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## **Financing approaches for tourism SMEs and entrepreneurs**

OECD

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The publication of this document has been authorised by Lamia Kamal-Chaoui, Director, Centre for Entrepreneurship, SMEs, Local Development and Tourism.

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## **ABOUT THE TOURISM COMMITTEE**

This policy paper was prepared by the OECD Centre for Entrepreneurship, SMEs, Local Development and Tourism, as part of the Tourism Committee's Programme of Work. The Tourism Committee, created in 1948, acts as the OECD forum for exchange, and for monitoring policies and structural changes affecting the development of domestic and international tourism.

Addressing the major challenges faced by the tourism industry, and maximising tourism's full economic potential, requires an integrated and multi-faceted approach to tourism policy development across many government levels and departments. In this environment, OECD members see considerable benefit in co-operating to address economic, sustainability and employment issues, and promote tourism policy performance and evaluation, innovation and liberalisation of tourism. A closer co-operation with major emerging economies is also seen as being critical to achieving a strong impact with this work.

The website of the Tourism Committee ([www.oecd.org/cfe/tourism/](http://www.oecd.org/cfe/tourism/)) provides detailed information about the OECD activities on Tourism.

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The report has benefitted from significant contributions and inputs from 21 countries: Austria, Canada, Chile, Croatia, Denmark, Egypt, France, Germany, Greece, Hungary, Japan, Mexico, the Netherlands, New Zealand, Norway, the Philippines, Portugal, the Russian Federation, Slovenia, Sweden and Switzerland. The perspectives of national tourism administrations, public financing agencies and institutions, and the tourism industry are captured. Contributions were received from national industry associations and members of the business association representing the European hospitality industry, HOTREC, in Austria, France and Poland, and financial services company UniCredit Italy. Members of the European Association of Guarantee Institutions (AECM) also provided inputs (*BpiFrance*, ETEAN Greece).

It has been conducted in close co-operation with the Working Party on SMEs and Entrepreneurship and contributes to wider OECD work on SMEs. The OECD Tourism Committee peer-reviewed and approved the report on 13 January 2017.

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## OVERVIEW AND POLICY CONSIDERATIONS

Access to financing is vital to promote entrepreneurship and SME development, and build a competitive, innovative and sustainable tourism sector. Like all businesses, tourism SMEs have different financing needs and face different challenges at each stage of the business lifecycle. A wide range of private and public financing instruments are available to create, operate and expand the business, and remain competitive. However, access to finance remains an issue in the sector.

This report examines mechanisms to improve access to finance for tourism SMEs and entrepreneurs at each stage of the business lifecycle, with a particular emphasis on small and micro-enterprises. It analyses the issues and barriers tourism SMEs and entrepreneurs face when accessing finance and reviews the associated credit conditions. Financing mechanisms and strategies to support enterprise and tourism development are identified, and country experiences and good practices highlighted. These may serve as learning models which can be adapted to different situations.

### **Aligning finance demand and supply throughout the business lifecycle of tourism SMEs**

The ability of tourism SMEs and entrepreneurs to access the financing required at each stage of the lifecycle, and the attached financing conditions, depends on the interaction of demand and supply factors. Many of the challenges tourism SMEs face relate to the small scale of the business operation and are not unique to tourism. These can be solved by sector-neutral SME programmes and measures to improve the wider financing environment. However, tourism has a number of characteristics which in combination are likely to have implications for the type of financing approaches needed and used in the sector (e.g. production of service-based intangibles, participation in global markets, high number of lifestyle entrepreneurs and family-run businesses, seasonal business cycle). Identifying whether specific policies and programmes targeting tourism SMEs are required to address this is a fundamental policy question.

The evidence gathered indicates that tourism SMEs and entrepreneurs face more stringent credit conditions than the average SME, which in turn already face tighter conditions than firms of larger size. This is not necessarily a market failure, but rather a rational response from the market derived from the perception of tourism firms as more risky than other firms, and lack of collateral required to guarantee the finance need. This is particularly a challenge for providers of intangible services, especially if the market cannot adequately price the service provision.

The report identifies certain market failures and circumstances in which government intervention in the financing of tourism may be warranted.

This includes providing public supports at the start of the life cycle (concept, early state and start-up phase), to enable innovative firms to appropriate the returns of the innovation and to foster entrepreneurship. Country evidence indicates that the most common public financing instrument here is grant support for innovative ideas, while subsidised loans are also used (e.g. France, Portugal, Slovenia). Similar supports are more generally available for research and development in other OECD countries. Incubators or accelerators often connect the public, private and academic sectors to create synergies and facilitate the creation, diffusion and uptake of innovation. They also help to connect innovators with



private financing sources and public financing institutions offering loans at better conditions than those found on the market.

Public intervention is less warranted for existing firms in the development phase (maturity, standardisation), when the firm is already economically viable, at the risk of crowding out the private sector. However, such interventions are observed in the case of tourism firms and are provided for reasons other than financial viability. Countries have introduced measures to stimulate regional development, support SME integration into value chains, promote inclusive entrepreneurship for women and under-represented groups, encourage green business practices and support businesses to adapt to the digitalisation of the tourism economy.

Public policies also seek to ameliorate the underlying conditions for businesses to survive and prosper, including regulatory changes that favour the uptake of new instruments (e.g. crowdfunding in New Zealand), ease the regulatory burden for tourism businesses (e.g. one-stop shop for tourism financing in Austria), or offer finance products that are not available on the market (e.g. loans to tourism SMEs on Greek islands).

Broadening the range of financing instruments available to tourism SME alone is unlikely in itself to bring success. Tourism SMEs often have insufficient financial knowledge, awareness of finance options and skills to effectively manage their financing needs. This has implications for the uptake of available financing instruments by these businesses, and the associated financing conditions.

### Policy considerations

The following policy considerations are identified to support the financing of tourism SMEs and entrepreneurs:

- **Encourage greater uptake of sector-neutral SME financing options by tourism SMEs and entrepreneurs, and support measures to improve the general business climate.** Demand-side issues related to the small finance amounts required, insufficient collateral and a lack of financial history, education and managerial skills are not unique to tourism SMEs. Policies targeting these problems for the whole universe of SMEs will benefit tourism firms and entrepreneurs as well. Policies to improve the underlying conditions will also benefit tourism SMEs, including regulatory changes to promote the uptake of new instruments or ease the regulatory burden, or incentives to encourage the private sector to offer finance products not available on the market.
- **Ensure that tailored tourism initiatives, when provided, are well-targeted to address specific tourism issues and complement (not duplicate) general SME supports.** Tourism firms have at least three characteristics that may warrant specific policies: production of service-based intangibles, participation of local firms in global value chains, and low barriers to entry. Policy options include public credit registries or private credit bureaux to create a financial history for tourism firms, and partial public guarantees as collateral substitutes for producers of service-based intangibles. Honour-based loans such as those offered by Bpifrance to innovative entrepreneurs can also help. Specific supports may be warranted for firms dealing with international tourists or part of value chains. The issue of low-barriers to entry merits special attention. Targeting supports to under-represented groups, including women, migrants, and ethnic minorities, will help to promote more inclusive entrepreneurship and tourism growth.
- **Target supports to innovative tourism SMEs, particularly in the early stages of the business lifecycle.** Public-sector intervention in the finance of tourism-related activities is justified for innovative entrepreneurs, where there is an identified market failure. This is the case where

innovators fail to innovate in the first place because the expected economic benefit is lower than the cost. Public supports for financing innovative tourism entrepreneurs include grants and subsidised loans. Incubators or accelerators can also foster entrepreneurship and facilitate the creation, diffusion and uptake of innovation. Direct public intervention is less justified for firms at the development stage of the lifecycle. Tailored supports for existing tourism SMEs in the development stages should only be introduced where there is a clear financing or development need. Interventions may be warranted in certain limited circumstances, such as to support local and regional development and job creation, strengthen tourism value chains, targeting certain population groupings, or encourage the uptake of new technologies and green business practices.

- **Investigate the potential and promote the use of alternative financing instruments in tourism.** Alternative non-bank financing instruments such as crowdfunding hold potential for tourism SMEs and entrepreneurs. These complementary mechanisms providing finance while having a local development objective. Several crowdfunding initiatives targeting tourism-related projects exist (e.g. New Zealand, TravelStarter). The most extended use of crowdfunding is non-financial crowdfunding, which is well-suited to tourism. This model is based on donations and rewards, where the funder finances projects in exchange for a product (e.g. a hotel night, a free city tour).
- **Strengthen the capacity of tourism SMEs and entrepreneurs to better access and use financing instruments.** Finance options should include non-financial supports to help tourism SMEs maximise the benefit from available financing opportunities. This includes strengthening financial planning and management skills, raising knowledge of available financing initiatives, and creating tools to make it easier to access financing. The issue of capacity needs to be addressed at the same time, if not before, the issue of finance, otherwise the financing problems of the firm can be aggravated. Policy initiatives to encourage the financial sector to be more proactive in providing financing to tourism SMEs could also be envisaged, including taking steps to improve knowledge and understanding of the tourism sector.
- **Improve data and build the evidence to accurately diagnose the demand and supply-side barriers to financing for tourism SMEs and entrepreneurs, and inform the development of appropriate policy responses.** Limited data is available on the financing conditions facing tourism SMEs, and small and micro-enterprises in particular, and the appropriateness and uptake of available financing instruments. Such data as is available tends to be for SMEs in general.



## **PART I: PROMOTING SME AND ENTREPRENEURSHIP FINANCING FOR TOURISM**

Entrepreneurship and SME development are essential to building a strong and sustainable tourism sector. SMEs are the backbone of the tourism sector and many small and micro-enterprises offering tourism services co-exist with larger companies. Tourism enterprises need adequate financing to create, operate and expand the business, and remain competitive. The high number of small and micro-enterprises, many of which are owner-operated, family-run, and female-owned, combined with the level of fragmentation, lack of collateral, and the nature of tourism, has implications for the financing of enterprise and tourism development.

An effective financial system should serve the needs of all viable enterprises and enable them to invest, grow and contribute to sustainable and inclusive growth (OECD, 2015b). Many of the challenges tourism SMEs face when it comes to accessing adequate financing relate to the small scale of the business operations. These are similar to the challenges faced by SMEs in other sectors, and can be solved by sector-neutral SME programmes and wider policy measures to improve access to financing.

However, tourism also has a number of characteristics which in combination are likely to have implications for the type of financing approaches needed and used in the sector. Identifying whether specific policies and programmes targeting tourism SMEs are required to address these is thus a fundamental policy question.

In spite of the key role of SMEs in tourism and the importance of financing to the growth and development of enterprises and the sector as a whole, information on the financing needs, barriers and conditions faced by tourism SMEs, and the different financing mechanisms which can support tourism entrepreneurship, is limited and, when available, often refers to the sub-sector of accommodation businesses.

### **Financing profile of tourism SMEs – the demand-side**

Tourism enterprises act at the local level, but operate in a global market place. This fact poses both opportunities and challenges. Many small firms struggle to be part of wider value chains. Tourism is a sector where the consumer comes to the place of the producer, offering the unique possibility each tourism firm to be part of the global system. This is derived from the opportunity to export a good or service at the point of sale, be a source of external currency, and act as the visible face of the country to the international visitor. This characteristic makes tourism SMEs part of the global economy and provides a rationale for public support.

However, changing consumer preferences and trends in the global competitive environment (e.g. demand for unique, high quality tourism experiences), along with the macroeconomic context (e.g. exchange rate fluctuations) and external events and developments, are impacting business performance and demand for tourism services. Rising international competition is forcing enterprises to look at innovative ways of improving the quality and market orientation of their products, their profitability and competitiveness.

Technological developments and digitalisation are impacting business models and the wider tourism economy. This creates the need to invest in new technologies to improve competitiveness (e.g. online

distribution platforms, ICT-innovation, digital global value chains). These trends and developments create new challenges and have implications for the financial needs of the sector and the financial capacity of tourism SMEs, including the financial management skills and capital needed to develop a competitive and sustainable business offer.

Access to finance depends on how attractive tourism SMEs look to investors and financial institutions. The capacity of tourism SMEs to plan and manage their financing needs and develop a robust business proposal, and knowledge of available financing options, is an issue. Strategic business planning is essential to put in place the structures to respond to the financing needs of the business and assure the viability of the business in an increasingly complex tourism environment.

All businesses need access to sufficient financing to grow. Even where SMEs may not wish to invest, expand and grow their business, enterprises still need financing to support their day-to-day operation and to maintain their market position. This may be the case for lifestyle entrepreneurs and small, family-owned businesses, for example, whose main purpose may be to secure a stable income stream rather than be at the forefront of service innovation.

The profile of tourism entrepreneurs has implications for the type of financing approaches needed and used, because tourism is a sector with low barriers to entry and tourism offers a wide range of enterprise creation and development opportunities. Tourism SMEs are also more likely to be managed by lifestyle entrepreneurs, women, young people and people with a migrant background, or based on a co-operative model than the average SME. Businesses operated by these under-represented groups face bigger challenges in accessing external financing, and business proposals may not be well-founded or commercially robust. Financing lifestyle entrepreneurs and other newcomers to the sector can pose challenges, as their understanding of the sector may be limited and their financial management knowledge and skills may vary.

Previous OECD (2015c) work has highlighted the need to improve financial literacy and management skills in the sector. This is particularly an issue in small owner-operated or family-run businesses. There remains the issue of the cost of such a public good provision. An ex-ante assessment is needed to verify that the provision of financial education to tourism firms is welfare improving, compared to other alternatives.

Tourism is also a highly fragmented sector, composed of different branches with differing finance needs and skills (e.g. hotels, restaurants, tour operators, travel agencies). The aggregation of tourism SMEs into a single group dilutes the individual characteristics and profiles of firms within the sector, and fails to acknowledge the differing financing approaches best suited to their needs. This is also the case with SMEs in general. For example, leasing and other asset-based financing is suitable for SMEs with mobile assets, while technology-based SMEs focused on innovation and market disruption attract business angels in the early stages.

Tourism businesses involved in the production of service-based intangibles may find accessing external financing particularly challenging, due to a lack of collateral and difficulties valuing the service provided. The lack of collateral is also an issue for technology-based entrepreneurs, but the problem is deepened if the market cannot adequately price service provision, which can frequently be the case in tourism.

SMEs in general rely on debt finance, but face practical difficulties when it comes to accessing external financing, including the lack of appropriate financing mechanisms and collateral restrictions (OECD, 2006). This is true also for tourism SMEs. When they do successfully access external financing, SMEs tend to face higher costs (e.g. interest rates) and more severe credit conditions (e.g. higher collateral

requirements and shorter maturities), related to the riskier nature of the business. This, however, reinforces the risk of financial distress and bankruptcy.

Some tourism activities are very dependent on capital to create and maintain a high quality, competitive tourism infrastructure and product offering. Capital intensity is particularly an issue for hotels and other accommodation establishments, where there is a recurring need for investment to update, refresh and modernise the tourism offer. These businesses face challenges accessing finance for these working capital needs, because available collateral might already be compromised securing other loans. Also, the proposed renovations might not ensure a sufficiently higher stream of income revenues for the hotel. Shortage of capital is a major obstacle to the development of the business proposal, affecting jobs and skills development, market access, digital information and distribution and higher quality standards. This is a challenge for tourism SMEs that have a weak capital base. Nevertheless, the case studies show that hotels and other accommodation establishments are the sub-sector that faces a lower number of challenges in accessing debt and collateral-based finance, compared to other tourism-related subsectors.

Tourism is commonly perceived as relatively risky, compared with other sectors. The business cycle and seasonal nature of tourism increases the risk profile of businesses in the sector. It creates cash flow and other financing challenges linked with the short operating period in which to generate revenues, low occupancy rates and under-utilised capacity. This fact impacts the balance sheet of tourism businesses, and creates difficulties when it comes to presenting a comprehensive business and financial plan. Sustaining a business through off-peak periods can be challenging and underscores the need to access capital at reasonable rates and in a timely manner. Finance is more readily available to businesses where risks are low and assets have recognised market values.

Collateral requirements impact the ability of tourism SMEs to obtain debt-financing. This is a major obstacle for service providers with few fixed or tangible assets, such as travel agencies and tour operators, but is also an issue for hotels and other accommodation establishments. Banks generally look at real-estate based collateral when assessing financing applications, rather than cash flows and the profit generating capability of the business from delivering tourism services. This feature can result in significant under valuation of the business. The focus on real-estate based collateral is also a challenge if the property is already pledged to secure a loan, due to the low equity ratios in the sector. Service-based tourism SMEs face difficulties in assessing the market-value of their intangibles, limiting their potential use as collateral.

The small scale of tourism businesses, many of which are micro-enterprises, also means that these firms are in a weaker bargaining position vis-à-vis banks and other financial institutions when it comes to negotiating financing conditions. It means that it may not be attractive or profitable for banks to cater to the financing needs of tourism businesses, due to the small scale of the loans. If a market for small loans does not exist, there might be a rationale for public intervention offering a product that is not provided by the private sector, but charging the interest rates and fees that correspond to the implied risk. The idea is to solve for the access to finance problem, not to provide subsidies.

Table 1 summarises the characteristics of tourism businesses which influence their ability to access financing, some of which are shared with the broader SME sector).

**Table 1. Characteristics of tourism firms influencing ability to access finance**

Type	Characteristic
Financial	Weak capital base
	High risk
	Lack of collateral
	Small size – highly fragmented
Human capital	Lack of skills, including financial education and management skills

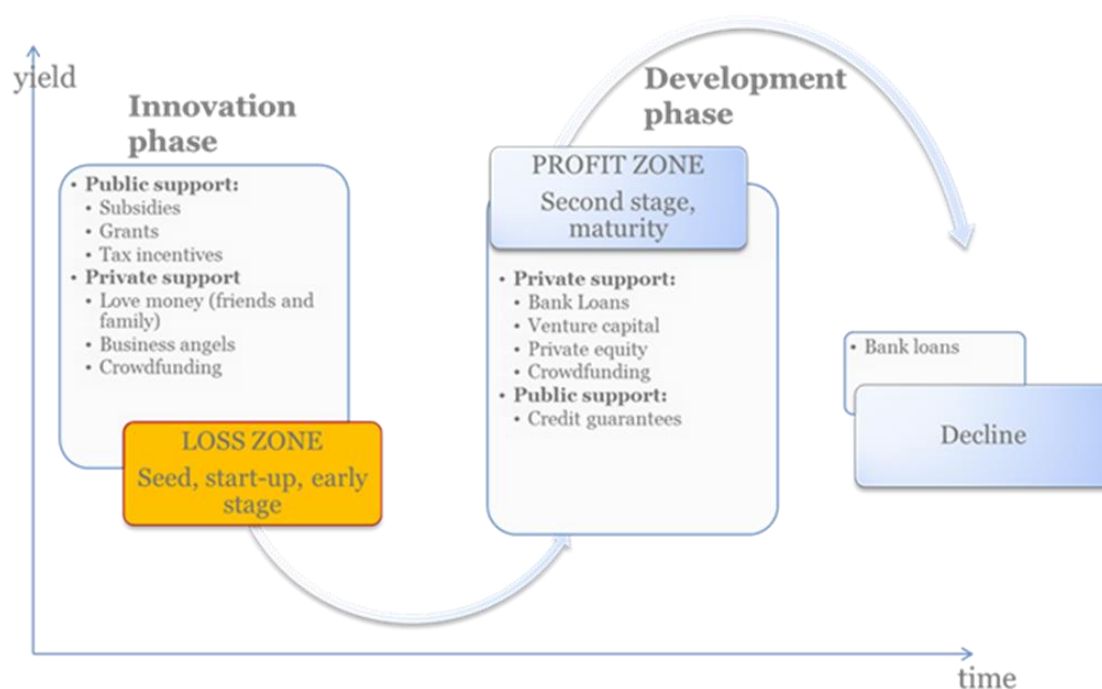
## Accessing finance to support tourism growth – the supply side

Access to financing is vital to promote entrepreneurship and SME development and build a competitive and sustainable tourism sector. Financing is necessary at the early stages of an idea/product development to encourage entrepreneurs to set up new businesses, and bring in innovation in the sector. It is also necessary to support the survival and growth of existing tourism businesses.

