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Effective Policy Approaches for Quality Investment in Tourism

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Effective Policy Approaches for Quality Investment in Tourism

Investment is essential to build a competitive and sustainable tourism sector. This Tourism Paper examines effective policy approaches to boost the quantity and quality of investment in tourism. It reviews the enabling conditions and barriers to promoting investment that can foster sustainable and inclusive tourism growth. Policy considerations to encourage quality investment in tourism are discussed, including the importance of cross-government co-ordination, leveraging strategies to maximise the quality and impact of tourism investment, mainstreaming sustainability into investment decision-making frameworks, and building capacity to future-proof tourism investment in a digital economy. Case studies of investment approaches in a number of countries are presented to support the policy discussion.

Keywords: quality investment, tourism, policy, finance, infrastructure, governance, leverage, mainstreaming sustainability, digital economy

This document was approved and declassified by the Tourism Committee at its 102nd Session on 30 October 2018 [CFE/TOU(2017)4/FINAL] and prepared for publication by the OECD Secretariat. The publication of this document has been authorised by Lamia Kamal-Chaoui, Director, Centre for Entrepreneurship, SMEs, Regions and Cities.

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ABOUT THE OECD

The OECD is a multi-disciplinary inter-governmental organisation of 36 member countries which engages in its work an increasing number of non-members from all regions of the world. The Organisation's core mission today is to help governments work together towards a stronger, cleaner, fairer global economy. Through its network of 250 specialised committees and working groups, the OECD provides a setting where governments compare policy experiences, seek answers to common problems, identify good practice, and co-ordinate domestic and international policies.

The OECD member countries are: Australia, Austria, Belgium, Canada, Chile, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Latvia, Lithuania, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, the Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. The European Commission takes part in the work of the OECD.

ABOUT THE TOURISM COMMITTEE

This policy paper was prepared by the OECD Centre for Entrepreneurship, SMEs, Regions and Cities (CFE), 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/) provides detailed information about the OECD activities on Tourism.

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Jane Stacey, Head of the Tourism Unit, co-ordinated the drafting of the report under the supervision of Alain Dupeyras, Head of the Regional Development and Tourism Division. John Parlett, expert to the OECD, drafted the final report with significant inputs and drafting from the Secretariat. Anna Bolengo, Junior Policy Analyst, co-ordinated the preparation of the case studies and provided additional drafting input and support. Laetitia Reille, Statistician, managed the statistical information and developed synthesis tables. Alexandra Campbell and Monserrat Fonbonnat provided administrative support.

The report benefitted from significant contributions, feedback and guidance from policy makers from OECD member and partner countries. It is based on desk research and inputs received from 30 countries: Australia, Austria, Canada, Chile, Costa Rica, Czech Republic, Croatia, Egypt, Finland, France, Germany, Greece, Iceland, Ireland, Israel, Japan, Latvia, Mexico, Norway, New Zealand, Peru, Portugal, Romania, Russian Federation, Slovenia, South Africa, Spain, Sweden, Switzerland and Turkey. The perspectives of public financing agencies and institutions are captured, as are inputs the tourism industry. Short case studies prepared by Australia, France, Portugal, Spain, and Sweden are also presented.

This report has also benefited from exchanges with the European Investment Bank, United National Conference on Trade and Development and the World Bank, and with OECD colleagues in the Directorate for Financial and Enterprise Affairs, International Transport Forum, Centre for Tax Policy and Administration, Statistics and Data Directorate and Centre for Entrepreneurship, SMEs, Regions and Cities.

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Key Messages

Robust and integrated governance arrangements are needed to direct and support quality investment in tourism assets:

- Tourism investment strategies should be developed to align with wider tourism development strategies and policy priorities.
- Strong and effective cross-government co-operation is needed to co-ordinate across policy areas and levels of government, including tourism promotion and investment promotion agencies.
- Tourism investment strategies, and related policies and programmes, should be periodically reviewed to assess effectiveness in achieving the desired outcomes.
- Data on tourism investment needs to be significantly improved to provide meaningful information for policy makers and investors.

Governments should leverage investment from the private sector and other sources to maximise the quality and impact of tourism investment policies and programmes:

- Policy tools should be designed to achieve high levels of financial leverage from finite public resources, which can simultaneously pursue related wider policy objectives.
- Non-financial tools can influence investment behaviour, by conferring rights or benefits on parties who undertake investments.
- Greater involvement of private sector and other actors should be encouraged, to bring new sources of funding and inform investment policy and decision-making.

Environmental and social considerations need to be mainstreamed into investment decision-making frameworks to support more sustainable tourism development:

- Support the shift to more sustainable tourism investment practices and integrate environmental and social criteria into tourism policies and programmes.
- Incorporate sustainability criteria into public investment supports, and promote the uptake of green financing instruments for tourism projects.
- Incentivise and support the private sector to integrate sustainability principles in investment practices and adopt more responsible business practices.

Build capacity to future-proof tourism investment and position the sector to thrive in the digital economy:

- Public and private sector need to be more informed of the impact of the digital trends shaping tourism, to ensure investment in the sector is future oriented.
- Tourism policy makers need to have adequate knowledge and engagement with digital policies to influence investment and maximise the growth potential for the tourism sector.
- Significant investment in human capital development is needed to adapt to the changing nature of work and prepare the tourism workforce for the digital future.

Overview and policy considerations

Promoting investment to foster sustainable tourism growth

Investment is essential to build a competitive and sustainable tourism sector. Active polices can increase the quality and effectiveness of tourism investment to generate value, enhance competitiveness, and accommodate growing demand in a sustainable and inclusive manner. This is recognised in the *OECD Policy Statement – Tourism Policies for Sustainable and Inclusive Growth* (OECD, 2017a), which acknowledges that tourism investment creates economic, environmental and social opportunities, but also raises a range of challenges for policy makers.

The extent, intensity and multi-dimensional nature of investment demand, combined with the dynamics of investment supply, presents a complex picture for policy makers. Likewise, changing community attitudes and expectations of business present new challenges for investors and bring new stakeholders into the tourism investment arena.

The starting point for policy makers in encouraging tourism investment is an overriding objective to support sustainable and inclusive growth through tourism. It is a sector that provides strong opportunities for economic growth and employment, including for women, young people and migrants, and to promote social integration for communities. It does this by providing consumers with high quality, reliable and safe tourism experiences, while simultaneously protecting and enhancing natural and cultural resources (OECD, 2017a).

Growth should occur in a way that has the support of local communities, embraces sustainable and responsible business practices, and opens up new economic opportunities for people, places and businesses of all sizes. In other words, policies should be aimed at driving the quality of tourism investment, as well as boosting the quantity of investment in the sector.

This report examines policy approaches to generate quality investment in tourism assets within the context of current demand and supply parameters and an evolving environment which is making for a more complex investment decision framework. It analyses enabling conditions for tourism investment, reviews barriers and analyses conventional and new policy approaches to address the barriers and encourage quality investment in the sector. The report shares country experiences, policy approaches and business practices with a view that they can serve as learning models which could be adapted in different settings.

The 'new policy normal' for tourism investment

Tourism is one of the largest and fastest growing sectors in the world economy, and recent evidence points to continued strong growth. International tourist arrivals grew to over 1.3 billion globally in 2017, and this figure is forecast to reach 1.8 billion by 2030, with international arrivals in emerging economy destinations projected to grow at double the rate of advanced tourism economies.

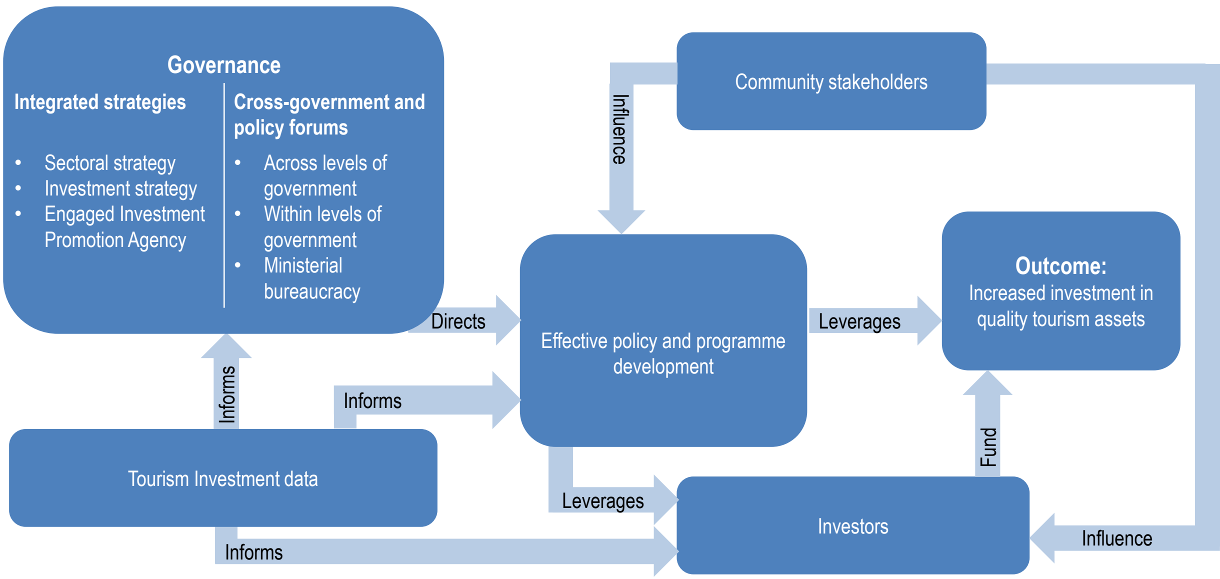
Countries are facing challenges associated with this strong growth. A significant level of investment will be required to support increasing traveller volumes and their changing needs. While growth is providing opportunities, it is putting pressure on infrastructure, human resources, local communities and the natural environment. There is an ongoing need for investment to address bottlenecks, maintain and upgrade the tourism product and supporting infrastructure, innovate new solutions, improve quality, and facilitate and manage growth.

This pressure has to an extent been exacerbated by the global economic landscape, which slowed private investment immediately after the global financial crisis and saw fiscal consolidation strategies reduce public investment in some infrastructure. Meanwhile, new forces in global investment, including the emergence of new investment source markets, new types of investors, new business models within the travel and hospitality industry, and the spread of global value chains, are combining with sustainability demands and digital developments that create challenges to deliver and balance investment supply with tourism demand.

In the context of these evolving demand and supply trends, policy makers are being challenged to come up with new and innovative approaches to encourage tourism investment, but to facilitate it in a sustainable and socially inclusive manner. The investment framework is no longer single dimensional (economic), but multi-dimensional including environmental and social factors.

A further layer is the entry of new stakeholders into policy making and investment, both within government (for example in digital infrastructure policy) and outside government (for example philanthropic organisations). Pressures on existing infrastructure and an undersupply of public investment is occurring in the context of an increasing recognition and demand for growth that delivers social and environmental outcomes, as well as economic ones (Figure 1).

Figure 1. Tourism investment policy framework



Enablers, barriers and policy responses for quality investment in tourism

A good investment climate for the economy as a whole will mobilise capital and other factors of production to allow tourism businesses and the economy to expand. It should ensure that an investment brings the highest possible social as well as economic returns (OECD, 2017a).

Beyond the general economy wide factors that encourage investment, enabling conditions for tourism investment arise from the intrinsic nature of the industry. The availability of land and infrastructure, the volume and skill of labour, levels of market access and the strength of relevant government institutions will combine to generate a fundamental attractiveness for investment in tourism assets.

Barriers to investment in tourism assets are many and varied, demonstrating the challenge faced by policy makers to encourage and facilitate investment. The OECD's Policy Framework for Investment (2015a) provides a useful framework for analysing the factors impacting a country's investment environment, including for tourism, while the OECD Recommendation on Effective Public Investment Across Levels of Government (2014) provides a framework to guide well-managed and growth enhancing investment choices and implementation.

With the evolution of the 'new policy normal', policy makers are responding with a range of new policies to complement traditional approaches to encourage tourism investment. New approaches to governance, stakeholder engagement and investment facilitation are critical to achieving the volume and quality of investment that not only satisfies consumers but has the support of communities.

Key to government effectiveness in growing investment is the ability to maximise leverage from its finite resources, noting that governments can exercise leverage in financial and non-financial capacities. The entry of new investors into the tourism sector presents great opportunities and benefits, but also policy challenges. The advent of the collaborative economy introduces a large volume of new investors, for example, while environmental trends and community concerns about the impact of tourism is inspiring new stakeholders to participate as investors in the sector.

Investment in digital assets requires dedicated examination as the influence and impact of technology escalates through the sector. The largest companies in tourism today are technology companies or hospitality companies with an increasingly heavy technological base, and they must continue to invest to grow and remain relevant. Technology pervades through most aspects of a tourism business, large and small, making investment in digital assets essential.

Policy makers will need to be abreast of these developments and respond with policies that enable innovation and encourage investment in technology across the sector. There are also significant human resource implications from digitalisation, as workers are displaced and demands arise for new and different types of skills. Government and the private sector will need to embrace these changes and invest in human capital to enable a smooth transition to a digitally-enabled tourism sector.

A common theme running through many policies is the pursuit of investment in sustainable tourism development. Governments are increasingly mindful to encourage investment that takes into account current and future economic, social and environmental impacts, and which satisfies the needs of the environment and host communities as well as visitors and the private sector. Tourism has been widely acknowledged as a sector that can support Agenda 2030 and help achieve the Sustainable Development Goals.

Many governments are encouraging a change of mind-set among investors by raising awareness of the need for responsible business conduct. This includes highlighting that incorporating sustainable practices into investment decisions is good business and investment practice, as it protects and sustains the very environment that is a primary driver of tourism.

The financial markets and private sector are responding to growth in the tourism sector by increasing their exposure to tourism assets. With a more professional investment eco-system – including a growing number of professional investors, that are entering the market for tourism assets - this should bring more professional management and better quality tourism services. Governments can take advantage of this growing interest by encouraging more participation in tourism-related assets, including in public assets that have in the past been exclusively funded by government.

The research and evidence reviewed for this report has facilitated a systematic analysis of tourism investment enabling factors and barriers, and policy responses to encourage investment. However, the analysis has been limited by the lack of data on tourism investment. This needs to be addressed to ensure policy makers and investors have access to the information needed to improve the quality of investment decision making to support better outcomes.

Policy considerations

The following policy considerations are identified to encourage quality investment in tourism assets to grow a sustainable tourism sector:

- **Develop comprehensive tourism investment plans and strategies aligned with tourism development priorities.** The success of a national tourism strategy will be largely dependent on the volume and quality of investment in tourism assets and infrastructure. Governments should develop comprehensive tourism investment plans and strategies, including estimates of the level and type of investments required, aligned with the sectoral strategy and growth projections. Tourism investment strategies should go beyond investment promotion and consider the full range of policies that influence investment in the sector. The OECD Policy Framework for Investment can provide guidance on the policies for consideration. Strategies should mandate effectiveness reviews of individual policies and programmes, and look to establish measureable key performance indicators to be reviewed periodically, to determine if the tourism investment strategy is effective in achieving its objectives.
- **Create effective cross-government co-operative mechanisms to co-ordinate the planning and implementation of tourism investment policies.** Given the diversity of sectors covered by tourism and multiple levels of government responsible for tourism policy and programme delivery, strong and inclusive inter-governmental mechanism are needed to guide and implement tourism investment strategies and policies. The establishment of a lead forum supported at the highest level (ministerial) can provide the impetus, leadership and accountability needed to drive action and deliver on policy reforms. This can be supported by various forums and mechanisms to effectively implement the reforms and ensure cross-policy and cross-government co-operation. Investment in tourism assets typically occurs with the support and oversight of multiple levels of government. Engagement across all levels of government – including local and regional government - and policy portfolios that have an impact on tourism is critical, to ensure that infrastructure, investment and development is well-planned and co-ordinated.
- **Implement policies and programmes to leverage additional investment and deliver on wider policy objectives**. As public finances are finite and always subject to competing budget pressures, government funds should be directed to

appropriate programmes that achieve maximum leverage, or co-contribution, from the private and non-government sectors, and other levels of government. Programme design can leverage investment into areas that support multiple public policy objectives, including regional development, environmental protection and social cohesion. Public investment and financial support (e.g. loan guarantees) are powerful tools and should be designed to draw additional funding and bring associated benefits, such as improved governance and technical skills for smaller tourism businesses. Public development banks can be particularly powerful in leveraging additional investment as their integration with the financial sector gives them the ability to canvass a range of financial sources and mechanisms that would not occur with other forms of direct support.

- **Encourage a wide range of stakeholders to participate in tourism investment and engage in investment policy making.** As investment frameworks become more complex, new stakeholders and investors are entering the scene. Environmental and sustainability concerns are encouraging entities to become more proactive in tourism investment, for example non-government organisations and philanthropic bodies. These entities can bring resources and expertise to encourage greater quality tourism investment, and ensure it is implemented and managed in a sustainable manner. Expectations around responsible business conduct are encouraging private businesses to invest in public assets (for example cultural and historical sites) that they previously would not have previously considered; this could be further encouraged. New types of stakeholders are also being considered as participants in privatisations and public-private-partnerships. In particular, increasing community engagement is necessary to ensure community support and that development occurs in a sustainable way.
- **Examine ways to make investment promotion agencies more effective.** Investment promotion and facilitation should be a key element of any tourism investment strategy. Properly informed and resourced investment promotion agencies (IPAs) can be an effective tool to promote and facilitate investment in tourism assets. The range of services offered by IPAs can extend beyond information provision to facilitation and after-care services. To be effective in these expanded roles, IPAs need to be resourced appropriately, understand the tourism sector, have access to tools and networks to deliver the services investors need, and have expertise to resolve barriers to investment.
- **Encourage policy makers and businesses to take sustainability principles, including social and environmental costs, into consideration when assessing investment.** Facilitating investment in sustainable tourism development involves taking into account new factors in the investment decision framework. Tourism investment decisions must address social and environmental considerations as well as economic ones to ensure development of quality tourism assets. Government policies are increasingly recognising these issues, but there remains some way to go to ‘mainstream’ the inclusion of these factors into the investment decision framework of the business and investment communities. Government has a role to play in promoting awareness and encouraging social and environmental considerations of investment. This can range from direct approaches, such as including mandatory sustainability eligibility criteria for all forms of government funding, to ‘softer’ approaches, such as educational campaigns conducted jointly with industry bodies.

- **Engage with development and implementation of economy-wide digital strategies to promote tourism considerations and influence investment.** Digital infrastructure is increasingly at the heart of many sectors, including tourism, and is becoming rapidly more influential in providing a positive tourism experience. The growth of enabling technologies in tourism value chains means it is critical for the needs of tourism to be considered in a government's digital policies and programmes. Governments and the private sector need to be more aware and informed than ever about the impacts of digitalisation, including on human resources. Tourism agencies need to have the appropriate expertise to engage proactively with actors responsible for digital policy and infrastructure, to ensure investment in digital assets supports tourism growth. Tourism policy makers should consider forming an expert working group to assist develop appropriate policies to ensure the tourism sector can adapt and benefit as the digital revolution continues.
- **Improve data collection on tourism investment.** There is a significant lack of consolidated sector-level data on investment in tourism assets. Official data on tourism investment is limited - few countries are in a position to prepare the investment table of the Tourism Satellite Account and the data that is available is largely limited to the accommodation and food services sector. Absence of data hinders informed policy development and investment decision making. Availability of tourism investment data also assists identification of trends in investment and lets policy makers to determine if there is an under or oversupply of investment. Further work is needed to examine these concerns and investigate alternative approaches to collect relevant data.

Part I. Promoting investment to foster sustainable and inclusive tourism

Balancing the investment demand-supply challenge

Investment is essential to building a competitive and sustainable tourism sector. Tourism is dependent on infrastructure to transport visitors to their destination, accommodate them, and provide dining, entertainment and other facilities. The extraordinary growth of tourism flows in recent decades has required and been facilitated by capital investment in, among other things, accommodation facilities, passenger transport infrastructure and services, leisure attractions, and convention centres. Investment in 'travel technology' by online travel agents and travel facilitators is growing dramatically as consumers increasingly make travel choices and bookings online. More broadly, investment in 'digital tourism' to adapt automation, artificial intelligence, virtual reality and other technologies to tourism will escalate as these technologies are increasingly embedded in day to day lives.

Tourism investment can range from small scale, local projects by a small or micro-business, through to large multinational investment projects with complex financial structures. Tourism benefits from public investment in network infrastructure, as tourists need to have road access or basic water, waste, energy, communications and health services. Tourism also uses public goods, including natural and cultural resources, and the infrastructure which makes these resources accessible to visitors (e.g. bike trails, visitor centres). Quality tourism services are also increasingly reliant on supporting and facilitating infrastructure, such as digital communication networks and information technology systems.

Tourism investment needs to be in the right infrastructure, in the right place, and at the right time. Investment can enhance the attractiveness and competitiveness of a destination and support local development, but the exact nature and characteristics of the infrastructure it creates, and the tourism flows it supports, have economic, environmental and social consequences. An increase in tourism numbers and infrastructure can lead to fundamental changes in a destination, affecting prices and the brand and image of the destination itself, putting pressure on the natural environment and local community. This underscores the need for effective application of sustainability principles to tourism investments (World Wildlife Fund, 2009). There is an increasing recognition that investment must be managed to ensure sustainable and inclusive economic, social and environmental outcomes. Quality and responsible investment, as well as volume, is therefore needed.

As global travel continues to flourish, there is an intensity in the factors driving demand and supply of tourism investment. This is all occurring in a changing investment decision framework, which has evolved from a single dimensional (financial) one to one that is multidimensional including social and environmental factors.

Drivers shaping investment demand in tourism

On the demand side, consistently strong and growing traveller flows are driving investment demand – the 'volume effect'. Evolving customer demands and changing traveller demographics means that tourism assets will need to be constantly developed and updated to meet customer expectations. Ongoing technology evolution will drive significant investment by travel companies in new travel solutions and experiences, and adapt emerging technologies for tourism-related purposes. Sustainability considerations are also shaping investment demand.

New investment is needed to cater to the changing demands of travellers who seek different services and experiences and to the increasing use of technology in travel services. These demand drivers have implications for both public and private providers of investment. New and updated public infrastructure will be required to accommodate the increasing volume of travellers. Private investment will be needed to drive greater quantities of accommodation, transport and leisure assets, as well as funding for ongoing technology development to offer new experiences and services, and also the information systems that increasingly underpin the sector.

Growing traveller volumes putting pressure on infrastructure and communities

The demand for investment in tourism assets will be significantly driven by demand for underlying tourism services. On the one hand, the fundamental growth in traveller numbers will drive ongoing investment in new development and updating of existing assets to cater for a growing market. This can be measured by the volume of tourist arrivals and their spending patterns. On the other hand, policy makers must proactively steer investment to better manage visitor demand. Such responses are inevitably linked with ‘smarter’ investment in quality assets that can more effectively cope with growing visitor numbers.

There will be significant demand for investment in coming years. International tourist arrivals in 2017 reached 1 326 million worldwide, a growth of 7%. It was the eight year of consecutive above average growth – a comparable sequence not seen since the 1960s (UNWTO, 2018b). Tourism receipts have followed this trend, though at a slower pace. China continues to lead global outbound travel, rising to top of the ranking in 2012 following recurrent years of double-digit growth in spending. International tourism expenditure of USD 250.1 billion in 2016 is more than double that of the United States in second place. Chinese outbound travellers rose 6% to 135 million in 2016.

According to the United Nations World Tourism Organization (UNWTO), international arrivals are expected to reach 1.8 billion by 2030. This translates to 43 million additional arrivals per year, compared to the 28 million per year increase during 1995 to 2010, or more than a 150% increase. This will naturally result in increased demand for accommodation, transport, entertainment and related services. As some of these services are ‘shared’ with local residents, demand could magnify depending upon local population and income growth.

It is also important to note that investment is needed for ongoing maintenance and capital upgrades in addition to construction of new assets and infrastructure. Demand for the latest service offerings and increasing quality expectations drive tourism operators to continually invest in maintenance and improvements to hold their market share. In fact, some countries note that the investment pressures are actually greater for the upgrade of existing assets rather than the construction of new ones.

Travellers and local communities are also demanding new standards of social and environmental protection to preserve natural and cultural assets, and the local community generally. Overcrowding and visitor saturation concerns, including stresses on local infrastructure, are pushing policy makers to elevate their consideration of policies to manage tourism growth in a sustainable way.

Investment must be directed to achieve the sustainable outcomes being called for. Investment also has a critical role to play in achieving the United Nations Sustainable Development Goals (SDGs), including those involving tourism. Tourism’s cross cutting sectoral nature and close connection to local communities provides potential to generate great impact in the drive to achieve the SDGs, including economic growth, job creation, productive employment, poverty reduction and promotion of local cultures and products.

Evolving consumer trends, demographic changes driving service evolution

The changing demands of travellers will also drive tourism investment, as suppliers respond to visitor needs by introducing new products and updating existing ones. A combination of changing demographics and evolution of new services and products will drive the type and quality of investment – which will have to respond to the needs of the travellers of the future. There will need to be increasing investment into research and innovation to deliver new ‘tourism technologies’ that facilitate and enhance the traveller experience.

This aspect of demand, and the investment response, is brought into focus by the OECD work on the megatrends shaping the future of tourism, and the policy responses required to prepare for evolving visitor demand, sustainable tourism growth, enabling technologies, and travel mobility (OECD, 2018a). Looking to the future, transport services will need to evolve to cater to a larger number of ageing travellers with special mobility and communication needs, for example. New products will be also demanded by different demographics, such as ‘risk taking’ experiences by Generation Z travellers.

The consequences of climate change will call for new investment, including protective and remediation infrastructure that will be required as extreme weather events and coastal degradation occurs. Climate dependent locations (e.g. snowfields) will require additional investment to either extend their life or transform them into alternative uses. Climate-driven investments can also be used as a vehicle to improve tourism infrastructure and enhance commercial business cases.

Investment in digital technologies will be significant across the spectrum to support traveller needs and enhance systems. Examples range from enhancing virtual and real experiences, to new transport options (e.g. driverless transport) to traveller facilitation services (e.g. artificial intelligence systems that assist travellers online).

Countries are facing challenges associated with this strong growth. While growth is providing opportunities, it is putting pressure on infrastructure, human resources, local communities and the natural environment. There is an ongoing and pressing need for additional investment to address bottlenecks and facilitate growth. Frustrations of local residents from the ‘overcrowding’ phenomenon can be partly attributable to the inability of existing accommodation, transport and other infrastructure to cope with increasing numbers. Successful outcomes will depend upon achieving a balance of benefits from tourism (e.g. economic growth, employment, better community facilities) and the negative externalities and impacts.

Adapting to the digitalisation of the tourism economy

The tourism sector is subject to ongoing revolution as technological advances converge from multiple sources – including the sharing economy, the internet of things, artificial intelligence, data analytics, virtual reality and autonomous vehicles to name a few. The combined impact is hard to comprehend, if not impossible. Despite the potential challenges, digitalisation is predicted to greatly benefit the sector and will frame the future of tourism. This will require investment in an effective digital infrastructure to support the adoption of new technologies by businesses of all sizes and development of digitally-enabled tourism products, services and systems (Box 1).

Box 1. Investment trends in key digital products and systems

Digital platforms are increasingly used for travel research and booking. Separate or integrated social media platforms are providing additional information and influencing travel decisions.

Mobile integration has and will continue to transform research and delivery of tourism services through mobile hand held devices.

Artificial intelligence and 'chat bots' will streamline and help deliver more efficient and affordable tourism services.

Data analytics are being used to increase knowledge of consumer behaviour and customise travel offerings, and can also inform changes in the way services are delivered.

Virtual reality can be used to offer a preview of a visit or as the next best thing to a visit. It can also be used to enhance the experience at a destination, or reduce environmental impact at a tourist site.

The World Economic Forum (2017) estimates that digitalisation will create USD 305 billion in value in the tourism sector between 2016 and 2025. Over the same period, digitalisation is forecast to migrate USD 100 billion of value from traditional players to new competitors, and to generate USD 700 billion of benefits for customers and the community, including environmental, safety and security and efficiency savings. These volumes will involve significant investment decisions.

The impact and extent of digitalisation in the tourism sector and investment in digital assets is demonstrated by the value of global tourism technology companies compared to traditional operators. Booking Holdings, for example, dominates the market capitalisation of publicly listed travel operators at USD 98 billion (as of June 2018), and exceeds the value of Marriot, Hilton, Starwood and Accor combined. This is being driven by significant technology and product investments.

The size and revenue earning capacity of tourism technology companies like Booking Holdings, AirBnB and Expedia provide enormous ability for these companies to develop new technologies and improve service offerings to travellers, and the intensely competitive nature of the sector will drive ongoing development. Forbes Magazine has included three travel companies in its list of the top 50 innovative companies for 2018 – namely Marriot Hotels, Expedia and Booking Holdings.

Digitalisation and effective use of technology also has a role to play in better managing tourism growth. A recent report by the UNWTO (2018a), for example, notes that a key way to manage urban tourism growth is to invest in technology and innovation to promote smart cities – making the best of technology to address sustainability, accessibility and innovation.

New trends in investment supply present opportunity

On the supply side, while the global financial crisis led to a drop in investment, private investment has bounced back in many countries while public investment growth varies across countries. There are also signs of strong growth in foreign investment in tourism assets. However, in-depth analysis of the supply of capital for investment in tourism assets is hindered by limited availability of data on tourism investment.

