Article

Funding Proposals for New Tourism Ventures

Michael Wright
Sustain Ecotourism and Environmental
Email: michael@sustainecoenv.com; Cell: +27-83-670-1436

Date: 09 March 2020

ABSTRACT

The nature of a funding proposal for a tourism venture may differ depending on its sector category, and whether or not it is purposed for a new start-up venture, or an existing business seeking to undertake a new venture, expand a current venture, or seeking refurbishment and support. The funding avenue pursued needs to relate to the venture's goals and objectives, and requires understanding the investment mandate and criteria of the funder(s). An enticing funding proposal necessitates several key ingredients: thorough planning, research, good structure, quality content, rapport with the funder(s), presentation and follow-up. The product will need to include a bankable feasibility study. Funding can also comprise several forms, and the correct combination of these will be vital to achieving profitability in the shortest possible timeframe. Furthermore, obtaining funding for sustainable tourism requires not only a feasible business proposition, but a strong commitment to society, communities and the environment as well. Ensuring all of these elements are delivered upon will bring about the greatest probability of funding success.

KEY WORDS

Tourism venture type; funder mandate; bankable proposal; structuring funding; funding sustainable tourism.

1. INTRODUCTION

Tourism is big business. The travel and tourism sector plays a vital role in the global economy and community. In 2019, the industry helped generate 10.4% of world Gross Domestic Product (GDP) and a similar share of employment, and has shown enormous resilience over the last decade. In that year, there were 1.5 billion international tourist arrivals worldwide, with a growth of 4% as compared to 6% in 2018 and 7% in 2017.[1] 2019 was the 10th consecutive year of sustained growth.[2]

Export earnings generated by tourism in 2018 grew to USD 1.7 trillion. Furthermore, tourism remained the world's third largest export category after fuels and chemicals, and ahead of automotive products and food. International tourism accounts for 29% of the world's services exports and 7% of overall exports. In some regions these proportions exceed the world average, especially the Middle East and Africa where tourism represents over 50% of services exports and about 9% of exports overall.[3] In addition, these figures only refer to international tourism, while the significant influence of domestic tourism must also be considered.

It is clear from the above statistics that the tourism industry is a major economic and job creation sector in many developed nations, and a high potential growth sector and/or priority sector for many developing nations. When considering sustainable tourism, the benefits of the sector are often even

[1] World Economic Forum. 2019.
[2] World Tourism Organization (UNWTO). 2019.
[3] World Tourism Organization (UNWTO). 2019.

more significant for those countries that possess greater natural beauty, biodiversity and/or cultural diversity.

Developing countries in particular benefit from the tourism industry's positive economic, environmental, and social impacts, through the creation of jobs, preservation and celebration of indigenous culture, reduction of poverty, and promotion of environmental conservation. Furthermore, developing countries, and the international development agencies that support them, have recognized the numerous positive impacts of tourism and actively pursue tourism development to promote economic growth and development assistance objectives.[4]

Hence, interest and demand are high for businesses to obtain funding to undertake new tourism ventures, or to expand existing ventures. To obtain this greatly sought-after funding, tourism ventures are typically required to prepare an attractive funding proposal. The goal of doing so is obviously to provide the business with the highest probability of success of securing that funding. Furthermore, the previous chapter spoke to the need for an aspiring tourism business owner to first undertake a feasibility study, a business plan and to predict returns. So, on the assumption that this exercise has already been undertaken, and that a quality business plan has been prepared, we will undertake the next step in the process – to secure funding in line with the business plan. With this in mind, this chapter will focus on developing funding proposals that should be well-received and favourably prioritized by funding institutions, and that will hopefully be offered favourable funding terms.

However, before even commencing with preparing a funding application, one first needs to appreciate that undertaking this exercise will demand significant investment from the applicant, vis-à-vis: time, effort, research, skill, finances and patience. Crafting an attractive proposal is an art, and involves a lot more than what is simply written on paper.

Before getting into it, let us first discuss the typical stages of any tourism project or business start-up. Doing so will hopefully provide you with better insight into this chapter, and the great volume of work required before proceeding with this a funding application.

2. STAGES OF A TOURISM PROJECT

Before commencing with operating a new tourism business or project there are five stages within the project cycle that need to be undertaken. The funding and financial closure stage is the fourth stage in this cycle. It is also important to realise that as a project progresses through each of these stages, so the value of your project, and the degree of confidence you can have in it, increases. This is due to the fact that a more complete and robust product has been developed, supported by a greater deal of information and evidence. In doing so, you would have spent more time, money and effort, which amounts to 'sweat equity' that has a real value in financial terms. **Figure 1** below illustrates the full tourism project cycle up to commencement of operation.

[4] Adapted from Phillips, J. et al. 2013.

