Tourism for Development

Rebuilding Tourism Competitiveness: from Crisis to Sustainability

Expecting the Unexpected:

Tools and Policy Considerations to Support the Recovery and Resilience of the Tourism Sector

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Acronyms

ACI	Airport Council International
ADR	Average Daily Rate
ALHA	American Lodging & Hotel Association
ASTA	American Society of Travel Advisors
AUV	Average Unit Volumes
BEST	Business Employee Support and Transfer
CARES Act	Coronavirus Aid, Relief and Economic Security Act
CCG	Central Guarantee Fund (Caisse Centrale de Garanatie)
CGS	Credit Guarantee Schemes
CLIA	Cruise Lines International Association
DMO	Destination Management Organization
EIDL	Economic Injury Disaster Loans
IATA	International Air Transport Association
ICAO	International Civil Aviation Association
IFC	International Finance Corporation
IPF	Investment Project Financing
F&B	Food and beverage
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GRID	Green, Resilient and Inclusive Development
HNW	High Net Worth
IATA	International Air Transport Association
M&A	Merger and acquisition
MICE	Meetings, Incentives, Conferences & Exhibitions
MSMEs	Micro, Small and Medium Enterprises
NPLs	Non-performing loans
OTA	Online Travel Agencies
PPP	Paycheck Protection Program
REITs	Real Estate Investment Trusts
RRF	Restaurant Revitalization Fund
TEF	Tourism Equity Fund
T & T	Travel and Tourism
SBA	Small Business Association
SEFA	Small Enterprise Finance Agency
SMEs	Small and Medium Sized Enterprises
UFI	Global Association of the Exhibition Industry
UN	United Nations
UNWTO	United Nations World Tourism Organization
VAT	Value Added Taxes
WBG	World Bank Group
WTTC	World Travel & Tourism Council

Executive Summary

The COVID-19 pandemic and the sudden demand-side contractions in travel and tourism activities during 2020 and 2021 precipitated unprecedented shocks to the entire global tourism economy.

Tourism has been, and continues to be, one of the most affected sectors by the pandemic, resulting in negative socio-economic consequences for host communities in destinations as well as for underlying endowments that rely on tourists' expenditure for maintenance and management. Early in 2020 as governments attempted to protect their populations, lockdowns, quarantines, and restrictions on national and international mobility were implemented. This, coupled with the decision of consumers to limit international travel resulted in a sharp contraction for the tourism sector with severe economic consequences, particularly in tourism-dependent low-resource countries. In 2020 international tourist arrivals declined by 74 percent globally and by an average of 85 percent in emerging economies. The situation persisted in 2021 marked by volatility due to emerging variants, with global international arrivals remaining 61 percent below pre-pandemic (2019) levels. In 2021, the economic contribution of tourism improved by US$300m over 2020, however this was still US$1.6 trillion below pre-pandemic values. While travel in 2022 is increasing, and the prognosis for many hotel and tour operators is optimistic for the rest of the year, the effects of the prolonged demand contraction on supply-side enterprises and destinations has been devastating. Analysts continue to expect the sector's full recovery to take a number of years, an outlook that has been recently dampened by inflation, the Ukraine war and related geopolitical and macroeconomic instability.

The aim of this report is to provide insights regarding the types of interventions governments have already implemented and policy considerations for supporting the recovery and resilience of the tourism sector going forward, particularly in light of structural demand and supply-side transformations precipitated or accelerated by COVID-19. The report studies the challenges for recovery faced by governments and the sector from the context of preexisting market and government failures that have been exacerbated by the crisis, as well as those emerging from the pandemic. The report includes several key findings and recommendations.

First, the pandemic confirmed the complexities of tourism for development outcomes. In particular, the crisis demonstrated i) the inter-linked nature of tourism with macroeconomic stability -specifically, its important role in foreign exchange generation- as well as its deep and cross-cutting value chains, ii) the lack of resilience of the sector in certain contexts, especially in situations of low market and product diversification, iii) inequities within the sector with respect to value capture, and iv) the precariousness of small and medium enterprises as well as informal tourism businesses and workers. Some of these can be characterized as long-standing and systemic challenges that have been exacerbated and accelerated by the pandemic while others are newly emerging. For countries heavily dependent on tourism, these challenges need to be addressed early on as part of a forward-looking reform agenda, particularly if the objective is to build resilience and increase inclusion in the sector.

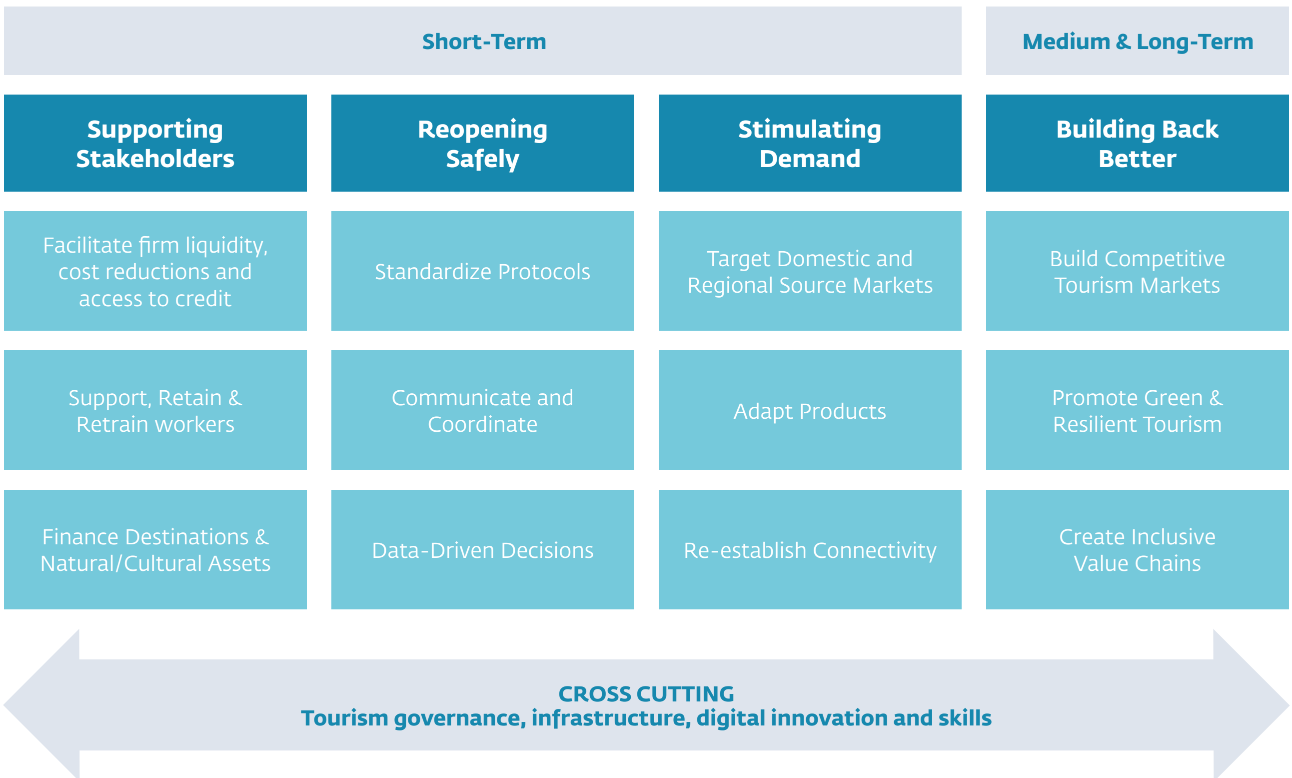
All tourism sub-sectors and their suppliers have been impacted, including lodging, tourism transport, tour operators and travel agents, food and beverage, and excursions/guides. The effects on the sub sectors can be connected to different changes in the global tourism market. For instance, the nature of demand is changing both in short and long-term, including the acceleration of digital adoption, surges in domestic demand and nature-based, small group and independent travel products, increased length of stays and remote work. Supply changes to firms, destinations, workforce composition and planned investments have been driven by these demand shifts, and have resulted in unsustainable debt levels, delayed consolidation, increased automation and fixed-cost reductions.

However, distributional impacts and transmission channels vary. Changes have not impacted countries, firms, or workers equally nor through the same transmission channels. Studies on some emerging economies have indicated a reduction in the quality of tourism jobs available, with tourism workers moving to lower paying, informal sector jobs, while in more developed countries, skilled tourism labor was reallocated to higher paying sectors, aided by workforce support and retraining programs, and amidst historic labor shortages. Particularly in countries where tourism is a significant economic sector, governments are facing difficult policy decisions with respect to their role in mitigating the socio-economic impacts of the pandemic on local livelihoods. Emerging economies were much less likely to implement tourism sector support programs, and more likely to deploy tax-related measures and less likely to deploy debt finance measures than advanced economies. Evaluating previous crises and their government interventions has shown that there is no one-size-fits-all approach for the recovery and resilience of the Tourism sector, and that public and private sector stakeholders of each destination need to design context-specific and fit-for-purpose approaches based on their tourism development stage, size of the sector, sector structure, fiscal space, scope and scale of impact of the crisis, and policy priorities. These approaches also depend on the different types of market demand and strategic segments that each destination attracts (or can attract in the longer term).

Second, public sector tourism interventions that respond to specific pandemic-market failures and are careful of any unintentional effects that they may generate are more likely to be effective. Sectoral policies and interventions should not be considered in isolation from the rest of the economy and should focus on addressing prevailing market failures while not generating additional government failures. In response to a potential for mass bankruptcies and unemployment in the tourism sector, many governments extended various forms of support to tourism firms and workers. Economic rescue programs provided relief by: (i) directly subsidizing or deferring fixed costs (including tax and licensing fee deferrals); (ii) through workforce retention & support programs; (iii) via indirect support to de-risk financing and investment; and (iv) by supporting alternative demand generation. Decisions to continue, modify or end such support should be informed by how such interventions contribute to market and government failures, in addition to context-specific considerations.

When evaluating further firm-level specific support, governments may want to follow market-principles. In extending further assistance to the Tourism sector, governments should prioritize market facilitation wherever possible and ensure that, where decisions are made to continue firm-level support, that such support does not crowd out more efficient or equitable forms of public spending and/or inhibit the reallocation of land, labor and resources. As guiding principles, governments and development partners should seek to: (i) prioritize market facilitation; (ii) target pandemic-specific market failures; (iii) address general market failures; (iv) develop public-private financing mechanisms; and (v) address existing government failures, while not creating new ones. In addition to considerations regarding support to sector stakeholders, key reopening and response actions can include reopening safely by standardizing protocols, ensuring effective communication and coordination, and taking data-driven decisions; as well as stimulating demand through the targeting of domestic and regional source markets, adapting products and re-establishing connectivity.

Finally, the pandemic has created opportunities for increased sector innovation, productivity and development impact. The sector is expected to emerge stronger and more profitable than pre-COVID, but unless it is properly structured and managed, it may result in a more unequal landscape with a narrower set of beneficiaries. Specific policies, instruments and initiatives should be put in place to seize this moment to rebuild towards a more competitive, resilient, green and inclusive sectors, incentivizing tourism types that generate positive externalities while discouraging negative ones. This includes improving access to finance through innovative instruments such as FinTech lending platforms and value chain financing; leveraging digitalization to support firm-level and destination-level adoption of technologies, facilitating liquidation and restructuring processes, stimulating entrepreneurship and improving the tourism regulatory environment. Programs and financing should be developed to build resilience to future crises, climate change should be integrated into tourism planning and development, sustainability measures should be scaled-up and diversification of source markets and products needs to be accelerated. Local supply chains should be strengthened, with programs developed to reduce barriers for women as well as micro and small enterprises in entering and moving up the tourism value chain in order to increase the inclusiveness of the sector.



1. Introduction

This report is part of a World Bank Group Global Engagement project that seeks to understand and respond to the impacts of COVID-19 on the global Tourism sector, and to support its recovery.

In the face of a crisis in demand precipitated by the pandemic and subsequent government restrictions, tourism firms, workers, attractions, and destinations around the world are at risk. At this stage, it is not clear which trends are here to stay and which mismatches are temporal, nor which ones are desirable from a public policy view. Nevertheless, the aim of this initiative is to examine impacts of COVID-19 on the sector, review support measures that have been applied to date, and to present options and key considerations for sector recovery and resilience going forward, taking into account the evolving nature of the pandemic and the sector's reopening.

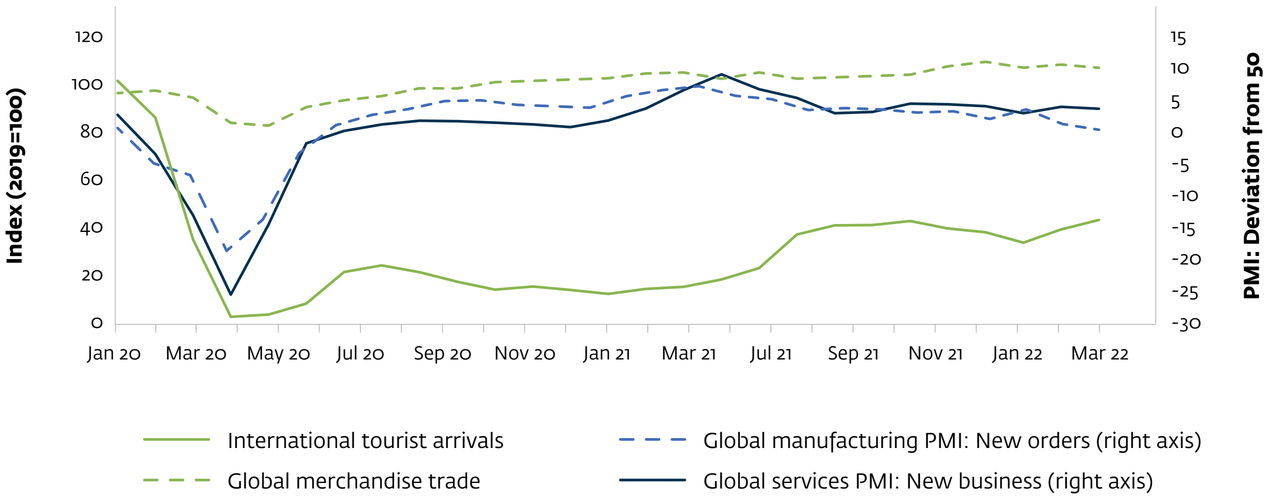
This study is informed by the results of industry surveys and stakeholder interviews carried out by the World Bank, in collaboration with the World Travel and Tourism Council (WTTC). A total of 28 in-depth interviews with industry leaders from across the world were conducted in May and June of 2021, including C-Suite executives of large corporations as well as representatives of destinations and SMEs across global regions. The interviewees represented accommodation providers, tour operators, cruise lines, travel technology companies, financial providers, insurance companies, industry associations, Destination Management Organizations (DMOs) and tourism advisory firms. Twenty-three interviewees' operations have global coverage, with the remainder being country or region-specific operators in Morocco, Tanzania, Portugal, Turkey, South Africa, Mauritius, Canada, Africa, and Asia (See detailed list in Annex). In-depth interviews provided a deep dive into the views of key industry informants about structural changes, investment perspectives and the use and effectiveness of the available financial and policy instruments. Interview findings were supplemented by a series of joint WBG-WTTC pulse surveys to WTTC members. The first survey was carried out between December 2020 and January 2021 and aimed to understand the evolving recovery trends in the Tourism sector. This survey received responses from 65 stakeholders (33 percent of WTTC members), who represent a broad variety of geographic areas and industries (see annex). The second pulse survey was carried out in May 2021 and included analysis of 24 respondents (14 percent of WTTC members).

1. Effects of COVID-19 on Tourism

Tourism has been heavily impacted by the COVID-19 crisis, with unprecedented effects on jobs, businesses, and cultural and natural assets. The tourism sector is affected by two concurrent forces on supply and demand: a shock followed by a gradual and uneven recovery, and an accelerated structural transformation. In 2019, global tourism was experiencing its best recorded year as one of the world's largest sectors, accounting for 10.4 percent of global Gross Domestic Product (US$ 9.2 trillion), 10.6 percent of all jobs (334 million), and was responsible for creating 1 in 4 of all new jobs globally (WTTC, 2021). As a result of COVID-19, in 2020, the Tourism sector suffered losses of almost US$ 4.5 trillion. The sector's contribution to global Gross Domestic Product (GDP) declined by 49 percent in 2020 compared to 2019, equal to a 4 percent decline in the global economy (WTTC, 2021).

Globally, the tourism sector has been more heavily impacted and has been slower to recover than the broader economy or international trade (see Figure 1). While international arrivals collapsed by one hundred percent in April 2020 global trade just dipped by ten percent. For the whole of 2020, international visitor spending decreased by 69 percent, while domestic visitor spending fell by 45 percent (WTTC, 2021). This caused the economic contribution of tourism to fall from US$ 3.5 trillion in 2019 to US$ 1.6 trillion in 2020. Given health risks, travel restrictions and related uncertainty, many consumers shifted their disposable income spending from international travel towards goods and domestic travel during the first year of the pandemic. In 2021, tourism revenues improved to $ 1.9 trillion, however this is still US$ 1.6 trillion below pre-pandemic value. Globally, export revenues from international tourism remain less than half of 2019 numbers, at US$ 700 billion in 2021 (UNWTO, 2022).

Figure 1: Tourism in comparison to the broader economy



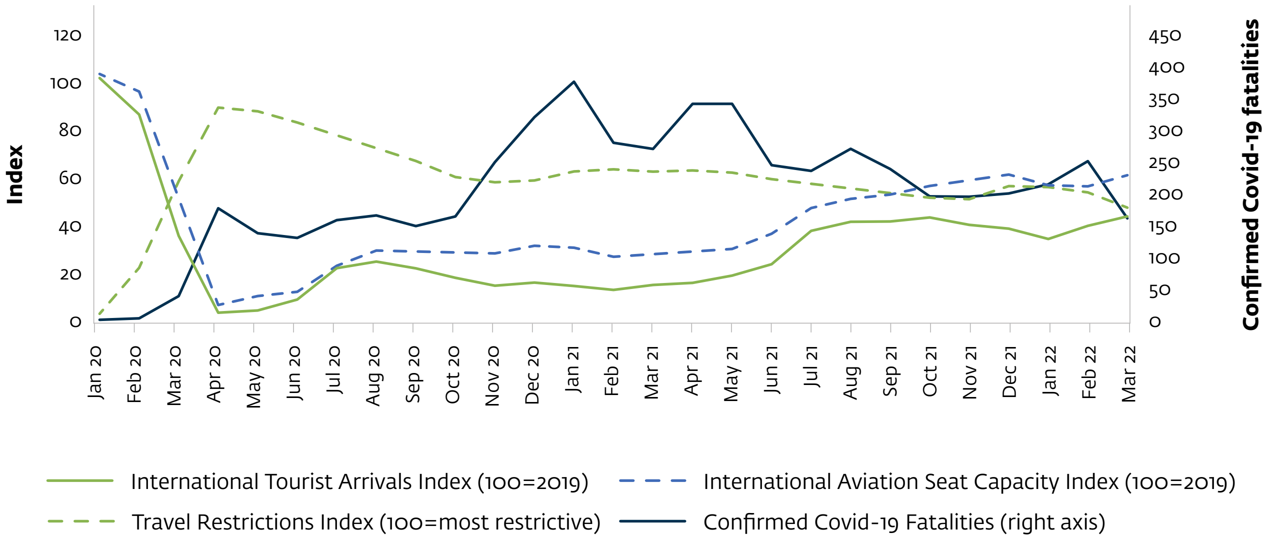
Source: World Bank staff analysis based on data from UNWTO, IMF, IHS Markit, JPMorgan.

The pandemic and its effects combined with macroeconomic and geopolitical headwinds are shifting the situation from a health and tourism demand shock to a broader financial and economic crisis. Countries are facing inflationary and balance of payments crises, in part due to the gap in foreign exchange earnings left by the tourism sector. In a study on tourism-dependent economies, Brookings found a median GDP growth shortfall compared to pre-COVID projections of around 11 percent among the 40 countries with the greatest share of tourism in GDP, compared to 6 percent for less dependent countries (The Brookings Institution, 2021). Many of these economies saw their current account deficit widen (or their surplus shrink), resulting in increased international borrowing, a reduction in imports and lower payments to foreign creditors.

1.1 Effect on Demand

The pandemic precipitated a crisis of demand, with infections, public health precautions, government restrictions, uncertainty, and diminished traveller confidence resulting in an unprecedented drop in tourism. International tourist arrivals fell by 73 percent between 2019 and 2020 to 400 million visitors. Data for 2021 shows a 4 percent increase in arrivals from 2020 to 415 million international tourist arrivals. Despite these signs of recovery, this is still 72 percent below pre-pandemic volumes (UNWTO, 2022). The effect on traveller confidence has been protracted due to health concerns from the pandemic itself, government restrictions and high uncertainty. The Asia-Pacific region has been hardest hit, with a 94 percent reduction in arrivals in 2021 compared to 2019. The Caribbean, on the other hand, has experienced the strongest recovery, with international tourist reaching nearly two-thirds of 2019 levels by end 2021 (UNWTO, 2022).

