

PROCEEDINGS OF THE WEBINAR ON

# Financing sustainable mountain tourism

Sharing regional experiences from Bhutan, Nepal, and Pakistan on innovative financial solutions for green, inclusive, and resilient tourism

07 June 2021 | Microsoft Teams

## SECTION 1

### Background

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Gilgit-Baltistan and Khyber Pakhtunkhwa have huge potential for tourism because of their rich history, diverse cultures, and breathtaking landscapes encompassing some of the world's tallest mountains. Tourism in this region could be a game changer for northern Pakistan and could revitalize the entire mountain economy of Pakistan. Growth in tourism requires sustainable tourism planning, policy and practice, and conservation of tourism assets. Keeping sustainability in view, the State Bank of Pakistan, Banking Services Cooperation (SBP BSC), Islamabad collaborated with the International Centre for Integrated Mountain Development (ICIMOD) in the fiscal year 2020-21 under its 'Sector of the Year' project.

Recognizing the tourism potential of Gilgit-Baltistan, Azad Kashmir and Khyber Pakhtunkhwa, the SBP's Islamabad office has prioritized tourism for the 'Sector of the Year' (SOE) project. Between 2019 and 2021, the Development Finance Unit of SBP BSC Islamabad held consultations with a variety of stakeholders from the government, private sector, associations, and the tourism industry. The goal of these consultations was to explore the following:

- 1) The potential of tourism in the north
- 2) Current trends in tourism
- 3) Difficulties faced by the tourism industry
- 4) Financing facilities/products for the sector
- 5) Scope and effectiveness of SBP incentive schemes
- 6) Challenges to sustainable and easy credit flow into the tourism industry
- 7) Coordination mechanism of the industry

## Recommendations

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The following recommendations emerged from the consultations:

- Senior management of SBP and banks should be involved in the development of financing products for the tourism sector. Financing for the tourism sector should be available on priority basis and at subsidized rates. A specialized Credit Guarantee Scheme is required for the tourism sector. Financing products should be developed for sub-sectors within the tourism industry, such as waste management. Sector-wise targets assigned to banks in Pakistan should include tourism-specific targets.
- Due to the cyclical and seasonality of tourism businesses, they cannot adhere to conventional repayment mechanisms. Flexible and innovative repayment plans should be introduced for this industry. Local tour operators face foreign currency issues when bringing in foreign travellers to Pakistan. Support should be extended in this regard.
- Local people face a lot of problems trying to meet the documentary requirements of the banks as they have to submit a wide range of documents, from land records to tax proofs. There is a need to simplify the process in view of the ground realities in Gilgit-Baltistan. Clean lending should be introduced. Most small and medium enterprises (SMEs) in the industry are collateral deficient. In addition to supporting existing businesses, the market should be made lucrative for new entrants and special support for new businesses should become part of the policy for enhancing the tourism industry's access to finance.
- Willingness of financial institutions should be gauged and control mechanisms should be put in place to ensure that the tourism sector is not being neglected and targets are being met.

ICIMOD and SBP Islamabad office, through various meetings, realized the need to share experiences in the tourism sector and green financial solutions to address the requirements of the fastest-growing service sector and promote sustainable tourism.

Mountain destinations in Bhutan, Nepal and Pakistan are endowed with exceptional natural beauty, rich cultural diversity and biodiversity.

Tourism in this part of the world is one of the most important economic drivers. It supports niche value chains and micro, small, and medium enterprises (MSMEs), and contributes to the livelihoods and wellbeing of mountain communities. However, climate change, compounded by the COVID-19 pandemic, has adversely affected the lives and livelihoods of mountain communities and exacerbated the vulnerabilities of MSMEs involved in tourism. Customized and resilient solutions are needed for their revival. Mountain tourism needs to pursue the goal of 'building back better' with active engagement of MSMEs and financial institutions, and establish an enabling entrepreneurial ecosystem and tailored financial products and services. Decision makers, planners, investors, MSMEs, and mountain communities need to work together to promote sustainable mountain tourism and financial solutions that contribute to green, inclusive and resilient tourism.