The finance needs of enterprises vary along the business lifecycle. Start-up companies face challenges related to the lack of experience and established business record, and unproven business model. New businesses may not be eligible or qualify for some bank financing instruments, or may face higher financing costs or collateral requirements. Innovative SMEs experience difficulties accessing seed capital and financing as they present a higher risk to banks. At the other end of the business lifecycle, entrepreneurs encounter difficulties realising the value of a business in the event of sale, liquidation or transfer.

Figure 1 shows the main finance instruments along the lifecycle of a typical firm, which can be broadly composed of the following phases: early (from production concept, business start-up to actual start of operations), expansion (including the stages of scaling up and standardisation of production), maturity, and possibly, decline.

**Figure 1. Finance needs along the life of a tourism firm**



Source: Authors construction, adapted from several sources, including OECD (2012).

The capacity of tourism SMEs to innovate is affected by lack of finance. Innovative businesses and start-ups face particular financing challenges, while business models in the sector are also evolving. SMEs are often at the forefront in applying new technologies, developing new business models (OECD, 2015a) and responding to market developments, and make important contributions to innovation, productivity and value creation (OECD, 2006).

The ability to innovate is critical to better participate in tourism value chains, which in turn may help to create economies of scale, minimise operational costs and support economic growth. However, lack of adequate and stable financial resources limits innovation in the sector, including investment in new technologies, tools and software, and hampers firms from introducing the necessary innovation to ensure, strengthen or upgrade their position in the chain (OECD, 2008a). SMEs in particular are often unable to utilise the maximum potential of global value chains (OECD, 2008b).

A wide range of finance instruments are available to tourism SMEs and entrepreneurs among the finance instruments available to all SMEs. The instruments can be classified by source of funds - public or private - and by stage of the life of the firm - innovation or development phase (Table 2). Tourism firms are observed to rely more on debt finance (e.g. standard bank loans, asset-based finance) than on equity finance (e.g. equity stakes on the firm, venture capital).

**Table 2. Finance instruments available for tourism firms and entrepreneurs**

Lifecycle stage	Public support	Private support
New tourism entrepreneurs (innovation phase)	Interest rate subsidies Grants Tax incentives	Love money (friends and family) Crowdfunding Business Angels
Existing tourism firms (development phase)	(Partial) credit guarantees	Standard bank loans Asset-based finance Value chain finance Private equity and venture capital Crowdfunding Mezzanine finance

### *Financing innovation and new tourism entrepreneurs*

At the early stages of an innovation, idea or product development process, the firm is not yet economically viable or profitable. This corresponds to the loss zone in Figure 1. Apart from own capital from the entrepreneur, this phase is usually financed with funds from friends and family who based on private information decide whether or not to invest in the idea/project. This can include knowledge or information on the skills or intrinsic characteristics of the entrepreneur, such as being hard working, responsible, and other attributes that are not yet perceived by the market but are observed by potential investors in the social network of the entrepreneur.

Depending on the characteristics of the idea or product innovation and the ecosystem on which it is developed, business angels can provide finance at the early stage. There is also the potential for crowdfunding, monetising the existing social capital (Agrawal, Catalini, and Goldfarb, 2011). Crowdfunding is a borrowing modality where several lenders finance a project, usually featured through the internet. Public policies usually intervene at this stage through subsidies offering credit loans at better terms than the market, with better rates and longer maturities. Such policies help the innovator to capture the benefits of the innovation. OECD work on business research and innovation shows that the public sector plays an essential role in the early stage of a firm, usually through financial incentives, including grants, subsidies or tax incentives that allow the innovator to appropriate the value of the new idea, project or process (OECD, 2011).

Public sector intervention is often most necessary at the start of the lifecycle of an innovative firm (concept, early-state and start-up). Countries have introduced initiatives to promote innovation and entrepreneurship in order to develop a high quality, sustainable tourism offer that meets visitor expectations, generates domestic value added and supports economic and regional development. Public



intervention also seeks to enable the conditions to foster entrepreneurship, through incubators or accelerators, which connect the public, private and academic sector, creating synergies that facilitate the creation, diffusion, and uptake of innovation. These accelerators also connect innovators with the private sector (business angles and venture capitalists) and with public banks that offer loans at better conditions than those found on the market (subsidised interest rates, delayed payment of principal, honour loans without collateral and longer terms).

Public support enables innovative firms to appropriate the returns of the innovation. With different implementation characteristics, subsidies, including interest rate subsidies, grants, or tax incentives, are allocated to targeted projects within tourism that bring innovation to the sector. The public support can be allocated *ex ante* or *ex post*, if access to finance does not prevent the realisation of the project. Whenever the tourism firm is viable, there is no reason for public intervention in the market, unless to correct for an inefficiency. What is observed in this case is partial public support in the form of credit guarantees that compensate for a lack of collateral on the part of the entrepreneur.

Non-financial support to new entrepreneurs comes in the form of easing the underlying conditions for new businesses to thrive. Non-financial support means improving the regulatory environment for businesses, favouring the creation of social capital through entrepreneurial networks, workshops, and vetting on new ideas that signal to external founders on the validity of the new process or product.

### ***Financing the development of existing tourism firms***

During the development stages of the firm (scaling up, product or process standardisation) the firm is already economically viable. The firm can access credit loans, crowdfunding opportunities, venture capital firms, or private equity to finance day-to-day needs, renovation and expansion.

Small businesses largely rely on internal and informal sources of financing, such as personal loans, overdraft facilities, credit card use, savings and working capital, when funding day-to-day operations. Retained earnings are difficult to build up for SMEs as most earnings are immediately reinvested. The OECD has mapped the external finance options available for SMEs, according to a risk/return profile. On the lower end of the spectrum (low risk/low return) there is debt finance (credit loans) and asset-based financing.

Short-term bank loans are well suited for financing marketing activities, new software and technologies, or refreshing the product. Medium- and long-term bank loans are more appropriate for larger investment projects, including renovating or developing new facilities. Overdraft facilities are an important but expensive tool used by seasonal businesses to manage cash flow, particularly at the start of the season. Personal guarantees can increase financial risk for individual business owners.

Firms that rely on certain assets for their business operations (e.g. bicycles for city-tours, or kitchen furniture for those firms in the food services) can borrow using the modality of asset-based finance. The rationale is similar: the asset is used as collateral for the loan. However, asset-based finance is not suitable for tourism firms producing service-based intangibles. Financing from sale of assets tends to be used by medium and larger enterprises, where entrepreneurs own land/buildings not needed for day-to-day operations, and may be of limited use in the tourism sector. Leasing is form of asset-based finance frequently used for furniture, kitchen or similar equipment, vehicles and technology.

Value chain finance refers to the fact that some suppliers (e.g. the firm supplying fruits and vegetables to a hotel, or service suppliers) can benefit from the financial history of larger firms in the value chain and therefore access to finance instruments that help improve their competitiveness and the competitiveness of the whole value chain that otherwise would be unavailable (mainly because of scale problems).

Non-debt financing from private capital markets is a further source of external financing, towards the right-end of the risk/return spectrum. Venture, risk and mezzanine capital financing is suitable for business start-ups and expansion, and innovative projects in the tourism sector benefit from equity-based instruments. Venture capital is important for untested business models with no track record; it replaces or complements traditional bank finance (OECD, 2013). Mezzanine finance is a generic term for finance instruments composed of debt and equity (hybrid) with different degrees of risk/return. However, this type of financing is reported to be less used by tourism SMEs, in part due to the lack of awareness of this financing option, large minimum investment amounts involved and the potential absence of an institutional framework to support this type of financing in tourism.

Direct public intervention is less justified in the development phase, at the risk of crowding out the private sector, by offering better terms and conditions which may destroy incentives for the private sector to enter the market. However, public intervention is observed in the case of tourism firms. The intervention is justified on the rationale that there is a local or regional development dimension and that support is needed because of the direct effects on the firm (e.g. increased competitiveness through the uptake of ICT tools), the indirect benefits that the firm brings (e.g. job creation, inclusion), including environmental (e.g. supporting green investments or renovations) or social benefits, beyond economic viability. Public intervention is done through ensuring the underlying conditions for businesses to survive and prosper, providing indirect financial instruments (e.g. credit guarantees) that solve for specific issues, such as lack of collateral or lack of credit history, or direct instruments that target the specific objectives (e.g. inclusive entrepreneurship or public good provision).

### ***Financing regional development and inclusive entrepreneurship***

The functions of public financing institutions and development banks include the efficient allocation of credit and supply of products not covered by the market, to provide economic or financial additionality. Financing regional development and under-represented groups fall under these latter categories. Transaction costs are generally higher for tourism firms in isolated geographical regions, and for businesses created and managed by women, migrants, and ethnic minorities, due to cultural reasons. These sections of the population are more likely to enter the tourism business, compared to the overall spectrum of SMEs.

However, public development banks tend to provide credit for medium-long term projects and sometimes neglect to lend to tourism firms headed by under-represented groups. When this is the case, it has been observed that microfinance institutions step in. These institutions are usually private providers organised as non-governmental organisations. They provide credit and other financial services to groups that otherwise would not be able to access finance, or only at very unfavourable terms, because of a lack of property rights, collateral or credit history, unobserved quality, and very small desired amounts to borrow.

Microfinance institutions use group-lending schemes (usually based on joint group liability) to resolve the issue of adverse selection and moral hazard. That is, by requiring the group to be self-formed, participants select other members with desirable characteristics – hard working, with a known informal repayment history – and exert control on the behaviour of the group. By transferring these activities to the group itself, microfinance institutions can overcome at least part of the screening and monitoring costs, and the group forms a sort of “collateral of peer-pressure” to repay.

The experience with microfinance has shown that it tends to be a transitional institution, which helps members graduate to standard and formal credit institutions. Microfinance members tend to have low productivity, and there is evidence to show these individuals would be better off as employees in a higher productivity firm (RED, 2013). Moreover, these under-represented groups usually have other problems that

are not solved by credit provision. Microfinance is a powerful tool, but it needs to be complemented with other poverty and development policies.

### *Non-financial dimensions of tourism SME financing*

The extent to which the financial sector understands and caters to the needs of tourism businesses is an issue. Insufficient knowledge or understanding of the sector and the financing needs of tourism SMEs on the part of lenders and investors is a challenge. Investors and lenders may lack the knowledge and experience to accurately assess the risk and cost of financial instruments. The risk perception of tourism SMEs may be higher as a result, particularly for more innovative or less conventional financing requests, or in areas where tourism is less developed. This may lead to more stringent financing conditions or even reluctance to finance day-to-day or investment activities, as reported by industry. It can also affect the time it takes to assess and approve financing support.

Investors and lenders may lack the flexibility to adjust the terms and conditions to better meet the needs of sector. Flexible products with variable repayment options, which permit tourism SMEs to repay the loan capital plus interest during the season with an interest-only option during the off-season, for example, would take account of the seasonal fluctuations and financing constraints faced by tourism SMEs. Such an approach does not require dedicated financing products catering specifically to tourism SMEs, but rather flexible products which can take account of the specific financing needs and cash flow challenges encountered by businesses in the tourism sector.

Regional or local banks potentially have a better knowledge and understanding of tourism SME financing needs, particularly in regions where tourism is important. As such, these banks may be better placed to respond to the financing needs of tourism SMEs, as they may be more flexible in adapting to these needs and more experienced in assessing the risk and viability of tourism business proposals. However, regional banks also experience problems in assessing the viability of the proposals, given the lack of experience of lender in the tourism sector.

The bureaucracy involved in accessing funding can be a further obstacle. Inflexible bank processes and complicated and time-consuming procedures for obtaining financial resources from banks are particularly challenging for micro-enterprises, which lack the advantages of scale of larger businesses. Small and family owned businesses find it difficult to fulfil bank lending criteria, and may be discouraged from applying for bank credit. Administrative procedures and delays also impact the timeliness of credit decisions.

Wider developments in the general financial environment in which tourism business operate also have repercussions. The global financial and economic crisis affected the business environment in many OECD countries. This has exacerbated the financial constraints typically experienced by SMEs, impacting demand for the goods and services they provide, along with cash flow, liquidity and working capital and the availability of credit. Equity financing was also severely affected by the crisis. Revisions to the international regulatory framework for banks (Basel III) following the financial crisis have resulted in more restrictive bank lending policies and practices. Equity capital requirements and tougher repayment terms, for example, affect project feasibility and make it more difficult to obtain loans.

While financing conditions have generally improved in recent years, access finance remains tight for SMEs and entrepreneurs in many countries, especially where economic growth is weak. SMEs are generally more vulnerable to changing credit market conditions and face more difficulty obtaining external funding than larger firms. On the up side, the current low interest rate environment in many countries is attractive for those companies that do manage to obtain finance (Table 3).

**Table 3. Non-financial supply-side factors impacting access to finance for tourism firms**

<b>Non-financial dimensions (supply side)</b>
Insufficient knowledge of the sector
Lack of flexibility to enable seasonal payment schedules in a standard product
Burden of bureaucracy (regulations and permits)
Macroeconomic context

### **Implications and financing conditions for tourism businesses, and the sector as a whole**

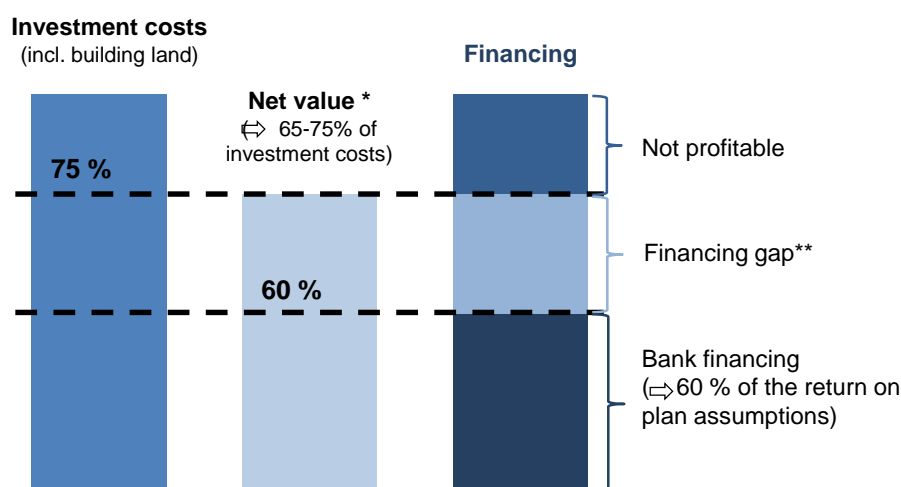
Whether tourism SMEs face stricter loan conditions compared with other service-based SMEs or SMEs in general is not clearly apparent. There is some evidence to suggest that tourism SMEs and entrepreneurs do face less favourable loan conditions than the average SME, which in turn already face more stringent conditions than larger firms.

In some countries, tourism SMEs reportedly experience greater difficulty getting loan approval and face higher interest rates and collateral requirements, shorter repayment periods, linked with the higher risk perception and affecting business viability. In other countries, tourism SMEs are reported to encounter the same rejection rates, collateral requirements, interest rate levels, repayment terms and administrative costs as other SMEs. In yet other cases, tourism SMEs are particular targets of development public policies and confront better finance needs, in terms of interest rates, loan maturity and collateral requirements than the average SME. This is the case, for example, with the Austrian Tourism Development Bank initiative and the Greek island support to tourism enterprises (Austria and Greece case studies).

Debt financing in the form of commercial bank loans and overdraft facilities is reported to be the main source of external financing for tourism SMEs. However, the tourism industry often reports difficulties in obtaining bank loan approval and securing sufficient debt financing. It can be particularly difficult for new businesses and micro-enterprises to get debt financing approval for seed loans and small-sized loans. The industry also reports difficulties in getting long term (10+ years) loan approval to meet long term financing needs due to insufficient equity and collateral and the inherent volatility of tourism. The high cost of financing is also an issue, as are repayment terms and schedules (such as the mismatch between seasonal income and uniform monthly repayments). This inherent higher risk is internalised by the market, as shown by the experience of the Austrian Bank for Tourism Development, which states that tourism SMEs are charged on average 100 basis points higher than non-tourism companies.

In Switzerland, 35% of restaurants and hotels in Switzerland had a bank loan and/or credit facility in place in 2012, the same level as the average for all companies. However, Switzerland has diagnosed that an investment bottleneck is impacting competitiveness, with a backlog of maintenance and replacement investments due to the existence of a financing gap and restrictive bank lending policies (Figure 2).

Funding for the hospitality industry in Switzerland helps to close this identified financing gap for viable companies with a healthy earning position. A range of publicly-supported financing instruments are available to tourism SMEs, including low interest loans and consulting services to hotels through the Swiss Society for Hotel Credit, interest-free loans for tourism infrastructure projects (e.g. cable cars, hotels) and non-refundable grants for non-construction projects (e.g. market research, co-operation) through the National Regional Programme, and credit guarantees for easy-to-obtain operating loans from co-operatives for the hospitality industry. Financial support is also offered by several cantons (Box 1).

**Figure 2. Investment finance gap for Hotels in Switzerland**

\* Net value = Realisable selling price for hotel, assuming 60% occupancy rate, usual market rates and professional management

\*\* Equity / Swiss Society of Hotel Credit financing

Source: Swiss Society for Hotel Credit, State Secretariat for Economic Affairs Switzerland.

### Box 1. Closing the financing gap in the hospitality industry in Switzerland

In Switzerland, public financing instruments include the Swiss Society for Hotel Credit, which targets hospitality SMEs, and New Regional Policy and guarantee co-operatives, which support SMEs in general.

The **Swiss Society for Hotel Credit (SGH)** provides low interest loans to hotels and private lenders and offers consulting services. The financial assistance the SGH provides to the hospitality sector is economically important. During the period 2007-12, investments part-financed by the SGH (CHF 139 million) in Alpine regions accounted for around 28% of total investment. In 2015, the SGH revised its lending policy, giving it significantly more flexibility in terms of financial assistance options. The geographical scope of activities was widened to support hotels in more regions. SGH's financial scope was also increased. The individual loan volume increased from CHF 2 million to CHF 6 million, with larger loans possible in exceptional circumstances. Loans normally account for up to 40% of net value, calculated based on the discounted cash flow method. The expansion of SGH's loan volume from 2016-19 will be financed with an additional loan from the Swiss Confederation, ensuring SGH activities beyond 2019 can continue at an adequate level without requiring additional funds. Impulse loans for new investments were added to the financing portfolio in 2015, supplementing existing low interest start-up loans. Impulse loans aim to increase productivity and cost efficiency, expand the season, strengthen the regional value added chain and improve energy sustainability. SGH also provides consulting services to improve access to finance through new investment evaluations, feasibility studies and creation of innovative business concepts. It also provides advice on investment-related grants, empowers companies through knowledge transfer and provides co-operation related support for companies in the tourism and hospitality sector. The Swiss Hospitality Investment Forum is a key knowledge and contact platform in this regard.

The **New Regional Policy (NRP)** provides interest free loans for tourist infrastructure projects (e.g. cable car and hotel structures) and non-returnable grants for non-construction projects (e.g. market research). This financing is particularly important for financing tourism infrastructure. Since 2012, 36% of all projects, 22% of grants and 80% of loans pertain to tourism. An information document aims to improve co-ordination, optimise impact and increase transparency of grants and financial assistance provided by SGH and NRP to the hospitality sector.

