

Tourism and Local Economic Development

How can businesses in travel and tourism increase the contribution of the industry to local economic development and pro-poor growth?



PARTNERS & SPONSORS



Introduction

The International Tourism Partnership recently held an event entitled 'Tourism and Local Economic Development'. This event was chaired by Dr Harold Goodwin of the International Centre for Responsible Tourism, University of Greenwich, and Chair of the Academic Advisory Panel of the International Tourism Partnership and sponsored by Scott Wilson to examine tourism and local economic development.

Key speakers included Stuart Robson of Scott Wilson who made a presentation on the Equator Principles and the policy frameworks; Dilys Roe of IIED on tourism in Poverty Reduction Strategy Papers; and Peter Nizette of the International Centre for Responsible Tourism on the Nepalese government national policy and implementation strategy to tackle poverty, which has tourism as its focus.

Focussing on private sector initiatives, Caroline Ashley of ODI talked about their Pro-Poor Tourism Pilot in South Africa; Susy Karamel of GTZ presented the results of their work on the local economic impact of all-inclusives and Stephen Natras of Exodus presented a tour operator's perspective on developing complementary products.

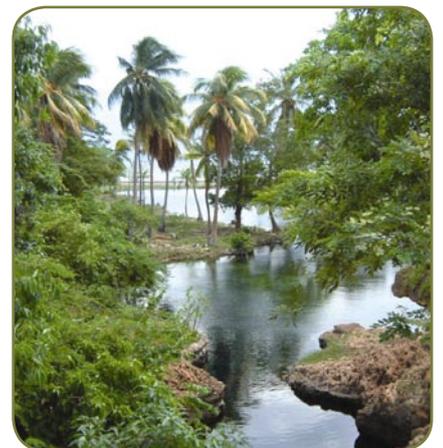
Following the presentations, the seminar addressed the issue of "How can businesses in travel and tourism increase the contribution of the industry to local economic development and pro-poor growth?" There were participants from the industry, destinations, consultancies and research institutes.

THE CHALLENGE

The seminar raised a variety of challenges that face the tourism sector. How these challenges are met will certainly influence the sector in the long-term, and it is clear that positive initiatives by the industry will enable local and regional economic development, including that which has a poverty alleviation agenda, to take place in parallel with the needs of a viable economic business. In fact, it was argued by some that these two components of tourism should not be separated.

To achieve this aim there needs to be a co-ordinated approach across the sector and this includes the financiers, developers, operators, hoteliers and Government. This task might best be achieved through adoption of a framework to guide those involved in the sector.

The National Guidelines for Responsible Tourism developed in South Africa were published by the Department for Environmental Affairs and Tourism in 2002 and they were adopted as the national sector planning guidelines for tourism. The guidelines cover the economic, social and environmental agendas for responsible tourism. The section on Guiding Principles for Economic Responsibility is a specific checklist of actions that people in the industry could take to increase the positive impact on local economic development. For a copy of the Guidelines for Responsible Tourism visit www.icrtourismsa.org where you can download South Africa's Responsible Tourism Guidelines and the handbook published in 2003 Responsible Tourism Handbook 2003.



These guidelines were developed with and for the industry in South Africa. It is recommended that, using the South African example as a guiding principle, different guidelines could be developed for other destinations and that there is scope to develop guidelines for particular parts of the industry for example hoteliers, tour operators and guides.

LOCAL ECONOMIC DEVELOPMENT AND POVERTY REDUCTION

The UN Millennium Development Goals include specific commitments to reduce by one-half the proportion of people living in extreme poverty by 2015. Poverty is a multi-faceted concept which embraces not only insufficient levels of income but a lack of access to essential services such as education, water and sanitation, health care and housing.

At the same time, the World Tourism Organization estimates that tourism accounts for up to 10% of global gross domestic product, making it the world's biggest industry. The potential for tourism to contribute significantly to poverty alleviation is considerable. Work since 1998 by the Pro-Poor Tourism Partnership (Ashley, Goodwin & Roe) has demonstrated that tourism can contribute to poverty reduction and that for many of the least developed countries, and in many rural areas, tourism is one of the few current viable strategies for economic development.

The World Tourism Organization's report on Tourism and Poverty Alleviation published for the World Summit on Sustainable Development in Johannesburg in 2002 drew substantially on the work of the Pro-Poor Tourism Partnership www.propoortourism.org.uk and there are now a range of initiatives taking place on pro-poor tourism.

An Agenda for Change?

