Financial Markets, Microfinance and Tourism in Developing Countries

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Abstract

Many developing countries consider promoting tourism as a main strategy for achieving economic growth. The tourism sector at destinations is mainly organized through micro and small-scale enterprises. In developing countries, these lack access to credit and other finance: financial markets do not consider them as clients and government support is mainly aimed at attracting foreign direct investments (FDI), not oriented towards expansion of domestic business in tourism.

Financial sector modernization in some developing countries has been pushed in recent years through so-called Microfinance Institutions (MFIs). These deliver credit to micro- and small enterprises and contribute to poverty reduction by providing poor people access to financial services.

Until now, in tourism destinations, these MFIs do not seem to close this aforementioned finance gap in supply and demand for finance. Given their lack of access to credit, domestic (tourism) micro- and small enterprises in developing countries are unable to compete against large international suppliers of accommodation and tourism services. As a consequence, the potential of positive local economic impacts from growth through tourism is not fully used in most developing countries.

Further research is required to develop appropriate (tailor-made) financial instruments that fit the needs of these tourism micro- and small enterprises. These should include investment subsidies, tax measures, long-term loans, and leasing and insurance products. Commercial banks could play a leading role in innovating financial markets in tourism destinations, and make use of the experience of MFIs when it comes to uncollateralized lending techniques.

Governments in developing countries that emerge as tourism destinations should facilitate the reform of their domestic financial sector and the delivery of specific financial products oriented towards micro and small-scale tourism enterprises. This could well be done through specific credit lines, just like agricultural and industrial

Resumen

Muchos gobiernos de países en desarrollo están promoviendo el sector turístico como estrategia principal para impulsar el desarrollo económico de su país. La actividad turística en gran parte está ofertada por microempresarios y pequeñas empresas, que sin embargo no tienen acceso a crédito y otros productos financieros. Los bancos comerciales no consideran las micro y pequeñas empresas como sujeto de crédito y la política turística de los gobiernos nacionales no da suficiente apoyo a la comunidad empresarial del territorio.

La modernización de los sistemas financieros en países en desarrollo ha sido promovida en los últimos años a través de los así llamados Institutos de Micro finanzas. Estos se especializan en el desarrollo y la entrega de crédito y productos financieros a microempresarios, y con ello están contribuyendo a la reducción de pobreza.

La oferta de micro finanzas y la profesionalización de este sector ha avanzado en los últimos años. En destinos turísticos las organizaciones de micro finanzas todavía no han sido capaces de cerrar la brecha entre oferta y demanda por crédito de parte de micro-empresarios turísticos. El sector empresarial doméstico, que está compuesto por dichas empresas, no está capacitado para competir con empresas turísticas internacionales como operadores turísticos, empresas de transporte etc.

Se puede concluir que países que son destinos turísticos, no utilizan el enorme potencial para lograr impactos positivos económicos y sociales (generación del empleo, etc).

Es necesario analizar más a fondo esta brecha entre demanda y oferta de micro crédito en destinos turísticos. Se requiere el desarrollo de productos financieros especializados para micro-empresas turísticas, incluyendo acceso a créditos a largo plazo, subsidios específicos de inversión, productos de seguros, leasing, etc. Los bancos comerciales podrían tomar dicha iniciativa, tomando en consideración la experiencia de entidades

development banks that have supported agribusiness and industrial development in the past.

Key Words:
Microfinance, propoor tourism, financial markets, developing countries

de micro finanzas en el desarrollo de productos de micro crédito. Por otro lado, gobiernos de países emergentes como destinos turísticos, podrían facilitar la modernización del sector financiero, así como apoyar el desarrollo de estos productos financieros para micro- y pequeñas empresas turísticas. Esto podría incluir líneas de crédito especiales para el sector de turismo.

Palabras clave:
Micro créditos, propoor tourism, mercados financieros, países en desarrollo

Liberalisation, access to financial markets and growth through tourism in developing countries

The tourism industry is seen as a promising sector for developing countries. Evidence of successful growth through tourism in developing countries is usually given by increased numbers of international arrivals and gross tourist expenditures in hard currencies. International tourism arrivals to developing countries have increased by 6.5 per cent annually since 1988, a higher rate than average world growth of arrivals. Income through international visitors is representing a large component of international exports in the Least Developed Countries (Denman et al., 2004, WTO 2005. Tourism ranks first, second or third among all export sectors in 19 LDCs. These data seem to support the hypothesis that positive macro-economic impacts in developing countries can be achieved while promoting tourism as a competitive service sector.

