

## Assessing how tourism revenues reach the poor

Findings from the application of innovative diagnostic tools offer new ways to understand and boost revenues from tourism for the poor

**T**ourism, like any other productive activity, has the potential to improve the livelihoods of poor people. To realise this potential requires an understanding of the volume of tourism benefits that reach the poor and ways to enhance the access of the poor to the tourism value chain. This understanding has, however, been difficult to gain from much previous analysis:

- Conventional tourist data and policy analysis focused on macro-variables (tourist arrivals, foreign exchange receipts and investments), with little on measuring benefits to the poor.
- As a reaction to this, much pro-poor tourism analysis adopted a micro-level approach – focusing on the livelihood impacts on poor people of specific niche tourism enterprises. A limited geographical scale, descriptive nature and niche focus meant these micro-studies failed to generate recommendations for boosting pro-poor tourism benefits in most mainstream tourist destinations.



**The Masai people assess their returns from tourist excursions using Value Chain Analysis.**

By adapting existing diagnostic tools and applying them in new contexts to map revenue streams and policy frameworks, a handful of development practitioners are starting to close this information gap. Using value chain analysis, they aim to map the tourism economy, its revenue streams, and beneficiaries. They can use this to address a range of questions for developing country policy makers seeking to improve the pro-poor impact of tourism.

### Key points

- Diagnostic tools applied to product value chains can usefully be applied to the service sector.
- Value chain analysis can be adapted to address poverty, as well as business, prerogatives.
- These tools can describe how value is distributed along the tourism value chain, but also provide a robust empirical basis for making changes to it.

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#### Box 1: 'Value chain analysis' and its use for pro-poor analysis

'The value chain describes the full range of activities which are required to bring a product or service from conception, through the different phases of production ..., delivery to final consumers and final disposal after use.' (Kaplinsky and Morris 2002).

Most research has focused on product value chains, including agricultural commodities and industrial clusters. Tourism is a service. Because services cannot be stored, the production and consumption of tourism services is usually simultaneous and takes place at a specific geographic location – the tourist destination. Undertaking VCA in a tourist destination requires estimating the value of total tourist expenditure and disaggregating this into the different functional areas (i.e. accommodation, food and beverages, shopping, transport, excursions, etc.) where spending takes place. The 'value' in each functional area is then assessed to estimate the proportion that accrues to different participants and whether there are barriers to entry or other constraints on the returns to the poor of participating in the value chain. The governance of the value chain is an important feature of VCA and the actions of the support institutions in the sector and the policy environment is an important part of the analysis.

### Box 2: Findings from recent recent tourism value chain studies

Country/destination	Main purpose	Example of main findings
<b>Laos</b> Local economic mapping of tourism in Luang Prabang. <i>Ashley, 2006</i>	Identify opportunities for further pro-poor intervention by Provincial Government and SNV.	Total direct and indirect earnings of the poor equate to 27% of tourist expenditure. Earnings via the food chain are largest, crafts are second. These indirect linkages between tourism and the poor are much more significant than those arising from workers directly employed in the tourist sector. Recommendations included deepening agricultural supply chains, maintaining crafts as a destination highlight, and re-orienting rural excursions towards income-earning opportunities for residents.
<b>The Gambia</b> Holiday package tourism and the poor. <i>Mitchell and Faal, 2006 and 2007</i>	Assess tourism poverty linkages in The Gambia and advise on how to enhance pro-poor impacts.	Over half of total tourist expenditure is spent in The Gambia – of which about 14% is earned by the poor (mainly via craft sales, food supply and hotel jobs). Higher-than expected linkages result from high out-of-pocket expenditure and a supportive informal sector business association. It was recommended to strengthen local food supply chain, work to maintain a vibrant craft sector and improve the business environment.
<b>Vietnam</b> Participatory Tourism Value Chain Analysis in Da Nang, Central Vietnam. <i>Mitchell and Le Chi Phuc, 2007</i>	Participatory analysis of the tourism value chain to create jobs and reduce poverty.	At least 26% of destination tourism expenditure flows to poor people in the local economy. Three beneficiary groups capture about one-third of the pro-poor benefits each: direct tourist sector employees (hotels, restaurants); tourist sector enterprises (taxis, massage workers, guides); and local crafters and farmers. Recommendations include encouraging upmarket beach resort development and longer visits. These will benefit poor the most, although strengthening local linkages will have additional beneficial impact.
<b>Ethiopia</b> Value chain analysis of Cultural Heritage Tourism (GDS 2006), plus strategy recommendations for Pro-Poor Tourism. <i>Mann, 2006</i>	To propose a viable strategy for growing tourism while supporting Government goals for poverty reduction.	Weak and shallow supply chains due to multiple constraints. Low discretionary spending is due to the low quality of goods for sale; difficulties in accessing foreign exchange facilities; and lack of availability of appropriate goods and services. Recommendations include reform in the legal and regulatory environment; a small matching grant fund focused on tourism-SMEs; skills development; and new mechanisms for accessing markets such as www.worldhotel-link.com.
<b>Mozambique</b> Assessment of tourism value chains. <i>FIAS and OECD, 2006</i>	To examine constraints and challenges and increase share of value added in tourism.	Competitiveness barriers across a range of products (fly-in, self-drive) were identified. Recommendations to tackle them include: overhaul of visa and transport systems, investment in marketing, enhanced support for investors, promotion of business tourism and other marketing investments.
<b>Sri Lanka</b> Tourism Sector VCA. <i>Carl Bro, 2007</i>	To identify options for improving productivity in the SME tourism sector and design enterprise support.	Weaknesses in value chain that constrain SMEs include limited communication with government, weaknesses in market development, lack of training and absence of modern business systems. Recommendations to increase entrepreneurship, productivity and standards in the SME sector include support to business skills and technical skills, and re-establishing the security situation.

