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Tourism in India: The role of MFIs in India's tourism

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Abstract---The present study tries to identify the role of micro finance in the changing tourism development scenario as it is one of the option for the inclusive growth. Many developing countries consider promoting tourism as a main strategy for achieving economic growth. The tourism sector is mainly organized through micro and small-scale enterprises. In developing countries due to lack of access to credit and other finance, do not consider them as clients and government support is only aimed at attracting foreign direct investments (FDI), and not oriented towards expansion of domestic business in tourism. Financial sector modernization in some developing countries has been pushed in recent years through Microfinance Institutions (MFIs). They deliver credit to micro and small enterprises and contribute to poverty reduction by providing poor people to access financial services. Micro Finance Institutions have an ability to create a positive impact on the development of tourism industry, particularly in emerging countries. Over the years, micro-finance as well as tourism sectors have been promoted independently. Till now, in tourism destinations, these MFIs are unable to close finance gap in supply and demand for finance. Given their lack of access to credit, domestic tourism micro and small enterprises in India are unable to compete against large international suppliers of accommodation and tourism services. As a consequence, the potential of positive local economic impacts from growth through tourism is not fully used in most developing countries. Further research is required to develop appropriate financial instruments that fit the needs of these tourism micro and small enterprises. They should include investment subsidies, tax measures, long-term loans, and leasing and insurance products. Commercial banks could play a leading role in innovating financial markets in tourism destinations and make use of the experience of MFIs when it comes to uncollateralized lending techniques. The developing countries emerging as tourism destinations should reform their domestic financial sector and the delivery of specific financial products suited to micro and small-scale tourism enterprises.

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1. Introduction - Financial services access and growth of tourism

The tourism industry is seen as a promising sector for developing countries. Evidence of growth through tourism in developing countries is usually reflected by increased number of arrivals have increased by 7.2 per cent annually since 2012, a higher rate than average world growth of arrivals. Income through international visitors is representing a large component of international trade in the developing countries (Denman et al.,2004; WTO 2005). The tourist's data seems to support the hypothesis that positive macro-economic impacts in developing countries can be achieved while promoting tourism as a competitive service sector.

Others studies showed that tourism on its own cannot be a reason for exclusive tourism-based countries to achieve higher growth rates. It appears that faster growth rates are more related because some economies are more open and liberalized than others (Lozano et al., 2005). Tourism is a service industry and benefits strongly for liberalized and open economies. Also, specific factor productivity plays an important role in materializing growth, e.g. the extent to which tourism growth leads to more demand for human resources and human capital accumulation (Neves Sequeira and C. et al., 2005). So, it is not tourism per se that relates to economic growth.

When it comes to the relationship with poverty alleviation, the main topic is to provide poor with access to financial services is mainly promoted through Microfinance Institutions (MFIs). Microfinance refers to small-scale financial services – primarily credit and savings-provided to people who depend on farm, fish of animal husbandry; operate an income generating activity, small- or micro-enterprise where goods or services are produced, recycled or sold; who work for wages or commissions, who gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools; and to other poor individuals or groups at the local levels of developing countries, both rural and urban´ (Robinson, 2001). Microfinance initiatives have been successful in many rural and urban markets. Simply through improved access to financial services, the poor are able to achieve considerable increases in their income situation.

2. Need for the study

The relation between tourism growth, poverty alleviation and access to financial services by the poor has hardly been studied. Are financial flows in tourism destinations different than in other locations? How can these flows be made to reach for the poor? Could the financial sector do more to enhance poverty alleviation in tourism? Why is the promise of massive income re-distribution is not taking place in tourism sector which are receiving so many tourists spending so much?

Developing countries have specific constraints when attempting to compete through liberalizing and opening their markets. Developing Countries lack the infrastructure or competitive strength to participate in most liberalized service industries like ICT and banking. It is not strange that most liberalization attempts have led to more uneven national income distribution and increased numbers of poor (Kohl etal.,2000).

Effective growth in tourism is mostly depending on those foreign direct investments in which large Trans-national Corporations dominate (Endo, 2006). Countries may benefit from the participation in vertically integrated tourism networks of transnational companies but run the risks of these companies taking the benefits from tourism growth figures (Van der Sterren et al., 2006). So far there have been hardly any studies indicating that foreign tourism investments are contributing more to GDP growth of the Least Developed Countries than investments in other sectors, like modern agro-industry or Information and Communication Technology.

