

A Note on the Tourism Sector: A Target for Business Enabling Environment Reform

Submitted by:

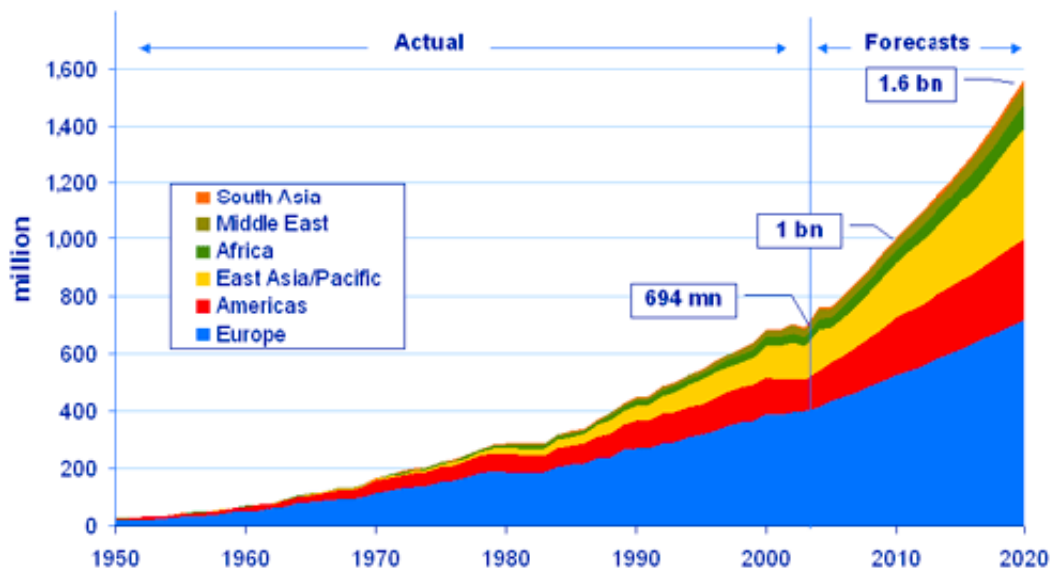
*Michael Ingram, Associate
Booz Allen Hamilton
McLean, VA*

*Scott Wayne, President
SW Associates
Sustainable Tourism Development Consulting
Washington, DC*

Executive Summary. The tourism market's growth over the last 50 years has been consistent and steady. In the last 20 years, the proportion of the market captured by developing countries is growing even faster. Development professionals focused on the tourism market consistently mention an enabling business environment as critical for increased investment and continued growth. Though generalized assessments of business environment issues will identify some of the constraints for the tourism industry, only with a sector-focused diagnostic tool will the complete picture of the enabling environment for tourism be revealed.

A Vibrant Market. Tourism is one of the world's fastest growing industries and chief sources of economic growth and employment. In 2007, the UN World Tourism Organization (UNWTO) estimated that more than 900 million tourists traveled internationally, a result that translated into earnings of \$700 billion for that year, or approximately \$2 billion a day. The industry grew in 2007 and in the first four months of 2008, despite many factors that negatively impacted demand (i.e. rising fuel prices, a depreciating dollar, an economic slowdown, credit market failures, terrorist incidents, isolated outbreaks of avian flu, and weather related emergencies). Over the long term, tourism arrivals have steadily grown at an average rate of 6.5% per year since 1950 and are forecast to continue growing, especially in emerging market economies.ⁱ

Figure 1: The Tourism Sector: Over 50 Years of Growth



Source: UN World Tourism Organization

The tourism sector does not consist only of hotels, restaurants, travel agencies, and tour guides. It is an industry of industries that relies upon many other interrelated value chains in the economy (see Figure 2). As such, to optimize the development of the tourism sector, policymakers must harmonize policies for the tourism sector, and the many other sectors that buttress it (e.g. agriculture, construction, and handicrafts). It is not always clear-cut for policymakers and industry leaders as to which policy “levers” need to be pulled, to maximize the economic, social and environmental benefits of sustainable tourism development.

Not only a Developing Country Issue

Tourism policy reform is an issue not only for policymakers in emerging markets, but for those in mature markets, as well. The direct portion of the tourism industry (e.g. accommodation, recreation, catering, entertainment, etc.) is generally understood, but what is not automatically realized are the many indirect industries below the tip of the iceberg that are interdependent with tourism demand. As tourism grows, so do these industries, so they must be accommodated by national tourism policy.

Figure 2: Tourism: An Industry of Industries



TRAVEL & TOURISM INDUSTRY

Accommodation, recreation, catering, entertainment, transportation, other related services.

TRAVEL & TOURISM ECONOMY

Printing/Publishing, concrete, utilities, financial services, furnishing & equipment suppliers, foods, security, administration, ship building, beverage supply, iron/steel, aircraft manufacturing, wood, mining, chemicals, textiles, oil/gas suppliers, plastics, sanitation services, metal products, computers, resort development, wholesalers, rental car manufacturing, laundry services.