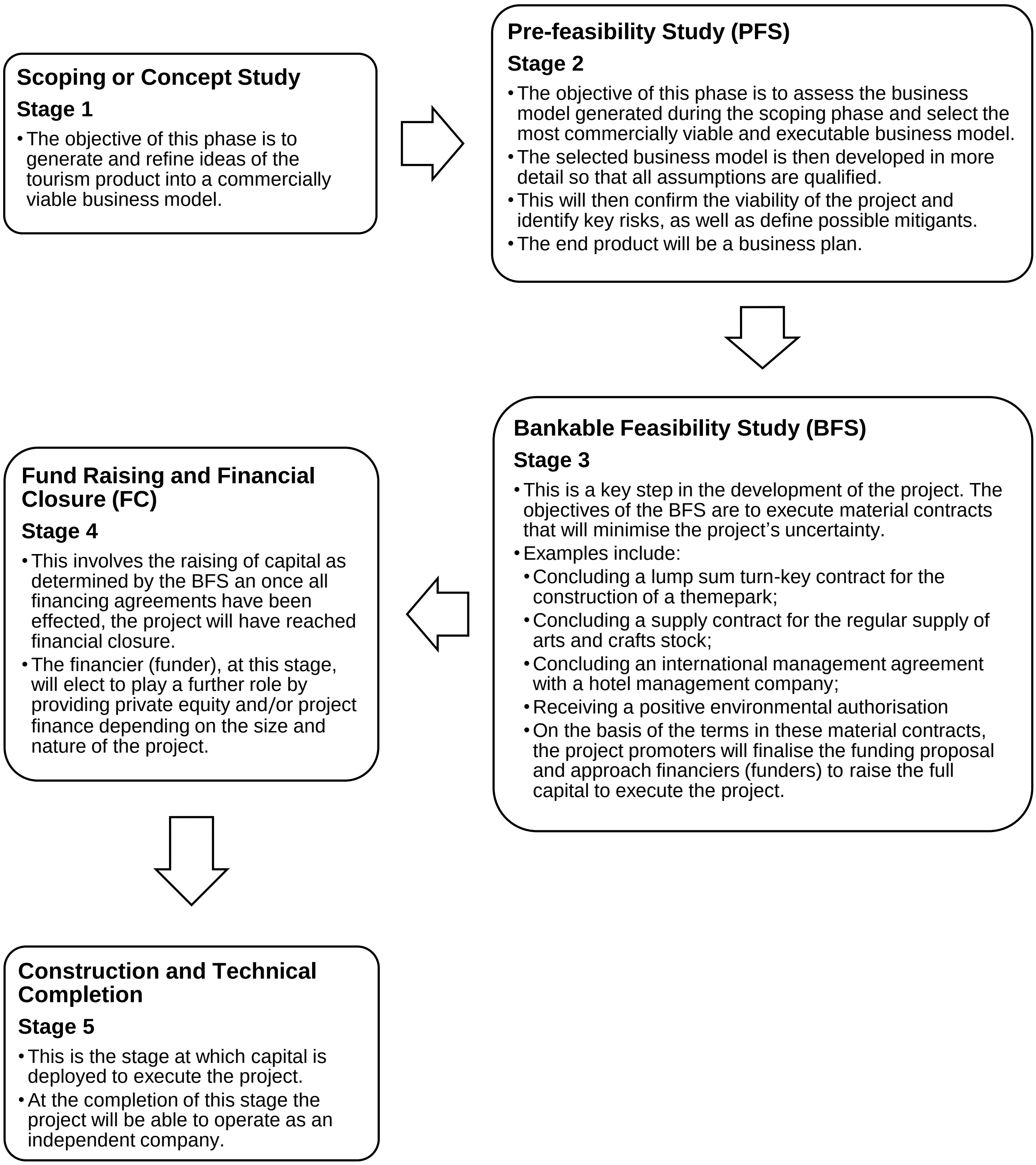

Figure 1: The tourism project cycle up to operational commencement.[5]

3. THE NATURE OF A FUNDING PROPOSAL

The nature of a funding proposal may differ depending on its sector category, and whether or not it is purposed for a new start-up venture, or an existing business seeking either expansion or refurbishment and support. Importantly, before writing the proposal, one needs to clearly define why you are writing it, what asking for, and for whom it is intended. This is essential to directing your efforts and saving you a

[5] Adapted from National Empowerment Fund. 2020.

great deal of time and money. So, ensure the business is well-considered and well-planned and know who you need to be sell it to. For example: A government financial institution versus a small corporate funder.

As mentioned earlier, we are assuming upfront that your funding proposal is being backed by information obtained through your own process of research, which commenced with a scoping or concept study, and proceeded to a pre-feasibility study, and then ended with a bankable feasibility study. One of the main products of this exercise would have been a robust business plan, which includes a robust and industry specific financial model that proves commercial viability.

We are also assuming that the business will follow this business plan precisely to achieve its predicted outcomes. Why are we assuming this? This is what the funder will require, and this is what they will base their initial decision-making on. They will understand that if the plan is not followed exactly, then the predicted returns will differ and the risk factor will change.

However, do not make the mistake of assuming the funder is going to take the assumptions and predictions presented to them for granted. Any decent and experienced funder will utilize the information provided, and will rationalize it by devising their own financial model before making any serious decisions. In addition, they will require evidence of at least a large portion of the other supporting documentation that adds to the bankability of the plan. Only upon the thorough evaluation of this information will they be in a position to decide whether or not they are willing to draft a funding term sheet.

A term sheet is a non-binding agreement setting forth the basic terms and conditions under which an investment will be made. It serves as a template to develop more detailed legally binding documents. Once the parties involved reach an agreement on the details laid out in the term sheet, a binding agreement or contract that conforms to the term sheet details is then drawn up.[6]

At all times, it is vital to remember that you are crafting a funding proposal in order to persuade someone, or a group of people, to give your organisation and/or your project money. The chief purpose of a funding proposal is persuasion, and not detail and description. So, while you do need to describe the business and project adequately, you need to do so in a way that 'sells it' and convinces the funder to give you all the money you are asking for. In 'selling it', be sure to remain realistic by stating achievable targets and projected earnings.

Now, a business plan for a new start-up venture will naturally differ significantly from that of an existing business seeking either expansion or refurbishment and support. With a start-up, the plan will talk to intended action, the predicted outcomes to these, and a set of assumptions upon which the plan is based. While a plan to expand a business, or to refurbish a major asset, will also need to present a track-record of prior performance to better inform the predicted outcomes, and will be based on fewer assumptions that are easier to gauge. So, good record keeping (accounting, asset management, human resources, maintenance, etc.) and presenting these records well is very important.

You will notice that the word "assumptions" has been used several times already. Assumptions will be made about factors like market demand and supply, occupancy, seasonality, exchange rates, human resources, etc. The reasonableness of the assumptions will be important for funders and their willingness to believe and trust what is presented to them. Should the assumptions presented be reasonable, they will have a greater degree of confidence and willingness to entertain the proposal. Should the assumptions be lofty and unrealistic, they will be circumspect. In order to ensure that these assumptions are reliable, one must attempt to qualify them as much as possible by providing research evidence to justify them.

On the subject of trustworthiness, the funder will need to be convinced the business owners, directors and managers possess the requisite skills, experience, technical competence, and ability to enact the plan. More importantly though, they will need to demonstrate that they have the will to do so. Sometimes the business plan is prepared by a consultant and not the directors of the applicant entity,

[6] Ganti, A. 2019.

and should this be the case, the funders will need to believe that the directors fully understand, buy into, and have confidence in the plan. There is no point in a business being funded on the strength of a plan that is poor quality or not followed closely. The degree to which the plan is weak, or is not followed, is the degree to which risks escalate in the mind of the funder.

Another important matter is to demonstrate that you know your own ability, and your business and industry sector very well. This will require you to clearly articulate:

- Your business vision and objectives;
- The processes and procedures you are instituting;
- Your personal SWOT (strengths, weaknesses, opportunities and threats);
- Your track record in business, in the tourism industry, and especially in sector you are intending to build a business around; and
- The business vehicle you are proposing to use (new or existing, special purpose vehicle, public company, private company, non-profit organisation, non-governmental organisation, trust, cooperative, etc.).

All of these elements have a strong bearing on your likelihood of securing funding, and it is important to present these in a convincing manner.

A further significant factor during this process will be the quality of the relationship and trust formed between the two negotiating parties. What we have addressed so far has focussed on what the funder requires to learn about you and your business. However, just as important is for you to learn about your funder. So, learning about the funder, on both an individual and organisational level, and their funding mandate is equally as vital. The more you understand about them beforehand, the more confidence you will have in them being the right funding partner before even approaching them. This may require meeting with others who have dealt with the particular funding party/ies and the representatives within these parties (the decision-maker(s) and/or technical expert(s)), and obtaining useful information about them.