**Guarantee co-operatives** make operating loans easy to obtain in the hospitality industry by issuing credit limit guarantees, thereby enabling SMEs to obtain loans which banks would otherwise refuse. The guarantee volume issued by guarantee co-operatives amounted to CHF 218 million by end 2012, with 14% of SMEs with guarantees operating in the hospitality industry.

Research in Canada (2011, 2015) indicates that personal financing, credit from financial institutions and leasing are the three main sources of financing used by entrepreneurs wishing to start a tourism business, which were significantly more likely to use the latter two compared with other SMEs. Tourism SMEs were also significantly more likely to use government credit or grants. Tourism SMEs are less likely to both request and be approved for external financing, compared with non-tourism SMEs. The analysis reveals that tourism SMEs typically received smaller amounts of debt financing and faced more unfavourable non-pricing loan conditions, compared with other SMEs (Box 2).

### **Box 2. Financing profile of tourism SMEs in Canada**

SMEs constitute the backbone of tourism in Canada, accounting for 99.9% of businesses in the tourism industries, or 9% of the estimated 1.2 million SME employers in Canada in 2013. Debt financing is the most common type of financing sought by both tourism and other SMEs, accounting for 66% of the total amount of external financing authorised to SMEs in 2011. However, both groups experience more difficulty obtaining this type of financing than other types of financing that are less risky. On average, in 2011, tourism SMEs had a perfect approval rating for lease financing, trade credit and government financing, whereas only 86.1% of debt financing requests were approved – these approval rates are similar to those experienced by SMEs in other industries.

Tourism SMEs (16.3%) are more likely compared with other SMEs (5.3%) to use government institutions as a provider of finance. They were also more likely to be approved for financing (99.9%) than other SMEs (81.8%). Obtaining financing can be particularly difficult for tourism SMEs because financial institutions may view them as relatively risky compared with other SMEs. Thus, tourism SMEs may turn to government institutions, to obtain external financing or access loan guarantees. For Fiscal Year 2013-14, the Business Development Bank of Canada) had 3 353 tourism-related clients for an outstanding financing commitment of CAD 2.6 billion, or approximately 13% of its total loan and guarantee portfolio. For Fiscal Year 2012-13, financial institutions registered Canada Small Business Financing Programme loans worth CAD 300.3 million (33% of the total value loans) to 1 546 small businesses in accommodation and food services, the largest user of the programme.

When a business is perceived as being more risky, it is not unusual for a lender to provide less favourable loan terms and conditions. Terms and conditions were tight following the economic recession and financial institutions managed risk by extending less financing to SMEs in general. However, terms and conditions improved for tourism SMEs in 2011. Fewer tourism SMEs (45.3%) were required to pledge collateral in 2011 compared with other SMEs (67.3%). In addition, SMEs in both tourism and other industries were offered lower interest rates. However, tourism SMEs requested less financing, on average, and received less than what they requested in 2011. Tourism SMEs had a lower total financing authorisation-to-request ratio (85.0%) than other SMEs (94.8%) in 2011, suggesting tourism SMEs had more difficulty obtaining debt financing than other SMEs.

Source: Industry Canada (2015) [www.ic.gc.ca](http://www.ic.gc.ca)

Failure to access adequate financing to support tourism SMEs has implications at both enterprise and sector level. The main reported consequence of these financing challenges is the negative impact on quality and competitiveness of the tourism offer. Financing the investment needed to maintain and improve facilities, adapt to new standards and demands and develop the product and infrastructure is a recurrent challenge for tourism businesses. Financial instability also impacts the ability of tourism businesses, and the sector as a whole, to attract skilled human resources to develop and provide high value tourism services.

Financing constraints impact on business survival rates, and have implications for the growth and development of enterprises. The heavy reliance on internal funding, and difficulties accessing adequate external financing in a timely and cost-effective manner limits the growth potential of many tourism businesses. Failure to deal with the financing issues facing the sector will limit the capacity of tourism SMEs to contribute to economic and tourism growth.

Indeed, as economic growth remains weak, many OECD countries have been developing strategies to strengthen SMEs and promote entrepreneurship, including improving SME financing (Box 3). Recent

OECD work has highlighted the pressing need to broaden the range of financial instruments available, support the uptake of alternative financing instruments and improve financing conditions for SMEs and entrepreneurs, to foster new sources of growth and enable SMEs to continue to play their role in investment, growth, innovation and employment (OECD, 2015a).

**Box 3. G20 OECD high level principles on SME financing**

The principles are:

1. Identify SME financing needs and gaps and improve the evidence base.
2. Strengthen SME access to traditional bank financing.
3. Enable SMEs to access diverse non-traditional financing instruments and channels.
4. Promote financial inclusion for SMEs and ease access to formal financial services, including for informal firms.
5. Design regulation that supports a range of financing instruments for SMEs, while ensuring financial stability and investor protection.
6. Improve transparency in SME finance markets.
7. Enhance SME financial skills and strategic vision.
8. Adopt principles of risk sharing for publicly supported SME finance instruments.
9. Encourage timely payments in commercial transactions and public procurement.
10. Design public programmes for SME finance which ensure additionality, cost effectiveness and user friendliness.
11. Monitor and evaluate public programmes to enhance SME finance.

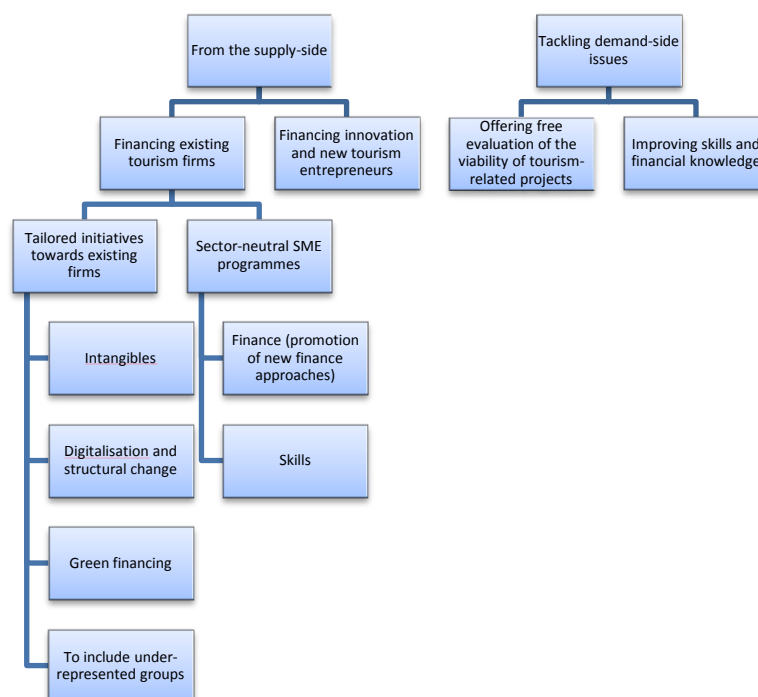
Source: OECD Working Party on SMEs and Entrepreneurship

**Policies to improve the financial environment for tourism SMEs and entrepreneurs**

Governments have responded to the tight financing conditions that tourism SMEs and entrepreneurs face with a variety of different instruments to boost access to finance. The previous section has shown that these financing conditions are due to demand and supply factors. Policy options to tackle these demand and supply side challenges include: government supported loans, guarantees and grants; tax incentives; subsidies and financing through national or regional programmes; changes to the regulatory/legal framework; programmes to consolidate the financial structure of firms and support the use of non-debt financing approaches; and the development of tools to promote awareness of the different financing and other supports available (Figure 3).

These measures carry varying levels of costs for public budgets, from negative cost (e.g. negative interest rates for bank deposits at the central bank) or cost neutral (e.g. bank targets for SME lending) to significant funding costs (e.g. government direct lending and loan guarantees) (OECD, 2015b).

It should be acknowledged that even where no financing initiatives specifically targeting tourism SMEs exist, tourism policies and programmes play an important role in creating the framework conditions to support investment and financing in tourism. This includes ensuring the infrastructure necessary for tourism development is in place. Investors and lenders need to be confident the service and transport infrastructure will be sufficient to support investment. In many countries public authorities are also actively involved in and provide financing for marketing and promoting destinations, in contrast to other sectors of the economy. Tourism SMEs benefit from these, and other, indirect financial supports (e.g. market research and studies), even where other financing supports are not targeted at tourism SMEs.

**Figure 3. Policy options to support tourism SMEs and entrepreneurs**

### *Supporting existing tourism SMEs and entrepreneurs through sector neutral programmes*

Sector-neutral SME programmes to improve access to financing for SMEs implicitly recognise that the finance needs of existing tourism firms are no different from those of other SMEs, once their business is economically viable. Therefore, tourism SMEs can benefit from direct and/or indirect public supports to improve access to financing for all SMEs and entrepreneurs.

Survey responses from many countries indicate this to be the case. Sector neutral approaches in these countries seek to resolve the problems encountered by tourism SMEs linked with the lack of collateral or track record by providing public guarantees (Denmark, Hungary, Norway), mezzanine finance (Germany), guarantee co-operatives (Switzerland) or microcredits (Russian Federation). Other indirect actions include changes to the legal/regulatory framework and supervisory measures to improve the overall functioning of the financial system and create the best possible conditions for doing business (Table 4).

In Denmark, the Danish Growth Fund offers a range of flexible products and instruments, which are available to all SMEs to select and use according to the needs of individual businesses, regardless of sector. These include subordinated growth loans and guarantees, which are primarily targeted at small and/or new businesses. The lack of a track record has been identified as the most important challenge for SMEs in Denmark when it comes to accessing finance, and provides a rationale for these measures. Therefore, the indirect finance instrument of choice is the use of public guarantees to partially alleviate the problem. Providing complete guarantees would distort the incentives for the firm to perform in a prudent and viable manner.

While the Danish Growth Fund operates on market terms for the most part, these subsidised products enable the fund to take on greater risk. These instruments are available to tourism SMEs - a loan from the Danish Growth Fund has enabled a small rural inn which could not obtain bank financing to renovate and expand the business, for example. The Fund also makes direct equity investments in companies with a



promising growth trajectory; however, this instrument is not used much in the tourism sector. In 2014, a non-finance programme was created with the purpose of improving the chances for growth and employment in the tourism sector, addressing underlying conditions for enabling SME finance. It also offers other special finance options targeting the whole universe of SME finance.

**Table 4. Selected sector-neutral approaches to ease access to finance for tourism SMEs**

Support	Country	Instrument	Dimension targeted
Financial	Croatia	Credit loans	Access to finance
	Denmark	Public guarantees	Lack of track record
	Hungary	European funds	Lack of collateral
	Norway	Loans, guarantees	Lack of collateral
	Germany	Mezzanine finance	To cope with technological change
	Switzerland	Guarantee co-operatives	Lack of collateral
	Russia	Microcredit	Access to finance
	Netherlands	Loans, guarantees	Access to finance
Non-financial	Netherlands	Increasing flow of information	Lower costs of accessing finance

In Norway, the government agency promoting innovation and development of enterprises and industry is also responsible for promoting tourism development in the country. Innovation Norway, provides debt and non-debt financing instruments which are open to all SMEs, including start-up grants, development funds and commercialisation grants, low risk loans and guarantees and tax incentives. Innovation Norway is the most important public contributor when it comes to tourism financing – in the first half of 2015, Innovation Norway provided NOK 262 million in funding to tourism, including NOK 56 million in low risk loans and NOK 168 million in development funds and grants to agritourism businesses. Only a relatively low number of start-up grants have been given to tourism businesses.

In Switzerland, guarantee co-operatives make operating loans easy to obtain by issuing credit limit guarantees, thereby enabling all SMEs to obtain loans which banks would otherwise refuse. Guarantee co-operatives are private institutions operating on commercial basis. Four guarantee co-operatives operate in Switzerland, three of which are active at regional level, while a fourth operates at the national level and concentrates on female entrepreneurs. Guarantee co-operatives receive a small amount of public support in the order of CHF 3 million per year, and can cover up to 65% of project losses. The guarantee volume issue by guarantee co-operatives amounted to CHF 218 million by end 2012, of which CHF 26 million were for hotel and restaurants small firms (about 14% of the whole volume lent).

In the Russian Federation, the Ministry of Economic Development has implemented a microcredit programme to alleviate finance needs of small businesses. The loans are up to RUB 3 million and with a maturity of maximum 36 months. Although a general SME programme, it specifically addresses SMEs operating in crafts, folk artistic crafts, rural and ecological tourism, providing mentoring, expertise, and promotion in congress and exhibition events.

In the Netherlands, a structural bottleneck in the market of SME finance exists and a number of temporary measures are available for existing SMEs. These measures aim to stimulate the market to develop by providing up to EUR 155 million over the period 2014-19 in the form of subordinated loans and risk capital, as well as targeting financing to innovative start-ups, supporting SMEs credit information; improving knowledge, expertise and managerial capacity of SMEs, and supporting SME inclusion in value chains. This support is available to SMEs in all sectors, including tourism.

Tourism SMEs in Hungary similarly have access to SME financing programmes, including the Funding for Growth Scheme operated by the Central Bank of Hungary and the SME Credit Card Programme operated by KAVOSZ, a joint corporation of the National Association of Entrepreneurs and Employers and the Hungarian Chamber of Commerce and Industry, but no specific schemes exist for the tourism sector.

The European Union also provides sector-neutral supports to improve access to financing for SMEs, including direct funding through grants or indirect funding via financial intermediaries to help SMEs to start-up, expand and transfer their business. Funding is available to support the tourism sector from diverse thematic EU funding programmes. To help tourism business to identify appropriate available financing possibilities, the EU Guide on Funding for the Tourism Sector gathers information on the various sources of EU funding of interest for the European tourism industry and its different actors, from both private and public sector. It focuses on practical questions around the type of tourism-related actions eligible for funding, type and level of funding, who can apply and how to apply. It also points to concrete examples of what has been funded under previous programmes, as a possible source of inspiration.

### ***Developing targeted initiatives to develop smarter, greener and more inclusive tourism SMEs***

Other countries have introduced targeted measures to help tourism SMEs meet their financing needs. This has been the case where options available are judged not to fully cater to the needs of tourism SMEs, or support the achievement of wider tourism development and economic policy goals, including targeting certain population groupings. These measures have been introduced to, for example, stimulate regional development, support SME integration into value chains and promote inclusive entrepreneurship. Other measures aim to encourage green business practices, support the use of new technologies and help businesses to cope with structural change. In other cases, the private sector has led initiatives to support tourism businesses in responding to specific opportunities and challenges. These tailored tourism initiative operate alongside general SME financing initiatives available to tourism SMEs. Public policies also seek to ameliorate the underlying conditions, including regulatory changes that favour the uptake of new instruments or ease the regulatory burden, or offer finance products not available on the market.

In some cases, targeted tourism initiatives have been introduced to general SME financing programmes, led by national enterprise agencies.

In Slovenia, for example, the Programme of Financial Incentives for the Economy includes a dedicated tourism sub-action with the goal of stimulating tourism businesses to achieve the strategic objectives of Slovene tourism. Financial resources are targeted at co-financing marketing and promotion activities and ensuring a competitive business environment through, for example, co-financing research and development and providing pre-finance for participation in European projects.

These measures have sometimes been introduced to support regional development, help SMEs integrate into wider value chains and achieve wider development objectives, as part of general financing programmes.

In Greece, for example, the Hellenic Fund for Entrepreneurship and Development's Entrepreneurship Fund is the main financial engineering instrument to support SMEs. Two of the Fund's programmes provide low cost working capital and investment loans and loan guarantees, and are available to SMEs in general. A third programme, Island Tourism Entrepreneurship, provides low cost loans up to EUR 30 000 to small and micro tourism enterprises on Greek islands. This programme is exclusively available to tourism businesses, which need working and investment capital to target new markets and modernise the Greek tourism offering. The tourism sector has a low rate of participation in total bank financing, and data

from the Bank of Greece indicates that production capacity in the tourism industry is deteriorating, as new investments in fixed tourism assets are lower than the depreciation of existing assets.

In creating this loan product, the Hellenic Fund for Entrepreneurship and Development had to take into account the difficult financial condition and capital controls facing the Greek banking system. The banks play an important role in processing applications and disbursing the loans, but lack the capital to co-finance the Island Tourism Entrepreneurship programme. Instead, each approved island SME co-invests 30% of the total business proposal cost. The Fund recognises the importance of the tourism value chain in local island economies and has plans to launch further measures (loan, guarantee and micro-credit funds) to promote growth and sustainability in the tourism sector (Greece case study).

In other countries, publicly funded financial institutions and developments banks have been tasked with supporting tourism businesses as part of their wider activities.

In Mexico, the rural development bank loans at competitive rates to tourism firms to strengthen the value chain, where lack of expertise is a particular challenge for these rural firms. Moreover, the small loans offered by National Financial Institute for Agriculture, Rural, Forestry and Fisheries Development to support regional development are based on cash-flow analysis, not on guarantees or physical collateral. From 2009 to 2014, the bank granted USD 26.7 million in credits to the development of rural tourism in Mexico. In 2013-14, 71% of the total disbursements have been directed to this sector. Direct lending accounts for 65% of the resources, with the rest channelled through financial intermediaries. The strategy has shown high repayment rates and an average loan of USD 40 565. These results signal that the target populations receive loans that are in accordance to their financial capacity and that loans are used to finance short-term operational needs. Likewise, Bpifrance provides honour loans to new entrepreneurs in France (France case study).

In Croatia, the Croatian Bank for Reconstruction and Development has three targeted loan programmes to support the tourism industry and help businesses prepare for the upcoming season and cater to the international visitor market. Tourism businesses can also benefit from measures to promote investment, credit guarantees, grant schemes and co-financing consultancy services offered by the Croatian Agency for SMEs, Innovation and Investments. The Ministry of Tourism also provides grants to SMEs to improve boost competitiveness of the tourism offer through the allocation of grants to small and rural enterprises.

In Austria, a dedicated one-stop shop for all tourism financing-related issues exists. The Austrian Tourism Development Bank (OEHT) is public-private partnership with a long history and experience in the tourism sector. Programmes are based on direct and indirect financing and risk sharing and include initiatives to stimulate private financing participation. Depending on the instrument, entrepreneurs may be required to make an equity contribution. The Bank's instruments can be combined with commercial financing options which may not fully cater to the needs of tourism SMEs. Special programmes also target the needs of tourism start-ups and boost business innovation. The OEHT has been effective in broadening the range of financing instruments available to tourism businesses in Austria. However these remain largely conservative and are mainly taken up by firms in the hotel and accommodation subsector (Austria case study).

In New Zealand, public support to tourism firms is provided over two main tracks: one track supports the provision of innovative products, process or goods, while the other targets family-owned enterprises to support regional development. Supporting local development is a strategy that contributes to reducing inequality and generates more inclusive growth. The Tourism Growth Partnership (TGP) is a government initiative to help the tourism sector achieve greater commercial and wider returns from high value international visitors. It provides strategic, targeted funding for internationally focused projects that align

with wider government tourism priorities, including increasing innovation and productivity in tourism. The Partnership co-invests up to 50% of funding for approved projects. It has an annual budget of NZD 8 million and has realised 21 projects totally NZD 10.9 million in investment to date.

There are also examples of co-operative approaches improving access to finance for tourism businesses, outside the formal structures of publicly funded financial institutions and developments banks. In Switzerland, a co-operative approach to financing the construction of a private youth hostel in conjunction with the refurbishment and operation of a public spa facility in the Alpine destination of Saas Fee. Individually the business proposals were highly desirable, but not financially viable. By coming together to find a common solution – permitting the construction of the youth hostel on top of the existing leisure centre premises, with a commitment from the hostel operator to operate the leisure centre at their own risk - the public and private actors strengthened the viability of the business proposal and meant both facilities benefits from economies of scale (Switzerland case study).