Source: Mitchell and Ashley, 2007

### Tourism Value Chain Analysis (VCA)

VCA is established in its application to agricultural and industrial products. Its application to the service sector is more recent and aims to add to existing diagnostic tools. It draws heavily on existing tools, including conventional VCA (see Box 1) and typical pro-poor tourism analysis at enterprise level, which tracks different types of incomes of the poor. By providing information on the disaggregation of the revenue streams to the poor and identifying bottlenecks, tourism VCA offers policy makers more information to address issues in the sector than other methods of analysis seeking to address similar questions.

#### Design and objectives

Tourism VCAs fall on a continuum between two extremes. At one end are those designed to increase the competitive performance of a tourist destination or product by growing the tourism ‘cake’. At the other extreme are those focused on increasing the ‘slice’ of the tourism ‘cake’ received by the poor – with often little consideration for the viability of the tourist sector itself. For example, a recent Mozambican VCA identified a raft of obstacles constraining tourism receipts, but, revealed little about the share of receipts ‘captured’ by the poor – missing many pro-poor issues. On the other hand, a local economic mapping study in Luang Prabang (an ancient city in Northern Laos) assessed how to boost all types of income flow to the poor, but not how to boost the competitive position of the destination. VCAs in The Gambia and Vietnam located themselves fairly centrally between the ‘growth’ and ‘redistribution’ ends of the continuum. These reviewed the overall value chain and the health of the sector and explored how to boost flows to the poor (see Box 2 for an overview of recent analyses and Figure 1 for a more detailed view of the VCA undertaken in The Gambia).

#### Methodological challenges

This field is too new to provide clear methodological guidance, but some methodological challenges are already evident.

- **‘The Poor’:** How the poor are defined affects the results and thus the policy implications (for example, the urban poverty threshold in Vietnam is about \$19 per household per month, far below internationally-defined poverty levels).
- **Data:** Information is often not sufficiently disaggregated to provide details of payments to workers and suppliers, gross versus net receipts, flows per person or bed night, and spending by different type of tourists. Much of the critical data in VCAs have been collected through primary data collection as secondary sources were not available.
- **Action research:** VCA should not exclusively, or even mainly, be a technocratic ‘research’ exercise. Pro-poor VCA aims to explain why the poor are excluded from tourism value chains, or incorporated on adverse terms and find ways to stimulate progressive change to this reality. Private sector, community and government involvement appear to be critical in building a coalition for change.
- **Comparisons:** Comparing findings from different

studies is difficult because of methodological and measurement divergence. For instance, the earnings of the poor as a percentage of tourist spending depends on how ‘poor’ is defined and what kind of ‘spending’ is the denominator (is it the entire value chain or just at the destination and does it include out of pocket expenditure or not). A ‘best practice’ framework for VCA will facilitate comparisons between destinations to assist policy-makers.

