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Tourist Arrivals Increase, Hotel Occupancy Declines: Governance Strategies for Sustainable Tourism Accommodation in Bali

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Abstract: Despite receiving approximately 6.9 million international tourist arrivals in 2025, Bali's hotel occupancy remained relatively low at 57–67%, revealing governance challenges in the tourism accommodation sector. This disparity is partly driven by tourists' growing preference for villas, homestays, and short-term rentals, many operating outside formal licensing and taxation systems. This study analyses the governance challenges underlying the mismatch between rising tourist arrivals and declining hotel occupancy and proposes strategies for sustainable tourism accommodation in Bali. Using a qualitative approach, data were collected through focus group discussions (FGDs), follow-up interviews, field observations, and analyses of policy documents and media reports. The findings show that the Bali Provincial Government and the Ministry of Tourism have strengthened regulatory enforcement, including restricting online travel agencies from marketing unlicensed accommodation providers. Although these measures have encouraged business formalization, non-compliance remains widespread. The study highlights the need for stronger enforcement, integrated data systems, and collaborative governance to foster a more accountable, competitive, and sustainable accommodation sector.

Keywords: tourism governance; regulatory enforcement; accommodation businesses; sustainable tourism

1. Introduction

Bali remains one of the world's most visited tourism destinations, attracting millions of international visitors annually. In 2025, Bali experienced sustained growth in international tourist arrivals, with monthly arrivals frequently exceeding 600,000 visitors and contributing to an estimated

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annual total of nearly 7 million visitors (Badan Pusat Statistik Provinsi Bali, 2025). However, this increase in tourist arrivals was not accompanied by a proportional increase in traditional hotel occupancy. Official statistics indicate that the occupancy rates of star-rated hotels in Bali fluctuated between 57% and 67% in 2025, suggesting stagnation—or even decline—relative to visitor growth, particularly when compared with pre-pandemic levels (Badan Pusat Statistik Provinsi Bali, 2025; Bali Post, 2025). These trends indicate a structural shift in accommodation preferences away from conventional hotels toward alternative forms of lodging, including villas, homestays, and short-term rental accommodations (STRA).

Bali's rapid tourism expansion has generated profound governance challenges that extend well beyond the tourism sector itself. Approximately 2,612 accommodation businesses have been operating without official business permits, reflecting weak enforcement of licensing regulations and limited institutional capacity to monitor tourism development (Merdeka.com, 2025). Simultaneously, an estimated 700 hectares of land are converted annually into villas and foreign residential properties, placing increasing pressure on spatial planning, agricultural land, water catchment areas, and environmental sustainability (Harian Massa.id, 2025). Fiscal governance presents an equally serious concern, particularly in Badung Regency—the island's principal tourism district encompassing Kuta, Canggu, and Nusa Dua—where tourism-related businesses are heavily concentrated, followed by Denpasar (Sanur) and Gianyar (Ubud).

Despite the issuance of 40,060 business and investment permits between 2020 and 2024, only 17.9% of these businesses were registered under the Regional Taxpayer Identification Number (NPWPD) and Regional Tax Object Identification Number (NOPD). Consequently, approximately 82.1% of taxable business entities had not been integrated into the regional tax administration system, limiting the effectiveness of local revenue collection and regulatory oversight (DDTCNews, 2025). Similar governance deficiencies are evident at Bali's main international gateway, where persistent problems include inadequate supervision of foreign visitors, lengthy immigration queues, inefficient baggage handling, customs procedures, illegal transport services, poor cleanliness, security concerns, and chronic traffic congestion (Merdeka.com, 2025).

Although the continued increase in international tourist arrivals is widely regarded as an indicator of economic success, the concentration of visitors in major destinations has created growing pressures on Bali's physical, environmental, and social carrying capacity. Popular tourism areas such as Kuta, Canggu, Ubud, and Nusa Dua increasingly experience traffic congestion, excessive tourism development, waste management problems, and environmental degradation. Recent research in Canggu demonstrates that overtourism has become a tangible local concern, with residents expressing increasing sensitivity to the rapid conversion of agricultural land, declining environmental quality, infrastructure overload, and the erosion of community well-being, indicating that tourism growth has exceeded the area's capacity to accommodate visitors sustainably (Suyadnya et al., 2025). These conditions have positioned Bali alongside globally recognised overtourism destinations such as Venice and Barcelona (Dodds & Butler eds., 2019). Collectively, these challenges demonstrate that the proliferation of tourism accommodation in Bali is not merely a market-driven phenomenon but fundamentally a governance issue requiring stronger coordination in licensing, spatial planning, taxation, environmental protection, and institutional oversight to ensure the long-term sustainability of the destination.

Table 1. Number of Registered Tourism Businesses in Bali by Business Category, 2019–2025

No.	Tourism Business Category	ISIC Code (KBLI*)	2019	2020	2021	2022	2023	2024	2025
1	Star-rated Hotels	55110	265	266	266	319	435	1,297	1,694
2	Non-star Hotels (Budget Hotels)	55120	2,097	2,097	2,097	1,996	3,157	1,243	2,221
3	Villas	55193	–	–	–	–	–	5,272	7,610
4	Serviced Apartments	55194	–	–	–	–	–	305	424
5	Homestays	55130	3,247	3,247	3,247	699	3,981	4,110	5,594
	Total		5,609	5,610	5,610	3,014	7,573	12,227	17,543

Source: Compiled from Regency and Municipal Tourism Offices across Bali.
Note: *KBLI* (Klasifikasi Baku Lapangan Usaha Indonesia) Indonesian Standard Industrial Classification.

