

Tourism investment as a tool for development and poverty reduction:

The experience in Small Island Developing States (SIDS)



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Twenty-seven of the Commonwealth's 53 members are Small Island Developing States (SIDS). They have populations of less than 1.5 million and are characterised by their vulnerability in the areas of environmental disaster, limited human resources, economic resources and security. It is, therefore, a major challenge to assist these countries to identify sectors with growth potential, i.e. sectors where they can be competitive. This paper discusses why, and how, investment should be mobilised in small states to incorporate tourism as a priority in sustainable development and poverty reduction strategies.

The global context

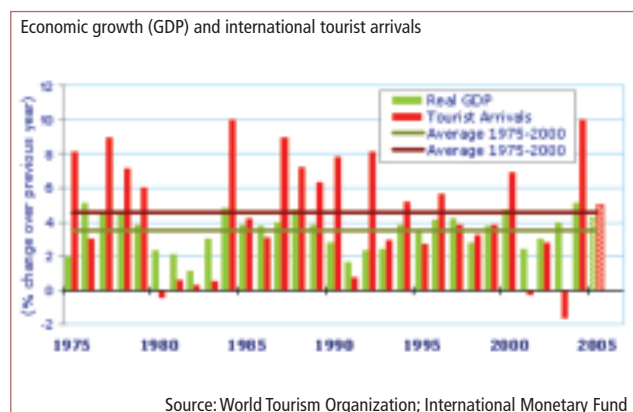
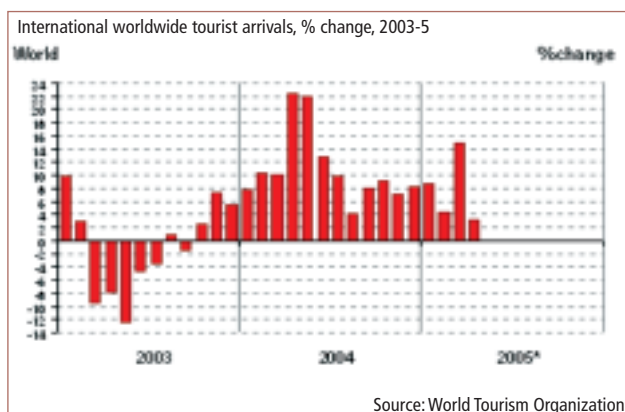
According to the World Tourism Organization (WTO) the positive trend in worldwide tourism experienced in 2004 has continued in 2005, with international tourist arrivals growing on average by 8% in the first four months of this year; for the year-to-date, the numbers are similar to those seen in the second half of 2004, a year in which international tourist arrivals grew by more than 10% to an all-time record of 763 million, according to the WTO *World Tourism Barometer*. What is of particular significance is that the upward trend is occurring in all regions: Asia and the Pacific (9%); Africa (+12%) and in the Americas (+11%). The immediate prospects for the upcoming winter period ('the high season') in the northern hemisphere are also rosy. The WTO regards the short-, medium- and long-term tourism market as positive overall, with no foreseeable major constraints and a favourable economic scenario.

Most major source markets and destinations are already gearing up for their busiest period secure, perhaps, in the knowledge that "there is still a significant amount of pending demand, in particular concerning long-haul traffic".

Economic considerations

The upswing in worldwide tourism can only mean good news on the economic front in small, tourism-dependent island countries, given the direct relationship between the growth of international tourism arrivals and the growth of economic output as measured in GDP. For example, in years when world economic growth exceeds 4%, the growth of tourism volume tends to be higher, and when GDP growth falls below 2%, tourism growth tends to be even lower.

In 2003, international tourism receipts accounted for approximately 6% of worldwide exports of goods and



services. When seen in the context of a 'service export', however, tourism's share of exports increases to nearly 30%.

The Small Island Developing States (SIDS) context

Small Island Developing States (SIDS) (including low-lying coastal countries) share similar sustainable development challenges, including small population, lack of resources, remoteness, susceptibility to natural disasters, excessive dependence on international trade and vulnerability to global developments. In addition, they suffer from lack of economies of scale, high transportation and communication costs, and costly public administration and infrastructure. SIDS also have limited availability of human, institutional and financial resources to manage and use natural resources on a sustainable basis, and ever increasing demographic and economic pressures on existing natural resources and ecosystems. Against this backdrop, the World Summit on Sustainable Development in 2002 declared SIDS to be "...a special case both for environment and development," and called for support to be provided to them to "...develop capacity and strengthen... efforts to implement initiatives aimed at poverty eradication..."