Some countries have also introduced programmes to promote and finance inclusive entrepreneurship.

In Canada, programmes are in place to finance tourism SMEs that are led by women, migrants and ethnic groups, or other minorities. The programmes recognise that these groups face bigger challenges in accessing external finance options, and see that entrepreneurship is an alternative to unemployment. Public financial support offered by the Federal government in co-ordination with sub-national governments and the private sector also aims to promote regional tourism development, including the integration of SMEs in the tourism value chain (Box 4).

#### **Box 4. Financing tourism to support regional development in Canada**

In Canada, financial support for the tourism sector is provided in partnership with other levels of government, with Aboriginal communities, and other private actors. In 2008-09, federal direct support for the tourism sector amounted to CAD 530 million for product development and tourism infrastructure such as convention centres, and CAD 113 million for tourism marketing. Furthermore, CAD 782 million was spent on artistic, cultural and sports-related activities that have an indirect impact on tourism. The Business Development Bank of Canada has invested CAD 1.97 billion in the tourism sector. Further support is provided from the direct control and operation of iconic tourism attractions and programmes to market Canada as a destination (Industry Canada, 2011). In particular for SMEs, which amount to 98% of tourism firms, Canada offers strategic promotion activities, training, market readiness, quality assurance and mentoring programmes in a co-ordinated fashion across the three levels of government. The main uptakes from this experience are in the framework conditions for public participation and the interaction with other key players, as well as in the role of public intervention in supporting demand-led developments. Canada has set up a strategy that incorporates all levels of government and the private sector to boost productivity in tourism, offering support from public banks for direct and indirect tourism-related activities, in particular SMEs that could serve a good example of horizontal and vertical co-ordination.

*Source:* Canada (2013), Industry Canada (2011).

In Egypt, an initiative targeting the inclusion of women and young people in entrepreneurial activities came from a non-governmental organisation. ENID/El Nidaa was established in 2012 to promote economically viable and sustainable development, income generation and employment opportunities in Upper Egypt. Based on the One Village, One Product model, the initiative supports the provision of technical and vocational training, including for entrepreneurship and financial literacy skills, as well as apprenticeships. Between 2012 and 2015, the initiative has supported 764 beneficiaries and 549 job opportunities. Over half of the 20 participating villages in Qena, Egypt's second poorest governorate, are producing handicrafts for the Egyptian and export market. The ambition is to replicate the approach nationwide and address rural-urban disparities in poverty and economic opportunity.

There are also some specific issues that may justify public intervention to support or incentivise existing and viable tourism SMEs, including those that could find finance in the market. This may be the case for firms producing intangibles, integrating new digital technologies, or investing in green energies for renovation projects to improve energy and water efficiency, emissions mitigation and solid waste management, for example. These public interventions may be sector neutral, or tourism specific.

In Mexico, a pilot programme to reduce greenhouse emissions has been implemented in the states of Quintana Roo, Campeche and Yucatán. The initiative promotes the use of solar heating of water in hotels as an environmentally friendly approach. The pilot is scheduled to run until 2018 and if successful, the intention is to expand the initiative Mexico-wide (Box 5).

#### **Box 5. Pilot programme to promote use of green energies in hotels in Mexico**

Since 2015, a pilot programme is being implemented in the Yucatán Peninsula in Mexico to increase uptake of green energy by hotels. The programme has been designed by the Federal Government, the Secretariat of Energy, the National Commission for the Efficient Use of Energy and the United Nations Development Program, with the purpose of decreasing the environmental footprint of the tourism sector by reducing greenhouse emissions. The programme intends to extract successful lessons from this pilot initiative, to assess the viability of expanding it across the whole Mexican territory. The pilot project was launched in the states of Quintana Roo, Campeche, and Yucatán, providing financing support to small, medium and large hotels that are not part of hotel chains. This includes technical advice, training and financing for the acquisition and installation of systems of solar heating of water with a model based on the savings generated by the reduction in gas consumption.

The programme offers long-term loans (up to 5 years) at a fixed interest rate up to a maximum of MXN 15 million. These loans are provided to support the replacement of existing water heating systems with green energy (solar) systems. In addition, the programme offers public guarantees from the public development bank responsible for promoting financing to exporting companies, Bancomext. These guarantees support commercial loans from Banco Santander. Interest-rate subsidies are also provided by the Trust Fund for energy transition and uptake of sustainable energy systems. At time of writing, the programme has installed 2.5 million square-metres of solar heating systems, equivalent to 3 000 hotel rooms. The end of the pilot programme (and thus the assessment) is scheduled for 2018.

In Austria, the "klimaaktiv mobil" programme has provided EUR 80 million in subsidies to promote environmentally friendly green mobility solutions, including fleet conversions to alternative vehicles. It has a particular emphasis on e-mobility, mobility management, cycling and walking, as well as demand-oriented public transport and car sharing systems. The programme supports businesses and local authorities, as well as tourism and leisure organisations and associations, by providing up to 30% of the investment costs of eco-friendly mobility projects, and makes important contributions to meeting the environmental policy goals and legal obligations in Austria and the European Union. In particular, it offers funding bonus to incentivise regional mobility projects led by tourism associations. This programme is part of a wider sector-neutral programme to promote environmental sustainability.

In the Philippines, a capacity building project called Grassroots for Entrepreneurship in Eco-Tourism (GREET) was introduced in 2008, with the aim of developing eco-tourism and creating jobs and income opportunities for rural communities. The initiative grants funds of between PHP 50 000 and PHP 100 000 to projects developing sustainable tourism ideas. Applicants must be registered businesses operating at an existing eco-tourism site and possess sufficient operational funds to sustain the project. In addition to financing, successful applicants benefit from skills training and capacity-building measures. The Donsol eco-tourism project is an example of an initiative that has been successfully championed by this programme.

A supra-national initiative led by the European Union, the SWITCH-Asia programme supports sustainable tourism transformation in Asia, and highlights the role of governments in providing not only a

roadmap of eco-transformation of the industry, but also helping firms access to financing to implement sustainability solutions (UNEP, 2015).

Elsewhere, tailored initiatives have also been introduced to support digitalisation and helping tourism firms to cope with structural change. Research on the knowledge and capacity of tourism SMEs to use information and communication technologies indicates that the main difficulty encountered by firms in implementing digital technologies is related to lack of training (65% of responses), followed by the involved costs and uncertain returns (54%). When considering whether to invest in new digital technologies, lack of finance is cited as a main impediment (57%) (Grant Thornton, 2015).

In Italy, fiscal incentives have been introduced to encourage existing tourism SMEs to upgrade the digital infrastructure and systems in the business. An evaluation of the impact of this initiative is ongoing, but initial indications are positive. It has been noted however that financial measures alone will be insufficient to support tourism SMEs to adapt to the digital economy.

There are also examples of the private sector taking steps to fill an observed gap in the market. Unicredit commercial bank in Italy aims to help tourism companies to incorporate digital technologies in their daily transactions, in order to analyse consumer behaviour and facilitate services (e.g. dealing with no-shows, deposit management, check-in made by credit and debit cards). In particular, the bank has invested in a start-up company involved in the banks' accelerator programme, "Travel Appeal", which monitors the digital reputation of hotels. This is part of a wider initiative called UniCredit 4 Tourism, which includes a commitment to deliver EUR 2 billion of new finance by 2018 through a range of products including seasonal and medium-term loans backed by public collateral ("Bond Italia 4 Tourism"). UniCredit reports the development of a variety of short, medium and long term financial products designed to better meet the needs of tourism SME needs, for example allowing for repayment of both capital and interest during high season and interest-only during low season (Box 6).

#### **Box 6. Private sector initiative to expand the financial products for tourism SMEs in Italy**

Launched in mid-April 2015, the UniCredit 4 Tourism project aims to support the tourism SMEs in their growth path by providing a wide range of financial and non-financial products and services, while improving UniCredit's reputation in the tourism sector. The initiative recognises that the financing needs of tourism businesses may differ from businesses in other sectors (e.g. seasonality), requiring banks and financial institutions to reshape their products and offers in order to satisfy these different needs. The initiative sets a target of EUR 2 billion in loans and 30 000 new customers between 2015-18, helping tourism companies to grow and to acquire technology and management expertise. Approximately 75% of the lending target of EUR 2 billion is intended for firms with sales of less than EUR 5 million, given the predominance of micro-enterprises in the sector. The main financial products UniCredit is offering as part of the initiative are: long-term loans for up to 22 years, seasonal loans with principal payment only in early stages and Bond Italia 4 Tourism which consists of medium-term loan backed by public collateral from the Italian Fund for Small and Medium Enterprises. Additionally, the bank offers products dedicated to the renewal of technical equipment, with the support of soft loans through the Bank's new project Subito Banca Store, an online and offline marketplace dedicated to its customers.

In Japan, many traditional accommodation providers report difficulty in accessing finance is a barrier to modernising the business structure to better cater to international tourists. This includes updating and renovating facilities, such as providing Wi-Fi, introducing foreign language signage and making websites available in multiple languages for overseas visitors. Based on this diagnostic, the Regional Economic Vitalisation Corporation has made finance and expertise available to local companies through public-private funds in order to help tourism firms cope with structural change. The initiative aims to trigger the inflow of private sector investment, create a stable and sustainable financing system, and maximise the tourism potential of the area. This will require investment know-how and human resources to support tourism-oriented urban planning and development.

*Promoting new financing approaches with greater participation by the private and civil sectors*

While bank financing will continue to be crucial for the SME sector, a more diversified set of SME financing options is needed to strengthen capital structures and decrease the dependency on borrowing (OECD, 2015a). Greater attention is now being focused on the development of non-bank financing instruments such as asset-based finance, alternative debt, crowdfunding and hybrid instruments. While equity and hybrid financing is only relevant for a small subset of larger SMEs, asset-based finance (e.g. leasing, asset-based lending, factoring, purchase order finance, warehouse receipts) and alternative debt mechanisms (e.g. crowdfunding, securitised debts, corporate or covered bonds) may hold potential for tourism SMEs and entrepreneurs. Innovative and alternative financing methods remain underdeveloped, due in part to bureaucratic and regulatory constraints, as well as a lack of knowledge and understanding. This is the case for SMEs in general, not just tourism.

Peer-to-peer lending (also known as crowd-lending) and equity crowdfunding are innovative financing approaches that provide businesses and individuals with a simple, low-cost way to raise capital from public investors (Table 5). These now internet-based models provide an alternative source of financing for tourism businesses that do not readily have access to financing through traditional means. Legislative changes are opening up opportunities for projects to raise funds from many investors, each contributing small amounts of financing, while diminishing transaction costs as these investments are made online and through bank transfers. Another advantage of these finance techniques is that they enable the borrower to gather funds in a shorter time span than bank loans (Robano, 2014).

**Table 5. Understanding equity crowdfunding and peer-to-peer lending**

Instrument	Description
Equity crowdfunding	<p>Equity crowdfunding provides a means for investors from the "crowd" (or investing public) to invest in a project or firm in exchange for shares. Firms sometimes offer "perks" or rewards (such as company products or discounts) in exchange for investment.</p> <p>Firms stipulate the amount they wish to raise from investors. Once this funding is utilised, any surplus (minus fees) becomes available to the firm for its use.</p> <p>Crowdfunding is usually facilitated via an online equity crowdfunding intermediary and is most commonly used by newer firms at the earlier stages of their development.</p>
Peer-to-peer lending	<p>Peer-to-peer lending is a form of debt crowdfunding. It matches people who want loans with people who are potentially willing to fund those loans. The matching is completed via an intermediary – a peer-to-peer lending service, typically provided online.</p> <p>Borrowers list the details of their request (the amount sought, the intended use) on a peer-to-peer lending website. Lenders browse the website to decide which loans to invest in.</p>

Peer-to-peer lending and equity crowdfunding have been around for more than 10 years. The use of these instruments is well developed in China and the United Kingdom, for example, while Austria is another country where the uptake of these initiatives has been strong, doubling the forecasted global rate of growth in 2015 (OECD, 2016). In the United States, equity crowdfunding was limited to accredited investors until 2015, but has since been open to non-accredited investors.

Although not yet much used in tourism, these models offer considerable potential as a source of capital for tourism SMEs. Tourism service providers are well suited for this innovative finance technique, which creates a network of investors and spreads the financial risk. These approaches also serving the double purpose of providing finance and supporting local development: people invest in projects they care about, to help local firms, or to create jobs. Equity crowdfunding and peer-to-peer lending can have a financial motive, where projects provide and expected rate of return, or a social motive where investors

donate money or fund projects in exchange for non-monetary rewards, such as free hotel nights or pre-orders of products (Robano, 2014).

In New Zealand, legislative changes implemented as part of broader reforms to New Zealand securities law in 2014 included the introduction of peer-to-peer lending and equity crowdfunding into the country's financial system. While these forms of capital-raising are a relatively new feature of New Zealand's capital markets, they have had a positive impact by deepening the markets and improving the flow of growth capital to SMEs. Desk research shows that there are two operating crowdfunding platforms that have several offers for tourism-related projects. While uptake by tourism SMEs has been limited so far, this is expected to increase as time develops and these approaches become more well-known. For example, a GPS-based tour guide app raised NZD 211 000 to fund the growth of its local sales force and the expansion of its business into the Australian market (New Zealand case study).

Travelstarter is a global crowdfunding platform for tourism SMEs, which enables businesses to raise money, increase marketing exposure and test new ideas. It can also be an important source of seed capital. The TravelStarter platform has been used by projects in countries including Croatia, France, Portugal, Slovenia, Spain, the United Kingdom and the United States. The start-up company that established the platform received seed funding from the Slovenia Enterprise Fund, which provides grants for start-ups, seed capital, venture capital, loan guarantees with interest rate subsidies and guarantees for bank loans for technology-based SME innovation projects (Box 7).

#### **Box 7. TravelStarter crowdfunding platform for tourism businesses**

TravelStarter is a global crowdfunding platform that helps individuals and local businesses raise funds for their tourism and travel related projects. Crowdfunding is an innovative way to source funds that can help kickstart projects that may have difficulty securing financing. Traditional financing sources (e.g. loans, grants) can be complex to procure, while the paperwork, legislative procedures and time required to receive other forms of funding creates a bottleneck for many entrepreneurs. Crowdfunding allows an idea to be tested in the real world, as potential customers are the first ones to back the venture and become an active part of it. SME's use crowdfunding to communicate with potential customers and build momentum behind an idea, as people are invited to be a part of the project.

TravelStarter offers two funding options for projects: a fixed funding option, where the entrepreneur only receives the financing if the funding goal is reached, otherwise all funds are returned to the backers; and a flexible funding option, where the entrepreneurs receives any funds are raised, but pay a higher fee (9% instead of 4%) if they do not reach their funding goal. Travellers select a destination and search for a project to fund, and claim an in-kind reward in return for funding a project (e.g. overnight stay in a guesthouse, bicycle rental). Examples of projects financing through the TravelStarter crowdfunding platform:

**France:** A platform connecting tourists with local guides, Guide Like You, used TravelStarter to finance the platform's launch and get marketing exposure. The platform is now active in Paris, Toulouse, Amsterdam, London and other cities.

**United Kingdom:** Safehouse Hostel in Cardiff raised over USD 10 000 to finance renovation work on a historic city-centre building and generated free publicity; the hostel was booked full for several months after it opened.

**United States:** Pacific Tradewinds Hostel in San Francisco ran a successful marketing campaign to upgrade and renovate its co-working space for travelling entrepreneurs, and promote the venue to locals and travellers alike.

In the United Kingdom, a government-backed, private sector-led initiative, Responsible Finance, offers alternative finance sources to individuals, businesses, and social enterprises that are unable to find finance in the market, because of lack of credit history, trading track record, or collateral, for example. The financed initiatives are conducted at the local level, and finance instruments are accompanied with



informal technical assistance, mentoring and support. The repayment schedule is tailored to the needs of the borrowers. Tourism projects have benefited from this micro-financing scheme (Box 8).

The products offered by responsible finance providers target a segment of the population that is unable or unwilling to access finance from traditional sources. However, while about 64% of finance providers can cover their operating costs from their lending activities, the remaining 36% need public support to close the gap in operating costs.

#### **Box 8. Micro-finance and social enterprise funding for SMEs in the United Kingdom**

Responsible finance providers in the United Kingdom are professional social enterprises that re-invest profits to help more people and businesses to access finance. Providers raise capital for lending from private and public sources, including loans from commercial banks and social investors, grants from government, trusts and foundations, and equity from stakeholders. In 2015, 51 responsible finance providers lent GBP 251 million and provided financial literacy and technical assistance to 57 756 customers, including micro and small firm, social enterprises, individuals and homeowners. Loans to the micro and SME segment in 2015 amounted to GBP 98 million and contributing to an. This contributed to increasing turnover by GBP 147 million, creating 9 584 new businesses and 14 433 new jobs, and safeguarding 1 225 existing firms and 5 431 jobs. About 90 % of the businesses have fewer than 9 employees. Furthermore, GBP 69 million was raised in new capital. The main institutions involved are the Regional Growth Fund and the European Regional Development Fund (both public-private investment models) along with the Start Up Loan scheme. Responsible finance providers generate income through interest and fees from lending, portfolio management fees, and in some cases, revenue grants. However, while about 64% of finance providers can cover their operating costs from their lending activities, the remaining 36% need public support to close the gap in operating costs.

Two examples of tourism related projects in the accommodation sector financed through this initiative are LoveLane vintage camping company ([www.lovelanecaravans.co.uk](http://www.lovelanecaravans.co.uk)) and Blackswan self-catering cottage ([www.blackswancottagepickering.co.uk](http://www.blackswancottagepickering.co.uk)). LoveLane Caravans secured the funding needed to increase production and expand the campsite in the form of a loan from the local community development financing institution, which also put the company in touch with a trust fund manager who help identify the core strategy of the business as part of the application process. An added bonus of the funding was that it freed up working capital for a marketing budget. The owner of the Blackswan Collage was able to transition from jobseeking allowance to entrepreneurship with support from the Enterprise Allowance Scheme, and was allowed to pay small instalments during the first 6 months to ease initial burden. Non-financial support services including mentoring and support developing a marketing strategy and strong business plan complemented the loan.