Table 1 shows in 2024, Bali officially recorded 12,227 registered tourism accommodation properties. Following the launch of the Bali Kerthi Compliance programme in mid-2025, through which the Governor of Bali initiated a comprehensive licensing audit of tourism accommodation businesses, the number of officially registered properties increased sharply by more than 5,000 units, reaching 17,543 properties by the end of 2025. This substantial increase suggests that many accommodation businesses had previously operated outside the formal regulatory system before being brought into compliance.

Nevertheless, data obtained from online travel agencies (OTAs) indicate that an estimated 2,000 additional properties may still be operating without official registration. In the context of this study, these properties are primarily villa-based short-term rental accommodation (STRA), referring to privately owned villas rented to tourists on a short-term basis through digital platforms such as Airbnb and other OTAs. This situation reflects broader governance challenges identified in the international literature.

Systematic reviews of short-term rental regulation show persistent difficulties in urban and tourism governance as digital platforms facilitate the rapid expansion of informal accommodation markets that local authorities struggle to monitor, license, and tax effectively (Guth et al., 2026; Hidalgo & Velázquez, 2026). Similarly, studies in European and North American cities reveal persistent regulatory lag and enforcement gaps, particularly in addressing illegal or unregistered STRA listings and integrating platform-generated data into formal governance systems (Nieuwland & Van Melik, 2018; Yeon et al., 2020). Bali exhibits many of these characteristics, where the rapid growth of villa-based STRA has outpaced regulatory capacity, underscoring the need for stronger licensing enforcement, integrated data systems, and closer collaboration between government agencies and digital accommodation platforms.

Despite the growing body of literature on the economic and social impacts of short-term rental accommodation (STRA), significant gaps remain in understanding the fiscal and institutional implications of unlicensed accommodation in tourism-intensive destinations. Most studies focus on housing markets, hotel competition, or general governance models, while relatively few examine how unregistered STRA affects local tax revenue, licensing enforcement, and inter-agency coordination. This gap is particularly critical in Bali, where unlicensed villas and other non-hotel accommodations may create unfair competition, weaken regional revenue collection, intensify pressure on land use and environmental resources, and fragment tourism governance. Moreover, the proliferation of illegal accommodation may ultimately undermine Bali's destination image and visitor confidence, particularly when tourists encounter safety, service quality, consumer protection, or legal problems while staying in unlicensed properties. These risks extend beyond individual visitor experiences, potentially affecting the island's reputation as a well-managed, safe, and sustainable world-class tourism destination. This study seeks to explain the governance challenges behind the paradox of increasing tourist arrivals alongside declining hotel occupancy and to develop governance strategies for a more sustainable tourism accommodation sector in Bali.

2. Literature Review

The rapid expansion of digital tourism accommodation platforms has transformed the global tourism industry and challenged conventional approaches to tourism governance. Digital platforms such as Airbnb, Booking.com, Agoda, and other online travel agencies have enabled villas, homestays, guesthouses, and private residences to participate directly in the tourism market, often operating outside traditional hotel regulations (Akbar & Tracogna, 2024; Leoni & Parker, 2019). As a result, governments increasingly face difficulties in regulating, monitoring, and taxing accommodation providers operating through digital platforms, creating new challenges for destination governance and regulatory enforcement (Benítez-Aurioles, 2021; Çakar, 2023).

Previous studies have identified short-term rental accommodation (STRA) as a disruptive innovation that reshapes accommodation supply by lowering market entry barriers and facilitating the growth of informal tourism businesses (Guttentag, 2015). While this development provides economic opportunities for local communities and property owners, it also creates governance challenges related to licensing, taxation, safety standards, land-use control, and fair competition (Nieuwland & van Melik, 2020; Colomb & Moreira de Souza, 2024).

The growth of STRA has been particularly significant in Southeast Asia, where alternative accommodation has become an increasingly important component of tourism supply. The Asian Development Bank (2023) reported that non-hotel accommodation, including villas, homestays, serviced apartments, and private rentals, constitutes a substantial share of tourism accommodation in the region. Bali represents one of the most prominent examples of this transformation. The island's tourism success, combined with strong international demand for private villas and experiential accommodation, has stimulated rapid growth in villa developments across major tourism destinations such as Canggu, Seminyak, Uluwatu, Ubud, and North Kuta. However, the expansion of accommodation supply has not always been accompanied by corresponding growth in regulatory compliance.

