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SHOULD TOURISM BE PROMOTED IN DEVELOPING COUNTRIES?

How tourism in developing countries is considered by States, donors, commercial banks and private investors? Can it truly benefit developing countries by boosting growth and reducing poverty? What are the positive and negative impacts of tourism projects? Do they depend on the type and size of project? What motivates private investments in tourism and what risks do they face in developing countries? Is tourism a catalyst of investments? This issue compares experts' views on these questions.

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Editorial

By Luc Rigouzzo, ***Chief Executive Officer of Proparco***

For over half a century now, tourism has been constantly expanding and at an even faster pace than international trade. This trend would today appear to be irreversible; the World Tourism Organization (UNWTO) forecasts there will be over a billion international tourist arrivals worldwide in 2010 and 1.6 billion in 2020. Although developing countries still only hold a marginal position in international tourist flows, their performances are improving at a faster rate than the global average. For these countries – where economic activity is often based on a handful of sectors of activity -, tourism provides real potential for diversification. It provides valuable foreign currency exchange and government revenues through taxation and can be a major source of employment as well as a vehicle of economic and social progress.

And yet despite this statistical observation, the links between tourism and development are still subject to debate. Tourism businesses are said to contribute little to local economies and to have negative impacts as they can cause social environmental and even cultural degradation. Moreover, both governments and donors give it extremely varying levels of importance. This is particularly due to the perception of a high level of risk. Tourism has only really been on the development agenda since the 1990s – thanks to organizations such as UNWTO or the United Nations Conference on Trade and Development – but many still fail to make the link between tourism, growth and poverty reduction. However, growth in the sector and the weight it carries in the economies of developing countries – particularly those of least developed countries – compel us to reconsider this activity in all its complexity and take into account both the risks it carries and the opportunities it provides. This issue of Private Sector and Development takes a look at what interest there is in supporting the tourism sector – and investigates the best ways to support it.

In order to understand how tourism affects growth and poverty, it is necessary to take its many facets into account. One can question, for instance, the motives and impact of "mainstream tourism" luxury or "all inclusive" tourism operations, whatever their size. It is also worth trying to understand in what way this sector may be more risky and complex than other sectors, requiring specially designed terms of financing. The articles in this issue of Private Sector and Development provide the reader with this multi-faceted approach. We would like to thank all the contributors for having accepted to take part in this exercise, which is difficult due to the complex nature of the sector being analyzed and the way that ongoing debates are evolving. They have succeeded in sharing their different views on a booming sector – this is not the least of their contributions.

As with the previous issues of this magazine, which is based on a "three-voice approach" (private sector, researchers and donors), this issue seeks to contribute to the debate – with no a priori – and, at the same time, propose areas for action involving all the different stakeholders. It is certainly too soon to draw any final conclusions – as it is still early days, there are not sufficient ex post evaluations and no methodology has been validated. But the keys to understanding provided by the contributors will, I hope, serve to advance the debate and give the sector – which is often subject to skepticism, when it does not suffer from a bad image – the place it deserves. Our objective is to investigate how the private sector – and tourism as a key example – can contibute to the Millenium Development Goal targets. I hope you have as much pleasure reading these articles as we have had in putting them together, and we have every day in attempting to strengthen the role the private sector plays in development and poverty reduction.

SHOULD TOURISM BE PROMOTED IN DEVELOPING COUNTRIES?

Jonathan Mitchell is an economist and leads several of the research programs of the Overseas Development Institute (ODI), a think tank located in London that provides public policymakers with information and advice on poverty reduction. The author takes a specific interest in the impacts tourism has on poor households in developing countries. In this article, the author counters preconceived ideas by defending mainstream tourism, notably as a lever for poverty reduction.

An unconventional but essential marriage: pro-poor tourism and the mainstream industry

Pro-poor tourism has had a significant impact on the 'tourism and development' agenda, but is unlikely to become hegemonic. Its impact on broader development debates, the mainstream tourism industry, and the public has been more limited. There is an emerging conceptual framework, methodology and empirical evidence base to support the original claims of pro-poor tourism (PPT), that it can be pro-poor and can be made more so, that any type of tourism can be pro-poor, and that there are significant benefits for both the development sector and mainstream tourism industry of stronger links between the two.

By Jonathan Mitchell, *Overseas Development Institute*

Jonathan Mitchell
Overseas Development Institute

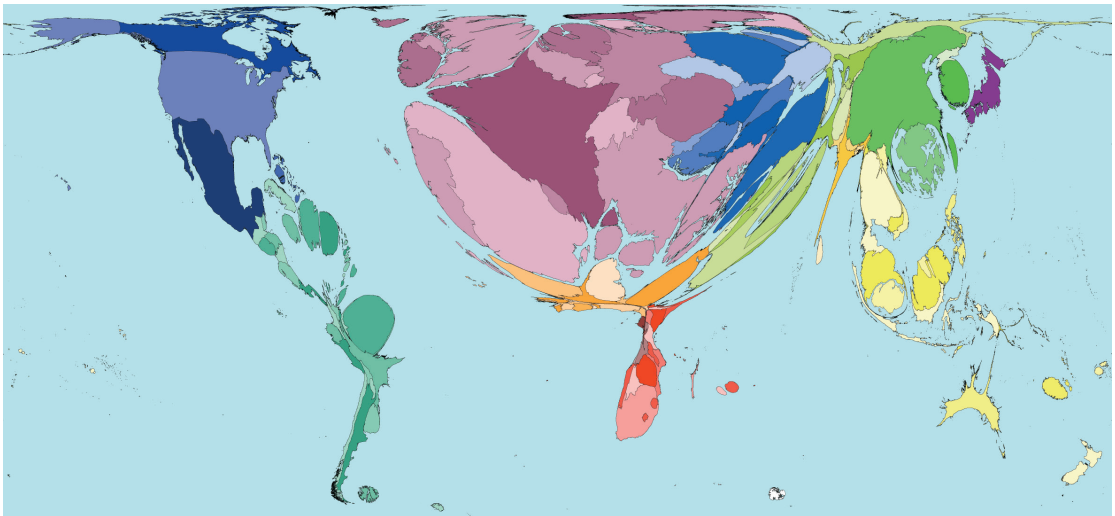
Jonathan Mitchell is a local and regional economic development specialist with long-term experience in Sub-Saharan Africa and increasing exposure in South-East Asia. His focus is value-chain development, local economic development, economic and financial analyses, and tourism and agriculture. He has worked for a range of multilateral and bilateral donor organisations and currently heads the Protected Livelihoods and Agricultural Growth Programme at the London-based development policy 'think tank', the Overseas Development Institute.

Tourist markets offer opportunities for poverty reduction. While most popular tourist destinations are in affluent countries, these opportunities are evident in the large and increasing tourism flows to the developing world. In 2008, 40% of international tourist trips were to developing countries (World Bank, 2010). In Figure 1, the large scale of tourism in countries like Mexico, Thailand and Malaysia compared with the powerhouses of the world economy, like the United States, Japan and Germany, is clear. The emerging role of China, as a developing country tourist destination and an economic giant, is striking.

Developing country tourism is not the preserve of middle-income countries. Some of the lowest income countries, such as Ethiopia, The Gambia and Tanzania, have small tourist flows by international standards yet depend on international tourism for a quarter to a third of their exports (World Bank, 2010). Mounting empirical evidence shows that tourism can transfer significant benefits to local economies and communities around tourist destinations, making a case for identifying tourism as a mechanism for poverty reduction in some low-income countries.

Despite the potential for tourism to reduce poverty, the impact of pro-poor tourism on the development agenda is still weak. Though impacts vary, evidence shows the effect of tourism on the lives of the poor. It is important for development agencies and private operators to consider the benefits of closer links between pro-poor and mainstream tourism. ...

Figure 1: Tourist-eye view of the world



The area of each country is proportional to the number of international tourist arrivals.
Source: Worldmapper, 2006

An unconventional but essential marriage: pro-poor tourism and the mainstream industry

By Jonathan Mitchell, *Overseas Development Institute*

... PPT and the development agenda

A small group of researchers[1] around the time of the Millennium Development Summit coined the term 'pro-poor tourism' (PPT).[2] PPT was based on three assertions: tourism can be pro-poor, it can be made more pro-poor, and any type of tourism can be pro-poor.

These simple assertions were a revelation a decade ago. At the time, the development sector tended to see tourism as a private sector activity that had little relationship with poverty reduction, while the commercial tourist sector saw poverty reduction at destinations as the responsibility of others. Ultimately, PPT aimed at putting tourism on the development agenda and development on the tourism agenda. Has this worked?

In some senses, PPT has been successful. An assessment would include its impact on the donor community. Several multilateral donors (notably the World Bank, IFC, Asian Development Bank and UN), some bilateral ones (GTZ, USAID and NZAID), and a number of NGOs have provided significant support for PPT projects over recent years. One of the more successful examples has been the partnership between the private sector and NGOs in The Gambia through its International Centre for Responsible Tourism. This initiative linked low-income communities with tourism, and improved the pro-poor impact of tourism in one of Africa's smallest, and poorest, destinations (Mitchell and Faal, 2008)

Some key mainstream commercial tourist operators have recognised their responsibility for destination impacts and are seeking to enhance these. The emergence of sustainability initiatives at the major European tourism fairs is evidence of this; for example, the Federation of Tour Operators (FTO) – umbrella organisation for the largest tour operators in the UK – encourages suppliers to respect minimum wage legislation (FTO, 2006), to create corporate social responsibility and sustainable development structures in mainstream corporations, and to establish sustainability accreditation and award systems for suppliers (Mitchell and Ashley, 2010).

However, there is still a great deal to do before there is consensus among the development, commercial, public and research domains concerning PPT. In the development sector, some agencies remain sceptical about including tourism projects in their portfolios for a variety of reasons.[3] Among the enthusiastic supporters of tourism projects, like NGOs and external donors, many are still seeking an 'alternative' to mainstream tourism. Developing countries are littered with well-intentioned community-based tourism and eco-tourism projects[4] which, with notable exceptions, are delivering limited benefits to few people. Developed in isolation from private sector and commercial distribution channels, they lack the client volumes needed for commercial sustainability, and generally fail soon after the supply of concessionary funding dries up (Dixey, 2005; Harrison and Schipani, 2007). The view that mainstream tourism should have a prominent place in poverty reduction programmes for low-income countries with a competitive tourist sector is probably not even held by the majority in the development sector – let alone a consensus view.

Mainstream tourism has been timid in adopting PPT principles, and its embracing of social and environmental sustainability has been late and piecemeal. With the majority of European mainstream customers being unwilling to pay for more pro-poor holidays (Schwartz and Font, 2009), mainstream operators have understandably taken destination impacts into account. An important driver for change has been the flurry of recent mergers and acquisitions that has resulted in some organisations becoming listed on Western stock exchanges.[5] Several outbound tour operators and hotel chains have a market capitalisation of EUR 2-4 billion, subjecting them to onerous review and reporting responsibilities. Corporate management is aware of the impact of negative stories emerging from developing country destinations. In this context, PPT initiatives can play a strategic role in reducing reputational risk. As tourist companies work in complex environments, they appreciate that positive socio-economic benefits can increase their 'social license to operate'.

In the research community too, PPT does not play a predominant role. While there have been many academic articles and several special editions of tourism journals focusing on PPT, researchers concerned with the destination impacts of tourism operate in contested territory. In addition to PPT, many use alternative terms – such as 'responsible', 'inclusive' and 'sustainable' tourism. In the view of the author there is no harm, and probably merit, in researchers with similar principles and goals operating under different labels. Some researchers still believe – despite the mounting evidence - that ...

[1] ODI, the International Institute for Environment and Development and the International Centre for Responsible Tourism.
[2] PPT is tourism that results in increased net benefits for poor people. PPT is not a specific product or niche sector but an approach to tourism development and management.
[3] On this subject, see Denis Sireyjol's article in this issue of Private Sector and Development.
[4] Community-based projects involve communities fully owning and operating tourism facilities to generate collective income.
[5] TUI Travel is a good example of this trend. In 2007 the UK-based First Choice merged with German group TUI to create one of Europe's leading travel firms and tour operators with a market capitalisation of GBP 2.1 billion.

An unconventional but essential marriage: pro-poor tourism and the mainstream industry

By Jonathan Mitchell, ***Overseas Development Institute***

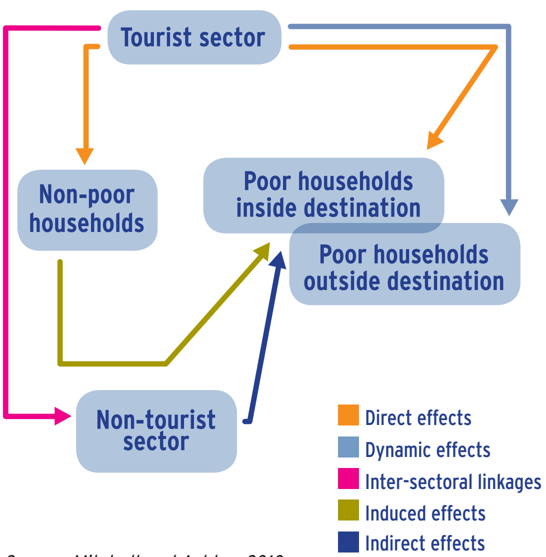
... the destination impacts of international tourism are almost always negative. However, tourism researchers generally have not yet fully encompassed mainstream development economics, the tourist industry and the general public.