### SECTION 3

## The webinar and its objectives

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ICIMOD, through its Hindu Kush Karakoram Pamir Landscape (HKPL) Initiative, partnered with SBP to organize a webinar for the exchange of ideas from Bhutan, Nepal and Pakistan with active engagement of stakeholders. Officials from the banking industry, tourism experts and government representatives held detailed discussions to identify potential action areas to promote green, inclusive and resilient tourism economies through innovative financial solutions and policy instruments.

The webinar provided a good platform for sharing ideas and solutions related to financial products and service development in the region, and for fostering knowledge exchange among the three countries. More specifically, the webinar helped in achieving the following objectives:

- Enhance understanding of the impacts of climate change and COVID-19 pandemic on mountain tourism
- Promote cross-learning of ideas, experiences, challenges, and opportunities in tourism, financial products, and tailored solutions
- Exchange of ideas on tourism policy and enhance cooperation for sustainable mountain tourism and financial solutions

# Proceedings

The webinar began with opening remarks from **Pema Gyamtsho**, Director General of ICIMOD. He underscored the importance of the event and its strategic alignment with World Environment Day celebrations. Tourism is vital for improving the livelihoods of people and helps in generating much-needed investments for protecting and conserving the environment, wildlife and culture. He said the webinar was the first of its kind in that it brought together experts and planners in the tourism and banking sectors from Bhutan, Nepal and Pakistan, and would help pave the way forward for sustainable, equitable and resilient tourism in the Hindu Kush Himalaya.

**Shaukat Zaman**, Group Head for Foreign Exchange and Development Finance, and Group Head for Networking and Financial Management, SBP, said the banking sector can contribute significantly to tourism financing by developing various products for hospitality, transportation, travel facilitation and information, and other attractions and entertainment such as heritage sites, national parks and wildlife. He shared SBP's product portfolio in relation to the promotion of tourism and enterprise in Pakistan and their interest in developing green financial products.

**Raja Nasir Ali Khan**, Tourism Minister of Gilgit-Baltistan, Pakistan, said Gilgit-Baltistan is endowed with some of the world's highest peaks, glaciers, forests and natural resources. Given the high influx of domestic tourists in Gilgit-Baltistan, the Tourism Department is conducting a study on the impacts of tourism in the region.

**Ghulam Ali**, Programme Coordinator for the HKPL Initiative, ICIMOD, shared the webinar objectives and informed the participants about the initiative. The HKPL spreads across the Karakoram and Pamir mountains, and the Wakhan along the China-Pakistan-Afghanistan-Tajikistan border area. He said the webinar would help address the need to assess the risks and potential for circuit tourism in the mountains of Hindu Kush Karakoram and Pamir.

**Anu Lama**, Tourism Specialist, ICIMOD, gave a presentation on the future of sustainable mountain tourism in the HKH region. She shed light on the

intrinsic relationship between HKH mountains and tourism, and the contribution of mountain tourism to sustainable development goals, local/national economy (revenue, gross domestic product [GDP], jobs and income), and local mountain livelihoods. She said the role of MSMEs in the tourism economy is now widely recognized and that there is a need to promote low-carbon development and sustainable mountain tourism to achieve responsible recovery in the post-COVID world. Responsible recovery involves promoting a tourism development pathway that is green, inclusive and resilient, and it requires innovative financial solutions. ICIMOD's work on innovation, entrepreneurship and investment provides important lessons to tourism and financial institutions for developing their own customized green financial products.

**Malik Mirza**, freelance consultant on financial services and **Amjad Ali**, Assistant Professor at Karakoram University (KIU), presented the findings of their research on tourism enterprise risk assessment, land-use change and financing needs, and the perspective of the Gilgit-Baltistan tourism stakeholders. Customized sector-based cash flow lending can strengthen tourism products and services in Gilgit-Baltistan. The business community expressed the need for insurance products to mitigate risks. The researchers said that unplanned tourism in Gilgit-Baltistan will have severe ramifications, such as land-use change and increased pressure on ecosystem services and degradation of ecosystem health. The following table presents a summary of stakeholders' reflections:

**Basanta Raj Shrestha**, Director of Strategic Cooperation, ICIMOD, discussed regional cooperation and the importance of private sector partnerships. Shrestha chaired the first session where participants shared their experiences related to tourism and finance.