Recent developments in Bali reveal an apparent paradox. While international tourist arrivals have continued to increase significantly following the post-pandemic recovery, hotel occupancy rates have remained relatively stagnant. This phenomenon has generated growing concern among policymakers and tourism industry stakeholders. Hotel operators argue that the increasing number of villas and STRA has altered market dynamics by diverting visitors from licensed accommodation providers. Previous research found that Airbnb and similar platforms affect conventional hotel performance in Bali by increasing competition in the accommodation market (Ganapati et al., 2021). Similar findings have been reported internationally, where the expansion of short-term rentals has reduced hotel revenues and shifted accommodation demand away from formal establishments (Zervas et al., 2017; Falk & Yang, 2021).

Beyond market competition, concerns have emerged regarding the legality of accommodation businesses operating in Bali. Evidence from government audits, tourism associations, and media investigations suggests that a substantial proportion of villas and tourism accommodation businesses operate without complete legal permits, tax registration, building approvals, or tourism business certification. Earlier studies conducted in Badung Regency found that many villas were already operating despite lacking the required business legality and tourism licenses (Aryani et al., 2021). Weak enforcement capacity, fragmented administrative databases, limited human resources, and the absence of effective sanctions have historically constrained regulatory oversight. Consequently, the accommodation sector has evolved into a dual system consisting of licensed businesses that comply with legal and fiscal obligations and unlicensed operators that benefit from lower compliance costs while competing in the same market.

The implications of this situation extend beyond market fairness. Illegal or unregistered accommodation may reduce government capacity to collect tourism-related taxes, licensing fees, and other forms of local revenue. This issue is particularly important in Bali because local governments depend heavily on tourism-related fiscal income to finance public services, environmental management, infrastructure, and destination development. Furthermore, uncontrolled villa development has been linked to land-use conversion, environmental degradation, pressure on water resources, and increasing social tensions between tourism growth and local community interests. Studies on tourism leakage in Bali have also highlighted how informal and weakly regulated tourism businesses may reduce the extent to which tourism benefits are retained within local economies (Margayawati et al., 2025).

The international literature has extensively examined the impacts of short-term rentals on housing markets, urban transformation, gentrification, hotel competition, and tourism governance (Barron et al., 2021; Cocola-Gant & Gago, 2021; Nieuwland & van Melik, 2020). Recent studies have also explored regulatory responses adopted by governments to address illegal STRA operations, including registration requirements, licensing systems, platform accountability measures, zoning restrictions, and data-sharing arrangements between digital platforms and public authorities (Colomb & Moreira de Souza, 2024). Nevertheless, the existing literature remains largely focused on the economic, social, and governance consequences of STRA growth. Much less attention has been given to the relationship between accommodation legality, regulatory enforcement, and fiscal outcomes, particularly in tourism-dependent destinations in developing countries.

In the context of Bali, existing studies primarily discuss hotel competition, tourism leakage, villa supervision, licensing challenges, and the social impacts of tourism development (Aryani et al., 2021; Ganapati et al., 2021; Margayawati et al., 2025). However, there remains limited scholarly understanding of how recent efforts by the Bali Provincial Government, the Ministry of Tourism, local governments, and tourism industry associations have sought to standardize accommodation businesses through licensing audits, business verification, and stricter enforcement measures. More importantly, no study has comprehensively examined the emerging governance strategy that combines accommodation standardization, inter-agency coordination, industry participation, and restrictions on online travel agencies from marketing unlicensed accommodation businesses.

Therefore, a significant research gap exists regarding the governance mechanisms required to formalize Bali's accommodation sector and ensure that tourism growth contributes to both sustainability and fiscal resilience. While previous studies have documented the existence of illegal accommodation and the challenges of tourism regulation, little empirical attention has been devoted to understanding how standardization initiatives, licensing reforms, and collaborative governance arrangements can improve regulatory compliance and strengthen sustainable tourism governance. This study seeks to address that gap by critically examining the ongoing efforts to regulate accommodation businesses in Bali through licensing standardization, institutional collaboration, and enhanced enforcement mechanisms, thereby contributing to the broader debate on tourism governance, regulatory effectiveness, and sustainable destination management.

3. Research Methods

3.1 Methods

This study employed a qualitative case study approach to examine governance strategies for regulating accommodation businesses in Bali, particularly in relation to licensing compliance, villa standardization, institutional coordination, and sustainable tourism governance. A case study design was selected because the research focuses on a contemporary governance issue embedded in a specific policy and destination context (Yin, 2018). Data were collected through participant observation, stakeholder discussions, and documentary analysis (Table 2).

Table 2. Sources of Data

Source	Date	Participants	Main Topics
Bali Villa Connect 2026	26 May 2026	Government, DPR RI, PHRI, academics, investors, villa operators	Licensing, standardization, sustainability
FGD Tourism Strengthening	11 June 2026	Government agencies, associations, business actors	Illegal accommodation, licensing reform, investment
Legal Documents	2024–2026	Government regulations	Licensing and compliance
Media Reports	2025–2026	National and local media	Enforcement and tourism governance

Source: Authors compilation, 2026.