Is there evidence for the impact of tourism on the poor?

Since the birth of PPT, the Overseas Development Institute (ODI) has been developing a conceptual framework (Figure 2), research methods and an empirical evidence base to assess the performance of various tourist destinations against PPT criteria. Figure 2 shows that there are many ways in which the tourist sector could transfer benefits (and consequences) to local communities in and around tourist destinations.

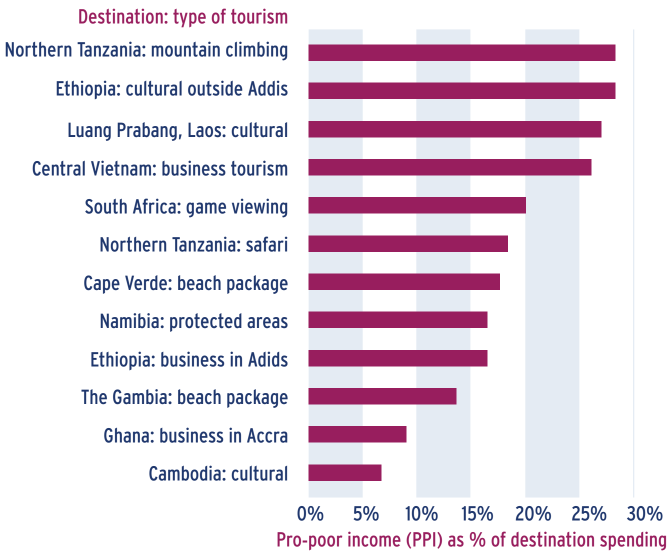
ODI developed an action research method that 'follows the tourist dollar' through the tourist value chain and associated supply chains. In essence, ODI examines the total expenditure of tourists to understand 'pro poor income' – the wages and profits earned from tourist spending by resource-poor households. Diagnosing value chains yields rich comparative findings, and ODI has found that these provide robust empirical support for the three assertions that formed the basis of PPT a decade ago.

Figure 2: Linkages between tourism and local economies



Source: Mitchell and Ashley, 2010

Figure 3: Share of destination tourist spend reaching the poor



Source: Mitchell and Ashley, 2010

On the first assertion of PPT, that tourism can be pro-poor, there are destinations where for every USD 4 spent by a tourist, USD 1 reaches the poor (Figure 3). This is an impressive conversion of trade volumes to pro-poor benefits. In these 'best practice' examples, where one-quarter of the tourist destination turnover accrues to poor people, the impact is the result of strong linkages.

However, just because tourism can benefit local communities, it does not always do so. Figure 3 illustrates examples – Cambodia and business tourism in Accra in Ghana – where less than one-tenth of tourist in-country spending reaches the poor. In these instances, the lack of an enabling environment results in the benefits of tourism being captured by the elite.

On the second assertion of PPT, there is scope to increase the benefit flow to the poor whatever the current level of pro-poor performance of a destination. An important aspect of the ODI's approach is to make practical suggestions for how to increase the pro-poor impact of tourism on local communities. Wherever ODI has worked, across Africa, Asia and Latin America, recommendations have been made. These have been prioritised in terms of speed of implementation, resources required and scale of the pro-poor impact. **...**

An unconventional but essential marriage: pro-poor tourism and the mainstream industry

By Jonathan Mitchell, *Overseas Development Institute*

... Sometimes the recommendations involve changes to the regulatory and enabling environment or the operating practices of individual tour operators and hoteliers. When proposing change for the private sector, the goal has been implementable pro-poor interventions that result in higher commercial and social returns.

On the third assertion of PPT, old prejudices about the impacts of certain kinds of tourist products are often not supported by evidence. Cultural tourism, for example, is positive for local communities in Laos but not in Cambodia. So there is little empirical basis for suggesting mainstream tourism is inherently bad for development and that community-based ecotourism/cultural tourism is ubiquitously good for development.

ODI's approach has its weaknesses: its focus on economic impacts for the poor does not account for social and environmental impacts. Definitions of poverty are always slippery, and dynamic impacts and macro contributions to poverty reduction need further analysis. However, ODI now has a conceptual framework and a research method that has been 'battle tested' in about a dozen destinations in developing countries. It also has an accumulating evidence base that suggests that many assumptions about the impact of tourism on local communities are questionable. In fact, there is now a plausible case for advocating stronger linkages between mainstream tourism and PPT.

Tourism benefits of embracing PPT

ODI's analysis suggests that it is very important for mainstream tourism to develop and maintain tourism poverty linkages. From a development perspective, the quest for an 'alternative' tourism that benefits local communities by excluding mainstream tourist operators has largely failed. Small-scale tourist interventions are unable to reduce poverty at the scale required by the Millennium Development Goals. Large-scale poverty reduction implies working with large-scale tourist activity. Improvements made by development agencies and governments to the enabling environment for tourism are more likely to be effective if the private sector is involved in identifying problems and articulating solutions.

From a tourist company perspective, PPT can result in rapidly improved profitability. Expanding the tourist sector while spreading the benefits of tourist spending throughout the destination economy is also the most effective mechanism for increasing the scale of benefit flows to the resource poor. This results in a confluence of interest between the tourist industry and the population living around the destination.

ODI's evidence also suggests that tourism's positive impacts go unnoticed because the industry does not understand its own impacts. As a result of a lack of information, tourism is failing to capitalise on the good news story that tourism may already be benefiting destinations. Where tourism is not pro-poor, improving performance can only be achieved with an awareness of the problems and solutions. In the medium term, PPT can improve monitoring of business impacts on development, reduce reputational risk and increase social licenses to operate in developing countries. In the longer-term, when most mainstream tourists start to demand enhanced socio-economic performance in developing country destinations, the companies that have anticipated this change in demand will reap significant early mover commercial advantages. ●

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SHOULD TOURISM BE PROMOTED IN DEVELOPING COUNTRIES?

Kirk Hamilton (Research Director in the "Environment" Department) and Jean-Michel Pavy (the Institution's representative in Zambia) both work at the World Bank. They have together conducted several analyses concerning tourism in developing countries. After examining the characteristics of tourism activities in Zambia, they demonstrate that these activities and their impacts are not well assessed by the country's local authorities – and give their recommendations on how to remedy them.

Unlocking the potential of tourism in Zambia

Although Zambian authorities recognize the importance of tourism, the sector suffers from preconceived ideas. It is underperforming and only attracts 3% of tourists visiting Sub-Saharan Africa. And yet a detailed analysis seems to indicate that financial leakages are overestimated, economic spillover effects are not clearly grasped and that tourism could make an even greater contribution to economic development and poverty reduction. To achieve this, the State must specifically encourage private sector intervention by improving the investment climate, developing infrastructure and scaling up its support for public institutions in charge of tourism.

By Kirk Hamilton and Jean-Michel Pavy, *World Bank*[1]

Kirk Hamilton
World Bank

Kirk Hamilton is Lead Economist in the World Bank Development Economics Research Group and co-author of World Development Report 2010 *Development and Climate Change*. He leads research on links between poverty and environment, 'greening' the national accounts, and the economics of climate change. Prior to joining the Bank he served as Assistant Director of National Accounts for the government of Canada, where his responsibilities included developing an environmental national accounting program.

Tourism in Zambia was given a formal role in the economy in 1996 when it was reclassified from a social to an economic sector, a role that was strengthened in the Poverty Reduction Strategy Paper of 2001.[2] In its various planning documents, including the Fifth National Development Plan (FNDP) of 2007, the Zambian Government identified tourism as one of four sectors (the others being agriculture, mining and manufacturing) essential to economic development.

Nonetheless, the tourism sector is being neglected. The government contributes little financial support because it views this foreign-dominated sector as having a high degree of financial leakage (Table 1). This is evidenced by the less-than-optimal performance of the Zambia Wildlife Authority (ZAWA) and the insufficient capacity of the Ministry of Tourism, Environment and Natural Resources. Both lack the financial resources to perform their roles in conservation and tourism development.

Compared with competing countries, the private sector is small and fragmented and largely distrustful of the government, citing inconsistent policies, a weak incentive structure and a poor business climate in the tourism sector. Tourism operators frequently complain that Zambia is a high-cost environment, in terms of operating costs (fuel and vehicle expenses), fiscal charges (taxes, levies, licence fees) and input costs (raw materials). Many operators have developed tourism fatigue, believing that the current rate of growth is unsustainable without improved government commitment and a clear strategic focus.

The overall consequence is that Zambia's tourism is underperforming, capturing only 3% of Sub-Saharan African tourists (Table 1). However, tourism in Zambia is a rich vein of revenues and jobs, and is therefore being unjustifiably neglected. The Zambian Government can remedy this situation and further exploit the sector's potential by providing stronger financial support and implementing simple reforms in order to improve the sector's public governance and encourage private sector participation.

The government needs to go beyond its assumptions regarding tourism activities. A detailed analysis not only shows that tourism's economic impacts are stronger than they appear, but also that there are opportunities to contribute to poverty reduction at low cost. It also appears that the financial leakages of tourism activities are overvalued. ...

Table 1: Annual promotional budgets and visitor arrivals of selected African countries in 2004

Country	Promotional budget (USD million)	Visitor arrivals
Botswana Tourism	7	1 523 000
Namibia Tourist Board	6	700 000
SATOUR (South Africa)	180	6 815 000
Tanzania Tourist Board	18	566 000
Zambia National Tourist Board	1.5	515 000*

**The Zambia National Tourist Board records 610 109 arrivals for the same year. This variation points to the inadequacy of data in the tourism sector.*
Source: World Tourism Organisation (WTO), 2004

[1] The opinions expressed are those of the authors and not necessarily those of the World Bank Group. In 2005, The Zambia National Tourist Board recorded 668 862 international visitors, of which 205 975 registered 'holiday' as the reason for their visit. This article is based on a comprehensive demand survey of a subset of these holiday-makers and is therefore not a substitute for a proper analysis of the overall economic impact of the tourism industry in Zambia.

Unlocking the potential of tourism in Zambia

By Kirk Hamilton and Jean-Michel Pavy, ***World Bank***

Table 2: Comparison of perceveid and real economic impact of tourism

	Government baseline for all international visitors	Government targets for all international visitors	Nature tourists' contribution
Year	2005	2010	2005
Number of tourists	515 000	736 450	176 104
Direct tourism employment	19 650	30 404	19 000
Direct tourism receipts (USD million)	174	304	194

Source: NRCF, 2007

... Real *versus* perceived economic impacts

Tourism (nature tourism in particular) contributes substantially to the economy. Although Zambia had 668 862 international visitors in 2005, only 176 000 could be characterised as nature tourists. Yet, each spent about USD 1100, generating a direct and indirect impact of nearly USD 2300 in GDP,[3] USD 1300 in wages and net income of unincorporated business (NIUB), USD 420 in tax revenue, and USD 425 in imports (Natural Resources Consultative Forum – NRCF, 2007). Every three nature tourists generate one full-time job.

When considering its direct impact only, the level of spending by nature tourists represented an export value of USD 194 million or 3.1% of GDP (World Bank, 2007).[4] Consequently, when considering tourism as a whole, its contribution was much higher, around 6% to 10%. In comparison, mining contributed 8.6%, agriculture 6.5% and manufacturing 10.6% (World Bank, 2007). In total, nature tourists contributed nearly 16% of Zambian exports, 6.5% of GDP, more than 6% of wages and NIUB, 7% of government revenues, and nearly 10% of formal sector employment, equivalent to 54 000 jobs (NRCF, 2007).

The direct contribution to employment was an estimated 19 000 jobs, stimulated by enterprises directly connected to nature tourism as a result of only one quarter of all international visitors in 2005, yet it compares favourably with other growth sectors such as agriculture (56 000 jobs), mining (46 000 jobs) and manufacturing (56 000 jobs) (Zambia Central Statistical Office – ZCSO, 2007).

When comparing the real economic to the perceived impact as per the FNDP document, and baselines and target figures (Table 2), it appears that the impact of tourism is acutely underestimated. If 176 000 nature tourists had such an impact, the 668 862 visitors in 2005 had an impact that far exceeds the FNDP targets for 2010.

Missed opportunities for poverty alleviation

Nature tourism appears to be an underexploited leverage for poverty reduction, and its impact could be much greater. Households around parks tend to be 30% poorer than average rural households (World Bank, 2007). This is partly due to the land being isolated and infertile, which limits the communities' access to markets and public services, and partly due to restricted access to hunting revenues generated by ZAWA (Table 3). ...

Jean-Michel Pavy
World Bank

Jean-Michel Pavy has worked at the World Bank Africa Region in the environment sector for the past 15 years. In Côte d'Ivoire and Mozambique he helped with national policy and institutional reform of wildlife and protected area management. Since he moved to Zambia in 2004, Jean-Michel's interest has moved to tourism as an engine of growth that also contributes to conservation and requires well managed nature products. Prior to the World Bank, Jean-Michel studied conservation biology as well as environmental and water resources engineering at the University of Maryland.

