

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

TOURISM SECTOR FRAMEWORK DOCUMENT

**ENVIRONMENT, RURAL DEVELOPMENT, AND
DISASTER RISK MANAGEMENT DIVISION**

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ABBREVIATIONS

CBT	Community-based tourism
CGE	Computable general equilibrium
CREST	Center for Responsible Travel
DMOs	Destination Management Organizations
ECLAC	Economic Commission for Latin America and the Caribbean
FDI	Foreign direct investment
ICTs	Information and communications technologies
IEEM	Integrated Economic-Environmental Modeling platform
IFC	International Finance Corporation
ILO	International Labor Organization
IMF	International Monetary Fund
IPCC	Intergovernmental Panel on Climate Change
IUCN	International Union for Conservation of Nature
LAC	Latin America and the Caribbean
MSMEs	Micro, small, and medium-sized enterprises
OECD	Organization for Economic Co-operation and Development
PPP	Public-private partnership
SAM	Social Accounting Matrix
SFD	Sector Framework Document
TTCI	Travel and Tourism Competitiveness Index
UNEP	United Nations Environment Program
UNESCO	United Nations Organization for Education, Science, and Culture
UNWTO	United Nations World Tourism Organization
WEF	World Economic Forum
WTTC	World Travel and Tourism Council

I. THE SECTOR FRAMEWORK DOCUMENT IN THE CONTEXT OF EXISTING REGULATIONS AND THE INSTITUTIONAL STRATEGY 2010-2020

A. The Tourism Sector Framework Document as part of existing regulations

- 1.1 In accordance with paragraph 1.20 of document GN-2670-1, “Strategies, Policies, Sector Frameworks, and Guidelines at the IDB,” which stipulates that Sector Framework Documents (SFDs) should be updated every three years, this document replaces the Tourism Sector Framework Document (document GN-2779-3) approved by the Operations Policy Committee on 22 October 2014.
- 1.2 The Tourism SFD is one of 20 prepared under the framework of document GN-2670-1, which together provide a comprehensive vision of development challenges in the Latin American and Caribbean region. It is complemented by the following SFDs: (i) Transportation, with regard to access and connectivity in tourism destinations; (ii) Citizen Security and Justice, given the need to safeguard security conditions in tourism destinations; (iii) Labor, because of the need to have efficient labor markets to create and maintain formal, quality employment in the sector; (iv) Integration and Trade, given opportunities for developing tourist attractions of a regional nature; (v) Urban Development and Housing, regarding the regeneration of heritage-rich urban areas that can be developed for tourism purposes; (vi) Support to SMEs and Financial Access/Supervision, concerning access to financial services by the tourism industry; (vii) Water and Sanitation and Energy, regarding the delivery of the public utilities that pave the way for tourism activity in the destinations; (viii) Decentralization and Subnational Governments, given the need to establish robust institutions at the subnational level, which is the level that pertains to tourism destinations; (ix) Social Protection and Poverty and Gender and Diversity, given the need to distribute tourism benefits to the most vulnerable population segments (based on either income levels or gender and/or ethnicity); (x) Climate Change, in view of the challenges facing vulnerable tourism destinations and the need to implement mitigation and adaptation investments; (xi) Environment and Biodiversity, given the importance of developing and protecting natural heritage assets and biodiversity as factors in competitiveness and tourism sustainability; (xii) Innovation, Science, and Technology, due to the central role of innovation in adding to the stock of tourist attractions, as well as the importance of information and communication technologies (ICTs) for planning, promoting, and marketing tourism activity; and (xiii) Health and Nutrition, given the importance of health services as a key factor in travel decisions and for developing certain types of tourism.
- 1.3 This SFD also falls within the framework of the Bank’s five sector strategies, and is related to the following in particular: (i) the Integrated Strategy for Climate Change Adaptation and Mitigation, and Sustainable and Renewable Energy (document GN-2609-1), the objective of which is to facilitate low-carbon development, environmental sustainability, and a reduction in climate change vulnerability in Latin America and the Caribbean; (ii) the Sustainable Infrastructure for Competitiveness and Inclusive Growth Strategy (document GN-2710-5), the objective of which is to support the construction and maintenance of socially and environmentally sustainable infrastructure; and (iii) the Sector Strategy to Support Competitive Global and Regional Integration (document GN-2565-4), which prioritizes lines of action to support the sustainable use of regional public goods, such as tourist attractions shared by the countries.

B. The Tourism Sector Framework Document and the IDB Institutional Strategy

- 1.4 This document is consistent with the Update to the Institutional Strategy 2010-2020 (document AB-3008), in that it supports the following crosscutting areas: mitigating climate change and improving environmental sustainability in the region, fostering gender equality and diversity, and strengthening sector institutional capacity. It also supports the following three structural challenges in the region: (i) reducing social exclusion and inequality; (ii) improving productivity and innovation in the region; and (iii) enhancing regional integration (IDB, 2015).

II. INTERNATIONAL EVIDENCE REGARDING THE EFFECTIVENESS OF POLICIES AND PROGRAMS IN THE TOURISM SECTOR, AND IMPLICATIONS FOR THE BANK'S WORK

- 2.1 For the purposes of this SFD, the tourism sector refers to the set of tourism industries (also known as tourism activities) that primarily generate products characteristic of tourism (PCTs), such as accommodation, food and beverage services, transportation, travel agencies, cultural services, and sports and recreation services. PCTs are products for which tourism expenditure accounts for a substantial proportion of total expenditure received (the proportion corresponding to expenditure/demand), the supply of which would shrink considerably in the absence of visitors. A visitor is a traveler taking a trip of less than one year to a destination outside his/her usual environment, for any purpose (business, leisure, or other personal reason) other than to be employed by a resident entity located in the country or place visited. A visitor is classified as a tourist if his/her trip includes an overnight stay. Visitors who do not stay overnight are classified as excursionists.¹
- 2.2 This section presents a review of empirical evidence regarding the effectiveness of policies and programs in the tourism sector. A systemic approach has been adopted in this review, encompassing the three types of interrelated impacts that may be generated by tourism activities: economic, social, and environmental. The main findings are presented in three subsections relating to these three kinds of tourism impact, as well as an additional fourth subsection regarding the crosscutting challenge of tourism governance in destinations.

A. Tourism generates economic benefits that can be enhanced through interventions targeting destinations and tourism demand

- 2.3 In recent decades, declining transportation costs, the expansion of ICTs, the spread of a culture of leisure, and rising disposable income in emerging nations have transformed tourism into one of the fastest growing economic sectors. In 2015, the sector generated 10% of world GDP² and 30% of total services exports,³ and accounted for 1 in 11 jobs throughout the world.⁴

¹ United Nations World Tourism Organization (UNWTO): International Recommendations for Tourism Statistics (2008).

² World Travel and Tourism Council (WTTC),

³ UNWTO Tourism Highlights, 2016. Transactions related to inbound tourism (the categories of travel and transportation of nonresidents) are classified as services exports in the countries' balance of payments (International Recommendations for Tourism Statistics (2008), UNWTO).

⁴ WTTC.

- 2.4 Tourism is a significant driver of economic growth for Latin American and Caribbean countries, particularly those in the Caribbean. Numerous studies confirm the significant positive correlation between tourism growth and economic expansion, both in developing and developed countries. Pablo-Romero et al. (2013) reviewed 63 empirical studies of tourism and economic growth in different regions of the world, of which 41 confirmed the existence of an unequivocal causal relationship between tourism and economic growth in the countries. A further 12 studies pointed to a bidirectional relationship between tourism and economic growth, 8 established a causal relationship from growth to tourism, and 2 were unable to identify any kind of relationship. The evidence for Latin America and the Caribbean is also clear. Using panel data for 21 Latin American and Caribbean countries in the 1985-1998 period, Eugenio-Martín et al. (2004) found that the tourism sector contributed to economic growth, particularly in low- and middle-income countries. An economic model developed by Fayissa et al. (2009) suggests that a 10% increase in tourism expenditure in Latin America and the Caribbean raises per capita GDP by 0.4%. Different econometric studies for Nicaragua and around 10 island economies in the Caribbean found that growth in tourism led to economic expansion in the countries analyzed (Croes and Vanegas, 2008; Ahamefule, 2012; Seetarah, 2011).
- 2.5 The visitor is the initial focus of interest for the analysis of the economic benefits of tourism, as the contribution of tourism to GDP stems from the exogenous infusion of tourism expenditure into the local economy. As such expenditure permeates and circulates throughout the economy, it generates direct, indirect, and induced effects. Visitors' tourism expenditure in enterprises serving tourists that is used to pay workers in the tourism sector is known as the direct impact. Indirect impacts are generated when these tourism enterprises have to pay suppliers, spending part of the money received from visitors on the purchase of goods and services. In turn, tourism business owners, employees, and suppliers of goods and services to tourism establishments make their own purchases and expenditures, generating induced impacts. In each round of spending, a portion is saved, while another recirculates through the economy (Winters et al., 2013). In this way, tourism spending generates changes in production levels, household incomes, and employment throughout the economy as a whole. The relationship between the aggregate impact on GDP (direct, indirect, and induced) and visitor spending is known as the tourism multiplier effect.⁵ For example, one study identified the long-term impact of tourism on local municipal employment in Mexico (measured through turnover at all hotel establishments). The study used detailed information on 150 coastal tourism municipalities from the 2000 and 2010 censuses, estimating an employment elasticity of 0.28—an effect derived in large part from the high tourism expenditure multiplier effect on local manufacturing production (Faber and Gaubert, 2016).
- 2.6 Thus, the potential of tourism to generate economic development is directly linked to the volume of tourism spending and the ability of destinations to capture the benefits derived from it locally. In those destinations unable to capture the benefits of tourism locally—due to the repatriation of benefits, wages paid to non-local staff, or a need to import the inputs needed to provide tourism services—the economic

⁵ Estimates of the tourism multiplier effect for Latin American and Caribbean countries are presented in section III.

development achieved through tourism is lower. The economic benefits of tourism depend, therefore, on: (i) the volume of tourism spending in the destination, and (ii) how the spending interacts with the destination's economy. The evidence presented below suggests that, to maximize the economic benefits of tourism, tourism policies need to consider (i) the main factors that influence travel decisions and, therefore, the generation of tourism spending; and (ii) the characteristics of tourism spending and its interaction with the local economy.

1. The influence of demand determinants on the generation of tourist arrivals and spending

- 2.7 Total tourism spending is the result of the number of arrivals, the duration of the visit/number of nights stayed, and daily spending per visitor. It is therefore important both to promote tourist arrivals and generate the maximum possible level of spending per visitor per day at the destination. The literature identifies two types of determinants or factors that influence travel decisions and the choice of destination. These factors—which either encourage or inhibit tourist travel from outbound markets to destinations—are known as “push” factors when related to conditions in the outbound market (such as disposable income), or “pull” factors when related to conditions in the destination (for example, levels of attractiveness or safety in alternative destinations). Using an econometric model based on a sample survey of 3,781 people in Spain, Nicolau and Más (2004) analyzed various push factors and concluded that travel decisions are influenced both by personal characteristics and constraints (income, employment status) and by sociodemographic variables (living in large or small cities, age, household size) and psychographic variables (degree of interest in other cultures). In a study using panel data for 43 African countries between 1996 and 2000, Naudé and Saayman (2005) identified several pull determinants for trips to that continent, such as political stability, tourism infrastructure, marketing, and the destinations' level of development. Based on panel data for 31 Latin American and Caribbean countries from 1995 to 2002, Pivčević et al. (2016) also found that different pull elements (economic growth in destinations, political stability, tourism infrastructure, and destination attractiveness) have a positive influence on international tourist arrivals, while insecurity has a negative impact.
- 2.8 The generation of tourism expenditure depends upon people actually visiting a destination. It is therefore important to understand which factors have the greatest influence on travel decisions by actual and potential visitors, so as to influence those factors or select the demand most suitable for the destination. Evidence is presented below regarding the factors most frequently mentioned in the empirical literature, along with the possible policies and interventions associated with each one: (i) destination attractiveness; (ii) insecurity and crisis situations; (iii) infrastructure; (iv) destination image and promotion; and (v) disposable income and price elasticity of demand.⁶

⁶ Pull determinants/factors are related to the management of destination characteristics. Accordingly, from the perspective of sector decision-makers, they are more manageable, and there is consequently more evidence for this type of factor than for push factors. The factors presented are usually interrelated in the travel decision-making phase. The studies identified are based on panel data and other methodologies that attempt to isolate their effects.

- 2.9 **Pull factor: destination attractiveness.** The attractiveness of a destination is related to the effective development of its natural and cultural resources. Empirical evidence from the region and beyond confirms that, in order to generate visits and increase tourism expenditure, investments are needed to develop local assets. Based on an analysis of different Italian regions between 1995 and 2010, Cuccia et al. (2016) highlight the fact that a territory's cultural and natural heritage determines its level of attractiveness to tourists. However, their conclusions also suggest that the mere existence of such heritage is insufficient. They find that, although a World Heritage Site designation of a destination generates high expectations on tourism demand, visitor arrivals may be negatively affected if such a declaration is not accompanied by investments in tourism development and management. Romão et al. (2012) have identified a significant positive relationship between regional attractiveness and innovation in tourism products and services, with panel data for 67 tourist regions in Southern Europe from 2003 to 2008. Throsby (2012) found that investments to restore the Old Bazaar in Skopje, Macedonia, helped to triple average total daily expenditure per visitor, from an average of US\$230 in 2000-2005 to US\$684 in 2005-2010. This compared with an increase from US\$109 to US\$195 over the same period at the Old Bazaar in Prilep (125 kilometers from Skopje and used as a comparator for Skopje). Similar results were found by Plaza (2006): monthly stays by visitors increased as a result of investments in the Guggenheim Museum in Bilbao, Spain. Interventions in Argentina to develop the San Ignacio and Santa Ana Jesuit Missions as tourist attractions—completed in 2012 with financing under the Program to Enhance Tourism Sector Competitiveness—showed an ex post economic return of 29%. Tourism investments by the Government of Namibia in protected areas are another noteworthy example in developing countries: they had an economic internal rate of return of 23% (Global Environment Facility, 2009).
- 2.10 In a context of intensifying competition in the sector, it is important to position destinations on the basis of their own attributes. Thus the development of local assets for the purposes of tourism should seek to create unique experiences that cannot be repeated elsewhere. In this context, creative tourism, a term coined in the last decade in the face of the growing sophistication of demand, offers visitors the opportunity to participate actively in learning activities and experiences connected to the uniqueness of the destination (Richards and Raymond, 2000). Creative tourism has been expanding gradually, successfully developing cultural and natural heritage assets in a differentiated manner.⁷ Its approach includes intangible heritage treasures and it seeks to merge a tourism visit with other sectors (art, design, film, gastronomy, music, and others) to produce innovative contents and personalized experiences. The Organization for Economic Co-operation and Development (OECD, 2014) has identified several creative tourism case studies that have had tangible economic impacts on the local economy. For example, Japan's Setouchi islands, positioned as art islands, received a total of 900,000 tourist visits connected to artistic events in 2010, which generated economic impact of US\$126 million. In Malta, it was found that almost 8% of tourism expenditure involved cultural and

⁷ Examples of creative tourism products would be cooking courses in Thailand, artisanal shoemaking in Tuscany, DJ courses in Ibiza, concert performances in Barcelona, visits to historical centers with local runners' clubs, meals in the homes of local residents, etc. There is an international network of creative tourism: <http://www.creativetourismnetwork.org>.

creative activities. In Singapore, an input-output analysis concluded that 2.4% of tourism input comes from the creative industries. In Barcelona, Spain, a survey determined that creative tourism had generated a total of €2.8 million in 2010.

- 2.11 The development of regional public goods—both natural and cultural—can also serve as an important driver of regional cooperation and integration. Based on a model applied to 191 countries for the 1999-2005 period, Culiuc (2014) found that geographical proximity between countries that share borders increases tourist arrivals by up to 150%. This result is important for Latin America and the Caribbean given the number and quality of regional goods with tourist potential in the region (the Inca Trail, Jesuit Missions, the Amazon, and Mundo Maya, among many others). In the European Union, ex post evaluations of territorial cooperation initiatives (INTERREG II and III, implemented between 1994 and 2006) found that cross-border projects aimed at developing and improving joint tourism products were more effective in driving integration than other economic sectors (LRDP Ltd, 2003; Panteia and Partners, 2010).
- 2.12 **Pull factor: insecurity and crisis situations in destinations.** Determinants of tourist arrivals and expenditure include the public safety image of destinations.⁸ Eilat and Einav (2004), using panel data for all countries in the world in the 1985-1998 period, found that perceived risk in a destination is an important factor in travel decisions. Similarly, Sequeira and Nunes (2008) estimated that a 10% increase in country risk perceptions can reduce international visitor arrivals by 2%. Yap et al. (2013) evaluated the impact of political instability, terrorism, and political corruption on tourism development, based on a panel data model for 139 countries in the 1999-2009 period.⁹ They found that the three variables have a negative effect on tourism demand, although political instability has the greatest negative impact. An increase of one unit in the political instability index reduces tourist arrivals by 24% to 31% and expenditure by 30% to 36%.
- 2.13 Different strategies have been adopted by countries to restore the image of a destination and/or accelerate recovery after a crisis or negative event (e.g. a terrorist attack or a natural disaster); these include price reductions, a focus on regional demand segments that are more aware of local realities, creation of sector funds and subsidies to support recovery, marketing campaigns, enhanced security measures, and the organization of international events (UNWTO, 2013; Pacific Asia Travel Association, 2011). In the case of marketing, Avraham and Ketter (2013) recommend steering clear of purely cosmetic actions, instead approaching marketing actions strategically, adhering to the reality of the destinations, and keeping in mind the information sources, messages, and audiences on which efforts should be focused. They also point to the need to adopt differentiated strategies in destinations with negative images linked to chronic security issues, and those with negative images stemming from short-term crises. In the former case, it is unrealistic to think that marketing alone will overcome long-term negative images (Anholt,

⁸ Tourist safety is a multidimensional concept that encompasses visitors' health and physical, psychological, and economic integrity (Organization of American States et al., 2010).