The analysis below presents the official data available in the national accounts for gross fixed capital formation, and foreign direct investment in the hospitality sector – accommodation and food services. While a broader definition of tourism provides for a more accurate and comprehensive view of investment in the sector, the narrower definition serves as a proxy and helps to overcome some of the statistical limitations and make comparison between countries easier and more meaningful. Full statistical tables are presented in Annex A. Private sector data on hotel investments are also presented, to provide some insight into financial investment trends in the sector.

Net capital investment in tourism

Measuring the net increase in fixed capital in an economy during a given period is an important component of the description and analysis of tourism industries. The Tourism Satellite Account (TSA) provides for the preparation of tourism investment estimates in Table 8 – Tourism Gross Fixed Capital Formation in tourism industries and other industries. However, the majority of countries do not currently prepare or have data available to complete this table. Nine OECD countries report data on tourism investment from the TSA and only at the total level, with Japan and Mexico collating this most recently (Table 1).

Gross fixed capital formation is a macroeconomic measure defined in the national accounts. It represents the acquisition (including both new and second hand purchases and construction of assets by producers for their own use) less the disposal of produced fixed assets - i.e. assets intended for use in the production of other goods and services for a period of more than one year.

Available data on gross fixed capital formation flows from the OECD national accounts database shows that many OECD and partner countries experienced a dramatic drop in investment in accommodation and food services in 2009. Capital flows in accommodation and food services for the OECD as a whole have not yet fully recovered, having peaked in 2008, even while international arrivals continue to rise (Figure 2).

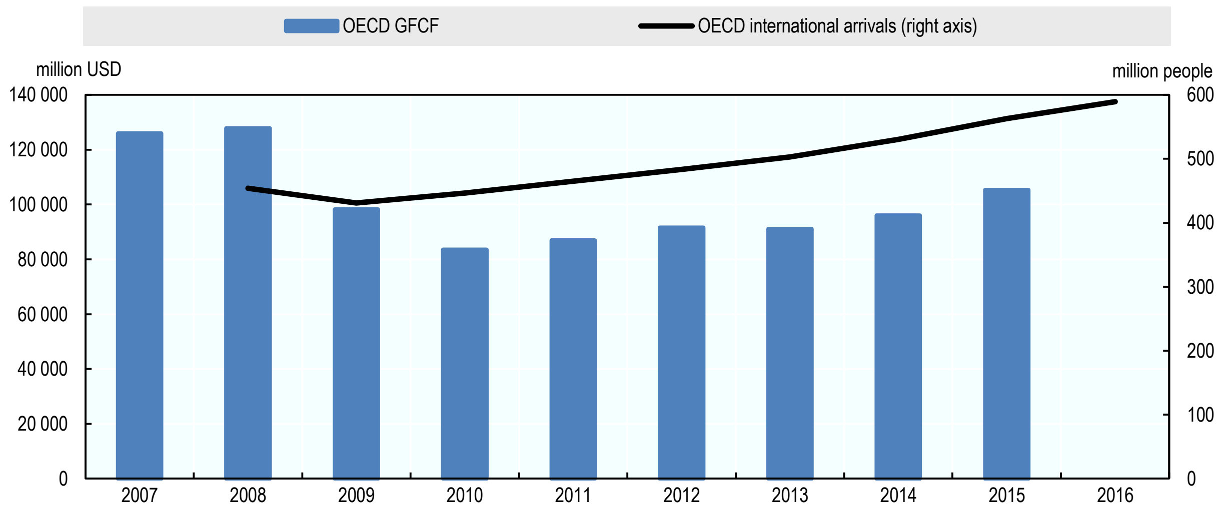
Table 1. Gross fixed capital formation in tourism and other industries, TSA

Million, USD

	Reference year	Tourism GFCF
Czech Republic	2013	1 749
Estonia	2011	320
Spain	2011	17 692
Hungary	2012	1 023
Japan	2014	104 470
Mexico	2016	8 186
Poland	2012	22 990
Slovakia	2013	1 583
Norway	2013	3 030

Source: Eurostat, Data collection on TSA 2016.

Figure 2. Trend in tourism capital investment and tourists arrivals, in OECD area



Note: GFCF: Gross Fixed Capital Formation.
Accommodation and food services used as a proxy for tourism investment.
Arrivals refer to visitors for Australia, Greece and Japan.
OECD excludes Chile (2007-12), Korea, Mexico, Switzerland and Turkey.
Source: OECD Annual National Accounts and Tourism Statistics databases, extracts September 2018.

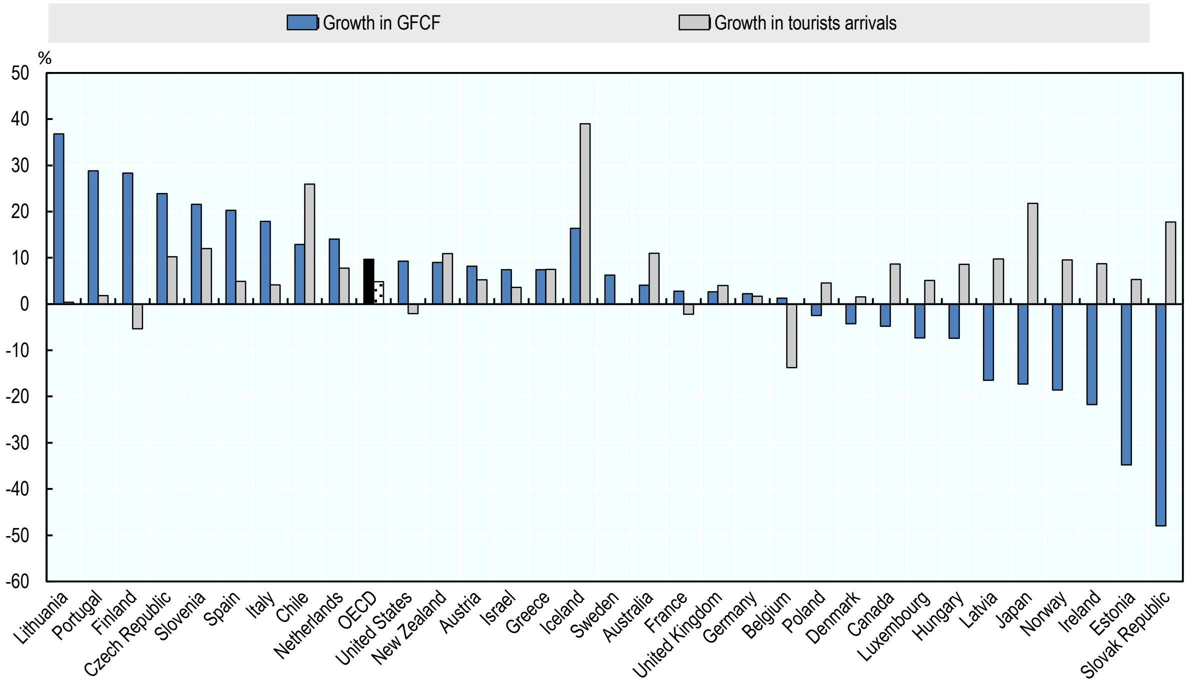
Analysis at country level reveals a varied picture in terms of the time taken for capital investment flows to recover. In many countries, capital flows started to pick up from around 2012-2013, but this varies from country to country, with Estonia, Greece, Italy, Japan and New Zealand experiencing particularly slow recovery. A number of countries did not sustain dramatic falls in capital investment in 2009, and in these countries gross fixed capital formation levels have since exceeded pre-financial crisis levels. This is the case for Austria, Canada, Germany, Iceland, Israel and the United Kingdom, for example, which have each shown significant growth in capital flows over the 10 years to 2016 (Annex A, table A.1).

While the overall trend has been positive since 2009, capital investment flows have been more volatile than people flows in recent years. In any given year, capital investment and people flows can diverge significantly for a variety of reasons (Figure 3). With investment, adopting a long term perspective is key. Where capital investment flows lag people flows over an extended period, this will have consequences for the development and management of tourism. Even while capital investment flows have grown in Iceland, for example, rapid and sustained growth in international arrivals means that demand for investment remains strong.

It is important to note that gross fixed capital formation measures flows or annual growth rates over a period, and not the value of the stock of assets at the end of the period. Flows tend to be more volatile than stocks, and gross fixed capital formation flows tend to be significantly more volatile in tourism activities than for the economy as a whole. This indicates that investment supply in tourism is very sensitive to shocks in the economy. Policy makers need to be alert to this and take steps to invoke policies to minimise the effect of downturns.

Figure 3. Growth in tourism capital investment and visitor arrivals, OECD countries

Latest available year



Note: GFCF: Gross Fixed Capital Formation.
Accommodation and food services used as a proxy for tourism investment.
Arrivals refer to visitors for Australia, Greece and Japan.
OECD excludes Korea, Mexico, Switzerland and Turkey.
Source: OECD Annual National Accounts and Tourism Statistics databases, extracts September 2018.

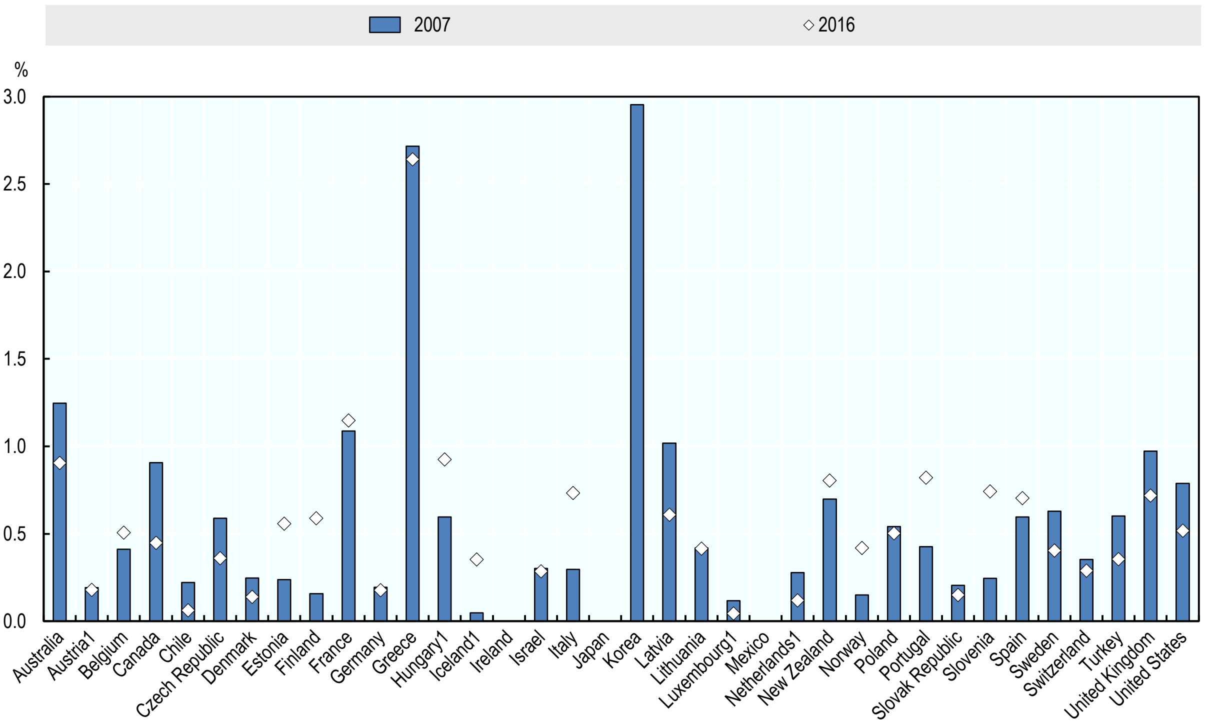
Foreign direct investment in tourism

The availability of foreign capital is important to promote investment which drives economic and tourism growth. This is particularly the case for smaller or developing economies which have limited depth in their capital markets. Foreign capital provides an essential supplement to domestic capital, which may be limited for a range of reasons such as lack of savings or an underdeveloped financial system. With necessary oversight to protect national interest, it is a critical element to support growth in a country’s capital stocks, including tourism assets.

Global trends and shifts in the supply of foreign investment are thus a factor for tourism investment, particularly with the growing influence of new capital sources from Asia. Apart from the capital injection, foreign direct investment (FDI) brings added benefits to the tourism sector in the form of international experience that can increase efficiencies and service standards. It does this through improved training, management capability, and the ability to attract greater tourist numbers through links with international distribution networks and value chains (UNCTAD, 2017). FDI has also been acknowledged as a mechanism to achieve gender equality in employment by creating jobs for women.

Figure 4. Tourism inward foreign direct investment positions, OECD countries

As a share of total activities, 2007 and 2016



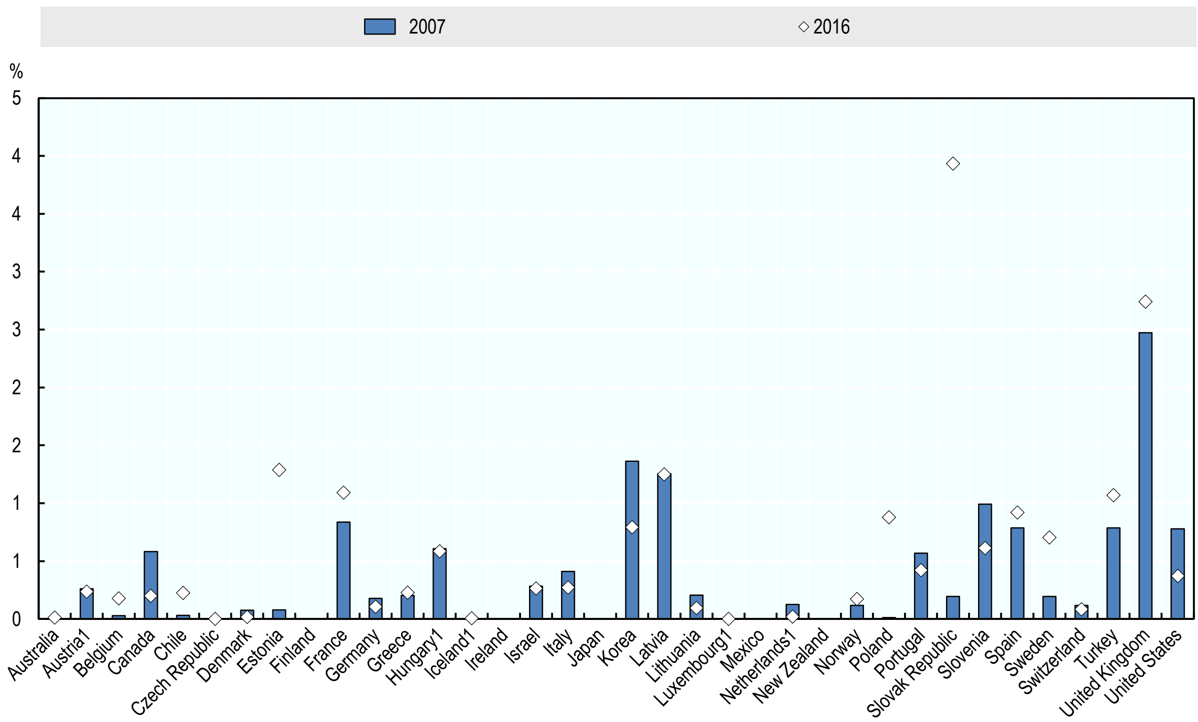
Note: Accommodation and food services used as a proxy for tourism.
Korea's share in 2016: 8.32%.
Data for 2007 refer to the 3rd edition of the OECD Benchmark Definition of Foreign Direct Investment (BMD3) and industry ISIC3 'Hotels and Restaurants', except: France, Estonia and Latvia data refer to BMD4.
Data for 2016 refer to the 4th edition of the OECD Benchmark Definition of Foreign Direct Investment (BMD4) and industry ISIC Rev. 4 "Accommodation and food service activities".
1. Data for Austria, Hungary, Iceland, Luxembourg and the Netherlands exclude the residents Special purpose entities (SPEs).
Due to limited data availability, 2016 data refer to 2010 for Portugal, 2012 for Finland, 2014 for the Czech Republic and the United Kingdom, 2015 for Germany, Israel, Slovak Republic and Spain.
Due to limited data availability, 2007 data refer to 2009 for Israel, 2013 for Belgium, Lithuania, Luxembourg, New Zealand and Spain, 2014 for Switzerland.
Source: OECD Foreign Direct Investment statistics database, extract September 2018.

There are also opportunities to develop (mainly backward) linkages with FDI investments in tourism-related activities, for example, through developing a reliable network of local suppliers. However, the opportunities for productive business linkages are contingent on the type of FDI attracted, supported by policies to enhance the value creation of FDI investments.

Available data on inward FDI in accommodation and food services shows significant growth in FDI stocks in some countries (Figure 4). Over the 10 years to 2016, Australia, Estonia, Iceland, Korea, Norway and Slovenia have each doubled their FDI stocks in accommodation and food services. In other countries, like Canada, Denmark, Greece, the Netherlands, Sweden and Turkey, inward FDI stocks in accommodation and food services have fallen by more than a fifth.

Figure 5. Tourism outward foreign direct investment positions, OECD countries

As a share of total activities, 2007 and 2016



Note: Accommodation and food services used as a proxy for tourism.
Data for 2007 refer to the 3rd edition of the OECD Benchmark Definition of Foreign Direct Investment (BMD3) and industry ISIC3 'Hotels and Restaurants', except: France, Estonia and Latvia data refer to BMD4.
Data for 2016 refer to the 4th edition of the OECD Benchmark Definition of Foreign Direct Investment (BMD4) and industry ISIC Rev. 4 "Accommodation and food service activities".
1. Data for Austria, Hungary, Iceland, Luxembourg and the Netherlands exclude the residents Special purpose entities (SPEs).
Due to limited data availability, 2016 data refer to 2010 for Portugal, 2013 for the Slovak Republic, 2014 for Latvia and the United Kingdom, 2015 for Germany and Spain.
Due to limited data availability, 2007 data refer to 2008 for Sweden, 2009 for Chile, 2010 for Belgium, 2013 for Spain and 2014 for Switzerland.
Data for Australia, Belgium, Denmark, Finland, France, the Netherlands, Norway, Portugal, Slovenia, Spain, Sweden and Switzerland correspond to the activity of the resident direct investor.
Source: OECD Foreign Direct Investment statistics database, extract September 2018.

The United States, Korea, France, Australia and Spain top the list of OECD countries for inward FDI in accommodation and food services. These countries are also important sources of FDI for other countries. The United Kingdom is the biggest source of outward FDI in accommodation and food services among OECD countries, followed by the United States, France, Spain, Sweden and Korea, even as the share of FDI in accommodation and food services in total outward FDI fell in Korea and the United States (Figure 5).

The reasons why FDI stocks in a particular sector like tourism move radically up or down are varied and it may be difficult to demonstrate the influence of any one factor on changes. These can relate to general global or local economic conditions and performance, and the country's actual and perceived openness and attitude to foreign investment at a macro level, through to the effect of targeted efforts to attract investment into tourism assets.

On one hand, for example, the impact of the global financial crisis and the time taken to enter recovery could be an explanation for a reduction in FDI stocks in particular countries. On the other hand, dramatic increases in traveller numbers over time and targeted strategies to attract FDI into tourism assets could explain strong growth, noting that there will be a ‘lag’ effect in investment as the financial market responds to changing primary (visitor) market trends. Analysis is also hampered by asset price and exchange rate movements which change constantly, and may not be significantly impacted by tourism-specific issues. Changing business models of large foreign investors away from equity investments to more contractual arrangements could also play a role.

The United States remains by far the largest source of total FDI worldwide, however OECD countries’ share of global outward FDI decreased between 2007 and 2017. In contrast, China, India, Indonesia, Saudi Arabia and South Africa (all non-OECD G20 countries) all increased their share of global outward FDI over this period, with China growing its share from less than 1% to 5% over this period (OECD, 2018b).

The presence of these new investment source markets brings with it new types of investors. In particular, a large degree of investment coming out of China is by state owned enterprises. Investment from Saudi Arabia and other Middle East and Asian countries is often from sovereign wealth funds, which are also arms of government. These new types of investors join traditional large-scale investors including equity funds, real estate investment trusts, banks, insurance companies, pension funds and high-net worth individuals/families.

The entry of these new investors has a number of implications. In addition to national security considerations (admittedly less significant for tourism assets than say energy or infrastructure assets), the presence of state owned enterprises and sovereign wealth funds with large amounts of capital can push up asset prices and may drive other traditional or local investors from the market. Investment Promotion Agencies (IPAs) need to be attuned to the needs of these new investors, which may not understand the policy and practical challenges of investing in tourism in a new country. IPAs report a strong interest by foreign investors in tourism assets as investors have recognised the global demand for travel as a driver of growth with medium and long-term returns.

Notwithstanding recent high profile activity by foreign investors in the hotel market, historically the value of tourism related FDI stocks is low (UNCTAD, 2010). This is supported by responses to the country survey which generally noted that the bulk of investment in tourism assets is domestic investment. However, the extent of foreign investment may be underestimated partly because of the lack of comprehensive data on tourism FDI, and partly due to investment taking place in non-equity forms such as traditional debt finance, management contracts, franchise agreements and alliances and partnerships for global distribution (UNCTAD, 2010). All forms of these non-equity financing are common in the tourism sector, but do not usually show up in FDI statistics, so foreign involvement in tourism asset investment will be significantly underestimated in official figures.

Investment trends in the hotel sector

In terms of asset classes, regular and up-to-date data is sparse. The hotel sector is regularly analysed by the private sector and can provide insights on investment. Investment in this asset class has evolved over time and a recent report by Jones Lang LaSalle (2018) notes the growth in market depth, with transaction volumes escalating dramatically to reach USD 90 billion in 2016, up from USD 30 billion in 2010 and close to pre-crisis levels.

The growth of investment in hotels reflects a range of factors, including growing investor interest linked to the long-term growth prospects of the sector. It also reflects a growing interest by certain types of investors who are pushing asset prices up. In particular, ‘generalist investors’ are becoming increasingly involved with hotels, as private equity funds and institutional investors look to the sector for income and growth. Institutional investments in hotels is reported to have doubled between 2014 and 2017. This newer style of hotel investor complements the traditional investor pool of hotel owners/operators and developers who look to expand their portfolios through mergers and acquisitions.

The other change in the makeup of the purchaser market is the increasing presence of foreign capital. Jones Lang LaSalle (2018) report that the proportion of foreign capital investments reached an all-time peak in 2016, boosted by capital from Asia (particularly China) along with traditional sources of the United States and Europe. Investors from the Middle East are also showing interest in the sector. Merger and acquisition activity is also driving a lot of volume, as existing operators look to scale-up for growth, efficiency and profitability.

Similarly, Ernst & Young (2016) estimate that overseas capital accounted for 35% of global hotel investments in 2015, with Asian investors making up one third of those transactions. China is reported to have been the most active Asian hotel buyer in that year, accounting for nearly half of total invested capital from Asia. In the four years to 2015, China’s cross border hotel investment volume increased from USD 240 million to USD 4.9 billion. Data on hotel ownership also provides insight into the different types of private investors present in the tourism sector. Major asset owners include: investment funds/private equity funds; hotel owners/operators; real estate investment trusts (REITs); property developers/constructors; and institutional investors (JLL, 2017).

Forms of tourism investment

Investment in tourism assets can take many forms. While there is a lot of focus on development of new hard infrastructure (e.g. hotels, resorts, leisure facilities), it is important to note that investment also includes maintenance and upgrades of existing assets. For certain countries, such as Switzerland, there is often a more pressing need for the latter to ensure quality. This is also the case in Austria, for example, where the main focus of investments in the rural hotel sector has changed from new construction to quality improvement, reflecting the higher demand of tourists for higher quality standards. Some countries have also noted a preference by foreign investors for brownfield rather than greenfield investment.

The highly fragmented and low scale nature of accommodation providers in many countries is also an issue. Italy, for example, is investigating approaches to encourage mergers/consolidations and introduce experienced hotel operators to increase efficiencies and achieve economies of scale. Mergers and acquisitions are prevalent in tourism and often occur with hotels, where it is easier to gain/increase exposure through acquisition rather than construction. Stronger merger and acquisitions activity is also happening with the collaborative economy, with Hyatt’s acquisition of Oasis, Airbnb’s purchase of Luxury Retreats, and Expedia’s purchase of HomeAway.

Greenfield investments are common especially for resort development. Franchising is frequently used for hotels, catering, travel agencies, tour operators and car rentals. Strategic alliances are also a feature of the tourism industry as they avoid the set-up costs of establishing affiliates, including in overseas destinations. This is common for example between airlines, car rental companies, hotels and financial services companies. Over time, strategic alliances have replaced vertical integration by travel companies as a more efficient means of offering a 'complete travel service'.

Private equity firms are investing heavily in tourism assets, with investment directed across the board including hotels, attractions, travel operators and online travel operators. Recognising the structural growth drivers in tourism, this investment is assisting innovation and e-solutions for the industry to progress into the digital future. Leading global private equity firm KKR, for example, has invested in a range of tourism businesses in recent years, including in travel service providers, innovative travel solution companies and niche experience tourism providers. KKR holds equity positions in specialist travel group Travelopia, family theme park PortAventura, and vertically integrated travel and hospitality management company Apple Leisure, among others.

Similarly, some private banks have launched dedicated tourism investment funds. Landsbref's Icelandic Tourism Fund and Intesa Sanpaolo's Pact 4.0 programme in Italy are two such examples (Box 2). In this way, banks are recognising the growth potential of tourism and are providing other investors with the opportunity to gain exposure to the sector. These dedicated funds provide a focus and critical mass for investment in tourism assets, and in turn bring management expertise helping to improve quality and leverage additional capital.

Box 2. Dedicated tourism investment funds offered by private banks

Iceland: Initiated by Icelandair and managed by the fund management company Landsbref, the Icelandic Tourism Fund targets the development of recreational facilities for tourists and promotes better utilisation of tourism services during the winter season. It is owned by Icelandair, Landsbref, Landsbankinn bank and several Icelandic pension funds and has supported 10 projects, mostly nature-related leisure activities and exhibitions. Also in Iceland, Eldey is a specialised investment company with a focus on adventure tourism, such as whale watching and glacier trips. It is owned by a group of banks (including the Iceland public bank), pension funds and private sector investors. Eldey puts emphasis on social responsibility when selecting investments and establishes partnerships with companies through board membership, shareholder agreements, or providing advisory services in addition to financial support.

Italy: Intesa Sanpaolo, Italy's largest bank by assets, announced an initiative with the Ministry of Cultural Heritage and Tourism in early 2018 to make EUR 5 billion available to facilitate access to credit for tourism businesses and support investment over a three-year period under the 'Pact 4.0' programme. The collaboration has been facilitated by the Strategic Tourism Plan 2017-2022, which acts as a tool for the co-ordination of policies across levels of government, and provides a reference framework to direct private investment in a co-ordinated manner within a long-term national vision. A significant component of the funds will be used for restoration/redevelopment projects to make more buildings available for cultural use.

Interestingly, some of these funds have also embraced sustainable investment principles, showing support for cultural, seasonal and environmental investments. This demonstrates an increasing awareness of sustainability in investment decisions, with investors recognising that it is in their interests to preserve key assets and support communities as a way of maintaining their investment.

It is also worth noting the increasing popularity of the ‘mixed-use’ developments. This refers to a major building/complex that integrates a range of offerings which could include residential premises, hotel/serviced apartment accommodation, retail outlets, commercial office space, leisure facilities (e.g. cinemas and sports centres) and services (e.g. medical practices, child care centres, parking). There are a number of factors which drive mixed use development, including synergy, critical mass and control.

Integrated developments allow for cost efficiencies and additional revenue sources that a single purpose complex (e.g. a hotel) cannot achieve. A critical mass of facilities will stimulate year-round demand, and marketing becomes more powerful and efficient with costs spread amongst many operators. Lastly, the level of control by the developer ensures compatible and complementary land use. Development will normally provide for shared infrastructure including common and recreational areas.

From an investor’s perspective, the attraction of these investments is risk and income diversification, as returns are spread across various sectors including retail, commercial and tourism. They can also be attractive to potential tenants due to the services (for residents/travellers) and captive markets (for retailers) they present, as operators seek to satisfy a range of traveller accommodation and leisure needs in one location.

Evolving funding techniques

New and emerging trends in the finance industry are leading to the development of new financial products and entities that may be suited to funding tourism small and medium enterprises (SMEs). Internet based financing models have evolved in recent years as an alternative source of funding for tourism businesses, particularly SMEs that do not have ready access to finance through traditional means. These include peer-to-peer lending and equity crowdfunding, which provides a mechanism for interested investors, including small-scale investors, to come together to fund projects that may not necessarily be funded through traditional finance mechanisms.

A number of tourism specific crowdfunding platforms have developed, such as the rewards based operator Travelstarter, which gives individuals the opportunity to invest small amounts to fund tourism related projects, and the Austrian Tourism Development Bank ‘We4tourism’ platform, which puts together financing packages for tourism projects in co-operation with the associated platforms. In France, the equity platform WiSEED took pledges some years ago to privatise the Toulouse-Blagnac Airport, suggesting that crowdfunding could also have applications for larger projects.

While not yet much used in tourism, these new funding techniques provide potential as a source of capital for tourism businesses, especially tourism SMEs. The approach is well suited to tourism, given its ability to spread financial risk. It also supports local development as people can invest in projects they care about, to help local businesses and create jobs in a local community.