Discussion focussed on what could be done to further the local economic development agenda at the inception and development phase by investors and developers, the role of hoteliers and that of tour operators. In each of these tourism sectors the significance of Socially Responsible Investment has a differential impact depending upon the extent to which there is perceived commercial advantage.

The following points illustrate the general consensus of the delegates; specific areas of concern and opportunity are addressed subsequent to this.

- There was general agreement about the importance of facilitating local community access to the tourism market (comprising tourists and the tourism industry locally) in order to maximise linkages and minimise leakages.
- Support for strategies which assist the development of local capacity to realise these opportunities.
- Developers and financiers, hoteliers and tour operators can all act to create those opportunities to assist local communities to benefit from them.
- The importance of measuring and demonstrating impacts on local economic development and the reduction of poverty was emphasised, it is time to move beyond statements of general principles and to measure and report the impacts of initiatives in specific terms.
- It is time to move from pilot projects and experiments to programmes of action.
- Scalability is the current challenge. How do we take what we know about how to enhance the impact of tourism on local economic development and the reduction of poverty and implement it at the destination to make real change?

What is Pro-Poor Tourism?

Pro-poor tourism is not a specific tourism product; it is an approach to tourism development and management which ensures that local poor people are able to secure economic benefits from tourism in a fair and sustainable manner.

Pro-poor tourism may improve the livelihoods of poor people in three main ways:

1. Economic gain through employment and micro-enterprise development;
2. Infrastructure gains: roads, water, electricity, telecommunications, waste treatment;
3. Empowerment through engagement in decision making.



The language of pro-poor tourism is being used widely and there is now an emerging consensus that it is important to move beyond general talk about "trickledown" and multipliers and to focus on measurable impacts on improving the livelihoods of poor people.

In summary, traditional views of growth in the tourism sector need to be accompanied by a focus on generating economic benefits for poor people in destinations.

THE ROLE OF THE GOVERNMENT

Whilst the role of government was not the focus a number of issues were raised:

- Establishing a ‘whole government’ agenda for tourism development is rarely achieved; this applies both between departments at national level and between national and local government.
- How can other departments of government be engaged in the issues of tourism development? Ministries of Tourism are often seen as junior players in government and it can be very difficult to engage ministries of finance, trade and industry in cross government efforts to harness tourism for development.
- Tourism is often seen as an industry which benefits elites. When people look at the industry they see hoteliers and tour operators, they see wealth. How do we raise awareness in government, and amongst national decision makers in other sectors, about the contribution which tourism makes to local livelihoods and engage them in joint initiatives to increase the local economic development and poverty reduction impacts?
- If pro-poor growth and poverty reduction through tourism is to become part of national strategy then it is essential to engage other national government ministries. This requires that the positive impacts on the local and national economy and in particular success in achieving poverty reduction targets can be convincingly demonstrated, measured and reported.
- Tourism is mentioned in some national Poverty Reduction Strategy Papers (PRSPs) but there is little referencing between national tourism policy and the poverty reduction strategies.



THE BUSINESS CASE FOR ENGAGEMENT WITH LOCAL ECONOMIC DEVELOPMENT AND POVERTY REDUCTION

To prosper the tourism industry needs to operate in environments which remain attractive to tourists. The industry needs a relatively well-educated work force, functioning health systems and relatively good transport, communications, water and energy infrastructure. These services and facilities are also valuable to local communities.

There are risks and opportunities in the tourism sector which financiers, developers, hoteliers and operators need to manage. Many of those present felt that tourism does not have to do very much to have a significant impact on household incomes and livelihoods in a local area. This can amount to a significant national impact if the tourism industry as a whole adopted international best practice.

There is an increasingly strong business case for the investors and developers, hoteliers and resort owners and tour operators to address these issues. The trend towards higher expectations of Corporate Responsibility (CR) performance from increasing numbers of consumers and investors will not pass the travel and tourism industry by.

The ways that businesses do their business will determine the extent to which they contribute to the generation of local economic development and the reduction of poverty. Where businesses act together they are able to reduce transaction costs and secure more significant impacts than they would be able to achieve individually and improve the business environment; by adopting common standards across a shared platform, with appropriate compliance guidelines and verification, they can ensure a relatively level playing field and reduce the risk of legislation and regulatory intervention by national or local authorities.

