Can the private sector reduce poverty at scale? – evidence from the tourism value chain

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The Commonwealth countries are littered with well-intentioned community-based tourism projects delivering limited benefits to few people. Developed in isolation from commercial distribution channels, they lack the client volumes needed for commercial sustainability. In contrast, ministries of tourism and mainstream businesses often simply see increased arrival numbers as the barometer of success. Research by the Overseas Development Institute (ODI), the UK’s leading development policy ‘think tank’, suggests neither approach is right. Nevertheless, tourism markets can, in some cases, be exploited for the benefit of the poor.

The ‘pro-poor value chain’ approach to tourism has been developed by ODI, the World Bank Group (including the International Finance Corporation), and the Netherlands Development Organisation (SNV) as a way to shift thinking from projects, to interventions that harness markets and deliver impact at scale. By ‘value chain’ we mean all the services enjoyed by a segment of the tourist market, the international and national businesses that serve them, to suppliers and workers – as well as support institutions.

The approach ‘follows the dollar’ – focusing on key points along the chain where interventions could expand income.
opportunities for the poor, within a commercial service sector. ‘Pro-poor income’ (PPI) are the wages and profits earned by poor households across all the inter-related strands of the value chain. The aim is to support market-based interventions by analysing how poor target groups currently engage, how their positions can be upgraded, and how changes in value chain performance can affect them.

From diagnosis to intervention

Differences between mainstream and community tourism are marked. First, many of our assumptions that some types of tourism (e.g. backpackers) or product (e.g. cultural tours) are inherently pro-poor should be questioned. Analysis often yields surprises and assessment must replace assumption. Second, the type of intervention needs to be rethought. Government bodies influence a value chain but usually cannot reshape a product or market by decree. Lateral thinking is needed to identify market-based interventions that engage with the private sector and enable the market to work more effectively, particularly for the poor. The three phases are: a situational diagnostic; scoping and prioritisation of opportunities; and project planning, as outlined in Figure 1.

How value chains work for the poor

Value chain diagnostics in a variety of tourist destinations yield rich comparative findings. They show clearly that the impact of this sector on the poor varies considerably. It is, therefore, meaningless to use development funds to support tourism just because of its ‘inherent’ characteristics (i.e. labour intensity, gender profile or growth potential). Sometimes international tourism is an effective way to transfer funds from rich tourists to poor people at destinations where, for every $4 spent by a tourist, $1 reaches the poor. Sometimes it is not (see Figure 2).

A comparison of results tells us about the pro-poor relevance of different market segments, direct employment in the sector, and about inter-sectoral linkages.

Market segments. Similar types of tourism perform differently in different contexts. In Laos, Vietnam and Cambodia, cultural tourism dominates. In Laos and Vietnam tourism is pro-poor, but in Cambodia, only 7 per cent of tourist spending reaches poor households.

Direct employment in tourism. The pro-poor impact of people working in the tourist sector is often surprisingly muted, given that tourism is proportionately more labour intensive than other non-agricultural sectors, and many of those in tourism jobs are from poor backgrounds. As wages are generally low, wage income to non-managerial staff is often only 10 per cent of hotel turnover, sometimes less. However, direct employment can be significant when the wages of tourist workers are relatively high (as in Cape Verde and South Africa) or the impact of low wages is counteracted by high labour intensity and generous tipping (e.g. climbing Mount Kilimanjaro in Tanzania, where four staff accompany each tourist).

Indirect links are links between tourism and the non-tourism economy. Indirect effects through supply chains help to explain why some destinations transfer 25 per cent of tourist spending to the poor and others less than 10 per cent. Farmers, artisans and construction workers in the tourist supply chain are, in general, poorer and more numerous than those working in hotels and restaurants. Tourism in Cambodia is not very pro-poor because the links with the non-tourism economy are weak, leaving it reliant on direct effects to transfer resources from tourists to the poor. Other destinations demonstrate strong linkages via food or craft spending.

The food supply chain to the tourist sector may be an important source of pro-poor impact. Such potential is realised in countries like Ethiopia, with few imports and a diversified agricultural sector dominated by smallholders who receive a high percentage of the prices hotels pay for food. As Figure 3 shows, over $7 million, or around 13 per cent, of the $55 million spent by tourists on food and beverages reaches resource-poor food producers. This derives from hotel food purchases of $16 million, which come from around 6,300 domestic producers – estimated to support an additional 25,000 farm jobs. In many other developing countries, food imports and purchases from commercial farms in the food supply chain result in a less effective transfer mechanism.

The craft chain is a major beneficiary of tourists’ out-of-pocket spending, which is generally more pro-poor than the large ticket items (such as hotels). Luang Prabang in Laos is a good example. Craft spending per tourist is high ($33 per visitor) because quality is high. Over 50 per cent of this reaches the poor, because crafts are traditionally made by ethnic minority women, often sold by producers or small traders, and draw heavily on local raw materials (silk, cloth, paper, and silver). In contrast, craft spending in Siem Reap (Cambodia) is a less effective channel for PPI. Spending per tourist is lower and only 5 per cent reaches the poor, due to imports, and kickbacks demanded by tour operators from retailers.