Blockchain-based and Distributed Ledger Technologies (DLTs) solutions could also provide alternative financing to support the investment activities and development of tourism. Such solutions may help tourism SMEs react to the market failures, financing gaps and scale-related issues that lead to higher transaction costs, as well as easing supply chain management and financing both locally and globally. An interesting example is offered by Wish Finance, a fintech start-up that created a Blockchain Lending Platform which aims to help professional lenders, small banks, credit unions and lending funds to finance SMEs.

This system significantly mitigates investment risks, allowing lenders to provide more funds to SMEs in many sectors, including tourism.

New types of specialised financiers such as social enterprise lenders and 'impact lenders' are also emerging to cater to small companies or companies interested in embracing sustainable development. Responsible Finance, for example, is a private-sector led, government-backed initiative in the United Kingdom that offers finance to businesses and social enterprises that are unable to access traditional finance. Governments need to be attuned to these developments and be ready to make any regulatory changes to support these new techniques, while ensuring the integrity of the financial system and consumer protection remains robust.

Evolving framework for quality tourism investment

Developments in the demand-supply dynamic of tourism investment are taking place in the context of a changed investment decision framework. Investors are moving from a single dimensional financially-focused framework, to a multi-dimensional approach comprising environmental and social considerations as well as economic considerations. This has significant implications for investors and policy makers, who must take account of community demands and expectations around sustainable use of resources.

The traditional investment framework is a simple application of a rational economic approach. That is, an investment will proceed if the discounted financial returns it generates over a period of time exceeds the initial and ongoing costs of the investment. This approach does not recognise that investment has environmental and social consequences, as well as economic ones. Investment planning and decision making must incorporate these wider considerations, and investment frameworks developed to internalise externality costs.

The inclusion of these added dimensions results from the engagement of a wider range of stakeholders in the policy making and decision-making processes. The different motivations and drivers of stakeholders, and their perspective on what constitutes 'quality investment' need to be considered by policy makers in developing suitable policy responses.

The OECD Policy Statement – Tourism Policies for Sustainable and Inclusive Growth (OECD, 2017a) endorses a more comprehensive framework for investment that takes into account environmental and social factors. It recognises that the nature of investment, the infrastructure it creates, and the tourism flows it supports creates economic, environmental and social opportunities and challenges, and the need to mobilise investment to stimulate growth and maximise the environmental, economic and social returns generated by tourism.

Like many sectors, tourism faces a range of sustainability related challenges. For tourism this is paradoxically manifested, as the need and value of conserving unique natural, social and cultural assets is balanced against the desire by travellers to visit and experience (and therefore potentially degrade over time) these very assets. There is thus an increasing motivation for both public and private sectors to factor sustainability criteria into their investment decisions.

The level of investment inflow into tourism represents a significant economic and social opportunity for countries and communities, and governments must be ready with supportive policies to optimise the investment. In particular, governments need to be cautious to prevent ‘over investment’, and that strong economic drivers present in an ‘investment boom’ cycle do not compromise sustainable investment principles.

Governments have a central role in raising awareness of operators, investors and other stakeholders about principles of responsible business conduct, which includes sustainable investment practices. Promoting and enabling responsible business conduct is of central interest to policy-makers wishing to attract and retain quality investment and to ensure that business activity in their countries contributes to broader value creation and sustainable development.

On the supply side, apart from government sponsored financial and other government assistance programmes, there is a significant lack of financing tools and dedicated funding for sustainable investment. Tools and funding should grow over time as operators and consumers increase their demand for sustainable tourism product. However, in the meantime, there is a gap in the market which policy makers need to examine and address.

Box 3. Integrated planning and investment for Louvre-Lens destination in France

In 2012 the world-famous Louvre Museum opened a satellite branch in Lens in the Pas-De-Calais region of Northern France, in co-operation with regional and local authorities. The aim was to revitalise the region and promote economic development through tourism, transforming the area to a new cultural destination. The establishment of the museum has been a concerted effort by public authorities across different government levels. The French State approved the use of the Louvre brand, the Regional Council financed 60% of the construction cost (EUR 150 million), and the local authorities played an important role in financing and promoting the project.

The development was supported by a global approach to investment at a destination level, and included the creation of strong value proposition with a long-term view. The strategy engaged local SMEs in the process, building capacity in knowledge and skills. Initial investment by existing local service providers, particularly in accommodation, helped to attract bigger investors in later stages. Private investment has been directed mostly into accommodation, but significant investment has also been made in leisure parks, museums, and convention centres. The "Mission Louvre-Lens Tourisme”, a branch of the Pas-de-Calais Tourist Board, consolidated since 2015 with the establishment of a Destination Contract, rallies public and private partners to undertake a consistent, highly visible tourism offering in line with the expectations of foreign markets. The Destination Contract has been an important step to overcome traditional barriers to tourism investment, including the fragmentation of local stakeholders, and the lack of tourism capacity, by creating a committee of investors and experts to analyse the risks and facilitate projects, ensuring a consistent destination development.

Source: Mission Louvre-Lens Tourisme

A good example of a visitor opportunity to do this for an iconic tourism institution is the Louvre-Lens project in northern France (Box 3). Co-operation between national and regional governments has led to the creation of a cultural experience (visiting prized artworks). At the same time, integrated destination planning and a dedicated marketing effort has helped revive a regional area that had been suffering economically from the decline of traditional industries.

Relieving pressure on ‘over-used’ assets also has implications for the style and location of investment. For example, market responses (e.g. price increases) and policy measures to restrict access to natural and cultural assets may lead to travellers visiting alternative regional locations. This will redirect investment and spread the economic benefits of tourism. Alternatively, travellers may just decide to avoid a location due to crowds and investigate alternative destinations which offer similar experiences.

Strengthening the policy framework for tourism investment

A good investment climate for the economy as a whole will mobilise capital and other factors of production to allow firms and the economy to expand. It should ensure that funds are channelled to their most productive uses and allow enterprises to invest productively and profitably. It should also ensure that an investment brings about the highest possible social as well as economic return (OECD, 2015a).

The *G20 Guiding Principles for Global Investment Policymaking* state, among other things, that investment policies should establish open, non-discriminatory, transparent and predictable conditions for investment, provide legal certainty and strong protection to investors and investments, promote responsible business conduct, and be based on rule of law, as well as being coherent and consistent with sustainable development and inclusive growth. Many countries acknowledged the growing recognition and importance of the sustainable development aspects of the Principles in their engagement with the preparation of this report, noting that it is a key driver of tourism and investment strategies.

These principles are broadly reflected in the *OECD Policy Framework for Investment* (2015a), which provides a useful framework for analysing impacting a country's investment environment, including for tourism (Box 4).

Box 4. OECD Policy Framework for Investment

The OECD Policy Framework for Investment is a comprehensive and systematic tool for improving investment conditions. It looks at 12 different policy areas affecting investment: investment policy; investment promotion and facilitation; competition; trade policy; taxation policy; corporate governance; financing investment; investment in infrastructure; developing human resources; enabling responsible business conduct; investment framework for green growth; and broader issues of public governance. These areas affect the investment climate through various channels, influencing the risks, returns and costs faced by investors. The aim is not to break new ground in individual policy areas but to tie them together to ensure policy coherence. It does not provide ready-made reform agendas but rather helps to improve the effectiveness of any reforms that are ultimately undertaken.

Source: OECD Policy Framework for Investment (2015a)

Tourism sector-specific enabling conditions

Tourism businesses are fundamentally no different to other businesses that make investment decisions and therefore the general enabling environment will be relevant. However, by its nature and resource inputs, there are specific factors which will impact tourism investment decisions.

A complex mix of factors are involved in creating a positive environment for investment in tourism assets (Table 2). A strong tourism sector, attractive to investment, will require access to desirable land, efficient infrastructure and liberal access policies for people movement and transportation. Governments can increase investment attractiveness through targeted investment incentives, and well-funded, capable tourism marketing and investment promotion agencies.

Availability and access to land and infrastructure are significant issues for tourism investment. The success of a tourism destination is to a great extent determined by the quality of its tourism and related infrastructure. The existence of high quality, accessible general infrastructure (e.g. airports, ports, and other transport infrastructure), tourism specific infrastructure (e.g. attractions, cultural and heritage sites) and utility infrastructure (e.g. water, energy, education, communications) creates a positive investment environment.

Table 2. Tourism sector-specific investment enabling conditions

Factor	Issues/Relevance
Resources	
Land	• Availability of land in tourist desirable locations - often high cost • Degree of land regulation due to location, cultural, heritage, environmental sensitivities and sustainability considerations • Access costs can increase development costs where a remote location
Infrastructure	• General (airports, ports, rail, roads)tourism specific (attractions, cultural/heritage sites) and utility (water, energy, communication) infrastructure is required to support a successful tourism destination
Labour	• Large volumes needed due to labour intensity of the sector • Appropriately skilled to provide quality services. • Cost structure and flexibility (due to 24/7 and seasonal nature of tourism)
Finance	• Tourism SMEs face stringent credit conditions and difficulties accessing finance • Seasonality and variability in earnings builds in higher risk premiums by lenders • Lack of financial knowledge and awareness of finance options by tourism businesses
Access policies	
Immigration	• Ease of obtaining visitor visas
Transport markets	• Degree of 'open skies' and ability for new and diverse entities to enter markets (e.g. presence of low cost carriers)
Government incentives	• Availability and access to government incentives for investment in tourism assets • Government support to facilitate growth of SME businesses
Government Institutions	
Investment promotion agencies	• Capability and service offering to assist national and international tourism investors
Tourism marketing organisations	• Extent and effectiveness of tourism marketing campaigns • Can assist/ease seasonality/variability in earnings.

Likewise, the availability of well situated land suitable for development. Stable, clear and enforceable land property rights and regulation around land use and development are critical. Public land held in reserve for development should be free of legal obstacles and capable of securing all necessary approvals.

Related issues are the high cost of land in many tourist-desirable locations and the cost of transporting inputs for investment in remote destinations. The preservation of landscapes is also a growing concern. Japan, for example, is investing in undergrounding utility lines, while other countries, such as Mexico, are creating designated tourism development locations. The identification and pre-selection of development zones can be useful for inwards investors reviewing different locations.

Many tourism businesses are labour intensive and hence labour costs make up a large proportion of operating costs. Therefore, availability of appropriately skilled labour is important to investors. Likewise, the cost structure (including taxes on labour) and flexibility of a country's labour market are related factors, as is the availability of appropriate education and training facilities. For tourism, a skilled workforce is important across the spectrum - not just for quality service delivery to travellers, but also, in an investment context, in public institutions such as national and sub-national authorities who make planning and development approval decisions.

A progressive financial sector, financial incentives and government support for financial and other institutions is also a key investment enabler, to stimulate the capacity of tourism SMEs who make up the majority of the tourism sector. There is also broad recognition that tourism SMEs face investment challenges due to lower levels of financial literacy and management skills, and awareness of financing options (OECD, 2017b).

The issue of seasonality and variability in tourism demand is intrinsic to the sector, creating uncertainty about return on investment. Uncertainty or variability in earnings impacts investment decisions as investors factor in a risk premium to reflect the uncertainty. Investment returns in the accommodation sector in some countries are reported to be uncompetitive in comparison to other types of private investments (specifically commerce and housing), with lower yields. In Belgium, for example, an industry association reports that the median gross profit margin in the hospitality sector was 0.9% of total revenues in 2015, compared to a national median of 4.0%.

Almost without exception, countries surveyed nominated seasonality as a key issue impacting the ability to attract investment. Some countries, including Greece and Iceland, have devoted significant effort to developing strategies to even out the seasonality of tourism arrivals. However, it is not certain that seasonality is seen as a major issue by all investors, perhaps due to current high consumer demand and use of risk mitigation strategies, such as investing in a diversified pool of assets.

Tourism is a highly competitive business, not just at the operator level but at the country and destination level. Therefore countries invest large sums of money in comprehensive tourism marketing strategies and programmes through national tourism organisations and destination marketing organisations. The effectiveness of the marketing activities of these organisations, including increasingly their digital marketing platforms, are a factor influencing tourism investment decisions.

A country's investment attraction framework at both the national and sub-national level will often include government incentives for investors to locate in their jurisdiction. Incentives can be generally available across all industries, or specific to tourism. A well-funded, open access and transparent incentive framework will be attractive to tourism investors.

The preparation of sector-specific investor analysis by the private sector also reflects the specific factors impacting tourism investment decisions. Companies like Deloitte, Ernst & Young, Jones Lang LaSalle, and STR, to name just a few, are also active in collating data and other information or have dedicated units to stimulate and support investment decisions in the sector.

For example, the real estate brokerage Colliers International has developed an index that approaches hotel investment attractiveness from the combined perspectives of macro-economic variables, industry specific variables and specific asset class performance (Box 5). It is instructive as an example of investment parameters of concern to investors, and therefore the variables policy makers can target to generate a positive investment environment, in particular those factors in the ‘demand driver’ category. While it is focused on hotel investment, many of the metrics covered are applicable to other branches, while others could be substituted for like variables for other sectors.

Box 5. European Hotel Investment Attractiveness Index

The European Hotel Attractiveness Index is an analysis of the hotel investment climate in 20 European cities. Twelve metrics are analysed to create a score for each city. The metrics are combined into four categories, to determine the most attractive investment markets at a point in time:

- Demand drivers: population, GDP per capital, total workforce, commuting workforce, tourist arrivals.
- Development cost: land side prices, building costs.
- Performance metrics: room occupancy, average daily rate, revenue per available room (RevPAR).
- Investment attractiveness: valuation exit yields, investment volumes.

The Index also highlights how demand and hotel performance factors correlate to the attractiveness of each market in terms of the acquisition of existing and development of new hotels.

Source: Adapted from Hotel Investment Attractiveness Index – Europe 2017, Colliers International

Barriers to quality investment in tourism

Barriers to investment in tourism assets are wide-ranging and extend from generic barriers that exist across the economy for many sectors, to barriers that are distinct to the tourism sector. Most of these barriers are well understood by public and private actors, and policy makers have responded over time with an array of policies and programmes directed to remove, overcome or mitigate the barriers. This section documents the main barriers and challenges identified for tourism investment.

Lack of clarity and certainty in legal and policy framework

Clear, transparent and non-discriminatory laws will encourage investment. Certainty, clarity and non-discrimination in a country’s legal and governance systems are viewed as fundamental to an attractive tourism investment environment. It is especially important for SMEs as, due to lower levels of internal knowledge, they tend to face greater challenges engaging with legal systems.

It is also important for foreign investors who are not familiar with the legal system of a new market, and may have to function with very different regulatory systems, cultures and administrative frameworks. Uncertainty about the enforceability of lawful rights and obligations raises the cost of capital, weakening firms’ competitiveness and reducing investment. In a tourism investment context, certainty over real property rights are of particular interest. Access to land is a key investment enabler for the sector. As tourism services are often built around real property (e.g. accommodation, attractions, port facilities), the need for secure property rights is essential to create tourism assets. Secure and evidentiary title to land and buildings also allows property to be offered as security for a loan, and to transfer land parcels for further development.

In Croatia, for example, uncertainty over real property rights is reported as a hindrance where there have been historical issues with registers of private ownership. It is also reported as an issue in Egypt, where land ownership polices are complex and unclear. Likewise, complex foreign investment regimes act as an impediment to foreign investment – this identified as a challenge in countries such as Russia and Portugal, for example.

Weak investment promotion and facilitation

Effective government investment promotion will highlight the strong points of a country's investment environment and efficient facilitation will lower transaction costs for investors, making the investment environment comparatively attractive.Investment promotion and facilitation is a complex and competitive business. Countries where Investment Promotion Agencies (IPAs) do not have a good appreciation of the tourism sector will put their country at a competitive disadvantage compared to countries who have identified the sector as a priority and invested in tourism investment.

The World Bank (2013) has reported that 57% of national IPAs worldwide actively target tourism. However, it found poor performance of the majority of IPAs in providing assistance to potential investors in the tourism sector. Common service gaps include a lack of sector-specific statistics, lack of information on potential investment opportunities and information about acquiring land and sourcing construction services. IPAs seeking to focus on the tourism sector should take heed of these shortcomings in developing an attractive service offering to potential investors.

In response, the World Bank proposes a five-step strategy to better position IPAs agencies in their activities and guide governments looking to refocus their IPA on tourism investment promotion (Box 6). The approach highlights the need for focus and developing a deep knowledge and understanding of the tourism sector. IPAs also need to be creative in engaging with investors, including through commercial networks and ensuring they present information in a way that is meaningful to investors.

UNCTAD (2010), meanwhile, has developed a practical 10-step process to create a tourism investment promotion strategy. The knowledge-driven process is focused on segmenting, targeting and positioning to achieve specified, desired impacts. This integrated approach begins with strategy development, through to implementation and targeting, and finally strategy evaluation. It highlights the need to have a strong understanding of the tourism sector and trends internationally, and of a country's current tourism offer.

It is important to note that investment promotion and investment facilitation are two separate activities. Promotion is the more traditional activity of information dissemination and awareness raising. Effective investment promotion typically involves developing a convincing 'value proposition' as to why a country is a good investment destination, which can be enhanced with investment ready opportunities. Facilitation by comparison is an activity that supports investors with specific, tailored services to assist a particular investment take place. This could involve introductions to relevant agencies and service providers to secure the required permits and approvals.

Lack of strong investment promotion activities is reported as an impediment to attracting tourism investment by some countries, including Portugal, where insufficient assistance for small companies and start-ups is also identified as an issue. Failure to provide information in English (or other languages) is another issue, while SMEs often lack the skills and know how on how to access to address the needs of foreign investors.

Box 6. World Bank's five step approach to successful tourism investment promotion

- **Be strategic:** prioritise and focus your investment facilitation efforts. Focus efforts on a limited number of tourism subsectors and opportunities based on competitive advantage, and the country's tourism investment strategy.
- **Develop tourism specific knowledge:** develop in-house knowledge and understanding of the strength of specific tourism opportunities, and how investors think about and conduct transactions. Build systems and tools around this knowledge to deliver services.
- **Organise information and craft key messages:** present information in a meaningful way to investors. Develop powerful marketing messages that emphasise strengths and address investor concerns. Include data and testimonials.
- **Disseminate the information:** distribute information though general communication channels. Develop more sophisticated communication materials to target investors with tangible, detailed information on specific opportunities.
- **Develop a network of partners to enhance service delivery:** including: sourcing up to date information; identifying opportunities/sites; information dissemination; investor identification; project implementation; and policy reform.

Source: World Bank, Global Investment Promotion Best Practices Winning Tourism Investment, 2013

Complex or unstable tax regime

A clear, simple and stable tax regime will be attractive to investors as they are able to prepare investment projections with a greater level of certainty. Tax regimes which are complex and subject to sudden and unpredictable changes discourage investors as they increase compliance costs and create a lack of confidence. Countries with a reputation for sudden and unpredictable tax changes will be subject to a 'risk premium' factor, making it harder for investment projects to pass the return hurdle rate.

Countries successful in designing tax policy attractive to investment often take a whole-of-government approach to ensure consistency between the country's tax policy, its broader national and sub-national development objectives, and its overall investment attraction strategy. Policy makers should regularly assess the tax burden on profits to determine if the tax system is conducive to domestic and foreign direct investment across the entire economy, including the tourism sector. The main statutory provisions as well as the effects of tax-planning strategies increasingly used by businesses to lower the tax burden should be taken into account.

The corporate tax rate is a key element that investors will examine, as it will determine the level of after tax returns accruing to a business. Personal income tax rates will also be relevant, as higher rates provide lower levels of disposable income to spend on discretionary services such as tourism. Social security contributions may increase the cost of hiring workers and will also be considered by potential investors. The level of a country's consumption tax will also be taken into account as it is likely to affect product pricing.

A wide disparity in the Value Added Tax [VAT] or Goods and Services Tax [GST] treatment of tourism services consumed by foreign travellers is observed. Some, including the tourism industry, argue that VAT/GST should not be charged on tourism services to foreign tourists as they are an 'export' and should be zero-rated, on the basis that foreign nationals should not pay another country's domestic taxes. However, it is legitimate, for governments that wish to do so, to impose VAT/GST on the services performed by a significant and growing sector in order to finance the infrastructure and public services needed to support a strong and dynamic tourism economy. This is in line with the internationally accepted principles embodied in the OECD International VAT/GST Guidelines (2017).

Many countries implement a reduced VAT/GST rate on tourism services as a sector development measure, or to stimulate employment and activity in response to an economic downturn. Iceland and Romania indicate that proposals to increase the VAT on tourism services is a concern to investors while Ireland reports that the reduced VAT rate introduced in 2011 improved the sector's value for money rating and made investment in tourism more attractive. However, the overall cost-efficiency balance of reduced VAT rates should be carefully considered in comparison with other policy instruments (OECD, 2016).

Other elements of a country's tax policy of interest to tourism investors include: tax depreciation rules and other capital allowances and tax credits for tourism investment; tax provisions that affect the cost of financing investment; the capital gains tax regime; tax deductibility rules for business travel and entertainment; tax reductions for start-ups; and dividend withholding taxes for foreign investors. Previous OECD work on tourism and taxation has underscored that from a tourism policy perspective, the question is the impact on competitiveness, attractiveness and sustainability of destinations.

Lack of skilled human resources

Skilled labour in the quantity required will help encourage investment as investors will be confident that consistent high-quality services can be delivered. The quality and adaptability of the labour force are key drivers in creating a favourable environment for investment. Quality is largely determined by education, training programmes and the overall health of the population. Adaptability refers to the capacity of the labour force and education systems to adjust to new challenges, including economic diversification and upgrading of global value chains.

General labour supply constraints across an economy, for example due to outgoing migration or economic booms, can disproportionately affect labour supply for tourism, in part due to the high degree of casual and low skilled labour in the sector. When labour supplies are constrained, mobile labour will quickly move to more financially rewarding and/or secure.

As the tourism sector becomes increasingly digitalised, the availability of staff with digital skills will be important. The digital economy is creating challenges for jobs and skills in the tourism sector and is changing the way work is organised. Moving forward workers in the tourism sector will need different skills, not just more skills, to thrive in the digital economy.

Low levels of management and innovation capacity amongst SME tourism owners and managers has also been frequently identified as an issue in the sector which hinders investment (OECD, 2017b). For example, low financial literacy skills of tourism managers can lead to inefficient use of capital and inability to develop financial proposals for bank lending or potential investment partners.

A shortage of skilled labour in facilitating sectors and supporting services can also hinder investment. This is currently the case with the construction sector in Iceland, for example, while Norway has noted that low levels of financial, management and technical skills within local government who assess tourism development applications are an investment impediment. Low skill levels in these areas can slow development applications and deter investors from pursuing tourism investment.

Labour shortages and lack of availability of appropriately skilled labour in the tourism sector continues to be a major policy challenge in the majority of countries. This has led to a range of policy responses to influence both employees and employers to expand the volume and skill levels of tourism professionals. Countries have also implemented a range of programmes to enhance the skill levels of business owners and managers. The need to lift financial and management skill levels amongst tourism business owners is particularly important in an investment context due to the detailed and sophisticated financial information needed by investors, particularly foreign investors.

Inadequate planning and investment in supporting infrastructure

The success of a tourism destination will be largely determined by the quality of its infrastructure, with investment in physical infrastructure (e.g. airports, transport systems), information and communication technologies and tourism specific infrastructure (e.g. leisure and sporting facilities) is needed for destinations to attract visitors and stay competitive.

Barriers to effective investment in infrastructure include unclear or uncoordinated planning and development policies, unclear land use policy, shortage of public capital and lack of cross-government co-ordination.

Lack of infrastructure in regional areas, both general and tourism specific, is commonly cited as an impediment to tourism investment into regional areas. Russia and Norway, for example, report under-development of supporting infrastructure in regions with great tourism potential as an obstacle to investment in tourism. The economic cost is lost opportunity to generate regional growth and spread the economic benefits and opportunities provided by tourism.

Lack of clarity in land use policy and time taken to issue planning approvals are also issues for investors in Croatia, Iceland, Finland and other countries. These issues generate a lack of certainty for investors regarding property use and can increase holding and capital costs to the point it becomes uneconomic to continue with a development.

The slow pace of establishing digital infrastructure to facilitate sufficient internet connectivity for travellers is also a concern, including Japan, Lithuania, Portugal and Sweden. Internet connectivity is taken for granted by travellers so lack of internet coverage or poor service will quickly devalue a destination and hinder further investment. An effective digital infrastructure is also critical for tourism operators to conduct business as technology increasingly supports most aspects of a business' operations, from engagement with customers and suppliers to management of facilities and staff.

Deviation from development strategies is an ongoing issue in countries such as Croatia, as investors lose faith in a destination's commitment to support tourist development. Similarly, Japan underscored the importance of having destination management organisations, administrative and public organisations and tourism businesses come together to obtain consensus on investment targets and goals. Consensus across governments will provide confidence to investors regarding development potential and cross-government support.

Insufficient financing and return on investment

An efficient financial system will facilitate investment and growth. Investors will only commit funds when they have assurance that financial markets and institutions are sound and operate according to rules and procedures that are fair, transparent and free from conflicts of interest. A sound financial system requires adequate regulation, disclosure requirements, accountability and financial education and training to facilitate proper risk assessment. Low or uncertain rates of return are a fundamental impediment to investment. Countries including Iceland, Ireland, Israel, Lithuania and Norway report that many areas of the tourism sector continue to experience this problem. Variability and seasonality of earnings underscores this barrier with seasonality identified as one of the most common barriers to investment cited in the country surveys completed for this project.

Historically, many tourism businesses have experienced difficulty in accessing finance for expansion, especially SMEs. Reasons for this have included variability in earnings, sensitivity to economic and currency shifts, small scale of operations, lack of collateral and lack of financial capability of business owners. Traditional capital providers have thus viewed the sector as high risk and unable to generate the returns needed to satisfy return benchmarks driven higher by risk premiums. At the higher end of the market, most of these concerns can be mitigated by availability of collateral, higher levels of financial capability and innovation to manage risk. At the lower end however, tourism SMEs continue to struggle to find capital to expand.

The inability of tourism SMEs to access finance for expansion has been widely noted as an investment impediment for tourism, including by Australia, Austria, Romania, Slovenia and Sweden. Insufficient knowledge and understanding of the sector can result in a lack of experience to assess finance applications and may lead to more stringent conditions due to a higher perceived risk factor. Lenders may also lack flexibility to adjust terms and conditions to suit the needs of the sector – for example flexible repayment options that factor in seasonality of earnings (OECD, 2017b).

Regional or local financiers potentially have a better capacity to service the sector, particularly in regions where tourism is important. This has been validated by the French public investment bank, Bpifrance, which has a large regional presence across the country and highlights that regional advisers with a good knowledge of their areas are well placed to help review SME tourism proposals. This appears to have been born out with more than half of the dedicated tourism investment fund managed by Bpifrance going to regional based businesses (France case study, Part II).

The capacity of tourism SMEs to innovate is also affected by lack of finance and investment is required in this area (OECD, 2017b). The growing digitalisation of the sector and the fact that SMEs are often at the forefront of developing and applying new technologies (OECD, 2015b) is a significant barrier impacting investment in tourism innovation. The small scale of available investment opportunities is also a barrier, for example in Australia, Iceland and Latvia. Foreign investors in particular typically look to invest in large projects and hence smaller scale projects may not be considered. This barrier is often referred to as ‘scalability’ and is an issue in tourism because of SME concentration and regional and remote locations of many tourism entities.

Failure to integrate environmental and social issues into investment decision

An investment framework that factors in the costs of negative externalities will help produce sustainable growth. An economy must support a growth dynamic that catalyses investment and innovation in new technologies, services and infrastructure that will underpin growth that makes a more sustainable claim on natural resources while addressing well-being and social equity considerations.

Investment and financing have an important role to play in supporting transition to environmentally friendly, resource efficient and socially inclusive tourism development. The main barriers to sustainable investment are the lack of a pricing mechanism for environmentally undesirable activity (negative externalities) in the standard investment decision framework, and a lack of awareness and understanding that sustainability criteria be included in the investment decision framework. This indicates that governments and sustainability groups have a task in educating business owners and managers regarding the importance of sustainable development.

Tourism businesses need to be better informed about the business case for adopting sustainable practices and encouraged to take into account the impact of their actions on the environment. Governments have begun this process by integrating sustainability criteria into tourism support programmes, including grant and loan programmes, forcing tourism businesses to address and take action on sustainability issues if they wish to benefit from government incentives. Governments have also introduced sustainability as a key factor and driver of national tourism strategies, ensuring that this policy priority filters down into all related programmes and initiatives for the industry’s development.

Policies responses to generate more and better quality investment in tourism

Increasing travel volumes, evolution in traveller demands, and changing community attitudes to tourism-related development in the face of a wide range of impediments to investment in tourism assets is driving policy makers and investors to respond with new tourism policy initiatives and investment approaches. Long term, consistent growth in traveller numbers demands ongoing investment, upgrades and maintenance. In many cases, private sector finance is responding to address market demand, but social and environmental concerns are pushing governments to incorporate sustainability and quality parameters in addition to traditional volume and economic drivers in policy development. There is also a need to incorporate this into the investment decision.

New approaches to governance, stakeholder engagement and investment facilitation are critical to plan and implement the volume and quality of investment required, with the support of communities. Key to government effectiveness in encouraging investment is the ability to maximise leverage in financial and non-financial capacities. The entry of new investors into the tourism sector presents great opportunities and benefits, but also policy challenges. The advent of the sharing economy introduces a large volume of potential investors, while environmental trends and community concerns about the impact of tourism is inspiring new stakeholders to participate as investors in the sector.