- **Gaps:** VCA has limitations and gaps:
  - Analysis that only considers financial flows ignores non-financial costs such as sex tourism and other forms of exploitation. These factors can be included by drawing on the sociological development of VCA.
  - VCA treats all ‘poor’ equally, regardless of gender, geography or other political factors – unless explicit weighting is adopted to prioritise benefits to any particular group.
  - Comparing the scale of one tourism revenue stream with another says nothing about their significance to the poor, or comparison with other sources of household income. Often what looks small in the value chain may be a supplement of great importance to many households.
  - Dynamic effects on the local or national economy can be one of the most important impacts on poverty reduction in the long term. Economies of scale for SMEs, new infrastructure, growing competition for natural resources, or appreciation of prices and exchange rates, can alter livelihoods over time. A VCA more readily captures static resource flows, or may only capture dynamics effects within the destination level, rather than those taking place at a macro-economic level.

### Key lessons from initial studies

Tourism VCA studies have been piloted in a number of very diverse destinations, providing a basis on which to analyse the tourism economy and identify actions that could enhance opportunities for the poor.

### Which segments in the tourism value chain are most pro-poor?

Unskilled and semi-skilled employment in hotels can account for a large share of earnings to poor families, but often represents a small proportion of total accommodation turnover (normally around 10%). This proportion is higher where the labour market is tighter, or regulations – such as minimum wage legislation – increase the cost of labour. By contrast, between a quarter and a half of tourist spending can reach the poor from expenditure on: **restaurants** (if supplies are purchased locally); **shopping** (particularly hand-crafts); and **local transport and excursions**.

Because these segments usually include informal sector operators, they are also likely to be the avenue by which poorer, less skilled, and female entrepreneurs can participate productively in the economy.

### Which ‘poor’ people benefit from tourism?

Very different types of poor people are involved in tourism, and VCA can help in mapping out what income flows to which poor.<sup>1</sup> Hotel workers are the most obvi-

ous beneficiaries. But there may be more income, and certainly many more poor people, involved in farming and selling food for tourists. Compared with direct employment, these supply chains have a different geographical impact on poverty, as they are often in more peripheral regions that may not otherwise have benefited from tourist expenditure.

### Are package tourists less pro-poor, cultural tourists more so, and big spenders the best?

The VCAs challenge conventional wisdom about the value of high-end tourism or cultural tourism, and the low value of package tourists. The Gambian VCA reveals surprisingly strong local linkages and an insignificant difference in spending patterns by package and non-package tourists. Luang Prabang (Laos) and Lalibela (Ethiopia) offer contrasting examples of the pro-poor effects of cultural tourism, with high linkages in the former and low in the latter.

Findings on the relative local economic contribution of upmarket as compared to budget tourists diverge. In Luang Prabang and The Gambia, budget and upmarket tourists have similar spending patterns outside the hotel. In Da Nang, about two-thirds of upmarket tourists are foreigners, who spend much more money on pro-poor excursions and shopping than domestic tourists. So a key policy challenge is to increase the flow of foreign and other upmarket tourists.

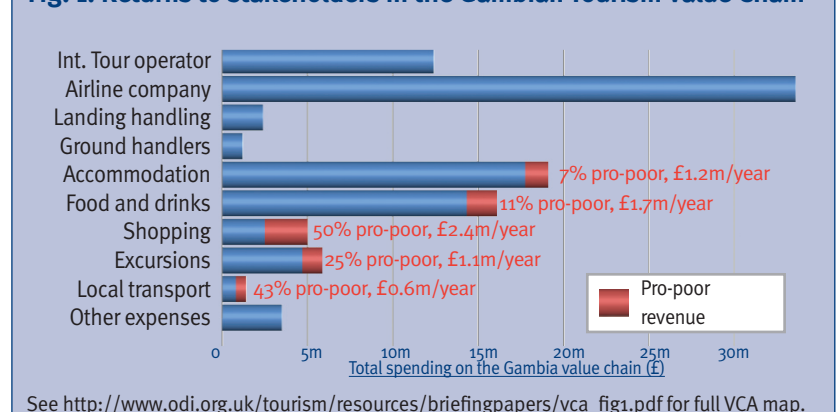
### How and why do destinations differ in terms of pro-poor impact?

Incomes reaching semi-skilled and unskilled people from tourism in Luang Prabang and Da Nang are estimated at up to a quarter of tourism expenditure in the destinations. In The Gambia, 14% of in-country spending reaches the poor – also positive in a country with high poverty levels, agricultural imports, and highly concentrated package tourism. There is no comparable figure for Ethiopia, but it seems that the poor gain little from tourism at present. One of the key sources of pro-poor benefits, craft sales, account for only 1% of tourist spending in Lalibela on the Northern cultural route.