⁹ The model consists of three composite indices linked to each of the three variables analyzed, based on the methodology set out in the International Country Risk Guide (PRS Group). In the case of political instability, the index is based on indicators relating to internal and external conflicts, government stability, the influence of religion and the military in politics, and ethnic tensions.

2006); this means that prolonged communication efforts are needed, combined with other, complementary investments such as those mentioned above.

- 2.14 In both cases—managing long-term negative images and post-crisis recovery—the adoption of one response or another should be rooted in a robust socioeconomic and fiscal analysis. This is demonstrated by Blake et al. (2003), who use a computable general equilibrium (CGE) model to study the impact of different recovery measures after the September 11 attacks in the United States. To carry out this type of analysis, preventive planning is needed that overcomes purely reactive management, based on updated sector information and on interagency and cross-sectoral coordination necessary to offer rapid responses and clear messages to the sector and to visitors in the case of adverse events, fostering the adoption of security measures and audits by the private tourism sector (Putra, 2010; Pacific Asia Travel Association, 2011; World Economic Forum, 2015; Gurtner, 2016).
- 2.15 Among the information needed for this preventive planning, security perceptions on the part of tourism demand—both actual and potential—need to be managed effectively. Flores et al. (2016) indicate that not all demand segments react with the same intensity in the face of possible security risks in the destinations, having analyzed the response of different outbound markets to travel alerts and warnings¹⁰ issued by their governments. The authors cite a study involving 1,962 potential travelers from the United Kingdom, which concluded that 9 of every 10 travelers were unaware of the travel warnings issued by their country and 53% would not change their plans if traveling; the authors also describe another survey among 1,000 potential travelers from the United States, which found that 66% do take into account the travel warnings issued by their country, so security does appear to be a more determining factor for this market than for the British one. These findings suggest the importance of having a good understanding of demand in order to work with the segments best suited to the security conditions of the destination. Even when there are outbound markets that, in general, demonstrate a high level of concern for security, there are always specific segments that are less sensitive, especially when they already know the destination. The same authors demonstrate this with a survey of current tourism demand: visitors from the United States and Canada driving recreational vehicles to Sinaloa (Mexico), a destination recurrently flagged by alerts and negative information on security. This segment challenges the alerts and warnings of their respective countries: even though these travelers are aware of them (57% of those from the United States and 56% in the case of Canadians), they come and travel along roads considered dangerous. The characteristics of this segment of visitors include having strong knowledge of the destination (only 10% was visiting Sinaloa for the first time) and not considering security a determining factor in their final decision to travel (it was only important for 15.8% of those surveyed).
- 2.16 **Pull factor: destination infrastructure.** Different authors have found that the level of infrastructural development in transportation and public utilities (water, power, telecommunications, sanitation) influences the volume of international arrivals to a destination (Tang and Rochananond, 1990, for Thailand; Kim et al., 2000, for South Africa; Seetanah et al., 2011, for Mauritius). In the specific case of Latin America

¹⁰ Travel alerts are issued for short-term events, while travel warnings are generally issued for the long term and carry more weight.

and the Caribbean, Eugenio-Martín et al. (2004) found, based on panel data for the 1985-1998 period, that the development of physical infrastructure in destinations is one of the most significant factors explaining international arrivals to the region. The Economic Commission for Latin America and the Caribbean (ECLAC) (2009a), using panel data for 32 Caribbean countries in the 1995-2006 period, has identified a positive correlation between technology penetration and visitor arrivals.

- 2.17 In the case of infrastructure that provides access, air transportation is of particular importance, as more than half of international visitors worldwide arrive at their destination by airplane (54% in 2015).¹¹ Although there is discussion in the literature of tourism as a catalyst for transportation, evidence shows that the two activities are mutually dependent. Mikkala and Tervo (2013) conducted a Granger causality test¹² based on data for air traffic and economic activity in 86 regions in Europe and 13 countries over the 1991-2010 period, finding that causality processes are homogeneous from economic growth to air traffic, and that there also is causality from air traffic to economic development, especially in the case of island states and peripheral regions. Nonetheless, it is difficult to determine which aspects of air transportation (numbers of flights, airlines, seats, frequencies, air routes) have the greatest impact on tourist arrivals. A recent study by the International Monetary Fund (Acevedo et al., 2016) found that the number of flights is the most effective factor for increasing tourist arrivals in the Caribbean, while the factor with lowest impact is the number of ports of origin with direct flights from the United States.
- 2.18 **Pull factor: destination image and the importance of tourism promotion.** Different empirical studies have highlighted the importance of tourism marketing as a determinant of visitor arrivals (Nicolau et al., 2004; Naudé and Saayman, 2005; Lim, 2006; Song et al., 2010; and many others). In this respect, campaigns designed on the basis of rigorous demand studies and adjusted periodically based on the results of impact evaluations have been shown to yield returns. In Denmark, the return on every US\$1 invested in promoting leisure tourism was US\$16, while in Scotland the return was US\$20. In the case of Canada, the return ranged from US\$21 to US\$107, depending on which country the campaign targeted (WTTC, 2012). These results are consistent with a previous cointegration analysis in Australia that found that public investment in tourism marketing generated an average return of 17:1 in Asian markets, 3:1 in the British market, and 7:1 in the U.S. market (Kulendran and Dwyer, 2009).
- 2.19 New opportunities have arisen for tourism promotion and marketing as a result of the profound impact of ICTs on the sector in recent years. ICTs have drastically transformed the way visitors gather information and prepare and reserve their trips. At the global level, there is a progressive migration away from offline channels towards digital ones, meaning that online sales are gradually increasing their share of overall tourism sales. In 2014, the penetration of online leisure travel within total sales was 44% in the United States and Europe, 27% in Asia-Pacific, and 21% in Latin America. Estimates indicate that in 2017, online travel sales will surpass traditional channels in Europe (at 52% of the total), and will increase to 45% in the United States, 37% in Asia-Pacific, and 27% in Latin America (Phocuswright,

¹¹ UNWTO.

¹² The Granger causality test is an econometric test that confirms whether the results of one variable are useful for predicting another, and whether causality is unidirectional or bidirectional.

2016).¹³ In this context, social networks are one of the main digital instruments to be taken into account since they are influencing not only the visibility of destinations, but also their performance. Milano et al. (2011) analyzed the impact of social networks on the popularity of Italian tourism websites, concluding that there is a significant correlation between both variables, while Ye et al. (2009) point to the existence of a correlation between online user reviews and hotel reservations in China. Offline promotion channels should therefore join together with online ones as part of an integrated strategy, and destinations need to actively manage their digital channels if they are to be considered during the trip decision-making stage. Ongoing monitoring of the new possibilities offered by ICTs through virtual reality and other innovations is also important to further destinations' creativity and emotionally involve the visitor in his or her travel planning phase.

2.20 Push factor: disposable income and price elasticity of tourism demand.

Economies that depend on tourism should diversify their demand portfolios with a view to limiting the adverse effects of socioeconomic changes in outbound markets and their sensitivity to the relative price of travel. Gardella and Aguayo (2003) found that tourism demand in the United States for countries belonging to the Andean Community is sensitive to variations in U.S. GDP. Romeu and Wolfe (2011) measured the impact of changes in economic conditions in source countries belonging to the OECD on tourist arrivals in Latin America and the Caribbean, finding that demand in those countries is price sensitive: a 1% drop in the average cost of tourism services supports an increase of between 1.2% and 1.6% in tourist arrivals. They also found that an average increase of 1% in the unemployment rate in the outbound markets reduces Caribbean arrivals by 3% to 5%. Guzmán-Soria et al. (2011), using data for the 1980-2009 period, found that economic growth in the United States and Canada has a significant positive effect on the development of Mexico's tourism sector. Vanegas (2010) analyzed international tourism demand for Nicaragua, and concluded that the main determinant of regional demand for that country is disposable income, while the most important factor in the case of U.S. residents is the cost of air travel (with an elasticity of greater than one).

2.21 Against this backdrop, tourism policies should manage the volatility associated with changes in macro socioeconomic conditions by incorporating visitors with different price elasticities into their portfolios. For example, Chen et al. (2011) recently analyzed variability in returns and the risks associated with each outbound market for Japan, proposing a shift in priorities under the current tourism demand portfolio in favor of alternative markets (the United Kingdom, Germany, France, Korea, China, and Hong Kong), and away from efforts to attract visitors from Taipei China and the United States. Agiomirgianakis et al. (2017) analyzed short- and long-term demand functions for Singapore in the 2005-2014 period, finding that exchange rates and socioeconomic conditions in outbound markets affect travel decisions over a very specific time period, during which actions to capture demand must be implemented in order to maximize their effectiveness. For example, changes in disposable income have maximum impact on the decision to travel between four and six months prior to a trip, while the impact of exchange rate volatility is felt between 10 and 12 months prior. These proposals point to a need for thorough, real-

¹³ <https://www.statista.com/topics/2237/internet-usage-in-the-united-states>.
<https://www.statista.com/topics/2704/online-travel-market>.

time knowledge of outbound markets to support the destinations' implementation of timely marketing and price management actions.

- 2.22 Both international and domestic tourism need to be considered in portfolio diversification strategies. Sala et al. (2014) confirm the uneven performance of both markets in Spain in the face of shifts in economic cycles during the 1990-2011 period. The study shows that inbound tourism has a marked carryover effect on economic activity in the country, but that domestic tourism has a relatively greater capacity to moderate losses in times of recession. Amaral et al. (2013), in a study of tourism demand in Brazil, warn that although domestic tourism can be understood as a zero-sum game (in terms of the foreign exchange generated by international tourism), it plays an important role in redistributing national income, confirming the need to diversify and balance the portfolio of outbound markets.
- 2.23 A varied portfolio of markets with different price elasticities allows destinations to choose between different strategies for competing in the market. Laframboise et al. (2014), using a dynamic panel model for 16 Caribbean countries in the 2000-2013 period, found that the price elasticity of tourist arrivals to Caribbean locations positioned as luxury destinations is very low and has low statistical significance. This result highlights the importance of preserving the quality of tourism facilities and services to respond to the expectations of different demand segments, and to avoid competing on the basis of cost alone. The experience of Calviá—a mature destination in Spain's Balearic Islands competing mainly on the basis of price, and with problems of obsolescence in its tourism plant—shows that this is possible. In this case, the government supported investments to improve the quality of hotel establishments and the natural and urban environment, leading to a subsequent 3% increase in average hotel prices, combined with high occupancy rates and high levels of satisfaction in surveys (Aguiló et al., 2002).

2. Net economic benefits depend on the structure of tourism spending and the characteristics of the destination economy

- 2.24 The ability of tourism subsectors that capture visitor spending (accommodation, restaurants, shopping, transportation, etc.) to generate income and employment varies. As a result, different kinds of tourism have different multiplier levels. The strength of the economic effects will depend on the tax levels, import ratios, capital to labor ratios, and upstream and downstream economic linkages in each tourism subsector in which tourism expenditure occurs. Accordingly, the structure of visitor expenditure—i.e. what proportion of their budget visitors spend and where they spend it—has major implications for maximizing economic benefits at the local level.
- 2.25 One study used a CGE model and tourism expenditure survey data from Hawaii to disaggregate the economic impact of spending by different demand segments (Pratt, 2012). In Hawaii, shopping- and food-related subsectors tend to be more labor intensive than accommodation subsectors, which are more capital intensive. Based on these characteristics, the study concluded that the main contribution to the generation of value added in this destination comes from visitors who dedicate a higher proportion of their tourism budget to accommodation, while visitors who spend on shopping and food make a greater contribution to job creation. The study also disaggregated economic benefits by the type of accommodation, finding that the daily net economic benefits generated by visitors staying in hotels (US\$51.60) were higher than visitors staying in timeshares (US\$19.40), as the latter dedicate a

higher proportion of their spending to subsectors with high import ratios (food, entertainment, and shopping).

- 2.26 In analyzing expenditure, the geographical structure and amount of spending are also important. An analysis of the impact of tourism on the economy of the Galapagos Islands from 1999 to 2005 (Taylor et al., 2006) confirmed that the multiplier for spending by international tourists (0.218) was lower than that for nationals (0.429). This is largely due to the fact that only 8% of spending by international tourists was produced in the islands. Nonetheless, given that the total amount of spending by international tourists was far higher than that of nationals, the impact was greater in absolute terms. At the same time, the multiplier for spending in each of the three islands studied varied enormously depending on the complexity of their economies and the composition of the demand portfolio (national/international). The multiplier for the island of Santa Cruz—the economic hub of the archipelago, with the highest level of economic diversification—was 0.499, while in San Cristóbal and Isabela, the multipliers were only 0.087 and 0.192, respectively.
- 2.27 The evidence thus suggests that sector decision-makers need to dedicate efforts and resources to understanding the market and the spending structure of each current and potential demand segment, with a view to understanding its relationship to economic performance in the destination and the potential impacts in each case. Priority should be given to those segments with higher multipliers. The factors related to spending structure that are most frequently mentioned in the literature, and that should be taken into account when prioritizing one type of spending over another, are as follows: (i) the level of prepayment for tourism services in the place of origin; (ii) overnight stays at the destination; (iii) the type of accommodation at the destination; and (iv) seasonal changes in visitor spending.
- 2.28 **Level of prepayment prior to arriving at the destination.** Visitors staying in all-inclusive resorts or taking cruises spend a higher proportion of their travel budgets at the start than other types of visitors, thus reducing the possibility that a share of tourism expenditure will be captured at the destination. This has been confirmed through various studies—most notably, in an evaluation by Alegre and Pou (2006) of Spain's Balearic Islands, which found that all-inclusive tourists spend 9% more than the average tourist in their country of origin, but 39% less at the destination. Comparative studies of the all-inclusive model in developing countries and emerging tourism destinations have arrived at the same conclusion. In Zanzibar (Tanzania), Anderson (2011) found that all-inclusive tourists spent between 39% and 46% less at the destination than other kinds of tourists.
- 2.29 **Overnight stays.** In terms of overnight stays, a 2007 IDB study (based on 2,436 surveys conducted in 2005 and 2006) compared the impact of cruise tourism with that of tourism involving overnight stays. It concluded that in Belize, Costa Rica, and Honduras, total local earnings and tax revenues from each overnight tourist were significantly greater than those from cruise passengers. The Caribbean accounts for more than 50% of world cruise demand, which generates less than 5% of sector earnings (Pinnock, 2012). At the same time, the evidence suggests that cruise tourism can displace overnight tourism in some cases, as found by Bresson and Logossah (2011) in a study of the Caribbean based on panel data from 15 countries from 1985 to 2004.

2.30 **Type of accommodation.** In relation to the type of accommodation, the empirical evidence suggests that production chains linked to hotel accommodations yield greater benefits than residential tourism. The experience of Spain's coastal areas is illustrative: sun and sand tourism development began in Spain in the 1960s, with subsequent real estate development. Based on input-output tables for six autonomous communities and 26 tourism-focused municipios on the Spanish coast, a 2005 Exceltur study showed that hotel-based tourism has a greater socioeconomic impact than that based on second homes—both in absolute terms (despite a lower number of bed spaces) and in relative terms (per bed space). A single hotel bed space created the same economic impact as almost 11 residential spaces, generating 9.5 times more direct employment, 1.4 times more indirect employment, and 2.8 times more fiscal revenue per bed space than residential accommodation. The study also suggested that hotel-based tourism offers opportunities for municipios to save on the delivery of public utilities, as hotel spaces are more geographically concentrated and less subject to seasonal variation than residential ones. This allows the need for municipal infrastructure to be determined more precisely over the year as a whole.

2.31 **Seasonal variations in tourism expenditure.** Some types of tourism that are highly weather-dependent, such as sun and beach vacations, attract demand segments with more seasonal spending patterns than others, and this affects the intensity and continuity of impacts on the local economy. Seasonal variations affect the amount of fixed capital required to cope with weaker activity in the low season, and they create problems of resource underutilization, unstable demand for labor, and irregular orders from suppliers in other economic sectors. Some outbound markets have a higher propensity towards seasonal spending than others. Agnew et al. (2006) used statistical models to analyze the effect of weather variability on British tourism demand and found that international departures from the United Kingdom are sensitive to the weather in the year before a trip, while domestic demand reacts to weather in the current year. In Spain, Turrión-Prats et al. (2016) have found that the level of seasonality in tourism has grown since 2008 (after an earlier downward trend), and that three markets (the United Kingdom, France, and Germany) accounted for two thirds of seasonal variations between 2000 and 2014. These results show the clear importance of attracting complementary demand segments by offering tourism activities and proposals that do not depend solely on the weather. Cultural festivals are a successful example of diversifying the stock of tourist attractions to capture demand in the low season (United Nations Organization for Education, Science, and Culture—UNESCO, 2009). In the Caribbean, different destinations have spent several years promoting this type of event, such as Cropover in Barbados, the St. Lucia Jazz Festival, or Carnival in Trinidad, among many others. Nurse (2003) emphasizes the positive effects of these Caribbean festivals on tourist arrivals and hotel occupancy rates in the low season, confirming by means of cost-benefit analysis that public investment yields positive returns in all three cases (9.1:1 in the case of St. Lucia, 7:1 in Trinidad, and 2.4:1 in Barbados).