Figure 2: Global International Tourist Arrivals, COVID-19 Fatalities and Travel Restrictions Index (2019-2022)



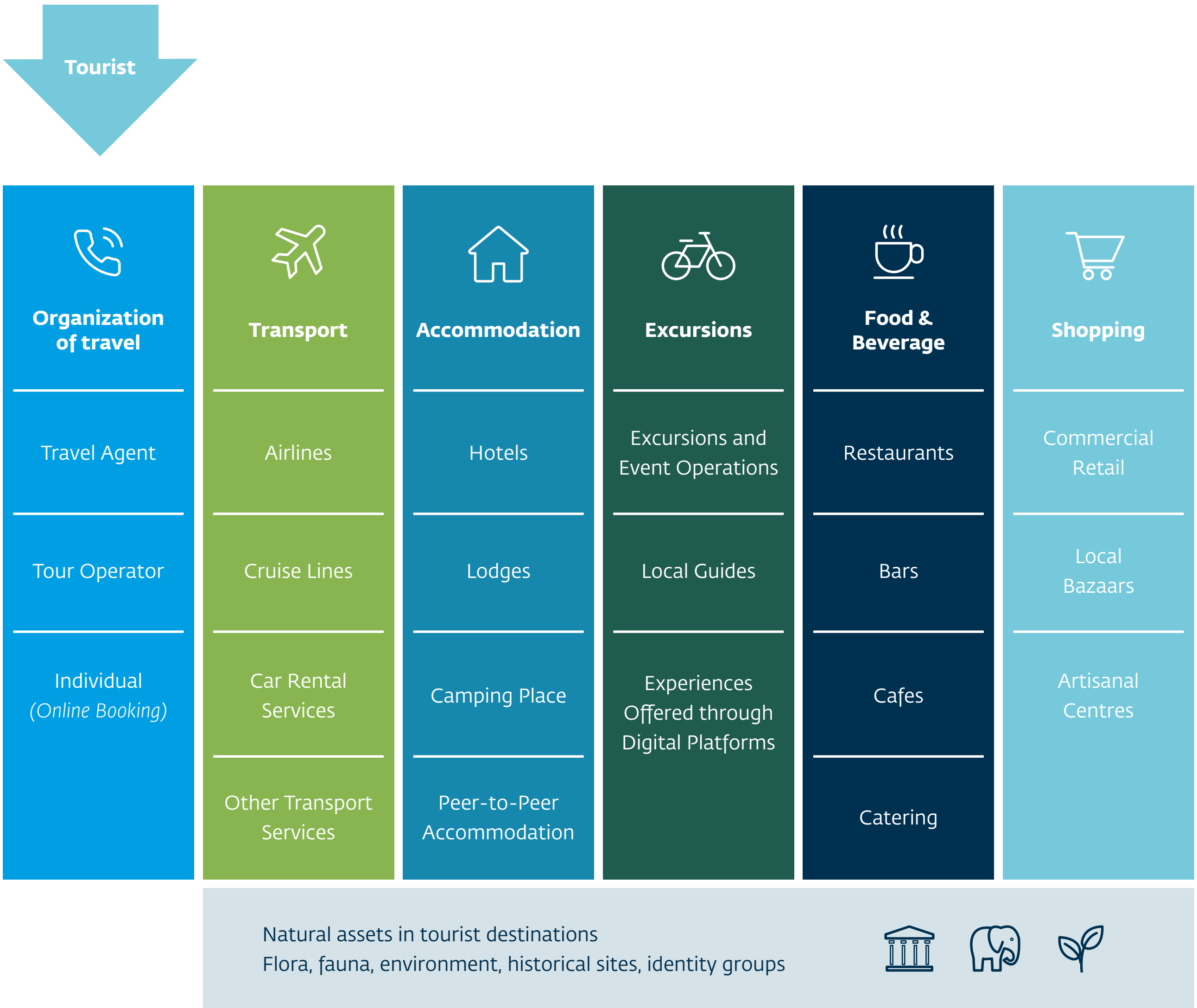
Note: For individual countries, the Travel Restrictions Index takes the following values: 100 = complete border closure, 75 = ban on arrivals from some regions, 50 = quarantine arrivals from some or all regions, 25 = screening of arrivals, 0 = no restrictions. The global index is a simple average across countries with available data. Source: UNWTO (tourist arrivals), Our World in Data (infections), Oxford CGRT (travel restrictions index).

1.1.1 Impact on Tourism Sub-Sectors

All core Tourism subsectors have been impacted by the steep drop in demand and concomitant restrictions, including lodging, tourism transport, tour operators and travel agents, food & beverage, and excursions/guides. As a cross-cutting sector, the tourism value chain touches almost all aspects of a destination's economy,[1] with related revenue losses in the retail, construction, and transport sectors, among others (WTTC, 2021).

[1] For every US$ 1 generated in direct Tourism GDP globally, more than US$ 2 is generated on an indirect and/or induced basis (WTTC).

Figure 3: The Tourism Value Chain



Source: Tourism for Development: Tourism Diagnostic Toolkit (World Bank, 2019)

Tour operators, Travel Agencies and Online Travel Agents

- **2020:** Operators experienced a steep decline that persisted throughout the year, with an increase in demand for personalized services as travel resumed. According to American Society of Travel Advisors (ASTA) member survey, average travel agency business income was down 82 percent in 2020 compared to 2019 (ASTA, 2021).
- **2021:** A substantial recovery for this sub-sector, while still operating considerably below pre-pandemic demand levels. TUI Group reported that bookings in the fourth quarter of 2021 were around 50 percent of a normal booking year (TUI Group, 2021). Booking Holdings Inc. (an OTA) reported 2021 Q3 gross travel bookings at US$ 23.7 billion, a 77 percent increase from the prior year quarter (Bookings Holdings Inc., 2021).

Air Passenger Transport Services

- **2020:** Aviation was one of the most severely and immediately affected tourism sub-sectors. IATA reported that in 2020, International passenger demand was 75.6 percent below 2019 levels and domestic demand was 48.8 percent below 2019 (IATA, 2021). International Civil Aviation Association (ICAO) reported that in 2020 just 1.8 billion passengers took a flight in 2020 compared with around 4.5 billion in 2019. This has resulted in a loss to the airlines of around US$ 370 billion, with airports and air navigation services providers losing a further US$ 115 billion and US$ 13 billion, respectively (ICAO, 2022).

- **2021:** Airlines have been steadily adding more capacity and routes as the recovery continues. These additions are closely linked to the easing of travel restrictions. International aviation travel demand in 2021 remained 75.5 percent below 2019 levels and domestic demand in 2021 improved markedly from the previous year, down only 28.2 percent compared to 2019 (IATA, 2022). Uncertainty on recovery timelines, and volatility in bookings and cancelations due to new virus variants are leading to difficulties in fleet management, staffing and planning.

Car Rentals

- **2020:** Global car rental revenue dropped from US$ 91.1 billion in 2019 to US$ 40.6 billion in 2020, a 124 percent drop (Cotton, 2021). The uncertainty around border closures, travel regulations and testing requirements has caused a shift from flying to car travel, which has been reflected by rental car shortages in some areas given both this increased demand and decreased inventory stemming from the shedding of assets by car rental companies early in the pandemic (along with unrelated global semiconductor shortages) (The Economist, 2021). This has led to increased rental rates, with revenue per day and rental days increasing even compared to pre-pandemic.
- **2021:** While still facing vehicle shortages, the global car rental market size has grown from US$ 96 billion in 2020 to an estimated US$ 102 billion in 2021, an improvement over even 2019 (Precedence Research). Avis, for example, has seen a 9 percent increase in revenues in Q3 of 2021 compared to the same quarter in 2019.

Cruise Lines

- **2020:** Early cruising bans halted the cruise industry in the first months of the pandemic. Cruise Lines International Association (CLIA) announced that in 2020, the industry carried 80 percent less passengers than in 2019. The 3 largest cruise companies – Carnival, Royal Caribbean and Norwegian Cruise Line lost a combined US$ 900m each month during 2020 (CLIA, n.d.).
- **2021:** Operations have gradually resumed throughout 2021. Royal Caribbean's occupancy rate, at 59.3 percent for the fourth quarter of 2021 is a significant improvement from the year-ago quarter's 42.9 percent and the third quarter's 36.4 percent (Johnston, 2022). Carnival Cruises experienced a 45 percent increase in bookings from March to May of 2021, and Royal Caribbean reported having all ships fully booked for July-August 2021. Cruise Industry News estimated 239 cruise ships would be operating commercially by December 2021, a fifteen-fold increase from December 2020 (Cruise Industry News, 2021). By the end of 2021, Royal Caribbean had returned 50 out of 61 ships to operations across its five brands, representing over 85 percent of its worldwide capacity.

Lodging

- **2020:** A steep and immediate reduction in demand for lodging was followed by a marked recovery by year's end. In April 2020, STR reported a global occupancy rate of 47 percent below that of 2019. By December 31, 2020, the change in occupancy rate compared to 2019 was 25 percent. Private rentals were also reduced, but to a lesser extent than hotels given their more isolated nature. In April 2020, AirDNA reported a 29 percent decline in short-term rentals. By December 31, 2020, this drop had decreased to only 8 percent as more people shifted to private rentals over traditional lodging options.
- **2021:** Global hotel occupancies almost recovered to pre-pandemic figures, although with high variability between countries. STR reported that hotel occupancies globally have recovered to 10 percent below 2019 figures in 2021. The recovery has been uneven, with hotels in urban markets continuing to be particularly affected due to the drop in business and group travel as well as reduced demand for city trips (Hospitality Net, 2021). For example, Marriott's third quarter occupancy rates for 2021 topped 58 percent, driven largely by continued strength in leisure demand. Average daily rate, which was only 4 percent below 2019 levels for the quarter, has been recovering much more quickly than in the past two downturns (Marriott International, 2021).

Food & Beverage

- **2020:** The food & beverage sub-sector was among the most impacted, with a highly protracted recovery. Global research found a sit-in decline of 90 percent worldwide in the early months of the pandemic, caused by forced closures and other lockdown regulations combined with decline in tourism. Globally, restaurants had laid off or furloughing over 80 percent of staff in 2020 (Dube, Nhamo, & Chikozi, 2020). In the US, 17 percent of restaurants closed long-term in 2020 (Tillman, 2020).
- **2021:** Demand recovery has been highly context-

specific and volatile, being affected by both new variants and changing restrictions. In the US, JPMorgan estimates that 15 percent of independent US restaurants will close permanently (Garcia, 2020). Emerging economies that have a high percentage of independent F&B establishments and those located in destinations that are highly reliant on international travellers are expected to experience the slowest recoveries.

Demand has not only reduced but is also changing, in both short and long-term ways that are likely to impact firms and the sector's structure as a whole. Digital adoption has grown considerably among travellers, with an increased interest for direct business engagement, booking flexibility, and strong digital branding. In many countries, an increase in domestic demand, which benefitted in some places from domestic travel incentives, has spurred some of the busiest years in memory for specific types of lodging, such as caravan parks and private home rentals. Some segments, such as nature-based tourism and luxury markets are recovering faster than others, particularly those catering to domestic and non-flight-based travel (O'Neill, 2021). Length of stays have increased significantly, and 'workations' – working remotely away from home – have created new market segments during the pandemic. These trends have resulted in both short-term and structural changes to the sector and the supply of tourism services.

1.2 Effects on Supply

In many countries, closures, reduced operating capacities, travel bans, and lockdowns were mandated by governments, resulting in businesses across the tourism value chain severely reducing their activity, often with little notice. Entry restrictions have been and continue to be most pronounced in Asia and the Pacific, followed by the Middle East, with the Americas and Africa applying the least amount of air travel restrictions (University of Oxford, 2022). Beyond restricting international travel, most countries have also implemented at least some controls (i.e., restrictions on what tourists and citizens can do within a country). As with international travel restrictions, countries in East Asia and the Pacific have on average the strictest restrictions, while countries in Sub-Saharan Africa have lighter restrictions on average. Unlike with travel restrictions, which have been re-imposed with the outbreak of new variants, in-destination restrictions are trending towards being relaxed over time.

In the initial stage of the Pandemic, when tourism firm revenue streams were halted, the immediate priority for businesses was cash flow management. Businesses sought to scale back or eliminate variable costs (staffing, marketing, utilities), while deferring fixed costs (rent, mortgage, maintenance, and upgrades). Various opted to close temporarily or were forced to, due to government-imposed restrictions, while others operated at reduced capacity or adapted their products and offerings to pivot towards other markets such as domestic visitors, workspaces for residents, serving as quarantine hotels or housing/feeding medical staff and patients. Firms with existing lines of credit relied on them for immediate liquidity, and while this was effective in the short-term, credit lines quickly reached their limits with severely reduced or absent revenue streams.

Compared to medium and larger firms, micro and small firms have been more vulnerable to the COVID-19 crisis and its financial shocks because they have limited access to financing and lower digital and management capability to mitigate the impact and plan for recovery (WBG, 2020). This is important given that SMEs make up around 80 percent of the tourism sector (OECD, 2020). Industry interviews indicated that larger establishments with close relationships to financiers were generally able to raise funds through bond issuance, while smaller establishments had fewer tools and were forced to rely more on cost containment. Two years into the crisis, cash flow remains a central concern for tourism firms, along with high levels of debt many operators have accumulated in order to remain solvent.

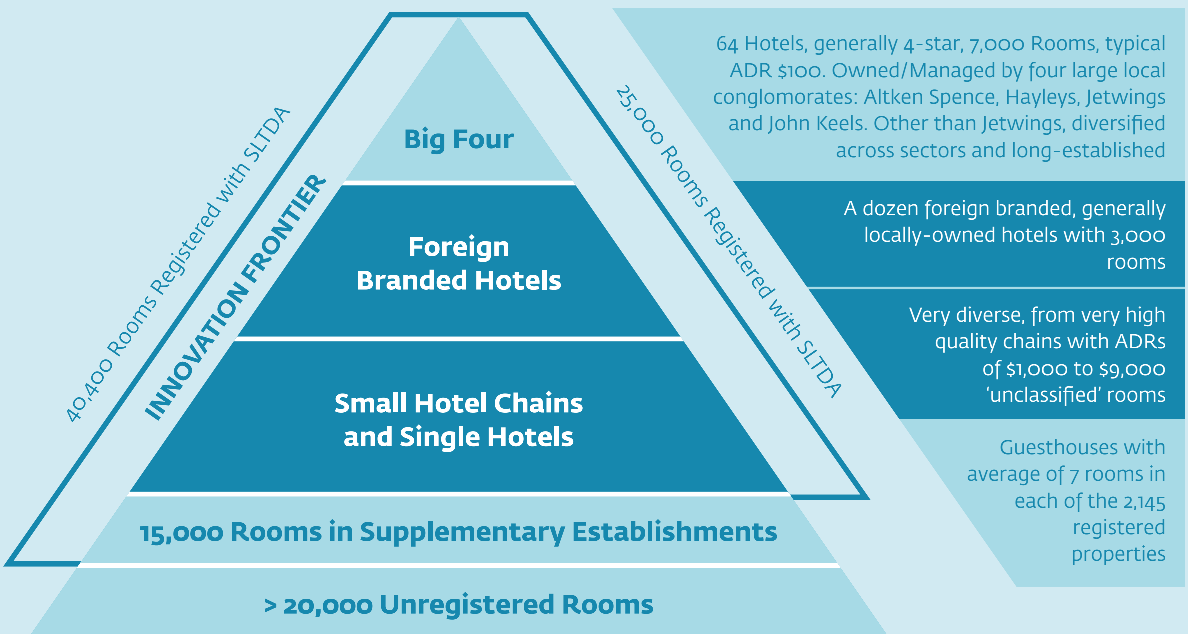
Box 1: The Tourism sector's financing and ownership structure

Tourism firm ownership and financing structures are complex, fragmented, and vary greatly between high- and low-income economies and subsectors. Tourism firms tend to i) comprise an elevated amount of self-employed/owner-operators with less formalized financing, accounting and management systems, ii) include a disproportionate number of 'lifestyle' investors with motives other than purely profit, iii) be highly fragmented in their ownership, operation and financing arrangements, iv) have limited collateral and immovable assets (against which to raise financing), and v) be highly dependent on an ecosystem of stakeholders that together deliver a competitive tourism value proposition (WTO-ILO, 2014; Getz & Carlsen, 2000; Ngoasong & Kimbu, 2019). In general, tourism micro-enterprises face the greatest challenge in accessing finance, while small and medium firms find the cost of finance most problematic (The World Bank, 2020).

Globally, the United Nations World Tourism Organization (UNWTO) found that between 2014 and 2019, an estimated 70 percent of hotel investments were undertaken by investors with diverse portfolios incorporating multiple sectors (UNWTO, 2021). However, in emerging markets, which often lack sophisticated financial sectors, hotel owners often rely on self-funding, friends and relatives, High Net Worth (HNW) individuals and local institutional investors for the bulk of expansion and M&A financing.

Tourism firm ownership in emerging economies tends to be largely independent and domestic, although trending towards consolidation. Large multinational chains are not common and smaller and informal (unlicensed) lodging often make up a large percentage of not only rooms, but businesses across the value chain. The illustration below from Sri Lanka is a typical structure for accommodation supply in an emerging economy.

Sri Lanka's Lodging Ownership Structure



Source: The World Bank. Sri Lanka Tourism Strategic Plan. 2022.

1.2.1 Destinations

The interconnected ecosystems of natural, cultural, and built attractions and tourism service providers that make up a destination have been seriously affected by the pandemic. Transport and lodging restrictions are bottlenecks to destination viability, given the anchoring properties of these sub-segments. Reduced capacities in these areas have reverberated throughout destination value chains, impacting SMEs that rely on anchor firms for distribution and market access. Destination-specific financing instruments such as tourism tax-supported bonds are often issued by municipalities and qualified authorities to finance capital projects. These instruments have suffered during the pandemic due to the short-term increased risk of non-repayment and have been placed by rating agencies on Rating Watch Negative, limiting their ability to support recovery efforts (Fitch Ratings, 2020). In the medium-term, highly tourism-dependent destinations, such as Fiji and the Yukon in Canada, are concerned that the closure and consolidation of firms will result in a loss of diversity in tourism SMEs, which could reduce destination attractiveness and competitiveness (IFC, 2020; WBG-WTTC, 2021). Unique and independent establishments can particularly enhance a destination's vibrancy and appeal, leading to increased visitor satisfaction (Liang & Andris, 2021).

1.2.2 Workforce

Job losses are one of the most serious impacts on the sector, with an estimated 62 million tourism jobs lost globally in 2020. This 18.5 percent reduction in jobs compared to 2019 was felt across the entire tourism ecosystem (WTTC, 2021), but at different levels regionally. Africa was the region with the greatest percentage decrease in employment, at -29.3 percent, followed by North America (-27.9 percent), then the Caribbean (-24.7 percent). The Asia-Pacific region was most impacted in terms of absolute job losses, comprising more than half of lost tourism jobs globally at 34.1 million (WTTC, 2021). An International Labour Organization study of five Asian countries[2] found that job losses in tourism were four times greater than in non-tourism sectors, and average working hours for tourism staff were reduced by between two and seven times compared to non-tourism workers. Women have been particularly impacted as they are more likely to be employed in entry-level positions. In Turkey for example, female workers were three times more likely to become unemployed than male ones (Baez & Demirgüç-Kunt, 2021). The extent to which these job losses are temporary or permanent remains unclear. Initial indications point towards a shift of employment to more productive sectors in advanced economies, and towards less productive jobs in developing countries.

In emerging economies workers have moved into the informal sector and were shifted to lower paid tourism sub-sectors, decreasing the quality of jobs available. In Viet Nam, for example, paid informal tourism jobs increased by 3 percent as employment shifted away from paid formal tourism jobs during the pandemic, which experienced an 11 percent decrease. Similarly, the only reported tourism job growth between 2020 and 2021 was for women in F&B, the lowest-paid tourism sub-sector (ILO, 2021). In more developed countries however, tourism jobs were buoyed by workforce support programs (see Section 2) and where labour reallocation occurred, it was prevalently workers with transferable skills moving to higher paid jobs in other sectors (Noack, 2021). This led to a shortage of skilled workers in the Tourism sector, leaving businesses to operate at reduced capacity due to the inability to hire, resulting in rising sector wages in advanced economies.[3]

Accelerated automation and digitization leading to increased productivity may decrease the long-term demand for low earning and manual labour such as housekeepers, particularly in more advanced economies. This is an important trend as the employment of such entry-level positions is one of the tourism sector's key pro-poor transmission channels (León, 2021). In the US, as of July 2021, more than half of the tourism jobs lost during the pandemic were yet to recover (U.S. Bureau of Labor Statistics, 2018), and Unite Here, a union for hotel workers estimated that eliminating daily housekeeping - which many hotels have instituted and may make permanent- would remove 180,000 jobs in the US, resulting in US$ 4.8bn in lost wages, mostly for women of colour (León, 2021). If managed properly and paired with retraining initiatives, however, this transition has the potential to lead to increased productivity at firm level and the potential to shift workers into higher skilled and more valuable jobs.