Remember that writing a funding proposal is a “selling” process, and in this instance the funder is the prospective “buyer”. So, what do funders want? Most funders want a range of things, including:

- To make an impact or a difference – they want their money to count, they want the work they fund to be successful, and they want to be seen to be successful;
- To acquire knowledge, understanding and information;
- To share knowledge, understanding and information in their area of specialisation, and, in so doing, add value to their chosen interventions;
- To increase their influence in addressing what they consider to be the challenges of the world, the region, the country, or a particular area.[7]

An applicant needs to understand this, and must ensure that their own business agenda meets the agenda of the funder as closely as possible. They must convince the funder that their business or project will achieve many of the funder’s hopes and objectives as well, and that the funder will be proud to have played a meaningful part in it. Funders would like applicants to believe that their funding decisions are purely based on the numbers, but they are human beings too, and can also be appealed to and influenced on an emotional level.

Hopefully what has been addressed so far has helped to provide some insight into how important the nature of the proposal is to determining your prospects of success.

[7] Adapted from Shapiro, J. 2011.

4. FUNDING AVENUES TO PURSUE

Identifying which funding avenues to pursue depends on your business. Your particular business needs must be correlated with your business venture's goals and objectives, and this will necessitate understanding the investment mandate and criteria of the funder(s).

It is vital that the tourism venture's goals and objectives were succinctly defined during the business planning phase. It is now your job to communicate these to prospective funders in an effective manner. First prize is to identify and target a funder who marries well with your goals and objectives, and who can provide the requisite funds, over the required period, and according to your preferred funding mix. If this is possible, it becomes easier to craft a funding proposal that matches your business needs.

However, it is not a perfect world, and there is often a myriad of factors at play, both known and unknown to you, that determine the outcome of an application. In addition, funding processes and negotiations can sometimes take several months before you can have any confidence that a decision will be made soon. So, do not "place all your eggs in one basket", and be prepared to approach more than just one or two interested funders.

Consequently, when seeking funding for a tourism business it is important to research and analyse each funder upfront, and to prioritize them based on relevant criteria (much of this information will be available on the internet). Hence, one does not want to simply create a generic proposal that is shared with each funder, as this is likely to lessen one's chance with all of them. Instead, tweak and tailor-make each proposal with a specific emphasis on that funder's mandate. This could involve subtle changes in emphasis and prioritization of information shared, and need not necessitate changing the fundamentals of the business.

Funders all have defined mandates and industry sectors and concerns they focus on. If you are going to have any reasonable chance of success, it is important to research these mandates and to be sure that your business proposition meets their criteria as closely as possible. Catering toward the respective funders' mandates will greatly improve your chance of success.

Funding institutions may, for example:

- Only offer funding quantums between a particular range (e.g. $3m to $20m), i.e. a minimum and maximum funding threshold;
- Only offer certain categories of financing (e.g. debt and quasi-equity);
- Prefer to develop, promote and implement responsible tourism initiatives;
- Have job creation and employment equity targets;
- Have conservation objectives and commitments;
- Have social impact targets;
- Have climate change goals and obligations;
- Have a particular geographical development preference at that time;
- Only be willing to take a view over a particular term;
- Offer reduced interest rates subject to certain criteria being met;
- Provide particular incentives for interventions such as: green design, cleaner and more resource efficient technologies, greening tourism products at destination level, restoring and renovating old tourism sites, etc.

4.1. Types of funders

At a high level, the funding options available, and the general advantages and disadvantages of each, are outlined in **Table 1** below.

Table 1: Different types of funders[8]

Type of Funder	Advantages	Disadvantages
Government Government Agencies Development Finance Institutions	• Often have a lot of money; • May be useful on issues of policy, access, etc.; • If project fits government strategy, this increases possibility of meaningful impact; • May offer incentives – tax breaks, subsidies, guarantees, or infrastructure.	• Process of application is often bureaucratic and long-winded; • Payment is often delayed and there is very little flexibility; • Application requirements can be complex; • Political motives and agendas can be influential.
Major corporate funding	• Have large sums of money to give; • Often have professional, accessible staff; • Usually clear on what they want from the arrangement; • Not a hidden agenda.	• Change priorities quite often; • Sometimes want direct representation on the board; • Often very sensitive to anything that might alienate other stakeholders.
Small corporate funding	• Informal approach; • Interested in local projects; • Personal connections very helpful; • Agenda usually clear.	• Not that much money; • Interests limited; • If no personal connections, funding is very unlikely.
Large family foundations	• Have large sums of money to give; • Staff are professional, understand the issues and civil society concerns; • Clear guidelines on what is funded and the process for getting funding usually provided; • Willing to share international experience.	• Process for application can be lengthy; • Requirements for applications can be complex; • Priorities may change.
Small family foundations	• Often form close relationships and have a personal commitment to an organisation; • More flexible on format and process; • More flexible on what they fund.	• Staff not always as professional as that of bigger foundations; • May not have much money; • Personal contacts very important (can also be an advantage).

From the types of funders identified above, you would need to identify and prioritize which ones you prefer, and then identify the individual entities that fall into these categories. It will be those select institutions that become the ones that must be researched in greater detail.

[8] Adapted from Shapiro, J. 2011.

5. CRAFTING AN ENTICING FUNDING PROPOSAL

Crafting an enticing funding proposal will necessitate several key ingredients, namely: thorough planning, research, good structure, quality content, rapport with the funder(s), presentation and follow-up. Some of these ingredients have already been addressed at a high level in the above sections.

So, what specifically will the funder require?

The funder will want to receive a well-packaged and -presented funding proposal. Often funders will provide a particular set of guidelines or a template that specifies the format they want to receive the proposal in. Thus, if multiple funders are approached (which is advisable), it will require tailoring each proposal accordingly.

Most importantly, the funder will want to receive a funding proposal that is accompanied by a business plan as well as any other relevant and related information. This is what is termed a "bankable feasibility study". The nature of this information will, however, naturally differ depending on the nature of the tourism venture. As you could imagine the factors affecting a hotel or lodge development will differ significantly from those affecting a tour operating business, travel agency, theme park, restaurant or museum.

In the tourism sector, especially when it comes to any projects involving infrastructure build, this will necessitate far more than just a business plan. In addition, it will require more commitment in the way of time, cost, and assessment.

