EPLERWOOD INTERNATIONAL

A Marshall Plan for Tourism

Can it be built?

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Foreword

The year 2020 has introduced COVID 19 to the world and an interruption of global commerce of historic proportions. The shifting viewpoints on the pandemic's impacts are helpful in the crisis but rely too much on speculation. It is difficult if not impossible to factually project the future for the travel and tourism industry at this point. It is best to instead raise issues, review evidence, consider scenarios, structure plans that are both flexible and far reaching, and allow for short term fixes based on science. Such a process allows for public policy and business to move forward strategically.

Just as the field of travel and tourism seemed to be at least reckoning with managing global growth, this dramatic downturn has thrown a real surprise drama into the middle of what was the fastest growing industry in the world, achieving average growth rates well above global GDP, and frequently overwhelming local infrastructure and capacity to manage the insistent crowds.

While growth is no longer the key paradigm, it has been replaced by the idea of economic recovery. A firm platform for the travel and tourism recovery process is required which will ensure finance reaches more beneficiaries and protects our earth's most valued assets. In the post-pandemic recovery period, the long view allows us to think through vital considerations that can be left out in a rush of panicked recommendations which will be transitory and lead to a return of business as usual. Mandatory considerations beyond economic recovery for the travel and tourism economy include: governance reform, more astute protection of socio-cultural and natural assets, development of climate risk and environmental protection protocols, and financing of strategic sustainability goals. Most of these factors are still only distantly being considered in the current climate, but their importance will continue to grow. Certainly, the question of what finance mechanisms will lead to a sustainable reconstruction of the travel and tourism economy is a core consideration.

Prospects

Just as the pandemic has revealed the weak construction of the global health infrastructure and current collapse of many democratic structures, so has it revealed the fragile underbelly of the travel and tourism economy and policies. Without good governance guided by facts and finance mechanisms to back them up, there can be little effective leadership.

There are countries that have already decided to shift governance and finance approaches, which put them ahead of the curve. The publication, Destinations at Risk: The Invisible Burden of Tourism[i] has received accolades from many governments who agree that the focus of tourism development needs reorientation. EplerWood International has now extensively interacted with leading government and non-government entities in Scotland, Denmark, Sweden, Iceland, and the Canadian regions of Banff National Park, the Yukon, and British Columbia as part EWI's Speaking and Destination Evaluation Service in 2018-2020. The results from these consultations indicate a market edge for the countries and geographic regions which act to shift to more efficient and well monitored use of resources to ensure tourism is producing net positive economic impacts.

EWI is leading work in 2020 together with Cornell's Sustainable Tourism Asset Management Program (STAMP) and our partners to map out the chief concerns and skillsets required to manage tourism sustainably at the destination level, according to individuals within government and business in eleven strategically sampled countries, both from emerging economies and those with high dependency on tourism. While results are not yet complete, one thing seems increasingly clear to many countries – future growth needs to be balanced growth which stresses adequately financed systems for management at the destination level. To address this issue, most local authorities are more than interested in new sources of finance. Finance will be the main means of correcting imbalances, improving infrastructure, and setting local people on a firmer platform for a possible sustainable recovery.

Certainly, the idea of financing a sustainable recovery is not new. The most prominent call for substantial recovery for the travel and tourism economy came from the European Commission. At present, international tourism traffic to Europe is predicted to fall by 20-30% in 2020 and in OECD countries by 45-70%. The EC Commissioner Breton called for a European Marshall Plan to guide the recovery on April 21, 2020. [ii] He suggests a combined response of the European Parliament, Council, and Commission to "define how to finance a transition plan which must embrace travel and tourism sectors, environmental, digital and strategic realities." [iii] There is no doubt this is an historic moment in the travel and tourism industry world, the worst since records began. [iv]

A broader set of financing objectives for the travel and tourism economy recovery needs similar consideration on a global scale. Indeed, travel and tourism destinations require a set of targeted objectives for reconstruction funds which get to the heart of preserving the vital tourism products upon which industry depends.

Many might argue for a wide range of priorities for a new wave of finance, but the primary purpose of this white paper is to point out that an investment fund, which we will call the *Sustainable Tourism*

Marshall Plan Fund or funds could become key mechanisms in managing destination recovery. First and foremost, it is destinations that are the most impacted and most vulnerable to the drastic die-back of tourism. It is the inhabitants of destinations who will be forced into poverty without it. And even the wealthier, entrepreneurial class who rely on tourism will be hard hit because they are less diversified than multi-national corporations and much more dependent on visitor flows.

