Tourism and Sustainable Finance

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Abstract-This study addresses the greatly positive effects of tourism and the finance against the world problems. To explore the issues, explorative study was applied in searching for the conditions in the development of tourism and finance. The results indicate that both the finance and the tourism sectors can work together to develop environmentally and socially responsible solutions to help address world problems.

Keywords: Sustainable Finance; tourism

INTRODUCTION

Tourism and finance are two things that worth of the existence of each other in the sector of development. International tourism has been indicated capable of providing great support in the form of contribution in empowering the livelihoods of women in the world (Nassani et al., 2018). Tourism is one of the most influential enterprises in helping increase finance budget of economic sector (Vianna et al., 2018). It is a more competitive business entity that is insusceptible and firm, in that, it can survive amid the global changes and advancement which does not only involve the incompatibility with the objectives of sustainability but also the limits in social and ecological aspects (Higgins-desbioles, 2017). In many countries, the main sources of economic growth is the tourism. This because positive effects are continuously brought about to the each of the entities of enterprises and bussiness (Habibi, Rahmati, & Karimi, 2018). Even it has been proven that both tourism and economic sector interdependent, and in turn, the tourism development provides stimulation to the economic growth (Dogru & Bulut, 2017).

On the other hand, finance plays a very crucial role in assisting the overall development of a country. For instance, a foreign direct investment has indicated its potential of contributing to the development of countries, including their toursims (Nassani et al., 2018). Tourism and finance should be in a separate sector of utilization and development since they both are interdependent to each other (Akmese, Cetin, & Akmese, 2016). However, in the development of tourism there is a need of performing analytical analysis, such as by applying forecasting models with the factor analysis (Law, Li, Ka, Fong, & Han, 2019). This is intended to estimate the possibility of challenges and limits occurrence. Like many other industries, the financial sector assesses risk and balances it against opportunity. In recent years it has begun to incorporate environmental and social aspects into its decision making. How is this important for sustainable tourism? The present study is made to address this issue.

METHOD

This study is conducted in explorative study design. Literature and studies on tourism and finance, including bussiness entity in the economic development were brought in the study to provide evidence of the development of tourism and their contribution to the world development. Qualitatively the data are analyzed and reported in such a way to indicate how both the tourism and sustainable finance has and is making great contribution to the world.
RESULT AND DISCUSSION

Sustainable issues and the finance sector

Over the past decade, evidence has grown that the environmental and social performance of companies affects their profitability. This fact has not escaped the attention of the financial sector, which is increasingly seeing environmental and social issues as a source of both risk (in terms of reputation and investment return) and opportunity (in that it can service new businesses such as markets for trading carbon emissions or other environmental services and investments in social entrepreneurs).

Already within the oil, gas, agri-business, mining and other sectors, financial institutions assess the environmental and social performance of clients before investing in them or offering them other financial products. It is a comparatively new trend for most banks, but one that is growing rapidly and that is likely to embrace the tourism industry more formally before long. This trend originated partly from the growth in socially responsible investment (SRI), but more importantly, from the changing risk profiles that banks have witnessed in their mainstream investments. This has been the case particularly with project finance where the use to which proceeds are put is fully-defined and can therefore be linked to specific investments. Because the financing is clearly traceable, banks that invest in projects that are perceived to be detrimental to the environment or society have become targets for NGOs, pressure groups and other interested and aggrieved parties.

Investments in highly contentious projects such as the Three Gorges Dam on the Yangtze River in China, the 650-mile oil pipeline from Chad to Cameroon, the Baku-Tbilisi-Ceyhan (BTC) pipeline from Azerbaijan to Turkey and massive pulp mill expansion projects in Indonesia have all drawn negative publicity and caused concern to banks as they came under attack from external parties.

