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Can tourism offer pro-poor pathways to prosperity?

Examining evidence on the impact of tourism on poverty

Key points

- Recent empirical studies suggest that, in the best cases, between a fifth and one-third of total tourist turnover in the destination is captured by the 'poor'.
- Tourism can have important pro-poor impacts and these can be strengthened by deliberate public policy interventions.
- Tourism can affect the poor via three, quite different pathways. But there is not a single destination where poverty impact has been assessed in terms of all three.

In the pursuit of 'shared growth' is tourism a sensible investment? Under what circumstances does the sector deliver significant impact on the poor? These questions are increasingly being asked for three reasons. Firstly, tourism continues pushing itself onto the radar of developing country policy makers. Tourism growth has been sustained at 7–12% per year in most developing countries in the last five years. Secondly, at local and national level, it is being seen as a route to broader development and shared growth, no longer just a generator of foreign exchange. It is included in the Poverty Reduction Strategies of more than 80% of low income countries. Thirdly, practical action to harness tourism for shared growth is being hampered by the elusive nature of the evidence on pro-poor impact, and the policy void on tourism that exists in many donor and financing organisations.

To start plugging the information gap on the poverty impacts of tourism, the World Bank and ODI initiated in 2006 a review of existing research on tourism's economic impact on poverty reduction. The review revealed that there is more evidence available than is generally marshalled into pro-poor tourism arguments. But at the same time, evidence is piecemeal, use of definitions sloppy, and methodological divisions fragment the body of knowledge and researchers.

Tourism has risen up policy makers' agendas, as has a need for evidence on its pro-poor impact.

Standard arguments on tourism's role in poverty reduction

Recent years have seen many declarations of the poverty-reducing prowess of the tourist industry by a diverse range of institutions. These have generally advanced one (or more) of three arguments:

1. **Size matters:** Tourism is one of the most significant export sectors in many developing countries, particularly the least developed countries. Tourism Satellite Accounts have sought to establish the 'true' size of the tourist sector by redefining it as going well beyond the narrow hospitality activities included in Standard National Accounts. However, the argument that tourism is important because it is big has as little traction with development practitioners as the suggestion that the oil industry deserves special attention for the same reason. Size reveals nothing about actual, or potential, distributional impact.
2. **Employment creation:** Tourism creates large numbers of jobs (equivalent to around 2–6% of jobs in Africa, depending on definitions) and is labour-intensive. These include jobs for women (around 50% of the workforce) and unskilled and informal sector workers.
3. **Local livelihood gains:** Empirical evidence in some micro studies demonstrates income flows and other net benefits to participants at enterprise level, particularly where 'pro poor tourism' initiatives are implemented to help small entrepreneurs gain market access.

However significant the benefits to those involved, these micro analyses reveal little about poverty impacts of the mainstream industry and how to enhance impacts at scales of interest to national governments.

These arguments do not establish the nature, scale and determinants of tourism impacts on poverty. They therefore do not enable development practitioners to decide how much to invest in tourism, and do not provide tourism planners with guidance on how to increase the poverty impacts of the sector.

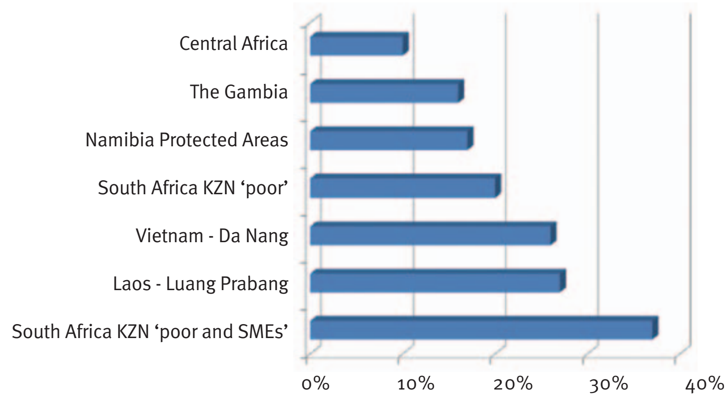
Overall revenue shares reaching the poor

It is surprising that, despite a huge literature related to tourism and poverty reduction, few studies address the question at the heart of the pro-poor tourism debate: 'what share of the economic benefits of tourism benefits poor people?' Figure 1 summarises the results of the handful of existing studies that have directly tackled this question.

