

POVERTY-SENSITIVE VALUE CHAINS IN THE TOURISM INDUSTRY

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In spite of many difficulties that have affected tourism over the last few years, —including natural disasters, health scares, oil price rises, exchange rate fluctuations, wars and terrorism, as well as other economic and political uncertainties— international tourist arrivals worldwide have continued to grow steadily, beating all expectations last year to reach 808 million. The tourism receipts corresponding to these arrivals have reached 682 billion USD in 2005. These figures demonstrate once again the resilience of tourist movements; they reflect the unstoppable desire of people to travel and devote part of their income to this purpose.

Tourism growth in recent years has been characterised by two main trends; firstly, by the consolidation of traditional tourism destinations, like those in Western Europe, North America including Mexico, and some Caribbean islands; and secondly, by a pronounced geographical expansion. There has been indeed a substantial diversification of destinations during the last 50 years: while in 1950 fifteen countries, all of them from Europe plus the USA and Canada, accounted for over 90% of total international tourist arrivals, in 2005, the market share of the top 15 countries had fallen to around 58%. In parallel, many developing countries saw their tourist arrivals increase significantly, including Northern African countries, Thailand, Indonesia, Brazil, South Africa to name but a few.

Taking into account these trends, at least three main conclusions can be drawn in connection with tourism and its potential for poverty alleviation.

1. Tourism is one of the most dynamic economic sectors in many countries, developed but also developing ones, with a wide range of upstream and downstream effects on other economic activities thanks to a very large and diversified supply chain;
2. Tourist movements towards developing and least developed countries are growing faster than in the developed world, accounting now for around 40 per cent of total international tourist arrivals;
3. Tourism in many developing and least developed countries is one of the principal, and in some countries, the main source of foreign exchange earnings and, quite often, the most viable and sustainable economic development option, with positive impacts on reducing poverty levels.

Yet, it has to be acknowledged that quite often the poor segments of the population in these countries do not fully benefit from the economic impacts of tourism. This is due mainly to a high level of leakages in the tourism economy, i.e. a high proportion of the inputs required by tour and hotel companies are provided through imports, instead of establishing linkages with other sectors of the local economy.

There is also evidence that the supply chain of tourism, and especially that of hotel companies, can be substantially improved in developing countries and LDCs in order to better contribute to poverty alleviation objectives and other Millennium Development Goals. Many inputs required by tourism companies can indeed be supplied locally, by micro, small and medium sized enterprises run by local people or employing the local poor. The employment and entrepreneurial development impacts of tourism can in fact be much higher in the supply chain (indirect effects) than in the tourism sector itself.

However, if tourism has become to represent an increasingly stronger economic development opportunity for developing countries [and for those wishing to diversify their economies], such development needs to be environmentally, socially, economically and culturally sustainable. It is only when it is properly planned, developed and managed that this sector can realize the strong potential it has to take up many challenges of our planet and our societies.

In this context, the following principles have been adopted by UNWTO and recommended to governments in order for Tourism to maximize its potential to contribute to Poverty Alleviation:

1. **Mainstreaming:** ensure that sustainable tourism development is included in general poverty elimination programmes. Include poverty elimination measures within overall strategies for the sustainable development of tourism;
2. **Partnerships:** develop partnerships between international, government, non-governmental and private sector bodies, with a common aim of poverty alleviation through tourism;

3. **Integration:** adopt an integrated approach with other sectors and avoid over-dependence on tourism;
4. **Equitable distribution:** ensure that tourism development strategies focus on more equitable distribution of wealth and services;
5. **Acting locally:** focus action at a local/destination level, within the context of supportive national policies;
6. **Retention:** reduce leakages from the local economy and build linkages within it, focusing on the supply chain;
7. **Viability:** maintain sound financial discipline and assess viability of all actions taken;
8. **Empowerment:** create conditions which empower and enable the poor to have access to information and to influence and take decisions;
9. **Human rights:** remove all forms of discrimination and exploitation against people working in tourism, particularly against women and children;
10. **Commitment:** plan action and the application of resources for the long term; and
11. **Monitoring:** develop simple indicators and systems to measure the impact of tourism on poverty.

UNWTO has intensified over the last three years its efforts in the field of poverty alleviation through sustainable forms of tourism, undertaking the following main activities:

1. After the launching of the concept of **“Sustainable Tourism as an effective tool for Eliminating Poverty”** (ST-EP) at the Johannesburg Summit in 2002, UNWTO established the ST-EP Foundation with the sole aim to promote poverty elimination through sustainable tourism development projects. The ST-EP Foundation is located in Seoul, Korea, whose government has provided the first 5 million US dollars, plus the office and administrative facilities. It is currently raising further financial resources to implement poverty reduction tourism development projects, while 5 projects are being funded in 2006.
2. In collaboration with the Netherlands Development Organization (SNV), **a multi-donor Trust Fund has been established with the objective of supporting ST-EP projects through the provision of technical assistance.** SNV provided an initial contribution of 2 million euros. The Italian government has also provided a financial contribution to this Fund.
3. **Technical assistance missions** for identification of ST-EP pilot projects have been fielded to 19 countries so far, identifying around **150 projects** for future implementation. In 2006, around 40 projects have been approved and are currently being implemented.
4. The Organization is also improving the capacity of national tourism administrations and local authorities in developing countries in this field since 2004. **Nine regional capacity-building seminars** have been conducted in Africa, Asia and Latin America, attended by around 600 officials from more than 60 countries. In addition, 4 publications were produced providing evidence of the impact of tourism in reducing poverty levels, as well as recommendations on how to maximise these impacts.

