Non-Traditional Sustainable Tourism and Poverty Reduction

Toward a Development Strategy for a New Business Line

Background

1. Large-scale tourism projects accounted for an important part of the Bank’s infrastructure portfolio during the 1970’s and 1980’s. In Latin America, the Bank built basic infrastructure and hotels in areas that developed into well-known tourist destinations, such as Cancun, Cabo San Lucas, and Ixtapa-Zihuatanejo in Mexico. From a macro-economic perspective, the projects demonstrated that tourism produces economic growth and generates employment. Beginning in the 1980’s, the Bank shifted its focus more directly toward poverty reduction-oriented activities and dropped its tourism business line, with the rationale that tourism should be left to the private sector and that the major tourism ventures at the time – sun and sand – did not offer opportunities for balanced growth. As the Bank phased out of the sector, however, tourism (in terms of visitors and economic sector) began to grow dramatically.

2. Today tourism represents one of the world’s largest economic industries. Statistics produced by the World Travel and Tourism Council indicate that tourism generates 12 percent of global GDP (probably as much as construction), employs 200 million people, and transports nearly 700 million international travelers per year; this figure is expected to double by 2020. According to the UN World Tourism Organization (UNWTO), international tourism:

- accounts for 36 percent of trade in commercial services in advanced economies and 66 percent in developing economies;
- is one of the top five exports for 83 percent of countries and the main source of foreign currency for at least 38 percent of countries;
- generates billions of dollars of revenue (US$740 billion in tourist receipts in 2003); and
- contributes up to 40% of GDP in developing economies and 3 to 10 percent of GDP in industrialized countries.

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1 This note is the result of a meeting on 2/08/07, chaired by Jack Stein and with the participation of Marea Hertziolos, Dan Hoornweg, Andre Herzog, Katrinka Ebbe, Ming Zhang, Paul Proece, Christiana Johnmides, Ephim Shluger, Tova Solo and Roberto Chavez.
3. Tourism is expanding on average between 4 and 5 percent annually despite periodic upheavals, such as the SARS outbreak and the crisis in Iraq. In the first eight months of 2006, international tourist arrivals totaled 578 million worldwide, up 4.5 percent, from 553 million in the same period of 2005, a year which saw an all-time record of 806 million international travelers. The expected 4 percent growth for 2007, though slightly slower than in previous years, is much in line with the UNWTO long-term forecast through 2020.

The Regional Context

4. During the past 15 years, tourism destinations to Central America and South America have enjoyed growth rates considerably higher than those worldwide (9 and 6 percent, respectively versus 4.1 percent). In 2007, while world tourism is expected to continue the 4 percent growth pace, Latin America is growing faster, auguring a good year as far as international tourist arrivals and spending are concerned.²

5. In Central America increases in tourism in 2006 reached 8.7 percent; in South America, 8.1 percent. Although the Caribbean had a smaller growth rate — only 5.1 percent — it still exceeded the global growth average. South and Central America both benefited from higher expenditures by U.S. tourists and more travel by European tourists. At the same time, intra-regional travel performed on a high level.

6. In 2005, Latin America received 52 million international tourists (7 percent of the 806 million world total), who generated 34 billion US dollars, or 5 percent of worldwide receipts (682 billion dollars). According to UNWTO, international tourism and passenger transport revenues in Latin America account for more than 10 percent of total exports of goods and services and represent 3 percent of GDP.

7. Although Latin America depends highly on domestic travel, international tourists are showing increasing interest in the region’s tourism products. According to the Latin America Travel Association (LATA), global factors which have made Latin America seem more attractive (e.g. SARS, 9/11, generally good political stability) include the weakening dollar and the increase in interest in all things Latin, e.g. wine, music, culture.

² These and other statistics below are provided by the UNWTO.
8. UNWTO forecasts a continued growth trend, with arrivals to Latin America topping 220 million by 2020. Especially fast growth is expected in South America, followed by Central America and the Caribbean. The growth of comparatively emerging destinations such as Nicaragua, or new sites in Peru, or Bolivia will complement the diversification of relatively more established destinations Mexico, Brazil, Machu Picchu, thus boosting tourism's role as a tool for overall economic and social development in the region.

