PART I

Chapter 3

Towards investment and financing for sustainable tourism

Investment and financing has an important role to play in supporting the transition to low carbon, resource efficient and socially inclusive tourism development. This chapter examines the need for a shift toward investment and financing practices that support sustainable tourism, and explores policies, institutions and instruments for green finance and investment relevant for the sector. It highlights good practices that catalyse and support the transition to a green, low-emissions and climate-resilient tourism economy, and offers guidance to policy makers on how to move forward.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.
Tourism, as one of the most promising drivers of growth for the world economy, can play an important role in driving the transition to a green economy, and contributing to more sustainable and inclusive growth. With close connections to numerous sectors at destination and international levels, even small improvements toward greater sustainability in tourism will have important impacts.

Investment and financing is an essential part of this. The possibilities are wide-ranging, and include public and private investment in low carbon transport options and the construction of resource efficient tourism infrastructure, as well as initiatives to support innovation, promote the adoption of responsible business practices and encourage the integration of tourism businesses into low carbon and sustainable tourism supply chains (Box 3.1).

### Box 3.1. Investment opportunities to support green innovation in tourism

- **Energy-efficient transition**: in the accommodation sector there is ample scope for investments in green performance, including improvements to refrigeration, television and video systems, air conditioning, heating and laundry.
- **Water management**: there is scope for financing green performers improving internal water efficiency per guest.
- **Waste management**: there are many dimensions on which improving waste management can increase tourism sustainability, improving resource efficiency, enhancing the attractiveness of destinations, and creating job opportunities.
- **Biodiversity**: maintaining ecosystems is at the core of sustainable tourism. There are opportunities for green performers and green innovators in protecting the natural resource base while mainstreaming sustainable tourism.
- **Cultural heritage**: investments that maintain the cultural heritage while offering opportunities for continuation, rejuvenation or enhancement of traditions improve the tourism offer and contribute to distributing the benefits of tourism among the local population.

Source: OECD (2013a).

This chapter examines the need for a shift toward investment and financing practices that support sustainable tourism, and explores policies, institutions and instruments for green finance and investment relevant for the sector. It highlights good practices that catalyse and support the transition to a green, low-emissions and climate-resilient tourism economy, and offers guidance to policy makers on how to move forward.

### Policies to address the investment gap for sustainable tourism development

Sustainable tourism development is tourism which takes into account current and future economic, social and environmental impacts, and addresses the needs of visitors, the industry, the environment, and host communities. Incorporating sustainable practices
In consumption and production of tourism services implies a change in the mind-set of stakeholders, increasing awareness of the fact that incorporating sustainable practices in their daily activities is for their own benefit in the long run, as it enables the preservation of the environment that is one of the main drivers of tourism.

With the strong forecast growth in global tourism to 2030, significant investment will be required to provide the accommodation, transport and other tourism-related services and infrastructure necessary to meet expected demand, while enhancing economic, social and environmental outcomes. This will require an integrated approach across many departments (e.g. transport, environment, agriculture, innovation, education, tourism) and levels of government (national, regional, local), with input and support from industry. Investment will also be critical in managing this growing tourism in a sustainable manner.

The OECD is working to strengthen the investment environment and better mobilise public and private resources to support resilient, sustainable, green and inclusive growth which benefits the whole of society. With public budgets likely to remain tight for some time to come, all levels of government will have to do better with less by investing more efficiently (OECD, 2014). There is also a growing recognition of the need for more innovative and sophisticated financing strategies, and governments are searching for new tools with a stronger focus on the private sector.

Like many other sectors, tourism faces a range of significant sustainability-related challenges. However, with growing awareness of the need and value of conserving unique natural, social and cultural assets, there is increasing motivation for both the private and public sectors to invest in making tourism more sustainable. Investment in sustainable tourism offers environmental and social benefits, as well as opportunities to generate significant returns, notably in the areas of energy, water, waste and biodiversity.

Public sector intervention aims to preserve tourism’s potential for economic development and social inclusion, and correct for actions that lead to too much investment in polluting technologies and too little investment in low-carbon, climate-resilient or resource-efficient technologies. The high environmental quality that attracts tourists can often be diminished by those same tourists and the services that cater to them, through increased pollution and the depletion of natural resources, water and biodiversity, among others.

Another area of focus is devising appropriate mechanisms to leverage private investment, especially as government budgets tighten. Investment and financing for sustainable tourism development does not necessarily require the creation of new instruments, but rather better connecting tourism projects with available green and other financing instruments. Traditional and innovative finance mechanisms exist that integrate tourism intrinsic characteristics (i.e. seasonal flows, intangibles production), from standard debt finance which is the main external finance source for small tourism firms, to equity and hybrid instruments favoured by high-growth and innovative firms. Finance mechanisms can also be extrapolated from other industries that rely on (renewable) natural assets and from other policy objectives, such as group lending by microfinance institutions.

In order to achieve more sustainable development and deliver on the ambitious targets to reduce poverty and combat climate change set out in Agenda 2030 and the Paris Agreement, investment in the green economy needs to take place on a far greater scale over coming decades. Indeed, the Paris Agreement established the goal of “making financial flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development”. The scale of the transition to a green, low-emissions and
climate-resilient economy is perhaps the biggest structural adjustment ever proposed in the field of international governance.

Tourism has a key role to play in this, and the sector is particularly well placed to contribute to increasing employment rates, enhancing social cohesion, improving productivity and fostering economic growth across many portfolios, given its strong local dimension. Moreover, the cross-cutting nature of tourism means that even small improvements towards greater sustainability in production and consumption patterns will have important impacts.

Financing the transition to a more sustainable model of tourism development faces a set of challenges, however, including the suitability of available finance instruments, information on the impact of green investment in tourism, (dis)incentives to adopt green business practices, and the extent to which the policy framework is supportive. Successful policy intervention requires significant co-operation and coordinated strategies across government, and between different levels of government, as part of a comprehensive national long term plan, given the length of time needed to realise many environment preservation measures. It also demands the involvement of the private sector and civil society, and the sharing of best practices and new ideas between the various actors driving the shift to a new model of sustainable tourism development.

Policy considerations

Based on the analysis discussed in this chapter, key policy considerations to further promote and mainstream investment and financing for sustainable tourism development include:

● **Promote access to finance for sustainable tourism investment projects of all sizes.**
  Direct public intervention includes grants and subsidised loans with environmental criteria to support tourism firms with sustainable project proposals in the start-up and early stages, as well as businesses willing to incorporate sustainable practices in their daily operations. Encourage uptake of green financing instruments for tourism projects. Tailored supports for small tourism businesses may be warranted where such intervention supports environmental and sustainability objectives. Care should be taken to avoid crowding out the private sector. Indirect finance instruments (public credit guarantees) can be used to overcome the lack of collateral related to the production of service-based intangibles, and the transition towards greener processes. Consider promoting public private partnerships to finance sustainable infrastructure investments and renovations. Devising risk-sharing mechanisms to foster private sector participation in the financing of sustainable tourism development can also help.