1.2.3 Planned and Future Investments

The pandemic has delayed tourism investment pipelines by an estimated one to two years, with investments in the insurance, travel tech[4] and digital intermediary subsectors anticipated to recover more quickly. In 2020, JLL Hotels & Hospitality estimated a 60 percent

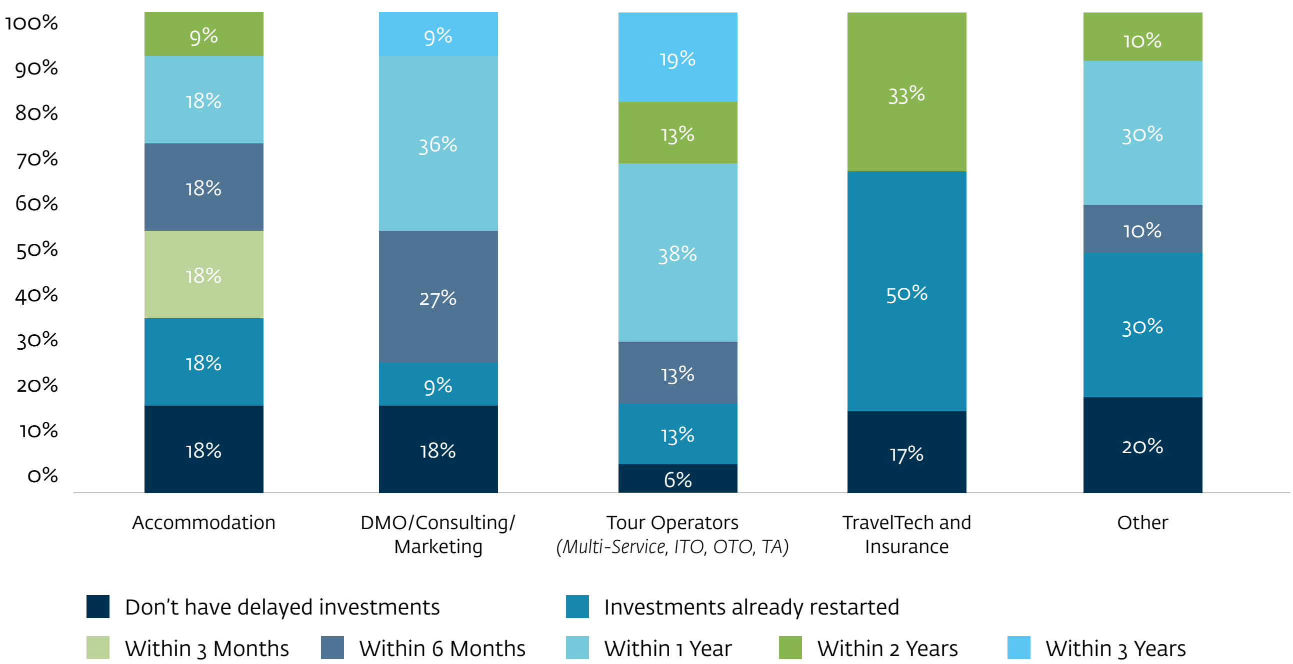
2 Brunei Darussalam, Mongolia, the Philippines, Thailand and Viet Nam.

3 In France, an estimated 150,000 workers have permanently left the sector; and Germany's unions estimate that one out of six tourism workers (around 300,000 people) left the industry in 2020.

4 This includes Global Distribution Systems, Online Travel Agencies, short-term rental platforms, metasearch platforms and online travel management companies.

drop in capital raised in closed-end funds for global hotel assets compared to 2019, when hotel valuations were at their all-time historical highs (WTTC Member Interviews, 2021). Foreign direct investment (FDI) in tourism dropped by 73.2 percent in the first half of 2020 compared with the same period of 2019 (UNWTO, 2021). This is corroborated by the findings of the WBG-WTTC pulse survey of WTTC members (conducted in January 2021), where respondents indicated that an estimated US$ 1bn in investments were delayed or cancelled due to the crisis. However, travel tech and travel insurance companies were already experiencing a rebound in early 2021, with 50 percent of them reporting that their delayed investments had restarted (see Figure 4). Overall, investors remained bullish on the sector's prospects but acknowledged that it was still too soon to expect largescale Mergers and Acquisitions (M&A) to ramp up while sector operators continue to focus on managing the crisis (WTTC Member Interviews, 2021).

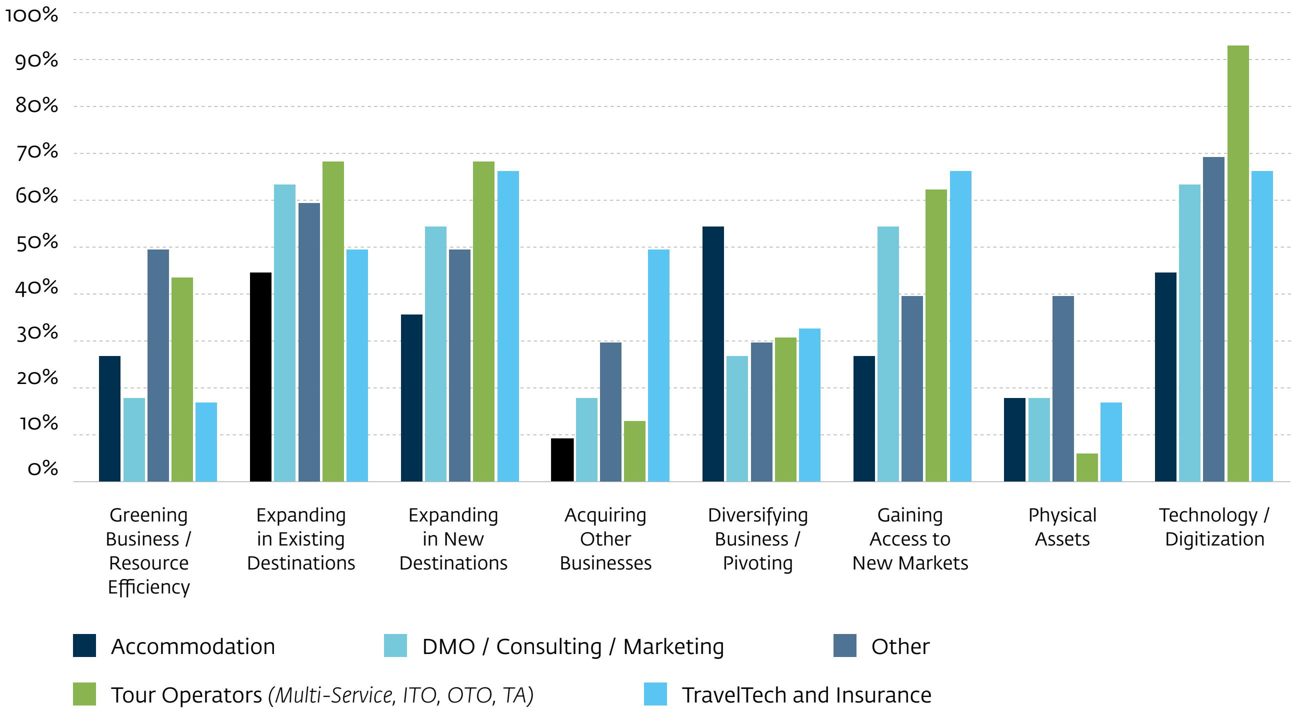
Figure 4: Considering the current context and your company's existing situation, when do you think you may be able to restart investment?



Source: World Bank Group and WTTC Member Survey - Pulse 1, January 2021

The WBG-WTTC pulse survey results illustrate a focus on technology and digitalisation investments across most subsectors as well as expansions in existing and new destinations by end of 2020 (see Figure 5). The latter demonstrates a level of optimism for tourism recovery in the coming years. Notably, 55 percent of accommodation respondents also planned to invest in diversifying or pivoting their business. Restaurant chains planned faster expansions than expected in smaller markets due to a reduction in competition from the closure of many F&B establishments, as well as increasingly affordable and vacant prime real estate (Garcia, 2020).

Figure 5: What types of investments are you planning to make or interested in making in the next 1-3 years?



Source: World Bank Group and WTTC Member Survey - Pulse 1, January 2021

The crisis is beginning to result in an increase of new business formation across sectors and particularly in tourism and its related value chains, as entrepreneurs take advantage of new trends and more affordable leases to launch new endeavours. This rise in entrepreneurship is expected to continue into the medium-term as attrition paves the way for innovation (Kunthara, 2021). Botswana for example, saw a 31 percent increase in its licensed tourism firms between April of 2019 and May 2021, punctuated by a 48 percent increase in licensed mobile safari operators and a 39 percent rise in Bed & Breakfasts as operators responded to new and different forms of demand (Botswana Ministry of Environment, Natural Resources Conservation and Tourism, 2021). In the F&B subsector, as demand returns in the most affected areas (such as city centres) a modest surge in entrepreneurs opening F&B establishments is expected with a six-month lag time, as operators take advantage of technology and more affordable leases to introduce new products (Bliss, 2021). In addition to new market opportunities, various micro-entrepreneurs have been driven by furloughs or layoffs to set up businesses.

In the medium-term, financing is expected to become available for planned and future investments in similar capacities to pre-COVID, however initially steeper rates with stricter due diligence are expected. This focus will likely be on a narrow segment of the tourism sector: the already well-capitalized and high-performing medium and large companies that present lower risks to creditors. Private equity and hedge funds have capital available both for debt and equity deals but will expect high returns or increased guarantees to offset the perceived increase in sectoral risk. Many investors are waiting to better understand the recovery and are split between expecting a bottoming out for insolvencies to occur once government support programs are phased out (particularly debt moratoria) and predicting a strong recovery to stave off defaults (WTTC Member Interviews, 2021). In emerging markets, high net worth individuals and portfolio companies are likely to lead post-pandemic M&A, as institutional investors are less present due to low levels of capital market sophistication and increased macro risks.

1.3 Effects on Market Structure

In addition to COVID's immediate health and economic impacts on the sector, the pandemic has resulted in structural changes by exposing and exacerbating sectoral weaknesses and accelerating innovation and digital adoption. Outcomes of these structural shifts will likely result in augmented efficiency resulting from cost cutting and increasing productivity, efforts to improve traveller confidence, and a new importance placed on diversifying demand bases. This section of the report will discuss pandemic-related impacts on debt, consolidation, digitalisation and automation, and fixed-cost reductions. The pandemic has also highlighted i) the inter-linked nature of tourism to macroeconomic stability as well as its deep value chains, ii) the lack of resiliency of the sector in certain contexts, particularly in situations of low market and product diversification, iii) inequities within the sector with respect to value capture, and iv) the precariousness of informal tourism businesses and workers.

1.3.1 Debt

Credit support measures initiated by governments have been highly utilized, including loan guarantee schemes and concessional finance mobilized through public banks.[5] Many guarantee agencies processed up to twenty times the transactions of previous years (ECB Economic Bulletin, 2020). During the Pandemic, many advanced and emerging economies launched largescale loan guarantee programs through domestic public banks to support businesses, for example France and Peru launched programs worth 12 percent and 8 percent of their respective GDPs. In Morocco, guaranteed loans, particularly to tourism firms, have been channelled through the public institution Central Guarantee Fund (CCG). Between March 2020 and June 2020, they offered special loans that guaranteed 80 to 95 percent of working capital loans for urgent expenses such as wages and utilities. Of the guaranteed loans, 95 percent of the funding went to SMEs. During the period from April to July 2020, gross flows of guaranteed loans were higher than overall net lending flows in all large countries that use the Euro as currency, implying a shift from non-guaranteed loans into guaranteed loans (ECB Economic Bulletin, 2020). Despite record mobilization, many credit guarantee programs faced bottlenecks in 2021 due to high utilisation rates and finite budgets, coupled with operational capacity limits of financial institutions administering these programs.

Unsustainable debt levels are a growing concern at the firm level, across financial institutions and tourism-dependent economies. Credit has been heavily utilized to stabilize tourism sector firms, particularly in the early stages of the pandemic. Strategic sectors, such as aviation, and large 'anchor' firms have been able to secure loans and access lines of credit to make up for revenue shortfalls. Conversely, lending to tourism SMEs has been perceived as high risk given the volatility of short-term income. Banks are seeking to avoid additional exposure and are increasingly reluctant to extend capital unless there is a clear line-of-sight to revenue streams. Many banks and more risk-averse investment funds are likely to prioritize other sectors and lower-risk investments in the coming years, while alternative lenders are extending loans at a substantially high cost of capital making it prohibitive for SMEs. Together, the significant levels of debt incurred by the financial sector and frequently backed by the public sector can threaten the health of these markets as the risk of defaults is increasing.

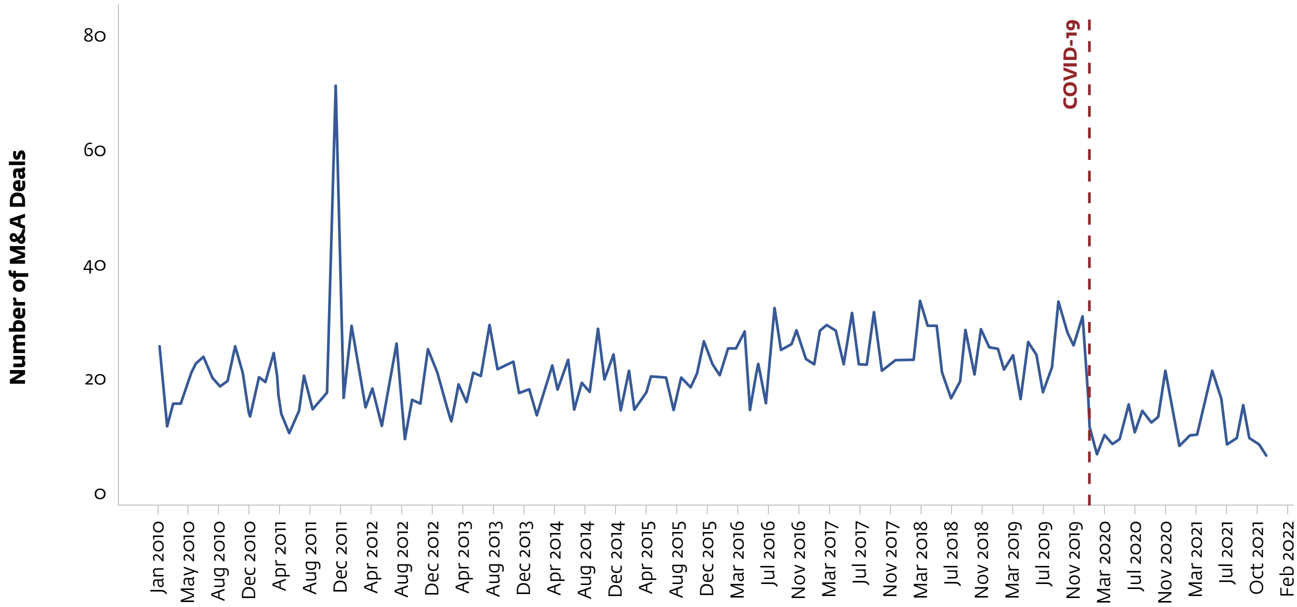
1.3.2 Consolidation

The consolidation of the sector, from i) individual ownership to portfolios of businesses and ii) independent to branded properties, has been a long-term trend. This trend was expected to accelerate due to the pandemic. Early movers with access to finance began to expand into new destinations through M&A as well as pursuing vertical integration. For example, in Sub-Saharan Africa, the Kasada Hospitality Fund made several large capital investments since the start of the COVID-19 pandemic. In January 2021 it acquired eight hotels across three countries (Ivory Coast, Senegal, and Cameroon) comprising a total 1,602 hotel rooms and in May 2021 the fund announced the acquisition of the 414-key Safari Hotels and Conference Centre in Windhoek, Namibia with a total equity commitment of US$ 500 million. In North America, exclusive cruise provider Lindblad Expeditions is vertically integrating by acquiring smaller competitors such as the DuVine Cycling + Adventure Co. and U.S. National Park specialty tour operator *Off the Beaten Path*.

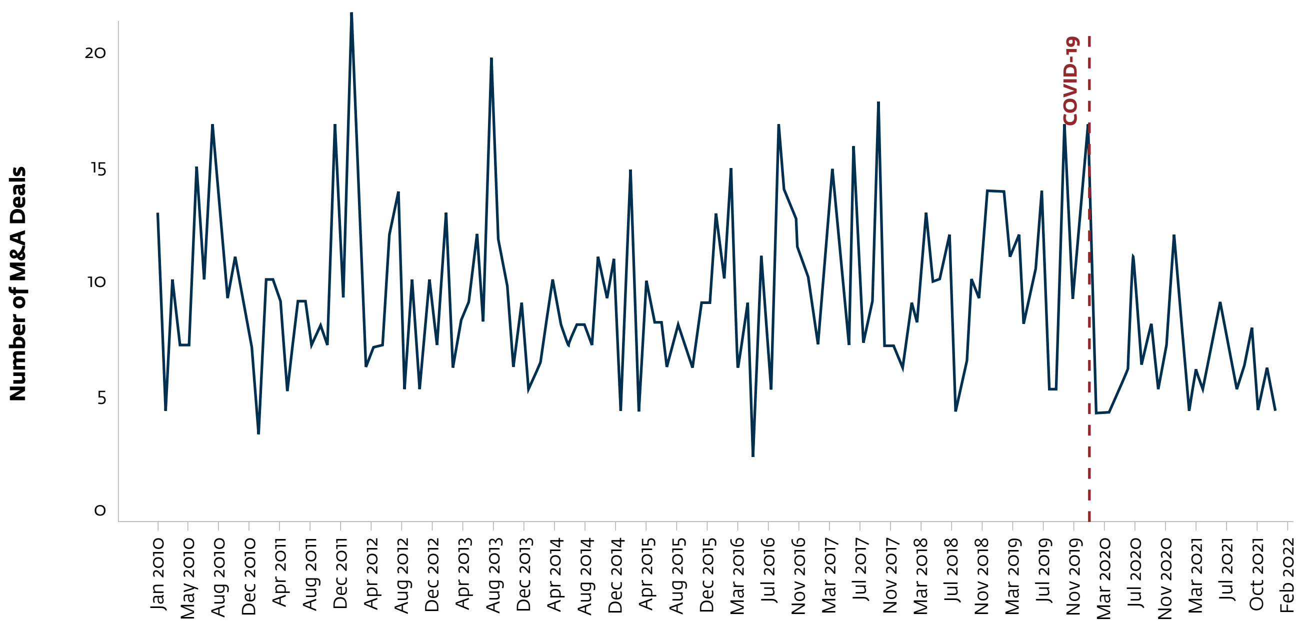
5 A credit guarantee scheme (CGS) provides third-party credit risk mitigation to lenders through the absorption of a portion of the lender's losses on the loans made to SMEs in case of default. The reduction in losses on loans made to businesses incentivizes lenders to provide financing to firms.

Figure 6: Number of Merger and Acquisition (M&A) deals in the Tourism and Aviation sectors (January 2010 – January 2022)

6a: Number of M&A deals in Tourism



6b: Number of M&A deals in the Aviation sector



Source: World Bank staff analysis based on Refinitiv (previously Thomson Reuters) M&A data, Jan 2010 – Jan 2022.

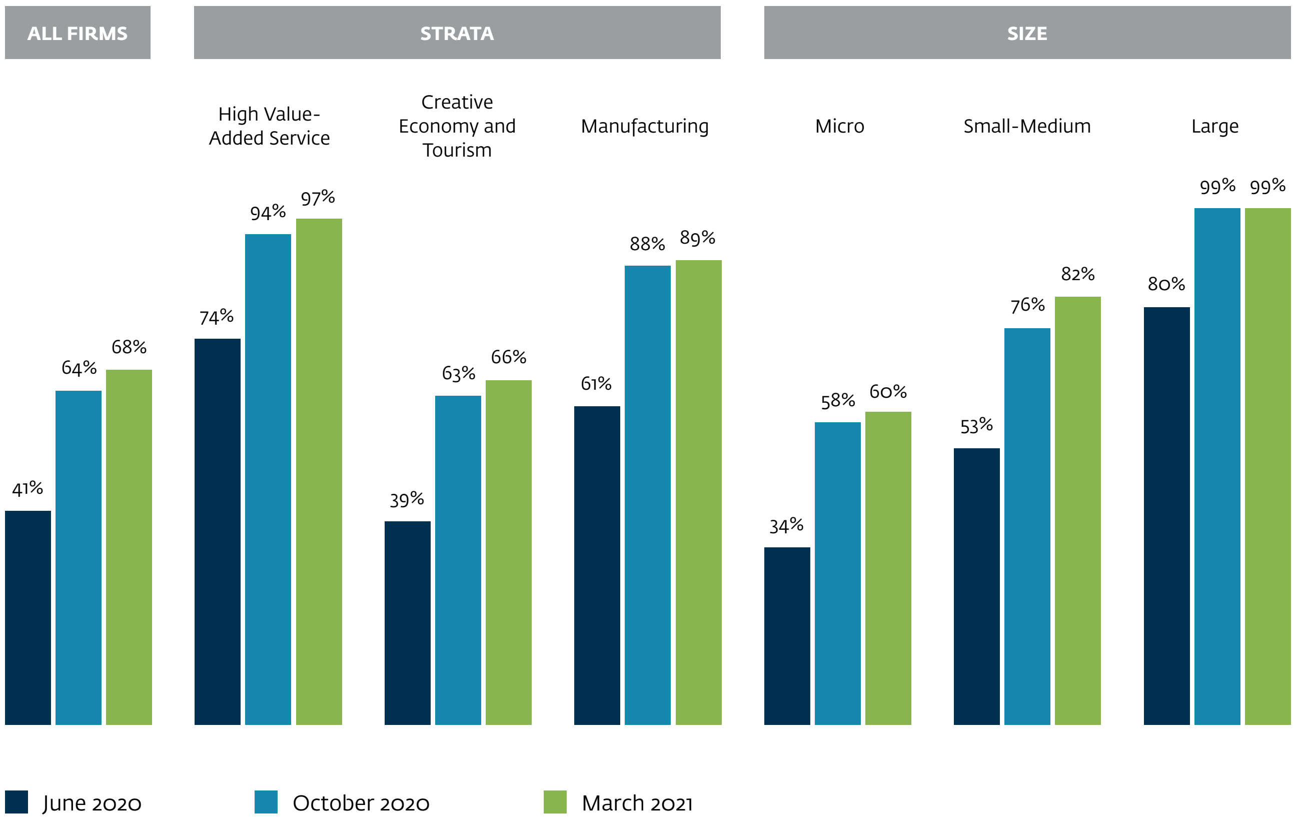
However, the large-scale wave of mergers and acquisitions predicted in the pandemic's early days has yet to materialize (see Figure 6). Data from Refinitiv shows the number of M&A deals in the tourism sector remains almost half of pre-COVID volumes, with a particular drop between May and September 2021, a trend similar is seen in the aviation sector (see Figure 6). This is consistent with emerging evidence across different sectors, showing that although insolvencies were initially expected to grow in 2020 leading to increased opportunities for M&A dealmaking, many economies appear not to have experienced high levels of bankruptcies, and some have experienced reductions (WBG, 2021). Three key factors are likely driving this delay. First, firm support programs have likely helped to mitigate and postpone insolvencies, providing less attractive deals than expected for private equity. Second, investors with cash on hand are waiting for more clarity on the timeline and scope of the recovery in case funds are needed to navigate a longer than expected recovery period. Third, creditors want to avoid failing firms being on their balance sheets, as occurred during the Global Financial Crisis, and therefore they are being more lenient with their repayment terms to avoid insolvencies. Firms interviewed for this report continue to expect consolidation to occur- through M&A or otherwise-, but at more of a lag than initially predicted given the remaining uncertainty over the pace and evenness of the recovery. When consolidation does happen, industry analysts expect it to involve primarily distressed individual or small portfolio SMEs and be to be mostly locally and regionally driven.