These studies used very different techniques (social accounting matrices, value chain analysis, local economic mapping, full economic valuation) and different definitions of 'the poor'. They show a significant, but variable, flow of resources from tourism to poor people. For example, it is estimated that 10% of gorilla tourism spending reaches local people in Central Africa. Although not entirely robust, this represents the lowest end of the spectrum for local benefit found by the review team. The Gambia 'should' be a case study of where pro-poor tourism does not work: it is Africa's smallest and one of its poorest countries; it has one of the most hostile business environments globally for travel and tourism assessed by the World Economic Forum; and tourists come in relatively small numbers on cheap package holidays via seven European tour operators. Yet recent analysis shows about 14% of spending for goods and services provided in The Gambia accrues to non-managerial staff and entrepreneurs accessing the tourism value chain – a significant flow.

Recent empirical studies suggest that, in the best cases, between a fifth and one-third of total tourist turnover in the destination is captured by the 'poor' from direct earnings and supply chains.

Fig. 1: Total income earned by the poor as a percentage of total tourism expenditure in the destination



Sources: Cited in Mitchell and Ashley (2007). KZN = KwaZulu Natal.

Conceptual Framework: *How* does tourism affect poor people?

For a developing country policy maker, knowing that tourism income can reach the poor is reassuring, but not as helpful as knowing *how* this happens – particularly if they want to deepen the pro-poor linkages.

Tourism can affect poor people in several quite different ways. Clarity about the different pathways and drivers of poverty impact is important because some pathways have been neglected in research and equally in policy. Our conceptual framework (Figure 2) categorises three pathways by which tourism affects different poor people:

1. **Direct effects from tourism to the poor:** labour income from tourism jobs or small enterprise, other forms of tourism income, and non-financial livelihood changes (negative as well as positive). The poor affected are likely to live in, or commute to, the destination.
2. **Secondary effects from tourism to the poor:** indirect earnings from non-tourism sectors that supply tourism (e.g. food). The poor affected may live far from the destination. Added to these are induced effects, from tourism workers re-spending their earnings in the local economy; and
3. **Dynamic effects on the economy:** impacts on entrepreneurialism, factor markets, other export sectors, or the natural environment are all included here. They may be experienced in the macro economy, or limited to the local destination economy. The poor may be affected more, or less, than the non-poor by changes in, for example, wages and land prices.

Most studies of tourism poverty linkages examine the impact of one of these pathways – a few look at two. Nowhere in the literature reviewed (over 300 methodologically-diverse documents) was there an assessment of the impacts of a destination via all three pathways. Thus existing research is always missing at least one vital part of the jigsaw.

The evidence on three pathways

The boundaries between categories are not watertight and studies focus on different poor groups. Nevertheless, synthesising different research provides some indications of the significance of each pathway in some contexts.

Direct effects of tourism on the poor

- Labour income: earnings of non-management staff are a major element of the resource flow from tourism to the poor, particularly in countries lacking a strong entrepreneurial environment and where unskilled wages are high. In Southern Africa, formal sector wage income accounts for around 70% of tourism earnings of the poor. In other settings it can be just 10–20% of their tourism earnings.
- Small and informal enterprises offer different avenues for labour income, often with lower entry barriers for poorer people. In an entrepreneurial environment, these may exceed formal sector jobs in number. In Tanzania estimates of 'tourism employment' increased ten-fold when the informal sector

was included. Critical to the scale of informal sector tourist opportunities is the extent of out-of-pocket tourist expenditure beyond the hotel (e.g shopping, eating and entertainment).

Updated data analysis reinforces the assertion that tourism is labour-intensive compared to the non-agricultural economy, often by a factor of around 1.2 to 1.7, and is about twice as labour intensive as industry. Evidence on the share of employment available to un-skilled workers is piecemeal, but indicates above-average shares going to unskilled and female workers.

