The Impact of COVID-19: Funding Sustainability Initiatives in Tourism

Alyssa N Marcy

MPA & EFII Class of 2020

Introduction

As catastrophic climatic events ravage communities around the world, slow market growth, and exacerbate global health epidemics, acquiring necessary funding to mitigate and adapt becomes ever more dire. The fields of environmental finance and impact investing are dedicated to bridging the monetary gap for sustainability-oriented projects through corporate partnerships. Currently, the United Nations estimates that the financing gap to achieve the Sustainable Development Goals (SDGs) - 17 global goals dedicated to a resilient future - falls between $2.5 and $3 trillion USD annually (United Nations, n.d.). And while governments struggle with political polarization and lack of funds, corporations can make large investments to reach these global goals and improve their own business models.

The Environmental Finance and Impact Investing (EFII) certificate offers MPA students an opportunity to learn the various finance mechanisms available to improve sustainability while preserving profitability. Over the last 20 years, company goals expanded to include corporate social responsibility (CSR) and environmental, social, and governance (ESG) objectives into their overall missions. Bottom lines have evolved to include profit, people, planet (the triple bottom line), and now, purpose (the quadruple). The reality is if companies do not make a sustainable transition, if they do not green their supply chains and shift to long-term thinking, economic survival is not guaranteed.

The EFII fellows of 2019-2020 honed academic knowledge through experiential learning, working with a Swiss-based company to research investment solutions for a sustainable tourism fund. It was an exciting and challenging task to tackle an industry as diverse and complex as tourism and more considering the impact of COVID-19. Preparation included an in-depth understanding of offsetting and insetting. The former is commonly heard when discussing “carbon offsets,” where a company or individual can purchase credits that offset their emissions. These offsets are generated from carbon-capturing projects or the sales of unused carbon credits. Insetting refers to mitigating climatic and social impacts within a company’s supply chain, and can include offsetting emissions, but also includes conservation, renewable energy, or public health projects. The company we worked with is known in the carbon offset space.

This article presents a summary of our work surrounding investments in sustainable tourism, including background on the industry as well as the solutions presented to the client. A brief analysis of the impact of COVID-19 on the sector and relevant policy implications contextualize our research within current events.

Client Overview

Our client is a leader within the carbon credit market - offering investment management and project solutions to private and government sector actors in different industries. They work with companies to assess risks and reach sustainability goals. In many cases, this includes offsetting a company’s emissions through the purchase of carbon credits; they also provide strategic guidance on environmental risk management, impact, and achieving sustainability targets.

In some cases, a company may prefer to meet these goals through more passive investments, such as investing in a general fund. Our client would then allocate investments to a general set of projects that meet the necessary criteria, with little involvement from the client itself. If the company’s sustainability targets are met, the investment is a success.

On the other hand, a company may want more customization with their investment, so they may invest in a platform that allows them to select a specific type of project, like water conservation. Through a platform, our client can consult with a company to address these specific needs - selecting a single project or multiple projects surrounding a theme, climate goal, or stage of the supply chain. This is where consulting and insetting comes into play.

Project Focus

Historically, our client has established both funds and platforms to meet the sustainability objectives of companies. Broadly speaking, the actors that approach our client come from various sectors. However, one sector, in particular, has proved tricky to “green” or make sustainable - the tourism sector. Our client asked us to create a fund or platform for the tourism sector, but would it be possible to only have one type of product given the diversity and complexity of the sector? Would a fund suffice or would a platform, with the ability to offer both insetting and offsetting opportunities, better match this industry?

This sector spans the globe, includes a diverse array of actors, and has a massive carbon footprint - a prime opportunity to improve global sustainability. Tourism has large-scale multinational players - such as airlines and hotel chains - and also small to medium enterprises (SMEs) - like tourism operators, travel agencies, and local business owners.

Further, the scope of emissions related to travel and tourism also varies. Airlines, for example, produce Scope 1 (direct) emissions through their use of fossil fuels. Offsetting through the purchase of carbon credits would be an easy solution for these actors, but how does this take into account indirect Scope 2 or Scope 3 emissions like hotel water consumption or waste produced by tourists? Insetting projects seem more applicable in these cases, which could access a larger field of players within the tourism sector. How could we help our client design a solution that accounts for such diversity?

In addition to developing the product and answering key questions, we first needed to better understand the industry. Next, we developed a marketing strategy to reach this spectrum of actors - one that identified actors from the industry who are more likely to invest in a tourism fund or platform.