Experts from Bhutan, Nepal and Pakistan gave presentations on sustainable tourism, importance of access to finance and associated challenges. Panelists included **Dasho Dorji Drahdul**, Director General, Tourism Council of Bhutan; **Padmakshi Rana**, Deputy Director of Programs, Nepal Communitere; and **Iqbal Walji**, President, Walji's Travel.

## Summary of stakeholders' reflections

There are abundant opportunities for innovation and value addition of tourism goods and services in Gilgit-Baltistan. However, local enterprises face many challenges such as the lack of electricity, water, roads, parking spaces, trained human resources, quality standards and harsh weather services. Other constraints include the lack of financial options, technical skills and technologies.

During peak business season, tourism entrepreneurs in the mountains need a flexible loan facility that takes into consideration their means and ability to pay back. Seasonality is an important aspect of mountain tourism, but this is not taken into account in current financial product planning. Instead, bank products designed for plains are generally applied to mountains. It is important to design targeted financial products for mountain enterprises based on cash flows. Currently there is not a single financial product or loan facility that addresses the cash flow needs of tourism enterprises. Lengthy documentation and approval processes and high mark-up rates are other major constraints. There is also a lack of diverse loan facilities. There is not even a start-up loan facility for newly established businesses. Business expansion loan facilities for well-established businesses are based on their cash flows and flow of tourists in peak months. While developing financial products, there is a need to train entrepreneurs such as hotel owners and staff on financial management. In addition, attention should be paid to climatic and environmental shocks that businesses might face, and solutions must be developed accordingly. Competition, increased savings to tackle emergencies/risk management and cost reduction strategies and technology adoption will help enterprises build resilience. In most cases, it was found that customers pay back their loans in a surprisingly timely manner despite challenges. Some of the recommendations are:

- Provide business insurance and specialized products to insure business assets
- Develop customized – sector based – cash flow lending products and services
- Enhance financial literacy and awareness among entrepreneurs for business growth and link entrepreneurs with the financial services of banks

## Key messages from Dasho Dorji Drahdul, Director General, Tourism Council of Bhutan

### POLICY

- High-value, low-volume tourism
- Prohibited mountaineering above 6000 m
- Organic farming
- National pledge to carbon neutrality
- Sustainability of environment and natural resources and its link with Gross National Happiness (GNH)
- Development with values – pillar of the constitution
- At least 60% of land must be under forest cover (current forest cover is 72%); Bhutan is the only carbon negative country in the world.

### STRATEGY

- Organic farming; tax exemption for electric cars; ban on single-use plastic bags; green tax on automobiles using fossil fuels; free electricity for rural communities; involving green civil society organizations in the decision-making process; designated camp sites
- Certified tour operators, accommodations, guides

### PRACTICES

- Better (lower) interest rates for tourism-related businesses (restaurants, hotels, transport, etc.) both for capital investment credit and working capital credit
- National CSI Development Bank offers lower interest rates to cottage and small industries (CSIs) as per the National Credit Guarantee Scheme
- Overall access to financial schemes is good but tourism represents one of the largest credits including non-performing loans (NPLs)
- Digital/online payment

## **Key messages from Padmakshi Rana, Deputy Director Programs, Nepal Communitere**

Padmakshi Rana presented the Tourovation model from Nepal. The model focuses on coaching, increasing access to finance, counselling, and post-investment consultations to help increase financial, business and energy efficiency.

Rana presented key learnings related to energy production and consumption, capacity building and partnership, and various forms of access to finance and incubators, which can help leverage benefits for sustainable enterprises. She shed light on the challenges of enterprises, including lack of energy efficiency, integration of renewable energy, carbon emissions, revenues, COVID-19 impacts, and access to finance, among others.

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This was followed by another panel discussion on regional financial solutions and the perspectives of banks. Prem Moktan, Director for Credit Services, Bank of Bhutan, Bhutan; Maitreya Shakya, Executive, Corporate Advisory and Research Unit, Nabil Investment Banking Limited, Nepal; and Mazhar Shahzad, Joint Director, Infrastructure, Housing & SME Finance Department, SBP, Pakistan shared their perspectives. Both panel discussions were followed by Q&A sessions.

