries</b>	<b>+ 173 %</b>
South Asia	+ 221 %
Middle East	+ 163 %
Africa	+ 118 %
East Asia / Pacific	+ 107 %
Europe	+ 99 %
Americas	+ 65 %
<b>World</b>	<b>+ 94 %</b>

Source: WTO, 1990 and 2003

The developing countries' share in international tourism receipts has been growing faster than that for arrivals, especially for countries in South Asia, the Middle East and Africa.

### 1.2.2 Increased imbalance in tourism amongst developing countries

Analysis of the intra-regional distribution of tourist arrivals and receipts shows very high levels of concentration of tourist flows within a single developing region.

Thailand alone records higher figures for tourist arrivals and receipts than all the countries of South Asia taken together (Afghanistan, Bhutan, India, Iran, Maldives, Myanmar, Nepal, Pakistan and Sri Lanka). And in Africa, Morocco and Tunisia recorded higher tourism receipts – US\$ 6,509 million – than East, West and Central Africa together for which the 2003 figure was US\$ 4,257 million.

**Comparison of the weight of developing countries by country and by region (2003)**

Country or region	Arrivals (thousands)	Receipts (US\$ millions)
Thailand	10,082	7,822
South Asia	6,673	6,509
Africa	30,680	14,368
Morocco + Tunisia	9,666	4,804
Central Africa	670	171
East Africa	7,647	2,720
West Africa	2,695	1,366

Source: WTO, 2004

It should be noted, however, that there are some countries with very high rates of growth in each of the developing regions, as shown in the following table.

This very fast growth in international tourism in developing countries is the result of several factors relating to their image for tourism and the promotion policies undertaken on the main generating markets. But this position is, above all, the result of investment opportunities which have been taken up in most of these countries and which require extensive funding. This explains the success achieved by the newly industrialized countries for which it is easier to find the necessary capital for tourism development.

**Developing countries with a fast-growing tourism sector**

Country or region	Trends in arrivals (in thousands)		Annual average growth rate (%)
	1992	2003	
East Asia and the Pacific			
Cambodia	412	762	5.75
China	16,512	32,972	6.49
Indonesia	3,064	4,467	3.49
Malaysia	6,016	10,577	5.26
Thailand	5,136	10,082	6.32
Africa			
South Africa	2,703	6,640	8.51
Namibia	234	695	10.40
Mauritius	335	702	6.96
Tanzania	202	552	9.57
Ghana	213	483	7.73
Americas			
Cuba	455	1,847	13.58
Dominican Republic	1,415	3,282	7.95
Costa Rica	610	1,329	7.34
Brazil	1,692	4,091	8.36
Peru	217	931	14.16
Chile	1,283	1,614	2.11
South Asia			
India	1,868	2,750	3.58
Maldives	236	564	8.24
Middle East			
Saudi Arabia	2,582	7,332	9.95
Bahrain	1,419	2,955	100.30
UAE	944	5,871	18.08
Jordan	661	1,573	8.20

Source: WTO

The lack of investment in tourism also explains why a large number of countries, especially low-income countries, have seen slow tourism development and, in some cases, a drop in recent years.

**Developing countries with a decreasing tourism sector**

Country or region	Trends in tourist arrivals (in thousands)		Annual average growth rate (%)
	1990	2003	
<b>Africa</b>			
Burundi	109	36**	-9.58
Djibouti	33	23	-3.23
Benin	110	72*	-3.78
Côte d'Ivoire	196	180	-0.77
Gambia	100	79*	-2.12
DR Congo	55	35	-4.03
Sierra Leone	98	37	-8.47
Togo	103	61	-4.65
<b>Americas</b>			
Montserrat	13	8	-4.32
Haiti	144	142**	-0.13
Colombia	813	620	-2.43
Paraguay	280	268	-0.40
Venezuela	525	337	-3.35

Source: WTO, 2004

\* 2002, \*\*2001

In most of the countries which have seen a decrease in international tourist arrivals, the cause has been political instability and security risks which exert a very great influence on international tourism demand. But the tourism situation varies greatly from country to country and region to region, and is especially sensitive to the economic situation as can be seen in some countries, especially in Africa, which have also suffered from this decrease in tourist numbers.

### 1.2.3 The weight of Least Developed Countries (LDC) in international tourism

There are about fifty least developed countries. These are the developing countries with the lowest levels of income per inhabitant and poor social, educational and economic situations. So far they have mostly been unaffected by world tourist flows to any significant extent, but the rate of growth in tourism in such countries is higher than the world average, which means that the tourism sector could help some of them to fight poverty.

International tourist flows towards the LDC as a whole have increased fast but the level of tourism development varies greatly in the different countries. For some of them, international tourism is practically insignificant because of their political and economic instability and the lack of transport infrastructure. However, taken together, the LDC have a higher rate of growth in tourism than the world average, especially over the period from 1992 to 2003. But in spite of such high growth, it still represents a very small part of world tourism.

- **Trends in international tourist arrivals in Least Developed Countries**

The LDC recorded 2.3 million arrivals in 1998, that is, 0.58% of total international tourist arrivals in the world. By 2003, their share had almost doubled, reaching 1% with 7.1 million arrivals. This indicates that the rate of growth is continuing to increase significantly.

**International tourist arrivals in LDC (in thousands)**

<b>Country</b>	<b>1988</b>	<b>1998</b>	<b>2003</b>
Angola	39	50	107
Bangladesh	121	163	245
Benin	75	152	72*
Bhutan	2	5	6
Burkina Faso	83	140	163
Burundi	82	15	36 **
Cambodia	20	220	701
Cape Verde	18	52	140
Central African Rep.	5	20	-
Chad	21	8	21
Comoros	8	27	19 *
Djibouti	29	19	23
Eritrea	-	414	80
Ethiopia	76	121	175
Gambia	102	87	79*
Guinea	-	99	44
Haiti	133	150	142 **
Kiribati	3	4	5*
Lesotho	110	115	-
Madagascar	35	133	139
Malawi	99	215	421
Maldives	156	403	485
Mali	36	85	70
Mozambique	-	-	900
Myanmar	26	194	206
Nepal	266	435	338
Niger	33	18	58*
RD Congo	39	32	35
RD Laos	25	260	196
Rwanda	36	2	-
Samoa	49	71	92
Sao Tomé and Príncipe	1	2	9
Senegal	-	-	354
Sierra Leone	75	50	37
Solomon Islands	11	16	-
Somalia	40	10	-
Sudan	37	17	52*
Tanzania	130	447	552
Togo	104	49	61
Uganda	40	238	305
Vanuatu	16	51	50
Yemen	60	81	148
Zambia	108	382	578
<b>Total</b>	<b>2,366</b>	<b>5,087</b>	<b>7,145</b>

Source: World Tourism Organization, \* 2001, \*\* 2000

Country by country analysis shows particularly fast growth for Bangladesh, Burkina Faso, Cambodia, Cape Verde, Ethiopia, Malawi, Myanmar, Maldives, Uganda, Tanzania, Zambia and Yemen, which together recorded over 3.9 million arrivals in 2003 in comparison with just 0.94 million in 1992.

But tourist arrivals decreased in some LDC that suffered political or economic crises, namely, Burundi, Togo, Sierra Leone and Somalia.

- **Trends in international tourism receipts in LDC**

Growth in international tourism receipts was particularly fast for LDC, rising from US\$ 1 billion in 1992 to US\$ 2.2 billion in 1998 and US\$ 3.5 billion in 2003. However, these receipts resulted in a smaller share than that for arrivals, with just 0.66%.

Analysis of receiving countries shows that international tourism receipts were very concentrated. Just six countries – Cambodia, Maldives, Nepal, Uganda, Senegal and Tanzania – accounted for 52% of total international tourism receipts for all the LDC in 2003.

The highest rates of growth were recorded in Cambodia, Tanzania, Myanmar, Bangladesh, Samoa and Laos.

**International tourism receipts in LDC (US\$ million)**

Country	1988	1998	2003
Angola	-	9	71
Bangladesh	13	65	57
Benin	40	33	85***
Bhutan	1	6	8
Burkina Faso	11	39	20***
Burundi	4	2	1
Cambodia	-	143	389
Cape Verde	3	17	85
Central African Rep.	5	6	3*
Chad	7	10	25*
Comoros	3	26	-
Djibouti	5	4	-
Equatorial Guinea	-	-	14**
Eritrea	-	75	73*
Ethiopia	19	40	72*
Gambia	18	33	-
Haiti	19	96	93
Kiribati	1	2	3 **
Lesotho	-	20	20*
Madagascar	20	74	76
Malawi	11	8	33
Maldives	55	292	402
Mali	38	28	104*
Mauritania	12	11	-
Mozambique	-	-	98
Myanmar	8	35	58
Nepal	94	124	199
Niger	11	18	28*
RD Congo	7	2	-
RD Laos	1	68	87
Rwanda	7	17	31*
Samoa	18	43	53
Sao Tome and Principe	1	2	10*
Senegal	-	-	184
Sierra Leone	15	57	-
Solomon Islands	5	7	-
Sudan	29	6	118
Tanzania	40	431	450
Togo	36	15	13*
Uganda	8	142	189
Vanuatu	18	52	46 **
Yemen	21	69	139
Zambia	5	90	149
<b>Total</b>	<b>638</b>	<b>2,222</b>	<b>3,486</b>

Source: World Tourism Organization, \* 2002, \*\* 2001

In spite of the difficulties some of the LDC face, they have great potential for fast development of international tourism because of their labour costs and many unexploited natural resources for tourism. But one of the main problems for them is to find local, and especially, international finance for investment in tourism.

For the vast majority of LDC, tourism is both essential and a fast-growing sector. However, they face many difficulties for exporting tourism services, such as:

- exchange controls and restrictions on the transfer and use of the foreign currency received by tourism enterprises,
- obstacles for the development of business tourism resulting from restrictions on business by foreign enterprises,
- restrictions on movement by tourists and visa requirements, and
- distortion resulting from non-competitive or discriminatory practices on the part of tour operators.

In order to remove these obstacles and to create appropriate conditions for tourism development so that a significant contribution can be made in LDC to the fight against poverty, it is essential to formulate strategies of poverty reduction through tourism, to integrate tourism into poverty reduction national strategies, and particularly, to set up adapted microfinancing systems for the tourism sector. These aspects are dealt with in the following chapters.



## Chapter 2

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### **Tourism and poverty**

Fighting poverty is a major challenge, in which tourism can make a significant contribution. However, it is important to analyse the basic concepts behind specific policies and actions that would allow tourism to be effective, like the possibilities offered by microcredit. In fact, tourism development must be properly managed, avoiding anarchic, speculative development, so that it can be transformed into benefits for the local people and their environment.

The importance of tourism for reducing poverty was analysed in the WTO report issued in 2004 entitled "Tourism and poverty alleviation: Recommendations for action". This report listed seven areas of action through which tourism development could fight poverty, with several of them relating to the possibilities created by microcredit.

After analysing each of these approaches, a methodology must be drawn up for selecting the most effective projects from two points of view - interest for tourism and impact on poverty reduction.

#### **2.1 Seven approaches for achieving benefits for the poor from tourism development**

The seven approaches identified in the WTO report are as follows:

1. Employment of the poor in tourism enterprises
2. Supply of products and services by the poor to enterprises in the tourism sector
3. Direct sale of products and services by the poor to the tourists
4. Creation and management of tourism enterprises by the poor
5. Tourism taxation to benefit the poor
6. Voluntary actions by tourism enterprises and tourists
7. Investment in basic infrastructure to develop tourism while benefitting the poor

These methods can be adopted either separately or together, depending on the tourism projects under consideration.

