

2 ■ The Role of the Tourism Sector in Expanding Economic Opportunity

Extensive data and literature point to the particular and growing importance of tourism in developing countries. The UN's World Tourism Organization (UNWTO) cites the following statistics:³

- **Growth in tourism arrivals:** The annual average growth rate of international tourism arrivals in developing countries for the years 1990-2005 was 6.5%, compared to 4.1% growth worldwide over the same period.
- **Growth in tourism revenues:** The average annual growth rate of international tourism receipts in developing countries for the years 1990-2005 was 9.7% compared to 6.3% worldwide over the same period. In 2005, developing countries recorded \$205 billion in international tourism receipts.
- **Contribution to gross domestic product (GDP):** The UNWTO does not have data on the global contribution of tourism to GDP, but estimates that at the country level broadly-defined tourism accounts for between two and 12% of GDP in advanced, diversified economies, and up to 40% of GDP in developing economies, and up to 70% of GDP in small island economies.

A recent literature review for the World Bank by the Overseas Development Institute concludes that rigorous, empirical national- and global-level analysis of tourism's economic and poverty alleviation impacts is lacking, but nevertheless it is clear that the industry is having substantial impact on local people and local economies in many developing countries.⁴ In the "best case" destinations, estimates show that earnings of local unskilled and semi-skilled people are equivalent to approximately a quarter of tourist spending at the destination level. However, in other destinations – for example those with less vibrant small enterprise sectors – the fraction may be 10% or lower. The differences highlight the importance of supportive enabling environments.⁵

The ODI World Bank review identifies three main pathways through which tourism affects poverty reduction:⁶

First are tourism's **direct effects**, the wages and earnings of those who participate directly in the sector as workers or entrepreneurs. International evidence shows that tourism is more labor-intensive than other non-agricultural sectors. It also uses a relatively high proportion of unskilled or semi-skilled labor.⁷ For these reasons, in some countries, tourism is an important source of employment for poor people. Many examples of responsible tourism come from rural areas, where tourism may be the only formal sector employment option. As agrarian systems decline, tourism may also offer rural dwellers an alternative to unemployment or migration to urban areas. Tourism's employment impact can also be highly significant in urban and coastal areas with higher population densities.

Secondly, **indirect effects** occur through the tourism value chain. Tourism draws on inputs from the food and beverage, construction, transportation, furniture, and many other sectors. Evidence suggests that in developing countries, this inter-sectoral impact adds an extra 60-70% on top of the direct effects of tourism.⁸

There are some destinations, such as Namibia and Luang Prabang in Laos, where one third to one half of the income poor people derive from tourism comes via the supply chain.⁹

Finally, tourism has a wide range of **dynamic effects**. Tourism development can affect the livelihood strategies of local households, the business climate for small enterprise development, patterns of growth of the local or national economy, and the infrastructure or natural resource base of the destination. Tourism also tends to employ a relatively high proportion of women and to purchase products, such as foods and crafts, produced by women in the informal sector – and as a result, may be able to enhance women’s economic positions and help overcome gender barriers. Finally, in certain locations, the tourism sector has a key role to play in planning for and responding to natural disasters, which often have particularly serious effects on poor communities.

It is important to note that tourism can also have negative impacts on local livelihoods and economies. By pushing up local prices and the country’s exchange rate, for example, it can leave those outside the tourism sector worse off. It can also deprive local people of access to the natural resources on which they rely, such as fishing grounds, forests, and water. Although there are many examples in which the improvements in infrastructure that accompany tourism development – such as electricity, water, transport, and telecommunications – have benefited the poor, in certain situations they can cause harm. For instance, if a certain resource is scarce, such as water, constructing hotels, golf courses, and other world-class facilities can come at the expense of the local (and particularly the local poor) population.

It is essential that tourism companies understand and seek to influence the dynamic effects of their operations. Some of these effects will be within the company’s own control. Others will result from systemic and governance factors that companies cannot address alone, suggesting a need for collaborative strategies among tourism operators, governments, and other development partners.

In each of these categories – direct, indirect and dynamic – scale of impact will be affected by conditions in the host economy, supply side factors, government policies, the type of tourist, and, of course, by tourism companies’ business practices. The table below shows some of the business practices that can affect the scale and distribution of impact within these three categories.

BOX 2 EFFECTS ON LOCAL ECONOMIC OPPORTUNITY

Type of effect on local economic opportunity	Business practice that will affect scale and distribution of impact
<p>Direct: employment and enterprise opportunities for those working in the tourism sector</p>	<ul style="list-style-type: none"> • Local recruiting, training, and promotion of staff. • Access of disenfranchised groups such as women, youth and minorities to employment. • Linkages with SMEs producing tourism products or services. • Encouragement and assistance for guests to enjoy activities in the local economy. • Joint ventures, profit shares, or regular channels for donations to local people.
<p>Indirect: employment and enterprise opportunities for those in other sectors that supply tourism</p>	<ul style="list-style-type: none"> • Linkages with local and/or small businesses supplying food and other goods and services. • Mentoring local businesses to meet procurement standards.
<p>Dynamic: effects on the economy and society more generally</p>	<ul style="list-style-type: none"> • Development of new infrastructure in ways that complement or help fulfill local needs (e.g. for water, transport, and electricity). • Supporting small enterprises and clusters to take advantage of growing markets and economies of scale provided by tourism. • Recognition of and action to address specific barriers to women in employment and enterprise. • Usage of natural resources in ways that respect local traditions and needs, and involvement of local residents in joint planning. • Planning and support for local economies in case of natural disaster. • Support for local business associations and other local institutions such as universities and training centers. • Investment in human resource skills that can be transferred from tourism to other areas.