9. The expansion of the tourism activities, however, also have their downside. In its wake, areas where built cultural heritage and biodiversity are the major tourism attractions may suffer greater negative environmental and social impacts. In the absence of adequate infrastructure, tourism can lead to local congestion to the, waste, and degradation of the environment, of archeological treasures and of existing infrastructure, as well as habitat destruction and displacement of local people and wildlife. If not well-conceived and maintained, tourism may also have negative effects on the local culture and habits, especially on youth as massive injection of cash in the local economy may result in a shift of occupation and disruption in the delicate social fabric.

10. Governments have sought to develop tourism with policies that include tax exemptions, duty free imports and 100 percent foreign ownership. However, while increased traditional tourism can lead to local economic growth, the impact on the poor has yet to be confirmed. In many cases it is suspected that the benefits of traditional tourism projects have relatively small impact in terms of local job and income generation. The lion’s share of revenue can be captured by large tour operators, while only limited benefits may accrue to local communities at environmental and archeological destinations, often leading to social unrest and tension between communities and tour operators. The challenge for sustainable tourism is to find an appropriate combination of intelligent policies that will (a) ensure backward linkages with local activities and local jobs (b) include the communities both directly in SME/ arts and crafts and LED businesses while also heightening their self esteem, knowledge of their own culture assets, and ownership of the tourism development.

**Opportunities for the Bank**

11. In the past few years, a growing number of Bank projects are either centered on tourism – such as in Morocco, Tunisia, Lebanon and Jordan – or have tourism components. The Africa region

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3 (Stonich, 1998, p. 26)
has recently hired a tourism specialist and is developing a number of projects in the sector. The largest tourism projects are being developed in East Asia, in particular in China. In the Middle East and China, tourism projects or components are associated generally with built heritage.

12. In LCR, a number of projects combine the lessons and goals of local development, environmental sustainability and cultural heritage. The region has been involved in the tourism sector in Mexico, Ecuador and Brazil (through DPLs and GEF grants) and in Central America (Copan, Honduras, Nicaragua and Puerto Limon Costa Rica). A new batch of innovative projects underway in the Andes (Vilcanota Valley/Machu Picchu, Lake Titicaca and Galapagos) is adding to our experience. In addition, while the recent Peru country partnership strategy proposes a national tourism development project, countries such as Brazil and Argentina have shown an interest in exploiting new types of tourism. Bank staff recently had a videoconference with Mexico’s FONATUR, at their request, to discuss possibilities for collaboration. In the Caribbean, the potential for cultural heritage tourism has not been tapped fully in destinations such as Jamaica.

13. The projected growth of tourism in the region, the large untapped potential in environmental and archeological destinations and the growing interest of national and local governments in innovative approaches to the sector provide an opportunity for the Bank to develop a new line of business — a non-traditional tourism that reduces poverty by combining infrastructure, environmental and cultural sustainability, and local economic development.

14. For tourism to succeed today, it must be sustainable in economic, social, cultural and environmental terms. To be sustainable, it must be planned and managed carefully, especially at the community or destination level where the impacts of tourism are most significant. Experience has demonstrated that destinations which fail to protect their resources and provide quality visitor experience are being overlooked in favor of those which do.

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4 The Otavalo Declaration on sustainable and competitive community-based tourism was issued by Bolivia, Ecuador and Peru in 2001; In 2003, Costa Rica hosted a broader meeting based on the Otavalo Declaration, which resulted in the San Jose Declaration on community based tourism. In addition, many countries in the region cooperating for mutual benefit such as the case of El Salvador, Guatemala, Honduras and Nicaragua deciding to move towards a single aviation market and plans for common promotion strategy in the long haul destinations.
Proposed Strategy

15. The proposed strategy for sustainable tourism in LCR will be based on three pillars (a) scaling up the lessons and best practices in “non-traditional” projects, (b) using tourism to leverage local development and environmental sustainability; (c) capitalizing on cultural heritage for poverty reduction, promoting stronger identity and ownership among the host localities. The products would include (a) self-standing tourism projects – around a particular strategy to be defined/designed for a given country or city; (b) tourism components included in infrastructure, private sector or social development projects (c) mainstreaming tourism in development projects (e.g. competitiveness, private sector development, education, and finance) of countries where tourism has a particular importance in GDP and employment, (d) supporting municipal and local development to accommodate private investments in tourism; (e) supporting policy development in environmental sustainability and in maintaining cultural heritage to accompany private investments in tourism. (These two last programs follow a model used in Africa where the Bank, FIAS and IFC collaborate to establish and support viable environmental or cultural reserves, local community development and private investment which includes investments dedicated to corporate social responsibility).