● **Incentivise the transition towards low carbon, climate resilient investments and encourage more responsible business practices in tourism.** Private sector strategies can help to address the sustainable tourism investment gap and green investors should be actively targeted and supported. 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. Integrate environmental and social criteria into tourism policies and programmes, including tourism investment facilitation and promotion activities. If it is necessary to introduce measures to constrain environmentally harmful activities by tourism firms, for example by establishing congestion prices or taxes, the potential distortions these policies might generate should be considered.
● **Build capacity and better coordinate actions across government to support the shift to more sustainable tourism investment and financing practices.** A coherent and consistent policy framework is needed to provide an enabling environment for sustainable tourism investment. This involves coordinating actions across different policy areas, including tourism, environment and innovation, and across different levels of government. Improve accountability by assessing the impact of sustainability factors upon financial stability and long-term investment. Identify and share knowledge about approaches to increase the effectiveness of investment in managing growing tourism demand in a sustainable and inclusive manner.

● **Improve data and analysis on finance and investment in sustainable tourism development, including the use of green finance in tourism.** Limited information is available on the effectiveness of available financing instruments and incentives in supporting more sustainable production processes and encouraging more responsible business practices in tourism. More evidence is also needed to accurately integrate environmental risk into the tourism financing and investment decision, and develop a better understanding of the economic, social and environmental outcomes of tourism investment. Standardising definitions of green finance and the environmental goods and services related to tourism can be used to tag lending amounts to sustainable tourism development objectives.

### Financing sources for sustainable tourism investment

The financing options for tourism investment can be of public or private, and domestic or foreign origin. In the past, there has been a lack of diversity in financial institutions offering long term capital for the sustainable financing needs of tourism firms, including small and medium sized enterprises (SMEs) (United Nations Environment, 2017), and the magnitudes traded for sustainable tourism development at a global level are still not significant.

This situation is changing. There is increasing motivation for both the public and private sectors to invest in making tourism more sustainable, and the market for green bonds and other sources of green financing is expanding. In Finland, for example, 25% of European Regional Development Funds are being directed toward low-carbon activities over the period 2014-20. New and expanding business opportunities have been financed that reduce carbon emissions, including in the hotel sector. The United Nations Environment Programme Finance Initiative, meanwhile, brings together over 200 financial institutions, including banks, insurers and investors committed to integrating environmental and social considerations into all aspects of operations, some of which fund tourism (Box 3.2).

Public sector involvement in financing sustainable tourism development is essential, to unlock finance, provide incentives and build capacity. This is demonstrated by the activities of supra-national, national and sub-national public finance institutions, including green investment banks which target and tailor financing to facilitate private investment in low carbon climate resilient infrastructure. A broad set of finance instruments is also important, ranging in profile from low to high risk/return, and catering to firms at different stages of development.

Public finance institutions have a development mandate beyond economic and financial viability, and can extend subsidies and other supports to environmental and social projects. Institutions operating at regional or local level are particularly well placed
to overcome location-specific investment barriers, while multi-lateral finance organisations can scale up and diversify the inherent environmental risk by joining several environmental projects in different countries.

The Nordic Investment Bank, for example, finances the development of sustainable projects of all sizes in the Baltic region, including green road infrastructure projects in Finland and environmental projects for SMEs in Norway. As of October 2017, five tourism-related projects are financed. In Norway, the City of Bergen has a 20 year loan programme of EUR 108 million to finance the wastewater treatment system, where tourism is growing. The city welcomes about 500 000 visitors and 350 cruises annually. In Iceland, the tourism sector benefits (along with fisheries, real estate and farming) from a EUR 66.6 million loan programme over 7 years to finance investments and environmental projects for SMEs, as well as a 10 year loan programme worth EUR 12 million to finance R&D and ICT infrastructure.

The European Union has implemented diverse initiatives to support the development and promotion of sustainable and responsible tourism. The European Commission supported around 100 projects over the period 2014-2016, under the Programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME), for example. These include the development of transnational cycle or hiking routes, environmentally-friendly tourism, and European Cultural Itineraries. In the context of the European Destinations of Excellence (EDEN) initiative, the Commission co-financed with national administrations the promotion of 140 lesser-known destinations which stand out for their sustainable tourism engagement. Beyond this, the tourism sector can benefit from wider sustainable investment supports promoting the low carbon economy, sustainable energy and sustainable management of natural resources, including the European Structural and Investment Funds 2014-2020 and the European Fund for Strategic Investments. A Guide

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**Box 3.2. Support for tourism through the UN Environment Programme Finance Initiative**

United Nations Environment Programme Finance Initiative is a partnership between UN Environment and the global financial sector with the mission to promote sustainable finance. Participating financial institutions, including banks, insurers, and investors sign up to the UNEP Statement of Commitment by Financial Institutions on Sustainable Development, with specific funding programmes provided for sustainable tourism:

**Triodos Bank** for example, provides loans to sustainable tourism businesses to invest in property purchase and development, on-site renewables and green tourism accreditation. It has supported the development of sustainable hotels in the United Kingdom, including providing a loan to Wheatland Farm to install a wind turbine to power the Balebarn Eco Lodge. Triodos Bank only lends to businesses that have been or are in the process of being, Green Tourism-certified. It provides a 1% interest rate discount for businesses working towards gold certification. Another example is the funding provided to Biosphere Responsible Tourism, a certification organisation for sustainable destinations.

**Turkish Development and Investment Bank (TKSB)** provides financing and consultancy services for green building investment in the tourism sector. It funds investment in energy, water and waste management, green material usage, and social impact management. The tourism sector makes up 8% of the TSKB credit portfolio, with an allocated credit of EUR 309 million and 24 new hotel and renovation investments.

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 available sources.

Public sector intervention can be direct, such as financing or co-financing sustainable tourism projects, or creating and investing in companies that bring in processes or services that reduce negative environmental impacts while increasing productivity. Canada, Finland, France and Singapore have introduced direct Cleantech initiatives, for example, but to date, the potential of such approaches to support sustainable tourism development remains untested.

In Spain, the Ministry of Energy, Tourism and the Digital Agenda, recently introduced a grant initiative which allocates EUR 60 million to foster digitalisation and energy efficiency uptake by using ICTs in local tourism destinations. The first open call for proposals provides financing of up to a maximum of EUR 6 million per project, with co-participation from each firm of about 20-40% of the requested funding amount. This initiative is partially funded by the European Regional Development Fund (Box 2.4). A biannual line of subsidies for energy efficiency in the hotels and accommodation sector was also launched by the Spanish Institute for Official Credit and the Spanish Institute for Diversification and Energy Saving in 2017, with a budget of EUR 30 million.