When preparing your funding proposal, you will need to also complete and submit a signed application form. **Table 2** below provides an example of a list of information that may be required to accompany this application form:

Table 2: List of information required to accompany a signed funding application form

No.	Item	Start-up Business	Existing Business
1	Business plan (inclusive of much of the information listed below)	Yes (or an information memorandum detailing the nature of the business as a minimum)	Yes (or an information memorandum detailing the nature of the business as a minimum)
2	Affidavit from other directors or members of the company that they are aware of the contents of the application form	Yes	Yes
3	Right of use – Title deed, lease agreement, concession agreement, public-private-partnership agreement	Yes	Yes
4	Company registration documents and all legal documents relevant to the entity	Yes (if available)	Yes
5	Company financial records/statements	Yes, whatever is available. Include shareholder and/or promoter loan accounts detailing financial (cash equity) and time (sweat equity) spend	Yes, three years of records (if the business has operated for that long) – balance sheet, income statement, and cash flow statement. Last six months of management accounts (if available)
6	Financial projections – Five-year forecast balance sheet, income statement, and cash flow statement. First year projections should	Yes	Yes

No.	Item	Start-up Business	Existing Business
	be reflected on a monthly basis, and annually thereafter.		
7	Shareholding structure, including shareholders agreement, shareholders's certified identity documents, and shareholders's personal statement of assets and liabilities (including spouse's if married in community of property)	Yes (if available)	Yes
8	List of directors, director's certified identity documents, and director's personal statement of assets and liabilities (including spouse's if married in community of property)	Yes (if available)	Yes
9	A business bank account in the name of the applicant, including bank statements	Yes, for as many months as is available	Yes, for the past twelve months (if available)
10	Town planning approvals – Zoning, building plans, services agreements or evidence of availability of services (water and power)	Yes	Yes
11	Environmental authorizations – Environmental impact assessment (including environmental management programme), water use licences, threatened and protected species permits	Yes (if applicable)	Yes (if applicable)
12	Architectural concept designs	Yes (if applicable)	Yes (if applicable)
13	Engineering concept designs and reports	Yes (if applicable)	Yes (if applicable)
14	Project construction preliminary cost estimate	Yes (if applicable)	Yes (if applicable)
15	Capital expenditure requirements	Yes	Yes
16	Market assessment – tourism market analysis, market surveys and demand analysis	Yes	Yes
17	Proposed gearing (overall debt:equity ratio)	Yes	Yes
18	Loan repayment schedule	Yes	Yes
19	The proposed management and marketing company(ies) or operator(s) – Include the management and marketing strategy, and evidence of track record	Yes	Yes
20	The proposed organizational plan and professional team members	Yes (if applicable)	Yes (if applicable)
21	Evidence of community consultation (particularly in or near protected areas)	Yes (if applicable)	Yes (if applicable)

It is evident from the above list that the additional requirements are often numerous, and could prove onerous and out of reach for some businesses, especially start-ups. Although, one can also understand and appreciate why a funder would require this information before being willing to lend millions of dollars to what is merely a business proposition at the time.

Hopefully it is now becoming apparent that undertaking a tourism venture will require significant planning, time, money and technical experience to achieve “bankability”.

We will now explore some of the steps involved in this process in greater detail.

5.1. Planning

Hopefully you now realise that planning is a big factor. Before approaching the funder, the promoter(s) of the business will need to systematically and concurrently attend to a plethora of tasks. This may necessitate dealing with and appointing numerous other parties to the process, sometimes months and years in advance. In addition, it may require having to appoint and pay numerous service providers and professionals in order to obtain the necessary information.

For example: In the case of a lodge or theme park development it may require appointing environmental assessment practitioners, town planners, architects, engineers and/or quantity surveyors to obtain the necessary approvals, designs and cost estimates. It would also require acquiring a right of use of the property in question, and obtaining written commitment from a managing agent. In the case of a restauranteur, it may require obtaining a lease on a property, appointing an architect and interior decorator to provide concept drawings, and a designer to create relevant marketing material.

5.2. Research

The research phase cannot be stressed enough, especially if you are fairly new to the tourism industry. Earlier we spoke of the need to research the different types of finance, the different types of funders, and the different types of funds they each offer. In addition, it is important to research and understand your market, your competitors, your industry service providers, your suppliers, the design and technological options available to you, the best systems to serve your business, the routes to promote, etc.

A valuable exercise you should also undertake (if relevant) is to review publications such as the national, provincial and local tourism development strategies and plans; the local Integrated Development Plan and Spatial Development Framework; and the Local Economic Development strategy for your regions of operation. These will serve to provide you with great insight into the intents of government and industry, and will help you determine the chance of your business developing successfully in these regions. Furthermore, ensuring your business matches the intents of these plans and strategies will go a long way to obtaining support from key stakeholders, and will serve to strengthen your cause with the funders.

5.3. Good structure and quality content

Once you have undertaken the necessary planning and research, the applicant must ensure that the proposal offers pertinent and accurate information that meets the criteria and expectations of the funder. It will require applying the information in the most succinct, effective and convincing way possible. Furthermore, it needs to be presented in an impactful manner and packaged professionally.

Before submitting the application, however, if your business proposition is novel and innovative, containing valuable intellectual property, it would be wise to require the funder(s) to first sign a non-circumvention non-disclosure (NCND) agreement to safeguard your ideas.

The funder will also probably require the information in electronic format, and the financial model in a useable format in order to insert the figures directly into their own financial models.

5.4. Rapport with the funder(s)

Earlier, in Section 1, we spoke about the need to research and learn about the funder on both an individual and organisational level. This will set a good base from which to develop a relationship with the funders. It is vital that an applicant becomes very intentional about developing a strong rapport with both the funding entity as a whole, and more specifically with the individual organisational representative that you have direct interaction with. Remember that you are trying to “sell” your business to them, and you are hoping to enter into a short- to long-term contractual relationship with them. So, ensure you are friendly, courteous, respectful and professional in your conduct at all times. Respect their time, and do not overburden them with your needs. In addition, be sure to respond to their correspondence in a timely manner.

5.5. Possible challenges

Challenges that may be experienced in developing a bankable tourism funding proposal could include several risk factors listed in **Table 3** below.

Table 3: List of possible challenges before being able to submit a funding application.[9]

Category	Description
Regulatory and Planning Risk	Suitability of land for the proposed development and onerous planning approval process
Environmental Risk	Onerous environmental impact assessment requirements
Bulk Infrastructure	Availability and access to bulk infrastructural services
Affordability Risk	Challenges in raising the required equity contributions and paying the necessary professional service providers beforehand
Market Demand or Supply Risk	Access to key demand and supply markets
Socio-political Risk	Support and buy-in from affected communities and relevant stakeholders

5.6. Sources of support

Should you require support with your application, require tourism marketing and investment facilitation, and require access to basic services and regulatory compliance issues, it is advisable for you to approach national, provincial/state, district and local tourism authorities and development agencies.

6. FORMS OF FUNDING TO PURSUE

Funding can comprise several forms, and applying the correct combination or ratio of these will be vital to achieving profitability in the shortest possible timeframe. In addition, funding for tourism can be sourced from numerous different avenues, and knowing the appropriate avenue to approach, and prioritizing these will save you a lot of time and effort.