[2] *Poverty Reduction Strategy Papers describe the country's macroeconomic, structural and social policies and programs over a three-year or longer period and are prepared by the member countries through a participatory process involving domestic stakeholders and external development partners such as the World Bank and the IMF.*
[3] *The 'tourism multiplier' is therefore 2.1.*
[4] *In economic accounting, tourists' expenditures are classified as exports because of their equivalent in international currencies.*

Unlocking the potential of tourism in Zambia

By Kirk Hamilton and Jean-Michel Pavy, ***World Bank***

... Thus, nature tourism could contribute to poverty alleviation only if a greater share of hunting revenues remains with the communities living in Game Management Areas (GMAs).[5] Simply increasing the communities' share of revenues, however, would not necessarily reduce poverty, as elite community members currently benefit more than poor households from revenue-sharing mechanisms in GMAs. Table 3 reveals little trickle-down effect to poor households in the form of community projects. To alleviate poverty, clearly, a larger portion of the revenues must reach poor households, and for this to happen the governance of GMAs will need to be strengthened.

Table 3: Allocation of hunting revenues

	Animal fees	Concession fees
ZAWA	50%	80%
Chiefs	5%	5%
CRB	45%	15%
Village scouts	20.25%	6.75%
Administration	9%	3%
Community projects	15.75%	5.25%
Total	100%	100%

The 1998 Zambia Wildlife Act makes provision for communities to participate in wildlife management through Community Resources Boards (CRBs). Community projects are schools, health centres and feeder roads.
Source: NRCF, 2007

Only proper incentives (where all households benefit from living with wildlife) will ensure conservation, which is paramount to a vibrant tourism industry, as tourists and hunters will visit GMAs only if wildlife preservation meets international standards. This requires that the government initiates a fundamental review of the current governance, management and revenue-sharing mechanisms of GMAs.

Beneficial overseas service providers

Beyond its potential impact on poverty alleviation, the tourism sector merits stronger support from the government, as contrary to perception, the sector's foreign participation provides important linkages rather than leakages.

In Zambia, the tourism sector is dominated by small and medium-sized operators. While the majority of lodges are foreign owned, guest houses are essentially Zambian owned. With the exception of Sun International in Livingstone, a South African group, Zambian tourism enterprises are reliant on overseas providers (coming from African and western countries), for services such as representation, marketing, insurance and flights. These are not leakages from the Zambian economy, but payments for services in the source markets that are used to sell the Zambian product, without which there would be no benefit at all to Zambia. It is a common misconception that a host country is entitled to capture the entire value chain between source and destination markets.

According to World Bank (2007), every holiday-maker spends an average of USD 1100 in Zambia, a figure that compares favourably with other countries – Kenya USD 405, Tanzania USD 1105 and South Africa USD 879. About USD 200, however, is leaked through imports (food, specialised equipment, expatriate salaries, etc.) not available in Zambia (World Bank, 2007). Moreover, Zambia is still relatively unaffected by another type of leakage – repatriation of profits – as the tourism sector is dominated by small, often local, operators.

Zambia has attracted foreign investors because of its access to overseas markets, and there has also been a substantial increase in Zambian-owned businesses serving the tourism sector. In the Livingstone-Kazungula corridor, although few local investors have ventured into national parks, because such investments are riskier and longer to get return on, Zambians own about 65% of accommodation (Suich *et al.*, 2005). More concentrated in urban centres, this part of the business is steadier.

Guidelines for government

In order to enhance the contribution of the tourism sector to economic growth and poverty reduction, the government should focus on building linkages to the local economy and placing greater emphasis on nature tourism.

Removing impediments to growth requires a major focus on developing concrete tourism-sector objectives for the next 10 years. ...

[5] GMAs (large areas located around national parks that contain villages and small-scale farms) aim to combine nature conservation with economic empowerment. There are currently 35 in Zambia.

Unlocking the potential of tourism in Zambia

By Kirk Hamilton and Jean-Michel Pavy, ***World Bank***

... Zambia needs to develop a master plan that incorporates: (1) objective sector targets; (2) improved data collection and management systems; (3) balanced development of Zambia's tourism circuits; (4) supporting road, air, telecommunications and power infrastructures; and (5) the 'soft' but critically important supporting framework of policy and legislation, establishing standards, licensing and training capacity; improving marketing; and managing and regulating the sector, which will encourage private investment.

Zambia receives far fewer tourists than it should, due to its relatively undeveloped infrastructure and business and investment climate, making it a high-cost destination. It is further from seaports and intercontinental airports, and the landed costs of imported fuels and goods (on which Zambian tourism is heavily dependent because of the country's small manufacturing sector) are high.

Incentives, including infrastructure investments for better road access and communication services and improvements in the investment climate, such as a lesser number of licenses, VAT exceptions and visa exemptions, are needed to attract large investments, which would catalyse the necessary economies of scale for transportation and domestic investments. High-volume tourism entities (hotels and large lodges) are vital to linking tourists and destinations. These investments would directly contribute to increased local participation and build a robust supply chain to boost stronger economic linkages between tourism and the local economy. This is illustrated by Sun International's investment in Livingstone, directly resulting in 60 000 more visitors, over 1000 jobs and an additional USD 16 million in earnings (World Bank, 2007).

The FNDP's objectives will also require improvement in the management of Zambia's protected areas. Tourism will contribute to poverty reduction only if a greater share of revenues remains with the communities and reaches poor households. This is closely linked to improvements in the financial performance of the wildlife estates, and consequently to an increase in government investments in the sector. To illustrate, the fiscal revenue generated in 2005 by international nature tourists visiting national parks was USD 5 million to USD 8 million, far more than the USD 1 million subsidy allocated to ZAWA. Increasing this financing of ZAWA in proportion to the level of the tourist revenues generated is justifiable; it is a reinvestment in tourism capital, *i.e.* the wildlife that generates economic growth.

The government should also hold ZAWA accountable for improved performance and cost efficiency through scaling up public-private partnerships, improving revenue collection, and management efficiency. This will require re-establishing ZAWA's mandate, rethinking the governance and management of GMAs and increasingly utilising public-private partnerships – in effect passing on to the private sector the day-to-day cost of managing wildlife areas. To this aim, the government should take advantage of current trends such as administrative decentralisation, commercial diversification and public-private partnerships.

Tourism's contribution to GDP has compared favourably with other more established industries. For Zambian policy-makers looking for sustainable sources of economic growth, tourism has proved to be a good option. If properly managed and incentivised, the private sector could contribute to greater economic benefit and poverty alleviation. ●

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Tourism: a risk for developing countries?

If all its impacts are not integrated and regulated, tourism may carry risks, particularly for least developed countries. Although "internal", "external" or "invisible" foreign exchange leakages can weaken the economic and financial input that the tourism business provides, the latter can itself cause economic nuisances (strong dependence, competition with other business sectors), social nuisances (destruction of cultural habits) and environmental nuisances (deterioration of sites). These risks can be analyzed and managed within the framework of a sustainable development strategy.

By Jean-Jacques Nowak, ***Université de Lille and*** **Mondher Sahli,** ***Victoria University of Wellington*** [1]

Jean-Jacques Nowak (Université de Lille) and Mondher Sahli (University of Wellington) hold PhDs in Economic Science and conduct research on issues relating to international tourism. They often work together in the framework of their research and have co-published numerous works on the economic impacts of tourism activities in developing countries. In this article, they analyze the risks that tourism may carry in this context – and ways that can help avoid them.

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Due to its specificities, the tourism business – when it is well-planned, well-managed and developed in the right manner – may be seen as having a relative superiority over other economic activities in terms of economic, social and environmental development. Tourism is a major source of employment and provides the opportunity to develop the assets that populations *de facto* possess, even though the latter may be disadvantaged ("natural" and environmental capital and "cultural" capital). It can act as a substitute for international markets (difficult to access), help the economy diversify and create new activities. Finally, it is a truly "imported external demand"[2] and has a considerable and beneficial knock-on effect on infrastructure.

Yet these beneficial effects are first and foremost potential effects: tourism may, of course, generate costs and nuisances from an economic, social or environmental perspective. The expected benefits may particularly be challenged by a whole host of clearly identified risks, which may jeopardize the tourism business – or even an entire vulnerable economy.

"Internal", "external" and "invisible" leakages

The existence of internal and external leakages saps the economic and financial viability of the tourism industry in least developed countries by eroding attractive resources, weakening its investment capacities (in physical and human capital) and depreciating the fiscal base of the State – and consequently its investments in infrastructure in this business. The leakages are often sizeable in these countries, which directly compromises the economically sustainable nature of long-term tourism. These leakages may be "internal", "external" or "invisible".

Leakages of internal origin refer – from the perspective of the host country – to the visible loss of currency or revenue from its accounts due to the tourism business. Imports of goods and services required for the tourism business partly explain these leakages. According to the World Bank (2000), roughly 55% of income from the tourism business received by developing countries is transferred abroad. The promotion, marketing and sale of holidays often lead to services being imported. Moreover, foreign operators working in the tourism business repatriate all or part of the profits they make on their assets to their countries of origin – the share of local investment is often low. In Costa Rica, it is estimated that 65% of the hotel portfolio is foreign-owned (Stabler *et al.,* 2009). Finally, it is a common practice for tourism to use foreign workers – a foreign exchange leakage once again occurs when workers transfer part of their salaries to their countries of origin. Leakages of internal origin consequently clearly reduce currency inputs from tourism, as the increase in domestic revenue generated by tourist spending is stemmed by the import of goods, services and labor.

Leakages of external origin, for their part, refer to potential losses of currency or revenue that occur outside the economic space of the host country. They are a serious external drain on the value created by tourism – benefitting a country other than the host country – and this shortfall cannot be counted in the balance of payments and is not given in the national accounts. For example, least developed countries have practically no control over the way their tourism products are marketed in the countries the tourists come from, or over the international transport of visitors. According to Sinclair (1991), Kenya's economy only collects 38% of the money spent by a British tourist when he travels with a foreign airline company. •••

[1] *This paper is based on research conducted for the United Nations Conference on Trade and Development (UNCTAD) "Train For Trade" program. The content of this article is the responsibility of its authors, and does not necessarily reflect the position of UNCTAD.*
[2] *In essence, tourism creates a foreign demand for local or national goods and services. But unlike traditional trade, where industrial and agricultural goods are physically transported from the production site to the foreign consumers via exports, in this case, on the contrary, it is the foreign consumers that travel to the production site.*

Tourism: a risk for developing countries?

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Table 1: Evolution of tourist arrivals and tourism revenue in LDCs

	1998	2008
Tourist arrivals in least developed countries (LDCs), in millions of travelers and as a % of global arrivals	2.4 million people 0.5%	10.2 million people 1.2%
Tourism revenue as a % of global revenue	0.6%	0.8%

Source: World Bank, 2010

... This share rises to 66% if, in addition to his beach holiday, this tourist decides to go on a safari in the country using Kenyan Airways, and to 80% if he also uses a national company for his international flight (Sinclair, 1991). However, the actual scale of external leakages is not easy to assess; they do, nevertheless, appear to be sufficiently high to have a negative impact on the profitability of certain tourism projects or block their implementation. Local operators have to face tough competition: they consequently see their margins dwindle and their viability jeopardized. This weakens their investment capacity. There can be real consequences on the environment: as the State often does not have the financial resources to treat waste and wastewater, the companies may themselves be required to handle it. When they are faced with financial difficulties, it is the investments that they sacrifice.

Finally, the so-called "invisible" leakages are the losses of currency or revenue that occur within the very economic space of the host country, but they are not counted as costs for the tourism sector. They may be the most difficult to assess, but they are nonetheless very real. These costs can, for example, be linked to damage caused to the environment or natural and cultural sites used by tourism, illicit capital flights abroad, deterioration and congestion in public infrastructure, etc. All these factors have an impact – in the short or long term – on the viability of the tourism industry.

Dependence, inter-sectoral competition and other risks

Beyond the phenomenon of leakages, tourism can, despite itself, jeopardize the economy, the environment and the social balance of a fragile country: it can contribute to the decline of other sectors (agriculture, for example), increase economic instability, dismantle the structure of traditional societies, intensify pressure on the environment, impoverish vulnerable populations.

Certain developing countries' heavy dependence on the tourism sectors can carry risks. Among them – and despite performances that have been constantly improving since the 1990s and extremely promising prospects – least developed countries remain in a marginal position in international tourism flows (Table 1). Yet the economic importance of tourism is considerable in these countries: taken as a whole, tourism revenue constitutes their largest source of currency (Table 2). According to the World Tourism Organization (WTO) and UNCTAD (2001), it represents almost 17% of all non-oil exports, well ahead of cotton and textiles. Tourism ranks as one of the three largest exports in over a third of these countries. One can observe, moreover, that the contribution tourism makes to a country's economy is particularly high in the small insular economies.

This dependence on tourism in least developed countries may make them more vulnerable, as the tourism sector is reputed to be unstable, particularly sensitive to economic fluctuations in the tourists' countries of departure and to international political events. However, these arguments must be put into perspective: forecasts (particularly those of WTO) show that host countries enjoy a solvent and constantly growing tourism market and there is no evidence to prove that tourism export revenue is more unstable than that, for example, of (highly speculative) agricultural or mining products. Tourism also gives a country an invaluable means of diversification that can allow it to mitigate the instability and general volatility of export revenues.

