FACILITATING INVESTMENT IN TOURISM
SMEs AND PRIVATE SECTOR-DRIVEN
SUSTAINABLE TOURISM IN THE GMS

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FACILITATING INVESTMENT IN TOURISM SMEs AND PRIVATE SECTOR-DRIVEN SUSTAINABLE TOURISM IN THE GMS
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A. EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

Tourism is considered an important strategic economic sector in the Greater Mekong Subregion (GMS) for its potential to assist in the campaign to alleviate poverty by creating jobs in rural areas, providing a market for local goods, services and knowledge, and generating a significant source of foreign income. In fact, all GMS countries report tourism as one of its top income earners. Tourism has also been identified as one of the few sectors with the potential to provide direct and indirect economic incentives to encourage people, business entrepreneurs and governments to conserve and protect the subregion’s important natural, cultural and historical heritage—much of which is under dire threat from the forces of rapid modernization found in the region. Tourism makes it economical—and profitable—to protect natural, cultural and historical attractions, for without these attractions tourism cannot thrive.

The engine that ultimately drives tourism, however, and makes its economic benefits possible is the business sector. The business sector can be disaggregated into the private sector and state enterprises. The private sector is commonly held to be the better of the two for generating maximum economic benefits due its innate preference for adhering to the “laws” of supply and demand. This report, thus, focuses on how to facilitate investment in the private sector for the purpose of generating income to alleviate poverty and to support the protection of heritage resource values through tourism in the GMS. To garner maximum benefits for local people special attention is given to facilitating investment in small and medium size private sector businesses, as opposed to large businesses given that private sector SMEs account for the majority of tourism business establishments, employment and income generation in the participating countries and offer the best opportunity for achieving enhanced poverty reduction through tourism.

This report offers recommendations to both the ADB private sector and public sector finance units related to investment in private sector small and medium enterprises (SMEs) and in private sector-driven sustainable tourism in GMS countries. These recommendations are to shape the private sector component of TA No. 6279- GMS Sustainable Tourism Development.

The first, most important recommendation is that a triple-bottom-line venture capital fund should be supported by the ADB Private Sector Unit in the GMS. Such a fund is appropriate for funding SMEs for three main reasons: triple-bottom line VCs primarily target SMEs; they offer long-term funding options and do not require inordinate collateral; and they are flexible in funding non-traditional business models such as ecotourism. A triple-bottom line fund also encourages tourism businesses to actively contribute positive benefits for society and the environment, in addition to financial benefits, which is in line with the Bank’s dual objectives of being profitable and supporting the Millennium Goals. Triple-bottom-line VCs are currently absent in the GMS and deserve encouragement from ADB to setup shop in the subregion.

Supporting triple-bottom-line VCs is also in line with the ADB Private Sector Unit policy to support the financial sector. It is financial sector solution that gives an extra push to SMEs, from the tourism and non-tourism sectors alike, with a triple-bottom-line approach of financial, social and environmental benefits. Ecotourism business is typically one of the main sectors that benefits from triple-bottom-line VCs in other regions of the world.
The creation of the often called for ‘Tourism SME Investment Fund for the GMS’ is not recommended. Tourism on its own is not necessarily always the highest margin business opportunity, and not all tourism SMEs provide benefits to society and the environment. Thus, a tourism SME investment fund would not necessarily allocate financial resources efficiently to the most profitable businesses or those with the most benefits for society or the environment.

There is a need to provide mechanisms for the long-term financing for tourism SMEs, especially for those in the accommodations subsector. This issue is pertinent to all economic sectors, not only tourism, and is widely written about and understood by development agencies and banks as a big problem in the GMS related to investment. A multi-sector approach to solving this issue should be taken to make long-term credit available to all SMEs regardless of economic sector. This issue would be better tackled by financial sector assistance programs by ADB Private Sector Finance Unit rather than a tourism-specific fund.

Research should be undertaken into supporting credit guarantee funds through business associations. Some business associations interviewed have begun creating credit guarantee funds but lack expertise and proper planning to make them work. Matching funds and technical assistance from ADB Private Sector could potentially make such credit guarantee systems a revolutionary success. Risk guarantees as currently provided by ADB Private Sector Finance Unit are not appropriate for SMEs in the GMS because the minimum investment to qualify for such guarantees is outside the official definitions of SMEs in most GMS countries.

More information needs to be made available to both financial institutions and to SMEs regarding tourism small-medium business opportunities. Banks require information on market data, tourism development plans, SME investment opportunities, tourism SME success stories, and methods for tourism-sector SME business evaluation. Information required by tourism businesses include self-training material in local languages aimed at managers and owners of small tourism businesses, in addition to information about official tax rates, fees and licensing processes to combat corruption and speed up licensing processes.

Assistance should be provided to GMS governments to reform investment policies to include specific incentives for sustainable tourism business models and tourism SMEs. Currently, tourism sector investment incentives in all GMS countries are focused on large business and pay little, if any, attention to sustainable tourism business models. NTOs should also be assisted in creating calling lists for investment that include sustainable tourism business opportunities for SMEs. Currently, calling lists are strictly for big business with no focus on alleviating poverty or encouraging sustainable tourism businesses.

Marketable standards aimed at encouraging local sustainable tourism businesses are needed in the GMS. In most GMS countries there are no standards that make it clear for local business on how to become a “green” tourism business. A certification system for “green” or “sustainable” tourism businesses that is economical, accessible and marketable for local SMEs is desperately needed. Without such a system, sustainable tourism business will remain an esoteric and philanthropic, non-economic business choice. Seed funds could be provided to an international “green” certification body to expand existing international standards to the GMS and make it available—and useful—to all.

Current standards in the hotel and restaurant subsector are aimed at promoting businesses that have the most facilities. A separate set of standards aimed at guesthouses and “no-star” establishments should be instituted to encourage such small businesses to make small steps
towards improving their business without having to make large investments in new amenities and facilities akin to 3-5 star establishments.

**Business associations need technical assistance and seed funds to create profitable, self-sustainable marketing and training programs.** Most tourism business associations in the GMS suffer from lack of funds and weak membership. Such associations, however, are ideal for providing training and marketing services to their members as a substitute to government programs. Technical advice and seed funds are needed to help associations startup marketing and training programs. Marketing programs might include information systems that link up buyers and sellers and investors and entrepreneurs for SMEs in the tourism sector, which is commonly available for industrial sector businesses. Mentor programs designed to assist tourism sector SMEs may also be promoted through the associations.

**An mechanism needs to be created to ensure that the private sector, especially the SME segment is included in tourism development planning on a regular basis in a systematic manner.** ADB and other lenders should require that national marketing boards be created before any further loans are made in tourism. Such boards should hold regular planning and consultative meetings with the private sector. ADB should also require that the private sector be included from the start by NTOs when developing ADB-funded pro-poor tourism projects. Furthermore, future ADB tourism projects should give greater emphasis to including private sector SMEs in the initial consultative process in a systematic manner and require that private sector business be made a subcomponent or explicit consideration in the formulation of all project components.

**Official definitions for SMEs need to be written for the tourism sector and its subsectors.** SME definitions are currently too general to make meaningful distinctions of SMEs in the tourism sector. Each tourism subsector should have its own SME definition, which will make future assistance program design better targeted and efficient.
B. INTRODUCTION

There are many documents about small-medium enterprises (SMEs) and many more on finance and investment in the GMS (Greater Mekong Subregion). And, there are reports and analyses of the tourism sector as well. But why the marriage between these three subjects and why should the Asian Development Bank and other multilateral lending institutions care?

Let’s first look at tourism. Tourism in the GMS is one of the largest sectors of each GMS country’s economy and is a very significant contributor to foreign income in the region. It is a growing sector and has a promising future with its relatively safe and easy travel compared with other developing areas of the world and a growing popularity of its many beautiful natural, historical and cultural attractions.

Yet, from a banker’s perspective, tourism alone probably is not enough. After all, it’s the service sector, with a proven record for a high rate of new business failure and low potential for expansion and growth at the micro-business level in comparison to other sectors such as manufacturing, textiles or communications. Here we must remember that this report is not written for just any bank; it is written specifically for banks that have the obligation to use their funds for the purpose of developing economies in the pursuit of alleviating poverty, protecting the environment and local cultures and making strong steps towards helping our world achieve the Millennium Development Goals (MDGs).

Tourism is not only an important economic sector in the GMS due to its absolute volume in revenue earnings, but it is one of the few sectors that hold the potential to provide not only financial benefits but also social and environmental ones. As a tool for poverty alleviation, tourism is sharp: it is a labor intensive business type and is quite accessible to lower income people with its relatively low requirement for technical know-how. As an economic vehicle for supporting natural and cultural resource protection, tourism is ahead of the pack with the ability to bring income directly to national parks, ethnic communities, and world heritage sites.

Why the private sector and SMEs in tourism? Tourism is a business. And as business goes, the private sector is considered the best suited to do the job. However, in the GMS due to a legacy of planned economies, the private sector remains weak and underdeveloped. The private sector is also often not included when governments devise plans and policies to develop areas that have direct impacts on the business of tourism. Hence, it is very important that those concerned with developing tourism for financial, social and environmental profiteering include the private sector as a partner in the business.

To add more detail and color to our picture, we add SMEs to the canvas. SME is an approximation used for directing attention towards local businesses, lower income businesses/people and people with a greater long-term impact, positive and negative, on society and the environment. Helping small businesses can also have potentially greater impacts on the local economy—which has implications for poverty alleviation of course—as money is less likely to be repatriated to other countries or far away places.

But why is sustainable tourism important? Although this term will not be defined in detail here, sustainable tourism is used to denote a type of tourism that plays an active role in protecting the environment and making conscious contributions towards poverty alleviation and heritage protection. Just a moment ago it was boldly stated that tourism has the potential like few other...
sectors to contribute to both economic development and the MDGs. However, tourism left on its own without any direction will not realize this potential and may even become a negative force working against our goals. Private-sector driven, self-regulating solutions to augment existing government policies and programs are in need. Private-sector driven sustainable tourism is one model that holds vast potential for such self-regulating, non-governmental solutions to affect economic, social and environmental goals.

**REPORT OBJECTIVES**

This report is part of a larger project report related to public infrastructure investment aimed at developing tourism in the GMS. Other components of the project in addition to this private sector investment component include:

- Sustainable management plans and environmental protection infrastructure projects for three subcomponents: three transnational natural heritage sites (biodiversity corridors); seven cultural heritage sites; and one urban tourism sites.
- Poverty reduction and social impact management plans and projects comprising two subcomponents: development plans and projects for seven pilot pro-poor tourism areas, and a detailed social impact management program.
- Facilitation of cross-border tourism plans and specification of projects to upgrade facilities and cross border procedures in seven selected land border checkpoint sites.
- Human resource development plans and projects for upgrading the skills of vocational teachers and enhancing the teaching facilities and equipment in seven selected areas (one in each GMS area).

This report is concerned with many aspects of promoting and supporting private sector SMEs and sustainable tourism. As access to finance and investment is one of the key issues faced by SMEs and is one that is realistic for a bank like ADB play a role in, this report focuses largely on looking into potential mechanisms for facilitating investment in tourism SMEs.

This report aims to:

- Review existing data and reports on private sector participation in tourism, especially pro-poor tourism developments;
- Assess scope for promoting private sector partnership in the tourism sector by seeking to establish public-private partnerships and make recommendations as to how the ADB Private Sector Financing Unit as well as that of other multilateral financial institutions could support private sector investment in the tourism sector giving special attention to SME development and MDGs;
- Recommend incentives and mechanisms to stimulate investment in socially responsible tourism;
- Assess the institutional capacity and constraints of the executing and implementing agencies and recommend measures to strengthen these capacities.

**REPORT STRUCTURE**

The report begins by reviewing for each of the GMS countries (excluding Myanmar) the country-specific context, policies, legal and regulatory frameworks, institutions and issues related to investment in private sector tourism SMEs and sustainable tourism businesses. For each country, a short list of recommendations is also made.
After the country analyses, data and information are consolidated and generalized for the GMS as a whole. Key issues for the region are selected and a list of potential solutions and interventions are proposed for supporting private sector SMEs in tourism in the subregion. Finally, specific recommendations are made, directed at multilateral private sector financing institutions, on how investment in small-medium sustainable tourism businesses should, or should not, be facilitated.

C. APPROACH AND METHODOLOGY

This study was conducted primarily through in-person interviews with various actors in SME development and the tourism sector. The study was conducted in all GMS countries/provinces excluding Myanmar (which was not included in the RETA) and including Cambodia, China (Guangxi Autonomous Region and Yunnan Province), Lao PDR, Thailand, and Vietnam. Each country was visited by the consultant for approximately one week during which interviews were made, documents were collected, and select field visits were made when possible.

Types of organizations interviewed included the following: national tourism offices, government agencies responsible for promoting SME development, government agencies responsible for domestic and foreign investment promotion, business bureaus, chambers of commerce, tourism associations (e.g. hotel associations, tourism networks), small-medium business associations, small-medium tourism business owners, sustainable tourism business owners, public development banks, private banks, national/central banks, international development banks, SME banks, micro-credit finance institutions, international non-governmental organizations working in either tourism and/or SME development, local non-governmental development organizations working in either tourism and/or SME development, and private local and international business consulting companies.

Interviews were conducted using pre-set questions, which were sometimes given to interviewees in advance for their preparation. Questions did not always adhere to the pre-set questions however, and diverged according to circumstances and newfound information needs. Interviews were translated by a professional translator when necessary. Interviews were pre-arranged, for the most part, by the NTOs. Consequently, there seems to be a disproportionately large contingent of public sector participants who were interviewed for a report focusing on the private sector. Business associations were used as proxies for receiving viewpoints and concerns of the private sector. However, due to the fact that in some countries/provinces associations are influenced in varying degrees by the government, the effectiveness of this proxy varies accordingly. Interviews with individual private sector SME representatives were made to help round out the picture. However, a better approach in the future would be to conduct surveys of SMEs and/or hold focus group workshops. Time restrictions of this TA did not allow for such detailed surveys to be done.

It is important to note that this study looks broadly at the tourism sector. When referring to ‘tourism SMEs’ or ‘tourism sector SMEs’ it is meant to include businesses from all of the main subsectors, including tour companies, accommodations, restaurants, handicrafts and transportation. There is, however, more attention paid to tour companies and accommodations, as these sectors are followed more closely by the NTOs and have more information readily available.
Internet-based research on SME issues, support programs and SME financing was also conducted, although such research was likely not comprehensive as this is an extremely broad subject.

Site visits were conducted when possible to learn more about pro-poor tourism potentials and issues related to private sector participation in pro-poor tourism. Due to time constraints, site visits were limited in most countries and second- and third-hand information was substituted.

As far as possible, this study tried to focus on specific issues to SMEs in the tourism sector. This study tried not to duplicate or reword what has already been written about issues of financing SMEs across all sectors. However, in many cases it became apparent that it is quite difficult to separate tourism sector SME issues from SME issues of other sectors.

One of the many conclusions reached during this study is that there is a need for more research into this subject. There is a quite a bit of information available on SME development, and likewise a fair amount on the tourism industry in the GMS. But, formal studies concerned where these two subjects cross-sectional are very limited.

### D. REVIEW AND EVALUATION OF TOURISM SME INVESTMENT OPPORTUNITIES AND POLICY SUPPORT FRAMEWORK

#### 1.0 CAMBODIA

#### 1.1 Context of Tourism SME Investment

**Tourism in Cambodia**

Cambodia is one of the few least developed countries (LDCs) in the world to earn more than US$100 million from tourism per year. Driving the tourism engine is the well-known attraction of Angkor Wat, in addition to the supporting attractions of Phnom Penh, the Mekong River, Tonle Sap Lake, and the beaches of Sihanoukville. Tourism has in recent years been a great boost to the economy, especially to the services sector, which was otherwise stagnant from 2000-2005. Growth in the tourism sector has been very strong, with tourism arrivals more than doubling over the period 2000-2004, from 466,365 to 1,055 million—contributing US$ 600 million in earned foreign exchange. In 2005 alone, tourism increased by 34.72% to a total 1,421,615 visitors. Supporting this growth are the relatively cheap and easy entrance requirements for foreign tourists, with 30-day visas on arrival available at all international ports of entry, and an open skies policy, making international flights to Cambodia widely available and reasonably priced.

The highest generating foreign market for Cambodia’s tourism sector is Korea, accounting for 15.24% of total foreign tourists. Following Korea is Japan at 9.7%, and then the US. The significant influx of tourists from Korea and Japan is causing many businesses to reconsider how to develop their services and products, with a greater need to serve the tastes and demands of these new and growing Asian travelers. Domestic tourism is also becoming a significant market accounting for the majority of tourists, with an estimated 5,278,113 Cambodian tourists in 2005.

Although tourism is very strong, its impact on the economy is far from maximized. Cambodia suffers from a relatively high economic leakage of foreign income from tourism, with potential...
losses estimated at a whopping US$370 million in 2003, or 40% of total income. Due to the ease of setting up foreign-owned/managed businesses in Cambodia and a growing demand for high-end, classic tourism services which require a high level of expertise, experience and investment, many international tourism businesses now account for a significant share of market in major tourist areas (e.g. Siem Reap), repatriating a fair share of the profits coming into the country.

Another issue is the diversity of tourism attractions and a low average length of stay, which is estimated at less than one week or 6.3 days per visitor. One reason for this is that many tourists visiting on packaged tours, which are often just 2-3 days in length, are based around Angkor Wat and Siem Reap Province only. With a growing number of group tourists each year (35.64% of all tourists in 2005 were on packaged tours), this trend may be difficult to change without more creative, attractive and logistically efficient services available in the other provinces.

Private Sector Participation in Tourism

Tourism businesses in Cambodia are entirely private sector enterprises. There are no state-owned tourism businesses. Since the country moved from a planned economy to an open economy in 1993, all tourism-related businesses were privatized. Many of the tourism businesses in Cambodia are first generation tourism businesses, however, most having opened just recently with owners and managers that have no prior experience or formal training in tourism—a characteristic quite common in the GMS.

There has been a significant growth in private sector tourism businesses over recent years. From 1998 – 2005, the number of accommodations (hotels and guesthouses) increased by an average annual rate of 16.9%, and the number of rooms expanded by 14.5% per year. From 2001 – 2005 restaurants (formally registered restaurants only) increased from 505 to 719, an increase of 42%. Over the same period, travel agencies grew by an average annual rate of 12% per year from 236 offices in 2001 to 336 offices in 2005.

SMEs in the Tourism Sector

There is no official definition of small or medium enterprises. However, a definition which has been proposed by the Small and Medium Enterprise Development Framework is as follows:

- **Micro:** Less than 10 employees and less than US$50,000 in assets
- **Small:** Between 11-50 employees and between US$50,000-250,000 in assets
- **Medium:** Between 51-100 employees and between US$250,000-500,000 in assets
- **Large:** Over 100 employees and over US$500,000 in assets

According to national statistics, SMEs account for 99% of all private sector enterprises countrywide and employ approximately half of all employees in the private sector. There are no statistics that disaggregate the numbers of tourism business based on employees or capital assets, thus limiting our ability to give specific numbers on SMEs in the tourism sector. However, we can assume that the percentage of total businesses that are SMEs must be quite high. Many of tourism-related business are locally owned and have been started with low capital investments. This is especially true for tour companies, micro transportation providers (taxis, boats), and restaurants, which on average could not have conceivably invested more than US$500,000 in their business or employ more than 100 staff. In the accommodations subsector, we can assume that the majority are SMEs as well. It would be safe to assume that the majority, if not all, of the 684 registered guesthouses are in the range of an SME. Of the 314 registered hotels countrywide,
we also see that about 67% (209) are in the budget price range of less than $15/night, implying that many of them probably are based in the SME range.

**Private Sector Participation in Tourism Development Planning**

The private sector interfaces with the government in tourism development policy by participating in the Tourism Working Group of the Cambodia Business Forum, recently set up by the IFC. This group advises the government on issues and problems in the tourism sector and makes recommendations on possible solutions. Representatives from the private sector on the Tourism Working Group include the president of the Cambodia Association of Travel Agents (CATA) and a representative from the hotel and restaurant association. Aside from this rather new institution, there seems to be little in the way of regular, systematic input of the private sector in tourism development policy.

**Private Sector Participation in Marketing**

There is no marketing and promotion board for tourism in Cambodia. The tourism-related associations each have promotional campaigns of their own, with representation at major tourism trade fairs, websites for booking, and newsletters describing their activities and members’ companies/services. However, the size of these marketing programs seems to be rather small in general. A concerted, well-planned and executed marketing program for the country as a whole, with input from the private sector, is for the most part non-existent. Marketing is typically done individually by companies/hotels, with most of the marketing done by larger businesses with the knowledge, interest and funds to implement such activities.

**Private Sector Participation in Pro-poor Tourism**

Pro-poor tourism is a concept that is growing in popularity among many development NGOs, with quite a few development projects developing pro-poor tourism initiatives. Tours promoted by the Cambodia Community-based Ecotourism Network (CCBEN), for example, are all developed and managed in part by development NGOs with only two tour companies participating in the network as supporters. A booklet that promotes sustainable tourism in Siem Reap, which was initiated by the MPDF’s tourism program, showcases NGO-sponsored programs only. Developments in national parks have been, for the most part, initiated by development agencies, with a focus on setting up institutions to ensure that revenues remain with local communities and conservation agencies, and later including the private sector by promoting and selling these tours to them.

There have been a few examples of tour companies developing tourism in cooperation with communities, but these are far and few between and have not been promoted widely. In general, the private sector participates in community-based tourism by helping to promote NGO-led pro-poor tourism initiatives, with very little active involvement in the actual initiation and process of developing such programs. One tour company, for example, is developing tour programs to visit NGOs in order to provide guests with a learning experience about poverty issues and the opportunity to donate to the development agencies.
1.2 SME Investment Institutional Support Framework

1.2.1. Country Policy & Strategy

SME Development Policy

The Royal Government of Cambodia (RGC) supports the promotion of SMEs as an instrument to eradicate poverty. According to the national strategy, the government will develop SMEs for the purpose of poverty alleviation by improving the enabling environment for SMEs, reducing the red tape for starting up businesses, promoting vocational training, supporting women in business, and helping businesses to receive better access to medium and long-term finance.

The vision for SME development, as set out by the Small and Medium Enterprise Development Framework, is “to create a conducive business environment, which will lead to a competitive SME sector contributing to the creation of quality employment and improve the range of goods and services available to the people of Cambodia.” Following this vision are four key objectives which focus on: (i) Increasing entry of SMEs into the formal sector; (ii) Implementing governance reforms for SMEs; (iii) Developing public and government institutions required for an efficient SME sector; and (iv) Creating mechanisms to foster PPPs. As a side note, the SME Development Framework seems to be focused heavily on industrial sector SMEs (referred to as SMIs, Small and Medium Industries, as opposed to SMEs). This is also evident by the fact that the government office charged with the main coordinating responsibility for SME development is focused rather on assisting SMIs, and that the small business association is also strictly concerned with representing SMIs—which does not include the tourism sector.

Tourism Development Policy

Tourism is identified under the national development strategy as one of the main areas to develop for achieving the national goal of poverty eradication. It is stated that tourism development must be done in such a manner that contributes to poverty reduction and is sustainable. The strategy also states the need to not only increase the volume of tourists but to increase the marginal value of tourism by lengthening tourist stays and increasing spending patterns. National economic policy encourages better private sector participation in tourism development through a marketing and promotions board and through the formation of associations, although these developments still have quite a way to go.

Foreign investment in tourism is a high government priority. The Council for the Development of Cambodia (CDC) categorizes tourism as the area that Cambodia most wants to attract foreign investment. The government is focused on developing four main areas: (1) Siem Reap; (2) Phnom Penh; (3) The Coastal Area; and (4) The Northeast. Government policy is determined to develop these areas by including the private sector and inviting national and international companies to construct hotels, tourist sites, restaurants and other facilities of an international standard. Ministry of Tourism (MOT) is in the process of creating management plans for each of the four tourism target areas, which will include strategies to encourage investment by the private sector.

The Cambodian National Tourism Development Plan, although not yet officially approved by the government, has many elements that imply support for SME development. Tourism is described as a tool to alleviate poverty and distribute benefits from tourism equally among all stakeholders,
which would imply a need to support SMEs which can affect a larger number of stakeholders
than large businesses. MOT proposes in its plan to create a Cambodia Partnership for SME
Tourism Enterprises, which would help startup SMEs by offering micro-credit finance through
the management of a micro-credit fund for the tourism sector and providing capacity-building
programs to local entrepreneurs. MOT also proposes to help in the creation of small enterprise
tourism services in target, strategic tourism development zones, including tour guide services,
bicycle rental, restaurants, guesthouses and small transportation operations. In regards to
investment policy, the plan talks about ensuring that investments are made in high-quality tourism
products that aim to reduce poverty and to encourage investments with communities. The plan
also states an interest in minimizing the leakages from tourism by assisting domestic tourism
businesses to participate in and benefit from tourism, which is another good example of its policy
to support SMEs, as domestic businesses typically represent the majority of SMEs.

1.2.2. Legal and Regulatory Framework for Investment

The law pertaining to investment incentives is quite open and fair, offering across the board
incentives equally to both Cambodian and international investors. Businesses qualify for
incentives based on their sector, regardless of the amount of capital investment. Sectors that
qualify for incentives include: crop production; livestock production; fisheries; manufacture of
transportation equipment; highway and street construction; exploitation of minerals, ore, coal, oil,
and natural gas; production of consumption goods; hotel construction (three stars or higher);
medical and educational facilities meeting international standards; vocational training centers;
physical infrastructure to support the tourism and cultural sectors; and production and
exploitation activities to protect the environment.

Some of the main incentives offered include a tax holiday of up to six years, 100% exemption
from export duties and 100% exemption from import duties on equipment and construction
materials, and ease of repatriation of profits for foreign investors. Another important incentive for
foreign investors is the allowance of long-term land leases ranging from 70 – 99 years, making
the security of large foreign investments more attractive.

1.2.3. Special Arrangements for Tourism SME Investment

Investment Incentives

According to the law, tourism is listed as one of the country’s eight priority areas that qualify for
investment incentives. A closer look at the law reveals, however, that not all tourism businesses
are eligible for these incentives. In general, the law favors larger and higher standard businesses.
For accommodations, only those that meet an international hotel standard are eligible for
incentives, disadvantaging small budget guesthouses. The CDC considers only hotels
with a standard of 3-star and up for incentives. Hotels with a 1-2 star standard are said to be
eligible for incentives as well, but must apply with provincial authorities (rather than the CDC)
for approval—a process that has yet to be implemented in many provinces. Criteria used to pre-
determine what standard a proposed hotel investment meets is not clear. However, the CDC states
that the typical investment is in the range of about US$2 million—far above that of an SME.