Investment in digital assets requires dedicated examination as the influence and impact of technology escalates through the sector. The largest travel companies in tourism today are essentially technology companies, and they must continue to invest significantly to grow and remain relevant. Technology pervades through most aspects of a tourism business, large or small, making investment in digital assets essential. As the evolution of technologies continues, tourism applications are being developed which over time will become an expected service by consumers. Policy makers will need to be abreast of these developments and respond with polices that enable innovation and encourage investment in technology.

The financial markets are responding rapidly to sector growth prospects by increasing their exposure to tourism assets, and by developing new products to cater to emerging market segments. A greater number of professional investors are entering the market for tourism assets and this should bring more professional management and greater quality to tourism services. Governments can take advantage of this growing interest by encouraging more participation in tourism investment, including in public assets that have been exclusively funded by government.

A common theme running through the policies explored in this report is the pursuit of sustainable investment. Explicit or implicit in most if not all policies canvassed is the aim to encourage investment that takes into account current and future economic, social and environmental impacts and addresses the needs of the environment and host communities as well as visitors and sector. Governments are seeking to encourage a change of mind-set amongst investors by increasing awareness of responsible business conduct and that incorporating sustainable practices into investment decisions is for their own benefit as it protects and sustains the very environment that is a primary driver of tourism.

Promoting a co-ordinated approach to tourism investment across government

Co-ordinated national strategies for infrastructure development are crucial to prioritise and target investment, as are co-ordinated inter-governmental systems to identify, attract and facilitate it. These strategies help ensure that infrastructure development occurs in a systematic way and on the scale required. This improves an economy's productivity and capacity to absorb further development, and will help generate increased visitation.

Developing investment strategies aligned with tourism development priorities

In recent decades, most countries where tourism is an important sector have developed long term national tourism development strategies. The cross-cutting, multi-faceted nature of tourism has resulted in comprehensive strategies that examine and provide actions in diverse policy areas, including transport, land use, education, employment, immigration, digital economy, regional development and small business/industry innovation. These broad sectoral strategies have in some cases evolved to spur development of other policy or issue-specific strategies, including integrated tourism investment strategies.

The importance of having an investment promotion strategy that integrates and aligns with a country's national tourism strategy has been highlighted by UNCTAD (2010). Investment promotion activity must acknowledge, integrate and seamlessly work with the broader national tourism strategy.

The preparation of an integrated tourism investment strategy should be taken further, to be a whole of economy strategy for tourism investment. Tourism policy agencies must co-ordinate all policy areas that have an impact on tourism investment. In Mexico, for example, the National Infrastructure Plan 2014-18 includes a dedicated tourism investment portfolio and explicitly recognises the need for tourism to be taken into account in wider infrastructure planning.

As part of a national tourism strategy, it is common practice to establish targets for growth. These are generally set in terms of passenger arrivals, overnight stays and value (expenditure). It is less common for countries to develop tourism investment strategies, or set investment targets to achieve wider tourism targets. Where long-term sector targets have been set based on demand expectations, it is prudent for policy makers to assess if a country will have in place the assets and infrastructure required to deliver the targets.

For example, will there be sufficient hotel rooms to accommodate the increase in tourist numbers? Will there be sufficient air and ground transport capacity to move travellers into and around the country? Will border entry points and infrastructure be able to cope with increased passenger numbers? Will fragile or sensitive natural assets be able to cope with increased tourist traffic, and will communities agree to this?

If these and other issues are not addressed, the overall strategy for tourism may fail. In fact, failure to systematically tackle tourism investment in alignment with the broader tourism strategy could be counter-productive. If infrastructure and assets are not in place to support the increased demand, visitors may be deterred from visiting. This is a fundamental example of ensuring that demand and supply side tourism strategies are aligned.

The ability of a country to manage increased visitation will also depend on the availability of the right amount and type of infrastructure. This supports the need for countries to include investment targets that align and integrate with their national tourism strategy targets, and preferably developed as part of a wider tourism investment strategy. Some countries have already moved in this direction - for example, Australia, Hungary and

Ireland have each developed tourism investment strategies to support the goals and targets set in broader national tourism strategies (Box 7).

Box 7. Integrated demand and supply-side tourism development targets

Australia: To reach the key Tourism 2020 target of AUD 115-140 billion in overnight visitor expenditure, the following aligned supply side targets were set: (i) an additional 6 000-20 000 accommodation rooms; (ii) 40-50% more international aviation capacity and 23-30% more domestic aviation capacity: and (iii) an additional 152 000 persons employed in tourism. Investment targets are monitored annually through the Tourism Investment Monitor publication prepared by Tourism Research Australia. This permits it to determine if it is on track with its supply side strategies that will help it achieve its overall national tourism strategy goals.

Hungary: The Hungarian National Tourism Development Strategy 2030 has established demand side targets for domestic and international guest nights, as well as supply side targets to upgrade existing and develop new tourism products. For example, the Accommodation Development Plan will sponsor the renovation of 30 000 guest rooms with the assistance of the Hungarian Development Bank, and the Hungarian Tourism Authority will oversee 500 tourism development projects.

Ireland: Ireland's national tourism strategy, *People, Place and Policy – Growing Tourism to 2025*, sets out three headline goals to: (i) achieve revenue from overseas visitors of EUR 5 billion per year; (ii) increase employment in the tourism sector to 250 000; and (iii) achieve 10 million visits to Ireland by 2025. In the context of this overarching strategy, Ireland developed a tourism investment strategy – *Tourism Development and Innovation: A Strategy for Investment 2016-2022.* It is supported by public investment in tourism budget of EUR 125.7 million over six years to 2022, under the National Capital Plan for Investment.

A tourism investment strategy should at a minimum mirror the issues covered in the broader national tourism strategy. For example, if the tourism strategy seeks to grow a particular source market (e.g. emerging markets of China and India), the investment strategy must consider the volume and style of accommodation, leisure and entertainment amenities demanded by that market. If passenger targets are set, the investment strategy should consider if port, border and transport infrastructure can grow to facilitate passenger arrivals and transport to next destination.

Strategies should consider investment volume and investment quality/type dimensions simultaneously, as the approach on quality/type will dictate volume parameters. For example, a move to electronic visas and 'smart border' processing technology will determine the size and design of port infrastructure.

Economic agencies and investment promotion bodies should co-operate to assess the source and availability of capital to fund future investment. If domestic sources are insufficient, foreign sources will need to be examined and targeted. The capacity to source foreign capital should be analysed to determine the likelihood of capital being available from offshore markets given a country's economic circumstances and the tourism sector's attractiveness as an opportunity for foreign investors.

Co-ordinating tourism investment activities across and between all levels of government

The public sector has a role to play in co-ordinating across government to ensure tourism investment is on track to achieve its objectives, and is consistent with wider national and sector development goals. This applies across and between all levels of government. With sub-national governments responsible for the bulk of public investment, the need for such co-operation is critical (OECD, 2014).

Effective strategy development and co-ordination will be underscored by a strong level of co-operation between a country's tourism policy agency, its tourism promotion agencies, investment promotion agencies, and tourism development authorities (where they exist). Indeed, some countries like Finland have acknowledged the close level of co-operation required by integrating tourism promotional and investment promotion agencies. Beyond this, engagement and co-ordination with wider public actors is also necessary.

Box 8. Establishment of the Inter-Ministerial Council on Tourism in France

In 2017, the French Prime Minister established an Inter-Ministerial Council (CIT) on Tourism, which brings together all the Ministers interested by tourism, including Economy and Finance, Foreign Affairs, Culture and Internal Affairs. Notable features of the Council are the participation of representatives from across different levels of government and by senior industry professionals, as well as the tightly defined set of priorities on its agenda. The Council was established to give direction and high-level support to key policy measures developed for the sector. It meets once every six months, under the authority of the Prime Minister, and is supported by in-depth preparatory work leading to implementation of concrete measures. The Minister of Europe and Foreign Affairs, in conjunction with the Secretary of State, manages a Tourism Steering Committee that monitors progress between meetings of the Council. The Government established the Council to support its goals of reaching 100 million international tourists and EUR 50 billion in tourism revenue by 2020. The CIT met for the first time in July 2017. The Council has identified six priority areas of action, including the strengthening of tourism investment. Investment was one of the topics specifically addressed at the CIT of January 2018. The Council is mandated to establish concrete measure to promote investment, including support and expertise provision notably through "France Tourisme Ingenierie", financing measures through Bpifrance, and improvement of rules of urban planning law.

Source: https://www.gouvernement.fr/en/tourism-plan , https://www.veilleinfotourisme.fr/.

At each level of government, a decision must be taken as to whether co-ordination takes place at a political or bureaucratic level. France, for example, recently established an Intergovernmental Council on Tourism at the Ministerial level, chaired by the Prime Minister (Box 8). It is supported by a Tourism Steering Committee chaired by the Minister for Europe and Foreign Affairs that meets regularly to monitor progress of policies. Establishing committees at this senior level provides focus and impetus to drive tourism strategies and regulatory reform.

As tourism cuts across a large number of policy portfolios, it is essential that there is a broad representation of policy agencies involved at the level of government which has competence for policy issues. It is also important to have engagement and strong representation by regional authorities, to ensure the infrastructure needs and specific regional impediments are taken into account.

In Greece, for example, public tourism investment needs are identified, evaluated and prioritised through extensive consultation between the Ministry of Tourism, the Ministry of Economy and Development, and the regional authorities. In Hungary, the Hungarian Tourism Agency works with local municipalities to co-ordinate all publicly funded investments in identified tourism priority areas.

At the bureaucratic level, countries should co-operate both horizontally and vertically to ensure investment is identified, assessed and prioritised appropriately. Increasing reliance on different types of infrastructure such as digital infrastructure magnifies the need to ensure all relevant agencies are brought into investment policy making across different types of infrastructure.

Furthermore, this needs to be a two-way dialogue. Tourism policy makers must ensure that in addition to having cross-government participation in tourism policy dialogues, it is also important to ensure tourism concerns are represented in wider discussions on infrastructure planning and development, in all its forms (e.g. transport, regional development, digital economy).

Driving regional development through investment in tourism assets

Achieving greater dispersal of travellers beyond major gateway locations has been an issue challenging policy makers for many decades. The desire to spread the economic and social benefits of tourism has merit, and in some destinations the push to encourage regional visitation is escalating as a means of relieving pressure on overstretched metropolitan resources. Developing tourism in regional locations is also seen as a potential solution to the seasonality challenge, by developing new tourism offerings with all year or off-peak season appeal, such as spa and wellness tourism, as well as a way of encouraging economic renewal in areas that have experienced economic decline.

A significant challenge to the growth of regional tourism is a lack of enabling infrastructure, quality tourism assets and a sufficient volume of tourism experiences to encourage and facilitate visitation. Governments have a range of tools and have applied a number of policies to encourage regional tourism investment. Grant, loan and loan guarantees programmes aimed at supporting regional tourism product are common (for example in Portugal). These can be on a small or large scale, with large scale programmes tending to focus on significant infrastructure needs such as roads, ports and other basic infrastructure, while small scale investments can also have a significant impact.

Co-operation across levels of government is a critical factor in resolving deficiencies and regional imbalances in infrastructure. It is particularly important to engage regions and regional authorities in infrastructure planning as they have local knowledge about the greatest infrastructure needs, and represent community concerns about infrastructure development.

Australia has responded to this challenge with a five-year regional investment strategy to encourage additional, targeted tourism investment (Australia case study, Part II). The strategy focuses on co-ordinated facilitation, reform and investment promotion to attract foreign investment into regional tourism infrastructure. It targets iconic tourism regions where the visitor economy is showing signs of growth, but where levels of investment have been low, and was developed through extensive co-operation between national and sub-national governments, utilising a co-operative framework that had been put in place in 2012.

The strategy received high-level endorsement from national and sub-national Ministers and senior officials. State and territory governments are vital partners in attracting FDI and overcoming regulatory barriers to tourism investment, as success will most easily come through co-operation as foreign investors view investment opportunities as ‘Australian’ rather than of a particular region, and do not want to waste effort engaging with multiple government agencies.

In Canada, regional economic development agencies help address key economic challenges by providing regionally-tailored programmes, services, knowledge and expertise, including for tourism. These six federal agencies promote investments that help develop tourism in rural and remote areas and communities across the country. This includes: supporting the marketing of regional products; investing in tourism businesses; and helping export-ready tourism businesses. Examples of tourism-specific investments include regional products and experiences development, cultural spaces renovation, waterfront developments, and Indigenous tourism promotion. The agencies also bring a regional policy perspective in support of the national agenda.

A key area of focus of these efforts is on Indigenous tourism to help development of tourism in rural and remote communities in Canada, with initiatives funded ranging from market readiness to infrastructure investments. Indigenous tourism is an important contributor to Canada’s economy and one of the key action areas in Canada’s Tourism Vision. In 2017, CAD 8.6 million budget investment was provided to the Indigenous Tourism Association of Canada (ITAC) to support the implementation of their five-year strategic plan, which aims to grow the number of export-ready Indigenous tourism businesses by 50, create 7 000 new jobs, and increase Canada’s annual GDP by CAD 300 million from Indigenous tourism by 2021. The ultimate goal is to contribute to the long-term, sustainable growth of the tourism sector, and to job creation and economic growth in the wider economy. In Germany, a former mining region has undertaken a structural transformation to develop tourism supported by a co-ordinated multi-level government investment and planning. The creation of a new tourism destination, the Leipzig New Lake District, has brought positive benefits in terms of economic turnover, employment and tax revenue (Box 9).

Other countries are also active on this issue. In Iceland, for example, the national public private partnership promoting Iceland as a tourism and investment destination, Promote Iceland, is working with regional development agencies to identify opportunities that best suit particular areas. A current area of focus is looking at investments in developments that are capable of attracting visitors all year round to help address seasonality.

In Peru, the National Plan for Regional Projects - COPESCO - formulates, co-ordinates, directs, executes and supervises investment projects of tourist interest at the national level. Under the Ministry of Foreign Trade and Tourism, it also provides specialised technical and financial support to regional and local governments and other public entities to implement tourism projects.

The European Regional Development Fund (ERDF), meanwhile, supports tourism investment at regional and local level, with the objective of fostering: product and service innovation using ICT technologies; high value added tourism in niche markets; and tourism diversification

Cross-border strategies take regional development approaches a step further. These strategies can be embraced to ensure integrated investment approaches, generate synergies and build economic and sector capacity. This is often driven by programmes to create a tourism offering across borders, particularly in developing countries, such as UNCTAD's Silk Road regional investment initiative. Another example is the European Commission's support for the development of transnational cycle or hiking routes, environmentally-friendly tourism, and European Cultural Itineraries.

Box 9. Co-ordinated investment to create Leipzig Lake District in Germany

The development of the Leipzig New Lake District in Central Saxony follows on from a decision in the early 1990s to develop tourism in the region, following the decline of the coal mining industry. The Government of the Free State of Saxony created a funding pot to support specific projects (up to 85% of cost), supported by additional financial resources from the Federal Government. Investment is closely monitored, progress evaluated and the budget reviewed every five years, with success measured in terms of the economic importance that tourism has come to represent for the region, with turnover, employment and tax revenue assessed on a regular basis.

Effective co-operative mechanisms were created to co-ordinate tourism investment policies and promotion across levels of government, supported by a cross-Länder tourism strategy and an agreed set of basic principles set down in a lake district development charter. Municipalities are responsible for planning and co-ordinating with district authorities and regional planning bodies, while regional working bodies co-ordinate and disburse the financial resources.

In the early years, the development of the infrastructure (roadway and path, tourist facilities, and basic site development) was mainly initiated and financed by the municipalities involved, and helped spur private investment in the region in accommodation and leisure facilities. Key challenges have included the lack of guidelines and administrative provisions for undertaking such complex structural transformation. Special efforts were also needed to equip former miners with the necessary understanding and skills in hospitality, high-level service provision and entrepreneurship to become tourism professionals.

Streamlining regulatory regimes to ease investment and compliance

Governments regularly undertake legislative and regulatory reviews to ensure regulations are clear and fit for purpose, and to simplify and streamline regulations so that they are easy to understand and comply with.

Some countries have undertaken focused reviews of regulations impacting investment in the tourism sector – this has been the case in Australia and Iceland for example. These reviews can lead to fundamental reform of regulatory regimes, to provide investors with more certainty about the security of their investment and reduce transaction costs – including establishing or clarifying certainty where it is weak, streamlining complex regulation to ease the compliance burden, and introducing more efficient means of interacting with regulators.

Another approach to ease the regulatory burden and streamline compliance for an industry is to consolidate all rules and regulations for the industry in one piece of legislation. Greece, for example, recently undertook a review of regulations impacting tourism resulting in an initiative to codify tourism legislation. In this case, all legislation and regulations pertaining to the tourism sector were brought into a consolidated code. This will help reduce compliance and transaction costs by saving time in research and interaction with government.

Such regulatory reviews have been particularly common in the complex area of building development. Greece, Ireland and Israel have all recently reformed their hotel development regulations, for example. Clear development regulations will more likely to facilitate investment in these assets. It is important however that streamlining measures do not remove or reduce requirements for user amenity and safety.

Leveraging public sector interventions to maximise impact of tourism investment

Governments have significant financial resources and policy influence to generate economic and social outcomes. In a tourism investment context, governments should constantly examine how they can maximise the impact of their resources and look for new opportunities to stimulate investment by others. The 'badge of government' carries enormous power to bring additional capital and assistance to investment. This can be achieved through direct government funding, financial guarantees, or by expertise brought by government agencies to SMEs that do not have these resources in-house. Government also has the ability to act as a 'broker' – leveraging its position and influence to bring new participants into a project to achieve greater economic and social outcomes. This section examines methods that governments can employ to maximise their leverage – financial and non-financial - to achieve positive investment outcomes.

Mobilising tourism investment through government grant and loan programmes

The public sector can take a leading role in mobilising investment in tourism assets. Governments have stimulated investment in tourism assets for decades, through grant and loan programmes – on a small and large scale.

Traditional policy responses to facilitate greater access to capital for tourism businesses range from dedicated tourism-related financial organisations through to large and small-scale tourism asset funding programmes. The Austrian Tourism Development Bank, which acts as a one-stop-shop for tourism financial assistance, and the Swiss Society for Hotel Credit, which helps to bridge the finance gap through low interest loans and consulting services, take an integrated approach to financing investment in the tourism sector, for example.

Dedicated institutions for the tourism sector mean that financial assessors have a good knowledge of the sector, and can more accurately assess risk and tailor financial packages to suit business needs. In Israel, meanwhile, the Ministry of Tourism provides a grant valued at 20% of the investment (construction costs) for the construction of new hotels, the expansion of existing ones or the restoration and conversion of buildings for hotel use. An additional 13% grant is provided if the hotel is considered a budget-hotel.

These programmes have a direct impact on tourism investment by providing finance that would not otherwise be allocated by the private sector, leverage additional private sector capital through guarantees, and generate scale that induces additional private sector investment. Programmes to improve the financial literacy and business capabilities of tourism SME owners are also needed to ensure that tourism operators have the capability to access finance facilities which are available.

Financial assistance measures, mainly grant and loan programmes, exist in many countries to fund tourism specific development. In Israel, for example, projects granted national infrastructure status receive up to 80% government funding, including in the accommodation sector. Other countries to offer financial assistance include Canada (through its Regional Development Authorities), Croatia (Tourism Development Funds), and Iceland (Tourist Site Protection Fund). Drilling down further, some countries target investment into particular branches or subsectors, for example health tourism and leisure centres, as in Romania, or winter and thermal tourism infrastructure in Turkey. These can include targeted programmes to develop niche tourism products to smooth tourism flows to address the seasonality issue.

Financial assistance can also be targeted to develop the tourism sector in regional locations. Portugal's Programme Valorizar (Portugal case study, Part II), Japan's Regional Economy Vitalization programme and New Zealand's Tourism Infrastructure Fund are some examples. Lack of scale and underdeveloped infrastructure are often the policy drivers for these programmes, as is the objective to more widely share the economic benefits of tourism. Lithuania notes that a regional programme with general access has not been well utilised by tourism businesses, despite the need for these businesses to develop in regional areas. In such cases, programme evaluations will help elicit reasons for lack of access and other programme shortcomings.

Some countries have introduced funds targeted at supporting investment by tourism SMEs in response to the financing barriers faced by tourism businesses noted above. For example the New Development Fund in Greece offers support by way of microcredit, guarantees and loans, as well as the Island Tourism Entrepreneurship programme which provides low cost loans to small and micro businesses on the Greek Islands. In Portugal, the Banks Protocol Regime is designed to meet the specialised needs of tourism SMEs and encourage banks to provide financing to SMEs for capital investment. Financial support of EUR 90 million up until December 2018 has been provided in the form of refundable subsidies over 15 years, with a repayment holiday of up to 4 years. In Norway, the Government owns 'Investinor', a venture investment company which represents a capital resource for the tourism sector.

To overcome the barrier of low levels of financial literacy and business know-how in tourism SMEs, programmes to develop business owner management capabilities are also common. In addition to the many generally available programmes for all SMEs, countries like Austria, Ireland, Mexico, and Switzerland offer a range of tools and programmes aimed at building tourism SME capability. Assistance includes services to prepare business plans, investment evaluations and feasibility studies, guides and calculators to support business planning and financial decision making, and advising on alternative sources of private and public sector finance. Increasing financial capability of tourism SMEs allows them to increase profitability of their businesses, prepare better quality applications for finance and engage more productively with investors.

Maximising financial and policy leverage through public development funds

A variation on public funding for investment in tourism assets is the public development fund. Through these funds, governments can also diversify their policy influence to achieve other public policy goals, for example by supporting certain types or locations for investment. Through their integration in the financial markets, public development funds have the ability to draw in other sources of capital to maximise leverage from the government funding.

Governments have initiated capital investment funds specifically for investment in tourism assets in a number of countries, including on a large scale.

In France, for example, a tourism capital investment fund has been created by the public development bank, Bpifrance, to invest in projects across tourism, with a particular focus on SMEs (France case study, Part II). The French Government has allocated EUR 260 million to the Fund and over EUR 600 million in co-investment has already been leveraged from EUR 86.5 million committed to date. Bpifrance utilises its extensive financial network to source additional capital, and by keeping its own investment to a minimum leaves funds available for other ventures. Bpifrance also provides intangible leverage by bringing additional management and financial expertise and encourages networking amongst its portfolio to stimulate additional business for the participant entities (Box 10).

Bpifrance funds are provided via equity or quasi equity instruments to both existing and start-up businesses, with a longer-term outlook than traditional debt funding. Equity funding also brings with it representation on the recipient's board of directors, increasing expertise and capability. Long term funding provides the entities with stability, which for SMEs is critical during growth phases. Bpifrance has also committed to funding both existing businesses and start-ups. By operating a large fund, Bpifrance is able to diversify its risk, providing opportunities to start-ups and innovative companies. With its large regional footprint throughout France, Bpifrance has been an effective catalyst and supporter of regional tourism investment. More than half of the Fund's investments are in tourism businesses located in regional areas.

Box 10. Bpifrance support for investment in existing and start-up tourism SMEs in France

Growth opportunity for a traditional business: France Tourisme provides guided tours, bus tours and excursions in Paris. In 2016, together with two co-investors Bpifrance Tourism Investment fund financed an important business expansion opportunity to acquire the well-established Vedettes du Pont Neuf group, a river cruise company providing a range of tours on the Seine. The company has improved its profitability by better managing its costs and benefiting from synergies through an expanded operation.

Financing tourism innovation: Adrenaline Hunter is an online adventure sports booking platform, acting as an intermediary between end users and the activity providers. To accelerate its development and strengthen the functionality and performance of its platform, Bpifrance Tourism Investment fund co-financed an equity investment of EUR 2 million. The funds were used to develop the product roadmap, enhance the automation of the reservation process, improve the back office and openness to providers, and develop business software for providers. The business' overarching objective is to reach EUR 22 million turnover by 2021.

The French case demonstrates that government can achieve magnified and multiple policy outcomes from a single funding source, which can be leveraged many times over from complementary funding sources. As well as maintaining, and likely increasing, the economic and employment contribution by the recipients, it also simultaneously enhances SME capability and pursues regional development objectives. The Fund has also demonstrated to SME owners that they should keep an open mind to external equity participation.

In Italy, the state-controlled bank Cassa depositi e prestiti also has established a dedicated Tourism Investment Fund (Box 11) to invest in hotel real estate, with the aim of increasing efficiency, quality standards and regional dispersal. The Bank has committed EUR 250 million in capital, with the aim to have EUR 500 million of assets under management by leveraging investment from other private and institutional investors. In addition to leveraging investment into hotel assets, the Fund is also addressing structural issues in the sector by encouraging consolidation of properties and introducing professional management.

These public development funds are distinguished from traditional government grant and loan programmes. Firstly, funding is often through equity participation rather than a grant (gift) or loan (debt). This will normally involve participation on the board of the recipient, bringing financial and management experience to the company. It also brings additional leverage through its network of financiers, and can facilitate business connections and growth by encouraging networking and ventures within their portfolio.

Box 11. Fund to support strategic tourism infrastructure investment in Italy

In 2016, the Italian state bank Cassa Depositi e Prestiti launched its Tourism Investment Fund to increase investment in the accommodation real estate sector and promote the consolidation in the Italian hospitality sector. The sector is currently highly fragmented and dominated by small-scale accommodation operators - only 4% of existing hotels have more than 100 rooms. The Fund is integrated into the broader Bank mission to promote investment in Italian strategic real estate infrastructure, providing a model to pursue commercial investment with a public policy aspect. The main strategic priorities are: i) promoting separation between real estate ownership and hotel management; ii) supporting the consolidation of the tourism and hospitality industry; and iii) overcoming the limits imposed by small scale players and freeing up financial resources for sector development. Accordingly, the Fund’s strategy is to select hotel properties in top tier tourism locations with the potential to be upgraded through refurbishment, repositioning and expansion, or to support a public interest such as local employment. It does this by purchasing properties, which it then leases to a hotel management company. Cassa Despositi e Prestiti is the anchor investor providing EUR 250 million, with the aim of leveraging private capital to achieve EUR 500 million of assets under management. In 2018, the fund was opened to institutional investors interested in having exposure to the Italian hospitality sector.

Source: Cassa Depositi e Prestiti

A different approach has been taken in Mexico, where the National Development Bank for Foreign Trade, Bancomext, aims to similarly achieve high levels of leverage through a bank guarantee programme, rather than by equity investment. In co-operation with the National Entrepreneurship Institute, INADEM, Bancomext operates the National SME Guarantee Programme which is a strategic instrument to increase the volume of bank lending to SMEs. In 2015, MXN 300 million was allocated to the programme with the objective to generate a credit spill of MXN 6 000 million, or 20 times the guarantee amount. The loan guarantees offer coverage up to 75% to facilitate access to credit, reduce interest rates, and support financial intermediaries in the event of non-compliance. Bancomext also provides concessional loans of up to MXN 20 million to SMEs, and up to MXN 40 million to small and medium hotels.

Bancomext works closely with the National Fund for Tourism Development (FONATUR), which develops destination master plans and executes infrastructure projects. FONATUR's role is to identify viable projects and link investors with the appropriate public development bank. FONATUR either plans and develops a destination and then sells it to the private sector, or undertakes the planning and acquires the land for on-selling to private entities which develops the destination according to a pre-approved master plan.

The European Investment Bank (EIB) provides finance and expertise for sustainable investment projects. It aims to promote growth and jobs in innovation and skills, SMEs, climate action and strategic infrastructure across the EU. The EIB supports Europe's economic recovery by implementing the European Fund for Strategic Investments, part of the Investment Plan for Europe. Outside the EU, the EIB's activities reflect EU external policy. It does this through the provision of long-term, supportive financing that also encourages private and public sector investors to co-invest, including in tourism.

The European Fund for Strategic Investments, meanwhile, mobilises private finance to support investment in strategic infrastructure, energy and resource efficiency and SMEs. Managed jointly by the European Commission and the European Investment Bank, it can be used in tourism to provide financial support for travel infrastructure, energy efficiency in accommodation facilities, brownfield developments for recreational purposes, and setting up "Investment Platforms" dedicated to tourism (European Commission, 2016).

The European Commission, meanwhile, supported around 100 projects over the period 2014-2016 under the Programme for the Competitiveness of Enterprises and Small and Medium Enterprises (COSME). Beyond this the tourism sector can benefit from wider European investment supports – for example the Guide on EU Funding to the Tourism Sector has been developed by the Commission to help those in need of investment financing to identify the different sources available.

Employing non-financial tools to leverage investment in tourism

In an investment context, leverage normally refers to the ability to encourage or magnify available funds that comes from an initial financial commitment, or using the funds of another party for investment. Some policy tools can stimulate investment with a zero dollar investment from government. This can occur when government offers a right, concession or benefit which requires investment by the recipient to receive the benefit.

A significant and often sought after benefit that governments can confer on individuals is residency of their country. Governments can encourage investment in targeted areas through business migration schemes which require applicants to commit to investing in defined industry sectors – so called 'investor visas'. This is a tool which has been used to good effect in Greece, Portugal and the United States, while other countries have recently launched or enhanced their existing investor visa scheme – this is the case for example for Australia, Canada and New Zealand.

In a tourism context, these programmes are often directed at real estate as a means of expanding non-traditional forms of accommodation investment. Immigration and investment agencies need to co-operate closely to ensure that these programmes are not exploited and will achieve their stated objectives (Box 12).