First, we will focus on the types of finance that can be secured, and the best combination of these to provide your business with the best chance of growth and success. The best type(s) of finance for your business will depend on the nature of your tourism business, its sector, its scale, the size of your vision and your risk appetite.

6.1. Types of finance

For the most part, the different types of funding relevant to the gross majority of tourism business ventures includes:

- *Grant* – non-repayable funds or products given by one party to a recipient;
- *Equity* – capital provided for shares in the business;
- *Debt* – obtaining a secured or unsecured loan for working capital or capital expenditure that requires repayment over a set period of time at a set rate of interest;

[9] Debedu, J. 2017. Grant Thornton International Ltd.

- *Quasi-equity* – a form of capital with debt-like properties and equity-like functionality (e.g. mezzanine loan);
- *Takeover finance or refinancing* – a form of loan finance offered to well-established concerns with a number of years of satisfactory credit records.

The ideal funding ratio (gearing) may also differ depending on the nature of your tourism business and the interest rate secured on the loan (determined by your credit scoring). For example: It is generally believed, if equity and debt funding can both be obtained, that a good debt:equity ratio (calculated by dividing a company's total liabilities by its shareholder equity) for a viable hotel or lodging business is between 50:50 and 65:35. Adding any more debt will decrease liquidity and would generally be considered over-gearing.

In addition, it will be very important to get the right balance between the types of finance. This may actually be provided by the funder, but the project owner will need to consider the implications before accepting the funder's proposal, particularly with regard to cash flow and cost of funding. Before the funding is accepted in a proposed format, the financial feasibility study of the business plan will have to be altered to reflect the actual funding structure agreed upon, and management will need to assess the implications of the revised financial structure.[10]

It is also important to differentiate between national and international sources of funding. International funding introduces the prospect of exchange rate complications, combined with more limited chance of success due to the much wider geographical options open to the funder.[11]

6.1.1. Grant funding

It is without question that the best type of finance is grant funding, if you are able to obtain it. Grants, whether from public or private sources, may come in the form of cash and/or tax credits for start-up or expanding businesses. However, receiving the grant will come with particular terms and conditions, and with accountability. It also may restrict your business vision to the objectives of the grant. Grants are also often only supplied to disadvantaged individuals, community trusts or Non-Profit Organisations (NPOs). Furthermore, if you require more funding than the grant offers, then you will need to investigate the other sources as well. In the case where a project is considered ready for investment, the applicant may request grant funding in support of long-term financing from participating lenders. The different forms of eligible grant support may include:

- Technical assistance, to support the management or implementation of the project;
- Direct grant, to finance a specific part of the investment (for example: soft components);
- Interest rate subsidies; and
- Loan guarantee cost financing and insurance premiums.[12]

6.1.2. Equity funding

The next form of funding to consider is equity finance. Equity comes with a great deal of benefit, but too much of it can also be unhelpful. To obtain equity you need to give away shares in your company to partners. Giving away more than you need to can be disadvantageous and can result in a large number of other problems. Partners will have different ideas and opinions, which could at times prove either helpful or unhelpful. The great benefit of equity funding is that it financially resources the company, and equity partners share the risk and provide added support and skills. The risks come in, however, when

[10] Wright, P. 2020.
[11] Wright, P. 2020.
[12] DBSA. 2020.

partners have a different level of business and tourism industry experience as you do, do not fully buy into the business vision that you created, or have an unethical motive. Generally, the fewer partners the better, although the best situation is to have the fewest number of unrelated minority partners possible.

Equity funding is usually the most expensive funding option, as it will water down your own returns on your already considerable investment. If taking on an equity partner is a consideration, it is preferable that you retain a controlling shareholder interest, so as to avoid the possibility that the business will not adhere to the business plan once implemented. The importance of the new partner possessing the same values, vision and business objectives as your own needs to be carefully evaluated.[13]

6.1.3. Debt funding

The term of a loan can differ between short-, medium- and long-term. Generally short-term is considered less than 3 years, medium-term is considered 3 to 5 years, and long-term is considered more than 5 years. However, it is not uncommon for funding institutions to provide loans for periods extending up to as much as 12 years.

Importantly, however, there are also different types of debt that could be applied for, even within the same application, depending on the items needing to be financed. These will have different term durations, funding amounts and interest rates. For example: funding for a hotel building may be treated differently to funding for vehicles and golf carts, which may be treated differently to funding for working capital.

Furthermore, one can also secure debt from more than one lender. The first lender will be termed the principle debtor, who holds the senior debt, with the first claim on securities offered. While the second lender will be the subordinate debtor, holding the junior debt.

6.1.4. Quasi-equity

Quasi-equity provides a more equal sharing of risk and reward between investor and investee. Quasi-equity fills the gap between debt and equity, and aims to reflect some of the characteristics of both. It is usually structured as investments where the financial return is calculated as a percentage of the investee's future revenue streams.

A quasi-equity investment can be a useful source of finance when debt financing is inappropriate or too onerous, or where share capital may not be possible due to the investee's legal structure. Unlike a loan, this investment is dependent on the financial performance of the organisation. If future expected financial performance is not achieved, a lower or possibly zero financial return is paid to the investor. Conversely, if performance is better than expected, then a higher financial return may be payable.

A quasi-equity investment may be structured so that its return is capped (e.g. revenue participation payments cannot exceed double the original investment size), or be limited in duration (e.g. the right to revenue participation is extinguished after a specified period of time).[14]

6.1.5. Takeover finance or refinancing

Takeover finance or refinancing is a form of loan finance offered to well-established concerns with a number of years of satisfactory credit records.

[13] Wright, P. 2020.
[14] NCVO Knowhow. 2015.