1.3.3 Digitalisation and Automation

Automation and digitisation are pre-COVID trends driven by profit maximization and customer preferences that have been heightened by the pandemic (WBG, 2021). In the tourism sector, this includes i) front-of-house technology such as mobile check-ins and digital payments, ii) back-of-house technology to increase productivity, target digital marketing and optimize returns, such as AI-powered revenue management systems; and iii) the reliance on global platforms for sales and distribution, such as Online Travel Agencies (OTAs) and private rental platforms. Historically, these digital platforms have overtaking traditional corporations: Booking holdings has a market capitalization worth more than Marriott International, Hilton Worldwide and Accor combined, at US$ 77.8bn. However, the uncertainty caused by the pandemic has started a shift back to direct hotel booking and away from digital intermediaries. Asia, for example, experienced a 64 percent increase in direct hotel bookings between 2019 and 2021 (D-Edge, 2021; PhocusWire, 2021). This has been bolstered by interest from digital native travellers for more direct engagement with businesses and increased transparency in pricing.

While findings from sector-agnostic surveys show that digitally transformed firms post-COVID experienced an eight percent lower decline in sales, tourism SMEs continue to lag in digital investment (The World Bank, 2021). A World Bank business survey in Indonesia showed that digital transitions by creative economy and tourism firms occurred at a considerably lower rate than high value-added services and manufacturing firms, even well into the pandemic. Investment levels in digital equipment and software were also lower for creative economy and tourism firms but was increasing as the pandemic continued. IFC's Rapid Diagnostic of Indonesia Tourism Digital Transformation found that tourism firms of all sizes are struggling to justify the cost of digital investments when compared to the cost of labor; in many cases the returns for digital in terms of productivity is not high enough to warrant the investment.

Figure 7: Share of Firms using Digital Transition in Indonesia



Source: The World Bank. Indonesia COVID-19 Business Pulse Survey. 2021

Digitalization measures driven by COVID are becoming permanent, but mostly for larger firms. Measures to contain the spread of COVID have also led to a rethinking of the frequency and intensity of customer touch points, and firms have begun to make permanent some personal services reductions that were required during the height of the pandemic, such as offering housekeeping only upon request, and adding mobile check-ins. Importantly, large businesses have been more effective at adopting digital solutions than small ones, leading to a widening gap in competitiveness between firms (WBG, 2021). Within the accommodation sector, the IFC study in Indonesia found that even large, independent hotels struggled to invest in digital solutions as they were not able to negotiate the same deals on hardware as franchised hotels with large room stocks. Unless coupled with retraining and capacity building, the acceleration of digital transformation risks widening inequalities within the sector (Ivanov, 2020).

1.3.4 Fixed-Cost Reductions

Largescale global operators report an acceleration in the trend towards increased efficiencies and reducing fixed costs, driven by the need to stem losses during the pandemic. Apart from labour savings from digitalization, industry analysts expect services to become increasingly unbundled, such as on-demand housekeeping and a reduction of included breakfasts. This trend mirrors the unbundling of fares that the airline industry undertook in the 2000s. Some stakeholders predict a similar path for the tourism sector, particularly for branded, standardized establishments within mature markets. This is likely to result in increased productivity and profits for firms that have the capacity to implement these changes.

Many operators, particularly those in franchise and management contracts are shedding their assets, moving towards a reduction of fixed costs that make them more responsive to fluctuations in demand. Moving to asset-light setups can reduce access to credit in less sophisticated financial markets that are dependent on traditional, unmovable assets as collateral. Apart from moving to leasing arrangements, hoteliers reported that outsourcing of services (housekeeping, laundry, F&B) has been increasing. This can provide new business opportunities for these outsourced services at a local level, while at the same time passing on capital investment risks to firms down the value chain.

1.4 Outlook

Forward-looking travel indicators suggest pent-up demand for international tourism but persistent headwinds to the actual realization of travel. Consumer spending started to shift from goods back to services in early 2022. The level of hotel and flight searches on Google has nearly recovered to pre-pandemic levels, and TCI Research's Travel Sentiment Score—which analyzes social media regarding consumer sentiment towards travel—has even exceeded January 2020 levels (Figure 8). Despite stronger than expected growth in the first quarter of 2022, stagflation concerns are impacting the sector's recovery. Booking lead-times have changed with the emergence of new variants as visitors are unable to plan for the near future. This volatility has made it difficult for firms and destinations to manage their staffing, cash flow and marketing as well as to plan for recovery.

Figure 8: Hotel and Flight Bookings, Searches and Travel Sentiment

Source: World Bank staff analysis based on data from UNWTO Tourism Recovery Tracker, with data from: International Civil Aviation Organisation (ICAO), ForwardKeys, STR, Sojern, TCI Research and AIRDNA.

Globally, scenarios run by UNWTO indicate that international tourist arrivals could grow by 30 to 78 percent in 2022 compared to 2021. This could be enough to stem further losses for firms that are continuing to operate as countries are beginning to shift strategies to treating the virus as endemic, however the recovery has been stymied several times by new travel restrictions sparked by virus variants, and further developments could continue to disrupt the recovery. Any volatility may further exacerbate pressures on tourism-reliant economies and firms, compounding an uneven resumption of demand amidst challenging macroeconomic environments that include rising inflation, the prospects of a global economic slowdown, high debt volumes and disrupted supply chains.

2. Support to the Tourism Sector During COVID-19

Many economies implemented unprecedented firm and worker support programs during the pandemic. In numerous cases, tourism firms were eligible for and benefited from economy-wide stimulus packages as well as sector-specific support.

2.1 Overview of Initiatives to Support Tourism Firms and Workers

Figure 9 provides an overview of the ten main instruments used by governments to address the crisis which are discussed in this section. It should be stressed that given the ongoing nature of these interventions, it remains too soon to systematically assess their efficacy. However, section 2.3 highlights some important market and government failures in tourism and section three of this report presents a set of guiding principles to help avoid the risk of market distortions.

Figure 9: Most common financial public sector support initiatives available to the Tourism sector

Type of support	Description	Examples
Direct financial support (grants / subsidies)	To cover fixed operating costs and acute liquidity shortages mostly for businesses that experienced extreme reduction in demand due to lockdown and other regulations.	**Austria:** Enterprises closed during lockdown received between 80 percent (e.g., accommodation, gastronomy) and 20 percent (retail) of their turnover of the same period last year (December 2020 up to 50 percent; from January 2021 onwards new combined model to cover up to 30 percent). **Jamaica:** Several grant programs for tourism firms including one-off grants for small craft vendors and transportation providers as well as the Business Employee Support and Transfer (BEST) grant program for registered tourism firms.
Reduction in Taxes, Fees, and other Public Obligations for Firms	Tax holidays, reductions and/or relief from fees charged by the public sector for various types of authorizations including licenses, registrations, permits, certifications	**Seychelles:** Postponement of Corporate Responsibility Tax, Tourism Marketing tax and Business Tax. **Malaysia:** exemption period for license renewal fee as well as additional licenses for tourism operators and tour guides
Legal adjustments to firms (Insolvency/ bankruptcy support)	Temporary suspension of the obligation for companies to file for bankruptcy to give the company and creditors sufficient time to consider recapitalizing, restructuring of debt or other alternatives.	**Australia:** The threshold for a bankruptcy notice being issued against a debtor, and for a creditor's petition being presented to the court, has been increased from A$ 5,000 to A$ 20,000. **Italy:** Applications for the declaration of bankruptcy filed between 9 March to 30 June 2020 were frozen. **Spain:** The obligation of the debtor to file for bankruptcy within two months of becoming insolvent is suspended and courts will not process involuntary bankruptcy applications during the state of emergency
Rent deferrals and debt moratoria	Eviction moratoriums for commercial businesses that have been impacted by the COVID-19 crisis; grant programs to pay for rent; mandatory rent deferral programs.	**Singapore:** Combined rent waiver program and rent deferral program for business who have seen a drop of 35 percent or more in their gross income **Egypt:** Rent payments were suspended for tourism and food service businesses at state-controlled landmarks

Figure 9: Most common financial public sector support initiatives available to the Tourism sector (continued)

Type of support	Description	Examples
Financial support for cancellation refunds	Prevents travel companies from becoming insolvent due to having the (legal) obligation to pay out vouchers to customers	**Netherlands:** Government provided € 400 million to supplement the refunds that firms had to refund to customers starting March 2021 **New Zealand:** The Scheme is funded to a maximum of NZ$ 47.2 million, to 30 June 2021.
Job retention schemes (employment, wage assistance support and furlough schemes)	Subsidy program to qualifying employers to offset payroll costs with the goal to avoid lay-offs.	**Cambodia:** 20 percent of the workers' minimum wages employed in hotels, guesthouses, restaurants, and travel agencies. Workers are first required to attend a short course delivered by the Ministry of Tourism **Seychelles:** 100 percent wage assistance to employees of firms that were affected by the crisis. The scheme was phased out in March 2021.
Investment incentives	Temporary investment tax incentives reduce the user cost of capital	**Portugal:** Co-investment fund for enterprises with a strong social impact dimension with a public minimum of € 50.000 and a maximum of € 2.5 million. **Iceland:** A special ISK 15 billion investment acceleration initiative including several projects that are aimed at supporting tourism: including e.g., private/municipal tourist sites).
Domestic Demand Support	To stimulate demand from the (domestic) market by providing incentives in the form of vouchers, fiscal incentives or moving bank holidays to create long weekends or marketing and promotion	**Costa Rica:** Approved a law to move all holidays of 2020 and 2021 to Mondays **Italy:** Initiated Holiday Bonus (Bonus Vacanze) for families under certain conditions. The holiday bonus offered a contribution of up to € 500 for stays in hotels, campsites, holiday villages, farmhouses, and bed & breakfasts in Italy

Further examples can be found in the WTTC's publication *Government Policies Enabling Travel & Tourism Recovery During COVID-19.*

The World Bank's Markets, Competition and Technology Global Unit has identified 587 individual policy responses across 119 countries in the tourism sector between January 2020 and October 2021 (The World Bank, 2021). Among these, high-income countries have deployed the majority of interventions. As of October 2021, high-income countries had deployed 53 percent of the identified interventions, with the balance composed by upper-middle income (25 percent), lower-middle income (18 percent) and low-income countries (see Figure 10). Support measures by low-income countries remain limited, and rollout has taken longer than more advanced economies, often due to data, capacity, coordination and fiscal constraints. There were zero support measures applied by low-income countries in mid-2020, which increased to 4 percent of global measures by October 2021.

Figure 10: Number of Tourism measures by Income-Level

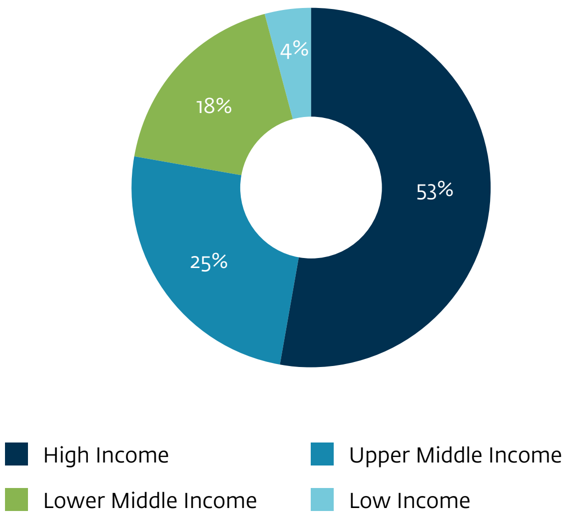
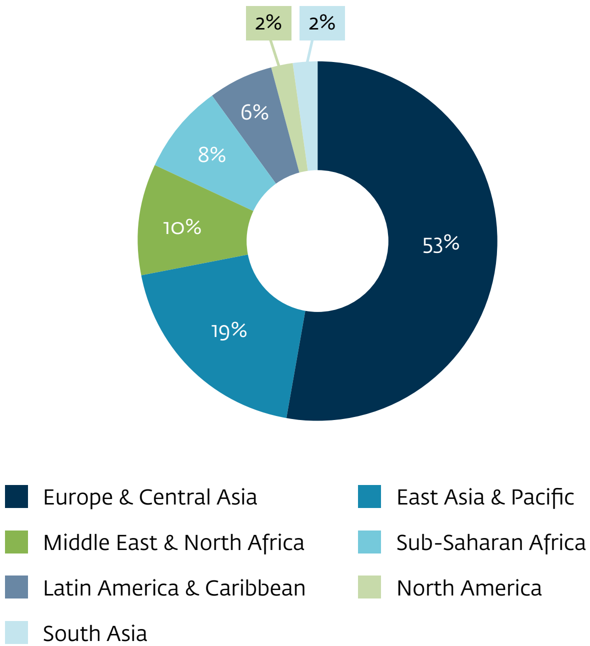


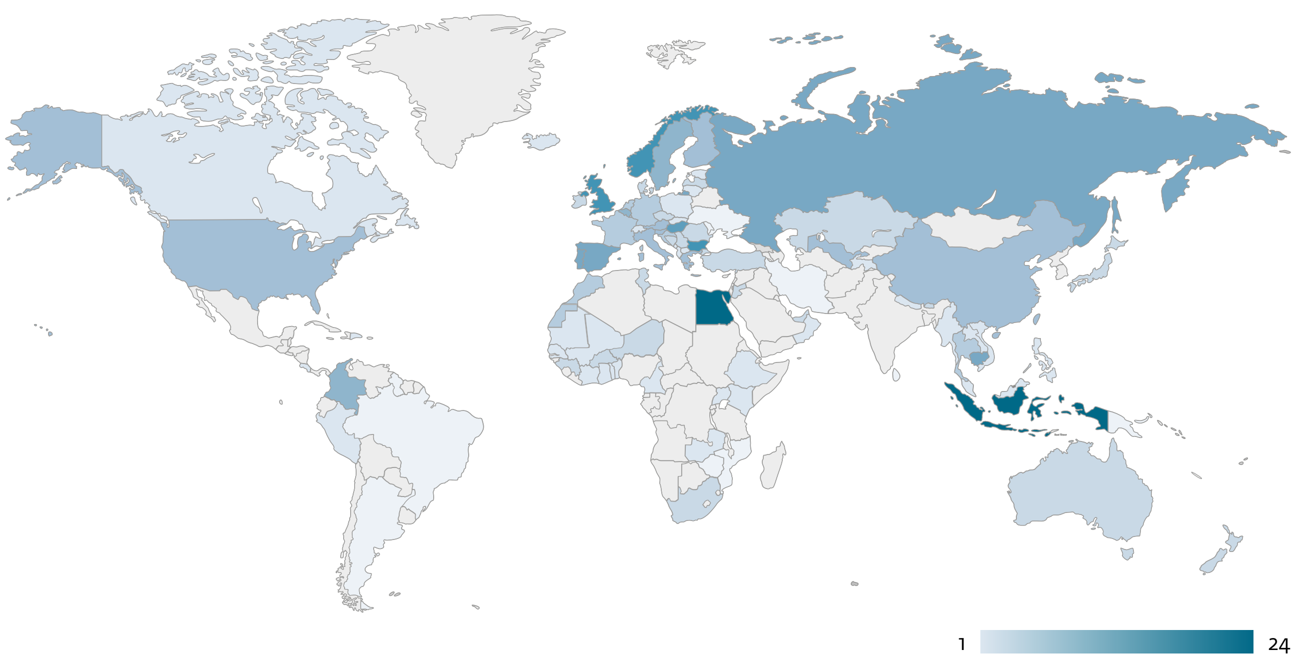
Figure 11: Number of Tourism Measures by Region



Source: The World Bank. Markets, Competition and Technology Unit. Industrial Policy Tracker. 2021

Countries in Europe and Central Asia have deployed the largest share of the identified interventions (53 percent), followed by East Asia and the Pacific (19 percent) and the Middle East and North Africa region (10 percent) (Figure 11). Europe & Central Asia has seen the largest increase in regional share of support measures since early in the Pandemic, when it made up 36 percent of global support measures in June 2020. Among individual countries, Indonesia has deployed the largest number of identified interventions, followed by Egypt (Figure 12).

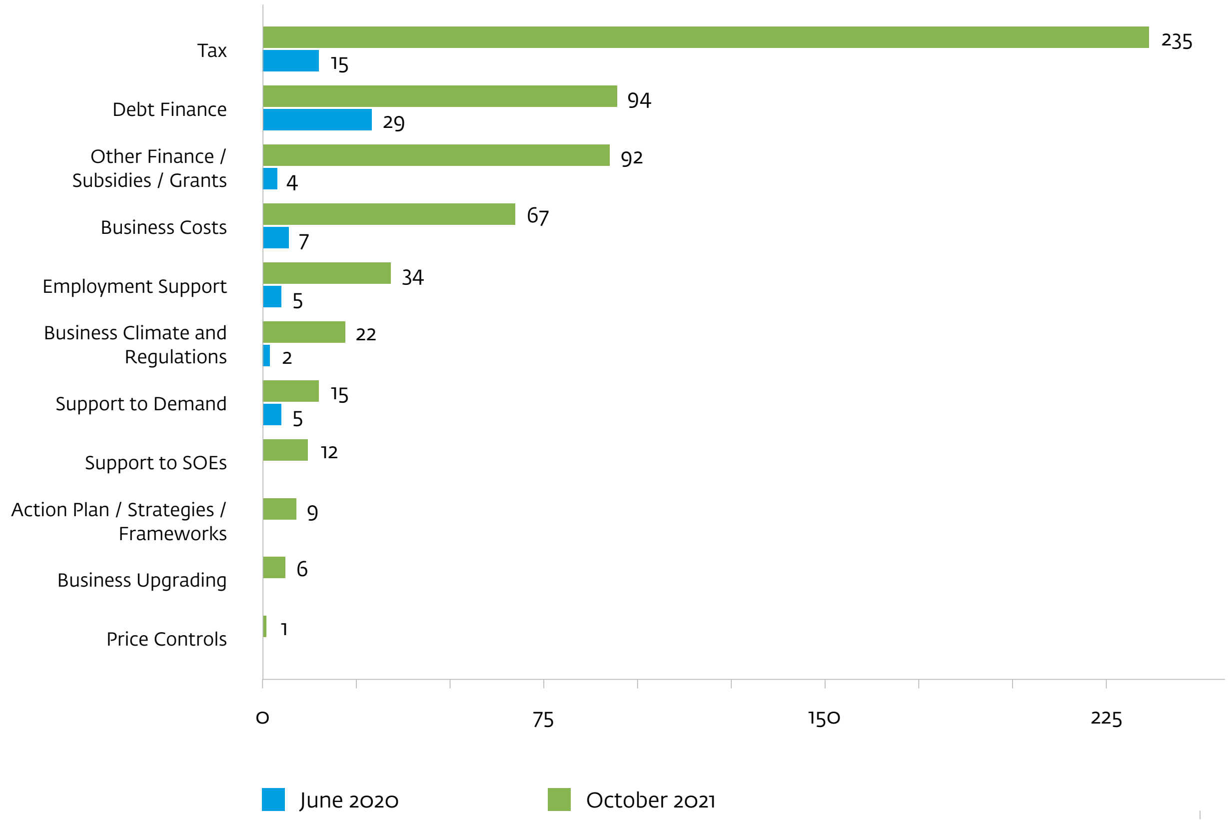
Figure 12: Number of Tourism Measures by Country



Source: The World Bank. Markets, Competition and Technology Unit. Industrial Policy Tracker. 2021

Tax-related measures are the most frequent type of identified interventions, followed by debt finance and other finance, subsidies, and grants (Figure 13). As the pandemic has continued, more measures of each type have been applied, though governments have relied most on an increase of tax-related measures - which grew from 15 measures in 2020 to 235 by October of 2021 - compared to debt finance, which dominated support early-on.