There are many other restrictions that tip the scale towards large establishments. Hotels with less
than 100 rooms or resorts with less than 30 units and less than 10 hectares in length do not qualify
for incentives. Natural tourism site developments that are less than 1,000 hectares in size and
have an investment capital of less than US$ 1 million do not qualify for incentives. Complex
resorts including hotels, theme parks, sports facilities, and zoos with less than 50 hectares do not
There are further restrictions in the investment laws that discourage the development of SMEs in the tourism sector. Tourism service providers, tour agents, and tourism information and advertisement companies do not qualify for investment incentives. Restaurants and bars are omitted also. And transportation services by waterway and by road do not qualify. All of these business types typically have high representation by micro, small and medium businesses, thus cutting out a huge constituency of SMEs in the tourism sector from receiving tax incentives.

**Other Incentives/Restrictions**

In general, restrictions or barriers set by the MOT through licensing and registration for tourism-related businesses is reportedly not a big issue. For tour companies, aside from the most basic requirements of having an operational office, a bond of US$5,000 must be deposited in a bank and kept there for the duration of the business’ life (although interest can be collected by the business if it becomes a member of the tour company association). This is a sizeable amount for the smallest of tour operators, especially those in the remote provinces. However, despite this financial barrier, there are many new tour companies opening up each year, creating heavy competition in the subsector. In fact, it is commonly held that the barriers for entry into the tour company subsector are so low that tour companies are sometimes set up as a business front to conduct businesses of another nature.

Licensing for most hotels and guesthouses is done at the provincial level, except for large investments which get approval from the CDC for tax reduction purposes. The accommodations sector does not have any inordinate barriers. Restaurants are a different story, however, as they are required to be licensed by both MOT and other line ministries responsible for health inspections and business registrations. Although the added bureaucracy of having to be licensed by MOT likely does not prevent restaurants from opening, it is an added and seemingly unnecessary additional process that adds costs and time to opening a restaurant. ADB technical assistance assigned to assist the Cambodia Small and Medium Enterprise Development Program has advocated the removal of MOT licensing process for restaurants altogether.

### 1.3 Evaluation of the Effectiveness of the Existing Support Framework to Facilitate Tourism SME Investment

**Lending Institutions**

Banking in Cambodia is a growing sector that is becoming better able to meet the needs of potential borrowers as the economy grows and the business environment continues to improve. There are a number of lending institutions that specialize in micro-credit finance, some of which have been quite successful such as ACLEDA Bank. Most of these institutions focus on short-term loans. Tourism sector businesses reportedly benefit from such institutions, especially those in the handicraft and restaurant subsectors who have a need for short-term cash flow solutions. Medium-term loans for SMEs are available but in shorter supply and at quite high rates. Typically the maximum duration of a loan is five years. Interest rates have been dropping; however, making financing more accessible to SMEs, and with the arrival of international commercial banks, more medium-term financing will come online in the near future. Longer-term loans are not available, as there are no long-term funding sources, i.e. no long-term fixed assets/long-term
All lending institutions interviewed reported to having a significant number of loans provided to the tourism sector and seem to be positive about investing in the sector.

**Department of Small Industry & Handicraft (Ministry of Industry, Mines and Energy)**

The government agency responsible for working on SME issues is the Department of Small Industry & Handicraft (DSIH) in the Ministry of Industry, Mines and Energy. This relatively new office is focused largely on industrial sector businesses, although it does include a representative from MOT on its committee for reviewing SME-related policies and regulations. With technical support from ADB, the DSIH has been working on a host of issues that will improve the conditions for SMEs across all sectors, including simplified financial statements, simplified tax filing, and development of a credit information system. The SME Sub-committee is reviewing business registration requirements in a move to reduce red-tape and remove licensing requirements that yield little benefits to businesses or consumers. Specific to tourism, the sub-committee is recommending that restaurants no longer be required to register with MOT. Such recommendations can be difficult to receive approval, as unanimous consensus is needed required. The Department is also working on building an online website to improve dissemination of SME information on laws and regulations, statistics, and businesses, which holds potential for improving access of information for tourism SMEs.

**Associations**

The Cambodia Association of Travel Agents (CATA) provides representation for its members to voice concerns with the government and to help promote the services and products of travel agents in Cambodia. Members of CATA are also entitled to receiving interest from bonds they are required to deposit for the initial registration of their business. CATA is very active in the Tourism Working Group in providing input to the government on how to improve the environment for travel agents. On marketing and promotions it is not clear how well CATA works. However, at first glance it seems that there remains a lot of potential to improve this service. CATA does not provide training or consultant services to its members.

The Phnom Penh Chamber of Commerce works as an advocate for the business community with the government, helps to attract foreign investors in Cambodia, provides business training to its members, disseminates market information, and organizes study tours for SMEs.

The Small and Medium Industry Association represents businesses in industrial sectors, including the many small-medium garment factories in the country. The SMI Association works with the government to improve the business environment for SMIs, in addition to promoting the goods produced by its members both domestically and internationally. Unfortunately, tourism sector SMEs are not represented by this organization.

The Cambodia Community-based Ecotourism Network appears to be a useful organization, operating a tourist information office in a tourist area in Phnom Penh that is open seven days a week with good information and helpful staff. CCBEN mainly promotes ecotourism products developed by NGOs. Unfortunately, it does not have much partnership with the business community, with only two private businesses as members. This is perhaps a reflection of the current status of ecotourism in Cambodia, in that it is a young movement with little understanding and participation by the business community.
Training Institutions

There are a few institutions that provide training specifically in hospitality and hotel and restaurant management. Such training is not segmented for small or large businesses but focus on teaching skills in hospitality that can be applied in any hotel or guesthouse in the industry. MOT provides training to tour guides. The Mekong Project Development Facility of the International Finance Corporation (MPDF) supports business management courses that are useful to small business owners and managers from all sectors. The Ministry of Labor and Vocational Training has recently created a course on entrepreneurship held in Phnom Penh. There are no specific business management training courses for SMEs in the tourism sector. Courses tailored to the needs of managers/owners of guesthouses, small tour companies, and small restaurants are not available.

1.4 Key Issues, Concerns and Constraints Specific to Tourism SME Development

No formal study has yet been made about the issues and concerns of the tourism industry as perceived by the private sector in Cambodia. The Tourism Working Group, which is part of the greater Cambodia Business Forum and is supported by the IFC-MPDF, has collated a host of concerns by the private sector ranging a gamut of enabling environment issues. Using the Tourism Working Group list of issues and through discussions with various key informants, some conclusions about the issues can be summarized as follows.

Access to Finance

Access to finance is a common concern among tourism SMEs. Many businesses do not have access to finance because they do not have proper land titles, which are required for loans. It is said that officials oftentimes ask for special fees from those applying for land titles, in some cases making it too expensive to obtain this important paper. Many complain that loan rates are quite high, especially for long-term loans, which typically run at a minimum of 12% per year.

Human Resources

Finding qualified staff is a large concern for small tourism businesses. There are two issues here. One is that, for all tourism businesses, it is difficult to find qualified personnel who understand the business and have the skills to do the job. Due to low education levels of the general population, businesses must make extra efforts to train new staff. For small businesses this problem is compounded by the difficulty of competing with larger companies for qualified staff due to a lower budget for wages. There are a host of other human resource issues which are a subject in its own right, including the lack of qualified guides to meet new and growing markets such as Japanese and Korean speaking staff.

Marketing

Marketing strategies need to take a larger focus than Siem Reap. Trade related events need better participation and representation from the Cambodian tourism sector. Although a marketing and promotions board is in the works, a working board has yet to be formed, limiting private sector participation in mass marketing campaigns—which are consequently very weak. A calendar of events that promotes Cambodia’s festivals and other events is needed. This has been done ad hoc with the help of international support, but a sustainable system for promoting events in Cambodia is still not up and running. Better planning and research is needed on how to market other areas of Cambodia.
Overall there is a need for more information to be provided to the private sector about MOT marketing activities. Tourism associations need to bolster their marketing services to members and to make such services economically viable in order to add private-sector solutions to mass marketing campaigns.

**Participation in Tourism Development Planning**

Although the Tourism Working Group of the Cambodia Business Forum has improved private sector participation in tourism development planning and policy-making tremendously, more regular involvement of the private sector in MOT planning and policy making is needed. At the provincial level, private sector participation is quite weak, which begs for provincial tourism committees to be formed. The existence of two parallel government tourism agencies creates confusion and lack of coordination with the private sector.

**Licensing**

Some of the licensing fees assessed on tourism businesses are not clearly defined and are in question of being legal. Unofficial fees charged in provinces discourage businesses from investing in more remote areas. License renewal for tour companies can be a lengthy process, in contrast to the approximately 2 week interval stipulated by official regulations. Some tour operators without a license, unfairly competing with tour companies who pay official fees and wade through bureaucracies. Deposits of $5,000 which are required for tour agents, although in comparison with some neighboring countries is cheap, is a barrier to entry for low budget, provincial companies.

**Other Enabling Environment Issues**

Infrastructure to support tourism is a major concern. Roads in some areas remain in poor condition, making transportation of tourists a challenge. Poor infrastructure hurts tourism in remote areas where some of the country’s most impressive natural and cultural attractions can be found, making it more difficult to extend the average length of stay. Other issues raised related to infrastructure is the lack of multilingual signs, proper waste management systems, and poor lighting and walkways in towns. The high cost of electricity is a concern for small hotels and guesthouses. Although all businesses are affected by this, it particularly hurts the small businesses who operate at budget prices and are squeezed by fierce competition. Safety and security is also a concern. Although this issue has improved in a relatively short time since Cambodia was opened up to tourism in the late 1990s, there are still many problems, such as petty theft and a perceived low safety standards in public areas. This hurts the image of the country and makes it difficult for tourism businesses to market their products and services, especially to higher-end markets. Apparent corruption at border areas, as well as in other facets of the tourism industry, hurt the industry and makes it difficult for companies to provide professional and competitive services.

**Sustainable/Pro-poor Tourism**

Better participation of the private sector in pro-poor tourism initiatives needs to be fostered in order to ensure that such programs are economically sustainable. Models for how the private sector can develop pro-poor tourism are needed. There are currently very limited examples of the private sector-driven, pro-poor tourism initiatives, with most developments created and operated by non-governmental organizations. Standards on green/sustainable practices are lacking as are clear guidelines that the private sector can follow to make their businesses more sustainable.
1.5 Conclusions and Recommendations

1. **Finance/Investment**
   - Land title issues need to be solved. Active participation of tourism agencies in promoting better practices in providing land titles to tourism businesses is needed.
   - More information for tourism SMEs regarding how to qualify for financing and on different types of financing appropriate to various types of tourism businesses is needed.
   - Better investment incentives geared to support SMEs are needed, in contrast to the current incentives which favor large business.

2. **Human Resources**
   More vocational training programs that serve the needs of SMEs in the tourism sector are needed. Such training courses are not necessarily the same as those that serve large hotels.

3. **Marketing**
   - A marketing board needs to be created. This is well known and in the works but the point cannot be failed to be stressed again.
   - More market research on developing alternatives to Siem Reap/Angkor Wat is needed.
   - Tourism associations need support in creating economically viable marketing services to their members.

4. **Participation in Tourism Development Policy and Planning**
   - A more institutional approach to participation of the private sector in government tourism planning and policy is needed. The Tourism Working Group cannot do everything for the tourism sector in the long-run. It will be more efficient to involve the private sector on a regular and systematic basis during the process of policy and planning formulation, rather than having the TWG comment on a post-facto basis.
   - Provincial public-private committees on tourism development should be created in provinces focused on tourism development.

5. **Licensing**
   - Regulations on tourism business fees need to be made public and more accessible to SMEs in order to reduce corruption or confusion.
   - Special provincial tour agency deposit fees (bonds) should be created in order to facilitate the development of provincial tour agencies, which will help to spread the benefits of tourism.

6. **Sustainable/Pro-poor Tourism**
   - Tourism development projects should focus on creating private sector-driven pro-poor tourism models
   - Guidelines and standards on green/sustainable/pro-poor tourism practices need to be created.
2.0 LAO PDR

2.1 Context of Tourism SME Investment

Tourism in Lao PDR

Tourism is the leading economic sector in Lao PDR, contributing between 7-8% to the country’s GDP. In 2005, tourism was ranked as the number one industry with a total revenue generation of US$ 146,700,000. As the number one currency earner in the country, tourism has become one of the government’s top national priority sectors. Since Laos was opened to free and independent travelers (FIT) in the early 1990s, tourism has grown in absolute numbers from a mere 37,613 visitors in 1991 to 1,095,315 in 2005. 281,089 are estimated to be true international tourists. Although the volume of domestic tourism has not yet been formally estimated, it is regarded significant for particular locations and during special annual events, such as the New Year Festival in Luang Prabang Province, which receives thousands of domestic visitors per year. As the country continues to ease restrictions and take measures to make entering easier such as the new policy that allows 30-day visas on arrival, total tourist arrivals are expected to continue to grow and are estimated to reach 2,000,000 visitors per year by year 2010.

Although tourism in Laos is experiencing tremendous growth, there are still areas for improvement. The total expenditure per visitor is still low in comparison with other countries in the GMS, which is perhaps a result of low quality tourism goods and services. Laos also needs to minimize the leakage of tourism revenues to non-domestic economies. Although this is an understandable characteristic of a tourism industry that is new and one which is supported by a relatively weak industrial base, the leakage coefficient for Lao PDR is among the highest in the GMS (0.40). Improving services and linkages within the tourism industry can lessen this leakage. For example, improving the quality—and value—of tour services and booking services would allow tour companies to make more direct bookings and/or charge a higher price for their tours with international companies. An effort could also be made to increase the production of goods and services that support the tourism industry. For example, the production of raw goods such as agricultural produce could be diversified to substitute many such products that are imported from neighboring countries.

Private Sector Participation in Tourism

The Lao economy has been growing and strengthening since it began liberalization from a planned economy to a free-market economy, which began in the 1980s with inception of the national economic policy of the “New Economic Mechanism” (MEC). Currently, the private sector produces around 80 percent of GDP, with the remaining 20 percent attributed to state-owned enterprises (SOEs).

The private sector is strong in numbers in the tourism sector. For example, the tour company association states that of the more than sixty nationally registered tour companies, less than five have a partnership with the government. In the accommodations sector, all but a handful of businesses are private, with a sprinkling of government-run accommodations used mainly for servicing government employees on business trips. Handicraft sales shops, restaurants and transportation services (buses, vans, trucks, tuk tuks and boats) are nearly all private. The big exception is the domestic airline industry, which is monopolized by Lao Aviation, an SOE.

The private sector also appears to be strong in the growth of new tourism businesses. From 1999 to 2005 the number of accommodations tripled from 335 to 1088. There has also been a rise in
tour company registrations, especially since the government approved foreign partnerships with Lao tour companies in 2006.

SMEs in the Tourism Sector

In Lao PDR, the SME Promotion and Development Office (SMEPDO) defines a “small business” as having less than approximately US$25,000 in assets, less than approximately US$40,000 in revenue, and less than 19 employees. A medium business is classified as having less than approximately US$120,000 in assets, US$100,000 in turnover and less than 99 workers. A large business is one that has more than US$120,000 in assets, more than US$100,000 in turnover and more than 100 employees. There are no specific definitions for SMEs in the tourism sector.

In 1996 it was estimated that there were 146,000 micro-small businesses nationwide, accounting for 6-9% of the GDP and employing 259,000 full time workers. The total annual growth in SMEs was estimated at a net rate of 10% per year, with an estimated 25% gross growth rate and a 15% rate of failure. There are no statistics quantifying SMEs in tourism. However, some deductions can be made. The SME share of the tourism sector depends on the sub-sector. Tour companies, by definition, require more than US$200,000 in capital, putting all of them outside the definition of an SME. In reality, however, there are some official guide service units, subcontracting tour companies, as well as illegal guides none of whom have much in assets and all of whom would qualify as SMEs. Accommodations and restaurants, according to the Lao Hotel and Restaurant Association, are mostly in the SME range—especially in the provinces where tourism is less developed. Much of the transportation qualifies as SME (excluding aviation), being perhaps the strongest subsector for the poor with its lower entrance costs. Most handicrafts businesses are also typically quite small.

Private Sector Participation in Tourism Development Planning

In the area of tourism planning, the private sector has less active participation and control. Business associations in the tourism sector, for example, must be approved by the government, and often the president of the association is appointed or approved by the government. Many districts and provinces still do not have any tourism associations at all and look to the local tourism authorities to coordinate local tourism businesses. Due to weak tourism associations, the private sector has a weak and inconsistent voice with the government in tourism development planning and policy formulation. The Tourism Working Group of the Lao Business Forum is helping to solve this problem, and the government is taking measures to empower associations. The LNTA also sponsors information sharing and feedback on an array of tourism issues through monthly forums of the Sustainable Tourism Network. However, in the area of planning and policy making, the private sector participation is quite minimal.

Private Sector Participation in Marketing

In the area of macro-marketing, that is the destination marketing of Laos, the private sector holds a limited role. The LNTA remains largely in charge of making marketing plans without regular, systematic input from the private sector. The associations, such as the Lao Hotel and Restaurant Association, the Tour Company Association and the Lao Handicrafts Association are becoming stronger in taking their own marketing initiatives. However, there is still no formal or regular participation of the private sector in formulating and implementing a national or regional tourism marketing strategy. A marketing and promotions board, which was approved as one of the components of the national strategy on tourism, has unfortunately yet to be setup.
Private Sector Participation in Pro-poor Tourism Development

Pro-poor tourism development is a new concept in Lao PDR. Most pro-poor tourism initiatives thus far have been driven by international development agencies. The level of private sector participation in these programs is low to moderate. The first pro-poor related tourism project in Lao PDR, the UNESCO Nam Ha Ecotourism Project, used as its model for business development a small guide service unit, comprised of local people trained as guides. The business was set up by the project and operated by the guides through the tourism office. No business planning or startup capital was required. This model has since spread to six other provinces/districts in the country. The results of this business model are mixed. On the one hand, there have been problems stemming from government interference into business operations, lack of sustainable marketing, and poor product upkeep and improvement. The model has, however, served well the need to start up tourism activities in remote areas and to spread benefits to the poor.

There are few examples of tourism development projects that directly include the private sector in their programs. For example, GTZ forged a partnership with Exotissimo, an international tour company, and eight ethnic, Akha villages to develop a high-end cultural/trekking package tour. The public agency, GTZ, provided seed money to build lodging and provide training for village partners, while the tour company provided promotional and operational services in exchange for receiving the exclusive right to sell the tour. Other projects, such as the LNTA-ADB Mekong Tourism Development Project, have initiated similar PPPs, although with less direct involvement of the private sector from the start.

There are a few examples of private sector initiated partnerships with communities that do not involve development agencies or the government. For instance, Green Discovery, a Lao tour company, has pioneered a company-community partnership that uses a business contract to ensure that tourism benefits are shared fairly with villagers in exchange for quality services and protection of the natural environment. There have been other companies that have tried forming similar partnerships with villages but without a clear contract or a clear plan. Some of these partnerships have met problems stemming from communication difficulties with communities and no clear agreements on the roles, responsibilities and expectations of each party.

In addition to these pre-planned PPP initiatives is the more common model in which tourism businesses develop a relationship with villages without any planning or specific goal. There are many guesthouses and resorts throughout the country that are situated next to a village and consequently develop a relationship with them. Some of these relationships have not been positive, with examples of negative impacts arising in the villages. Without clear planning and communication from the beginning between the two parties, business and community, and without an active program to train the village on how to provide goods and services to the business, tourism may produce little benefits for poor people and in some cases, actually causes problems.

2.2 SME Investment Institutional Support Framework

2.2.1 Country Policy & Strategy

Official policy regarding SME promotion and development is set out in the Decree on the Promotion and Development of Small and Medium Sized Enterprises. The decree specifies three types of SMEs in Laos that are affected by the decree, including the ‘service sector’, which implies inclusion of the tourism sector. Although the decree does not propose any specific
policies towards tourism SMEs, all of its elements undoubtedly support tourism businesses as well. The decree integrates SME policy/planning and tourism policy/planning by including the President of the LNTA as one of the members on the National SME Promotion and Development Committee.

The SME decree’s main policies are to:
- create and enable the regulatory and administrative environment for SMEs
- enhance SME competitiveness
- expand domestic and international markets for SMEs
- improve access to finance for SMEs
- encourage and create favorable conditions for the establishment of business organizations
- enhance entrepreneurial attitudes and characteristics within the society

An SME investment and development fund is planned to be created in the future, according to SMEPDO. Information on when the fund will be created or how it will work was not available.

In addition to the policies laid out in the SME decree, there are a few other policies and strategies that are worth reviewing to understand the official outlook on SMEs in the tourism sector. The National Tourism Development Strategy for Lao PDR 2005 to 2015 states nothing specific in its five main objectives towards SMEs. However, certain objectives have obviously positive implications for SMEs, such as improving governance and procedures, improving training facilities, distributing benefits to remote areas, and promoting the export of Lao products including agricultural produce, furniture and handicrafts. The strategy specifies the need for more investment, either domestic or foreign, in higher-standard accommodations and tourism services, which could imply a greater preference for large businesses if one believes ‘high-quality’ to be synonymous with large investment/business. The strategy also briefly mentions the need for more investment in public-private sector partnerships in tourism, although there is not much detail on how the PPPs should be shaped and what the role is for SMEs.

The Ministry of Commerce (MIC) has developed, with the help of the International Trade Centre of the UNCTAD/WTO (ITC), a Sectoral Strategy for Tourism under the National Export Strategy for Lao PDR 2006-2008. Here tourism is considered as a type of ‘export service’ thus providing the Ministry of Commerce the impetus to create a strategy related to it. The MIC tourism strategy focuses on tourism in Luang Prabang Province and sets out to not duplicate the national tourism strategy of the LNTA. There is nothing in the strategy that ostensibly targets small or medium size tourism businesses. However, like the SME strategy, the sum of its proposals will undoubtedly assist tourism SMEs through things like more training for staff and managers, improved promotions, augmentation of tourism infrastructure, and increased value added to tourism services and product inputs. Unfortunately, this strategy does seem to duplicate that of the LNTA in many ways and seems to blur the national policy on tourism development.

2.2.2 Legal and Regulatory Framework

The Committee for Planning and Investment (CPI) is the main government agency that deals with creating and implementing laws and regulations related to domestic and foreign investment. It is also the agency that is responsible for promoting investment in the country, no matter the size of the investment, and for helping business to navigate the licensing process. According to the Law on the Promotion of Foreign Investment, incentives for investment are granted to businesses that are in one of the seven promoted ‘activities’, one of which (number 7) is the development of tourism and transit services. The level of tax benefits depends on the physical location of the
business, the most remote locations (Zone 1) receiving the highest benefits (profit tax exemption for 7 years, after which profit taxes are assessed at a rate of 10%) and the least remote locations (Zone 3) receiving the lowest benefits (profit tax exemption is 2 years after which the profit tax rate is 20%). This policy encourages investments in targeted activities/sectors in remote areas—the goal being poverty alleviation and development of rural areas.

To qualify for these investment incentives the business must show at least 30% of the total capital cost of investment. However, there is no minimum investment—unless specified by a particular line agency, which would depend on the business type. This means that SMEs are not unduly disfavored by the system with no pre-determined nominal amount of investment required.

The law on domestic investment, which was recently signed, has created a level “playing field” for both domestic and foreign businesses, as tax incentives are now the same for domestic businesses that meet the same criteria as stipulated in the foreign investment law. However, in discussions with private sector informants it seems that information about these incentives has not yet reached the private sector community.

The length of time to complete the process of business licensing through the Department of Promotion and Management of Domestic and Foreign Investment is by law, to take no more than 15 days. However, in practice the time typically takes longer due to the fact that approval must be made by two additional core agencies (Ministry of Information & Culture and Public Security) and the particular line agencies specific to the investment type (e.g. Ministry of Agriculture for agriculture investments, LNTA for hotels or tour companies).

Licensing for tourism sector businesses not applying through the CPI can be quite difficult and time consuming. According to the regulations currently in use, tour companies must be approved at the national level, no matter if the business is to be opened in a province, and it can take months to receive a license. Although this process is reportedly getting easier and quicker each year, some people interested in opening a tour company opt to subcontract (without legal recognition) with companies that already have a license, in order to speed up the process and reduce their costs of startup. Accommodations licensing is done by both district authorities and provincial tourism officials. This process, too, can be quite long and bureaucratic. It is not uncommon for tourism businesses to open unofficially before receiving their license due to the long wait they must endure before receiving final approval.

### 2.2.3 Special Arrangements for Tourism SME Investment

As mentioned above, the “development of the tourism industry and transit services” is one of the seven promoted activities that qualify a business, domestic or foreign, for investment tax incentives. “Handicraft processing activities” also qualify a business for these incentives. Hence, tourism is favored by the existing investment law. Regarding tourism accommodations, foreign investors are allowed only licenses for hotels with sixteen rooms or more, favoring medium and large-scale business. It was noted by informants from the tourism accommodations sector that this requirement is, however, flexible in practice. Tourism accommodations licensed to a domestic investor do not have any minimum size, thus supporting small-scale investments by local people.

The laws and regulations specific to tourism have recently been overhauled. Although the tourism law has already been signed, it has yet to be implemented. New regulations for hotels, guesthouses and tour companies have yet to be signed. For tour companies, there are, according to the new law, three types of companies: international foreign-domestic partnerships, national domestic companies and site-specific guide services. A foreigner will be able to invest in a Lao
tour company up to 70% of the total capital cost, with a minimum of US$500,000 capital investment. Although this does not have any official implication for SMEs, as the capital investment is too high, it does symbolize a new shift in policy towards opening up the system to foreign, private investment. For a national domestic tour company, the capital cost will be reduced from US$200,000 to US$100,000, thus opening up the system to allow local people to open a medium-sized company. Perhaps the most important change to the law is the introduction of site-specific guide service units, allowing local, district or provincial private sector entrepreneurs to participate in the travel sector without having to receive approval from the national level. The capital startup cost for these small units will be between US$4-5,000 according to national tourism officials. In sum, two of the three new categories for tour companies allow for small/medium-sized business.

Handicraft businesses, which are regulated under the Ministry of Industry and Handicraft, have no minimum startup capital requirements.