B. Tourism can accelerate poverty alleviation and social inclusion

2.32 In contrast with other service-exporting activities, in the case of tourism consumption, visitors are the ones that travel to the location of production/service delivery (the destination), coming into direct contact not only with tourism enterprises, but also the local population. In addition, tourism is a labor-intensive

sector. These characteristics mean that (i) a high percentage of value added needs to be produced in the destination itself; (ii) the local population (including the most disadvantaged groups) can have direct access to foreign exchange and tourism expenditure as providers of tourism services; (iii) tourism services help to create local employment; and (iv) some of the supplies for the sector can be sourced locally. There is evidence to suggest that the net social benefits and distributional impact of tourism expenditure vary in response to the presence of policies that explicitly encourage linkages between tourism and the local economy, and that focus actions on the poor, women, and other vulnerable social segments throughout the tourism value chain (Mitchell and Ashley, 2010). In addition, inclusion efforts are especially important in the tourist destinations, since the situation of social vulnerability can lead to unwanted demographic shifts (due to heavy job-seeking migration towards areas lacking in basic services) (paragraph 2.72), as well as to social costs from increased criminality (encouraged by the presence of visitors) (Montolio et al., 2012), an increase in transactional sex, and consumption of alcohol and other substances, among other things (Padilla et al., 2010). Evidence is provided below regarding the capacity of tourism to benefit local populations—particularly the most disadvantaged by income level, and to support the inclusion of women and indigenous and Afro-descendant communities—as well as the main existing obstacles.

1. Poverty alleviation and social inclusion through tourism

- 2.33 There is evidence that tourism is positively correlated with reductions in poverty in Latin America and the Caribbean. In Nicaragua, it was found that a 1% rise in foreign exchange earnings from tourism generates a decline of 0.51% in poverty (Croes and Vanegas, 2008). In Panama, it was found (using the social accounting matrix (SAM) method) that 20% of national income from tourism expenditure was captured by poor households. This proportion rose to 43% in areas that were highly tourism-oriented and had higher levels of poverty, such as Bocas del Toro (Klytchnikova and Dorosh, 2012). Based on an SAM study for Ecuador, Croes and Rivera (2017) conclude that (i) tourism has helped to increase the incomes of the poorest groups—even for the most disadvantaged in the first quintile; (ii) the benefits of tourism have been greater for the poor than for the nonpoor, narrowing the gap between the two; and (iii) developing tourism is an effective strategy for dealing with poverty reduction issues in developing countries. Similarly, using a CGE model, Banerjee et al. (2015) found that tourism in Haiti leads to a 1.6% reduction in the number of poor, brought about by a reduction in unemployment, increased wages, and higher incomes among non-wage earners. In the case of island states, Jiang et al. (2011) analyzed the relationship between tourism and human development indicators in 16 island nations in Asia/Pacific, Africa, and the Caribbean, finding evidence of the positive impact of tourism on GDP per capita and the Human Development Index (HDI).¹⁴
- 2.34 The benefits of tourism for poverty and social inequality are not automatic, however, as the case of Spain demonstrates: Carrascal and Fernández (2015) used an SAM to establish that, although tourism generates earnings for all types of households (grouped according to income), those with the highest incomes benefit the most from growth in tourism. Another study, carried out by Blake et al. (2008) in Brazil, found that additional growth of 10% in international tourism expenditure increases incomes

¹⁴ Prepared by the United Nations Development Programme.

across all population groups, but that the households with the lowest income levels are not the main beneficiaries of the increase. In Haiti, Ashley et al. (2014) used interviews with local businesses and tourism stakeholders to conduct an assessment of the tourism value chain in the south of the country, concluding that only 10% of tourism expenditure accrues to poor households in those southern destinations. These results suggest a need to foster tourism developments that engender greater participation in the tourism value chain by the poorest households.

- 2.35 Employment is one of the channels through which the economic benefits of tourism accrue to the poorest individuals. Because tourism requires varying skill levels (from the most sophisticated to the most rudimentary), it allows disadvantaged and vulnerable groups to enter the labor market rapidly. The employability of these groups should be increased through different levels of training activities; otherwise, sector growth will either be cut short or the destination would have low levels of quality. Training is a prerequisite for meeting tourism sector labor needs, but in the case of the poorest families it is generally limited (Blake et al., 2008). Another employment challenge in the sector—particularly in developing countries—is labor informality, which is generally linked to a lack of access to vocational training and education, poor working conditions, and weak social protection (International Labor Organization (ILO), 2013); this curtails opportunities for advancement among the poorest individuals.
- 2.36 Another avenue for integrating the poorest households into tourism activity is the direct delivery of tourism services to visitors, through local entrepreneurship. Agritourism is an example of a tourism-related business that is chosen by small-scale farmers in many developed and developing countries to diversify their income. An evaluation by Schilling et al. (2014) of farm profitability in the state of New Jersey (United States), based on data from the 2007 agricultural census, concluded that small and medium-sized farms involved in agritourism activities generated higher net income per acre than those that did not offer this activity. As in the case of employment, many tourism enterprises are informal, as this is the only way people with barriers in terms of financing, market knowledge, and training are able to enter the sector (UNWTO, 2004, 2005, and 2006). The ILO (2013) has shown a direct link between informality and poverty, as earnings are lower than in the formal economy and working conditions are less certain. This highlights the importance of focusing inclusion efforts on the poor, and particularly on those working in the informal sector. This is demonstrated in an ex post evaluation of a program in Gambia aimed at promoting training and formalization and improving the quality of the most vulnerable local tourism services. The evaluation found that income was boosted by 18% to 33% in the case of tour guides, more than doubled in the case of juice vendors in beach areas, and up to tripled in the case of craft market vendors (Bah and Goodwin, 2003).
- 2.37 A third channel for inclusion is supplying tourism enterprises, which reinforces linkages between local production and tourism. However, supplying the tourism sector is a challenge for small low-income producers, requiring them to produce high volumes, deal with an uneven flow of orders (due to the seasonal nature of the sector), produce to the high-quality standards required by visitors, and commit to deliver on time. So as to guarantee these conditions, some hotel chains prefer to import the goods needed for the delivery of their services. For example, a study conducted in Bahia, Brazil, found that 79% of seafood consumed in hotels is

imported from Pernambuco, despite the existence of local production.¹⁵ In the case of Zanzibar, Nguni (2015) found that value chain linkages were broken or very weak because small local suppliers are unable to meet the safety, health, and quality standards demanded by hotel chains. The author's main argument concerns the existence of a small, fragmented market, which represents an additional challenge for social inclusion through tourism—hence the importance of explicit action to strengthen linkages between tourism and local production chains, particularly with respect to the smallest producers. In 2016, the International Finance Corporation (IFC) carried out an evaluation to measure the economic impact of three of its hotel investments—in the Maldives, Mali, and Ghana. Using an input-output model for each economy, it found significant economic benefits in all three cases, with design of the investments providing for the creation of linkages with local production. In Mali, the hotel created a purchasing and distribution center to manage the challenges of the informal economy and generate linkages with small local producers by training them and guaranteeing stable demand. Another example is Jamaica, where the government has supported the creation of a tourism linkages network for micro, small, and medium-sized enterprises (MSMEs) in sectors such as manufacturing, agriculture, entertainment, and leisure. The initiative is gradually bearing fruit, a notable example being the Agro-Tourism Farmers Market, which has instituted an improved business structure for more than 70 farmers.¹⁶

2. Tourism and gender inclusion

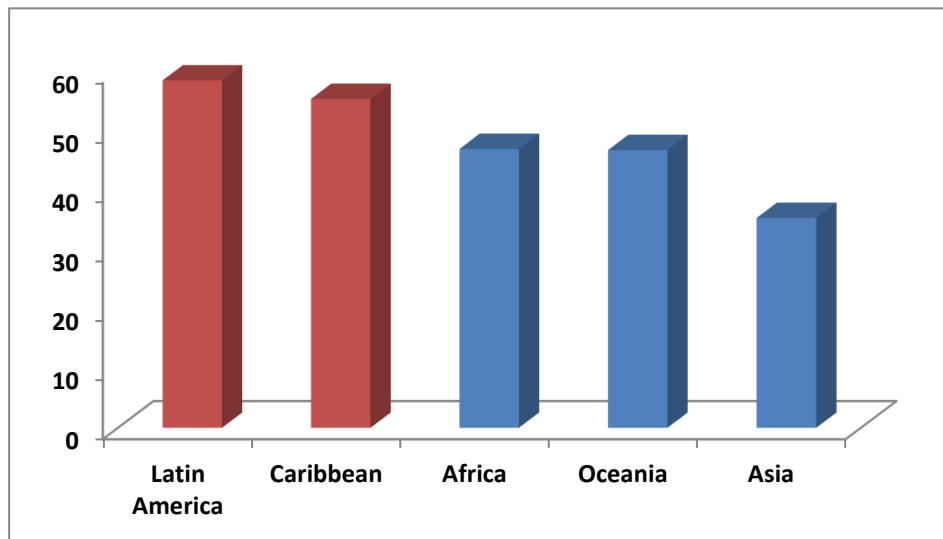
- 2.38 There is evidence that tourism offers substantial opportunities for integrating women into both formal and informal labor markets. According to the ILO (2011), women represent 60% to 70% of the workforce in the tourism sector, providing them with financial and economic independence. According to data from the UNWTO and the United Nations, Latin America and the Caribbean has the highest percentage of women both in formal employment in the hospitality sector¹⁷ (see Figure 1) and in the entrepreneurship segment (with the proportion of women employers double that of other sectors) (see Figure 2).

¹⁵ Bahia Department of Tourism (2009), *Fomento à Criação de Arranjos Produtivos Locais* [Support for the Creation of Local Production Arrangements].

¹⁶ *Tourism Demand Study, Linkages Hub, Ministry of Tourism and Entertainment of Jamaica*, October 2015. <http://www.mot.gov.jm/page/tourism-linkages-network>.

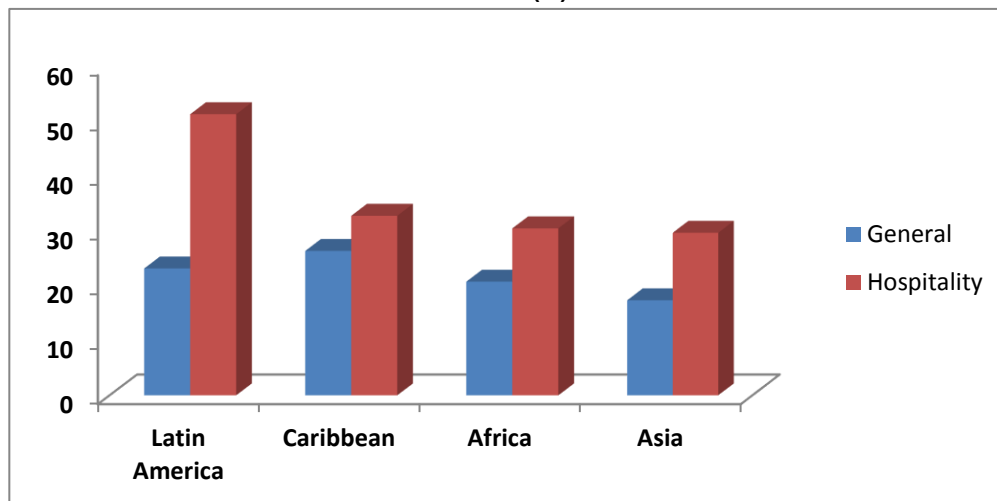
¹⁷ Hospitality includes the accommodation and food and beverages subsector.

Figure 1. Average female employment as a % of total formal employment in the hospitality sector



Source: UNWTO and UN Women (2011).

Figure 2. Proportion of women employers in the hospitality sector, compared with other economic sectors (%)



Source: UNWTO and UN Women (2011).

- 2.39 Various studies also highlight the ability of tourism to promote poverty reduction among women and to empower them in their communities. Boley et al. (2017) use a 12-item scale to quantify the degree of empowerment of women working in the tourism sector in three areas in the United States and two in Japan. This study is pioneering in its use of a quantifiable scale, contrasting with previous studies that

were qualitative in nature. The results show that women see themselves as more empowered than men in the United States and as equally empowered in Japan.¹⁸

- 2.40 Nonetheless, there are patterns of segregation in tourism employment, both horizontal—related to the high presence of women in certain functional areas—and vertical—with a lower presence of women in the upper professional echelons. Using wage decomposition techniques and administrative data from different geographical locations,¹⁹ empirical literature confirms that jobs in the tourism sector that are mainly performed by women either replicate domestic tasks in the productive sphere (chambermaids, cleaners, etc.) or involve administrative activities (Santos et al., 2007; Thrane, 2008; Campos-Soria et al., 2011; Muñoz-Bullón, 2009). These studies also indicate that segregation can lead to wage discrimination, with important gaps between men and women that cannot be attributed to the observable characteristics of the position or the worker. The ILO (2011) confirms that the wages of women in the tourism sector are usually lower than those of their male peers (by 25% on average), and that women with mid- or low-level qualifications face worse working conditions. Using the Blinder-Oaxaca wage decomposition technique based on microdata from the national household survey, Ferreira and Silva (2015) confirm the existence of significant wage gaps in Brazil's tourism sector, where male hourly earnings are 35.4% higher than those of women. However, this study also concluded that wage gaps are higher in the case of women with lower levels of education, pointing to a need to increase education levels in these segments.
- 2.41 As far as women entrepreneurs in the tourism sector are concerned, recent academic research suggests that businesses led by women have particular characteristics. In Ecuador, for example, Sarango et al. (2016) found that women have a greater fear of failure, with negative consequences for their business activities. The authors found that age, motivation, education, and access to financial credit were the most significant determinants for promoting women's entrepreneurship in the sector. In the case of southern Botswana, Moswete and Lacey (2015) conducted a qualitative evaluation of the impact of new policies to empower women through tourism, concluding that they facilitate women's leadership and entrepreneurial capacities.
- 2.42 However, as Ferguson (2009) indicates, there is not always a correlation between the increase in economic resources or economic empowerment of women who participate in the tourism sector—through employment or a business—and the remedying of gender inequality. Such inequity is a barrier to achieving further economic development and reducing poverty. Accordingly, the author points to the need to generate additional changes in the social, cultural, and legal structures of tourism development. In this context, the UNWTO and UN Women (2010) made some recommendations based on various case studies in different locations around the world, including, in particular: (i) gather disaggregated data by gender to generate systematic awareness of the role of women in the tourism sector, identify and promote good practices and lessons learned; (ii) provide incentives for

¹⁸ Qualitative studies by Duffy et al. (2015), Ferguson and Alarcón (2014), Ling et al. (2013), Scheyvens (2000), and Tucker and Boonabaana (2012) indicated problems with respect to women's empowerment, while other such studies by Garcia-Ramon et al. (1995), Khatiwada and Silva (2015), and Moswete and Lacey (2015) found that tourism increased women's empowerment.

¹⁹ Spain, Portugal, Norway.

businesses to offer more promotion and training opportunities for women; (iii) mainstream gender in tourism policy; (iv) strengthen legal protection for women in tourism employment, including wage regulations and equal pay laws, and improve work/life balance (maternity leave requirements and flexible hours); (v) facilitate women's entrepreneurship by ensuring their access to credit, land and property, and appropriate training; and (vi) support women's tourism leadership at all levels—public sector, private sector, and local community—through specific programs that recognize and reward women's contribution, including their unpaid work.

3. Tourism and indigenous and Afro-descendant communities

- 2.43 Tourism development involving indigenous or Afro-descendant communities has been controversial, and their substantial sociocultural heterogeneity (among other challenges) means that the empirical evidence is insufficient to draw general conclusions. According to a recent literature review by Pereiro (2016), this type of tourism has been regarded with optimism in Latin America, as it represents an additional source of income and can present local customs and culture to visitors in a positive manner, thus building the self-respect and empowerment necessary to revitalize and maintain languages and traditions.²⁰ More critical studies, however (Cañada, 2010), indicate that these communities have benefited very little from tourism; instead, they have been marginalized by the tourism production system, indigenous populations have been displaced, and community property has been destroyed by the concept of private property, which has led to greater social inequality between families (Taylor, 2017). A third, more adaptive, vision holds that change should be community-driven, and that tourism is successful where local residents are responsible for its planning and control (Fletcher et al., 2016), and for deciding the pace of growth, the use of resources, and organizational arrangements (Simpson, 2008). Pereiro (2016) also points to a need to increase tourism education in the community, to promote tourist attractions in coordination with commercial channels, and to place greater emphasis on the distribution of benefits within the community and greater dialogue between the community and governments.