The domestic financial sector in developing countries is involved only to a limited extent in these real estate investments. Banks are willing to support real estate but lack the specific knowledge to support a tourism value chain, where accommodation, distribution and attractions are supported to enhance tourism growth. These investments are seem to be risky.

So, the tourism financial flows appear to be "hard to catch" for the poor. With limited access to these real estate finance, and a tourism sector in which massive growth mainly depends on foreign investments, the only strategy poor people have to take their share of the increased tourism arrival numbers and related cash flows, is by trying to access the sources of the cash flow itself: the tourist.

3. Objectives

a) To analyze the challenges of achieving integration between microfinance and tourism. b) To identify the nature of tourism micro and small businesses in tourism destinations influenced by the microfinance in developing countries. c) their place in the tourism value chain and their income strategies for the effective implementation of micro lending in tourism sector for better growth.

4. Tourism and MSMEs: Features and Challenges

Most of the tourism services at the level of a destination are delivered through micro and small enterprises. In the accommodation sector alone, it is estimated that 80 per cent of bed capacity is in small, usually family run establishments (WTO, 2005). Small businesses provide the crucial linkages between different components of the tourism value chain: local transportation, food and beverages, small-scale accommodation, shops and retail services etc. To analyze the complexity of business linkages and financial flows, it is helpful to use the following conceptual framework and apply this to the tourism sector (ILO, 2003).

Table 1: Features of MSMEs in Tourism

S.No	Features	Employees	Characteristics	Asset base
1	Self-employed poor	0	Mostly part-time labour, temporary, sometimes seasonal activity; family-based labour. Main aim is to get additional family income.	No permanent asset base, no capital accumulation, permanent cash shortage. Business only as survival strategy
2	Micro enterprise	1-9	Not focused on economic expansion Fixed business premises, limited fixed assets. Family labour, informal or formal status. Little orientation to growth. Tourism is one of multiple family income sources	Permanent availability of liquid assets, some savings. Little capital accumulation. Business as main strategy. Income stabilization as main purpose.
3	Small enterprise	10-49	Partially formalized, operating license Profit / growth oriented Specialized tourism business possible	Business as main strategy, non-permanent availability of fixed assets, capital accumulation, income and return oriented

Many self-employed persons in tourism observed are seen in tourism like street vendors, luggage-carriers, and Guides. Mostly they are working on an irregular basis merely trading in services or products. In most destinations, self-employed poor have tourism income along with agricultural labour activities in the off-season. Self-employed poor will hardly employ fixed assets nor accumulate capital. Their business is not operating with a strategy but for need to survival, entrepreneurial (marketing and technical) skills and quality of service are usually no distinctive characteristics.

i. Un-skilled tourism micro-enterprises (1-9 employees)

As contrary to the self-employed poor, microenterprises operate with a business strategy. Though not necessarily specialised, in tourism destinations their main income might come from this sector. Examples of tourism micro-enterprises are taxi drivers, small restaurants, food and beverage producers, trading shops etc. Indirect services might be supplied through pharmacies, photo- copy shops, etc. These micro-enterprises need of capital for working capital and fixed assets. Mostly, some initial funding can be found through family and friends, but this is not enough to start operating. In developing countries these clients are the target for Microfinance Institutions.

ii. Specialised tourism micro-enterprises

As opposed to other businesses, specialized tourism micro-enterprises are depending on tourism sector. Guide services, small spa and massage-facilities, specialized food /eateries and pastry shops, coffee shops, etc. souvenir-trading and crafts shops, travel agencies, small tour operators, small lodges rented etc. The main feature of these enterprises is that their income depends on seasonal and irregular sales. At the same time, they will always have to employ fixed assets from the start of business. Specialised tourism micro-entrepreneurs need to access sufficient amounts of working capital for covering seasonal fluctuations, but also to finance:

The purchase and maintenance of a minimal level of stock of raw materials or final products like Payments of regular operational costs (light, water, fuel, transportation, salaries etc.); Promotion and marketing of products and services; Payments of suppliers; Payments of office rent.