However, the very real risks relating to the competition between the tourism sector and other sectors of the economy must be recognized. This "inter-sectoral" competition concerns key factors of production. By developing, tourism becomes more profitable, has increased needs for labor, land, capital. This additional demand creates tensions on markets for factors of production and causes a sometimes substantial increase in their costs: sharp rise in prices and rents, which may lead to an inflationary process, conflicts of use between local populations and tourists, privatizations of community ...

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Tourism: a risk for developing countries?

By Jean-Jacques Nowak, *Université de Lille and* **Mondher Sahli,** *Victoria University of Wellington*

Table 2: Share of tourism revenue in GDP and total exports in several countries in 2010

Country	Tourism revenue as % of GDP	Tourism revenue as % of total exports of goods and services
Maldives	50.4	61
Samoa	19.7(1)	70
Vanuatu	28(1)	65(1)
Cambodia	12.6	20
Comoros	6,7(2)	-
Eritrea	4.4(2)	-
Tanzania	6.6	26
Sierra Leone	1.7	7(1)
Burkina Faso	0.8(1)	-
Lao PDR	5	19(1)
Nepal	2.8	21
Senegal	5.5(1)	22
Haïti	3.9	33
Mali	3.3(1)	12
Lesotho	2.1	4
Rwanda	3	30
Bhutan	1	-
Zambia	3	3
Ethiopia	4.6	30(1)
Malawi	6.6	-
Madagascar	3.3	-
Yemen	1.5(1)	9
Togo	0.3	4
Angola	0.3	1(1)
Guinea	0.1	0.1
Sudan	0.6	3
Burundi	0.1	1
Bangladesh	0.1	1
Benin	3.7(1)	15(1)
Liberia	18.4(1)	25(1)
Sao Tomé-and-Principe	2.3(1)	31(1)
Uganda	3.3(1)	16(1)
Average for all LDCs	2.1	6
Global average	1.8	6

The data concerns 2008, except (1): 2007 data and (2): 2006 data.
Source: World Bank, 2010

... land (cases observed in Burma, Egypt, Mexico, Morocco and the Philippines). Tourism can also lead to a decline in thriving activities (Nowak and Sahli, 2007).

Finally, there are social and environmental risks associated with tourism. Due to the necessarily asymmetric relations, tourism can create tensions between tourists and populations, can greatly change behavior and local cultural values.[3] The structure of communities may be dismantled and this can lead to the disappearance of their cultural wealth (one of their assets). The latter could have been developed in the framework of responsible and sustainable tourism. Asymmetries can also appear on the labor market, where abuses have an impact on its different dimensions (salaries, working conditions, absurd hierarchical behavior, etc.). This situation has, unfortunately, been observed on a number of occasions (International Labour Organization – ILO, 2001). Finally, the deterioration of natural environments and the increase in pollution that can result from a badly designed and managed tourist activity are not the least of the dangers – population concentration sometimes leads to a given site exceeding its reception capacity. This causes environmental deterioration that jeopardizes its very survival (the examples are unfortunately legion: destruction of coral reefs, coasts that become a sprawl of concrete, water pollution, etc).

The need for sustainable tourism

All these risks highlight the need for tourism to be designed and planned to be sustainable. In order to benefit from the potential benefits offered by this activity, all the risks it may carry must be taken into account. Tourism development can – and must – take place in compliance with the norms of sustainable development, which foster benefits by reducing risks. The resulting development strategy is based on building a balance between economic, social and environmental objectives and necessarily requires the active participation of all stakeholders: private and public, individuals and communities, national and foreign. Its cornerstone must be the need for equity, both intergenerational (preservation of natural and cultural heritage for future generations) and intragenerational (equitable distribution of benefits within each generation, consequently with a greater involvement of disadvantaged groups). With these conditions, the tourism business can provide sustainable benefits for both those working in the sector and the host countries – including the least developed of them.

[3] The disproportionate purchasing power of tourists in developing countries can lead to the worst abuses – of which prostitution is just one form. The manna of tourism sometimes leads certain populations to give up their traditional activities and encourage begging, theft, contraband, illegal traffic. Finally, tourist behavior can upset local populations and lead to reactions of rejection.

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SHOULD TOURISM BE PROMOTED IN DEVELOPING COUNTRIES?

Serena Hotels, set up in Kenya in the 1970s, is a hotel chain which manages 32 establishments in Africa and Asia. It is held by the Aga Khan Fund for Economic Development, *via* its subsidiary TPS EA. In this article, the author analyzes the challenges involved in terms of profitable and sustainable hotel development in developing countries. He highlights the important – yet underestimated – role played by tourism (including "high-end" tourism) in the economic development of a country.

Combining best practices and profit in tourism

In order to bring about economic growth, develop local human resources, as well as cultural and natural heritage – while reducing the ecological footprint of establishments to a minimum – the Serena Hotel Group relies on an ethical framework, in-depth risk analyses and a policy of constant innovation. The Group – set up and supported by AKFED – is banking on the assumption that very few locations are unsuitable for tourism activities and that it is often possible to combine developmental objectives with real economic profitability.

By Mahmud Janmohamed, ***Managing Director of Serena Hotels Africa***

Mahmud Janmohamed
Serena Hotels Africa

Mahmud Janmohamed is MD of Serena Hotels Africa and head of the tourism department of the Aga Khan Fund for Economic Development (AKFED), where he is responsible for 32 hotels, lodges and safari resorts located in nine countries in Africa and Asia. He is the founding chairman of the Kenya Tourism Federation, a trustee of the East African Wildlife Society, a director on the Corporate Governance Board East Africa, a board member on the Eastern Africa Association and Kenya Land Conservation Trust, and a member of the Executive Committee of AKFED.

The Aga Kahn Fund for Economic Development (AKFED), one of several Aga Khan Development Network (AKDN) agencies, implemented a new form of tourism through the Serena hotel chain nearly 40 years ago. Serena is owned by AKFED subsidiary Tourism Promotion Services (TPS), which strives to bring best practices in social, cultural and economic development to some of the poorest and remotest areas of the world.

By permitting global travel the hotel industry plays an important role in developing countries through promoting connections between countries and people, which is why TPS chose to develop its hotels in countries relatively excluded from globalisation. While some countries face political difficulties that slow the development of their tourism industries, others have transport problems that restrict their accessibility. In these countries, developing hotels is an important challenge that requires the relevant expertise. Opportunities provided by tourism in terms of positive social, economic and environmental impacts motivated AKFED's involvement *via* TPS. The convergence of good profitability and these impacts, social, economic – through local employment and locally produced goods – and environmental – through the respect of simple rules – was deemed entirely possible.

Creating infrastructure in remote areas

Serena hotels are located in remote areas where there was little or no previous tourist infrastructure. The strategy of the group is to show the world that no place is too far or too dangerous for tourists.

Barely a year after the guns fell silent in Afghanistan, the Afghan Government asked TPS to transform a war-scarred 1940s property into a world-class hotel to accommodate foreign diplomats, NGO representatives and other visitors. At the height of the crisis in 2005, scores of international journalists and aid workers descended on the town of Kabul, where they were surprised to find a world-class hotel.

Using local contractors (over 900 skilled Afghan craftsmen) and materials, the project team created a traditional, USD 30 million structure with 160 rooms and 17 suites, able to withstand an earthquake and boasting one of the world's most advanced fire prevention systems. The team followed Serena's philosophy of modern technology combined with excellence, and careful research into local cultural traditions – all despite the war conditions that existed at the time. The hotel employs 400 permanent staff.

While such a project may appear too risky for private investors, Serena's Afghan example shows that the perceived risks are much higher than the real risks. Given local demand and the political will of the Afghan government, and thanks to a sound risk analysis, the project faced no more than the usual risks of hotel investments. ...

Overview of Serena hotels expansion

What began nearly four decades ago as a 74-room safari lodge in Kenya's Masai Mara National Reserve has since grown into a chain of 32 luxury hotels scattered across Asia and Africa. The diverse settings include Zanzibar, Uganda, Kenya, Mozambique, Rwanda, Tanzania, Afghanistan, Pakistan and Tajikistan. They offer 2702 rooms, recording 622 321 bed nights in 2009. In Africa and Asia, 4969 people are employed, with four times as many being indirectly supported.

Combining best practices and profit in tourism

By Mahmud Janmohamed, *Managing Director of Serena Hotels Africa*

... Limiting social and environmental impacts in undeveloped regions

The strategy of AKFED is to implement high-quality hotels in remote regions and to make them accessible worldwide, while highlighting the social and cultural environment, and giving priority to local employment often through training members of local communities. This philosophy is built on the understanding that while mass travel has made even the remotest corners of the world accessible to tourists, growing numbers of visitors places a huge burden on local environments. The presence of these hotels in remote areas requires the implementation of specific programs to treat waste and water and to mitigate the effect their massive use of electricity could have on the surrounding population's access to power.

To mitigate these effects, decisions to construct new hotels are never taken hastily. They follow a meticulous assessment of a project's environmental impact, measuring the benefits of development, such as job creation, the economic stimulus of construction and sourcing, and the outreach into health and education, against the hotel's ecological 'footprint'. These assessments are conducted by external experts. While TPS has never renounced a project following the results of an assessment, all actions recommended are followed through. An example is the use of the water source at NgoroNgoro Serena Lodge (Tanzania), which would have negatively impacted water availability for the Masai population. Serena consequently invested in a five kilometre pipeline at considerable cost to draw water from an alternative source. Also, at Amboseli Serena Lodge (Kenya), the experts recommended a wetland system for effluent disposal, and this was incorporated into the project.

This environmentally friendly approach has earned Serena numerous awards, including the Skål International Ecotourism Award and East Africa's Most Respected Company Award.[1] Serena Hotels won the 2008 Skål International Ecotourism Award in the Global Corporate Establishments category, which includes contributions made towards conservation of the environment and cultural heritage, community involvement and benefits, educational features, and innovation. In addition, all Serena properties are recognised by global environmental bodies sponsored by the Travel and Tourism Council. Kenya's Amboseli Serena Lodge has won several awards from organisations that foster eco-tourism and responsible tourism, for reforestation efforts in the Amboseli National park.[2]

Likewise, culture is an essential part of the ethos. Rather than presenting a homogenous experience typified by standard rooms and materials, each hotel sources materials locally and undertakes careful research to ensure that the design reflects local traditions. Similarly, developing local skills is encouraged through frequent training programmes, and employing expatriate staff is minimised. Priority is placed on hiring and training locals for employment at all levels of the organisation, including senior management, with local people currently making up 97% of the staff.

Development within an ethical framework

The Serena group makes strategic investments – not only in terms of financial returns but also in terms of impact on the economic development of countries – which many private investors might be reluctant to make given the risks perceived. Such investments, however, promise to produce a significant multiplier effect as their impact ripples through local communities.

While directly respecting social and environmental considerations during operations, the hotels can also have an indirect social and cultural impact. AKFED does seek to generate profits but also acts as an economic development agency, as profits are reinvested in further economic development projects or are used to subsidise social initiatives. Consequently, companies such as Alltex and Frigoken in Kenya, for instance, in which AKFED has invested, have contributed to improving welfare with services such as on-site child care – for example, at the Alltex garment manufacturing plant – and healthcare. The social programmes of AKFED not only include health, sanitation, education and training, they also support employment and promote women. Rural areas are not excluded, as social services to farmers are provided, including basic education, healthcare and programmes for clean drinking water. ...

[1] Skål International, the largest organisation of travel and tourism professionals in the world, initiated the Ecotourism awards programme in 2002 to encourage conservation and promote sustainable practices in tourism.
[2] In Amboseli, Kenya, AKFED led a reforestation campaign that has planted more than 200 000 trees. The campaign was awarded a Green Globe commendation and an Environmental Award by the American Society of Travel Agents.

Combining best practices and profit in tourism

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... This ethical framework extends to respect for the ecology and culture of the regions in which the hotels are built. Often working closely with the Aga Khan Trust for Culture (AKTC), which is involved in a series of restoration projects in Asia and Africa, the Aga Khan Foundation, which is active in the health and education sectors, and the Aga Khan Agency for Microfinance, the hotels have proven to be economic engines within an integrated development strategy.

In Pakistan, for example, the Serena hotel in Quetta operates in a 17th century fort and palace restored by AKTC. It sources most of its furniture and furnishings locally, encouraging the development of local skills, while minimising the use of expatriate staff. In the same area, other AKDN agencies provide microfinance, offer skills training, construct sanitation and potable water systems, and show farmers how to boost crop yields.

In Zanzibar, Serena converted an underused 19th century telecoms building and the adjacent 18th century structures into a standard-setting hotel at the edge of the world heritage site Stone Town. AKTC, meanwhile, has restored 11 landmark buildings and rehabilitated the central public space Forodhani Park. The foundation has worked with the government to improve health care and early childhood education.

Kabul Serena hotel, in Afghanistan, is involved in cultural restoration, health care, rural development, education, microfinance and mobile telecommunications. Companies such as Roshan,[3] Afghanistan's telecommunications company, have helped develop Kabul University through donating a video conference facility and satellite network access to enable distance learning for academic staff.