Although Europe captures much of the previously mentioned growth in the tourism sector tourism in developing countries is growing faster than in developed countries:

- ❖ The market share of developing countries has grown to 40% of worldwide international arrivals - up from 34% in 2000:
 - International tourist **arrivals to developing countries** increased to 360 million - an overall **54%** increase.
 - International tourist arrivals to the **50 least developed countries** increased to 13 million – an overall **110%** increase.
- ❖ International tourism receipts for developing countries (low income, lower and upper middle income countries) will soon exceed \$250 billion.
- ❖ Tourism is one of the major export sectors of poor countries and a leading source of foreign exchange in 46 of the 49 Least Developed Countries.ⁱⁱ

While some of this growth is inevitably due to the increasing number of individuals with disposable income to travel, the benefits to overall economic growth are not inevitable and sustainable without simultaneous policy and institutional reforms in the business enabling environment.

Endemic Problems. The tourism sector in most countries suffers from business enabling environment issues that are proxied for by the *Doing Business* indicators in the World Bank’s annual report; however, focusing on raising the scores of the various *Doing Business* indicators will not necessarily lift the constraints that plague the tourism sector, specifically. The table below outlines some of

Seeking Efficiencies during a Downturn

As financial markets continue to be in turmoil for the foreseeable future, the tourism industry is now experiencing a temporary downturn, which means that destinations will be competing ever more fiercely for shrinking international market share. The winners will be those destinations that are able to reform and adapt their policies and institutions as efficiently and quickly as possible. Otherwise jobs and incomes will be lost all across an economy at a faster pace. The BizCLIR Tourism Diagnostic Toolkit is intended to assist destinations with maximizing efficiencies and minimizing negative impacts.

the business enabling environment and infrastructure issues that require a focused sector-level analysis in order to develop a coherent understanding of the landscape for tourism development.

Legal and Regulatory Issues	Institutional Issues	Infrastructure Issues
<ul style="list-style-type: none"> • Need for national tourism law that establishes standards and licensing for tourism-related businesses and development. For example, hotel classification, which establishes minimum standards for hotels, is often missing. • Discrepancies between local and national laws/regulations especially in regards to tourism-related taxes. In Montenegro, for example, there are at least 840 different local taxes. • Limitations on foreign property ownership • Complex regulations for issuance of construction permits and governing inspection regimes, as well as zoning regulations. • Unclear labor laws concerning hotels, restaurants, tour operators and travel agencies, as well as other tourism-related businesses. • Harmonization of legal and regulatory framework with the EU or other transnational bodies when recommended 	<ul style="list-style-type: none"> • Lack of or weak national level organizations in government to oversee the development and sustainability of tourism as a key economic sector. • Lack of a Tourism Policy that ties together multiple policies. For example, many countries lack tourism-sensitive policies on labor, investment, education, the environment, health and safety that maximize the benefits and minimize the costs of tourism development. • Lack of tourism-related data collected and analyzed by the country's national statistical authority. • Weak or non-existent industry organizations or associations that advocate on behalf of the industry. In the absence of these organizations, the Government may act according to an agenda that reduces the socio-economic value of tourism for that country. • Trade policy, particularly in regards to GATS liberalization offers and commitments. Tourism has more commitments to liberalize from developing countries than any other sector. 	<ul style="list-style-type: none"> • Aviation policy, particularly in regards to the IATA "Five Freedoms of the Air," cabotage and access for low cost carriers. • National road infrastructure must be adequate to service the tourism areas. • Water and sanitation infrastructure must be adequate to service tourism areas • Health and safety infrastructure, which have been significant issues for tourism during health crises such as SARS, Mad Cow Disease and Avian Influenza. Developing policies. • Security infrastructure to ensure the safety of tourists in country, yet efficient enough that visa policies do not limit interest.

A Coherent Way Forward. As one of the fastest growing industries in the world, it is no surprise that tourism has caught the attention of governments, businesses, investors, intergovernmental organizations, non-governmental organizations and donor agencies as a real engine of sustainable growth. Since 2000, USAID has initiated or completed over 123 projects in 72 developing countries that either specifically relate to the tourism sector or else utilize tourism as a component for achieving other, broader objectives. In 2008 alone, tourism was an integral part of projects and proposals on every continent – Ecuador, Bolivia, El Salvador, Albania, Montenegro, Georgia, Jordan, Rwanda, Mozambique, Bangladesh, and Thailand.

The same interest in tourism as a substantial tool for development is reflected in the projects of other donor agencies (e.g. GTZ, SNV, JICA, World Bank, International Finance Corporation, the Inter-American Development Bank, the European Bank for Reconstruction and Development, the Asian Development Bank, and the African Development Bank). To date, none of these organizations offer an integrated approach to address the variety of issues noted above. To maximize the benefits of tourism to a destination's people and economy, as well as ensure its sustainability, an integrated approach is fundamental. Policymakers must seek a comprehensive approach that blends legal and regulatory work, institutional development, and capacity building

grounded in a thorough understanding of the cultural context. Like USAID's BizCLIR model, such an approach provides a framework for comprehensive diagnosis and reform, even in a specific sector, that can lead to sustainable growth.

Contact:

Mike Ingram
ingram_michael@bah.com
Tel: 703.377.1040

Scott Wayne
swassociates@verizon.net
Tel:202-463-7394

ⁱ UNWTO Tourism Barometers 2008
ⁱⁱ ibid