

SME: Apparently Small But of Great Derivative Value!

Literature Review of Tourism SMEs to Create Employment and Access to Finance

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Abstract

Contributions from various tourism SMEs to improve socio-economic development in developed countries include employment creation, improved living standards and increased family income. Despite this, you have great deals on the direct link between job creation, but there is also some controversy over who creates jobs and how they do it. Various documents say that Tourism SMEs play an important role in training young people, covering the labour deficit and generating benefits to the efficiency of the economy, innovation and overall growth. Therefore, this study will help us build the evidence needed to create Tourism SME policies and understand the core operational values of SMEs that maximize results in terms of

achieving basic objectives such as job creation, increasing employee productivity and what are the financial challenges facing tourism SMEs. Policy initiatives to encourage the financial sector to be more proactive in securing tourism financing SMEs can also be envisaged, including taking steps to improve the knowledge and understanding of the tourism sector.

Keywords: Employment, Job quality, Small and Medium Enterprises, Tourism industry, Bank loans, Private equity

JEL classifications: G21; G24; G32; J21; L10; L25

1. Introduction

Tourism SMEs play an important role in addressing the challenges of poverty and job creation. Involving a cultural tourism business needs funding, which can thus be from its own resources or can be sourced elsewhere. When a company derives funding from its own sources, from own assets, from own profits, we will call it an internal source of funding. When a company needs big money and internal resources alone are not enough, they go out and get loans from banks or other financial institutions. Tourism, as one of the most promising growth drivers for the world economy, can play an important role in driving the transition to a greener economy, and contributing to more sustainable development. Investing and financing is an essential part of this. Opportunities are broader, and include public and private investment in low carbon transportation options and building resource-efficient tourism infrastructure, as well as initiatives to support innovation, promote business responsibility management, and encourage integration. of tourism businesses in low carbon and sustainable tourism supply chains. Between 2002 and 2010, net employment in the EU increased sharply, with an average of 1.1 million jobs (or 0.9 percent) each year. 85 percent of this net employment growth is recorded as employment growth in the SME size class. This share is significantly higher than the share of the SME size class in total employment (which was 67 percent in 2010). This implies that the share of employment in the SME size class has increased over time, and indicates the growing economic importance of this size class. Within the SME size class, the highest growth rate is in the size classes of micro and small enterprises. Empirical studies that have examined the income gap but also the aspects of the quality of work between SMEs and large firms are very scarce, so it is difficult to draw conclusions. The small number of existing studies shows that depending on the size of SMEs, the remuneration and quality of work varies, and that smaller companies tend to pay lower salaries and lower labour security. More than a decade ago, it has already been argued that developed countries were witnessing a transition from the so-called managed economy to the entrepreneurial economy. One of the key features of this transition was the increased role of new and small enterprises in the entrepreneurship economy. The findings of the study show that - at least in the EU27 - this transition is not over yet, but it is still ongoing.

1.1 Objective of the Study

The role and various contributions of tourism SMEs in improving socio-economic development in the economy of each country include creating employment, by improving living standards and increasing family incomes. The purpose of this study is to create a

picture of the current state of knowledge about the role of tourism SMEs in the process of job creation and alternative sources of finance. This framework will be done by examining recent empirical evidence in developed and developing countries even those with economies in emergencies. In this study, the identification of the role of tourism SMEs will be made taking into account the institutional framework (such as systems of laws, regulations and formal procedures, and informal conventions, customs, and norms, which form the socio-economic activity and behaviour in a country) in which SMEs need to act. Therefore, this review will also consider how changes in the institutional framework could improve the potential of SMEs to create employment, the study will focus on answering the following four questions:

1. What is the role of the tourism SME size in employment levels, under what conditions do tourism SMEs create employment?
2. What is the quality of jobs offered by the size of tourism SMEs?
3. What are the challenges of tourism SMEs access to finance and what is the position of banking institutions?
4. Are Tourism SMEs turning to alternative financing instruments as growth slows in bank lending?

1.2 Research Methodology

The study is using inductive method associated with both qualitative and quantitative type of data. Regarding sources of data, were collected by secondary sources to be used to generating relevant and valuable data. Secondary data were obtained from brochures, statistical bulletin, office documents other materials. The literature review is undertaken in a structured manner so that search is as complete as possible. The implementation of the research methodology followed these steps: 1- Identify relevant search terms that answer key search queries. 2- Selecting search sources by applying a Boolean search methodology that would allow for the inclusion of all predefined search terms (ILO, IFC, OECD, World Bank, www.ideas.repec.org). 3- Final selection of the 36 identified documents on the quantity and quality of jobs in tourism SMEs and their funding sources worldwide, with reference to some defining criteria (firm size, quality employment, quality jobs, better jobs equal opportunities, policy, productive work, initiatives, work environment), which draw on the findings of the paper available : a) A sound empirical methodology. b) Data collection process

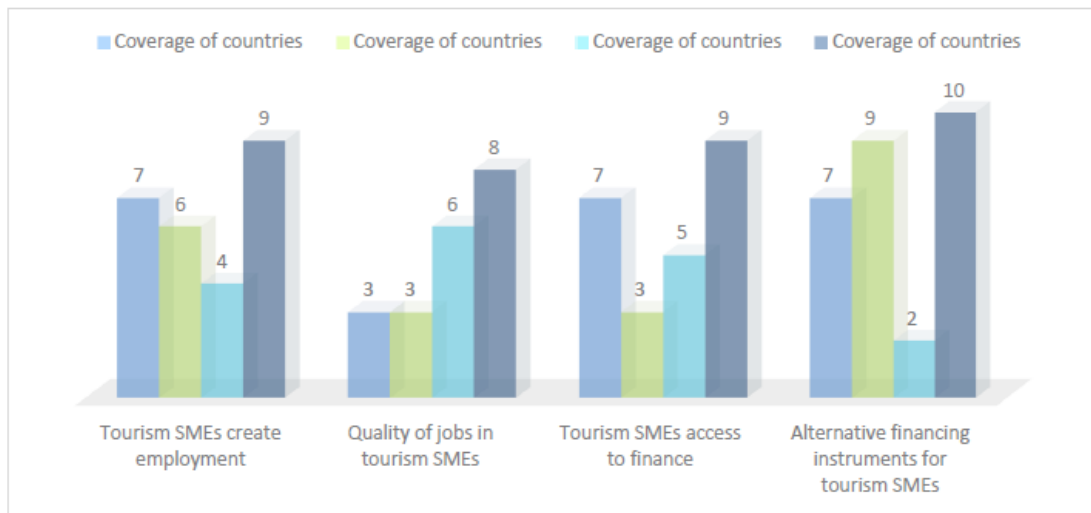


Figure 1. Distribution of identified key literature according to research question and coverage of countries

Source: Panteia, 2012

2. Literature Review

2.1 What is the Role of the Tourism SME Size in Employment Levels, Under What Conditions do Tourism SMEs Create Employment?