Another example where governments can leverage tourism investment without a direct financial cost is granting concession rights to tourist-related facilities. Such arrangements can involve requirements to undertake investment to improve and maintain infrastructure. In Italy for example, the government has leveraged private sector engagement at tourism sites by granting concession rights free of charge to organisations willing to bear the investment costs to transform state-owned cultural heritage sites for tourism purposes. The programme aims to encourage development of walking and cycling itineraries along historical-religious routes to grow tourism and promote regional development.

Box 12. Business migration schemes supporting tourism investment

Greece: A permanent residence permit, renewable every five years, can be granted if an applicant takes ownership of a tourism residence for at least 10 years, or holds a 10 year lease on hotel accommodation. The minimum amount of capital required to be invested is EUR 250 000.

Portugal: The Golden Investor Programme allows eligible investors to apply for a residence permit card by making a minimum investment of EUR 350 000. It is estimated that around 30% of all real estate transactions by foreign investors in 2017 were done with the objective of getting a residence card.

United States: The EB-5 Immigrant Investor Programme saw usage double between 2014 and 2015. Under this programme, entrepreneurs can apply for permanent residency if they invest at least USD 1 million in a new commercial enterprise creating ten full time jobs. Hotel projects are reported to be one of the highest used categories due to their ability to create jobs.

Another 'non-financial' policy that can leverage investment is a government's encouragement of businesses to implement corporate social responsibility programmes such as funding environmental or cultural works associated with tourism. Italy, for example has recently seen a number of cultural sites renovated with funds from private donors. The Italian food destination developer Eataly has pledged EUR 1 million to restore Da Vinci's *The Last Supper,* and fashion house Fendi paid for a 16-month clean-up of the Trevi fountain. While there are parallels with traditional sponsorship and donation programmes, commitments on this scale and concerning high profile cultural and historical assets with tourism significance takes them into a special category, particularly with the need for tight government control and supervision around restoration works with cultural significance.

A country's tax system is also a mechanism that countries use to deliver investment incentives. Tax concessions can range from reduced headline tax rates, accelerated deductions for capital expenditure and tax incentives, through to tax exemptions or tax holidays. For example, in Australia there is an accelerated depreciation deduction for capital expenditure on hotel and short-term accommodation developments. Tax concessions are also regularly a component benefit offered as part of an investment attraction strategy, for example in Greece and Costa Rica.

Tax provisions, however, do not necessarily lead to "additional" investment but might lead to windfall gains for investors who would have otherwise invested in the absence of the tax incentive. Tax provisions should, therefore, be designed with care and they should be evaluated regularly.

Tax incentives can be narrowly targeted to facilitate development of particular tourism market niches or types of tourism. In Italy, the 'Art Bonus' tax credit system has been introduced with the aim of stimulating investment in the accommodation sector and to drive other policy objectives such as moves to energy efficiency and digitalisation. Introduced in 2015, the incentive supports the renovation of tourism accommodation, with particular focus on energy efficiency and anti-seismic measures, covering between 30–65% of the cost. With an initial budget allocation of EUR 170 million for the period 2015-2017, the action has been renewed until 2020 with a budget of EUR 240 million. An additional tax credit is also dedicated to digital technology infrastructures. Up to 2018, investments of EUR 140 million taking advantage of the initiative in the accommodation sector have been registered.

Mobilising the private sector and new actors to boost quality tourism investment

Analysis of whole of economy investment stresses the importance of private sector investment. Private funding comprises the vast majority of total fixed investment, estimated to be in the vicinity of 80-90% (WTTC, 2015). The growth in global travel flows and earnings from the sale of tourism services has attracted the attention of investors who have identified it as a priority sector for investment. Countries report that there is much interest in investment in tourism assets. However, the challenges and barriers outlined earlier require active policy participation, with governments also increasingly looking to the private sector to fund infrastructure. With public budgets tightening, governments are also searching for new tools with a stronger focus on the private sector.

Initiatives to leverage public investment help to boost private investment. Beyond this, the changing investment climate in tourism and structural change in the sector (primarily facilitated by digitalisation) is expanding the stakeholder base that governments engage with. This brings the opportunity to leverage capital and experience into new investment. For example, environmental concerns regarding tourism and tourism investment are bringing conservation and philanthropic bodies into the investment space. Increasing sensitivity of communities to the impact of tourism is heightening their voice and influence in tourism investment and infrastructure projects, and in some cases shaping the type and extent of investment. In addition to exhibiting good public policy practice by consulting with effected stakeholders, governments should see this as an opportunity to expand the pool of investment capital.

Intensifying private sector engagement with partnerships and privatisations

Following some weakness in the wake of the international financial crisis, privatisation activity is on the rise, including in tourism. Privatisation revenues overall rose from around USD 110 billion in 2008 to USD 266 billion in 2016 (OECD, 2018c). From a tourism perspective, privatisations continues to occur with tourism-related assets including airlines (e.g. SAS Airlines in Norway/Sweden), rail (e.g. Eurostar in the United Kingdom), ports and airports (e.g. Nice and Lyon in France). However, the privatisation agenda is not limited to transport. Greece, for example, has indicated that it will accelerate a privatisation agenda to establish ‘state of the art’ tourism, real estate and infrastructure projects.

Public private partnerships (PPP) are another tool that has long been part of the solution in tourism to create infrastructure, enhance destination attractiveness and increase competitiveness. The role of PPPs becomes greater in a constrained fiscal environment. One example of a sector where governments often invests significantly in infrastructure through PPPs is convention and conference facilities. Governments typically own these facilities and work with operators and tourism promotion agencies to attract events. The size and scale of investment, and the high value locations where these facilities are typically located often makes the initial investment uneconomic for the private sector.

Governments justify the investment due to the long-term economic and spill over benefits these facilities can bring to a destination: a strong conference sector, supported by high quality infrastructure, can help address seasonality issues by having events scheduled all year round; business tourists typically spend more than leisure tourists; additional spend can also be leveraged through pre- and post-event touring activities.

As with privatisations, PPPs are evolving to take into consideration more factors, including social and environmental considerations that require greater community engagement. Increasing sensitivity to tourism-related developments has led to greater involvement of local community groups in framing and managing privatisations and PPPs.

For example, in France, the French Government the process to sell Nice and Lyon airport was conducted in close consultation with local partners. Potential investors were required to submit a business plan that met industrial, social and local development criteria. The goal was to ensure continued growth of the airports, as well as to enhance governance rights of minority public shareholders by giving them a greater say. There are also a more diverse range of parties taking part in PPPs in the tourism (Box 13) and by private sector engagement in large scale historical and cultural asset preservations.

The increasing availability of foreign investment enhances the market for privatisations and also presents fresh opportunities for PPPs, but raises policy issues for some countries in terms of 'national interest' tests embedded in most foreign investment review regimes. Countries must come to grips with balancing policy imperatives of remaining open to foreign investment in constrained fiscal circumstances, including from foreign state-owned enterprises and sovereign wealth funds, while at the same time appropriately protecting the national interest. While these issues can be more acute with general infrastructure assets such as power and communication networks, they can also be issues with tourism-related assets such as airports and seaports.

Partnerships between the public and private sector can also improve the business case for investment projects and provide locals with new services. This can be the case where investments in public services such as sports facilities are combined with private sector investment. 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 provides one such example. Individually the business proposals were highly desirable, but not financially viable. By coming together, the public and private actors strengthened the viability of the investment proposal and meant both facilities benefited from economies of scale. Encouraging responsible private sector investment practices

In a tourism investment context, responsible business conduct involves a commitment to sustainable development, transparency and accountability in business conduct, accepting responsibility to avoid harm and working with government to maximise the benefits of investment. However, countries often report that progress is slow with investors acknowledging the need to factor in environmental and social considerations into their investment decisions.

To achieve mainstreamed responsible tourism investment practices involves significant effort in raising awareness of the need for and benefits of responsible business conduct through information dissemination and education, particularly in the early stages. Germany, for example, has implemented a range of initiatives to raise awareness of energy efficiency and encourage transition to energy efficiency in hotels and restaurants. One programme involves hotels implementing initiatives to generate energy savings. The pilot hotels were provided with advice and directed to subsidies available for improving energy efficiency.

Tourism sector representative associations also have a leadership role in raising awareness and encouraging responsible investment practices. Engaging private sector groups is one method of expanding the network of organisations that can educate the business community on sustainable practices, including in investment. For example, in France the Chamber of Commerce and Industry encourages members to adopt a more responsible approach to the environment. Measures it has adopted include providing certification for sustainability in tourism products and creating a website that identifies programmes and funding options that assist tourism businesses adopt sustainable practices such as pollution reduction, recycling and waste management.

There is also evidence that the private sector is developing financial tools and products that address social and environmental criteria. This is often referred to as 'impact investing', and it is hoped that a combination of governing initiatives and leadership from some high profile businesses/financiers with generate a greater awareness amongst the broader investment community to take these sustainability factors into account. One example of a large lender embracing sustainability principles across the spectrum of its business is the European based sustainable financial institution Triodos Bank. Triodos offers loans to businesses to invest in sustainable tourism projects, including hotels, with interest rate discounts for tourism businesses that have been Green-Tourism certified.

Expanding the stakeholder and tourism investor base

New and different actors are entering the tourism investment space, while the behaviour of other actors is changing. Different stakeholders have different perspectives and drivers which influence their contribution to policy and investment, and governments need to balance these different perspectives.

Modes of participation vary, from an advisory capacity in policy development and project assessment, to acting as a 'broker' or 'promoter' for certain types of investment. For example, while non-governmental organisations (NGOs) and philanthropic organisations have for some time been active in tourism investment policy, particularly around sustainability issues impacting tourism investment, they have not traditionally been seen as active participants in brokering investment.

With increasing environmental and sustainability interests in the community, NGOs are increasing their engagement by coming forward with financial proposals to protect and enhance tourism assets and tourism businesses. For example, concerns around climate change and weather patterns impacting tourism destinations has led to the creation of a unique insurance product in Mexico that aims to help protect coral reefs and assist tourism related businesses in the wake of extreme weather events (Box 13). The product has been championed by The Nature Conservancy, working closely with the State Government of Quintana Roo and private insurance providers.

Governments should expand or extend their engagement with philanthropic and environmental organisations to explore if there are opportunities to work together on environmental, historical or cultural tourism projects.

Even if philanthropic funds do not directly support investments in commercial projects, they sometimes are open to investing in advancing projects (strategic plans, feasibility studies etc.), that helps them to become better documented and thus more attractive to commercial investors and operators. In Denmark, for example, one of the largest philanthropic funds, Realdania, has invested in establishing in creating fundamentals for investments in tourism projects along the west coast of the country. Together with the local municipalities and regions, Realdania is investing in strategic plans and local masterplans, to pave the way for private investors in these coastal areas.

Box 13. Coral Reef Insurance Fund in Mexico

In 2018, the Mexican State Government of Quintana Roo and the global conservation organisation, The Nature Conservancy, announced the creation of a trust fund to preserve and restore a portion of the Mesoamerican Reef along Mexico's Yucatan Peninsula. The Reef protects one of the most important tourism hubs in Mexico from storm damage and erosion. Research shows that healthy reefs can reduce wave energy by up to 97%, thereby protecting coastal communities and tourism-related businesses. The Fund has been structured with the backing of the insurance group Swiss Re to make expedited payments in the event of defined weather events. Funds for the Trust will be collected from the tourism industry and government sources and will provide benefits including reef preservation and expedited payouts for repairs and restoration in the event of a hurricane or storm. The Fund has been described as a world first in offering insurance to a coral reef. The model is being considered for use in other countries, including Belize and Honduras.

Source: The Nature Conservancy

The advent of the collaborative economy has dramatically expanded the investor base for tourism assets. Every person who offers their home for accommodation through accommodation sites, or who invests in a new car to participate in a ride sharing scheme, is expanding the investment base of tourism. This carries a number of implications. The entry of these new participants into the sector increases the quantity, and potentially the quality, of services. As tourism demand grows, supply will also need to expand and the increase in home-sharing sites and other service sharing platforms is one mechanism to boost supply.

From an investment perspective, there are issues to consider. Careful consideration of associated regulatory regimes and avoidance of policy shifts is needed in order to provide a stable investment environment. As most collaborative economy participants are individuals and small operators, the overall SME business and regulatory environment will be relevant. Sustainability issues also come into play as local communities concerned about the impacts of the use of residential accommodation by tourists raise questions for government about the and desirability of a large supply of private shared assets for tourism purposes.

In terms of measurement, statistical agencies need to examine if and how collaborative economy assets, particularly real estate, should and can be measured. Until such an assessment has been made and this category of investment data collected, investment in tourism will be underestimated.

Enhancing the role of investment promotion and facilitation in tourism

As operators of Investment Promotion Agencies (IPA), governments have the capacity to extend service offerings and direct the agency to focus on defined priority areas, including tourism. The World Bank (2013) finding that most IPAs perform poorly in providing assistance to prospective investors in the tourism sector indicates are need for improvement in this area. IPAs also need to evolve from being information provision services to more proactive deal brokers so as to convert investment opportunities and leverage additional investment.

In recent times a more 'public-private' approach has emerged in IPA administration – leading to more nimble organisations that use business models similar to private businesses to produce more effective results (Ernst and Young, 2015).

This has led, for example, to the recruitment of private sector specialists in real estate and hospitality; growth of networks and relationships with capital partners to identify new tourism investment opportunities; access to other public agencies to resolve development issues and assist with permits and applications; development of key account management systems to strategically target tourism investors; and development of investment after-care programmes to maximise additional investment from existing investors.

Effective IPAs are also becoming more active in policy advocacy to encourage government agencies to implement investor friendly policies. This can range from assisting with development of incentive and concession programmes, design of supportive immigration policies and easing business regulation.

Countries with a competitive advantage in tourism are leveraging this advantage through national co-ordinated tourism investment promotion and facilitation strategies. The IPA necessarily will have a critical role in implementation of these strategies, and must be resourced and have systems to carry out the strategy. Strategies typically involve cross-government co-operation in investment promotion, recruitment of tourism specialists and additional funding for investment promotional activities. Initiatives can also extend to facilitation services, to ease the transaction and regulatory costs for investors.

Recognising the growth opportunity it presents, many countries have identified tourism as an investment priority area, and have instructed their IPAs to develop capability to secure investment in tourism assets. As tourism can cut across a diversity of sectors and government regulators, investors' transaction and due diligence costs can be greatly reduced by assistance from a knowledgeable IPA. Gathering and packaging market data, highlighting available investment opportunities and offering support and contacts through the investment process are all services that IPAs can offer that reduce transaction costs for investors, thereby making the investment proposition more attractive.

In Greece, for example, a special service for promotion and licensing of tourism investment has been established to attract major investment projects, and ensure the flexibility and the timely processing of the applications submitted by the entrepreneurs. The service, acting as a "one-stop-shop", ensures that investors receive information and tailored support, regarding the conditions, procedures and standards for the creation of tourism facilities, and it supports investors in overcoming administrative barriers (Box 14).

Finland has also identified tourism as one of five industry sectors of focus for its IPA, Business Finland, driven by the growth of the industry in recent years. Investment and tourism promotion activities have recently been unified under Business Finland, which had been formed through the merger of the Finnish Funding Agency for Innovation (Tekes) and Finpro, the largely state-funded organisation responsible for encouraging FDI and supporting Finnish businesses in international markets, including tourism. This merger is providing benefits to tourism investment promotion, since Visit Finland provides valuable insight and knowledge about projects, companies, and tourism sector in general (Box 15).

A successful IPA must develop a competency in investment facilitation if it is to be competitive and effective in today's global tourism investment market. IPAs who establish tourism investment facilitation services will be highly valued by a foreign investor. These services can vary in style and approach from appointment of case managers through to referral services to relevant sub-national agencies to address particular approvals. In any event, it is important that IPA staff have a thorough understanding of tourism regulatory regimes and requirements.

Box 14. Promotion and licensing service for tourism investments in Greece

In 2010, the Greek Ministry of Tourism created the special Promotion and Licensing Service for Tourism Investments (EYPATE), a one-stop-shop to speed up the licensing procedure for tourism investment projects. It was established in response to the need to simplify the licensing procedures for tourism businesses, especially hotels and special tourism infrastructure, and enhance the tourism offer. The purpose of the service is to attract and facilitate new investment projects, streamline the licensing procedures by adopting a more flexible framework, and improve the competitiveness of the Greek tourism sector. The service ensures the flexibility and the timely processing of the applications submitted by the entrepreneurs at all stages of the planned investment. EYPATE consists of three departments, responsible for: i) attracting tourism investment projects, informing and providing tailor-made support to potential investors, ii) licensing, and addressing administrative obstacles, and iii) issuing building permits for tourist accommodation. From the start of 2015 to September 2018, the service facilitated the creation of 28 638 beds in 27 new four and five star hotels and in 87 existing ones. It has also facilitated two integrated tourism resort developments, and granted new or revised licenses to two congress halls, two golf courses, one thermal tourism establishment, three ski centres and one mountain shelter.

A fundamental lack of knowledge by tourism SMEs and destinations of how to appropriately prepare and market a tourism investment opportunity to foreign investors led to a co-operative project in Sweden that has produced a detailed manual on how SMEs and destinations can promote investment opportunities to foreign investors (Sweden case study, Part II). In this case, the Swedish IPA was highly aware of foreign investor interest in tourism assets, but was troubled by the disconnection between the investor community and tourism SMEs.

The case highlights that tourism SMEs and government investment promotion agencies must develop a deep understanding of what information foreign investors need and the timeframes they need it in, to support the tourism investment decision. The demands by foreign investors are often much greater than domestic investors, as they will have more to learn about the local business environment and tourism market. The case also highlights the challenge faced with sustainable investment opportunities and those located in remote or protected areas. These opportunities are often driven by factors other than financial returns which will re-frame the type of investor to which the opportunity should be targeted.

Financial incentives are a common element of investment promotion, including for tourism. Incentives can range from grants, loans, guarantees, tax concessions, fee waivers and free or concessional access to land or other assets. Incentives are often offered across different levels of government, making it difficult for an investor to determine the complete package of assistance available and which jurisdiction offers the most favourable location.

Co-ordination across levels of government can assist resolve this, as can a well-informed national IPA. Furthermore, centralisation of incentives supporting tourism investment in one agency will increase efficiencies, rather than having an investor spend time dealing with multiple agencies. Incentive schemes that provide a large amount of discretion to administering authorities can cause concern to investors, and may have the opposite effect of discouraging investment as investors will be unclear about what exactly is required to access the incentive.

Box 15. Integration of tourism and investment promotion activities in Business Finland

Established in 2018, Business Finland gathers under one roof all the services related to the promotion of innovation funding, exports, investment and tourism in Finland. Tourism is one of the areas prioritised for investment promotion, due to its role in export promotion, and for enhancing the business eco system as a whole. Operating as part of Business Finland, Visit Finland provides valuable insight and knowledge on projects, companies, and on the tourism sector in general, and retains its central functions of promoting Finland's country brand in tourism, supporting product marketing with businesses and co-ordinating product development. The IPA provides an investment catalogue for tourism, outlining projects available. It provides support to investors to find suitable projects and matches them with Finnish banks, as well as preparing roadshows to meet with relevant stakeholders. This approach helps to overcome the main challenges that international tourism investors encounter, including the fact that the market is domestically driven, zoning process is very time consuming, and there are many considerations to be made on environmental preservation. While investors' main focus is on returns on investment, sustainability is promoted through investment by supporting the establishment of local networks, to source local goods. Moreover, the unspoiled nature and new environmental technologies are important attractors for investors.

An example of an integrated tourism-focused suite of financial (and non-financial) incentives is Costa Rica's Law on Incentives for the Development of Tourism. It provides for both fiscal and non-fiscal incentives to tourism businesses. Non fiscal incentives include access to advisory and development programmes, participation in international fairs and facilitation for the obtaining of a liquor license, while fiscal ones include the exemption from all taxes and surcharges applied to the importation of articles required to carry on the business.

Encouraging investment to support sustainable tourism development

An increasing awareness to conserve unique natural and cultural assets, together with recognition that a healthy environment will maintain competitiveness of a destination, has brought focus to the need for a shift toward investment practices to support sustainable tourism. Tourism has an important role to play in driving the transition to a low carbon, resource efficient and socially inclusive development. Even small improvements towards greater sustainability in tourism will have important impacts, and investment is an essential part of this.

This had led to an increasing motivation from both the public and private sectors to invest in sustainable projects (WWF, 2009). Facilitating investment in sustainable tourism development introduces new factors into the investment decision framework which must be accounted for by investors. However, there is still some way to go before awareness and behavioural change is 'mainstreamed' into the tourism and finance communities.

Governments have a critical role to play in driving sustainable growth through appropriate policies, programmes and investment, including building sustainability principles and eligibility criteria into investment policies and programmes, and by increasing awareness and educating stakeholders of the need to build sustainability principles into investment decision making. Incorporating sustainable practices in consumption and production of tourism services requires a major change of mind-set for tourism actors to appreciate that the adoption of sustainable practices is for the benefit of both businesses and the sector as a whole in the long run, as it enables the preservation of the environment that is one of the main drivers of tourism (OECD, 2018a).

The need to 'mainstream' policy and education for the private sector, particularly small and medium enterprises is echoed elsewhere. UNWTO and UNDP (2018c) note that business needs to be 'sensitised' and given access to knowledge and capacity, including in new technologies that encourage investment in greener and more sustainable businesses. In areas where voluntary action is not sufficient, the public sector needs to define clear targets, enabling policies and smart incentives that support and guide sustainable business activities and foster innovation.

Box 16. Finance policies and instruments for sustainable tourism development

Public instruments:

- *Direct:* includes creating or investing in companies that bring in processes or services that reduce negative environmental impacts while increasing productivity.
- *Indirect:* includes subsidised loans or grants, market-based loans (targeting green lending, alternative loan structures, property-linked efficiency loans), (partial) credit guarantees, insurance for green assets.

Private instruments:

- *Market:* includes debt finance (loans, green bonds, mini-bonds), equity and hybrid instruments (mezzanine finance, crowdfunding) and fintech innovations in the finance sector that reduce transaction and borrowing costs (blockchain, learning algorithms, smart contracts).
- *Impact investment:* includes blended finance, positive impact finance, microfinance and rewards-based crowdfunding.

Source: Adapted from OECD Tourism Trends and Policies 2018

A range of policies, programmes and activities are emerging to promote and mainstream investment for sustainable tourism development. These include initiatives to unlock financing, provide incentives and promote more responsible and sustainable investment decision-making, as well as measures to improve co-ordination across government and strengthen the capacity of policy makers to design, implement and enforce rules and regulations.

Solutions are challenged by a range of factors including lack of suitable financial instruments for sustainable tourism projects of all sizes, need for standardised definitions around green investment, lack of sufficient incentive for firms to adopt sustainable practices, and low capacity of policy makers to implement and enforce sustainable policies.

Further efforts are required to promote and mainstream investment for sustainable tourism development, and policy approaches are needed to: promote access to finance for sustainable investment projects of all sizes; incentivise the transition toward low carbon, climate resilient investments and encourage more responsible business practices in tourism; build capacity and better co-ordinate across government; and improved data and analysis on investment in sustainable tourism (OECD, 2018a). A snapshot of financial policies and instruments for sustainable tourism development is provided in Box 16.

Promoting 'greener' investment practices

Financial incentives are an important policy tool to encourage investment in sustainable tourism projects, given that there are often higher costs associated with implementing 'green' or sustainable solutions.

Box 17. Financial incentive programmes for sustainable tourism development

Austria has provided EUR 80 million in subsidies to facilitate transition to 'green mobility', including promoting flexible public transport systems, fleet conversions to alternative energy vehicles, bicycle and pedestrian solutions and car sharing. The programme provides support to businesses and local authorities by providing up to 30% of the investment costs of eco-friendly mobility projects.

Iceland's Tourist Site Protection Fund has funded 750 infrastructure projects since its creation in 2011. Its aim is to protect nature and improve safety at sites on private and municipal land, and to develop new sites to help spread tourist flows. The Fund functions alongside a new long-term National Infrastructure Plan for the protection and development of larger, state-owned and municipal sites.

Mexico has an initiative to reduce greenhouse emissions and encourage the uptake of green energy in the hotel sector. The programme, which is at a pilot stage until 2018, provides long term loans up to MXN 15 million to finance the replacement of water heating systems with solar energy systems. The programme intends to extract lessons from the pilot to assess the viability of extending it across Mexico.

Financial incentive programmes, such as grant and loan schemes, can be initiated to address a particular sustainable investment objective. A broader, more pervasive approach is to build sustainable and environmental criteria into all incentive programmes for the sector, regardless of the programme's objective.

In the first category, financial incentives can include grant or loan funding for development or implementation of new technologies. Programmes range from broad based initiatives to develop regional sustainable development strategies, through to targeted funding for implementation of a particular energy saving technology, for example. At the more targeted level, grant and loan programmes can target sustainability objectives such as the update of capital to more energy efficient standards (Box 17). Spain is implementing a "Smart Destinations" programme which is partly aimed at fostering energy efficiency (Spain case study, Part II). The programme fosters innovation at a local level through the development of new technologies to create differentiated and competitive services.

At a broader level, Chile has implemented a programme, ‘Foco Destino’, to build the capacity of local managers to increase the competitiveness and sustainability of regions. Part of Chile’s National Plan for the Sustainable Development of Tourism, the programme provides for the appointment of experienced managers to co-ordinate tourism policies, connect public and private sector stakeholders and design destination specific promotion strategies. In a related initiative, Invest Tourism aims to attract investment to sustainable projects in “investable” destinations (Box 18).

Governments can consistently encourage and re-enforce investment to support sustainable tourism development by including sustainable criteria across the spectrum of its tourism assistance measures. Therefore, to access any tourism development programme, an applicant needs to demonstrate that it is adopting sustainable practices across its business, including in its investment and development activities. For example, Portugal’s Valorizar programme (Portugal case study, Part II) requires applicants to demonstrate environmental sustainability with any application across the three arms of the grant programme.

Box 18. Boosting sustainable destination development and investment in Chile

Foco Destino programme: Designed by the Ministry of Economy, Development and Tourism and the National Tourism Service, the programme aims to address competitiveness gaps in local destinations and boost sustainable development. It builds capacity at local level by assigning destination managers with at least seven years’ experience to co-ordinate tourism policies in each destination, connect private and public actors, and design and implement site-specific investment promotion strategies. Thirty tourism projects in seven destinations were funded in 2016-2017, with a total of USD 6 million mobilised. Experience indicates that replicating the programme in different destinations is more effective when: the approach is adapted and managers selected to reflect the specific destination; interventions last at least 12 months, with on-going monitoring and co-ordination; projects are jointly prepared by industry professionals, consultants and technical agencies; and strategic private and public actors are involved.

Invest Tourism: The Invest Tourism initiative was launched in 2016 to diversify the tourism offer and stimulate economic activity and income generation in regional areas. A Map of Opportunities for Tourism Investment outlines 27 “investable” destinations where sustainable projects can be implemented. In total, USD 32 million investment is targeted, with projects ranging from USD 70 000 to USD 5 million. From an environmental standpoint, the projects must generate a positive impact in the surrounding area, taking into account the choice of location, conservation of materials and natural resources, quality of the tourism experience, and richness of the environmental interpretation.

Supporting sustainable tourism investment through taxes, fees and charges

Governments can also implement taxes, fees and charges to discourage certain behaviours, such as congestion charges, or use tax concessions to encourage investment in environmentally friendly infrastructure. For example, Italy introduced a tax credit regime in 2015 for the renovation of accommodation with energy efficient equipment.

Taxes, fees and charges can also be introduced to fund investments which maintain and improve tourism infrastructure, including infrastructure aimed at protecting the natural environment. However, the earmarking of tax revenues to attain certain objectives may not be the best or most appropriate approach. It might lead to over- or under-investment, for instance.

Box 19. International visitor conservation and tourism levy in New Zealand

Tourism in New Zealand is heavily reliant on the provision of infrastructure and protection of natural attractions. Tourism infrastructure and services have been under pressure in recent years due to the rapid and high visitor growth. To respond to this challenge, the Government is looking to establish a model where those who benefit from the infrastructure and services provided contribute meaningfully to the costs involved. This requires a package of tools to create responsive and sustainable funding model for the tourism system.

As a first step, the Government has announced it will implement an International Visitor Conservation and Tourism Levy, to fund conservation activity and improvements in tourism infrastructure. The modalities are still being finalised, but one aspect being examined is to direct funds to locations that receive many tourists but have a small number of local residents to fund the infrastructure. The levy will be collected as an additional charge on visa and electronic travel authority application fees, to avoid additional passenger processing time at border entry points. Revenues will be split between conservation and tourism objectives, on the basis that: while the natural environment is a major tourism drawcard it is difficult to generate revenue from it; there are synergies between the conservation and tourism objectives; and that there is a market failure in the provision of visitor-related infrastructure.

Criteria being used to assess different approaches to structure the funding tools for the wider package include: (i) scale of revenue that can be raised to enable investment (ii) level of certainty of revenue to allow for long term planning; (iii) whether the alternative provides for a fair distribution of costs; (iv) level of support to regions to realise tourism potential; and (v) if there a cost effective collection mechanism. Other options being considered include: local government or public conservation user charges; other commercial partnering opportunities; and a local accommodation levy.