For transportation providers, registration must be made with the transportation associations and the Department of Transport and Communications. The LNTA also has jurisdiction in regulating the types of transport vehicles allowed to be used for the transport of tourists. Transportation associations hold considerable power over the subsector, with the responsibility to determine how many new transportation providers can be admitted to the association each year, to assess registration/member fees, and manage queues and distribution of work. In competitive areas where there is an abundance of vehicles, it can be difficult to get approval from the associations to enter.

2.3 Evaluation of the Effectiveness of the Existing Support Framework to Facilitate Tourism SME Investment

Investment Institutions

The main agency charged with the responsibility for promulgating and coordinating SME development policy is the newly created SME Promotion and Development Office (SMEPDO), which is attached to the Ministry of Industry and Handicrafts. SMEPDO has a plan to create an SME investment and development fund, but has yet to receive any funding for this activity. Lao PDR does not have an SME Bank nor are there any special SME investment funds that offer low interest loans through commercial banks to SMEs in all sectors.

Formal sources of investment for SMEs in Lao PDR are not many. The good news for SMEs is that most of commercial banks provide loans in the SME investment range. The BCEL bank, for example, has a loan floor of US$10,000 but in fact provides loans quite smaller than that upon special request, typically in remote provinces. Overall, there is a surplus of savings in the commercial banking system, pointing to a reluctance to lend due to high risks. These high risks stem from a poor legal system that does not enable efficient and reliable legal recourse against non-performing loans (NPLs). It is also a demand-side problem, by which many prospective customers are not able to prepare the necessary documentation, such as a business plan and reliable financial information, to qualify for a loan. Banks also require marketable collateral, which many small businesses either do not have or are not willing to risk. Tourism businesses, in particular, complain that interest rates are too high for long-term investments, which are required for many projects. They also complain that the time for the approval and disbursement of loans is quite long, discouraging many from ever making an application in the first place.
The IFC provides loans to the tourism sector (with one case so far in Laos) but only in very large amounts, remaining out of reach for most businesses.

There are many micro-credit schemes around the country, although many people do not have access to these funds as they are not managed by formal institutions. There is a new, formal micro-credit institution that provides loans from US$50-10,000 at a rate of 4% per month. However, due to the high expense of these loans, this institution will likely be effective only for those looking for short-term, small-scale financing, e.g. businesses in the transport and handicrafts subsectors. Accommodations and travel agents will likely not benefit from this institution.

Tourism Investment Support Institutions

The LNTA’s Division of Planning and Cooperation is the agency responsible for identifying and promoting private sector tourism investment opportunities. However, it has little in this field and does not yet have an investment promotions program. Nor does the LNTA have any outreach programs or trainings programs specific for private sector entrepreneurs beyond very basic skills training in hospitality and guiding for staff. The LNTA also does not have any systematic criteria for assessing public-private partnerships or for evaluating tourism businesses in culturally or naturally sensitive areas. The Department of Domestic and Foreign Investment has the responsibility to help promote business investment opportunities for the tourism sector. However, due to lack of information regarding such investment opportunities—which is supposed to be provided by the LNTA—it has not yet done so.

2.4 Key Issues, Concerns and Constraints Specific to Tourism SME Development

Access to Finance

According to an ADB-World Bank-sponsored survey of 57 tourism businesses from the accommodations and tour company/travel agency sub-sectors, finance was identified by less than 10% of those surveyed as being a major constraint. It was mainly voiced as a constraint by the hotels and guesthouses surveyed. However, it is interesting to note that of the tour companies surveyed not one had a bank loan, and of the hotels and guesthouses only 20% had a bank loan. The hotels and guesthouses reported to having financed 95% of their new developments by reinvesting their profits.

Tourism business representatives interviewed for this study reported that it can be difficult to access finance from both formal and informal avenues. Approval for loans from formal institutions sometimes requires personal connections, which many people do not have or are unwilling to use. This discourages many from ever making an application. Some businesses have tried accessing credit from international institutions such as the IFC but have been turned away because of the high loan minimum required. (Some businesses have had the idea of getting a few businesses together to apply for one of these large loans, but they never tried.) Most businesses rely on their own personal/business savings and on personal loans from friends, acquaintances, and in some cases even tourists. Medium-scale businesses have a more difficult time finding adequate finances, as private funds are quite limited. It was noted by more than one informant that many personal investment sources are unwilling to lend in larger amounts due to the general perceived uncertainty underlying business in Laos, i.e. it is believed that investments are not secure because businesses can be shut down, moved etc. without warning, adequate notice or legal recourse.
Another problem noted with finance is that interest rates on loans available from banks are often too high for tourism businesses to cover. Many tourism businesses are not able to generate enough significant income for quite some time after opening—sometimes more than 2-3 years—due to the inherent long-range timeframe for promoting tourism businesses in Laos. Located in a relatively new destination that has rather weak linkages with international tourism business networks and a poor national tourism promotions campaign, new SMEs find it difficult to get the word out. This problem is especially acute for businesses located in remote areas and new tourist destinations within Lao PDR, which are coincidentally the areas that are targeted for poverty alleviation through tourism.

**Investment in Public Areas**

Although many public areas such as ethnic villages, cultural heritage sites, national protected areas, caves, and waterfalls are very attractive places to start tourism businesses, there are key issues that limit viability of investing in them. Lack of protection of the attraction values of many of these public areas—e.g. low protection of wildlife, forests, local culture, landscapes, and environmental quality—discourages businesses from making long-term or large-scale investments due to uncertainty in the sustainability of the attraction. There are a growing number of examples in Laos where businesses have invested in public sites only to find shortly after that the attraction value had been degraded or lost. A typical example is of a tour company that invested in infrastructure in an ethnic village to enhance homestay for its guests, after which a year later the village was moved by the government, causing the company to lose its entire investment along with its tourism product.

**Marketing**

Many new tourism business owners do not understand the market and do not have the skill-base to create viable, high-value tourism services and products. Both tourism and the private sector are relatively new to Lao PDR, meaning that most business people are “first generation”, in addition to lacking a domestic support network and a strong business culture specific to their trade. Another major problem or constraint, which was voiced repeatedly by informants for this report, is a lack of marketing and understanding of how to do marketing. It is said that many individuals starting businesses do not know how to do marketing adequately to make their businesses successful, as the lack of a good national tourism marketing campaign keeps the sector as a whole from becoming more successful.

**Enabling Environment Issues: Infrastructure, Resources and Taxes**

According to the ADB-World Bank Private Sector and Investment Climate Assessment (PSICA), the top three constraints for tourism businesses are infrastructure, skills and taxes. Poor roads, inconsistent water and electric supplies, and slow communications systems are just some of the infrastructure problems that affect tourism. The workforce in the tourism sector is, in general, unskilled, limiting the ability of tourism businesses to offer high-value service and increasing costs of staff training. Due to the small supply and subsequent high demand for skilled staff across all sectors, it is difficult to retain staff not only within a single tourism business but within the tourism sector as a whole. Taxes in the tourism sector are said to be inconsistent, confusing, and unfair. The Tourism Working Group reports that a VAT tax is desired by the tourism sector along with clearer guidelines on the application of income taxes.
Information Systems

Information on tourism business investment opportunities is not readily available through any institution. There is no institution available to facilitate the partnership between tourism business entrepreneurs and larger national or international investors. There is also very little information available to tourism businesses on how to start up, operate and maintain a tourism-related business, such as an accommodation, a tour company or a handicraft business. Information used for marketing, such as market data, buyers/sellers lists, or tourism events lists, are not readily available, especially for small-medium businesses, who typically have less of an understanding about the importance of such information and on the places to find it.

Pro-poor Tourism

There are no specific standards in the tourism sector available to promote and guide tourism businesses towards contributing to poverty alleviation, local employment, environmental sustainability, or cultural and natural resource protection. There are no institutions that support the facilitation of company-community partnerships. The provincial and national tourism offices have done some of this work as part of project activities supported by international development agencies. However there is no program available on an ongoing, sustainable basis to facilitate such pro-poor business relationships.

Concerns specific to accommodations & restaurants

- The majority of hotels and guesthouses surveyed in the PSICA identified infrastructure as a major constraint. This was mentioned already above. Taxes and human resources are also top concerns for accommodations, which was discussed above.
- Accommodations and restaurants are perhaps the most common sectors of the tourism industry for tourism business newcomers to enter, due to the relatively easy entry requirements and the perceived simplicity of the business model. Unfortunately, many of these new accommodations and restaurants are not well planned out and often lack an adequate marketing strategy.

Concerns specific to travel companies

- According to the ADB-World Bank survey, tour companies and travel agencies surveyed identified lack of skilled labor as their largest constraint.
- Startup capital requirements for tour companies favor large-scale investment.
- Registration and licensing for travel companies must be done at the national level, thus favoring large-scale operations and discouraging local, small-scale operations. This is set to change in the future, however.
- Training and certification for guides—which is required for all tour guides—is not available in adequate quantity to meet the demand of travel companies.

2.5 Conclusions and Recommendations

Access to Finance

- There is very little long-term financing available in Lao PDR. Long-term SME financing should be made available through commercial banks to SMEs of all sectors. International development banks, such as JBIC, KfW, AFD, and ADB should consider making an
arrangement for providing credit lines for lending to SMEs for long-term projects through commercial banks.

- Venture capital aimed at SMEs seems to be an appropriate source of investment for the tourism sector in Laos that is not yet available, but which should receive attention.
- More training is needed for tourism businesses to teach them how to apply for loans and to prepare the proper proposals and financial documents necessary.
- A series of consultation meetings between banking sector representatives and SME representatives from the tourism sector could help in clearing up some of the issues related to access to finance and provide businesses with a clearer understanding of how to apply for loans.

**Investment in Public Areas**

- Public areas that have tourism potential need to have plans created in order to ensure investors that the attractions will be protected on a long-term basis. Investment opportunity profiles for public sites should be created with specific references to how the government will take care of the site and maintain its attraction values.
- Models for public-private partnerships that pay attention to the protection of site values need more research and experimentation.

**Marketing**

- The marketing and promotions board needs to be implemented.
- Marketing created by associations without the involvement of the government should be supported.
- Training on marketing for tourism businesses is needed.
- More information related to marketing is needed and should be made readily available to tourism businesses.

**Enabling Environment Issues: Infrastructure, Resources and Taxes**

- The Tourism Working Group is working on these issues and more and should continue to do so.
- Perhaps a more systematic inclusion of SMEs in the Tourism Working Group should be instituted. This is not to say that SMEs are not now included, but rather that inclusion should be specific, including deliberate representation from small and medium sized businesses.

**Information Systems**

- Information on investment opportunities needs to be created by the LNTA and provided to the DDFI in order to promote tourism investment opportunities.
- Investment opportunities from the business community need to be promoted by the DDFI to help put local entrepreneurs in touch with foreign investors.
- Information available in local language on how to start up, operate and maintain an SME in each of the tourism subsectors is needed.
Pro-poor Tourism

- Standards/guidelines on how to manage a ‘sustainable’ tourism business are needed to provide clear steps to businesses on how to participate in pro-poor tourism.
- An institution that can facilitate company-community partnerships is needed. The institution could be a private-sector consulting company that has experience in working with villages.
- Do-it-yourself information on how to facilitate community involvement in tourism aimed at businesses (as opposed to development agencies) is needed, as there is a growing need to educate tourism businesses that are setting up shop in or near villages about best practices and how to involve villages in a meaningful way.

Concerns specific to accommodations & restaurants

- Training and consultant services are needed to assist local tourism business owners develop their business plans and create marketing strategies.

Concerns specific to travel companies

- Skills training is currently available at a very basic level; however, training aimed at managers and owners is needed.
- Startup capital requirements for tour companies should be reconsidered by the LNAT and reduced. Such requirements are the highest in the GMS and indeed seem unwarranted and overly restrictive.
- Pursuant to the new law that will now allow provincial level tour companies, a simplified registration process should be created that allows local tour companies/guide service units to register with local authorities as do local guesthouses and restaurants.
- A decentralized system of guide training needs to be put in place so that the demand for such training can be met. Perhaps, training through the universities or through the tour company associations are potential ways to decentralize while maintaining quality.

3.0 PEOPLE’S REPUBLIC OF CHINA

3.1 Yunnan Province

3.1.1 Context of Tourism SME Investment

Tourism in Yunnan

Yunnan’s tourism attractions are plenty and diverse, supporting a very strong tourism industry with potential for future growth. The province is ethnically rich with 25 distinct ethnic groups. In the northwest are the Lijiang Historical City, Shangri-La, mountainous scenic spots, and beautiful rivers. In the western area are historical attractions, high mountains, volcanoes, hot springs, and jade factories. The southern region is known for the Tai people of the Xishuangbanna and for its famous teas. The east and northeastern regions are yet to be developed for tourism but hold many historical, cultural, and scenic attractions.

The tourism industry in Yunnan is the province’s number one income earner and is the ninth largest industry in the country. Yunnan Province is one of the leading tourist destinations in
China, receiving 3 million foreign visitors per year. The bulk of the market is domestic tourism, with 68.8 million domestic tourists in 2005. Most of the domestic tourists are visitors from other provinces. Most tour companies are geared towards servicing the domestic market, which is the strongest in terms of gross volume. Inbound tours of international groups from Southeast Asia and the west are also becoming stronger and often yield a higher profit margin.

The government is actively supporting tourism in Yunnan. The province has been identified by the central government as one of the country’s priority tourism development areas, and the Provincial Tourism Development Workshop, comprised of governors of the province’s sixteen counties, determined that the next five years are crucial for the development of the province’s tourism resources. It is the government’s goal to increase the number of foreign visitors to the province to 3 million per year and the number of domestic tourists to 100 million visitors per year.

Private Sector Participation in Tourism

Economic growth in Yunnan Province is weaker than that in the coastal provinces in part due to a weaker private sector. However, the provincial government is enacting policies and programs to encourage the growth of the private sector in order to speed up its economic growth and to put the province on track with the more developed provinces. The private sector now claims a higher portion of total business than the public sector and is increasing its share each year. In general, the private sector is being given better and better conditions to operate and has better opportunities for investment than state-owned businesses, which are in the process of being phased out.

The transformation of tourism business from state to private tourism businesses began in the 1980s, before which all tourism business were owned by the state. In the early 80s, there were only three tour companies in Yunnan, all state-owned. Today, there are 410 travel agencies, the majority of which are private or semi-private shareholder companies. All of the small, domestic companies are said to be completely private, while many of the mid-range and larger domestic agencies are shareholder companies with a mix of private and public sector investment. However, most of the largest international tour companies are still state-owned. Thus, it can be said that state investment in the tour company subsector is significant in terms of real market share. The future of state-ownership in tour companies will continue to dwindle, however, as the government plans to completely phase out public sector investment in tourism within a few years.

In the accommodations and other tourism subsectors, the story is similar. Guesthouses, restaurants, souvenir shops, and many transportation services are, for the most part, private. However, it is estimated that more than half of the large hotels are state-owned, meaning that in terms of market share, state ownership is still strong. As previously mentioned, however, these businesses are set to become completely privatized in the coming years according to plan.

In the area of tourist site development, quite a bit of investment is provided by the private sector, including investments in many of the province’s many hot springs recently under development. The government is now focusing its efforts on providing public infrastructure such as roads, water and electricity in order to open up these areas for tourism and the business sector. Bidding and tendering for investment in tourism is said to be an open and fair process. Contracts are awarded to business with the strongest financial proposals, favoring those businesses with large investment capacity and track records. The private sector’s role in site development is likely to expand as management of tourist sites becomes continually privatized.
SMEs in Tourism

The official definition for SMEs depends on the business sector, with a total of five business sectors identified. For accommodations and restaurants, a business qualifies as being small if it employs less than 400 staff and has annual sales less than 30 million RMB (US$3,750,000). Medium-sized accommodations or restaurants are those that have fewer than 800 employees but more than 400 and have annual sales less than 150 million RMB (US$18,750,000) and more than 30 million RMB. For tour companies and tourism attractions operations there are no official definitions for SMEs. However, one proxy definition used for tour companies is by distinguishing between domestic and international companies, whereby domestic companies are considered SME and international companies large.

SMEs account for a very significant portion of Yunnan’s economy. Currently, there are 66,000 total SMEs in the province accounting for an estimated 99% of the total number of its businesses. SMEs employ 2.37 million people, or 88.5% of the province’s total work force, and gross 25.3 billion RMB in tax revenue, accounting for 38% of the government’s total tax revenues. It is estimated that the tertiary sector, which includes the service sector and other sectors not including industry and agriculture, accounts for approximately 60% of all SMEs in the province. Although, statistics on the number of tourism sector SMEs are not available, one can deduce that the majority are SME. As mentioned above, the majority of tourism businesses are private sector, and it is generally held that most private tourism businesses are SME. Hence, most tourism businesses are SME. For example, in the accommodations subsector it is estimated that approximately 40% of all accommodations in the province are no-star hotels/guesthouses, which would likely qualify as private sector SMEs. Additionally, 1-2 star hotels, which are also likely SME, number one-half, meaning that the overwhelming majority of accommodations are SMEs.

In the travel company subsector, the ratio of SMEs to large businesses is also likely quite high. Of the 410 travel agencies in the province, only 38 are international tour agencies. The remaining 372 are domestic companies and can be considered mainly SMEs, with relatively low capital startup costs and low employment. Restaurants, souvenir shops, and most transportation service providers (barring public transportation services such as trains and planes) are nearly all SMEs.

Private Sector Representation and Associations

Associations that are related to tourism include the Tour Company Association, Hotel Association, Scenic Spot Association, Restaurant Association and Transportation Association. These associations have voluntary membership and are headed by a tourism official who is said to be elected by association members. Associations are still attached to the government, with office space and budgetary support coming from the government. Activities and programs of the associations receive input and guidance by the government. In fact, association directors are government employees. Currently, the associations are given the responsibility to help with monitoring and oversight of tourism businesses. It is planned, however, that the associations will become completely private and self-operational within 1-2 years, and will be freed of their role as monitoring agencies. The associations will be given more responsibilities in the areas of training, marketing, self-regulation, and representation of the business sector with government. Three additional associations are planned to be opened in the near future as well, namely a tour guides association, a souvenir shop/retail association, and a tourism education & training association.
Private Sector Participation in Tourism Marketing Campaigns

Marketing and promotion for the province’s tourism industry is done, for the most part, by the government. However, it seems that, although the private sector does not share a direct role in the province’s overall marketing campaign, most businesses are happy with the current system, which is well planned, well funded and professionally executed. (In fact, the government spent US$1 million on marketing alone for the province in 2005.)

Private Sector Participation in Pro-poor Tourism

Poverty alleviation is one of the major focuses of the government in Yunnan, a province which is quite poor compared with the coastal provinces. The government has a five-year strategy to harmonize the socio-economic condition of the province in order to narrow the gap between both the western and eastern provinces and between cities and the countryside. One of the main reasons why the government, both central and provincial, has made Yunnan a priority for tourism development is due to its need to supply income to its rural population—one of the poorest in the country. Hence, one can say that tourism development in Yunnan has a very strong pro-poor foundation.

One of the main policies aimed at poverty alleviation through tourism is by building up the tourism sector overall and attracting more revenue to the economy from tourism. With more revenue and job creation through tourism it is believed that more people will benefit—including the poor. The government’s development strategy is focused on using the wide human resource base to provide value to products and services and increasing employment through tourism. It is also believed that employing local people in tourism businesses not only helps to bring increased wages and income to the poor but helps to train them up and provide them with the skills to open their own businesses in the future—an alternative method for training the next generation of small business owners. Hence, the government sees large investments in tourism as a positive for poverty alleviation: the larger the investment, the greater the income and skills transfer to the poor. Another way that tourism is seen to benefit the poor is through increased government services provided to the poor, as supported through higher tax revenue generated by tourism. Increased tax revenues from tourism can be used to assist the poor and to develop the province.

Besides the natural laws of economics that dictate a greater need to employ more people with larger investments and an increase in tax revenues, it is not clear how the government ensures that local people are given a fair cut of the benefits. It is said that, during the contract negotiation process, companies investing in tourism are encouraged by the government to employ local people and to use local materials. However, official regulations or guidelines that stipulate how much benefit a community is entitled to or how a company should include local people in their business does not seem to be evident.

The private sector plays a critical role in this pro-poor tourism strategy. The stronger private sector businesses are in terms of their ability to invest in newer and larger projects, the more they will be seen as viable partners. Self-regulating guidelines for private businesses that ensure fair benefits to the poor are also necessary to realize the benefits of this program.

Private Sector Participation in Village Tourism

The government has a more direct strategy for including the poor in tourism and targeting tourism’s benefits to those in need by actively developing cultural/handicraft/scenic spot villages.
Villages that have strong tourism attractions such as cultural assets, unique handicraft production or scenic spots, are designated for tourism development. The government constructs public access to these sites and builds other necessary public facilities, such as water systems and electricity, in order to prepare the villages for tourism and to link them to the network of tourism attractions. Villages are also provided with training and marketing support. Currently, sixty villages in total are in the process of being developed for tourism in the province. This is a mutually beneficial program for villages, the government and for tour companies, who are in search of new products to meet growing market demand.

Many of these cultural villages are developed as part of tour programs and in conjunction with businesses. However, the government is embarking on a new model for village tourism in which villages are allowed to provide services and goods directly to tourists, including homestays and community guesthouse accommodation. This relatively new concept empowers villages to host tourists on their own, following the experiences in countries such as Nepal.

The private sector mainly participates in this model by doing marketing and selling tours to villages. After the government selects and sets up the villages for tourism, the business sector is then allowed to sell tours to the sites. The business sector is said to have some input into where and how village tourism attractions are developed through the Tourism Association. However, it is not clear how formal and regular is this input. It is also not clear how tour companies are encouraged to share benefits with villages. It is said that most companies do not have formal contracts with villages for the provision of tourism goods and services, and that villagers derive benefits by selling what they can each time the tourists arrive. It may be the case that economic benefits and security could be improved for the poor with better planning and contracting with tour companies.

### 3.1.2 SME Investment Institutional Support Framework

#### 3.1.2.1 Government Policy & Strategy

In general, the policy of the government is to phase out government investment in the business sector and to move completely to a private sector driven economy. Government policy favors individual/private and shareholder investments in tourism and discourages state investment. This means that, although state enterprises do exist, new investment from the state in tourism is discouraged. So, it is safe to assume that there will be a continual shift from state-owned enterprises to private sector enterprises.

In 2002 the National People’s Congress enacted the SME Promotion Law, which created favorable conditions for SME development throughout the country. In 2005, regulations were created to help support and encourage private sector business operation in the province. Despite these specific laws and regulations that support the development of SMEs, the overall policy seems to allow open and fair access to all businesses regardless of size. Open, free market competition is the general policy of economic development. Businesses must stand on their own whether large or small, without support of the state.

#### 3.1.2.2 Regulations and Barriers for the Tourism Businesses

**Licensing**

Overall, licensing for tourism-related businesses has become rather simple and non-restrictive. The Provincial Tourism Administration is responsible for licensing only tour agencies. All other
tourism-related business must register with the Industrial and Commerce Bureau. For accommodations, transport services, restaurants and souvenir shops, the bureaucracy involved in registering a business lies with only one agency, excluding duplication or red tape at the tourism administration.

Rules regarding registration of tour companies pose a financial barrier for new entrepreneurs into the sector. However, given the rapid increase in tour company registration to more than 400 total companies today, these barriers may be deemed not terribly overburdening in practice. Tour companies are divided into two main types, domestic and international. Domestic tour agencies are allowed to arrange tours within the country for domestic tourists only. Most of the tour companies in the province are domestic. An initial investment/bank deposit of approximately US$37,500 (300,000 RMB) is required to qualify for registration, in addition to placing a bond of approximately US$12,500 (100,000 RMB) with the PTA. The bond stays with the PTA for the life of the business and is used to assess fines or rectify customer complaints when necessary. Another requirement is that the manager/owner must have a business management certificate, which can be obtained after taking a short business management course. Approval for domestic companies is done at the provincial level and should take no more than 30 days according to regulations. In reality many small tour agents may get around these restrictions by subcontracting with larger, officially registered companies in order to minimize startup costs and red tape. For the small tour operators in the prefectures, these barriers would seem relatively high and could pose a difficulty for opening a legal tour business (e.g. without subcontracting).

International tour companies, which number 38 in the province, are required to have both a higher investment and a higher bond. The investment amount which must be shown in a bank account statement upon registering is a minimum of 1.5 million RMB (US$187,500). The bond required depends on the type of international tour company. Tour companies that operate inbound tours only (i.e. receive international tour groups but do not sell international tours to Chinese tourists) are required to make a bond with the PTA of 600,000 RMB (US$75,000). Companies doing outbound tours (Class A Tour Companies) must add an additional bond of 1 million RMB (US$125,000). International tour company registration which must be approved at both the provincial and national levels is said to take approximately 30 days. Thus, the difficulty of upgrading one’s tour company from a domestic company to an international outbound one is burdened by the increased financial deposits required by the PTA and added approvals and bureaucracy by the central government. By making it legally difficult for small domestic tour companies to change to international companies, these regulations seem to favor the status quo of a just a few large, international companies, many of which happen to have a good share of state investment.

Investment Regulations & Tax Laws

Investment by both domestic and foreign sources in the Yunnan tourism sector is encouraged through profit tax exemptions. These exemptions, which are granted for three years on new investments, are awarded equally to provincial, domestic and international companies. Hence, investments in tourism, whether big or small, local or foreign, are all encouraged equally according to policy.

In the past, tertiary sector businesses (which include tourism) paid higher taxes and higher utilities rates than the industrial and agricultural sectors. However, since the inception of recent policies to develop sectors such as tourism, the rates for all sectors have been made equal in the province, allowing tourism to compete on a level playing field with industry and agriculture.
3.1.2.3 Special Arrangements for Tourism SME Investment

There is no specific policy or regulation of the Provincial Tourism Administration aimed at SME development in tourism. All enterprises, regardless of size, are allowed to invest in target tourism development areas according to the law.

Tourism planning policy, however, seems to favor large investments, as the government believes it necessary for large-scale facilities (e.g. large hotels and large restaurants) to accommodate the large numbers of visitors that it targets. In theory, local businesses are given preference in winning contracts for new tourism development. Yet, this holds true so long as the local business can offer a financial package as attractive as the outside investor. And for this reason, the advantage in tourism investment rests, in practice, with non-provincial companies—the outsiders having, on average, more resources to invest in the sector than the local, smaller entrepreneurs.