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In most SIDS the tourism sector provides a disproportionate share of economic activity. Individually any one of the shared SIDS characteristics impacts on national economic development; taken together they play a critical role in the linkages between tourism and economic development.

According to the World Travel & Tourism Council (WTTC), travel and tourism in the Caribbean in 2005 is expected to generate US\$45.5 billion of total demand in economic activity; directly and/or indirectly account for 15.4% of GDP and 2,379,500 jobs (or 15.1% of total employment); and is expected to grow by 3.3% (and 3.4% per annum, in real terms, between 2006 and 2015). In addition, the Caribbean Travel & Tourism economy is ranked number 13 regionally in absolute size worldwide; first in relative contribution to regional economies; and 13th in long-term (10-year) growth. For the Oceania region, which includes the Pacific SIDS, comparable figures are: US\$128.6 billion of economic activity, with nominal growth to US\$221.6 billion by 2015. Demand is expected to grow by 8.1% in 2005 and by 5.0% per annum, in real terms, between 2006 and 2015.

Clearly then, as the fastest growing economic sector in SIDS, the tourism sector has important economic, social, cultural and environmental impacts. It is also a good source of much needed foreign exchange from international tourism receipts (see Table 1). As the sector continues to grow, it will have important implications for the achievement of sustainable development in SIDS,

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given their fragile ecological environments. By virtue of the fact that the tourism sector encompasses a large number of different travel-related activities, including, *inter alia*, hospitality enterprises, souvenir and craft businesses, travel agencies, transport enterprises, tour operators and tourist guides, it will bring about new challenges for individual countries [UN, 1999].

Although tourism activity in SIDS consists of both domestic and international tourism, tourism development strategy typically places the primary emphasis upon international tourists: leisure and business travellers crossing international borders. This emphasis is understandable, since domestic tourism leads largely to a redistribution of national income while international tourism provides much needed foreign exchange earnings to the destination country.

For SIDS, then, tourism is major driving force for economic development because of its large potential multiplier and spillover effects on the rest of the economy. The sector tends to generate a large number of jobs, particularly of the unskilled or semi-skilled variety. While the overall contribution of tourism to income and employment generation tends to be positive, the overall contribution to national income can, in some cases, be diminished by primary leakages of foreign

Caribbean Travel & Tourism is expected to generate US\$45.5 billion of economic activity (Total Demand) in 2005, growing (nominal terms) to US\$87.8 billion by 2015. Travel & Tourism Demand is expected to grow by 3.3% in 2005 and by 3.4% per annum, in real terms, between 2006 and 2015. 2005 Total Demand represents 0.7% of world market share.

exchange earnings arising from imports of materials and equipment for construction, imports of consumer goods (including food and drink), repatriation of profits earned by foreign investors, overseas promotional expenditures, and amortisation of external debt incurred in the development of hotels and other tourism-related resorts.