User charges are another common instrument to fund development and maintenance of tourism assets, depending on where the user charges collected are deployed (e.g. whether funds collected are taken to consolidated revenue or directed exclusively to the maintenance of the asset). For example, charges can be collected for access to protected areas, for use of publicly funded facilities like boat jetties and public toilets, or for public infrastructure like roads and bridges. User charges are often implemented as the revenue generation can usually be accurately predicted and users see it as a fair way to attribute costs and accept that funds need to be raised to provide and maintain public amenity.

There are various models for a user pays system in terms of scope of coverage, revenue certainty and collection mechanism. New Zealand is currently assessing differing models and has concluded that a package of tools is required to create a sustainable funding model, to support the provision of tourism infrastructure and protect natural attractions (Box 19).

Creating suitable financing tools for investment in sustainable tourism

The availability of dedicated finance tools to fund sustainable investment can aid and accelerate such investment. For example, 'green finance' comprises financial instruments which have the specific purpose of delivering environmental benefits by tackling issues such as clean energy production. This includes green bonds (debt instruments), whose proceeds are earmarked for environmental projects. It is not possible to know the extent to which green instruments are financing projects in the tourism sector and the impact of those investments (OECD, 2018a). However, it is worth highlighting the potential for green financing by way of some examples where green bond financing has been used in tourism-related sectors.

In France, the national railway company SNCF issued green bonds in 2017 to finance rail investment. An annual audited report will enable green investors to monitor the use of funds and their environmental impact, including the reduction of CO_2 emissions. In Mexico, green bonds have helped finance the construction of the new Mexico City Airport. Funds from the green bond release will be used to finance environmentally beneficial projects estimated at USD 5.9 billion across sustainable buildings, renewable energy, energy efficiency, water and waste management, pollution prevention and control, and conservation and biodiversity.

The evolution of 'impact investing' in the private sector previously discussed is also relevant, as this typically involves the use of traditional finance methods, but funds are directed at sustainable investment with the expectation of a measurable social as well as economic return. It is expected that these sustainable financing tools will be driven by both consumer and investor demand. On the consumer front, demand by travellers for 'green' and sustainable experiences will drive tourism businesses to provide these products, which could in part be funded by 'green financing tools'. On the investor side, as the pool of investors interested in supporting sustainable outcomes grows, more finance houses will offer green style investment products and funds.

Supporting tourism investment for the digital future

The travel and tourism sector is being significantly transformed by the digital revolution. Digitalisation has changed the way travellers plan and book travel, how they interact with suppliers and access services, and increasingly how they actually experience destinations, both in situ and remotely. It has also radically changed the structure of the sector, with the exit of some players, the entry of new players and the transformation of others, and the way businesses interact with customers and other businesses.

The digital revolution has meant that every tourism entity has to some extent become a 'technology business'. It is a natural consequence that operators across the tourism supply chain will need to invest in hard and soft digital assets if they wish to prosper in the future. This extends from simple service offerings like information on hotel amenities being online in hotel rooms (through TV or mobile applications), to sophisticated artificial intelligence systems that power 'chat bots' to resolve customer inquiries. The application of technology is pervasive across a tourism business - from product development, to marketing and sales, customer management, and financial, people and property management. This has policy implications at both the sectoral and broader economy level.

At the sectoral level, policy makers need to be involved in raising awareness of evolving digital trends shaping tourism, to help ensure investment in the sector is future-oriented. Governments can also take a lead role in co-sponsoring digital-based products and solutions to ensure the tourism sector remains competitive. Tourism policy and marketing organisations can invest in tourism data systems to ensure information is up to date and conveniently available through online platforms, so businesses can make informed product, marketing and investment decisions.

At the economy level, governments must encourage innovation and facilitate technology diffusion. Critically, governments must invest in robust communications infrastructures that provide the internet capacity and bandwidth to support technology dependent companies and satisfy internet hungry travellers. A strong education and research sector is important to provide human resources and know how to drive technology and innovation in the sector.

The unpredictability of digitalisation and its impacts makes it difficult to develop the right policies. Flexibility, agility and innovative thinking by both tourism businesses and policy makers will be key ensuring that a tourism sector thrives as the digital revolution continues.

Investment and access to finance has been identified as one of the key enablers for digital transformation at sector level (European Commission, 2017). Policies that support efficient capital markets and facilitate access to finance will fundamentally assist technology development and uptake. Research on the knowledge and capacity of tourism SMEs to use technology indicates that the main barriers encountered in implementing digital technologies is lack of training, followed by investment costs and uncertain returns. When considering whether to invest in new technologies, lack of finance is given as the main impediment (Grant Thornton, 2016).

Barriers and policies for financing investment are therefore very relevant. In a tourism context, dedicated investment banks that support tourism (as in Austria and Switzerland) or public development funds (as in France and Italy) should consider including investment in tourism technology projects as eligible for financial support in addition to hard infrastructure. Grant and loan programmes aimed at growing tourism businesses should consider including tourism technology projects as eligible for funding.

The significance of digitalisation for the tourism sector has been recognised by some countries with the development of dedicated financial support programmes for digital specific projects. For example, the Spanish Government has launched a ‘Smart Destinations’ programme (Spain case study, Part II) that seeks to use technology to create differentiated and competitive tourism services for a destination in a way that shares benefits with the local community.

Eligible destinations are funded to undertake an intensive assessment process where issues such as big data, the internet of things, open data and other data related sources and concepts are examined to develop more intelligent and competitive tourist destinations. Next phases in the programme, also provided with financial support, could include development of digital solutions to improve tourism management, such as tourist intelligence systems. Training on key competencies within the new technological environment could also be supported.

A Smart Destination Network has also been created as part of the programme. Once a destination has been accredited as a smart destination it becomes a member of the network, which supports destinations in their transformation to the new model of smart management. It aims to promote cohesion, exchange of good practices and use of synergies between destinations.

The availability and reliability of digital communication infrastructure is critical to support businesses who are implementing digitalisation strategies and to provide internet connectivity to travellers. A pressing issue for some countries has been to ensure adequate broadband internet and Wi-Fi infrastructure. A number of countries have noted lack of internet infrastructure, particularly in regional locations, as a constraint on growth. Countries are implementing programmes to encourage internet expansion and upgrades to provide travellers with internet connectivity.

Portugal's 'Valorizar' programme, for example, (Portugal case study, Part II) has a dedicated funding line to support Wi-Fi projects in historical centres to enhance the visitor experience and promote innovation in local communities. The programme provides funds to public entities, with support up to 90% of eligible expenses. There is a general eligibility requirement that projects must be environmentally as well as financially and economically sustainable.

Austria's *Digitalisation Strategy for Austrian Tourism* has prioritised nation-wide coverage of broadband technology as one of the defined measures of the strategy. In Italy, the ministry responsible for tourism signed a protocol with the Ministry for Economic Development and the national digital agency AGID for the creation of new digital services for tourism including national Wi-Fi and large broadband networks. In Switzerland, the role of investment in supporting the digital transformation of tourism is similarly recognised (Box 20).

Box 20. Investment to support the digital transformation of tourism SMEs in Switzerland

In Switzerland, a report on Digitalisation in Tourism identifies the opportunities and challenges of the digital transformation for the national tourism industry. One key finding is that – in addition to digital skills – a high-quality network infrastructure will be an important competitive factor. This is particularly the case for a destination that is significantly more expensive than its international competitors and which must differentiate itself through innovation and quality. The development of the digital infrastructure in the cities is driven by the growing demands of a dynamic economy and society. However, this has not been the case in the peripheral locations, which have a significantly higher dependence on tourism, due to the clearly lower financial potential for the network operators. An adequate level of investment is needed to connect peripheral areas with a network infrastructure of equivalent quality and quantity. Furthermore, the cross-sectional function of investment is crucial for addressing the opportunities and dealing with the challenges of the digital transformation. Investment is especially important to exploit data as a key resource, to advance the potential of new business processes and models made possible through digitalisation, and to support strategies to overcome the far-reaching changes in the tourism labour and training market.

Source: https://www.seco.admin.ch/seco/de/home/Standortfoerderung/Tourismuspolitik/Aktuell.html

Governments have been investing in technologies to ease the movement of travellers, including at borders and with public transport systems. As traveller numbers escalate, digital boarder control systems are a significant area of interest. Systems and technology needs are given extra scrutiny due to the need to manage security risks.

For example, Australia has invested significant government funds in electronic systems for both incoming and outgoing passengers, involving major technology investment with the introduction of automated departure processes. Governments have also invested extensively around the world in integrated public transport ticketing systems and electronic toll systems to facilitate efficient passenger flow. Investment in these areas is likely to continue as traveller numbers grow and operators investigate options using smart phone applications.

Recognising the importance of up-to-date and accessible tourism data, public tourism agencies can develop data consolidation and management tools to disseminate data and market intelligence to assist tourism businesses make investment decisions. For example, Portugal has developed the TravelBI business intelligence platform to provide up-to-date data, statistics and market intelligence to local operators on the top inbound source markets. The platform integrates information from various national and international sources information systems. Tourism investors and companies can easily access statistical information and analysis on tourism, data by source markets, national strategic priorities, and emerging market trends. This information sharing mechanism provides more and better knowledge to companies.

Tourism policy agencies need to be attuned to and develop a deep understanding of the implications of enabling technologies. This knowledge must extend beyond the benefits and impacts on visitor economy and on domestic/international travellers, to impacts on the broader economy. Thorough consideration by policy agencies, including tourism policy agencies, is required to determine the case for or against a new technology, and avoid destabilising policy changes at a later stage. Uncertainty regarding acceptance or approval of technology applications can undermine investment, leading to losses in efficiency and customer satisfaction.

Advances in technology in the tourism sector will have significant impacts on tourism labour markets. As automation and artificial intelligence becomes more prevalent, workers will be displaced. At the same time, the growth and use of technology will call for workers with technology skills both in development and maintenance. While not within the scope of this report, the need for investment in human capital development will be significant. This is a significant issue worthy of further investigation to assist transition of the sector into the digital future (OECD, 2018a).

Monitoring and evaluating impact of tourism investment policies

Tourism investment policies and programmes should be evaluated regularly to judge their impact and effectiveness, and to guide programme development as appropriate. The sector is a constantly evolving and regular monitoring and evaluation is essential to measure the performance of public spending on tourism and ensure policies are effective and fit for purpose, and remain so over time. It is also important to monitor the impact of tourism investment, not just on the economy but also on the environment and local communities.

Limited information is available on the quantity and quality of investment in the tourism sector. A review of OECD databases and consultation with national tourism administrations and statistical offices has identified weaknesses in the evidence base to support tourism investment policy and decision making. Data collection on tourism investment needs to be significant improved to provide meaningful information for policy makers and investors.

Solid and robust evidence is needed to inform the design of tourism investment strategies and plan strategies, and support quality tourism investment. Limitations with available statistics and information on investment in the sector highlight the need for improved data to guide policy and support investment planning. The development of effective, joined-up tourism policy, including investment, and the evaluation and performance assessment of policies and programmes affecting tourism development, is reliant upon the timely availability of relevant data and research, which may in turn require additional resources and competencies in tourism organisations.

Usual measures include internal or external policy reviews or evaluations to assess if programmes are meeting their objectives. At a broader, sector and economy level, Costa Rica has implemented a Social Progress Index to measure the well-being of people in tourist destinations. The process involves the creation of indicators that are tailor-made for tourism communities which reflect the multidimensional nature of tourism and the nature of a particular area. The Index stimulates participation of local communities and have helped develop a road map to strengthen tourism's role as a driver of development.

Regular qualitative surveys which can generate time-series data are another mechanism to assess if a tourism development is progressing in a positive way, and in turn inform investment decisions. For example, New Zealand has commenced a regular survey of residents on their perceptions of international tourism. Called "Mood of the Nation", it is designed to to reveal New Zealanders' sentiments about international tourism and identify key issues that might negatively impact perceptions and tolerance for further growth. Amongst other things it measures community perceptions on acceptable visitor numbers, perceived benefits and impacts of international tourism, and the top reasons why people may feel that there are too many visitors. Similarly, Visit Flanders engages in active dialogue with residents to respond to their needs and raise awareness on the economic relevance of the tourism sector.

Part II. Tourism investment case studies

This section presents selected case studies on investment approaches and good practices. The first case presents the challenges and key learnings from developing a five-year Regional Tourism Infrastructure Investment Attraction Strategy in Australia. The second case study, in France, highlights the role of the newly created Tourism Investment Fund to mobilise private investment in the sector. Portugal outlines the effectiveness of financing lines in developing sustainable tourism destinations, while Spain focuses on digitalisation. Sweden has given great focus to developing capabilities among tourism SMEs to attract investors, developing a manual of best practices. Each case study provides technical information to support the policy discussion and may serve as a learning model.

Australia: Implementing a national strategy for regional tourism investment

Australia has had success in attracting tourism investment into major city destinations. This has not extended to the same extent in regional locations. Accordingly, through an inter-governmental framework which includes federal and state and territory governments, a five-year Regional Tourism Infrastructure Investment Attraction Strategy (the 'Regional Strategy') has been developed. The overriding objective of the Regional Strategy is to attract foreign direct investment into regional tourism infrastructure through co-ordinated facilitation, regulatory reform and investment promotion. This case provides an interesting example of a co-operative national investment strategy encouraging tourism investment into regional areas and highlights issues such as prioritising regional investment, promoting economic inclusiveness, and tackling barriers to investment in regional areas.

Description and rationale

Australia's investment promotion agency, the Australian Trade and Investment Commission (Austrade), and its national marketing organisation, Tourism Australia, have a formal partnership to work together to attract investment into tourism infrastructure (short term accommodation and leisure experiences and attractions) in Australia. The partnership started in 2012, and in 2014 tourism was designated as a national investment priority.

The partnership also works co-operatively across all states and territories through an Investment Attraction Partnership Group (IAPG) which meets twice a year to ensure endorsement and co-ordination of tourism investment attraction activities. This group has a representative from each jurisdiction and has worked to support a strong pipeline of new accommodation in Australia's capital cities to help achieve the Tourism 2020 target of between AUD 115 billion to AUD 140 billion in visitor overnight spend. While the investment strategy itself is not confined to accommodation, there is a focus on this as highlighted in the Tourism 2020 strategy and experience to date that other tourism investments are not as attractive to international investors.

In 2016 after a review of investment attraction work to date, Austrade and Tourism Australia proposed the Regional Strategy to complement the investment attraction work taking place with regard to the 10 major markets. The Regional Strategy targets tourism regions where the visitor economy is showing signs of growth but is being hindered by supply-side issues (i.e. market failure, red tape). In Austrade's experience to date, many of the challenges facing investment into tourism in regional areas apply to other sectors, such as shortage of supply of skilled labour, regulatory issues, delays in approvals, cost of development, rather than being solely confined to tourism.

The aim of the Regional Strategy is to enable a co-ordinated investment attraction, regulatory reform and investment push as well as highlighting working examples of policy impediments which may hamper future growth. It does not set quantitative targets, but it provides an opportunity to test investor appetite for regional tourism infrastructure, helping to distribute expenditure beyond major gateways and diversify regional economies. While the number of foreign investors in regional tourism product is small, it has been growing with recent acquisitions by both new investors and those reinvesting in Australia. Supporting this investment is an increase in travel beyond gateway cities and growth in international demand for Australia's distinctive and authentic experiences.

The pursuit of regulatory reform is vital to ensuring that Australia remains competitive, not just in terms of boosting visitation, but in attracting investment in accommodation that meets the needs and expectations of visitors. A report by Austrade for Tourism Ministers, the *Tourism Investment and Regulatory Reform Report Card*, outlines 38 recommendations for Australian, State and Territory Governments aimed at fostering a supportive and streamlined regulatory environment for tourism accommodation investment. The Australian Government is working closely with all levels of government to implement these reform measures, particularly those relating to planning and environmental approvals.

Governance

The Regional Strategy was approved by the Australian Minister for Trade, Tourism and Investment in September 2016 and subsequently endorsed by state and territory government tourism ministers later that year. It was agreed that each jurisdiction would select a pilot region (8 in total) that would work with Austrade and Tourism Australia to implement the Regional Strategy. State and territory governments are vital partners in successfully attracting foreign direct investment (FDI) and overcoming regulatory barriers to investment. Progress of the Regional Strategy is monitored by the IAPG and reported to the Australian Standing Committee on Tourism and the Tourism Ministers Meetings twice a year. The oversight by the IAPG has been essential in ensuring buy-in from each jurisdiction to implement the strategy and report on progress. Meetings of the IAPG provide the opportunity for each state and territory to report on their tourism initiatives and share ideas and best practices.

Objectives

Under Australia's national tourism strategy, *Tourism 2020*, governments and industry work collaboratively to grow the sector and instigate reforms to improve its competitiveness. Tourism 2020 set an investment target to increase accommodation capacity, especially in capital cities. The Strategy has been very successful to date in attracting investment into capital city locations and a shift of focus is now required to concentrate on regional locations. Ideally both brownfield and greenfield investments are sought, but initial feedback from investors is that for regional investment brownfield is preferred. This is partly due to high development costs and the higher level of risk in greenfield development.

A key objective of the Regional Strategy is to shift stakeholder and investor attention to a narrower but important area of opportunity and challenge of regional investment, ultimately developing a more diverse and sustainable tourism offering in regional iconic Australian destinations. The purpose of the Regional Strategy is to attract FDI into regional product (accommodation both new capacity and upgrading of existing, as well as leisure experiences and attractions) to help increase regional Australia's share of the social and economic benefits of the visitor economy. The programme is guided by defined long term objectives and short term goals (Box 21).

Selection criteria for pilot regional locations

Indicative criteria based on investor feedback for a potential pilot region were provided to states and territories by Austrade andTourism Australia to assist with their selection (Table 3). These were developed to ensure that effort is directed towards regions where evidence indicates international visitor demand is being curtailed by supply-side issues (i.e. evidence of market failure) preventing the development of accommodation (including luxury accommodation) and leisure attractions and experiences.

Jurisdictions selected the following pilot regions for the programme: Canberra Region (Australian Capital Territory), Snowy Region (New South Wales), Katherine Town and Surrounds (Northern Territory), Whitsundays (Queensland), Kangaroo Island (South

Australia), East Coast (Tasmania), Great Ocean Road (Victoria), and Margaret River (Western Australia).

Box 21. Strategic objectives of Australia regional tourism investment strategy

Long Term Objectives

- Bring tourism infrastructure investment opportunities to fruition.
- Increase Australia’s share of international visitors, particularly from growing Asian markets;
- Increase availability, quality and choice in accommodation options to meet expected demand;
- Introduce high quality products, services, systems and standards that will increase Australia’s competitive advantages;
- Transfer technology, capability and skills to boost Australia’s productivity.

Short Term Goals

- Develop and execute an Australian Tourism Investment Programme which directly results in an increase in the value of tourism investment in Australia;
- Raise awareness of Australia as an attractive place to invest;
- Remove potential barriers to investment by providing investors with opportunities for FDI which have reduced planning and development approval requirements;
- Provide state and territory investment promotion agencies and state and territory tourism organisations with tangible FDI leads that match their identified goals;
- Strengthen the tourism investment environment.

Implementation of the strategy

The implementation of the strategy is being undertaken under six broad categories: strategy and policy context, research and collateral, stakeholder engagement, investment opportunities, investor targeting, and facilitation and aftercare.

Work to date has focused on developing the strategy and policy context, conducting research, and producing collateral. States and territories have concentrated on developing their implementation plans for the strategy and associated action plans. Where possible, the Partnership seeks to capitalise on existing government programmes and harness the knowledge of both government and industry experts to deliver on objectives. Effective engagement with Australian and state/territory governments, local councils and industry is especially critical to understanding and addressing barriers to investment in target regions. The strategy is implemented within existing budget and resources for Austrade and Tourism Australia in terms of their investment attraction work.

Table 3. Selection criteria for tourism investment attraction pilot regions in Australia

Growth in tourist visitation	• Strong growth in visitor demand and a broad base of demand • Competitive hotel occupancy rates • Close proximity to a university with high levels of international student enrolments
Iconic or outstanding natural attributes	• Areas of high natural amenity or act as a gateway to areas of high natural amenity (including consideration of areas in the former National Landscapes Program) • Unique offering of interest to investors (e.g. indigenous tourism, eco-tourism, cruise, golf, winery and wellness)
Strong brand recognition and marketing support for the destination	• Aligned with Tourism Australia's marketing campaigns i.e. Aquatic and Coastal and Restaurant Australia • Support and buy-in from local and state and territory governments • Existing investor interest in the region • Strong support from the domestic travel market and/or other relevant industries
Well-developed supporting economic and social infrastructure	• Existing or committed major investment in transport infrastructure (particularly aviation) • Within a two hour drive from a major population centre or airport
Evidence of regulatory barriers to tourism infrastructure investment	• e.g.: land supply, planning or heritage issues

Performance indicators and evaluation

The main key Performance indicators that will be used to evaluate the strategy are:

- Number of site visits by foreign investors assisted by Austrade, Tourism Australia, and States and Territories;
- Number of new rooms added to the supply by an international investor assisted by the partnership (new investment or reinvestment);
- Dollar value of investment in refurbishments/upgrades of accommodation by an international investor assisted by the partnership;
- Number of new foreign investors investing in the Australian tourism industry (via acquisition or development) by an international investor assisted by the partnership;
- Number of new brands entering the Australian market that support Australia's destination marketing efforts (via new product or marketing distribution channels) due to an introduction by the partnership;
- Number of returns on investments and expressions of interest submitted by foreign companies (introduced by the partnership) on tourism investment projects;
- Feedback from government (state and federal including Minister's office) on the value of insight provided by the partnership on international tourism investment drivers and policy barriers/impediments.

Key results

Eighteen months into the Regional Strategy, implementation plans have been developed by all of the eight jurisdictions, and Austrade and Tourism Australia have begun a series of visits to those regions to discuss next steps and future collaboration.

The tourism investment website has undergone a major redevelopment making it a one-stop shop for information for potential tourism investors and Austrade's international network

A *National Value Proposition* for investment into regional tourism areas has been developed. This is framed around themes which correlate to Tourism Australia's marketing campaigns – food and wine, aquatic and coastal, nature and wildlife, culture and heritage and wellness. The *National Value Proposition* (available on the www.tourisminvestment.com.au website) outlines the reasons why it is attractive to invest in tourism in regional Australia and identifies areas of investment opportunity backed up with data on visitation. Recent examples of regional tourism investment are showcased. Individual value propositions for each of the regions selected for the pilot have also been developed.

Promotional collateral is used to initiate conversations with potential investors about regional tourism opportunities in Australia generally and in the pilot regions specifically. The main challenge that emerged during this process has been finding good tourism projects that are ready for investment and likely to appeal to an international investor, also in terms of return on investment.

Investor familiarisation visits hosted by Tourism Australia, Austrade, and State Governments have been conducted to the Whitsundays, Great Ocean Road and east coast Tasmania and Kangaroo Island. These have provided first hand feedback both on specific investment opportunities and more generic information on what foreign investors are looking for in regional opportunities.

The next steps of the strategy are:

- **Wider targeting and profiling of potential investors for regional tourism investment**. Australia's investment promotion network on and offshore will identify likely targets for regional tourism investment (Table 3) as well as testing the appetite of existing foreign investors in Australia for investment outside of major cities.
- **Work with regions on identified barriers/impediments to investment**. Detailed discussions are ongoing with jurisdictions who have submitted implementation plans to identify the major barriers and impediments which exist in the local investment environment and how these might be mitigated and prioritised by actions at federal, state and local levels. Similar barriers exist across regions usually in connection with the complexity of planning processes.
- **Identification of investment ready projects in regions selected.** Feedback is being consolidated from investors who have participated in the familiarisation visits to date. From this a more detailed set of guidelines for states and territories will be derived to assist them in identifying and developing "investor ready" opportunities ensuring that the necessary detailed information which investors require about projects is available and that any opportunity has a demonstrable "value proposition" to appeal to overseas investors.

Lesson learnt

Attracting foreign investment is a long term activity and in the case of regional investment a great deal of attention is needed to understand which investors are most likely to be interested in regional tourism opportunities, what type of investment opportunities have appeal and how to frame the value proposition around these regions and opportunities. The national and regional value propositions that have been developed will be tested with investors over the coming twelve months and refined on the basis of their feedback.

More research needs to be undertaken into identifying investors who might have interest in regional tourism opportunities. At this stage feedback is being sought from investors who have already committed to tourism investment in cities to test their appetite for regional investment. In addition initial desk research is being undertaken to analyse who has invested in regional tourism in other countries to see if there are some key features of such investors that can be identified.

The programme of investor familiarisation visits will continue to gather first-hand feedback on the opportunities presented. Complementary to this, work has commenced with regions to identify what needs to be done to improve the investment environment from a planning and regulatory perspective as well as identifying how investment opportunities can be made investor ready and what this means in practice.

The strategy will rely heavily on obtaining and co-ordinating support from all levels of government and local tourism industries if change is to be effected. Initial support has been promising but maintaining this momentum as they move to implementation will be critical.

For further information

Contact: Australian Trade and Investment Commission (Austrade)

www.austrade.gov.au

www.tourism2020.gov.au

www.tourisminvestment.com.au

France: Dedicated fund to mobilise long-term tourism investment

The Bpifrance Tourism Investment Fund (FIT) is a contemporary long-term public-private investment initiative by France's public investment bank to mobilise investment for SME tourism development in France. It is a leading example of the public sector leveraging private sector investment for tourism development, while simultaneously pursuing other public policy goals such as innovation and export growth.

Description and rationale

The France Tourism Investment Fund (*France Investissement Tourisme* - FIT), is a fund managed by France's public investment bank, Bpifrance, launched in October 2015 as part of a major investment push by the French Government to support its 2020 industry development goals. Bpifrance's purpose is to engage with market segments and support companies who have difficulties securing capital and support from traditional financiers. The FIT is dedicated to support business growth, boost innovation and increase competitiveness of tourism SMEs. FIT invests in tourism companies across the sector including hospitality, catering, leisure, travel, transportation and solutions, and across the country including in metropolitan and regional locations.

Bpifrance has extensive experience and a proven track-record in the tourism industry, having supported more than 150 investments in the sector over more than 25 years. Bpi has a strong presence in the sector across France by offering financial products to tourism businesses including loans, guarantees, and exchange of expertise.

FIT aims to support tourism businesses at every key phase of their development, including micro businesses, SMEs and mid-caps. It has been created to amplify Bpifrance action in the tourism sector and has four main objectives:

- To ensure a better visibility of the financial products offered for tourism companies;
- To exploit synergies between strong tourism expertise within Bpifrance and the Bpifrance regional teams who are in contact with project promoters in the territories;
- To respond to changes in the sector;
- To serve as a catalyst for leveraging co-investment with private funds and other Bpifrance funds.

The fund makes equity and quasi-equity minority investments with commitments of between EUR 500 000 to EUR 10 million to support growth, innovation, and international development. FIT is a long-term financier compared to more traditional financing, with a 5 to 8 year timeline, to support the needs of tourism businesses.

The rationale for developing a tourism-specific fund was to support investment in the sector by providing direct financing, fostering co-investment, while providing strong sectorial expertise. In establishing FIT, the Government and Bpifrance recognised that tourism investment in France faces very specific challenges, with the result that innovative projects were not getting to market. In assessing investment opportunities, Bpifrance applies its detailed knowledge of the industry that 25 years of experience in the industry brings. Bpifrance acknowledges that tourism business models are different to other businesses and often difficult to understand for traditional investors. Tourism businesses have specific financial and operational dynamics and have particular financial ratios that portray business performance such as: earnings before interest, taxes, depreciation, amortisation and rent/reconstruction costs (EBITDAR), revenue per available room (RevPar), occupancy rates. Bpifrance is also sensitive to the SME nature of tourism enterprises with many companies lacking financial skills to manage their finances and prepare compelling cases for financial support.

Governance

FIT is part of the EUR 1 billion French Tourism Development programme launched by the French Government in 2015 to support investment into tourism. This was established to address a gap in the economy for middle-market financing. The dedicated funds and investment target are linked to the government's objective of attracting 100 million foreign tourists by 2020, and reaching EUR 50 billion in international receipts. The Fund is fully subscribed by Bpifrance, which is the French National Promotional Bank, Innovation Agency, Sovereign Fund and Export Credit Agency, owned equally by the French State (50%) and the Deposits and Consignments Fund (Caisse des Dépôts) (50%). These two stakeholders are Bpifrance's main sources of funding.

The Fund was initially allocated EUR 100 million which is now almost fully invested. FIT now has funding of EUR 260 million and aims to boost French tourism by supporting predominantly traditional and established businesses in their growth phases (Growth Capital), and startups and new concepts (Venture Capital). Eligibility for support is established on a case to case basis, with the only restrictions that the link to the tourism sector must be significant, and the headquarters or most activities have to be located in France.

Each investment must be approved by FIT's Investment Committee. This Committee, which meets weekly, is composed of professionals from Bpifrance investment department and from other Bpifrance departments such as Loans, Export, Finance, and Innovation. Different to other investment committees in Bpifrance, the FIT Committee is composed of people with tourism knowledge and experience, who are accustomed to tourism businesses, and bring this expertise to companies in the portfolio.

Four experienced investment professionals, located in Paris, operate the Fund. To accelerate its investment pace and to develop financial solutions adapted to territorial specificities, a number of Bpifrance professionals around France were assigned as "Tourism Referents". These regional referents identify opportunities and help facilitate investments in the sector. The Fund focuses its intervention on businesses that follow regional economic development policies and searches for synergies that best complement the initiatives undertaken by the regions. Overall, regional investments account for more than half of FIT's investments.