Primary data were collected through participation in two major tourism stakeholder forums held in Bali in 2026, supplemented by policy or legal documents, official meeting materials, and follow-up interviews. These forums were particularly significant because they took place at a critical moment when concerns over the paradox of increasing tourist arrivals alongside declining hotel occupancy had become a prominent public issue. At the same time, the Provincial Government of Bali had begun implementing strategic measures to improve governance in the accommodation sector through the Bali Kerthi Compliance programme, which emphasized licensing audits, regulatory enforcement, and the legalization of tourism accommodation businesses. The first author participated in both forums as a speaker and an active observer, providing direct access to discussions, official documents, and interactions with key stakeholders in tourism governance and business.

The first forum, Bali Villa Connect 2026, was held on 26 May 2026 at the Bali Sunset Road Convention Center, Denpasar (Figure 1). Organised by the Bali Villa Rental Management Association (BVRMA), the forum aimed to establish an industry platform for strengthening villa governance, promoting legal and sustainable accommodation practices, and fostering collaboration among villa owners, property managers, investors, academics, government regulators, and hospitality professionals (Bali Portal News, 2026; BVRMA, 2026). The forum took place amid intensified efforts by the Bali Provincial Government and the Ministry of Tourism to regulate unlicensed tourism businesses, including proposals to remove illegally operated accommodation providers from online booking and marketing platforms. The Bali Villa Rental and Management Association (BVRMA) shared the same objective, encouraging its members to comply with applicable regulations. The forum attracted a large audience, not only because it featured a villa exhibition but also because villa owners and managers were eager to obtain the latest information on licensing policies that could directly affect their businesses.

Figure 1. Bali Villa Connect 2026 Forum, held on 26 May 2026, attended by villa managers and short-term rental accommodation operators from Bali, other parts of Indonesia, and abroad (Photo: I Nyoman Darma Putra).

Participants included I Nyoman Parta, a member of the Indonesian House of Representatives representing Bali; I Gusti Agung Ngurah Rai Suryawijaya, Chair of the Indonesian Hotel and Restaurant Association (PHRI) Badung Chapter; representatives of the Bali Provincial Investment and One-Stop Integrated Service Office; academics from several higher education institutions; and Julie George (Australia), author of Million-Dollar Host: *Julie's Airbnb Portfolio Earned Over a Million Dollars in Her First Year... Yours Can Too*! (2018). The first author participated both as an invited panellist and as a participant observer, presenting a paper on the importance of operational standardisation and licensing compliance as prerequisites for building legal, competitive, and sustainable villa businesses.

The second forum was the Focus Group Discussion (FGD) on Strategic Strengthening of Tourism through Licensing Synergy, Business Aspirations, and Investment in Badung, held on 11 June 2026 (Figure 2). The discussion was initiated by I Gusti Agung Ngurah Rai Suryawijaya (PHRI Badung), Dr. Drs.

Panudiana Kuhn, M.M. (Bali Business Club), and Agus Maha Usadha (NCPI Tourism Bali). While the Bali Villa Connect forum was initiated by the Bali Villa Rental and Management Association (BVRMA), the second forum—a Focus Group Discussion (FGD)—was organised by the Badung chapter of the Indonesian Hotel and Restaurant Association (PHRI Badung), whose chair had also served as a speaker at the first forum. Despite being organised by different associations, both forums shared a common objective: to identify practical solutions to licensing and governance issues in Bali's accommodation sector that would benefit accommodation businesses, government authorities, and tourists alike.

Figure 2. Focus Group Discussion (FGD) on Strategic Strengthening of Tourism through Licensing Synergy, Business Aspirations, and Investment in Badung, held on 11 June 2026 (Photo: Raka Suardana).

The FGD focused on key governance issues, including licensing complexity, legal certainty, illegal villas, spatial planning, the investment climate, and the need for stronger institutional coordination among government agencies and tourism businesses (Atnews, 2026). To complement the forum discussions, semi-structured interviews were conducted with purposively selected participants representing government institutions, tourism associations, academics, and business practitioners to obtain in-depth perspectives on regulatory enforcement, licensing reform, and the governance challenges facing Bali's rapidly expanding villa-based short-term rental accommodation (STRA) sector.

Complementary data were collected from legal documents, government reports, policy materials, and mass media reports related to accommodation licensing, business permits, building approval, villa standardization, online travel agency governance, and enforcement against illegal accommodation businesses. These documents were used to trace the regulatory framework and public discourse surrounding illegal accommodation, tourism image protection, tax compliance, business sustainability, and sustainable destination management. The study also used relevant academic literature on villa supervision, Airbnb, short-term rental accommodation, and tourism governance in Bali to contextualize the empirical findings (Aryani et al., 2021; Ganapati et al., 2021).

Data were analyzed using qualitative content analysis. The analysis identified recurring themes related to licensing barriers, regulatory enforcement, illegal accommodation, stakeholder coordination, fiscal implications, and sustainable tourism governance. Triangulation was conducted by comparing information from forum observations, stakeholder statements, legal documents, government materials, academic studies, and media reports. This process strengthened the credibility of the findings and allowed the study to critically examine how Bali's accommodation sector is being repositioned through standardization, licensing reform, and collaborative governance.