Source: [www.findingfinance.org.uk](http://www.findingfinance.org.uk), [https://www.visitengland.com/sites/default/files/downloads/access\\_to\\_finance\\_issue\\_18\\_0.pdf](https://www.visitengland.com/sites/default/files/downloads/access_to_finance_issue_18_0.pdf), <http://responsiblefinance.org.uk/policy-research/publications/>

#### ***Fostering innovation, entrepreneurship and the creation of new tourism firms***

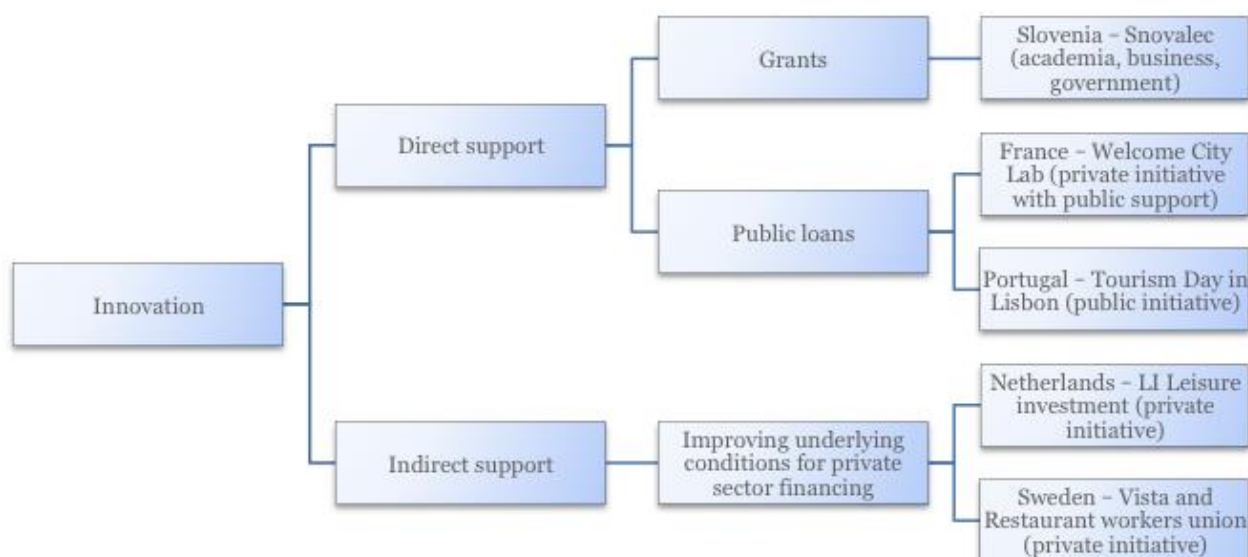
The evidence on financing innovation, entrepreneurship, and the creation of new tourism firms from the case studies and survey responses shows that the most common instrument used is grants for innovative ideas (Figure 4). Broader OECD work on the financing of business research and innovation shows that grants and subsidised loans are widely used in OECD countries, and are complemented by indirect instruments such as pursuing an enabling environment for the creation and development of new ideas (e.g. business incubators and accelerators), where the innovators can be connected to finance providers (OECD, 2011).

Moreover, public financial support for the creation of these incubators is present in the case studies for France (private initiative, public and private funding), Portugal (public initiative, public funding) and Slovenia (public, private, and academic initiative, and public funding). The case studies show that the incubators benefited the public financial support for their creation, irrespective of the support that

incubators in turn provide to innovative entrepreneurs. For example, the creation of the Welcome City Lab in Paris benefited from a EUR 80 000 grant from the City of Paris to develop the tourism incubator.

In Slovenia, the Bank of Tourism Potentials was established as a joint partnership project to encourage innovation and creativity in Slovenian tourism, involving the Slovenian Tourist Board, the Ministry of Economic Development and Technology and the University of Primorska. Since 2006, this initiative provides a platform to exchange tourism-related ideas, resources and knowledge, and facilitate co-operation and interaction. Financing and mentoring support foster the realisation of the most creative and innovative ideas. An expert jury evaluates the ideas submitted to the web-platform, with grants awarded to the most promising ideas. The creation of the tourism incubator (Snovalec) to realise the ideas is the result of the co-ordinated action from the public sector, academia, and private actors (business angels and entrepreneurs). Snovalec also benefits from public support from the Ministry of Development. (Slovenia case study).

**Figure 4. Finance options for the creation of new tourism firms**



Source: Evidence from country inputs and case studies.

In France, a capital development fund called France Tourism Investment, has been created for tourism SMEs by the public investment bank *Bpifrance*. A proportion of these investments are earmarked to financing innovation and e-tourism. This fund is open to third party contributors and fundraising of between EUR 80 million and EUR 100 million is expected with a commitment of EUR 50 million from *Bpifrance*. Other conventional *Bpifrance* financing and guarantee instruments available include: an unsecured loan of between EUR 100 000 – EUR 200 000 to members of the Best Western chain for a period of 5 years, with a grace period of 2 years; an equity loan for restaurants of between EUR 40 000 – EUR 600 000 over 6 years (with a 1-year grace period); and an equity loan for hotels of between EUR 30 000 – EUR 600 000 over 7 years (with a 2-year grace period).

In Portugal, the Action Plan Tourism 2020 seeks to promote entrepreneurship and mitigate barriers SMEs face in accessing credit. This is part of a strategic economy-wide approach to promoting SMEs and

supporting business innovation and entrepreneurship. Portugal has in place credit and equity options to finance working capital, hotel renovations, and tourism-related activities. The Portuguese Tourism Board has developed a diversified set of measures targeted at tourism, including participating in the Lisbon Challenge incubation programme. This initiative provides tourism-related tech start-ups with the opportunity to meet mentors and investors and participate in workshops, pitch sessions and networking events. The creation of Tourism Day as part of the Lisbon Challenge incubator and accelerator of enterprises is a public initiative (Portugal case study).

Recognising the need to provide different solutions for different needs in the tourism business lifecycle, other initiatives in Portugal include: financial engineering instruments based on risk capital, signing protocols with several credit institutions to make it easier for tourism businesses to access funding in a timely and cost-effective manner and an SME growth credit line facilitating access to credit for businesses in the tourism sector through interest rate subsidies and mechanisms within the national guarantee system, as well as supporting entrepreneurial activities through venture capital firms, real estate investment and mutual guarantee funds. The Portuguese Tourism Board also organises awareness raising and information sessions on range of instruments for SMEs and entrepreneurs

Indirect support is also provided by countries in easing the conditions for the private sector to bring in finance and knowledge. This is the case in the Netherlands and Sweden, for example. In the Netherlands, LI Leisure Investment is an initiative of two Dutch leisure companies that provide finance and expertise to sustainable and innovative companies and start-ups. The initiative finances up to EUR 100 000 per project in the Dutch leisure branch, and specifically excludes traditional forms of hotel and catering industries. Likewise, in Sweden, the private sector Swedish Hospitality Industry Association, Vista, and the Hotel and Restaurant Workers Union are co-financing an annual research and development fund of SEK 8 million to strengthen research and innovation and the long-term development of the sector. Notably, while in the Netherlands' initiative the hotel and catering sectors are excluded, they are specifically targeted in Sweden's approach.

#### **Box 9. Financing and profitability key innovation obstacles for tourism SMEs in Sweden**

Tourism SMEs see innovation and the development of new products and services as more important than the average Swedish SME. They also perceive a bigger need for investments in new equipment and building facilities than the average Swedish SME. This is the case specifically for hotels and restaurants. However, the biggest obstacles for innovation among the tourism SMEs is regarded to be funding and requirements of short term profitability. Companies consider access to loans and credits and external owner capital to be less of an obstacle to SME growth than labour availability, rules and regulations and competition from other companies. However, tourism SMEs perceive that the challenges in finding funding and external venture capital are greater than the average Swedish SME. Over half (53%) of the tourism SMEs see access to loans and credits as an obstacle, compared to 42% of average enterprises. In particular, tourism companies that regard profitability as a major obstacle also see access to loans and credits as a big challenge. Tourism SMEs are more likely to apply for public funding than other companies. The relative amount of companies that get their application approved is about the same whether it is enterprises in tourism or other sectors. Tourism SMEs with a mainly international market (which is 10% of the tourism SMEs) see access of loans and credits as a much bigger obstacle than the enterprises that are only nationally oriented.

Source: Swedish Agency for Economic and Regional Growth (2014) *Förutsättningar för turismföretag i Sverige, Företagens villkor och verklighet*, <http://publikationer.tillvaxtverket.se/ProductView.aspx?ID=2044>

Furthermore, in Sweden, a survey of SMEs indicates that the financing profile of tourism enterprises constrains growth and innovation in the sector, limiting the capacity of tourism businesses to invest and develop new products and services. The need for investment and development of new products and services is greater among tourism than non-tourism SMEs, and is particularly strong among hotels and

restaurants. Sweden public banks charge a higher-than market interest rate to avoid crowding out the private sector. There is also a crowdfunding platform for businesses and a microfinance institution (Box 9).

Other OECD evidence on financial policies supporting innovation for tourism firms include the use of direct equity finance (e.g. Poland and the United Kingdom), tax incentives for investment in innovative start-ups and SMEs (e.g. Turkey), ICT-infrastructure and digitalisation (e.g. Italy), or in research and development (e.g. Canada, France and Portugal); and support to social innovation (e.g. Chile, United Kingdom) (OECD, 2016).

### ***Building the financial capacity of tourism SMEs***

Providing finance instruments alone is unlikely in itself to bring success – on the demand-side, improving access to finance options will require some capacity building on the part of SMEs to complement the improved finance offer, along with dissemination of the opportunities available, in order to increase awareness and uptake. This issue of lack of skills on the part of entrepreneurs, including insufficient financial knowledge and management skills and lack of awareness of financing options, needs to be addressed at the same time, if not before, the issue of access to finance, otherwise the financing problems of the firm can be aggravated.

In many countries, the provision of financial instruments is complemented by training, mentoring and/or advisory services, as well as tools to promote awareness and make it easier to access financing supports and improving information on SME financing. In the majority of countries surveyed for this report, the policies to ease financial access for SMEs and entrepreneurs target both the supply and the demand side at the same time, offering not only credit loans, but also non-financial support to optimise the chances of success in the loan repayment.

In Mexico, the Ministry of Tourism co-operates with public financing institutions and agencies to include dedicated tourism programmes as part of their wider SME support programmes, which take account of the tourism business cycle. The National Fund for Tourism Development, which facilitates financing, also provides consulting services and technical assistance to support entrepreneurs to develop a business plan and help tourism SMEs identify funding opportunities. If a project is deemed to be viable, the Fund connects the firm with finance providers for credit loans, and in some cases offers public guarantees (Box 10).

In Switzerland, the Swiss Society for Hotel Credit provides consulting services to improve access to finance through new investment evaluations, feasibility studies and creation of new, innovative business concepts. It provides advice on investment related grants, empowers individual companies through knowledge transfer and provide co-operation related support for companies in the tourism and hospitality sector. The Swiss Hospitality Investment Forum is a key knowledge and contact platform in this regard.

In Austria, the Austrian Tourism Development Bank similarly offers mentoring and advisory services. In addition, it also has a blog which provides up-to-date information on performance and available funding to improve the situation of tourism SMEs.

In New Zealand, the Ministry of Business, Innovation and Employment part-funds Business Mentors New Zealand, a not-for-profit organisation dedicated to supporting the success and growth of small businesses through the knowledge and experience of volunteer mentors. Business Mentors New Zealand's programmes are targeted at owners of SMEs currently trading and employing fewer than 25 employees, and an accelerated programme for start-ups. This initiative is not tourism specific, but is available to tourism SMEs.

In Ireland, the national tourism development agency, Fáilte Ireland, provides a number of business tools to support tourism SMEs, including practical guides and easy-to-use templates to support business planning, calculator tools to support funding requests and help to build financial literacy of entrepreneurs. Calculator tools aim to support financial decision making in tourism businesses, helping to calculate profitability of each department of a business, profit as a percentage of revenue (gross margin), overhead costs, pay costs and break-even point. Ireland has also developed an online tool to promote awareness of the different financing and other supports available to SMEs, including tourism SMEs.

#### **Box 10. Tourism SME financing and technical assistance in Mexico**

Under the National Development Plan 2012-18, the National Development Bank for Foreign Trade, Bancomext, is tasked with facilitating access to financing in key sectors of the economy, including tourism. Together with the National Entrepreneurship Institute, Bancomext offers a tailored programme for tourism SMEs which aims to facilitate access to financing and increase the competitiveness of SMEs in the tourism value chain. The programme operates through the National SME Guarantee Programme, which is a strategic instrument to increase the volume of bank lending to SMEs. It offers loans of up to MXN 20 million (USD1.2 million) to SMEs, and up to MXN 40 million (USD 2.4 million) to small and medium hotels. The interest rate is 1-3% lower than commercial bank rates. Bancomext offers preferential loan guarantees of up to 75% to facilitate access to credit and improve interest rates, and supports the financial intermediaries in the case of non-compliance. Between 2013-15, the SME Financing Programme for Tourism benefited over 3 000 tourism businesses which were unable to access credit from the commercial banks, with a credit spill of USD 718 million. In 2015, MXN 300 million (USD 18.8 million) was allocated to the National SME Guarantee Programme to facilitate access to financing for SMEs in the tourism value chain. The objective is to generate a credit spill of MXN 6 000 million (USD 375 million), over 20 times the guarantee amount. It is estimated that 25-30% of these resources will cover SMEs from the tourism sector. The volumes traded show that Bancomext trades with firms of medium size, more than with micro or small firms. Bancomext also has a pilot programme to promote the use of green energy in hotels (to heat water).

The National Fund for Tourism Development (FONATUR) provides consulting services and technical assistance for tourism SMEs to help improve the viability of new investment projects, with a specific focus on job creation and regional development. The goal is to support entrepreneurs to develop a business plan and help tourism SMEs identify funding opportunities from financial institutions and/or government agencies. The consulting services are based on the methodology used by FONATUR to develop new tourism projects, considering aspects such as site assessment, tourism cluster, market analysis, technical architecture, operation, marketing and financial analysis. The programme solves one of the major challenges faced by tourism SMEs: improvement of financing options through a structured and solid business plan. By helping demonstrate that an entrepreneur's project is viable and profitable and that the level of risk is within acceptable parameters, FONATUR encourages new investments within the tourism sector. Projects deemed feasible by the programmes technical team tend to have access to better financing options through development and private banks.

## **PART II: TOURISM SME AND ENTREPRENEURSHIP FINANCING CASE STUDIES**

This section presents selected case studies on financing approaches and good practices. The case studies focus on promoting the uptake of new finance instruments, stimulating innovation and creating new tourism entrepreneurs, and supporting tourism SME development. The cases highlight initiatives to stimulate innovation and encourage entrepreneurship (France, Portugal, Slovenia), support the development of existing tourism SMEs (Austria, Greece and Switzerland), and promote broader uptake of new finance instruments (New Zealand). Each case study provides technical information to support the policy discussion and may serve as a learning model.



## **Austria: One-stop shop for tourism-related SME finance**

### ***Description and rationale***

In Austria, tourism SME finance activities are co-ordinated through a one-stop window organised as a public-private partnership (PPP), the Austrian Bank for Tourism Development (OEHT). Through the three largest banks, the private sector provides the infrastructure and expertise in tourism finance activities and channels the resources provided by the public sector towards viable projects. The targets of this policy are all tourism and leisure firms registered with the Austrian Chamber of Commerce (more than 90 000 enterprises, or 17.2% of members), of which 99.5% are SMEs. The tourism and leisure sectors jointly generate 13.5% of GDP and support one in every six jobs in the country, directly and indirectly.

OEHT was originally established in 1947 to act as an intermediary between the financiers of the European Recovery Programme and the beneficiaries. Today, it is a one-stop shop for targeted tourism programmes, offering a wide range of financial instruments including once-off grants, low interest and subsidised loans, and government guarantees. OEHT aims to support government growth strategies, foster quality improvements and boost business start-ups by channelling local, regional, federal, and European resources towards economic development.

### ***Finance instruments offered***

Tourism needs are financed through direct and indirect debt-instruments, including grants, low-interest loans, subsidies and public guarantees. These are offered at better terms than those found on the market, supporting the regional development rationale. The public intervention is based on the diagnostic that tourism SMEs have a poor equity-base and long-term financing needs, and are classified as high-risk by the private banks, resulting in high interest rate charges.

The Federal Ministry of Science, Research and Economy allocated EUR 19.2 million from the national budget to OEHT in 2015, of which EUR 8.5 million (44%) was reserved for once-off grants. The balance was used to subsidise interest rates, based on the observation that 3-star hotels face higher rates than 4-and 5-star hotels (by on average 0.8% points).

Together with loans from the European Recovery Programme-fund and those refinanced by the European Investment Bank, a total credit volume of EUR 221.3 million is available to support new and existing tourism SMEs. On average, about 800 applications are funded annually. Hotel projects account for 90% of the annual investment volume, key aspects of which include quality improvement, size enhancement, and spa and wellness opportunities. Around 5% of investments are realised by restaurants and other leisure businesses.

OEHT is able to directly finance investment projects from EUR 10 000 up to EUR 10 million. The financial instruments allocated are loans from the European Recovery Programme-fund, loans subsidised by the Austrian Government or once-off grants for less significant investments. Loans are usually repaid based on twice-a-year rates, with a general maturity of between 10 and 15 years. In addition, government guarantees can be applied to every loan granted by OEHT, as well as to any commercial loan up to a maximum of EUR 4 million. Terms and conditions of the loans vary, interest rates are however rather low. The annual provision charged for guarantees is 0.8 %. In more detail, the financial instruments are allocated as follows:

- Investment projects under EUR 700 000: micro-credit from the European Recovery Programme-fund up to EUR 500 000 or once-off grants, and governmental guarantees;
- Investment projects over EUR 700 000: three different types of loans available depending on total investment sum and source of finance, financing up to 60 % of the total investment sum.



Beyond financial support, OEHT also provides non-financial products: advice and mentoring at all stages of tourism SMEs (start-up, development, expansion, restructuring). The benefit from having the one-stop window for tourism related activities is the in-depth knowledge of the market, its potential, opportunities and challenges.

### ***Governance***

The main sources of funding for OEHT are the Austrian Government (loans, guarantees), the European Recovery Programme-fund and the European Investment Bank. OEHT acts as trustee of the European Recovery Programme-fund and is hence eligible to allocate loans and guarantees on behalf of this fund. OEHT is further a partner of the European Investment Bank and administers the financial means determined to support tourism businesses.

Within this public-private partnership, the public sector is responsible for the necessary political and legal framework, to provide the private sector – OEHT – with the needed patronage and to allocate the public funds. Jointly, the public and private sectors develop operational guidelines. The private sector provides the practical information drawn from its day-to-day contact with the tourism market. The public sector creates guidelines accounting for the industry-specific needs and focusing on the achievement of the overall national goal. The private sector then is responsible for the day-to-day business. It evaluates the projects' adherence to the guidelines, makes sure these are followed, and verifies that the public funds are only used to finance the subsidised project (earmarking of funds). The private sector must also ensure that the subsidised projects are economically profitable. The key benefit of the partnership for the public sector is there are no fixed costs. The private sector charges the public sector for every case processed, but bears all other fixed costs (such as office rental, employees' remuneration, or office expenses).

The OEHT plays a role in co-ordinating governmental and regional subsidies in tourism. It is in close contact with the Government to ensure the subsidies provided achieve policy goals. It is also in close contact with the different Austrian regions, so that all projects can access the available subsidies, but no project is subsidised twice. The co-operation with Austria's political regions enables OEHT to act as one-stop-shop, where clients apply for federal and regional subsidies, and reduces the administration effort and costs as only one institute processes the application. Regional subsidies very often consist of subsidising interest rates, so the ultimately offered product is a long-term, (nearly) interest-free loan for the client.

The government guarantees allocated by OEHT on behalf of the Austrian Government are very often a “door-opener” for tourism businesses: banks are given the requested securities to be able to finance the tourism business. The Austrian Government bears the total risk for these government guarantees and the OEHT is not held responsible in the event of legal proceedings/claims. Other means of securing loans granted by OEHT on behalf of one of its partners are bank guarantees or mortgages, in which case OEHT is bearing the risk.

### ***Key results***

This public-private partnership model results in no administration costs involved for the Austrian Government beyond the fees charged for each case. The OEHT structure is entirely self-financing, meaning that the actual costs involved are the costs of the subsidies, but no labour or administrative costs. The rise in number of applications, especially for start-ups and guarantees, shows that the financial instruments offered are positively received by the tourism industry in Austria. Applications to the programme have average around 800 per year since 2012, and about 13% of these are from new firms (Table 6).

**Table 6. Number of approved applications to the Austrian Tourism Development Bank**

	2012	2013	2014	2015	2016
Approved applications	951	780	980	515	724
of which start-ups	96	85	165	83	95
(in percentage)	10%	11%	17%	16%	13%

This model has proven to be highly successful in supporting tourism SMEs in Austria. The close collaboration with the government means that overall growth strategies are supported, and the international marketing campaigns creating a certain image of Austria as tourism destination and the reality tourists experience align.

