

Tourism Webinar June 7, 2021

Talking Points

Introduction

- i. Northern Pakistan offers diverse landscapes from cold deserts to world's highest mountain ranges. It is an amalgamation of natural beauty, heritage, culture, and diverse flora and fauna.
- ii. This sector has the potential to:
 - Spur inclusive economic growth due to a wide variety of linked industries,
 - Create direct and indirect jobs,
 - Develop new opportunities for youth led start-ups,
 - Contribute to Sustainable Development Goals, particularly SDGs 8 (employment and economic growth), 12 (responsible consumption and production), 13 (climate action) and 14 (life below water),
 - Generate foreign exchange, and
 - Promote soft image of the country.
- iii. According to UNWTO statistics, tourism recorded unparalleled growth before COVID-19 with approximately 1.4 billion international tourist arrivals in 2019 and export earnings of USD 1.7 trillion dollars (contribution of 7% in world exports - UNWTO). Pakistan's International tourism receipts in 2019 amounted to \$494 million, making up only 0.1% of South Asia's receipts. Similar to the entire world, Pakistan's economy has also been affected due to COVID-19 including downturn in tourism and business travel.
- iv. To counter the effects of Covid-19 on economic growth and employment, SBP introduced various measures for SMEs including:
 - Regulatory relief through SME PRs for deferment of up to 1 year for principal repayment or rescheduling/restructuring of loan exceeding deferment of 1 year
 - Relief under EFS-for example: extension in shipment period of six months under EFS 1, reduction in export performance under EFS 2 from 2 times to 1.5 times for FY 20 and FY 21.
 - Introduced various concessionary schemes for purchase of medical supplies/equipment, setting of new industrial units and payment of wages and salaries to staff. End user for SMEs under these schemes ranged from 1% to 7%. Around Rs 889 million was financed from SBPBSC Islamabad office for tourism affiliated sectors under Refinance Scheme for Payment of Wages & Salaries to the Workers and Employees of Business Concerns
- v. Pakistan ranked at 121 out of 140 countries in the "The Travel and Tourism (T&T) Competitiveness Report 2019 by World Economic Forum". Pakistan remains the least competitive country in South Asia when it comes to T&T, including the region's least favorable safety and security (134th) conditions.
- vi. Tourism sector is one of the priority sectors for the current government for which it constituted a National Coordination Committee on Tourism (NCCT) to lead the country into "becoming the fastest growing tourism destination". The committee will devise an effective regulatory and implementation

mechanism of national minimum standards. The committee has been tasked to promote investments through public-private partnership and small and medium enterprises. It will also suggest measures to promote formal training of manpower engaged with the tourism industry.

- vii. Pakistan is realizing the importance of tourism value chains. This describes how private sector in collaboration with government and civil society works to facilitate visitor experiences. One such example is 'Travel Responsibly for Experiencing Ecotourism in Khyber Pakhtunkhwa' (TREK) – a collaboration between KP government, World Bank Group and Nestlé Pakistan. TREK works for the protection of ecosystem through solid waste management and plastics recycling at the tourism sites across KP and its activities include awareness campaigns for tourists, and training of local communities and businesses on waste minimization and collection.

Financing Perspective

- viii. Tourism industry includes various sectors broadly listed below, therefore, banks can contribute to tourism financing by developing products for/lending to any of these sectors:
 - hospitality (e.g., accommodation, restaurants),
 - transportation (e.g., airlines, car rental),
 - travel facilitation and information (e.g., tour operators, travel agents, tourist information centers),
 - attractions and entertainment (e.g., heritage sites and theme, national, and wildlife)

- ix. SBP BSC has also adopted **sector-specific approach** wherein, each field office selects a sector in its respective region to focus on during the year and execute activities to promote it. In this regard, SBP BSC Islamabad and Muzaffarabad selected the sector of Tourism. Under this initiative, offices are working with different stakeholders including banks for promotion of financing in the sector.

Under this approach, Islamabad office is closely working with HBL and NBP as partner banks to promote financing to this sector. In view of this, office has arranged this webinar so that our banks can learn best practices from across borders.

- x. During the course of the project, it was realized that SBP and banks face hurdles when making interventions in the sector. Some of the major impediments include:
 - Generally viewed as high risk sector
 - Banks and other financial institutions do not have a diversified product portfolio to cater to their needs. They also lack experts who understand the sector better and can develop specialized products for the sector.
 - Sector lacks proper awareness with regard to managing and accounting of finances, understanding of the market trends and other skills-undocumented
 - Lack of awareness about the facilities being offered by banks
 - Lack of assets to serve as collateral when taking loans from banking sector particularly due to weak land record management system
- xi. To counter these problems, there is a need for innovative solutions some of which may include:

- Banks should build their capacity in target segments. If banks have thorough understanding of business model, it will help in assessment of income of customers. Interaction with value chain participants is crucial in this approach.
 - As per the existing regulations of SBP, banks are free to do lending up to a level of Rs 5 million for client which do not have collateral. Further, for loan portfolio exceeding the threshold of Rs 5 million, banks may employ cash flow estimation techniques and other models to determine the financial health of the borrower.
 - A new law named “The Financial Institutions (Secured Transactions) Act, 2016 has been passed and an E-Registry has been established with SECP so that businesses can access credit from banking sector by using their movable assets as collateral. Therefore, businesses may make use of this facility for obtaining financing from banks.
 - Customized repayment plans keeping in view seasonality of tourism businesses may be offered.
 - Banks are encouraged to hold capacity-building sessions with SMEs to enhance their ability to understand need for cash flow. It may also be noted that banks have been mandated to provide non-financial advisory services.
- xii. SBP has launched different **concessionary refinance schemes** for small and medium enterprises (SMEs) for purchase of machinery, setting up of new industrial units, meeting working capital requirements etc. End user rate under these schemes is as low as 6% for SMEs and they are available across Pakistan.

Under Policy for Promotion of SME Finance launched in 2017, SBP BSC, through its 16 field offices, is engaged in **awareness creation** of SBP’s refinance and credit guarantee schemes amongst the SMEs and for the period from Jan to Dec 2020, 269 programs were conducted which include 23 sessions conducted by our north region in Muzaffarabad, Mirpur, Abbottabad, Mansehra etc.

- xiii. SBP BSC conducts **biannual SME Finance Focus Groups’** meetings with regional bankers, wherein performance of banks for lending to SMEs is discussed. Our offices in Muzaffarabad and Islamabad assess the performance of the banks and encourage them to lend to the deserving SMEs of the region.

Conclusion

- xiv. It is hoped that this event will enable our banking industry to gather critical insights about product development, develop linkages with international experts/institutes, learn from the experiences of our neighboring countries, develop synergies for future collaboration and most importantly initiate and expedite systematic product development for tourism industry.
- xv. Vote of thanks to all participants and organizers.