Irregular sales and the need for fixed asset investments, increases their vulnerability and as a consequence these enterprises are having difficult access to financial services. This lack of finance puts a strong constraint on the competitive strength of these enterprises in the tourism industry. On top of this, their income flows largely depend on tourism seasonal influences.

iii. Small specialised tourism enterprises (10-49)

In more developed tourism areas (large tourism numbers and stabilized tourism demands), most tourism products and services are delivered through small tourism enterprises. Examples are diving schools, language schools, production companies of processed local agricultural products, lodges and small hotels, larger restaurants, recreation businesses, bus companies, tour operators, etc. At this level, enterprises might be specialising in some tourism services, products or specifically target segments of tourists markets. When successful, small enterprises will hire employees, register their business, and invest in fixed assets like land and buildings.

When it comes to their income and finance strategies, these businesses are mainly helped by regular commercial banks and not by Microfinance Institutions. However, when looking to the segment of very small hotels, the proportion of their fixed to total assets remains very low. They seem to depend more on cash and current assets for their operations than other micro businesses. As these hotels and restaurants have little or no access to trade creditors, they depend much more than other businesses on cash funding for their growth. This again puts constraints on their growth potential; it requires that financial institutions develop specialised financial products in which long term fixed asset investments are combined with flexible short-term funding to cover seasonal cash flow fluctuations.

This category of small enterprises is crucial for economic development but lacks sufficient support. Many studies have been undertaken to assess the financial needs of this category. Some organisations like United Nations Conference on Trade and Development (UNCTAD) refer to this business segment as the “missing middle”. The number of firms falling within this range in developing countries is extremely limited, whereas their importance for long term economic growth and capital accumulation is considered to be strong; GDP growth in East Asian countries can be attributed to the presence of a large segment of Small and Medium Enterprises (SMEs), whereas the role of very small firms in these countries has tended to decline (Bannock, 2005).

Governments in developing countries tend to forget the first two segments in their economies. They value especially the enterprises ranging between 9-250 employees. The main argument is that these enterprises, on average, achieve decent levels of productivity (especially capital and total factor productivity) while generating relatively large amounts of employment. It is thus better on the productivity front than the self-employed micro-enterprise and better on the employment-generating front than large enterprise (Berry et al., 2003). Though this justification for government support towards this segment seems clear and they contribute to employment generation, there is no demonstrated causal effect of SMEs on income distribution or the alleviation of poverty (Bannock, 2005).

5. Tourism micro-and small enterprises and their access to finance: India

India's tourism recorded an impressive growth rate on arrivals, accounting for, over 16.2% of international tourist arrivals. In terms of international tourism receipts, developing countries have an even larger share of the world total 19.3 per cent, i.e., US $ 100 billion (UNWTO 2007. While tourism can certainly be an important component of a good development plan, the local tourism impact varies greatly among regions and depends on varios factors including work force characteristics and seasonality issues (Bontron and Lasnier (1997). Tourism strategies must be consistent with local goals and be sensitive to sustaining community's character and traditions. Many studies showed that tourism can not only result in enhanced employment opportunities, increased income potential for community, diversification of the local economic base, and additional tax revenues for the government, but also raise community visibility, and add cultural opportunities for residents (Jurowski 1996). The multiplier effects of tourism services are comparatively higher than other service and manufacturing sector (Chattopadhay 1995).

India has immense possibilities of growth in the tourism sector with vast cultural and natural attractions. Though, India's contribution to world tourism is not considered very significant compared to other developing countries like China, Malaysia, and Thailand. It receives 1.51 per cent (2022) of total arrival and 1.7 per cent (2022) of foreign exchange. It has been noticed that there is a substantial growth in tourism and allied sectors in India in recent days. And also recognized it as second fastest growing tourism economy in the world as well as one of the two most price competitive countries, apart from Brazil. Foreign tourist arrivals to India at 7.2 million (2022) recorded a growth of 10.8 per cent compared to the previous year, while domestic tourist visits was 461.16 million (2022) showing a growth of 18.1per cent. The sector has also contributed 6.11per cent of GDP in 2022-23. Employment generated under tourism sector was to the tune of 8.78 per cent of overall employment, i.e., around 41.8 million. (Ministry of Tourism, Government of India, 2022). The studies show that every foreign tourist provides one job while 17 domestic tourists provide one job. More over one million rupee invested in tourism creates 47.5 jobs. (Labour-Capital ratio). In India, presently tourism generates 8.78% of overall employment i.e., 41.8 million. Foreign exchange earnings from tourism of Rs. 21,501 crore make it the third largest foreign exchange earnings for India, contributes 11 per cent of the total.