As a result of this focus on large investments, SME investment in tourism is not promoted directly by the government. Indirect facilitation of SME investment is made through the construction of access facilities, through marketing campaigns that promote tourism attractions and through other measures that develop or promote sites. SMEs are seen to play the role of providing supplementary goods and services that support a tourism site, which is first developed by the government and large businesses.

The Yunnan Province Tourism Development Master Plan identifies opportunities for both large investments as well as small and medium investments. Site developments that specify locations for accommodations/conference centers seem to favor large investments e.g. 3-5 star hotels, while SME investments opportunities might include businesses such as cafes, restaurants, handicrafts and small transportation services. The large investment opportunities, however, are promoted actively while SMEs are assumed to follow on their own accord.

Tax Exemptions & Loan Subsidies

“Matching” tourism businesses, meaning businesses such as restaurants, souvenir shops and transportation services that complement larger tourism facilities of large hotels and public infrastructures, may receive a tax exemption of up to three years from the time of opening. This in effect is a direct encouragement to small and medium tourism enterprises, as these “matching” businesses are typically SME.

The Provincial Economic Commission offers loan subsidies for investments in any one of the province’s five target industries one of which is tourism. The loan subsidy does not target SMEs, however, and qualification for loans is completely dependent on standard terms and conditions offered by the commercial banks.

3.1.3 Evaluation of the Effectiveness of the Existing Support Framework to Facilitate Tourism SME Investment

Banks

The financial system has been overhauled to curtail the bad lending practices of the past. These reforms have effectively tightened up access to finance, most especially for SMEs in the service sector which typically have little fixed capital assets and carry a lower perceived credibility. Banks are said to have fund surpluses (i.e. more in deposits than loans), which could be attributed to either an inability of potential borrowers to qualify for loans, or a high risk aversion to lend on
the part of lenders. Tourism SMEs, in general, lack the trust and credibility afforded the more traditional industries such as manufacturing and agriculture. Banks also seem to have a poor understanding on how to evaluate non-traditional tourism investment proposals, such as internet marketing or the development of remote ecotourism sites. This combination of factors makes for a difficult situation for tourism SMEs to access financing, especially for those companies looking to do something new and different in the industry.

Yunnan Provincial Economic Commission

The Yunnan Provincial Economic Commission has a program to assist SMEs to access credit through a credit guarantee system. This program supports commercial credit guarantee companies, which in 2005 supplied a combined total of 2,878 businesses with 5,633 guarantees. The credit guarantee system has been deemed quite successful, increasing sales of participating businesses by a combined 3.7 billion RMB, increasing tax revenues by 7 million RMB, and increasing employment by 561,000 people. The credit guarantee program has been quite successful in funding SMEs, with many banks reporting a greater volume of loans to SMEs over a five year period.

It is not clear how supportive credit guarantees are for the tourism sector, however. Although credit guarantees are available for long-term investments, the higher cost added by the credit guarantee company of up to 50% above the bank lending rate would seem to limit borrowing by small tourism businesses looking for long-term funds. It is also said that credit guarantees do not necessarily relieve businesses from the need to have fixed capital assets, as the credit guarantee companies also require such conditions to qualify for the guarantee itself.

Chamber of Commerce

The Chamber of Commerce, which has a total of 48,000 members province-wide, provides support services to its members by playing a bridging role between government and business and working to safeguard the rights of businesses. The Chamber has also created a credit guarantee fund in order to help small businesses access loans from commercial banks. The fund is supported by voluntary, special membership fees of between 50-100,000 RMB (US$6-12,500). Only those who pay into the fund are allowed to access it for obtaining credit. The Chamber also provides advisory services to its members to help assess the feasibility of a project and to help members with strategic planning. The credit guarantee fund is said to be helpful for some of its members in accessing finance from commercial banks. However, although the program has been in operation for eight years, funds are available at the prefecture level only, with no funds at the provincial level. The fund is still quite small and the Chamber of Commerce does not have adequate expertise to manage it. Contributions to the fund are limited as the contribution fee is a bit high, especially for small businesses. Use of the fund is also limited due to risk aversion on the part of the Chamber itself in guaranteeing members. Expansion of this fund is also tenuous in that it is not clear if the association has the legal foundation or not to manage a credit guarantee fund. In fact, it is illegal for associations to operate as a business—which may be the case if it was to manage credit guarantee funds.

Training Institutions

Training for businesses is provided by universities and government agencies. The Yunnan Provincial Economic Commission’s service center provides training to small and medium businesses. However, it is not clear how regular and frequent these trainings are held, and there are no specific trainings for tourism through this agency. For tourism-specific training, the PTA is
the agency mainly responsible. There are no specific PTA trainings aimed specifically at SMEs. However, many of the PTA’s training courses, including a course on business management, are likely applicable to the SMEs as well as large companies. Training as administered by the PTA is conducted on a needs basis—based on the needs of current tourism business owners. The courses focus on improving the skills of existing company owners/managers/staff, rather than assisting new entrepreneurs entering the tourism sector.

3.1.4 Key Issues, Concerns and Constraints Specific to Tourism SME Development

Access to Finance

- It is quite difficult for SMEs to access financing due to the strict requirement for fixed assets, which has been a result of bank reforms. Although the banking system has become a lot stronger and profitable due to the reforms, SMEs have a much more difficult time competing with larger businesses for finance.
- Funds are also difficult to attain by the tourism sector as it is a rather new sector and a less traditional one, which lending institutions are not quite comfortable with.
- Local firms are at a disadvantage to outside investors in competing for contracts to invest in new tourism sites because they do not have as much capital/finances for investment and because the government is focused on attracting the largest possible investments.
- Advisory support programs and credit guarantee funds of the Chamber of Commerce are excellent programs in theory. However, expertise and more external support are likely needed to make these programs sustainable and profitable. Services provided by the Chambers of Commerce are greatly limited by their own expertise and management capacity. Targeted technical assistance coupled with matching funds for the credit guarantee system seems necessary to make this program effective.
- Credit guarantee companies offer help to SMEs in obtaining financing. However, as the guarantees are designed more for cash flow purposes, their effectiveness is likely not significant for tourism businesses, which require long term financing.
- Venture capital is not available to the tour companies and tourism SMEs in Yunnan Province.
- Loans are not readily available from commercial banks for soft infrastructure such as internet marketing.
- Financing is difficult to obtain for developments in areas where land must be leased or rented from the government, such as national parks, because proof of ownership as collateral is not possible. This minimizes the ability of SMEs to participate in pro-poor/ecotourism developments in remote areas.

Capacity Building and Business Development

- Human resources and management capacities of SMEs is a major issue, which affects all facets of their business including access to finance. The legacy of the planned economy can be seen in weak business management and poor creative development and marketing skills. Many new business owners and managers lack experience in the tourism sector and do not have a clear understanding of the tourism market. As SME managers/owners are responsible for a variety of tasks and occupations, this lack of experience makes a huge impact on the business.
- Attracting qualified staff is also a difficulty for SMEs’, due to their relatively lower budget for wages. Hence, the SMEs are burdened by having not only inexperienced owners/managers, but attracting mainly unskilled staff who must receive a lot of training.
for improvement. Tourism SMEs are also hurt by the fact that many newly educated people are choosing not to go into small tourism businesses, but to look for work in other sectors or in larger tourism companies.

- Creativity and marketing is poor in many SMEs. A large focus of the government in relation to assisting tourism SMEs and developing pro-poor tourism is in the area of handicraft production. One of the main issues here is that micro and small handicraft producers need to develop their products with more creativity. A lack of creativity means that small handicraft producers end up selling similar products and competing on the basis of price rather than quality or uniqueness. This effectively reduces the value and profit to the SMEs. Small/medium tour companies also often lack the creativity to produce newer and more attractive tours and instead focus on undercutting each other’s prices as their tool of competitive advantage. Hence, a strong push needs to be made to improve awareness and understanding of the tourism market by SMEs and to instill a better creative edge in business development.

- Even the largest and best tour companies are still far behind major international tour companies in terms of human resource capacity in middle and high level management, technology and marketing. Without a strong tourism sector in Yunnan that can compete well with international agencies, the GMS will not reach its full potential.

- Training that offer outside experience and perspectives is needed. Current training programs are offered by local experts, who may not be able to offer anything new or special to tourism businesses.

- More marketing studies and planning are needed to aid businesses to make better decisions.

**Government Policy**

- The government’s tourism development policy favors large investments. This is understandable from the point of view of their interest in the construction of large facilities in a short amount of time. However, SME development, although not discouraged by the government, could play a bigger role in the development of sites by being more directly included into tourism site development plans.

- Government informants interviewed expressed a need for clearer direction and policies on how to support SMEs. Guidelines must be subsector specific e.g. policies for accommodations, tour services, transportation etc.

- The “One Card System”, which has been introduced in a few prefectures to ensure that tour companies pay fees in advance in order to limit the amount of non-payments to local tourism businesses, has created bureaucracy that burdens small tour operators heavily. Many of the small/medium sized tour operators, who are mostly domestic companies may not have adequate cash on hand to pay the One Card committee for services in advance. This is partly due to the companies’ not being able to receive advance payment from clients early enough, especially for tours that are booked as walk-ins. This system might also be responsible for creating higher transaction costs and limiting creativity and flexibility of all companies.

**State Investment in Tourism**

- Although there is the policy of the government to privatize tourism businesses, the tourism sector is still heavily influenced by a minority of large, state-owned companies. Private tour agencies, for example, must compete with large, state-owned or partially state-owned enterprises which have the advantage of more experience, a better network,
and the security of government backing, which makes access to finance easier and opens up doors for expansion.

**Tourism Business Representation with the Government**

- Although the government does listen to advice of the private sector and solicits businesses for ideas and input into potential development projects, perhaps more synchronization between development plans and business marketing strategies is needed to ensure maximum benefits to all stakeholders.
- Better inclusion of the private sector in planning and more market studies that include the views of the private sector are needed in order to minimize the risk of overdeveloping certain products/services and under-developing others.
- In the future, tourism associations will have the potential to play a stronger role in representing businesses, as they will be given more autonomy. This means, however, that associations will have to create new ways to generate revenues to support expanding programs. Membership fees will likely not be enough to meet the needs of the associations’ growing budget needs.
- For the sake of better regional tourism development, better inclusion of China in planning and marketing is needed, as China holds a huge market for the region. Better coordination between governments is also needed to facilitate tourist flows.

### 3.1.5 Conclusions and Recommendations

1. **Finance/Investment:**
   - More information needs to be made available to commercial banks about how to evaluate SME businesses in tourism, including market information on what subsectors are growing and successful and what SME business models are profitable in tourism.
   - More effort needs to be made in educating SMEs about how to access finance, including business management and financial accounting training to improve financial transparency.
   - More coordination between credit guarantee companies and tourism SMEs needs to be facilitated in order to inform both SMEs and lenders about the benefits and opportunities for tourism SMEs.
   - More research into credit guarantee funds created by associations should be conducted. Technical assistance and matching funds would greatly help the Chamber of Commerce credit guarantee system, as would a clearer legal basis for such a program.
   - Venture capital for the tourism sector should be supported, as this type of institution might be the most appropriate avenue of investment for SMEs.

2. **Capacity Building and Business Development Training:**
   - More business to business training programs that focus on business development and creative solutions to improving quality of goods and services is needed. Such programs should be provided by non-governmental organizations, such as tourism associations, to ensure that they are based on the needs of businesses and on the experiences of real business entrepreneurs.
   - Technical assistance to associations on how to run financially sustainable training and capacity building programs is needed.
3. **Government Policy & Planning:**
   - Alternative models to the ‘big is better’ philosophy should be researched and experimented with.
   - Better definitions for tourism SMEs need to be created in order to allow the government a greater ability to target the sector.
   - A policy regarding tourism SMEs needs to be created in order to form the basis for assistance to SMEs.
   - Better efforts need to be made to ensure that the private sector’s opinions and viewpoints are reflected in planning of new tourism sites. Furthermore, SMEs need to have better representation within the business sector itself. For example, when inviting the business sector to join planning meetings, SMEs should always have representation in addition to large businesses.

4. **Pro-poor Tourism and the Private Sector:***
   - Clear guidelines, or even regulations, on how to include the poor/local people in tourism business are needed.
   - Models tourism site developments that use contracts or business-to-village partnerships that ensure equitable benefits for local people need to be developed.

3.2 **Guangxi Zhuang Autonomous Region**

3.2.1 **Context of Tourism SME Investment**

**Tourism in Guangxi Zhuang Autonomous Region (GZAR)**

Tourism is one of the top industries in GZAR, and is considered second only to the industrial sector, with a gross income of US$ 3,870,000,000. By tourist arrivals, GZAR is nearly as strong as Yunnan, with 66,400,000 visitors in 2005. Domestic tourism dominates the industry, with 64,930,000 visitors in 2005—amounting to 97.8% of total tourists. The number of foreign visitors is not small, with a total of 1,470,000 foreign visitors in 2005. It is not clear how many of the tourists are on packaged tours. However, it is likely high as many domestic tourists prefer packaged tour programs. Average length of stay in the GZAR is an issue, as it is less than two days (1.45 days), and average expenditure per tourist per trip is on the low side for the GMS at US$53 per trip. The top markets for GZAR tourism are dominated by Asian countries, with the top five being Taiwan, Hong Kong, Vietnam, Malaysia and Japan.

**Private Sector Participation in Tourism**

There are a growing number of private sector businesses in the tourism sector, as state-owned enterprises continue to be phased out and sold to private sector investors. Most of the hotels and restaurants in the Guangxi are said to be private sector or joint ventures. Of the no-star and 1-2 star accommodations—which in numbers of establishments are great—almost all are private sector. For the 3-star accommodations, the majority of the assets are owned by the state, yet the majority of the management is private. Many of these hotels are rented out to private sector individuals or companies, with the state retaining ownership of the land and structure. Most of the 4 and 5-star hotels are said to be state-owned enterprises.

Government policy supports the privatization of all hotels and gives preference to the selling of shares to the hotels’ managers and employees. In comparison to other sectors, however, the
privatization of hotels has been relatively slow, and recently the National Assets Bureau has put a hold on hotel privatization indefinitely. Some of the reasons for this halt on privatization are said to include a general interest on the part of the state to keep these valuable assets; corruption in the appraisal process (although new, more scientific valuation method have been instituted); and a difficulty to find investors interested in purchasing the hotels, which are quite expensive. In general, hotels that have been privatized are those which are in a precarious financial situation giving the government no other choice than to sell it. There have been examples in other provinces of hotels being privatized, selling shares to the hotel’s own managers and employees. Although the government has temporarily put a hold on the selling off of state-owned hotels, it is quite possible that at least a few of these hotels will be sold off in the future as they succumb to competition, thus creating a financial burden for the state that gives no option but to sell. State-owned hotels that remain profitable, however, will likely remain state-owned until the National Assets Bureau rejuvenates the privatization process.

Although this is a setback for the private sector in the accommodations subsector, it is important to note that the state is not promoting or encouraging investment in new state-owned accommodations. (The government has recently built accommodations for an upcoming conference/expo. However, these are temporary and do not signify a change in policy.) In fact, the government discourages banks (which are state-owned) from investing in new hotels. Hence, it is up to the private sector to use its private funds to construct new hotels. So we will likely see a continuing increase, however slow, in the private sector’s share of the accommodations market.

Tour companies, in comparison, are being privatized relatively quicker due to the lower investment needed to buy out the shares of a company. For the most part, small tour companies are private. Many of the large tour companies are state-owned or have a large investment by the state. However, many of these tour companies operate more like private sector companies and are experiencing less and less government influence into their operations and business decisions.

The overwhelming majority of scenic spots are still owned by the state. Actual participation of the private sector in scenic spots is, however, significant as many areas are leased to and managed by private sector enterprises. Privatizing scenic spots has its challenges in that the assets or attractions may not be for sale, making the acquisition less attractive to an investor. Full purchase and ownership of the sites is a more desirable deal for the investors but one that is not supported by the government in many areas.

SMEs in the Tourism Sector

The definitions for SMEs are the same in Guangxi as in Yunnan. It is expected, however, that the criteria for SMEs will be changed and improved in the future, as the current definitions are said to be temporary.

As in Yunnan Province, most of the private sector businesses are SME, and in terms of total numbers of establishments, private sector SMEs dominate. Many of the larger businesses, which represent the minority in total numbers of establishments but hold significant market share, are state-owned.
Private Sector Participation in Tourism Planning

In the shaping of tourism laws and regulations, the private sector and the public are informed and provided an opportunity to give input before signing of new laws/regulations. At the time of writing this report, for example, the government was preparing to open the new regional tourism law for public input, posting its draft in newspapers and on the internet. Private sector stakeholders and average citizens are allowed to provide their input to the regional tourism office and planning department by written letters and email. To what degree the government includes these opinions and inputs from the public sector is not clear.

Private Sector Participation in Tourism Marketing

There are some models for public-private partnerships in tourism marketing in PRC. For example, Hong Kong has a strong marketing and promotions board which has significant involvement of the private sector. However, in the GZAR, inclusion of the private sector in tourism marketing campaigns is limited. The private sector helps in a very limited capacity in providing input and ideas to help shape tourism marketing strategies. This is due in part to the fact that, being provided official budget and official responsibility for marketing, the Guangxi Tourism Administration (GXTA) sees marketing as its own job, and not that of businesses. An additional reason is that most tourism businesses, especially SMEs, do not have much budget for or much understanding of marketing and, thus, likely prefer the government to take responsibility for it. In fact, there appears to be not much interest in or much dissatisfaction with the current government marketing program by tourism businesses. In the past a head tax was levied on tourism businesses to fund marketing. However, this was disliked by the businesses themselves and was done away with, demonstrating a lack of commitment on the part of the business sector to participate in a public-private partnership for marketing.

Private Sector Participation in Pro-poor Tourism

Tourism is viewed by the government as an instrument to reduce poverty by supporting the economy, creating jobs and providing tax revenues that can be redistributed to those in need through government programs. Infrastructure constructed to facilitate tourism (e.g. roads, bridges, water systems) is also seen as a benefit to the poor, albeit an indirect one. Tourism development is seen by the government as an important strategy for reaching the poor located in remote areas, in areas where industry and other economic sectors are not interested in investing but where many of the most beautiful natural and cultural attractions are located. ‘Ecotourism’ in GZAR is focused on nature-based tourism and on the development of natural areas for recreation and holidays. Cultural-based tourism has potential but is less developed.

The private sector is seen as an important actor in alleviating poverty through tourism. More and more, the private sector is being contracted to build infrastructure and maintain scenic spots and cultural tourism sites. The private sector is brought into the development of remote tourism areas from the start as investors. As investors, the private sector is given the right to do business and form business relationships with communities. The government views these relationships as very positive, as the businesses provide jobs and income to the poor. Although the government encourages outside investment into many of its new tourism developments, it claims to have policies to ensure that benefits stay local. Outside investors are encouraged and in some cases bound by contract to employ local people; to use local materials when available; and to adhere to local regulations regarding the environment. Local communities can also benefit by renting land to outside investors.
Many of the scenic spots are said to employ local people. People are employed as guides, dancers, cooks, salespeople, musicians and maintenance staff. Formal contracts are not necessarily used between local communities and scenic spot owners. It is typically up to the manager or owner of the business to hire people according to their needs. Many of the state-owned scenic spot enterprises choose to hire local people. However, it is a concern that local people may lose jobs as these enterprises are privatized. As outside investors buy up or lease scenic spots, staff may be seen as expendable, not needed, or inferior to outside help. Before the government signs a contract with an investor to privatize or develop a scenic spot, it will typically hold a meeting with the local community to get its input. It is not clear, however, what rights and power the community has in effecting the decisions and contract made by the government.

3.2.2 SME Investment Institutional Support Framework

3.2.2.1 Regional Policy & Strategy

According to government policy, tourism development is a top priority of the regional government. The top three priority industries in GZAR, listed in order of importance, are agriculture, industry and the service sector, which includes tourism in addition to sectors such as banking and commerce. During the time of writing this report, the GZAR was in the process of finalizing its 5-year tourism development plan for 2006-2010. The general policy and strategy for developing tourism in the province will likely remain the same, with only changes in the details of where and what will be developed.

As discussed in the Yunnan section of this report, a decree issued a couple years back by the central government made it an official government policy to assist in the development of SMEs countrywide. The decree made general policies to reduce the dependence on state institutions, to open up the economy, to reduce barriers to market entry for SMEs, and to improve the business environment to allow for better participation by SMEs in the market economy.

Official government economic policy, in general, provides equal rights to all investors, regardless of size. Domestic investors are also given equal opportunities to foreign investors. The government does, however, actively encourage outside investors to invest in tourism because it is interested in attracting large investments in tourism. The government favors large investments (as outlined previously in the Yunnan section) for a variety of reasons. Large investments can bring opportunity to an area by building its capacity to attract significant numbers of tourists. Large companies are often better able to create a high value product, which has the effect of bringing more potential revenue to the local economy. Outside investors and companies often have better skills and experience to develop scenic spots than do local communities. And, employing an outside investor is less risky and costly to both the community and the government with the potential to bring higher returns.

3.2.2.2 Legal and Regulatory Framework

There is currently no national law on tourism in PRC. There is, however, a regional law on tourism in Guangxi, as well as a specific law regarding scenic areas. The GZAR tourism law is currently under review and is being amended and rewritten to broaden its scope and add more detail to it. It is not clear what is mentioned in the law regarding tourism SMEs, but judging from discussions with a wide range of government and non-government representatives, there is nothing specific regarding the subject.
Licensing regulations are the same in GZAR as in Yunnan Province. Thus, similar related issues as mentioned in the Yunnan Province section hold true in Guangxi. For example, although licensing is much easier than before, there still seem to be some significant barriers for SME tour companies. In particular, high bond fees and strict regulations/bureaucracy make it difficult to expand a small-medium tour company into a larger, cross-provincial or international level company.

**Investment Regulations & Tax Laws**

As in Yunnan Province, investments in tourism receive a 3-year tax exemption. This incentive is available to both local and outside investors and is given regardless of the tourism sub-sector. Large projects with an investment value of more than 500 million RMB are also eligible for favorable land rental or purchase fees.

Unlike Yunnan Province, tertiary sector businesses (which include tourism) still pay higher taxes and higher utilities rates than the industrial and agricultural sectors in GZAR. This is a major issue for tourism, especially for accommodations which consume a lot of electricity and water and are thus hit hard by the higher utilities costs.

**3.2.2.3 Special Arrangements for Tourism SME Investment**

As in Yunnan Province, GZAR has no specific governmental arrangements to help SMEs in the tourism sector. Training programs of the GXTA that support tourism businesses do not target SMEs specifically but rather apply to all tourism businesses regardless of size. Programs of the GZAR Economic Commission that support SMEs do so for all sectors, not specifically for tourism. The programs of the Economic Commission are more closely aimed at industrial sector SMEs, as the GXTA is seen as being responsible for helping tourism sector businesses, both large and small.

The government has recently supported SMEs directly by providing grant money of a total of 15 million RMB to accommodations in Nanning in order to remodel their facilities in preparation for an upcoming conference. However, this is less of a program or change in policy than a special circumstance and does not offer any long-term solution to the issues facing tourism sector SMEs.

**3.2.3 Evaluation of the Effectiveness of the Existing Support Framework to Facilitate Tourism SME Investment**

**Banks**

Due to strict procedures and criteria in order to qualify for a loan, it is very difficult as an SME to get a loan, especially for service sector businesses. Aside from special credit given to farmers through the Agricultural Development Bank, there are no soft-loans through the banking system for SMEs in tourism, and no subsidies for SMEs. There is very little funding for SMEs overall. The government has recently instructed the banks to pay more attention to SMEs. The Industrial and Commerce Bank has since created a department that deals with small business loans. The Construction Bank also is following suit and is currently in the process of opening a department for personal and small business loans. In general, banks have not shown much interest in funding tourism projects. (Interestingly, it is even forbidden by law for banks to lend for the construction of luxury hotels!) The Construction Bank, for instance, has eighteen target industries but does not have a policy to target the tourism sector. The bank is making plans, however, to start focusing on lending to tourism businesses in Guilin, where tourism is very strong.
As in other GMS countries, credibility and financial transparency of potential borrowers from the tourism sector is a problem for access to credit in Guangxi. China has a relatively new credit bureau, set up in 2004, which is becoming an effective way to check a potential borrower’s credit. This system is new, however, and has not become widely known by the public, minimizing its effectiveness. Although small businesses are taken into account in the credit system, most of them are unaware of this and do not understand the importance of having a good credit history.

Credit Guarantee Institutions

The government has supported the development of new credit guarantee companies. State funds are used to create new credit guarantee institutions, after which the companies are later privatized. Funds from the National Development Bank are used to help build up the credit guarantee companies. However, there must be matching investment by the local government in order to receive this assistance. There are 50 credit guarantee companies in the province of which 19 provide assistance specifically to SMEs. Of the total 50 credit guarantee institutions in the province, so far only six have been created with assistance by the government. It is planned that by the end of 2006 all prefectures in the province will have credit guarantee companies.

The potential effectiveness of the credit guarantee companies for the tourism sector is not clear. On the positives side, although borrowers are required to provide collateral to qualify for the credit guarantee itself, the assets required are more flexible and include non-fixed assets such as equipment. Whereas banks typically require the borrower to put down collateral of a value higher than the loan, the collateral required for the credit guarantee is lower than the value of the loan and guarantee. A business’ cash flow and potential profit are also used as substitute for collateral for a guarantee. Government sponsored credit guarantee companies are guided by government policy as set by the Industry and Commerce Department. This agenda targets SMEs and businesses that can make a positive impact on employment, tax revenues and the economic development policies of the government. In this regard, credit guarantee companies hold promise for tourism SMEs.

On the negative side, credit guarantees make for more expensive loans. Credit guarantee companies profit by charging additional interest of up to 50% of the loan interest rate. The rate is often charged as a percentage of the total guarantee provided. This added cost of course limits its effectiveness for small businesses. Although guarantees are available regardless of sector, it is the export sectors that benefit. This is due to the fact that guarantees, being available for up to one year, and are aimed at assisting businesses in meeting short-term cash flow problems. Guarantees are not designed for infrastructure projects, such as accommodations, which require long-term financing. The weaknesses of the credit guarantee system for tourism businesses is also that service sector businesses do not have information about these institutions and do not know how to access or use their services. On the supply side, the credit institutions equally do not have much experience or information about tourism businesses, instead focusing their efforts on industrial sector SMEs.