Some key factors explaining differences include:

- **The level of out-of-pocket expenditure.** A much higher proportion of discretionary spending usually reaches the poor than of ‘big ticket’ items (accommodation, tour operators and international travel).

**Fig. 1: Returns to stakeholders in the Gambian Tourism Value Chain**



### Box 3: From analysis to destination-level action plans in Ethiopia

In Ethiopia, findings from value chain analysis and enterprise studies are being used to develop pro-poor components within destination development. The approach focuses on increasing access of the poor to land, finance and credit facilities, skills, and markets. Actions include reform in the legal and regulatory environment to allow for tourism zoning of state land and enhanced access to places to do business; a small matching grant fund focused on tourism-SMEs; skills development; and new mechanisms for accessing markets such as [www.worldhotel-link.com](http://www.worldhotel-link.com). These activities will be framed within destination level integrated development plans and implemented through regional authorities.

- **The extent to which fruit, vegetables and other food are sourced domestically.** The agricultural supply chain for the tourist sector often sustains more poor households than jobs in hotels and restaurants.
- **Wage levels.** Where wages are relatively higher, there will be a greater pro-poor impact, as long as the poor can access jobs.

#### Growth and redistribution

The classic dichotomy between seeking to expand tourism and wanting greater shares for the poor may be outdated. In destinations where tourism is already pro-poor, VCA studies suggest that the poor will benefit from a combined approach: expanding the overall size of the sector, while simultaneously tackling the bottlenecks that prevent the poor from earning a greater share. The relative value of each varies by destination:

- In Da Nang, removing blockages to growth in upmarket coastal accommodation emerges as the main short-term priority – and much more effective than the traditional pro-poor policy goal of strengthening local linkages. This partly reflects the inherent pro-poor characteristics of tourism and extensive existing linkages – but also the extent to which government tourism land supply policy has been holding back the expansion of the sector.
- In Ethiopia, existing supply chains are disconnected from the local economy and interventions targeted at enabling the poor to participate must be integrated into expansion of the sector. Tourist growth, per se, will not reach the poor.

#### From analysis to action?

In each case so far, the analyses have generated a range of destination-specific recommendations. In Luang Prabang and The Gambia, a conventional research study approach has generated interesting research outputs, but not any definitive policy response. In Ethiopia and Da Nang, where senior policy-makers were more involved in the analysis from the onset, research has already influenced both policy and practice. The Da Nang government has moved decisively to enforce the time limits on development

approvals that had allowed speculators to restrict tourism land supply. The development of the coastal area is underway in the form of six large upmarket resorts that will transform the tourism in the City. In Ethiopia, a package of interventions is being recommended by the World Bank (see Box 3).

### Policy implications

The emerging work suggests that diagnostic tools that map revenue flows in the tourism chain, focusing on incomes that accrue to the poor, can help guide policy. While results are limited to a few destinations so far, and most recommendations are destination-specific, some important lessons for policy-makers are already emerging:

- The central proposition of pro-poor tourism, that the sector can have strong linkages to poor people and that these can be significantly enhanced through changes in public and corporate policy can now be demonstrated empirically in a range of destinations.
- By providing an empirical basis for understanding how tourism functions in a destination, tourism VCA highlights the scope for making changes that will benefit the poor. When undertaking an analysis, healthy scepticism about ‘conventional wisdom’ in tourist development strategy is warranted.
- The linkages between the tourist sector and poor people are different in nature and scale in different destinations – the diversity of findings from early studies cautions against the use of generic diagnoses or policy prescriptions for different places. That said, the need to recognise and further explore the role of out-of-pocket spending and the domestic food chain for delivering pro-poor impact emerges as a common theme.
- Provided the research takes place within a sufficiently common framework, more value chain case-studies will generate a rich source of comparative analysis. This framework will offer policy makers the ability to compare destinations and types of tourism, and also develop tailored policy responses.
- Value chain analyses can be developed quickly and in a more participatory and policy-relevant manner than traditional approaches to tourism development strategy. They therefore hold advantages for supporting policy makers in developing countries who want to enhance the overall tourism sector and boost shares for the poor.