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

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

The relation between tourism growth, poverty alleviation and access to financial markets by the poor has hardly been analyzed. Are financial flows in tourism destinations different than in other locations? How can these flows be made more accessible for the poor? Could the financial sector do more to enhance poverty alleviation in tourism? Why is the promise of massive income redistribution not met in tourism destinations receiving so many tourists spending so much?

Developing countries have specific constraints when attempting to compete through liberalizing and opening their markets. Especially the group of Least Developed Countries (LDCs), lack the infrastructure or competitive strength to participate in most liberalized service industries like ict and banking. It is not strange that most liberalization attempts have lead to more uneven national income distribution and increased numbers of poor (Kohl et al., 2000). Governments efforts in developing countries to stimulate foreign tourism investments, might improve their Balance of Payments. This however is not per se leading to economic growth, or a better income distribution.

Effective growth in tourism is mostly depending on those foreign direct investments in which large Transnational Corporations dominate (Endo, 2006). Countries may benefit from the participation in vertically integrated tourism networks of transnational companies but run the risks of these companies taking the benefits from tourism growth figures (Van der Sterren et al., 2006). So far there have been hardly any studies indicating that foreign tourism investments are contributing more to GDP growth of the Least Developed Countries than investments in other sectors, like modern agro-industry or Information and Communication Technology. But examining the scale of Foreign Direct investments (FDI) in all segments of tourism-related industries is hardly possible: industry classification used in statistics does not correspond to the range of activities that tourism covers.

Developing countries are not popular for Foreign Direct Investors in tourism. The only real tangible investments in real estate, hotels and restaurants in tourism destinations are not visible as these companies make use of non - equity forms of investments. Hotel investments are included in overall real estate investments and hotel companies only arrange management contracts or leasing arrangements (Endo, 2006).

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

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

In order to facilitate improved access to finance and better income for poor from tourism, it is important to analyze tourism micro and small businesses in tourism destinations, their place in the tourism value chain and their income strategies.

Financial sector development and poverty reduction: scope and limitations of microfinance

A well functioning financial sector is one of the cornerstones of long-term economic growth in a national economy. Financial services are the "gearing oil" of an economy. It can have positive impacts on *capital accumulation* and on the rate of *technological* progress. In order to support and stimulate economic growth in an economy, financial intermediaries like commercial banks and savings- and credit cooperatives are needed to the effect of (DFID, 2004):

- Savings mobilisation.
- Provision of loans to stimulate and facilitate economic growth.
- Management of risks.
- Provision of information on investment opportunities.
- Monitoring of borrowers.
- Facilitation of exchange of goods and services.

A well functioning financial sector contributes positively to the level of economic growth. Also, it has been indicated that a well functioning financial sector is contributing to a better income distribution and thus can be seen as having pro-poor effects (Beck et al., 2004). This however, only will occur if poor have access to credit and savings services provided by banks. This will enable them to get their share of the potential capital accumulation.

This is not the case in most LDCs, where commercial banks are not meeting the financial needs of the poor. Banks take their credit decisions for providing services to clients on *perceived* risk and information on *creditworthiness*. As poor people usually operate in informal, non-legalized nor formalized businesses and markets, they lack instruments to inform the financial system about their creditworthiness. This information asymmetry about borrowers as well as high transaction costs (Phillips et al., 2005), result in imperfect financial markets and less efficient credit rationing in LDCs. As a consequence, banks generally assume that providing small loans and deposit services is not profitable and poor are excluded from formal financial markets.

From a commercial bank's perspective located in a developing country, historically there have been obvious reasons for not lending to poor clients or small businesses. It was considered to be a wise business decision and in line with their conservative client policy and central banks prudence guidelines on supervision of provisioning and lending policies. The gap between supply and demand of financial services, especially credit, has affected the poorest segments of the populations as well as business development in general.