A major step forward came in 2002 with the emergence of The Equator Principles’ which were developed by a range of commercial banks with assistance from the International Finance Corporation (IFC), the private equity arm of the World Bank. The principles are a set of guidelines to help financial institutions manage environmental and social issues in finance lending. Initially the Equator Principles related only to projects over US$50 million but they now have a threshold of US$10 million. Signatories to the Equator Principles ‘will not provide loans directly to projects where the borrower will not or is unable to comply with our environmental and social policies and processes’. Projects are categorized according to risk, and those with the highest risk (category A and some category B projects) require an environmental impact assessment (EIA) to be carried out which will form the basis of an environmental management plan (EMP). Thirty-six financial institutions have so far signed up to the principles including HSBC Group, Barclays plc, Bank of America and Citigroup. Together, so called 'EP' banks arranged US$49.9 billion worth of loans in 2005 (84% of the total market volume).

IFC is in the process of updating its policies and guidelines to reflect new and emerging issues such as climate change and a broader approach to human rights. These changes are expected to apply to investments from early 2006, and many EP banks will also update to these new 'performance standards' at that time.

The IFC is not alone in promoting environmental and social ‘conditionality’ in investments. Other bilateral and multilateral banks such as the European Bank for Reconstruction and Development (EBRD), The Netherlands Development Finance Company (FMO), Deutsche Investitionen und Entwicklungsgesellschaft mbH (DEG), the Overseas Private Investment Corporation (OPIC) and the Inter-American Investment Corporation (IIC) -part of the Inter-American Development Bank - have applied environmental and social policies for many years, including tourism projects.

In parallel with the emergence of the EPs, a number of banks including HSBC, Goldman Sachs, JP Morgan, Citibank and Barclays began to develop their own environmental and social policies -some of which are more exacting than the EP requirements -to address areas of risk. These focus on a range of environmental and socio-economic concerns such as forestry, access to clean water, infrastructure development and biodiversity protection, and are increasingly being applied across all the bank's products and services. Goldman Sachs' environmental policy, with its emphasis on the critical importance of forests to air and water quality, biodiversity and climate regulation, sends a particularly strong message to investment sectors in this regard'. It identifies the key challenge for society as being 'to manage the competing human
demands on land, soil and vegetation without undermining crucial ecosystem functions' and commits to using its people, capital and ideas 'to help find effective market-based solutions to address climate change, ecosystem degradation and other critical environmental issues.' It also recognises the importance of economic growth in contributing to the alleviation of poverty.

**Sustainability within tourism**

To some, the travel and tourism industry was ahead of the financial sector in recognising the need to embrace environmental and socio-economic issues - because it had to in order to survive long-term. Protection of the environment heritage, culture and local economies is so fundamental to tourism that the industry ignores such issues at its peril.

Global environmental events in 1992 such as the Rio Earth Summit and the World Summit on Sustainable Development (WSSD) spurred the world, including the travel and tourism industry, into action. It was at WSSD that the World Tourism Organisation (WTO) launched the Sustainable Tourism -Eliminating Poverty (ST-EP) Initiative). That same year saw the launch by senior hotel industry leaders of the International Hotels Environment Initiative (IHEI) whereby industry members could work together towards more environmentally sensitive hotel operation on a non-competitive platform. In April 1995, the WTO co-hosted the World Conference on Sustainable Tourism, the outcome of which was the Charter for Sustainable Tourism'. This was a precursor to 'Agenda 21 for the Travel and Tourism Industry: Towards Environmentally Sustainable Development', produced in 1995 by the WTO, the World Travel and Tourism Council (WTIC) and the Earth Council. Agenda 21 for the Travel and Tourism Industry provided the framework for a systematic approach to achieving more sustainable travel and tourism.

As the 1990s progressed, the industry increasingly recognised the importance of local economic development and the social aspects of tourism. The agenda broadened to address concerns such as poverty with the emergence of pro-poor tourism', together with other initiatives to increase social economic and cultural opportunities such as the Tour Operators Initiative for Sustainable Tourism Development (TOI). The industry has also mobilised to help eradicate the negative aspects of tourism such as sexual exploitation through networks such as ECPAT International 10.