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### Note and references

#### Note

1. For an example see Luang Prabang chart at [http://www.odi.org.uk/tourism/resources/briefingpapers/vca\\_fig2.pdf](http://www.odi.org.uk/tourism/resources/briefingpapers/vca_fig2.pdf)

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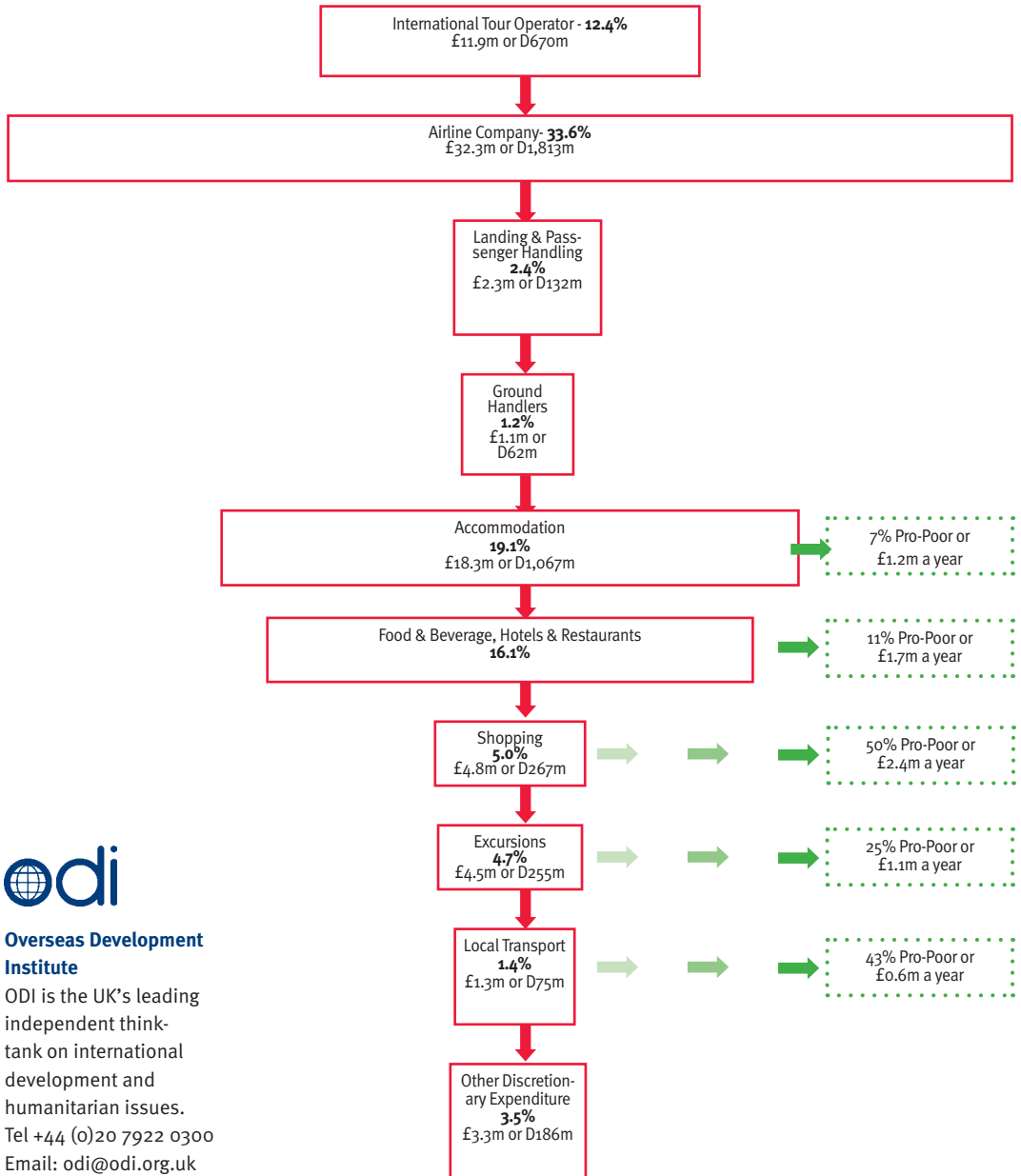
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## Gambian Tourism Value Chain

This chart integrates these two elements of tourism expenditure, the package value chain (in the form of an average package throughout the year) and the discretionary expenditure of package and non-package tourists from Table 9. The calculations on which this Figure is based are outlined in Annex E. This illustrates that the airline companies capture one-third of the whole tourism value chain. Hoteliers in The Gambia benefit from almost one-fifth of the value chain and food and beverages served in hotels and restaurants one-sixth. Tour operators command only 12% of the value chain. Activities such as shopping, excursions and local travel are smaller components of the value chain – but extremely important in terms of benefits to the local community.



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