Tourism today has evolved into a highly significant and dynamic sector accounting for roughly one-tenth of the global GDP (Business Friendly, 2016), affecting broadly the economy, especially service sector, where employment creation through entrepreneurship is more often encountered. SMEs (small and medium-sized enterprises) account for 60 to 70 per cent of jobs in most OECD countries on 1990, with a particularly large share in Italy and Japan, and a relatively smaller share in the United States (OECD, 1995). Between 2002 and 2010, statistics show that SMEs give more contribution in job creation compared to large enterprises, 85 percent of total employment growth was attributable to SMEs, and SMEs have a much higher employment growth rate (1 percent annually) than large enterprises (0.5 percent a year) (Kok et al., 2011).

In OECD countries, tourism sector employees contribute a significant proportion to the total number of employees. In countries like Greece, Spain, Iceland, Malta, Hungary, Ireland the contribution of tourism sector employees varies from 9 percent to 15 percent of the total employed. Table 2.1 shows that in developed countries such as Australia, Canada, USA and part of the EU countries the share of employees in the tourism sector is lower. Interesting is the fact that the trend of tourism sector employees in countries such as Australia, Canada, Mexico, Sweden, Switzerland and USA where the number of tourism sector employees has little or no change in percent to total employees from 2008 to 2017 according to Table 1. (This leads us to think that the increase in employment growth in tourism in these countries is the same as in other sectors).

Table 1. Total tourism employment (direct) as percent of total employment

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Country										
Australia	5.0	5.0	4.9	4.8	4.8	4.8	4.9	4.9	4.9	..
Austria	7.1	7.1	7.2	7.2	7.2	7.3	..	7.9	7.9	..
Canada	4.0	3.9	3.8	3.8	3.8	3.8	3.9	3.9	3.9	3.9
Chile	6.0	6.3	6.3	6.2	6.1	6.1	6.0	6.2	6.4	6.5
Czech Republic	4.6	4.6	4.7	4.6	4.5	4.5	4.4	4.4	4.4	..
Denmark	3.7	3.7	3.8	3.9	4.0	4.1	4.2	4.3	4.4	..
Estonia	3.5	3.3	3.3	3.0	3.1	3.8	4.1	4.1	4.1	3.9
Finland	..	..	..	5.2	5.4	5.5	5.5	5.5	5.5	..
France	6.7	6.9	7.0	7.0	7.1	7.1	7.2	7.2	7.3	..
Greece	7.5	7.5	7.4	7.7	7.8	7.8	9.1	9.6	10.0	10.0
Hungary	8.7	8.6	8.6	9.0	9.2	9.1	..	..	..	..
Iceland	8.1	8.2	8.9	9.5	10.2	10.9	11.7	12.8	14.4	15.3
Ireland	9.0	9.4	9.3	9.4	9.6	9.6	9.8	10.0	10.2	..
Israel	3.3	3.2	3.4	3.4	3.4	3.6	3.7	3.7	3.6	3.7
Italy	..	..	8.4	..	..	..	..	8.3	..	..
Japan	6.9	6.9	6.9	6.9	6.9	6.9	9.8	9.6	9.6	..
Latvia	7.5	7.7	7.7	7.3	8.2	7.8	8.5	8.2	8.9	8.4
Lithuania	4.3	4.5	4.7	4.6	4.5	4.7	4.8	4.8	4.8	..
Mexico	5.9	6.0	6.0	6.0	5.9	5.9	5.9	5.9	5.9	..
Netherlands	..	..	6.3	6.4	6.5	6.7	6.9	7.0	7.1	7.2
New Zealand	8.5	8.6	8.3	8.0	7.7	7.5	7.4	7.8	8.4	8.4
Norway	6.3	6.3	6.3	6.5	6.5	6.4	6.5	6.5	6.7	..
Portugal	9.0	9.2	9.4	9.5	9.6	9.5	9.5	9.7	9.8	..
Slovak Republic	5.0	5.5	5.3	5.6	5.9	6.1	6.2	6.4	6.3	..
Slovenia	6.2	6.5	6.4	6.0	6.1	6.0	6.1	6.2	6.3	6.4
Spain	10.8	11.3	11.5	11.7	11.8	12.2	12.7	13.0	13.3	13.7
Sweden	3.2	3.3	3.1	3.1	3.3	3.2	3.2	3.2	3.4	3.5
Switzerland	4.4	4.3	4.3	4.4	4.4	4.3	4.3	4.4	4.4	4.4
Turkey	..	..	..	..	..	..	6.4	6.7	6.7	6.8
United Kingdom	5.2	5.7	5.0	5.4	5.4	5.0	4.3	..	..	..
United States	4.2	4.1	4.1	4.2	4.2	4.0	4.0	4.1	4.2	..

Source: Enterprises and employment in tourism OECD (Edition 2018)

Figure 2 present some businesses characteristics in tourism sector in EU countries. They mostly belong to the category of small business and a small number to the medium category, number of employees varies from 0 to 250 and the labor market provides employment opportunities for all ages, new experiences, skill development and higher level of incomes

opportunities.

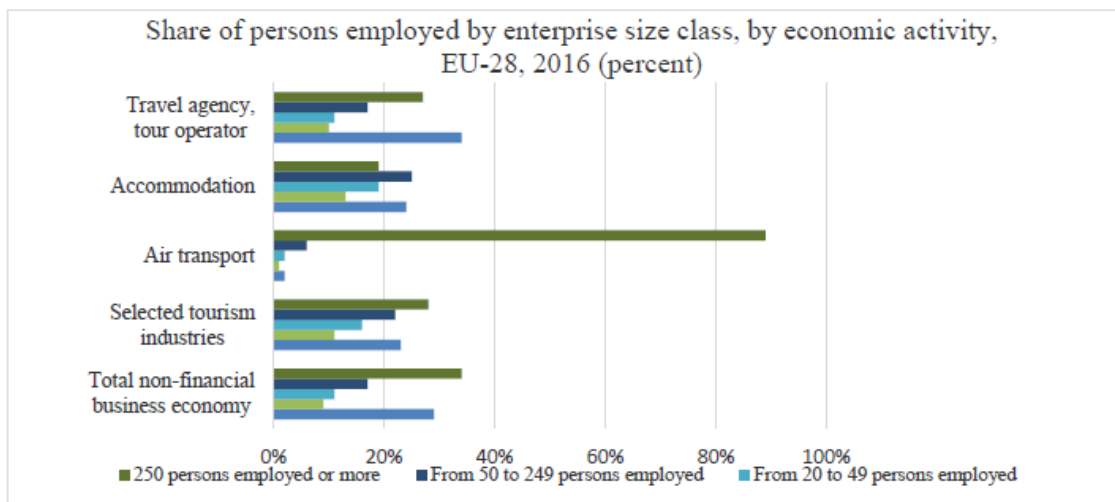


Figure 2. Share of persons employed by enterprise size class, by economic activity, EU-28, 2016 (%)

Source: Tourism industries – employment 2018, Eurostat.