Sector Analysis

The tourism industry is a significant contributor to the global economy, accounting for nearly USD 8.8 trillion, and employing close to 300 million people in 2019 (WTTC, 2019; Peltier, 2016). For many countries, tourism is the primary source of employment and income (Asadzadeh and Mousavi, 2017). Outside of pure tourism activities, tourism can generate revenue through the consumption of local goods, food, and other items. Further, tourism demand and revenue provide a business case to preserve historical sites, natural parks, cultural communities, and other sites of cultural or natural value (Pan et al., 2018).

While tourism has positive outcomes on the economy, the industry can be detrimental to the environment through energy use, greenhouse gas emissions, water consumption, poor waste management, and biodiversity loss (Pan et al., 2018). Tourism depends on energy-intensive processes, such as fossil fuel use for travel and energy expenditures on heating, cooling, and electricity in hotels (Pan et al., 2018). The industry is also intensive in land, water, food, and other physical materials. As the demand for tourism grows, so grows its impact:

> “The tourism industry is the world's largest and most complicated industry and this complexity is because of having a strong bond with social, cultural, political and environmental issues (Asadzadeh A, Mousavi, 2017).”

In addition to the significant contribution of greenhouse gas emissions, tourism is also one of the “most weather- and climate-sensitive sectors of the economy” (Damm et. al, 2019). The increase of extreme weather events such as hurricanes, droughts, and heatwaves will have an adverse impact on travel demand for all landscapes. Coastal regions are the most vulnerable to these changes and will be severely affected by climate change's effects on sea levels, natural resources, and biodiversity (Yazdanpanah, 2016).

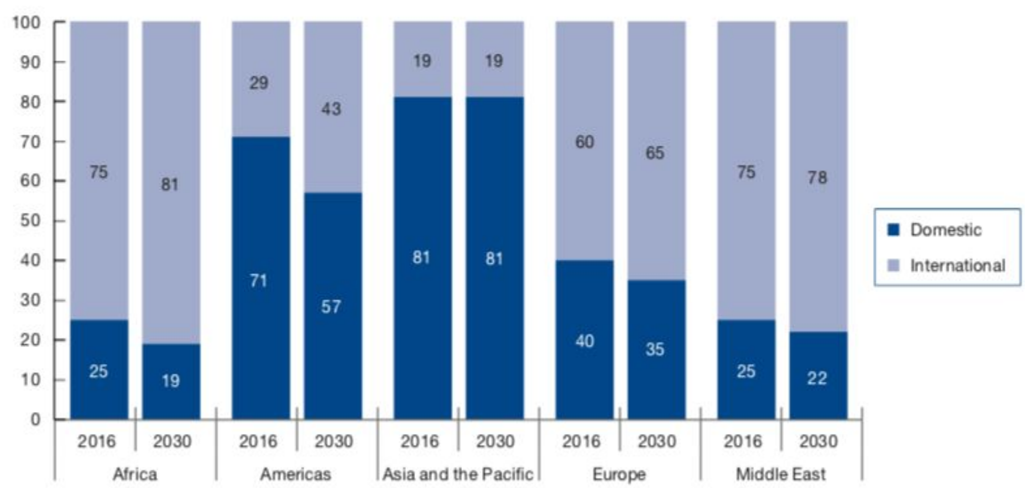
The travel sector may be the worst hit by COVID-19 and the effects of nationwide shelter-in-place orders, furloughed and laid off employees, and plummeting economies. The World Travel and Tourism Council estimates that more than 100 million tourism sector workers are or will be unemployed (WTTC, 2020). Hotel occupancy and flights are currently at an all-time low as COVID-19 has forced most behind closed doors and borders. Lori Pennington-Gray, Director of the Tourism Crisis Management Initiative (TCMI), noted that there has never been a crisis of this scale in the tourism industry (Glusac, 2020).

As of late May 2020, some countries began the process of reopening businesses and borders. Returning to normalcy will be slow, with many concerns about safety or finding themselves stuck in a different country. The question remains - when will people travel again? According to their April 2020 Travel Tracker Survey of American citizens, Skift Research reported that one-third of respondents indicated they wish to travel within three months following the lifted travel ban (Wang, 2020). However, as of July 2020, the United States experienced another massive spike in coronavirus cases following reopening across various states.

Despite the clear travel anxiety, younger members of the population are less likely to cancel travel plans and more willing to accept risk. Experts note the resiliency of the industry and pent-up demand suggests a surge in intra-regional travel will come first (Glusac, 2020). Data from these same surveys also showed that those with incomes greater than $125,000 expressed more interest in traveling, a comforting statistic for travel-related businesses (Glusac, 2020). Marketing to younger and financially secure travelers is imperative to revive the tourism sector early on.