Table 1: International Tourism Receipts by Country of Destination

| | International Tourism Receipts (US\$ million) | | | | | | Market share in the region (%) | | Change (%) | | Average annual growth (%) | |
|-----------------------|---|-------|-------|-------|-------|-------|--------------------------------|------|------------|-------|---------------------------|-------|
| | 1990 | 1995 | 2000 | 2001 | 2002 | 2003 | 1995 | 2003 | 02/01 | 03/02 | 90-95 | 95-00 |
| Caribbean | | | | | | | | | | | | |
| Antigua/Barbuda | 298 | 247 | 291 | 272 | 274 | 301 | 0.3 | 0.3 | 0.7 | 9.9 | -3.7 | 3.3 |
| Bahamas | 1,324 | 1,346 | 1,738 | 1,648 | 1,762 | 1,782 | 1.4 | 1.6 | 6.9 | 1.1 | 0.3 | 5.2 |
| Barbados | 494 | 622 | 723 | 697 | 658 | 758 | 0.6 | 0.7 | -5.6 | 15.2 | 4.7 | 3.1 |
| Belize | 44 | 78 | 122 | 120 | 130 | 156 | 0.1 | 0.1 | 8.3 | 20 | 12.1 | 9.4 |
| Dominica | 25 | 42 | 48 | 46 | 46 | 51 | 0 | 0 | 0 | 10.9 | 10.9 | 2.7 |
| Grenada | 38 | 76 | 93 | 83 | 91 | 104 | 0.1 | 0.1 | 9.6 | 14.3 | 14.9 | 2.1 |
| Guyana | 27 | 33 | 75 | 61 | 49 | 39 | 0 | 0 | -19.7 | -20.4 | 4.1 | 17.8 |
| Jamaica | 740 | 1,069 | 1,333 | 1,232 | 1,209 | 1,355 | 1.1 | 1.2 | -1.9 | 12.1 | 7.6 | 4.5 |
| St Lucia | 154 | 230 | 279 | 237 | 215 | 282 | 0.2 | 0.2 | -9.3 | 31.2 | 8.4 | 3.9 |
| St Kitts/Nevis | 58 | 63 | 58 | 62 | 56 | 61 | 0.1 | 0.1 | -9.7 | 8.9 | 1.7 | -1.6 |
| St Vincent/Grenadines | 56 | 53 | 75 | 80 | 83 | 85 | 0.1 | 0.1 | 3.8 | 2.4 | -1.1 | 7.2 |
| Trinidad/Tobago | 95 | 77 | 213 | 201 | 242 | - | 0.1 | | 20.4 | | -4.1 | 22.6 |
| Oceania | | | | | | | | | | | | |
| Fiji | 202 | 291 | 181 | 217 | 261 | 349 | 0.4 | 0.4 | 20.3 | 33.7 | 7.6 | -9.1 |
| Kiribati | 1 | 2 | 3 | 3 | - | - | 0 | | | | 14.9 | 6.2 |
| Papua New Guinea | 41 | 25 | 7 | 5 | - | - | 0 | | | | -9.4 | -23 |
| Samoa | 20 | 35 | 41 | 40 | 45 | 53 | 0 | 0.1 | 12.5 | 17.8 | 11.8 | 3.2 |
| Solomon Island | 7 | 16 | 4 | 5 | 1 | 2 | 0 | 0 | -80 | 100 | 18 | -24 |
| Tonga | 9 | 10 | 7 | 7 | 6 | - | 0 | | -14.3 | | 2.1 | -6.9 |
| Vanuatu | 39 | 45 | 56 | 46 | - | - | 0.1 | | | | 2.9 | 4.5 |
| Asia | | | | | | | | | | | | |
| Singapore | 4,937 | 7,646 | 5,229 | 4,617 | 4,463 | 3,998 | 9 | 4.1 | -3.3 | -10.4 | 9.1 | -7.3 |
| Maldives | 89 | 211 | 321 | 327 | 337 | 402 | 0.3 | 0.4 | 3.1 | 19.3 | 18.8 | 8.8 |
| Africa | | | | | | | | | | | | |
| Mauritius | 244 | 430 | 542 | 623 | 612 | 697 | 5.1 | 4.9 | -1.8 | 13.9 | 12 | 4.7 |
| Seychelles | 126 | 129 | 139 | 146 | 164 | 171 | 1.5 | 1.2 | 12.4 | 4.4 | 0.5 | 1.5 |

Source: World Tourism Organization: Tourism Market Trends, 2004 Edition – Annex

Tourism investment

In general, cross-linkages between tourism and other sectors of the economy are either weak or totally absent, and income and employment multipliers from tourism are lower because the potential stimulus to indirect spending is dissipated by increased imports rather than domestic production, as happens with many SIDS. However, given tourism's potential to stimulate demand in other economic sectors, its integration into national development plans that highlight the development of intersectoral linkages can encourage growth in other major economic sectors, including agriculture, fishing, industry, services and transportation. This explicit recognition of the need for integration was included in the Communiqué of the first meeting of Commonwealth Tourism Ministers, held in Kuala Lumpur (KL), Malaysia, in March 2004. At KL, ministers

underscored, among other things, "...the importance of tourism for poverty reduction, export generation, job creation, investment stimulation, promoting greater socio-cultural understanding and peace." In this connection, they also recalled the Millennium Declaration and the Johannesburg Plan of Implementation, agreed at the World Summit on Sustainable Development, and reiterated "the vital role that tourism can play in reducing poverty and generating sustainable development" and requested countries to "...incorporate tourism as a priority in development and poverty reduction strategies..."