1) Indian outbound tourist flow is expected to increase to 21.6 millions11.94 per cent over the five-year period spanning 2018-2022.
2) Tourist influx to India is expected to increase at a Compound Annual Growth Rate of 22.65 per cent between 2018 and 2022.
3) Share in global tourism is expected to reach 1.5 per cent by 2023, especially health tourism expected to reach one million.
4) In terms of numbers 10 million foreign tourist as well as 1731.01 million domestic tourist are expected by 2023.
5) Accumulated additional foreign exchange of US $ 17.611 billion and a multiplied employment 41.8 million will be generated.
6) India's travel and tourism industry is set to grow at an average of 7.1 per cent per annum according 2023 WTTC report.

a. Micro-enterprises in tourism destinations

Micro finance is helping overall development of the tourism phenomenon both in destination facilitation by creating various amenities and facilities and an innovative example which promoting travel habit among small income groups by presenting an Travel enhancement model. The case studies from Kerala which is pioneer in all most all tourism development model of India.

The elaborate models are discussed here are a. Destination Facilitation and b. Travel Enhancement. Destination Facilitation or development involves the application of micro finance as a long-term capital as well as working capital of locally initiated enterprises, thereby make the destination more attractive and accessible. It includes exploration of various business potential available at the destination with available money and the social synergy. So, the micro finance option under destination facilitation is Tourism enterprises formation, Sale of local products Wages / salary based option for employment Dividend from the enterprises and Collective income from community enterprises or from other partnership.

Micro Financing Mechanism for Destination Facilitation sponsorship mechanism recommended for the more inclusive form of destination facilitation are Private-Community, Public- Community, Public-Private-Community, NGO-Community, NGO-Public-Community and NGO-Private-Community.

Travel Enhancement habit among common man is the need of the hour as they are also the effective contributor of the overall progress of the society. In some cases, travel is considered as the status and prestige of the people. Meet the travel needs of all people of the society was not viable for the governments. Micro finance opens the option of increasing the travel trade by reaching the unreached. The people who are not able to spend a huge amount at a time really need viable option for traveling to cater their travel motivations. So, the mobilization of members from the community with a certain amount as their contributions are encouraged towards it.

6. Micro Finance and Tourism can come together in the following ways

Strategies are proposed under which micro finance can work for travel enhancement among common man. In other words, alternative forms of tour group formation under micro finance scheme is suggested for widening the concept of 'travel -through mobilization'

1) Formation of exclusive travel SHGs.
2) Formation of Savings Clubs for travel and tour.
3) Percentage contribution from existing SHG for tour through joint account with a banks.
4) Formation of tourism cooperative societies for exclusive travel operation
5) Commercial banks (nationalized and new generation) bank can create a special account for tours.
6) Non-Governmental Organizations are also welcomed to this initiative along with other socially responsible programmes.

The microfinance model permits us to advance loans especially to women micro business owners having no collateral and low or nil credit history. As business owners move through the loan process, they should attend regular monthly training sessions on business fundamentals as small businesses present their businesses to a group of responsible tourists. They must invest their loans in their businesses rather than spend it on additional domestic expenditures.

It can help promote livelihood, community development for poverty alleviation too. Microfinance can contribute to tourism industry as a sunrise industry both globally and in emerging countries. Several emerging nations are deliberating on encouraging tourism as a main strategy for attaining economic progress. The micro and small businesses play key role in organizing tourism activities at destinations.

The micro finance institutions didn't experiment with the idea of funding the financial requirements of micro business enterprises until now and thus the demand supply gap continued widening. As a consequence, the lending institutions assume that providing small loans and deposit services to the poor households are not attractive and profitable thus the poor continue to be excluded from the formal financial system. These institutions included microfinance institutions and importantly, providing collateral free loans to tourism and travel industry providing access to credit and bringing down the impact of poverty on households engaged in travel and tourism sector. Access to microfinance helps in fighting poverty on a large scale, as per the 2004 report by United Nations on the Millennium Development Goals.