##### **2.1.1 Employment of the poor in tourism enterprises**

The first step for promoting employment of the poor in tourism enterprises is to encourage the creation of tourism enterprises, especially SMEs and microenterprises, close to the places where the poorest populations live. If tourism enterprises are far from the poor regions, the cost of transport may represent an extremely important obstacle to employment for local inhabitants.

Employment of the poor is also difficult because of the geographical isolation of the poor, especially those living in the rural environment. There are also other important obstacles to employment of the poor in tourism, especially regarding education and training.

Under these circumstances, employment of the poor requires the following:

- Methods must be drawn up allowing them to 'catch up' on their education and training with the use of international partnerships and suitable teaching support.
- Tourism development projects should be set up even in isolated rural areas. This requires that investments form part of tourism development schemes.

*Actions to promote employment of the poor in tourism may involve microfinance, especially for financing programmes to strengthen capacity.*

### **2.1.2 Provision of products and services by the poor to tourism enterprises**

The aim is to maximize the economic impact of tourism expenditure in order to benefit local economies, especially those of the poorest populations. This is especially important for fighting poverty but it is difficult to achieve. For example, supplies such as food products are needed for hotel and catering establishments, but there are limited possibilities for such needs to be met by local producers and especially small production units. For a hotel or restaurant to function correctly, supplies have to meet three main conditions regarding **regularity, volume and quality**.

- Regularity means that the products must be delivered on a set date all year round
- Volume refers to the exact amount of products to be delivered on each occasion
- Quality means that each delivery must meet certain standard criteria.

*The use of microfinance should allow poor populations to invest so that they can participate in tourism development by supplying products and services to tourism enterprises based on the three conditions of regularity, volume and quality.*

### **2.1.3 Direct sale of products and services by the poor to the tourists**

This approach to fight poverty is one of the most widely used. The aim is to take advantage of the potential of the informal sector by multiplying the activities and services that can be provided to tourists. Two such activities, frequently used in destinations, are the sale of handicrafts and the services of guides at tourism sites.

It must be remembered, however, that although these activities come from the informal economy, instead of benefiting the poor they often benefit intermediaries. Practical methods must therefore be devised to ensure that the maximum revenue from sales to tourists go to the poor populations. This requires the creation of information, awareness and training programmes so that there is more direct contact between tourists and receiving populations in order to allow greater benefit to be achieved from the sale of products and services to tourists.

*This approach clearly falls within the area of microcredit in that it allows the creation of micro activities that are closely linked to the development of tourism, often with minimum investment.*

### **2.1.4 Creation and management of tourism enterprises by the poor**

This approach is of great interest because it brings sustainable solutions to the problems of poverty. Although many people are sceptical about the implementation of such measures, many examples show that the creation and management of tourism enterprises by the poor is a realistic possibility. Enterprises must, however, start out on a small scale as microenterprises, perhaps functioning informally or seasonally.

What is essential is that microenterprises should allow its owners to develop their responsibility and know-how working individually or in groups of two or three. Such individual activities in the tourism sector can be carried out without the need for investment in infrastructure, that they so are accessible for poor populations.

*This approach ties in with the possibilities of microfinance for the creation and management of tourism enterprises for the poor provided that specific, viable areas are identified in which micro tourism enterprises would be able to function in a sustainable way.*

### **2.1.5 Tourism taxation to benefit the poor**

The possibility of using taxation to ensure that poor populations benefit from tourism development is extremely important because it can lead to redistribution of revenue from tourism on a national level. It is necessary to first ensure that this type of measure is possible within the fiscal regulations of the individual country, as in many countries fiscal revenues are not allocated in advance in order to guarantee freedom of action for their governments.

It is also important to achieve maximum efficiency of tax measures to the extent that it may be preferable to set up fiscal incentive measures rather than just increasing tax pressure. Tax reductions for enterprises which participate in programmes to fight poverty or which take actions to directly reduce poverty might be appropriate and effective.

*Such measures might indirectly encourage the use of microfinance, in that fiscal policy for fighting poverty aims not only to redistribute income amongst the poor but also to reduce poverty by encouraging SMEs to become involved in specific poverty-reducing actions.*

### **2.1.6 Voluntary actions by tourism enterprises and tourists**

Voluntary actions constitute an important approach for tourism to help fight poverty. There are three main methods:

- Enterprises may provide aid to poor populations in the form of social and educational programmes which they finance directly in the countries where they carry out international tourism activities.
- NGOs may carry out aid programmes and technical cooperation projects linked either directly or indirectly to tourism, such as actions to promote sustainable tourism and training and the inclusion of people normally excluded from tourism activity.
- Individual tourists may be encouraged to visit some regions if they know that a large share of their expenditure will be used to finance poverty reduction programmes. This falls within the framework of 'responsible' or 'solidarity' tourism. Tourists may also participate directly in the fight against poverty by volunteering to work during their holidays on programmes for technical aid, awareness or training.

*This approach can be a very important means of developing microfinance provided that it is not limited to financial contributions but is based on a real exchange of know-how with the aim of reducing poverty in the framework of structures such as PlaNet Finance.*

### **2.1.7 Investment in basic infrastructure to develop tourism while benefiting the poor**

This approach has been adopted extensively in current programmes. Clearly, when tourism projects are implemented, they require investments in infrastructure which normally become available to the local populations, thus helping to alleviate poverty. However, investments in communications, power supply and drinking water networks are extremely costly.

*This type of investment is essential for creating a suitable context for micro projects which might need microfinance. When tourism development projects are identified as aiming to fight poverty, they may become operational thanks to the use of additional funding from microcredit.*

With microfinance, it may be possible to establish the means for setting up new tourism development projects based on the utilization of local resources.

## **2.2 Implementation of tourism development projects to reduce poverty**

The methodology for implementing tourism projects to reduce poverty was set up by the first regional missions and seminars held by WTO during 2004, especially in Africa. It comprises four main stages which are essential for ensuring the success of microfinance actions to be carried out in the tourism sector:

- Ensuring that the necessary conditions exist for tourism projects
- Definition of tourism criteria in development projects
- Measurement of the project's capacity to contribute to the fight against poverty
- Assessment of conditions for marketing and cost-effectiveness

### **2.2.1 Prior conditions for setting up tourism projects**

The conditions required for setting up tourism development projects relate to the infrastructure needed to receive tourists, with investment in communications, especially roads, the provision of drinking water, electric power and telecommunications as well as basic health coverage. For each of these, a detailed analysis should be carried out:

- **Accessibility**

Year-round accessibility must be assured. In many tropical countries, in the rainy season it is impossible to reach potential tourism sites. It is therefore necessary to consider the investment required to guarantee year-round accessibility. This would also benefit the local populations and would allow the development of tourism SMEs.

- **Drinking water supplies**

The supply of water, preferably drinking water, is an essential condition for receiving tourists. In many rural areas, water resources are very limited and water is of insufficient quality, making it necessary to sink wells or lay pipes. Such actions would also benefit the local populations and may provide opportunities for local SMEs.

- **Electricity**

If tourists are to stay overnight, electric power is necessary. This poses many problems in isolated regions because high levels of investment are often required. The possibility of using renewable energy sources should be analysed, taking into account the technical and financial limitations involved in maintaining facilities. Such maintenance might provide opportunities for local SMEs.

- **Telecommunications**

Technical progress in cell telephony today can facilitate telephone links even in isolated regions, but this entails costly infrastructure which must be taken into account in tourism development because telephone links are essential for offering good conditions to visitors. The examples described in chapter 5 show

how mobile telephone networks can be of great assistance in developing micro commercial activities facilitated by microcredit, a direct benefit from tourism development.

- **Health**

The creation of basic medical and emergency facilities is also one of the basic conditions for tourism projects, especially in rural areas. It is necessary to establish the basic criteria to be adopted to meet the needs of tourists while benefiting local populations and allowing the development of new service activities.

*These prior conditions often entail large investments which are not possible through microcredits. They have to be included in national and international programmes in order to create the necessary conditions for the implementation of projects financed by microcredit. It is also important that such investments and tourism projects achieve a balance between the resources used for, and the expected effects of tourism development.*

## **2.2.2 Criteria for identifying tourism development projects**

Tourism criteria are essential for ensuring that tourism development programmes will be successful in assisting the poor. The interest for tourism of sites in which programmes are to be implemented must not be neglected. A satisfactory number of visitors will only be achieved if the attractiveness of the site is maintained by the projects to build accommodation and infrastructure. The following are the conditions required for satisfying such tourism criteria:

- **Tourism potential**

The region in which the tourism project is to be implemented should have potential for tourism development as defined in the criteria for sustainable tourism and ecotourism, especially with regard to biodiversity and natural resources in the form of fauna and flora. A precise study of such potential should be carried out, with comparisons with other tourism sites in the same region or in neighbouring regions. This inventory might be carried out by local SMEs or might represent an opportunity for other SMEs to promote certain of the tourism resources covered by the inventory.

- **Tourism assets**

The tourism assets of the precise site in which the tourism project is to be implemented should be evaluated, focusing on the layout of the site and how it can be adapted to receive visitors. It is important to take into account not only the creation of accommodation and catering structures but also leisure and sporting facilities. This analysis of the existing structure and of possibilities for extension might serve as a basis for market studies for prospective SMEs.

- **Tourism synergies**

Tourism synergies are very important for ensuring the success of tourism projects. It is important to ascertain the possibility of tourism excursions in a radius around the tourism project site as these might encourage the creation of SMEs and micro tourism enterprises.

*Thus, any project financed by microcredit must be based on its real attractiveness for tourists, this being essential if the project is to be successful and to bring in returns.*

### 2.2.3 Measuring capacity for fighting poverty

It is useful to be able to measure how projects that create tourist accommodation infrastructure at sites of interest for tourism can help fight poverty. The evaluation should involve a study of:

- the number of jobs created,
- the reduction of migration from the country to cities,
- the increase in revenue, and
- the creation of access of poor people to basic infrastructure.

Each of these factors can contribute to the fight against poverty.

- **Job creation**

The creation of jobs by setting up tourism development projects is one of the best ways of fighting poverty. However, in the poorest rural areas, rather than creating jobs in the traditional sense, such initiatives usually only offer part-time activities to complement agricultural work. It is therefore important to evaluate both the creation of jobs in tourism (if any) as well as the creation of part-time tourism activities which might involve more people than traditional jobs, especially in connection with tourism services offered by SMEs.

- **Reduction of the rural exodus**

It is clear that one of the main reasons for the extreme poverty existing in the LDC is migration from the rural communities towards the outskirts of the large cities. This phenomenon is mainly caused by the lack of prospects in agricultural villages. Tourism development may represent an opportunity for holding back such migration by offering other possibilities for income, apart from agricultural work. Ecotourism and rural tourism projects implemented by SMEs and microenterprises can therefore be of great importance in countries where the rural exodus is a problem, not only for preventing poverty but also for holding back the growth of shanty towns around cities.

- **Increase in revenue**

This is one of the basic indicators for the impact of tourism on poverty reduction. It can be evaluated in monetary terms in comparison with the monetary income of local populations. In this case, experience has shown that the impact might be very great because the revenue of rural populations basically just allows them to be self-sufficient, with monetary revenue being very low. In some cases, even a part-time tourist activity over 2 or 3 days a month might allow local populations to double their monetary revenue, which would amount to a very important impact in the fight against poverty. The use of microcredit might be of great importance in the creation and development of such micro activities.

- **Access to basic infrastructure**

Tourism projects often allow the population living at, or close to, tourism sites to benefit from roads and utilities such as electricity and drinking water. This means that measurement of the impact on poverty alleviation of tourism development can be based on the number of people who would benefit from such facilities.

Analysis of how tourism projects can reduce poverty shows the essential role that can be played not only by tourism SMEs but also by many other micro activities that can be set up with microcredit.