4. Policy alternatives²¹

- 2.44 Consequently, to ensure that tourism provides benefits to social groups that are vulnerable (in terms of both income levels and gender or ethnicity), explicit policies need to be adopted to support them, overcoming fragmentation in the sector and increasing their visibility in tourism policies. The evidence described above shows that tourism represents an opportunity for inclusion for vulnerable groups, but necessary conditions must be generated to truly achieve beneficial incorporation into the sector. Programs to enhance the welfare of local populations, including their capabilities for organizing, producing, and marketing tourism and other associated services, have been effective where they have included the following: (i) improved access to sector information and knowledge, with vocational training and long-term technical support (Bah and Goodwin, 2003; Jamieson, 2004; Kubsa, 2007; Verdugo, 2007; Weru, 2007; Armstrong, 2012); (ii) support for accessing capital and markets (Bah and Goodwin, 2003; UNWTO, 2005; Weru, 2007; Mtui, 2007; Mitchell and

²⁰ A number of examples of this vision are provided by Ingles (2002), Maldonado (2006), Espinosa (2010), Chernela (2011), and Morales and Marías (2007).

²¹ Any intervention in this sphere in the tourism sector should follow the guidelines established by the Labor, Social Protection and Poverty, and Gender and Diversity SFDs.

Ashley, 2008); (iii) strengthened property rights and legal support (UNWTO, 2004); (iv) programs to improve the quality of tourism products and services, and to support business and labor formalization by reducing the costs and duration of registration processes, simplifying tax systems, and facilitating access to social protection mechanisms for entrepreneurs and microentrepreneurs (Bah and Goodwin, 2003; UNWTO, 2006; Garcia Lucchetti and Font, 2013; ILO/German Association for International Cooperation, 2014); and (v) support for the social responsibility programs of tourism companies, aimed at improving the quality of life of local communities or specific, disadvantaged groups in the destinations, such as at-risk youth (Cohan, 2009). Nonetheless, evidence from the literature regarding the effects of each type of intervention is still emerging, and greater efforts are required to evaluate the different achievements. These should be distinguished by type of beneficiary and by destination and country, establishing valid comparisons over time.

C. Tourism can contribute to environmental protection and enhance resilience to climate change

- 2.45 The natural and cultural environments are of undeniable importance for tourism. Many analytical models of tourism competitiveness include direct or indirect references to policies or programs for the sector's environmental sustainability. The sector is facing growing climate change-related challenges that need to be addressed in order to ensure its survival.

1. Tourism as an instrument for environmental betterment and biodiversity conservation

- 2.46 **Environmental benefits.** The tourism sector, when effectively planned and managed, helps to conserve biodiversity and protect the environment. As shown in an analysis of 160 countries (Freitag et al., 2009), biodiversity represents a comparative advantage for tourist destinations. Its loss implies a reduction in the ability to generate tourism spending. Biodiversity conservation therefore helps to maintain the sector's economic benefits. Along these lines, there is evidence that nature tourism is an important ecosystem service for biodiversity, capable of generating substantial resources that can be used for both development and conservation (Balmford et al., 2009; Buckley, 2011; Gunter et al., 2017).
- 2.47 For example, tourism earnings support the financial sustainability of protected areas. This is of particular importance given the current context of unsustainable financing, with enormous dependence on government budgets for maintaining and managing protected areas in both developed and developing countries. An estimated 20% of the mammals included in the Red List compiled by the International Union for Conservation of Nature (IUCN) receive at least 15% of funds for their conservation from tourism (Buckley et al., 2012). Although infrequent, there are successful cases such as that of Tanzania, where protected area systems have high visitation rates and are maintained almost entirely through tourism-generated revenue (Eagles et al., 2002). The most frequently used mechanisms for financing protected areas through tourism involve charging entry fees to visitors and granting concessions to tourism operators. Some public parks have managed to collect as much as 80% of their tourism revenue through direct entry fees alone (Buckley, 2011). Methodologies that measure visitors' willingness to pay have proven successful in guiding the implementation of entry fee systems

- that are compatible with management costs. For example, adjusted entry and access fees for marine protected areas, based on estimates of willingness to pay, have made it possible to generate revenue that is used to protect coral reefs in the Mayan Riviera (Casey et al., 2010) and to improve management of the Bonaire National Marine Park (Thur, 2010).
- 2.48 Tourism also provides opportunities for expanding conservation areas, encouraging the creation of private and communal reserves for the purposes of tourism. In Peru's Cordillera Huayhuash region, growth in international tourism since the 1990s has led to new forms of conservation, with the creation of private parks and alternative economic opportunities that integrate campesino communities (Bury, 2008). For many communities, tourism is the most significant source of income, and profits are invested to improve infrastructure and management plans for conservation areas on communal lands; this would be impossible without incremental earnings from tourism. In Peru, it has been demonstrated that private ecotourism investments support the conservation of areas in the Tambopata district, located in the Amazonian Department of Madre de Dios (Kirby et al., 2011). In Costa Rica, two thirds of the contribution of protected areas to poverty reduction in neighboring areas between 1973 and 2000 were attributable to their use for tourism purposes (Ferraro and Hanaver, 2014).
- 2.49 Tourism can also bring about improvements in the attitudes of residents towards conservation. In Latin America and the Caribbean, a review of 27 private community-based tourism projects revealed that 89% of these allocated a significant share of tourism-generated funds to conservation, demonstrating a strong determination on the part of the communities to protect their natural and cultural resources (Jones, 2008). Two studies in Costa Rica arrived at similar conclusions: a survey of households within a 30-mile radius of the Manuel Antonio National Park identified tourism as the main reason for establishing protected areas (Broadbent et al., 2012), while residents working in tourism in the Osa Peninsula showed greater interest in the creation and effective management of protected areas than those in other productive sectors (Center for Responsible Travel, 2011).
- 2.50 **Negative impacts.** However, the relationship between tourism and the environment can be dysfunctional, as tourism that is poorly planned and managed can have substantial negative impacts on destinations. There is considerable evidence that tourism activities can have negative impacts on biodiversity, cause habitat degradation and environmental pollution, and introduce invasive species (Pickering and Hill, 2007; Buckley, 2011 and 2012); these have negative consequences for the competitiveness of destinations and can compromise the benefits from tourism. In the case of the Galapagos Islands, population migration from the mainland to the islands (attracted by economic opportunities in the tourism sector) has substantially increased pressure on fragile ecosystems (Taylor et al., 2006).
- 2.51 The development of major tourism projects and resorts can cause significant direct impacts, such as deforestation, the destruction of fragile ecosystems, disruption to wildlife, and pollution, as has occurred in coastal destinations in Spain (Carlmann, 2010) and mountain resorts in New Zealand (Rolando et al., 2007). Tourism development in various Caribbean islands has led to the removal of stabilizing coastal vegetation and the elimination of mangrove forests, as well as destruction of coral reefs due to water pollution and inadequate construction of protective

- structures (Mycoo, 2006). The intensification of beach use in Australia has resulted in habitat loss and disruption to areas used by marine turtles for reproduction, with a consequent reduction in turtle populations (Wilson and Tisdell, 2001). Land planning or zoning decisions that fail to incorporate measures to protect natural capital²² (for example, coastal areas used for vacation homes) generate land-use patterns that compromise the flow of ecosystem services (Cabral et al., 2016).
- 2.52 **Environmental management tools for tourism.** Conventional environmental planning and zoning measures and technology-supported tools for regulating and assessing impacts can be effective in avoiding and mitigating the impacts of major tourism developments in urban, periurban, coastal, and mountain areas. For example, land-use zoning strategies based on geographic information system maps and temporal analyses of changes in land use have been successful in controlling the expansion of built-up areas in Malaysia's tourism islands (Samat and Harun, 2013). In Spain's main sun and sand destinations, a total economic return of US\$1 billion was generated by public investments in environmental improvements (e.g. energy and water efficiency, solid waste management, and biodiversity conservation), based on the design and implementation of strategic environmental assessments of the tourism sector. The return was greater than in the case of biodiversity conservation and restoration projects (United Nations Environment Programme (UNEP), 2011). In addition to prevention, comprehensive environmental mitigation and restoration work (such as that carried out in Cousine Island in the Seychelles) helps to restore degraded areas, eliminate invasive species, and reintroduce native plant life and endemic birds, with positive economic outcomes for tourism (Samways et al., 2010).
- 2.53 Nonetheless, the success of these environmental planning and management tools is currently limited by unsatisfactory implementation, as seen in both developed and developing countries. In most countries, for example, only certain components of the tourism sector and certain types of tourism investments are subject to environmental impact assessments. As a result, many resorts or residential projects are built in phases, with separate permits for each one; this avoids regulatory requirements for environmental impact assessments (Buckley, 2011). In this context, it is important to promote an integrated vision of the destination when managing environmental permits. This requires the strengthening of environmental governance through enhanced interagency coordination, as established in the Environment and Biodiversity SFD (document GN-2827-3).
- 2.54 Since the 1990s, the tourism sector has seen a surge in environmental certification as a tool for managing destinations, products, and tourism enterprises. An empirical evaluation by Blackman et al. (2012), based on panel data from 141 Costa Rican beach communities in the 2001-2008 period, analyzed the "Blue Flag" eco-certification initiative for tourist beaches and found a positive impact in terms of fostering new hotel investment, particularly in the luxury hotel segment. It estimated that certification was responsible for the additional construction of between 12 and 19 hotels on average per year. More recently, many international hotel chains have included energy efficiency and environmental responsibility certification (such as

²² Natural capital is defined as the stock of natural resources that supplies nature-based goods and services (ecosystem services) to communities.

- LEED certification)²³ in their corporate social responsibility programs. A study by Walsman et al. (2014) indicates that LEED hotels in the United States are more successful than their competitors, with higher daily rates and earnings per room in the two-year period following certification.
- 2.55 Nonetheless, certification should be used as a complement to regulatory instruments. Buckley (2011) indicates that there are around 100 schemes involving eco-certification and eco-awards in the tourism sector, applicable to different spatial scales and with varying degrees of rigor. This creates confusion in the market without clear evidence of a contribution to reducing the sector's environmental impact. Based on an analysis of five evaluations of the effectiveness of different certification instruments, the author concludes that environmental regulation is more effective for supporting the tourism sector's environmental sustainability. Blackman et al. (2014) corroborate this argument, indicating that most existing evaluations focus on the socioeconomic effects of certification rather than the environmental ones (for example, Nahman and Rigby, 2008; Rigall-I-Torrent et al., 2011; Carpacci et al., 2014). Current evidence is therefore insufficient to conclude that eco-certification alone is an effective tool for environmental protection, although it does suggest the existence of positive effects in terms of investment and demand.
- 2.56 At the same time, economic instruments (such as the use of taxes and fees) can be effective in encouraging greater sustainability in tourism. Examples include Belize, where each visiting cruise passenger pays US\$7 in taxes (of which 25% is used for coral reef conservation), or the Galapagos Islands, which levies a US\$100 entry fee for foreign, nonresident tourists, to finance biodiversity conservation and benefits for local communities (OECD and UNEP, 2011).
- 2.57 A persistent concern among decision-makers, highlighted in the literature, is the lack of quantitative tourism sustainability indicators that are robust and comparable, that would help to guide investments. Many indicators have been proposed to date, but the majority are qualitative and partial, and do not address the concrete impacts of the sector on the environment (Buckley, 2012).

2. Climate change adaptation and mitigation measures are critical for the resilience and sustainability of tourism destinations

- 2.58 The tourism sector is highly sensitive to climate and is therefore affected by climate change. The sector also contributes to climate change. Models suggest that the main consequences of climate change for tourism are a loss of destination attractiveness, due to increased risks to visitors, impacts on infrastructure and services, threats to natural and cultural assets, and challenges to the sustainability of tourism businesses, including the risk that assets will be rendered worthless due to their inability to generate future benefits (Caldecott, et al. 2016). Scott et al. (2012a) analyzed several studies based on the Tourism Climate Index,²⁴ which yield consistent geographic and temporal patterns. The authors concluded that high latitudes and mountain regions will experience more favorable conditions for tourism in the spring, summer, and fall seasons, while conditions in subtropical and tropical destinations will deteriorate. This will create opportunities for some destinations and challenges for others (Berrang-Ford et al. 2011). Projections suggest that heat

²³ LEED: Leadership in Energy and Environmental Design.

²⁴ Tourism Climate Index, Mieczkowski (1985).

waves will be more frequent and severe in the Mediterranean, with negative consequences for the attractiveness of destinations there, while northern European destinations will gain in popularity (Scott, 2012a). Studies of the impact of climate change on the ski industry—particularly in North America, Europe, and Oceania (Scott et al., 2012a)—indicate that by 2050, the industry will be vulnerable to reductions in natural snowfall and will be forced to make snow, with shorter, more variable seasons. However, snowmaking is limited by its cost and high levels of water and energy consumption. In global terms, the most significant impact of climate change on tourism involves increased sea levels, estimated at between 0.45 and 0.82 meters by the end of the century (Intergovernmental Panel on Climate Change (IPCC), 2013). This will affect tropical coastal destinations such as the Caribbean and the Southern Pacific, as well as subtropical and temperate destinations. Coastal destinations are also vulnerable to natural disaster risk, which is related to an increase in the intensity and frequency of extreme weather events (hurricanes and tropical storms). More frequent and extreme weather events affect tourists' perceptions of destination attractiveness and can lead to increases in insurance premiums or even to a loss of insurance coverage, with serious consequences for tourism operators (Nicholls, 2014).

- 2.59 **Adaptation measures.** For some types of impacts, adaptation measures are the only appropriate response (IPCC, 2007). Some of the initiatives implemented in destinations such as the Mediterranean include promoting vacation packages outside the summer season, extending opening hours for parks and beaches (with diversified activities on offer), and expanding shaded areas and planting vegetation along streets (Becken and Hay, 2012). In transportation and other infrastructure planning, adaptation initiatives have focused on developing standards and specifications for readapting/rehabilitating tourist infrastructure to enhance its resilience (Asian Development Bank, 2010; IFC, 2009; United States Environmental Protection Authority, 2008).²⁵
- 2.60 In the Caribbean and coastal destinations in Central America, the vulnerability of coastal communities, beaches, and tourism infrastructure means that urgent steps must be taken to increase resilience. Mycoo (2014) analyzes innovations in climate change adaptation policies, which include physical planning and projects to support protective infrastructure and integrated coastal zone management, in response to risk and vulnerability assessments. In Barbados, in addition to measures in force over the last 30 years to expand and protect coastal areas, other strategies have been adopted based on different scenarios for sea level rise. Using a synthetic control approach, an evaluation was conducted of the economic impact of investments aimed at stabilizing Barbados's coastal zones. It demonstrated that the investments had positive effects not only in terms of preserving fragile ecosystems, but also in stimulating an additional 9% increase in economic activity in the targeted areas (Corral et al., 2016). Mycoo (2014) highlights the benefits of using adaptation measures based on ecosystems, particularly in islands where coral reefs are in urgent need of protection. Ecosystem-based protection measures are now recognized as natural capital in the Caribbean, and include the creation of coral reef and mangrove buffer zones to protect against erosion and other coastal threats.

²⁵ In: Becken, S. and Hay, J. E., 2012. *Climate Change and Tourism: from policy to practice*. Routledge Publisher, 279 pp.

These measures should be given routine consideration in tourism planning and development decisions (Beck and Lange, 2016; Bayaraktarov et al., 2016).

- 2.61 Empirical evidence suggests that investments to reduce the risk of natural disasters (from weather as well as other types of events) yield returns and are effective in ensuring the sustainability of benefits from tourism. For example, flood protection investments benefiting several economic sectors—including tourism—in Piura (Peru) and Semarang (Indonesia), achieved economic rates of return of 31% and 23%, respectively. In Vietnam, investments to protect urban and tourist coastal areas against storms and typhoons through the restoration of mangrove forests attained a cost-benefit ratio of 52 (Mechler, 2005). Similarly, investments aimed at restoring the tourist circuit in Argentina's lake district, after it had been affected by ashes from the 2011 Puyehue volcanic eruption, generated income of US\$6 for every US\$1 invested (IDB, 2017).
- 2.62 **Tourism and greenhouse gas emissions. Mitigation policies.** Tourism is directly and indirectly responsible for emissions of various greenhouse gases, including CO₂. The total contribution of the main tourism activities (transportation, accommodation, and activities at the destination) accounted for approximately 5% of global CO₂ emissions in 2005 (UNWTO-UNEP-World Meteorological Organization, 2008). Taking into account global warming attributable to other greenhouse gases, as well as the secondary atmospheric impacts of aviation, the contribution of tourism to world climate change was estimated at between 5.2% and 12.5% in 2005 (Scott et al., 2010). An important conclusion of the studies is that tourism-related emissions will continue to grow in absolute terms even if emissions from car journeys and accommodation fall to zero. This is a result of the strong growth in air travel (which is expected to continue) and obstacles to substituting biofuels for fossil fuels (Scott et al., 2010; OECD and UNEP, 2011). A real reduction in emissions from tourism therefore requires structural changes in mobility and production in favor of low carbon emissions. Although aviation is the subsector with the highest level of emissions, emissions from road transportation and other sources throughout the tourism value chain also need to be curtailed. Public policies are including support for low-carbon modes of transportation and shifts towards renewable energy sources. One of the most efficient means of initiating the move to a low-carbon tourism economy is by using taxes to increase energy costs, consistent with the evidence presented in the Energy SFD (document GN-2830-3). Cost-efficient reductions can be achieved by introducing a tax on fuel or emissions that is proportional to the amount of fuel used or emissions produced (Mayor and Tol, 2007; OECD and UNEP, 2011).
- 2.63 In response to pressure on the tourism sector to reduce emissions, a growing number of destinations are focusing their efforts on becoming carbon-neutral destinations. Gössling (2009) evaluated planning frameworks in five countries (including Costa Rica) that are committed to becoming carbon-neutral destinations, pursuant to the 2007 Davos Declaration. The entire process consists of three steps for achieving carbon neutrality: (i) measuring emissions; (ii) decarbonization, which involves reducing energy consumption (both usage and the carbon-intensity of the sources used); and (iii) offsetting the remaining emissions. The study suggests that, rather than concentrating on individual tasks, the participation of agents throughout the entire tourism value chain is essential. At the time of the analysis, the five destinations were in the initial stages of implementation; however, all of them have

set ambitious targets for reductions in emissions without clear evidence of when and how carbon neutrality will be achieved.