This integrated, ethical approach to development makes Serena different from traditional profit-oriented commercial ventures in the tourism sector. Profits are often reinvested in other projects or special programs in order to stimulate economic activities and improve social and environmental standards. Serena hotels are designed to cause what the Aga Khan calls 'a ripple effect', one that galvanises the local economy and brings excellence and best practices to some of the poorest corners of the world. About one-third of purchases come from local communities surrounding the Serena units, boosting local economic activity.

During economic downturns or volatile periods, Serena's policy is to retain staff, with layoffs regarded as a last option. Even though profit maximisation is not the principal aim, TPS Eastern Africa (TPSEA)[4] generated a double-digit profit margin in 2009 (Table 1). The Global Credit Rating Co[5] (GCR) gave TPS EA an excellent rating and economic performance review, noting its resilience in the face of political volatility in Kenya. According to GCR, the company has consistently generated strong double-digit profit margins, notwithstanding the post-electoral crisis in Kenya and the global economic crisis that effected profitability in 2008. The strong recovery of the Kenyan tourism industry in 2009 was favourably viewed, with the resumption of historical trends anticipated. This was supported by the favourable turnaround in profitability for the months ending September 2009.

AKFED shows that profitability and development are two notions that can serve each other. However, to work, this compatibility must be based on a strong risk analysis. Calculated risk is an inevitable underlying element of the AKFED philosophy, since its motivation is to invest in poor and frequently unstable areas that present higher risks than elsewhere. ●

[3] AKFED is the majority shareholder of Roshan. For further information, see issue 4 of Private Sector and Development.
[4] In 2006, TPS has been restructured under the name TPS EA and listed on the Nairobi Stock Exchange as a public company with TPS (Kenya), TPS (Tanzania) and TPS (Zanzibar) as its fully owned subsidiaries.
[5] GCR is the largest credit-rating agency in Africa, accounting for more than 60% of total African credit ratings.

Table 1: Main financial ratios of TPS EA in 2009

Sales (USD million)	EBITDA	EBIT margin	Net income (USD million)
52.3	21%	15.8%	4.9

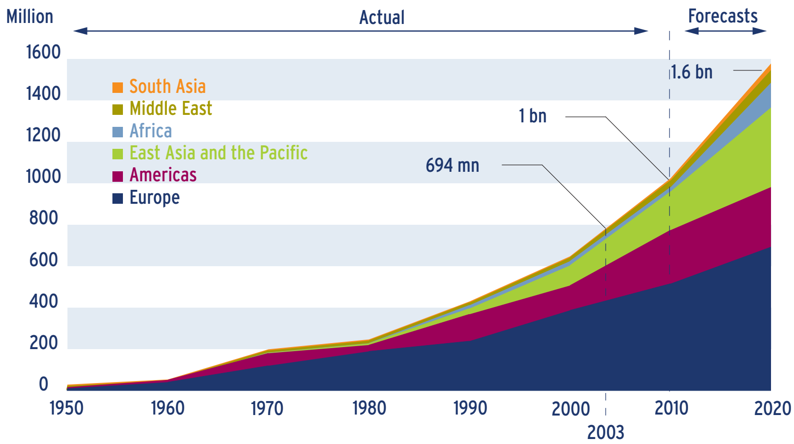
Source: Author

SHOULD TOURISM BE PROMOTED IN DEVELOPING COUNTRIES?

Key data

Developing countries used to carry little weight in international tourism, but they have been constantly gaining ground since the 1970s: today they account for 35% of revenues and almost 40% of arrivals. According to forecasts, developing countries will soon become the engines of growth in the sector. Tourism will consequently be making an even greater contribution to GDP and employment in these countries. It will therefore become a powerful lever of economic development. Despite the high volatility in the sector (it does indeed react dramatically to the international economic climate), sharp global growth is expected in investments. However, in developing countries, the level of investment will only catch up with the level recorded in high income countries from 2015 onwards. These figures give an overview of tourism economics and how they are evolving, both in developing countries and worldwide.

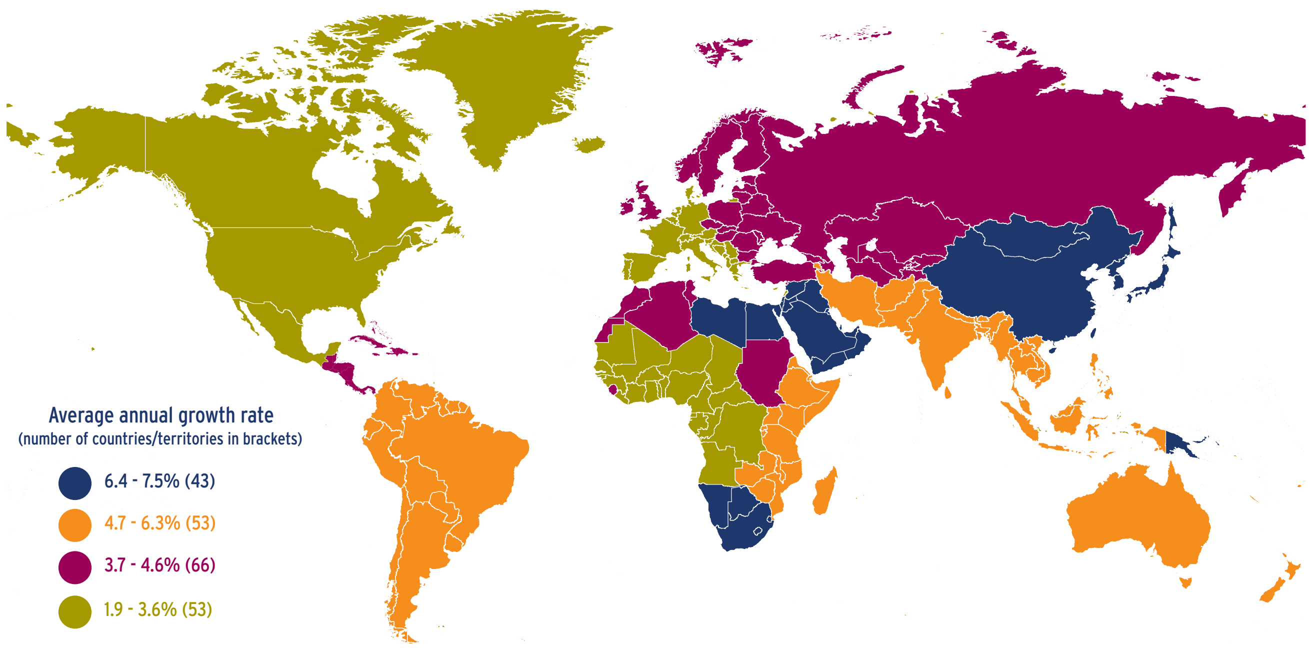
International tourist arrivals by regions since 1950 and forecasts for 2020



	Base Year 1995	Forecasts 2020 (Million)	Market Share (%) 1995	Market Share (%) 2020
World	565	1561	100	100
South Asia	4	19	0.7	1.2
Middle East	14	69	2.2	4.4
Africa	20	77	3.6	5.0
East Asia and the Pacific	81	397	14.4	25.4
Americas	110	282	19.3	18.1
Europe	336	717	59.8	45.9

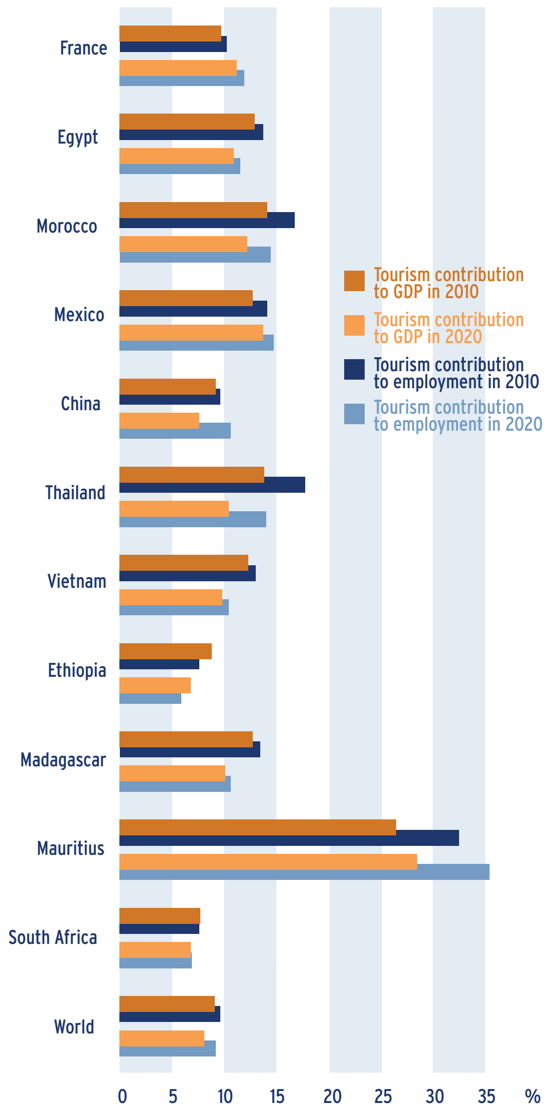
Source: World Tourism Organization (WTO), 2002

Average annual growth rate of the number of international tourists arrivals between 1995 and 2020



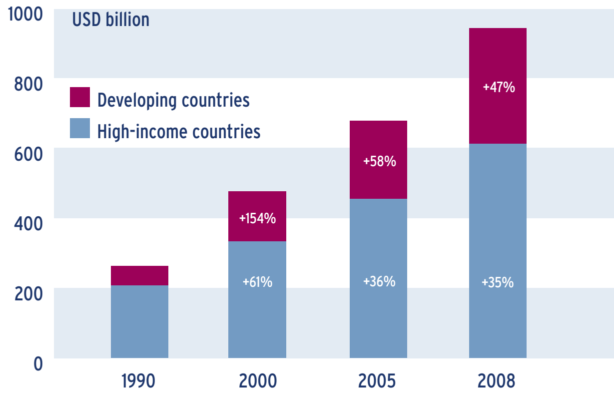
Source: WTO, 2002

Tourism contribution to GDP and employment in 2010 and forecasts for 2020 (countries within Proparco's activities area)



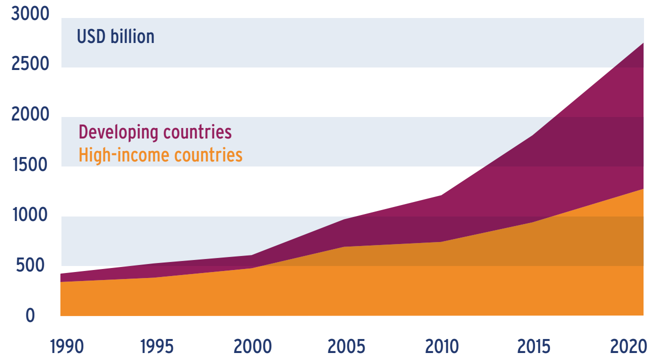
Source: Figures are based on calculation made by Private Sector and Development on the basis of WTTC, 2010

International tourism receipts by type of country between 1990 and 2008



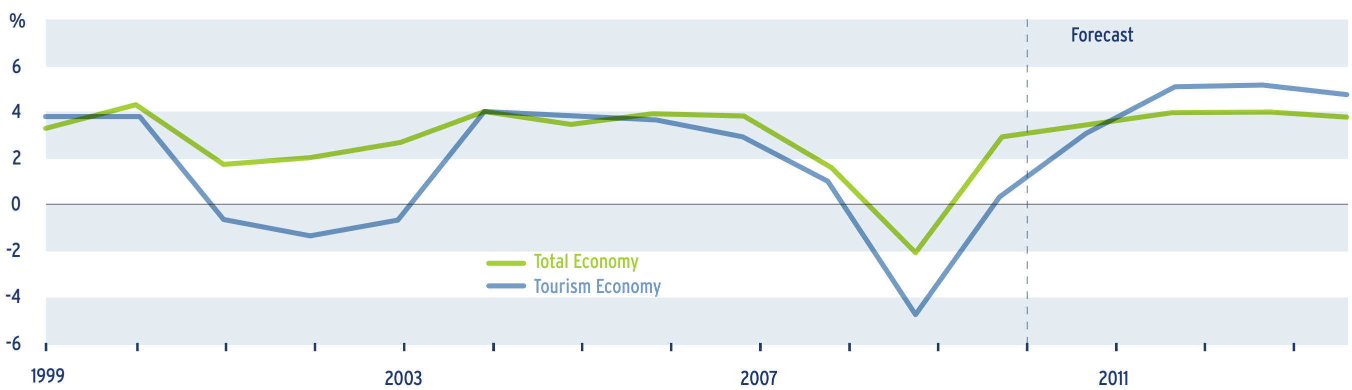
In each column of this histogram, percentages correspond to the receipts growth rates. Countries were sorted according to the classification of the World Bank. High-income countries have a GNP/cap. higher than USD 12 196. Developing countries include low-income and middle-income countries with GNP/cap. below USD 12 196.
Source: WTO, 2010

Investments in the tourism sector by type of country between 1990 and 2010



Amounts include fixed investment expenditures by travel and tourism service providers and government agencies to provide facilities, capital equipment and infrastructure for visitors. Countries were sorted according to the classification of the World Bank. High-income countries have a GNP/cap. higher than USD 12 196. Developing countries include low-income and middle-income countries with GNP/cap. below USD 12 196.
Source: Figures are based on calculation made by Private Sector and Development on the basis of WTTC, 2010

World tourism economy and real GDP growth between 1999 and 2014



Source: Oxford Economics, 2008

SHOULD TOURISM BE PROMOTED IN DEVELOPING COUNTRIES?