3.2 Theory

The governance of tourism accommodation in Bali requires an analytical framework capable of explaining both the institutional coordination among multiple stakeholders and the mechanisms through which regulatory compliance is achieved. This study therefore combines Collaborative Governance and Responsive Regulation as complementary theoretical perspectives. Recent tourism governance research reinforces this approach by demonstrating that sustainable destination management depends on collaborative partnerships among governments, tourism industries, local communities, and other stakeholders who jointly formulate and implement governance strategies (Zhang et al., 2022; Teguh & Scott, 2025). Collaborative Governance explains how public agencies, private-sector organizations, and civil society collectively formulate and implement policy, whereas Responsive Regulation explains how regulatory authorities encourage compliance through graduated and adaptive enforcement. Together, these perspectives provide an integrated framework for understanding how governance arrangements shape the behaviour of accommodation providers and contribute to sustainable tourism management.

Collaborative Governance refers to a governing arrangement in which one or more public agencies directly engage non-state stakeholders in a formal, consensus-oriented, and deliberative process of collective decision-making to formulate and implement public policy or manage public resources (Ansell & Gash, 2008). Rather than relying solely on hierarchical government authority, collaborative governance recognizes that increasingly complex public problems require the participation of actors possessing diverse resources, expertise, and institutional capacities. Emerson and Nabatchi (2015) further conceptualize collaborative governance as a dynamic governance regime built upon principled engagement, shared motivation, and joint capacity for action, enabling stakeholders to address problems that cannot be effectively solved by individual organizations acting independently. Within tourism governance, this perspective is particularly relevant because tourism development involves overlapping jurisdictions, multiple economic interests, and shared responsibilities among governments, tourism industries, business associations, local communities, and digital platforms. Consequently, effective governance depends not only on government intervention but also on sustained coordination, stakeholder participation, and collective problem-solving.

While Collaborative Governance explains the institutional architecture through which policy is coordinated, it does not fully explain how regulatory compliance is achieved. This dimension is addressed by Responsive Regulation, developed by Ayres and Braithwaite (1992), which argues that effective regulation should combine persuasion with enforcement through a graduated and adaptive strategy. Rather than relying exclusively on punitive sanctions or voluntary compliance, regulators initially promote compliance through education, consultation, and dialogue before progressively applying inspections, administrative sanctions, financial penalties, licence suspension, or market exclusion when non-compliance persists. This responsive approach seeks to maximise cooperation while preserving the credibility of enforcement, thereby enhancing both regulatory legitimacy and long-term compliance (Braithwaite, 2011).

The two theories are therefore mutually reinforcing. Collaborative Governance identifies the institutional relationships through which governments coordinate with business associations, tourism organizations, and online travel agencies to formulate and implement accommodation policies, whereas Responsive Regulation explains how these collaborative arrangements translate into behavioural change among accommodation operators. In Bali, this integrated framework helps explain how the Provincial Government, the Ministry of Tourism, district governments, industry associations such as the Indonesian Hotel and Restaurant Association (PHRI) and the Bali Villa Rental and Management Association (BVRMA), together with digital booking platforms, seek to address the proliferation of unlicensed accommodation businesses. While collaborative governance facilitates coordination and stakeholder participation, responsive regulation provides the enforcement logic through which accommodation operators are encouraged to formalize their businesses and comply with licensing, taxation, and operational standards.

Together, these theories provide a comprehensive analytical framework for examining governance strategies that promote a more accountable, competitive, and sustainable tourism accommodation sector.

4. Result

4.1 The Accommodation Governance Paradox in Bali

The findings reveal a significant mismatch between tourism growth and the performance of Bali's formal accommodation sector. In 2025, Bali recorded approximately 6.9 million international tourist arrivals, yet hotel occupancy rates remained relatively low, ranging from 57% to 67%. Interviews, stakeholder discussions, and policy documents consistently identified the rapid expansion of villas, homestays, and short-term rental accommodations (STRA) as a major factor contributing to this disparity. From a collaborative governance perspective, this paradox reflects fragmented coordination among government agencies, industry associations, digital platforms, and local communities, despite the need for collective decision-making and shared accountability in managing complex public problems (Ansell & Gash, 2008; Emerson et al., 2012).

Government and industry stakeholders consistently identified incomplete legal compliance as a central problem in Bali's accommodation sector. A substantial proportion of accommodation businesses reportedly operate without complete business permits, tourism licenses, or local tax registration. In Badung Regency, 82.1% of registered business entities were not registered in the regional tax administration system and had not fulfilled their local tax obligations. This condition creates significant potential revenue losses and weakens the government's capacity to monitor tourism activities effectively. Stakeholders further emphasized that the rapid growth of unlicensed accommodation has raised concerns about market fairness, particularly for licensed businesses that comply with regulatory and fiscal obligations. Viewed through the lens of responsive regulation, these findings suggest that effective governance requires a graduated regulatory approach that combines education, incentives, monitoring, and escalating sanctions to encourage voluntary compliance while maintaining credible enforcement against persistent violators (Ayres & Braithwaite, 1992; Braithwaite, 2011). As emphasized by Kadek Adnyana, Chair of the Bali Villa Rental and Management Association (BVRMA):

> "Legally licensed businesses are required to comply with various government regulations and obligations, whereas illegal operators can continue operating with minimal oversight while capturing significant benefits from Bali's tourism market." (Bali Post, 2026)

This situation has created unequal competitive conditions between formal accommodation providers and informal operators, while simultaneously reducing the sector's contribution to regional development and public revenue.