The Department of Labor also manages credit guarantees for unemployed workers looking for financing to start a new business. It is not clear how this program works, but would likely target micro-businesses and, thus, may not rest in the scope of this report, which focuses on SMEs only.
GZAR Economic Commission

There is no inter-governmental committee for the development of SMEs to coordinate the issues related to SMEs across different sectors. However, the GZAR Economic Commission manages an SME Development Office, although its focus more on supporting the industrial sector as mentioned above. The central government provides special funding to support the development of SME through the Economic Commission. These funds are used in two ways: to support credit guarantee companies and to provide training to SMEs.

The Economic Commission supports business training centers in many of the prefectures. The training centers can be either public offices or private agencies. For private training centers, the government provides funding for the specific training programs offered to SMEs. Agencies must apply for the funding and must be approved by the government to offer the courses. Three types of training programs are offered. A 3-5 day training course for general business management for SMEs is offered free of charge. Another program is a two-year mentor program in which entrepreneurs are assisted in setting up a new SME. This program requires that the business pay for some of its costs, while the government subsidizes the remaining costs. The training centers/agencies also offer training in information technology in which SME business information systems are made more efficient using modern information system technologies (e.g. computerization). These training courses are not specific to any sector, although in practice they mostly cater to the industrial sector.

Guangxi Tourism Administration

Training for tourism sector businesses, both large and small, is considered the responsibility of the provincial tourism administration. Training for tourism businesses is thought to be related mainly to hospitality skills rather than management. Unfortunately, the training offered by the GXTA is likely not adequate to meet demand and is sometimes taught by people who are not professionals in tourism businesses. There is also a lack of business management training specific to tourism.

Associations

Tourism associations currently do not offer much training to their members, as the training is done by the GXTA. As noted earlier, the associations are still attached to the government so they likely look to other government departments to provide training. However, in the future as associations are going to be independent according to plan, they will be logical agencies for providing training to tourism SMEs.

The Scenic Spots Association, for example, is ideal for improving the participation of local people in tourism. The association is responsible for reviewing the quality of scenic spot management, and criteria for assessing scenic spot quality has already been set by the CNTA. However, there is little training or information available to scenic spot managers on how to better include local people. There is scope for developing standards for these negotiations to ensure maximum participation and empowerment of local communities as well as more training to local officials in facilitating negotiations, which could be implemented by the association itself.

Other Institutions

Training for hotel managers is available through the Hotel Training Institute in Guilin, which offers three-week to one month courses on how to operate and manage a hotel or guesthouse. The courses are not free. And there is also full time, formal education in business and tourism
management, which over time will help the industry tremendously. This will take time, however, and does not meet the immediate needs of SMEs.

3.2.4 Key Issues, Concerns and Constraints Specific to Tourism SME Development

Most of the issues and constraints outlined in the Yunnan section of this report are relevant for GZAR also. However, this is a summary of some of these issues again with an addition of a handful of other problems that were cited during consultations in GZAR.

Access to Finance

It is estimated by the Provincial Economic Commission that there is a shortfall of 50 billion RMB in financing demand of SMEs in the province. It is also estimated that only 20% of SMEs have been successful at being approved for loans, while 40-50% are not able to qualify for loans. (The remaining 30-40% of the businesses is facing bankruptcy due to inability to get loans and/or generally inability to compete in the market.)

It is generally maintained that the reason for this shortfall is in part due to the low capital assets of SMEs which exclude many of them from qualifying for a loan. Another reason for the shortfall is that the profit measured against the administrative costs of financing an SME is not as attractive as that for a larger company, which may be less risky and provide financial institutions with a higher profit margin for the same amount of effort. With a booming economy, banks are distracted by large companies and do not need, for financial reasons, to pay attention to providing financing to small and medium sized businesses. This point is accentuated for the tourism sector, which is not well understood by the banks and is perceived as a lower profit maker and higher risk in comparison to the industrial and other sectors. SMEs are further disadvantaged by their own poor bookkeeping and financial data as well as lack of plans on their potential profitability and future ability to pay back loans. A perceived lack of professionalism in the tourism industry overall by banks also limits access to finance for tourism sector SMEs. It is no surprise that most of the investment in SMEs is from private funding. However, due to the limitations of private funding, growth and expansion of SMEs is limited.

Credit guarantees are available for cash flow, short-term financing. However, most tourism businesses do not know about this system. Hence, more information is needed to educate tourism businesses about credit guarantees and how to access them. There is also a need for long-term credit guarantees for the accommodations sub-sector.

Capacity Building and Business Development

Attracting qualified human resources for tourism businesses is difficult. Being a new and growing industry in a newly growing economy, tourism finds it very difficult to find the proper human resources that it demands. Tourism is not typically the highest paying sector, and therefore the limited qualified human resources that are available are allocated to industrial and higher paying sectors. Qualified managers are difficult to retain as well due to its relatively lower pay and lower career growth opportunities. SME managers/owners are typically new to the sector and do not have adequate business management and hospitality skills themselves to manage and train staff.

Marketing skills of SMEs are also weak. Most private sector tourism businesses, many of which are small, do not pay much attention to marketing at all. Many small private sector tourism businesses view marketing as expensive and unnecessary. Some of the larger companies do marketing, and in some instances there have been joint marketing programs done by some of
these large companies. There are also some examples of small businesses doing marketing, such as travel agencies putting advertisements in newspapers and creating their own websites. However, for the most part, this very important element of business development is poorly understood and rarely practiced.

**Government Policy and Regulations**

- Restrictions on domestic tour companies make growth and expansion difficult. Domestic tour companies are not allowed to sell tours directly to tourists for tours to other provinces. The tour company is forced to make contracts with companies in other provinces and may not operate tours in other provinces. A company is allowed to open a branch in another province, but must receive approval from the national government, which is a slow and bureaucratic process. Companies are not allowed to open a new branch in another province unless it has at least 100,000 tourists per year. This restriction makes it difficult for SME tour companies to grow, expand and compete with larger companies.
- The accommodations sector is hurt by the relatively high costs of electricity and water, which are more expensive for tertiary businesses than for industry and agriculture.

**Additional Enabling Environment Issues**

- In the area of marketing, advertising is said to be prohibitively expensive. This is blamed on the fact that media is controlled by the state and is thus limited in variety and volume, causing high advertising rates. Although recommendations on state-controlled media is outside the scope of this report, this constraint must be listed here because it was mentioned by a few of the businesses interviewed.
- For the private sector, the difficulty of borrowing is compounded by the fact that it does not have the secure financial backing of the state that is afforded their state-owned business counterparts. As many of the large businesses remain state-owned, private companies may find it difficult to compete with state-owned companies for financial resources through commercial banks.
- Insurance, which is required on all tours according to official tourism regulations, is of poor quality. Insurance is currently available from only state insurance companies, as the insurance industry has not yet been opened up to foreign investment. The end product is that tour companies are forced, by law, to buy insurance that is sometimes of no use—effectively increasing their operating costs in cases where claims are not reimbursed.

**3.2.5 Conclusions and Recommendations**

The issues and problems discovered in GZAR are nearly identical to those in Yunnan Province due to nearly equal policies, programs, regulations and general business climate for the tourism sector. Thus, all of the recommendations as mentioned in the Yunnan section are applicable in GZAR. However, there are a couple of key recommendations that can be added to the Yunnan list. One recommendation which is specific to GZAR is for the government to reduce utilities and tax rates for tertiary businesses to allow tourism to compete on a level playing field with other industries. This is one of the major enabling environment issues in Guangxi and is a measure that has already been implemented in Yunnan Province.

A better system for solving business environment issues affecting tourism is also needed. Many of the issues raised by the business sector representatives interviewed for this study
were business environment issues that are not directly related to investment (e.g. high advertising costs due to controlled/state-run media, an inefficient/non-competitive insurance market, and regulations that make it difficult to expand domestic tour companies), and there are possibly many more enabling environment issues, which did not surface during the interviews. Although the associations assist tourism businesses to channel their concerns to appropriate government agencies, perhaps a more systematic approach is needed. It is recommended that a business forum be created, such as the one sponsored by the World Bank/IFC in Cambodia, Lao PDR and Vietnam, to meet on a regular basis to allow businesses to field all of their concerns to the government.

4.0 THAILAND

4.1 Context of Tourism SME Investment

Tourism in Thailand

Tourism is one of the leading economic sectors in the country and has been estimated to contribute approximately 5% to the country’s GDP. Tourism is regarded as one of the main engines for economic growth in the country, and, in 2006 tourism revenues increased by 24%. Tourism is seen by the government as having a competitive advantage with other countries in the region and the world, due to the country’s strong asset base of natural and cultural attractions. Thailand’s tourism industry is perhaps more experienced than that of its neighbors and has a growing base of industry professionals. Thailand’s tourism industry will continue be the leader in the GMS and, thus, will help shape the direction and growth of tourism in the region.

Private Sector Participation in Tourism

With a free-market open economy, private sector participation in tourism is extremely strong. Lack of participation of the private sector in the tourism sector is a non-issue. Perhaps, if there is an issue with private sector participation in tourism it would better be characterized as over-participation, in that tourist areas are in some places encroached upon by overdevelopment of private sector businesses. Over-commercialization of tourist areas can be identified at certain sites as a threat to their natural and cultural values and sustainability and growth of tourism in the long-term.

In the planning and management of tourism development at the central level, the private sector is represented by an umbrella organization called the National Tourism Council, which represents the many tourism associations found throughout the country. The council interfaces with the government on a wide array of planning issues. It is sometimes criticized that representation of the private sector at the national level for tourism planning is not high enough, with approximately 80% of representation on the council allocated to the government sector and only 20% to the private sector.

Likewise, investment policies in tourism are not representative of the views and needs of the private sector. Board of Investment policies related to tourism are said to mainly originate from politicians and government officials, meaning that incentives for foreign investment in tourism may diverge from what industry professionals see as important and necessary for the sector.
SMEs in the Tourism Sector

According to the Ministry Regulation Defining Employment and Value of Asset of Small and Medium Enterprises, B.E. 2545, small enterprises in the service sector are characterized by having a maximum of 50 employees, or owning a maximum in fixed assets of approximately $1.25 million. Medium enterprises in the service sector are characterized by having more than 50 employees and not exceeding 200, or owning fixed assets of more than $1.25 million and not exceeding $5 million.

SMEs in Thailand are a very important part of the economy. SMEs account for the majority of the country’s economic generation, accounting for 99.7% of the total number of businesses, 80.4% of all employment, and 37.8% of the country’s GDP. The service sector is the second leading source of SMEs with 32.9% of all SMEs, behind retail businesses and ahead of manufacturing, wholesale trading and other industries. The most dominant size of in the SME class is considerably small, with a relatively small capital base, employment number and monthly turnover. According to 2003 statistics, it is estimated that more than 50% of SMEs have a capital base of less than $125,000 and only about 11.5% have assets worth more than $1.25 million. Employment in SMEs is typically small, with 43.7% having less than 10 employees and only 11.4% with more than 100 employees. Average revenues for SMEs is typically low, with more than half earning less than $25,000 per month.

There are no official statistics that disaggregate tourism sector businesses by capital or size, but it is generally held that SMEs dominate the industry in total number of businesses. It is estimated that approximately 85% of accommodation businesses, the most capital-intensive of the tourism subsectors, are in the SME range.

Pro-poor Tourism

Thailand is a leader in producing some of the most successful pro-poor business concepts in the region. One such policy is the promotion of the one-town-one-product (OTOP) concept. Using the model, the Office of Tourism Development has helped promote handicraft villages as destinations where tourists can learn about handicraft production and traditional lifestyles. This product is suitable to serve both the package tour market, by offering a new destination on a tour route, as well as the FIT market by offering homestays in cultural immersion programs.

Private Sector Participation in Pro-poor Tourism Development

Private-sector participation in pro-poor tourism is mixed. On the one hand, non-profit organizations and government agencies play a large role in assisting communities directly with developing tourism products. Such community-based products are promoted to tour agencies with assistance from the project. On the other hand, there are some very good examples of private business innovation in the areas of pro-poor tourism, sustainable tourism and community-based ecotourism. The Thai Ecotourism and Adventure Travel Association (TEATA), for example has guidelines/rules for its members on how to practice community-based ecotourism—one of the few examples in the GMS of clear, private-sector driven industry standards in this field. Some of the businesses that practice forms of ‘pro-poor tourism’, ‘sustainable tourism’ or ‘ecotourism’ choose to do so on their own, outside the guidelines of TEATA. Many of the successful programs developed have been done so by philanthropists, both nationals and foreign, looking to give back something to the environment and the people, rather than by strictly profit-minded entrepreneurs responding solely to market demand.
Public-Private Partnerships

One example of public-private partnerships is an Office of Small and Medium Enterprise Promotion (OSMEP) program at the Kao Kiew Zoo program in which a concession is being made for a private SME to invest in infrastructure in the zoo area. OSMEP is supporting this development by offering advisory support to the private sector partner and by helping the private business in getting fast track loan approval by a commercial bank. This is a pilot project, which although has just begun, could hold promise for PPPs in the tourism SME sector.

Another interesting model employed by OSMEP for promoting SME development in the tourism sector is found in the case of assistance to victims of the Tsunami of 2005. After the disaster, many tourism businesses were in a very vulnerable situation, not able to take new loans from commercial banks to rebuild their devastated businesses due to outstanding loans remaining unpaid. OSMEP was able to extend credit and advisory assistance to the businesses in return for owning a portion of the businesses in a passive role. A mentor system was created to help successfully guide the redevelopment of the businesses in exchange for an annual payment of 2% of the total capital investment to pay for the assistance. OSMEP has invested in over 30 tourism businesses through this program, accounting for approximately half of its total venture capital portfolio of investment (approximately $25 million).

4.2 SME Investment Institutional Support Framework

4.2.1 Country Policy & Strategy

Thailand has a strong policy for assisting the development of SMEs. This is demonstrated through the policy of the Bank of Thailand, which offers soft loans to SMEs—regardless of sector. The soft loans are made available to the SME Bank and commercial banks at an annual rate of 1% after which the banks lend to the private sector at a rate not higher than the MLR less 2.75%. The results of this program are mixed, with an excellent payback rate on loans on the one hand but only an 80% utilization rate of loans on the other hand. This implies that either SMEs still cannot qualify for the loans from commercial banks no matter how low the rate; that there is a lack of demand for the loans (which is unlikely); or that the banks find it more profitable to lend their own funds at higher market rates and do not promote/sell the special SME loans.

Government policy to support SMEs is also evident through the SME assistance programs coordinated through the Office of SME Promotion. The government has embarked on an ambitious initiative to conduct research on SME development and to provide SMEs with training through the Institute for SME Development attached to Thammasat University. This is a clear and significant commitment from the government in supporting SMEs.

The Office of the Board of Investment (BOI) recognizes the importance of supporting SMEs. In 2003, the minimum capital required for promoted projects was reduced from $25,000 to $12,500. BOI has set up the BOI Unit for Industrial Linkage Development (BUILD) to assist SMEs in various ways including programs that introduce Thai SME investors to foreign investors, training sessions for SMEs and other programs aimed mainly at manufacturing SMEs. BOI also supports economic development in remote areas by offering its most attractive incentives to businesses that operate in the most remote areas (Zone 3 areas).

The Office of Tourism Development does not have any specific policy towards assisting SMEs. It does, however, help with the development and promotion of community-based tourism or pro-poor tourism, through the promotion of the one-town-one-product model (OTOP). Assistance for
communities in the OTOP program is mainly concerned with improving infrastructure at the sites, promotion of OTOP communities and linkages with tour companies and other players in the tourism sector.

4.2.2 Legal and Regulatory Framework

Licensing and Barriers to Entry

Entrance barriers for small and medium enterprises in tourism are not significant. Tour companies, for example, are required to have a bond of between $2,500-4,000 for startup. However, those who can pass a guide training course are allowed to operate as freelance guides with no startup capital required. The complaint, in fact, in the tour company sub-sector is that entrance barriers are perhaps too low and allow for too much competition. Entrance into the accommodation and restaurant subsectors is also quite unrestricted. Licensing is done at the local level, and in comparison with other GMS countries is relatively non-bureaucratic and is a generally fair process that does not overly burden or discourage entrepreneurial developments.

4.2.3 Special Arrangements for Tourism SME Investment

National economic policy favors developing the tourism sector, with the aim of improving the value of tourism products and services rather than increasing the total numbers of tourists to the country. This can imply a favoring of businesses that accommodate fewer tourists but at higher prices. Thus, high-value SMEs are favored by the current economic policy.

OSMEP has formulated a national strategy on SME promotion and development for the tourism sector. The strategy focuses on macro-level policy and development strategies that improve the conditions for tourism SMEs including marketing plans for promoting strategic tourism areas, infrastructure development at tourism sites, linkages between SMEs and large tourism businesses, human resource development, and management. The SME development strategy of OSMEP can be seen as a broad tourism development strategy that may overlap with the strategies and objectives of other organizations including TAT, Ministry of Tourism, and the National Tourism Council. Its strategy also does not seem to target SMEs per se but rather takes the approach that general improvements to the environment of the industry (e.g. infrastructure, marketing) will help tourism SMEs, which account for the majority of total tourism businesses.

The Office of the Board of Investment (BOI) does not specifically target the tourism sector as one of its six target industries. However, tourism may be included in the broadly defined targeted industry of high-value-added services. The policies and incentives provided by the Board of Investment in the tourism sector favor medium- and large-scale businesses, with a focus on various models of urban tourism parks including amusement parks, cultural centers, aquariums, race tracks, open zoos and cable cars. Initial capital investment for these types of businesses starts from between $0.5 million to $12.5 million. In the accommodations sector, incentives are offered to only those businesses with a minimum of 100 rooms. Thus, in practice, despite a stated commitment to assisting SMEs, it seems that in the area of tourism that the BOI favors large business.

4.3 Evaluation of the Effectiveness of the Existing Support Framework to Facilitate Tourism SME Investment

Thailand has a relatively strong existing support framework to facilitate tourism SME investment. The commercial banking sector is rather strong and there are soft loans available for SMEs at
commercial banks via the central bank. The SME Bank is also quite useful, targeting micro, small and medium businesses. The government’s venture capital fund, managed by OSMEP, is quite an interesting and unique case and is focused heavily on the tourism sector. However, long-term financing tailored to the tourism sector is in general not widely available, and there still exist issues with small tourism businesses accessing finances due to tightened lending requirements, which were adopted after the financial crisis of the 1990’s.

Government foreign investment policy towards tourism SMEs is mixed. While on the one hand the government states that it is supporting investment in SMEs with a low capital investment requirement, in the tourism sector it favors medium to large business investments.

Training and advisory support institutions for SME development are strong. The government offers training courses and practices research through Thammasat University, a model which is worth being emulated by other countries. The Institute for SME Research has research and training programs that specifically target the tourism sector, in addition to other sectors. Although in the past the government’s focus on SMEs in the tourism sector centered on the one-town-one-product project, the government is now trying new programs, such as public-private partnerships and venture capital aimed at SMEs.

There are many organizations and associations available to support tourism SMEs. Tourism SMEs have a variety of associations to choose from to receive assistance in marketing and management. The issue here rests in the ability of the many governmental and non-governmental organizations to effectively coordinate and cooperate to achieve their goals. With such a large number of tourism and SME associations and organizations, coordination is needed to maximize program effectiveness.

4.4 Key Issues, Concerns and Constraints Specific to Tourism SME Development

Finance and Investment

- Long-term, fixed-rate loans are not available to support tourism subsectors that require a longer timeframe for return on investment, notably accommodations.
- A long-term fixed rate is believed by some to be necessary for this subsector to grow. Financing should be long-term because accommodations typically cannot begin repaying the principle until perhaps 3-5 years after the business is started. A fixed rate is required because it is claimed that prices cannot be easily changed in the sector—prices are often set at least one year in advance, rather than quarterly or biannually. Accommodation businesses are helpless in the short term to loan rate hikes as well as increases in energy and utilities.
- Access to credit can be difficult for those without marketable capital, most importantly land title, and for those without a known identity with the banks. First-time loan applicants without land ownership and without a previous history with the bank or a personal reputation known to the bank will find it very difficult to be approved.
- An information-based system of evaluating loan applications is not available, thus favoring businesses with larger pre-existing capital assets.
- Investment policy in the tourism sector favors medium to large investments.

Human Resources

- Human resource development is another important issue for SMEs. Small-medium sized tourism businesses have fewer resources to train staff and have a limited ability to compete
with larger operators to attract qualified staff with higher wages. Retention of qualified staff in the tourism industry is said to be difficult, especially small tourism businesses, due to the growth of other attractive job markets that offer more upward mobility.

- Many tourism SME owners and managers have little experience in the tourism business, often investing their own funds made from another business, and find it difficult to manage their businesses and make them successful.

**Participation in Tourism Development Policy and Planning**

- Although there is participation of the private sector on tourism committees, greater representation is needed to allow the private sector a voice equal to that of the government.
- Better coordination between tourism associations and between associations and the government is needed to ensure that the voice and concerns of the private sector are clear and focused.

**Pro-poor and Sustainable Tourism**

- Many examples of pro-poor tourism or ecotourism SMEs typically arise from self-initiated projects and are not actively supported or encouraged by government or bank policies.
- Policies related to the development of pro-poor tourism is mainly limited to micro-level development of handicraft communities as tourist destinations and do not actively create long-term business partnerships between the private sector and the communities.
- Enrollment in environmentally friendly certification programs for the tourism sector is still considered below desired levels.

**Marketing**

There is a high rate of competition between businesses, due to the low barriers of entry and the resultant large number of tourism SMEs. Hence, issues related to product differentiation and linkages to international markets are pressing for the sector, as SMEs struggle to compete both with each other and with large-scale operators who are better positioned to link to the international tourism market.

**Investment in Public Areas**

Infrastructure at tourism sites is seen by many in the tourism industry as inadequate to promote a quality tourism product, thus hurting the ability of businesses to ask for higher prices for tourism products and services.

**4.5 Conclusions and Recommendations**

1. **Finance and Investment:**
   - A long-term financing fund should be made available to all SMEs, from all business sectors.
   - The Board of Investment should reevaluate its tourism sector incentives to include smaller scale investment types that include pro-poor/sustainable tourism models.

2. **Capacity Building and Business Development Training:**
   - Although there is training available to tourism SMEs in business development, perhaps the level of training should be expanded.
• Training programs and mentor services could be coupled with the existing soft-loan program to help make the loans more accessible and perhaps better utilized.

3. **Private Sector Participation in Tourism Development Policy and Planning**
   • Private sector participation on the National Tourism Committee should be increased to at least 50% of the members.

4. **Pro-poor and Sustainable Tourism**
   • The Thai Ecotourism and Adventure Travel Association should be supported to increase membership and spread the use of its guidelines to other businesses in Thailand and in the GMS in order to make pro-poor/sustainable tourism better marketable and more economically viable.
   • Green standards as created by the Green Leaf program should be supported to increase membership and spread the use to more businesses in Thailand and include other countries in the GMS in order to make sustainable tourism standards better marketable and more economically viable throughout the GMS.

5. **Marketing**
   • More marketing information and business marketing strategy training needs to be supported. Such a program might be developed using existing institutions, which could possibly be duplicated in other GMS countries using Thailand as the leading developer of training and market information systems.

5.0 **VIET NAM**

5.1 **Context of Tourism SME Investment**

Tourism in Viet Nam

With an attractive portfolio of tourism attractions including beaches, mountains, world renowned historical sites, cultural diversity, national parks, handicraft villages and shopping areas, Viet Nam is poised to become a new center for tourism in the region. Domestic tourism currently accounts for approximately 82.5% of all tourists with 16.1 million of the total 19.5 million tourists in 2005. Tourism is projected to continue to grow in the future and nearly double by 2010 to an estimated 6-6.5 million international arrivals and 25-30 million domestic visitors. Average expenditure per tourist was approximately US$96 in 2005, a reasonable expenditure that translated in gross revenue of US$ 1.88 billion. The largest markets for Vietnam are Asian, with Japan, Korea, Taiwan, China, Hong Kong and ASEAN countries accounting for 63% of all foreign tourists. The most important Western nationalities are the USA and France.

One of the main issues facing tourism in Viet Nam is the low percentage of repeat customers. It is estimated that only about 15-20% of visitors return to Viet Nam for a second time. The majority of the people interviewed during this study—regardless of their sector/business—was sensitive to this fact and expressed a need to increase the number of repeat tourists. This issue is perhaps a symptom of other pressing issues, including the need to protect the environment in urban and rural areas, safety, and the need to improve the quality of tourism services and attractions.
Private Sector Participation in Tourism

Although there are still many state-owned businesses in the tourism sector, most of the small tourism businesses are operated by the private sector. It is estimated that many of the domestic travel companies are either private or limited companies. Of the 468 international travel companies in the country, more than half are run strictly by the private sector, with 248 limited companies, 3 private companies and 10 joint ventures (foreign partnership). Unfortunately, many of the large companies are state-owned tour companies, which total 102, such as Saigon Tourist Corporation or the Hanoi Tourist Company.

Restaurants and handicraft sellers are mainly private sector. However, in the handicraft subsector, there are a fair number of cooperative groups some of which have public sector involvement. In accommodations, guesthouses and small hotels are largely private sector, while larger hotels are mixed between private and state-enterprises. There are, in fact, some large state-owned companies which are conglomerates of tourism businesses that include tour companies, hotels, restaurants and transportation.

SMEs in the Tourism Sector

SMEs are defined as possessing one of the following two criteria:

- Capital assets less than roughly US$660,000 (10 million Dong)
- Or less than 300 employees

There are currently an estimated 225,000 registered SMEs countrywide. (This figure does not take into account the many micro and informal businesses.)

There is no official distinction or classification by size for tour companies, accommodations, restaurants, handicraft sellers or transportation providers. The general definition for SMEs is, thus, used for the tourism sector. There are also no statistics that breakdown the number of SMEs within the tourism sector in Viet Nam. However, one can make an educated guess about the overall proportion of SMEs to large businesses in the tourism sector. For instance, in the tour company subsector, if one assumes domestic companies to be SME and international companies to be large, then we can estimate the proportion of SMEs at approximately 96%, or rather more than 10,000 companies of the more than 10,400 total tour companies both domestic and international. The Vietnam Tourism Association claims that small and medium sized tour companies account for approximately 90% of its members. In the accommodations subsector, most of the businesses would seem to be SMEs. Of the 6,000 accommodations countrywide, 4,932 are guesthouses, all likely qualifying as SMEs. Of the remaining 1,068 that are hotels, 883 are 1-2 star hotels, many of which also likely qualify as SMEs. Hence, we can estimate that approximately 5,815 accommodations nationwide, or 96.9% of the total number of accommodations establishments, are SMEs. It is also commonly held that most of the restaurants and handicraft sellers are SMEs, perhaps with many in the micro/non-formal range.