For some EU countries, such as Bulgaria, Estonia, Lithuania and Romania, characteristic is a low level of salaries in tourism sector. The same characteristic is encountered in some of Balkan countries such as Albania, Serbia, Macedonia, and Montenegro. This characteristic is due to several factors such as high unemployment level, low level of minimum wage, seasonal jobs in this sector, which in term lead to an increase in emigration of skilled young people. Almost 99 percent of all enterprises in Western Balkans are small or medium-sized. These businesses play a key role in ensuring economic growth, social integration and in many cases job creation. The level of employed in SMEs in the Western Balkans is 60 percent – 80 percent of the working population (*Building the Future of SMEs in the Western Balkans, 2014*).

Tourism MSMEs (Micro, Small & Medium enterprises) include family-owned accommodations, vendors of traditional crafts and food, guide services and other supporting businesses, and may possess characteristics such as: (APEC, 2019)

1. niche products;
2. low barriers to entry;
3. personal equity forming the initial capital of the business;
4. homogeneity and lack of room for innovative growth;
5. lower capital intensity, higher labor intensity;
6. operates within the informal sector.

SME-s give more contribution in job creation compared to large enterprises, this is more evident in tourism sector and other sectors related to it and according European Statistics for 2018, in EU countries there are more than 13 million people (Eurostat, 2018).

Even though SME-s impact in job creation and combating poverty, especially in tourism industry, is considered crucial in both international and national level of policy making, still there are difficulties in data collecting regarding employment in this sector. This is a problem faced in tourism sector too. Trying to analyze factors causing these difficulties, we can list both internal and external factors that cause lack of detailed and reliable data in tourism labor market. At external factor group we can list different methods of collection and sources of data, resulting in low quality and comparability and as consequences in not appropriate decision-making, planning, implementation and monitoring of any policies. Enhancing the quality and comparability of tourism employment statistics would significantly improve the monitoring of tourism labor markets and the promotion of productive activities, as well the effective use of qualified labor, the principal factor in ensuring sustainable tourism development and its contribution to economic growth and employment (UNWTO & ILO, 2014). The other group, internal factors, include such as short business life cycle, since there is less than one-half of start-ups survive for more than five years; tendency not to declare the number of employees from businesses themselves during the first year of opening, and sometimes informal or illegal (black paid work) agreed by both employer and employees; low paid or sometimes unpaid labor, especially in the case of small and medium family business activities; seasonality as a unique characteristic of tourism activities; factor directly related to the nature of the work such as part – time and /or excessive hours of work (UNWTO & ILO, 2014).

When discussing about tourism SME-s employment, we can't leave without mention women employment. It is a characteristic of tourism sector labor force that is not encountered in other sectors, the large number of female employed accounting up to 60 percent of the workforce in the tourism sector. This is attributed to some specific characteristics of the sector itself such as low entry barriers (UNWTO 2011, p. 7), often less emphasis on formal education and training, greater emphasis on personal and hospitality skills, flexible working opportunities, and increased options for entrepreneurship that do not require heavy startup financing (WTTC, 2019). As women tend to have less access to education and greater household responsibilities, they tend to have lower paying jobs such as housekeeping, laundry, food and beverage and clerical work as employees in hotels or family restaurants, own-account workers or entrepreneurs, artisan or retail vendors (The World Bank, 2013; APEC, 2019).

Referring to the statistics on employment in the tourism industry in EU countries, tourism is considered to create jobs for women (APEC, 2019):

1. Compared with the total non-financial business economy, where 36 percent of people employed are female, the labor force of the tourism industries includes more female workers (59 percent) than male workers;
2. The highest proportions are seen in accommodation (61 percent) and in travel agencies and tour operators (64 percent);

3. Even though nearly one in three women working in the tourism industries works part-time (compared with one in seven men), women working full-time still represent the biggest share of employment, 41 percent;
4. Female employment accounts for less than 50 percent of tourism industry employment in only two Member States (Luxembourg and Malta), for the accommodation sector this is the case only in Malta. In Slovenia, Estonia, Austria, Poland and Lithuania, more than two out of three people employed in tourism are women. In Slovenia, the proportion of female employment in the tourism industries is nearly twice as high as in the economy as a whole (70 percent versus 37 percent). Regions with high tourist activity tend to have lower unemployment rates

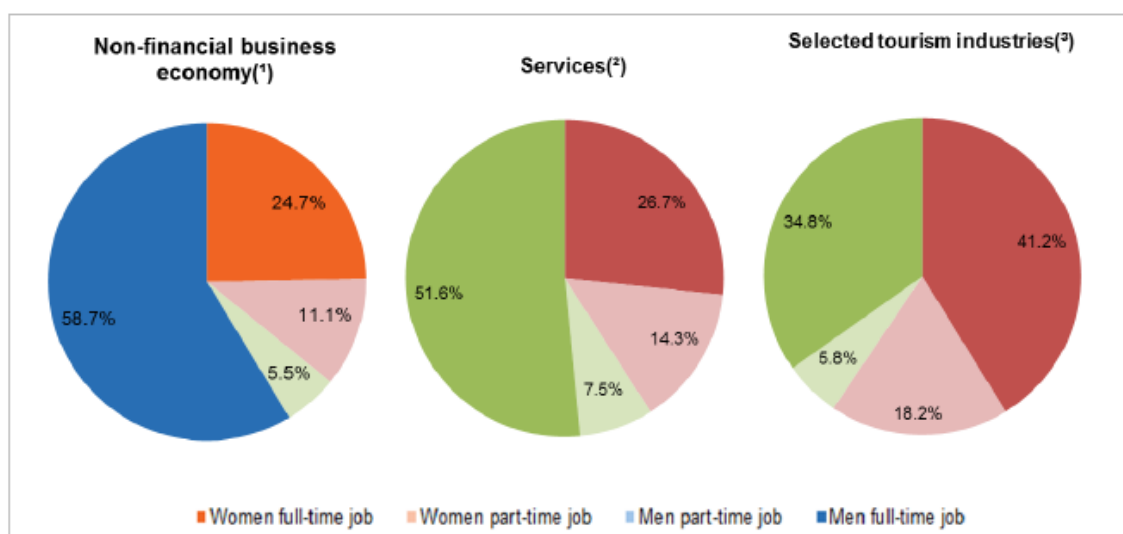


Figure 3. Share of persons employed, by economic activity, by gender and full-time/part-time, EU-28, 2017 (percent)

(1) NACE sections: B-N_S95_X_K (Total business economy; repair of computers, personal and household goods; except financial and insurance activities).