The second session included a moderated discussion on the sustainability aspects of mountain tourism and ways to develop tailored financial solutions. Panelists emphasized the need to promote resilient, equitable, low-carbon and sustainable tourism for the well-being of tourists and local communities. They said tourism is a priority sector of their respective governments and highlighted their national tourism policies and efforts to promote sustainable tourism.

Key takeaways were shared by Imran Ahmad, Additional Director, Development Finance Support Department, SBP, and Babar Khan, Senior Ecosystem Management Specialist, ICIMOD.

## **Key messages from Iqbal Walji, President, Walji's Travel**

Iqbal Walji gave a historical overview of tourism and the ups and downs the sector has faced. The main points from his presentation are summarized below:

Both the benefits and harmful effects of tourism are visible in northern Pakistan. Tourism has provided direct income to local populations and helped in establishing cottage industries and small enterprises. This growth has forced the government to improve road infrastructure and communications. However, tourism has also led to environmental and ecological degradation due to tourist numbers beyond the carrying capacity of the land, and poor awareness among visitors in Gilgit-Baltistan and other mountainous areas of Pakistan. It has contributed to the erosion of local cultures and made local communities heavily dependent on income generated through tourism.

### **Tourism in the mountains and structural weaknesses**

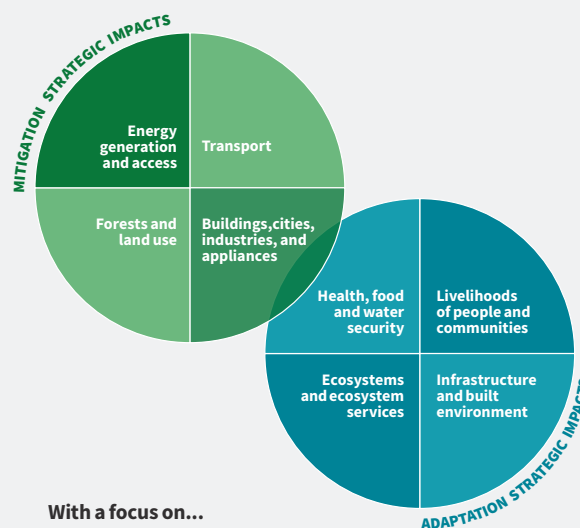
No studies have been conducted to determine the carrying capacity of the area and recommend sustainable visitor numbers. Government oversight and regulations for tourism development are lacking. Tourism has been devolved from the federal level to provincial level, resulting in an approach that is neither consultative nor uniform. Lack of tourism promotion strategies means that visitors' awareness of cultural and environmental issues remains low. There are no financial and insurance products tailored to hospitality and tourism services in the SME segment. As the COVID-19 pandemic has brought tourism to a halt, planners could use this time to develop strategies and means to address these structural weaknesses to ensure sustainable tourism development in the coming years.



## Key messages from Prem Moktan, Director for Credit Services, Bank of Bhutan, Bhutan

Prem Moktan highlighted the tourism sector's significant contribution to the GDP and employment. He talked about the Bank of Bhutan's interventions in the context of COVID-19, interest waiver for three years, restructuring of loans and their deferral for three years, concessional interest rate working capital loan (tourism, airlines and manufacturing), salary of employees, utility bill payment, other overhead expenses and refund of advance booking liabilities. He also presented the credit portfolio comprising services, manufacturing, personnel, trade and commerce, transport, building and construction. Moktan said that the most interesting part of the framework with regard to green financing is the taxonomy for green lending, green project and green bond; regulation requiring the banks to disclose the carbon footprint of their loan and investment; strong incentive for low-carbon tourism projects; green interest rates for low-carbon activities; reduction in risk weight for green assets; green qualified collateral for sourcing for funds; and environmental and climate risk analysis – part of credit risk assessment.

