

**Challenges and Lessons in
Financing Community Based
Tourism Projects:**

A business perspective.

**Case Study by the
Saint Lucia Heritage Tourism
Programme**

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CANARI



SLHTP Mission

- To contribute to the economic development of Saint Lucia through the sustainable development of tourism;
- To promote nature/heritage tourism as a viable and sustainable component of Saint Lucia's tourism product by facilitating a process of education, capacity building, product development, marketing, credit access and the promotion of environmental and cultural protection for the benefits of host communities and Saint Lucians.

CANARI Mission

- To create avenues for the equitable participation and effective collaboration of Caribbean communities and institutions in managing the use of natural resources critical to development, through:
 - Research and analysis
 - Communication Strategies which include training, technical assistance, information technology and publications

Study Area

- Heritage tourism sector in Saint Lucia
- Community-based tourism products in Saint Lucia

What is heritage tourism?

- Often used ***interchangeably*** with ***eco-tourism*** and ***nature tourism***.
- Often used simultaneously as a ***process*** to achieve ***sustainable development through tourism***
- ***Education, social responsibility, environmental mgmt.*** are not exclusive to heritage or eco-tourism but should be a fundamental component of all tourism development if sustainability is to be achieved.
- Definition: ***“Travel to and enjoyment of places of natural and cultural interest that reflect the heritage of a destination.”***

What is sustainable development through tourism?

- **Community involvement** in planning and development
- Protection of the resource base through **sustainable use**
- Product enhancement and diversification whilst maintaining **authenticity**
- Providing opportunities for **viable local enterprise and employment**

Study Objectives

- Criteria for developing heritage tourism sites using CBT approaches
- Problems encountered in obtaining financing
- Finding resolutions to these problems
- Products and services offered by the financial institutions
- Recommendations for moving forward

Study Objectives

- Problems encountered by the stakeholders in obtaining financing in the CBT/Heritage Tourism Sector.
- Problems faced by the financial institutions in financing proposals from this sector
- Means of resolving these problems

Demand for Microfinance in the Caribbean

- **Characteristics of Micro and Small Business in the OECS**
 - High proportion in informal sector
 - Dominance of sole proprietorship
 - Large numbers operating from private homes
 - Over 35% owned by women
 - Over 50% started using their own funds
 - Over 40% involved in distributive trade
 - Skilled in more than one trade
 - Relatively high rate of education through high school
 - Heavily dependent directly or indirectly on **tourism trade**

Demand for Microfinance in the Caribbean

- Loan Purpose
 - Stock purchases
 - Equipment / tool purchase
 - Renovation of business space
 - Expansion of business space
 - Family or housing needs
 - Debt

Demand for Microfinance in the Caribbean

- Terms and Conditions
 - Preference for monthly repayment cycles
 - Lump sum payments for agricultural borrowing
 - Grace periods
 - Repayments in range of EC\$250 - \$450
(US\$1.00 = EC\$2.67)

Feedback from the Heritage Tourism Site Owners

- **Subjectivity and Prejudice**
 - Importance of “character” in successful loan application
 - Result of loan application dependent on gut feeling of loans officer
 - Lack of objectivity towards new ideas, new business and first time borrowers
- **Absence of the element of partnership**
 - Confrontational / adversarial relationship (client/banker)
 - Restrictive policies towards small businesses
- **Lack of advice/financial counseling to clients or potential clients**

Feedback from the Heritage Tourism Site Owners

Lack of Support

- Marketing knowledge of loans officers - weak
- Lack of knowledge in understanding the seasonality of the industry
- Preference for traditional tourism projects
- Minimum knowledge/experience of culture, history, heritage etc of St. Lucia

General

- Timeframe for processing loans applications - Too long - delays without proper explanations
- Inflexibility in terms, conditions and rates of interest
- Lack of confidentiality/ethics of bankers

Feedback from the Financial Sector

- Poor presentations of proposals and business plans
- Lack of financial information
- Lack of management structures
- Marketing plans and strategies are not in place
- Lack of planning
- Lack of capital
- Inexperience in managing business

Feedback from the Financial Sector

- Collateral security inadequate
- High debt servicing ratio
- Low profit margins
- Lack of statistical data on the CBT/heritage tourism sector
- Lack of familiarity with the CBT/Heritage tourism sector
- The seasonality of the tourism sector

Recommendations

Banks and other non-financial institutions

- Develop soft loan packages, with moratorium and creative repayment terms.
- Regular sensitization workshops to be held with the financial lending sector.
- Develop special financial packages to suit the needs of the site owners/investors in the sector.
- Provide fiscal incentives to encourage financial and non-financial institutions to invest in the CBT/heritage tourism sector.

Recommendations

Banks and other non-financial institutions

- The National Insurance Corporation or Lottery Organizations seeking to invest large sums of money could be encouraged to initiate a line of credit for the CBT/heritage tourism sector.

Recommendations

Site Owners/ Investors/ Borrowers:

- Site owners/ investors must understand the importance of contributing equity to their respective projects.
- Financial data must be accurate and provide a true picture of the viability of the project.
- Ensure that the projects (proposals, feasibility studies, business plans) are thoroughly researched, prepared and professionally presented to financial institutions.
- Incorporation of communities in the design and implementation of development projects

Recommendations

Site Owners/ Investors/ Borrowers:

- Additional training for the site owners/ developers in **marketing, advertising and promotion.**
- Recognize the importance of **record keeping.**
 - Utilizing the data to make management decisions as well as to prepare financial projections for further project enhancement .
 - Good record-keeping demonstrates good management practices by investor/ owner/ potential borrow and creates a good impression in the minds of bankers.
- Alignment to large **tour operators / hotels**

Recommendations

Governments/State

- Create enabling environment that encourages development of heritage tourism sites using CBT approaches and provide special incentives as a part of the country's national development strategy.
- Greater emphasis on the socio-economic (livelihood) and environmental impacts of tourism business.
- Continue to provide a fund (grant monies) for assisting with the preparation of proposals and business plans for the development of CBT/heritage tourism sector.
- Encourage organizations like the National Insurance; Lottery bodies and or financial institutions to allocate/provide funds for on-lending with special interest rates, terms and conditions to site owners as well as improving the access to credit.

Recommendations

Governments/State

- Encourage corporate sector shareholding in CBT/ heritage tourism products in order to allow for greater technical and managerial expertise transfer, synergies and economic alliances.
- Establish a public education programme to increase awareness of the benefits of heritage attractions and CBT approaches to development.
- Encourage Schools and Government Ministries to visit and patronize existing CBT/Heritage products.

Role of Government/State in Microfinance

- Strict state controls on minimum interest rates do not allow MFI's to recoup expenses
- Corporate taxes can also be onerous
- Capitalization requirements can be too high for MFI's
- More innovation in collateral requirements
- Provisions for debt recovery
- Simplification for registration of businesses

Microfinance – Factors of success

- MFI performance is determined largely by internal rather than external factors
- emphasis on “collateral” should be replaced by assessing the “willingness to pay”.
- Case Study of JN Small Business Loan (JNSBL) Ltd.
 - internal processes of training
 - strict recovery practices

Useful Microfinance websites

- www.iadb.org/sds/msm
- www.mixmarket.org
- www.iadb.org/res
- www.microfinancegateway.com

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