- 2.64 In most countries, the preparation of specific policies and plans to support tourism sector management of climate change-related risks is still in its infancy. Knowledge surrounding the complex interrelationships between tourism and climate is lacking, and challenges persist for governments and countries to implement comprehensive responses. There is a critical need to implement sector policies and plans that support adaptation in the tourism sector and deepen understanding of the ways tourism is affected by climate change (and vice versa) through research, education, and institutional strengthening at the national and subnational levels.

D. The importance of governance for the generation and local capture of the socioeconomic benefits of tourism and environmental sustainability in destinations

- 2.65 Tourism faces enormous governance challenges as a sector, as it depends on an extensive network of ties between different private, public, and civil society actors. The private sector is the main producer and supplier of tourism services. It consists of a wide array of economic activities (accommodation, food, leisure, culture, transportation, commerce, etc.), and this creates enormous fragmentation. The public sector is responsible for preserving public goods related to tourism activities, for internalizing these costs, and for creating an investment-friendly business climate; this is the case at the different levels of government—local (destination level), regional, national, and, on occasion, transnational—all of which need to coexist. Tourism authorities also need to coordinate with other public sectors and actors such as infrastructure, security, environment, and agriculture, which are necessary for developing tourism activities but fall outside strictly tourism-related competencies. This introduces additional complexity into decision-making. Lastly, the inbound community is the one that benefits from (or bears the costs of) tourism, and its participation is critical for achieving endogenous development that is aligned with local needs and aspirations.
- 2.66 Because of this intricate framework of relations, there tend to be difficulties when creating comprehensive visions that allow for the coordinated planning and management of tourism activity and conflicts occasionally arise between actors with visions and interests that are not always easy to reconcile. An example of this would be the grievances of the hotel industry against the collaborative economy's housing enterprises (like Airbnb²⁶), the conflicts between local communities and tourism developers resulting from changes in land use (Gómez, 2004), or the competition that arises between residents and visitors over the use of public goods in congested destinations.²⁷ It is therefore essential to formalize channels of participation and collaboration under tourism governance models that establish clear objectives, include different visions and existing interests, pursue balance between economic growth and environmental and social sustainability, build consensus, and

²⁶ http://tecnologia.elpais.com/tecnologia/2013/05/28/actualidad/1369755419_436138.html.

²⁷ <http://blogs.elpais.com/trans-iberian/2015/05/barcelona-residents-are-in-revolt-against-the-citys-tourism-monoculture-.html>.

transparently manage the tradeoffs that inevitably have to be made with tourism development (Hampton, 2005, Jeonglyeol et al., 2010, OECD, 2016).

- 2.67 Against this backdrop, the UNWTO (2008) defines tourism governance as the process of managing tourist destinations through synergistic and coordinated efforts by governments (at different levels and in different capacities), civil society (living in the destinations), and the business community. The level of maturity and cohesion of the tourism governance framework will determine the extent to which economic benefits are generated and captured locally and the extent to which social inclusion and environmental sustainability of the tourism development model implemented are achieved. Evidence is provided below regarding relevant aspects of tourism governance that relate to (i) relations between the public and private sectors; (ii) the local community's level of participation in tourism development; and (iii) how ICTs are creating new avenues for governance.

1. Governance and private investment

- 2.68 The delivery and operation of tourism activities and services is generally undertaken by the private sector, and private investment is therefore critical to the development of tourism. A variety of empirical research confirms the importance of foreign direct investment (FDI) for tourism development, finding a direct causal relationship between FDI and tourism growth in China (Tang et al., 2007), Mexico (García Flores et al., 2008), India (Selvanathan et al., 2012), and 20 developing countries from 1995 to 2008 (Jafari et al., 2013). The literature suggests that FDI flows in the sector are determined by many factors, including market size and trends, the existence of a common language or culture, the quality of regulation, legal certainty, infrastructure, political stability, and the effectiveness of public policies (Snyman et al., 2009; Daryaei et al., 2012; Falk, 2016).
- 2.69 Despite the broad range of factors that influence tourism investment, many countries rely on fiscal incentive schemes for promoting FDI. In Latin America and the Caribbean, tax exemptions of various kinds have been granted for lengthy periods to support the construction or remodeling of hotels, restaurants, or services catering to visitors. The International Monetary Fund (IMF, 2008) conducted a survey of the fiscal incentives used in Caribbean countries to attract FDI: from 1997 to 2005, 60% of these were directed at the tourism sector in Barbados, the Bahamas, Belize, the Dominican Republic, Guyana, Jamaica, Haiti, Suriname, and Trinidad and Tobago. Nassar (2008) indicated that a reduction in the tax burden of one country relative to another with the aim of attracting FDI is a phenomenon that has intensified in the Caribbean over the last two decades. This type of public policy is also common in Central America and in a number of South American countries, even at the subnational level. The detailed comparative analyses that are available for the Caribbean are lacking for these subregions, however.
- 2.70 Nonetheless, different studies suggest that fiscal benefits are not necessarily the most effective means of promoting FDI in the tourism sector. Using panel data for six islands belonging to the Organization of Eastern Caribbean States, Chai and Goyal (2008) found that fiscal incentives to attract FDI are not statistically significant compared to the quality of infrastructure and institutions. This is the case despite the fact that the governments of these islands forgo tax revenues ranging from 10% to 16% of GDP as a result of these exemptions. Other studies drew this same conclusion, showing that fiscal incentives in developing countries do not effectively

offset a flawed governance framework; this problem must therefore be solved first (Wells et. al, 2001; OECD, 2008; World Bank, 2013). Regional public sector cooperation should also be encouraged in order to avoid damaging fiscal competition among countries (World Bank, 2013). A comparison of the structure of fiscal incentives for tourism in Nicaragua (high) and Costa Rica (low) arrived at a similar conclusion. There was little difference in the resulting level of investment, although the difference in fiscal revenues in the two countries was significant (Lanuza Díaz, 2014). Given, moreover, that there is no clear evidence that the demand for tourism is any more elastic than the demand for other goods and services (IMF, 2008), the opportunity cost of tax exemptions in countries with fiscal constraints may be high.

- 2.71 To improve the public-private tourism governance framework, the government's commitment to the sector should therefore go beyond fiscal incentives to include the formulation of explicit sector policies and programs. Such policies and programs make it possible to establish comprehensive sector visions, define shared objectives, and increase private sector confidence to make investments in destinations of interest for the country. Using a synthetic control approach, Castillo et al. (2015) conducted an ex post evaluation of tourism development policy in Salta (Argentina), based on three investment pillars: infrastructure/restoration of cultural heritage, fiscal credits for expanding tourist accommodations, and institutional strengthening. The study concluded that the policy had a positive effect on private sector expectations of business activity, and that it was responsible for an average annual increase of 11% in employment creation in tourist enterprises from 2003 to 2013, with cumulative growth of 112% over the period. In Brazil, an ex post evaluation conducted under the framework of the Tourism Development Program for Northeastern Brazil (PRODETUR I) concluded that each US\$1 of public investment in infrastructure and promotion led to US\$7 in private investment and US\$1.82 in revenue for the economy of the Northeast, with the program yielding a 27% internal rate of return.²⁸ These findings confirm the public sector's ability to precipitate private investment in specific destinations, and they underline the importance of comprehensive sector actions (policies, plans, programs) that reinforce public-private links as part of a broad governance framework.
- 2.72 Among existing mechanisms for private participation to achieve more coordinated public-private governance, public private partnerships (PPPs)—understood as co-ownership or cooperation agreements through which both sectors share risks and profits—stand out. Usually, a PPP involves a long-term contractual agreement between the public sector and businesses, through which the latter invest in exchange for delivering/managing a public service or good (Weiermair et al., 2008). ECLAC (2007) highlights the capacity of tourism PPPs to improve public-private coordination by addressing market failures that have a bearing on the sustainability of destinations (related to the use of public goods, externalities, and social inclusion), reduce the transaction costs of investments in the sector, overcome the fiscal constraints faced by the public sector, and offer new development opportunities for the private sector. There are various types of PPPs based on the types of assets involved (e.g. brownfield or greenfield projects), the functions and risk level assumed by the private sector, and the payment mechanisms established for recovery of the

²⁸ IDB, 2010.

private investment (for services rendered, memberships, payments by the government, etc.). PPPs enable financing and management mechanisms for tourism development of natural and cultural resources, the building and maintenance of tourism infrastructure and equipment, and the tourism-related promotion of destinations.

- 2.73 Most PPPs in the tourism sector are involved in the infrastructure and basic services sphere in the destinations. Examples of this abound: toll roads, airports, power plants, etc. Some PPPs that can be found specifically advocating for the expansion of tourism goods and services find themselves involved in creating convention centers, museums, leisure parks, the promotion of mega events, or concessions granted to the private sector to expand and improve tourism equipment in protected areas (Weiermair, et al., 2008). For example, in 2008, there were 619 long-term tourism concessions in the almost 400 areas of the United States National Park System generating more than US\$63 million from royalties for protected areas and creating more jobs than the Park Service itself during the high tourist season. The case of South Africa stands out in that its concession policies require concessionaires to give priority to hiring local labor and using small and medium-sized enterprises. In the region of Latin America and the Caribbean, there is also extensive experience with the use of concessions and other types of permits and agreements to create and operate various tourism services in protected areas, for example in Argentina, Brazil, Chile, Colombia, Costa Rica, and Ecuador. All the parks with more international visitors have various types of concessions and permits for guide services, boats, souvenir shops, local transportation, hotels, restaurants, and other tourism businesses within the protected areas (Barborak, 2012). There are examples of private concessions to operate an entire protected area, such as Fernando de Noronha, in Brazil, where an evaluation based on interviews and observations at the local level found that the concession had improved the services offered to visitors and generated local employment, but there was not enough specific data available to measure the concessionaire's real contribution to the park's environmental sustainability (Estima et al., 2014).
- 2.74 PPPs entail various risks because of the private and public sectors' different work cultures, the complexity of the preparation process, and the extension in time of the commitments adopted by both parties. Some of the most important risks are: the increase in transaction and capital costs, poor assignment of risk that can end up being reflected in public indebtedness, and the loss of control on the part of the public sector over its asset or the lack of a return on the investment for the private sector (Van Herpen, 2002). In this regard, Darling and Beato (2004), in a study of the viability of tourism convention centers, warn of the need to limit the risk to the public sector by conducting rigorous economic analyses and assigning ownership and management of the centers to the private sector. Weiermair et al. (2008) also identify the success criteria that need to be considered in the design of a tourism PPP to minimize the risks of failure, based on two case studies involving alpine tourism PPPs,²⁹ including: (i) the need to have rigorous business plans to assess the real viability of the investment; (ii) a transparent process, based on the communication and dissemination of the objectives and outcomes sought by the PPP to all stakeholders, for effective management of expectations; (iii) the need for

²⁹ An aerial tramway and an aquatic park.

public buy-in for the monitoring and evaluation of the PPP, considering the proposed terms and size of the private investment and prior experience of the private investors; and (iv) establishment of clear ground rules (roles and responsibilities). In general, there are still gaps in the empirical evidence on performance and best practices in the different models of tourism PPPs (in terms of risk allocation and optimization of incentives), and there is consequently a need to generate further knowledge in this area.

- 2.75 There are also other types of public-private cooperation, such as destination management organizations (DMOs), which focus on external marketing and internal coordination at the destination. These DMOs can be organized along territorial lines, as would be the case with “destination contracts” coordinated in France between the public and private sectors to streamline the structuring of the stock of tourist attractions in specific destinations. There are DMOs that are structured not only in specific territories but also around specific types of tourism: some examples would be tourism product clubs, originally promoted by Canada, to create specialized tourism clusters (e.g. wine club, snow focus, adventure); convention bureaus, aimed at attracting congresses and conventions; or networks of water sports-centered destinations in Spain and France. A common characteristic of all these DMOs is that they seek to diversify and manage the stock of tourist attractions by promoting business coordination, under shared standards of quality and tourism brands. The public sector acts as a catalyst of such coordination. The results achieved by the DMOs vary a great deal. In the case of the Spanish water sports-centered destinations, for example, it has been possible to reposition many sun and sand destinations through a broad network of public-private collaboration with a total of 30 associated destinations, in which 45 municipios and 1,650 tourism and nautical service enterprises participate.

2. Tourism governance and the importance of participation by local enterprises and communities

- 2.76 The impact of tourism on improving the level of entrepreneurship and the performance of local MSMEs is documented in sector literature. Through primary data and regressive analysis, Othman et al. (2011) identified a positive effect from tourism arrivals and consumption on the financial (sales, profits) and nonfinancial (number of employees, business expansion) performance of MSMEs in four Malaysian islands. However, the study also indicates the lack of training for the owners of the small businesses, which undermines the possibility of achieving higher levels of competitiveness. Through a study involving 20 countries and different sectors (including tourism), the OECD (2008b) confirms the existence of significant challenges facing local MSMEs in a context of increasing globalization of productive value chains, including: insufficient understanding of the structure and dynamics of global value chains and the relative position of MSMEs in them; difficulty complying with quality standards and protecting intellectual assets; inadequate availability of financial and managerial resources; and lack of capacity to undertake complex tasks related to innovation in marketing and organizational processes. In this context, foreign investment can play an essential role in increasing the growth and productivity of local MSMEs, since it represents an injection of additional productive assets for local economies that tend to be coupled with technology, innovative capacity, and organizational and marketing skills. The positive externalities from foreign investment for the local firms involve the links generated between the

- transnational firms and the local ones, throughout the tourism value chain. However, the mere presence of foreign investment is not sufficient to strengthen the local business fabric and performance and does not guarantee that these positive externalities will be created in all cases, automatically (Lugemwa, 2014).
- 2.77 Sindiga (1999) indicates that asset ownership and power/influence in the destinations are two factors that determine who receives tourism expenditure and the benefits thereof. Foreign investment in a destination may occur through full ownership of the investments or through agreements with local actors; both situations therefore involve different combinations of power and control that influence where and to whom tourism expenditure subsequently flows. Several authors have theorized about the level of dependence and outflows of tourism expenditure from the local economy in cases where investments are under foreign control, and also where they involve agreements or partnerships in which risks are asymmetric, falling entirely on local actors with less bargaining power (Brohman, 1996; Khan, 1997; Lacher, 2008, Sinclair et al., 1992). In the case of South Africa, for example, Koens and Thomas (2016) discovered that tour operators' decisions had a very significant impact on the success of local microenterprises, as these lacked sufficient network capacity and power to attract visitors on their own; instead, tour operators act unilaterally to channel tourism flows. An exhaustive study of international FDI in tourism over the 1985-2002 period found that a significant share of FDI in hotels took the form of management contracts, franchises, or leasing arrangements with local businesses, rather than equity investments. This was also the case for airlines and tour operators, which expand through strategic partnerships rather than equity investments alone. The study therefore concluded that policies to support investment should focus not only on capturing FDI, but also on strengthening local businesses to enhance their bargaining power, sustain their capabilities over the long term, and increase their capacity to absorb the international corporations' innovation, technology, and business skills within a balanced governance framework (Endo, 2006; Lugemwa, 2014).
- 2.78 Maldonado et al. (2008) identify human resource capacities and participation in formal and informal networks as the sources used by tourism MSMEs in Algarve, Portugal, in the search for knowledge externalities. Hence, they suggest the promotion of partnerships, collaboration, and networking among MSMEs, large businesses, and other regional agents, for joint actions involving innovation, marketing, investment in human capital, etc. In addition, to support MSMEs in the development of their capacity to absorb knowledge throughout the value chain, the OECD (2008b) emphasizes the need to map opportunities to participate and improve MSME performance in the various chains, promote workforce development and support for good practices in human resource management, foster the improvement of organizational routines, support financing for small subcontractors to resolve liquidity problems, support business digitization, and protect intangible assets.
- 2.79 In addition to the participation of local enterprises, the tourism governance framework should provide space for local community participation to facilitate the capture of socioeconomic benefits at the destination. Using surveys of all households in two Chinese destinations, a recent study assessed two contrasting systems of tourism governance: one based on community-led tourism and the other led by a foreign company. The results indicated that community-led tourism as a

model of governance has considerable advantages over a foreign company, as it has greater impact on local household incomes and quality of life, involving an organic process of participation and growth (Qian et al., 2016). Other case studies based on longitudinal analyses and interviews confirm these same conclusions for Indonesia (Hampton et al., 2015) and Brazil (Helmsing et al., 2011). Two types of destinations can therefore be identified depending on the level of local participation: the integrated destination—i.e. one adapted to the communities that existed prior to the tourism development—and the enclave destination—isolated from the local population. In the case of enclave destinations, it should be remembered that, although policies may focus on favoring local employment, they can also generate heavy migration that distorts the expected local impact. In Desa Senaru, in Indonesia, Schellhorn (2010) calculated that only 19% of the local jobs generated by tourist guides went to native workers, with the rest going to immigrants. Moreover, migration in fast-growing enclave destinations can lead to new settlements that lack the necessary basic services, with consequent adverse socioenvironmental impacts (Mendoza et al., 2010; Frausto, 2015). Ultimately, these outcomes underline the need to encourage local community participation as the cornerstone to guide governance in destinations and to ensure that external agents foster endogenous, phased development through their investments.