GREEN FINANCE WINDOW



### With a focus on...

- Impacts
- Paradigm-shift potential
- Crosscutting adaptation-mitigation benefits
- Sustainable investment co-benefits
- Innovative financial solutions

## Key messages from Maitreya Shakya, Executive, Corporate Advisory and Research Unit, Nabil Investment Banking Limited

Maitreya Shakya talked about the contribution of tourism to GDP, employment and entrepreneurship in Nepal, and also shed light on the volume of commercial bank credit extended to the tourism sector along with specific bank products. Constraints on offering loans to MSMEs include high interest rates, lack of tailored financial products, information asymmetry, and lack of collateral, among others. He also mentioned factors that hinder the banks from extending credit to MSMEs – multiple borrowings, poor credit history, lack of proper documentation and inadequate collateral. There are emerging prospects as commercial banks are mandated to lend to the tourism sector in line with the policy of 15% allocation set by Nepal Rastra Bank. He underscored the need to develop innovative tourism products, ease collateral for mountain tourism enterprises, streamline the definition of MSMEs and promote alternative investments in the form of private equity/venture capital to help spur investments.

Takeaways from the webinar and the way forward:

- Countries in the HKH have significant experience related to greening policy and financial products. Lessons from Bhutan are useful in this regard. Bhutan has a high-value, low-volume tourism policy and a robust strategy for implementing this policy, along with a provision of green financial products. Other countries can replicate Bhutan's approach by tailoring it to their specific contexts. Bhutan provides important lessons on how to shift from mass tourism to sustainable tourism.
- Greening financial products require adequate exchanges so that the technical, legal and financial dimension of the financial products and loans can be addressed. Strong regional cooperation can aid the development of specific tailored products in each country and promote knowledge exchange on tourism as well as climate adaptation and mitigation.
- There are many opportunities and challenges associated with devising banking schemes and products for MSMEs in the tourism sector. In Pakistan, attention should be paid to the seasonality of tourism businesses and cash flow-

based lending to develop products for tourism MSMEs.

- Policy has to be linked with strategy and green financial products. Nepal and Bhutan's approach of Equated Annual Investment (EAI) and branchless banking through local agents are innovative financial solutions tailored to MSMEs in the tourism sector.
- Capacity building of MSMEs for green financing is important for better financial and enterprise management. Initiatives such as the [Tourovation Hub](#) in Nepal have shown positive results.
- There should be a special focus on women entrepreneurs as they continue to face multiple challenges in accessing financial investments.
- Panelists recommended innovative solutions, i.e., cash flow-based credit risk assessment and lending, green interest rates for low-carbon product packages – refurbishing hotel facilities with green technologies, capacity building of MSMEs, as well as ensuring desired credit flows into the tourism sector through financial literacy and business projections.
- In the post COVID-19 scenario, tourism will likely experience exponential growth, which calls for capacity building of tourism entrepreneurs and financing for greening of the tourism sector through investments in renewable energy and waste management infrastructure.
- Organize a series of events to foster knowledge exchange on green financing, policy and strategy.
- ICIMOD and SBP need to host follow-up sessions to further build on the green financing model for Pakistan and set the stage for strategic and policy interventions for managing tourism, destinations and enterprises.

## **Key messages from Mazhar Shahzad, Joint Director, Infrastructure, Housing & SME Finance Department, SBP**

Mazhar Shahzad said that priority sectors are given the utmost importance due to their contribution to economic growth and development. Among the priority sectors, SMEs are integral to Pakistan's economic development. He shared key initiatives that the State Bank of Pakistan has launched to encourage financing for SMEs and accelerate sectoral development. A thriving SME sector is necessary for national development. Main points covered in his presentation were as follows:

1. Overview of SME financing in Pakistan
2. SBP's policies and initiatives for promotion of SME finance
3. SBP's financing and risk coverage facilities for SMEs
  - Refinance facility for modernization of SMEs
  - Financing facility for storage of agricultural produce (FFSAP)
  - Scheme for financing power plants using renewable energy
  - Long Term Financing Facility (LTFF)
  - LTFF through Islamic banks for Shariah-compliant services
  - Export finance scheme
  - Refinance scheme for working capital financing of small enterprises and low-end medium enterprises
  - Kamyab Jawan, a state bank programme focusing on youth entrepreneurship
4. How tourism SMEs could benefit from SBP incentive schemes

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