The indications are that interest in more responsible tourism is increasing; creating new business opportunities and differentiation in the market as leading practitioners use their environmental and social performance to distinguish themselves and appeal to more discriminating markets. This is already evidenced by the growth from straightforward 'sun, sea and sand' package holidays towards value-based responsible tourism as showcased on websites such as www.responsibletravel.com.

For tourism operators that are at the leading edge in responsible tourism, it will become necessary to perform even better to stand out. Companies that do not keep up with improved standards may struggle in the future as sustainability becomes a more mainstream issue. Already, leading tour operators such as First Choice have committed to sustainable tourism 11. International award schemes such as the Responsible Tourism Awards (sponsored by First Choice in 2005) and the WTIC Tourism for Tomorrow Awards are encouraging greater customer discernment and expectation in this area. As more hotels and tour operators start to look 'beyond the footprint' and examine their supply chains, sourcing policies and the cumulative impacts of tourism in specific areas, the need for more sophisticated environmental and social management within the tourism sector will increase.

If tourism development is really to be more sustainable in the future, it will require sustainability to be 'designed-in' from project inception and to ensure that everyone involved follows sustainable principles. With this in mind, the International Business Leaders Forum (IBLF) and Conservation International (CI) published the world's first 'guiding principles' for sustainable hotel Sitting design and construction in 200512 The guidelines have international application and set out to re-shape the thinking of investors, planners and developers when it comes to hotel and resort development.

Finance and tourism - the future

Corporate social responsibility (CSR), with its 'stakeholder' duties of greater transparency and disclosure is now firmly on the business agenda. Today, many companies (though only a handful of tourism businesses) publish full CSR reports and engage in 'stakeholder dialogue' to demonstrate their
commitment to sustainability. Worldwide, around 4,000 companies have so far published sustainability or 'non-financial' reports. The drivers for this form of disclosure vary, but there is increasing evidence that this information is being used by the financial sector (especially SRI funds) to gauge company performance and as the basis for engagement on specific issues.

The recognition and incorporation of sustainability factors into both the finance and tourism industries is in the long-term interests of both sectors. Hotels and tourism businesses depend upon the financial sector for a wide range of investment and supporting services such as insurance, refinancing, leasing services and bond issues. Without finance, the industry could not survive.

According to Mark Eckstein, senior associate of Sustainable Finance Ltd, the leverage that the financial sector can apply as it begins to incorporate sustainability within its services may be significant. "Environmental and social conditions will focus finance towards companies that can demonstrate they manage these risks well, and as financing establishes common 'conditions' in terms of environmental and social risks, banks are likely to begin exploring the new business opportunities that this creates. In other words, as the financial sector establishes common lending principles to address commonly-held risks, they will seek out new businesses that are aligned to their own environmental and social policy commitments. It is clear that many major banks are now 'setting out their stores' for new financial products and services that address issues such as climate change, the provision of micro-credit and investment in social entrepreneurs" he says.

"Such conditions seem likely to provide a combination of risk and opportunity drivers for financing. The evolution of solutions and good practices that align financing and tourism development/operations could prove a powerful engine for change -as is clear from the case studies supporting this article. Areas that are likely to be the early focus of attention include:

1) Protection of natural habitats, cultural assets and ecosystem services. The self-interest that the tourism sector has towards the protection of its natural and cultural assets seems likely to be underpinned by a similar commitment on the part of banks to finance projects where there has been an assessment of risks to such assets. Companies that fail to protect assets, or are sited so that they (or ancillary assets) negatively affect for example, coral reefs or areas of cultural significance, may well struggle to obtain finance. In a similar vein, banks are increasingly recognising that environmental services (such as the provision of natural water, control of atmospheric gases and soil development) underpin long-term financial performance. Issues around the provision of water to hotels, especially in areas with significant water deficit and inequity of supply, such as in parts of the Mediterranean, Caribbean, and Asia (including China) may well come under particular scrutiny by financiers - both in terms of the long term viability of investments and also the reputational risk associated with investments that constrain access to water by local people.