7. Micro Finance and Tourism: Challenges

The potential economic impact of micro-and small enterprises to poverty alleviation through generating employment and income is rarely met in developing countries (Bannock, 2005). For the tourism industry, additional constraints present, in which neither the upcoming MFI sector, nor the commercial banking sector has the capacity of delivering financial products to help them grow out of poverty and increase their asset base.

Further tourism micro-and small enterprises depend on seasonal income and need to invest in fixed as well as current assets from the start. This irregular cash flow does not match the conditions that come with the standardized loan products (group loans, weekly/monthly re-payments) offered by most MFIs.

This is especially relevant for the segment of hotels and restaurants that need finance for investing in fixed assets: a building or a piece of land etc. Also, their need for insurance products, line of credit or overdraft facilities, savings account or international payment transactions cannot be met by MFIs. They appear to be good at providing self-employed poor people and micro-enterprises with required liquid assets needed for consumption as well as business purposes that can be developed (Roman, 2006).

This absence of strong linkages between the financial and the tourism sector in developing countries leads to some interesting questions to be addressed through further research. At the level of supply of finance, the main analytical problem appears to be that MFIs are mainly *poverty oriented* and not *business oriented*. If MFIs in tourism destinations would be geared towards profit generating credit activities, their microfinance services would include tourism micro and small businesses. Their services could be more effective and would entail a stronger poverty reduction impact in tourism destinations.

Further, when it comes to demand, MFIs and commercial banks in developing countries appear to lack *tourism market knowledge* to develop tailor made financial products for micro and small tourism businesses. These enterprises will benefit from the tourism markets if there is a sufficient volume of visitor streams, but most probably will not specialize in tourism services. Income through tourism will contribute only partially to the family income of poor entrepreneurs. MFIs and banks should invest in knowledge on tourism market trends and assess the corresponding financial needs for family cash flows, in order to develop tailor made financial credit products for tourism businesses.

A third level of analysis relates to required reform policies of the financial sector and Central Bank supervisory frameworks in developing countries. Though they might be facilitating the growth of Microfinance sector development, these policies are not necessarily conducive to supporting micro-and small-scale tourism enterprises.

Especially commercial banks are more effective in tourism destinations. Most self-employed poor and micro-enterprises in tourism destinations are only partially depending on tourism services. If commercial banks would adjust their financial products to seasonality influences and multi-income strategies of the poor, these could make more use of visitor streams and the related income possibilities for survival. Besides this, it is not only about access to finance. Improved management skills, investment choices and viable incomes are also necessary for a sustainable tourism industry. Only through the combination of these efforts will poor people be enabled to capitalize their “sleeping assets” to the favor of tourism development.

8. Conclusion

Lack of funds is a major critical challenge, in which the tourism sector provides some relief to poor creating opportunities to earn livelihood income. In fight against poverty in developing countries, Tourism can contribute income to some extent, yet this depends on access to formal lending. One of the key characteristics of the tourism sector is that it often needs greater amount of funds for long-term investments, particularly for food and accommodation businesses. This type of investment amounts to a restriction of activities in the use of microfinance. The nature of microfinancing at present is in the form of extending microcredit and providing micro savings products to the tourism sector for a shorter duration. Studying of the potential role of microcredit in the tourism sector shows that the economic activities backed by microfinance are directly and indirectly linked to tourism and help in poverty alleviation.

Even though different models of micro finance can be adopted, selection of appropriate model depends on the nature of tourism attraction, resource endowment, available skills, cultural and biological diversity of the region. Both models of destination facilitation and travel enhancement found to be viable. However, *Destination facilitation* model is more conducive to employment generation, gender development and inclusive growth. *Travel enhancement* model very innovative in the developmental scenario of tourism seeking travel for all.

The reforms of financial sector and the supervisory frameworks of Central Banks in emerging nations might be enabling the growth of microfinance sector development, but these are not comprehensive enough to support micro and small business enterprises in tourism sector.

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