However, the current assessment of tourism actors' role in lowering global emissions is underdeveloped despite tourism's significant contribution to global emissions. **Figure A** illustrates the carbon emissions each geographic region produces from tourism, both domestically and internationally. When someone travels outside the region for tourism. The magnitude of Scope 1, 2, and 3 emissions generated from this industry means that there are many opportunities to create positive impacts. This report focuses on these possibilities, honing in on how the tourism industry can employ the sustainable tourism fund to not only maintain revenue but increase its overall marketability and ensure longevity in a variable future.

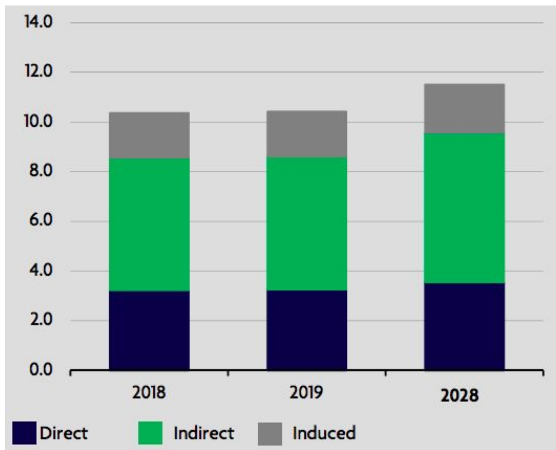
Figure A: 2016 and 2030 breakdown of international and domestic carbon emissions produced by tourism.



Source:Lenzen et al. 2018. The carbon footprint of global tourism.

The tourism and travel industry contributes to a significant amount of global GDP and is predicted to grow, as displayed below in **Figure B**. While these projections are promising, the detrimental effects of COVID-19 on the tourism industry imply that the future of tourism is uncertain. However, silver-linings do exist. Typical tourism seasons may shift geographically and temporally based on when and where travel is deemed safer. Further, destinations will likely experience a higher percentage of local visitors rather than international. The industry is dynamic and diversified, and its adaptability should not be underestimated.

Figure B: Total contribution of travel and tourism, % of global GDP



Source: Travel & Tourism Economic Impact 2019 World Report, WTTC.

Findings

Our report offered concrete solutions for our client in the development of their sustainable tourism fund. The team of five Cornell University graduate students collected information from institutional reports, current academic literature, and interviews with practitioners. Our analysis provided an overview of the tourism industry market, entry points for investing in sustainable initiatives, existing sustainable tourism funds, and potential partners and clients.

A Flexible Investment Mechanism

The Sustainable Tourism Fund is a hybrid fund-platform with multiple levels of customization for investors to choose their level of financial engagement. In this report, a fund-platform is defined as:

A hybrid financial mechanism that offers a spectrum of investment options, from a traditional fund structure to variations of platform investing schemes, such as investments in thematic projects or supply chain-specific projects.

The dynamism of the tourism sector demands a flexible environmental finance tool that matches its diverse character. As such, our team suggested a variety of investment structures:

Structure 1: Funder(s) → **General Fund** (**offsetting**)
Structure 2: Funder(s) → **Carve-out of General Fund** (**offsetting**)
Structure 3: Funder(s) → **Thematic Fund** (**offsetting**)
Structure 4: Funder(s)→ **Thematic Projects** (**insetting**)
Structure 5: Funder(s) → **Specific Project or Projects** (**insetting**)
Structure 6: Generating Biodiversity Credits

Funders can invest in more than one structure and partially or fully fund projects. These projects may have the dual effect of producing biodiversity credits (Structure 6).

A Targeted Marketing Approach

To achieve buy-in from investors, our team recommended a targeted marketing approach that employs partnerships, targets priority markets, and optimizes project customization through a holistic stakeholder engagement strategy. We have identified the following process to realize maximum participation in the sustainable tourism fund:

> **Step 1**: Establish partnerships with organizations and companies who have established interests or projects in sustainable tourism or maintain the largest negative impact on the environment.

Step 2: Identify and engage private investors within the sector who are growing rapidly, are favorable to sustainability or can be considered an upcoming market.

Step 3: Create/select projects for those investors utilizing the partnerships established in Step 1.

Step 4: Designate development professionals to reach out to relevant NGOs who can assist with these projects during the implementation phase.

Additionally, our team recommended a targeted marketing approach for each of three investor archetypes: private, public, and philanthropic. We also created a baseline messaging narrative for all three investor types after an in-depth analysis of all three groups:

Investing in sustainable tourism offers a way to improve long-term environmental quality, expand economic opportunity, and build reputation on a global stage.