The International Finance Corporation (IFC) finances private sector projects in developing countries. It operates in the hotel sector, where it has already invested over USD 2.3 billion, and supports establishments that, *via* their activity, have a positive impact on the economy, poverty reduction and the environment. Project managers, Carolyn L. Cain and Anastasia Gekis, tell us about the role that development aid institutions can play in this context.

IFC's approach to investing in tourism

Although tourism plays a key role for developing countries, investment projects in these countries carry a high level of risk. This risk can only be borne via a long-term commitment and rigorous project selection. The International Finance Corporation's (IFC) investment analyses are based on its long-standing experience in the sector and allow it to integrate both economic and developmental objectives. IFC tailors its operations to the type and environment of a project and mobilizes a wide range of tools that enhance the value of its investments.

By Carolyn L. Cain and Anastasia Gekis, ***International Finance Corporation (IFC)***

Carolyn L. Cain
International Finance Corporation (IFC)

Carolyn L. Cain is a Principal Tourism Specialist with the IFC, the private sector arm of the World Bank Group. Carolyn L. Cain provides industry expertise and analysis throughout the project investment cycle including establishing the strategy for hotel investments, business development, screening and appraising hotel investments and portfolio work. Ms. Cain received a BA from Vassar College in New York and a MBA from the University of Hawaii. She has been with IFC for 16 years.

Anastasia Gekis
International Finance Corporation (IFC)

Anastasia Gekis is a Senior Strategy Officer with the IFC. Anastasia Gekis supports the development of strategy in the manufacturing and services sectors and works on investments in the tourism and retail sectors. Anastasia Gekis has an MSc from the University of London and an MA from the University of Sussex. She has been with IFC for 7 years.

As the largest employer after agriculture, employing approximately one-twelfth of the world's population (World Travel and Tourism Council – WTTC, 2010) and a significant forex earner, tourism is important in many of IFC's client countries, typically yielding a high development impact on society. However, projects in this sector, such as hotel investments, face a high level of risk, particularly in developing countries. Therefore a strong role exists for multilateral donors to boost investment. Since its founding in 1956, IFC has supported more than 220 hotel projects in 80 countries, investing in excess of USD 2 billion. IFC's hotel portfolio currently stands at USD 570 million, with 60 projects in more than 40 countries, representing just over 1% of IFC's total investments.

Tourism strategy unpacked

IFC's hotel investment strategy focuses on viable projects that impact positively on the local community and surrounding areas, catalysing economic development, creating jobs, deepening local supply chains, and improving infrastructure.

When considering a new project, IFC focuses on the alignment of each project with the needs and tourism priorities of the area concerned within the context of three primary investments themes. Prospective invest ments are evaluated and assessed on various criteria before a decision is made.

Firstly, it focuses on modernising the business infrastructure of developing countries through investment and establishing best practices. In so doing it raises the overall standards of competition, attracting foreign investors and business travellers. Secondly, it examines the suitability of resort destinations for developing quality hotels to attract tourists and meetings. Finally, IFC encourages hotel developments that are accompanied by other components such as shopping centres, office towers and residential units, to address multiple property development needs and diversify risks.

To align with these themes, IFC looks for high-quality local, regional and global hotel companies, including those interested in new construction, refurbishment, financial restructuring and acquisitions. It also searches for owners of hotel assets, including clients in search of multi-project financing, to achieve growth and domestic, regional, and global property diversity by type and location. In addition, IFC considers single asset investments in frontier markets and locations with a shortage of quality hotels. It also considers equity investments where there is potential upside and a viable exit. For all cases, there must be compliance with the environmental and social requirements defined in its Performance Standards and Environmental Health and Safety Guidelines.

IFC often contributes to the regulatory and legal environment where it invests through its advisory services arm. IFC has handled hotel privatisations in such diverse locations as Yemen, Uganda, and Sierra Leone, and is promoting investments in greenfield opportunities in Mozambique, Madagascar and the Solomon Islands. It works with governments to refine tourism strategies aimed at improving overall destination competitiveness and investment appeal, and its advisory services are active in the area of tourism supply chain linkages. In Rwanda, for example, IFC is helping to strengthen small and medium enterprise (SME) supplier access to markets and finance. Here, the program is strengthening linkages between SME tour operators, travel agencies, restaurants and hotels. In Sri Lanka, a similar program includes capacity building for SMEs to meet the quality and service delivery standards of local hotels. ...

IFC's approach to investing in tourism

By Carolyn L. Cain and Anastasia Gekis, *International Finance Corporation (IFC)*

Lessons learned by IFC over the years

IFC's lengthy experience in the sector has resulted in a number of lessons learnt. These lessons guide current investment analyses.

In project analysis and implementation, four aspects are particularly important to examine. First, the broader issues affecting tourism such as transportation access – including the condition of the airline industry and its impact on the hotel industry – potential infrastructure and human resource constraints, developments in competing destinations, and major source markets, must be considered. Second, attention must be paid to striking an appropriate fit between the hotel product, the market, and the operator. Third, it is important to consider the advantages that affiliation with an international hotel chain can provide in certain markets, although this does not guarantee success. Fourth, resorts built from the ground up have developmental impacts, requiring well-articulated development plans including infrastructure, government support, regulatory support, and interest from the travel trade. Finally, identifying and addressing environmental and social issues early in the project cycle is particularly useful.

Regarding investment structure, financial structures should be conservative, in the range of 50/50 debt to equity for most projects. Equity investments in hotels can be difficult and may require a longer time frame than other investments. Equity exits/sales should be timed to avoid market downturns. To minimise this risk, an alternative may be loans with subordination features or kickers with equity conversion rights. Although hotel operator equity should be encouraged, operator guarantees, key money, performance clauses, lower fixed-rate fees, an incentive fee structure with waived, subordinated or deferred fees, or other mechanisms are sometimes more effective in encouraging operator efficiency and commitment.

Concerning environmental and social issues, several aspects need to be analysed. First, because the site chosen for a hotel can have a major environmental impact, early engagement helps ensure that appropriate issues are addressed while changes and adjustments are still possible. Second, savings opportunities in energy and water usage are often available, and investments can be both cost-effective and environmentally beneficial. To help its clients navigate through these issues, IFC recently hired a green buildings specialist as part of its tourism team. Third, IFC takes sponsor compliance with its Life and Fire Safety Gidelines seriously. Often, independent audits of the design, specification, construction and operation of a facility's life and fire safety features are required. Finally, if a regional tourism development plan does not exist, the project may require regional actors to coordinate and to build a regional approach.

IFC considers other risk factors such as cost overruns due to inaccurate cost estimates, inexperienced development teams, implementation delays, changes in project scope, and cost increases in labour, import taxes, and construction materials. It pays particular attention to implementation delays that cause repayment difficulties and often loan rescheduling. Typical reasons include poor project management, unrealistic timetables, difficulty obtaining construction materials and import licenses, as well as project scope changes.

... Where required, IFC helps clients navigate the environmental and social issues that can affect hotels – life and fire safety, sewage system management, water supply and waste disposal, and the like. For example, in a number of hotels IFC has supported energy efficiency audits. Investments in support of audit recommendations have followed. In the area of life and fire safety, clients, like the Hyatt Regency Kyiv in Ukraine, have succesfully complied with internationally recognised standards, with support and expertise from consultants identified by IFC.

Tourism offers an attractive development opportunity

City hotels typically attract business travellers, unlike resort hotels, which attract tourists and vacationers. However, both types can draw the lucrative meeting, incentive, conference, and exhibition market segment.

Development impacts vary, depending on hotel type. Both business and resort hotels are important for employment, foreign exchange and generating tax. However, business hotels often provide essential business infrastructure and can help with urban renewal or regeneration efforts. Resorts and resort destinations too, especially in newly emerging locations, can spark construction of critical infrastructure.

IFC supported the development of the tourism sector in Puerto Plata and Punta Cana in the Dominican Republic with direct investments and other investments in support of tourism development, such as airport concessions, ...

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... a cruise port and toll road, which often helps to diversify economic development.

The types of hotel development that are financed often differ according to a country's economic development and the location's lifecycle. In emerging or transitional economies, the initial need is for international-standard hotels for business travellers and pioneering leisure travellers. As economies develop, mid-range hotels for domestic and regional travellers, price-conscious business travellers, and tour package members are required. For established destinations to remain competitive, existing hotels may require upgrades and diversification into new products or markets; for example, there is increasing support of hotels with a green design.

Reward in financing hotels

Most hotel investments have a positive and often significant impact on local economies. While development costs vary widely by destination and hotel type (budget, mid-market or luxury), all hotels are capital-intensive and have high fixed operating costs. This implies large investments with a long-term perspective on returns.

Hotel investments are complex, because environments are risky, revenues are often seasonal or cyclical, and success can depend on factors outside a sponsor's control. Investors approach hotels as both an investment in an operating entity and a real estate investment. Thus, investors face risks from operational cash flows as well as from fluctuating real estate values. In both cases, the industry tends to be cyclical, with more vulnerability in emerging markets. In the event of an oversupply of hotel rooms and other factors negatively affecting demand and decreasing real estate values, investors stand to lose substantial amounts. Moreover, the high level of perishability in hotels – income lost from a hotel room not sold can never be recaptured – accentuates the risk.

Business risks also vary by hotel type. Demand for city hotels is influenced by investment, economic, and political environments, and the oversupply of hotel rooms is a frequent problem. On the other hand, resort performance can be affected by fluctuating exchange rates, air access, seasonality, natural disasters, and perceptions of health and safety risks. Furthermore, the popularity of resort destinations is strongly affected by consumer trends, which change frequently.

Given the high level of risks, in recent years, more new hotels globally have formed a part of mixed-use developments, with combinations of offices, retail, and residential components. This approach provides synergies and can help diversify risks. Particularly for expensive resort developments, residential, condominium, and timeshare/fractional components are often required to achieve a sufficient financial return. They often provide the developer with upfront money to defray expensive development costs.

Despite the mixed-use development possibility, investors and lenders are often reluctant to finance hotel projects in developing countries. While hotel investments in developed and developing countries face the same risks, developing countries often present additional risks that need to be assessed – economic instability, political risks, safety, healthcare, etc. Investors' reluctance is even stronger when the project entails a long-term investment in the 10- to 12-year range.

This is the typical length of an IFC loan in a greenfield hotel. Equity financing is similarly considered from a long-term investment perspective. Strong development impact, high investment risk, and reluctance on the part of many investors to invest in emerging market hotels warrant IFC's catalytic investment role, especially when complemented by, among others, improvements in the environment, life and fire safety standards, and assistance with developing linkages to, often small and medium-sized, suppliers. ●

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SHOULD TOURISM BE PROMOTED IN DEVELOPING COUNTRIES?

Club Méditerranée is a French company founded in 1950 that markets travel and leisure products. In this article, Agnès Weil, Sustainable Development Director and Grégory Lanter, Development Director, explain the risks and challenges encountered by investors on remote sites in developing countries, as well as the economic, social – or even environmental – benefits of this type of tourism investment.

What tourism for remote areas in developing countries?

Remote sites in developing countries often present a major interest for tourism. Although the difficulties to access them, the lack of infrastructure and skilled human resources may pose a problem, "pioneer" investors benefit from the low cost of real estate, labor and raw materials. Host countries benefit from jobs, land development and transfers (skills, technologies, practices). An integrated development strategy and strict regulation can make tourism in these areas truly "sustainable".

By Agnès Weil, ***Sustainable Development Director and*** **Grégory Lanter,** ***Development Director, Club Méditerranée***

Agnès Weil
Club Méditerranée

Agnès Weil graduated from the Paris Graduate School of Economics, Statistics and Finance (ENSAE) and holds a Master's in Business Administration from the European Institute of Business Administration (INSEAD). She began her career at Bossard Consultants and went on to work at Gemini Consulting and VVF Vacances. In 1999, she joined Club Méditerranée as Quality, Safety and Hygiene-Health Director, before being appointed as Sustainable Development Director in 2005.

The tourism business has a positive – or negative – effect on the economic, social, cultural and environmental realities of a country. As tourism carries more weight in the economies of developing countries than in developed countries, its fluctuations have a greater impact. Moreover, developing countries' economies are more fragile, their infrastructure is less effective and their regulatory systems are less restrictive: they are consequently more vulnerable to the negative externalities[1] of tourism, whether they may be economic, environmental or social. On the other hand, they are also in a better position to benefit from its positive spillover effects.

This sensitivity to impacts increases even further for destinations where there are the fewest visitors, the most preserved areas – and, consequently, often the most attractive areas for tourism. In just a short time, in a small area, sites that receive a large number of tourists can be seriously damaged and cultural habits and local behavior can be deeply changed. It is here, in these new tourist areas, that sustainable development takes on its full importance; it must help avoid excessive pressure on the environment, ensure that inequalities between individuals are not heightened and, at the same time, allow the economy to develop. Indeed, these areas may not be easy to access, but they present an interest for all stakeholders: the profitability from tourism activities and the resulting economic and social development are often very real.