(2) NACE sections: H-J, L-N and NACE division S95.

(3) NACE divisions: H51, I55 and N79.

Note: Full description of economic activities covered, see under "Data sources and availability".

Source: Eurostat 2017 (Ifsa_epgan2)

When discussing about tourism labor force we should take in consideration that the concept of employment in the tourism industries refers to all jobs (in all occupations) in the tourism industries and in each country, the tourism industries will include all establishments whose main activity is a tourism-characteristic activity (UNWTO & ILO, 2014).

Figure 4 gives a more clear view regarding this issue trying to different types of tourism related employment.

In order to measure various dimensions of tourism employment, to both government and tourism sector analysts, in drafting, implementing, controlling policies, strategies and analyzing the sector and also for measuring various dimensions of employment in tourism and understanding the underlying dynamics of the tourism labor market and the quality of tourism employment (UNWTO & ILO, 2014).

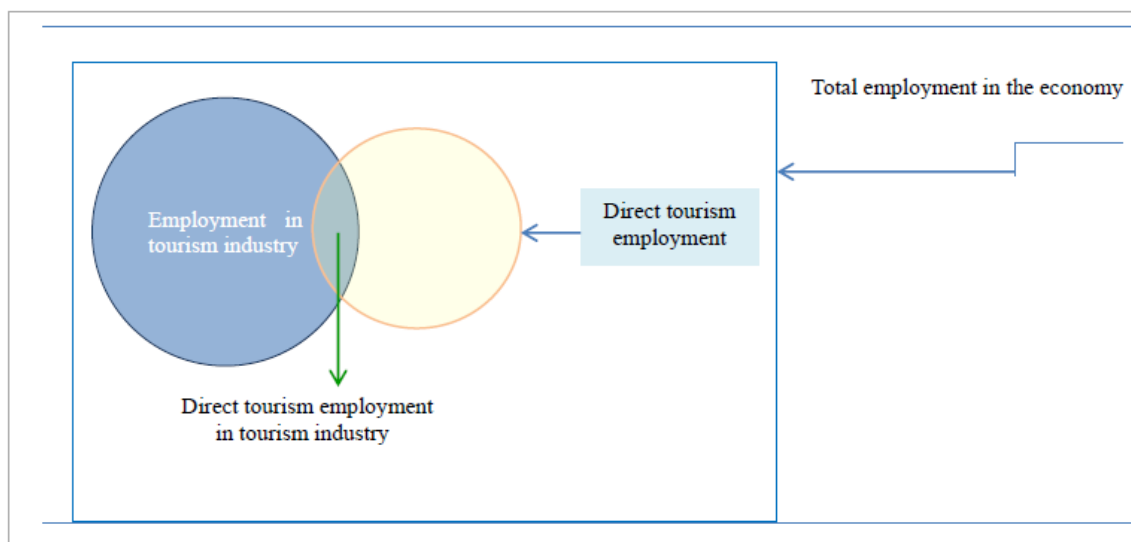


Figure 4. Different types of tourism related employment

The figure explains the concept of tourism employment and employment in tourism industry. The concept of tourism employment, refers to “employment strictly related to the goods and services acquired by visitors and produced by either tourism industries or other industries”, while employment in the tourism industries refers to all the jobs (or persons engaged) providing tourism-characteristic and non-tourism-characteristic services in all establishments in tourism industries (UNWTO & ILO, 2014).

Table 2. Characteristics of employment in tourism, EU-28, 2017 (percent)

	Non financial business economy ⁽¹⁾	Services ⁽²⁾	Selected tourism industries ⁽³⁾	Air transport ⁽⁴⁾	Accommodation ⁽⁵⁾	Travel agency, tour operator ⁽⁶⁾
Share of female persons employed	35.8	40.9	59.4	41.3	61.2	63.8
Share of persons employed part-time	16.6	21.8	24.0	17.6	25.5	21.7
Share of persons employed aged 15-24	9.3	9.3	12.6	6.4	14.5	8.6
Share of persons employed with lower educational attainment level	19.8	18.1	20.5	7.4	25.8	7.0
Share of foreign persons employed	8.9	10.9	15.7	8.3	18.2	10.1
Share of employees with temporary contract	13.9	15.2	22.8	9.0	27.5	12.2
Share of employees having had their job for less than one year	15.1	17.4	22.6	12.3	26.2	14.4

⁽¹⁾ NACE sections: B-N_S95_X_K (Total business economy, repair of computers, personal and household goods; except financial and insurance activities).

⁽²⁾ NACE sections: H_J, L_N and NACE division S95.

⁽³⁾ NACE divisions: H51, I55 and N79.

⁽⁴⁾ NACE division H51.

⁽⁵⁾ NACE division I55.

⁽⁶⁾ NACE division N79.

Source: Eurostat (online data code: lfsa_epgan2, lfsa_egan22d, lfsa_egaed, lfsa_egan, lfsa_epgan2, lfsa_egdn2). Figure for tourism industries are based on customized data extractions, not available online.

2.2 What is the Quality of Jobs Offered by the Size of Tourism SMEs?

Quality of jobs is a multidimensional concept that covers many different aspects, varying from wages and training and development to the meaningfulness of the work. The debate on

the exact definition of quality of work has not yet been resolved, but a recent study conducted on behalf of the European Parliament provides an excellent overview of the debate so far and a good demarcation of what quality of jobs should be concerned with: it should concern no more and no less than the well-being of employees (Kok et al., 2011). Following the logic of this study, quality of job is directly connected to the concept of workers well-being. In this sense, it is described by two dimensions: employment quality and work quality, why by ILO we get another definition. Quality of employment is describe based on four parameters such as income level, condition of employment, absence of wage discrimination and status of employment.

Other studies give a different perspective of the quality of job. As work takes an important place in people life, since they spent a considerable amount of their lifetime working, job quality is consider as main pillar of people quality of life directly affecting worker commitment, productivity and potentially aggregate economic performance (OECD 2014c). To improve labor market performance, as the main argument for improving the quality of work according to OECD, attention should be directed to three key factors such as increasing the number and quality of jobs, and improving the quality of existing jobs (OECD, 2014c).

Quality human resource is considered as one of the links in the value chain for tourism sector, one of the most important in creating added value leading the development of competitive tourism offer. Tourism services, as all other ones, required well qualified staff in providing their offer, which can be considered as competitive advantage. Even though, tourism sector offer good opportunities for qualified employees, due to complex nature of tourism offer there is a wide range of tourism jobs that require low skill and consequently low wages, leading to the departure of qualified people even during unemployment.