## 2.2.4 Tourist markets and marketing

A preliminary evaluation must be made of prospective markets and target clients in order to ascertain the economic and tourism viability of tourism development projects aiming to reduce poverty. It is essential to define the marketing conditions and the projected returns so that the tourism activity can become a permanent fixture, especially through the action of SMEs and microenterprises.

There are five main types of tourist for most tourism projects in rural or isolated areas:

- **National tourists**

The proximity of urban areas can be considered an asset in that it should bring in national tourists. Tourism sites are likely to meet the needs of city-dwellers for weekend leisure activities or for short stays.

- **Expatriate resident tourists**

Tourism sites set up in rural areas may also attract expatriate residents who can thus visit a new natural environment close to their place of work and residence.

- **Family visitors**

People visiting family or friends in the country are also prospective customers for excursions for short stays in such tourist sites.

- **Business tourists**

Business tourists might be prospective customers for excursions or short stays in a natural environment that is completely different to their urban working places.

- **International tourists**

This is the most important group. In order to guarantee the continued success of tourist projects aiming to reduce poverty, it is important to reach large numbers of tourists. This can be done through tour operator networks but also using technological methods via the Internet and websites.

In order for tourism to contribute to the fight against poverty, it should be based on three main areas:

- National and international policies, especially WTO's ST-EP initiative.
- Tourism SMEs present in the local areas where poverty is a problem.
- Microcredit to meet the needs of many enterprises or individuals linked directly or indirectly to tourism development.



## Chapter 3

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### **SMEs in the tourism sector**

SMEs and microentrepreneurs form the basis of tourism development in most countries in which tourism is developed, as in western and southern Europe. Such enterprises, both tour operators and suppliers of tourism services, create an extensive network which helps to distribute the economic returns of tourism over a broad area.

It is therefore important to determine practical means of developing similar small and microenterprises in developing countries, including least developed countries, in order to efficiently fight poverty. The encouragement of micro tourism activities based on microcredit could become an important driving force for tourism development in many developing countries. There are three main considerations that must be taken into account:

- The importance of SMEs in the structure of the tourism sector (chapter 3.1).
- The three main approaches to poverty reduction through SMEs and micro tourism enterprises (chapter 3.2).
- The broad impact of the fragmented tourism structure (chapter 3.3).

### **3.1 The structure of the tourism sector**

The tourism sector and its chain of suppliers comprise a very large number of SMEs and microenterprises. In the hotel sector, for example, it is estimated that 80% of capacity in terms of beds is held by independent establishments, many of which are family businesses.

#### **3.1.1 The economic characteristics of tourism**

In order for SMEs to provide accommodation and other tourist products, three essential characteristics regarding seasonality, qualification and training, and the non-stockable nature of production must be considered:

- **Seasonality**

Investment in tourism must take into account the fact that tourism services are mostly seasonal. So, not only are investments used during a short period of time during the year, but business structures and management have to be extremely flexible. This is difficult for SMEs which do not have such a sound financial backing as large enterprises. If the rate of occupancy of hotel accommodation in terms of the number of overnight stays in one year is considered, it is usually impossible for SMEs to employ people full time so they resort to low-paid family members.

- **Qualifications, training and development of tourism SMEs**

Qualifications and training play a specific role in tourism in that this is a services sector in which the « producer » is in direct contact with the « consumer ». It is therefore necessary to train new workers to deal with tourists, especially international tourists, which is not the case in other economic sectors such as agriculture or manufacturing industry. The need for training is especially important because tourism services require high-intensity labour and this is aggravated by the seasonal nature of tourism activity, which involves large numbers of temporary workers.

- **Non-stockability of tourism products**

Tourism services cannot be stored. If hotel accommodation or transport services are not used during a period they cannot be carried over to another period. This is costly and may have very serious consequences for SMEs which do not have the means for making up for insufficient sales with other production units or other complementary activities.

This means that the SMEs, which make up a large proportion of the tourism sector in many countries, have to face many management and funding difficulties.

### 3.1.2 The supply chain

Tourism enterprises use the services of many direct and indirect suppliers. SMEs, especially family-run enterprises, constitute the bulk of such suppliers. They are classified, like all tourism enterprises, into 7 main categories according to the WTO methodology for the Tourism Satellite Account:

1. Accommodation
  - Hotels and other lodging services
  - Second homes services on own account or for free
2. Food and beverage serving services
3. Passenger transport services
  - Interurban railway transport services
  - Road transport services
  - Water transport services
  - Air transport services
  - Supporting passenger transport services
  - Passenger transport equipment rental
  - Maintenance and repair services of passenger transport equipment
4. Travel agency, tour operator and tourist guide services
  - Travel agency services
  - Tour operator services
  - Tourist information and tourist guide services
5. Cultural services
  - Performing arts
  - Museum and other cultural services
6. Recreation and other entertainment services
  - Sports and recreational sport services
  - Other amusement and recreational services
7. Miscellaneous tourism services
  - Financial and insurance services
  - Other goods rental services
  - Other tourism services

This classification shows that there is a very broad range of activities that are directly linked to tourism. Many SMEs are present in sectors connected to tourism, such as agriculture or handicrafts.

*Note: Many micro activities and microenterprises could be developed through the use of microcredit, especially in the fields of rentals (bicycles, deckchairs, etc.) and repairs (sports and beach articles, etc.).*

### 3.1.3 Investment by tourism SMEs

The capacity of tourism SMEs to develop and prosper depends to a great degree on their investment capacity; so, it is important to evaluate the conditions under which they can use classic bank loans but also microcredit, either as the main source or a complementary source of finance.

The answer to this question will depend on the expected returns. Profitability plans can be drawn up to help in investment decisions. In the case of tourism SMEs, there are many financial and technical limitations which make new projects impossible as funds are not forthcoming from the traditional financial establishments. Under such conditions, the total or partial use of microcredit may amount to a new opportunity for new projects by SMEs and microenterprises. However, such tourism investments must be based on estimates of profitability in order to meet the requirements of good business management.

Three main problems are involved in the financing of tourism SMEs:

- Taking the investment decision.
- How to determine the investment amount.
- How to choose the type of funding.

- **Investment decision**

The investment decision is the basis for the creation and development of tourism SMEs. It must be based on two elements forming the business plan presented to the financial source to support the loan application.

- **Element 1:** The projected operating and profitability account. This comprises five main aggregates (gross margin, profits after wage costs, activity margin, operating profit and net profit) which can explain the investment decision for tourism SMEs and microenterprises.
- **Element 2:** Estimated tourist arrivals: The possibility of having appropriate information on projected receipts depends on the number of visitors expected and the prices charged. It is very difficult for tourism SMEs to evaluate future visitor numbers because most of them are unable to carry out market research. Their estimates will therefore inevitably be very approximate and may lead to investment decisions which are insufficiently rigorous or reliable.

This may lead to problems even in the case of microcredit which has to be granted in the framework of sufficiently reliable estimates so that expected numbers of visitors tally with actual visitors. For example, for an investment in tourism accommodation, estimates should indicate the percentage of rooms occupied every day on average, over one year, and should include the number of meals served on a daily and an annual basis. If this is not the case, the risks will be very great, even if the loan is based on group solidarity.

- **Investment amount**

It is essential to consider the amount of the investment needed for SMEs or microenterprises to invest in the production of tourism services. The decision will depend on the estimated gross margin after deduction of estimated costs and it will then be possible to determine the enterprise's capacity for financing the expenses linked to the investment and for obtaining a profit. The total acceptable investment for financing the project can then be based on the operating margin in line with certain parameters regarding repayments, financial costs and profits.

Two main cases can be identified depending on the rates of interest available to tourism enterprises:

### Case 1: Annual interest rate of 5% or less (high-income country)

For the construction of an accommodation facility, in the countries of the European Union classic credit is generally based on the following ratios: repayments amounting to a maximum of 4.5% of the investment, financial costs of a maximum of 5% of the investment, and estimated pre-tax profit of at least 4.5% of the investment.

In this case, the estimated investment by the SME depends on the estimated operating margin or gross operating profit (GOP), so:

$$\begin{aligned} \text{GOP} &= (4.5\% + 5\% + 4.5\%) \times (I) \\ \text{GOP} &= 14\% \times (I) \end{aligned}$$

Therefore, the maximum amount of the investment will be:

$$I = \frac{\text{GOP} \times 100}{14}$$

The ratio between financial costs and investment can be used to calculate the maximum amount of possible loans, and therefore access to bank credit, taking into account the current interest rate. So, in order to decide whether or not to invest, the SME or microenterprise should be able to compare the total cost of investment (I') with the total amount of the investment that is compatible with the investor's constraint (I''):

- If (I') is smaller than (I''), the investment is possible
- If (I') is greater than (I''), it would be best not to invest.

The estimated operating account can be used to decide in advance whether a tourism investment project is likely to be profitable or not.

### Case 2: Annual interest rate of 15% or more

In the case of least developed countries and with microcredit, the interest rates are usually much higher than those in high-income countries, reaching 15% or more per year. The possibility of finance must therefore be studied on the basis of such high interest rates, and this may limit the number of eligible projects. For example, if the financial costs are 15%, the calculation will be as follows:

$$\begin{aligned} \text{GOP} &= (4.5\% + 15\% + 4.5\%) \times (I) \\ \text{GOP} &= 24\% \times (I) \end{aligned}$$

Consequently the maximum amount of the investment will be:

$$I = \frac{\text{GOP} \times 100}{24}$$

In this case, the maximum investment possible will be smaller than in high-income countries with classic bank loans. This means that tourism projects are required to be very profitable, with a high rate of return, usually over less than three years. This poses problems regarding the choice of the type of financing.

- **Choice of financing method**

Investments can be financed either by bank credit or by leasing.

- In the case of tourism SMEs, **bank credit** is subject not only to profitability requirements but also depends on the personal investment. The conditions for granting loans include presentation of a satisfactory Business Plan and a personal investment which, in the hospitality sector, is about 30% of the total investment. Financial institutions have to be able to judge the compatibility of the project with other projects in the same area, taking into account estimated occupancy rates.

In developed countries, loans for the construction of accommodation facilities may have a duration of as much as 15 years with an interest rate based on market conditions (currently 4-5% per year). However, because of rules on competition, it is no longer possible in the EU countries to specifically favour tourism investments by granting loans at special rates. This possibility does, however, exist in most developing countries and may constitute an essential elements in policies to promote the tourism sector.

- **Leasing** is being increasingly used by tourism SMEs to finance their investments. Leasing is when an external specialist company finances all or part of the investment. This means that the SME does not have to finance the investments it needs. It is the leasing company which invests on behalf of the tourism SME and rents the goods, or the property in the case of real estate leasing, to the user firm for a certain period at the end of which the renting company may purchase it for a price similar to the residual value, that is, less than its market value at the end of the contract.

This method is particularly useful for financing small and medium hotel establishments. As with microcredit, no personal investment is required from the project leader who only becomes the owner of his investment at the end of the leasing contract. Moreover, financing by real estate leasing allows a company to only pay rent, which amounts to an advantage in fiscal terms while allowing it to acquire property through the right to the purchase option. This financial system seems especially suitable for tourism sector enterprises as these are often small, individual businesses which find it very difficult to purchase property.

*Note: It is therefore important to find out how microcredit can be used, for example, to buy furniture or kitchen goods, in combination with leasing. Leasing amounts to an opportunity for developing countries to increase and complete the range of financing possibilities for their tourism investments.*

The occupancy rate plays therefore an essential role in the profitability of a tourism investment for SMEs in the hospitality sector. The reliability of the estimated operating account depends on the estimated occupancy rate. Such estimates can be drawn up on the basis of market research which should be behind any sort of tourism investment and should be considered when adapting microcredit to the tourism sector.