Brakes to establishing in remote regions

Access difficulties prevent operators from being able to offer a wide range of tourist activities to their clients: no restaurants, no bars, no diving clubs. The product offered at the beginning must therefore be "self-sufficient": either it attracts clients that are easy to please (but that spend accordingly), or it offers its own wide range of activities. In this case, the hotel can be designed as a vacation village connected up with remote infrastructure – this is the case for Club Méditerranée (Club Med), for example. It can also be part of a more comprehensive plan, but the area is then rapidly opened up and equipped with major infrastructure (hospitals, roads, water and electricity networks, etc.).

Three types of hotel can be established in a remote area: "hotels" destined for pioneers (often a refuge, a well-kept secret reserved for backpackers); those destined for the more affluent that prefer the "out-of-the way"; and finally establishments with a critical size that is large enough to bring about the creation of infrastructure. A hotel that has reached this critical size, but that does not have its own distribution network or the capacity to take risks in chartering flights, will nevertheless be totally dependent on tour operators and will only be able to free itself of them after a few years in operation and once it has established a client base.[2] Club Med, by successfully managing the way it markets its services and airline transport, can offer its clients new destinations, such as Cap Skirring in Senegal.[3] It is possible to reach a critical size without a marketing network by building several hotels and their infrastructure on cheap land, promoting them alone while, at the same time, benefitting from some financial reserves. By reaching this critical size, it is also possible to meet the difficulties of supplying basic services (water, electricity) and more elaborate services. Finally, one of the major difficulties for the development of a hotel in remote areas lies in training staff, as local populations do not have the experience of hotel or ...

[1] *Negative externalities refer to situations where an economic agent is penalized by the action of a third party without being compensated.*

[2] *This situation does seem to be evolving somewhat with the development of sales by Internet.*

[3] *Cap Skirring is located in the far southwest of Senegal. It was originally occupied by a small fishing village. In 1973, Club Med became interested in it and, with the agreement of the Senegalese government, had the runway extended and concreted so that it could receive jumbo jets from Dakar or directly from Europe. The success of this vacation village and the presence of an international airport attracted a number of other hotels.*

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... tourist services. It is consequently necessary to bring in the skills, methods, material, and devote time to training the local staff.

Many Club Med villages were created and developed in remote regions: indeed, in the 1950s and 1960s most of the sites in the Mediterranean region had not been exploited or developed very extensively and were highly affordable. Moreover, Club Med's original concept to a great extent provided a solution to the difficulties relating to the remoteness of sites: transport management, distribution management, aim of rapidly reaching a critical size, integrated services, in-house human skills.

Benefits for "pioneer" operators

Despite the risks involved, Club Med has decided to establish itself in remote areas in developing countries. This position as a "pioneer" presents a number of advantages, particular the possibility of choosing the best geographical location – the most authentic, the most natural, the one that will surely please clients. In this context, the land is generally sold at a very low price. This decisive factor has, for example, fostered the expansion of the activities of Orascom Hotel Development (OHD),[4] which established its seaside resorts in remote areas: El Gouna and Taba in Egypt, Salalah and Sifah in the Sultanate of Oman, for example. Governments often sell the land at a symbolic price and therefore hope – in a more or less justified manner – to foster tourism development in their country. The investor can consequently bear a higher risk and generate a high profit more rapidly. Moreover, the land gains in value with the development of tourism and has a potential to become the main profit source for the pioneering real estate developer.

Remote sites hold other economic benefits: indeed, labor is very often cheaper there, the cost of raw materials too (foodstuffs, building materials, etc.). In addition, the tax facilities that governments generally grant are by no means insignificant. Hotel operators first and foremost target developed markets, their prices are consequently not determined by the local cost of living, but are based on the accepted "international" value of the product.

Interest for local populations and the environment

Tourism development in remote areas can also be extremely advantageous for the host countries. It allows them to continue developing their country by contributing to opening up regions[5] while, at the same time, distributing the "tourist load" more harmoniously around the country. For local communities, tourism development is first and foremost synonymous with basic infrastructure (roads, drinking water, electricity), or even exceptional infrastructure. Hotels sometimes very directly bear the cost of these constructions; for example, clinics and hospitals were built in El Gouna thanks to OHD; an airline tax in force in Cap Skirring is financing the new airport. Beyond simply benefiting tourists, this infrastructure can also benefit local populations; investors and authorities must ensure this is so.

More generally, tourism strengthens the local economic fabric by its investments, purchases related to operating, and the money spent by clients.[6] Partnerships between non-governmental organizations and businesses can further strengthen this positive impact, for example, by helping small-scale local producers to develop their skills so that they can meet the specific demand of hotel operators, thus making it possible for the latter to be supplied locally. Leverage from tourism on the economies of underdeveloped areas – or even disaster areas – can be used in a voluntarist manner by investors and States. For example, the first Club Med "hard construction" village was built in Agadir (Morocco) following the earthquake that devastated the city in 1960; the aim was to contribute to socioeconomic recovery in the region.

Tourism development on remote sites may also present a major environmental interest – although this is often questioned. The Club Med village in Cherating, Malaysia, was built in 1977 on an 80-hectare area of land, 80% of which is covered by a primary tropical rainforest. While there is an alarming retreat of primary forests all over the country (particularly due to intensive oil palm cultivation), the Cherating forest has been completely preserved. Well-designed tourism development can – and must ...

Grégory Lanter
Club Méditerranée

Gregory Lanter graduated from the Paris HEC Business School and joined Club Méditerranée in 2004 as Regional Development Director. After having restructured the Club's assets in Senegal and Morocco, and set up villages in the Middle East and on Mauritius Island, he became Development Director in 2009. Since then, he has been contributing to the Club's strategy to go high-end by refurbishing existing villages – the case in Sicily and Morocco – and launching new villages in France and China.

[4] *Orascom Hotels Development is a hotel group listed in Switzerland that owns establishments in Egypt, Jordan and the United Arab Emirates.*
[5] *One of the objectives of the opening of the Village Club Med in Cap Skirring in Senegal was to open up the region.*
[6] *On this topic, see the articles by Mahmud Janmohamed and Denis Sireyjol in this issue of Private Sector and Development.*

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... – play a role in conservation. There is also an increasing amount of thought being given to ways of attributing an accounting value to businesses' natural and biological assets. Tourism can also foster the transfer of technologies and environmental practices, train staff in how to save natural resources and raise the awareness of local populations in terms of preserving their natural and cultural capital.

Tourism development also brings about skills transfers. As it has to build in remote areas, Club Med has often had to produce its own water and energy and treat its wastewater.[7] To do so, it has often had to develop innovative technologies, which subsequently benefit the host country. Moreover, Club Med has unquestionably contributed to building skilled and competent human resources, which have subsequently been useful for businesses from the local private sector. It directly contributes to employment (70% of its employees are recruited locally) and to its feminization.

Finally, the catalyst role that "pioneering" hotel operators can play in remote regions must not be underestimated. For example, Club Med has succeeded in offering its clients new destinations (Agadir, Djerba, Punta Cana or Cancun), which have then attracted numerous other operators and investors. The very fact that Club Med establishes itself in an area has, over time, become an indicator of quality and safety for other players in the sector. By creating the supply, Club Med creates the demand, which leads States or investors to consult it first for their tourism development projects, thus giving it new opportunities for pioneering investments.

There are consequently many advantages in developing tourism in these remote areas; however, their specificities require an even greater responsibility on the part of players in the sector. Despite all the efforts of the "pioneer" operator, the site can be permanently damaged if there are no regulations to prevent too many other players from establishing themselves nearby, or to ensure they behave in a responsible manner. Although investors expect rapid profitability, operators see the medium-term interest of energy-saving buildings, while local populations legitimately demand the complete preservation of their environment over the long term: how can these different expectations and temporalities be reconciled? The only way to ensure that all these constraints are taken into account is to implement an integrated development strategy and strict regulation.

Environmental and Social Impact Assessments can give investors and local authorities details on the dangers related to setting up an establishment – and allow them to avoid them. Local populations must receive their share of the profits brought about by tourism (by the reallocation of taxes and duties in particular). They must, at the same time, participate in and help manage the tourism development process (progressive "incorporation", in-depth and intelligent planning, etc.). Finally, tourists can support these efforts by adopting respectful behavior, buying local products, respecting natural sites – and by staying longer in a distant country. This reduces the impact of CO^2 emissions caused by transport and increases economic spillover effects at the local level. The beneficial effects of tourism will only be equitable for all stakeholders if each of them, at their own level, is responsible (States, in particular, must full play their role as regulators). They must also learn to work together in the framework of consultation organized at the country level. ●

[7] *The Club created the first wastewater treatment plant on Mauritius Island 30 years ago, then in 2007, the first fully ecological wastewater treatment plant using a "garden filtration" system.*

SHOULD TOURISM BE PROMOTED IN DEVELOPING COUNTRIES?

Proparco's mission is to promote private investment in developing countries. One of its activities is to finance hotel projects that have positive impacts on the economy, poverty reduction and the environment. In this article, Denis Sireyjol, an investment officer and expert in the sector, shows that despite its negative aura and complex structure, tourism – the growth of which would appear to be irreversible – deserves more attention on the part of donors.

Tourism in developing countries: a neglected lever of growth despite its potential

As the negative impacts of tourism are clearly visible, they tend to dominate the spheres of debate and research and consequently eclipse its positive spillover effects, which are less visible and more difficult to gauge. And yet tourism makes a considerable contribution to the economies of developing countries and estimations indicate that this is on an upward trend. Despite this, States and donors do not lend much importance to tourism. They see it as a form of exploitation and are worried that if they finance tourism projects it may affect their image. They are also often deterred by the risks that are inherent to the sector. However, experience shows that it is possible to build partnerships that mitigate the negative impacts and foster the developmental potential of tourism.

By Denis Sireyjol, ***Investment Officer at Proparco***

Denis Sireyjol
Proparco

Denis Sireyjol graduated from the ESSEC international business school, ENSEEIHT engineering school and holds a Master's in Artificial Intelligence. He has been working for Agence française de développement (AFD) since 2007. He was previously an investment officer at Allied Irish Banks in Paris in 2005 and 2006. He subsequently spent two years in Madagascar for AFD where he was in charge of private sector financing. He joined Proparco in 2009 as an investment officer in the "Corporate" team, which works in the sectors of agribusiness, construction, services, health and education – without forgetting tourism.

Tourism is in a paradoxical position in developing countries. Despite the weight it carries in these countries' economies, States and donors lend little importance to it. Is tourism then thought not to be a key vehicle of development that contributes to economic dynamism, poverty reduction and participates in environmental protection?

The reasons for this "reluctance" on the part of States and donors must certainly be sought elsewhere. There is a high perception of the risk associated with the sector and this can often deter more massive support from financial institutions. The sector also suffers from a kind of incomprehension, or even misappreciation. Tourism does, however, certainly deserve greater support; by focusing on the methods for this support, the debate would allow donors and States to better exploit tourism as a lever for economic and social development.

Controversy over impacts

States, donors, NGOs and sector experts do not all share the same view on tourism in developing countries – it is even far from being the case.

The debate focuses on the negative impacts of tourism in developing countries – indeed, when they exist, they are extremely visible: how can damage to a landscape go unnoticed? How can one fail to see that water resources have run out or seas have been polluted? Although these realities must not be denied, one must also observe that it is much more difficult to show the positive impacts of tourism, which does not mean that they do not exist. They are more holistic, less visible and, moreover, suffer from a lack of appropriate instruments to gauge them.[1]

The perception States and donors have of the sector is also influenced by ideological factors: they see tourism – especially when it comes to the luxury hotel business – as a form of exploitation, whereby affluent populations from developed countries would appear to take advantage of the economic and geographical situation of developing countries. This perception is all the more marked for tourism because the latter is very often based on a face-to-face encounter between disadvantaged populations and affluent visitors. Donors consider that financing tourism projects in developing countries can have a negative impact on their image, whereas there is no guarantee of its positive impacts. States rarely give priority to tourism in Poverty Reduction Strategy Papers,[2] even if it is included in 80% of them. Donors mobilize only a very small amount of their resources to support the tourism sector: in 2003, it only benefited from 0.1% of global official development assistance[3] – *i.e.* USD 77 million out of a total of USD 77 billion (Development Assistance Committee – DAC, 2005).