To this end, the development of a tourism investment policy which ensures sound and direct investment in areas to meet national social and economic goals is of paramount importance in SIDS. Hence, every effort should be made to encourage investment in tourism businesses that support national social and economic

development policies. In this regard, the emphasis should always be on the development of high-quality businesses that may have access to tax concessions, incentives and certain rewards if they meet these particular policy directions.

Encouragement should also be given to investments by local communities in various forms of tourism management through the use of low interest loans by governmental financial institutions, and to private business organisations that support implementation of pro-poor tourism development. As an added incentive, the private sector could be encouraged to contribute a certain percentage of their profits to community improvement projects and developing infrastructure in ways that profit not only private sector tourism development but provide for the needs of the larger community, for example the development of a sewage

lack of an adequate tourism infrastructure is a serious obstacle to tourism development. In particular, the long planning and construction time involved in infrastructure development, as well as the difficulties of funding very costly infrastructure projects, can create critical bottlenecks for growth. When undertaking the development of major infrastructures, such as road networks or water supply systems, national governments will have to ensure that they cater not only to the needs of the tourism sector, but also to the needs of other industries in the area, as well as to the local community as a whole. Here, consideration should be given to the various options available for financing and privatising tourism infrastructure projects, such as government outlays, multilateral and regional financial institutions, involvement of the private sector through build-operate-transfer schemes and foreign direct investment.

The private sector could be encouraged to contribute a certain percentage of their profits to community improvement projects and developing infrastructure in ways that profit not only private sector tourism development but provide for the needs of the larger community.

treatment plant serving the needs of the surrounding community and providing clean water.

Public-private partnerships could also be used, for example, to provide finances and benefits for NGOs to enable them to participate in various activities aimed at the skills development of local people, or promote investments in the production of essential goods, supplies and equipment to support tourism activities; and to provide services to help reduce imports. Alternatively, public-private partnerships could also be used to identify specific zones for tourism-related investments, for example in rural areas, in order to reduce poverty.

At the national level, governments need to implement policies that will encourage the domestic tourism industry and attract foreign direct investment and relevant technologies. Those policies should ensure that tourism is properly planned and managed so as to minimise its adverse economic, social, cultural and environmental impacts. Therefore, appropriate attention and priority should be attached to the integration of tourism policies with the policies of other government agencies so that tourism develops in harmony with overall economic, social and environmental goals.

Given tourism's contribution to overall economic development and as part of the consultative process that is key to the evolution of poverty reduction strategies, governments should also consult widely with host communities and concerned major groups to ensure that as broad a range of views as possible is incorporated into the planning process of tourism development. It is also important, in this regard, that governments enhance dialogue with all major groups in society.

A key area for investment has to be infrastructure. The

Given the importance of small and medium enterprises (SMEs) in the tourism industry, it is crucial to target this source of entrepreneurial potential. For example, policies should be implemented to promote the access of such enterprises to finance and to strengthen the provision of support services. Moreover, investment policies should encourage linkages among small and medium enterprises. Also, governments should provide tax incentives and implement deregulation to promote the development and competitiveness of such enterprises in the tourism industry.

Foreign tourism enterprises should ensure that their investment, employment, operational and other business decisions take full account of the wider implications.

The private tourism sector, which consists of both foreign and domestic enterprises, has a crucial role in tourism development through its investment, production, employment and marketing decisions. The foreign tourism industry consists mainly of large transnational airline, hotel and tour companies, and their corporate objectives can have a profound impact on the economic development of destination areas. Therefore, these foreign tourism enterprises should ensure that their investment, employment, operational and other business decisions take full account of the wider implications of such actions for the long-term development and economic sustainability of the destinations in which they operate.