Benefits of a CR Approach to Stimulating Local Economic Development

Minimising Risk

Business has been using tools to manage environmental risk for some time. There is now increasing emphasis on the economic and social aspects of the triple bottom line of business. Brand image and value are key elements for an industry where the product is intangible at the point of purchase and where the experience is much more than the directly purchased transport, accommodation and guide services. Reputational risk is a significant issue in an industry that is highly competitive and differentiated; and where the product purchased by the consumer extends beyond what is owned and directly managed in the supply chain.

Product Quality and Cost

In an increasingly differentiated and competitive market there is commercial advantage in operating in, and to, destinations which offer a rich mixture of experiences and activities. The traditional provision of resort activities increasingly needs to be supplemented with complementary products many of which will be locally owned and provided by SMEs. Businesses benefit where collectively their efforts create a larger range of opportunities for local sourcing and a larger pool of labour with appropriate skills from which they can recruit. Co-operation between businesses makes the strategy easier to achieve, reduces cost and avoids the freeloader problem.

Licence to Operate

Good relationships with local communities, positive recognition of demonstrable concern for the natural and cultural environment and the maximisation of the contribution which the industry makes to local livelihoods, economic development and the reduction of poverty are all important to the industry's licence to operate. Enterprises, particularly where they collaborate to achieve local economic development, can improve the general environment for business and enable them to stay ahead of legislation. Resentful communities can make it significantly more expensive for the industry to operate and reduce the quality of the experience.

Staff Morale

Changing consumer attitudes towards what constitutes a good holiday experiences and the relevance of the CR agenda also applies to staff. Adopting a more responsible business agenda can assist with the recruitment, motivation and retention of quality staff and reduce costs.

Market Advantage

Extending responsible business practices beyond the environmental agenda to address the economic and social aspects builds reputation, particularly for those companies that establish a leadership role. The market is changing to reflect socially, environmentally and culturally aware holidaymakers. These market trends require a richer experience, generally beyond the confines of the hotel or resort. There is market advantage and repeat business to be secured by enabling clients to enrich their experience and this will increase the local economic benefit.



INVESTORS AND DEVELOPERS

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Many leading commercial banks have adopted the **Equator Principles** which are intended to provide a common framework (benchmarked against World Bank group criteria) for commercial lenders. It is intended that the Equator Principles should become an important element of lender due diligence and borrower compliance and that the principles will become part of the project management process and extend over the lifecycle of a development.

The benefits for developers, seeking commercial finance, of compliance with the Equator Principles may be expected to include more favourable repayment terms and less intrusive covenants in loan agreements as banks lend more selectively in order to minimise their risk. For investors and financial institutions the issues of risk management are no less significant, the repayment of, and return on, their investments is dependent upon the licence to operate, successful risk management and market advantage of the borrower. By adopting a proactive approach through the Equator Principles they can manage portfolio volatility and increase returns.

Where developers and investors are proactive in minimising negative environmental, social and economic impacts and maximising the positive impacts they have a competitive advantage in securing planning permissions or licenses and in bidding for development contracts.

Different considerations apply in the design and construction phases and in the operational phases of a project. Developers are likely to focus on securing construction and development contracts and financial institutions are often partners in this process. Their joint focus is on the development and construction phase, but as hoteliers point out, their capacity to adopt a CR approach in the operational phase is, to a significant degree, dependent upon decisions made in siting, design

and construction. Hotel and resort management companies often have little or no influence at that stage and subsequent retrofitting to comply with regulatory frameworks, insurance requirements and industry best practices, as they develop over the lifecycle of the development, is expensive. Risk needs to be managed over the project lifecycle as a whole.

The licence to operate, risk management and commercial advantage are key considerations for developers and their funders. The International Finance Corporation has developed Tourism and Hospitality Development guidelines which apply to developments which it finances.

Whilst the agenda has been dominated by risk management there are commercial advantages for developers, construction companies and banks. In winning licenses and construction contracts there is commercial advantage in being able to demonstrate not just low levels of negative environmental and socio-cultural impacts but enhanced positive economic and social impacts.

Risk management has focussed primarily on the environment in hotel construction but there are significant social and economic risks that are increasingly the focus of community, NGO, IGO and national and local government concerns.

This can be achieved through the creation of additional employment and SME opportunities for local communities by adopting strategies and development plans maximizing the local economic development and poverty impacts whilst minimizing negative livelihood impacts.

The additional investment and partnering, mentoring and transaction costs associated with a broader approach to local economic development are likely to be small in comparison to the commercial advantage which comes from enhancing the economic impacts, particularly in countries with high

levels of youth unemployment. By engaging with local communities in tourism development projects and demonstrating both willingness and acumen in maximising the local economic benefits developers secure their licence to operate and create a better business environment for the hotel and resort management companies, with a richer product offer in the neighbourhood.