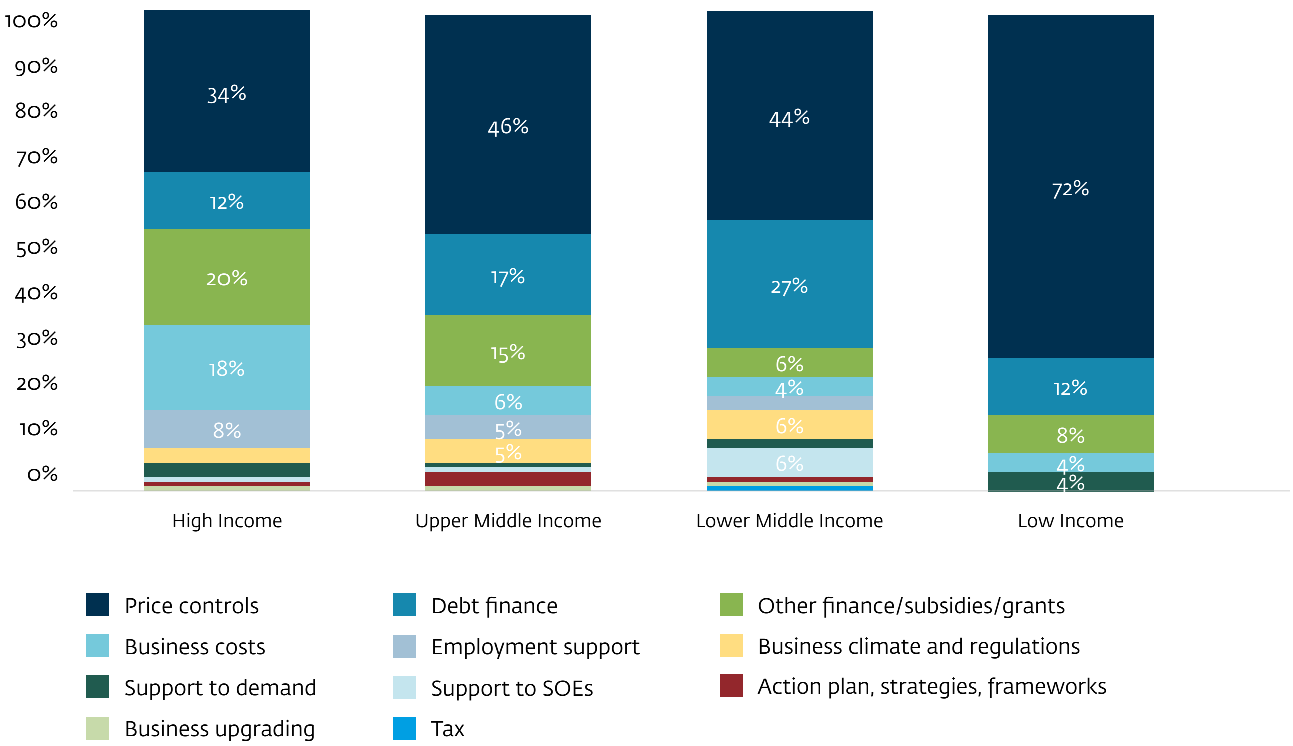
Figure 13: Number of Tourism Support Measures by Type (2020, 2021)



Source: The World Bank. Markets, Competition and Technology Unit. Industrial Policy Tracker. 2021

Measures in high-income countries have been balanced across different types of interventions, while low-income countries were more likely to deploy tax-related measures and less likely to deploy debt finance measures (Figure 14). Additionally, a large variance exists in the availability and access to support programs. World Bank Business Pulse and Enterprise Survey results show that large firms (30 percent) were more likely to receive support than micro firms (18 percent), and the probability of receiving firm support is around four times higher in high income countries (53 percent) than low-income countries (11 percent) (The World Bank, 2021).

Figure 14: Types of Tourism Support Measures by Income-Level



Source: The World Bank. Markets, Competition and Technology Unit. Industrial Policy Tracker. 2021

Box 2: Detailed Examples of Tourism Sector Support Programs

South Africa set up specific tourism relief funds for SMEs. The South African government announced in 2020 a Coronavirus COVID-19 Tourism Relief Fund with a total budget of US$ 15 million. The funding was deployed quickly, supporting 4,000 beneficiaries with a maximum of US$ 3,500 per company (Rogerson & Rogerson, 2020). In 2021, the government announced the Tourism Equity Fund (TEF), a collaborative initiative between the Department of Tourism and the Small Enterprise Finance Agency (SEFA). Only companies that are 51 percent black-owned, managed, and controlled are eligible for the fund. The minimum project value for TEF applications is US$ 700,000. The funding provided includes a grant up to a maximum of US$ 1.4 million, a concessionary loan, a SEFA loan up to a maximum of US$ 1 million and the balance is to be covered by a loan from a commercial bank (South Africa Department of Tourism, 2021). The government also ran the Temporary Employer Relief Scheme (COVID-19 TERS) in 2020. Only employers that had made monthly contributions to the regular Temporary Employers Relief Scheme could apply for the scheme and laid-off employees would receive anything between 38 percent to 60 percent of their current income (PKF South Africa, 2020).

Argentina deployed travel vouchers for domestic tourists to encourage local travel and provide some demand for tourism services. These travel coupons, used by 600 visitors, covered 50 percent of a visitor's domestic travel spend in 2021 and injected US$ 157m into the sector (WTTC, 2021). This induced and leveraged additional visitor spending as well as provided tourism firms with revenue to address their pressing cash-flow obligations. [6]

Canada has implemented tourism rescue and recovery funding for vulnerable regions. Yukon, in the northwest of Canada is the smallest territory in the country and highly dependent on tourism. The government of Yukon set up several programs and funds to specifically support tourism SMEs in the territory including tourism specific grant programs for SMEs who received maximum eligibility under the general Yukon Business Relief Program. The Department of Tourism and Culture also doubled the marketing fund and temporarily waived the co-financing requirement. Another initiative, "The Yukon Elevate Tourism Program", which is funded by the Canadian Northern Economic Development Agency and implemented by the Tourism Industry Association of the Yukon, provides tourism SME's with up to C$ 20,000 per application within two funding streams: 1) Professional mentorship (up to C$ 5,000 of professional services and business guidance), and 2) Adaptation projects (up to C$ 15,000 in funding toward a project to modify or enhance existing visitor experiences and services in response to the necessary adaptions related to COVID-19 (TIA Yukon, 2020).

6 The WTTC Member Survey recommended that if utilized, voucher programs should ensure a long timeline and flexibility with spending conditions to maximise their use and effectiveness while leveraging additional spending (WTTC Member Interviews, 2021).

2.2 Industry Views

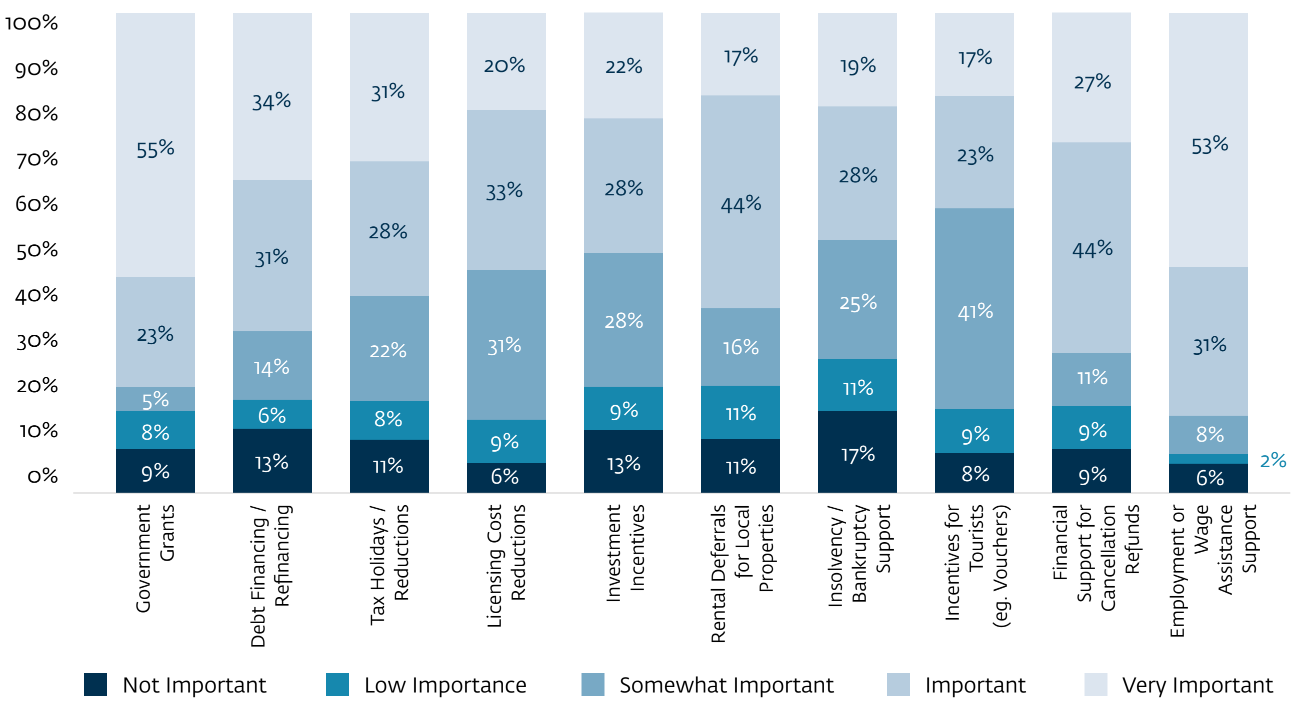
This section presents the tourism industry's views on support programs and financing needs going forward, based on the WBG-WTTC pulse survey as well as interviews with key private sector and destination stakeholders carried out between December 2020 and October 2021. In general, industry stakeholders have viewed tourism sector-specific support programs as more effective in meeting tourism firm needs than sector-agnostic programs due to their more targeted nature. Although research is not yet available to assess the effectiveness of such programs and the efficacy of using public funds in this manner (see further discussion in Section three) it is important to consider the implications of such programs for existing and the creation of new market and government failures (section 2.31, 2.32).

2.2.1. Workforce support programs

Tourism firms considered furlough and payroll protection programs among the most effective types of support provided. In addition to supporting vulnerable workers' livelihoods—in some cases covering as much as 90 percent of lost wages—operators reported that many programs reduced layoffs, allowing companies to bring their employees back more rapidly in response to a resumption in demand. Eighty-four percent of respondents to the WBG-WTTC pulse survey stated that workforce support programs were 'important' or 'very important', the most of any category of support measures (see Figure 15). Similarly, a recent study among 669 hotel employees in Egypt showed that government wage support had a positive effect on job retention (Salem, Elkhwesky, & Ramkissoon, 2022).

Enterprises viewed payroll protection programs as important in protecting employment and in some cases keeping businesses solvent. This was most important in the subsectors that were heavily impacted, such as the Meetings, Incentives, Conferences & Exhibitions (MICE) industry. A survey undertaken by the Global Association of the Exhibition Industry reported that 54 percent of MICE companies reduced their workforce, with half of these by more than 25 percent. Forty-four percent of companies benefitted from some level of public financial support, and results showed that regions with increased financial support measures had the least workforce reductions. Similarly in Mauritius payroll support reduced unemployment but it also reduced labour-market mobility from services to retail resulting in productivity losses. The industry reported being concerned that phasing out of workforce retention programs prior to demand recovery could undermine progress and risk firm closures and job losses that have so far been averted (WTTC, 2021).

Figure 15: How important do you think the following fiscal policies or financial support programs have been for businesses?

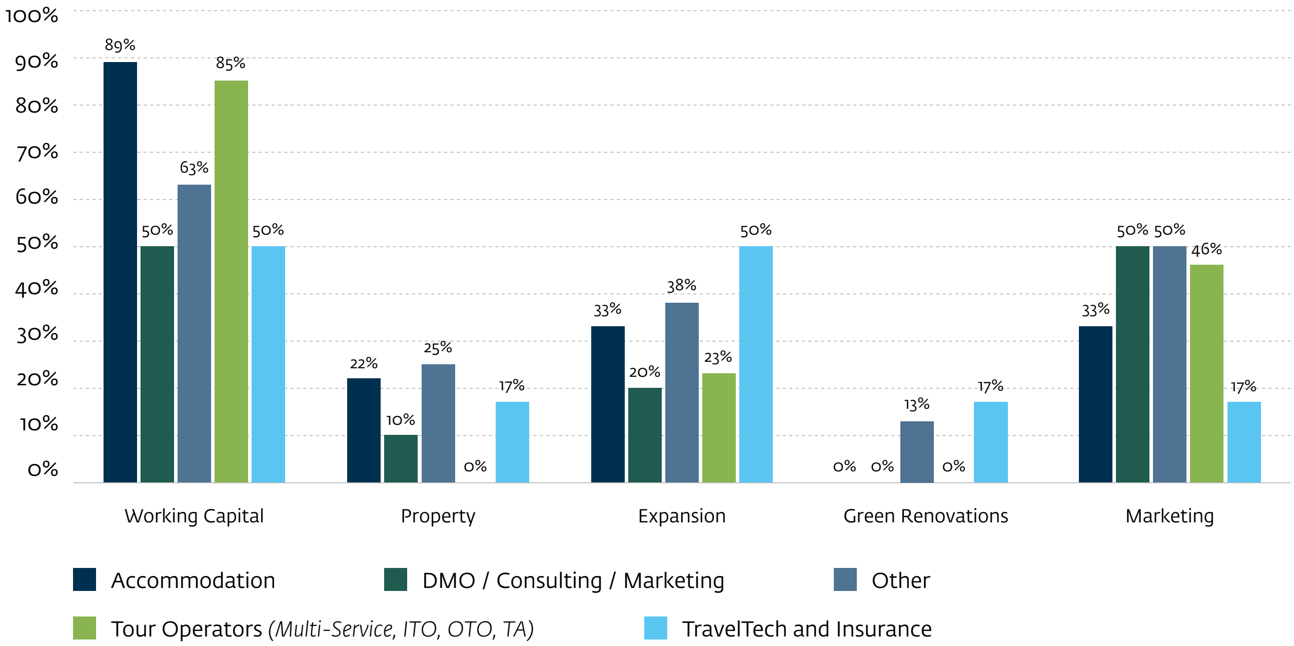


Source: World Bank Group and WTTC Member Survey - Pulse 1, January 2021

2.2.2 Direct Financial Support to Firms

Survey respondents' second-most preferred modality of direct public support during the rescue phase was government grants. The WBG-WTTC pulse survey showed that grants were considered vital by the respondents in meeting their financial gaps, with 78 percent of respondents stating that grant programs were 'important' or 'very important', second only to workforce support programs (see Figure 15). Additionally, the speed at which financial support was made available was important. A study on Indonesian tourism SMEs, for example, showed that the form of cash injection (grant or loan) was less important for the survival rate of SMEs than ensuring that the funding is rapidly available without excessive administrative hurdles (Nugroho & Negara, 2020).

Figure 16: What are your most important financing needs (by sub-sector)?



Source: World Bank Group and WTTC Member Survey - Pulse 1, January 2021

Box 3: Supporting Tourism SMEs in Navigating and Accessing Support Measures

A tourism sector survey carried out by McKinsey & Company found that worldwide, two-thirds of tourism firms were unaware of available government support programs (Mckinsey & Company, 2020). World Bank research shows similar results across all industries, with awareness being lowest in countries with less GDP per capita (The World Bank, 2021). This highlights the importance of facilitating access to support programs, particularly for stakeholders with lower capacities.

To help remedy these situations, WESGRO, the Tourism, Trade and Investment Promotion Agency for Cape Town and the Western Cape (South Africa) set up a COVID-19 Support Finder Tool for MSMEs. WESGRO had found that the majority of SMEs that sought financing had a limited understanding of available public and private COVID support funding channels across the country. The portal utilized information submitted by businesses and compared it against the mandates of more than 300 funders, and over 600 financial products and provided tailored support in selecting and qualifying for funding sources. Smaller firms in particular benefit when programs include technical assistance in finding, applying, securing, and administering support through trusted local intermediaries.

2.2.3 Outlook

Demand for short-term rescue programs remained strong as of mid-2021. WBG-WTTC pulse survey respondents cited grants (51 percent of respondents were interested in the financing option) and medium to long term financing (49 percent) as their greatest existing financing gaps (See Figure 16). At the same time, many governments have begun phasing out firm support programs under fiscal pressure as well as inflationary concerns, while others, such as Morocco, have replenished programs in light of renewed shocks such as the Omicron variant.

In 2021, immediate financing needs remained focused on liquidity. Survey respondents overwhelmingly cited working capital as their most important financing need, particularly for lodging (89 percent) and tour operators (85 percent). Estimates on recovery timelines vary and are being continuously updated; for example McKinsey and Company forecasts a recovery time of two to five years to reach 2019 visitor volumes (by 2023-2026), indicating that over-supply issues and managing cash flow will likely remain a high concern for the medium-term (McKinsey & Company, 2020). Reopening will likely require almost full operating costs with gradual resumption of demand, therefore further exacerbating cash flow issues.

Medium and long-term financing for both expansion and refinancing of existing debt continues to be problematic, a perennial issue for firms across economies. The WB-WTTC Tourism Pulse Survey results showed that medium and long-term financing are considered by 49 percent of the respondents as a financial product with unmet needs, followed by secured loans (34 percent), and are by far the most needed financial product for accommodation providers. This is both because some firms are over leveraged, as well as due to structural access to finance challenges facing developing markets. Available bank loans for Tourism SMEs, especially in low-income countries have mostly been short term (less than five years) while there is an indicated need for longer term loans (7-8 years).

2.3 Effects of the Pandemic on Tourism Market and Government Failures

The changes wrought by the pandemic to both the structure of the tourism sector and government interventions have created both new market and government failures. This section describes such failures in relation to the pandemic; Section 3 then provides recommendations for addressing market and government failures in the Tourism sector's recovery through principles and support options. As a unique economic activity, tourism is associated with a special set of market and government failures (see Box 3). The tourism sector has distinct characteristics—principally, the direct interaction by consumers of tourism services with non-local people, environments, and economies—that distinguish it from other economic sectors. While government intervention can correct these market failures, poorly designed policies may create government failures that damage the public interest by, for instance, limiting competition, creating inflation, suppressing employment, or over-taxing the population.

Box 4: Common Market Failures in Tourism

Non-Economic Externalities: Tourism often has substantial (positive and negative) non-economic impacts on host environments and cultures. For example, some forms of tourism can pollute, while others can protect and regenerate ecosystems and bolster revenues for conservation.

Economic Externalities: Tourism may alternately enhance or undermine the productivity of other economic activities depending on the nature of work of those employed by the sector. If tourism helps workers acquire new skills that carry over to future jobs, other sectors may experience positive benefits. Tourism jobs which do not expose workers to technology may, however, have minimal productivity spill-overs. Additionally, by generating foreign exchange, tourism benefits sectors that utilize imported goods.

Information Asymmetries: Information asymmetries are inherent in tourism as tourists are—absent a trusted information source—generally uncertain of the quality and safety of local products and services and may accordingly reduce their consumption due to the associated (perceived) risk. Consumption may also be suppressed by tourists not being aware of products and experiences they would otherwise consume.

Coordination Failures: Tourism destinations ordinarily comprise complex value chains. Often, a tourism firm will not be viable without the existence of firms in other segments, creating a need for coordination between firms. For example, a hotel may not be viable without an airline to serve the destination, yet the airline would not be viable without a lodging at the destination. Tourism value chains are particularly susceptible to the loss of firms serving segments which exhibit high fixed costs, human capital specific to both the location and the task, and relatively low levels of competition.

Potential for exercise of market power: Due to the importance of coordination to tourism value chains, vertical integration is common in the tourism sector. High fixed costs, increasing returns to scale, and/or network effects may predispose certain segments to natural monopolies, as for instance is the case in online booking platforms and airlines. This may result in higher costs and fewer choices for consumers, thus reducing the competitiveness of destinations or segments.

2.3.1 Market Failures

Coordination Failures

Over the course of the pandemic, the prospect of coordination failures has imperilled the viability of tourism value chains sustaining numerous destinations across the developing world. The dramatic fall in tourism revenues induced by the pandemic put many 'anchoring' firms (such as airlines) at risk, which in turn threatened the viability of whole tourism value chains. As 'anchoring' firms encompass critical skills and assets specific to destinations, the collapse of such firms could make it difficult for destinations to offer competitive offerings in the wake of the pandemic.

Market Consolidation

The pandemic is expected to accelerate the long-term trend of consolidation of tourism sub-sectors. As discussed in Subsection 1.3.2, although the large wave of M&As has not yet occurred, consolidation may accelerate in the future due to firm insolvencies and increased vertical and horizontal integrations. This will increase the market power of existing and expanding firms and the concentration of the corresponding sub-sectors. Unless firms exiting the sector are replaced by new firms, the resulting lack of competition in such sub-sectors will adversely affect the price and quality of the associated products, resulting in a degradation of the competitiveness of a destination's offering. This, in turn, can hinder the positive effects of tourism on economic development (See Section 3.1.2).

Information Asymmetries

The effect of information asymmetries on the behaviour of tourism consumers has been increased significantly by the pandemic. The pandemic caused tourists to place a high value on information about the risks of infection when visiting a particular destination. As such, information i) on whether a destination is adhering to appropriate health, hygiene, and testing protocols, ii) on the prevalence of infection in the destination, and iii) on eventualities in the event of infection are much more consequential for consumers of tourism than prior to the pandemic. Where potential tourists are unable to procure such information, they may opt to defer trips that they otherwise may have taken.

2.3.2 Government Failures

Government interventions create a risk of producing inefficient economic outcomes and measures undertaken throughout the pandemic are no exception. Direct public support to businesses, where properly targeted at key firms, skills and/or assets can help reduce the risk of coordination failures and decreases in market competition. However, such intervention can also result in government failures—that is a situation whereby the public would be better off in the absence of the intervention.

Moral Hazard[7]

The bailing out of distressed tourism firms by governments can result in moral hazard. Firms being bailed out may, for example, engage in risky investments that may either result in bankruptcies if further bailouts are not forthcoming, or excessive public debt if further bailouts are forthcoming. In addition, bailouts can reduce the incentive for firms to engage in good business practices such as adhering to accounting standards, reducing debt, and maintaining cash reserves. This risk can be mitigated if governments can credibly signal that the bailout is a one-off event and if bailouts are conditioned on the adoption by firms of restructurings or good business practices—especially to help them be more resilient and improve their positive externalities.

Excessive Public Expenditure

Public expenditure to support the tourism sector can create various economic risks. While the recession generated in many countries by the pandemic provides a rationale for expansionary fiscal policy, financial support provided by the government to firms and/or workers generally results in increases in public debt or reductions in spending on public goods and services. In either case, public welfare can be adversely affected by the additional expenditure associated with such support. In particular, support to the tourism sector may divert funds from more inclusive public spending such as social spending or investment in public infrastructure.

Allocative Inefficiencies

Interventions to sustain unviable firms can adversely affect the process of 'creative destruction'. Government interventions to forestall the collapse of firms that are illiquid or, in the extreme, insolvent—through such measures as payroll support, reductions of fees and taxes, or alterations to restructuring procedures—can inhibit the reallocation of land, labor, capital to more productive uses, although there is no definitive means to systematically determine whether such reallocations will be efficient.