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Shifting from diagnostic analysis to prescription of interventions is an art, not a science. Opportunities cannot be generated mechanically. Solutions need to be realistic, but identifying what might work cannot always be deduced from simply looking at what currently is.

For instance, just because the craft supply chain in Luang Prabang is pro-poor does not mean that simply expanding craft sales is a viable strategy. Craft spending is high by international standards and may be near saturation level. The food supply chain in the Gambia is not particularly pro-poor but this does not imply opportunity. The agricultural potential of the country is weak and it is next door to competitive producers in Senegal.

Identifying interventions requires assessment of governance structures and markets within the destination, complemented by insights from elsewhere, and data that can be used to interrogate proposals. The value chain focus, on boosting direct impacts on poverty, needs then to be combined with other objectives, such macro-economic goals.

There is a spectrum. At one end, destinations with already high linkages between tourism and the rest of the economy may simply prioritise expanding the tourist spending. At the other end, destinations with low linkages may prioritise improving linkages, rather than just expanding the sector.

The choice of ‘entry point’ of interventions is critical. Past projects focused on specific production sectors, such as supporting craft workers or farmers, while our research has recommended action in:

- **The retail end of the chain**: e.g. making it easier for tourists in Ethiopia to change foreign currency to increase spending on cultural goods.
- **The labour market**: skills development may help the poor enter formal employment (e.g. language training in Rwanda), but collective action (among Kilimanjaro porters in Tanzania) or diffusing ‘best practice’ among hotel employers on minimum wages can have direct and significant impact.
- **The regulatory and enabling environment**: in Cambodia ending lucrative exclusivity agreements, reducing corruption and lawlessness, and investing in human capital would increase the impact of tourism on the poor.

This approach facilitates ‘what-if’ analysis. In Da Nang, in Central Vietnam, flows of income to the poor were calculated for various policy options. This showed that strengthening linkages alone would have a relatively small impact on PPI. The main recommendation was for local government to make a small regulatory change to stop property developers hoarding beach-front land. Within a year, 5,000 upmarket hotel rooms were under construction, thus substantially developing both the tourism sector and its impacts on the poor in Central Vietnam.

### Implications for practitioners

Work on tourism value chains so far has three clear implications for practitioners who aim to intervene to boost impacts on poverty in this sector.

First, detailed analysis helps to challenge the assumptions that often underpin development interventions. Assumptions like ‘tourism is inherently pro-poor’ or ‘direct effects are smaller than indirect effects’ or ‘craft and food supplies have great potential’ are true in some cases and not in others. Of course detailed description alone does not provide answers, but it is an important first step.

Second, if interventions aim to reduce poverty, the scale of pro-poor income generation must be a key criterion in project selection, together with the likelihood of success and the sustainability of the impact on the poor. Using the framework above, it is possible to assess the impact of very different
interventions, such as increasing craft expenditure by 10 per cent, or marketing the destination more effectively to bring in 1,000 additional tourists. This is rarely done in the tourism sector. Imposing this rigour could help weed out interventions that have a plethora of desirable-sounding objectives but end up focusing on small-scale, and often temporary, pro-poor benefits.

Third, benefiting the poor does not necessarily mean working directly with them. The lead firms in the tourism value chain are almost always well-established private sector organisations. The value chain approach highlights how engagement with them can deliver important change, while working with the poor in isolation from commercial networks is unlikely to do so. Furthermore, while tourism is mainly a private sector activity, the external governance of the value chain (the regulatory and enabling environment) that is the domain of the public sector often has a critical impact on pro-poor outcomes.

This value chain approach to tourism is part of a wider shift in thinking. It shares objectives for sustainable poverty reduction at scale with those who use other approaches, such as Making Markets Work for the Poor. It goes beyond conventional supply chain analysis (of a single firm and its relationships) by taking an entire sector as the unit of analysis, including external institutions and a diversity of firms and strands.

The approach has its gaps: social impacts on the poor; dynamic impacts and macro contributions to poverty reduction. And it poses challenges: international organisations adopting a value chain development approach in tourism find it requires a set of skills from number crunching, to lateral thinking on market-based solutions, that are not always found among traditional partners and consultants.

The value of the approach lies first in challenging assumptions and generating an empirical basis to assess options, particularly concerning scale of impact on the poor. Second, the approach generates benchmarks through comparable analysis in contrasting destinations. Explaining how and why a destination differs from others helps to explain the key factors differentiating tourism-poverty linkages. Third, combining a wide perspective of the multiple strands and actors in the chain with a specific focus on barriers to entry and terms of engagement of the poor target group, helps inform the design of market-based interventions. The diversity of recommended market interventions is a breakthrough, but this needs to be developed still further, drawing on the toolboxes used by other practitioners who share the objective of reducing poverty at scale.