### 3.1.4 Management of tourism SMEs

In order to sell their products, tourism SMEs face a number of management and marketing problems, especially regarding access to tourists generating country markets. In order to carry out an economic analysis of tourism SMEs, their investment criteria should be studied from the point of view of profitability, repayment, prices and customers. At present, in addition to independent SMEs, there are two methods for management and marketing that can be used by tourism SMEs – voluntary membership of chains, or franchising.

- **Voluntary membership of chains**

The purpose of voluntary chains is to bring together independent SMEs in order to promote the demand of domestic and foreign customers by creating loyalty. Such chains are built up around a quality brand image, with the idea of providing standard services from the point of view of architecture and fittings.

The main advantages of such voluntary chains for their members are: the publication of guides, Internet sites, centralized booking, management assistance and sources of finance.

These advantages allow a small, independent hotel to be present on the international tourism market while preserving its freedom of management. However, membership of such a voluntary chain has a cost for tourism SMEs, normally about 1% of the establishment's total sales.

- **Franchising**

Franchising systems allow SMEs to participate in the advantages of large hotel and tourism groups. Franchising offers an advantage for SMEs, which thus "belong" to the hotel group, with the franchiser providing the regulations, label, experience and reputation as well as technical and financial aid for making the investment. In such cases, the franchised SME benefits from the criteria of standardization and profitability of the chain.

However, the cost of a franchise can be very high, as much as 4% of the total sales in the hospitality sector and sometimes more. An entry fee of about 10% of the investment is required in payment for the services rendered by the chain for carrying out feasibility and market studies and for financial arrangements.

SMEs in the tourism sector and especially accommodation establishments face problems for financing their investments, and often choose to join large tourism groups either by adhering to voluntary chains or through the franchise system. However, this possibility often exists only in industrialized countries, which therefore have a considerable comparative advantage for the marketing of the SME's tourism products. In the developing countries, tourism SMEs are not always able to benefit from this possibility of joining large tourism groups such as tour operators and hotel chains. Moreover, access to classic bank credit is also difficult, especially because the financing of basic infrastructure for tourism development is not always guaranteed. Tourism SMEs in developing countries therefore face a whole set of obstacles limiting their contribution to the fight against poverty.

## **3.2 SMEs and three approaches to poverty reduction through tourism**

The capacity of SMEs and microenterprises to fight poverty depends on their being able to finance small-scale tourism activities which may be very fragile and vulnerable. Generally investments in the tourism sector require long-term capital. Such financial and technical constraints create a problem for microenterprises and for the role to be played by microcredit. The strict rules imposed on financing and on the management of tourism enterprises should also be applied to microenterprises, especially if they use microcredit to finance their investments.

Therefore, rigour should be exerted in all feasibility studies aiming to decide on the appropriateness of bank finance for tourism investments, in the financing of tourism infrastructure and facilities, and in management methods.

Three main approaches have been especially identified for the participation of the poor in tourism development, particularly through SMEs and microenterprises. These approaches have been observed in several countries in Africa, Asia and Latin America:

- Approach 1: Employment of the poor in SMEs
- Approach 2: Small suppliers of goods and services to tourism enterprises
- Approach 3: Small, local tourism operators from within the poor populations

### 3.2.1 Employment of the poor in SMEs

According to the Commission's report on the development of the private sector carried out by the United Nations General Secretariat and published in March 2004, the main contribution the private sector can make to the fight against poverty is for it to be made up of poor people working through microenterprises (see Chapter 1 "The private sector is important for the poor – and often is the poor"). However, it is often much more costly to set up SMEs in developing countries than in developed countries. The cost of starting up an SME is calculated at US\$ 5,531 in Angola – eight times the per capita income – as opposed to just US\$ 28 in New Zealand which is less than 1% the per capita income. (World Bank's Cost of Doing Business, Constraints on the private sector in developing countries, p.17).

This means that, in spite of the considerable potential for SMEs to employ the poor, the number of real experiences is limited. However, examples noted by WTO in Chile, Ethiopia and Central America indicate that tourism SMEs actually are employing the poor.

- **Case A1 - Chile: Creation of a network of microenterprises in the coastal region of Maule**
  - **Introduction:** The "Tourism in the coastal region of Maule" project covers six communes in which a network of micro tourism enterprises has been set up with the support of the local public authorities and with decentralized international cooperation with the aim of promoting a standard, quality tourism product.
  - **Funding:** 200,000 euros (Basque Government, FOSIS, municipal authorities and the Regional Tourism Department)
  - **Number of microenterprises involved:** 388, of which 114 participate directly in the network set in place within the programme
  - **Employment of the poor:** 70 people were employed in the first stage and received training, in addition to the microentrepreneurs
- **Case A2 - Ethiopia: Creation of the Bishangari lodge in the Oromo community**
  - **Introduction:** The Bishangari lodge is located 235 km from Addis Ababa, close to Langan lake in the Oromo community. The project covers the construction of about twenty up-market bungalows and is an example of a new tourism SME in Ethiopia.
  - **Funding:** 30% capital and 70% bank loan
  - **Employment of the poor:** 96% of the people employed come from local communities. Such people used to have to travel for 4-5 hours to find work other than local farming.
- **Case A3 - Central America: Nicaragua, Belize, Costa Rica, Guatemala, Honduras, El Salvador, Panama**
  - **Introduction:** the FODESTUR project brings together the countries of Central America with the aim of establishing a process of competitive tourism cooperation based on the important role of SMEs and microenterprises. The idea is to create favourable conditions for SMEs by employing the poor in the countries involved, while facilitating the creation of new SMEs and new tourism activities involving microenterprises.
  - **Funding:** 50% local public and private funds, and 50% German cooperation funds.
  - **Employment of the poor:** 119 tourism SMEs have reached partnership agreements to boost the sale of their products, creating jobs for the poor in these regions.

These three examples show that the employment of the poor by tourism SMEs is already an essential way in which SMEs and microenterprises can contribute to poverty reduction through tourism.

### 3.2.2 Small suppliers of goods and services to tourism enterprises

Every level of the tourism supply chain can be used to develop small suppliers of goods and services. This is the second way in which the development of SMEs linked directly or indirectly to tourism can help in the fight against poverty. Experiences carried out in Laos, Ecuador and Mozambique show that SMEs supplying tourism have a real impact and should be developed on the basis of microcredit.

- **Case B1 – Laos: Programme for the preservation and development for tourism of the town of Luan Prabang**
  - **Introduction:** The project entitled « Tourism and Heritage Site Management in the World Heritage Town of Luang Prabang » has the support of UNESCO and combines safeguarding and enhancing of the architectural and historical heritage of Luang Prabang with the development of integrated tourism in order to create possible outlets for small suppliers in the tourism sector.
  - **Funding:** PATA, UNESCO
  - **Number of jobs created:** 1,950, which represents 5% of the total working population in the Luang Prabang region.
  - **Results for small suppliers of goods and services to tourism enterprises:** Development of indirect activities, especially handicrafts and farming, and direct activities with the creation of 135 guesthouses in 2003 in comparison with just 29 in 1997, 86 official individual guides and 65 restaurants.
- **Case B2 – Ecuador: Development of rural tourism in the Morochos communities**
  - **Introduction:** The programme for the development of rural tourism in the Morochos communities is led by UNORCA (Cotachi Union of Farming and Native Organizations). Its aim is to create structures for reception and accommodation so that tourists can share in the life of the rural populations.
  - **Funding:** UNORCA and the Dutch AGRITERRA foundation (with US\$ 100,000).
  - **Number of people involved:** 480 families and, indirectly, the 39 native communities represented by UNORCA
  - **Results for small suppliers of goods and services to tourism enterprises:** Development of indirect activities, especially handicrafts and farming, and direct activities with 12 families owning tourism accommodation facilities, 5 families providing tourism guides, 5 families hiring horses and 3 administrative employees.
- **Case B3 – Mozambique: Development of beach tourism on the Indian Ocean**
  - **Introduction:** The « Tourism and Coastal Zone Management » programme aims to develop beach tourism along 700 km of the Indian Ocean coastline. It is led by the government of Inhambane province with cooperation from GTZ.
  - **Funding:** International cooperation (Germany, Denmark, Ireland and Canada) as well as a local contribution mainly from the private sector (US\$ 150,000 in the first stage).
  - **Results for small suppliers of goods and services to tourism enterprises:** Development of indirect activities, especially handicrafts and farming, and direct activities with 200 families providing goods and services to the tourism sector (farming produce and handicrafts). More than 50 families have benefited from training programmes.

Microcredit can play an essential role in the introduction of new products to be supplied to tourism enterprises.

### 3.2.3 Small, local tourism operators from within the poor populations

The development of local operators coming from within the poor populations involves microenterprises and micro activities which participate directly in tourism development. There are many opportunities in this field for microcredit as shown by the examples from Mali, Indonesia and Cameroon.

- **Case C1 – Indonesia: Programme to develop tourism in the village of Candirejo (Borodoubur)**
  - **Introduction:** The programme to create accommodation for tourists in the village of Candirejo close to Boroboudur was set up by local NGOs such as the Patra Pata Foundation with the participation of UNESCO and the support of the UNDP. The aim is to link the village to the tourism development of this region of Java which attracts many visitors to the temples of Boroboudur.
  - **Funding:** The project is financed by the UNDP (US\$ 280,000).
  - **Number of people involved:** 4,400 inhabitants of the village of Candirejo
  - **Results for small, local tourism operators from within the poor populations:** Development of micro enterprises, such as the rental of bicycles, and local accommodation structures (22 ).
- **Case C2 – Mali: Programme to support rural development and tourism on the Bani river**
  - **Introduction:** The programme to develop rural tourism along the Bani river involves populations of fishermen and farmers who have no access to employment within their district. The AEDR (Association for the support of Rural Development) aims to develop tourism activity in order to fight poverty.
  - **Financing:** AEDR and French cooperation (Centre for international cooperation in agronomic research for development – CIRAD, and volunteers working with a White Father who was behind the Teriya Bugu project).
  - **Number of people involved:** 50 employees in different activities, of whom 20 are directly involved in tourism.
  - **Results for small, local operators from within the local populations:** Development of micro entrepreneurs, especially in handicrafts and farming, directly linked to tourism, and the creation of a 20-room tourism centre with a 40 ha farm.
- **Case C3 – Cameroon: Development of tourism activities in Kribi**
  - **Introduction:** The development of small tourism activities to the south of Kribi is not the result of international cooperation but is the initiative of the young inhabitants of villages close to the beaches on the south coast close to Kribi. They prepare sectors of beaches for tourists, offering deckchairs and barbecued meals.
  - **Funding:** the young people from the villages have built the facilities and barbecues themselves.
  - **Number of people involved:** About one hundred young people, as well as suppliers of local products (farmers and fishermen).
  - **Results for small, local tourism operators from within the poor populations:** Development of microenterprises providing tourism services as well as indirect activities, especially fishing and farming, combined with the work being done by young people to receive tourists and provide open-air catering services.

The above examples show how tourism SMEs can make an effective contribution to poverty reduction in developing and least developed countries. However, the main approaches (employment of the poor, the

provision of goods and services by the poor and the creation of small, local tourism operators amongst the poor) should not be treated separately. The three approaches provide a set of practices enabling tourism SMEs to reduce poverty. In order to enhance their activity, they need to receive the financial means for development, which in many cases will be microcredit, especially for microenterprises.