16. To guide particular interventions, our assistance to particular countries/cities would include different products, such as

- sustainable tourism development strategies (at regional and national levels) – this would include a brief assessment of the comparative advantages of a selected number of LCR countries for sustainable tourism including tangible and intangible assets, ongoing activities, constraints for scaling up, advice on key measure to promote an accelerated development. This implies ESW dedicated to a review of several potential clients countries.

- destination or geotourism (i.e. tourism that sustains or enhances the geographical character of a place—its environment, culture, aesthetics, heritage and well-being of residents, i.e strategies at the local, municipal and provincial level5) This implies research in concert with partners dedicated to destination tourism to identify specific localities where projects could be developed and to identify actions the Bank could undertake to help to promote both specific projects, and a system for linking and promoting such tourism (an analogy would be to offer for local tourism what “PANGEA” offers for local artisans through internet.

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5 National Geographic Society
connections and a point of sale in the US.) An ESW would be proposed to offer TA to existing destination and geo-tourism projects;

- Supply of goods and services to tourism enterprises by the poor, or by enterprises employing the poor, e.g. micro, small and medium-sized enterprises, or community-based enterprises; This is linked to our on-going work in local development. It implies a brief review of the LCSDN portfolio involving local development work (social sustainability projects, community development project, social investment projects,) as well as micro-credit programs under LCSFR to see where components might be added to support tourism development.

- Direct sales of goods and services to visitors and external clients by the poor, combined with access to information technology; This is linked to our on-going work in competitiveness and implies a review of on-going competitiveness and economic DPLs in the LAC portfolio to identify potential studies or components to support tourism development.

- Investment in infrastructure (such as access roads) required by tourism that would also benefit the poor in the locality, directly or through support to other sectors, or guarantees for private investors who conform to sustainable and pro-community goals. This supports our on-going work in transport and urban development and would be developed through a review of on-going LCSTR and LSCUW projects to identify potential studies or components to support tourism development;

- Niche tourism for cruise ships/ports and environmental and/or archeological destinations- In addition to supporting on going work in port development , this implies work with FIAS and IFC. The proposed review of transport and urban projects should also cover work specifically related to port development and in addition should include a strategy development with FIAS and IFC focusing on the cruise ship industry and port development;

- Knowledge sharing through study tours within the region to explore best practices in the various products mentioned above.

16. In addition, we will link up with other projects/sectors, such as:

- Cultural heritage support and sustainable development projects
- Community-driven development (CDD) projects for local job creation;
- Social fund projects, such as "Nuestros Raices";
- Support to small business projects and local economic development (LED) projects, like Municipal projects in Sao Luis (Maranhao) and Juazeiro do Norte (Ceará) in Brazil;
- Biologically-protected areas - a good opportunity could be coming up in Brazil;
• Port Cities projects (the Puerto Limon Project has a tourist component and one could be
developed in Buenaventura or Panama);
• Urban environment and development (Bogota, like many other cities, is developing an
'ecological corridor' that is nominally for mitigation but can also offer a tourism
opportunity);
• Competitiveness projects with supply chain links projects;
• Urban development and "signing" or street-addressing projects to include historical and
cultural markers;
• Transport, environmental protection and other such projects often offer a potential for non-
traditional, pro-poor tourism; and
• Port countries with unexploited cultural and or environmental potential, such as Brazil and
Argentina, and in particular in their ports and medium-sized cities.