Figure 3. Rice fields in the Canggu area that are continuously being converted into villas and other tourism accommodation properties, 2018 (Photo: I Nyoman Darma Putra).

The issue extends beyond fiscal concerns. Participants reported that the rapid growth of accommodation developments has accelerated land-use conversion (Figure 3). Government data indicate that approximately 700 hectares of land have been converted into villa developments, contributing to environmental pressures, including increased flood vulnerability, declining green open space, and growing pressure on local water resources. The governance challenge therefore extends beyond taxation and licensing and increasingly intersects with issues of spatial planning, environmental sustainability, and infrastructure capacity.

These findings suggest that accommodation growth in Bali has become increasingly disconnected from formal governance mechanisms. While tourist arrivals continue to increase, a substantial share of tourism activity is occurring outside the regulatory framework designed to ensure legal compliance, environmental protection, and fiscal accountability.

4.2 Government Responses to Illegal Accommodation

The findings show that Bali Provincial Government and the Ministry of Tourism have recently adopted more assertive enforcement strategies to address illegal accommodation businesses. A key policy intervention involves restricting the marketing channels through which unlicensed accommodation businesses operate. During stakeholder consultations, participants repeatedly referred to the Governor of Bali's directive requiring Online Travel Agents (OTAs) and digital booking platforms to remove unlicensed accommodation listings from their platforms.

In the the Focus Group Discussion on Strategic Strengthening of Tourism through Licensing Synergy, Dr. Panudiana Kuhn stated that approximately 1,600 illegal accommodation units were identified as operating through digital booking platforms (Atnews, 2026). The government subsequently issued an ultimatum to OTAs, including Airbnb and other online booking services, requiring the removal of illegal accommodation listings. Stakeholders viewed this measure as one of the most important enforcement initiatives undertaken by the government because it targets the market access of illegal businesses rather than relying solely on field inspections.

During stakeholder discussions, concerns were raised regarding the socio-economic implications of these enforcement measures. I Gusti Agung Ngurah Rai Suryawijaya, Chairman of the Indonesian Hotel and Restaurant Association (PHRI) for Badung Regency, highlighted the sheer scale and nuance of the issue. The number of illegal villas is substantial. Out of roughly 1,600 unauthorized accommodations, 60 percent are foreign-owned companies (PMA) that exploit real estate business classifications (KBLI) by using residential properties for daily tourism rentals. The remaining 40 percent are owned by local entrepreneurs operating homestays and tourist lodges throughout our tourism villages. Rai Suryawijaya urges authorities to exercise wisdom and discretion in addressing this issue. Otherwise, both the community and the government will lose out, as vital taxes and levies will continue to go uncollected (Atnews, 2026).

This perspective underscores the deep complexities of accommodation governance in Bali. It highlights the delicate balance regulators must strike between enforcing compliance on foreign-backed entities and protecting the economic livelihoods of local communities who depend heavily on tourism. Interview data further indicate that stricter enforcement has encouraged increasing numbers of accommodation operators to register their businesses and initiate licensing procedures. Nevertheless, participants acknowledged that compliance remains uneven and that a substantial number of accommodation providers continue to operate informally.

4.3 Licensing Challenges and Institutional Constraints

Although stakeholders generally supported stronger enforcement, they also highlighted persistent institutional barriers that complicate compliance. Participants in the Focus Group Discussion repeatedly emphasized that accommodation licensing procedures remain fragmented and difficult to navigate. Operators must often deal with multiple agencies responsible for tourism licensing, building permits, taxation, zoning regulations, and operational certification. Several participants described the process as time-consuming, costly, and characterized by overlapping requirements.

Stakeholders further emphasized that regulatory reform should not focus solely on enforcement. Agus Maha Usadha from NCPI Bali argued that sustainable tourism development requires a broader governance approach:

> "Tourism in Bali, particularly in Badung, is the lifeblood of the island's economy. However, sustainable growth depends on three pillars: regulatory certainty and licensing facilitation, business aspirations that are heard and accommodated, and a healthy, safe, and sustainable investment climate" (Atnews, 2026).

This perspective suggests that licensing compliance is more likely to improve when regulatory systems are accompanied by supportive administrative services and investment-friendly policies.

As noted by I Gusti Agung Ngurah Rai Suryawijaya, Chair of PHRI Badung, the sustainability of tourism development depends not only on strict enforcement but also on legal certainty, effective licensing services, and a supportive investment climate. Similar concerns were raised by business associations, which proposed the establishment of guidance clinics to assist tourism operators in understanding licensing requirements and administrative procedures.

The findings therefore indicate that non-compliance is not solely a consequence of weak enforcement. It is also associated with institutional complexity, fragmented governance arrangements, and limited administrative support for business formalization.