If we were to refer to EU data the classification of employees by education level would be as showed in the figure below.

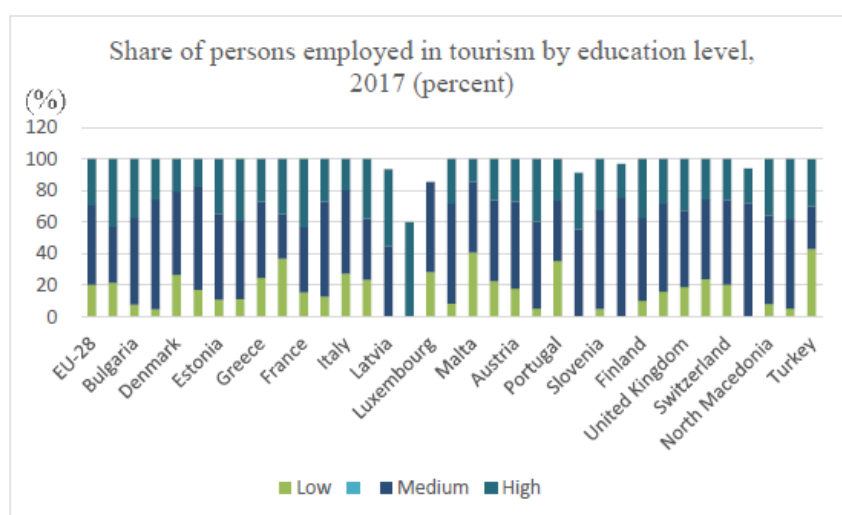


Figure 5. Share of persons employed by education level, 2017 (percent)

Source: Tourism employment 2018 Eurostat

2.3 What are the Challenges of Tourism SMEs Access to Finance and What is the Position of Banking Institutions?

Like all businesses, tourism SMEs have different financing needs and face different challenges at every stage of the business life cycle. Tourism companies operate locally but operate in a global market place. This fact presents opportunities and challenges. The “funding gap” for small and medium-sized enterprises (SMEs) operating in the tourism sector means that there are a significant number of SMEs that could use the funds productively if they were available but could not receive financing from the formal financial system. Access to finance is essential to promote entrepreneurship and SME development, and building a competitive, innovative and sustainable tourism sector. However, access to finance remains an issue in this sector. The tourism sector, but also the SMEs operating in this sector, are now recognized worldwide for being a major source of dynamism, economic growth and flexibility in advanced industrialized countries, as well as in emerging economies. in progress.

SMEs' difficult access to finance is a matter of great importance to both the micro and macroeconomic environment. The global financial crisis of 2008-2009 profoundly changed the business environment for SMEs, and in many OECD countries, the crisis exacerbated the conditions of financial access commonly experienced by SMEs. Tourism SMEs do not have access to external investment funds, thus reducing the ability to increase investment per worker due to productivity and wage improvements, inability to grow and develop (OECD, 2012). The financial crisis underscored the sensitivity of the SME sector to the changing conditions of bank lending. The long-standing need to strengthen capital structures and reduce dependence on borrowing has now become more urgent. The existence of such factors as a weak legal system, lack of transparency in the business environment, and the existence of monopolies create difficulties for tourism SMEs to obtain funding sources.

Banks in many OECD countries have contracted their balance sheets to meet stricter prudential rules. Weak capitalization and excessive leverage impose costs on SMEs tourism in the form of higher interest rates, and increase the risk of financial distress and bankruptcy. The experience of a number of advanced economies shows that with the right set of incentives, banks are ready to look for credible SMEs and work with them. In emerging economies, bank lending is the most common source of external finance for many SMEs, who are often heavily reliant on traditional debt to meet their startups, cash flow and investment needs. Traditional bank finance poses challenges for tourism SMEs, especially for younger, innovative and fast-growing companies, with a higher risk-return profile. Tourism SMEs often rely heavily on fair debt to meet their startup needs, cash flow and investments, but traditional debt has limitations to respond to the different financing needs that SMEs face in their different of their life cycle. While bank financing will continue to be essential for the tourism SME sector, there is a wide range of barriers that impede their access to finance.

It is therefore necessary to expand the range of financing instruments available to SMEs in order to enable them to continue to play their role in investment, growth, innovation and employment. SMEs, especially those operating in isolated, rural areas, face a particular

problem in securing access to funding sources and establishing, maintaining or expanding their operations. In particular, debt financing seems not suitable for newer, innovative and fast-growing companies with a higher risk-return profile. The "funding gap" affecting these businesses is often a "capital growth gap". Significant amounts of funding may be needed to finance projects with high growth prospects, while related profit models are often difficult to predict. Financing constraints can be especially severe in the case of start-ups or small businesses that rely on intangibles in their business model, as these are very specific and difficult to use as collateral in traditional relationships. of debt (OECD, 2010a). Many of the challenges facing tourism SMEs relate to the small scale of business operation and are not unique to tourism.

However, tourism has a number of characteristics which in combination are likely to have implications for the type of financing methods needed and used in the sector. The ability of SMEs and tourism entrepreneurs to access the funding required at each stage of the life cycle, and the associated financing conditions, depend on the interaction of demand and supply factors. Financing options should include non-financial support to help tourism SMEs maximize the benefit of potential funding opportunities. This includes strengthening financial planning and management skills, increasing knowledge of available funding initiatives, and creating tools to facilitate access to finance. The capacity of tourism SMEs to innovate is affected by a lack of finances. Tourism SMEs are often at the forefront of applying new technologies, developing new business models (OECD, 2015a) and responding to market developments, and making significant contributions to innovation, productivity and value creation (OECD, 2006). Access to finance is essential to promote SME entrepreneurship and development and to build a competitive and sustainable tourism sector. Initial companies face challenges related to lack of experience and established business record and disapproved business model. business, this may make them ineligible or eligible for some bank financing instruments, or may face higher financing costs or collateral requirements. Financing is needed in the early stages of developing an idea / product to encourage entrepreneurs to start new businesses and bring innovation to the sector. SMEs generally rely on debt financing, but face practical difficulties when it comes to access to external financing, including the lack of proper funding mechanisms and collateral constraints (OECD, 2006).

The capacity of tourism SMEs to plan and manage their financing needs and develop a strong business proposition and knowledge of possible financing options is a challenging issue. The small number of tourism businesses, many of which are micro-enterprises, also means that these firms are in a weaker position vis-à-vis banks and other financial institutions when it comes to negotiating financing terms. If a market for small loans does not exist, there may be a reason for public intervention offering a product that is not offered by the private sector but that charges interest rates and fees corresponding to the implied risk. Table 3 shows the characteristics of tourism businesses which influence on their ability to access financing.