Mandate

The original Marshall Plan was conceived by U.S. Secretary of State George C. Marshall, who announced on the steps of Memorial Church of Harvard University a four-year plan which was crucial to the recovery of cities, industries, and infrastructure damaged during World War ll in Europe. The Nobel Peace Prize-winning Plan was also designed to foster commerce between the U.S. and Europe to balance the post-war powers. The original Marshall Plan innovatively transferred wealth from the prosperous post-war American economy to our allies in Europe which arguably resulted in greater global peace, security, and prosperity for decades and resulted in a robust expansion of the middle class in both regions.[v] These conditions have changed dramatically, and today it is impossible to imagine a travel industry bail out mechanism which might unite the U.S. and Europe- which in reality would be wise. Instead, global influencers will have to set out a common set of goals for a sustainable recovery for the travel and tourism economy, which will allow public private finance mechanisms to emerge from global nexuses.

What would the mandate be for a new Sustainable Tourism Marshall Plan Fund? While the powerful voices of our airlines and cruise lines are presently taking center stage, destination level requirements have to be taken into account to achieve a sustainable recovery. This will require a new paradigm for financing reconstruction, based on inclusive, far-reaching goals for sustainability. Recovery efforts should not only bail out travel industry businesses, but the destinations themselves.

Certainly, it would be best formulated as an international fund with a global focus. This will spread risk and allow nimble review of a wide range of cases in need. Fortuitously, new sources of more balanced finance have become available. The capital flows in international development finance have been changing dramatically since 2010, with private debt and portfolio equity doubling the total investment of Official Development Portfolios. And they are doing so, with more streamlined impact criteria based on long term development frameworks which will stress electricity, drinking water, sanitation and other SDG goals. Private local businesses which formulate their goals using triple bottom line metrics will be ideal partners in this process of rebuilding, as they are in a position to help spread the benefits and co-finance the process of rebuilding sustainable local, supply chains. [vi]

On a more macro scale, sustainable finance can be “blended” with other international development and climate related finance sources. The October 24, 2019 meeting of the CEOs of central, reconstruction, and development banks aligned with the Green Climate Fund (GCF)[vii] sat down to discuss a wide range of finance instruments to help more projects come to light. There is $8 trillion already available in negative yielding bonds [viii]worldwide that are critically needed in tourism destinations in developing countries, where the Invisible Burden is weighing heavily on regions that have aggravated their serious deficiencies in sanitary infrastructure and provision of fresh water – to the detriment of entire regions such as Boracay, Philippines and Phi Phi Island, Thailand.[ix]

Could a Marshall Plan be Structured Just for Tourism?

A Sustainable Tourism Marshall Plan Fund needs to prioritize the reconstruction of failing tourism destination economies, not bail out multinational business, which are protected from the worst downturns in many ways. However, there can and should be a set of blended funds that combine public and private reconstruction investment, a very attractive option and an important idea. Different blends of financing will emerge. For public destination financing there certainly should be options to tie the construction of new sustainable infrastructure to impact investors interested in a green economy return.

A Sustainable Tourism Marshall Plan Fund would need to raise the finance from global high net worth sources and create a funding package. This package should include support for (1) Sustainable infrastructure, (2) Development of data management units for both tourism supply and demand, 3) Support of responsible SMEs which have expansive supply chains that are both rural and urban, 4) Creation of revitalization programs for vital socio-historical and natural attractions. All governments will need to consider how they can contribute, via mechanisms such as Trust Funds, and a review of tourism tax policies will be fully discussed to ensure monies are set aside to support the package. Governance systems will need full discussion and review to avoid systems which only support growth – with full economic review of more value-added systems.

How Would a Marshall Plan for Tourism Operate?

While the Sustainable Tourism Marshall Plan Fund is simply a construct of ideas not a plan, a few operational concepts can be discussed here. The Fund should have an international set of goals and could easily be operated via regional agreements. It should be prepared as all financial instruments are prepared with serious background research, estimates, projections, and an overview of the types of blended finance that will be required. It must review destination candidates, which would have a set of criteria attached, such as governance, corruption indexes, credit ratings and the ability to manage investments with good independent oversight, public private finance mechanisms in place, and so forth.