Executives from the FIT team participate in the French Government's Inter-ministerial Council for Tourism. Bpifrance's FIT team is an active stakeholder and provides feedback and insights to the Council including statistics and information on the development of specific financial products supporting the industry. The Bpifrance team can make a strong, practical contributions to the forum as it has in depth knowledge of the industry. While Bpifrance's shareholder, the Caisse des Dépôts, does not take part in day-to-day operations, a meeting between FIT's dedicated team and its peers at the Caisse des Dépôts is held every quarter in order to share information on the industry.

Key results

Since the launch of the Fund in October 2015, FIT has invested EUR 86.5 million in 44 companies. More than 90% of deals involved co-investment from other financiers (private equity funds, family offices, industrials, business angels, etc). Through its extensive financial networks and recognised expertise in the tourism sector, Bpifrance is able to source other investors for most ventures. In fact, for each euro invested by FIT, about EUR 7 were invested by other co-investors. This leverage factor demonstrates the power of a public development bank to stimulate larger scale investment for tourism businesses. The 'badge of government' combined with Bpifrance's extensive networks and connections with the financial sector provide the ability to magnify the investment (Table 4).

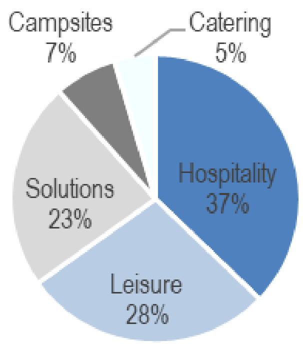
Table 4. Investments through the France Tourism Investment Fund, 2015-2018

Investments	2015	2016	2017	2018*
Entities financed	5	13	17	9
Amount (EUR million)	8.4	24.6	26.8	26.7
Re-investments		1	5	6

Note: *January-July 2018

The creation of the fund has had a significant impact on the ability of Bpifrance to assist the tourism industry. The current average pace of investment in tourism by Bpifrance is in excess of EUR 20 million per year, compared to EUR 10 million before the creation of FIT. The sectoral breakup of funding is summarised in Figure 6. Even though the main sector for investment is hospitality (hotels, resorts, holiday and entertainment residences), FIT's investment strategy has broad sectoral coverage including leisure (activities, tours, recreation) and catering. Significantly, nearly a quarter of the portfolio is in tourism solutions – emphasising the increasingly important place digital innovation has for the industry and Bpifrance's commitment to financing this aspect of the industry.

Figure 6. France Tourism Investment Fund portfolio



FIT is a hybrid fund, with the capacity to invest in both venture opportunities (startups and young companies) and growth operations (mature businesses), with growth capital accounting for 80% of the total amount invested. This flexibility in investment stage is not that common in the French market. The diversity of investment by FIT is provided by examples of Bpifrance investments in Box 10 – from traditional tourism businesses like tour companies through to innovative solutions companies offering an online platform to access adventure sport experiences.

An objective of FIT is to create an ecosystem around the sector, fostering synergies between portfolio companies, which is also a way to counter-balance the risks taken in venture capital investments (Table 5).

Table 5. France Tourism Investment Fund investments by type

Type of investment	Venture Capital	Growth capital
Operations completed	16	28
% of total portfolio	36	64
% of total amount invested	20	80

Lessons learnt

The investment needs of companies supported by Bpifrance vary widely according to the sub-sector and the typology of the companies. This reflects the diversity of tourism and the changes that continue to impact the sector. Bpifrance's view is that it will be increasingly important for SME tourism businesses to access equity financing to give them scale to compete. Pursuing a business growth strategy without external equity investment is becoming more complicated for tourism enterprises. Until recently, the most successful companies in the sector were private (i.e. with no external private equity funds in their capital), resorting to credit as the sole leverage.

Bpifrance also note that there is a resistance within tourism SMEs to accept external equity finances as they fear losing control. FIT has assisted businesses accept the need for outside equity participation, which can bring skills, expertise, and capacity building. Moreover, once the first financial transaction has taken place with investors, enterprises tend to seek new developments, opportunities or undertake a restructure involving shares buy-backs by managers or cashing-out their investment.

Having a dedicated fund for the tourism industry is a key factor in the success of FIT. It has helped to gain visibility and built synergies among the companies that comprise the portfolio. The diversity of these companies creates an 'eco-system' that promotes interactions and collaboration. Therefore, companies are more interested in opening their capital to a private equity fund that not only brings money but also expertise and a network. A new Bpifrance strategy under consideration is to create a 'Tourism Accelerator' to intensify the action and respond closely to the specific needs of SMEs in the tourism sector.

Public development banks can pursue public policy objectives in as part of their financing activities. For example, innovation is a key priority for Bpifrance. Bpifrance and FIT are committed to help the tourism industry meet new challenges and adapt to new emerging trends. These include digital solutions for tourism (artificial intelligence and Big Data, digital transformation for better operational performance, social networks); chatbot tools (planning, customer experience, recommendation tools); searching for experiential and thematic activities shaped by the use of social networks; and easier accessibility of packaged solutions. The knowledge and expertise residing in Bpifrance can help companies accelerate organic growth by seeking Bpifrance's advice on ways to improve quality. FIT, through the extensive Bpifrance operation, provides targeted consulting services to support companies in their growth strategy including operational performance, organisational structure, HR needs, sales performance etc.

For further information

Contact: Bpifrance, www.bpifrance.fr

Portugal: Stimulating investment to promote digital enhancement, dispersal and inclusivity

Portugal, like many countries, suffers from lack of dispersal of tourists beyond key popular city and gateway destinations, and from peaks and troughs in visitation caused by seasonal factors. The Valorizar grant programme supports investment to specifically address the challenges associated with seasonality and achieving a more balanced distribution of demand throughout the country. The programme integrates sustainability, social inclusiveness and digital dimensions through its financing streams and assessment criteria.

Description and rationale

The growth of tourism in Portugal requires constant investment to achieve higher levels of quality and tourist satisfaction. In this context, it is important to ensure conditions for the continuous enhancement of destinations.

Portugal, like many other countries, is challenged by the lack of dispersal of tourists beyond key popular city and gateway destinations, and from peaks in visitation caused by seasonal factors. For instance, in 2016, 77.3 % of overnight stays were in coastal regions of mainland Portugal, and seasonality was 37.5%, meaning that the countrywide demand peak was from July to September. The National Tourism Strategy for 2027 aims to grow tourism volumes in all regions, with a particular focus on regions with a low tourism density, and targets a reduction in the seasonality rate to 33.5% by 2027.

The *Valorizar* programme, promoted by the Portuguese National Tourism Authority (*Turismo de Portugal, I.P.*), was conceived to stimulate a more balanced distribution of tourism demand, reduce seasonality and generate value and employment throughout the country. Created within the scope of the National Tourism Strategy for 2027, *Valorizar* is a programme to support investment in the tourism sector by public and private agents, through grants and loans made available by *Turismo de Portugal*. The programme commenced in 2016 and is structured through four financing lines that tackle the needs identified in the National Tourism Strategy (Box 22).

The National Tourism Strategy, among several challenges, emphasises the issues of territorial cohesion and the sustainability of tourist activity. It outlines challenges for the next 10 years and the *Valorizar* programme seeks to enable conditions to lessen the negative impact and/or mitigate these challenges. In particular, the programme will seek to mitigate regional asymmetries and enhance cohesion, and to reduce seasonality. It also seeks to promote innovation and entrepreneurship, ensure the preservation and sustainable economic valuation of cultural and natural heritage, and guaranteed financial resources.

The vision for 2027 is to affirm tourism as a hub for economic, social and environmental development throughout the whole territory, positioning Portugal as one of the most competitive and sustainable tourist destinations in the world.

The programme highlights how investment policy can promote: i) the regeneration and rehabilitation of public spaces with special interest for tourism; ii) enhancing the country's cultural and natural heritage; iii) enhancing the visitor experience through innovation and digital uptake and iv) encouraging improved access for disadvantaged travellers. As well as seeking to even out the benefits from the tourism economy the programme is also aimed at encouraging improved access for disadvantaged travellers and facilitating greater uptake of internet infrastructure.

Financing provided by the programme has two main purposes. The first is to align priorities of tourism policy with both public and private investment in the tourism sector. Second, it aims to guarantee liquidity to entrepreneurs to develop projects in less developed regions and, to that extent, are less attractive for investors. Typically, tourism projects, especially those involving large amounts of investment, have more difficulty in accessing finance. In this way, state support will enable public and private projects that will be anchors to attract more private investment to those regions.

Box 22. Financing lines of Valorizar programme in Portugal

Financing lines available:

Wi-Fi Projects in Historical Centres: Support for investment in projects to provide Wi-Fi access in historical centres and tourist areas, maximising the tourism experience in Portugal, promoting the intelligent management of destinations and positioning tourism as a leader in the development of smart cities and more sustainable ways of managing cities and their resources, while also contributing to improvement of citizens' quality of life and economic development. It aims at enabling municipalities to offer free Wi-Fi hotspots to enhance tourism experience, promote local companies and facilitate access to social media.

Accessible Tourism Projects: Support for projects aimed at the physical adaptation of public spaces, resources and services of tourist interest to persons with special needs, temporary or permanent. It aims to facilitate access to tourism activities and resources for people with disabilities, in order to guarantee an inclusive reception for all tourists.

Valorisation Projects in the Country’s Interior:. Provides support for projects aimed at developing and enhancing the heritage and endogenous resources of the regions, including railway tourism, that contribute to the attractiveness of domestic destinations. Particularly projects in Portuguese villages in order to improve their attractiveness and the tourist experience in these spaces. It aims to spark those first private and public investments needed to develop the interior of the country, and bring tourism to new regions from more stressed areas, like Lisbon and Porto

Sustainable Projects: Support for initiatives/projects that promote greater integration between residents and tourists, improving resident’s quality of life and promote greater retention of value generated by the tourism activity for the community. Projects are aimed at the economic promotion of urban spaces, by supporting the qualification and innovation of proximity trade and local markets, including the training of human resources, and the consumption of local products by visitors. The line also supports projects and actions of environmental and social education in tourism, aimed at the protection of natural and cultural heritage.

Governance

The *Valorizar* programme was launched in 2016 with initial funding of EUR 20 million, increasing to EUR 60 million in 2017, and targets public entities and private enterprises nationwide. It is structured into four financing lines (Table 6): Wi-Fi projects in historical centres, accessible tourism projects, valorisation projects in the country’s interior, and sustainable projects.

Table 6. Financing lines available in Valorizar Programme in Portugal

Financing Line	Year	Overall financial availability (EUR)	Eligible expenses (%)	Beneficiaries	Nature of the grant	Limit of financial support per application * (EUR)
Wi-Fi Projects in Historical Centres	2016-17	7 million	90%	Public entities	Non-refundable	50 000
Accessible Tourism Projects	2016-17	13 million	90%	Public entities Private enterprises	Non-refundable Refundable	200 000 200 000
Valorisation Projects in the Country's Interior	2016-18	30 million	90%	Public entities Private enterprises	Non-refundable Refundable	400 000 150 000
Sustainable Projects	2018-18	10 million	80%	Public entities Private enterprises	Non-refundable Refundable	300 000 100 000

* the limit of financial support per project may, exceptionally, be exceed upon governmental decision given the special relevance of the project or collective projects (from 5 to 20 applicants).

The funding lines are publicised in the *Diário da República* (Official Journal of the Portuguese Republic), and through the official online communication channels of *Turismo de Portugal*, mainly turismodeportugal.pt, social media and press. *Turismo de Portugal* also promotes national and regional workshops concerning the funding lines available for potential applicants.

The monitoring and evaluation of the results from the previous National Tourism Strategies (2007-2013) allowed Portugal to identify territorial gaps and specific needs. Hence, the National Tourism Strategy for 2027 was designed involving regions, local government, institutions, enterprises and civil society. The programme is entirely managed and evaluated by *Turismo de Portugal* according with a specific set of criteria for each financing line available. Those projects approved are monitored and supervised by officers of *Turismo de Portugal*.

Whenever possible, supported projects are interconnected with projects from Portugal 2020 (European Structural Funds) and the possible complementarities at regional and local level are explored.

The grants for public entities are non-refundable fund up to 90% of the eligible investment. For private company recipients, the financing with no interest rate is refundable and takes place over 7 years, including a 2-year grace period.

Although each financing line holds specific conditions of access depending on its objectives and the scope and nature of the investment (Table 7), they share two main conditions of access:

- The projects need to demonstrate that they are environmentally, financially and economically sustainable;
- The projects integrate components that promote accessibility for all, in particular for those who display special, temporary or permanent needs.

Through a legislative regulation, which sets out the terms and conditions for the grant's concession, the responsibility lies with *Turismo de Portugal* to analyse and evaluate the applicant's project and the final decision regarding the financial support granted. The formalisation of the concession of these incentives are made through a financial agreement between the applicant and *Turismo de Portugal*.

Table 7. Valorizar Programme Eligibility Criteria in Portugal

Financing Line	Evaluation Criteria
Wi-Fi Projects in Historical Centres	• Area of intervention • Quality of the proposed solution • Included in a smart cities strategy
Accessible Tourism Projects	• Coherence and quality of the project presented, in view of the objectives of the financing line • Scope of the planned interventions • Degree of innovation in the solutions presented for interventions of a material and non-material nature
Valorisation Projects in the Country's Interior	• Coherence and quality of the project presented, in view of the objectives of the financing line • Degree of innovation of the project presented • Contribution of the project to the enhancement of the interior or to the reinforcement of territorial cohesion
Sustainable Projects	• Coherence and quality of the project presented, in view of the objectives of the financing line • Degree of innovation in the solutions presented; • Contribution of the project to the goals of social and environmental sustainability in tourism, as defined in the Tourism Strategy 2027 Framed in a smart cities project

Note: The total funds available for *Valorizar* are assured through the annual budget of *Turismo de Portugal*.

Key Results

As at June 2018, 345 projects have been supported by *Valorizar*, with a total of EUR 58 million in grants stimulating a total investment of EUR 309 million (Table 8). At June 2018 there were still EUR 163 million worth of project's investments to analyse. The Sustainable Projects financing line are still at an early stage of development. It is expectable that this line will reach at least 100 funded projects until the end of 2018, with special impacts in urban areas like Lisbon and Porto.

Table 8. Results of the Valorizar Programme by financing line, Portugal

Financing Line	Year	Number of projects	Beneficiaries	Investment amount (EUR)	Grant amount (EUR)
Wi-Fi Projects in Historical Centres	2016–2017 (concluded)	103	Public entities	14 million	7 million
Accessible Tourism Projects	2016–2017 (concluded)	73	Public/private entities	50 million	9 million
Valorisation Projects in the Country's Interior	2016–2018 (concluded)	163	Public/private entities	225 million	41 million
Sustainable Projects	2018-2018	6	Public/private entities	20 million	2 million

Box 23. Projects supported by the Valorizar programme in Portugal

Accessible Tourism financing line:

Mosteiro da Batalha and **Convento de Cristo** are two national monuments classified as World Heritage Sites by UNESCO which together welcomed approximately 700 000 visitors in 2016. With assistance from the Valorizar Accessible Tourism funding line, the Portuguese Directorate of Cultural Heritage (DGPC) improved the physical accessibility and adapted several functional areas of the sites to improve visitation. Audio guides in several languages and signage in several monuments were also financed. Total investment amounted to EUR 543 513, of which Turismo de Portugal provided EUR 400 000.

With over 235 000 annual visitors, **Calém Port Wine Cellars** is an interactive museum about Port wine and the Douro valley wine region. The project supported by Valorizar included the physical adaption of several areas in the cellars and museum as well the introduction of accessible digital content, ensuring an improvement of the overall experience and dissemination of the vineyard’s culture, the port wine and the region. Turismo de Portugal invested EUR 200 000, leveraging funds for a total investment of EUR 843 643.

Country’s Interior financing line:

Arouca Geopark Association promotes and manages the area classified as Arouca Geopark, as well as the protected areas and places classified as Natura 2000 network. The project supported by Valorizar aimed to value specific assets related to history, culture and identity of the region, promoting new routes, a new strategic plan and the digitalisation of the Arouca Geopark. The grant by Turismo de Portugal amounted to EUR 258 840, and a total of EUR 316 000 was invested.

Keep Walking is a project promoted by the Portuguese Camping and Mountain Climbing Federation aimed to simplify processes to set new pedestrian paths, while providing a digital platform to continuously monitor and evaluate the conservation and safety of the paths. It also financed the creation of new physical and digital instruments to enrich the interpretative contents for each route. The total investment amounted EUR 380 500, with Turismo de Portugal providing EUR 239 705.

Lessons learnt

The *Valorizar* programme has revealed a significant demand for development of tourism projects in low-density areas, demonstrating the great vitality and interest in the tourism industry as an instrument of regional development and territorial cohesion.

The purpose of the programme was to induce new investment in key areas of the tourism industry, especially in the interior of the country, aiming to boost job creation and economic sustainability throughout the year. This momentum was achieved with EUR 309 million invested in less than two years, creating an opportunity for *Turismo de Portugal* to focus on more specific themes within the tourism industry.

As a result of this success, and with the conclusion of the financing lines for Wi-Fi Projects in Historical Centres Accessible Tourism Projects and the Country’s Interior, a second phase of *Valorizar* was set in motion in July 2018, with the launch of the first specific call of the new Country’s Interior line. Aspects of the programme have been amended to improve administration and targeting. *Valorizar* has shifted to a system based on calls for funding, and with an increased focus on innovation and sustainability in 2018 and 2019. The aim is to promote and facilitate new investments in specific products identified in the National Strategy for 2027 as differentiating assets which reflect intrinsic and distinctive characteristics of the destination. The move to calls allows Turismo de Portugal to rank the best projects according to their merit and goals.

Turismo de Portugal will launch specific calls for specific types of projects or tourism products (for example wine tourism, equestrian tourism, digital). The first call launched in July 2018 and in force until September 2018 is focused on cultural routes, equestrian, wine and military tourism and has a budget of EUR 5 million. In just 3 days it received 15 applications worth a total of EUR 4.4 million of investment. *Turismo de Portugal* is aiming to launch one more call to focus on technology/digitalisation, and another one until the end of 2018.

The digitisation of tourism services is one of the priorities of tourism policy in Portugal as a way to align tourist business with market trends. The strategy to invest in this area has two main approaches. The first is to provide the destinations with Wi-Fi connectivity and, from there, collect data that allows destination managers to manage tourist flows and anticipate impacts. The Wi-Fi Line had this objective of endowing the destinations of basic infrastructures for the digitisation of businesses. There will be a programme to stimulate the implementation of smart destinations strategies, starting in 2019.

A second approach is to introduce digital and technology in tourism businesses, with solutions to improve the tourist experience in destinations (Artificial intelligence, Virtual Reality, IoT, etc.). The *Valorizar* programme will also look to finance projects that support these enhancements in the industry.

For further information

Contact: *Turismo de Portugal*

www.turismodeportugal.pt

Spain: Investing in 'Smart Destinations' for digitalisation and sustainable tourism

Enabling technologies have been identified as one of the 'megatrends' impacting the evolution of tourism in coming years. Investment in digital technology and related assets is therefore expected to be a significant ongoing issue. Spain's 'Smart Destinations' project examines the effective use of digital technologies to develop the industry, at the same time focussing on sustainable development of a location by improving both the visitor experience and the quality of life of local residents. The case is interesting for its socially inclusive, sustainable and technology dimensions.

Description and rationale

SEGITTUR, a body attached to the Spanish Ministry of Industry, Commerce and Tourism, provides financial and non-financial support to assist designated 'smart destinations' to become more competitive and sustainable through the development and deployment of innovative information and communication technologies (ICT) to create differentiated and competitive tourism services. A 'Smart Destination' is an innovative tourist destination using state-of-the-art technology for the sustainable development of the destination, accessible to everyone, that facilitates the visitors' interaction with and integration into their surroundings while also improving the quality of life of its residents.

This 'Smart Destinations' initiative has been developed and promoted by SEGITTUR to improve the position of Spain as a world tourism destination. SEGITTUR promotes innovation in the Spanish tourism industry through both public and private sectors by creating new models and channels for the promotion, management and creation of smart destinations, support for entrepreneurs, and new sustainable and competitive business models.

The programme was developed to help tourism destinations adopt a new model of tourism development based on ICT, innovation, and sustainability, as it was thought traditional tourism plans were not fully considering these aspects. There was also an urgent need to establish parameters to prioritise investment in Spanish tourist destinations, as in the past national tourism programs had allocated funds to destinations without a common methodology of diagnosis and planning to identify needs. In response to this need, SEGITTUR initially worked in the methodological definition of the model and, secondly, in the implementation in tourist destinations.

The Smart Destinations programme is supported though three main actions:

- Financial support to local entities to carry out the diagnosis and planning of their destinations;
- Financial support to local entities to deploy ICT solutions related to smart tourism management;
- Counselling and mentoring services through the technical office for Smart Destinations' Network.

The programme methodology outlines a set of 400 requirements to become a Smart Destination, grouped under five main fields of study: governance, ICT, innovation, sustainability, and universal accessibility. By analysing destinations compliance, the model helps to define an action plan where prior actions are identified. The first output is the production of a strategic roadmap establishing the baseline for future investment in the destination, and prioritising key investment areas.

The analysis done under the 'Smart Destination' initiative includes issues such as i) ensuring sustainable development, ii) managing the carrying capacity of destinations, iii) contributing to the seasonal and territorial distribution of tourism flows, iv) increasing profitability, v) promoting the redistribution of wealth generated by tourism activity, and vi) improving tourist satisfaction.

A further aim of the initiative is to set up a standardised framework that establishes the minimum requirements to hallmark tourism destinations as 'Smart Destinations' aligned with the Spanish Digital Agenda and with the concepts of Smart Tourism, Smart Cities and Smart Territories.

Governance

The Smart Destinations programme has moved through two stages since its launch in 2012. The first phase of was one of 'methodological definition', where diagnostic and planning pilot projects were carried out. The second phase involved a co-financing programme to expand the territorial scope, based on a contrasted methodology.

During the first period of the programme, SEGITTUR worked on the definition of the requirements and metrics that a Smart Destination should comply with, by analysing a whole set of requirements and indicators from different sources and developing pilot projects to test the methodology and get feedback from destinations. Then, in order to expand the model, once contrasted, SEGITTUR offered financial support to cover up to 75% of consultancy services required to implement the methodology.

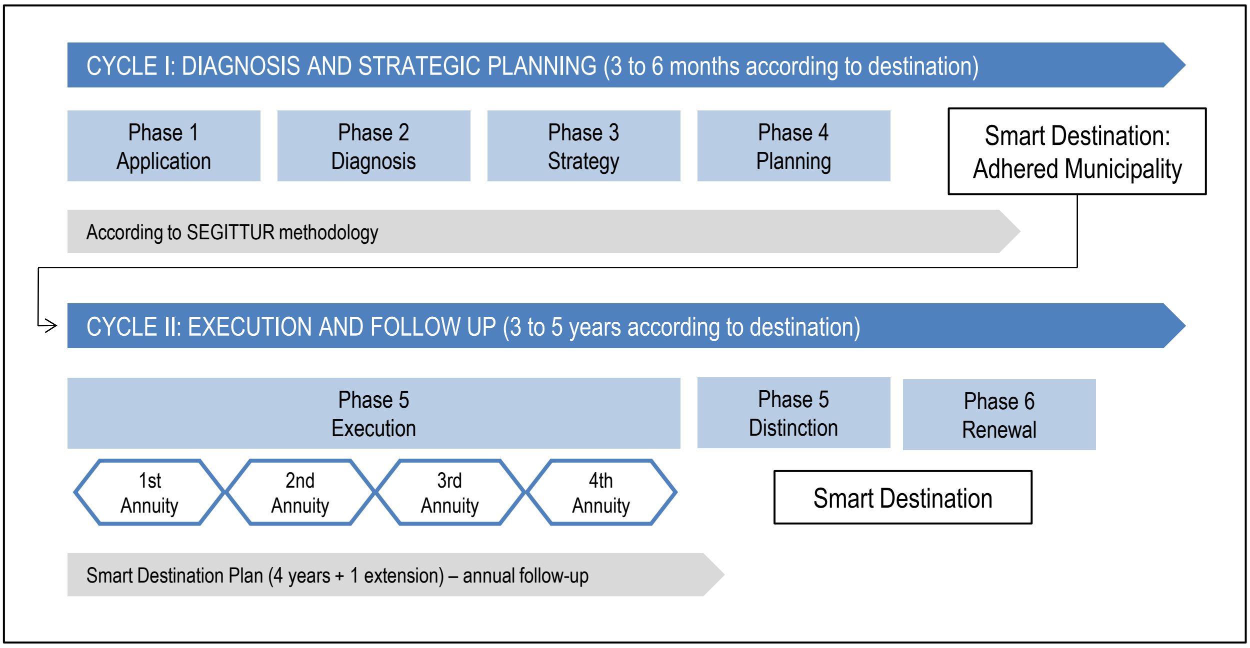
Currently, the programme of co-financing smart tourism destinations is one of the strategic lines of action of the State Secretariat of Tourism which has allowed an increase to the number of destinations that have begun their transformation process. For the selection of destinations, a series of requirements related to the size of the tourism sector and the management are taken into account (Box 24). These include having a relevant tourism weight in terms of supply and demand, a destination management body, and a recognised tourist brand. Other requirements such as the population or the area of the destination are used to size and limit the scope of the work to be done or as a scale for the application of metrics during the process, but not as a sine qua non requirement for financial support, since the initiative tries to be as inclusive as possible.

This process, according to the methodology of the Ministry of Tourism, consists of two cycles that correspond mostly to the phases of diagnosis and planning and those of execution and monitoring (Figure 7):

- **Cycle 1: Diagnosis and Strategic Planning**. The programme is endowed with a budget of EUR 1 million, destined to its management, to support the destinations, and to the co-financing of projects for adhesion of new destinations. This cycle consists of a consultancy aimed at measuring the destinations' compliance with the requirements of a Smart Destination, as established in prior phase of methodological definition. The diagnosis starts with a questionnaire covering the five criteria of a Smart Destination, a visit to the destination by experts to interview all relevant stakeholders and examine critical tourism resources. As a result, the destination will get a detailed "Report of Diagnosis and Planning to become a Smart Destination", in which compliance with the set of requirements is measured and actions are prioritised. Once destinations fulfil this cycle, they obtain the certification "Smart Destination: Adhered Municipality" and become members of the Smart Destinations Network.

- **Cycle 2: Plan Execution and Follow-up:** Once the destination gets the Report of Diagnosis and Planning, destination managers have five years to execute the resulting action plan designed to comply with the Smart Destinations requirements. These actions refer to the five pillars and some destinations may require further investment. In order to cover that need, other financial instruments were deployed by other Ministries. Action Plans may include as many actions as needed so that destinations can comply with the set of requirements. Along cycle 2, destination managers should implement these actions, and submit to an annual follow-up.

Figure 7. Smart Tourism Destination conversion process in Spain



In the first cycle, the co-financing support consists of a subsidy, under the concession regime, to start the strategic consultancy process, to carry out the diagnosis and action plan for the transformation into an Intelligent Tourist Destination. The funds come from the Secretary of State for Tourism's budget, which runs through SEGITTUR. Financial support covers between 60-75% of the cost of the strategic planning consultancy works, while the local destinations must cover the remaining amount. The coverage of the project is determined by the maximum financing capacity of the local entities and the scope of the work to be carried out. The funds are available until November 2018, with a grant amount of maximum EUR 50 000 per project.

The importance of Smart Destinations at a national level, and its increasing consideration worldwide, has motivated important efforts to align the different support instruments to promote digital transformation and sustainability in the tourism sector. Different ministerial departments, in addition to the Secretary of State for Tourism, have developed other financing lines for Intelligent Destinations. For example, the Secretary of State for the Information Society and Digital Agenda, has a support line of EUR 60 million, with the co-financing of the European Regional Development Fund (ERDF), within the Smart Growth Operating Program for digitalisation projects and improvement of energy efficiency in Smart Tourism Destinations. The maximum budget of each initiative is EUR 6 million, of which Red.es (a public business entity of the Ministry of Economy and

Business, under the Secretary of State for Digital Advancement) finances up to a maximum of 80% and each participating entity between 20% and 40%.

Box 24. Eligibility requirements for funding for Smart Destinations in Spain

The Secretariat of State for Digital Agenda provides funding to improve digitalisation and energy efficiency by ICTs in Smart Destinations with a total budget on EUR 60 million. The fund supports projects for up EUR 6 million each, covering a maximum of 80% of total investment cost.

Eligible initiatives:

- Progress in the transformation into an intelligent tourism destination
- Improve energy efficiency and reduce carbon footprint
- Promote interoperability with different administrations and agents
- Present a potential for re-use or replication in other entities
- Develop metrics to measure citizen satisfaction and that of its visitors, as well as energy savings and carbon footprint reduction
- Diagnosis and planning for Smart Destinations
- Tourist Intelligence Systems

Eligibility requirements:

- National visitors + International visitors / local population (up to 20%)
- National overnight+ International overnights / local population (up to 20%)
- Maximum hotel beds available / local population (up to 20%)

Another important feature of the initiative is the Smart Destinations Network. Once a destination obtains official certification as a Smart Destination, they become members of a network of Smart Destinations, whose Technical Office is managed by SEGITTUR. The network has been established to support destinations in their transformation to the new model of smart management. It is one of the key activities to add value to the initiative, to promote cohesion, the exchange of good practices and the use of synergies between destinations.