Information Asymmetry

Uncertainty around travel restrictions also represents an information asymmetry that potentially suppresses tourism demand beyond public health emergencies. Throughout the pandemic, many governments-imposed travel restrictions to contain outbreaks and limit community transmission. Such restrictions are often well justified in the interests of public health but can create uncertainty for potential tourists that cause them to delay or postpone trips. Tourists may be concerned, for instance, that they will have to cancel a planned trip due to the introduction of travel restrictions or that they may incur unplanned expenses and personal disruption if a travel restriction is introduced while on vacation. Governments and the private sector can potentially mitigate the information asymmetry created by travel restrictions by developing measures to financially protect tourists from disruptions that arise from new travel restrictions.

7 Moral hazard occurs where interventions reduce the private risk associated with investments or other behaviours and encourage economic actors undertaking risks they otherwise would not take, resulting in outcomes that are detrimental to the general public. Bailouts of and other public assistance provided to distressed private firms can result in moral hazard as firms may subsequently be encouraged to engage in excessively risky investments based on the expectation of future bailouts if such investments are unsuccessful. This is an inefficient outcome as, if such investments fail, governments must choose between either letting firms collapse, potentially given rise to a coordination failure and a recession, or the assumption of debt by the public that will constrain other forms of public expenditure.

3. Future Support to the Tourism Sector

As the pandemic evolves, governments may need to adjust the form and scope of support they provide.

3.1 General Guiding Principles

As the pandemic enters its third year, it has evolved from a global health and demand shock to a more variable and localized crisis. Certain countries continue to face strict demand restrictions while others have fully reopened with demand recoveries. Many are still adapting to new short and potentially long-term trends and structural changes. Uncertainty and volatility remain, and some economies—particularly tourism-dependent ones with weaker public finances—are facing financial and economic crises. These are precipitated by a shortage of tourism foreign exchange revenues, complicating the balancing act between facilitating the viability of a key economic sector and ensuring efficacy in the utilization of scarce public funds. This is especially pertinent for emerging economies, which face more severe fiscal and capacity constraints that reduce their abilities to respond early-on in the crisis and can narrow their options as the crisis continues. This evolving situation suggests that government approach to firm support needs to be more creative, leveraging other sources of capital from the private sector and various bilateral and philanthropic donors.

Interventions by governments to support the recovery of the tourism sector should generally seek to address market failures (Section 2.31, 2.31) that inhibit investment in and the productivity of the private sector overall and encourage inclusive and/or environmentally friendly activities. Such interventions should not, wherever possible, discourage investment, degrade productivity, hinder the allocation of land, labor, and capital to their most productive uses, or encourage private sector activities that are not inclusive, or which are environmentally unfriendly. As guiding principles, interventions by governments to support the recovery of the tourism sector should generally seek to: (i) prioritize market facilitation; (ii) target pandemic-specific market failures; (iii) address general market failures; (iv) develop public-private financing mechanisms; and (v) address existing government failures, while not creating new ones.

3.1.1 Prioritize Market Facilitation

Governments should focus on improving the functioning of factor and product markets and provide direct support to firms generally as a last resort. Credit markets, which can provide loans or purchase bonds or equity, should be the first resort of firms facing financial difficulty. Efficient credit markets—by virtue of the information, experience, and capabilities to which they have access—are best positioned to assess and price risk and make investment decisions accordingly. In the face of economic shocks such as the onset of the pandemic which inhibit the functioning of credit markets, governments and development partners should first explore options to enable credit markets to function more effectively. Such options may include short-term measures such as financial injections into capital markets or partial credit guarantees and medium-term reforms to reduce risk, such as the creation of credit registries, the streamlining of bankruptcy proceedings, and reductions in the barriers to firm entry (see section 3.3.1).

In cases where these more economically efficient options are infeasible due to political or other constraints, the provision of public assistance may be justified. However, such assistance should be provided in such a manner as to reduce existing market failures and limit the potential for the creation of additional government inefficiencies. Regardless of whether interventions are directed at factor markets or direct support, governments should ensure that all firms—including SMEs (see Box 4)—have equal and fair access to support so as not to entrench the market power of large, dominant firms or state-owned enterprises (SOEs) through discriminatory access to support.

8 Factor markets refer to markets that allocate factors of production such as labour, capital and land. Product markets refer to the marketplaces where final goods or services are sold.

Box 5: Designing SME-Conscious Interventions

SMEs often possess a different set of needs and circumstances than larger firms operating in the tourism sector, requiring tailored market-level interventions. For example, SMEs often have limited access to traditional sources of financing such as commercial banks, particularly in emerging economies, —even when they represent viable lending and investment opportunities—due to underdeveloped credit markets and lack of connections with lenders. Relatedly, SMEs are less likely to be aware of available government support programs (Constantin, Saxon, & Yu, 2020) and have more limited capacity in business and financial management necessary to access credit. Women owned SMEs often face additional barriers in some markets given restrictions on land ownership, discriminatory practices, lack of credit history, and low accessibility.

Given the importance of SMEs to the Tourism sector, government interventions should thus account for such differences in capabilities and access in terms of the way in which they deliver support. For example, governments may consider incentivizing creditors to lend to tourism SMEs via targeted credit guarantee programs, expanding asset-based financing (e.g., allowing mobile asset collateral, factoring, purchase order financing, etc.), developing private equity markets, or specialist platforms for the public listing of SMEs (OECD, 2015). From a capacity perspective, upskilling programs can address information asymmetries by providing training on accounting practices to allow them to access loans and setting up platforms to educate SMEs on available support programs.

3.1.2 Target Pandemic-Specific Market Failures

Where governments must intervene directly, the priority should be to first target market failures created by the pandemic. The key market failures in the tourism sector created by the pandemic are: i) health risks associated with a failure to adopt health protocols and/or by the unavailability of health services, ii) threats to the viability of destinations' value chains arising from the collapse of firms in anchoring sub-segments, and iii) the risk of a loss of destination competitiveness due to accumulation of market power by specific firms - including the loss of SMEs and therefore a loss of diversity and destination competitiveness. Governments and development partners should first explore the potential to address such market failures by reducing barriers to the entry for new firms into the sector. These may include reducing foreign ownership restrictions or streamlining business registration and operating licenses. Such support, where necessary, should be targeted to ensure the continued viability of firms occupying anchoring sub-sectors while ensuring that all firms operating in such sub-sectors have fair and equal access to support (e.g., that support is not exclusively targeted at SOEs and dominant incumbents). Governments should also be aware of the risk of firms acquiring too much market power (See Market Consolidation in sections 1.3.2 and 2.3.1).

3.1.3 Address General Market Failures

Interventions should wherever possible seek to address externalities and other general market failures. The subsidization of commercial activities that generate positive economic, social and/or environmental externalities is generally warranted, as is the taxation—or outright preclusion—of activities that generate negative externalities. Governments should support mechanisms that facilitate the structuring, planning, development and operation of tourism that generates positive externalities for the public through the protection and regeneration of local ecosystems and cultures (and are, as such, aligned with Green, Resilient, and Inclusive Development (GRID) principles). On the other hand, governments should be discouraging the generation of negative externalities for the environment, society, public health, and/or the overall economy. Once out of the rescue phase, governments should consider developing financial instruments to systematically address the externalities generated by tourism. Such instruments may include public credit guarantees, green and blue bonds, sustainability-linked bonds, and gender bonds. Property-linked efficiency financing or insurance for green assets tied to environmental and social criteria can also be explored, ensuring that private solutions are not crowded out (OECD, 2018).

Box 6: Programs for Greening Tourism Firms

The IFC has launched a global US$ 800m Hotel Green Revitalization Program, set up as a Risk-Sharing Facility and focused on sustainable retrofits to SME hotels affected by the pandemic. The program will provide medium tenor, local currency liquidity through financial institutions, providing SME hotels with financing for immediate health and safety upgrades, while also providing for retrofit greening measures that will enhance their longer-term operational efficiency and support faster returns to profitability. Investing in greening tourism operations usually leads to reduced operating costs (OECD, 2018), a factor that has gained prominence at a time where firms are looking to minimize overheads to improve their resilience.

Linking firm-level green certifications to financing can incentivize greening. In the UK, Triodos Bank provides loans to tourism businesses, financing sustainable infrastructure and practices including renewable energy, energy efficiency, and waste practices. Financing is only provided to firms that have or are in the process of being green tourism certified.

A combination of publicly supported financing instruments can support greening. In Mexico, the UNDP supported the government in piloting a green energy program in the Yucatan Peninsula. The program provided training, technical advice, and financing for independent hotels to install solar water heating systems. In terms of financing, the program provided loans for up to 5 years, as well as credit guarantees through its development bank Bancomext, and interest-rate subsidies from Mexico's Trust Fund for Energy Transition and Uptake of Sustainable Energy Systems. The pilot program installed 2.5 million square-meters of solar heating systems, supporting an equivalent of 3,000 hotel rooms (OECD, 2018).

3.1.4 Develop Public Private Financing Mechanisms

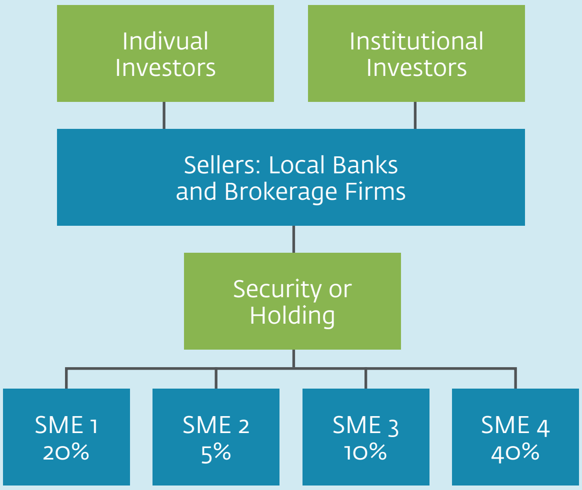
To address both systematic and pandemic-specific market failures, governments and development partners should seek to partner with financial institutions and investors. The information, experience, and skills that private financial institutions and investors have access to allow them to assess risk and creditworthiness more accurately than other institutions, including governments and development partners. As such, when leveraging public financing for facilities to support key firms, skills, and assets in the tourism sector, governments should seek to partner with private financial institutions. These institutions are able to provide their expertise to risk assessments and to ensure the incentives of investment officers are aligned with the success of the investment. Financing for working capital requirements can be increased by creating instruments with revolving credit facilities focused on working capital needs and increasing capital available for banks to grow lending for working capital. For example, in 2020 IFC invested US$ 50m in the Bank of Maldives to allow the bank to provide working capital finance to tourism firms (IFC, 2020).

Box 7: Destination-Level Financing Instruments

Few destination-level financial instruments exist to support the sector's response and recovery. One potential concept is to explore joint equity funds for tourism SMEs. These tourism-specific government-backed equity funds could reduce risk profiles for investors while facilitating investment in a related basket of tourism SMEs. They could be applied within the tourism sector, a subsector value chain, or a destination (McKinsey & Company , 2020). This mechanism would require i) the creation of an equity-holding structure or securitization of equity stakes in multiple SMEs at once, and ii) developing a standardized valuation methodology to avoid lengthy due diligence procedures for each asset. Governments could co-invest or set up the structures for private investors. Similar bundling could work for distressed assets, which would allow for funds to invest in bulk and return them to productive use more quickly. Such a fund may be feasible only in sophisticated markets with experience in securitization.

Figure 17: Joint Equity Funds for SMEs

Illustrative Model



Sources of Funding

Private investors (eg. Individual and institutional investors)

Investment Process

- Standard valuation calculation applied across portfolio
- Portfolio approach to accelerate due diligence

Terms

- Fixed exit timeline (eg. 5 years)
- Non-controlling share of operators

Source: McKinsey & Company, 2020

3.1.5 Address Existing Government Failures, While Not Creating New Ones

Governments and development partners should also seek to facilitate the recovery of tourism by addressing government failures that deter visitors and/or inhibit investment and productivity in the sector, while being careful to avoid creating new ones. In many countries, investment in and productivity of the tourism sector are artificially suppressed by unnecessarily cumbersome regulations and protocols and by the failure of governments to provide high-quality public goods and services. For example, the tourism sector specifically in many countries is adversely affected by complicated and costly visa systems that deter visitors. To ensure that tourism sectors can recover rapidly as the pandemic subsidies, governments should examine and address these government failures. During the pandemic, governments must seek to avoid creating additional government failures that divert public resources from their most efficient allocations, provide perverse incentives to investors and entrepreneurs, and/or artificially distort the allocation of factors (labour, capital, entrepreneurial talent) to more productive sectors.

3.2 Specific Support Options and Considerations for Tourism Sector Recovery

This section explores short and long-term tourism sector support options, and provides considerations, in line with the market failures explain in section 2.31 and 2.32 and principles explored in section 3.1, to consider when weighing the application and effects of specific measures. That is, particular attention should be given when applying direct public support to firms, given its capital-intensive and potentially distortive side-effects. Future support to the tourism should also be framed by short and longer-term priorities. In the short-term, addressing struggling firms and reinvigorating demand by getting tourists back and moving around destinations safely is the most important priority and can be facilitated by improved access to and use of market data. In parallel, governments need to ensure that there is a minimum viable product of tourism ecosystem services operational and market ready. In the medium-term, a raft of structural improvements should be instituted to build resilience and strengthen the foundations of the sector (see Figure 18). For instance, institutional, legal, and regulatory frameworks and governance structures need to be updated and streamlined to enable a more efficient, innovative, and responsive private sector. Better coordination, planning, improved destination management and communication is needed across government and with the private sector to build a more sustainable and equitable sector. Overall, policies and regulations around sustainability, inclusion and greening the sector should be part of a future transition to ensure the sector's long-term resilience and competitiveness.

3.2.1 Supporting Stakeholders

Direct Financial Support to Firms

Appropriately targeted firm-based support may mitigate coordination failures and inefficient market power concentration, but less well-targeted support could potentially have undesirable economic and non-economic consequences. As detailed in Subsection 2.1, various governments have extended grants to help tourism firms cover fixed costs over the pandemic. Such support, when provided to anchor firms, may help forestall coordination failures that could imperil entire tourism value chains. In addition, this support may also help preclude an inefficient concentration of market power in particular subsectors and, if well targeted, may ensure the viability of firms that provide positive economic or non-economic externalities.

Direct financial support to tourism firms by governments was reasonable in the initial period of the pandemic due to the dramatic fall in demand for tourism services; the slow response by the credit markets; and the assumption that the pandemic would be relatively short-lived. However, as the world enters the third year of the pandemic with uncertainty over the timeline and nature of the recovery of tourism demand, governments should consider alternatives to prolonged firm-level support. Direct support—particularly if prolonged—may crowd out more efficient and/or equitable forms of public spending and also crowd out private financing (see Section 2.3.2). Prolonged grant support to tourism firms also risks preventing the reallocation of under-utilized assets to other sectors where the marginal productivity may be higher.

A preferable option is for governments to empower credit markets—through reforms and, where necessary, capital injections—to make well-informed investments to support tourism firms that they asses as viable concerns. Where this is infeasible, or constrained by separate market failures, firm-level support should be seen by governments as a last resort to prevent the collapse of critical firms with very high positive economic and/or non-economic externalities. Taking into account the need to manage political economy considerations, these could include those in anchoring sub-segments, and which possess critical subsector-specific skills and assets or provide specific tangible and intangible benefits for local communities and the environment. Support could be provided where circumstantial factors prevent such firms from acquiring support from credit markets or other sources following a careful and transparent process of evaluation/selection. Support to the other firms and workers should be part of the economy wide support program to sustain aggregate demand (avoiding the depression downward spiral) and to ensure the most vulnerable have access to key goods and services.

Reductions in Taxes, Fees, and other Public Obligations for Firms

The effects of reductions in taxes and other fees generally mirror those of grant-based financial support, although elimination of fees associated with the registration of new business may prompt competition and mitigate consolidation of sub-sectors. Various governments have provided tax holidays or otherwise reduced government fees for various licenses, registrations, permits, and certifications to improve the liquidity of firms in the tourism sector and forestall bankruptcies. Policies that reduce the cost of entry also reduce the cost of formalization and may thereby assist informal firms gain registration and avail related benefits.

As demand returns and firm liquidity constraints are reduced, governments should generally not continue to reduce taxes. As with grant support to firms, the continued provision of reduced taxes for firms in tourism specifically is not generally recommended as it risks crowding out more efficient and/or equitable ways of allocating public resources and hindering the reallocation of capital, labour, and skills to more productive applications. Governments should generally prioritize measures to improve the functioning of product and factor markets over tax reductions or other forms of financial support provided universally to tourism firms.

Loan Repayment or Bankruptcy Moratoriums

Legal adjustments intended to reduce costs for firms or forestall bankruptcies can have unintended effects on other sectors and may prevent efficient reallocations of capital, labour, and skills from insolvent firms. Various governments have developed legal or regulatory remedies to reduce on-going costs for tourism firms and/or to forestall bankruptcies directly. For instance, some governments have established eviction moratoriums, loan repayment moratoria or have suspended obligations for firms to file for bankruptcy or have extended the mandated periods for restructuring. Measures such as eviction or loan repayment moratoriums, unless paired with measures to support landlords or creditors, transfer the effects of the loss of demand induced by the pandemic on other sectors of the economy, such as the financial sector or ultimately the public sector. As such, these policies create various problems for other sectors that would otherwise be imposed on the tourism sector.

During the early stages of the pandemic, policies that attempted to directly forestall bankruptcies, and limit consolidation and coordination failures were justifiable. The continuation of such policies now, however, may inhibit overall economic efficiency by preventing the reallocation of capital, labour, and skills to more productive uses.

In deciding whether to continue measures that provide legal or regulatory adjustments to reduce costs for tourism firms or to forestall bankruptcies, policymakers should carefully consider the unintended consequences of such policies in addition to the timing of the lifting of such policies. Measures such as loan repayment moratoriums that transfer the effects of the fall in tourism demand to other sectors should be avoided in general and in particular at this stage in the pandemic. However, the lifting of these moratoria should be carefully calibrated, timed with the removal of travel restrictions and the introduction of demand-stimulation activities, and sufficiently communicated so that beneficiary firms are able to plan for their phasing out.

Temporarily Easing Access to and Reducing Cost of Finance for Firms

Measures that ease access to finance and/or reduce the cost of finance for firms can help alleviate the effects of credit market frictions. Various governments have assisted firms access finance throughout the pandemic through the provision of debt finance guarantees. This exposes the government to the risk of assuming the debt of failed private firms and, in so doing, potentially creates a government failure, but debt finance guarantees can also relieve coordination failures and/or frictions in credit markets that limit access to finance for viable firms.

The continuation of policies that ease access to finance and/or reduce the cost of finance is advisable in the absence of other measures to address frictions in credit markets. In cases where viable and critical firms in tourism are unable to acquire financing from credit markets, the provision of debt finance guarantees could be implemented as a means of limiting coordination failures and consolidation in the tourism sector (see **Section 2.3.1**). Governments may want to continue such policies until demand has recovered or until factors inhibiting the functioning of the respective credit markets have been addressed.

Vocational Training for Employees

Vocational training to furloughed or unemployed workers in the tourism sector can enhance the productivity of workers employed in tourism sector following the recovery. Various governments, such as the state government of Assam in India, have assisted workers in the tourism sector by providing subsidized vocational training and/or stipends to trainees. As with other forms of government expenditure, this could potentially crowd out alternative allocations that are more efficient or equitable. However, such assistance is generally a relatively efficient form of government expenditure for several reasons.

First, it may provide an alternative source of income for those workers who have been made redundant, who have been furloughed, or have otherwise been deprived of their primary source of income because of the effects of the pandemic. Second, such assistance—if effectively implemented—increases both the productivity of workers in future employment in the tourism sector and the quality of tourism services delivered at the destination. Accordingly, the provision of this assistance may enhance the positive economic externalities of tourism activities and thereby enhance overall economic efficiency. It may also address structural changes that have been accelerated by the pandemic, such as a reduced need of manual labor and increased demand for digital skills by improving digital literacy required to remain competitive in the sector, and simultaneously increasing productivity.

Figure 18: Summary of Considerations for Firm and Worker Support Programs

Support Type	Advantages	Disadvantages
Direct Financial Support to Firms	• Rapid implementation • Strong supply response • helps prevent coordination failures and consolidation	• May crowd out other public spending and private financing or encourage moral hazard • May prevent reallocation of labour, land, and capital (factors of production) to more efficient uses • Delays stripping down of assets, increasing asset supply
Reduction in Taxes, Fees, and other Public Obligations for Firms	• Rapid implementation • Prevents coordination failures and consolidation	• May crowd out other public spending • May prevent reallocation of labour, land, and capital to more efficient uses
Legal Adjustments for Firms	• Prevents coordination failures and consolidation	• May create market failures in other sectors • May prevent/delay reallocation of resources to more efficient uses • May compromise the policy objective of the underlying regulation
Easing Access to and Reducing Cost of Finance for Firms, including debt Finance Guarantees	• Provides increased liquidity to otherwise viable firms • Rapid implementation • Prevents coordination failures and consolidation	• Uncertain supply response • May create public liabilities and crowd out other spending; may prevent reallocation of resources to more efficient uses.
Vocational Training for Workers	• Rapid implementation • Potentially increases productivity of tourism workers and quality of the product	• May not prevent coordination failures and consolidation • May crowd out other public spending

Source: Authors' elaboration

3.2.2 Reopening Safely

Standardizing Protocols and Communicating Effectively

The standardization of travel policies, testing, tracing, and compatibility of vaccination verification measures is important to reduce information asymmetries (Section 2.3.1) and transaction costs for travellers. Institutions should leverage technology to facilitate measures that establish and authenticate traveller identities and health/vaccination statuses, ensuring integration and interoperability between country systems, guaranteeing data privacy and security as well as speed, usability, and integrity of processes. In addition to standardized protocols, clear, consistent communication of such measures is key to minimizing economic damage from uncertainty. Transparency with how and when protocols are applied and lifted based on pre-determined criteria can help increase consumer and travel trade confidence.