The most important of these publications, entitled “Tourism and Poverty Alleviation: Recommendations for Action”, identifies seven approaches to address poverty through tourism; these are:

- 1 Employment of the poor in tourism enterprises
- 2 Supply of goods and services to tourism enterprises by the poor or by enterprises employing the poor
- 3 Direct sales of goods and services to visitors by the poor (informal economy)
- 4 Establishment and running of tourism-related enterprises by the poor - e.g. micro, small and medium sized enterprises (MSMEs), or community based enterprises (formal economy)
- 5 Tax or levy on tourism income or profits with proceeds benefiting the poor
- 6 Voluntary giving/support by tourism enterprises and tourists
- 7 Investment in infrastructure stimulated by tourism also benefiting the poor in the locality, directly or through support to other sectors

The second, third and fourth of these approaches underline the strong relation between tourism and other economic activities. As a transversal sector touching upon many other economic activities that feed the hotel, catering and transport industries, or that sell goods to the tourists, tourism allows the

establishment of many linkages with the local producers and sellers. Some examples of goods and services that can be supplied locally are:

- 1** In the hotel companies' supply chain:
 - construction materials, such as wood, stone, straw for thatching and locally made mud bricks, giving a local style to the hotels and could enhance their attractiveness;
 - furniture made of local wood varieties, provided its exploitation is environmentally sustainable;
 - carpets and rugs, locally woven by traditional craftsmen and women;
 - decorative objects designed, painted and/or produced by local artists;
 - bed linen, tablecloths, napkins and other textile items, which need to be renovated rather frequently;
 - food items, especially fresh produce grown by small rural farmers, but also some processed items such as juices, bread, etc;
 - laundry services, especially to replace expensive and usually imported washing equipment in small and medium-sized accommodation establishments.

- 2** In restaurants and other catering establishments:
 - furniture, tablecloths, decorative objects, etc. as above in 1
 - local food items as above in 1
 - local drinks, freshly produced juices
 - local dishes, reflecting the local gastronomy

- 3** In tour operating companies:
 - local guides
 - local, traditional means of transport
 - local cultural attractions and traditional ceremonies.

Most of the products and activities mentioned above can be produced and provided by the poor, either individually (i.e. micro-enterprises), through cooperative or community-based arrangements, or in small and medium sized enterprises employing the poor.

Some of the common problems and obstacles found in developing countries to make this happen in a substantive, massive scale are:

- unawareness of the existence of such possible local sources from large, foreign-owned hotel and tourism companies;
- absence of a corporate social responsibility commitment or practice within large and medium sized hotel and tourism companies, both foreign- and locally-owned;
- difficult access of small producers to the large hotels' senior purchasing managers;
- shortage of finance capital available in adequate terms to the small and micro-entrepreneurs, not allowing them to produce in the quantities and qualities required by hotel establishments;
- irregularity in the quality and frequency of supply of local products by local enterprises.

Generally speaking, it is possible to act upon or influence the tourism supply chain in several points, ranging from the products selected by tour operators, to the selection of suppliers by tourism companies. A first step is to gain awareness and accept that local suppliers can offer goods (such as food, furniture, etc.), as well services (guides, transport or laundry). Also it is possible to contract local companies and poor people in the construction of the hotels (for example, for the provision of construction materials), as well as in the operation of the companies. And if it is not always easy to determine what suitable suppliers are poorest, a first step is to make sure that the suppliers are local. For poor local communities, being suppliers of hotels and other tourist companies represent numerous advantages:

- It provides a market to their productive activities and technical knowledge;
- It allows the appearance of new activities and technical abilities compatible with the local capacities and interests;
- It can complement and give support to the traditional subsistence habits in the countryside, arresting the migration towards urban zones.

- Some traditional economic activities, non viable due to the lack of a local market, can return to be profitable thanks to the presence of tourists in the neighbouring hotels.
- Some tourist companies have quite considerable purchasing budgets that can constitute a stable source of business for micro- or small local entrepreneurs.