4.4 Discussion

The findings reveal that the primary challenge facing Bali is not tourism growth itself but the limited capacity of governance institutions to respond to the rapid transformation of the accommodation market. Two structural factors are particularly significant. First, Indonesia's regulatory framework governing investment remains fragmented and insufficiently coordinated across government institutions, particularly with regard to foreign direct investment (FDI). This fragmented system creates regulatory loopholes that are difficult to monitor and enforce effectively. As a result, inconsistencies in regulatory implementation weaken institutional oversight and reduce the effectiveness of tourism governance.

Second, the national Online Single Submission (OSS) licensing system, while designed to streamline business registration, is not fully adapted to the unique characteristics of Bali's tourism ecosystem. Specifically, the minimum capital requirements established at the national level are relatively low by Bali's standards, enabling an increasing number of foreign-owned enterprises to enter the accommodation market and thereby intensifying competition with local small and medium-sized enterprises (SMEs). These findings suggest that national investment regulations require greater contextual adaptation to address the governance needs of tourism-dependent destinations such as Bali.

These regulatory weaknesses have facilitated the proliferation of informal, illegal, or semi-compliant foreign investment practices. Common examples include the use of nominee arrangements to circumvent foreign ownership restrictions and the misuse of Indonesian Standard Industrial Classification (KBLI) business classifications, whereby properties originally intended for residential purposes are marketed as tourism accommodation and rented on a daily basis without obtaining the required tourism business licenses or complying with local taxation requirements. Consequently, these practices undermine regulatory compliance, distort market competition, reduce fiscal revenue, and weaken the effectiveness of tourism governance.

The coexistence of increasing tourist arrivals and stagnant hotel occupancy rates illustrates what may be described as an accommodation governance paradox. Tourism demand continues to expand, yet a growing proportion of economic activity occurs through accommodation businesses that operate partially or entirely outside formal regulatory systems. As a result, the benefits of tourism growth are increasingly dispersed through informal and weakly regulated channels, reducing the effectiveness of governance mechanisms and undermining fair competition within Bali's tourism industry.

Figure 4. Despite intense competition in the tourism industry, tourist arrivals in Bali remain high, as reflected in the crowded restaurants along Sanur Beach (Photo: I Nyoman Darma Putra).

This phenomenon reflects broader global trends associated with the expansion of short-term rental accommodation platforms. As argued by Guttentag (2015), digital platforms have fundamentally transformed tourism accommodation by lowering barriers to market entry and enabling informal operators to compete directly with licensed businesses (Figure 4). Similar patterns have been documented in Europe, North America, and Asia, where regulatory institutions often struggle to monitor rapidly expanding platform-based accommodation markets (Nieuwland & van Melik, 2020; Colomb & Moreira de Souza, 2024).

However, the Bali case demonstrates that the implications extend beyond market competition. The findings indicate that unlicensed accommodation creates a multidimensional governance problem encompassing fiscal leakage, environmental degradation, spatial planning challenges, and regulatory inequality. Formal hotels are required to comply with licensing, taxation, safety, environmental, and labor regulations, while many informal operators benefit from significantly lower compliance costs. This creates an uneven competitive environment and weakens incentives for legal compliance. Similar concerns were expressed by Kadek Adnyana, who argued that the expansion of unregistered accommodation has distorted market competition because licensed businesses bear substantially higher regulatory obligations than informal operators. This finding suggests that accommodation governance is not merely a matter of legal compliance but also of ensuring fairness and accountability within Bali's tourism economy.

The findings further suggest that enforcement alone cannot resolve the problem. Although the government's decision to pressure Online Travel Agents to remove illegal listings represents a significant regulatory breakthrough, compliance challenges remain deeply embedded within institutional structures. Stakeholders consistently highlighted the complexity of licensing procedures, overlapping bureaucratic responsibilities, and regulatory uncertainty as barriers to formalization. This finding supports regulatory governance theories that emphasize the importance of combining sanctions with administrative facilitation and institutional support (Braithwaite, 2008).

This interpretation is reinforced by the views of Agus Maha Usadha, who emphasized that sustainable tourism governance requires not only enforcement but also a conducive investment environment. As he stated,

> "When the investment climate is conducive—licensing is efficient, legal certainty is ensured, security is maintained, and incentives are clear—investors will come, local businesses will grow, employment opportunities will expand, and regional revenues will increase." (Atnews, 2026)

This observation supports the argument that compliance is more likely to emerge when governments combine regulatory sanctions with institutional facilitation and clear economic incentives. A particularly important contribution of this study is the identification of a governance transition from reactive enforcement toward compliance-based regulation. The Bali Kerthi Compliance initiative represents a shift away from traditional inspection-centered approaches toward a governance model that combines auditing, standardization, incentives, and sustainability assessment. Rather than viewing accommodation businesses solely as objects of regulation, the program seeks to encourage voluntary compliance through reputational incentives and performance recognition.