More often, however, public sector intervention is indirect, to support private sector financing and investment. In this case, the financial instrument suitable for green projects can be two-fold: either conventional debt and equity instruments that integrate environmental criteria, or innovative products to address the special needs of the green economy, such as alternative loan structures, property-linked efficiency financing and insurance for green assets. This indirect intervention can be either subsidised, or at market rates to avoid crowding out the private sector, with the focus normally being the environmental solution rather than specific sectors, like tourism.

The rationale for such interventions is to provide financial and economic additionality, by offering instruments that the private sector does not provide, and by harnessing the development of sustainable tourism objectives through, for example, targeted green lending.

Financing options through the private sector include conventional debt, equity or hybrid instruments. Debt instruments, including loans, are a common source of external financing for tourism businesses of all sizes, with hybrid instruments that combine debt and equity less used by tourism SMEs. Crowdfunding can be either debt- or equity-based, and holds strong potential for tourism. Innovations in the finance sector which reduce transaction and borrowing costs, so-called “fintech”, are also opening up new finance opportunities in tourism. Civil sector organisations also act as a facilitator of private investments, through crowdfunding, venture capitalists, business angels, microfinance institutions, and channelling positive impact finance helping to close the sustainable tourism investment gap (e.g. Responsible Finance in the United Kingdom) (Box 3.3).
Challenges for sustainable tourism investment and financing

Financing the transition to a more sustainable tourism model involves a number of challenges, which can be grouped along four main dimensions. On the supply side, there is a lack of suitable finance instruments available for sustainable tourism projects. There is also a need for standardised definitions around what constitutes "green" investment, as this is a critical element in promoting sustainable development. On the demand side, the incentives for firms of all sizes to adopt environmentally and socially sustainable practices are weak, while the capacity of policy makers to design, coordinate, implement and enforce sustainable tourism development policies is also an issue.

Availability of suitable finance instruments for sustainable tourism projects

The ability to finance large sustainable tourism investment projects (e.g. hotels and resorts, attractions, transport, tour operator and other services) can be challenged by a lack of suitable finance instruments. One reason for this is a maturity mismatch: depositors and investors typically prefer to liquidate assets quickly, with the result that available finance instruments tend to be for a shorter term than the longer time period required to realise the investment project and become profitable. This is particularly the case for infrastructure investments.

Financing small tourism projects presents challenges linked with their size which may require public intervention, as higher transaction costs (related to low volumes traded) result in difficulties in accessing external finance (OECD, 2006; 2013b). Regulatory rigidities and an insufficient legal framework can also obstruct the ability of the financial system to provide products adapted to the needs of small firms. This is particularly a challenge when firms are subject to seasonal flows, as with many tourism businesses.

For small and medium tourism enterprises willing to introduce sustainable practices into existing business operations, resource productivity investments or energy efficiency renovations might be catalogued as "working capital" requirements. These businesses may not possess the necessary collateral to secure external financing. The issue of collateral is particularly challenging as many tourism businesses are involved in the production of service-based "intangibles", and it is not clear whether and how these intangibles can be used as collateral.

Box 3.3. Finance instruments for sustainable tourism development (cont.)

- **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.
Another barrier is that the limited set of sustainable financing products available is focused on energy efficiency transitions, and overlooks other sustainable measures (UN Environment, 2017). This may in part explain why the majority of examples of sustainable tourism projects identified in the work to prepare this chapter relate to energy efficiency, particularly in the hotel sector. It has proved more challenging to identify the use of green financing to support and encourage more diverse investment projects throughout the tourism value chain, including the creation of more sustainable tourism products, services and experiences.

Furthermore, when finance is sought for sustainable tourism projects, the failure on the part of financing institutions to take into account a full and accurate assessment of the environmental risk in the finance decision hinders the creation and adaptation of finance instruments to sustainable tourism development. This is especially true for innovative projects, which are intrinsically riskier due to their original and untested character.

Innovative investments in environmental projects face an additional risk: failure to integrate the effects of degradation of natural assets on the investment. This is an important issue for tourism, as one of the main drivers of tourism is the quality of the environment. Tourism investment, and the visitor flows it supports, can damage and deplete these natural resources, while extreme events (e.g. floods) due to climate change can negatively impact a proposed infrastructure or other tourism-related project. Further transition risks include the potential change in rules and regulations, shifts in consumer markets, or technological innovations by firms in response to environmental degradation, each of which can increase return on the investment volatility (Ministry of Environment, Territory and Marine Protection, Italy and UN Environment, 2017).

Public sector intervention focuses on creating the enabling conditions for private sector investment in sustainable tourism projects. This includes earmarking funds for environmental and social policy objectives, and collecting and disseminating data to help actors create suitable instruments. It also involves assessing whether the introduction of financial market reforms are necessary to stimulate private investment to support green growth, and devising measures to systematically take into account the cost of environmental and social externalities when pricing risk and in the finance decision (OECD, 2017a).

This needs to be done in a credible way, taking into account national circumstances and potential competitiveness impacts. Policy instruments will differ depending on if the pricing problem in tourism is due to lack of data, financing institution expertise, or capacity at regional or local level. Designing investment policies to support sustainable tourism development also involves using environmental valuation techniques to ensure that cost-benefit analysis takes into account the cost associated with the depleted resources and environmental degradation. Here, the OECD Policy Framework for Investment (2015a) suggests clearly identifying the existing mechanisms in place to stimulate private investment to support green growth, and ensure value for money.

While sustainability finance is increasingly being used by financing institutions as a lever for low carbon climate resilient transition, the magnitudes traded are still not large enough to leapfrog towards definite impacts. This situation is not unique to tourism, and is in part due to the perception that returns are too low relative to the level of real or perceived risk, and financial institutions have limited incentives to invest in sectors with high development impact (MATTM/UN Environment, 2017). Some business environment characteristics may also obstruct sustainable tourism development, such as the presence
of knowledge and capability gaps on the part of private investors, and what may be a difficult local and global investment climate.

The challenge for governments is to ensure that public policies and investment conditions facilitate the reallocation of investment from high-carbon to low carbon climate resilient options, including for tourism (OECD, 2015b). A further challenge is to mobilise private finance for projects supporting the transition to green growth, without crowding out the private sector (OECD, 2011). Advanced economies in particular face need to update and renovate existing infrastructure (i.e. brownfield investments), while emerging economies need new infrastructure investments (i.e. greenfield investments).