Data-Driven Decisions

The collection and use of data can inform the application and lifting of firm and policy support measures in a fast-changing environment. To better inform the allocation of scarce fiscal resources, the ongoing monitoring of the impact of the pandemic and its shocks on tourism firms and destinations, and how firms, workers and assets are reacting to shocks, as well as the evaluation of effectiveness of government responses is critical. Governments can undertake regular tourism business pulse surveys, hold frequent public-private dialogue forums, and set up real-time market intelligence platforms to monitor and better respond to changes in visitation and demand preferences. When embarking on data programs, governments should seek to collaborate across the private sector on data pooling, ensure data access equity, and provide capacity building on turning data into actionable recommendations for firms.

3.2.3 Stimulating Demand

Targeting Available Source Markets

Many economies have pivoted to domestic tourism, and where viable, cross-border regional tourism to sustain their sectors during the pandemic, providing subsidized travel vouchers, consolidating public holidays, and investing in marketing and products developed for these specific markets. Domestic demand support, one of the most applied demand stimulation strategies during the pandemic, may mitigate coordination failures and consolidation and limit the depreciation of tourism skills and assets, but for smaller countries and those that rely on international tourism for foreign exchange revenues, domestic is no substitute for the resumption of foreign demand. However, such measures can provide temporary relief for tourism firms and encourage innovation to adapt to new types of demand. They can help diversify the demand base and build long-term resilience for the sector, as domestic tourism tends to be more inelastic to shocks. Decisions to continue domestic demand support measures, such as travel vouchers which go above and beyond typical tourism interventions, must be based on careful consideration. Vouchers in particular may crowd out forms of public expenditure that are more efficient and/or equitable.

As virus cases and restrictions are reduced, traveler confidence increases and additional markets reopen, destinations can use real-time market intelligence platforms and relaunch marketing campaigns targeting an increasing subset of markets, leading to a full re-opening and decreasing the need to rely on voucher programs. Marketing and promotion budgets can be scaled up again and augmented to support reopening campaigns targeting both travel trade and visitors. The marketing of a destination generates substantial positive externalities and requires a coordinative role to ensure consistent branding and messaging. In various - particularly subnational - cases, public funds can be most efficiently utilized by implementing such initiatives through Destination Management Organizations or Tourism Marketing Boards as PPPs, with private sector inputs on targeting and messaging, and supplemented by private funds or levies. In South Africa, for example, the budget of South Africa Tourism (SAT), the agency charged with national tourism marketing, is supplemented by a private sector initiative governed by the Tourism Business Council of South Africa (TBCSA). The TBCSA, a nonprofit private sector association, administers a voluntary additional tourism levy on bed nights that generates US$600,000 per year. These funds are then used to supplement SAT's marketing budget, and the TBCSA has considerable influence over the use of these funds. This ensures increased resources, private sector input and demand-driven targeting of marketing initiatives.

Adapting Products

Demand and travel motivations have shifted in both temporary and structural ways and responding facilitating the adaptation of products and itineraries can accelerate the recovery. Travellers are prioritizing open-air activities, nature-based tourism, and rural products, driven by a pronounced increase in domestic tourism and travel close to home (see Box 6). It is unclear at this stage which changes are short or long-term, but given the protracted length of the crisis, firms and destinations that have been able to use data to rapidly pivot to embrace these trends—such as Barbados with the setup of digital nomad visas—have benefitted. Implementing changes to sites, facilities and experiences should be complemented by adapted marketing, packaging and policy changes that can allow new products to be piloted and launched rapidly.

Box 8: Market Research is Key to Adapting Firms and Destinations to Changing Trends

Market research conducted by the World Bank during 2021 found that while traveling for relaxation and beaches remained a top travel motivator (76 percent of respondents), nature-based tourism (45 percent) and adventure tourism (35 percent) were the next highest travel motivators. In the UK, 81 percent of travelers preferred a "peace and slow" destination for their next trip (compared to 19 percent preferring a mainstream or popular destination). Sustainability is also of increasing importance to consumers, with 75 percent of respondents feeling that a destination's focus on sustainable living is important or very important in a holiday destination selection. A total of 66 percent of respondents fell into market segments that have a focus on sustainable travel or sustainable living, which spend between US$ 4,171 and US$ 5,741 per leisure trip, significantly higher than global averages.

In terms of COVID-19, being vaccinated is the most important consideration for resuming travel (65 percent of respondents rate this as very important), followed by destination hygiene and sanitation levels (60 percent), healthcare quality (56 percent), and having certainty in travel restrictions (54 percent).

Source: The World Bank. Small Island Developing States Travel Consumer Research. 2022

Re-establishing Connectivity

Re-establishing connectivity between source markets and destinations, as well as connectivity to new, high-value markets can accelerate the recovery. Monitoring the aviation sector's recovery and facilitating targeted air route development programs can bridge information asymmetry and coordination failures in facilitating the resumption of demand (see Box 9). Increasing intra-regional and domestic air connectivity through regulatory, planning, data and infrastructure investments is particularly important given the increased resilience of domestic and neighbouring markets. Public air route development programs should ensure transparency and a level playing field in participation and access to information to ensure preferential treatment of specific carriers is avoided. Improving connectivity also means reducing barriers to cross-border travel, including visa facilitation measures, which are one of the most high-value reforms that can be undertaken to increase tourism competitiveness (WTTC, 2019).

Box 9: Improving Air Access and Services in Victoria Falls

The IFC Zimbabwe Destination Development Program (ZDDP) implemented an air route development program in 2021 to strategically position Victoria Falls as a competitive air transport gateway to Zimbabwe and the region. The program recommended a set of enabling environment reforms and facilitated direct engagement with 11 airlines for route recovery, new frequencies, and/or new routes. As part of this program, Eurowings Discover (Lufthansa) has established the first long-haul route from Europe to Victoria Falls. Key factors for successful program implementation included:

- *The establishment of a multi-stakeholder Air Service Development (ASD) Committee to lead ASD efforts, and building of its capacity, to guarantee longer-term technical ASD leadership*
- *The in-depth assessment of Victoria Falls' air transport, tourism and enabling environment factors to identify demand- and supply-side gaps and opportunities, and reform priorities*
- *The analysis of global air transport datasets and local-level data to assess route demand and develop robust business cases for presentation to airlines*
- *Facilitation of negotiations between airlines and destination stakeholders on route terms and incentives, based on the local context and current international best practices; and*
- *Building of relationships with parallel agencies able to incentivize deals—such as the Zimbabwe Tourism Authority to provide 'in-kind' marketing support on new routes.*

Source: IFC Zimbabwe Destination Development Program. 2021

3.2.4 Ancillary Sources of Support

Private sector operators - and other private firms and non-governmental organizations - can provide essential support to stave off coordination failures and reinforce the viability and competitiveness of tourism value chains.

Large Anchor Firms: Large anchor firms can provide loans or grants to SMEs in their supply chain. In the case of the cruise industry, Silversea Cruises extended small loans to SMEs in their port of call destinations to maintain the vibrancy and diversity of offers for their passengers. Similarly, Royal Caribbean provided up to $40 million in interest-free business loans to travel agents to preserve its distribution network, and through the RCL Cares program, travel agents can also receive professional advice on how to navigate and apply for the Paycheck Protection Program (PPP) in the US (Royal Caribbean, 2021). In the accommodation subsector, Radisson has supported its laundry and housekeeping suppliers to adopt technologies and streamline their operations, helping them reduce costs and passing on some of these savings to Radisson (WTTC Members, 2021).

Bond Issuances: Value chain financing can be scaled-up through the issuing of bonds, such as green or blue bonds, and corporate bonds to support a tourism destination's ecosystem or an anchor firm's supply chain. For example in 2016 Starbucks issued its first Corporate Sustainability Bond in a US$ 500m offering to support loans to its supplying farmers for meeting sustainability standards (Wayne, 2016). Such initiatives can be adapted to the tourism sector as sustainability, inclusion, or resilience bonds in supporting a tour operator, lodging provider or cruise company's supply chain.

Financial Institutions: Financial institutions can use tourism corporations as intermediaries to pass through financing by lending to a chain operator of hotels, for example, and the operator then lends to the owners of the properties it manages. This can provide firms with liquidity, reduce transaction costs, and minimize risks for financial institutions, while enabling bulk financing. This may be able to be applied to the travel tech space as well through Online Travel Agencies.

Philanthropic Financing: Philanthropies linked to tourism multinationals can partner with governments to support SMEs. The TUI Care Foundation, partnering with the company Enpact and the German development agency GIZ, are funding a Tourism Recovery Programme launched in 2020 to provided support to 330 firms in Egypt, Jordan, Ghana, Kenya, Indonesia, and Mexico. Small and medium firms under 250 employees must propose social, technological, or environmental innovations and prove their pre-COVID viability, and then are eligible to receive training, targeted mentoring, and financial support (up to € 9,000 per firm) over a period of six months (enpact, 2021).

3.3 Building Back Better

This crisis has highlighted the importance of addressing the tourism sector's structural weaknesses and underlying market and government failures, and the need to do so in new and innovative ways. As the pandemic subsides and destinations reopen, countries can introduce a number of policies and initiatives to ensure the long-term competitiveness of tourism, maximize its development impact and improve its resilience to future crises. This can be addressed by i) building competitive tourism markets, ii) promoting green and resilient tourism, and iii) creating inclusive value chains.

3.3.1. Building Competitive Tourism Markets

Policy reforms that address market and government failures inhibiting investment in and productivity of tourism-related firms represent the most durable and effective means that governments can support the recovery of the sector. Governments should prioritize reforms to facilitate the entry and exit of firms into the tourism sector and remove barriers to investment, as well as address perennial access to finance barriers facing the sector and SMEs more broadly. Such reforms will help minimize the depreciation of critical sector-specific skills and assets in the wake of firm bankruptcies, while also enhancing competition across tourism sub-sectors. Key reforms that governments may focus on include:

Improve Access to Finance

Undertaking reforms aimed at removing barriers to the efficient functioning of financial markets and heir enabling regulatory environments are key to building resilience and long-term competitiveness of the sector. Two initiatives to highlight involving financial access and inclusion are collateralization and the facilitation of FinTech lending.

Collateralization: **Asset registries are critical to facilitating investment and movable asset-based lending (MABL) can be particularly important to bridging the traditional collateral constraints of SMEs in the tourism sector.** In developing economies, movable assets such as equipment, inventory, and receivables make up around 78 percent of a firm's capital stock, compared to 22 percent for immovable assets (IFC, 2016). However, financial institutions and regulatory frameworks often favour immovable assets as collateral. By reforming regulatory frameworks, improving collateral registries, and reforming the legal basis for secured transactions, financial institutions can use many of a grantor's movable assets as collateral. In the US, for example, movable assets comprise around 70 percent of SME lending (IFC, 2016). Both Jamaica and Saint-Lucia, two economies highly reliant on tourism, have recently drafted updates to their legislative frameworks to facilitate MABL, focusing on secured transaction legislation accompanied by an online securities registry.

FinTech Lending Platforms: **Fintech Lending Platforms can help overcome data gaps and accelerate loan relief.[9] FinTech solutions, which reduce transaction and borrowing costs, have gained prominence throughout the pandemic in both established and emerging markets, with online lending providing fast and affordable financing for SMEs in a scalable manner (Lara, 2020).** Whereas the pandemic has rendered traditional lenders more cautious, many FinTech platforms' data-centric approaches allow them to more confidently assess an SME's ability to borrow, particularly in volatile times and with imperfect information, and provide loan relief quickly. In South Africa, for instance Lulalend, a FinTech platform, has utilized AI-driven technology to help underwrite increased bridge financing requests to fill salary and supplier repayment gaps in the rescue phase, which have now shifted to growth and reopening -related financing requests such as inventory and equipment purchasing. In many countries with less sophisticated financial sectors, policy reforms are required to facilitate the emergence and regulation of FinTech platforms, and regulators have been seizing this policy window. A joint World Bank and Cambridge University survey of 114 jurisdictions found that 37 percent of regulators have taken at least one regulatory step to enable increased use of FinTech since the pandemic began, including opening the provisions of digital financial services to new providers (CCAF, World Bank and World Economic Group, 2020).

9 FinTech, or financial technology, is the term used to describe the advances in technology that have the potential to transform the provision of financial services spurring the development of new business models, applications, processes, and products.

Box 10: Leveraging Digitalization to support SMEs and Destinations

The private sector and destinations have been leveraging digitalization to create financing and SME support systems through firm-level partnerships, some with the explicit intention of benefitting struggling tourism SMEs. Two examples include loyalty programs and subscription platforms.

Digital Wallets and Loyalty Programs: SMEs are often at a disadvantage in terms of access to data and direct customer engagement as they only serve a small portion of the overall visitor economy. Larger companies are able to leverage their considerable customer base to collect, analyse and monetize data, and create customer loyalty schemes that generate revenue (through points purchasing) and lower the cost of marketing per customer. Destination-led initiatives can increase data access equity, share the benefits of loyalty schemes, and drive customer engagement. For example, Visit Mexico partnered with financial technology company Rêv to launch a digital wallet via a points-based loyalty program tied to a debit account. The app, linked to a multi-currency debit account, gives tourists a locally accepted e-payment method and offers discounts and points in order to drive visitors to specific destinations and businesses. The program has a specific goal of supporting small and local businesses that struggle to generate repeat business. Similar destination loyalty programs are being launched in the Maldives and Saudi Arabia.

Subscription platforms: As a way to generate more consistent revenue and provide a credit mechanism for risk-adverse travellers, new subscription models are emerging for the tourism industry. Be Right Back is a European based travel agency that offers a monthly subscription service for UK travellers providing a European holiday every four months. The service extends discounts and bonuses as well as concierge services to match users with destinations. Since Be Right Back launched in 2018, more subscription travel services have been introduced including Inspirato for luxury travel. For emerging destinations, identifying opportunities to partner with these new businesses and ensure funds flow regularly is one method to create more consistent revenues on the ground and spread benefit to smaller businesses less connected to global distribution channels.

Source: Skift, Inspirato, Techweek

Facilitate Liquidation and Restructuring

Cumbersome or otherwise inefficient liquidation and restructuring procedures generally discourage investment and delay the redeployment of skills and assets from insolvent to creditworthy firms. By developing best practice procedures, governments can improve the climate for new investments in the tourism sector and limit the depreciation of skills and assets critical to the tourism sector in a given destination. Insolvency process reforms are context-specific; see the World Bank report on Supporting Firms in Restructuring and Recovery, and the Overview of Insolvency and Debt Restructuring Reforms for detailed information.

Stimulate Entrepreneurship

Reducing the barriers to new firms entering into the tourism sector – through temporarily or permanently reducing firm registration costs and simplifying registration procedures – can help increase new firm creation and ensure a dynamic tourism sector, particularly in the wake of the pandemic, which has resulted in both new business opportunities as well as firm closures. Measures that lower entry barriers to the tourism sector potentially help mitigate the consolidation of market power by incumbent firms as their competitors declare bankruptcy and may also help informal firms transition to the formal sector. More upstream, facilitating a dynamic startup ecosystem, including improving the enabling environment for startup financing and increasing access to foreign capital, skills and ideas can support the efficient reallocation of resources and accelerate innovation in products and services to re-dynamize hard hit sub-sectors.

Improve the Tourism Regulatory Environment

The regulation of tourism providers, activities and destinations is important to ensure safety, fairness, and competition in tourism markets, and to control for externalities, information inadequacies, coordination, and planning failures. This must be balanced with the transaction and monetary costs of complying with sector regulations and their effects on sector dynamism, innovation, informality, as well as industry cost structures and price competitiveness. In many cases, tourism regulations exist as a patchwork of requirements spanning various regulatory bodies, levels of government and time-periods. Regular reviews of tourism sector regulations and their frameworks can help streamline and remove unnecessary regulations while ensuring critical ones are sufficiently robust. Where possible, the digitisation and consolidation of licensing, registration, renewals, fees, and taxes into one-stop-shops for e-government can further reduce transaction costs.

Strengthen Institutional Capacity

Governments should seek to strengthen sector associations, agencies, and ministries. The pandemic has thrust a number of additional roles onto Tourism ministries, such as designing and administrating stimulus programs and coordinating travel and health protocols. It has also increased the importance of more traditional roles, such as coordination, public-private dialogue, and sector advocacy as well as data and demand forecasting. Capacities will need to be built, commensurate with funding, to ensure these roles are mainstreamed into agency and sector operations to build long-term sector resilience. This includes coordinative structures to span the often-fragmented agencies and departments with tourism mandates which result in silos and slow decision-making in times of crisis. New institutions may need to be created to tackle new coordination and market failures, to regulate the sharing economy, digital competition, or climate impacts. Pakistan, for example, created its first National Parks Service as part of its COVID Recovery Green Stimulus Initiative, to better protect wildlife and biodiversity while creating conservation and tourism jobs.

3.3.2 Promoting Green & Resilient Tourism

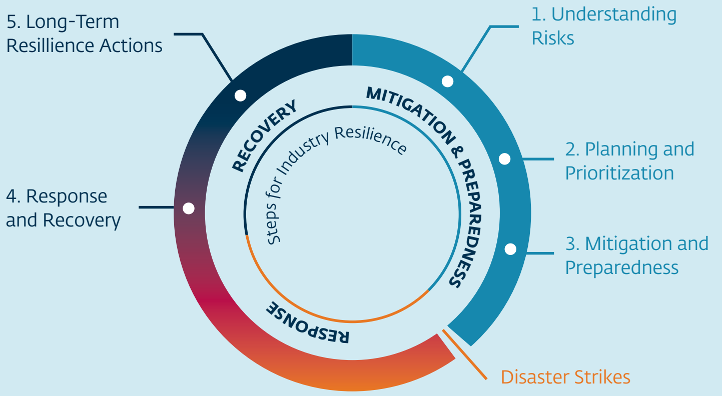
Plan for Future Crises

Shocks, both natural and human-caused, are inevitable, and sufficient preparation can reduce the fallout and accelerate recovery from a crisis or disaster. It is important for the sector to have a comprehensive crisis preparedness framework that includes planning initiatives, capacity building programs, resources that can be rapidly mobilized (such as crisis escrow accounts), communications protocols and safety and security arrangements (see Box 8). Such frameworks should be regularly updated and developed in tandem with the private sector in order to ensure their relevance and coordinated rollout when required.

Box 11: Towards a Resilient Tourism Framework

In 2019, the world recorded nearly 400 natural disasters causing an estimated US$130billion in economic losses, which are likely to intensify in the future due to climate change. The COVID-19 Pandemic, and more recently the conflict in Ukraine, illustrate the diverse scopes and scales of crises that can affect the Tourism sector. Together, these shocks have revealed the sector's global interconnectedness, its vulnerability and exposure to risk. The World Bank Report Resilient Tourism: Competitiveness in the Face of Disasters outlines a five-stage resilient tourism framework for destinations, the private sector, development partners, financial institutions and tourists to better manage and mitigate disaster risk (see Figure 20). This includes improving access to disaster risk financing and risk insurance, developing resilience knowledge bases and crisis playbooks, linking financial support and subsidies to compliance with resilience criteria, and expanding training and certification programs in tourism crisis management.

Figure 19: Tourism Resilience Building Cycle



1. Understanding Risks

Identifying disaster and climate risks that threaten the tourism sector and analyzing their potential impacts for destinations and firms.

2. Planning and Prioritization

Planning and prioritizing tourism development and investments to build resilience and avoid or minimize negative impacts.

3. Mitigation and Preparedness

Implementing resilience acations and investments in advance to lessen the impacts of disasters and climate change.

4. Response and Recovery

Taking good response decisions and actions during and after disaster events to minimize disruptions and losses, and as a result, maintain and enhance competitiveness.

5. Long-Term Resilience Actions

Planning for the long-term competitiveness of the sector through climate change mitigation actions.

Source: Adapted from World Bank 2020

Act on Climate Change

The tourism sector is highly vulnerable to climate change, however, many destinations have not adequately studied and planned for the impacts of climate change on the sector's firms, sites, and revenues. The sector also urgently needs to accelerate efforts to cut emissions and scale-up climate action. Governments can improve the monitoring of climate change and its impacts on sensitive destinations, for example through the use of Sustainable Tourism Observatories, as well as the publication and implementation of tourism climate mitigation and adaptation strategies and action plans, including the allocation of financing for their implementation. This can comprise upgrading sites and destinations with climate-resilient and nature-based infrastructure, which can reduce long-term disaster recovery and adaptation costs. China's Meishe River Greenway, for example, has regenerated wetlands and engineered bioswales to build resilience to climate-change linked flooding while creating tourism and recreation infrastructure for wildlife viewing, walking & biking trails. The project intentionally adopted a nature-based solution as opposed to traditional grey infrastructure such as sea walls to provide a more long-term and sustainable solution.

Build Economically Integrated Destination Landscapes

Many tourism destinations include nature-rich land and seascapes that have traditionally been reliant on tourism revenues to support government- or donor-funded conservation efforts. The opportunity to diversify beyond tourism values to, for example, carbon and biodiversity credits, and ecosystem services values offers these destinations the chance to build more economic resilience through developing a market for those assets. As private capital becomes increasingly interested in carbon and biodiversity credits, there is an opportunity to unlock this market further by developing clear systems that allow private developers to initiate and scale carbon projects in specific country contexts. The business case is created by Article 6 of the Paris Agreement that allows countries with low emissions to sell their extra allowances to larger emitters, within the context of Nationally Determined Contributions (NDCs). This presents a business opportunity for both investors (buyers) and countries/destinations (sellers). It allows businesses to invest internationally and directly deliver on climate change mitigation goals in other countries, and it allows selling countries that have exceeded their NDC targets to attract private capital to maintain and expand carbon and biodiversity-rich landscapes. Linking carbon and biodiversity values to land and seascapes that form the basis of a destinations' tourism endowment can result in climate-positive outcomes and improve the resilience of destinations.