Table 3. Characteristics of tourism SMEs influencing ability to access finance.

Type	Characteristic
Human Capital	Lack of skills (management skills ; financial education)
Financial	High risk, Lack of collateral, Weak capital , Small size-highly fragmented.

Sources: own authors, OECD- Financing approaches for tourism SMEs and entrepreneurs, 2015.a

All businesses need access to sufficient funding to grow. Even when tourism SMEs may not want to invest, expand and grow their business, they still need funding to maintain their market position and support their day-to-day operations. The ability of tourism SMEs to access the funds required at each stage of the life cycle, and the associated financing conditions, depend on the interaction of demand and supply factors. Minor funding, lack of financial history, education and managerial skills and insufficient collateral are not unique to tourism SMEs. Collateral requirements affect the ability of tourism SMEs to obtain debt financing, this is one of the major problems for those tourism SMEs such as tour operators and accommodation institutions, with less fixed assets. The small scale of the business function and a number of other features in combination with each other influence the type of financing methods needed and used in the sector. Usually financial institutions look at real estate-based collateral when evaluating financing applications, rather than cash flows and generating business profitability from providing tourism services.

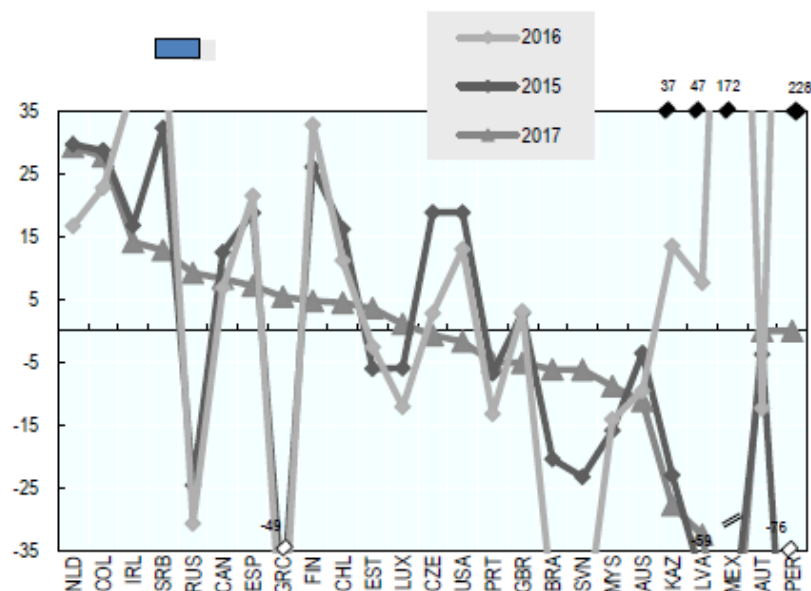


Figure 6. Growth in the new SMEs leading cross-countries

Source: Data compiled from the individual country profiles OECD.

After falling lending levels in 2016 for new SMEs (those that have just entered the market),

there is a modest increase in 2017. The low level of lending to new SMEs is attributed to several factors such as increasing the level of bad performing loans for specific segments within the SME population (Greece, Slovenia and Portugal), unfavorable macroeconomic conditions (Brazil and Russian Federation) and weak investment dynamics (Austria, Czech Republic, the Netherlands). However, the demand for finance remains broadly stable. The overview since 2011 has not shown a clear trend, however, and data for individual countries often showed significant fluctuations from one year to the next. The average lending growth value for new SMEs turned positive in 2017, from -4.8 percent in 2016 to 0.4 percent in 2017.

Often, tourism SMEs have insufficient financial knowledge, awareness of financing options and capabilities to effectively manage their financing needs. This has implications for obtaining the available financing instruments from these businesses, and the terms of financing accompanying them. However, there is a wide range of private and public financing instruments available to establish, operate and expand the business and remain competitive.

2.4 Are Tourism SMEs Turn to Alternative Financing Instruments as Growth Slows in Bank Lending?

Tourism companies need funding, to operate and expand their business and remain competitive. The tourism sector itself is a bit complex and risky, the lack of collateral, the nature of tourism, the size of the enterprises, the bad credit, combined with the level of fragmentation, make it difficult to access the traditional financing method. The volume of bank lending to tourism SMEs grew at a moderate pace in 2017 with an average of nearly 5 percent in most middle-income countries, in European countries declined as it settled in the UK and the United States. United (OECD, 2019).

Credit guarantees, the most widespread instrument to facilitate SME access to finance, have expanded in scale and volume, and are better targeted for specific firms. The acquisition of alternative financing instruments by SMEs is increasing as never before, while bank lending to SMEs is increasing less. The complicated loan application procedure and high interest rates have led to the demand of tourism SMEs for direct bank debt to curb and the demand for a wide range of alternative financing instruments to increase. Due to the lack of awareness and understanding by SMEs, financial institutions and governments of these alternative instruments, these are still at an early stage of development and are only accessible to a small number of SMEs. Table 4 describes the trend of SME tourism outstanding credit and highlights the different dynamics in overall business.

Table 4. Trends in SMEs outstanding loans and country cluster classification

		Group 1	Group 2	Group 3
		Denmark Finland France Ireland Japan Australia Belgium Canada Luxembourg Netherlands Sweden Switzerland United Kingdom United States	Portugal Slovak Republic Slovenia Chile Hungary Israel Italy Korea Latvia Lithuania Czech Republic Estonia Greece New Zealand Poland Spain Turkey	Georgia Indonesia Kazakhstan Brazil China Mexico Peru Russia Serbia South Africa Colombia Malaysia
Scoreboard Indicators	SME Outstanding loan growth	2,4	2,8	6,9
	SME interest rate	3	3,8	12,7
	Interest rate spread	1	1,1	2,1
	Venture Capital as a percentage of GDP	4,2	1,1	2,7
	Leasing activities growth	7,4	11,8	0,5
	Factoring activities growth	0,3	6	-1,4
	Bankruptcies growth	-4,5	-6,4	-5,2
	SME non-performing loans (% of all SME loans)	1,3	6,5	4,9
	Payment delay	11,2	13,7	69,9
	SME outstanding loans share	38,8	54,5	29,7

Source: World Bank, country profiles

Traditional instruments such as bank loans, overdrafts, lines of credit, credit cards, offer moderate returns to lenders and are suitable for SMEs with moderate to low risk profiles. Alternative financing instruments in the context of risk / return support the short and medium term financing needs of SMEs, but rely on mechanisms other than traditional debt.