6.2. Sources of finance

The potential sources of finance that could be targeted for tourism ventures includes:

- *Government* – Can offer grant finance, often based on certain incentive schemes;
- *Institutional funders* – A highly diversified mutual fund for high net worth investors (pension funds, governments, not-for-profit organizations, companies), with substantial amounts of capital to invest. They offer a high minimum investment, and their loans are typically secured, at low interest rates, and over longer terms. The investment could be in the form of equity, quasi-equity or debt finance.
- *Banks* – Offers debt finance and asset finance, generally at moderate interest rates over short- to medium-terms, and on the strength of a company's balance sheet and track record, and secured by collateral;
- *Venture capitalist* – Start-up or growth equity (for shares) or secured loan capital (at higher than market interest rates) provided by private investors or specialized financial institutions to businesses with high potential, but with the expectation of high financial returns over shorter terms;
- *Angel investor* – A high net worth individual or very small group (to spread risk or increase available funds) who provide start-up or growth capital in promising ventures, either in exchange for convertible debt or equity, and helps indirectly with advice and contacts;
- *Small business lenders* – Organizations that offer secured loans to small businesses, over short- to medium-terms, at moderate to high interest rates.
- *Donors* – A person or institution who gives assets to another person or institution, either directly or through a trust (local or foreign aid assistance);
- *Crowdfunding* – Using an internet-based platform to pitch a business proposition to a great multiple of investors who contribute funds in their individual capacities, but cumulatively as a crowd. Investments can be debt, equity or rewards-based;
- *Peer-to-peer lending (P2P) platforms* – These match small businesses directly with individuals or organisations who are willing to lend money. Loans tend to be short-term, made up of many small investments, and easy and quick to access;
- *Family and friends* – Can provide either equity or debt (sometimes unsecured), usually in small increments, and on variable and flexible terms to either kickstart or expand a business. This, however, can prove very risky for relationships;
- *Initial public offering* (IPO) – An IPO is when a company that has decided to "go public" (to transition to a publicly-traded company) offers up initial shares on a publicly-traded market such as a stock exchange.

6.3. Assessing the funder and applying for funds

Having researched and understood how the funder is structured to assist businesses, the next step would be to undertake a self-needs analysis to see how the funder is able to assist you and your business needs.

If and when you are ready to engage with them, the first step would be to complete and submit an application form that will present your business case for assessment. Ensure that your proposal contains comprehensive information to support the commercial viability and the financial position of your business. In a typical funding process the following course of events should apply:

- Once your application is received it will be evaluated;

- Should it fulfil the mandatory requirements, it will enter into an evaluation process towards final approval and disbursement of the funds;
- If you do not submit all of the necessary documents together there will likely be a delay in processing your application form;
- The period of time for the funder to process your application from receipt to approval stage may take between 1 and 2 months, or longer depending on the funder;
- If it is approved, then (providing there are no untoward delays from your side) it will likely take the funder a further 1 to 2 months to complete their process and to be in a position to disburse funds.

6.4. Application and assessment process

The funding application and assessment process performed by the financier will likely involve the procedure outlined in **Figure 2** below:

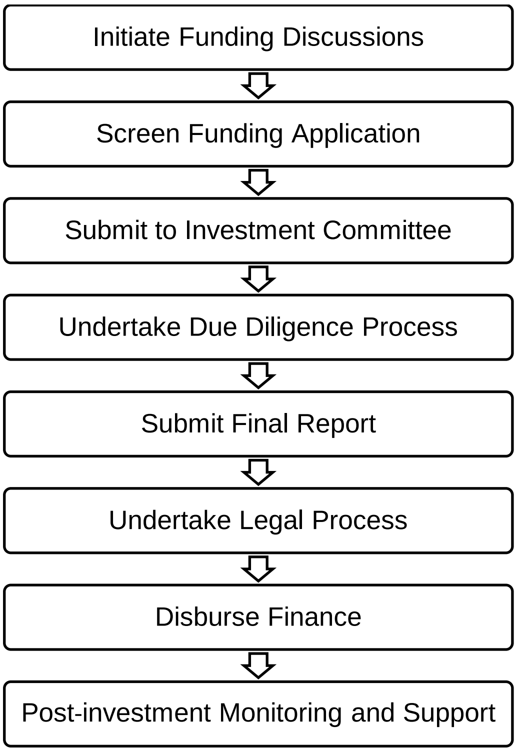

Figure 2: Funding application and assessment process.[15]

6.5. Negotiating funding

When being furnished with a funding term sheet, followed by a funding agreement, one must be mindful of several critical factors to negotiate. These may include:

- *Project lifecycle* – Some tourism businesses only have a finite period of time in which to succeed, such as a concession or a public-private-partnership, which may only last between 5 and 30 years. Hence negotiating terms based on this finite lifecycle becomes even more critical;

[15] Adapted from National Empowerment Fund. 2020.

- *Moratorium on interest* – Should the date of commencement of commercial operations only be 2 or 3 years after agreement signing, due to time being required for a period of construction, then you should request a moratorium on commencement of making the first repayment;
- *Minimum core promoter contributions* – Funders will likely require a minimum equity contribution from promoters into the business. This is could be anything from 40% to 50% of the equity, depending on the total capital cost. Alternatively, they could require 20% to 30% of the equity, exclusive of the land cost for the project. This will be viewed a seed (start-up) capital – an "at risk" investment by the promoters of a new venture, which represents a meaningful and tangible commitment on their part to making the business a success;
- *Loan duration and repayment schedule* – This is the period over which the loan is granted, and is to be repaid according to an agreed debt interest rate. The longer the term of the loan, the less the quantum of each monthly repayment. However, the sooner the loan can be repaid by the investee the better so it does not continue to accrue interest. Lenders may not want early repayment of the loan, however, and may include penalties for such an eventuality;
- *Security* – The funder will want to secure their investment with collateral from the business and the business owners, such as bonds over fixed and moveable assets of the business. The investor (creditor) will also likely require suretyships from the shareholders (debtors) in the way of personal guarantees of the promoters and corporate guarantees of the shareholding group concerned. The creditor may also bind the surety as the co-principal debtor, which means that the surety's obligations are equivalent to those of the principal debtor and he is jointly and severally liable to the creditor. This is often the highest risk element and the most deterring aspect of borrowing funds. In addition, the funder may require a first charge on movable and immovable fixed assets, as well as a pledge of the promoters' shareholding.
- *Guarantee of deferred payments* – The funder issues a guarantee, on your request, when goods are purchased from a creditor on terms, after a specified time, in lump sum or in instalments. The creditor requires such deferred payment terms to be guaranteed by the bankers of the principal debtor;
- *Financing fees* – Funders may want to charge a funding application appraisal fee as a percentage of the loan, as well as legal fees for their due-diligence process. These could potentially be negotiated;
- *Financing fees* – Funders may want to charge a funding application appraisal fee as a percentage of the loan, as well as legal fees for their due-diligence process. These could potentially be negotiated;
- Other matters that could potentially be negotiated include: "Tax holidays" in the formative years; labour or training subsidies; tariff exemptions on imported materials and supplies; or special depreciation allowances.[16]

6.6. Once funds are secured

If and when you are fortunate enough to secure funding from a financier, and sign a funding agreement, the first thing you should do is to celebrate! The next thing to do is to appreciate that you are now in a funding contract that have significant terms and conditions, and comes with enormous responsibility and liability. Thus, these funds need to be managed with great care and responsibility. Without getting into detail, there will be a continual monitoring and evaluation process to be followed with the funder for

[16] Houston, K. 2013.

the full duration of the contract. This process will necessitate regular reporting and the provision of supporting evidence throughout.