As part of its efforts to strengthen tourism governance and improve the quality of Bali's tourism industry, the Bali Provincial Government launched the Bali Kerthi Compliance audit initiative through an online kick-off event on 31 March 2026, attended by approximately 500 accommodation-sector tourism entrepreneurs. Opening the event, the Head of the Bali Provincial Tourism Office, Dr. I Wayan Sumarajaya, emphasized that the audit was essential to ensuring a higher-quality and more sustainable tourism sector. The program is implemented by the Tourism Business Licensing Audit Acceleration Team, established under Bali Governor Decree No. 404/04-B/HK/2025, with the objective of evaluating and auditing the licenses held by tourism businesses, particularly accommodation providers. To encourage compliance, businesses that successfully meet the audit standards are awarded Bali Kerthi Compliance certification at Gold, Platinum, or Diamond levels, depending on their degree of compliance. Beyond regulatory enforcement, the initiative also provides coaching clinics and technical assistance to help tourism operators address licensing and administrative challenges. Through this combination of auditing, capacity building, and certification, Bali Kerthi Compliance seeks to promote a more transparent, accountable, and sustainable accommodation sector in Bali (Bali Berkarya, 2026; Bali Hote News, 2026).

This approach is consistent with contemporary theories of responsive regulation, which argue that sustainable compliance is more likely when governments combine coercive enforcement with mechanisms that reward good performance and facilitate compliance (Braithwaite, 2008). The Diamond, Platinum, and Gold classification system effectively creates a form of reputational governance that may influence both market behavior and consumer choice.
The emphasis on integrated governance is also consistent with broader perspectives on tourism development in Bali. As Prof. Ida Bagus Raka Suardana, the moderator of FGD, observed,

> "The success of tourism development cannot rely solely on increasing tourist arrivals or investment flows. It depends on the ability of stakeholders to build synergy among licensing, spatial planning, investment, infrastructure, and business needs." (Interview, 11 June 2026)

The Bali Kerthi Compliance initiative may therefore be interpreted as an attempt to operationalize such synergy by linking licensing compliance, sustainability standards, and institutional coordination within a single governance framework.

Another important contribution concerns the role of data integration in tourism governance. Previous studies have highlighted how fragmented information systems undermine the capacity of governments to regulate short-term rentals effectively (Colomb & Moreira de Souza, 2024). The integration of accommodation monitoring with APOA and immigration databases represents an important institutional innovation because it enables governments to move from reactive monitoring toward data-driven governance. Such integration may improve regulatory accuracy, enhance tax compliance, and strengthen evidence-based policy making.

At a broader level, the Bali case demonstrates the limitations of using tourist arrival numbers as the primary indicator of tourism success. The findings suggest that high visitor numbers do not necessarily translate into equitable economic benefits, fiscal sustainability, or environmentally responsible development. Consequently, tourism governance should be evaluated not only by growth indicators but also by the extent to which tourism activities operate within legal, fiscal, social, and environmental frameworks.

5. Conclusion

This study demonstrates that Bali is experiencing an accommodation governance paradox whereby rapid tourism growth has not translated into proportional benefits for the formal accommodation sector. Despite receiving approximately 6.9 million international tourist arrivals in 2025, hotel occupancy rates remained relatively low, while a substantial proportion of tourism activity shifted toward villas, homestays, and short-term rental accommodations operating outside formal regulatory frameworks. Consistent with Guttentag's (2015) argument, digital accommodation platforms have significantly lowered barriers to market entry, enabling the rapid expansion of informal accommodation businesses and challenging the effectiveness of conventional tourism governance and regulatory systems.

The findings indicate that recent initiatives by the Bali Provincial Government including stricter enforcement against illegal accommodation, licensing audits, data integration, and the Bali Kerthi Compliance system represent important efforts to restore regulatory control and support more sustainable tourism development. Such measures are necessary to ensure fair competition, improve tax compliance, protect environmental resources, and strengthen the overall quality of Bali's tourism industry. These findings support international calls for stronger governance of short-term rental accommodation in tourism destinations (Nieuwland & van Melik, 2020; Colomb & Moreira de Souza, 2024).

However, the study also reveals that non-compliance cannot be attributed solely to deliberate regulatory avoidance. Many operators, particularly small-scale and locally owned businesses, face difficulties arising from complex licensing procedures, overlapping regulations, and administrative uncertainty. In this context, overly restrictive or burdensome regulations may produce unintended consequences by discouraging entrepreneurship, reducing local participation in tourism, and encouraging continued informality.

Therefore, sustainable accommodation governance requires a balanced approach that combines firm enforcement with continuous guidance, education, and institutional support. As suggested by Braithwaite's (2008) theory of responsive regulation, regulatory effectiveness is achieved not only through sanctions but also through mechanisms that facilitate compliance and build trust between regulators and regulated actors. Simplified licensing procedures, regulatory assistance programs, phased compliance mechanisms, and targeted support for small businesses are essential to ensure that local entrepreneurs are not excluded from tourism development.

Ultimately, Bali's long-term tourism sustainability depends on the ability of government institutions to balance regulatory enforcement with economic inclusiveness. Effective governance should not merely eliminate illegal accommodation but should also create pathways for informal operators to transition into the formal economy. By combining enforcement, facilitation, and stakeholder collaboration, Bali can foster a tourism accommodation sector that is competitive, accountable, environmentally sustainable, and capable of generating broader benefits for local communities.

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The research data and analysis presented in this article are entirely the work of the authors. The use of artificial intelligence was limited to improving the clarity and quality of English language expression. Any omissions or shortcomings remain the sole responsibility of the authors.

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