A risky sector, but impacts are real

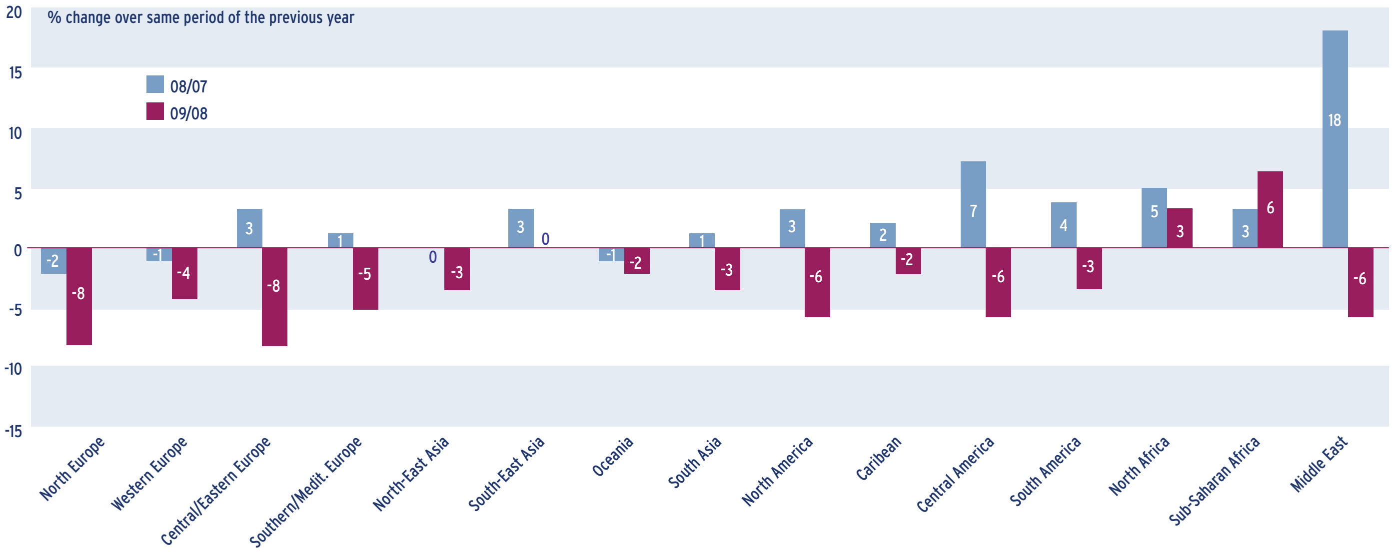
Beyond the image risks mentioned above, the lack of interest of donors and financiers in tourism in developing countries can also be explained by the financial risks that are linked to it. For example, commercial banks generally have higher levels of litigation in the tourism sector than in other sectors. Tourism is also particularly sensitive to fluctuations in the international economic climate. The recent economic crisis led to a sharp fall in the number of international tourist arrivals (Figure 1). Developing countries – apart from in Sub-Saharan Africa[4] – do not escape this trend. ...

[1] This observation can, fortunately, be moderated thanks to recent breakthroughs in scientific research: see in particular the article by Jonathan Mitchell in this issue of Private Sector and Development.

Tourism in developing countries: a neglected lever of growth despite its potential

By Denis Sireyjol, *Investment Officer at Proparco*

Figure 1: Evolution of international tourist arrivals by region between 2007 and 2009



Source: World Tourism Organization (WTO), 2010

... It has been demonstrated that the tourism sector reacts dramatically to the economic climate (Oxford Economics, 2008). For example, during periods of crisis, activity in the tourism sector declines even faster than GDP.

But the reluctance of investors and financial institutions also stems from the specific features of tourism projects. For example, the hotel industry is an activity with fixed costs that require sizeable investments. Hotel businesses must therefore have a high level of equity in order to ride out fluctuations in their activity. And yet promoters put tourism projects in the same category as those in the real estate sector – which are, for their part, financed by considerable leverage – and tend not to respect this principle. In addition, given the low level of entry barriers (projects do not require complex technological processes), project initiators are often not specialists in the hotel business. Finally, in developing countries it is relatively complicated for foreign institutions to take a mortgage guarantee on land and buildings by way of a loan guarantee – local law sometimes even prohibits access to real estate ownership for foreign creditors – and the value of these guarantees often remains limited by the low level of asset liquidity. These different variables often deter financial establishments.

However, tourism makes a sizeable contribution to the economies of developing countries; in Vietnam, Thailand, Cambodia, as well as in Tunisia, Morocco or Egypt, it accounts for over 12% of GDP and total employment Agence Française de Développement – AFD, 2008). Although this contribution is relatively lower in least developed countries, it still remains very considerable (World Travel and Tourism Council – WTTC, 2010): for example, in 2010 tourism contributes to roughly 9% of GDP in Ethiopia or Senegal. In some countries, it is not unusual to see this share top the 25% mark, this is the case for Mauritius for example. Forecasts for 2020 show a significant rise in the contribution tourism makes to growth in developing countries – a trend which is reversing, however, for developed countries. Tourism is also, after agriculture, the economic sector which contributes the most to job creation, compared to its contribution to GDP (Figure 2).

Beyond their direct positive effects, tourism projects – particularly for hotels – have considerable indirect effects. A hotel – when it is established in a remote area – boosts and diversifies the local economy, thus giving local players interesting business opportunities. For example, in Gambia, suppliers of drinks based on local products were awarded supply contracts by local operators (Goodwin, 2005); in Madagascar, the boom in tourism has helped ensure roads are well maintained, thus promoting the development of local economic activities nearby these roads. Finally, the ...

[2] This type of document sets out a government's action plan and its priorities in terms of economic policies to foster growth and reduce poverty. These documents are generally drafted by States with support from donors.
[3] This aid mainly aims to improve the way the profession is organized, provide financial support to operators and help promote cultural and natural sites.
[4] The resistance of Sub-Saharan African countries can be partly explained by the fact that there is less competition between hotel operators and consequently more leeway to lower prices in order to maintain high occupancy rates.

Tourism in developing countries: a neglected lever of growth despite its potential

By Denis Sireyjol, *Investment Officer at Proparco*

Table 2: Comparisons of labour intensity in tourism with other sectors

Employment: Output Ratio	Chile	Indonesia	Philippines	Papoua New Guinea	South Africa	Thaïland	New Zealand
Tourism	0.93	0.74	0.97	0.93	0.84	0.93	1.15
Manufacturing	-	0.51	0.43	-	0.58	0.57	0.71
All non-agricultural	-	0.67	0.72	-	0.54	0.67	0.97
Agriculture	-	2.75	2.07	-	9.70	3.67	1.35
Average for whole economy	1.00	1.00	1.00	1.00	1.00	1.00	1.00

The "employment over GDP" ratio compares a sector's contribution to employment to GDP. The higher the ratio, the higher its labour intensity will be. A ratio above 1 indicates that the sector contributes more to employment than to GDP.
Source: Mitchell and Ashley, 2010.

... implementation of a pioneering project in a remote region requires strengthening investment regulations, land laws and real estate laws – this gives other investors incentives to join in and contributes to the development of the region.

More generally, tourism development enhances the "visibility" of the country on the international scene, which gives its domestic problems more chances of being taken into consideration (poverty, conflicts, etc.) and helps it open up to the world.

Tourism contributes to economic activity in a whole host of ways. There would appear to be a correlation between the share of tourism in a country's export[5] and its economic growth. According to the IMF (2009), all other things being equal, a 1% rise in the share of tourism revenues in total exports brings about a 0.5 percentage point rise in annual GDP growth. This correlation is confirmed by Brau *et al.* (2003), for whom the countries that are the most exposed to tourism are also those that have the highest GDP growth. Fayissa *et al.* (2007), for their part, demonstrate the existence of a positive correlation in Africa between growth in tourism expenditure and that of GDP: a 10% rise in this expenditure will generate a 0.4% rise in GDP *per capita*.

Selecting which projects to finance

Given that tourism already plays a considerable role in the economies of developing countries – and is destined to play an even greater role in the coming years – today, financial institutions cannot reasonably continue to stay on the sidelines of this sector. There is no longer any doubt over whether this boom must be supported; but it is essential to consider the best way of doing so.

Donors working in the tourism sector are aware of the financing difficulties facing tourist operators and the issues relating to the development of this sector. They take a specific interest in hotel projects – particularly those led by large-scale promoters. Indeed, they offer real repayment guarantees and have a financial capacity which allows them to implement actions to limit negative impacts and promote the positive aspects of projects. The experience of institutions that are active in this sector shows that there is no "miracle solution" to differentiate between a good project and a bad project; each project is, nevertheless, subject to a detailed analysis of its impacts. This is combined with requirements that can all guarantee success, such as the definition and implementation of an attractive Environmental and Social Management Plan. Project initiators must also be able to bear the financial cost of developing certain infrastructure that is beneficial to the public at large (road construction, preservation of natural sites, etc.) – and they must do so by integrating the related costs in the project financing plan. In addition, their project must help promote local economies and access to markets for the region's businesses. They must also pledge to raise the hotel's future clients' awareness of the local cultural context. Finally, the project must be implemented by working together with regional and national authorities, which can lead to partnerships being built for public infrastructure management or regional or national standards with the highest criteria.

When all these criteria are respected, a project may be financed, as it is based on a real partnership and a common desire to participate in local development. ●

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[5] Tourism is considered as an exporting industry as it brings foreign currency into the country.

Lessons learned from this issue

By Virginie Bleitrach and Arthur Foch

Since the 1970s, the performances of tourism economics in developing countries have been constantly improving: international tourist arrivals are continually rising. In 1990, they were estimated at 129 million and reached 413 million in 2009 – practically on the same level as high income countries (468 million tourists). International tourism revenues in developing countries have been following the same trend and rose from USD 56 billion to USD 330 billion between 1990 and 2009. There are, of course, considerable geographical disparities: East Asian and Pacific countries, as well as those in South America, account for the bulk of arrivals. South Asia, the Middle East and Africa are much less attractive regions, despite promising developments in recent years. According to World Tourism Organization forecasts, by 2020, developing countries will become the main engines of growth in the sector and will account for almost half of international tourist arrivals.

Despite this favorable context, tourism in developing countries paradoxically continues to receive little support from either States, donors or the private sector. Governments are afraid that currency leakages will reduce the economic contribution of tourism and that foreign operators will be the main beneficiaries of the sector. They consequently rarely consider it as a priority intervention sector. Beyond the real financing difficulties and specific issues relating to these regions (lack of infrastructure, among other things), private investors are often discouraged by the volatility of the sector, which reacts dramatically to the international economic climate and local political situations. Donors are influenced by the debates on tourism and development – which tend to focus on its negative impacts – and do not consider it to be a strategic sector. Tourism has a reputation – and is sometimes seen as being a way of exploiting developing countries – which makes them fear that there will be a negative impact on their image, without there being any guarantee of the positive effects of these investment projects. Finally, the lack or low level of real estate ownership rights, the low level of liquidity on the real estate market, and the difficulties in obtaining mortgages by way of guarantees, all constitute obstacles that are specific to tourism projects in developing countries.

This mistrust towards tourism obviously generates a considerable shortfall both for host countries and private investors and donors. Indeed, while it is criticized for its negative impacts, tourism already makes a considerable contribution to economic growth and employment in developing countries (often over 10%). And yet, if, for example, States increased the level of financing they allocated to public institutions in charge of this sector and regulated it more, tourism could become a powerful lever for development and poverty reduction. Tourism in developing countries held out better against the 2008 crisis than in industrialized countries and can offer investment opportunities that are both responsible and profitable. This is in line with the objectives of donors, but also private investors seeking to improve their image and stand out from their competitors. Contrary to preconceived ideas, while the hotel industry in developing countries is perceived as being a high-risk activity, lessons learned have shown that hotel projects can combine developmental impacts and financial profitability. Without denying that it is a complex sector – its cross-sectoral nature, the interweaving of numerous stakeholders – it would appear that the perception of risk is overestimated.

Only "alternative" types of tourism projects (such as ecotourism, which openly announces objectives of maximizing the positive spillover effects for local communities) are said to have positive impacts on development: this is a preconceived idea. Luxury tourism, "all inclusive" formulas and even mass tourism can, indeed, provide considerable potential for development. It may be even greater than so-called "alternative" projects that are often isolated and on a small scale. Studies show that large-scale hotel projects have a capacity to have a greater knock-on effect on the local economic fabric; these multiplying effects may be even greater when projects are developed in remote regions. Large-scale pioneering projects often contribute to infrastructure development and boost the economy, in particular by using local suppliers and recruiting workers from the region. They help investment regulation and land ownership laws to progress, thus creating a favorable context which attracts other economic operators that in turn participate in local development. ...

Lessons learned from this issue

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... Tourism projects, if they are well-dimensioned, managed and planned and are led by sound players, can constitute a tool for economic and social development. Beyond this, tourism can contribute to organizing a territory and developing natural and cultural heritage – this heritage is, precisely, shared by all, including poor populations. In this context, development players cannot remain indifferent to tourism and the challenges that its rapid development poses in the least advantaged countries. It is necessary to support concerted actions among the numerous players in the sector – as there are close ties between the private sector and the public authorities in this context – while interacting with civil society, NGOs and the tourists themselves. Indeed, a sustainable tourism project is necessarily based on building an agreement between the numerous stakeholders. The operators – which are generally the first to seek an in-depth dialogue with local authorities – underscore the need for a favorable environment and remind us of the responsibilities of each party. This shows the extent to which there is a considerable need for coordination.

Donors can also play a role by selecting the right projects, developing a range of tools tailored to the specific needs of the different players in the sector, which are often neglected by commercial banks, and providing financing at conditions that respect economic, social and environmental requirements. Finally, beyond their contribution in capital and technical assistance, donors can help move beyond preconceived ideas in terms of tourism and development. To achieve this, greater coordination – once again – between the different stakeholders in the debate and the different players in projects – governments, researchers, private operators, civil society and donors – can only be beneficial. It can also help fight more successfully against the negative image tourism suffers from, by showing that it is possible to promote tourism projects in developing countries that are both sustainable and profitable.

In our next issue

The mining sector: a lever of growth in Africa?

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