### **3.3 SMEs and the fragmented structure of tourism**

Small and microenterprises, whether acting as a tourism company or as a supplier to them, usually establish a broad, informal network in such a way that the economic benefits of tourism are widely distributed. Providing support to the development of the tourism sector, therefore allows the creation of an economic basis, on which whole regions or countries in a difficult situation can rely upon. For this, support for the development of SMEs should be based on:

- Adaptation of the concept of investment
- The need for sufficient profitability
- The need for national support strategies
- The need for technical training
- The need for suitable funding

One of the characteristics of tourism SMEs is that businesses are not necessarily concentrated in the main tourism areas or resorts but are distributed all over the territory, especially in rural or relatively isolated regions. If such SMEs are to develop, they need the support of a favourable context for investment.

#### **3.3.1 Adaptation of the concept of investment**

In general, investments in tourism and especially accommodation SMEs require relatively large amounts of capital. It is necessary for short and long-term capital to be found for the construction of tourism accommodation, and this is similar to real estate investment. Certain traditional tourism sectors are often beyond the reach of the poor populations, and individual investors do not have access to sufficient traditional bank loans. Therefore, in addition to participation by the poor in tourism investments through a new approach based on microcredit, it is necessary to reconsider the concept and volume of tourism investments by searching to considerably reduce the amount involved through the use of new concepts and new techniques.

With regard to what can be called new tourism investments, the sums of capital required should be much smaller than in the past while continuing to offer tourists good quality and service. This new concept for tourism investment is necessary to both fight poverty and to allow tourism investment projects to be directly compatible with the investment capacity of local populations and with their possibilities for gaining access to microcredit.

The surveys carried out in Cameroon in the framework of WTO's ST-EP programmes provide an example of the possible reduction in the investment cost of hotel structures close to parks. To date, the construction of a tourism accommodation facility, such as that at the entrance to the National Park close to Maroua, costs about US\$ 20,000 per bungalow, including electricity and air conditioning. This very large sum is totally unrelated to the resources available to the local inhabitants. In regions of very severe poverty, the local inhabitants have extremely limited, or non-existent, monetary resources. For example, in these parts of north Cameroon, families find it very difficult to send their children to school even though the monthly cost of registration at primary school is minimal, about US\$ 0,20 per child per month.

Any tourism development project aiming to fight poverty should take this constraint into account. The cost of building tourism bungalows should not represent a basic constraint in international tourism development efforts targeting the poor, and should be related to the economic reality of the local inhabitants. It is therefore necessary to find a technical way of bringing traditional investment to a new level in line with the possibilities of microcredit

- **Traditional investments:** international tourist bungalows at US\$ 20,000 (Average investment cost, including air conditioning): The construction of international tourist bungalows requires large investments which, even in developing countries, may reach US\$ 10,000 to US\$ 20,000. These amounts are totally unrelated to the financial capacity of the poor local inhabitants. So such investments require foreign aid which is often insufficient and difficult to obtain.

Moreover, prior investments – on power supply, water tanks or access to sufficient drinking water - are usually essential before such international tourist bungalows can be built. Such constructions are therefore no more than a partial solution in the fight against poverty, especially because the funds available are limited. While they do benefit local populations, if they are to focus on fighting poverty, they should meet precise criteria.

- **Investments in line with possible microcredit:** local tourist bungalows: approximately US\$ 500 (Cost of investment without electricity): The construction of tourist bungalows can be based on a different approach. The aim should be to involve the poor populations and to ensure as far as possible that the means used are in line with the expected effects. The objective should be to reduce the amount needed for the tourism investment so that it can be affordable even for the poor populations, with limited external aid, perhaps from microcredit. According to estimates drawn up in north Cameroon, the cost of building a traditional bungalow could be below US\$ 500, depending on the facilities offered.

In this case, the main aim is to use traditional know-how for the construction and maintenance of bungalows with local materials. Bungalow structures can be built that are directly inspired on traditional types of construction, with natural ventilation alone.

The development of SMEs in the framework of widespread tourism networks can be through the creation of accommodation structures based on traditional know-how. This can become a very important factor in the fight against poverty while fitting into the microcredit system.

### 3.3.2 The need for sufficient profitability

This is one of the essential conditions for ensuring the survival of tourism SMEs and for promoting access to microcredit. In order to develop, SMEs and microenterprises should have access to credit facilities, even for relatively small sums.

The experience of India, as presented during the International Conference on Rural Tourism and Ecotourism held in New Delhi in August 2004, showed that there are many opportunities for investment in the development of extensive tourism networks, providing that finance is adapted to its characteristics and that profitability is guaranteed.

The experience of the « YES BANK » shows that the main problem is not the lack of available funding, but poorly formulated projects for rural or ecotourism and the lack of adequate feasibility studies. These constraints make it difficult to obtain credit even though many projects are technically and financially viable, as shown in the example of the tourism accommodation programme in the region of Kumaon (Himalayas).

The programme to build 50 huts at an altitude of 2,000 metres involved a total investment of R62.5 million plus R0.5 million in real estate. The aim is to achieve an occupancy rate of 30% for an average

price per night of R2,500 plus revenue from the sale of souvenirs (calculated at 5% of the amount paid on overnight stays). The investment was financed with 50% capital and 50% loan with an interest rate of 10%. The following table shows projections and indicates that the profitability of the project is more than sufficient to obtain a 7-year bank loan with a moratorium of 3 years:

(R Millions)	Year 1	Year 2	Year 10	Year 15
Revenue / room	13.7	20.0	32.3	52.0
Total Revenue	14.4	21.0	33.9	54.6
Running costs	3.4	4.0	5.0	6.2
Amortization	3.1	3.1	3.1	3.1
Interest	1.6	2.0	0.0	0.0
Gross Profit	9.4	15.1	19.9	32.6
Repayments	0.0	- 7.8	0.0	0.0
Net Profit	9.44	7.3	19.9	32.5

Source: YES BANK, Investment opportunities for eco and rural tourism in India, 2004

It should be pointed out that calculation of profitability is based on a very high visitor coefficient for a rural, mountainous region, at 30% per year. Moreover, the running costs are estimated at a very low level with growth in revenue per room being twice as fast as that in running costs. This seems reasonable.

However, this example of financing for a tourism project in India indicates that investments in rural or ecotourism can be very profitable and are therefore suitable for microcredit. Regarding the amount of credit necessary, the investment should either be made in several amounts over a period of time or shared amongst several individual investors or groups of investors.

### 3.3.3 The need for national support strategies

Tourism SMEs should receive the support of national strategies for tourism development, by promoting SMEs and helping them to participate in the fight against poverty. The creation of an economic basis for tourism development in poor regions and countries requires national policies and international aid, with tourism playing a major role in the Poverty Reduction Strategy Papers.

Such strategies should focus on results, especially those which lead to benefits for the poor. They should help in the choice of public actions to relieve poverty in the framework of a global study of poverty and its causes. The inclusion of tourism in national policies should allow objectives to be achieved in a specific way by focusing on development projects that not only provide additional income for local populations but also create infrastructure that benefits both tourists and the poor.

One of the basic principles of policies should be the greatest possible involvement of the private sector, especially SMEs. Tourism plays a special role in development projects in that its results can be measured very fast in terms of visitor numbers, receipts and impact on the income of local inhabitants. If poverty assessments are carried out, it is possible to focus on those tourism projects and SMEs that have the greatest impact on the poor.

### 3.3.4 The need for technical training

The creation of networks of SMEs and microenterprises is essential for tourism projects to be successful. Such projects must therefore include programmes to create awareness and provide information and vocational and technical training to the local populations in order to increase their capacity for setting up tourism SMEs and microenterprises. The following are necessary:

- **Awareness actions**

These actions are essential because poor communities, which are often in rural locations, are not aware of the potential of tourism for allowing them to create microenterprises and perhaps SMEs so that they

can receive sustained income supplements. It is therefore important that awareness actions target the whole of the local population and not just potential employees in the tourism sector. They must be based on cost/benefit techniques so that local inhabitants can understand all the advantages of this new form of development which can take place alongside the traditional activities that are not sufficiently lucrative.

- **Information actions**

These should inform potential creators of SMEs and microenterprises about domestic and international tourists, with information on their customs, especially with regard to food and their reasons for travelling. It is also important to explain the importance of peace and quiet and security for visitors.

- **Technical training actions**

The aim is that SMEs should offer suitable visitor services so the essential role played by local workers must be made clear. Technical and professional training must be specially adapted to the needs of SME managers, especially the poorest.

Training is offered by most microcredit development programmes, as shown by the experience of PlaNet Finance.

### **3.3.5 The need for suitable financing**

For many tourism SMEs, public aid is one of the main elements in the financing of tourism investments. The assistance provided by governments and international institutions for financing tourism activities takes several forms, from promotion of the tourism image of destinations on foreign markets to the lifting of taxes on tourism operations and financial incentives. There are five main types of public incentive for investment:

- **Reduction in investment costs by discounting interest**

This type of incentive aims to reduce the cost of investing in tourism projects by allowing investors to borrow capital at a preferential rate. Such measures are particularly important as they allow tourism SMEs to meet the conditions of MFIs.

- **Reduction in operating expenses**

These measures aim to reduce the operating expenses of tourism businesses, usually by allowing fast amortization, through tax exemptions or training subsidies.

- **Investment guarantees**

These aim to obtain the confidence of investors, especially foreign investors. Governments offer guarantees that capital and profits can be repatriated or guarantee loans to investors.

- **Subsidies**

Subsidies are funds that are provided by the public authorities to investors in tourism projects and that do not have to be paid back. They are lump sums of capital. The main advantage of subsidies is that investment costs are lower and the sum lent is often lower. Subsidies achieve fast results. They may be provided systematically and require very little administration. Depending on the type of project presented, the following will be necessary:

- (1) a decision to grant a subsidy to a project
- (2) confirmation that the subsidy has been correctly used for the purpose stated
- (3) verification that the project continues to fulfil the functions for which it received the subsidy after a given period, say, 3 or 5 years.

- **Tax measures.**

Specific fiscal incentives for the tourism sector can be of considerable assistance. However, such assistance is usually provided after the investment and not when the project is being launched. For example, provisions for paying back loans that aim to reduce taxation on profit only have effect once the profit has been earned. This incentive is therefore less effective for encouraging investment in tourism SMEs.

## Chapter 4

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# Financing tourism SMEs and the role of microcredit

The financing of tourism infrastructure and services is one of the main concerns of tourism enterprises because of the amount of capital tied up in comparison with turnover. For this reason, feasibility studies play a decisive role in investment decisions for tourism SMEs. However, all SMEs, especially those operating in rural, isolated areas, face a special problem in gaining access to sources of funds and in creating, maintaining or expanding their activity.

The role of the microfinance sector is to meet the needs for funding and to mitigate the problem of access to bank loan circuits. Microfinance should serve as a catalyst for the development of tourism microenterprises by promoting the potential of the tourism sector for helping to fight poverty.

In order to determine the potential and actual role of microcredit in the development of micro projects in tourism, its potential from both an overall and a practical point of view is considered in this chapter, with an example taken from the development of rural tourism in Morocco.

## 4.1 Possibilities offered by microcredit

The possibilities offered by microfinance in developing countries are especially important considering that 90% of finance in emerging countries comes from local resources, according to the United Nations report on "Making Business Work for the Poor". For Sub-Saharan countries in Africa, the majority of finance is also from local sources, representing 65% of the total. This means that finance only depends to a small degree on international tenders and this increases the opportunities presented by microcredit.

### 4.1.1 Background to microcredit

The main function of microcredit is to combine a social objective, that of alleviating poverty, with an economic objective, the financial viability of operations. Such a combination is difficult to achieve. The very poor should be the main recipients of microcredit because they do not have access to the traditional banking system, since they represent a risk and cannot provide financial guarantees. In almost all of the poorest countries, less than 20% of the population use banks.

Microcredit therefore gives priority to the poor who need a small amount of funding to carry out their projects. The first experiences in microcredit were in farming communities, but they have developed since then with the experience of the Grameen Bank in Bangladesh as from 1983.