Nevertheless, the commitment of the tourism sector in general, and hoteliers in particular, in favour of the poor cannot be only based on the will to contribute to poverty alleviation. Tourism entrepreneurs must also realize that this commitment can bring several advantages for their companies, among them:

- The supply of fresh and typically local foods to their clients, increasing the quality of the stay and the tourist experience, and, as a consequence of this, their willingness to prolong it, to recommend it to their friends and/or to return.
- The benefit of providing a locally rooted service allows reinforcing the authenticity of the tourism product. The personality of the lodging establishments and restaurants, by means of typical decorative and textile articles (sets of dishes, table cloths, clothes of bed, etc.), leaves a unique memory, contrary to the so-called "international" style of many chain hotels that are practically identical anywhere in the world.
- A substantive reduction in production costs as a result of lower local prices and the reduction of the cost of the transport.

For these advantages to become effective, it is necessary to act on some key points to ensure that the process is efficient and sustainable. The hotels need to be assured that the local suppliers' production capacity is sufficient to satisfy their requirements, not only in volume but also in terms of quality and reliability. If the capacity exists, it is necessary to tackle the possible problems of regularity to be able to obtain important orders with a constant quality. The time required by the tourism companies to value their sources, to look for local suppliers and to organize contacts and a suitable control of quality must also be evaluated. For the local communities and their representatives, it is important to control the transparency, and to guarantee equitable pricing and contracting policies that do not lead to abuse by the purchasing power of big companies.

In the case of the hotels, it is necessary to proceed progressively, beginning with the establishment of a few linkages carefully selected where the success seems more likely, and to build on them. The hotels can give technical or commercial assistance to some of their local suppliers, including the advice on entrepreneurial management subjects and a pertinent financial support, so that they improve the quality and the capacity of their production. They can also be more tolerant with local craftsmen and traders, allowing them to sell their products or crafts in the proximity of the hotels.

The local authorities can also play a role:

- Firstly, helping to improve the information networks: often, the hotels do not know the goods and services locally available, and the suppliers do not know how to approach the companies nor with whom to put themselves in contact. It is necessary to offer assistance to the tourism companies to value their existing supply sources, and to identify the appropriate alternatives.
- Secondly, organizing specific programmes to identify new or better supply sources, for example with the intervention of the administration in charge of agriculture or helping the local farmers who work with a group of tourism companies.
- Thirdly, stimulating and supporting the cooperative agreements among small suppliers.

It is also important to know the various reasons that explain why tourism companies have difficulties in making purchases to small local, or even national, suppliers. In the case of hotels, these reasons are the following:

- The communication and information technologies, especially between big buyers and producers, are being more and more integrated. This integration tends to exclude small suppliers.
- Big hotels work mainly with recognized suppliers, often because they need to make sure that some minimum requirements about health or environmental issues, imposed to them by their chain or by public regulations, are fulfilled.

- Quite often, managers responsible for purchasing are interested simply in price reduction, and less in the maximization of benefits at destination level. In addition, commissions and personal relationships influence the purchase decisions.
- Purchasing important volumes allows individual hotels or hotel groups to receive discounts and to use their purchasing power to have better treatment in the speed of distribution and the payment conditions. The reduction in the number of suppliers means less administration of invoices and receipt of merchandise. The small producer is not prepared to work at this level.
- Storage and distribution (frozen fish and meat, distribution at the moment) are difficult for the small producer.
- Some companies do not think that the local product can be turned into a marketing tool and will not stimulate its promotion.

While the challenge is big, we firmly believe that addressing these problems in order to maximize the poverty reduction potential of the tourism supply chain is possible. It requires an organised effort and close cooperation among a number of stakeholders, including at least the following: hoteliers and hotel trade associations, incoming and outbound tour operating companies, catering establishments and their trade associations, local and external technical assistance agencies, especially those serving the rural and manufacturing sectors, financial and micro-credit institutions, among others.

It is also essential to establish a national strategy and a phased action plan in order to reduce leakages in tourism operations. At the national level, leakage avoidance can be tackled proactively through processes to enhance the abilities of the countries' regional economies to build and improve their tourism value-chain. A process for accomplishing this, at least in part, has taken shape in the form of regional cluster-based economic development. This approach to economic development is often applied across all industries in regional economies in both, developing and developed countries. The cluster approach has particular applicability to the tourism industry because of this industry's tendency to be geographically focused and organizationally fragmented. Cluster logic is affirmative in nature in that it emphasizes building domestic capacity rather than defending domestic markets. UNWTO published in 2003 a paper that offers an introduction to the application of cluster-based economic development to the challenge of avoiding or minimizing leakages from the tourism economy. This document can be consulted on-line.¹

To conclude, I would like to recall the importance of tourism in today's economy and its potential to contribute in the fight against poverty, principally through its long supply chain. I would also recall that plenty of know-how is available for enhancing the local supply chains in developing countries, in order to make it more sustainable. By adapting all this technical information and all these guidelines to the particularities of each destination, national and local authorities, private tourism companies and local communities can find the way to increase tourism benefits and their distribution in order to reduce poverty, while protecting the natural environment and cultural heritage.

¹ Using Cluster-Based Economic Strategy to Minimize Tourism Leakages, UNWTO, 2003: <http://www.unwto.org/quality/E/docs/trade/trsmleaks.pdf>