Strengthen Circular Economy Opportunities

Circular Economy (CE) interventions seek to shift economic activities and business models from linear to regenerative systems, creating value through restoration, regeneration, and re-use of raw materials. Integrating CE principles into the tourism sector can help maximize the positive environmental externalities of tourism, contribute to mitigation and adaptation to climate change, protect destinations and ecosystems and create economic benefits through new business models. This can be achieved by integrating CE principles in tourism-related legislation and policies, facilitating supply chain cooperation, increasing data sharing and harmonisation, promoting increased circular innovation, and facilitating access to knowledge, information, and finance on circularity. Addressing plastics pollution and food waste are two tangible areas that can lead to both reduced costs and externalities for tourism firms and destinations.

Increase Uptake of Sustainability Measures and Certifications

Investing in environmental measures can safeguard key sector assets, reduce long-term costs, better meet consumer demand, and provide positive marketing and branding opportunities. Governments can reduce information and coordination failures by providing information on and incentivizing the uptake of firm and destination sustainability certifications, creating sustainability awards and providing promotional opportunities to highlight eco-certified firms and destinations. This includes programs to raise awareness of the environmental and cost savings of investments in renewable energy, green and climate-smart technologies.

Pursue Diversification

The diversification of tourism source markets and products can improve the long-term resilience of a destination and its firms by spreading the risk across multiple sources of demand. This is a long-term, active process involving coordinated national and destination-level strategic planning, product development, market research and marketing functions to ensure a varied visitor mix as well as reforms in related sectors such as visa and aviation policies. Diversification initiatives often also entail geographic dispersal of tourism, which can extend tourism's economic benefits - and its externalities - to less developed areas while relieving the pressures of over-tourism to a country's flagship destinations.

Ensure Effective Site and Destination Planning, Development, and Management

Enacting and enforcing land-use plans and zoning policies to ensure an appropriate spatial development of tourism and its support services—particularly in naturally and culturally important and sensitive areas—can both build resilience to natural and climate-related disasters as well as assure sustainable development by safeguarding the assets upon which tourism relies. It is also important to invest in destination infrastructure and site upgrading. Many destinations have suffered from deferred maintenance and reduced investment during COVID. Changing demand trends have in some instances increased pressures on certain products—such as nature tourism products accessible by domestic visitors—which often have insufficient visitor facilities to cope with the influx of new visitors. Destinations can increase investments in visitor facilities and site upgrades to prepare for the reopening, and where appropriate to adapt products to changing trends. Exploring PPPs in managing and developing public assets, such as protected area concessions, can help ease the burden of investing in the tourism asset base in times of stringent fiscal constraints and has the potential to increase operational efficiencies.

3.3.3 Creating Inclusive Value Chains

Strengthen Local Value Chains

The Tourism sector's strong multiplier effect has meant the impacts of the pandemic have been felt throughout its value chain and its suppliers. Concomitantly, global supply chain bottlenecks can provide opportunities to foster local linkages and strengthen coordination between industries to improve their resilience to future crises. Governments can facilitate the provision of market information and improve market structures to increase buyer's incentives to purchase locally. Interventions can be guided by detailed value chain analyses of tourism sub-sectors and their suppliers. Successful inclusive tourism development programs combine supply-side (data, training, financing), with demand actions (marketing, distribution linkages). For more information see the ODI and SNV Report *How can governments boost the local economic impacts of tourism?*.

Address Informality

Facilitating the formalization of tourism enterprises can improve their resilience by increasing options for accessing finance and sector support measures in future crises. Formalization can also help track and monitor the tourism sector's true size, economic impact and health to more accurately inform the scale and scope of future crisis response measures. It is important that basic licensing categories are introduced with minimum standards and reduced fees that minimize regulatory and transaction cost burdens for smaller operators, for example of guest houses or non-star hotels.

Reduce Barriers for Women

Women business owners and employees have been disproportionately affected by COVID-related economic impacts and job losses, and they have been slower to return to the tourism workforce as they face structural and cultural barriers and disproportionately provide household labor and care commitments. Destinations should i) ensure gender-disaggregated tourism data is collected and reported, including on COVID impacts; ii) include women in recovery planning decisions; iii) foster women's tourism networks and associations, and iv) address gender gaps and barriers through legislation, communication and financing, including underlying cultural and systemic barriers. For more information, see the World Bank Report on Women and Tourism: Designing for Inclusion.

Foster Tourism SME Distribution Linkages

Studies show that the ability for tourism MSMEs to effectively connect to global value chains depends heavily on the quality of the business environment, access to finance and labor skills (OECD, 2013). Improving online government to business interactions and facilitating digital adoption can help tourism MSMEs increase productivity. Digitalization can also help MSMEs assume more control over key nodes in the value chain by accessing source markets more directly, thus reducing their reliance on key anchor firms and intermediaries to drive demand. This can lower costs and enable increased agility in responding to demand and supply changes.

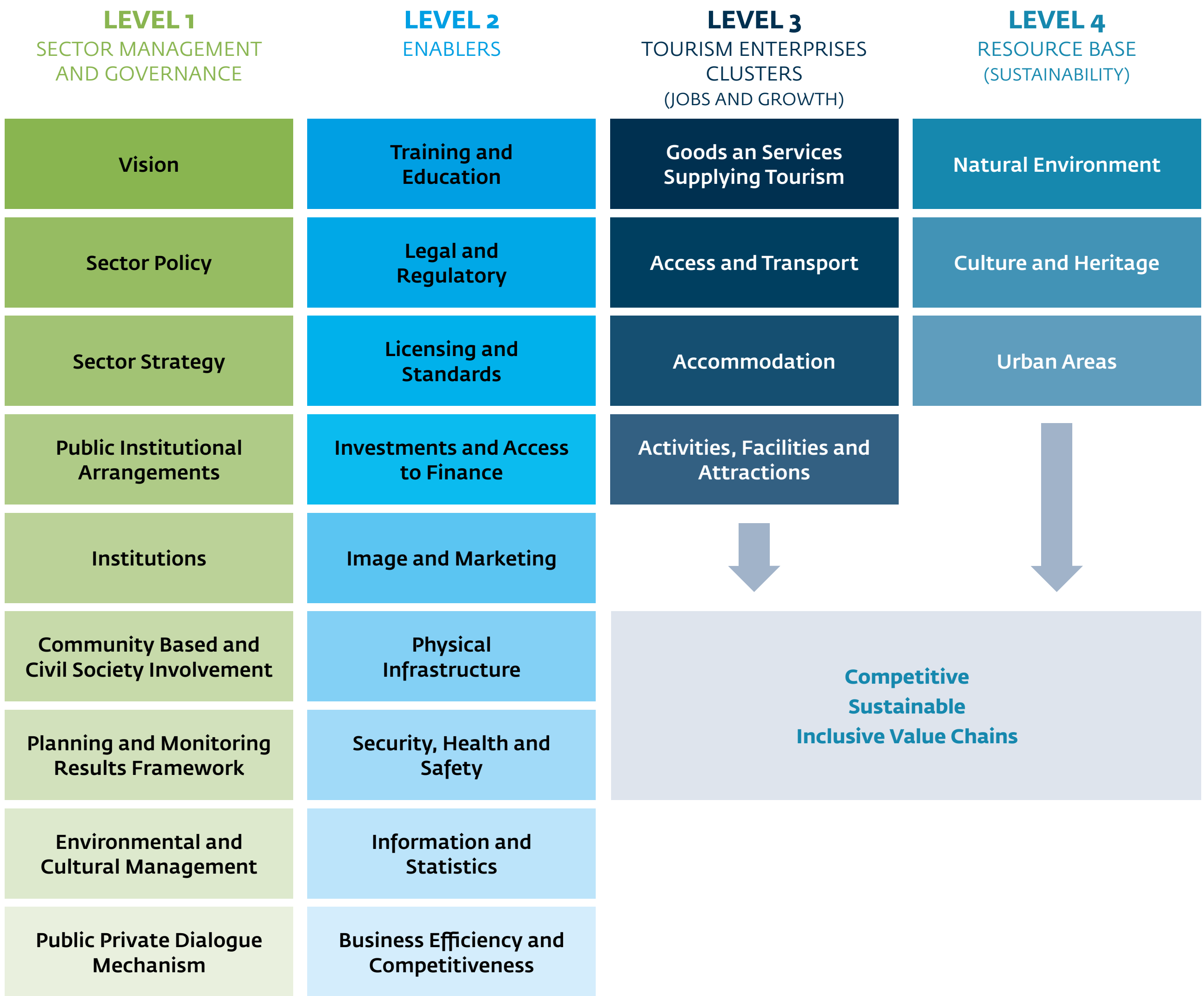
Empower Subnational Tourism Institutions

Strengthening subnational tourism institutions and governance frameworks can increase inclusion by bringing decision-making and implementation closer to those most impacted by the sector. Concerted efforts are required to ensure subnational initiatives are aligned with national strategies and campaigns, and, where appropriate, that subnational institutional capacities are built commensurate with dedicated funding streams to develop, manage, enforce and promote tourism locally. Destination Management Organizations and/or Tourism Improvement Districts, whose finances have been particularly affected due to declines in visitation-linked revenues (and in many cases suspended firm membership/ district fees), can be particularly important subnational institutions for the coordination of local-level product development, coordination and marketing linkages.

3.4 Operationalizing Sector Interventions Throughout the Tourism Ecosystem

Operationalizing the menu of support and recovery options discussed in section 3.1 to 3.3 will require financing and technical support. It will also require contextualization. While the general consumer trends towards sustainability and global concern over climate change and gender equity cut across all destinations, the specific approach, tools, investments and initiatives required for a competitive, green, resilient and inclusive recovery are highly context-specific. These depend on a variety of factors such as the country's tourism development trajectory, level of pandemic impacts, sector management and governance, status of its enablers, state of its tourism enterprises and clusters as well as their resource base. Figure 21 shows the tourism ecosystem and its various components.

Figure 20: Tourism Sector Structure and Ecosystem Framework



Source: The World Bank. Tourism Diagnostic Toolkit.

Whilst the basic principles of a successful tourism ecosystem remain the same as before COVID-19, the importance of issues such as health and safety, thriving local supply chains, environmental impacts and public-private dialogue have been emphasized by the pandemic. These factors create the basis for sustainable and competitive tourism sectors, and each are required to be addressed in a holistic manner for the sector to function effectively. For tourism development projects to be successful, deficiencies in these components need to be assessed, mapped and prioritized, according to potential impact and feasibility of improvements, in order to create a road map for sector competitiveness. It is important to consider the inter-relatedness of these factors when planning sector interventions, as activities may be required at different levels or across multiple components to generate the desired impact.

Figure 21: Green, Resilient, Inclusive Development (GRID) Framework for Tourism Interventions

Build Competitive and Productive Tourism Markets

- Improve access to finance
- Stimulate entrepreneurship
- Update policy, legal and regulatory environment including on reopening
- Improve business enabling environment
- Strengthen institutional capacity
- Facilitate market access and demand stimulation
- Enable investment promotion and planning

Promote Green & Resilient Tourism

- Implement sector resilience and crisis management
- Plan for and act on climate change
- Strengthen circular economy opportunities
- Increase sustainability measures and certifications
- Pursue diversification
- Alignment of Tourism policy laws and regulations for sustainability
- Effective Tourism and site planning, development and management
- Enable sustainable financing

Create Inclusive Value Chains

- Strengthen local value chains
- Address informality
- Reduce barriers for women
- Foster Tourism SME linkages
- Empower subnational Tourism institutions
- Promote digitalization
- Ensure stakeholder involvement and empowerment

Source: The World Bank

In order to utilize tourism as a tool for economic and human development, and to ensure the sector itself is green, resilient, and inclusive, each of its ecosystem components and destination needs should be addressed through a GRID filter. Pillar one in the diagram above highlights the importance of building competitiveness in recovery, this needs to be accompanied by work to increase resilience and sustainability and build inclusive supply chains (See section 3.3). These activities, when customized to the local context, can form the basis of tourism projects, action plans and roadmaps to ensure a GRID approach to the sector and its recovery.

It is important that GRID interventions are considered as key objectives when structuring and developing the tourism sector rather than as auxiliary activities. Critically, given scarce public funds, priority should be placed at minimizing the sector's negative externalities while maximizing its positive spillovers. Leveraging private funds for these objectives, and ensuring that incentives are aligned to encourage green, inclusive and resilient decisions throughout the tourism sector (from visitors to firms and public entities) are key in producing impacts at scale.

3.5 Conclusion

The tourism sector is not just affected by a temporary supply shock, but by a prolonged transformation of demand and gradual recovery. This report has examined the rationale for government intervention in tourism along with options to assist sector recovery and considerations of their potential effects. The crisis is ongoing, and it is not yet clear what mechanisms are most effective or desirable from a public policy perspective. Nevertheless, this report provides some guiding principles to aid governments in context-specific decisions. Looking to the future, decisions on the forms of future support are likely to be more nuanced and context specific as the pandemic's effects, severity and measures become more localized. Policymakers must consider the appropriateness of tools and policies on a case-by-case basis, taking into consideration the nature of the crisis and its effects on the respective destination(s), the form of the recovery or lack thereof, and the externalities generated by different firms along the value chain. Data will be critical as will ensuring flexibility to adjust support programs to respond to the volatile nature of the recovery. Regardless of short-term support measures, policy reforms and initiatives should be pursued to make the sector more competitive, resilient, sustainable, and inclusive in the long-term. These should aim to address the specific market failures without exacerbating or creating new government failures.

Annex

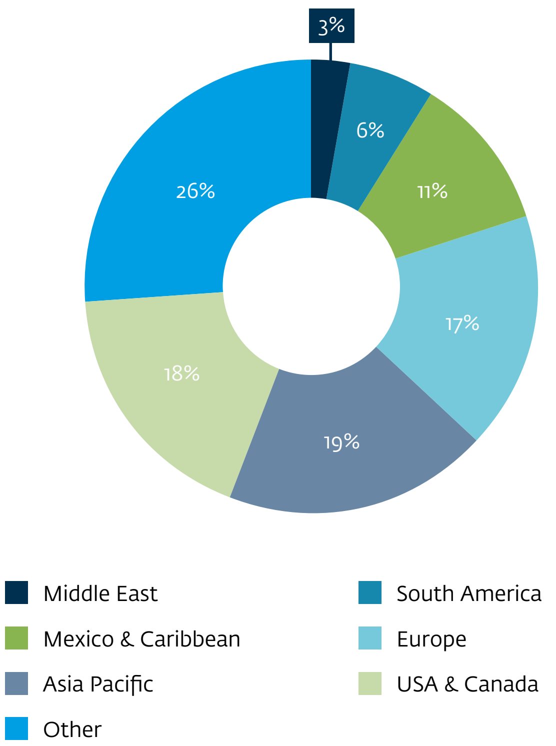
Interviewees

Name	Position	Organization	Region
Abdelmoughite Abdelmoumen	Strategy & Cooperation Manager	Central Guarantee Fund Morocco	Morocco
Sirili Akko	CEO	Tanzania Association of Tour Operators (TATO)	Tanzania
Stewart Alvarez	Head of Industry Affairs Americas	Amadeus	Global
Luis Araújo	President	Turismo de Portugal	Portugal
Elif Balcı Fisunoğlu	Deputy General Manager - Business Events and Tourism Product Development	Turkey Tourism Promotion & Development Agency	Turkey
Chema Basterrechea	Executive Vice President & Chief Operating Officer	Radisson Hotel Group	Global
Brian Beall	Vice President, Government Affairs	Cruise Lines International Association	Global
Martin Cowley	Executive Chairman	Travica	Global
Shamsah Fatima Dhala	Principal Investment Officer	IFC	Global
Simon Dunn	Operating Partner	Global Leisure Partners	Global
Dan Fenton	Executive Vice President	JLL's Hotels & Hospitality Group	Global
Andrés García-Tenorío Del Cerro	Finance & Strategy Director	Hotelbeds	Global
Charles Human	President HVS Europe	HVS	Global
Robin Ingle	CEO	Novus Health	Global
Hamish Keith	CEO	EXO Travel	South Asia
Tom Klein	Senior Managing Director	Certares	Global
Mahima Khanna	Economist	IFC	Global
Pamela Kwiatkowski	Senior VP distribution & Client experience	Novus Health	Global
Olayinka Charles Laswon	Investment Officer	IFC	Global
Monika Luel	Chief Marketing Officer	Wesgro	South Africa
Rajat Malik	Investment Officer	IFC	Global
Blake Rogers	Executive Director	Tourism Industry Association of the Yukon	Canada
Marta Sanchez-Sache	Senior Investment Officer	IFC	Global
Peter Shanks	Managing Director – UK, Ireland, Middle East & Africa	Silversea Cruises	Global
Sylvia Shelukindo	Partner	Bankable	Africa
Mark Siegel	Managing Director	Golfasian	Asia
Steven S. Siegel	Partner & Chief Operating Officer	KSL Capital Partners	Global
Paul Slattery	Director	Otus & Co	Global
Craig Smith	Group President, International	Marriott International	Global
Tammy Tullis	Board member	Pro-Natura International	Africa
Belinda Udhin	Tourism Promotion Officer	Mauritius Tourism Promotion Authority	Mauritius
Koto Ueda	Investment Analyst	IFC	Global
Peter Vlitas	Senior Vice President – Airline Relations	Internova Travel Group	Global
Devang Vussonji	Partner	Dalberg Advisors	Global

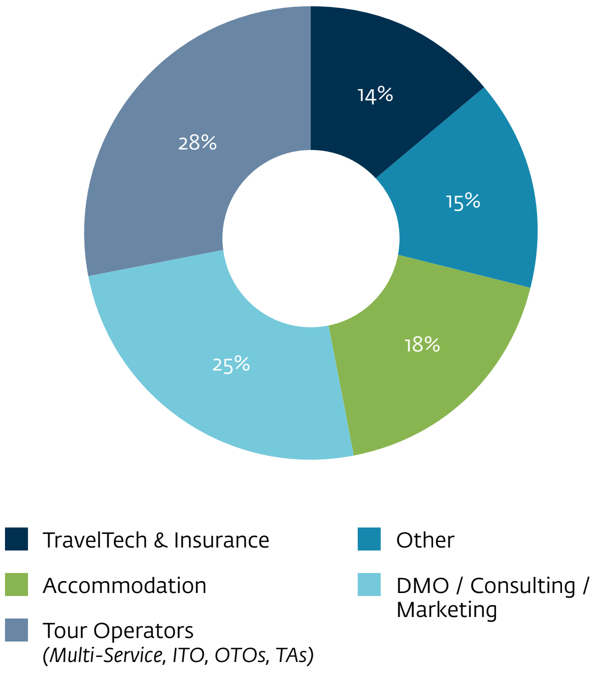
WBG-WTTC pulse survey respondent regions and subsectors

First Pulse Survey (December 2020 – January 2021)

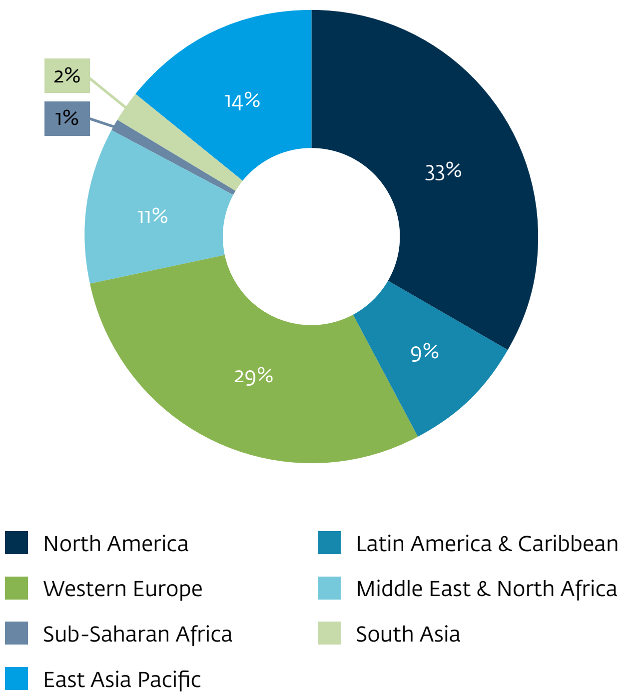
Pulse Survey Respondent Region



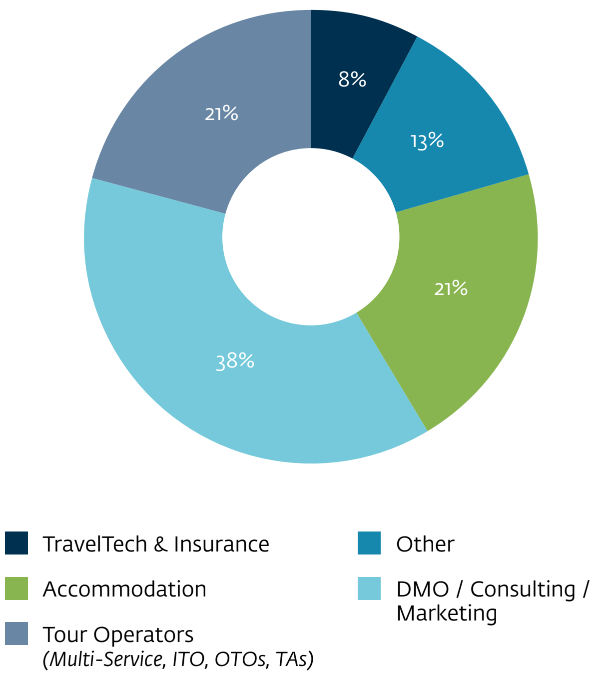
Pulse Survey Respondent Subsector



Pulse Survey Respondent Headquarters Location



Pulse Survey Respondent Subsector



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