**Measurement of green finance interventions for tourism**

Green finance comprises financial instruments with the specific purpose of delivering environmental benefits by tackling issues such as clean energy production, air pollution, biodiversity loss, climate change and resource efficiency, as well as waste and water management (MATTM/UN Environment, 2017). This includes green bonds, whose proceeds are earmarked for environmental projects and assets. The OECD Green Growth report highlights that green-labelled bond magnitudes are still small compared to the global bond market, but nonetheless estimates that it amounted to USD 42 billion in 2015.

At time of writing, no internationally agreed definition of green finance exists (OECD, 2017b) and a lack of data on green investments remains a challenge, not least because it contributes to the failure to adequately take environmental risk into account in the finance decision. Small tourism businesses face particular challenges in this regard, as low productivity and lack of interest in growing the business means that finance institutions are unwilling to lend (OECD, 2017a), even where the productivity measurement may be underestimated if tourism businesses invest in cleaner technologies and more efficient use of natural resources. Also, financial interventions are usually tagged according to the environment solution provided, rather than the sector served, in this case tourism.

Such information as does exist is reported at the general level, with no sectoral breakdown possible, including for tourism. This means it is not possible to know the extent to which green instruments are financing environmental projects in the tourism sector, and to assess the impact of these investments. Where evidence is available, it indicates that green finance is being used to finance transport-related infrastructure investments relevant to tourism, as in the case of the new Mexico City Airport in Mexico, and the rail infrastructure in France (Box 3.4).

A recent initiative by OECD and Eurostat has categorised environmental goods and services to enable their use by other sectors to be characterised for statistical or analytical purposes (air pollution control; waste water management; solid waste management; remediation or clean-up of soil and water; noise and vibration abatement; monitoring, analysis and assessment; cleaner technologies and production groups; and resource management group) (European Commission, 2016).

This framework could serve as a useful benchmark to measure sustainable consumption and production for tourism-related environmental goods. Tagging public and private sector resources to these characteristics would provide systematic data for analytical purposes, and could increase awareness about the volumes traded in financing sustainable tourism development.
Incentives to adopt environmentally sustainable practices

A key challenge on the part of firms of all sizes, large and small, stems from the fact that firms often fail to account for the impact of their actions on the environment, and society as a whole. If there is a cheaper way to operate, firms will rationally choose this option, unless firms are better informed about the business case for adopting sustainable practices, are provided with financial incentives to move towards sustainable practices, and face regulatory constraints to limit non-sustainable actions.

Technological advances are making the transition to green energy sources cost-competitive, which may encourage more sustainable business decisions. However, it is estimated that making infrastructure investment low carbon will impose an incremental cost 4.5% higher than the “business-as-usual” scenario (OECD, 2015b), although this figure may be lower for service producers such as tourism. This indicates a role for policy to encourage tourism businesses to incorporate environmental and social impacts into their investment decision making processes, and nudge behaviour toward more sustainable practices.

Governments can incentivise the actions of firms using pricing instruments to change behaviour with respect to water, waste and transport, for example by setting up congestion charges in cities and popular tourism sites, shifting the tax burden in favour of environmentally-related taxation, eliminating environmentally harmful discrepancies in tax systems, or managing subsidies to promote green technologies and phasing out environmentally perverse subsidies (OECD, 2015b). Policy actions in this respect can have significant impacts, given the multiplier effect of tourism investments and the cross-cutting nature of tourism.

Box 3.4. Green bond financing for transport infrastructure in France and Mexico

France: In 2017, the French National Railway Company, SNCF, issued green bonds to finance rail investment. The funds raised will primarily support investment in the existing network, but will also be used to develop new projects and strengthen the SNCF Network’s sustainability strategy. SNCF Network has developed a methodology to measure the impact of modernisation of the rail network based on CO₂ emissions and the consumption of natural resources. An annual report certified by an external auditor will enable green investors to monitor the usage of funds and their environmental impact, which extends beyond carbon emission reduction. A major renovation programme of the rail network aims to encourage a modal shift toward rail.

Mexico: Green bonds are helping to finance the construction of the new Mexico City Airport. Issued by the Mexico City Airport Trust, the green bond proceeds will be used to finance environmentally beneficial projects including a new passenger terminal building, ground transportation centre and air traffic control centre. An estimated USD 5.9 billion in potential eligible environmental projects have been identified and will be financed in line with the green bond framework and Green Bond Principles across six eligible environmental categories: sustainable buildings, renewable energy, energy efficiency, water and waste management, pollution prevention and control, and conservation and biodiversity.

Coordination of actions across government levels

Failure to accurately account for the environmental externalities of tourism projects can result in negative externalities not being adequately considered. This can lead to too much environmentally harmful investment (e.g. polluting technologies) and too little positive investment (e.g. new ecosystem services). In such cases, there is a rationale for government intervention to restore equilibrium.

However, when government intervention is inefficient, the distortion might be worse than the issue it is trying to solve. This can occur when confronted with the presence of one or more of the following situations:

- **Fragmented climate policies:** For example, maintaining either erratic, overly rigid or out-dated regulations that create barriers to entry, to the detriment of innovative firms that want to introduce new sustainable tourism products, processes or organisational models (known as green innovators).

- **Incoherent or non-existent policies to develop sustainable tourism:** For example, preserving subsidies to out-dated technologies, such as keeping environmentally harmful agricultural subsidies while promoting environmentally friendly tourism investment in similar geographic locations, or providing insufficient orientation for innovation systems to advance green growth priorities.

- **Presence of weak governance:** For example, at global, local or regional levels, weak institutional arrangements and governance structures can impede the implementation or enforcement of policies supporting innovation to advance green growth priorities, such as accelerating improvements in energy efficiency, supporting the development of green infrastructure, or rewarding environmental and social performance.

- **Weak human capital:** At the local level, in particular, this can hamper integration of tourism in community development and the engagement of the private sector.

- **Infrastructure challenges:** For example, providing the necessary supporting infrastructure could act as a lever for more sustainable tourism development, including the “greening” of existing tourism developments.

In such cases, the existence of a market failure *per se* does not justify government intervention, as the first three bullet points in the list above highlight insufficient capacity of policy makers to successfully address the problem (Inter-American Development Bank, 2014). A further challenge is how to mainstream the idea that incorporating sustainability criteria into tourism investment, monitoring and performance objectives shall be perceived as conducting responsible operations, not as a disincentive to investors (UNWTO, 2014).

Investing in tourism to deliver on the sustainable development goals

The 2030 Agenda for Sustainable Development sets out a broad and ambitious global poverty reduction strategy involving both advanced and emerging economies. Tourism has the potential to contribute, directly or indirectly, to all of the sustainable development goals (SDGs), but has been particularly included as targets in goals 8, 12, and 14 on inclusive and sustainable economic growth, sustainable consumption and production, and the sustainable use of oceans and marine resources (Box 3.5).