This is does not mean that tourism is dominated by SMEs, however. Market share is said to be heavily influenced by a few large companies, many of which are conglomerate, state-owned enterprises as mentioned above.
Private Sector Participation in Tourism Planning and Marketing

The private sector, including both large and small businesses, is rarely included in helping to formulate tourism development strategy and marketing plans. This problem is compounded by the fact that many tourism SMEs, in general, are weak in developing their own marketing programs due to low finances and a lack of understanding of marketing methods and tourism markets. Although there has been some progress made in creating a marketing and promotions board that will theoretically have participation from the business sector, the board has still not been officially opened. (The board was supposed to be set up according to a stipulation set forth in the Mekong Tourism Development Project contract conditions). The Tourism Working Group of the Vietnam Business Forum also advocates that an institutional arrangement be created to allow all tourism businesses to “have a voice to work with VNAT and the Government to implement marketing and other programs to improve the business environment.” This concern/recommendation, which is a direct outcome of input from private sector businesses, clearly implies that there is little if no coordination with private/business sector in planning and marketing.

Private Sector Participation in Associations

The role of the private sector in tourism and business associations is very limited. There are no completely private associations in Vietnam. The Vietnam Tourism Association (VTA), for instance, has a strong influence from the government and from state-owned enterprises, itself owning a state-owned tour agency and being headed by officials from the tourism administration.

Private Sector Participation in Pro-poor Tourism

Community-based ecotourism is in the early stages of development in Vietnam. In Sapa, the private sector is involved quite heavily in CBET. Most foreign tourists who visit communities in Sapa travel on group tours purchased from tour companies in Hanoi. All tourists visiting communities in Sapa are required to take a local guide, which in effect means that tour companies always include a local guide in their programs. Typical accommodation in villages is a homestay, forcing tour companies to provide additional support to communities through sleeping and food fees. However, prices paid for community tourism services vary and are sometimes negotiated by company tour guides to excessively very cheap prices, significantly reducing profits to communities. This is due in part by the fact that community tourism service providers are not organized into hospitality/service groups, thus leaving open the opportunity for tour companies to bargain between homestay families to get the cheapest price possible.

In national parks, there are a few examples of pro-poor tourism developments that are being developed by NGOs. However, these developments, which are typically conservation and community focused, have a reportedly limited inclusion of the private sector from the outset. NGOs developing ecotourism are typically concerned with setting up the product first, with full attention paid towards community involvement and natural resource protection measures, and then including tour companies later in the process.

Tourism development in coordination with many of Viet Nam’s cooperatives is another avenue for pro-poor tourism. Of the more than 1,400 handicraft villages in the country many are visited and supported by tourists and tour groups. According to the Vietnam Cooperative Alliance, there are an estimated 50 handicraft villages that have business relationships directly with tour companies. There are an additional estimated 100 cooperatives that manage and operate tourism sites, for example organizing agricultural tours for both foreign and domestic tourists. Other
tourism activities managed by cooperatives include homestays, guesthouse accommodations, transportation services to and from tourism attractions, and guiding services. Many cooperatives benefit indirectly from tourism as well by providing agricultural products and raw materials to the tourism sector.

Business relationships between tourism businesses and cooperatives are often non-contractual. In the case of handicraft cooperatives, for instance, tourism businesses treat the cooperative as a tourist attraction rather than as a business partner, meaning that the company takes its guests to visit the cooperative but does not work with the cooperative to jointly develop its facilities and services. Although this loose, non-contractual relationship is beneficial to both parties (i.e. the tour company sells tours to visit the cooperative and the cooperative sells handicrafts to the tourists), this model leads to handicraft villages with limited facilities, poor interpretation and an overall lack of marketing. Perhaps, with a closer business relationship with the tour companies, better business ideas and more investment could be made to improve the quality of the cooperatives’ tourism goods and services.

In addition to the model of non-contractual relationships between cooperatives and tourism business, there are also many instances of state-owned tourism enterprises holding strict, exclusive relationships with villages, which make it difficult for the private sector to participate in pro-poor tourism. The MPDF, for example, has found it difficult to support a sustainable tourism program with handicraft villages in the central region of the country due to the dominance of state-owned enterprises there having exclusive arrangements with handicraft villages.

One major issue facing private sector participation in CBT is that many areas are still not open to tourists. Should a private sector company be interested in developing and promoting a new village destination, approval from the government is required. This added layer of bureaucracy, thus, slows down the growth and development of tourism into remote and poorer areas. The government does, however, have a policy to spread benefits from tourism to all provinces and areas in the country for the purpose of poverty alleviation. Following this policy, VNAT is trying to promote every province in the country by promoting a new province each year and by promoting various special events and festivals in every province throughout the year. This program will likely ease up the approval process to visit more remote areas, thus assisting tourism businesses in developing these new sites in the future.

5.2 SME Investment Institutional Support Framework

5.2.1 Country Policy & Strategy

The government aims to more than double the total number of SMEs by 2010, from the current 225,000 registered businesses up to 500,000 nationwide. One way the government is planning to do this is by improving the environment for SMEs. For instance, the Ministry of Planning and Investment (MPI) is pushing to create a one-stop business licensing system, whereby businesses will simply register with a local business registration bureau using a simplified registration form. VNAT is also in the process of creating a one-stop policy for registration in order to minimize bureaucracy and to lessen the time taken to receive a tour company license. Licenses for domestic tour companies will soon to be abolished altogether as a further commitment to support small business.

The government’s policy to improve access to credit for SMEs is currently realized through cheaper loans offered through the Development Assistance Fund, a major funding source for SMEs throughout the country. Projects allowed to access these funds must fall within one of the
government’s target business sectors. The Fund also provides mid-term and long-term funding to SMEs, filling an important need particularly for tourism SMEs notably in the accommodation subsector.

VNAT has the policy to create management plans for all tourist areas and implements this policy in a promising manner. The government also supports its policy of expanding and building the tourism industry by improving access and support infrastructure in new and existing tourist destinations. VNAT has the policy to promote more inland, regional tours in the growing market of caravan tours.

5.2.2 Legal and Regulatory Framework

Licensing

The registration requirements for tour companies are not restrictive for SMEs. Domestic tour operators are no longer required to have a bond (which used to be approximately US$3,300), making startup costs extremely cheap. The official requirements are relatively cheap and simple, including relatively basic documentation and a properly equipped office (e.g. phone, fax). To open an international tour company, however, requires a sizeable investment, including a bond of roughly US$33,000 to US$66,000 depending on the type of tours operated. It is also required to have at least 3 trained and certified guides, as well as a manager with at least four years experience in tourism.

Accommodations are required to receive inspection from the Department of Tourism for the purpose of grading it according to the national star rating system, in addition to registering with local business registration authorities. Transportation enterprises specifically serving the tourism sector are required to get approval from both the Ministry of Transportation and the Ministry and VNAT in order to receive a ‘special logo’ that allows preferential parking in tourist destinations and transfer locations for tourists (e.g. bus stations, airports). Such licensing is meant to control the quality of tourism services and to ensure that they meet safety and environmental standards.

Investment Regulations & Tax Laws

The government is implementing an open door policy towards foreign investment. Viet Nam has made large changes in its policy towards foreign investment, now allowing 100% foreign ownership in addition to other forms of foreign-domestic business partnerships. Incentives for investment are, however, equal for both domestic and foreign investors. What differs is the investment criteria required to qualify for investment incentives. Foreign investments are required to be much higher than domestic investments in the same sector. Joint venture companies, for example, require a minimum capital investment of US$1,000,000. Tax exemptions vary from 10-50% of profit, depending on the location and type of business, and can be granted for a maximum of eight years. (Unfortunately, it was not made clear during this study as to which locations and types of investments are afforded the better tax exemptions.) Investments in hotels are further encouraged by a one-time exemption on import duties.

5.2.3 Special Arrangements for Tourism SME Investment

Tourism Planning Arrangements

Tourism planning practices targeted at SMEs in the tourism are weak, if non-existent, in comparison to the manufacturing sector. Whereas the manufacturing sector has special zones
throughout the country designed to provide incentives for investment in SMEs, tourism site development offers no special incentives for small businesses. Within the specially created manufacturing development zones, SMEs are sometimes provided with special rights to a certain portion of available low-rent land to ensure that they are able to participate. However, in the case of tourism, the government does not include in its land use planning for new tourism sites any special zones for the development of small and medium businesses. In fact, the government seems more preoccupied with zoning and planning for large foreign investments. Indeed the official ceiling list for tourism investments lists its cheapest desired investment at no less than US$11 million.

Financial Arrangements

The government supports its policy to help small businesses by offering financing targeted at SMEs through state development banks. For the tourism sector in particular, the government has a program to subsidize ecotourism business developments by offering a 3.6% subsidy via the Viet Development Bank on loans approved by commercial banks. Unfortunately, this subsidy has been very rarely used, with an estimated less than 10 cases nationwide. This is likely due to a lack of promotion of the subsidy and a subsequent lack of knowledge on the part of the business community about how to access the subsidy. VNAT, the commercial banks and other supporting institutions including the Tourism Association and the Chambers of Commerce are perhaps all to blame for the poor implementation of this ecotourism subsidy.

5.3 Evaluation of the Effectiveness of the Existing Support Framework to Facilitate Tourism SME Investment

Financial Institutions

There are many development banks and commercial banks that lend to SMEs. For instance, banks such as Exim Bank and Vietcom Bank which specialize in financing for import-export businesses, provide financial services to SMEs in the industrial sector. There are also credit lines available through development and commercial banks targeted at providing low interest loans specifically to SMEs across all sectors. These credit lines are funded by both the Vietnamese government and by international development lending institutions such as the German Development Bank (KfW), Agence Françoise de Développement (AFD), Japan Bank for International Cooperation (JBIC), and the European Union (EU). While lending rates are pre-set to ensure a favorable rate for the SMEs, approval and management of the loans are done according to standard, industry protocol to ensure that only truly qualified and competent SMEs receive the loans. However, the issues of high assets requirements and low capacity on the part of SMEs to apply for loans are still unsolved by these low interest loan packages. The Agency for SME Development, in fact, estimates that 60% of all SMEs face a problem with access to financing.

Specifically for tourism, some financial institutions interviewed report that tourism is an important sector for their institution. Resorts and hotels investments seem to be a popular target for some banks, and for large development banks transportation and transportation facilities are targeted. Specific, targeted financing for SMEs in the tourism sector, however, was not found. Some of the banks that provide loans to SMEs report to having experience in financing tourism SMEs, but none would claim to having a strategy for SMEs in the tourism sector. All of the banks do claim that they are open to the idea of financing tourism SMEs. Lending institutions stated that some of the issues they face when evaluating tourism sector investments include lack of information about the market and a poor understanding of the future of tourism. For tourism
SMEs in particular, lending is said to be quite risky due to a difficulty in ascertaining how a small tourism business investment will perform and whether or not it will be able to pay back the loan.

The Credit Guarantee Fund was set up by the government to provide credit guarantees to SMEs that have limited capital assets in order to assist them in getting better access to financing. This fund, unfortunately, has been relatively unsuccessful in achieving its mission so far due to a lack of seed-funding. It is required that the fund receives co-funding (a minimum of 30 billion Dong) from provincial governments, and thus, all but five provinces have opted not to take part in the program.

The IFC has had experience in investing in the tourism sector in Viet Nam. However, its lending has been limited to large projects only. Although the IFC believes that there is potential in the tourism sector for more investment, tourism sector business proposals submitted to the IFC are not common.

Government SME Development Agencies

The Agency for SME Development (ASMED) estimates that 70% of all SMEs require improvements to their management skills base. ASMED is working to provide such training by assisting provincial governments to provide training programs to SMEs. The programs aim at providing owners and managers of SMEs with the necessary skills to operate their businesses efficiently and to gain better access to both finance and markets. ASMED has a good foundation for providing training services to SMEs, with three branch offices throughout the country and a proven system for getting their trainings to the business community. However, this agency does not have any special training tailored towards SMEs in the tourism sector.

The SME Development Support Center (SMEDEC), under the Directorate for Standards and Quality, provides training to SMEs across all sectors in order to increase their competitiveness and efficiency and to improve the quality of products and services in Vietnam. SMEDEC’s programs focus on providing ISO certification and training to help businesses to meet international standards. Although the program has assisted a handful of tourism sector businesses, SMEDEC mainly services import/export businesses, which see ISO certification as financially beneficial. Tourism is largely unaffected by the ISO certification program due to the low marketability of ISO in the tourism sector and by the fact that most small-medium tourism businesses do not have the financial resources to pay for the process.

Vietnam Trade Promotion Agency

The Vietnam Trade Promotion Agency seems quite well put together for promoting trade, with offices abroad in a few major international ports and branch offices in all provinces. The agency provides information to businesses, offers short courses and training to managers in marketing, facilitates trade missions overseas and to Viet Nam for foreign importers, and organizes trade fairs and events to support domestic businesses. Unfortunately, most of this assistance does not reach the tourism sector. There remains a large gap for tourism SMEs, which is not included in international marketing and business outreach programs.

Tourism Training Institutions

Although training for SME owners and managers is available from many sources, specific training or mentor services for SME managers/owners in the tourism sector are very limited in both supply and scope. A new skills training system for the tourism sector supported by the EU,
which started over a year ago, has great potential for meeting some of the capacity building needs of the tourism sector, with a well-planned system for linking training with international industry standards. Most of the training, however, is geared towards staff working in international/large hotels. Of the thirteen occupations currently covered by the training system, only one is targeted at small-medium guesthouses/hotels. There is also training for tour companies available through this new system. These training programs are a “one-size-fit-all” aimed broadly at all tour companies, both large and small. This is likely not as large a problem as for the accommodations subsector, since the skills and management needs of large and small tour companies are quite similar.

Associations

The Vietnam Chamber of Commerce and Industry (VCCI) is a large umbrella organization set up to represent all business sectors throughout the country. While VCCI does not have a specific department or unit for tourism, it does coordinate with the Vietnam Travel Association on tourism issues and promotions. The Business Information Centre of VCCI supports SMEs by providing them with online information on doing business in Vietnam, market data, and a database of importers/exporters. The website also promotes foreign investment and domestic investment in certain sectors/subsectors. Unfortunately, the information available is targeted largely at the import/export sectors and does not have much information for tourism sector SMEs. There is an opportunity to beef up the tourism information and use this portal as a way to reach out to the tourism SMEs that have little or no information about the market, tourism developments, and buyers/sellers. It could also be used to promote investment in the tourism sector, both domestic and foreign.

VCCI has a department that deals with SME issues, called the SME Promotion Center (SMEPC). Although SMEPC does not have a specific policy on tourism, it does support the handicrafts subsector by promoting handicraft exports and handicraft villages for tourism. SMEPC uses the five branch offices of VCCI to promote improvements in quality and design of handicrafts by providing handicraft production/sales seminars and training and running competitions for handicraft innovations. The promotion of handicraft villages is done mainly through tour companies, with SMEPC playing a supporting role by assisting the villages to develop their products. More direct marketing strategies have not been taken.

The Vietnam Tourism Association (VTA) represents both accommodations and tour companies, with more than 800 total members and 15 branch offices nationwide. VTA’s activities include promotional activities such as facilitating fam trips and working with VNAT on promotional campaigns, representing business concerns with the government, providing input from the business sector into government plans for tourism development, facilitating training, and instituting quality standards for its members. Although approximately 90% of VTA’s members are said to be small or medium businesses, VTA claims that it needs more information about tourism SMEs in order to better serve them. VTA’s programs are currently targeted at all of its members, with no distinction made between specific needs for small, medium and large businesses. (Some informants felt that VTA’s programs favored state-owned companies.)

There are three SME associations in Vietnam, namely the Hanoi SME Association (HSMEA) in the north, the Central SME Association in the central region, and the Commerce and Industry Association in Ho Chi Minh City serving the southern region. These associations consult with the government on SME issues, work on changing regulations to improve the environment for SMEs, and provide training and consulting services on business management and planning. The HSMEA currently does not have any programs targeted at tourism, does not have any specific
information on tourism to assist tourism SMEs, and does not have consultants who specialize in assisting tourism businesses. HSMEA has a plan to create a credit guarantee fund using membership fees in order to help its members to access financing. Although this program has yet to start, it is an interesting idea which warrants more research and follow up.

5.4 Key Issues, Concerns and Constraints Specific to Tourism SME Development

Access to Finance

- Many businesses are not able to provide proper financial documents and a proper business plan convincing enough to be approved for a loan by either a private or state bank. Tourism SMEs are said to be particularly weak in financial transparency in comparison with sectors such as manufacturing, which see a greater financial benefit from tracking their inputs and outputs.
- Many SMEs do not have the fixed capital needed to qualify for a loan.
- As many tourism businesses require a long time frame to develop, long-term financing is needed. However, much of the financing available to SMEs is short-term or medium-term financing, due to the risk posed by lending to SMEs and the current funding mechanisms available.
- Some lending institutions say that they need more information about the tourism market and about what types of SME business opportunities hold high potential. Information regarding government plans and strategies for tourism development need to be shared with lending institutions to provide them with a better understanding of future tourism growth and to aid them with better information for calculating risks in tourism investments and developing specific criteria for evaluating tourism SME financing proposals. A system to synchronize the activities of businesses, government institutions and financial institutions is needed to provide this vital information. There is also a lack of information on the part of tourism businesses about financing opportunities, most notably in regard to the ecotourism development loan subsidy which remains almost totally unknown to the business sector.
- State-owned enterprises have an unfair advantage in getting credit because they are perceived by some institutions to having credit support from the state. This means that private SMEs are in part crowded out for finance by the larger, state-owned companies.

Training and Capacity

- ASMED estimates that only about 10% of all SME owners/managers have any formal education in business or management, which hampers their ability to access credit. This also limits many of the SMEs’ ability to manage and operate an efficient and competitive business. You will see many of the travel agents, for instance, offering identical packages with little or no variation.
- Much of the training offered to the tourism sector is skills training for staff. Training for managers/owners in order to upgrade and develop their businesses and management skills is very limited and is not specialized for the tourism sector (not to mention each of the tourism subsectors).
- MPDF has noted that there is a low willingness to pay for training by small businesses. This threatens the effectiveness and sustainability of any training program. Perhaps, a new model for training is needed in order to reach SMEs and make it attractive for them to pay.
• Many tourism businesses operate with antiquated or inadequate equipment. For example, many of the travel agencies do not have computer systems, not to mention the skills, to perform online booking. Instead, many of them choose to make bookings in person directly with the airlines.
• The network for tourism SMEs is not strong. Although there are tourism associations, the programs and services offered by the associations remain weak.
• There are no standards specific to tourism sector SMEs. Standards being developed by the Vietnam Human Resources Development in Tourism Project are being adapted from international standards set in other countries. However, these standards are in some respects not applicable to small businesses. Thus, there is a need to develop specific standards for small and medium sized businesses.
• There is no ‘eco’ or green certification available in the country.

SME Definition

The official definition of SMEs does not create a clear path for determining what is or what is not an SME in the tourism sector. Many large accommodations, for example, may have less than 300 employees, while some accommodations may have low total capacity and a high investment of more than $660k. In order to better target SMEs, better definitions specific to the tourism sector are needed.

Participation and Cooperation in Tourism Development Planning

• Historically, government policy has been made without inclusion of the private sector. State-owned businesses and large companies are also said to dominate in providing input to the government about tourism policy. The private sector and particularly SMEs are not included in a systematic way in developing tourism development plans. This issue has improved due to the Vietnam Business Forum and the Tourism Working Group. However, for tourism SMEs in particular, there still remains the issue of equal representation.
• SMEs in the tourism sector are disadvantaged by their lack of knowledge and inclusion in the development process of tourism sites, missing opportunities to invest in new sites due to poor information.
• Information and understanding by the private sector about the new tourism law and relevant subdecrees is not adequate. Although public workshops have been conducted to disseminate information about the new law, it still seems that greater effort is required to inform all stakeholders of the new changes.

Marketing & Promotions

• More effort is needed in increasing international marketing for Vietnam’s tourism as a whole.
• Better participation and representation in tourism trade fairs by SMEs is needed. International trade fairs remain inaccessible to most of the tourism SMEs due to the high financial cost and poor information about the events.
• There is no special program for the promotion of tourism SMEs. VNAT is concerned with promoting the country as a whole without paying any particular attention to helping promote SMEs.
Other Enabling Environment Issues for the Tourism Sector & SMEs

- The private sector is frustrated in some areas by restrictions that make it difficult to develop nightlife entertainment. Other restrictions make it difficult or even illegal to open legitimate tourism businesses such as massage-spas.
- Registration for tour companies is supposed to be no more than 20 days for domestic companies and 45 days for international tour companies. However, it often takes longer due to bureaucratic workings. This is also a problem for tour guide licenses which often take longer to receive than the official time of 15 days.
- The bond required to register an international tour company is quite steep and discourages SMEs from expanding into international service. The bond is not allowed to be used until the business is closed, which means that a business person must have a lot of extra cash hanging around in order to startup the business.
- Some requirements for businesses are too difficult for SMEs to meet. For example, the accounting law requires that all businesses have a trained and certified chief accountant. Most SMEs do not have the budget to hire an accountant and do not have the education and training themselves to meet this requirement.
- For tour guides, it is quite difficult to get licensed because of the high educational requirements. This holds especially true for guides working in remote areas where education levels are lower.
- Waste and pollution are a concern for the tourism sector. Natural areas such as Halong Bay are increasingly under threat from mismanagement of waste, generated by both tourists and the general public. Marketing Viet Nam as a destination for natural and cultural tourism is muddled by noticeable waste lying by the sides of roads and rivers. This issue has been raised by the Tourism Working Group.
- Poor infrastructure is another large concern for the tourism sector as a whole. This issue has been raised by the Tourism Working Group as well.

Pro-poor Tourism

- Some community-based tourism product, such as handicraft villages are run under exclusive contracts with large, state-owned tour companies, limiting private sector participation.
- Some CBT initiatives under development do not adequately include the private sector during the inception stage.
- Some CBT developments do not have an integrated relationship with the business sector, which means that the full potential of such businesses are not realized due to poor marketing and investment.
- Some CBT developments are not organized well enough to ensure that villagers receive a fair income for their services.
- There are no guidelines for community-based tourism for the business/private sector to follow.
- For the purpose of supporting pro-poor tourism and alleviating poverty from tourism, focusing only on private sector SMEs is a limited strategy due to the dominance of state-owned business conglomerates, which have a large impact on the tourism sector.

Research

There have been no surveys conducted on the needs of SMEs in the tourism sector. Although the Tourism Working Group has begun engaging the private sector in voicing their opinions and
concerns with the government, there have not been any specific studies or work done for tourism SMEs. This greatly restricts the abilities of the government and of development agencies to tailor programs according to the true needs of tourism SMEs.

5.5 Conclusions and Recommendations

1. Finance/Investment:
   - More promotion to SMEs in the tourism sector about available financing, such as reduced rate loans available to SMEs and the ecotourism loan subsidy, if needed so that the tourism sector can realize the potential of these programs.
   - More research and support is needed to assist associations such as the Hanoi SME Association in creating credit guarantee funds to support access to credit for SMEs.
   - Specific training offered through the associations for tourism businesses on business planning and record keeping is needed to help improve their ability to access financing through banks.
   - More information for banks about the tourism sector and in particular, opportunities for SME investments in the tourism sector are needed to provide them with more understanding and a better ability to evaluate applications from tourism SMEs.

2. Capacity Building and Business Development Training:
   - A system of standards aimed at small and medium tourism businesses is needed, especially for no-star hotels/guesthouses, restaurants, and small, domestic tour companies.
   - Although the new occupational skills training being developed with support by the EU does include one training for SME accommodations, a comprehensive training system designed for small accommodations is still needed. As SMEs are less likely to pay for staff to attend training programs, a training course that develops the skills of owners and managers of SMEs is needed.
   - Information through the VCCI website should be created and made available regarding tourism marketing, business development, buyers and sellers in tourism and tourism news updates in order to provide SMEs with better resources to expand their businesses.
   - A better definition for SMEs in the tourism sector is needed in order to allow training institutions to better target support to SMEs.

3. Government Policy & Planning:
   - The government should make an effort to include representatives from tourism SMEs to ensure that they have at least an equal voice to larger businesses. Representation from the SME association in tourism planning meetings would improve the situation, as would having a special unit within VTA to represent SMEs specifically.
   - Information on government plans for developing tourism areas and on any other important news such as new laws/regulations should be made available and up-to-date to SMEs perhaps through public announcements or through the VCCI SME website.

4. Marketing & Promotion:
   - SMEs in each of the tourism subsectors should be represented at trade shows and other tourism promotions fairs.
   - A database on buyers and sellers in the tourism sector should be made available through the VCCI website, as it does for import/export SMEs.
5. Enabling Environment Issues:

- Although many enabling environmental issues are being voiced through the Tourism Working Group of the Vietnam Business Forum, it is important that the voice of SMEs is always included in consultations and in the formulation of opinions. Representation of SMEs from each of the subsectors in the Tourism Working Group would ensure that the voice of SMEs is at least equal to that of larger businesses, which are more likely to participate and be heard in such meetings.

6. Pro-poor Tourism and the Private Sector:

- Models that showcase more direct, positive relationships between villages and private sector businesses are needed.
- ‘Eco’ certification for tourism businesses is needed in order to provide them with clear directions on how to include communities and the environment in their programs. Such certification could be used to provide real criteria by which to evaluate companies and promote those that meet standards to tourists.
- Awareness raising seminars for businesses on good practices are needed in order to engender a better understanding about how to make small but important steps towards alleviating poverty through tourism.
- Inclusion of the private sector at commencement of the project in new, pro-poor tourism initiatives, is needed.

E. FACILITATING TOURISM SME INVESTMENT IN THE GREATER MEKONG SUBREGION

1.0 DESCRIPTION OF THE TOURISM SME INVESTMENT CONTEXT

Tourism in the GMS

Tourism is a very important sector of the economy in all GMS countries. It is a growing sector in all GMS economies and should continue to be a major source of foreign income and employment should it continue to follow current trends. Tourism development for the purpose of poverty alleviation and economic development is the policy of all GMS country governments.