18. As part of our strategy, we need to learn the lessons from other regions and other MDBs, such
as the IADB, to develop tools and skills, including:
• Links to expertise in tourism planning and methodologies (IHS in Netherlands has a good
program);
• A model for strengthening intermediary agencies to do market analyses for local tourism;
• Tools for promoting high quality hotels and services;
• Models for effective “site interpretation” and "signage" systems for education concerning
sites of historical importance;
• Country knowledge to promote country/country exchanges; and
• Internal and external interactive websites to tap sources of information and links to other
regions

19. We will further develop partnerships for learning, implementation and funding, including:
• National Geographic Society, which offers a great source of information and expertise;
• IFC, with which we are already partnering with in Peru;
• Specialized agencies, such as UNWTO, UNESCO, World Monuments FUND, IKOMOS and
other foundations; and, last but not least,
• Cultural Heritage Thematic group, which already is working on a strategy for presentation to
the Board in April , and has a CH website from which we can learn and to which we can link.
Proposed Strategy Development and Products

20. Phase 1: This first phase would involve developing the ESWs described below, and dissemination of lessons learned leading to:
   
   I) Specific tourism links to the LCSDN portfolio – Based on a review of on-going projects, and of pipeline projects identified in the CAS’s this study will make detailed recommendations for inclusion of stand-alone and components for new projects which promote non-traditional tourism in social development, infrastructure, competitiveness and micro-finance projects, as well as outlining recommendations for future coordination
   
   ii) Links of Economic Development and Poverty Reduction Programs to Regional and National Strategies for Tourism development – Based on a review of potential for scaling up non-traditional tourism activities in up to 6 LCR countries where the Bank already has an ongoing program or dialogue initiated, (e.g. Mexico, Honduras, Costa Rica, Panama, Brazil, Colombia, Ecuador, Peru, Bolivia, Argentina) this ESW will assess and evaluate the poverty reduction impact of the national or regional tourist industry, as well as tourism’s relation to economic growth and to environmental sustainability in order to recommend guidelines for pro-poor and pro-environment tourism development policies.

   Dissemination of information – Each of the ESWs proposed will lead to a BBL series in LCSDN and to promotion on a new topic development website, linked also to Wikipedia inputs. Once completed, the ESWs results would be shared with the LCRVP, with tourism groups in other regions and with representatives of our client governments from the region at a conference which would also be an opportunity for donor pledging.

21. Phase 2 – Based on the ESW proposed, and on contacts made during the research a second phase of ESW would involve work with governments (both national and local) which have expressed interest in working with the Bank on pro-poor, sustainable tourism projects. The ultimate object of the ESW is to develop a pipeline of projects and/or components for other projects in the region. The first such potential project would be identification of a national or regional tourism project in Peru, as per the county’s CPAS.

Team
22. The proposed team composition for the program is as follows: Tova Solo, Roberto Chavez, Team Leaders, Mila Freire, Lead Adviser, and LCSDN TTLs and Staff, to be determined for the learning programs and the specific ESW proposed above.

**Budget**

23. To carry out this work, seed funding is needed. About US$ 60,000 has been obtained from the SDN Learning Program and from OPCS for specific learning exercises. Specifically, the grants will finance; i) learning exchanges between former LCR ESSD and FPSI staff to visit and to record different experiences in non-traditional tourism, ii) retreats for non-traditional tourism task teams to share experiences and to brainstorm new approaches; and iii) recruitment of a consultant to synthesize the results of tourism projects in LCR and to develop a paper relating experiences to date and recommendations for a broader results-based approach. In addition to the above funding already mobilized, other possible sources are: PREM’s DGSF for pro-poor sector analysis, GEF funds for biodiversity that could fund sustainable tourism ventures; and the Italian Consultant Trusts Fund For Cultural Heritage. Nevertheless, to complete the ESW proposed in Phase 1 and to begin to develop a pipeline of projects for Phase 2 activities, financing needs are calculated at about US$150,000. If seed funding is available in the region, we would request US$50,000, which would allow us to initiate phase 1 ESW and to mobilize additional funding needed from other trust funds and internal or external grant sources.

**Time-line**

24. We estimate that the learning program and BBLs to divulge our progress, as well as the PCNs for one or two pieces of ESW, depending on the available budget, would be completed in FY07. The remainder of Phase 1, i.e. the completion of the ESW, and Phase 2, development of the pro-poor sustainable tourism pipeline would be completed in FY08.

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6 We are confident that we could secure $40,000 from the Italian Cultural Heritage Fund, and that the second phase of the SDNLEP will provide additional funding.