To demonstrate the benefits of investing in this fund, our team designed a two-page fact sheet for potential clients, consisting of the fund's vision and mission, the platform itself, investor profiles, and reasons for investing.

This targeted approach will give our client accessible entry-points into investor buy-in that will allow them to access a vast and wealthy industry. The report itself presented a detailed overview of the market, its players, and the unlimited potential for the sustainable tourism fund.

Incorporating sustainability into tourism will be difficult considering events such as COVID-19 and the sector's resource-intensive activities. Policymakers and providers alike must do their part to push forward these goals. Conservation and preservation not only yield social and economic co-benefits -- they appeal to the growing trend of "the ethical traveler" (WTTC, 2019). Efforts to integrate sustainability into the tourism supply chain are growing, and traditional eco-tourism approaches are not the only means to expand conservation efforts and decrease carbon emissions.

Policy Implications

In light of the current global pandemic, travel and tourism are precarious paths to tread. The major policy implications surrounding the tourism sector and COVID-19 involve travel bans, unemployment, federal aid to businesses, and safety enforcement. To understand the broader impacts, we can take a look at the United States as an example.

Travel Bans and Employment

To control the spread of the virus, around 93% of countries enacted travel bans or restrictions (Salcedo et al., 2020) during the first half of 2020. For some, this includes no travel within or outside of the country. Many countries closed their borders to foreign travelers, with closure for 2-3 week periods or permanently - such as the case for Canada. These restrictions have severely affected the tourism industry, leading to a loss of between 100-120 million jobs worldwide and around USD 1 trillion lost in global GDP. While travel bans are necessary to contain the spread, the lack of tourism has a large economic impact.

In the United States, a country hit hard by unemployment, businesses in the tourism and travel industries are struggling. In Colorado, where 8% of all the country's tourism jobs are located, businesses who normally rely on seasonal workers cannot seem to find employees (Korte and Brewster, 2020). With the elevated health risks of working in close proximity to other people and shorter business hours, it is not surprising that the usual seasonal workers aren't returning to work. This highlights the conflict within wage discussions and unemployment benefits.

The wage debate in the United States spans decades, and in short, COVID-19 brings the issue of wage stagnation under the microscope once again. According to an article on FiveThirtyEight, the $600/week pandemic unemployment assistance of Congress' CARES Act is greater than lost earnings for "68 percent of unemployed workers who can receive benefits" (Thomson-Devereaux, 2020). If businesses cannot pay workers more than what they receive in federal assistance, bouncing back from the pandemic will be even harder for those in the tourism industry. The federal government, for example, could raise the minimum wage to help this important sector to recover.

Federal Aid to Businesses and Safety Enforcement

The second coronavirus relief package is making its way through Congress -- with it are tentative promises of additional aid to small businesses and another stimulus check. The reality for the tourism and travel industry is this: things are going to get worse before they get better. As of the third week of July 2020, the United States is seeing huge spikes in positive cases and another rise in deaths related to COVID-19. This is largely due to the politicization of safety protocols - namely, wearing masks and social distancing.

Travel, to say the least, is not ideal right now. This means the government needs to consider this when deciding where to direct aid. SMEs, especially in tourism, should be a part of this second package, as well as the indirect businesses also affected by a decline in travel. If the government wants to slow transmission, they also need to assist businesses in enforcing safety protocols (and in some cases, *require* enforcement).

At the moment, the onus is on businesses to ask customers to wear masks or maintain six feet, however, this can place businesses and their employees in tough positions. States such as New York are raising the stakes in this regard, where both businesses and customers can be fined up to $1,000 if protocols are not followed. For businesses in tourism, making money safely is crucial, as is government support.

Conclusion

Given the current financial crisis due to COVID-19, investments in greening the tourism industry will be a challenging bid to investors. However, citizens across the globe have seen emissions decrease due to quarantine and shelter-in-place orders, and this may shift the way people travel. Maintaining emissions drops may put pressure on the big players of tourism to keep this trend going. For example, luxury travel is more likely to include sustainability as a criterion, and given that those of higher incomes are one group expected to travel sooner, this could be an avenue of investment. The paradox of luxury tourism is that, while it tends to generate more emissions, it is in a better position to invest in sustainability measures.

And while it is hard to predict when - or whether - normalcy will return, lowering emissions and investing in adaptation and mitigation is still a necessity. Tourism is a delicate industry, easily disturbed by natural disasters, the decline of natural attractions, and now, a pandemic. Improving environmental health will be a priority long after this pandemic has come and gone, and as a significant employer and contributor to economic growth, governments need to recognize tourism's fragility.

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