### 4.1.2 Principles of microcredit

The principles of microcredit are solidarity amongst borrowers and coverage of costs by interest.

- **The solidarity principle** is based on group methodology which grants a microcredit guaranteed by a group. For loans granted by the Grameen Bank, for example, the group should comprise five people. If the borrower defaults, the other members of the group have to pay back the loan. This technique avoids the risk of non-payment because groups are usually made up of neighbours who live in close proximity to each other. Most microcredit institutions continue to grant loans on the basis of solidarity even in countries where microcredit is relatively well-developed. More and more

operators are now receiving individual microcredit based on real guarantees (mortgages or goodwill security).

- **The principle of covering costs with interest** aims to allow microcredit institutions to develop without having to depend on international aid. However, although interest rates on microcredit are often much lower than those of money-lenders, they are generally higher than those of traditional bank loans. Also, these rates are usually calculated on a monthly basis rather than an annual basis.

### 4.1.3 Microcredit amounts

The maximum sums set for microcredit are essential for determining to what extent microcredit can be used to finance tourism development. Several methods of calculation are possible, either fixing a ratio based on average income or setting a ceiling:

- **Fixed ratio based on average income:** This system is mostly used in poor countries to ensure that loans are not out of proportion to average income. In order to be suitable for the poor, the sum of the microcredit should be a maximum of 75% of GDP per capita, that is, about US\$ 300 for the least developed countries, which have a GDP per capita of about US\$ 400. However, in certain circumstances, the microcredit may exceed this ceiling, reaching as much as 200% or 300% of GDP per capita, that is, about US\$ 1,500.
- When an **arbitrary ceiling** is established, the aim is to facilitate access to microcredit for microentrepreneurs and even for SMEs. In Morocco, for example, the maximum amount of microcredit is 3,000 euros. The amount may be greater in certain industrialized countries. In countries in the European Union, microcredit for SMEs may reach 25,000 euros. These examples show that microcredit should not be considered only for very small amounts. The sum lent should depend on its initial objective, that is, it should allow access to finance for small entrepreneurs who cannot use traditional banking channels.

### 4.1.4 Microcredit today

On 31 December 2003, 2,931 microcredit institutions reported that they served 81 million clients, of which 55 million were amongst the very poor when they signed their first loan. If it is estimated that there is an average of five people per family, the loans served at the end of 2003 to 54.8 million poor clients reached almost 274 million people. According to the latest World Summit on Microcredit held in 2004, microcredit programmes and clients were concentrated in Asia, mainly for historical reasons, but figures for Latin America were seen to be growing very fast.

**Microcredit programmes and clients\***

Regions	Programmes	Number of active clients (in thousands)	Number of very poor clients (in thousands)
Africa	919	6,438	4,725
Asia	1,603	71,585	48,797
Latin America	261	2,519	1,121
Middle East	30	106	54
<b>Sub Total Developing countries</b>	<b>2,813</b>	<b>80,649</b>	<b>54,698</b>
North America	48	53	24
Europe and NIC	70	165	62
<b>Total</b>	<b>2,931</b>	<b>80,868</b>	<b>54,785</b>

Source: Microcredit Summit Report 2004

This importance of microcredit in the world poses the question of how it can be extended to other economic sectors. Analysis of the tourism sector shows that there are many possibilities, provided that actions taken meet a real demand during sufficiently long periods in spite of seasonality.

### 4.1.5 Sectorial application of microcredit: the mobile telephone example

One of the most recent and most interesting examples of the use of microcredit has been the GrameenPhone experience. Grameen Phone developed out of Grameen Bank and, through the use of microcredit, has become the largest cellphone operator in Bangladesh. GrameenPhone has sold cellphones in villages, creating a network all over the country. The use of microcredit has allowed 35,000 villages to link up to this network, providing access to 50 million people. Each handset is bought with a specific investment made by microentrepreneurs using microcredit of less than US\$ 300. 95% of them are women in the villages who sell communications amongst the local population.

This initiative has been adopted in many other countries, including South Africa where Vodaphone has created a subsidiary called Vodacom which specializes in supplying villages and has already provided over 35,000 sets in more than 4,400 villages.

This type of initiative based on the use of microcredit is essential for developing tourism projects that need access to a mobile telephone network. Such investments, with the support of microcredit, can be of considerable importance in the success of tourism development projects, especially in rural environments.

## 4.2 Example of rural tourism development in Morocco

### 4.2.1 Background to the Moroccan experience of microcredit

The microcredit sector in Morocco has developed fast over the last ten years; there are now 12 microcredit associations (MCA) which, at the start of 2005, had over 500,000 active beneficiaries – of whom 75% were women – for a total loan portfolio of 80 million euros, with excellent payback rates (about 99%).

The sector was initially developed with the support of international sponsors (the UNDP MicroStart programme, USAid and the European Union) and national sponsors (the Hassan II Fund). The Moroccan government showed its support to microfinance by passing a law to regulate this sector in 1999.

Today, the sector is fairly diverse. There are three MCAs on a national level, three MCAs on a regional level and five act as proximity associations having developed locally. One association is not yet fully operational.

Altogether, 2.2 million loans have been distributed for a total of 500 million euros.

A study on the impact of microcredit in Morocco, carried out in 2004 by PlaNet Finance, indicates the characteristics of Moroccan entrepreneurs<sup>1</sup> and their activities:

- The microcredit sector in Morocco focuses on women (68% of the sample) with a low level of education (44% of the interviewees were illiterate but 89% could count).
- The beneficiaries interviewed were in a situation of poverty in the international sense of the word: average expenditure per capita was below US\$ 2 per day.
- The beneficiaries mostly used the microcredit to strengthen an activity already being carried out in the following fields: trade (44%), handicrafts/industry (39%), services (10%) and farming (6%).
- The beneficiaries are generally very pleased with their relationship with the MCA (82%) but there is a strong demand for new microfinance products – larger amounts over longer payback periods,

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<sup>1</sup> This study was carried out in the middle of 2004 and involved 1,287 people in 7 regions of Morocco, in line with the weight of the 11 MCA.

other guarantees apart from solidarity, etc.

In order to meet these needs, the MCAs are beginning to offer new microfinance products. In 2004, several of them received the support of USAid to finance projects by microentrepreneurs in the field of rural tourism and to adapt their methodology and products.

#### 4.2.2 Examples of projects financed

In January 2005, a survey was carried out amongst the Moroccan MCAs by PlaNet Finance Morocco. This reported that over 1,000 microcredits had been granted for activities linked to rural tourism<sup>2</sup>. These allowed:

- Development of activities directly linked to tourism: rural guesthouses, tourist guides, catering and trade in local products (these activities account for about one third of the projects financed)
- Development of indirect activities, mostly handicrafts.

The following cases are examples of projects financed by the Moroccan MCAs.

- **Case D1 –Association Marocaine de Solidarité Sans Frontières (AMSSF)**

This association, based in the region of Fez, was one of the first MCAs to begin working with microcredit in Morocco (in 1995). Since then, it has granted almost 60,000 microcredits and today has over 8,000 active beneficiaries. In 2004, the AMSSF financed two rural tourism projects at Ain Leuh in the Azrou region. In order to launch microcredit for rural tourism, the AMSSF, like other associations, received support from USAid.



Map showing AMSSF projects in the Fez region  
Source: [www.microfinanceamaroc.com](http://www.microfinanceamaroc.com)

<sup>2</sup> This survey, carried out in spite of time and budgetary limitations, aimed to collect initial information in the field. It is not exhaustive. A more thorough survey, amongst the 12 MCAs and agents in the tourism sector, would significantly improve knowledge in this area.

### **The Azrou region**

In order to meet the demand of the local inhabitants, the AMSSF set up a branch at Ain Leuh one and a half years ago. At the start of 2005, the three AMSSF field workers there had 300 active beneficiaries, of whom 83% were women. Located close to Azrou, Ain Leuh is a rural commune with 10,000 inhabitants surrounded by a forest of cedars and oaks, at an altitude of 2,000 metres. The inhabitants, most of whom carry out farming and cattle-rearing activities, were seriously affected by the droughts in the 1990s. Like many regions in Morocco, the Ain Leuh region is still little known to tourists and has few accommodation facilities.

### **Karim's<sup>3</sup> project financed by the AMSSF**

For about ten years, Karim, aged 35, who lives in Ain Leuh, has been a tourist guide to complement the family activity of small-scale catering. Karim has not yet received official authorization for his activity although he has applied for it six times. A great lover of his country, he accompanies his clients, most of whom are foreign, around Morocco on trekking circuits.

At the beginning of the summer of 2004, Karim received a microcredit from the AMSSF of 650 euros to be paid back over a period of 12 months at an annual rate of interest of 18%. The money was used for:

- The purchase of equipment for his work as a guide – two mountain bikes, a telescope and binoculars. (Ain Leuh is close to a site where migratory birds can be observed).
- Housing improvements. In order to receive tourists, he bought a bed and a mattress and financed the construction of a shower in his brother's house.

Karim would like his commune to offer full tourism services. He offers tourists "discovery routes" – including henna and hammam – and meals in tents with folk music groups. He thus passes on the benefits of the tourist visits to other microenterprises in the region.

Karim is a very active person and is in contact with several French-Moroccan associations for the promotion of « ethical tourism » and hopes to join forces with Soraya – another AMSSF client – to open a campsite at Ain Leuh.

According to Karim, microcredit is promising for the development of rural tourism in his region but it is important to also offer training in tourism and project management. Karim hopes, for example, to participate in a lifesaving course and to learn more about the local flora and fauna in order to give a better service to his clients.

### **Soraya's project financed by the AMSSF**

Soraya, aged 54, received a loan of 2,800 euros to renovate a rural guesthouse she owns in the Ain Leuh region. Half of this amount, 1,400 euros was used to build partitions inside the building forming rooms for trekkers and tourists. The other half was used to buy paint, a tent for the garden and traditional cooking implements such as earthenware "tajines". Soraya pays back 112 euros every month (the loan has a duration of 30 months, with an annual rate of interest of 18%). For Soraya, acceptance by the authorities (technical inspection) is an essential stage in the success of her project.

### **AMSSF results half way through the project**

Half way through the project, this pilot experience is considered positive by the AMSSF. The "Rural tourism" microfinance product has financed two promising projects identified in the field by the Association's credit agents. Since the AMSSF is located in a region with great potential for rural tourism, it had already begun to encourage guesthouse owners and guides to take up the opportunities offered by microcredit for developing their activities. The support of USAid, with a grant of US\$ 120,000, has allowed the AMSSF to mobilize its human resources on the project, focusing on:

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<sup>3</sup> The names given in this document have been changed for reasons of confidentiality.

- developing and offering rural tourism microfinance products with larger sums, longer payback periods and individual guarantees (rather than solidarity group guarantees).
- adapting its procedures and methodologies to this new product, especially for evaluating demand for microcredit and monitoring microentrepreneurs.

However, there are limits for extending this pilot experience. In the region around Ain Leuh, there are about fifty families living close to future trekking routes. Some of these could use microcredits for setting up rural accommodation but two main barriers remain:

- The amount required for setting up a rural guesthouse – estimated at about 50,000 euros – is much greater than both the ceiling of 3,000 euros established by the Moroccan microcredit law and the capacity of potential beneficiaries to pay it back. The seasonality and irregularity of revenue generated by tourism make it very difficult for them to return the loan and, in many cases, microcredit would not be the only source of finance;
- The distant locations of potential beneficiaries make it difficult for MCA agents to follow up projects. The problem of transport is a frequent one for credit agents working in rural environments.