There is also little question that such a fund would rely on the creation of well-structured destination level funding requests, which would qualify for a mix of low interest instruments, blended with green finance and green bonds.

The Fund should not be created via a flush of press with pronouncements and celebrity leadership until its complete architecture is more thoroughly researched and developed. This will include a strong data-driven approach, a range of rates of return with both concessionary financing and reasonable long-term rates of return for patient, impact investors. This will require all candidates to submit triple bottom line metrics, which can be analyzed and matched to investor needs and honed to criteria which the *Invisible Burden* research calls “operational externalities”, and a set of clear impact benchmarks which include economic recovery, local well-being, social and cultural heritage re-investment, management of critical issues of clean water, sewage treatment, renewable energy, and consistent support for the protection of natural capital upon which all destinations depend.

These investments must stem from the development and application of a more robust set of managerial tools that would include, but are not limited to: 1) holistic accounting methods to measure operational externalities from tourism development; 2) data and data management skills to knowledgeably manage growth at the destination level; 3) travel and tourism business capacity to incorporate destination goals within their reporting systems via collaboration with local authorities and the private sector; and 4) understanding of innovative financing mechanisms that will enable tourism destinations to cover the costs of the *Invisible Burden*.

Unless the sector begins to target investment toward more consistent sustainable outcomes now, the investments made in the years to come will simply repeat the problems of the past. Tourism's economic benefits can be significant, but the impacts and costs of the *Invisible Burden* tourism places on local destinations leave local authorities without the metrics or capacity to attract investment to correct their serious gaps in infrastructure, thereby endangering the business case for tourism and leaving destinations without the resources to address the problem.

Is a Marshall Plan Feasible During the COVID 19 Emergency?

While we all know this emergency may be long-lasting, no one knows how long it will last. This hurts financing efforts, which need credible projections, as there are so many unknowns. But as tourism recovers, the idea of a Sustainable Tourism Marshall Plan Fund could build in relevance and introduce academically tested systems. There are some rather interesting benefits in starting now. The financing of local sustainable infrastructure is likely to cost much less in this time frame. Currently, destinations can receive good terms on bonds, even negative rates for climate resilient approaches and get folks back to work. And it is also good news that pension funds and other municipal authorities are more frequently responding to sustainable financing guidelines— providing another promising source of revenue.[x]

Risk assessments must become a much more robust part of the system, such as the climate risk stress testing recently put in place by the powerful Monetary Authority of Singapore.[xi] Such stress testing will be particularly important as financiers begin to look at new growth opportunities. New tourism growth funds should have attractive returns, given the annual growth rates of tourism economies pre-COVID 19, but nonetheless should be tempered to a slower "burn". This will allow better minds to converge on how to reframe the ever-present gold rush towards more tourism, more airports, and more coastal infrastructure. Such growth may not be wise and has already demonstrably been shown to undermine the well-being of destinations. How the growth trends are projected in future will have everything to do with total impacts of the travel and tourism industry, and there can be no substitute to monitoring and evaluating these trends as part of national planning.

With this in mind, better terms must be struck for those who deliver more well-being and less hard cash for investors. At the front of the line should be local entrepreneurs with small and medium enterprises and their many suppliers. Entities that manage protected natural and cultural areas must also be part of the mix. Future efforts to manage destinations will have to be monitored via a holistic accounting framework as detailed in the Destinations at Risk: The Invisible Burden of Tourism. In some instances, there will be little governance or inadequate governance to manage a sustainable destination finance package- a considerable concern. If there is no change in governance, financing will be difficult to achieve, and such a challenge may well be an incentive for governments seeking to chart a new path.

Vision for Outcomes in the Next Four Years

The original Marshall Plan was a four-year strategy. While often grand plans are given set time frames, this should not drive the idea of the new Sustainable Destination Marshall Plan Fund. There are currently too many unknowns and building the quality investment systems will take time. A vision that is both sensible, economically feasible, and driven by a rate of return that can attract funds, without being excessive, will be key. The goals of such a fund would have to be both public and private, a unique blend that is already transpiring, but needs further study. Its goals and impacts could be measured according to benchmarks and holistic accounting on resource uses and climate emissions. Each of these key metrics can demonstrate if local economic, social, and environmental health benefits are being achieved. Green climate outcomes must be measured, as will socio-cultural, climate risk, and tourism uses of vital resources, such as fresh water, to ensure destinations do not undermine access to local people.