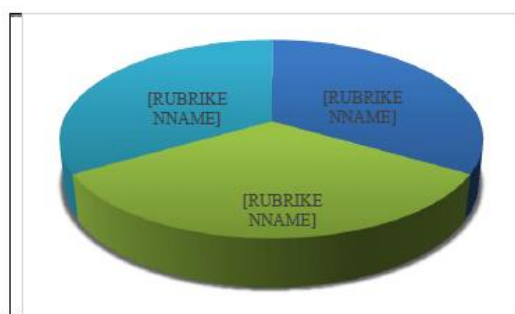


Figure 7. Alternative external financing techniques for SMEs

Source: Own authors, Alternative financing instruments for SMEs OECD, (2013).

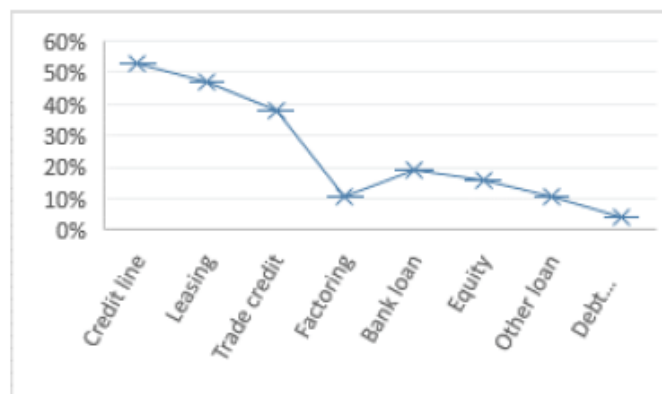


Figure 8. Type of financing for SMEs, EU-28, ECB/EC SAFE survey

Source: ECB/EC

Asset-based financing is an instrument widely used by tourism SMEs across OECD countries, and increasingly in emerging economies, to provide working capital for new firms with faster and more flexible terms. Firms that do not have a credit history and want to seize growth opportunities through this financing instrument can access working capital in a relatively short time. Asset-backed funders do not generally require any capital or personal guarantees from SMEs. In Europe in particular, the spread of these instruments is for SMEs approximately with conventional bank lending. (Figure 9). Across all OECD countries, there are active policies in place to support asset-based financing for businesses that are unable to meet long-term credit standards.

The most popular and widely used instruments in most OECD countries are factoring, leasing and hire-purchase, crowdfunding, hybrid techniques, venture capital funds. In particular, factorisation has been relied upon as a tool to facilitate the entry of tourism SMEs into trade finance and to promote their inclusion in value chains. Factoring differs from traditional bank lending because it provides a number of financial services beyond short-term credit insurance, such as credit protection, credit management and receivables. It also does not create debt on the balance sheets of the firms, so the SMEs has no debt to repay. Factoring as a source of working capital financing is of particular interest to SMEs who do not have access to bank loans as they are high risk and informally non-transparent and have high investment in intangible assets. Factoring services expanded immediately after the financial crisis, but at a slower pace in recent years. In China, volumes decreased by more than 15 percent between 2015 and 2016, but then fell by nearly 30 percent in 2017. In Poland, volumes increased by 12 percent in 2016, and then decreased by almost one third in 2017.

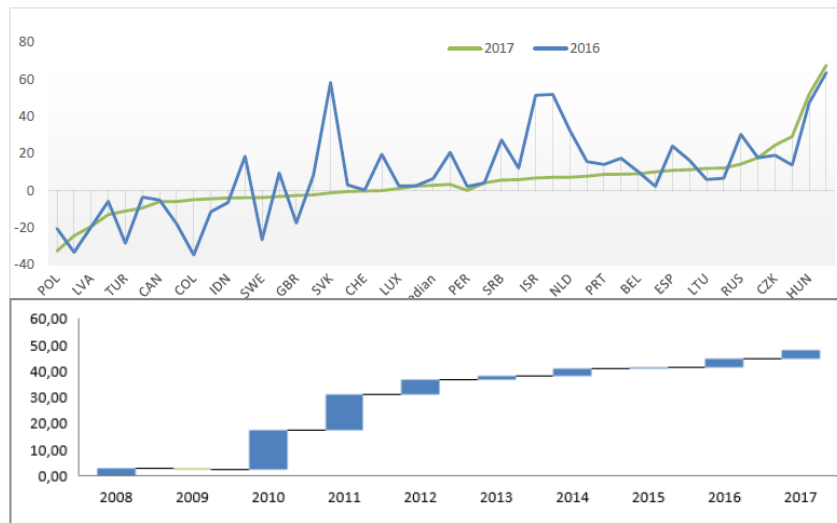


Figure 9. Factoring volumes cross-countries

Source: Factors Chain International (2017)

Leasing and rent-purchase, serves new tourism SMEs, which lack working capital and who do not qualify for lending from traditional banking channels because of the high risk, uncertainty and lack of collateral and lack of credit history. Leaseurope data show that tourism SMEs have an average increase of 6.2 percent in rental and purchase activities in 2017. In countries such as Australia, Spain, Italy, Lithuania, Korea, Poland, Chile and Hungary, volumes increased by more than 10 percent (Figure 10).

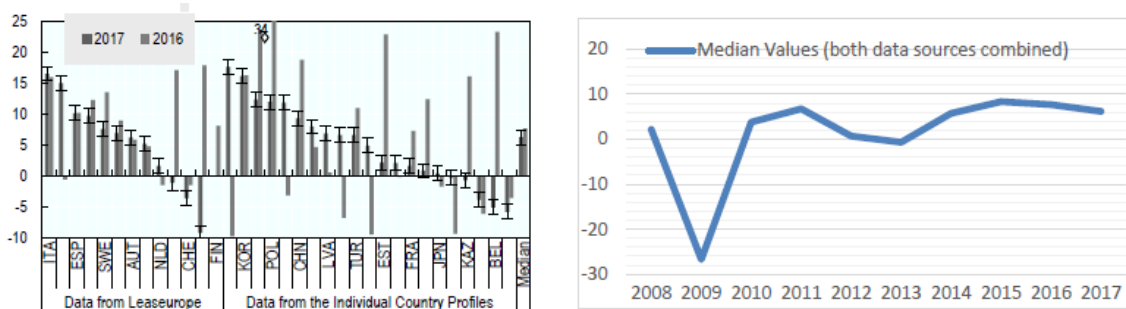


Figure 10. Leasing and hire purchases

Source: LeaseEurope and data compiled from the individual country profiles

Leasing works as a "one-stop shop" for both purchasing and financing. Austria is the typical case where the financing of SME tourism activities is coordinated through a one-way window organized as a public-private partnership (PPP), the Austrian Bank for Tourism Development (OEHT), offering a wide range of financing instruments with low interest (government guarantees, subsidized loans). About 5 percent of investments are made by restaurants and other leisure businesses. Rental and hire-purchase can be difficult to enforce in countries that

lack a national register of assets, such as unlawful sale of leased assets at easier rates, or weak leverage on repurchase, which undermine its ability for the landlord to reassess the asset in default (USAID 2009).