Accomplishing the sustainable development goals involves a strong component of public intervention, especially in ensuring underlying conditions for private sector to flourish, but also in coordinating and disseminating policy approaches at the national and
sub-national level. The designation of 2017 as UN International Year of Sustainable Tourism for Development, for example, aimed to support a change in policies, business practices and consumer behaviour towards a more sustainable tourism sector, and contribute to the SDGs.

An international framework like Agenda 2030 can drive investment and finance for tourism, by channelling overseas development aid from advanced economies towards less developed countries to foster job creation, sustainable consumption and production patterns, and a responsible use of marine and water resources. Beyond the direct financial effect of these disbursements, the fulfilment of the SDGs will also involve country reporting obligations in a standardised way, which can help in the systematisation and collect data on investments related to tourism development. It will also encourage the implementation of supporting policies that set clear signals and provide stability for investment decisions that support more sustainable practices.

Tourism can also act as a tool to accomplish the SDGs, which in turn can lift the standards for investment and financing for sustainable tourism, by including in finance decisions a component for inclusive growth and environmental regeneration. The underlying rationale for linking three SDG targets with tourism development objectives is based on the intrinsic local character of tourism activities, as tourism is driven by the attractiveness of local communities (culture, heritage) and the environment (natural assets and facilities). The integration of local tourism-related SMEs into international value chains can also contribute to sustainable consumption and production patterns.

For example, when countries invest in more efficient use of natural resources (e.g. cleaner technology) and the impacts are not fully understood, productivity can be underestimated. Achieving a more accurate measurement of the productivity of the tourism sector and the wider economy can help increase the awareness of the economic impact of the sustainable use of resources, contributing to target 12.b which refers to improving the measurement of sustainability actions. Tourism can also play a role in the fulfilment of many other SDGs, but further work is needed to clarify concepts, design and agree on measurement definitions and techniques, and support implementation and training (Laimer, 2017).

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Box 3.5. **Tourism-related targets in the sustainable development goals**

**Goal 8**: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.
- Target 8.9: By 2030, devise and implement policies to promote sustainable tourism that creates jobs and promotes local culture and products.

**Goal 12**: Ensure sustainable consumption and production patterns.
- Target 12b: Develop and implement tools to monitor sustainable development impacts for sustainable tourism that creates jobs and promotes local culture and products.

**Goal 14**: Conserve and sustainably use the oceans, seas and marine resources for sustainable development.
- Target 14.7: By 2030, increase the economic benefits to small islands developing states and least developed countries from the sustainable use of marine resources, including through sustainable management of fisheries, aquaculture and tourism.
Investment has a key role to play in achieving the SDG targets, including those on tourism. However, UNCTAD (2014) estimate an investment gap of USD 2.5 trillion per year, as the finance needs are not matched by suitable finance opportunities. It is difficult to pinpoint how much of this investment need can be linked directly to the tourism targets. However, estimates for tourism-related infrastructure development (such as roads, rail and ports; power stations, water and sanitation; climate change mitigation and adaptation) and food security, health and education linked with the SDGs in developing countries range from USD 3.3 trillion to USD 4.5 trillion per year.

Policy makers can play a role in closing the gap by using instruments to attract the participation of the private sector, although private sector participation is more likely in some sectors (e.g. infrastructure investments in power and renewable energy sources, transport, water and sanitation) than others (UNCTAD, 2014). Tourism is a sector where private sector participation can be reasonably anticipated. However, in bringing the private sector to accomplish the SDGs, policy makers need to balance the opposing needs of promoting and facilitating investments through easing regulations, and protecting public interests (UNWTO, 2014; UNCTAD, 2014; OECD, 2015c).

Addressing the investment gap and achieving the SDGs by 2030 will require closer interaction between advanced economies, emerging economies and developing countries. Evidence shows that emerging economies face challenges in adapting their production patterns to include sustainability measures, due to rapid urbanisation patterns. Rapid tourism growth in these countries is also creating a need for new and effective solutions. Transferring green technology from advanced economies to developing and emerging economies through sustainable tourism value chains is one approach to address this, as 90% of green technological innovation originates in OECD countries (OECD, 2017b).

Advanced economies also have the opportunity to update existing infrastructure in a manner that supports the transition to low carbon climate resilient, helps firms become green performers, and contributes to more sustainable tourism consumption and production patterns. Enabling such transition is both directly and indirectly relevant to tourism, and previous OECD (2013a) work has identified a number of areas suitable for investment in sustainable tourism (Box 3.1).

Advanced economies, along with international organisations, can also help developing countries to create bankable sustainable tourism projects, as well as transferring knowledge and enabling the finance to achieve the SDG targets. One of the main drawbacks cited by investors is the lack of concrete and sizeable tourism proposals in developing countries, and technical assistance in both finance and expert advice is required to address this (UNCTAD, 2014). In addition, channelling overseas development assistance towards tourism can help build sustainable infrastructure and promote green innovators and performers of all sizes.

**Mainstreaming investment and financing for sustainable tourism development**

A range of possible policy responses to promote and mainstream investment and finance for sustainable tourism development are outlined and discussed in this section. These include: policies to unlock financing, provide incentives and build capacity; facilitation and promotion measures to enhance the business environment and encourage the dissemination of information; initiatives to promote responsible business conduct; and measures to improve coordination across levels of government and strengthen the capacity of policy makers to design, implement and enforce rules and regulations.
The underlying rationale is that there is insufficient investment in innovation aimed at delivering environmentally and socially friendly outcomes. Investing in sustainable tourism development presents an opportunity to examine the trade-offs and complementarities with investment, competition, trade and financial policies as a whole, to coordinate actions and avoid contradictory impacts. The challenge is that in order to allocate public funds to sustainable tourism development, an assessment confirming that such an approach is the best use of public funds is needed, as there are second-order effects and distortions, consequence of “picking winners/sectors”.

**Promoting investment and finance for sustainable tourism development**

Finance policy options for sustainable tourism investment can range from the direct production of green technology to market-based finance instruments. The most common interventions are subsidising low carbon climate resilient investments through grants and under-priced loans, or providing market-based loans to the sector, assuming that just making finance available is sufficient intervention.

Some countries have introduced specific programmes targeting tourism investment. More commonly, tourism is one of a range of sectors eligible for financing and investment tools and instruments, including green financing. The challenge here is to better connect tourism actors with these available tools and instruments.

In Mexico, a tourism initiative to reduce greenhouse emissions and promote the uptake of green energy in the hotel sector by offering long term loans and public guarantees has been implemented in the states of Quintana Roo, Campeche and Yucatán. The intention is to extract lessons from this pilot initiative, in order to assess the viability of its expansion to the whole Mexican territory (Box 3.6).