Among its objectives, it will promote a discussion forum featuring destinations to consider the challenges they are facing, encourage public-private partnerships in the development of solutions in the form of products and services, or to promote research in each of the areas of the five areas of development of development of a Smart Destination to contribute to continuous improvement (governance, ICT, innovation, sustainability, and universal accessibility). The first meeting of the network was held by the Minister of Industry Trade and Tourism in October 2018, and gathered more than 40 tourist destinations' Mayors.

Key results

The programme has helped establish a new strategic model to foster smart tourism development at all territorial levels. The initiative is contributing to the strategic alignment of territorial policies, although an in-depth approach by each regional authority would be desirable. In Spain, tourism competences, as instructed by the Spanish Constitution, rely on the Autonomous Regions, and all national plans should (and do) include their perspective.

As the progamme implementation took place, areas of opportunity emerged, such as an urgent need to:

- co-ordinate the transferability of the methodology to the Autonomous Regions, in seek of a balanced development and of the initiative across the country;
- make available additional financial instruments to execute the plan and invest in specific actions in destinations;
- develop technological and non-technological tools to contribute to strategic management, such as tourist intelligence systems or management platforms; or
- foster training on key competencies within the new technological environment for tourism stakeholders.

It is too early to identify quantitative results as the project is still in its early days of implementation. However, as at 31 July 2018, 24 beneficiaries have received a total of EUR 68.3 million in funding. Besides, more than 20 destinations have already completed cycle 1, with the implementation of the diagnosis and planning methodology for Smart Destinations, and are currently on cycle 2. Some of the outcomes for these destinations may be checked on www.destinosinteligentes.es.

El Hierro, for example, joined the Smart Destinations project in 2012, to help alleviate the negative effects of the eruption of the Restinga volcano in October 2011. Initiatives developed through the programme include the development of Free Wi-Fi network with 27 access points, the candidacy for the inclusion of the destination in the International Geoparks Network, training to entrepreneurs, access to financing, and support to building a hydro-wind power plant.

In view of the results achieved, SEGITTUR is working on the consolidation and continuity of the programme by articulating a set of tools to support the programme and accompany the destinations through the whole process, beyond the first phase, such as the Smart Destinations Network mentioned above.

Lessons learnt

The Smart Destinations programme has evolved between 2012 and 2018 to deal with the challenges identified during the pilot implementation. The most important aim was to establish a common framework to guide tourism destinations into a new model of development based on smart solutions that could contribute to manage a destination. This aspect was covered during the first years of the initiative, when the methodology was designed. Further phases would focus on implementing the methodology and adjusting it to very different destinations. Secondly, destinations were not familiarised with the definition of a Smart Destination, so efforts had to focus as well on disseminating the methodology to other destinations.

The key lesson learned from SEGITTUR's experience to date are that:

- The diagnosis and planning phase is a key milestone for the conversion process to a Smart Destination. An erroneous diagnosis or the absence of one during the planning phase can lead to problems in the optimisation of resources and prioritisation. This will guarantee greater chances of success and, for this reason, is subject to subsidy by the Secretary of State.

- Broad participation of the entire sector from the start of the project is essential. The implementation of the Action Plan can be extended up to a maximum of five years, so it will be necessary to maintain the commitments to the project so that it can survive electoral cycles.
- Maximum public-private and public-public co-operation is required. The wide range of the actions carried out under a of Smart Tourist Destination project involves not only tourism leaders and destination managers, but also many different stakeholders related to other fields of work, such as sustainability, ICT, infrastructures, mobility, among others. This include the need to leverage funds to implement the action plan.

The success of a conversion process will depend on several factors, including not only the correct diagnosis of the particular needs of a destination, but also continued determination and commitment, maximum participation of all the actors of the destination and the local entity, and the budget allocation.

For further information

Contact: State Society for the Management of Innovation and Tourism Technologies (SEGITTUR)

www.segittur.es

Sweden: Building capacity to attract foreign investment into tourism SMEs

Tourism SMEs are constantly challenged in securing foreign investment. To assist Tourism SMEs in Sweden, a co-operative of government bodies took a cross-entity 'real-life' exploratory approach to examining the reasons for this. Focusing on four tourism SMEs, the project has resulted in the development of a practical knowledge base tool (manual) on how tourism SMEs can attract international investment. The project provides an interesting example of an investment initiative aimed at building capability to attract investment, and to tackle the lack of experience and mismatch in perception of how this can be done. The case highlights the role of intergovernmental co-operation to improve the ability of regional and local authorities to attract investors. The case also has a strong regional dimension, by educating SMEs and the public sector on how to attract and facilitate investment in non-metropolitan areas.

Description and rationale

Between 2016 and 2018, the Swedish Agency for Economic and Regional Growth, Business Sweden, Invest in Norrbotten, and the Swedish Lapland Visitors Board co-operated to develop understanding and methodology on how tourism destinations and tourism SMEs with growth ambitions can attract international investment. They co-ordinated efforts to strengthen the investment attraction process and developed a methodology on how to create detailed value propositions and investment proposals for SMEs in the tourism sector.

The initiative was aimed at strengthening knowledge at all levels, including Destination Marketing Organisations (DMOs), enterprises, local and regional authorities, investment promoters, and national authorities. A manual was developed which describes roles and responsibilities of stakeholders, and provides guidelines to SMEs looking to attract investment for developing a comprehensive tourism investment proposal. The initiative is a complement to the Swedish national Sustainable Destinations Development Initiative, based on ambitious creative synergies and increased action from national authorities with different missions and within different policy areas – in this case with focus on co-ordination between investment promotion and destination development.

Norrbotten in Swedish Lapland was selected as the pilot area due to its link to nature-based tourism, its ability to create synergies with other ongoing national and regional development and marketing initiatives, and for the regional maturity regarding tourism strategies and governance.

Rationale

Finding investors and attracting investment capital is one of the main challenges for an increasingly competitive tourism sector, especially for tourism SMEs in rural areas. This is mainly due to the low degree of maturity in the sector, evident in weak business models, low margins, and often limited returns on investment. Many small tourism enterprises are started and driven by life style ambitions rather than economic development and yield objectives. In many cases writing business plans and making financial analysis might come second after taking care of start-up practicalities and initial selling and marketing efforts. Developing sound value propositions and investment proposals often don't come naturally for tourism SMEs. Besides limited financial skills, there is often a lack of knowledge about investors needs in terms of support from municipalities and other stakeholders surrounding the company.

Some of these challenges are relevant for all SMEs in rural areas, but are particularly pronounced in the tourism sector. Challenges more specifically related to tourism SMEs include the close relation to and dependence on the natural and cultural environment, which makes processes for building permissions long and difficult and is often something that has to be discussed thoroughly with the municipality. This type of exploitation often requires permissions also from the regional authorities. Another challenge is the pronounced seasonality of most businesses.

According to the national investment promotion agency (IPA) there are international investors interested in the tourism sector in Sweden, but it has been difficult to match these investors with Swedish tourism entrepreneurs. Typically, the investors are interested in the hotel and accommodation market or in high profile tourism attractions – sectors that have proven reliable in providing profits, and where markets are expected to grow. Moreover, long procedures for obtaining local and regional permissions for establishing new facilities or for expansions have represented a barrier for tourism investment.

Project objectives

The overall purpose of the project was to develop concrete investment proposals in a selected destination in Sweden as well as a sound working methodology that can lead to an increase in foreign investment in the Swedish tourism industry.

The objectives of the project were to develop:

- Concrete, long-term, and realistic investment proposals for selected tourism SMEs in the pilot destination of Swedish Lapland.
- A working methodology for producing an investment proposal that can attract international investment in a Swedish destination, especially outside the metropolitan areas, and that can be reused in other regions.
- A complete documentation and knowledge base for future development and dissemination to other destinations, including i) descriptions of responsibilities, co-operative solutions and development processes, ii) requirements to develop an international investment proposal, iii) data to be included in an international investment proposal, and iv) a complete investment proposal/value proposition model.

Governance

The project is an initiative of an ongoing co-operative framework between 14 national governmental agencies which has the purpose of strengthening international competitiveness of the Swedish tourism sector and contributing to sustainable growth and increased employment in all parts of the country. The co-operation is managed by the Swedish Agency for Economic and Regional Growth, with national responsibility for co-ordination and co-operation, quality and knowledge development regarding tourism, and is the primarily funder of the initiative.

In the initial phase, the Swedish Agency for Economic and Regional Growth and Business Sweden conducted a dialogue to define the strategy and procedures, and set the financing of the project. After consultation with regional organisations to investigate their interest in hosting the project, Invest in Norrbotten was selected. The selection was built upon Business Sweden's existing network of regional IPAs and the following criteria:

- The work would consider an internationally competitive tourism destination with nature-based products,
- There must be a strong regional political support for destination development, regional maturity regarding tourism strategies and governance with a constructive and professional co-operation between the regional tourism board and IPA,
- The region selected had to volunteer to take lead in the project and be willing to primarily work as a pilot for broader interests than the own region,
- The region selected had to be willing to contribute with input from existing personal and organisational recourses.

Out of the possible destinations identified, Norrbotten/Swedish Lapland was prepared to volunteer during the project period. The regional IPA, Invest in Norrbotten, was identified as project lead partner, and a steering committee established. A project manager was contracted and located in the region's capital. After the initial phase, the project was mainly driven on a regional basis where the project manager played a crucial role.

The project was designed to support four different business cases/SMEs, of which two were SMEs with existing operations in need of investment for expansion, and two were yet to be started and were searching for financing to commence operations. They were also in different stages of product maturity and readiness for the investor's market (Table 9).

Table 9. Selected business cases on creating investment proposals for tourism SMEs in Sweden

SME/Business case	Total investment cost
Arctic Bath: Establishment of an outdoor bath, sauna, small scale hotel and local cuisine restaurant, built partly on the Lule River in Harads, Boden municipality.	SEK 21 million, of which SEK 6 million was required. Finance was secured within the project duration in January 2018.
Konsthall Tornedalen: Establishment of an art gallery and conference venue in Tornedalen and Torne River on the Swedish-Finnish border. The planned venue is connected to an existing hotel, located in Risudden, Övertorneå municipality.	SEK 58 million, requiring SEK 11 million.
Svanstein Resort: Expansion of an existing ski resort close to the border between Sweden and Finland, in Svanstein, Övertorneå municipality. Investment required for hotel and cabins for rental.	SEK 60 million, missing SEK 35 million.
Mountain Hotel: Expansion of existing hotel and restaurant business in the protected area Stora Sjöfallets Nationalpark and UNESCO World heritage site Laponia in the Swedish mountains.	Excluded from the programme due to lack of planning permissions which would be difficult to secure.

The four cases were selected by Invest in Norrbotten in co-operation with the Swedish Lapland Visitors Board, which provided knowledge about the tourism enterprises in the region and understanding of the region's tourism conditions. The selection process was thus undertaken by regional stakeholders with knowledge about regional context. The criteria for participating businesses were:

- The business case must involve nature-based tourism,
- The business case must be ready for the international market,

- The entrepreneur must be willing to establish an international partnership with an external stakeholder with awareness that this might lead to diminished control over the company,
- The entrepreneur is prepared to put a substantial number of working hours into the project,
- The entrepreneur shows a high level of commitment,
- The steering committee must agree that that these criteria are fulfilled.

Interested enterprises were required to have a sound business case with international maturity. In return, they received practical guidance to meet and negotiate with investors with a fully developed case. This support included the establishment of contacts with municipalities and the county administration for putting the permissions needed in place, and co-operation with business developers. The process was carefully followed, supervised and documented by the project manager, with the final objective to develop a generic guide/manual for others to use throughout Sweden.

The project had a focus on foreign investors in the private sector. The co-operation between Invest in Norrbotten and Business Sweden was crucial for better understanding markets and potential investors. As the work developed, the understanding about possible target groups among the investors grew.

The project cost was SEK 2 million, plus financing in kind from participating SMEs. The main cost was project management, which was approximately half of the budget. External consultancy costs were also a substantial cost, covering business development competence, communications and accounting.

The participating entrepreneurs were required to prioritise the project and development of their value propositions, which required many hours input, including co-operation with business development consultants, budgeting and financial analysis, market and competitor analysis, visualisation and story-telling, contacts with local authorities and finally preparing for and engaging with investors.

Key results

In April 2018, the guide/manual "*From idea to investment – a manual for attracting an increased number of international investments in the Swedish tourism sector*" was published. The manual describes the steps required to be ready to meet and negotiate with international investors. It also discusses the roles and responsibilities of stakeholders, and it has the potential as an education material as well as basis for further policy work.

The manual describes key factors that enable a future investment for a tourism SME and the facts and data needed in an investment proposal. This includes guidance on five main steps:

1. **Identify business opportunities with focus on the international market:** Formulate clear criteria based on the market analysis to find the business cases. Help from and dialogue with the regional tourism board is necessary to understand on which markets and segments to focus, and if the business cases match the demand.
2. **Develop the business opportunity's product maturity:** The case must be developed to fulfill the demands for the target market as well as the needs for an investor. This includes creation of a strategic network including business planning,

financial analysis, land and property, planning and permissions from local and regional authorities, infrastructure and transport planning, architect drawings etc.

3. **Describe the business opportunity in an investment proposal:** This step includes elaboration of detailed financial information that will be of interest for further expansion. The investment proposal should typically consist of four major parts: 1) business overview, 2) key milestones, 3) market overview and 4) financial overview.
4. **Marketing and sales activities to potential investors:** Taking the proposal to the investor market. This might be done in co-operation between the entrepreneur and an IPA. The entrepreneur's own network is also of importance and might be the key in finding an investor. A number of meetings are often required to find the right investor, with each contact giving valuable information on what's most interesting and which are the weaker parts of the business case.
5. **Negotiation and closing of the deal:** In this step it is important for the entrepreneur to have legal advice/support. The IPA now steps back, and the negotiation is done between the entrepreneur and the investor.

Besides providing a working tool, the project and the manual fill a knowledge gap and provide better understanding of a rather complex issue that historically has been difficult to manage, especially for rural areas. Of the main challenges discussed in the manual is the importance of a constructive dialogue between entrepreneurs, IPAs, tourism boards and local and regional authorities regarding permissions. The demand for the manual has been high, and the first printing has sold out.

In the beginning of 2018 one of the four cases – Arctic Bath in Harads – secured an investor, a tour operator from Belgium as the case had focused on tour operators and travel agents as an investor profile. The demand for visiting small scale natural based destinations in Swedish Lapland is increasing, and since the visiting sites are often small scale, it is hard for tour operators to find providers for their travel packages. Admitting tour operators as investors creates a win-win – the entrepreneur gets financing, and the tour operator gets exclusive access to a piece of the market. A clear and easy-to-understand case, permissions and infrastructure in place, a very active entrepreneur and good co-operation between all stakeholders were key success factors.

Preliminary information suggests that one of the other cases has good prospects for an investor. Dialogue with a potential investor has progressed and the entrepreneur is optimistic.

Lessons learnt

The initiative has provided a better understanding of challenges for tourism SMEs to attract investors. These challenges relate to knowledge about business case maturity, the need to undertake all necessary planning, and securing required permissions. The entrepreneur must know his or her business thoroughly – whether it is the existing business or a new venture. The market segment must be identified, the business idea carefully developed, permissions have to be organised, infrastructure put in place, a financial analysis has to be made, and the co-financing must be analysed and secured. There is also a lack of understanding of consequences of having external investors and owners having diminished control.

Another major lesson learned was the extent of the knowledge gap between entrepreneurs, investment promoters and authorities when it comes to development requirements and the timeframes.

The project provides an understanding of what actions are needed to prepare a destination and its enterprises for investors, to develop investment proposals, and to conduct the actual selling work. The need of co-operation and dialogue is highly relevant in investment promotion work. One important task for policy makers is to foster and provide arenas for dialogue and co-operation. As next steps a series of initiatives are planned to promote the manual and its outcome, including a seminar during a national conference in December 2018. These communication activities will be targeted at municipalities, regional authorities, tourism SMEs, and politicians. The Swedish Agency for Economic and Regional Growth and Business Sweden have also started discussions on how to establish a follow up project for 2019, for spreading the methodology to other regions.

A concrete weakness identified is the lack of knowledge in the public system about what investors need. Regional and local authorities generally have limited experience of how to guide enterprises and destinations when it comes to attracting investors. The manual's major target group is thus the public sector investment promoters and authorities. One idea for further work is to create an education for this target group based on the findings of the manual.

One key learning is that some investment opportunities in tourism SMEs, especially in regional and remote areas with high focus on sustainable development, are not suitable for traditional investors who prioritise financial returns. These business cases are too small in scale, and too much affected by seasonality. This project concluded that these types of projects should target personal connection with the investor, and market the prospect highlighting broader socio-economic impacts. One specific target group of investors is tour operators.

Another insight is that the business cases must be more thoroughly prepared for foreign investors over domestic ones. This is partly due to high international competition and partly to thoroughly explain the local conditions. Upsides in securing a foreign investor is often access to new markets known to the investor. Investors with international experience thus provide important know-how that enables a more successful development for the destination.

Another key learning is that proximity to protected natural areas can be a big challenge for investors. At the same time, protected nature is an important selling point for destinations, which means there is a trade-off to handle and develop the opportunity. It's important that all stakeholders, locally, regionally and nationally understands and respects the dimensions of sustainable development – environmentally, socially and economically. One way to manage this is to constantly highlight the functions of tourism, and to involve authorities from different policy areas in discussions. In Sweden the co-operation between national agencies with different responsibilities – including nature preservation and economic development – put forward different views for discussion and for finding solutions. Also, the industry organisations can take part in finding solutions, for example by educating industry about the obstacles in natural environment developments.

In total the learnings and results are of high interest for further implementation and dissemination, a task which might be a part of the further development and implementation of the Swedish policies for enterprise and innovation, regional development and/or rural affairs.

Finally, practical co-operation between stakeholders can produce great results. This project was driven from start to finish by professional entities, and all stakeholders contributed significant effort. The work has been undertaken in close co-operation between national and regional authorities, and enterprises.

For further information

Contact: Swedish Agency for Economic and Regional Growth (Tillväxtverket)

https://tillvaxtverket.se

https://tillvaxtverket.se/download/18.bef858a162645a8406a6f3/1522151178458/

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Annex A. Statistical tables

Table A.1. Gross fixed capital formation (flows) in accommodation and food services activities

Millions of USD, constant prices, OECD base year 2010

	2006	2014	2015	2016	Share of total GFCF	Share of total GDP
					Latest year available, %	
Australia	3 557	2 916	3 393	3 530	0.98	0.24
Austria	1 634	1 693	1 816	1 965	2.08	0.48
Belgium	1 220	1 289	1 289	1 305	1.06	0.25
Canada	2 684	4 091	3 893	..	0.98	0.23
Chile	..	..	..	..	1.20	0.28
Czech Republic	794	466	465	576	0.98	0.24
Denmark	571	383	367	..	0.54	0.11
Estonia	89	61	71	46	0.79	0.17
Finland	275	230	248	318	0.55	0.12
France	6 288	6 318	7 396	7 604	1.20	0.26
Germany	3 400	5 087	5 099	5 215	0.66	0.14
Greece	1 322	690	711	764	2.81	0.33
Hungary	293	256	289	268	0.85	0.16
Iceland	..	..	..	..	3.66	0.78
Ireland	915	490	453	355	0.38	0.12
Israel	372	855	925	993	1.59	0.32
Italy	10 376	4 669	5 503	..	1.57	0.27
Japan	23 330	16 642	17 025	14 079	0.99	0.23
Korea	..	..	..	..	..	..
Latvia	178	73	61	..	0.94	0.21
Lithuania	152	48	65	..	0.70	0.14
Luxembourg	79	115	107	..	0.93	0.17
Mexico	..	..	..	..	..	..
Netherlands	986	1 028	1 172	..	0.67	0.13
New Zealand	..	..	..	..	1.51	0.35
Norway	328	392	319	..	0.29	0.07
Poland	618	994	969	..	0.79	0.16
Portugal	927	956	1 232	..	3.29	0.51
Slovak Republic	59	249	232	121	0.53	0.11
Slovenia	331	112	109	132	1.52	0.27
Spain	6 461	4 216	5 070	..	1.73	0.34
Sweden	801	991	1 027	1 092	0.76	0.18
Switzerland	..	..	..	..	..	..
Turkey	..	..	..	..	..	..
United Kingdom	4 233	6 706	8 806	9 039	1.95	0.33
United States	39 133	32 806	35 913	39 233	1.20	0.23
OECD	111 405	94 820	104 023	n.c.	1.15	0.24
EU	42 001	37 119	42 556	n.c.	1.20	0.24

Note: n.c.: not calculated.
Shares calculated using current prices.
OECD shares excludes Korea, Mexico, Switzerland, and Turkey.
EU covers 23 countries.
Source: OECD Annual National Accounts database, extract September 2018.

Table A.2. Gross fixed capital formation (flows) in travel agency, tour operator and other reservation services

Millions of USD, constant prices, OECD base year 2010

	2006	2014	2015	2016	Share of total GFCF	Share of total GDP
					Latest year available, %	
Australia	..	..	..	..	..	..
Austria	58	75	61	62	0.06	0.01
Belgium	64	95	78	64	0.05	0.01
Canada	..	..	..	..	..	..
Chile	..	..	..	..	..	..
Czech Republic	63	36	29	39	0.07	0.02
Denmark	60	37	33	..	0.05	0.01
Estonia	..	..	..	..	..	..
Finland	26	32	23	42	0.07	0.01
France	..	..	..	..	..	..
Germany	..	..	..	..	..	..
Greece	69	21	22	23	0.09	0.01
Hungary	6	14	13	11	0.03	0.01
Iceland	..	..	..	..	2.59	0.55
Ireland	30	11	-8	-16	-0.01	0.00
Israel	..	..	..	..	..	..
Italy	311	..	..	..	..	..
Japan	..	..	..	..	..	..
Korea	..	..	..	..	..	..
Latvia	..	..	..	..	..	..
Lithuania	..	..	..	..	..	..
Luxembourg	..	..	..	..	..	..
Mexico	..	..	..	..	..	..
Netherlands	..	..	..	..	..	..
New Zealand	..	..	..	..	..	..
Norway	24	50	52	..	0.05	0.01
Poland	..	..	..	..	..	..
Portugal	51	34	32	..	0.09	0.01
Slovak Republic	5	18	3	4	0.02	0.00
Slovenia	..	..	..	..	..	..
Spain	..	..	..	..	..	..
Sweden	49	78	71	71	0.05	0.01
Switzerland	..	..	..	..	..	..
Turkey	..	..	..	..	..	..
United Kingdom	413	761	1 323	1 265	0.24	0.04
United States	..	..	..	..	..	..
OECD	n.c.	n.c.	n.c.	n.c.	n.c.	n.c.
EU	n.c.	n.c.	n.c.	n.c.	n.c.	n.c.

Note: n.c.: not calculated.
Shares calculated using current prices.
Source: OECD Annual National Accounts database, extract September 2018.

Table A.3. Inward foreign direct investment positions (stocks), accommodation and food services

Millions of USD

	Inward						
	Accommodation and food service activities					Share of total activities	Share of GDP
	2006	2009	2014	2015	2016	Latest year available, %	
Australia	816	4 835	6 675	5 239	5 213	0.91	0.40
Austria[1]	240	490	409	355	267	0.18	0.07
Belgium	..	c	2 738	2 525	2 532	0.51	0.54
Canada	..	4 338	3 576	2 363	2 754	0.45	0.18
Chile	167	128	302	239	154	0.06	0.06
Czech Republic	585	675	437	c	c	0.36	0.21
Denmark	384	407	113	156	173	0.14	0.06
Estonia	45	103	109	111	108	0.56	0.45
Finland	184	0	n	n	n	0.59	..
France	5 240	12 059	6 563	5 717	8 006	1.15	0.32
Germany	1 616	2 299	1 593	1 374	..	0.18	0.04
Greece	1 181	1 312	931	812	665	2.64	0.35
Hungary[1]	462	570	545	575	739	0.92	0.59
Iceland[1]	7	1	2	2	34	0.35	0.17
Ireland	..	..	..	..	..	..	..
Israel	..	169	134	283	c	0.28	0.09
Italy	..	3 526	2 014	1 912	2 531	0.73	0.14
Japan	..	..	..	..	..	..	..
Korea	1 942	3 024	13 336	13 621	14 584	8.32	1.03
Latvia	78	125	165	97	86	0.61	0.31
Lithuania		..	72	71	61	0.41	0.14
Luxembourg[1]	c	c	195	96	94	0.04	0.16
Mexico	..	..	..	..	..	..	..
Netherlands[1]	1 380	1 687	1 272	1 003	971	0.12	0.12
New Zealand	..	..	617	471	566	0.80	0.30
Norway	380	520	217	511	625	0.42	0.17
Poland	674	826	719	975	942	0.50	0.20
Portugal	c	1 011	n	n	n	0.82	..
Slovak Republic	44	121	303	69	..	0.15	0.08
Slovenia	29	40	34	94	101	0.74	0.23
Spain	..	..	3 926	3 832	..	0.70	0.32
Sweden	2 204	1 001	1 694	1 096	1 184	0.40	0.23
Switzerland	..	..	2 874	2 804	2 844	0.29	0.43
Turkey	967	733	678	508	499	0.35	0.06
United Kingdom	11 458	16 561	11 590	..	..	0.72	0.38
United States	18 745	13 505	15 059	17 234	19 311	0.52	0.10

Note: Positions at year end. c: confidential; n: not for publication, for internal use only
Accommodation and food services used as a proxy for tourism.
Data for 2006 and 2009 refer to the 3rd edition of the OECD Benchmark Definition of Foreign Direct Investment (BMD3) and industry ISIC3 'Hotels and Restaurants', except for Chile (year 2009), France, Estonia, Latvia and Slovenia (year 2009) for which data refer to BMD4.
Data for 2016 refer to the 4th edition of the OECD Benchmark Definition of Foreign Direct Investment (BMD4) and industry ISIC Rev. 4 "Accommodation and food service activities".
1. Data for Austria, Hungary, Iceland, Luxembourg and the Netherlands exclude the residents Special purpose entities (SPEs).
Source: OECD Foreign Direct Investment statistics database, extract September 2018.

Table A.4. Outward foreign direct investment positions (stocks), accommodation and food services

Millions of USD

	Outward						
	Accommodation and food service activities					Share of total activities	Share of GDP
	2006	2009	2014	2015	2016	Latest year available, %	
Australia	c	c	c	54	50	0.01	0.00
Austria[1]	253	450	272	608	474	0.24	0.12
Belgium	..	..	1 174	1 052	1 059	0.18	0.23
Canada	..	2 526	2 236	1 614	1 554	0.20	0.10
Chile	..	17	232	267	270	0.22	0.11
Czech Republic	52	2	30	-28	0	0.00	0.01
Denmark	126	c	31	33	33	0.02	0.01
Estonia	3	2	95	86	85	1.29	0.35
Finland	0	0	n	c	c	c	c
France	8 921	11 451	11 818	11 318	13 750	1.09	0.56
Germany	2 083	2 366	1 711	1 438	..	0.11	0.04
Greece	3	67	55	47	44	0.23	0.02
Hungary[1]	80	219	183	163	145	0.59	0.11
Iceland[1]	0	456	11	19	0	0.01	0.11
Ireland	c	c	c	c	c	c	c
Israel	..	77	215	144	259	0.26	0.08
Italy	..	5 144	1 950	1 651	1 288	0.27	0.07
Japan	..	..	..	..	..	..	..
Korea	1 216	1 449	1 764	2 043	2 351	0.79	0.17
Latvia	3	12	17	0	0	1.25	0.05
Lithuania	..	..	7	4	3	0.10	0.01
Luxembourg[1]	c	0	1	1	2	0.00	0.00
Mexico	..	..	..	..	..	..	..
Netherlands[1]	533	1 125	376	297	288	0.02	0.04
New Zealand	..	..	c	c	c	c	c
Norway	324	575	197	253	310	0.17	0.08
Poland	1	82	-90	99	261	0.88	0.06
Portugal	234	240	n	n	n	0.42	..
Slovak Republic	3	14	c	c	..	3.93	0.19
Slovenia	47	75	63	39	37	0.61	0.08
Spain	..	..	4 929	4 535	..	0.92	0.38
Sweden	c	c	c	869	2 664	0.71	0.52
Switzerland	..	..	1 275	1 241	997	0.08	0.15
Turkey	94	161	471	188	411	1.07	0.05
United Kingdom	38 226	33 144	43 429	..	..	2.74	1.43
United States	27 665	24 381	18 533	17 029	19 777	0.37	0.11

Note: Positions at year end. c: confidential; n: not for publication, for internal use only
Accommodation and food services used as a proxy for tourism.
Data for 2007 refer to the 3rd edition of the OECD Benchmark Definition of Foreign Direct Investment (BMD3) and industry ISIC3 'Hotels and Restaurants', except for Chile (2009), France, Estonia and Latvia and Slovenia (year 2009) for which data refer to BMD4.
Data for 2016 refer to the 4th edition of the OECD Benchmark Definition of Foreign Direct Investment (BMD4) and industry ISIC Rev. 4 "Accommodation and food service activities".
1. Data for Austria, Hungary, Iceland, Luxembourg and the Netherlands exclude the residents Special purpose entities (SPEs).
Source: OECD Foreign Direct Investment statistics database, extract September 2018.