2) Greenhouse gas emissions and global warming from transport, construction and power generation. Many banks have commitments regarding greenhouse gas emissions, both in their own operations and in their investments. They are also increasingly active in carbon trading and financing energy-efficient investments. Opportunities for linking energy-efficiency and renewable energy options in hotel and tourism development may signal a growing opportunity for financing. Hotel and resort developments that are built with sustainable issues in mind will have an advantage over others in terms of lower operating costs, higher residual values and potentially lower insurance premiums. Developers, owners, operators and financiers all stand to benefit.

3) Employment and labour practices. Human rights and labour practices will become increasingly important for many banks, especially where they are investing in emerging markets. NGOs have long been on the warpath against investment in manufacturing companies with a poor labour record and this is likely to extend into other sectors. Companies that flout the International Labour Organisation's (ILO) minimum standards of basic labour rights will pose too great a reputational risk for investors. Hotels with a good record in this area will be
better placed to secure finance quickly than those where there are questions about these issues.

4) Economic development and poverty alleviation. The globalisation of the financial services industry has created fierce competition for the small pool of large corporate clients in emerging and transition economies. Many financial institutions are therefore looking for ways to target the largely unclaimed micro-enterprise and small medium business market. The aim is to make micro and small business finance profitable and sustainable for financial institutions by improving the risk/reward ratio so that they become attractive investment choices. In so doing, the volume and range of financial products available to micro-enterprises and small and medium sized enterprises (SMEs) should substantially increase.

Ways in which tourism can support these moves (through, for example, committing to service agreements that allow small companies to secure loans) are a potentially significant mechanism for spreading economic benefits into local communities and helping towards the achievement of the Millennium Development Goals (MDGs)13.

5) Natural disasters and climate change. 2005 was the most costly year ever for weather-related natural disasters with insured losses of over US$70billion14. Insurance premiums for tourism enterprises in areas subject to storms, coastal flooding, rising sea levels and the potential for other natural disasters are likely to become increasingly prohibitive as insurers become more selective in the risks they choose to insure. Access to capital in these areas will be similarly affected, creating greater incentives for building more sustainably.

CASE STUDY
Aga Khan Fund for Economic Development
The Aga Khan Fund for Economic Development (AKFED) is an international development agency which promotes entrepreneurship in the private sector in specific regions of the developing world. It has helped to promote sustainable economic development in South and Central Asia and sub-Saharan Africa with projects in industry, tourism, aviation, media and financial services. AKFED promotes sustainable tourism by building and managing hotels and lodges that contribute to economic growth in an environmentally sensitive manner.

Projects must not only be economically sound, but also have long-term development potential for the country and the region. Emphasis is given to the development of human resources, particularly management, technical, marketing and financial expertise. The fund brings together international investment and know-how with local experience and entrepreneurial skills, creating partnerships among local institutions and individuals, multilateral development agencies and development banks.

AKFED’s involvement in tourism development in South Asia and East Africa takes place under the aegis of Tourism Promotion Services (TPS). Operating under the Serena brand name, TPS owns and manages 23 hotels in East Africa and Asia. Besides earning foreign exchange and increasing employment and manpower development, tourism can contribute to national growth in more qualitative ways such as protecting the environment through promoting greater awareness of cultural traditions, preserving and revitalising them.