**Box 3.6. Promoting green energy investment by hotels in Mexico**

Since 2015, a pilot programme is being implemented in the Yucatán Peninsula in Mexico, to increase uptake of green energy by hotels. The programme has been designed by the Federal Government, Ministry of Energy, National Commission for the Efficient Use of Energy and the United Nations Development Programme, with the purpose of decreasing the environmental footprint of the tourism sector by reducing greenhouse emissions. It provides independent, non-chain hotels with technical advice, training and financing for the acquisition and installation of solar water heating systems, and aims to generate savings by reducing gas consumption.

The programme offers long-term loans to finance the replacement of water heating systems with green solar energy. Loans are for a period of up to five years at fixed interest rates, up to a maximum value of MXN 15 million. The programme also offers public guarantees through Bancomext, the development bank for financing international trade, to support commercial loans, along with interest-rate subsidies from Mexico’s Trust Fund for Energy Transition and Uptake of Sustainable Energy Systems. The programme has installed 2.5 million squared-metres of solar heating systems, equivalent to 3,000 hotel rooms. The end of the pilot programme and thus the assessment is in 2018.

Another public initiative is the klimaactiv mobil programme in Austria, which provides EUR 80 million in subsidies to ease green mobility transition (e-mobility, mobility management, promoting bicycle and pedestrian traffic, and flexible public transport and car...
sharing). The programme supports firms, local governments and civil associations by providing up to 20% of the funding costs of the project. While the coverage of the initiative is wider than tourism, it offers a funding bonus to incentivise regional mobility projects led by tourism associations.

Other tourism-related policies to achieve more sustainable consumption and production patterns include renewing and upgrading the existing infrastructure. Bulgaria has developed programmes and measures to support energy-saving and the use of eco-friendly technologies in buildings, as well as better management of visitors at tourist sites. These initiatives focus on controlling air and water quality and achieving sustainable waste management.

In Australia, a green investment bank charged with increasing the flow of finance to green projects is active on tourism. The Clean Energy Finance Corporation’s Reef Funding Program is an AUD 1 billion investment programme targeting clean energy projects in the Great Barrier Reef catchment area. The programme offers investment finance for renewable energy, energy efficiency and low emissions technologies across a range of sectors, including tourism and agriculture.

In a separate initiative, the Corporation offers innovative and affordable finance solutions to make it easier for hotels to improve energy productivity and lower operating costs. This has helped fund a solar energy project at the Ayers Rock Resort near Uluru, for example, which is expected to generate about 15% of the resort’s annual energy use. The project is providing evidence on how on-site renewable energy is cleaner and cheaper than alternative sources of energy for many remote businesses and consumers (Clean Energy Finance Corporation, Australia, 2017).

Public budgets can also finance or co-finance private sustainable tourism projects through dedicated funds, by favouring public private partnerships to share risk or by providing tax credits. Italy, for example, introduced a tax credit system in 2015 for the renovation of tourism accommodation establishments, with particular focus on energy efficiency and anti-seismic measures. The tax credit covers between 30% – 65% of the cost and from 2018 also concerns the renewal of the structures most closely related to green tourism such as campsites and agri-tourism. 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. This measure has been also accompanied by an additional tax credit dedicated to digital technology infrastructures.

In Spain, a new eco-tax of EUR 2 per night was introduced on all overnight stays in the Balearic Islands in 2016, including in hotels, cruise ships, holiday rentals and campsites. The tax revenue will be used to finance investments to maintain and improve the quality of tourism on the islands, and better manage the territorial and environmental impact, among other things. Project proposals for financing are evaluated by the Commission for the Promotion of Sustainable Tourism, which brings together representatives from local governments, business associations, environmentalists and other relevant actors. A dedicated website is being developed to provide information to visitors, tour operators and locals on how the tax revenues raised are being used, and the different projects and initiatives being funded.

In circumstances where public budgets are tight, public-private partnerships are a viable instrument for financing tourism infrastructure projects, with the private sector providing the expertise and finance and the public sector providing the underlying
conditions (stable business environment), while both share associated risks. However, there might be an apparent conflict between promoting public private partnerships to ensure investments that otherwise could not be realised, if countries lack of capacity to enforce and monitor the private counterpart.

An example of a dedicated fund is New Zealand’s Tourism Infrastructure Fund, which provides NZD 100 million in co-financing over four years for the development of tourism-related infrastructure such as carparks, freedom camping facilities, sewerage and water works and transport projects. The Fund supports local communities facing pressure from tourism growth and in need of assistance – for example, areas with high visitor numbers but small ratepayer bases. Co-funding is required, however only applicants who are financially constrained are eligible (Ministry of Business, Innovation and Employment, New Zealand, 2017).

In complement, as is usual in all financing projects with public funding, technical support and capacity building are offered to ensure the success and potential scaling up of the innovations (OECD, 2017a; OECD, 2017c; MATTM/UN Environment, 2017).

In Turkey, a joint initiative between the Ministry of Culture and Tourism and the United Nations Development Programme to promote local economic development through tourism includes an initiative which each year provides funding of TRY 50 000-TRY 120 000 to three projects led by local tourism actors and non-governmental organisations. The Future is in Tourism initiative brings together public, private and civil society actors to implement sustainable and community-based tourism projects, and provides the guidance, tools and resources to build capacity to work together to support sustainable tourism development. Since 2007, 13 projects have been supported. Tourism investments to support cultural preservation, regional development and other investment priorities can also benefit from reduced taxation.

In Italy, meanwhile, an in-kind support initiative was introduced in 2014 to encourage the re-use of state-owned cultural heritage sites for tourism purposes. The initiative grants concession rights free of charge to organisations or individuals willing to bear the investment costs to transform these sites into tourism facilities. The aim is to encourage the development of walking, cycling and other human powered itineraries along cycle paths and historical-religious cultural routes, to grow tourism and promote regional development. The initiative involves collaboration between the Ministry of Culture and Tourism, Ministry of Infrastructure and the State Property Agency.

Another financing approach with potential to support sustainable investment and business practices is the growing area of “impact investing”. Similar to public sources, private finance instruments can have objectives beyond profitability, and seek to stimulate local development by supporting small firms and job creation. Impact investing includes blended finance, positive impact finance and social impact investment instruments, which provide finance to organisations addressing environmental and social needs with the explicit expectation of a measureable social as well as financial return. Microfinance and rewards-based crowdfunding can be classified as impact investment instruments. These finance solutions are best used when markets fail to allocate resources or when considerations beyond economic efficiency prevail (e.g. equity or distributional goals).

In the United Kingdom, for example, impact investing has been used to transform a disused office building in London into an innovative green hotel, using pre-fabricated bedrooms made primarily from recycled materials within the existing structure to reduce
the environment impact of the hotel build process. With initial financing provided by an impact investor, Bridges Fund Management, the hotel has subsequently introduced a variety of sustainability features, including solar panels, LED and energy efficient lighting, and water saving features.