The recent success of the "Microfinance Revolution" has proved banks and central banks in developing countries to be wrong. Microfinance Institutions (MFIs) are not banks, but they specialize in providing financial services to poor people. They have demonstrated that these, when addressed with the right financial products, provide a stable and profitable client base to financial intermediaries. Poor people pay back more timely their loans and it has proven to be a myth that they are not capable of saving (Robinson, 2001). Especially the provision of savings through MFIs enables poor clients to accumulate funds and anticipate future large investments or expenses. Access to savings and other financial services reduces vulnerability of the poor and has a long lasting impact on income and family social welfare. MFIs are capable of delivering financial services to very poor people as well as providing constant returns to investors (Robinson, 2001). They appeal to the concept of Corporate Social Responsibility in the financial sector and have contributed to the understanding that financial sector development indeed is not only positive for growth but also for alleviation of poverty. As a consequence, modernization of financial sectors in developing countries is taking place.

LDCs are hosting the biggest and most professional MFIs: some of them have developed into commercial banks, challenging the existing financial institutions by offering a variety of financial services to poor clients. The most well known example of this is the Grameen Bank, initiated by recent Nobel Prize winner Professor Mohammed Yunus. Grameen Bank has delivered 4,5 billion USD to its client's base (more than 3,7 million).

Actually, it is estimated that some 70 million poor clients worldwide have access to financial services: credit, savings and micro-insurance products (Robinson, 2001). Though an impressive number, it is still only a tiny proportion of the potential demand that exists for these services worldwide. Also, access to financial means, is no guarantee for poor people to improve their economic situation. The relative impact of microfinance services on poverty *reduction* has been limited. Still MFIs are reaching a small minority of the total banking population in developing countries.

Tourism and micro and small enterprises: features and constraints

Most of the tourism services at the level of a destination are delivered through micro- and small enterprises. In the accommodation sector alone, it is estimated that 80% of bed capacity is held in small, usually family run establishments (WTO, 2005). Small businesses provide the crucial linkages between different components of the tourism value chain: local transportation, food and beverages, small-scale accommodation, shops and retail services etc.

To analyze the complexity of business linkages and financial flows, it is helpful to use the following conceptual framework and apply this to the tourism sector (ILO 2003).

Figure 1. Types of enterprises

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

Tourism self-employed poor

Many examples of self-employed poor in tourism are commonly seen in tourism destinations: street vendors, massage, luggage-carriers, and shoeshine boys. Mostly these poor are working on an irregular basis (depending on the potential number of visitors and related sales that can be made); mainly they are not producing but merely trading services or products. In most destinations, self- employed poor combine tourism income with agricultural labour activities in the off-season. Self-employed poor will hardly employ fixed assets nor accumulate capital. Their business is not operating with a strategy but as a need to survival, entrepreneurial (marketing and technical) skills and quality of service are usually no distinctive characteristics.

Self-employed poor have a permanent shortage of cash for consumption purposes as well as maintenance of their business activity. Their income strategy is based on meeting these shortages by whatever means. A boy cleaning cars at the national airport will need enough daily sales to pay for new washing soap, as well as contribute to the family income. The most urgent financial services needed are those that help to eliminate the shortage of cash and provide for working capital.

Non specialised tourism micro-enterprises (0-9 employees)

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

Specialised tourism micro-enterprises

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

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

The combination of both features: irregular sales and the need for fixed asset investments, increases their vulnerability and as a consequence these enterprises are having difficult access to financial services. This lack of finance puts a strong constraint on the competitive strength of these enterprises in the tourism industry. On top of this, their income flows largely depend on tourism seasonal influences. Most commercial banks in developing countries will not facilitate the start up of these businesses even if they have a potentially successful service to deliver. This is due to the following possible reasons:

- Lack of information on client's history.
- Lack of guarantees or collateral for lending.
- Absence of business plan or market analysis.
- No business registration nor tax information.

Small specialised tourism enterprises (9-49)

In more developed tourism destinations (large tourism numbers and stabilized tourism demands), most tourism products and services are delivered through small tourism enterprises. Examples are diving schools, language schools, production companies of processed agricultural products like milk, cheese factories, lodges, small hotels, larger restaurants, recreation businesses, bus companies, tour operators, etc. At this level, enterprises might be specialising in some tourism services, products or specifically target segments of tourists markets. When successful, small enterprises will hire employees, register their business, and invest in fixed assets like land and buildings. As a rule, these businesses are not owned by poor, who will mainly benefit from this segment of enterprises through labour or delivering subcontracted services or products.

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

This category of small enterprises is crucial for economic development, but lacks sufficient support. Many studies have been undertaken to assess the financial needs of this category.