- Non-labour income: non-labour income normally accrues to a community rather than individuals, deriving from various sources: commercial community-private sector joint ventures; community tourism; donations from tourists or tourism companies; and revenue shares from park authorities. The main significance of these is that they can reach beneficiaries who lack capacity for direct economic participation and earnings. The amount of income earned may be highly significant to those involved, particularly in a remote rural setting, but is generally small compared to total other flows. There are a few reported cases where donations are substantial, or where income from joint ventures makes a substantial boost (adding an extra 50%) to wages.
- Livelihood effects: tourism can affect the livelihoods of the poor in many ways other than through cash flows. The literature identifies significant changes in livelihoods, both positive and negative, usually at the local level around a tourism business. The positives tend to include enhanced access to information, markets, and infrastructure, countered by negatives such as lost access to grazing or fishing, and competition for water, unfortunately rarely quantified.

Secondary effects

The links between the tourist sector and the non-tourist economy are often significant because tourism requires a range of supply chains that can extend deep into the host economy.

The magnitude of the indirect effects varies considerably between countries and, unsurprisingly, is most significant in large, rich and diversified economies with tourism operating at scale. However, even in small, poor and fragile economies, there is fairly clear evidence that the indirect impacts boost the economic impact of tourism by about 50% to 90%.

Supply chains are important to poverty reduction in terms of the monetary flows and the number of people involved. The food supply chain is of particular significance, estimated to account for as much as half of tourism's labour impact in one Tanzania study, and half of tourism earnings of the poor in the Luang Prabang study. Supply chains disperse benefits of tourism geographically, well beyond the destination. Farmers need never meet a tourist to benefit from the sector.

This second pathway is relatively neglected, despite its apparent poverty impact. A range of determinants of inter-sectoral linkages are identified as amenable to policy influence. Regression analysis finds institutional capacity, market functioning, the enterprise environment, human resources development and gender participation are key variables. Case studies highlight the influence of investment in supply side capacity of producers, influencing demand from hotels and ensuring well-functioning markets and communication.

Dynamic effects

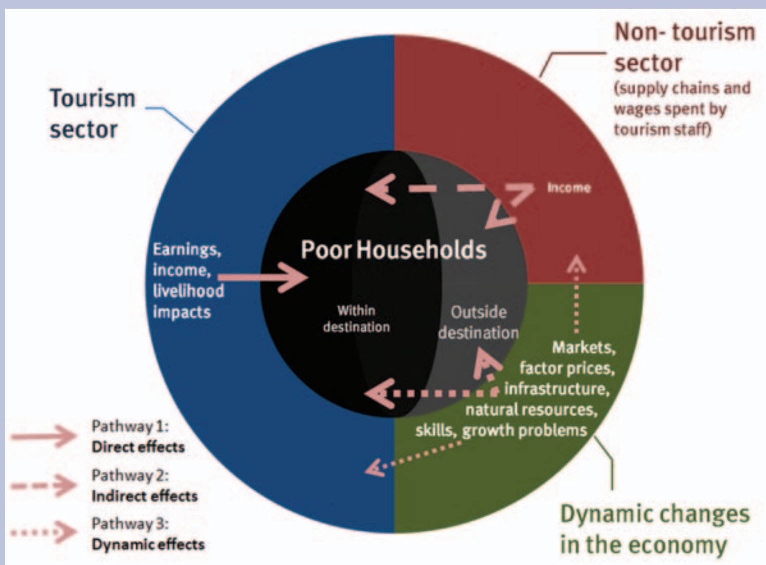
Tourist growth can facilitate infrastructure and public service delivery; human resource development; private sector development; changes in the productive structure of the economy; and other externalities. These effects can be large but are under-researched.

Tourism-oriented infrastructure can benefit the non-tourist economy. Evidence from Mexico and Kenya shows that increased air traffic into a destination can reduce air freight for the export of agricultural goods. Innovative general equilibrium modelling in Tanzania demonstrated that the provision of rural road infrastructure can transform the distributional impacts of tourism from an urban bias to one where rural households experience twice the level of welfare gains compared with urban households.

Tourism can stimulate enterprise development, by giving indigenous entrepreneurs exposure to international tastes, clients, and a 'yellow brick road' to diversification. Tourism training can also have positive externalities, as skills can be used elsewhere in the economy. Despite the popular assertion that tourism escapes tax by keeping receipts off-shore, the evidence is that it is a useful and relatively easy source of tax revenue, removing tax burdens elsewhere in the economy or funding pro-poor investment.