This vision is part of an integrated set of ideas that have been led by EplerWood International for ten years, via engagement with collaborators and institutional support from both Harvard and Cornell Universities. It is now shifting into another gear. Our partners at the Travel Foundation and PATA are integral to this process and new mechanisms of cooperation and support via the UNWTO Department of Innovation, Investment and Transformation hold great promise for the future.

At present, EWI is well on the way to creating the knowledge and data tools necessary to make this vision a reality. Our next steps are being charted rapidly as we continue to use the most advanced systems and metrics to guide our work. At present, we have achieved the following progress on research to prepare for the next wave of destination recovery and management of destinations— all since the original work on the *Invisible Burden* in 2018-19.

- EWI co-designed a Cornell STAMP digital survey program to understand what skills sets are required for Sustainable Destination Management with our partners in 11 countries in the first 2 quarters of 2020.
- EWI led the effort to develop a new STAMP/Cornell Sustainable Destination Management educational program, based on work done at Harvard and Cornell, which is targeted for availability in 2021 to allow destinations and businesses to access information and educational tools to help qualify them for sustainable financing. We are cooperating with our partners to design and distribute this globally.
- EWI developed and co-designed a financing proposal which allows local destinations to become test cases for new financing packages in sustainable infrastructure.
- EWI developed a holistic accounting system together with the Harvard International Sustainable Tourism Initiative (ISTI), which was successfully tested on Djerba Island, Tunisia with GIZ support in 2018 with final reporting in 2019. It is now planned for publication in a journal in 2020 and is on the road to being licensed by Harvard to EWI to allow for commercialization in 2021-2022.

Partners

The Travel Foundation, EplerWood International, and Cornell University's Centre for Sustainable Global Enterprise joined forces early in 2020 after the publication of their landmark report ***Destinations at Risk: The Invisible Burden of Tourism*** *in 2019.* The partnership now includes the Pacific Asia Travel Association (PATA), representing the region with the greatest projected tourism growth over the coming decade. Through this collaboration, the partners aim to develop new tools and educational content for PATA's destination members which can then be applied globally.

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[i] Epler Wood, M., Mark Milstein and Kathleen Ahamed Broadhurst, 2019, The Travel Foundation, Cornell University and EplerWood International

[ii] Speech by Commissioner Breton on A Marshall Plan for European Tourism, April 21. 2020, https://ec.europa.eu/commission/commissioners/2019-2024/breton/announcements/speech-commissioner-breton-marshall-plan-european-tourism_en

[iii] Ibid

[iv] World tourism faces worst crisis since records began, says UNWTO, May 7, 2020, https://www.theguardian.com/travel/2020/may/07/world-tourism-faces-worst-crisis-since-records-began-says-unwto-report

[v] The Marshall Plan and its consequences, n.d. https://www.george-marshall-society.org/george-c-marshall/the-marshall-plan-and-its-consequences/

[vi] Yago, Glen, September 17, 2019, Financing Sustainability: Democratizing Capital for Inclusive Growth Economies, Hebrew University of Jerusalem School of Business Administration, Milken Innovation Center-Jerusalem Institute https://wordpress.lehigh.edu/globalclassroom/week-3-professor-glenn-yago-2/

[vii] One Planet with Global Climate Fund, October 24, 2019 Scaling up Blended Finance for Low Carbon and Green Transitions, https://www.pscp.tv/w/1YqJDnDBgnoKV?t=28s

[viii] Yago, Glen, September 17, 2019, Financing Sustainability: Democratizing Capital for Inclusive Growth Economies, Hebrew University of Jerusalem School of Business Administration, Milken Innovation Center-Jerusalem Institute https://wordpress.lehigh.edu/globalclassroom/week-3-professor-glenn-yago-2/

[ix] The Toll of Tourism: Can Southeast Asia Save Its Prized Natural Areas, April 18, 2019, https://e360.yale.edu/features/the-toll-of-tourism-can-southeast-asia-save-its-prized-natural-areas

[x] Yasui, Yuki, April 4, 2020 What's Pushing/Pulling Sustainable Finance in Asia, Asia Pacific region, UN Environment Programme Finance Initiative, Developments in Finance and Sustainability https://www.youtube.com/watch?v=7a7NvRMtVNk&t=1540s

[xi] Ibid