A comparative study for African countries summarizes the following constraints for SMEs when it comes to access of finance (Beyene, 2002):

- High interest rates (up to 30-40% per annum).
- No access to long term loans.
- Lack of collateral and guarantee schemes.
- Bureaucratic bank procedures.
- No information on available finance sources (lack of transparency in financial markets).
- Concentration of finance in urban areas.
- No diversified financial products (insurance, equity finance, foreign exchange transactions).

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

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

Tourism micro- and small enterprises and their access to finance: three examples

As a result of the successful Microfinance Revolution, in many developing countries the financial sector is gradually changing. Supervision policies are modernized to allow MFIs as well as banks to include poorer client segments. Commercial banks are increasingly convinced of the fact that engaging in microfinance is good business sense.

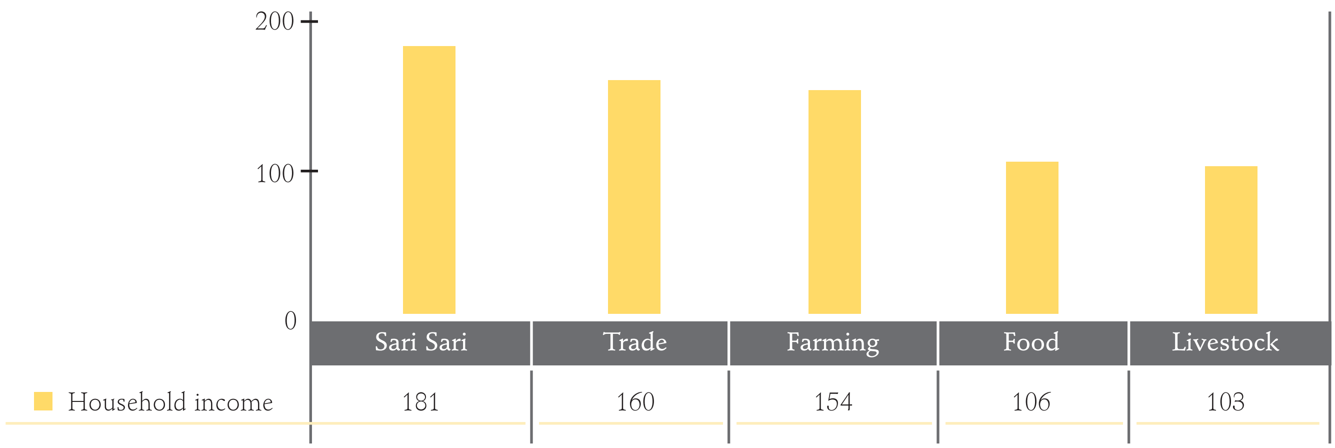
Still, when looking to the reality of tourism destinations, financial sector modernization could be deepened as we hope to show by analyzing three examples of countries in which financial sector improvement can be related to their tourism markets: The Philippines, Nicaragua and The Dominican Republic.

The Philippines

In The Philippines micro, small, and medium enterprises make up 99.6% of total industries and employ 70% of the Philippine workforce. In 2003, from a total population of more than 80 million, almost 4 million families or an estimated 25 million people were living below the poverty line (MCP, 2006). The microfinance sector in this country is rapidly growing. Almost 600 microfinance providers (banks, cooperatives and non governmental organisations, NGOs) are serving app. 1.8 million clients (Almario et al., 2005). The average loan amount per client is approximately USD 80, which indicates the level of poverty that is actually reached and targeted by microfinance institutions.

The majority of microfinance loans have to be repaid within 6-12 months. Most MFIs operate in urban or semi-urban areas; very few have offices in the main tourism areas in the Philippines like Boracay and Palawan (MCP, 2006). Empirical evidence in the Philippines shows that most of the microfinance clients are not moving away from simple trading activities. A recent client survey of existing microfinance clients in frontier areas showed the same trends with a concentration of business activity in sari-sari stores or simple trading businesses (Llanto, 2006). This survey is based on a total of 424 respondents from “frontier areas” - 144 NGO clients, 128 cooperative clients, 152 rural bank clients (Alaban et al., 2006).

Figure 2. Sources of income microfinance clients Philippines



The largest suppliers of microfinance in the Philippines still are NGOs, which have no permission to handle banking transactions. One of the reasons for MFIs not delivering higher loan amounts to their clients is that the Central Bank of the Philippines has defined that USD 3.000 is the maximum amount to be considered a microfinance loan, which was calculated to be the asset size of micro-enterprises (Almario et al., 2006).