Local sourcing and maintenance requires the development of a range of local enterprises which will benefit the development and the local economy by providing employment, local enterprise opportunities and supplies of goods and services which benefit the local community as well as the tourism development. The development of this strategy requires that both local sourcing and market access issues are addressed in the design and development phases.

If the approach is to be credible the local economic benefits need to be clearly specified, targets need to be set and the deliverables monitored.

Processes like community labour agreements and established economic impact measurements including the measurement of local sourcing and job creation can be used for this purpose.

Local communities can often, but not always, gain from the infrastructure that comes to their area as a result of tourism development. Companies will increasingly be challenged to report on these benefits – all of which contribute to risk management and ensuring the licence to operate.

HOTELS AND RESORTS

Risk management and the licence to operate require that hotels and resorts maintain good relationships with their “neighbourhood” and return a profit to the owners. The hotel sector moved earlier than other travel and tourism industry sectors to adopt and implement environmental management principles and there are many examples of local initiatives around hotels and resorts that are designed to address issues of economic and social sustainability. The experiments and local initiatives need now to be scaled up and applied more widely.

Hotels and resorts are to a significant degree dependent upon the maintenance and development of the environment in which they operate. Hotels and resorts have an obvious and real interest in their neighbourhood for risk management and product quality reasons – the hotel or resort is committed to the local area, it cannot just move on if the environment is ruined or the neighbourhood becomes unattractive.

The managers of hotels and resorts have a long-term interest in the maintenance and enrichment of the locality, to “create better places for people to live in and for people to visit.” If the destination value declines so, generally, does the value and profitability of the property; contributing to the development of the destination enables the hotel or resort to manage risk, increase product quality and secure commercial advantage. There are direct commercial benefits in extending the season, increasing bed occupancy, filling beds out of season through a festival and extending length of stay. Improving the destination can assist in achieving all of these commercial objectives.

Hotels and resorts can achieve a considerable amount by acting separately, however, destinations are often composed by a variety of properties serving different market segments and with different



management strategies and the sector is very vulnerable to those who whilst they benefit from initiatives do not contribute to them. At the destination level there are benefits from collaborative action by hotels and resorts working with local authorities and communities and with the wider local industry.

Local Sourcing

Local economic development and the reduction of poverty is achieved where hotels and resorts:

- maximise their employment of local labour and through management and training interventions, by investing in people and ensuring that increasingly senior posts go to local employees;
- work with local communities and micro enterprises to ensure supplies of food and beverages, soft furnishings, maintenance, arts and crafts and entertainment. are locally sourced.

The development of local linkages of these sorts requires that the challenges of quality, quantity and continuity of supply at a fair market price are met.

Complementary Products

- Hotels and resorts can contribute and secure commercial advantage by working with local communities and SMEs to encourage the development of the diversity of local tourism services and products.
- Hotels and resorts can contribute to this destination enrichment by providing market access for the communities and micro-enterprises that can provide these goods and services. Commercial advantage and risk management favour cooperation.
- In adopting these approaches the hotel or resort is encouraging their clients to spend money in the local economy on complementary products by providing market access. Traditionally hotels and resorts have done this by entering into contracts with the local formal sector industry. There is commercial advantage to be gained by widening the range of goods and services available to guests and in the process a far more significant contribution can be made to the local economy by enhancing market access.

TOUR OPERATORS

Although some tour operators specialise in particular destinations, the majority of operators, including the specialists, are multi-destination. Tour operators have established relationships with local suppliers; particularly their inbound operator in the destination. Their ability to sell trips is very reliant upon the perceived, and actual quality, of the destination.

Tour operators are reliant on the quality and safety of the destination, they also play a significant role in shaping the way the destination is perceived by the way that they market the location. Many operators are responding to changing market trends in the UK by placing increasing emphasis on locally sourced services, food and drinks, richer excursion and activity programmes.



Tour operators seek market advantage through the quality of the experiences which they offer and that often necessitates close engagement with local communities and micro enterprises. Increasing numbers of operators are seeking to secure repeat business by enhancing the quality of the holiday experience in these ways and securing both increased levels of repeat business and referrals.

Where investors and developers, hotel and resort management companies and managers and tour operators can identify ways of working together to enhance the quality of the destination, they and the local community gain.



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