3. New technologies and tourism governance

- 2.80 The rapid expansion of ICTs is generating new opportunities and challenges for tourism governance, as they are (i) modifying relationships of power and influence in the destinations and opening participation to new actors; and (ii) facilitating cross-sectoral and interagency coordination based on data obtained in real time. In terms of the new relationships among actors in the tourism sector, one of the opportunities that has been opened up by ICTs involves digital platforms, which have encouraged peer-to-peer consumption. This has increased the share of sector economic benefits received by citizens, who participate as tourism services producers and practitioners via these platforms. The phenomenon of the collaborative economy has grown exponentially thanks to a drastic reduction in business transaction costs, which had previously impeded the development of certain markets. The collaborative economy offers greater job flexibility, self-regulation mechanisms (through constant user reviews), and low production costs that allow low prices to be offered to consumers. These collaborative platforms have completely disrupted traditional tourism governance frameworks, as they increase consumers' powers of influence and generate new competitive relationships in the destinations. Lane and Woodworth (2016), in an empirical study of 59 U.S. cities, suggest that Airbnb is affecting hotel performance in the cities where it has greater presence, while Zervas et al. (2016) conclude that Airbnb has placed downward pressure on hotel rates in the leisure segment in Texas. Disruption is above all related to the scale that the phenomenon has achieved so quickly. As a result, regulations in the legal, fiscal, and labor spheres have failed to keep pace with the activity; in mature destinations such as Barcelona, Paris, and New York (among many others), this has created friction between agents in the traditional tourism economy and those in the collaborative economy. Tourism authorities have adopted different positions in the face of this phenomenon, from laissez-faire through to protectionism for the traditional economy. The debate remains open: the collaborative economy in the tourism sector is an

emerging issue that requires further evidence and research to guide government decision-making.

- 2.81 The impact of ICTs on knowledge of sector trends and tourism statistics should also be noted. These are essential for understanding the socioeconomic impact of tourism activity, for establishing shared objectives, and for facilitating coordination of tourism authorities with their peers in other sectors as well as with the private sector, thus supporting a cohesive governance framework. Tourism authorities cannot develop a system of tourism statistics and information in isolation; instead, they require the cooperation of other sectors and the private sector. It is not merely a matter of assigning responsibilities: each stakeholder has its own legitimacy and credibility in the eyes of third parties. In this context, ICTs are proving to be an important ally in expediting the production of relevant data (some of which had previously been impossible to obtain) to establish shared objectives and evaluate policies in real time and with exactitude. Various studies in the Caribbean, China, and South Korea have used internet search data (via Google Trends) to generate estimates of tourist arrivals, concluding that Google improves the accuracy of predictions, especially in the short term, compared to other, traditional methods of estimation (such as time-series modeling) (Park et al., 2017; Bangwayo-Skeete et al., 2015; Yang et al. 2015). In fact, big data³⁰ combined with technologies related to automatic learning, an artificial intelligence specialty, make it possible to automatically recognize complex patterns of behavior on the part of visitors, which can help optimize decision-making. For example, the analysis of feelings (an automatic learning technique) can classify social network texts as positive, negative, or neutral, generating a clear map of aspects of the destination that need to be reinforced or changed (Instituto Valenciano de Tecnologías Turísticas, Invat.tur, 2015), which facilitates coordination among pertinent actors around very specific objectives.
- 2.82 A feasibility study by Eurostat (2014) of the use of mobile positioning data to generate tourism statistics concludes that, although the initial implementation costs of mobile data systems are high (versus traditional, survey-based methods), the expenditure is rapidly amortized in the production phase. Nonetheless, the study also warns of the challenges posed by the use of mobile data, and “big data” in general, particularly in the legislative sphere and where private sector participation is concerned. These new sources of information are unable to produce or substitute for many of the indicators that ensure international statistical comparability, and their use conflicts with privacy and data protection rules. There are also barriers at the company level, concerning when and why businesses need to provide this type of data to the authorities, and the economic rationale for this. For this reason, Eurostat recommends using a mix of traditional and technological sources for the time being.
- 2.83 It is therefore important for destinations to adapt to the current digital environment and begin to gradually incorporate these new technologies in their decision-making and coordination processes, while they adapt their regulatory and management tools to the new circumstances, if they want to be at the cutting edge of tourism competitiveness. Destinations endowed with advanced technology infrastructure

³⁰ Data sets whose size exceeds the search, capture, storage, management, analysis, transfer, and visualization capacity of conventional information technology tools. They are characterized by their volume, variety, and value (Invat.tur, 2015).

improve the visitor's experience and interactions as well as public and private decision-makers' land-use planning and coordinated management. The concept of intelligent tourism destination³¹ is beginning to emerge in the sector, as the integrating framework of technological infrastructure geared towards the objectives of economic growth with social and environmental sustainability.

III. CHALLENGES FOR THE REGION AND PROBLEMS THAT THE BANK WISHES TO ADDRESS IN THE SECTOR

- 3.1 The region of Latin America and the Caribbean has enormous tourism potential, thanks to its wealth of natural and cultural resources. In terms of natural resources, the statistics speak for themselves: despite accounting for only 16% of the world's land mass, the region contains half of the world's tropical forests, 40% of its biodiversity, and 11 of the 14 land biomes (Blackman et al., 2014). It also contains six of the most biologically diverse countries in the world;³² these harbor 70% of the known species of mammals, birds, reptiles, amphibians, plants, and insects. Fifty percent of the plant species present in the Caribbean do not exist anywhere else in the world (United Nations Development Programme, 2010). This natural capital translates into a diversity of landscapes that range from mountains, tropical jungles, and sweeping beaches and coral reefs to volcanoes, deserts, and glaciers, with the ability to capture the interest of tourism demand. In terms of cultural wealth, Latin America and the Caribbean offers important pre-Colombian cultures, a rich colonial legacy, and intangible assets that make the region unique in the world. Of the UNESCO list of World Heritage Sites, 102 of the 814 cultural sites and 4 of the 35 mixed sites that exist in the world are in Latin America and the Caribbean.
- 3.2 This endowment of natural and cultural resources is fueling a steady expansion in tourism in the region, consolidating its position in international tourism markets. According to the UNWTO, the number of international arrivals in Latin America and the Caribbean has seen cumulative growth of almost 50% over the last decade (with 183 million visitors in 2015),³³ while foreign tourism expenditure exceeded US\$79 billion in foreign exchange earnings, with average year-on-year growth of 5.4% (close to the world average of 5.9%). Nonetheless, intraregional differences are stark: while tourism expenditure in Latin America grew by 7.4% year-on-year, the Caribbean saw growth of only 1.4% (see Figure 3). In terms of subregions, growth has been highest in the Andean Community (10.8%), followed by Central America (10.6%), the Southern Cone (8%), and Mexico (3.6%) (see Figure 4). The figures point to more rapid growth in emerging destinations than in mature ones in the region (the Caribbean and Mexico).

³¹ An intelligent tourism destination is an innovative tourism opportunity, accessible to all, consolidated with cutting-edge technological infrastructure that ensures the area's sustainability development, facilitates the visitor's interaction and integration with the environment, and enhances the quality of the visitor's experience at the destination and the quality of life of the residents (Sociedad de la Información a la Sociedad Estatal para la Gestión de la Innovación y las Tecnologías Turísticas, SEGITTUR, 2015).

³² Brazil, Colombia, Ecuador, Mexico, Venezuela, and Peru.

³³ Includes cruise passengers (UNWTO).

Figure 3. Trends in international tourism spending, 1995-2014

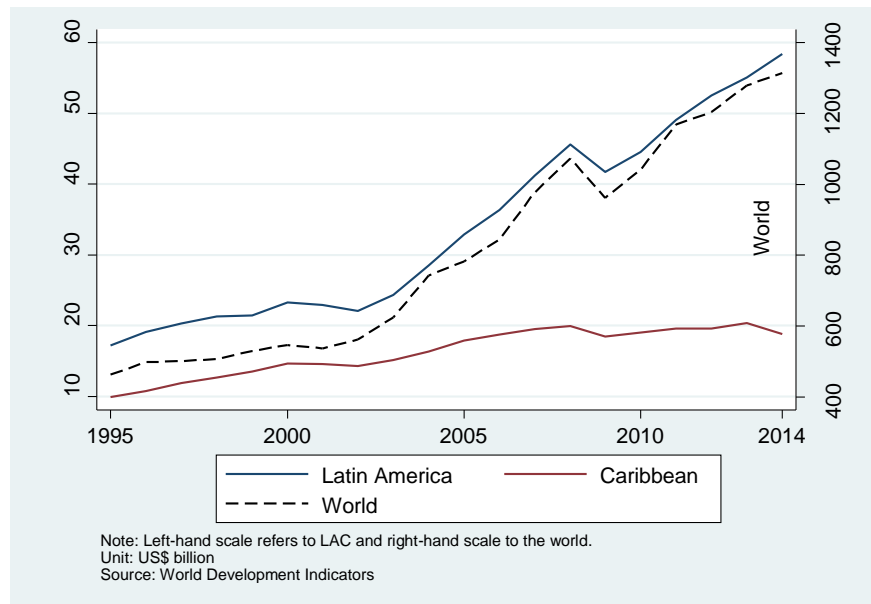
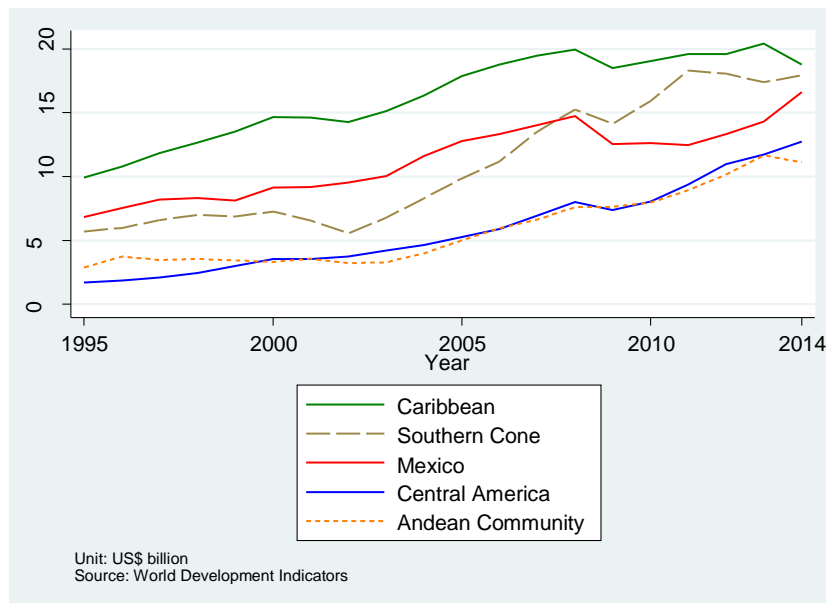


Figure 4. Trends in international tourism spending by the LAC subregion, 1995-2014



3.3 The growing infusion of tourism expenditure in the region is boosting the importance of tourism as a tool for economic development in Latin America and the Caribbean. In 2015, the direct contribution of tourism to Latin American GDP was US\$135.6 billion, while in the Caribbean the sector generated US\$16.8 billion. The total contribution to GDP, including indirect and induced effects, was 9% in the case of Latin America and 14.8% in the case of the Caribbean. In terms of employment, tourism accounted for 16.5 million jobs in Latin America—equivalent to 8% of total

employment. In the Caribbean, tourism generated 13.3% of total employment. Tourism also constituted 5.9% of total investment in Latin America in 2015 and 12.1% in the Caribbean.³⁴ These figures are similar to those recorded in 2013, and they once again indicate variations in the importance of tourism across the region. Although the Caribbean region is the most dependent on tourism in the world, tourism activity is still emerging in many areas of Latin America. The exposure of Brazil to international tourism markets, for instance, remains limited, despite the country's size and cultural and natural wealth. In 2015, it received only 6.3 million international visitors, who spent a total of US\$5.844 billion—equivalent to a third of Mexico's total foreign exchange earnings from tourism. Tourism in the region is characterized by varying levels of growth and maturity; as a result, although this document addresses tourism challenges in a combined manner in an effort to address the most significant common challenges, the circumstances of each subregion and country in Latin America and the Caribbean are different.

- 3.4 This SFD identifies four challenges that must be addressed in order to maximize the benefits generated by tourism in Latin America and the Caribbean: (i) the lack of optimization of the region's tourism potential and the sector's competitiveness challenges; (ii) the need to enhance the distributional impact of tourism benefits among the most vulnerable groups in society; (iii) the need to strengthen environmental management and climate change adaptation efforts in tourism destinations; and (iv) the governance challenges underlying destination management in the region.

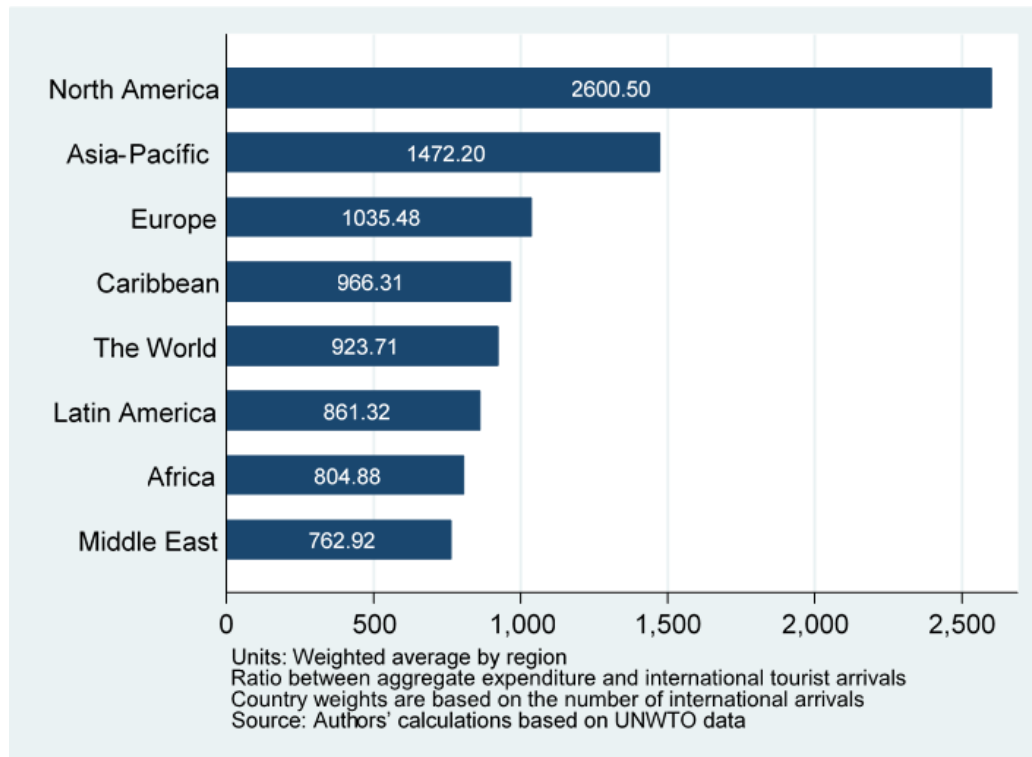
A. The economic benefits of tourism in Latin America and the Caribbean can be increased

1. Level of expenditure

- 3.5 There is no link between the region's natural and cultural riches and the extent to which these have been developed for the purpose of tourism. In other words, many of the resources that make up this wealth have not been developed as tourism products that can be marketed successfully (paragraphs 2.9, 2.10, 2.11, 2.17, and 2.18), thus affecting the region's ability to generate more tourism expenditure. It is partly for this reason that, in both the Caribbean and Latin America, spending per international tourist arrival is below that of North America, Asia-Pacific, and Europe; in the case of Latin America, such spending is below the world average (see Figure 5).

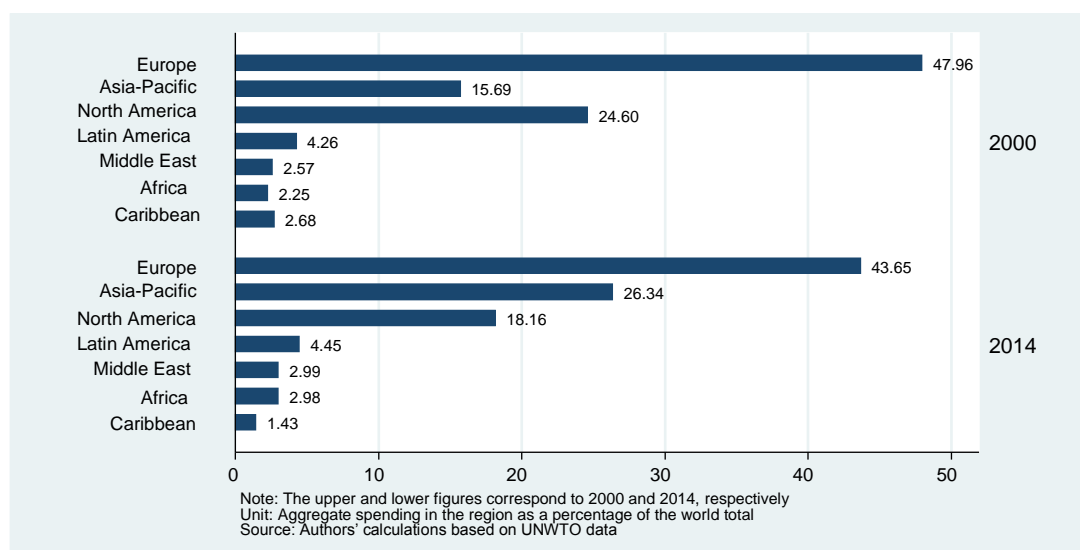
³⁴ World Tourism and Travel Council (WTTC).