One of the main issues with tourism development in the GMS in the mid- to long-term range, however, is that of moving from a volume-based tourism sector to a quality-based sector. Increasing the average length of stay, the average expenditure, and the average rate of return visits is an issue that concerns all GMS countries. To reach the next level of tourism development and compete with regions with more experience, the GMS will need to improve the quality of its tourism products and services in order to target higher-paying visitors. Another issue is developing regional and domestic tourism, which is a growing market that deserves more attention. Regional and domestic tourism will continue to grow as the economies and citizens of the GMS gain more economic power and a greater ability to travel. Tailoring tourism products and services to this new and growing market will facilitate increasing tourism revenues.
Private Sector Participation in Tourism

Participation in tourism by the private sector in the GMS is mixed. In Thailand and Cambodia tourism-related businesses all belong to the private sector. In China’s Yunnan Province and GZAR, Vietnam, and Lao PDR, however, there are state-owned enterprises. Yet even in these economies, private sector businesses remain the majority in terms of total numbers of establishments. For the most part all SMEs in the tourism sector are operated by the private sector. Most restaurants, souvenir shops, small transportation providers and guesthouses are run by the private sector—far outnumbering larger tourism businesses. Some of the large tour companies in the GMS still have state influence, as do some large hotels in PRC and Vietnam. In terms of market share it is not clear what portion can be attributed to state-owned tour companies and hotels. However, it is likely to be significant in Vietnam and PRC.

SMEs in the Tourism Sector

There is no unified or agreed upon definition for SMEs in the GMS. Each country has its own definition. In most GMS countries there are no specific definitions for tourism-related sectors. SME definitions are a one-size-fits-all definition except for PRC, which has definitions for some general sectors of the economy. There are limitations to applying the current country definitions for SMEs to the tourism sector. SME definitions seem better suited for industrial factories, which are typically larger in scale in terms of investment and human resources than tourism sector businesses.

<table>
<thead>
<tr>
<th>Country</th>
<th>Business Size</th>
<th>Capital</th>
<th>Employees</th>
<th>Annual Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cambodia (guidelines only)</td>
<td>Small</td>
<td>between US$50,000-250,000</td>
<td>Between 11-50 employees</td>
<td>not applicable</td>
</tr>
<tr>
<td></td>
<td>Medium</td>
<td>between US$250,000-500,000</td>
<td>Between 51-100 employees</td>
<td>not applicable</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>Small</td>
<td>less than approximately US$25,000</td>
<td>less than 19 employees</td>
<td>less than approximately US$40,000</td>
</tr>
<tr>
<td></td>
<td>Medium</td>
<td>less than approximately US$120,000</td>
<td>less than 99 workers</td>
<td>Less than approximately US$100,000</td>
</tr>
<tr>
<td>Thailand</td>
<td>Small</td>
<td>approximately $1.25 million</td>
<td>maximum of 50 employees</td>
<td>not applicable</td>
</tr>
<tr>
<td></td>
<td>Medium</td>
<td>more than $1.25 million and not exceeding $5 million</td>
<td>more than 50 employees and not exceeding 200</td>
<td>not applicable</td>
</tr>
</tbody>
</table>
As mentioned above, the majority of tourism-related business establishments in the GMS are private sector SMEs. In each subsector, small-medium size businesses outnumber large businesses. In terms of market share it is not clear what share belongs to large businesses and how much belongs to the SMEs.

### Private Sector Participation in Tourism Development Planning

Overall, private sector participation in tourism development and planning seems to be quite weak in the GMS. Regular, systematic and meaningful consultation with, and input from the private sector as facilitated by the government is not common. In Cambodia, Lao PDR and Vietnam the Business Forum, a public-private sector consultative bi-annual meeting initiated by the World Bank, is helping to improve this situation by providing a special forum for the tourism sector, called the Tourism Working Group, to voice its concerns. The Business Forum, however, is not a planning committee. It is reactive towards government policy rather than being a pro-active planning body setup to shape policy. Thailand is the only GMS country that has a tourism planning committee with private sector participation. However, private sector representation on the board is markedly lower than representation by the public sector. Yunnan and GZAR each have various forms of private sector input. It is not clear, however, to what extent these systems are effective and truly participatory. Overall, pro-active consultation with the private sector during the initial stages of planning, development and policy is weak in the GMS.

### Private Sector Participation in Mass Marketing

Mass marketing of tourism in each of the GMS countries is currently seen as a public sector responsibility. Only in Thailand is the private sector included in this process, and even there, the private sector does not feel adequately included. Cambodia, Lao PDR, and Vietnam have been in the process of creating public-private marketing and promotions boards since the first ADB tourism loan project. However, none of these boards have officially started working. Thus, the private sector remains on the outside of mass marketing campaigns. In Yunnan and GZAR, the government spends considerable amount of resources in promoting tourism. However here too, the private sector is not included so much in the formulation of such campaigns.
Private Sector Participation in Pro-poor Tourism

Pro-poor tourism development is an important policy of all GMS countries. All GMS countries see tourism as an important tool for alleviating poverty due to the wealth of tourism attractions that rest in poor areas and the fact the tourism is a business type that can employ large numbers of people. The definition of what is or is not pro-poor tourism in the GMS seems to vary according to whom one speaks with. Clear standards or guidelines on what constitutes a pro-poor tourism business model, outside of Thailand, are not accessible or available. Community-based tourism, sustainable tourism, and ecotourism are terms that do not have clear definitions and guidelines for implementation by SMEs.

Private sector participation in pro-poor tourism programs is limited. Perhaps the most popular pro-poor tourism business model is the development and promotion of handicraft villages. However, development of this model is done mainly by the public sector (i.e. NTOs) with the private sector playing merely a supporting role as a buyer of handicraft village products/services. The private sector is rarely included as an integral business partner or product developer in such pro-poor tourism programs. The ADB-funded pro-poor tourism project itself relies heavily on public sector input during project formulation and does not engender a systematic strategy for cultivating meaningful dialogue and input from the private sector during the planning stage.

2.0 DESCRIPTION OF SME INVESTMENT POLICY SUPPORT FRAMEWORK

Big is beautiful: Investment policies of the various boards of investment in the GMS are, with a few minor exceptions, focused on attracting large scale investment. Tourism is given preference through investment policies in all GMS countries. However, governments in the GMS are focused on attracting mainly large tourism sector investments: large hotels and resorts, theme parks, and international inbound-outbound tour agency partnerships.

Although in some countries investment policies are equal for foreign and domestic investments, the focus of the boards in promoting business investment is in attracting outside investment, be it from another country or from another province, as in China.

The positive aspect of investment policies for the sake of pro-poor tourism is that government investment incentives encourage investment in remote areas, typically where poorer segments of the population reside and where much of the region’s natural and cultural resources are situated.

There is very little incentive in the GMS region, however, as provided by governmental investment policies, to encourage investment in small-medium ecotourism businesses or in partnerships with communities. Although large scale investments in tourism may have positive implications for the poor by offering employment to low income or unemployed people and by injecting money into local economies, there is nothing specific in investment policies that provide a “carrot” to entice potential investors to go the extra yard to ensure that their businesses make targeted positive impacts on the poor and the environment. In this sense, if there are any positive pro-poor tourism implications from current large-scale business investment policies of governments in the GMS, it would be best characterized as a trickle-down, invisible-hand type pro-poor tourism model.
3.0 Evaluation of the Effectiveness of Existing Support Framework to Facilitate Tourism SME Investment

Finance Institutions

Banking in GMS countries have in recent years undergone reforms that have made banks stronger in the long term. For SMEs these reforms have made it more difficult to obtain financing due to tightened lending policies and greater collateral requirements for loan approval. Many SMEs are not prepared to provide transparent financial records necessary to be approved for loans. Tourism/service sector SMEs are seen by banks to be quite weak in meeting conditions for loan approval. Although there are various forms of SME-specific funding available in different GMS countries, there is very little that is targeted to the tourism sector, and there is a void in long-term financing—which is in need by the accommodations sector. Credit guarantee systems for SMEs are in place in some GMS countries but are aimed at short-term cash flow shortfalls and do not meet the needs of tourism subsectors that require financing in the medium to long-term. Venture capital institutions aimed at SMEs and/or the tourism sector were not found during this study.

Government SME Development Support Offices

Government offices that support SME development and promotion in the GMS are concerned with the welfare of all SMEs without much focus on one sector or another. Some of these offices which do have a sector-specific focus seem to look at industrial sector SMEs (SMIs), without much attention paid to the tourism or service sectors. It seems that a common view held by such offices is that SMEs in the tourism sector are under the jurisdiction of the NTOs, and that assistance to SMEs in the tourism sector mainly consists of training of staff of hotels and tour companies and mass marketing campaigns.

National Tourism Offices

Assistance to tourism sector businesses as provided by NTOs in the GMS is not specific to business size. NTOs do not differentiate between business scale when reporting statistics, when conducting trainings, or when developing marketing or development plans. Some NTOs actively create tourism development plans that favor large business investment. NTO policies in relation to assisting SMEs are weak in general. NTOs do not have specific departments for assisting SMEs and do not have professional staff able to train business sector owners/managers. Most training offered by NTOs to businesses is in the area of skills training for guides and hospitality staff, as opposed to small business development. Overall it seems that the NTOs in the GMS are not particularly participatory in planning and development, often leaving the business sector out of the decision making process.

Associations

Tourism-related associations in many of the GMS countries are quite new and are still in the process of defining their roles and responsibilities and learning how to provide services to their members. Through interviews with association leaders, it is apparent that they are, in general, concerned with all of the main issues and problems related to SMEs found in this report. However, due to a lack of budget, lack of experience and, in some countries, lack of autonomy, tourism associations are, at the moment, weak in assisting tourism businesses. There is also very little distinction within associations between programs and issues for SMEs as being separate from large businesses. Many of the tourism associations in the GMS have been initiated by
governments or through the support and initiative of development agencies. For this reason, they do not have strong buy-in from the business sector as yet. Regardless of these institutional issues, tourism associations seem to be best suited to assisting tourism sector SMEs. With some support and planning, they can create profitable, self-sustaining training and marketing programs and may become stronger in the future.

Chambers of commerce in the GMS are geared largely towards representing industrial sector business. Representation and marketing for tourism businesses is seen to be the responsibility of tourism-related associations (hotel associations, travel agents associations, etc) and the NTOs. There is scope for assisting chambers of commerce to bolster their activities to better include the tourism sector. Information systems and promotional activities that link up buyers and sellers and investors and entrepreneurs for industrial sector businesses could potentially be expanded and applied to assist tourism sector SMEs.

In general, SME associations do not focus on assisting tourism sector businesses. In Cambodia, the SME association specifically helps industrial sector businesses only and does not assist tourism SMEs. SME associations in Thailand and Vietnam are neutral and open to assisting SMEs from all sectors. In Lao PDR, Yunnan, and GZAR there are no SME associations.

Some associations are actively looking for solutions to finance difficulties for SMEs. The Chamber of Commerce in Yunnan and the Hanoi SME Association in Vietnam are trying to create credit guarantee funds for their members. Although it is too early to determine if these schemes are viable, they warrant more research. The legality of associations managing credit guarantees is not clear in most countries. There are also no matching funds to make the credit guarantee funds attractive in the short term, as well nor expertise and advice to the associations trying to pioneer this creative finance solution.

Training Institutions

It is quite difficult through this report to make a full analysis of training institutional capacity as related to SMEs in the tourism sector. However, to generalize, it was found that most tourism-related training institutions target skills training for staff in areas such as hospitality and guiding. Business development and management training is taught more as a general subject applicable to all business sectors with no focus on the tourism sector. In most GMS countries, universities and colleges play the role of providing specific hospitality business management education. However, for the many ‘mom-and-pop’ SMEs who have very little formal education in tourism and little time to go back to school, training aimed at SME business development and management in the tourism sector is scarce. In the tourism sector, business development and management aimed at managers and owners of SMEs take a back seat to training aimed at unskilled staff employed by large hotels and tour companies. Written material in local languages aimed at managers and owners of small tourism businesses also seems to be lacking.
4.0 KEY ISSUES, CONCERNS AND CONSTRAINTS AT COUNTRY AND SUBREGIONAL LEVEL

4.1 Subregional Issues

Access to Finance and Investment

Access to finance is a common concern among tourism SMEs. Common issues among all GMS countries include:

- **Private financing dominates investment in tourism SMEs.** Most investment in SMEs in the tourism sector seems to be made through private financing and reinvesting of profits from the sector itself. Businesses rely on their own personal/business savings and on personal loans from friends, acquaintances, and in some cases even tourists. Medium-scale businesses can have a particularly difficult time finding funding for their business because they require a level of financing that is too high for private sources to meet and are still at the level that is too low or unattractive to some banks.

- **SMEs are not prepared to be approved for loans.** Many businesses do not know how to prepare proper financial documents and a proper business plan to qualify for a loan. Tourism SMEs are said to be particularly weak in financial transparency in comparison with sectors such as manufacturing. Many tourism SMEs are also not aware of the financing options available to them, such as credit guarantees and special soft loan programs aimed at SMEs.

- **High fixed capital requirements are a barrier.** Many SMEs do not have the fixed capital needed to qualify for a loan. It is quite difficult for SMEs to access financing due to the strict requirement for fixed assets, which has been a result of bank reforms in all GMS countries. SMEs have a difficult time competing with larger businesses for finance. Access to credit can be difficult for those without marketable capital, such as land title in some GMS countries, and for those without a known identity with the banks. An information-based system of evaluating loan applications is not available or is very weak throughout the GMS, thus favoring businesses with larger pre-existing capital assets.

- **Long-term financing is not available or in short supply.** As many tourism businesses require a long timeframe to develop, long-term financing is needed. However, much of the financing available to SMEs in the GMS is short-term or medium-term financing, due to the risk posed lending to SMEs and the current funding mechanisms available. Long-term, fixed-rate loans are not available to support tourism subsectors that require a longer timeframe for return on investment—most notably accommodations. A long-term fixed rate is believed by some to be necessary for this subsector to grow. Another problem noted with finance is that interest rates on loans available from banks are often too high for tourism businesses to cover. Many tourism businesses are not able to generate enough significant income for quite some time after opening—sometimes more than 2-3 years—due to the inherent long-range timeframe for promoting tourism businesses.

- **Lending institutions lack information about the tourism sector.** Overall the tourism sector is perceived as a lower profit maker and higher risk in comparison to the industrial and other sectors. Some lending institutions are not comfortable with funding the tourism sector, especially SMEs in the tourism sector, because it is a rather new industry and in
some ways a less traditional one. For example, loans are not readily available from commercial banks for soft infrastructure such as internet marketing. Some lending institutions say that they need more information about the tourism market and about what types of SME business opportunities hold high potential. Information regarding government plans and strategies for tourism development need to be shared with lending institutions to provide them with a better understanding of future tourism growth and to aid them with better information for calculating risks in tourism investments and developing specific criteria for evaluating tourism SME financing proposals.

- **State-owned enterprises have an unfair advantage in getting credit.** This is applicable in the GMS countries where there exist state companies, i.e. PRC, Vietnam and Lao PDR. State companies are perceived by some lending institutions to having credit support of the state. This potentially creates a crowding out effect that makes it more difficult for private sector SMEs to attain financing.

- **Credit guarantee funds for SMEs in the tourism sector are not well developed.** There are a few examples of business associations trying to start credit guarantee funds for their members, but most are either in the developmental stage or have not been successful due to a lack of technical expertise and no matching funds. Credit guarantee companies are often geared towards servicing industrial import/export sectors and specialize in short-term, cash flow guarantees. Credit guarantees that help tourism SMEs get long-term financing do not seem to be available.

- **Venture capital is not available to tourism SMEs in the GMS.** Venture capital seems to be a good alternative to long-term financing from commercial banks; However, VCs typically do not target tourism sector businesses, especially tourism SMEs.

- **Financing is difficult to obtain for developments in remote areas.** It is difficult to obtain financing where land must be leased or rented from the government, such as national parks. This is because proof of ownership as collateral is not possible. This minimizes the ability of SMEs to participate in pro-poor/ecotourism developments in remote areas.

- **Investment policy in the tourism sector favors medium to large investments.** Local firms are at a disadvantage to outside investors in competing for contracts to invest in new tourism sites because they do not have as much capital/finances for investment and because the government is focused on attracting the largest possible investments. Government calling lists for the tourism sector are focused on attracting large business. Tax benefits for investment in the tourism sector are typically granted to large-scale investments.

Human Resources, Capacity Building and Business Development

Human resource development at both the staff and the managerial/owner levels is a core issue.

- **Finding, training and retaining qualified staff is difficult for tourism SMEs.** Qualified personnel are attracted to either large tourism businesses or to other sectors with greater job growth and higher pay scales. Due to low education levels of the general population in many GMS countries, SMEs must make extra effort to train new staff.
• **Tourism SME owners/managers have generally low education about tourism business management.** Many tourism sector SME owners are first timers, with little or no previous experience in the sector. As SME managers/owners are responsible for a variety of tasks and occupations, this lack of experience makes a huge impact on the business. Tourism sector SMEs in the GMS have difficulties with product differentiation and creative marketing to improve the value of their products/services, instead often resorting to price cutting as their main vehicle for marketing. Low business education levels of SME managers/owners also hurt their ability to train their staff.

• **Training for the tourism sector is generally not specific enough to the needs of SMEs.** Much of the training offered to the tourism sector is skills training for staff. Training for managers/owners to upgrade and develop their business and managerial skills is very limited and is often not specialized for the tourism sector—not to mention each of the tourism subsectors. Many training programs offered for the tourism sector in the GMS are not conducted by tourism SME professionals.

• **A low willingness to pay for training by small businesses threatens sustainability of such programs.** Perhaps, a new model for training is needed in order to reach SMEs and make it attractive for them to pay.

• **The network for tourism SMEs is not strong.** Although there are tourism associations, the programs and services offered by the associations remain weak. Tourism associations do not have specific SME assistance programs, although the majority of their members are typically SMEs.

• **There are no standards specific to tourism sector SMEs.** Standards are typically geared towards larger businesses, such as the star system which leaves out guesthouses. Clear and marketable standards aimed at SMEs are not available in the tourism sector.

**Marketing & Promotions**

• **Participation of the private sector in mass marketing campaigns of GMS governments is weak.** Except for Thailand, marketing boards are still not in operation in the GMS countries despite a loan condition of the previous ADB financed Mekong Tourism Development Project which stipulated that Cambodia, Lao PDR, and Vietnam create them.

• **Tourism associations need to bolster their marketing services to members.** Most tourism associations offer limited marketing services to their members. Such services need to be economically viable in order to add private-sector solutions to mass marketing campaigns.

• **Better participation and representation in tourism trade fairs by SMEs is needed.** International trade fairs remain inaccessible to most of the tourism SMEs due to the high financial cost and poor information about the events.

• **Many new tourism SME owners do not understand marketing.** They do not understand the market, do not understand the importance of marketing and do not understand the various ways to create and implement a marketing plan. Market information, although available, is not widely distributed to tourism SMEs.
Participation in Tourism Development Policy and Planning

- **Systematic and regular involvement of the private sector in tourism policy formulation and planning is needed to ensure that government development plans match the needs of the business sector.** Although the Tourism Working Group of the World Bank-sponsored Business Forums in Cambodia, Lao PDR and Vietnam have improved private sector participation in tourism development planning and policy making, more regular involvement of the private sector is needed. This is true for PRC and Thailand also. Much of the input of the private sector is in the form of post-facto complaints and concerns of policies and plans already made by the government. The private sector needs to be involved during the planning process, not after the policies and plans have been made.

- **Provincial level private sector participation is quite weak in many areas of the GMS.** There are no public-private tourism development boards in most provinces/districts around the GMS.

- **SMEs are not systematically represented by tourism associations.** Large tourism businesses seem to dominate the input from the business sector regarding government tourism policies and plans. There is often no differentiation between the views of tourism SMEs and of large tourism businesses.

- **SMEs in the tourism sector are disadvantaged by their lack of knowledge and inclusion in the development process of tourism sites.** SMEs likely miss opportunities to invest in new sites due to poor information and lack of inclusion in initial development planning.

- **Tourism associations in most GMS countries are weak and not ready to provide quality services to provide a viable substitute for government programs.** Potential services that associations can provide are training, marketing, and advisory assistance. However, with low revenues and low capacity for providing such services, this potential has yet to be realized.

Pro-poor and Sustainable Tourism

Pro-poor tourism, sustainable tourism, community-based tourism and ecotourism are concepts that have very unclear definitions, little in the way of clear guidelines and steps to follow for local SMEs, and little support and incentives to encourage the business sector to participate in this niche market. Here are a few of the main issues concerning the development of pro-poor/sustainable tourism with private sector SMEs.

- **Better participation of the private sector in pro-poor tourism initiatives is needed.** Without inclusions of the private sector from the inception of pro-poor tourism developments such programs will not be financially sustainable. Some CBT initiatives under development do not adequately include the private sector from the inception of the project. Some CBT developments do not have an integrated relationship with the business sector, which means that the full potential of such businesses are not realized due to poor marketing and investment.
• Models for how local, private sector SMEs can develop pro-poor tourism are needed. There are very limited examples of private sector-driven, pro-poor tourism initiatives. Many examples of pro-poor tourism or ecotourism SMEs typically arise from self-initiated projects and are not actively supported or encouraged by government or bank policies. Policies related to the development of pro-poor tourism is mainly limited to micro-level development of handicraft communities as tourist destinations and do not actively create long-term business partnerships between the private sector and the communities.

• There is almost no support for the facilitation of company-community partnerships. The tourism offices in some GMS countries have helped negotiate contracts and relationships between communities and tourism businesses. But in general there are no on-going, sustainable programs available to businesses and communities to facilitate and encourage healthy pro-poor business relationships.

• Standards and clear guidelines for local SMEs on green/sustainable practices are lacking. There is no ‘eco’ or green certification available in the country. Enrollment in environmentally friendly certification programs for the tourism sector is still considered below desired levels. There are no guidelines for community-based tourism for the business/private sector to follow.

• Product differentiation and quality improvements to handicrafts are major issues for pro-poor tourism in the GMS. Governments interested in promoting handicraft production and sales as a way to use tourism as a tool for poverty alleviation are challenged by the difficulty in helping villagers to increase handicraft sales and make better profit margins on current products. Most governments assist villages in developing handicrafts for sale to tourists and use this as their primary model for pro-poor tourism development. Many people interviewed expressed a need for more research into how to improve such programs.

• Investment in areas that have potential for developing pro-poor/sustainable tourism products and services is limited in many GMS areas due to a lack of protection of the areas' attraction values. Tourism attractions such as ethnic villages, cultural heritage sites, national protected areas, and remote natural attractions are very attractive places to start tourism businesses. However, lack of protection of the attraction values of many of these public areas—e.g. low protection of wildlife, forests, local cultures, landscapes, and environmental quality—discourages businesses from making long-term or large-scale investments due to uncertainty in the sustainability of the attraction.

SME Definition

Official definitions of SMEs are, in general, not specific to the tourism sector and do not offer adequate direction on what tourism businesses should be targeted for assistance. The one-size-fits-all definition for SMEs in most GMS countries (excluding PRC) does not allow for differentiation between SME types by tourism subsector.
Research

There is very little formal study on the needs of SMEs in the tourism sector. Most information available is directed at either the tourism sector with no differentiation between business size or at SMEs without differentiation by sector.

Information Systems

Information on tourism business investment opportunities for SMEs is not readily available. There is very little assistance available to SMEs to facilitate partnerships with large national or international investors. There is also very little information available to tourism businesses on how to start up, operate and maintain a tourism-related business, such as an accommodation, a tour company or a handicraft business. Marketing information, such as market data, buyers/sellers lists, or tourism events lists, do not seem to be readily available to SMEs, who typically have less understanding of the importance of such information and on places where to find it.

4.2 Issues Specific to Cambodia

- **Infrastructure to support tourism is a major concern.** Roads in some areas remain in poor condition, making transportation of tourists a challenge. Poor infrastructure hurts tourism in remote areas where some of the country's most beautiful natural and cultural attractions are found, making it more difficult to extend the average length of stay. Other issues raised related to infrastructure are a lack of multilingual signs, inadequate waste management systems, and poor lighting and walkways in towns.

- **Safety and security is also a concern.** Although this issue has improved in a relatively short time since Cambodia was opened up to tourism in the late 1990s, there are still many problems, such as petty theft and other safety issues in public areas. This hurts the image of the country and makes it difficult for tourism businesses to market their products and services, especially to higher-end markets.

- **Corruption at border areas is a concern.** Unofficial head taxes and other requirements at certain border crossings hurt the industry and make it difficult for companies to provide professional and competitive services.

- **Restaurant licensing is unduly bureaucratic due to licensing requirements by the Ministry of Tourism.** In addition to inspections and approval from the Department of Health and the local business registration bureau, restaurants are required to receive approval from the MOT with no apparent value added to the licensing process.

- **Licensing of tour companies can be a lengthy process that sometimes involves fees that are not clearly defined.** Some companies operate without licenses to the disadvantage of businesses that spend the time and money to go through the official licensing process.
4.3 Issues Specific to Lao PDR

- Poor supporting public infrastructure is a major concern for the tourism sector. Poor roads, inconsistent water and electric supplies, and slow communications systems are just some of the infrastructure problems that affect tourism.

Taxes in the tourism sector are said to be inconsistent, confusing, and unfair. The Tourism Working Group reports that a VAT tax is desired by the tourism sector along with clearer guidelines on the application of income taxes.

- Startup capital requirements for tour companies favor large-scale investment. The minimum capital requirement for tour companies is US$100,000—the official ceiling below which a business qualifies as an SME. There are said to be new regulations coming out that will make a lower capital investment requirement for provincial tour companies, but as for now the tour company subsector is officially geared towards large companies.

- Training and certification for guides—which is required for all tour guides—is not available in adequate quantity to meet the demand of travel companies.

4.4 Issues Specific to People’s Republic of China (Yunnan and GZAR)

Yunnan Province

- Although there is a government policy to privatize tourism businesses, the tourism sector is still heavily influenced by a minority of large, state-owned companies. Private tour agencies must compete with large, state-owned or partially state-owned enterprises, which have the advantage of more experience, a better network, and the security of government backing.

- The “One Card System” in Li Jiang is a bureaucracy that burdens small tour operators heavily. Many of the small/medium sized tour operators find it difficult to pay a lump sum in advance to the One Card committee for services (hotels, museums, etc) in Li Jiang. This system may also create higher transaction costs for the industry and limit creativity and flexibility of tour operators. This system may, however, protect local SMEs in Li Jiang from tour companies that pay late or default on payments.

Guangxi Autonomous Region

- In comparison to other sectors, the privatization of hotels has been relatively slow. It is reported that privatization of hotels has been put on hold by the National Assets Bureau. State-owned hotels that remain profitable will likely remain state-owned until the National Assets Bureau allows for the privatization process to move forward.