Finally, the importance of investment in the areas of human resources development and training of local workers cannot be overlooked, since continuous development of skills enhances not only the quality of tourism services but also the overall skills and capabilities of the local workforce. In the same way, the use of a network of domestic suppliers by foreign tourism businesses can enhance the development and productivity of the domestic staff.

Conclusions

Tourism is an essential component for both economic development and poverty reduction in SIDS. National development strategies must be therefore be developed with the recognition that tourism plays an essential role in improving the conditions of poorer segments of society. Given its importance, tourism can no longer be relegated to a secondary position in policy development. There must be a clear awareness of the essential role tourism can play in many situations in reducing poverty and realising other development goals.

Emphasis must also be placed on the inter-sectoral linkages and integration of tourism planning into overall national development strategies. This will necessitate responsive and effective legislation to encourage and support pro-poor tourism development. Consequently, administrative structures must be developed that do not provide obstacles to the integrated approaches necessary. This will require the willingness of various government ministries and departments to cooperate in ensuring that various ministerial and departmental concerns are adequately addressed and subsequently reflected [UNESCAP].

To this end, investments at all levels are needed to ensure the following:

- A reliable and comprehensive statistical database to guide decision-makers at various levels of pro-poor tourism development;
- Reliable tourism market data at both the national and destination level, including marketing strategies with a specific intent to reduce poverty;
- The provision for training policy-makers and destination managers in a wide range of skills and knowledge about pro-poor tourism development. This will require the development of information and delivery systems;
- The necessary incentive plans and procedures to facilitate and support pro-poor tourism;
- Infrastructure planning and development that support pro poor development plans;
- A mechanism within national governments to work in concert with national tourism industry actors to support pro-poor tourism development strategies;
- National planning and implementation mechanism to ensure the development of attractions and tourism products;

- Information technology capacity within countries to provide the necessary information as well as ensure the promotion of pro-poor development strategies, and training opportunities for officials and other stakeholders working in pro-poor tourism to access and make effective use of reliable information;
- The recognition that, within budget decisions, improving and conserving natural and cultural environments is essential to the development of pro-poor development strategies; and
- A concerted attempt by national governments to work closely with all tourism stakeholders to lessen leakages that occur from tourism development.

These recommendations are designed to develop a policy structure that ensures various government plans are oriented to reducing poverty and that there are no significant obstacles in using tourism development as a poverty reduction strategy in SIDS. This will, of necessity, require governments to work closely with international partners to ensure they are willing to support a country's vision and policies for tourism development related to poverty reduction, thereby ensuring that pro-poor tourism efforts will be better supported by a national policy-making process and decision-making structure.

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“You can create a tourism product from Russia that can satisfy any demand as a promising unique tourist destination”, Doguzova said. “Russia is a huge country, but its resources are limited.”

Increasing investment efficiency. “The Federal Agency for State Property Management needs to have the ability to clearly analyse these investments and the ability to see that these 3 roubles are clearly invested within the framework of the goals that the country faces [...] If the state has built utilities for a certain building spot, that means that a hotel or a restaurant have been built there [...]”

We have developed a whole system of benefits: they include tax breaks, a reduction in the service delivery time, support for investment projects, and free connection to utilities”, Drozdenko said. Tourism investments were estimated at 9.2 per cent of total global investments. What’s more, the sector is expanding its activities. International tourist arrivals increased 4.3 per cent annually between 1995 and 2008. 30 out of 49 LDCs have selected tourism as an important sector for growth and development; and international tourism is among their top three foreign exchange earners. Tourism is the leading services export in LDCs representing 33 per cent of LDC exports. The ILO is preparing a toolkit on poverty reduction through tourism, which will be available in autumn 2011. It aims at assisting developing and least developed countries to create a sustainable tourism industry and businesses based on decent employment.

Tags: poverty alleviation, tourism. Tools. Tourism has significant potential as a driver for growth of the world economy. The sheer size and reach of the sector makes it critically important from a global resource perspective. Even small changes toward greening can have important impacts. Increasing the involvement of local communities, especially the poor, in the tourism value chain can, therefore, contribute to the development of the local economy and to poverty reduction. For example, in Panama, households capture 56% of total local tourism income.