In order to develop trekking circuits with the necessary infrastructure for rural tourism, the AMSSF has identified the main needs:

- Thorough feasibility studies (on the creation of guesthouses and training for guides) based on surveys of families living close to trekking circuits;
- Potential beneficiaries should be encouraged to become tourism professionals by providing training and monitoring of their projects.

In order for the AMSSF to participate in such a large-scale project, it is important to reinforce its financial and organizational capacity. New sources of finance must be found so that larger microcredits can be granted. Its procedures must be adapted to the monitoring of tourism projects (with profitability analysis) and new human resources must be taken on. Partnerships between the MCA and specialists in rural tourism (public or private entities) or with certain professional groups (architecture, designers, etc.) could help to increase the impact of microcredit.

## • Case D2 – The experience of the Zakoura Microcredit Foundation

### The Zakoura Foundation

The mission of this Foundation is to improve the standard of living of the poorest Moroccans in urban and rural environments, especially women – over 95% of credits are granted to women – who receive no other assistance and do not have access to traditional sources of finance. The Zakoura Foundation assists its clients to create or implement projects based on their talents and know-how, financing them with microcredits. It also provides information on their legal rights, on public interest, on civil liability and on health problems. The Zakoura Foundation also offers training and support (accounting, SME management, etc.) for the sustainable implementation of income-generating activities.

At present, the Zakoura Foundation has 153,325 active clients and total loans of 105 million dirhams (10 million euros).

### Rural tourism development: a priority for the Zakoura Foundation

The Zakoura Foundation is one of Morocco's most important microcredit associations and is firmly committed to its rural tourism project. It has financed 342 rural tourism projects in several regions of Morocco – the Middle Atlas, Marrakech, Agadir, Beni Mellal and Tetuan.

The rural tourism project has enabled the following to be financed with microcredit:

- 108 projects for rural guesthouses and/or tourist guides
- 100 handicraft projects;
- 134 projects for catering or the sale of agricultural produce (such as olive oil).

Through this project, the Zakoura Foundation also aims to hold back the rural exodus, encouraging people to remain in their regions and offering them prospects for economic development.

Those responsible for the Zakoura Foundation stress that the microcredits granted for rural tourism come from the Foundation's own funds. The maximum amount granted to microentrepreneurs is about 2,000 euros. In addition, the Foundation provides support free of charge throughout the process (management advice, training, etc.) in order to maximize the benefits of the activity. However, it recognizes that the assistance given is limited by lack of funds and the specific skills for this type of project.

### The Marrakech region



Map showing the Zakoura Foundation projects in the Marrakech region  
Source: [www.microfinanceaumaroc.com](http://www.microfinanceaumaroc.com)

The Zakoura Foundation opened an office in the region of Al Haouz in 2002 from which six credit agents deal with the beneficiaries in the region, who are increasingly carrying out handicraft activities. 40 kilometres from Marrakech Al Haouz is the Ourika valley, at the heart of the High Atlas. Surrounded by walnut trees, the valley lives mostly from tourism and goat and sheep breeding.

The Ourika Valley is very well-known for international tourists but is still a poor region, with underdeveloped infrastructure.

### Mohammed's project, financed by the Zakoura Foundation

Mohammed is a craftsman working in the Ourika mountains close to Marrakech. He received a microcredit of 450 euros to consolidate his pottery souvenir production business. The payback period for the microcredit is 9 months. Mohammed used the credit from the Zakoura Foundation to:

- Purchase the paint needed for his pottery goods;
- Take on 1 worker.

This client of the Zakoura Foundation considers that the microcredit allowed him to very significantly increase his revenue (although this could not be verified during the survey). He would have preferred to receive a larger sum (900 euros), as this would have enabled him to purchase a small gas stove that would give him more time and greater precision. Mohammed and the other beneficiaries of the Zakoura Foundation in this region have now decided to create a handicraft cooperative in order to find more commercial outlets for their products.

### **Zakaria's project financed by the Zakoura Foundation**

Zakaria, another beneficiary of the Zakoura Foundation, is a professional craftsperson working in the High Atlas, close to the city of Marrakech. He requested a credit of 3,500 euros but was only granted 900 euros to be paid back over 12 months in order to strengthen his business producing typical ceramic plates and other souvenirs.

Zakaria used the microcredit together with his own capital to purchase a large electric kiln to fit up to 200 items (the total cost of the kiln was 6,300 euros). This purchase enabled him to increase his production and to take on 12 people to finish and paint the products. This microentrepreneur was therefore able to meet a considerable demand for these products which are exported or used in catering. Since Zakaria purchased his kiln, his monthly revenue has increased by 50%.

### **Results of the Zakoura Foundation**

Those responsible for the Zakoura Foundation have explained the main experiences gained by this MCA:

- This project is strategic for the Zakoura Foundation which aims above all to assist the very poor, especially women, in distant parts of Morocco.
- The Zakoura Foundation used extensive human and financial resources to launch this project which is still in its initial stages (reaching 300 of its 150,000 active beneficiaries).
- The Zakoura Foundation has a very large demand for financing for handicraft projects.
- Providing funding to larger projects that are more directly related to tourism (rural guesthouses, tourist guides, restaurants and microenterprises providing tourism services) requires larger amounts, especially for following up projects, which the Zakoura Foundation is not yet able to offer.<sup>4</sup>

## **4.2.3 Strengths and weaknesses identified**

The survey carried out in January 2005 highlights a number of important features of the pilot projects. The context in Morocco is appropriate for such initiatives:

- Microcredit is a suitable source of financing for tourism related projects requiring less than 3,000 euros;
- The Microcredit Associations (MCA) are in the field, so they are aware of the needs of microentrepreneurs and are very useful partners for financing tourism microenterprises;
- The pilot experiences already undertaken in Morocco have been positive. The beneficiaries seem happy with their relationship with the MCA and the return payments have been very good
- Some MCAs, including the Zakoura Foundation, have made good progress in launching microcredit for rural tourism;
- Some MCAs are providing support to meet the needs of their beneficiaries (tourist reception, health and hygiene advice, etc.).

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<sup>4</sup> The three other MCAs (INMAA, Al Karama and FONDEP) are presented in the annex. PlaNet Finance stresses that this study is not exhaustive.

However, certain barriers still have to be overcome:

- The needs for finance of microenterprises in tourism are often higher than the ceiling established for MCA (law of 1999 and other regulations). This means that microcredit cannot be the only source of finance, especially for young people wishing to take up a tourism activity, but it may be a complementary source of finance.
- The microcredits granted by MCAs in Morocco are usually small amounts and most go to urban beneficiaries, allowing them to strengthen their activities. A typical example is the use of microcredit to purchase stocks so that the beneficiary can increase his sales and income. In many cases, such microcredits are also linked to tourism development because many MCA beneficiaries sell their goods in souks. The MCAs are thus participating in tourism development.
- The financing of projects that are directly linked to tourism, especially rural tourism, requires lending larger sums over longer periods, based on other guarantee methods rather than solidarity. For this purpose, the MCAs must draw up new microfinance products, change their procedures in order to offer such products and train their staff. They must also be sure there is a market for their clients. This means they have to change their working methods and they therefore need:
  - Financial resources (loans) in order to be able to grant larger microcredits.
  - Technical assistance and donations so that they can strengthen their organizational capacity and cover some of their fixed costs.

Most of the MCAs in Morocco have only limited experience in the expansion of new microfinance products.

#### **4.2.4 Opportunities and risks identified**

Many elements are required to guarantee the success of future initiatives, especially:

- Thorough feasibility studies to identify the potential of rural tourism in regions which have not yet been covered by the MCAs (especially trekking and discovery circuits). Access to such information would help the MCAs to extend their geographical coverage.
- Partnerships should be set up with Moroccan and international NGOs having the competences and resources to support MCA beneficiaries in implementing their projects (one such is “Maroc chez l’habitant “ for rural guesthouses).
- The national and regional staff of the Ministry of Tourism and the microcredit associations should consider possible synergies to promote rural tourism on a national level;

Two main constraints should be considered:

- In some regions, the lack of infrastructure (roads, drinking water and sanitation) is still holding back the development of rural tourism microenterprises. The development of rural tourism through microfinance requires adoption of an integrated development strategy.
- The development of microenterprises in rural tourism requires the involvement of the public authorities, the Ministries and the public administration at every stage of the project (especially regarding authorizations for tourist guides and technical inspections of guesthouses).



## Chapter 5

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# Recommendations

Three types of recommendation can be drawn up for tourism SMEs and microenterprises, microfinance institutions (MFIs) and governments.

### 5.1 Recommendations to tourism SMEs

Tourism SMEs should consider the use of microcredit as an important possibility for financing their development, either as the main source in the case of microenterprises or as complementary finance in the case of larger enterprises having to invest in the construction of tourism accommodation facilities. The main recommendations for tourism SMEs are:

- **Creation of local committees for the presentation of tourism development projects to public tourism authorities (regional NTAs or administrative bodies) and to microfinance institutions and banks.**

This initial recommendation is based on the microcredit approach which aims to set up a group of people to work together on a project, especially as guarantors of repayments. Such committees may comprise either an individual investor and a certain number of people providing backing, or a group of investors who stand security for each other. In both cases (especially the latter), such committees are not limited to an objective of providing guarantees for microcredit institutions but can also deal with the technical and operational aspects of the project, especially:

- Coordination of joint actions for the project
- Search for new concepts
- Cooperation with local service providers
- Marketing and information to other partners within the tourism chain (travel agencies)
- Search for support from local and/or national authorities

All these actions aim to establish permanent cooperation amongst all those involved in the tourism investment project in order to access funding.

- **Market research to determine realistic forecasts of occupancy rates**

This is one of the essential points for working with credit institutions, including microfinance. The fact that the sums involved in microcredit are small does not mean that market research should be neglected. Occupancy rates are key for determining future receipts and the possibility of repaying loans, whatever their size and, if projections are excessively optimistic, repayment may turn out to be impossible. Moreover, market research should take into account ups and downs in tourism demand in line with the frequency of natural disasters or the risks of political or economic instability.

- **Adoption of a suitable price strategy based on the local situation and competition**

Too often, investment projects by SMEs in developing countries are based on unrealistic price hypotheses and strategies are based more on international prices than on local prices. This means that

the prices charged for tourism services may be out of proportion to their content, resulting in fewer visitors than expected and poor financial viability of the projects. The price strategy in the framework of microcredit should be as close as possible to local prices, especially if these are lower than international prices. Price competition and a good price-to-quality ratio are the best guarantees to ensure that projects will be successful and provide the best basis for negotiation with microfinance organizations. Moreover, this type of price strategy is appropriate for domestic tourism, thus reducing vulnerability if there is a drop in the number of international tourists.

- **Adoption of a marketing plan for the sale of tourism products**

Too often, tourism SME investment projects focus on creating infrastructure for building the tourism product rather than on detailed marketing plans. Even for micro projects, sales are essential and are the key to the success of the investment. Tourism SMEs – including microenterprises – should therefore present a set of marketing actions for their products when negotiating with microcredit institutions. These should include the identification of target clients and the description of simple actions to be taken in order to reach the targets. An example is signposting, which may be essential and in itself may justify the grant of a microcredit.