Public sector support can also seek to foster the clustering of firms in a local community, to generate the necessary volume of finance for sustainable tourism projects. Analysis of tourism-related microfinance experiences reveals a number of policy options to boost lending and improve outcomes of tourism development, for example. These include programmes to bring tourism-related businesses together to borrow collectively in order to alleviate the issue of fragmentation and low volumes that increase the cost of credit, along with raising awareness and providing training in entrepreneurial management to maximise the potential of loans.

This business model can be transferred to advanced economies to support sustainable tourism investment, by aggregating groups of tourism-related entrepreneurs at the local level (e.g. crafts producers, food suppliers, tour guides) to diminish transaction costs, for example. Mexico has a successful experience in this area, involving the creation of a logo to showcase that tourism businesses are registered with the public authorities, and provision of one-day training on how to interact with tourists (OECD, 2017e).

Creating a coherent and sustainability friendly investment environment

Government actions to remove barriers to investment and financing for sustainable tourism development imply a comprehensive approach where an enabling environment for investment and development is at the centre of policy design, and where low-carbon, climate resilient policies are coherently integrated. This involves designing a joined-up policy framework for sustainable tourism investment.

Moreover, all levels of government need to be aligned, with clear targets and consistency in the implementation, including engaging with the civil sector (Corfee-Morlot et al., 2012). This involves coordinating the tourism-related investment actions of different policy areas, such as innovation, transport and environment, as well as different levels of government.

More broadly, a successful policy intervention needs the continuous assessment of rules and regulations that enforce, promote and potentially hamper sustainable tourism activities. It also involves strengthening the capacity of public agents dealing with tourism sustainability, and other stakeholders, to ensure that investment and financing do indeed contribute to sustainable tourism development by, for example, integrating biodiversity concerns into tourism policies. This extends to assessing and potentially removing environmentally harmful subsidies and tax incentives.

Part of the policy challenge is the need to develop tourism specific knowledge, by improving overall capacity and skills, and find ways to present tourism information succinctly, using up-to-date facts and data as well as testimonials from successful tourism companies (World Bank, 2013). Designing a comprehensive sustainable tourism development plan also implies creating a management model for the integration of local firms in tourism-related value chains.

In Australia, investment promotion and facilitation is a key pillar of the Tourism 2020 strategy, which is a whole-of-government and industry long-term strategy to build the resilience and competitiveness of Australia’s tourism industry and grow its economic contribution. To deliver on this vision, Australia’s tourism investment attraction strategy
has recently been complemented with a regional tourism infrastructure investment initiative, working with state and local governments to create a conducive environment for investment in regional Australia (Box 3.7). Tourism investment projects often require multiple approvals from different agencies across different levels of government, because of their location in areas of high natural amenity and their multi-use nature.

Box 3.7. Facilitating investment for tourism and regional development in Australia

Increasing tourism investment is a key priority under the Australian Government’s Tourism 2020 strategy, to develop the product needed to realise the overnight visitor expenditure targets. To facilitate investment in the tourism industry, the Tourism Major Project Facilitation service provides proponents of significant tourism investments with a central contact person in the Australian Government. This contact helps guide proponents through the approval processes across different levels of government. The service works in co-operation with Federal, State and Territory government agencies to process approvals in a streamlined and efficient manner. It saves investors time and money by streamlining interactions with approval agencies, and helps ensure that tourism projects can access an integrated investment facilitation service to minimise delays.

Actions include: identifying the range of approvals required (including environment and heritage, employment, indigenous affairs); facilitation of meetings with approving agencies; support and expertise on government programmes and processes; assisting investors to access relevant support programmes; and brokering solutions to problems that arise while seeking approval. Projects must meet a range of eligibility criteria, including having a capital investment value in excess of AUD 50 million, making a significant contribution to economic growth, exports, employment and/or infrastructure development, and being of strategic significance to Tourism 2020. By 2017, the service was supporting six projects, expected to generate 13 000 jobs during construction and operation.

Source: Australian Trade and Investment Commission.

Investment and finance needs to be part of a carefully planned and sequenced tourism strategy, which orients innovation systems to advance green growth priorities. Careful planning is also essential to mitigate adverse impacts associated with rapid tourism growth. In order to avoid low-impact, dispersed and localised tourism investments, tourism projects must also be part of a strategic development model, focusing efforts on specific types of tourism and destinations.

In Iceland, there is an urgent need for investment as faster than anticipated growth in tourism numbers has put pressure on the environment and available infrastructure. A tourism task force bringing together public and private actors including the ministries of tourism, finance, interior and environment and set to operate until 2020 is charged with implementing a Road Map to deliver more sustainable tourism development.

Part of this response has included the modification of the Tourist Site Protection Fund to focus on small, innovative projects under the management of private landowners and local authorities. It will function alongside a new long term infrastructure plan for the protection of larger publicly managed sites of natural, cultural and historic value, and will be complemented by new destination management plans to support more targeted infrastructure development better aligned with the needs of local communities. The OECD (2017d) has recommended
Iceland subject tourism infrastructure investment to rigorous cost-benefit analysis, taking into consideration the social and environmental impacts (Box 3.8).

**Box 3.8. Tourist Site Protection Fund in Iceland**

Established in 2011, the Tourist Site Protection Fund provides capital aimed at ensuring tourist safety and protecting Iceland’s natural environment. It also aims to support the development of new attractions, to spread tourism flows more evenly throughout the country. Innovative projects run by local authorities and land owners are targeted. Funding is only provided to private entities when the site is open to the general public and access is free of charge, although it is permitted to charge for parking, toilets and other services. Changes to the legislation in 2017 means that national agencies are no longer eligible. Grants provide funding for 80% of the total project cost, with a standard duration of one year. In 2017, the allocated budget amounted to ISK 600 million.

Since its creation, the fund has supported a total of 750 projects. As an example, at Godafoss waterfalls, the grant provided the municipality with the financial means to improve accessibility, protect the environment, enhance security, improve signage and direct growing visitor traffic. Main outcomes include the development of a viewing platform, a pedestrian walkway and a parking area. The Icelandic Tourist Board oversees the management of the Fund, while the Tourist Site Protection Fund Board is made up of representatives from the Ministry of Industries and Innovation, the Icelandic Travel Industry Association, the Icelandic Association of Local Authorities and the Ministry of the Environment and Natural Resources. All grants are approved by the Minister of Tourism, Industries and Innovation, and allocations are made public.

Source: Icelandic Tourist Board and Ministry of Industries and Innovation, Iceland.

Tourism investment must also include a tangible environmental commitment in terms of both planning and investment. Tourism development programmes must balance investment in infrastructure with the strengthening of local tourism governance for effective policy design and implementation. These programmes require cross cutting participation and execution capacity in line with the type of tourism in question (IDB, 2016).