Figure 5. Expenditure per international tourist arrival by region, 2014 (in U.S. dollars)



- 3.6 Although international tourism expenditure in the region has grown remarkably (paragraph 3.2), its rate of growth has been slower than that of other emerging destinations in the world, which has generated a decline in market share among Latin America and the Caribbean's most mature destinations. Expenditure in the Caribbean fell from 2.6% of the world total in 2000 to 1.4% in 2014. The same was the case in Mexico, which declined from 1.6% to 1.2% in 2014. The rest of Latin America saw a small increase, from 4.2% in 2000 to 4.4% in 2014, but the pace of growth has been slower than in the other emerging world destinations. The loss of market share experienced by more mature world destinations (Europe and North America) over the 2000-2014 period has mainly been captured by Asia and the Pacific, the Middle East, and Africa (see Figure 6).

Figure 6. International tourism expenditure, market share by region (%)



2. Excessive dependence on outbound markets by some countries in the region

- 3.7 Domestic tourism is more important for many destinations in the region than inbound tourism, even in leading international destinations; this is the case in Mexico, for example, where tourism by residents accounts for 84% of total tourism expenditure generated in the country.³⁵ Although it is difficult to compare data on domestic tourism in the region, because of a lack of harmonization among national tourism statistics systems, WTTC estimates (2017³⁶) suggest that domestic tourism generates 65% of total tourism spending in Latin America and 28% in the Caribbean, that is US\$182 billion and US\$12 billion, respectively. A more disaggregated analysis of Latin America shows that domestic tourism in South America generates an average of 67% of total tourism spending, while the figure for Central America is 45%. Thus, domestic tourism tends to be more significant in the Latin American countries with larger economies than in those with smaller populations and smaller economies. In the latter case, the population of those countries tends to have an outbound market behavior rather than that of a domestic visitor (Panosso et al., 2015). As in the case of inbound tourism, there are opportunities to increase tourism spending in domestic tourism; for example, different analyses of tourism programs in the region identify the dominance, in many destinations, of domestic visitors from places that are geographically close to the destinations, who stay in the homes of relatives and friends, with a propensity to spend less per visitor compared to visitors staying in tourism establishments and with fewer income and employment multipliers.³⁷

³⁵ WTTC 2017, base year 2016.

³⁶ WTTC 2017, base year 2016, for Latin America and the Caribbean.

³⁷ BR-L1219, BR-L1245, Technical Note on Tourism in Chile.

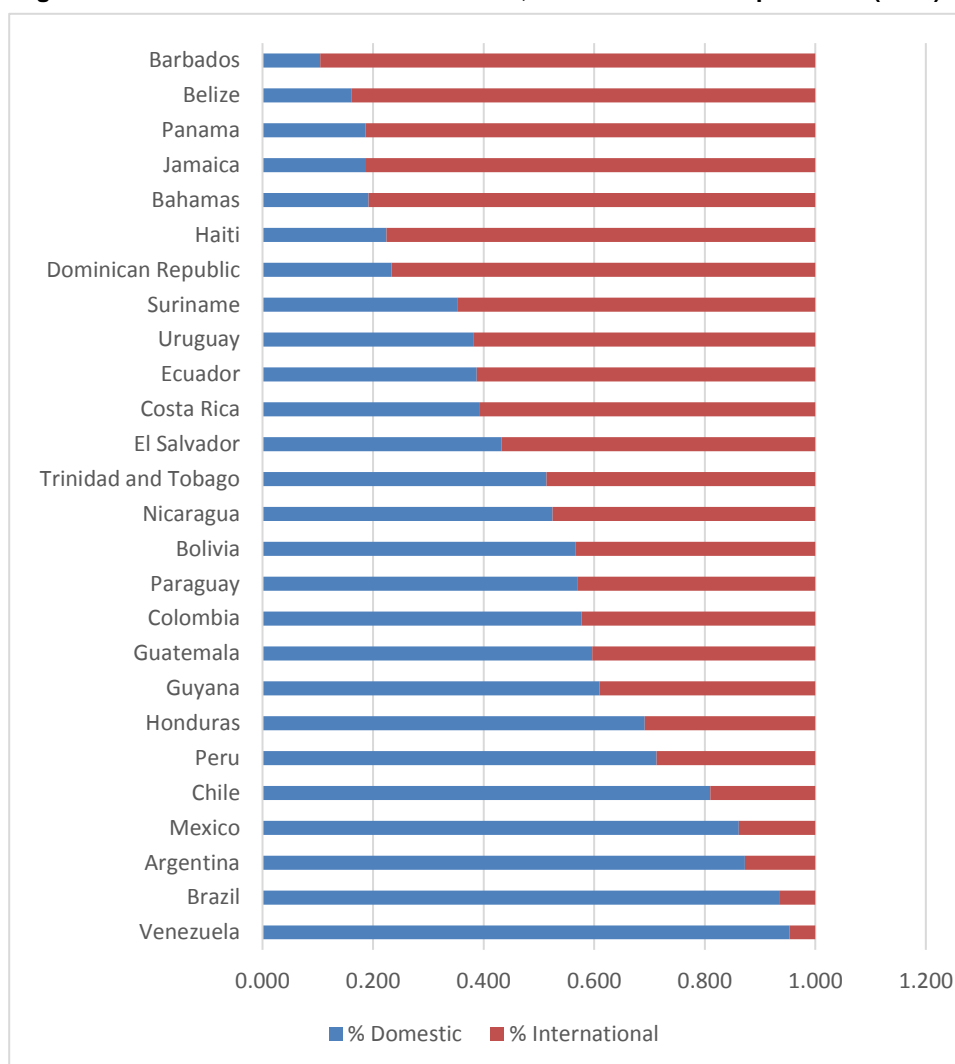
- 3.8 Figure 7 shows the dependence of a number of countries on either international markets (the case of the Caribbean) or the domestic market, which can make them vulnerable to changed conditions in these outbound markets, as seen in section II (paragraphs 2.20 to 2.23). This vulnerability was laid bare in several Caribbean countries, for example, during the 2009 global recession, affected as they were by the economic crisis in the United States and Europe. In the case of international tourism, the UNWTO (2015) has determined that four of every five international trips are made within the region of origin, i.e. they are intraregional. Intraregional tourism accounts for a significant proportion of tourism in the region of Latin America and the Caribbean as well. For example, such tourism accounts for 69% of total inbound tourism in Argentina,³⁸ 68.7% in Brazil,³⁹ and 93% in Mexico.⁴⁰ In some cases, it generates dependency on just a few countries, as would be the case of Mexico, where 42% of international tourism is border tourism, or Uruguay, where 68% of inbound tourism is from Argentina, which led to plummeting Uruguayan tourism indicators during the 2001 crisis caused by the free convertibility policy and during the conflict generated by closure of the Fray Bentos-Puerto Unzué international bridge from 2006 to 2009. By building on the complementarity that exists between the different types of visitors (in terms of travel seasons, preferences, price elasticities, etc.), a diversified portfolio of international outbound markets—balanced between domestic and inbound demand—thus reduces this vulnerability and optimizes the use of resources and infrastructure.

³⁸ Survey of International Tourism, 2016.

³⁹ Data and Facts, Ministry of Tourism, 2016.

⁴⁰ Datatur, 2015.

Figure 7. International and domestic tourists, share of tourism expenditure (2015)



Source: WTTC, 2015.

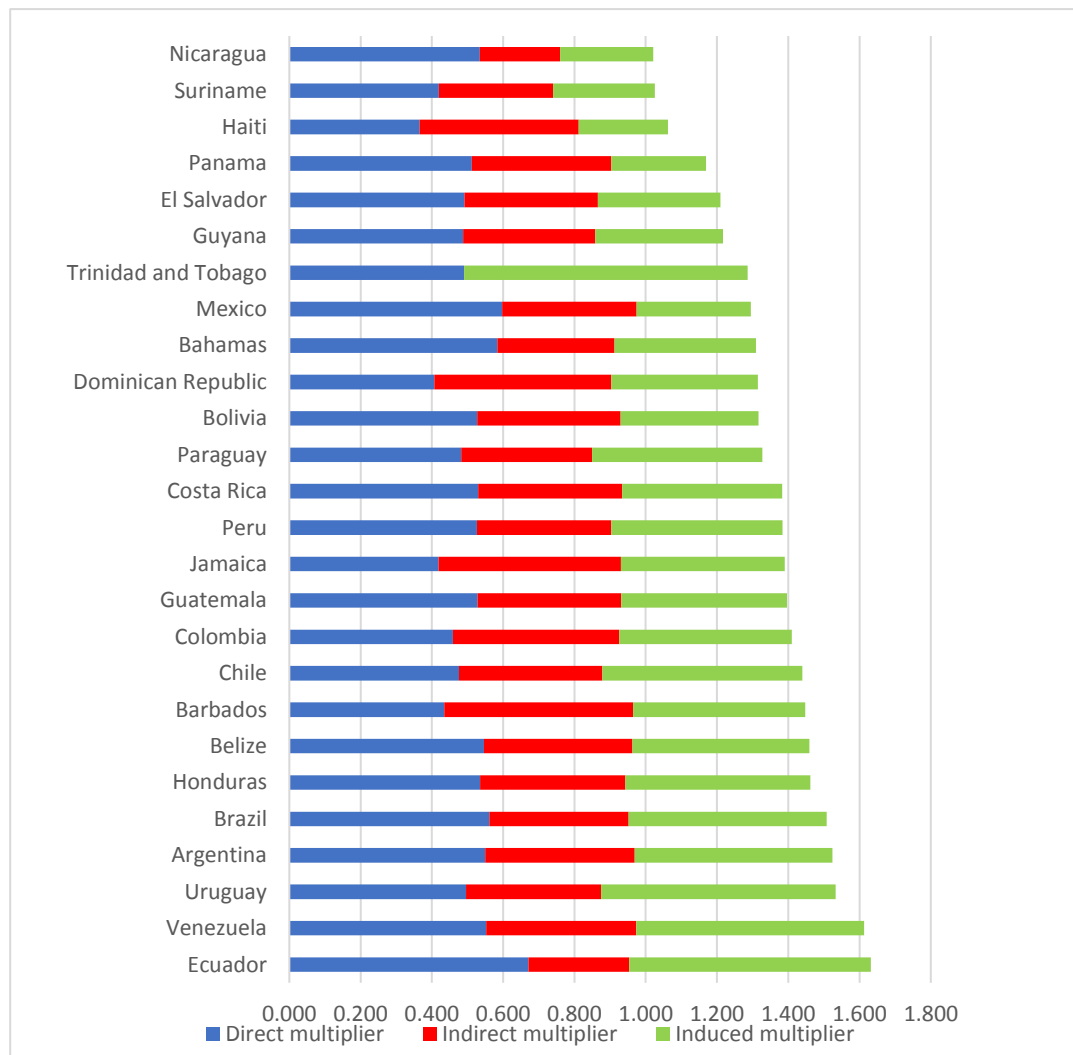
3. Multiplier effect

- 3.9 WTTC data for 2015 shows that average tourism multipliers in Latin America and the Caribbean were 1.43 and 1.3, respectively—above that of Europe (1.22), but slightly lower than in North America and the Middle East (1.46). These aggregate figures disguise great diversity in the region, both in terms of the indicator's level and its composition (as can be seen in Figure 8).⁴¹ Ecuador has the highest multiplier in

⁴¹ Tourism's direct contribution to GDP is calculated as the difference between spending by national and international tourists, on the one hand, and purchases and imports of other sectors by the different tourism subsectors, on the other hand. The indirect contribution includes the net value-added chain generated by tourism sector purchases from sectors providing it with services, plus government spending on sector public goods such as marketing, associated security services, etc. The induced contribution is that generated by spending incurred by all tourism sector workers. Constructed using 2015 data from the WTTC, included in the 2016 publication.

the region, while multipliers are lower in other destinations where tourism accounts for a significant part of GDP and international visitor volumes are large. There is therefore room to promote stronger linkages between tourism and the economies of countries in the region, thus increasing the economic benefits of tourism (see paragraph 2.5).

Figure 8. Direct, indirect, and induced multiplier effects (2015)



Source: WTTC, 2015.

4. Geographic concentration

- 3.10 The limited level of tourism spending and lack of development of Latin America and the Caribbean's natural and cultural assets are also linked to the high degree of geographic concentration in the pattern of tourism consumption and investment (paragraphs 2.9 and 2.10). This is the case throughout all countries in the region, as

can be seen from the following examples: in Argentina,⁴² 60% of domestic tourist arrivals are concentrated in two of the country's six tourist areas (Buenos Aires and the coastal tourist area), while 58% of overnight stays by resident and nonresident visitors involves two destinations: Buenos Aires and Patagonia. Five national parks account for 76% of tourist visits to protected areas (out of a total of 33). In Uruguay, 73% of tourism investment from 2011 to 2015 was made in the departments of Maldonado and Montevideo, while 75% of international expenditure is generated in Punta del Este.⁴³ In Brazil, 84% of inbound vacation tourism focuses on five destinations in the country,⁴⁴ while 70% of inbound business tourism visits just two destinations.⁴⁵ In Chile, 11 of the 103 areas in the National Protected Areas System account for 67% of all visits by residents and foreigners.⁴⁶ In Mexico, five of the country's 186 archaeological zones account for 57% of total visits, while five of the 32 states possess 41% of available hotel capacity.⁴⁷ In the Caribbean, 60% of foreign exchange earnings from tourism are generated in 5 destinations (out of a total of 26 that report international tourism statistics).⁴⁸ In Panama, two provinces account for 62% of tourist accommodation facilities in the country (with Panama City accounting for 40%).⁴⁹ There is clearly opportunity to expand tourism activity into new areas in the region, diversifying the sources of tourism expenditure geographically.

5. Competitiveness

- 3.11 The region faces competitiveness challenges in terms of the determinants of tourism demand and investment, as analyzed in section II of this document (paragraph 2.6 et seq.). The World Economic Forum's Travel and Tourism Competitiveness Index (TTCI), produced biannually, has been applied since 2007, and is a strategic instrument for assessing the main factors underpinning tourism competitiveness in the different countries of the world.⁵⁰ The methodology was changed in 2015 to include 141 countries and 90 indicators grouped into four major subindexes: (i) the enabling environment subindex, which captures existing conditions for businesses such as the business climate, human resources, technology penetration, and security in the countries; (ii) the tourism policy and enabling conditions subindex, which basically captures countries' prioritization of tourism activity, as well as price levels and the international openness of destinations; (iii) the infrastructure subindex, which measures the development of access and tourism service infrastructure in the destinations; and (iv) the natural and cultural resources

⁴² Tourism Statistical Yearbook, 2014, Ministry of Tourism.

⁴³ Tourism Yearbook, 2015, Ministry of Tourism.

⁴⁴ City of Rio de Janeiro, Buzios, Florianópolis, Foz do Iguaçu, and São Paulo. Ministry of Tourism.

⁴⁵ São Paulo and Rio de Janeiro. Ministry of Tourism.

⁴⁶ Annual Tourism Report, 2015, Subsecretariat for Tourism.

⁴⁷ www.estadisticas.inag.gob.mx and DaTur.

⁴⁸ Bahamas, Cuba, the Dominican Republic, Jamaica, and Puerto Rico. UNWTO data for 2014.

⁴⁹ Panama Tourism Authority.

⁵⁰ The data sources for these indicators are the WEF's annual Executive Opinion Survey and publicly available quantitative data from international organizations, authorities, institutions, and experts in the sector, such as the International Air Transport Association, the United Nations Conference on Trade and Development, the IUCN, the UNWTO, UNESCO, and the WTTC. The WEF's annual Executive Opinion Survey for the tourism sector canvasses business leaders in the 141 countries covered by the research, providing data from the perspective of decision-makers in the respective economies.

subindex, which captures the countries' degree of differentiation based on their endowment of tourist attractions. All of these indicators are measured on a scale of 1 to 7, with 7 as the highest score.

- 3.12 Figure 9 shows that in 2015, global tourism competitiveness scores in both the Caribbean and Latin America (3.6 and 3.7, respectively) were lower than in North America, Europe, and Asia-Pacific. The region outranks only Africa and the Middle East. Compared to 2013, the competitiveness index for the Caribbean has declined, while that for Latin America has increased slightly, despite weak performance compared to other regions. The level of competitiveness varies across subregions: Figure 10 highlights Mexico's leadership (with a score of 4.3), followed by the Southern Cone and Central America. The Caribbean and the Andean Community register the lowest scores in the region.