- Restrictions on domestic tour companies make growth and expansion difficult. Domestic tour companies are not allowed to sell tours directly to tourists for tours to other provinces. A company is allowed to open a branch in another province, but must receive approval from the national government, which is a slow and bureaucratic process. Companies are not allowed to open a new branch in another province unless it has at least
100,000 tourists per year, which makes it quite difficult for SME tour companies to ever get approval for expanding their business across provincial borders.

- **The accommodations sector is hurt by relatively higher costs for electricity and water, which are made more expensive for tertiary businesses than for the industrial and agricultural sectors.** Yunnan Province has equalized utility costs for tertiary sectors with the industrial and agricultural sectors. However, in GZAR a higher cost structure for utilities for tertiary/service sector businesses remains.

- **Advertising is prohibitively expensive.** This is blamed on the fact that media is controlled by the state and is limited in variety and volume, causing high advertising rates. High advertising rates hit SMEs the hardest, as they have smaller budgets for promotion.

- **Insurance, officially required on all tours, is of poor quality.** Insurance is only available from state insurance companies, which provide poor services.

### 4.5 Issues Specific to Thailand

Although Thailand has many programs in place to assist SMEs in the tourism sector, there are some things that can be improved which are related to the issues listed above for the GMS as a whole. Here is a short list of some of these issues:

- Low cost SME loans are not entirely utilized. Only 80% of the funds made available through the Bank of Thailand for SMEs are used. Many tourism SMEs are not able to qualify for loans due to high collateral requirements and lack of business transparency.
- Long-term funding designed for SMEs in the tourism sector is not readily available.
- Private sector representation on the national tourism board is significantly lower than that of government agencies. More participation and input from the private sector into government tourism policy and development is needed.
- Enrollment in the Green Leaf program is still lower than it needs to be in order to make the desired impact on ‘greening’ the tourism sector. Incentives and guidelines to encourage more participation of SMEs in pro-poor/sustainable tourism are needed.

### 4.6 Issues Specific to Viet Nam

- **The private sector is frustrated by restrictions that make it difficult to develop nightlife entertainment and spas.** Restrictions include early curfews for bars and entertainment businesses and zoning that makes it illegal in some areas to operate spas.
- **Information and understanding by the private sector about the new tourism law and relevant subdecrees is not adequate.** Although public workshops have been conducted to disseminate information about the new law, it still seems that a greater effort is required to inform all stakeholders of the new changes.
- **The bond required to register an international tour company is quite steep and discourages SMEs from expanding into international service.** The bond is not allowed to be used until the business is closed, which means that a business person must have a lot of extra cash hanging around in order to start up the business.
- **The accounting law makes it difficult for SMEs to operate due to strict requirements that all businesses have a trained and certified chief accountant.** Most
SMEs do not have the budget to hire an accountant and do not have the education and training themselves to meet this requirement.

- **For tour guides, it is quite difficult to get licensed because of the high educational requirements.** This holds especially true for guides working in remote areas where education levels are lower.

- **MPDF has noted that there is a low willingness to pay for training by small businesses.** This threatens the effectiveness and sustainability of any training program. Perhaps, a new model for training is needed in order to reach SMEs and make it attractive for them to pay.

- **Some community-based tourism products, such as handicraft villages, are run under exclusive contracts with large, state-owned tour companies, limiting private sector participation.** This makes it difficult for the private sector to participate in community-based tourism.

- **For the purpose of supporting pro-poor tourism and alleviating poverty through tourism, focusing only on private sector SMEs is a limited strategy.** This is due to the dominance of state-owned business conglomerates, which have a much larger impact on the tourism sector than small-medium private businesses.

### 5.0 RECOMMENDED POLICY, LEGAL, AND INSTITUTIONAL REFORMS AND IMPROVEMENTS

#### 5.1 Investment Policy Reforms

**SME Tourism Investment Incentives:** Revisions to existing investment board policies are needed to create incentives for small-medium businesses that focus on ecotourism, sustainable tourism or community-based tourism. Such investments could be aimed at domestic investments to encourage local initiatives in these important niche markets of tourism. Local, business-driven initiatives in sustainable tourism are sorely lacking in the GMS and could benefit from national investment incentives.

**Pro-poor and Sustainable Tourism Incentives:** Special incentives for large-scale or sector-wide businesses investing in the tourism sector should be created in order to encourage investors to make commitments to employ poor people at fair wages and to take measures to protect the environment. Requirements qualify for such special “sustainable tourism investment incentives” would include making a quantifiable commitment to hiring a certain percentage of staff from the local area at the nationally or regionally recognized fair wage rates as well as enrollment in a nationally or regionally sanctioned green certification program such as the Green Leaf program in Thailand.

**Ceiling Lists for Sustainable Tourism Business Investments:** Currently, ceiling lists for investment in tourism are focused on large investments in business ventures that have little or no direct benefit for the poor or the environment. Ceiling lists for investment in the tourism sector do not match the policies of most GMS governments, which aim to use tourism as a tool to fight poverty and to support cultural and natural resource values. It is recommended that ceiling lists for investment in sustainable tourism business ventures be created.

#### 5.2 Legal and Regulatory Reforms at the Subregional Level

**SME Definition:** Definitions for SMEs specific to each of the tourism subsectors needs to be created in each of the GMS countries. Creating programs for SMEs in tourism is difficult or even
meaningless if the definition used to separating the small-medium from the large or the micro are not applicable to the industry.

**Taxes and Licensing Fees:** Although each country has its own particular tax and licensing fee issues, it is recommended that clear documentation be produced in each country that outlines registration and licensing processes, official licensing fees and taxes with details for each tourism subsector. Such documentation would help to combat corruption and may help speed up the process of licensing. SMEs, especially, would benefit from such information, as they often have less access to such documents and with a lower educational background, are less able to analyze technical government laws and regulations.

**Tour Company Licensing Requirements:** Most GMS countries require tour companies to place a bond with NTOs when licensing their company. The bond is used in case a tour company is required to reimburse its clients for expenses incurred by an accident during their tour program. It is a sort of insurance program. The bond requirements for international inbound/outbound companies in Yunnan, Guangxi and Vietnam seem to be quite steep and pose a barrier for domestic companies looking to expand into an inbound/outbound company. It is recommended that bond requirements in these countries be reduced to a much lower value on par with the bond rates in Thailand.

An additional minimum capital investment is also required to qualify a tour company for a license. The reason for the minimum capital investment is not clear and, economically speaking, seems unjustified. It should be the prerogative of the entrepreneur himself/herself to determine the capital investment needed, which is typical with most sectors of the economy. Many people starting up tour companies in countries where there are restrictive minimum capital investment requirements have been able to bend the rule or go around them by sub-licensing with large companies and such. However, this barrier only serves to frustrate small startup companies while propping up larger companies, many of which are have state ownership. It is thus recommended that minimum capital investments be required for tour companies.

### Comparison of Tour Company Licensing Requirements in the GMS

<table>
<thead>
<tr>
<th>Country</th>
<th>Domestic Tour Company Licensing Requirement</th>
<th>National Inbound/Outbound Tour Company Licensing Requirement</th>
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<tbody>
<tr>
<td>Cambodia</td>
<td>Minimum Capital Investment: non-monetary Bond: US$5,000</td>
<td>Minimum Capital Investment: non-monetary Bond: US$5,000</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>Minimum Capital Investment: Site Specific Company US$4-5,000 (not yet official) Bond: none required</td>
<td>Minimum Capital Investment: International Foreign-Domestic Partnership US$500,000 National (100% Lao) US$100,000 Bond: none required</td>
</tr>
<tr>
<td>Country</td>
<td>Domestic Tour Company Licensing Requirement</td>
<td>National Inbound/Outbound Tour Company Licensing Requirement</td>
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<tr>
<td>People’s Republic of China (Yunnan &amp; GZAR)</td>
<td>Minimum Capital Investment: US$37,500 (300,000 RMB) Bond: US$12,500 (100,000 RMB)</td>
<td>Minimum Capital Investment: US$187,500 (1.5 million RMB) Bond – Inbound Only: US$75,000 (600,000 RMB) Bond – Inbound &amp; Outbound: Additional US$125,000 (1 million RMB)</td>
</tr>
<tr>
<td>Thailand</td>
<td>Minimum Capital Investment: none required Bond: US$2,500-4,000</td>
<td>Minimum Capital Investment: none required Bond: US$2,500-4,000</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>Minimum Capital Investment: non-monetary Bond: 0</td>
<td>Minimum Capital Investment: not reported Bond: US$33-66,000 depending on type of tours</td>
</tr>
</tbody>
</table>

5.3 Legal and Regulatory Reforms at the Country Level

Cambodia
- Restaurant licensing by the MOT should be abandoned and done solely by the business licensing agency and Departments of Health. This is an unnecessary level of bureaucracy.

Lao PDR
- A VAT should be instituted in place of head taxes and the plethora of other tax methods.

People’s Republic of China (Yunnan and GZAR)
- The National Assets Bureau should allow the privatization of state-owned hotels to move forward.
- Restrictions on domestic tour companies that make growth and expansion difficult should be removed. Domestic tour companies should be allowed to sell tours directly to tourists for tours to other provinces and allowed to open a branch in another province without receiving approval from the national government. Companies should be allowed to open a new branch in another province regardless of their annual volume of customers.
- In GZAR, the costs for electricity and water for the service sector should be reduced and made equal to all other sectors of the economy.

Thailand
There are no legal recommendations for Thailand.

Viet Nam
- State-owned tour companies should not be supported in any way and should be actively encouraged to become privatized.
- More levels of guide certification should be created to allow people living in remote areas with less access to education, the opportunity to qualify to become a guide.
5.4 Institutional Reforms and Improvements

Finance Institutions
- Information and understanding on the part of banks and financial institutions about investments in the tourism sector and SMEs is lacking. It is recommended that SME development and promotions agencies or NTOs disseminate information for banks such as market data, tourism development plans, SME investment opportunities and success stories, and tourism-sector SME business evaluation.
- A fund designed for long-term funding for SMEs to meet the needs of service sector businesses in the GMS is needed.
- Venture capital institutions aimed at ‘green’ SMEs are not available in the GMS. Support to encourage such a venture capital group to work in this subregion is needed.

Marketing & Promotions Boards: According to conditions first Mekong Tourism Development Project loan, Cambodia, Lao PDR and Viet Nam were required to create public-private marketing and promotions boards. These boards have yet to be created. It is recommended that the marketing boards be created before any future loans in tourism are made to the respective governments.

National Tourism Offices
- A separate unit within NTOs dedicated to SME assistance would be useful for any future support made available to SMEs in the tourism sector. The SME Unit would be responsible for keeping statistics on tourism SMEs, disseminating information pertinent to SMEs related to licensing, taxes, business development, investment and training. The SME Unit could also be responsible for liaising with the government agency responsible for SME development (which typically does not pay much attention to the tourism sector).
- Statistics gathering by NTOs about tourism sector businesses should be disaggregated between micro, small, medium and large business types. This will aid governments and development agencies to better target SMEs in the tourism sector.
- It is recommended that all NTOs hold regular meetings with the private sector to discuss past work, future plans and any pertinent issues. This is different from a business forum that is focused on raising complaints, but rather regular involvement of the private sector in planning and development of tourism. It is also recommended that such participation by the private sector specifically include proportional representation from SMEs.
- It is recommended that NTOs include the business sector from the start when developing pro-poor tourism programs. The business sector should be included before sites are chosen, before plans for development are approved while products are being developed; and when products are being marketed and sold.
- Standards aimed at SMEs, domestic tour companies and ‘no-star’ guesthouses/hotels are needed in order to provide them realistic goals and guidelines to follow. A quality-based standards system instead of a quantity-based standards system is needed for SMEs. The current star-rating system does not necessarily encourage product improvements but rather promotes establishments based on the quantity of amenities (e.g. TV, swimming pool, cable, etc). A quality-based standards system dependent on hygiene and cleanliness, service skills and customer care, appearance and upkeep and design is preferable for SMEs.
• Standards or certifications for sustainable tourism that provide local SMEs market incentives and clear guidelines to make simple steps to help the poor and protect the environment are desperately needed. It is recommended that GMS NTOs work together to create GMS standards for sustainable tourism businesses that can be marketed together.

Associations

• Tourism-related associations throughout the GMS are in need of assistance for creating self-sustaining, profitable marketing and training programs. Both mass marketing and training can theoretically be done adequately by associations themselves without the assistance of NTOs or other government agencies. However, initial design of such programs is needed in order to make the programs financially viable and sustainable, as associations currently have very low budgets and experience to work with.

• Chambers of commerce need to increase their focus on representing and assisting the tourism sector. Information systems and promotional activities that link up buyers and sellers and investors and entrepreneurs for industrial sector businesses should be expanded and applied to the tourism sector.

• Associations interested in creating credit guarantees for their members need assistance in the way of technical assistance and perhaps matching funds.

Training Institutions

• Training institutions for tourism, including NTOs, vocational schools, business colleges, and business associations, need to create special trainings for each tourism subsector designed for owners and managers of SMEs, in comparison to current training that are aimed at staff.

• Mentor programs designed to assist tourism sector SMEs are needed. Mentor programs can be hosted out of any of the training institutions but must consist of real professionals. In countries that have SME soft-loan programs already, the cost of the mentor could be rolled into the cost of the loan in order to encourage businesses to use the mentors and to help improve the chance of business survival and loan repayment.

• Written material in local languages aimed at managers and owners of small tourism businesses is another avenue for providing management information to owners and managers of SMEs. Simple and free booklets on how to develop, operate, and manage small-medium tourism businesses can be distributed through business registration agencies, associations, and NTOs.

6.0 ROLE OF PRIVATE SECTOR FINANCING UNIT OF ADB

NO - Tourism Investment Fund

The creation of a tourism investment fund through the private sector financing unit (PSF) of the Asian Development Bank is not recommended. This would have possible negative implications for other sectors of the economy that would not be allowed to access the funds. It could also potentially support less-than-optimal investments. There is a continually growing number of SME loan sources in the GMS that are available to all businesses including tourism. The focus should be on helping business to access these funds rather than to create a new source altogether.
**YES - LONG-TERM INVESTMENT FUND**
A fund that facilitates long-term borrowing and investment is desperately needed for the tourism sector. There is virtually no long-term financing available to SMEs in the GMS. Long-term financing needs to be made available across the board to all SMEs, regardless of sector.

**YES - Triple-bottom Line Venture Capital**
PSF has as its top two priorities the financial sector and infrastructures. Tourism is not a priority for PSF. Favoring one sector over another is not a favorable policy for PSF or for most other banks, as lending is best made on an opportunistic basis, i.e. finances should be provided to whatever business is most financially attractive—something which cannot be set by policy.

For these reasons it is recommended that the most appropriate choice for PSF to make for assisting tourism SMEs is in supporting venture capital groups that have a focus on SMEs and on sustainable/green businesses, known as “triple-bottom line” venture capital—financial, social and environmental. This option is in line with PSF priorities to invest in the financial sector. It is also an opportunistic financing mechanism that is not beholden to any one sector, yet includes ecotourism/sustainable tourism businesses as one potential recipient. It also is in line with ADB policies of supporting the MDGs - which entail more than financial profit. PSF’s portfolio in relation to the MDGs would surely be strengthened by financing or guaranteeing a “triple-bottom line” venture capital group. Venture capital focused on sustainable/green business in the GMS seems to be apparently non-existent, in comparison to places such as the Americas which have a wealth of such options.

**MAYBE - Credit Guarantee Funds**
Two associations, the Yunnan Chamber of Commerce and the Hanoi SME Association, said that they are trying to setup credit guarantee funds for their members. They have done this on their own initiative, without any advice or models to refer to. They admitted, however, that they lack financial expertise to set up the systems; that many members opt not to put their money into the guarantee fund because they do not see the benefit; and that they are themselves quite risk averse to using the credit guarantee for fear that one of their members may not be able to pay back the money. These problems are similar to the problems tackled by micro credit schemes in helping the poor gain access to credit. We now know that micro credit schemes that offer both technical assistance and incentives to village savings groups have made borrowing, lending and micro business development possible in even the poorest areas. It may be possible that with some technical assistance and matching, business associations may be able to create viable and successful credit guarantee funds. It is recommended that PSF research the possibility of making matching credit guarantee funds available to associations for the purpose of improving SME’s access to commercial finance.

**7.0 A RECOMMENDATION FOR PUBLIC SECTOR ADB TOURISM LOAN PROJECTS**

**Restructure ADB Tourism Projects to Include the Private Sector in All Components**
The private sector development component of this current ADB project is a separate component from the others. Unfortunately, such project design undermines its sustainability and weakens private sector participation in public sector tourism development policy.

Tourism is a business. Tourism is not a public good such as education, public health or national defense. As it is a business, tourism development must be driven by the business sector if it is to meet its ultimate goals. One of the major issues held common throughout the GMS is that governments do not adequately involve businesses in tourism development decisions. A major
paradigm shift must be made throughout the GMS towards an understanding that the public sector is a supporter of the business sector in tourism and not the other way around.

One way that the ADB can help to change this current situation and to build private sector involvement is to actively and directly include the private sector in the selection and design of all components of its proposed projects, in essence integrating the private sector component into the other components.

Many of the key issues raised by private sector businesses and associations during this study relate to the issues tackled by the other components in this project—infrastructure, human resource development, natural and cultural resource protection, managing waste in urban areas and developing new tourism products in remote areas. In order to ensure that the components of the overall project funded by the ADB are viable in practice, it is of the utmost importance to include the business sector from the start in planning and design.

8.0 CONCLUSIONS AND RECOMMENDATIONS

This report has touched on a variety of issues related to SMEs in the GMS, some focusing on investment and access to finance and others on enabling environment issues, training and marketing. A short list of the main recommendations follows.

**Investment Policy Reforms**
- Create SME tourism investment incentives for each country
- Create pro-poor and sustainable tourism incentives.
- Create calling lists for sustainable tourism business investments

**Legal and Regulatory Reforms**
- Write SME definitions specific to the tourism sector for the GMS
- Disseminate information to SMEs about official tax rates, fees and licensing processes to combat corruption and speed up licensing processes

**Finance Institutions**
- Make available to banks information on market data, tourism development plans, SME investment opportunities and success stories, and methods for tourism-sector SME business evaluation.
- Create a fund designed for long-term funding for SMEs that meets the needs of service sector businesses in the GMS.

**Marketing & Promotion Boards**
- Require that marketing boards be created before any future loans in tourism are made to the respective governments.

**National Tourism Offices**
- Create a separate unit within NTOs dedicated to SME assistance.
- Gather statistics.
- Hold regular planning and consultative regular meetings with the private sector
- Include the business sector from the start when developing pro-poor tourism programs.
- Institute standards aimed at SMEs, in the tourism sector.
- Institute certification programs for sustainable tourism aimed at local SMEs.
Associations

- Assist associations to make self-sustainable marketing and training programs.
- Help Chambers of Commerce to make information systems that link up buyers and sellers and investors and entrepreneurs for SMEs in the tourism sector.

Training Institutions

- Support special training programs for each tourism subsector designed for owners and managers of SMEs.
- Support mentor programs designed to assist tourism sector SMEs.
- Print written self-training material in local languages aimed at managers and owners of small tourism businesses

Role of Private Sector Financing Unit of ADB

- Finance triple-bottom line venture capital in the GMS
- Research the possibility of supporting credit guarantee funds as managed by business associations

Finally, it is recommended that a follow-on forum be organized as part of the next TWG meeting to be held in Hanoi in March 2007. The one-day forum should aim to provide concrete solutions to funding SMEs in sustainable tourism. This should seeks to create an understanding of the issues related to financing SMEs in tourism and sustainable tourism in the GMS and to propose relevant solutions that the ADB and other interested institutions can realistically support. The rationale, objectives, proposed program, list of speakers and list of participants that should be invited to attend is attached at the end of this Appendix.

Objectives:

- Present issues related to investment in private sector SMEs in the tourism sector with a focus on sustainable tourism business models
- Explore specific investment options including common commercial bank loans, currently available SME funds and soft-loans, venture capital, and personal financing
- Discuss private-sector mechanisms for encouraging the adoption of sustainable tourism business models, including green certification, networking and mentor programs
- Explore the opportunities for support for investing in and promoting sustainable tourism small-medium businesses from the ADB and other international development lending institutions

Hopeful Outcome:

The ADB, lenders, the business community and NTOs will better understand the issues related to investing and promoting sustainable tourism through small and medium businesses in the GMS, which will hopefully lead to a set of interventions that ADB and stakeholders can agree upon either by the end of the meeting.
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Yunnan

PROPOSED
2\textsuperscript{nd} Annual Mekong Tourism Investment Forum
“Investing in Private Sector Small-medium Sustainable Tourism Businesses in the GMS”

Rationale:

The 1\textsuperscript{st} Annual Mekong Tourism Investment Forum—a great success with representatives from the business community, lending institutions, academic institutions and NTOs—mainly focused on issues related to regulatory barriers and incentives for foreign investment in the tourism sector in GMS countries. Although the forum was useful in highlighting both the opportunities and shortcomings of current government policies and regulations related to investment in tourism businesses, it provided little in the way of concrete solutions to funding SMEs in sustainable tourism. This forum seeks to create an understanding of the issues related to financing SMEs in tourism and sustainable tourism in the GMS and to propose relevant solutions that the ADB and other interested institutions can realistically support.

Objectives:

- Present issues related to investment in private sector SMEs in the tourism sector with a focus on sustainable tourism business models
- Explore specific investment options including common commercial bank loans, currently available SME funds and soft-loans, venture capital, and personal financing
- Discuss private-sector mechanisms for encouraging the adoption of sustainable tourism business models, including green certification, networking and mentor programs
- Explore the opportunities for support for investing in and promoting sustainable tourism small-medium businesses from the ADB and other international development lending institutions

Hopeful Outcome:

The ADB, lenders, the business community and NTOs will better understand the issues related to investing and promoting sustainable tourism through small and medium businesses in the GMS, which will hopefully lead to a set of interventions that ADB and stakeholders can agree upon either by the end of the meeting.

Dates/Duration: March 2007 (1.5 days)

Agenda:

8:00 Registration (30 minutes)
8:30 Welcome Speech by the Chairman of VNAT (15 minutes)
8:45 Opening Remarks by ADB (5 minutes)
8:50 Keynote speech, Mr. Kamol Ratanavirakul, Senior Consultant at the Institute for Small and Medium Enterprises Development (Thailand) and President of Thai Hotel and Hospitality Management Association (20 minutes)
9:10 Panel #1: Financing through Commercial, non-SME Banks: Opportunities and Shortcomings (50 minutes)  
Panelists will discuss their experiences with funding tourism SMEs and sustainable tourism businesses and highlight ways in which they believe investment in the sector can be improved. (10 minutes per panelist = 30 min. + 20 minutes discussion)  
Panelists: BCEL Bank (Lao PDR), ANZ Royal Bank (Cambodia), Bank for Investment and Development (Vietnam)

10:00 Break (10 minutes)

10:10 Panel #2: Financing through SME Banks & Soft-loans: Opportunities and Shortcomings (50 minutes)  
Panelists will discuss their experiences with funding tourism SMEs and sustainable tourism businesses and highlight ways in which they believe investment in the sector can be improved. Special attention paid to SME specific funds. (10 minutes per panelist = 30 min. + 20 minutes discussion)  
Panelists: SME Bank (Thailand), ACLEDA Bank (Cambodia), Viet Development Bank (Vietnam)

11:00 Panel #3: Credit Guarantees: Opportunities and Shortcomings (45 minutes)  
Panelists will discuss their experiences with providing credit guarantees to tourism SMEs and sustainable tourism businesses and highlight ways in which they believe CGs can play a role in assisting the sector. (10 minutes per panelist = 30 min. + 15 minutes discussion)  
Panelists: Yunnan Provincial Chamber of Commerce of P.R. China (Yunnan), Guangxi Financing Guarantee Corporation (GAR), ADB Private Sector Financing, Political Risk Guarantee Department

11:45 Panel #4: Venture Capital: Opportunities and Shortcomings (45 minutes)  
Panelists will discuss their experiences with using venture capital to support tourism SMEs and sustainable tourism businesses and highlight ways in which they believe VCs can play a role in assisting the sector. (10 minutes per panelist = 30 min. + 15 minutes discussion)  
Panelists: Office of SME Promotion (Thailand), Mekong Capital (Vietnam), New Ventures (China)

12:30 Lunch (1 hour)

13:30 Panel #5: Financing Sustainable Tourism SMEs: Experiences and Lessons Learned from the Point of View of the Businesses (1.5 hours)  
Panelists will discuss their experiences with starting up sustainable tourism businesses and highlight ways in which they believe they can be better assisted. (10 minutes per panelist = 60 min. + 30 minutes discussion)  
Panelists:
  - Tour Companies: Kunming Scenery-Custom International Travel Co. Group Ltd. (Yunnan), Cambodia Association of Travel Agents
  - Accommodation: Vietnamese SME Guesthouse/Hotel, Lao Hotel Association
  - Souvenir Shops/Handicrafts: Tan Kai Cong, Yunnan Family Restaurant and Night Dragon Jewelry Co. Ltd
  - Transportation: Vietnamese transportation provider
15:00  Break (15 minutes)

15:15  Small group issues/recommendations formulation (45 minutes)
All participants break out into small groups to discuss issues, make a list of possible solutions to each and recommendations to ADB and international banks. Participants will be assigned to groups according to their profession. Business representatives will be split amongst all of the groups. There will be six groups: (1) Commercial Lending, (2) SME-specific lending, (3) Credit Guarantees, (4) Venture Capital; (5) Investment Policy; and (6) International lending agencies.

16:00  Presentation of group findings (30 minutes)
All groups will present their recommendations. 5 minutes each group.

16:30  Remarks & Comments by ADB
ADB representatives provide general comments and views on the proceedings and discuss potential support in the future for SMEs in the tourism sector.
Panelists: ADB Private Sector Financing Representatives, and ADB Public Sector Reps. responsible for tourism programs.

17:00  Closing Remarks. End of the forum.
List of Contacts for Panelists

Keynote Speaker

- Kamol Ratanavirakul, Senior Consultant at the Institute for Small and Medium Enterprises Development and President of Thai Hotel and Hospitality Management Association, 99 Gymnasium 1, Thammasat University Rangsit Center, Klong-Luang, Pathumthani 12120 Thailand. Tel: (66-2) 564 4000 ext 8419, Fax: (66-2) 564 4000 ext 8500, email: kamol@ismed.or.th, karnploo2000@yahoo.com.

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Panel #5: Financing Sustainable Tourism SMEs: from the view of businesses

- **Accommodation**
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