Crowdfunding has grown rapidly since the mid-2000s, becoming an alternative source of funding in many sectors of the economy but also in the tourism sector, and is increasingly used to support a wide range of profitable activities and businesses. However, Crowdfunding is still in its early stages of development as a source of business financing, but is expected to play a growing role in the future as the instrument becomes more regulated. Crowdfunding serves to fund specific projects rather than an enterprise, as external funding is raised by a large audience through online platforms. Technological developments have enabled the rapid spread of Crowdfunding, but the regulatory environment has limited the scope of its use. New Zealand is one of the first countries to make legislative changes to support peer-to-peer lending and crowdfunding equity to given tourism SMEs and individuals, with this innovative and relatively new form to raising, low cost capital from investors.

Table 5. Crowdfunding and P2P lending in New Zealand

Equity crowdfunding	Total	SMEs tourism
Number of projects	29	2
Amount raised	NZD 18,8 milion	NZD 0,4 milion
P2P lending		
Number of projects		4
Amount raised	NZD 190 milion	NZD 0,001 milion

Source: Own Authors, Ministry of Business, Innovation and Employment

Alternative online financing activities for for-profit businesses are strongly focused in some countries. Volumes in mainland Europe remain relatively modest compared to France's most active market (with a share of 0.25 percent), followed by the Netherlands and Italy. Chile having the largest market at 0.11 percent of global alternative finance online volumes. Australia (with 0.60 percent of global volume), Korea (with 0.48 percent) and Canada (with 0.40 percent) follow a considerable distance. China has the largest market, with 84.5 percent of online business activities followed by the United States and the United Kingdom with 7.6 percent and 4.1 percent shares respectively.

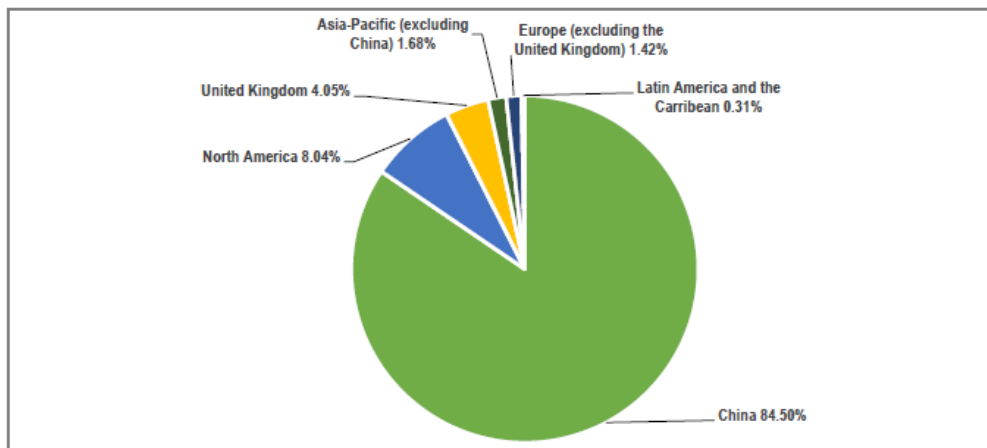


Figure 11. The online alternative finance market for businesses(include also tourism SMEs) by region

Source: Regional reports of the Cambridge Centre for Alternative Finance at the University of Cambridge

Equity financing is an essential tool for SMEs seeking long-term investment to support innovation, value creation and growth. Equity financing is a useful tool for young, innovative and high growth SMEs that have a high risk return profile. Across all OECD and non-OECD countries, private equity investment has grown significantly over the last two decades and has significantly increased interest from policy makers. The Korean government announced a plan to raise a new fund of funds to provide financial support to new SMEs. The Innovation Venture Capital fund plans to raise \$ 9 billion over the next 3 years, with one-third of the funding provided by the government, and the rest by private players. Similarly, the Mexican Government decided to focus its support on its co-investment program in 2017. The Canadian government also made CAD 400 million available through the Business Development Bank of Canada (BDC) for the new Venture Capital Catalyst Initiative (VCCI), thereby raising the late stage venture capital available to Canadian entrepreneurs. Hybrid techniques represent an attractive form of finance for tourism firms, which are approaching a turning point in their life cycle, when business risks and opportunities are increasing, a capital injection is needed. Hybrid instruments, which combine debt and equity features into a single financing portfolio, have been unevenly developed in OECD and non-OECD countries. With the support of public programs, hybrid instruments are increasingly available to low-level SMEs. At the same time, these techniques are not suitable for many SMEs, as they require a better established market power and market position, and require a certain level of financial capability.

3. Conclusion

Even though the negative impact that tourism is reflected in the quality of life of resident population in certain area, tourism activities are consider as significant supporters of local

economy and labor market. There are two major conceptual measures of employment in the tourism sector: tourism employment and employment in the tourism industries. Each of the two major employment conceptual frameworks – tourism employment and employment in tourism industries – are useful in revealing different aspects and dimensions of the employment effects of tourism, and both ultimately serve different information needs of end-users. If, however, the increase in SME size class employment in the formal economy results from lower employment rates among micro, informal and / or Tourism /agricultural enterprises, then employee remuneration studies suggest that the employees involved will be better (at least in terms of revenue). Employment in the tourism industries refers to all the jobs (or persons engaged) providing tourism-characteristic and non-tourism-characteristic services in all establishments in tourism industries.

Tourism SMEs do not have access to foreign investment funds, thus reducing the ability to increase investment and develop. This is a matter of great importance for both the micro and macroeconomic environment. The existence of factors such as a weak legal system, lack of transparency in the business environment, and the existence of monopolies create difficulties for tourism SMEs to obtain funding sources. Financial institutions look at real estate-based collateral when evaluating financing applications, rather than cash flows, and generate business benefits from providing tourism services. The funding gap for small and medium-sized enterprises (SMEs) operating in the tourism sector means that there are a significant number of SMEs that could use the funds productively if they were available but could not receive funding from the official financial system.

Governments recognize the importance of building the evidence base for policy-making in the field of SME tourism financing and take steps to identify the financing needs and challenges of their SME population.

Alternative non-bank financing instruments, such as factoring, leasing and hire-purchase, crowdfunding, hybrid techniques, venture capital funds, are the potential for tourism SMEs and entrepreneurs. These complementary mechanisms provide finance while having a local development objective.

Both peer lending and Crowdfunding raising have been effective. They have expanded the capital raising options available to individuals and tourism SMEs. There are several crowdsourcing initiatives aimed at tourism-related projects (e.g. New Zealand, TravelStarter). The most widespread use of crowdfunding is financial collections such as donations and rewards, which are suitable for tourism SMEs development.

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