Without getting prescriptive when it comes to managing the use of these new funds, one very important piece of advice is to manage your business' cashflow requirements very carefully, as these are crucial to avoiding the drawing down of funds not yet needed.[17]

7. REQUIREMENTS FOR OBTAINING FUNDING FOR SUSTAINABLE TOURISM

7.1. Concerns about the tourism industry

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

Tourism can also have negative impacts. Tourism firms regularly encounter conflicts in balancing economic growth and environmental impact.[18]

Particular attention must be paid to environmental and social concerns, as well as pressure placed on non-renewable resources and infrastructure. Assessing and managing these impacts is a core function of the investment promotion process.[19]

The rapid growth of tourism in many developing countries also introduces new threats to the environment. Water and energy consumption, utilization of natural resources, and increased wastes are just some potential negative environmental impacts. Through sustainable forms of tourism development many of these impacts can be mitigated.[20]

Tourism marketing has often been seen as exploitative and fuelling hedonistic consumerism. Sustainability marketing can, however, use marketing skills and techniques to good purpose, by understanding market needs, designing more sustainable products and identifying more persuasive methods of communication to bring behavioural change.[21]

Fortunately, more and more financiers have started to appreciate the risks and harm that many unscrupulous industries create on an environmental and social level. To deter this, many are now offering financial disincentives for unsustainable actions, and incentives for companies to adopt more sustainable practices. These disincentive and incentive schemes are generally applied across all industries, including the tourism industry.

A good and welcome example of the collective action and responsibility being taken by many responsible tourism companies within the tourism industry is the movement being promoted by an organisation called, "Tourism Declares a Climate Emergency", which is a collective of 78 travel and tourism businesses, organisations and individual professionals declaring a climate emergency and taking purposeful action to reduce their carbon emissions. They are coming together to find solutions to this challenge, as they acknowledge the science stating we have 10 years to address this crisis, and they accept their responsibility to tell the truth, act now, and work together to help turn it around.[22]

---

[17] Wright, P. 2020.
[18] Wu, K.J. et al. 2019.
[19] Phillips, J. Faulkner, J & Solimar International. 2013. pp 4.
[20] Phillips, J. Faulkner, J & Solimar International. 2013. pp 4.
[21] Font, X. & McCabe, S. 2017.
[22] Tourism Declares. 2020.

7.2. The case for financing sustainable tourism

Sustainability is the backbone of business – this has always been true and for largely obvious reasons, whether business owners realise it or not. Any organisation which is absent of sustainability is destined to, at some point or another, fail. Typically, this is not a desirable outcome for an organisation. So, sustainability is the name of the game.[23]

Sustainability and competitiveness go hand in hand as both destinations and businesses can become more competitive through the efficient use of resources, the promotion of biodiversity conservation and actions to tackle climate change. Sustainability forms a key part of tourism policies in 101 United Nations World Tourism Organisation (UNWTO) Member States surveyed in 2019:

- 100% refer to sustainability as an objective;
- 67% refer to resource efficiency;
- 64% connect sustainability and competitiveness;
- 55% refer to sustainability extensively;
- 10 years is the average duration of tourism policies.[24]

The United Nations designated 2017 as the International Year of Sustainable Tourism for Development, recognizing, in its resolution, “the important role of sustainable tourism as a positive instrument towards the eradication of poverty, the protection of the environment, the improvement of quality of life and the economic empowerment of women and youth and its contribution to… sustainable development, especially in developing countries.”[25] Today sustainability – environmental, social, and economic – is increasingly recognized as the benchmark for all tourism business, of all sizes, in all destinations, and across all sectors of the industry.[26]

Tourism, as one of the most promising drivers of growth for the world economy, can play an important role in driving the transition to a green economy, and contributing to more sustainable and inclusive growth. Investment and financing are an essential part of this. The possibilities are wide-ranging, and include public and private investment in low carbon transport options and the construction of resource efficient tourism infrastructure, as well as initiatives to support innovation, promote the adoption of responsible business practices and encourage the integration of tourism businesses into low carbon and sustainable tourism supply chains.[27]

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

Tourism-related targets in the sustainable development goals include:

- **Goal 8:** Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.
    - *Target 8.9*: By 2030, devise and implement policies to promote sustainable tourism that creates jobs and promotes local culture and products.
- **Goal 12:** Ensure sustainable consumption and production patterns.

---

[23] Broadstock, D. 2016

[24] UNWTO. 2019.

[25] United Nations General Assembly. 2016.

[26] Centre for Responsible Travel. 2017.

[27] OECD. 2018

    - *Target 12b*: Develop and implement tools to monitor sustainable development impacts for sustainable tourism that creates jobs and promotes local culture and products.
- **Goal 14:** Conserve and sustainably use the oceans, seas and marine resources for sustainable development.
    - *Target 14.7*: By 2030, increase the economic benefits to small islands developing states and least developed countries from the sustainable use of marine resources, including through sustainable management of fisheries, aquaculture and tourism.[28]

7.3. Attracting funding for sustainable tourism

One of the most important trends shaping tourism-related investment, and investment in developing countries in general, is investment in projects using a "Triple Bottom Line" approach, which seeks returns on investment that are financial, social, and environmental. The overarching term for investing in this category is "sustainable investing". It is becoming an increasingly popular way for investors to evaluate companies in which they want to invest.

Those tourism companies that have implemented sustainable procurement practices through the use of third-party certification schemes are deriving meaningful benefits across a range of factors. For example, TUI Group found: "*Sustainability certifications for hotels help to drive sustainability performance and continuous environmental and socio-economic improvements. Analysing the data of the certification schemes can also support hotels to monitor their business performance, and identify where improvements are required in specific destinations.*"[29]

A category of sustainable investing is "socially responsible investing" (SRI), which is any investment strategy which seeks to consider both financial return and social/environmental good by bringing about positive and long-term impact on society, the environment and the performance of the business. Within Social Responsibility Investing are two subsets, namely:

- "Impact investing" – This is investing devoted to the conscious creation of social impact through investment. In general, it is project- or venture capital-focused. Impact investing blends philanthropy and private equity to more sustainably achieve philanthropic objectives through the development of self-financing initiatives and enterprises that generate triple bottom line returns.
- "ESG (Environmental, Social and Governance) investing" – This is investing based on environmental, social and governance (ESG) criteria. These criteria act as a set of standards for a company's operations, and socially conscious investors use them to screen potential investments. Environmental criteria consider how a company performs as a steward of nature. Social criteria examine how it manages relationships with employees, suppliers, customers, and the communities where it operates. Governance deals with a company's leadership, executive pay, audits, internal controls, and shareholder rights.[30]

Sustainable tourism is smart business – not only is it is seen as more attractive; it is increasingly providing businesses in the industry with a competitive edge. Growing numbers of travellers are increasingly seeking environmentally friendly vacation destinations and operators that commit to sustainable and responsible business practices. Importantly, international donors, finance institutions, and private sector funders are increasingly supporting this trend.