Beyond the structural role played by this public-private partnership, OEHT also intervenes counter-cyclically offering public guarantees to borrowing demands during economic downturns (Table 7). A restructuring support division within the partnership also offers financial support to companies in economically challenging situations. In addition, OEHT is able to react with short-term guidelines to specific needs of the tourism industry. For example, special assistance was provided for businesses suffering from flooding in the region of the Danube in 2013. Current trends and tourism issues can be more easily addressed, such as investments needed because of the climate change and resulting changes in the seasonality of certain products, succession planning or business start-ups.

**Table 7. Countercyclical approach to guarantees issued by Austrian Tourism Development Bank**

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Applications	57	57	116	106	68	75	87	79	75	108
Approvals	33	40	65	60	32	37	52	63	61	96

Long-term loans are the main finance instrument used by OEHT – in 2016 a total credit volume of EUR 221.3 million was provided. The OEHT programme for financing tourism firms made EUR 662.7 million available in 2016 to investment projects. Most of these were to existing tourism firms, but OEHT is also reaching out to new start-ups tourism projects, which received EUR 17.6 million or 3% of the total. Second in importance, public guarantees amounted to EUR 44.4 million in 2016, easing financial uptake from the private sector. The OEHT finances no more than 60% of the project proposal; this structure maintains the incentives for tourism firms to ensure the success of their project.

### *Lessons learnt*

The features of a one-stop shop for tourism SMEs is applied in several other OECD countries, as part of a broader strategy of decreasing regulatory burdens on firms and simplifying administrative compliance. While targeting the whole tourism SME sector, the information available concentrates only in the hotel and accommodation uptake of credit loans.

The OEHT targets both the innovation and development of tourism SMEs. The provision of subsidies and grants to previously assessed firms with a viable project supports innovation. Subsidies provided by OEHT have proven to be a strong motor of tourism investments. The key success factors of this public-private partnership lie in the aggregated expertise and reliability of the institution. The clients benefit from guidance and know-how, and the “one-stop-shop” for different kinds of tourism subsidies.

**Table 8. Uptake of financing from the Austrian Tourism Development Bank**  
in million EUR

	2012	2013	2014	2015	2016
<b>Total investment volume</b>	<b>706.7</b>	<b>593.3</b>	<b>780.2</b>	<b>405.7</b>	<b>662.7</b>
of which start-ups	18.8	19.3	44.9	13.7	17.6
of which guarantees	62.7	72.2	83.5	57.8	94.9
<b>Credit/guarantee volume</b>	<b>209.4</b>	<b>208.9</b>	<b>229.1</b>	<b>173.1</b>	<b>265.7</b>
of which start-ups	n/a	n/a	n/a	n/a	n/a
of which guarantees	18.3	34.2	42.4	29.8	44.4
<b>Net present value of government subsidy</b>	<b>23.9</b>	<b>15.5</b>	<b>18.9</b>	<b>9.3</b>	<b>16.0</b>
of which start-ups	0.9	0.9	2.0	0.8	0.6
of which guarantees	0.5	1.0	1.8	0.9	1.1

Through this public-private partnership solution to finance long-term tourism SME needs a set of private banks brings in their knowledge and expertise to tourism finance, and evaluates potential projects to be financed. Only viable projects are provided with long-term finance options using federal, state and European funds. These projects are financed on longer terms than those offered by the market offers, and at subsidised rates.

The Government is able to rely on a partner with the necessary know-how in both fields of operation – tourism and banking. Furthermore in the administration of government funds OEHT does not charge extra fees, as it has a self-financing operational structure. Finally, by drawing on years of experience in project evaluation, owners, partners and financiers of the OEHT can be confident that the funds are allocated wisely and carefully.

The main challenge for the OEHT and the Government is to constantly improve the offer, adhering to market changes. Next to providing clients with stability and reliability by offering sustainable products available on an ongoing basis, the flexibility to react to suddenly arising issues is of great importance. One example for OEHT striving to adopt changes in the financial markets is the discussion of how to integrate crowdfunding into the finance scheme that is currently in progress.

Still unresolved for Austria is the seasonality in tourism. Working capital and day-to-day needs have problems in accessing finance. The main finance source for seasonal firms is overdrafts facilities. Leasing is not widespread because of the high interest rates charged.

### *Conditions for transferability*

A strong set of institutions is required to efficiently assign one-time grants to firms. The report highlights the issue that it is one dimension of tourism firms (accommodation) that obtains access to long-term loans, probably because of the capability to provide collateral. The OEHT programme has proven successful as well in providing a countercyclical approach through indirect instruments (government guarantees) in times of economic downturn.

### *For more information*

Contact: Austrian Bank for Tourism Development, [www.oeht.at](http://www.oeht.at)

## France: Creating the underlying conditions for tourism entrepreneurship with Welcome City Lab

### *Description and rationale*

Welcome City Lab is a publicly-supported private incubator initiative aimed at fostering innovative entrepreneurship in tourism-related activities. An incubator offers office space, training, mentoring, and networking activities. Once a start-up project has been validated, the incubator connects the entrepreneur with public and private finance providers.

Launched in 2013, Welcome City Lab is a Paris-based SME employing four people. It offers individual coaching and collective training workshops, along with a network of funders and mentor entrepreneurs. The main features of Welcome City Lab approach are:

- **Incubator for tourism firms** – support innovative start-ups in tourism-related activities.
- **Training** – help start-ups become familiar with and gain an understanding of the tourism sector.
- **Experimentation** – help start-ups to keep up with market demands.
- **Economic intelligence** – identify trends in tourism innovation.

Every year, a committee decide on the themes for the annual call for projects, under which potential start-ups are to be chosen. The criteria to select projects focus on the capacity to undertake the innovation, the potential for job creation, the contribution to growing the tourism offer in Paris, the human capital skills of the team, and the viability of the business plan.

### *Finance instruments offered*

Welcome City Lab itself is not a finance provider, but after the incubator vets the feasibility of an idea, public and private support in the form of debt and equity instruments are available (Table 9).

The public support to innovators comes from Bpifrance and the City of Paris, which have two options for funding start-up from registered incubators under the programme Investing for the Future (*Programme d'investissements d'avenir*):

- **Launch grants:** the public bank grants up to 50% of the total cost in technical, juridical and economic budget lines, to a maximum of EUR 30 000.
- **Development loans:** the programme finances up to 50% through loans valued between EUR 50 000 and EUR 100 000. The time needed to process the file is less than 3 months from reception of the documents by Bpifrance, and 80% of the funds are available upon signature, with the remaining 20% made available after inspection.

In addition, Bpifrance offers guarantees to innovative start-ups for up to 70% of the loan, up to a maximum of EUR 684 000. The Regional Development Agency (*Paris Region Enterprises*) is also a funding partner for innovative projects.

Beyond public fund providers, the incubator connects start-ups with their network of business angel associations, individual venture capitalists and the private financial sector. While no detailed information on the finance sources of start-ups is available, equity instruments are present. Finance sources vary

depending on the specific characteristics of the project and are composed of a mix of debt and equity instruments, both public and private.

Once the project graduates from the incubator, it is up to each tourism firm to find and access the available finance sources. The incubator does not follow-up on the financial details of each start-up. Nevertheless, a key indicator of success is the rate of survival of start-ups after leaving the incubator. After three years of existence, 90% of the firms which have graduated from the incubator are still on the market

**Table 9. Finance instruments offered by Bpifrance to innovative tourism start-ups in France**

Instrument	Innovation and early stage
Grants	Once-only grants up to EUR 30,000
Honour-based loans	EUR 50 000-EUR 100 000 (max of 50% of project needs)
Public guarantees	Up to 70% of loan value, max EUR 684,000

### *Governance*

Welcome City Lab started in 2013. The creation of the incubator was an innovative process in itself. Planning for the project took 1.5 years and the entrepreneur, a tourism professional, had to devise a business plan. In the beginning, the incubator sought mentoring and training with an independent network of incubators, Paris & Co.

This private initiative has received public support since the early stages. The City of Paris provided initial support in the form of a grant of EUR 80 000 and the incubator continues to receive financial support from the City of Paris in the order of EUR 80 000 per year, which covers about 8% of the total budget. However, the main financial sources come from private funders, which provide 92% of the total budget.

Public support is also provided in the form of credit loans to the sustainable projects that are vetted as feasible by the incubator. The eligibility criteria to accept a start-up in the incubator is that the idea has to be innovative, that is, the entrepreneur has to prove that the idea does not exist anywhere else.

### *Key Results*

Since 2013, 415 tourism start-ups have been created (Table 10). In the first year, the two main sectors where start-ups concentrated were accommodation and at-home dinner parties. In 2014, the main trend was the creation of online comparison sites of tourism offers. In 2015, 19% of start-ups were focused on personalised tourism offers, such as theatre outings. Moreover, Welcome City Lab has created a database with information from 1 300 tourism-related start-ups launched since 2007.

**Table 10. Results of the Welcome City Lab incubator initiative in France**

	2013-14	2014-15	2015-16
Number of start-ups	29	19	20
Jobs created	n/a	n/a	70
Funds raised (million EUR)	n/a	n/a	12.5

Since the first promotion in September 2013/June 2014, the incubator has supported more than 68 tourism-related start-ups. During 2015 alone, Welcome City Lab incubated 30 firms and created more than 100 jobs. It also organised more than 70 events, produced 53 collaborations between founding partners and start-ups, and raised over EUR 12.5 million from investors.

### ***Lessons learnt***

The inclusion of a diversity of start-ups in the incubator is identified by the founder as a factor in the success of the Welcome City Lab approach. This has helped to build synergies and complementarities, and entrepreneurs can benefit from the different approaches that each one proposes. The diversity of sectors that the start-ups concentrate on promotes an innovative ecosystem, and creates a virtuous circle.

Another success factor is the interaction of the private sector with public actors (government) and academia (*Centre pour les Arts et les Métiers*). The founders of Welcome City Lab come from all three axes of this triple helix triangle, and contribute with their diverse approaches towards an innovative ecosystem.

The incubator found it challenging at the start to engage founders and partners in this venture, given that it was an innovative project in the field of tourism, and potential supporters were reluctant to engage in new and unexplored areas.

### ***Conditions for transferability***

The incubator is already working with several countries to replicate the experience and build an ecosystem integrated to the local characteristics.

### ***Further information***

Contact: Welcome City Lab

<http://welcomecitylab.com/wp-content/uploads/2013/08/PIA.pdf>

<http://www.parisregionentreprises.org>



## **Greece: Hellenic Fund for Entrepreneurship and Development support for tourism**

### ***Description and rationale***

The Island Tourism Entrepreneurship Action was launched in June 2013 to facilitate island tourism businesses' financing by providing loans for investment objectives and/or business development, with the extra benefit of attractive borrowing terms. It is financed by the Hellenic Fund for Entrepreneurship and Development's (ETEAN) main Financial Engineering Instrument, the Entrepreneurship Fund, which provided total initial funds of EUR 80 million.

The Island Tourism Entrepreneurship Action aims to support micro and small companies of the island regions, by covering identified liquidity gaps. It was introduced with the goal of upgrading the country's tourism product, and in particular to: upgrade service quality of tourism enterprises operating in island areas; improve the competitiveness of tourism enterprises in Greek islands; improve the business responsiveness during the tourist season; and ensure sustainability and growth prospects for tourism in the Greek islands.

Tourism is one of the fastest growing economic sectors in Greece, gaining increased importance and contributed to the rapid growth of economic and demographic indicators. The Greek island regions account the bulk of beds/overnights in the country (about 60%) and have an absolute advantage over other areas, due to their physical and cultural resources. The islands have managed to be relatively highly competitive even in times of economic crisis.

However in a dynamic world market, the Greek islands' tourism sector should be in a position to maintain and increase its attractiveness not just for the well-known island destinations, but beyond. Greece has unique geographic and geological features with more than 6 000 islands, islets and rocks, of which 117 islands are inhabited and 53 have a population of more than 1 000 inhabitants. Apart from a few well-known islands, many other islands receive low tourist flows, often during just a couple of months of the year.

Increasing the attractiveness of these islands is important to extend the length of the season and directly influence the level of economic and social development. It also influences the welfare of local islanders. Stay or migrate depends largely on the existence of jobs that meet the needs and expectations of the local population. It can make it possible to maintain other crucial functions such as health centres, schools, cultural events, maritime transport services, and spatial planning, which contribute to quality of life of both for the tourists and the islanders. The sustainable development of these areas in an integrated social and economic environment should therefore not be viewed superficial. It is important to ensure the maintenance of tourism revenue, but also the quality of the tourist destination, within an increasingly competitive environment.

### ***Finance instruments offered***

The Island Tourism Entrepreneurship initiative provides long term loans for investment and/or business development to support and strengthen the attractiveness of the island tourism product (Table 1 and Box 11).

In creating this new loan product, ETEAN had to take into consideration the difficult financial condition of the Greek banking system. This situation made it extremely difficult for banks to co-invest capital together with ETEAN in order to form and finance the activity of the financial engineering instrument. To achieve the necessary leverage, the innovation of Island Tourism Entrepreneurship was that the necessary co-investment takes place between ETEAN and each approved island SME, at a ratio of 70:30 of the total business proposal costs. Banks are not excluded from the programme, but play a different



but extremely significant role. Through their extensive network, the applications are received, checked and then forwarded by the banks to ETEAN to be analysed and approved/rejected. The co-operating banks are also responsible for the disbursements of the loans and for monitoring the progress of each disbursed loan up until its full repayment.

**Table 11. Financing support provided by the Island Tourism Entrepreneurship Programme in Greece**

Instrument	Financing support	Development
Long-term loan	Up to 70% of project	EUR 10 000 - EUR 30 000
	Long-term [4 years]	
	Fixed interest rate [0-2.8%]	
	Management fees [EUR 250-350] per year	

In this way, ETEAN overcame a systemic problem which was a serious obstacle for the success of the use of the financial engineering instrument, as the poor condition of the banking system together with the obligation of co-investment meant that Greek businesses could not get access to finance.

**Box 11. Characteristics of the Island Entrepreneurship Programme in Greece**

Purpose of funding: Investment/business development/working capital

Start date: July 2013, Initial end date 31 December 2015 extended to 31 January 2017

Loan amount: EUR 10 000 to EUR 30 000. Eligible businesses have the right to one approval, which means it may take only a single loan, to a maximum value of EUR 30 000.

Co-investment by business: Loan covers up to 70% of costs; the SME co-invests the balance (30%) which must be contributed by the enterprise before the disbursement of the loan. Each approved enterprise may implement an investment/business plan with a larger budget than the loans. In this case the excess costs of the investment proposal will not be funded.

Collateral requirement: third party guarantee, up to 100% of the loan.

Duration of loan: up to 4 years

Interest rate:

- 0% for businesses based on islands with a population lower than 3 100 permanent inhabitants.
- 2.8% fixed rate for businesses based on islands with a population of more than 3 100 inhabitants.

Capital instalments: 30 April, 31 July and 31 October; Interest accrual 30 June and 31 December each year.

Applications: Submitted through the co-operating banks, then forwarded to ETEAN for credit analysis and approval. Banks' duties are administrative. The borrower is not burdened with file management costs.

Banks' management costs:

- For loans between EUR 10 000 – EUR 20 000: EUR 250 per year for the duration of the loan.
- For loans between EUR 20 001 – EUR 30 000: EUR 350 per year for the duration of the loan.

## Governance

The Island Tourism Entrepreneurship programme is funded by the main financial engineering instrument of ETEAN, the Entrepreneurship Fund. Existing and newly established micro and small enterprises (EU Definition EC 361/2006) are eligible to apply for the loan product, provided they satisfy

certain criteria. Enterprises must be located within the boundaries of Greek territory and based on Greek islands to be eligible for working capital loans, or based anywhere in Greece provided the requested expenditure/investment will take place on a Greek island to be eligible for investment loans. Enterprises must also have insurance and tax clearance at the date of the loan disbursement and an eligible activity code according to the programme guidelines. SMEs excluded by the Regulation (EC 1998/2006) are not eligible. This mainly excludes businesses in the primary sector of the economy.

Expenditure for the following purposes are eligible: construction, configuration, renovation, restoration of buildings, facilities and the surrounding area; machinery and equipment; expertise rights; software; certification of quality assurance systems; promotion; and operating costs (e.g. rental, payroll expenses, third party fees, costs of raw materials, stock and merchandise).

Eligible expenditure means only the purchase of new equipment is covered. The loan is disbursed by the bank directly in the suppliers' accounts, payroll accounts, provision of services etc. The eligibility of expenses on invoices and equivalent accounting documents issuing from operating expenditure documentation. VAT related expenditure is considered non-eligible.

### **Key results**

As of October 2016, 1 785 SME loan applications have been approved by ETEAN, which correspond to a total of more than EUR 38.5 million. These funds together with the private sector's co-investment mean that more than EUR 55 million was channelled into the islands' economies under this action. About 25% of the approved SMEs are start-ups, which shows that the programme had a significant impact as approximately 440 new tourism businesses were created by using the programme's funds. At the same time, in a period of financial depression and crisis, more than 1 340 already existing island tourism businesses used the programme in order to maintain and strengthen their position (Table 12).

**Table 12. Number of projects funded by Island Entrepreneurship Programme in Greece**

<b>Applications</b>	<b>Project</b>
Approved applications	1 785
of which start ups	439
(in percentage)	24.6%
Micro firms	94%
Small Firms	6%
Average loan size	EUR 22 000

*Note: As of 10 October 2016*

The programme's impact on the islands' economy becomes more evident if compared with the main ETEAN loan programme which is also funded by the Entrepreneurship Fund. The Business Restarting Programme started 3 months earlier than the Island Tourism Entrepreneurship programme and as of 10 October 2016 had produced 5 448 approved applications (Table 13). This is a general entrepreneurship programme and is not directed only towards one sector of the economy. Another significant difference is that eligible SMEs are micro, small and medium businesses based all over Greece and not just in one specific area, as is the case with Island Tourism Entrepreneurship, which is directed only to micro and small SMEs on islands. Considering that the islands' account for about 14% of the total population of Greece, this gives another indication of the success of the programme. Finally, the significance of the Island Tourism Entrepreneurship for the small, underprivileged and remote islands of Greece, whose importance is not just economic and geographical but also political and geostrategic, should be underlined.

According to ETEAN data, 172 approved loans came from islands with a population less than 3 000 people, but, in reality most of those islands have populations of less than 200-300 permanent residents.

**Table 13. Uptake of the Island Entrepreneurship Programme by different sub-sectors in Greece**

Sub-sector	%
Rooms to let	14.2%
Hotels and Camping	10.1%
Snack bar/café	7%
Restaurant/taverns	12.6%
Food and beverages sector	21.4%
Trade souvenir/jewellery	5.2%
Travel agency/air tickets/road transports and sightseeing	3%
Cars, boats, bikes and motorcycles hiring sector	6.6%
Beach umbrellas/seats hiring and other recreational activities	0.7%
Sauna/spa personal treatment	1%
<i>Subtotal</i>	81.8%
Other	18.2%
<i>Total</i>	100%

*Note: As of 10 October 2016*

### ***Lessons learnt***

The programme's progress to date has been positive. Critical to this success has been the following:

- ETEAN's decision to co-invest with each approved business, instead of the banks.
- Flexible application process through the use of banks' networks throughout the Greek islands.
- Elimination of bureaucracy mainly through the simplicity of the application form.
- Fast approval/rejection process performed by ETEAN.
- Low interest rate charged by ETEAN (2.8%) which in the case of small islands becomes 0%.