Once the policy instrument has been identified, there needs to be an evaluation of whether there is sufficient capacity at the national and sub-national level, and in the private and civil sector, to successfully implement the policy (OECD, 2014).

In Chile, the Foco Destino initiative intends to build capacity of local managers in order to boost selected tourism destinations and increase their competitiveness and sustainability, within the framework of the National Plan for the Sustainable Development of Tourism. In a related initiative, Invest Tourism aims to attract investment to sustainable projects in “investable” destinations. Projects are required to generate a positive impact in the local area, taking due consideration of the conservation of natural resources and richness of the environmental interpretation, for example (Box 3.9).

In Sweden, an initiative by the Swedish Agency for Economic and Regional Growth to boost sustainable consumption and production highlights the benefits of a coordinated approach driving practical actions, tailored to the needs of the five participating regions. With a total budget of EUR 6.4 million over four years, destinations initiated activities to, for example, develop more sustainable products and services (Box 2.2).
As with all policy, there is also a need to evaluate the effectiveness of measures implemented to boost sustainable tourism investment and assess if the desired outcomes are achieved.

In Costa Rica, a Social Progress Index is being used under the National Tourism Plan to better evaluate the impact of investment and tourism growth on well-being at destination level. This innovative initiative is composed of environmental and social indicators and takes into account destination specifics including the nature of tourism, level of tourism development, and other factors influencing the sustainable development of tourism. The results can be used to assess the impact of economic growth and investment on well-being, and the impact of tourism development on destinations and local communities (Box 1.22).

### Encouraging sustainable and responsible business practices

Private investment is essential to deliver sustainable and inclusive tourism growth. Most private investment is undertaken by domestic firms, but international investment can provide additional advantages (e.g. technology transfer, local supplier linkages, access to global markets), and countries are increasingly looking to foreign investors to provide the capital needed to develop tourism. Policies need to consider how to attract international and domestic tourism investors, and mobilise this investment in a sustainable manner.

Attracting private tourism investment has become a highly competitive business in many countries, and can be supported by ensuring rule of law, offering advisory services and facilitating market entry and exit (OECD, 2015a). Many countries have very active tourism investment attraction and facilitation programmes, as illustrated by the Australia...
example above. Indeed, some countries leverage their eco-credentials to attract tourism investment. VisitFinland, for example, highlights the unique, clean and unspoilt nature with high sustainability standards to differentiate Finland as a unique tourism investment location, targeting green investors.

These facilitation and promotion policies not only seek to leverage private sector participation, but also have a role to play in mainstreaming responsible conduct among stakeholders, as well as enhancing and more widely spreading the benefits of tourism. Incorporating environmental and social criteria into these policies and programmes can nudge tourism businesses towards more sustainable tourism investment activities.

Investment in sustainable tourism development entails financial contributions from the private sector; the nature of the investment financed and the manner in which tourism businesses operate is also relevant. Responsible business conduct involves a commitment to sustainable development, transparency and accountability in business practices, accepting responsibility to avoid harm even if it is not prohibited (moving from “do no harm” to “do good”), and working in partnership with government to maximise the joint benefits of investment (UNCTAD, 2014; OECD, 2015a).

Part of the enabling policy measures imply devising ways to disseminate information to investors more effectively, through a mixture of existing and customised instruments, such as websites, detailed sector profiles, and tailored presentations. Suitable policy actions include developing a network of partners to enhance service delivery (World Bank, 2013). Policy options can also enhance the value creation of foreign direct investments: for example, by increasing linkage prospects with local firms by stipulating the use of local inputs and supporting local firms with finance and non-finance products in order to be able to reach international standards (UNCTAD, 2007).

In Germany, several public initiatives involving co-participation from the private sector in policy design are in place to harness the transition towards energy efficient sources in hotel and restaurant businesses, including initiatives to raise awareness and gather evidence on the business case for more responsible and sustainable business practices, including investment.

The Federal Ministry for Economic Affairs and Energy, for example, is conducting a pilot project on energy-efficient buildings in co-operation with the German Energy Agency. As part of this effort, the Check-in Energy Efficiency project was launched in 2015 to showcase the economic and social benefits of transitioning towards energy-efficiency sources. This project requires hotels to implement at least one investment that will generate bottom-line energy savings of at least 30% to 50% for heating and electricity – as compared with energy consumption prior to the investment. The 30 participating hotels are given expert energy-efficiency advice to enable them to utilise the efficiency potential available and profit from an increase in subsidies.

In another initiative the German Government is building on the experience of the German Hotel and Restaurant Association’s energy and climate mitigation campaign to encourage more sustainable business practices, demonstrating how private strategies can also help address the investment gap (Box 3.10).

In France, the Chamber of Commerce and Industry encourages members to adopt a more responsible approach to the environment, and has identified as challenges for sustainable tourism financing the high costs and low profitability associated with “going green”. To address this, a series of actions have been developed, including the certification of
sustainability in tourism products. The Chamber has also created a dedicated website with a customised search tool that identifies the main programmes and funding options available to tourism businesses, depending on the category and location of the business, the nature of project proposed (e.g. pollution reduction, recycling and waste management, awareness campaign), and the type of support sought (e.g. grants, subsidies, loans, guarantees). This includes instruments easing finance for building renovations, investments in modernisation and support for labelling.

In Iceland, the Icelandic Centre for Corporate Social Responsibility and the Icelandic Tourism Cluster, through its activities to promote investment and responsible tourism, also support tourism SMEs to adopt more sustainable practices: demonstrating exemplary behaviour and respect for nature; ensuring the safety and a courteous treatment of guests; respecting the rights of employees, and having a positive impact on the local community.

Recent policy measures to promote more sustainable consumption and production patterns use levers closest to the negative outcome. One example is through putting a price on carbon by taxing polluting emissions rather than the use of fossil fuels as inputs (OECD, 2011). Possible government actions towards easing the transition to cleaner products and production processes include allocating incentives to R&D focused on the substitution of dirty inputs for cleaner ones (i.e. green performers), and promoting a shift to consumption patterns with lower environmental footprint (i.e. the green economy), and increased re-use, repair and recycling patterns (OECD, 2011).

One possible way forward in the tourism sector would be to devise policy options linking sustainable tourism development and the circular economy, to support more sustainable tourism consumption and production patterns. The circular economy is a concept that covers the entire cycle, from production to consumption, and advocates a “reduce, re-use, recycle” approach to increase environmental benefits.

The European Union, for example, has devised a Plan for Action on the Circular Economy that includes economic incentives for producers to put greener products on the market, and support recovery and recycling schemes. While tourism is not currently a target sector in this initiative, it can benefit from many of the policy recommendations.
References