## 5.2 Recommendations to microfinance Institutions (MFIs)

These recommendations aim to assist the microfinance institutions in getting to know the characteristics of the tourism sector so that they can evaluate applications made by tourism SMEs and their suppliers. They are as follows:

- **Evaluation of interest for tourism of the projects presented**

Microfinance institutions should establish guidelines and standards for assessing the feasibility of tourism projects, covering future visitor numbers and prospects of returns on the investment. A number of criteria should be taken into account in such assessments:

- The attraction of the site for the tourism project
- The originality of the site in comparison with other similar sites
- Year-round accessibility
- Possible inclusion in nationally or internationally-classified registers of sites (UNESCO)
- Conservation of the natural environment (noise, atmosphere, etc.)
- Waste disposal by permanent populations
- Visitor numbers prior to the project

- **Basic projections for future profitability**

Profitability projections should be based on a reasonable estimate of future visitor numbers, this being the basic element for consideration by MFIs when deciding whether or not to finance the tourism project submitted to them. Such estimates indicate expected returns from the sale of tourism products and services, bearing in mind that many such products cannot be stored. In order for estimates to be sufficiently reliable, MFIs should adopt a procedure based on standard feasibility studies and adapted to the main categories of tourism development projects, such as:

- Hotel and similar accommodation facilities
- Accommodation in bungalows
- Open air accommodation
- Catering
- Circuits

- Product supplies (agricultural produce or handicrafts)
- Service provision (guides, security, etc.)

- **Indicators on the implementation of tourism projects**

One of the main problems of the tourism sector is how to maintain the quality of the products and services offered. A drop in quality may have a great impact on the economic and financial profitability of investments. It is therefore very important to set up follow-up of the projects to be financed, comprising simple indicators and, if necessary, offering technical assistance. Such indicators should cover the following:

- Visitor trends (weekly and monthly comparisons)
- Receipts (weekly and monthly comparisons)
- Supplies of goods and services (food, water, energy, etc.) bought and used (weekly and monthly comparisons)
- Cost of supplies (weekly and monthly comparisons)
- Client surveys (weekly and monthly comparisons)

- **Adaptation of amounts and duration of microcredits to the specific needs of tourism investments**

One of the most important characteristics of tourism is that it often requires large, long-term investments, especially for hotel and other accommodation facilities. This type of investment amounts to a limitation in the use of microcredit. However, apart from traditional hotels, microcredit institutions may be able to meet many demands for finance from tour operators and tourism suppliers. It should be stated that for most tourism SMEs and microenterprises, the sums needed are often larger than is usual for microcredit. Microcredit institutions should therefore set up specific procedures to meet the needs of the tourism sector, with the possibility of exceeding the sums usually granted. The duration of loans may also need to be longer than usual because of the specific characteristics of the tourism sector. The conditions for microcredit should therefore be adapted to the needs of the tourism sector, including tourism accommodation.

With regard to small loans that are payable within a period of less than one year, it is necessary to think of a system that takes into account the seasonality of tourism. SMEs that wish to improve their activity have an interest in carrying out their modifications (construction work, etc.) during the low season, and thus borrow at that time. On the other hand, it is easier for them to pay back this loan during the high season, when revenue is coming in. The seasonal adaptation of loan repayment terms is therefore desirable in regions where tourism activity is highly seasonal.

### **5.3 Recommendations to governments**

Governments are encouraged to inform SMEs in the tourism sector of the possibilities of microfinance and should assist them in drawing up their applications to microfinance institutions, providing support in the form of aid or guarantee systems. The main recommendations are as follows:

- **Information for tourism SMEs on the possibilities created by microfinance**

This measure covers communication by the national, regional and local authorities to tourism SMEs and microenterprises on the possibilities of receiving microcredit for their tourism investments. Brochures should be produced and web sites created to provide information on financing. The staff of the different administrative bodies should follow training courses on microcredit so that they can provide information to the poor who may not have access to brochures or computerized information systems.

- **Technical aid for drawing up applications for microcredit**

The public authorities should provide access to microcredit by offering free technical assistance to applicants, especially when these are members of very poor communities. Permanent or travelling offices should be set up to assist in the preparation of dossiers and especially to guide project initiators towards the most appropriate methods of financing. Such offices are essential for the development of tourism SMEs and microenterprises, especially in isolated regions where mobile facilities may be needed to make personal visits to the inhabitants. Support from NGOs alongside the public authorities may be a determining factor. Such technical assistance also helps fight poverty by selecting the most suitable microcredit institutions for meeting the specific needs of each project.

- **Promotion of contacts between poor populations and microfinance institutions (MFIs)**

Microfinance institutions are already in contact with populations but, in the specific case of the tourism sector, tourism projects often need administrative authorizations which are the first stage for implementing tourism investments. Such authorizations generally require an investment financing plan. It is at this stage that governments and public authorities can act as a link between SMEs and microenterprises and MFIs, enabling the best solution to be found for financing tourism development projects.

- **Guarantee of proper functioning of the various transactions**

Such guarantees, which involve the public authorities, are usually of a legal nature and ensure that the property rights of land owners are respected, which may be a problem in common law societies. They may also provide financial guarantees for projects having a higher ceiling than is usual for microcredit. In such cases, the commitment of governments and local public authorities should form part of a global policy to support tourism development.

- **Financial aid for tourism SMEs using microcredit**

The aim is to make up for the lack of funds for projects creating accommodation facilities within tourism development projects initiated by the poor. Such aid in the form of subsidies is often essential for drawing up applications for microcredit when the sums required are several times larger than the annual monetary revenue of the populations concerned. According to the founder of the Grameen Bank, Mr Mohammad Yunus, the credits granted by the World Bank to finance microcredit, which amount to only 1% of the World Bank's commitments, could be at least doubled to reach an annual sum of US\$ 400 million, thus allowing governments to promote a much larger number of projects. For this to be possible, it would be necessary to establish a set of conditions to make tourism projects eligible for subsidies associated with microcredit, including the following:

- Level of own capital
- Poverty of beneficiaries
- Impact on poverty reduction

Analysis of the potential role of microcredit in the tourism sector shows that there have already been many experiences in many countries. These cover the creation of activities that are both directly and indirectly linked to tourism and are therefore an important method of alleviating poverty in developing and least developed countries.

In order for microcredit to play a greater role in sustainable tourism and the fight against poverty, it will be necessary to set up specific actions bringing together tourism SMEs and microenterprises, MFIs, international organizations and governments.

### Survey on the Moroccan experience – additional cases

- **Case D3 – INMAA association**

The INMAA association aims to help fight poverty, especially in rural areas. Its motto is “We fight poverty where it is most difficult to reach”.

- It is a nationwide, financially feasible institution
- It aims to give priority to women and to rural areas
- In addition to solidarity-based microcredit, new financial projects should be created to meet the needs of specific economic sectors
- Partnerships should be set up with different local, national and international organizations in order to ensure that actions in the regions targeted complement each other.

The INMAA association has 3,622 active clients and a total amount of 450,000 euros. The INMAA has financed 2 experiences in the framework of the rural tourism project in the regions of Agdez and Boulemane in southern Morocco.

The association has received credit funds from USAid for these projects and places the emphasis on support (project follow-up, training) for the beneficiaries. Such support is considered essential to the success of the projects. In addition to government support (authorizations), large tourism developers (restaurant owners, hoteliers, etc.) could offer aid and assistance to microentrepreneurs to help them become more professional.

- **Case D4 –Al Karama association**

Al Karama is a microcredit association located in Oujda. It has a fund of 450,000 euros and 3,641 active clients.

In May 2004, the Al Karama association obtained a subsidy of 1.3 million Dhs (110,000 euros) from USAid to finance credits in the field of tourism.

- 90 tourism activities have been financed in the framework of this subsidy;
- Such tourism activities include the habilitation of rooms in rural guesthouses, mobile catering facilities, the purchase of sunshades for beaches in the regions of Saidia, Cap de l’eau, Fezoiane and Tafouralt.

To date, the total amount of loans granted for tourism activities is 21,000 euros, all of them in the Oujda region, with sums varying between 50 euros and 700 euros and repayment periods of up to 12 months with a monthly rate of interest of 2.5%. Loans are granted to clients based on very precise criteria (solidarity-based loan, existing tourism activity, capacity for generating new revenue, etc.)

Al Karama has expressed the wish to develop rural tourism in the regions where it has its eight units. However, the lack of financial resources and its very high interest rates limit the possibilities of widespread financing of tourism.

### • Case D5 – FONDEP association

FONDEP is a non-profit NGO created in 1996. It contributes to sustainable development by focusing on the most underprivileged members of society in regions affected by serious problems – drought, rural exodus and a range of economic difficulties. The purpose of FONDEP is, above all, to help fight exclusion by including the poor in the production fabric. The FONDEP mainly finances women who represent 66% of the beneficiaries of its credits. As of 30 September 2004, the total amount lent was 12 million dirhams, of which 40% financed trading activities, 8% services, 17% agriculture and 35% handicrafts.

To date, the FONDEP has participated in 651 experiences in the framework of the rural tourism project in the regions of Ifrane and Chefchaouen. The activities financed within this project were for:

- Accommodation facilities
- Catering
- Tourism-related activities such as handicrafts

The Foundation carries out prospecting to encourage clients to join the programme. Its characteristics are different to other projects of the Foundation:

- Loans: individual and not only based on solidarity
- Guarantees: personal guarantees
- Rates of interest: 2.50%

The impact of loans granted by FONDEP to clients in the tourism sector is clear in spite of seasonal fluctuations because during low seasons the credits obtained allow credit-holders to cope with the drop in revenue.

FONDEP's aim has been to reach a sector of the rural population which was dependent on seasonal activities and to make its activities known among them.

#### Analysis of the seasonality of revenue for credit holders

Revenue per month (dh)	3,300 (average)
High season	5,000
Low season	2,000
Middle season	3,000

Source: FONDEP

### • Case D6 – Fondation Banque Populaire pour le Microcrédit (FBPMC)

This Foundation is a non-profit association covered by law 18 / 97. It was officially set up by the Ministry of Finance on 01 / 03 / 2000 and it aims to grant loans to poor people wishing to develop or set up an activity that will generate revenue.

The association had a total of 172 million DHs (16 million euros) as of 30 June 2004 and 61,077 beneficiaries. It is present in several regions of Morocco and has two offices in the Marrakech region.

The survey was carried out amongst FBPMC beneficiaries in the Marrakech Al Haouz region.

#### Description:

The Marrakech El Haouz region is of particular interest because of its tourism potential. (Marrakech is a very popular destination for national and international tourists).

**Methodology:**

Questionnaires were given to five FBPMC beneficiaries, that is, half the clients who have obtained a microcredit from the FBPMC in the framework of the rural tourism project.

**Activities:**

Most of the people surveyed are traders in the handicrafts sector. 40% provide catering or home accommodation to tourists in the Marrakech El Haouz region. The survey showed there were two types of accommodation in this region – guesthouses and homes. Guesthouses are often official so have to be duly authorised. They are located on trekking circuits. Such accommodation, as well as rooms in homes, does not belong to the classic, commercial tourism circuits and has no visibility for travel agencies or tourist guides.

**Financing:**

The survey showed that microcredit beneficiaries provide large amounts themselves. On average, the interviewees provide 2,614 euros to start up their activity (78%) but this amount varies greatly.

Microcredit is an essential method for completing finance or feeding the activity (through the purchase of stocks). On average, the beneficiaries questioned applied for 1,360 euros but only received 760. The characteristics of the loans are as follows:

- Solidarity-based credit at a rate of 1.5% per month
- Fixed charges of 9 euros to open the dossier.
- Repayment period varying between 9 and 24 months, depending on the credit obtained.

**Use of the credit:**

Statistics obtained from questionnaires show that microcredit beneficiaries in the rural tourism project mainly use the microcredit to finance an existing activity, for example, to refurbish a property or to purchase raw materials for handicrafts.

**Constraints:**

The constraints faced by FBPMC beneficiaries in the rural tourism project do not seem to be of a financial nature. They would especially like to receive support (training, etc.), to be more independent and to receive individual credits, but they understand the difficulties involved in that they cannot offer guarantees.



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CGAP: Consultative Group to Assist the Poor: [www.cgap.org](http://www.cgap.org)

ACCION: [www.accion.org](http://www.accion.org)

WWB: [www.swwb.org/](http://www.swwb.org/)