The programme is due to end on 31 January 2017, extended (3 times) from the original end date of 31 December 2015. ETEAN is already planning for a new substitute programme. Lessons learnt and critical success factors from the existing programme are being taken under consideration as the new programme must be characterised by precise effectiveness. Another important factor of influence however is the anticipated ending of the financial crisis in Greece. Should the banking sector recover and be in a position to provide capital to island SMEs, then ETEAN will have a strong partner and more funding will be available through loans to the island SMEs.

The intention of ETEAN for the new programme is to allow SMEs from all sectors of the economy to be eligible for application. Greek islands are relatively small in size and population and their economy is based overwhelmingly on tourism, which means that in practice all island SMEs contribute to the total tourist product. In the existing programme only SMEs with strictly tourism activity are eligible, thus a hotel for example was eligible but not its food supplier or its waste-collecting contractor. In practice however both the food supplier and the waste company's customers are tourism businesses. ETEAN has concluded that as the overwhelming majority of the islands economies are based on tourism, activities both

directly and indirectly related tourism should have access to the new programme. In this way all sectors of the islands' economy will be supported equally and on the same terms, as every entrepreneur contribute to the final tourism product. Another issue which will change is the maximum limit of the loan amount, which will be finalised after a more in depth analysis of the target SMEs, but it will probably double to reach EUR 60 000, covering in this way a much larger variety of SME needs.

Greece states lack of finance as main constraint, not specific products for tourism SMEs, and European funds for innovative firms. Bridging innovation, clusters and start-ups with the national tourism market is the main focus of discussions nowadays.

### *Conditions for transferability*

Innovative project with widespread coverage that overcomes lack of funds from the supply side by using EU structural funds with a regional development objective, targeted towards increasing job creation and local development. Moreover, for businesses on islands with a population of less than 3 100 people, loans are interest free, whereas businesses on larger islands are charged a fixed interest rate of 2.8%. Management fees for all loans are covered by ETEAN SA. Co-investment ensures commitment from the part of the entrepreneurs, while banking system provides non-financial support.

Seasonality in the repayment instalments, where in low-season periods only the interests are due and in high-season periods both interest and principal are repaid, helps small firms with irregular cash flows, low management and financial skills, and diminishes the use of overdrafts facilities to pay for day-to-day activities.

### *For more information*

Contact: Hellenic Fund for Entrepreneurship and Development (ETEAN SA) [www.etean.com.gr](http://www.etean.com.gr)



## New Zealand: Legislative changes to support peer-to-peer lending and equity crowdfunding

### *Description and rationale*

In 2014, New Zealand implemented legislative changes as part of broader reforms to New Zealand securities law. The changes included the introduction of peer-to-peer lending and equity crowdfunding to the country's capital market (Box 12). These innovative and relatively new forms of financing approaches provide businesses (including tourism businesses) and individuals with a simple, low-cost way to raise capital from investors.

The rationale for these legislative changes is to broaden the range of financial instruments to support SMEs, under the implicit assumption that lack of finance is mainly a supply-side problem (lack of availability of funds). Small and medium-sized enterprises play a vital role in driving New Zealand's economic growth. They make up approximately 99% of all businesses in the country (equating to 559 300 businesses) and employ approximately 70% of the workforce. The majority of tourism businesses are SMEs. Ensuring that these SMEs have access to capital is important for the tourism industry, and the overall growth of the economy.

#### **Box 12. Typical features of equity crowdfunding and peer-to-peer lending in New Zealand**

##### ***Equity crowdfunding:***

- Registered businesses can raise up to NZD 2 million per year.
- No investment caps or limits for investors. This is designed to enable investment from larger investors, such as angel investors or institutions, and has played a key part in the success of crowdfunding offers.
- No restrictions or eligibility criteria for the size or type of businesses that can raise funds. This has enabled a wide range of firms to raise capital using the schemes.
- Disclosure to consumers is streamlined, reducing the compliance costs for firms looking to raise capital.
- Crowdfunding platforms must include a prescribed statement warning investors of the risks on their website.

##### ***Peer-to-peer lending:***

- Individuals and registered businesses can borrow up to NZD 2 million per year.
- No investment caps or limits for investors.
- Peer-to-peer lending platforms must have processes in place to ensure that borrowers are creditworthy, and policies and systems to deal with disputes. Platforms are also required to have contingency plans to deal with large scale defaults or the collapse of the platform itself.
- Platforms can determine many of the features of the lending service they provide, including whether loans are secured or unsecured, how fees are structured, and what repayment periods are offered.
- Some platforms also offer additional features such as payment protection insurance. Interest rates are often set by negotiation through matching by the borrower and investor, or by the platform based on the perceived credit risk of the borrower.
- This flexibility has enabled a range of lending models to develop across the four licensed peer-to-peer lenders. The average interest rates charged by these lenders ranges from 8.7% to 17.7% per annum.

## Governance

Peer-to-peer lending and equity crowdfunding have been around for more than 10 years. The use of these instruments is well developed in China and the United Kingdom, for example. In New Zealand, the development of these financing approaches was restricted for a long time by disclosure requirements that made small-scale public financing uneconomical in the country. The implementation of the Financial Markets Conduct Act 2013 provided the legislative framework required to introduce peer-to-peer lending and crowdfunding into New Zealand's capital markets. A key objective of the Act was to provide New Zealand SMEs with easier and less costly ways to access capital.

Equity crowdfunding and peer-to-peer lending now supplement traditional sources of financing approaches in New Zealand, such as investments from family or friends and banking services, and existing sources of growth capital, such as angel and venture capital investments. Peer-to-peer lending and crowdfunding are considered risky but they are also useful in that they make it easier for retail companies and financial institutions to invest in developing SMEs.

The Act was implemented and reform of New Zealand's capital markets took place in 2014. Market conditions were significantly improved with the introduction of licensing requirements for equity crowdfunding and peer-to-peer lending firms, which were overseen by New Zealand's capital markets regulator, the Financial Markets Authority. Peer-to-peer lending and crowdfunding services are now provided by privately-run firms ('platforms') licensed by the regulator. Platforms are a mediation service operating online to facilitate the matching of capital between investors and borrowers. They ensure that those accessing the schemes comply with New Zealand law and the rules stipulated in the websites. As at February 2016, there were four licensed peer-to-peer lenders and eight licensed crowdfunding platforms operating in New Zealand.

The Financial Markets Conduct Act 2013 was carefully designed to provide flexibility for platforms, investors and borrowers. Both regimes were designed to be available to a wide range of investors and firms or individuals looking to raise capital. While certain requirements have been put in place to minimise risks for investors, peer-to-peer or crowdfunding providers still have significant operating freedom.

## Key results

While these forms of capital raising are a relatively new feature of New Zealand's capital markets, they have had a positive impact by deepening capital markets and improving the flow of growth capital to New Zealand SMEs (Table 14).

**Table 14. Uptake of crowdfunding in New Zealand**

	Total	Tourism-related
Equity crowdfunding		
Number of successful funded projects	29	1
Amount raised	NZD 18.8 million	NZD 0.2 million
P2P lending		
Number of successful funded projects		4
Amount raised	NZD 190 million	NZD 0.001 million

*Note: As of February 2016*

*Equity crowdfunding*

As at February 2016, 44 offers have been completed on New Zealand's eight licensed equity crowdfunding platforms. The supply of crowdfunding opportunities has been met by strong demand from retail and institutional investors. Of the 44 opportunities, 29 were successful in being funded, or fully funded, and were able to keep and use the capital raised. These 29 successful opportunities raised nearly NZD 18.8 million in crowd-sourced capital. The median amount of capital raised through equity crowdfunding is NZD 470 000. This capital has been applied to a range of uses including funding research and development, employing more staff, or securing patents.

A wide range of newer businesses have raised money using New Zealand's crowdfunding regimes, including small food and beverage firms, high-tech start-ups, investment funds and a motion picture.

In particular, one tourism firm has successfully used equity crowdfunding to raise capital. Founded in 2008, TRNZ Digital Travel Guides offers a GPS-based tour guide audio app. The firm is a leader in the field and sought capital through crowdfunding with the purpose of expanding the local sales force, updating the website and making it available in multiple languages, and preparing the business for expansion into the Australian market. The company exceeded its minimum funding target and raised NZD 211 000 to fund this growth project.

The website Pledgme ([www.pledgme.co.nz](http://www.pledgme.co.nz)) features another equity campaign ([H2Explore Ltd](http://H2Explore Ltd)) that was unsuccessful in raising the desired NZD 300 000, reaching only NZD 12 000 by the required time. The campaign had sought to raise the outstanding financing needed to establish and launch a water transport service for cyclists on New Zealand's Alps 2 Ocean Cycle Trail. The project had already secured a bank loan for 65% of the set up costs.

*Peer-to-peer lending:*

The success of peer-to-peer lending is harder to quantify given that lending and borrowing transactions are not disclosed publicly, as is the case with equity crowdfunding. New Zealand's first licensed peer-to-peer lender, Harmony ([www.harmony.co.nz](http://www.harmony.co.nz)), has lent around NZD 190 million to 13 000 borrowers since it launched in September 2014. Around 75% of this lending has been funded by institutional investors, including major banks.

Peer-to-peer lending has been used for a wide range of reasons: most commonly debt consolidation or home improvement by individual borrowers. It is becoming more popular with SMEs – two licensed platforms now explicitly target lending to SMEs.

The Pledgme crowdfunding platform also offers peer-to-peer funding opportunities and features four successfully funded tourism-related projects, targeting funds from NZD 2 500 to NZD 3 000, with a total of seven ongoing tourism-related projects seeking funds at time of writing.

*Lessons learnt*

While these new forms of capital are yet to be formally evaluated, the evidence suggests that both peer-to-peer lending and equity crowdfunding improve the availability of capital to SMEs, including tourism businesses. Stakeholders have generally been supportive of the introduction of these sources of capital, particularly the flexibility of the current regimes. For equity crowdfunding, an emerging challenge is the lack of a secondary market for the buying and selling of shares in crowdfunded firms. A secondary market would improve the liquidity of these investments, and enable investors to easily sell their shares if needed. However, one crowdfunding platform, Equitise ([www.equitise.com](http://www.equitise.com)), announced its intention to



create a secondary market in conjunction with a newly-established trading platform for shares in syndicates, Syndex ([www.syndex.exchange/](http://www.syndex.exchange/)).

The Government is monitoring developments in both the peer-to-peer lending and equity crowdfunding markets to determine how these sources of capital are accessed by SMEs. The Financial Markets Authority will evaluate the impacts of the changes that came with Financial Markets Conduct Act 2013 reforms.

#### *Key points*

- Both peer-to-peer lending and equity crowdfunding have been effective. They have expanded the capital raising options available to individuals and SMEs.
- A critical factor in the success of the reforms has been in providing sufficient operating freedom which allows both schemes to be accessed by a wide range of investors and borrowers.
- It appears that the uptake by tourism SMEs has so far been limited. However, it seems reasonable to assume that tourism SMEs will access these forms of financing approaches as time develops and these approaches become more well-known.
- Both regimes are relatively new features of New Zealand's capital raising landscape. The Government will continue to monitor the development of both peer-to-peer lending and equity crowdfunding to consider whether changes to the existing regimes are needed.

#### *Conditions for transferability*

Since coming to prominence over the last 10 years, internet-based equity crowdfunding and peer-to-peer lending are relatively innovative finance techniques whose use is by now widespread. These internet-based tools are private-based initiatives; the public sector intervention comes in the regulation of their operation and activities.

#### *For more information:*

Contact: Ministry of Business, Innovation and Employment

<https://fma.govt.nz/consumers/ways-to-invest/crowdfunding/>

<http://www.interest.co.nz/saving/crowdfunding>

<https://fma.govt.nz/consumers/ways-to-invest/peer-to-peer/>

[www.legislation.govt.nz/regulation/public/2014/0326/latest/DLM6292901.html](http://www.legislation.govt.nz/regulation/public/2014/0326/latest/DLM6292901.html)

## **Portugal: Incubation programme to foster entrepreneurship and innovation in tourism**

### ***Description and rationale***

Despite some progress, SMEs in Portugal continue to face structural challenges which are negatively impacting economic recovery. Demand-side conditions affecting financing for tourism and other SMEs include a lack of internal funds to conduct innovation projects, difficulties in obtaining external funding, and a deficit in the supply of seed capital. A lack of skills and human resources, organisational competencies and business knowledge also hinder the identification of innovative opportunities by Portuguese SMEs.

Tourism businesses are also frequently perceived as high-risk by the banking system and other funders, while the appetite for genuine innovation and creation of new products is also reported to be weak. Building a culture of entrepreneurship based on knowledge and innovation is thus a major focus of policy in Portugal. This includes easing the path for innovative entrepreneurs to access external funds and supporting the investment in entrepreneurial talent.

Within this framework, the Portuguese Tourism Board (*Turismo de Portugal*) has established several partnerships and initiatives focused on entrepreneurship and innovation, to facilitate direct interactions between start-ups and potential investors. One of those initiatives is the Lisbon Challenge, which is an incubation or horizontal acceleration programme that offers participants a package of supports designed to help internationalise, including workshops and mentoring sessions. The programme targets international tech start-ups in prototype or product phase from all sectors, including tourism. Inspired by the MassChallenge programme from Boston, the Lisbon Challenge aims to offer consistent methods and resources for start-up acceleration. It was named the 4th most dynamic European accelerator by Fundacity, which connects entrepreneurs and investors around the world.

Participants in the Lisbon Challenge compete for the chance to meet with 200 international mentors and investors, as well as participate in workshops, pitch sessions and networking events. The programme concludes with a Demo Day/Investors Day, where the best start-ups get the chance to pitch and demo to a crowd of investors, partners and other start-ups. Following this, selected teams get a chance to go on a roadshow to London and San Francisco. The overall goal of the Lisbon Challenge is to make Portugal an entrepreneurial hub and a world-class environment in which to develop entrepreneurial skills and create high quality business start-ups. It takes place in Lisbon, which was named European Entrepreneurial Region in 2015 and is considered to be the 5<sup>th</sup> most upcoming tech hub worldwide by Entrepreneur magazine.

In addition, Tourism Day is a sector-specific initiative held in the context of Lisbon Challenge. This event is dedicated to the tourism industry and focuses on tech based start-ups with tourism-related activity, where top players come together to discuss the tech trends in tourism. The goal of Tourism Day is to support the renewal of the business framework and generate opportunities for the development of innovative businesses in the tourism sector, in order to encourage the creation of companies with high added value and global growth potential. It also aims to support new practices of innovation among actors so as to differentiate the tourism offer.

### ***Finance instruments offered***

The Lisbon Challenge and Tourism Day initiative is primarily designed to stimulate and promote a national spirit and culture of entrepreneurship and innovation within the tourism sector. Through the creation of an appropriate environment for high quality entrepreneurial ventures, it encourages innovation in the tourism sector, promotes Portugal as a location for international start-ups, and increases access to

finance, enabling start-ups to exploit financing opportunities. Entrepreneurs are empowered by a combination of methodologies, tools, network and a mind-shifting experience.

The Portuguese public sector offers complementary finance services to those start-ups that have been deemed as successful and potentially viable by the incubator. The finance options include equity and debt financing at preferential conditions (Table 15).

**Table 15. Finance instruments available to innovative tourism start-ups in Portugal**

Institution	Instrument
Portugal Ventures – private venture capital	Up to EUR 0.5 million in equity stakes
EU Structural Funds	EUR 25 000 million to 4 broad development objectives (tourism not specifically targeted)
Bank Protocols Regime	Debt instruments for tourism-related activities
SME Growth 2015	Credit lines at preferential terms (longer maturity and lower interest rates); 50% loan guarantee

Portugal Ventures is a venture capital institution, focusing its investments in innovative, scientific and technology-based companies as well as in companies from the more traditional Portuguese tourism and industrial sectors, with significant competitive advantages and export oriented to global markets. Portugal Ventures works alongside entrepreneurs, enabling high-growth Portuguese companies to achieve global status. Several start-ups that participated in Lisbon Challenge were financed through Portugal Ventures call for entrepreneurship. Between 2014-15, around EUR 5 million was invested in tourism start-ups, most of which were identified through the Lisbon Challenge and other local acceleration programmes (Guestcentric, iClio/JiTT, Skaphandrus, Fairway, GuestU, Invine, Mygon, BGuest, StoryTrail, Indie Campers, StoryO).

Under the Portugal 2020 strategic framework, incentive schemes financed by EU Structural Funds support SME projects in all economic activities, particularly promoting business innovation at the company level and entrepreneurship. These public instruments illustrate the crucial role SMEs and entrepreneurs play in the economy, and reflect public policies that recognise the importance of direct incentives in order to encourage corporate investment that enables the incorporation of competitiveness factors in SME business models.

Through the Bank Protocols Regime, banks meet the specialised needs of tourism SMEs, providing financial services tailored to their needs. By working as partners of the Portuguese Tourism Board, banks can reduce risks and costs, and provide financial support to economically and financially viable tourism projects. This approach introduced an alternative model of financing and has been succeeding in pushing banks to deliver financing to tourism SMEs. Different credit lines provide different solutions for different needs, supporting entrepreneurship, qualification of the tourism offer and the financial consolidation of the companies.

Tourism SMEs can also access the SME Growth 2015 credit line, which facilitates access to credit for businesses in the tourism sector through interest rates subsidies and guarantee mechanisms within the national guarantee system. This credit line offers long-term maturities and preferential conditions through partially subsidised interest rates and risk-sharing public guarantees.

## Governance

The Lisbon Challenge and Tourism Day programme results from a partnership between the Portuguese Tourism Board, which is the central public authority responsible for the promotion, enhancement and sustainability of tourism activities, and Beta-i, which is a non-profit organisation created in 2010 whose mission is to promote innovation and entrepreneurship. It does this through four axes: create and foster a culture and network of entrepreneurship and innovation through events and programmes; accelerate start-ups with global ambition and facilitate access to investment; create spaces, services and products focused on the entrepreneur; and promote innovation and entrepreneurship within large organisations. Beta-i is considered the biggest start-up promoter in Portugal by the European Enterprise Promotion Awards.

The goal of the partnership is to support a network of entrepreneurs and investors, and create a culture of entrepreneurship and innovation in the Lisbon ecosystem by attracting entrepreneurs and key players from around the world to interact and participate in the local community and to gather experience and advice.

The Lisbon Challenges featured two editions in 2015:

- Spring edition: Lisbon Challenge from March to June, with Tourism Day in May,
- Autumn Edition: Lisbon Challenge from September to December, with Tourism Day in November.

## Key results

From a total investment of EUR 1 million, the Portuguese Tourism Board contributed EUR 80 000. The programme has received 570 applications, 74% of which were from international start-ups from 57 different countries. A total of 42 start-ups have participated in 48 workshops and 1 145 mentoring sessions; 59.5% of these start-ups were international, from 14 countries.

Tourism start-ups represent between 30-40% of all start-ups participating in the Lisbon Challenge. In the Spring 2014 edition, 10 of the 29 participating start-ups were tourism start-ups. The overall winner was a tourism start-up, Mougli, while 3 tourism start-ups placed in the Top 10. In the Autumn 2014 edition, 10 of the 22 participating start-ups were tourism start-ups; again, 3 tourism start-ups placed in the Top 10. In the Spring 2015 edition, 9 tourism start-ups from a total of 22 participated, while in Autumn 2015, 8 tourism start-ups were involved, from a total of 20 start-ups (Table 16).

**Table 16. Number of new firms created through the Lisbon Challenge incubator**

	Spring 2014	Autumn 2014	Spring 2015	Autumn 2015
Number of start-ups	29	22	22	20
of which tourism-related	10	10	9	8

Up to 2016, Lisbon Challenges has raised EUR 52 million have been raised in investments for 79 start-ups, including tourism-related start-ups.