When related to the tourism classification mentioned earlier, actually, MFIs in the Philippines are only serving the self- employed poor, the lowest end of their potential client base.

In major tourism areas this lack of access to finance can be observed. Tourism arrivals to the island of Boracay have increased to more than 500.000 annually and the island of Palawan receives approximately 140.000 visitors per year. Despite these numbers however, in both these tourism destinations, specialised tourism micro- and small businesses have tried to survive. There are no specialised credit arrangements available, which help them to overcome seasonal cash flow problems. As a consequence, these families are obliged to fall back un multi-income strategies and are unable to develop high quality tourism services.

Especially investments in software, reservation systems and website developments are needed to attract the high end segment of tourists that would help them improve their business performance. These credit needs are different from the typical microfinance products supplied through MFIs. Financing for tourism should be combining current account and overdraft facilities, insurance and leasing arrangements as well as fixed asset financing arrangements. Only through these financing arrangements micro and small tourism enterprises can go up the value chain to increase the efficiency and earnings of their enterprises (MCP 2006).

Despite the professionalisation and commercialisation of the microfinance sector in this country and with increased competition between MFIs in some urban areas, there appears to be hardly any drive for MFIs to move into tourism areas in The Philippines.

Nicaragua

Similar evidence can be found in Nicaragua. Out of a total of 500.000 microfinance clients, the vast majority is located in urban markets, and the average loan is around USD 1.000. When analyzing tourism areas like Masaya and Granada, the vast majority of the handicraft producers or small enterprises supplying foods and beverages to hotels and restaurants, do not have access to appropriate finance. The colonial city of Granada in Nicaragua received almost 300.000 tourists in 2006 (WTTC, 2006) which leads to potential sales markets for the 7.000 local micro-entrepreneurs.

Research among 1.400 clients of a major MFI in Granada, Asodenic, shows that these clients receive a maximum loan amount of USD 500 which they merely use for short term working capital shortages in their trading business, like food preparation, small shops, clothing trading, sewing and embroidery.

Though there is an increased demand from the tourism industry (local hotels, restaurants) for these and more specialized tourism products, these businesses are not capable of addressing this demand (Mayorga, 2005). It would require larger loan amounts and investments in fixed assets. Within the MFI credit scheme these clients only have access to credit amounts less than USD 500 that come with compulsory weekly repayments. Commercial banks are not willing to lend to these tourism businesses as they consider tourism markets to be too volatile (Van der Sterren, 2006).

Dominican Republic

In this major tourism destination, receiving more than 3 million tourists per year, the largest Microfinance Institution is called ADOPEM. This MFI delivers microfinance services to more than 50.000 female clients. The loans are given to small groups of women and the average amount borrowed by clients is around USD 240.

There are more than two thousand handicraft producers on the island that survive through tourism markets. One could say that this is a large market potential for Adopem, but the MFI is only delivering credit to some 100. The reason for this low penetration in this segment is that the income of handicraft producers depends to a large extent on traders and intermediaries that sell their products to tourism resorts. Handicraft producers have no access to tourists themselves because they have no marketing facilities and specialized handicraft stores.

The income of these producers could be improved through a combined package of specialised funding, in which long-term investments in equipments and stores are combined with investments in working capital. Also training and capacity development would be needed. Banks and MFIs however are not willing to finance these more risky business opportunities. ADOPEM does give working capital credit to the handicraft traders. Through this risk-avoiding strategy the institution basically impedes the handicraft producers themselves from increasing their income through selling directly to tourists.

Micro-enterprises in tourism destinations and access to finance: some issues for research

The above examples from three different countries appear to show a similar pattern: neither MFIs nor banks are focusing their attention towards micro- and small producers in tourism areas. These areas are either considered to be too wealthy, or too risky.

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

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

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

This absence of strong linkages between the financial and the tourism sector in developing countries leads to some interesting questions to be addressed through further research:

- At the level of supply of finance the main analytical problem appears to be that MFIs are mainly *poverty* and not *business* oriented. If MFIs in tourism destinations would be geared towards profit generating credit activities, their microfinance services would include tourism micro and small businesses. Their services could be more effective and would entail a stronger poverty reduction impact in tourism destinations.

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

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

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

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Bibliographical note

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