TPS’s first hotel ventures were established in the 1970s in Kenya, where Serena safari lodges and hotels have come to be recognised as leaders for the quality of their services, architecture and ecological responsibility. AKFED’s involvement in East African tourism now extends to Tanzania, with safari lodges and a luxury tented camp in world-renowned national parks and a hotel in Zanzibar’s historic Stone Town. Since the 1980s, TPS has also owned and managed hotels in the mountainous north of Pakistan and has built Serena hotels in Faisalabad and Quetta. These hotels aim to provide a showcase and a stimulus for local architectural traditions and crafts, as well as accommodation in underserved regional centres.

In November 2005 the Aga Khan Development Network (AKDN) officially inaugurated the restored and expanded Kabul Serena Hotel. Designed by award-winning architect Ramesh Khosla, many of the original architectural elements have been preserved in the restoration and much of the original landscaping has been saved. The hotel will provide Kabul with much-needed accommodation for visitors to the
city and will constitute an important post-war resource for Kabul residents. It will employ 400 staff, 90% of whom are Afghan, and will work actively to support local suppliers of goods and services.

The redevelopment was made possible with the help of equity investments from the Norwegian Investment Fund for Developing Countries (NORFUND) and the Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO) and a loan from the I Fe.

"In post-conflict situations, countries must make choices in how to rebuild themselves" said His Highness the Aga Khan. "One way would be to accept the mediocre or run-of-the-mill and to be satisfied with what is second best. The other way is to see reconstruction as an opportunity to draw upon the world's state-of-the-art technologies and standards, using them to jump-start the economy and to help bring it to a new and higher plane".

A Serena hotel is currently under construction in Kampala, Uganda, and others are planned for Dushanbe, Tajikistan, as well as Aleppo and Damascus, in Syria.

For Further Information Contact www.serenahotels.com.

CASE STUDY

Inkaterra, Peru

Inkaterra is a Peruvian hotel operator and leader in geotourism and conservation that has offered eco-tourism experiences since 1974, initially in the Amazon region and latterly in the Machu Picchu area. Through careful management it has been able to generate sufficient cash to slowly grow its properties while also helping to research into and protect the ecology of a 10,000-hectare protected area adjacent to its ecolodge in the Peruvian Amazon. Conservation is being achieved by its non-profit arm, Inkaterra Association (ITA) through funds generated by nature travel.

In 2003, the company put forward a proposal to enhance its product range by expanding its existing facilities and developing new hotels in Cusco, the gateway city to Machu Picchu, and Puno, on Lake Titicaca. The aim is to create a network of hotels in Southern Peru which collectively provide eco-tourism and cultural experiences in three distinct zones - the cloud forest (Cusco/Machu Picchu), the high Andes (Lake Titicaca), and the rainforest (Amazonia). With a broader range of offerings such as Canopy Inkaterra (see front cover), the company will be able to offer stand-alone vacation packages, the aim being for guests to stay at the properties for a longer period of time, thereby increasing revenues (some of which will go towards biodiversity conservation and community development).

IFC arranged financing of US $12 million for Inkaterra's business expansion activities and, with the company, submitted a proposal for Global Environment Facility (GEF) funding to develop a management and sustainable use plan for a 10,000-hectare forest concession adjacent to the Inkaterra ecolodges in the Peruvian Amazon. The aim is to deliver long-term conservation of the Inkaterra Ecological Reserve and its many species of flora and fauna. This involves eradicating illegal logging practices, reducing hunting to sustainable levels, preventing poaching of plants and wildlife, recovering populations of endangered species and reducing mercury pollution in local waterways. The project demonstrates how a financially successful company can create a Peruvian trade mark by extending its ability to deliver sustainability and local economic development through the careful use of concessional finance. It was obtained from http://www.greenhotelier.org/destinations/finance-and-sustainable-tourism/

January 10, 2006.

CONCLUSION

Banks aiming to address sustainability issues through their loans and investments have an opportunity to develop products and services that fit more closely with the tourism industry's efforts to become more sustainable. In this way, both the finance and the tourism sectors can work together to develop environmentally and socially responsible solutions to help address world problems.

REFERENCES