The dynamic effect with greatest potential to damage the poor comes from impacts of tourism growth on prices, wages, and particularly the exchange rate. Exchange rate appreciation due to tourism growth can damage farmers by reducing their exports. While evi-

Fig. 2: Three pathways of benefits from tourism to the poor



dence of this is limited in developing countries (based on two models), the potential importance means it should not be automatically assumed that any tourism growth is good for the poor (though this caveat applies to growth in any export sector). There are studies looking at how tourism affects long-term growth trajectories, with the heavy balance of evidence indicating positive impacts on growth rates, if not stability. There are few studies on distributional implications.

Policy implications

- Tourism has a place in the pro-poor development strategies of many developing countries. Existing evidence supports the contention that tourism can have important pro-poor impacts and these can be strengthened by deliberate public policy interventions. However, there is nothing ubiquitously pro-poor about tourism and careful empirical assessment is needed to understand where and how tourism can perform effectively as a tool of development in each specific destination.
- Pro-poor tourism needs to focus more clearly on the potential to reduce poverty at scale. Mainstream tourist destinations are where most tourism happens and where most poverty-reducing potential is typically also located.
- Governments need to integrate strategies to expand the sector with those that increase the size of the slice accessible to the poor. Rapid expansion of the tourist sector is not synonymous with benefits to the poor, but neither is a stagnant or contracting tourist sector. Where linkages are already high (e.g. Da Nang, Vietnam), rapid growth will be the best pro-poor option, while in others with little spill-over beyond the hotel or tour (e.g. Lalibela, Ethiopia), growth will bring little gain without altering the structure of economic opportunities.
- Policy makers need a mix of policy levers. All three pathways of impact on poor people can be significant – none should be neglected. This means looking beyond formal jobs to embrace informal sector activity, stronger market linkages in domestic supply chains, enhanced dynamic effects, and action to reduce negative impacts. Clear evidence exists that tourism beneficiaries can be changed by interventions in diverse areas: labour legislation; human resource and infrastructure development; agricultural and enterprise support.
- Domestic tourism should not be neglected. Where there is a relatively mobile middle class, domestic tourism may be a way to deliver pro-poor impact at lower cost due to lower constraints around language skills, international standards (especially service, hygiene, food tastes) and market swings in response to scares (e.g bird flu).
- The devil is in the detail, and broad-brush assumptions do more harm than good.

Generating evidence for informed pro-poor policy making

Tourism policy makers currently have to make decisions for enhancing pro-poor impact based on patchy and inadequate information. This study highlights several areas for improving research.

First, a multi-method approach is needed to understand the various linkages between tourism and poor people. No single research method can assess all three pathways. Strengths of different research tools should be harnessed. General Computable Equilibrium modelling can take account of dynamic feedback effects, and combine analysis of sector growth with distributional impact. Pro-poor value chain analysis can map out the key areas of income flow to the poor, their access to the value chain, and blockages to higher returns. Micro-level approaches can explore issues of causality and feed real data into meso and macro analysis.

Second, there is a lack of synthesis to build a coherent body of knowledge. Comparable research methods need to be applied in contrasting contexts to generate reliable comparisons. Findings from different methods at the same destination need to be integrated. Pockets of excellent research on pro-poor tourism issues are taking place in splendid isolation.

Third, much of the confusion caused by comparing different studies relates to definitional issues. Contrasting definitions of basic terms, like 'tourism', the 'poor' and 'multipliers' abound. Rigorous research needs clarity on definitions and methods to enable interpretation and comparison.

Fourth, beyond remedying research weaknesses, a proactive approach to informing policy would develop an entirely new framework. A framework to cover indicators for measuring the benefits and costs impacting poor people should lead to meaningful comparisons between places and over time. This could evolve into international benchmarking to allow individual destinations to assess their own performance and options.

Finally, this research has revealed some surprising research 'gaps' in our knowledge:

- poverty impacts of different types of tourism, particularly the growing domestic tourism sector, using comparable methods and definitions;
- poverty impacts of mainstream destinations, particularly those with weak linkages between the sector and poor people;
- comparison of the pro-poor growth performance of tourism and other sectors; and
- quantification of how pro-poor policy interventions affect the shares of revenue reaching the poor.

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References

References for all sources mentioned are in Mitchell, J. and Ashley, C. (2007) *Pathways to Prosperity – How can tourism reduce poverty: A review of pathways, evidence and methods*. Forthcoming World Bank / ODI.

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