Obtaining funding for sustainable tourism requires not only a feasible business proposition, but a strong commitment to socio-cultural and environmental objectives as well. Demonstrating dedication and commitment to these elements may prove the key to being offered an attractive funding agreement.

[28] OECD. 2018
[29] TUI Group. 2018.
[30] Cohen, J. and Scott, G. 2020.

Moreover, if you can demonstrate continual commitment to these throughout the term of the agreement, it will help maintain your relationship with the funder in good stead.

So, when promoting a tourism venture to funders be sure to incorporate as many sustainability attributes into your business case as possible. For example, it would be helpful to include the following:

- Highlight all the aspects of your business that have genuine environmental and socio-cultural benefits, such as reducing waste, supporting biodiversity conservation, and promoting inclusive growth and cultural heritage;
- Identify where your business will act to tackle climate change, resource efficiency, lower carbon emissions, and socially inclusivity;
- Commit to procure as many of the goods and services during both the periods of both construction and operation from sources as near to your business location as possible;
- Commit to market your business as a sustainable business by mentioning all of its sustainability attributes. Why is this important? Funders will understand that businesses with a sustainability ethos are more likely to be supported by the market.

8. CONCLUSION

Throughout this chapter we have endeavoured to provide you with a full appreciation of the many factors that influence funding for tourism ventures. We have explored a range of aspects, and trust that in doing so we have provided you with a greater depth of understanding of the many elements involved. We hope that this will assist to guide you on your journey toward successfully securing finance for your business venture, whether it is for a new endeavour or for the expansion of an existing business. We also hope that you will incorporate sustainability into your business case to provide your business with the greatest probability of funding success.

REFERENCES

Broadstock, D. (2016), ‘Finding a balance between economic and environmental: Entrepreneurial finance could play a key role in funding environmentally sustainable investments that help generate economic value for organisations’, accessed 27 February 2020 at https://www.scmp.com/business/global-economy/article/1956350/finding-balance-between-economic-and-environmental.

Centre for Responsible Travel. (2017), The Case for Responsible Travel: Trends & Statistics 2017.

Cohen, J. and Scott, G. (2020), ‘Environmental, Social, and Governance (ESG) Criteria’, accessed 2 March 2020 at https://www.investopedia.com/terms/e/environmental-social-and-governance-esg-criteria.asp.

DBSA. (2020), ‘Grant Funding’, accessed 29 February 2020 at https://www.dbsa.org/EN/prodserv/IIPSA/Pages/Grant-Funding.aspx.

Debedu, J. (2017), ‘Developing a Bankable Tourism Project Funding Proposal’, paper presented at the National Department of Tourism Local Government Tourism Conference 2017, Grant Thornton International Ltd.

Font, X. & McCabe, S. (2017), Sustainability and marketing in tourism: its contexts, paradoxes, approaches, challenges and potential. *Journal of Sustainable Tourism*, pp. 869-883. https://doi.org/10.1080/09669582.2017.1301721.

Ganti, A. (2019), 'Term Sheet', accessed 5 March 2020 at https://www.investopedia.com/terms/t/termsheet.asp

Houston, K. (2013), 'Finance & Funding in Travel and Tourism - sources of funding', accessed 11 September 2019 at https://www.slideshare.net/karenhouston125/unit-2-learning-outcome-4-v1.

National Empowerment Fund. (2020), 'Strategic Projects Fund, accessed 29 February 2020 at https://www.nefcorp.co.za/products-services/strategic-projects-fund/'.

NCVO Knowhow. (2015), 'Quasi-Equity / Revenue Participation, accessed 27 February 2020 at https://knowhow.ncvo.org.uk/funding/social-investment-1/investment-types/quasi-equity-revenue-participation'.

OECD. (2018), *OECD Tourism Trends and Policies 2018: Towards investment and financing for sustainable tourism*, OECD Publishing, Paris. DOI: https://doi.org/10.1787/tour-2018-7-en.

Phillips, J. Faulkner, J & Solimar International. (2013), US Agency for International Development. Sustainable Tourism: International Cooperation for Development Online Tool Kit and Resource Series. Tourism Investment and Finance Accessing: Sustainable Funding and Social Impact Capital, accessed 26 February 2020 at https://www.solimarinternational.com/toolkit/tourism-investment-and-finance-accessing-sustainable-funding-and-social-impact-capital/, pp. 4, 12.

Shapiro, J. (2011), Writing a Funding Proposal. Civicus, accessed 26 February 2020 at https://www.civicus.org/index.php/media-resources/resources/toolkits/618-writing-a-funding-proposal.

TUI Group. (2018), Certification: Encouraging sustainable procurement practices through the use of third-party certification schemes, accessed 26 February 2020 at https://www.oneplanetnetwork.org/sites/default/files/encouraging_sustainable_procurement_through_the_use_of_third-party_certification_schemes.pdf

Tourism Declares. (2020), Tourism Declares a Climate Emergency, accessed 06 March 2020 at https://www.tourismdeclares.com/.

United Nations General Assembly. (2016), Resolution adopted by the General Assembly on 22 December 2015: 70/193. International Year of Sustainable Tourism for Development, 2017, pp 3, accessed 29 February 2020 at http://www.un.org/en/ga/search/view_doc.asp?symbol=A/RES/70/193&referer=/english/&Lang=E.

UNWTO. (2019), UNWTO Baseline Report on the Integration of Sustainable Consumption and Production Patterns into Tourism Policies, 2019.

World Tourism Organization (UNWTO). (2019), International Tourism Highlights 2019 Edition, accessed 28 February 2020 at https://www.e-unwto.org/doi/book/10.18111/9789284421152 - Thursday, February 27, 2020 1:24:46 AM - IP Address:165.73.65.154, pp. 1.

World Tourism Organization (UNWTO). (2020), UNWTO World Tourism Barometer: Volume 18, Issue 1. ISSN: 1728-9246. https://www.e-unwto.org/loi/wtobarometereng, pp. 1.

The World Economic Forum). (2019), The Travel & Tourism Competitiveness Report 2019. ISBN-13: 978-2-940631-01-8. http://reports.weforum.org/ttcr, pp. 3.

World Travel & Tourism Council. (2019), Tourism Satellite Account Research, 2019.

Wright, P. (2020), Pers. Comms.

Wu, K.J. Zhu, Y. Chen, Q. Tseng, M.L. (2019), Building sustainable tourism hierarchical framework: Coordinated triple bottom line approach in linguistic preferences. *Journal of Cleaner Production,* 229, 157-168. https://doi.org/10.1016/j.jclepro.2019.04.212.