### ***Lessons learnt***

Building on the success of this horizontal acceleration programme, a tourism vertical Discoveries programme was launched in 2015 by the Portuguese Tourism Board, Fábrica de Start-ups, a non-profit organisation focused on the promotion of entrepreneurship, and NOS, a large communication and entertainment group. The 2015 edition had 122 applications and 17 start-ups were selected to participate. The main objective is to connect tourism start-ups in the programme with institutional investors and venture capitalists. The creation of a network of investors and international events is currently envisaged.

### ***Conditions for transferability***

The Lisbon Challenge and Tourism Day is an initiative focusing on those innovative projects in the technology domain of the tourism sector. Lisbon is a city with a strong entrepreneurial ecosystem; the transfer to other cities not as focused on fostering innovative entrepreneurial projects will not foresee the same success.

This idea is different from the France incubator programme, which focuses on innovation along a diverse stream of tourism activities (including tech products but also innovation in services).

### ***For more information:***

Contact: Turismo de Portugal, I.P.

Lisbon Challenge - <http://www.lisbon-challenge.com/>

Discoveries - <http://www.start-updiscoveries.com/>

<http://www.portugalventures.pt/en/content/heritage-tourism-5>

## **Slovenia: Public support for the diffusion and financing of entrepreneurial tourism ideas**

### *Description and rationale*

Fostering innovation in the tourism sector has a long history in Slovenia. Public awards for creative tourism achievements have been in place since 2004. The idea evolved to the creation of a database for the sharing of innovative tourism ideas in 2009, building synergies between the government, industry and academia (so-called triple helix) to support knowledge sharing and diffusion of new ideas.

Innovation has always been an important part of tourism. Tourism enterprises constantly seek new ideas, solutions, products and services, to enrich the experience of their guests. The Slovenian Tourism Board, together with its partners, recognised and emphasised the importance of innovation in tourism sector in four progressive steps:

- 2004: Sejalec ("Sower") award for creative and innovative tourism achievements.
- 2006: Creation of a database for the exchange of tourism related ideas, energies and knowledge, the Bank of Tourism Potentials in Slovenia.
- 2009: Snovalec ("Creator") financial support for best creative and innovative tourism ideas.
- 2012: T-Lab Snovalec mentoring scheme .

The Snovalec and T-lab Snovalec mechanisms represent one of many layers of a unique and evolving environment that is supporting tourism innovation in Slovenia. The two national mechanisms foster the successful realisation and promotion of most promising tourism ideas and integrate the inputs and outputs from these mechanisms into the wider national research, development and marketing scheme.

The Bank of Tourism Potentials in Slovenia was established to further stimulate the successful implementation of new tourism ideas and strengthen the brand of the initial Sejalec call. It is a joint partnership between the Slovenian Tourist Board, the Ministry of Economic Development and Technology, and the Faculty of Tourism Studies at the University of Primorska. The initiative promotes the exchange of ideas, means for their realisation, and related knowledge through several channels and activities.

Snovalec was launched in 2009 to spur creativity and innovation in tourism by funding inventions that will eventually grow into tourism innovations, which could (when realised) apply also for the Sejalec call. The initiative received financial support from the Ministry of Economic Development and Technology in the form of a grant for EUR 40 000, to be distributed among the best ideas.

Experience gathered during the first three years showed that financing was not the only support needed by the most frequent beneficiaries of the call: SMEs, young entrepreneurs and future entrepreneurs. Other, sometimes more useful, types of incentive were mentoring, sharing of experience, networking and (inter)national promotion of the finalists and winners. In 2012 an opportunity arose in the frame of the EU funded project T-lab - Laboratory of Tourism Potentials - made it possible to test a modified version of the Snovalec call, T-lab Snovalec. Rather than providing direct financial support, T-lab Snovalec provided the best ideas with knowledge and experience sharing between senior mentors (entrepreneurs, academics, experts) and the selected mentees.

*Financial instruments offered*

The Snovalec financial instrument consists of grants to each successful tourism project (Table 17). These are awarded ex-post tourism innovation, once the idea has been developed.

**Table 17. Financing and non-financial support through Snovalec and T-lab Snovalec in Slovenia**

Year	Instrument	Project financial support	Number of projects supported	Institution	Overall financial availability	Overall operational costs
2009-11	Grants	EUR 5 000 – EUR 10 000	3-4 per year	Snovalec	EUR 40 000	EUR 20 000
2012-13	Non-financial: advice, mentoring	-	16 out of 82 applications	T-lab Snovalec	-	EUR 20 000
2014-16	Grants	EUR 5 000	3-4 per year	Snovalec	EUR 15 000	EUR 20 000

Applications for Snovalec are not limited in terms of firm size, gender, age or type of activity, but are limited in terms of location of the product - the invention needs to be implemented in or for Slovenia's tourism sector. Based on the grant available and the winning proposition, a decision is made on actual number and amount of awards. On average, 3-4 contracts are signed for amounts of between EUR 5 000-EUR 10 000. Winners only receive money once they have successfully implemented the idea. In order to assess this, evidence needs to be presented to prove that the final product/service reflects the idea that was presented and awarded, and the contractual funds were actually spent.

In 2012 and 2013 the Snovalec call was not published due to lack of funds. However, it was substituted by the T-lab Snovalec which was mainly financed through an EU project T-lab - Laboratory of Tourism Potentials (EU funding, <http://www.ita-slo.eu/eng/>). T-lab was a Slovenia to Italy good practice transfer of the acknowledged BTPS project, one of the four major evolution steps in the Slovenia's history of the promotion of tourism innovation. EU funds were not spent directly to financially support the winners but indirectly, to provide the winners with professional support, networking and advice. The goal was to implement the collaborative business development research, plans and reports, resulting in the thorough marketing and/or business plans. The mentoring processes and outputs were assessed by T-lab Snovalec project co-ordinators, and funds were paid to the mentors after the successful completion. Mentees did not receive any direct financial support.

*Governance*

Snovalec is a joint call of two public bodies, the Tourism and Internationalisation Directorate at the Ministry of Economic Development and Technology and the Slovenian Tourist Board. It is co-ordinated and implemented by the New Tourism Institute (Novi Turizem Institute), a private institute specialised in tourism innovation that has been a long-term partner and external service provider in this field.

The annual Snovalec call for tourism innovative proposals is devised as a multi-step selection procedure. The call is usually published in February/March each year, with the winners announced in May and funds paid in November after ideas have been implemented. Applicants are invited to submit their ideas online through the Bank of Tourism Potentials webpage. The quality of ideas is then assessed by an expert jury, based on several innovation and sustainability criteria. Finalists are invited to present the idea to the jury in person, and the best ideas receive a contract. However, the contract is not a guarantee that a grant would actually be paid out; this is contingent on the product being implemented and in line with the idea proposed in the application. The amount of the money received by the winners depends on the outcome of an evaluation of the final project.

The T-lab Snovalec call was published in 2012 and 2013 in the frame of the EU co-founded T-lab project. It was implemented by two public bodies, the Public Agency for Entrepreneurship, Internationalisation, Foreign Investments and Technology, SPIRIT Slovenia, and the Faculty of Tourism Studies at the University of Primorska. It was devised a bit differently and consisted of two calls; one looking for mentors with experience in tourism, another looking for mentees with the best tourism ideas. A match-making event was organised where mentors and mentees met in order to assess each other's competences and allow optimal mentor-mentee pairs to be formed later in the process. Mentors also voted for the best ideas. Proposers of the best ideas did not receive any financial support but mentoring, advice, and advanced networking opportunities. The goal was to jointly develop and test proper idea realisation steps. To ensure the co-operation among mentors and mentees went well, detailed on-going monitoring of the working process and outputs was organised.

The main and only source of funding of Snovalec call is public, from the Tourism and Internationalisation Directorate of the Ministry of Economic Development and Technology in co-operation with the Slovenian Tourist Board. The total grant amount has varied from EUR 40 000 annually from 2009-11 to EUR 15 000 annually from 2014-16.

### **Key results**

Snovalec annual costs currently amount to approximately EUR 20 000 per year. This consists of: direct costs of EUR 15 000 gross in the three years to 2016 (EUR 40 000 in years 2009-11); and indirect costs, including the cost of co-ordination (EUR 3 500 per year), expert jury (EUR 1 000 per year), and promotion and marketing material (EUR 1 000 per year). The five Snovalec calls to date have received 271 applications in total. Of these, 18 were selected for financing (average of 3-4 per year) and 15 successfully received funds (meaning that 3 did not fulfil the expert jury's expectations). In total, EUR 108 000 was paid as a grants, supported by MEDT and STB funds (Table 18).

T-lab Snovalec annual cost amounted to EUR 20 000 per year. This consisted of mentors fees (EUR 10 000) and monitoring and co-ordination fees (EUR 10 000 per year). During two T-lab Snovalec calls, 82 applications were received, 16 of which were supported in the mentoring scheme. All were successfully implemented, meaning all funds were drawn down.

**Table 18. Projects successfully funded by Snovalec and T-lab Snovalec**

Year	Number of applications	Number of projects founded	Institution
2009-11, 2014-16	271	18 (15 finally)	Snovalec
2012-13	82	16	T-lab Snovalec

### **Lessons learnt**

As the data shows, fewer than 7% of Snovalec applicants receive funding, while around 20% of T-lab Snovalec applicants were successful. One can claim that target beneficiaries' demand exceeds supply. However, not all proposed ideas were ready to enter the implementation phase. Approximately half of applications would need additional workshops and external knowledge to refine the proposal and develop implementation plans for the ideas, before being eligible.

A study by the Slovenia Tourist Board (November 2015) found that the Snovalec call was perceived as the most important measure supporting tourism innovation promotion in Slovenia (followed by Sejalet call and the Bank of Tourism Potentials crowdsourcing challenges). The main challenge to the development of new tourism products was the financing of research and development and new products



marketing activities, followed by networking issues and efficient identification/understanding of relevant customer segments.

Nevertheless, the Slovenian experience shows that pure financing is just a part of a bigger equation for addressing the needs of interdisciplinary and interconnected set of tourism players. Tourism providers (SMEs and others) play many different roles, and demonstrate different knowledge levels and needs. Based on the Snovalec experience, different tourism development supporting services are required for different types of tourism SMEs and their needs. Most, if not all, of these supports will have to include the financing. However, to have the desired and wholesome realisation and business effect, these to be performed hand in hand with (inter)national promotion, collaboration and learning related supporting activities.

Slovenia's approach towards tourism innovation shows that there are many evolution steps through which complex tourism innovation systems should be developed and nurtured, to support tourism development. A financial support mechanism is just one layer of the system. At least one addition to it is the mechanism for global recognition and promotion of the projects that have achieved the best results. By implementing this, it is possible to create feedback loops that generate self-sustaining promotion of the supporting mechanisms: informing and educating tourism providers and tourists at the same time. Examples of tourism providers involved in such feedback loops and projects funded through this programme can be identified in Slovenia. One of the world's first green resorts ([www.gardenvillagebled.com](http://www.gardenvillagebled.com)), Europe's first beer fountain ([www.tiny.cc/green-gold-fountain](http://www.tiny.cc/green-gold-fountain)), unique nature wellness ([www.gozdni-selfness.si/eng](http://www.gozdni-selfness.si/eng)), and edible lace ([www.lacenia.net](http://www.lacenia.net)) are among the projects which have received Snovalec and/or Sejalec awards and have attracted national and international attention from tourists, business partners and media as a consequence.

### *Conditions for transferability*

The idea of the knowledge society building on the interaction and synergies of academia, the public sector and businesses goes back to the 1980s, more formally devised by Etzkowitz (1993), for the production, transfer, and application of knowledge, along the lines of the schumpeterian creative destruction process. The OECD supports this view.

While the financial costs are relatively small, the Slovenian experience highlights that finance is second to having a good project proposal, management skills, and a network, among other requirements.

*For more information:*

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<http://www.btps.si/default.aspx?lng=sl>

<https://www.slovenia.info/en/business/innovative-projects>

## Switzerland: Public-private financing partnership for hostel and public spa facility in Saas Fee

### *Description and rationale*

In many tourism destinations, land is scarce and when available, expensive. An initiative in Switzerland provides an example of a successful partnership between the public and private sector to overcome the issue of land costs with an innovative solution based on accumulating synergies. The public spa facility located in the alpine resort village of Saas Fee was in need of renovation, but the project was not economically viable. At the same time, a private organisation was looking for an affordable option to build a youth hostel, which was also economically unviable on its own.

A joint solution was thus envisaged: to build the private youth hostel, WellnessHostel4000, on the roof of the existing public spa facility, Aqua Allalin. This reduced the investment costs for the youth hostel, which did not need to pay for the land. Operational costs were also reduced through the sharing of facilities and employees, further closing the financial gap for both institutions.

The joint construction of the hostel and the refurbishment and operation of the public swimming pool enabled both parties to successfully lower investment costs and create operational synergies through a public-private partnership. The addition of a hostel significantly improved staffing in the leisure facility at minimum cost. It was also possible to improve service quality levels while keeping costs low, for example through opening times for reception, hospitality provided by youth hostel, and range of leisure activities available.

Public sport and leisure facilities rarely cover their own costs, and the idea of combining a youth hostel with leisure facilities is not new in itself. The innovation implemented in Saas Fee was to jointly develop a public-private partnership to optimise land use and reduce investment and operational costs.

### *Financing instrument*

The joint construction of the hostel and wellness spa was financed with individual bank loans, own funds and a public contribution of CHF 2.5 million. The hostel loan amounted to CHF 3.5 million; the spa facility loan amounted to CHF 4.5 million (Table 19).

**Table 19. Financing the public-private hostel and spa facility in Saas Fee Switzerland**

Financing source	Value
<b>WellnessHostel4000</b>	
Own funds and contribution from the Swiss Foundation for Social Tourism	CHF 3.6 million
Loans from the Swiss Society for Hotel Credit	CHF 2.0 million
Investment aid loan from the Canton of Wallis / New Regional Policy	CHF 1.0 million
Bank loans	CHF 3.5 million
<i>Total</i>	<i>CHF 10.1 million</i>
<b>Aqua Allalin</b>	
Own funds and contributions Citizens' Commune	CHF 0.8 million
Investment aid loan from the Canton of Wallis / New Regional Policy	CHF 1.5 million
Bank loans	CHF 4.5 million
<i>Total</i>	<i>CHF 6.8 million</i>

Public financial support was essential, as commercial banks declined to take increased risks by issuing large loans to either the private or public investor and the joint high interest rates would have been economically unviable.

The biggest savings were made in terms of personnel costs due to the combined use and operation of the reception (working hours) and kitchen, and performance of cleaning, maintenance and administration activities. The exact resulting financial synergies were not determined as this was of only minor importance. The deciding factor was the conviction that both parties would automatically achieve optimum performance through the ideal combination of the tasks.

### ***Governance***

To make the joint project financially viable, the spa facility and the youth hostel had to harmonise and jointly re-design the individual development plans. The joint proposal was put to public voting for validation, as the Citizen's Commune is the owner of the public spa facility. Once approved, a joint public-private construction commission was set up to develop and implement both construction projects. The private founding body has the right to construct (*Baurechtsnehmer*) on the land, and is the builder of the new hostel and tenant of Aqua Allalin. It is responsible for operating the private wellness hostel and the public spa facility. The Citizen's Commune issued the building permit for the new hostel and is the builder of the spa facility, which it leases to the private partner.

In terms of logistics, co-ordination was achieved through a superordinated meeting structure, which dealt with different topics in each meeting including communication, financing and operational issue. Both partners had equal rights and representation in all committees. To provide mutual guarantees, simple phase-related contractual agreements were concluded from the beginning of the project. These included the letter of interest, building rights and lease agreements, and operating commission regulations. The project planning process started in June 2009. Construction work commenced in April 2013. The premises were put into operation in September 2014, after a 17-month construction period.

The specific project structure made it possible to offer a low-budget hostel and wellness facilities under one roof. Saas Fee is good practice model of public sports and leisure facilities for other tourist destinations. Many (Alpine) destinations face difficulties when it comes to operating public facilities efficiently and professionally, as municipal authorities tend not to be well suited or best placed to provide tourism services. However, outsourcing to private companies often fails because of legal and financial issues, fundamental differences between the two partners, or simply fear that public money will flow into the private sector. The example shows that it can be worth overcoming the difficulties of a private-public partnership and thus tap potential that would otherwise be out of reach for all involved.

### ***Key results***

The WellnessHostel4000 and Aqua Allalin project offered strong economic potential. The two sub-projects greatly strengthen the competitive position of the destination. The Saas valley received urgently required modern and indispensable indoor facilities, especially as in bad weather. The alpine destination has a limited offer in this respect.

Saas Fee also had no youth hostel up to this point and the new low-budget facilities increase the destination's competitive position as it can now close this gap in its hospitality portfolio. The combination of both facilities has created the world's first wellness hostel, further improving the location's profile and acting as its new flagship offer. The two new additions to Saas Fee's facilities significantly increase the location's market potential. The initiative also created by the two construction projects and additional long-term jobs should also be taken into consideration.

**Table 20. Increased volumes from the public-private partnership in Saas Fee**

Type	Since 2014	Annual volumes	CHF million
Operational	Overnight stays at the hostel	30 000	
	Spa visits	120 000	
	Jobs created	32	
Financial	Construction costs		16.9
	Hostel operating income		2.4
	Spa operating income		1.1

At an operational level, the initiative has generated 30 000 overnight stays per year at the WellnessHostel4000 and additional overnight stays at the other tourist accommodation operations without any wellness facilities. There have also been 120 000 visits per year to the Aqua Allalin. An estimated 32 new jobs have been created (Table 20).

In financial terms, the construction costs amounted to CHF 16.9 million. The youth hostel has recorded an annual operating income of CHF 2.4 million, while the spa facility has recorded a CHF 1.1 million operating income per year. Youth hostel guests and employees have created CHF 5.8 million added value per year (excluding internal youth hostel income) from: guests' spending in the region (CHF 4.9 million), visitor tax revenues (CHF 80 000), maintenance (CHF 110 000), regional purchases (CHF 132 000) and estimated spending of the 12 employees in the region (CHF 525 000).

### *Lessons learnt*

The success of the project is based on the accumulation of synergies. The two projects require only one parcel of land, which is scarce in many touristic locations. Savings were achieved when constructing the foundation, by installing the joint building services and in particular by saving on floor space, through the joint use of facilities including the reception, catering and service areas.

The extremely focused, pragmatic design of the public-private partnership created a considerably amount of efficiency. The project structure can be regarded as successful. The absolute equality of both partners during the entire project development was probably the key to success. Both partners acknowledged that each party must endeavour to create its own ideal conditions. This, in turn, restored the public's trust that the public money was not going to be used to fund a private company and that a private company was not being used for implementing an unsupportable project idea whose failed profits would have to be subsidised with public money.

The project has won several awards, underscoring the importance of this innovative idea. These include the Milestone 2014 "Outstanding project" category, Watt d'Or 2015 "Buildings and space" category and Prix Lignum 2015, Region Mitte.

### *Conditions for transferability*

The project can be transferable to other regions dealing with the same underlying challenge: lack of land for developing tourism projects. By creating synergies and reducing initial investment (once-off) and operational costs (continuous), the two projects became financially viable. Further gains were achieved in terms of increasing the tourism potential of the area.

This project is based on a strong commitment from the two parties and relies on strong levels of interpersonal and public trust. As a precondition to assess the transferability, the same social capital (public trust) that exists in Saas Fee needs to exist in the potential transferable regions. In economic terms, the motto of “people respond to incentives” applies, being aware that there are economic reasons for one of the parts to unilaterally alter the terms of the agreement, once the other party has shown commitment, unless there exist enforceable constraints. The transferability of this funding opportunity thus depends on whether the same social capital exists in other regions.

*For more information*

Contact: Swiss Foundation for Social Tourism

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