Figure 9. Travel and Tourism Competitiveness Index by region (2015)

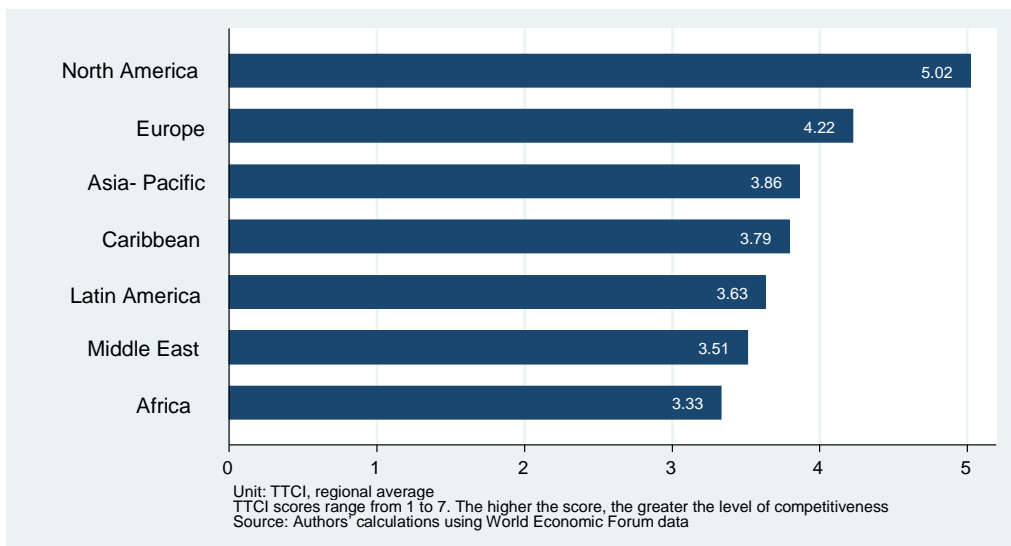
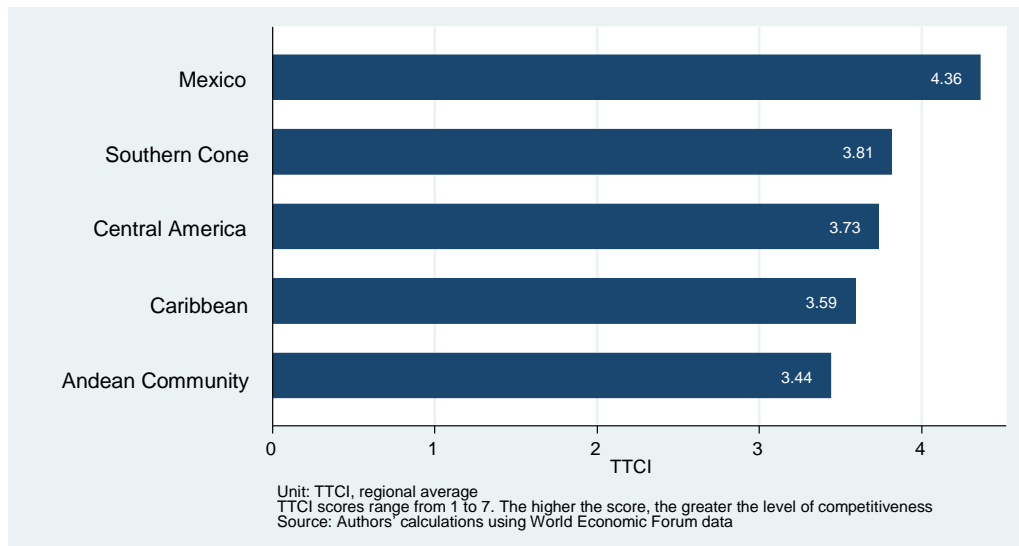


Figure 10. Travel and Tourism Competitiveness Index by subregion (2015)

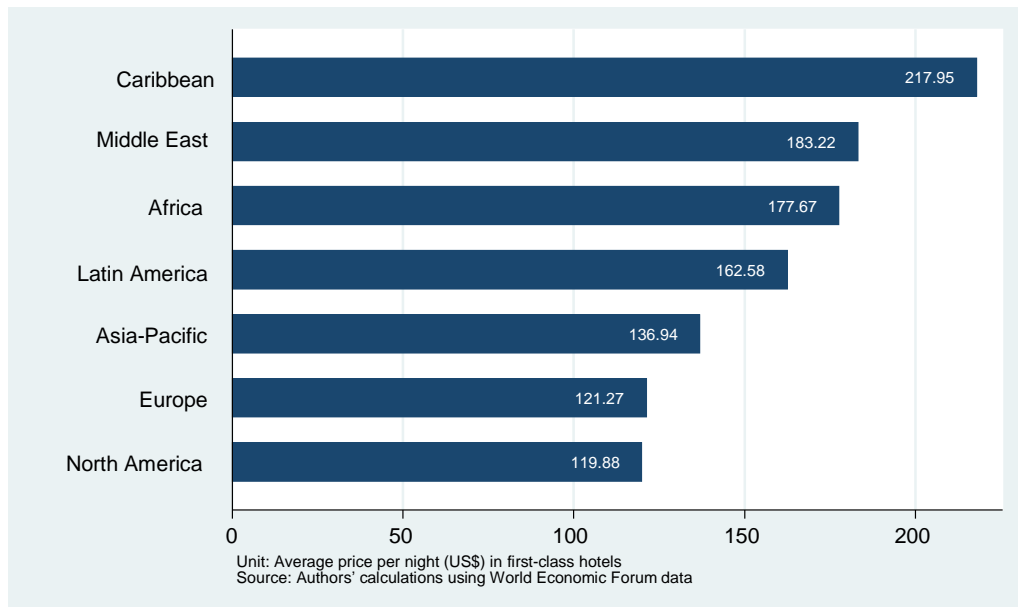


- 3.13 In the case of the subindex relating to the enabling environment for tourism, Latin America exhibits a very low level of competitiveness in relative terms; this is due to major deficits in the areas of the business environment (lowest world ranking); security (lowest world ranking); health and hygiene (second-lowest world ranking); human resources/labor market (second-lowest world ranking); and the level of technology penetration (second-lowest world ranking). It also exhibits weaknesses in relation to the infrastructure subindex, in terms of both ground and maritime transportation (lowest world ranking) and air transportation (second-lowest world ranking, ahead only of Africa).
- 3.14 For its part, the Caribbean faces problems with the differentiation and attractiveness of its natural and cultural resources with respect to competing destinations, especially considering that other emerging regions (Africa, the Middle East, and Asia-Pacific) are competing for the same outbound markets internationally. The Caribbean's score on the cultural resources component of the competitiveness index is the lowest in the world (1.33), while it ranks second-to-last in the natural resources index (2.3), ahead only of the Middle East. This problem is aggravated by the region's high dependence on inbound tourism, which makes it difficult to weather crises or other shifts in determinants in international outbound markets. This became clear in several Caribbean destinations during the great recession of 2009 (paragraph 3.7). The Caribbean is also the region with the highest hotel price index in the world. These data partly explain the Caribbean's relative loss of competitiveness in recent years and the drop in its market share (see Figure 11). As a result, the Caribbean is increasing its efforts to improve the management and quality of its natural and cultural attractions and looking to enhance differentiation with respect to other world destinations. An example of this would be the types of investments recently made or planned by various Caribbean countries,⁵¹ such as: the tourism development of Bridgetown and Garrison (Barbados), declared World

⁵¹ BA-L1033; BA-L1014; TT-1057; DR-L1035; BH-T1052; HA-L1095.

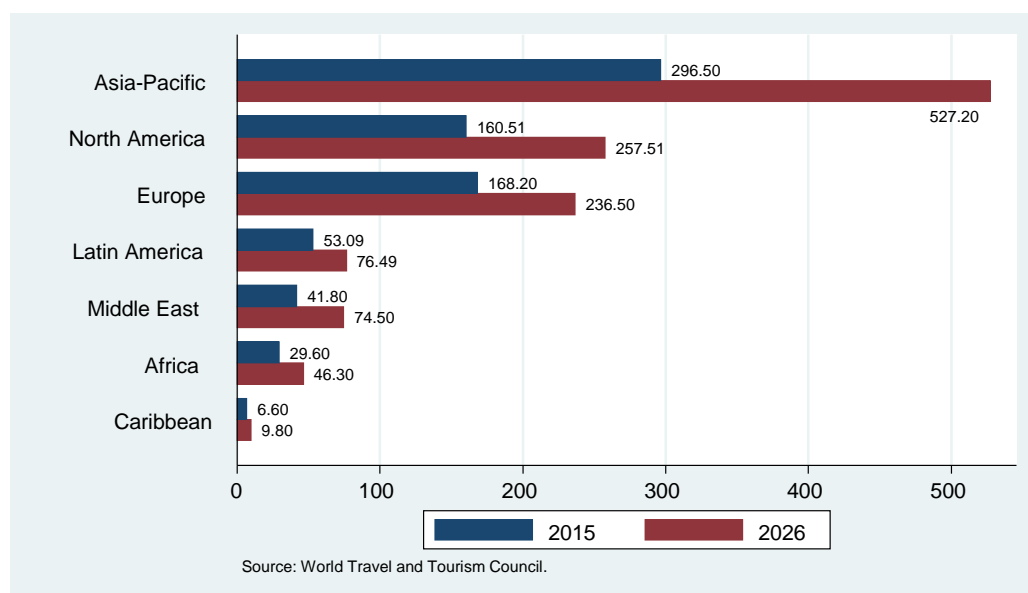
Heritage site in 2011; the construction of a shoreline walkway on the southern coast of Barbados to create a new tourist attraction while simultaneously combating beach erosion; the development of an underwater sculpture park in Tobago, to generate a unique new product in addition to alleviating the pressure of tourism visits on coral reefs; the rehabilitation of the Santo Domingo historic center (Dominican Republic); the development of historical and ecological tourism in San Salvador (The Bahamas); and the tourism development of historical and natural resources on Haiti's southern coast.

Figure 11. Average hotel prices by region, 2013-2014 (US\$)



- 3.15 Recent WTTC projections regarding private tourism investment through 2026 show Latin America and the Caribbean falling far behind Asia-Pacific, North America, and Europe, both in absolute terms and in terms of the expected growth rate. Addressing this issue should be a priority for the region over the next few years, with particular focus on identifying the determinants of investment in each country (as laid out in paragraph 2.68 et seq.).

Figure 12. Volume of private investment in tourism by region (2015 and projection for 2026; US\$ million)



B. Management of the tourism value chain needs to be strengthened to enhance inclusion and the social benefits of tourism in Latin America and the Caribbean

- 3.16 Although tourism alone cannot resolve all the problems associated with poverty, statistics indicate that in many of the region's successful destinations (in terms of visitor arrivals and the generation of tourism expenditure), there are substantial pockets of poverty that could benefit from tourism activities. For example, the State of Quintana Roo—one of the main tourist destinations in Mexico—received a total of 9 million international visitors in 2015 (28% of all inbound tourism in the country) and 3 million domestic visitors. With 42.1% of the state's population falling below the welfare line,⁵² it could benefit from tourism revenue. Another example would be Armação dos Búzios, one of Brazil's main international tourism destinations,⁵³ where there is social inequality—Gini index of 0.44. In these and similar cases in Latin America and the Caribbean, tourism development models need to include specific activities to incorporate low-income groups into tourism value chains, including training and technical assistance among other possible interventions (paragraph 2.44).
- 3.17 Employment, entrepreneurship, and tourism establishment supplying are three ways of channeling the benefits of economic activity to low-income groups, as seen in section II (paragraphs 2.35, 2.36, and 2.37). In some countries in the region, the limited ability of human resources to secure employment in tourism or to establish tourism or tourism-related enterprises is one of the main factors limiting the ability to generate production linkages and increase the sector's multiplier effect. Within the labor market indicators for the sector in the WEF's TICI (paragraph 3.11), Latin

⁵² National Council for the Evaluation of Social Development Policy (CONEVAL).

⁵³ Brazilian Ministry of Tourism (MINTUR) and Brazilian Institute for Geography and Statistics (IBGE).

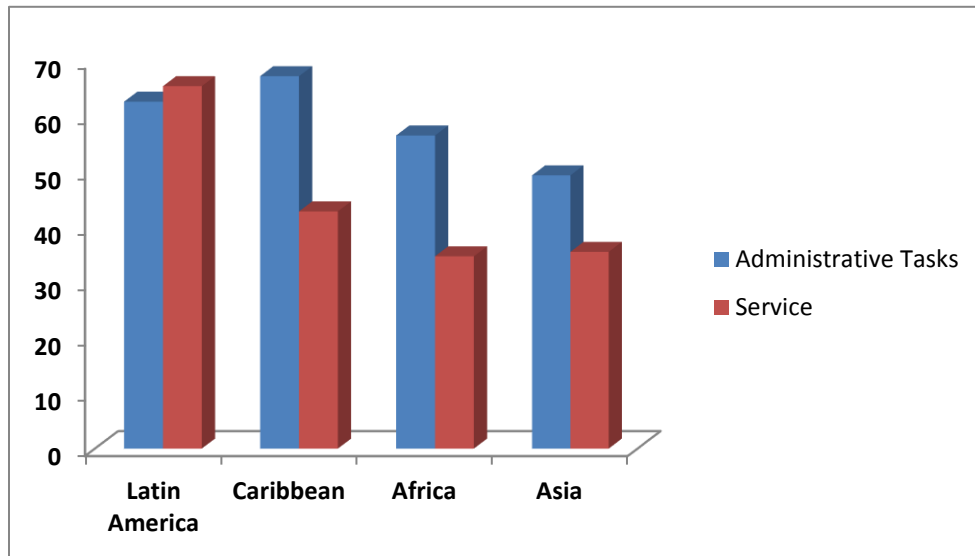
America and the Caribbean scored 3.95 with respect to the ability to find qualified labor in the tourism sector in 2015; this was lower than North America (4.65), Europe (4.10), and the Middle East (3.99).

- 3.18 According to the ILO (2013), another of the problems faced by the labor market in Latin America and the Caribbean is a high degree of informality, which is generally linked to a labor force characterized by unstable jobs with low productivity.⁵⁴ This problem also affects the tourism sector, reducing the opportunities for improving the professional qualifications and capabilities of the labor force. Informality can lead to situations of labor exploitation and lower quality service delivery. According to estimates from Brazil, 57% of tourism jobs in 2010 were informal.⁵⁵ In Mexico, the National Occupation and Employment Survey (National Institute of Statistics and Geography) estimates that the rate of informality in hospitality activities stands at 54%, and that informal workers earn 40% less than those in formal positions. Although the degree of labor informality in the tourism sector cannot be measured at the regional level, these data indicate that the challenge is shared by the rest of the countries in the region.
- 3.19 At the same time, and even though the Latin American and Caribbean region has the highest presence of women in tourism employment, available data from the UNWTO and UN Women (2011) point to the existence of segregation in formal employment in the hospitality sector, as most women perform either routine administrative tasks with low levels of responsibility, or cleaning/customer service-related work. Women in Latin America and the Caribbean occupy a minority of managerial and leadership positions in tourist enterprises (see Figure 13). The region has the highest proportion of women working without remuneration in family businesses; this leaves them vulnerable to abusive working conditions, particularly during the tourism high season, which requires long working hours, and is another of the areas that need to be addressed to promote sector gender equity in Latin America and the Caribbean (see Figure 14).

⁵⁴ The Bank's interventions to address the issue of informality and other aspects of the labor market in the tourism sector will be carried out pursuant to the guidelines set out in the Labor SFD (document GN-2741-3).

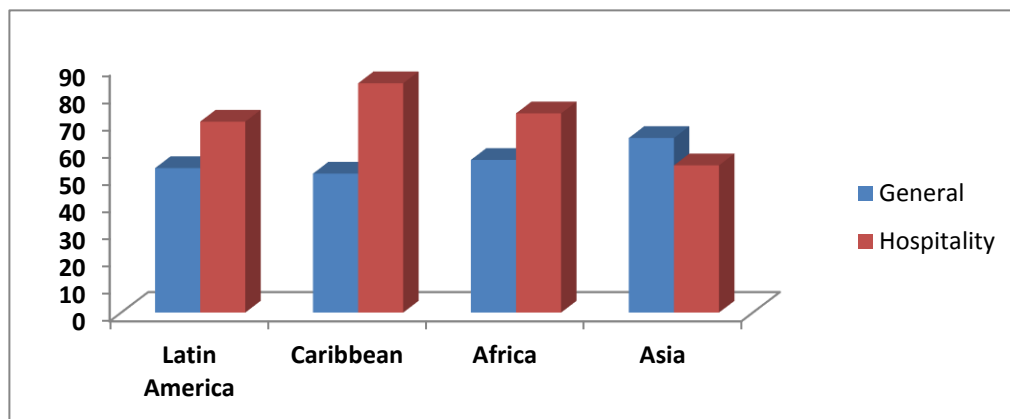
⁵⁵ Institute for Applied Economic Research (IPEA).

Figure 13. Women hospitality workers by occupational status (%)



Source: UNWTO and UN Women (2011).

Figure 14. Women contributing as unpaid family workers (%)



Source: UNWTO and UN Women (2011).

- 3.20 In terms of the participation of vulnerable ethnic groups in the tourism value chain, the lack of disaggregated data in the region means that no general conclusions can be drawn. There are, however, a number of case studies based on statistical data and qualitative research methods. One—produced by the Salvador de Bahia (Brazil) City Hall (Navas-Aleman & Co., 2015)—was aimed at assessing the extent of participation by Afro-descendant communities in the tourism value chain and the level of benefits that they receive. Although they account for 82% of Salvador’s population and 76% and 77% of formal and informal workers in the sector, respectively, Afro-descendants receive the lowest level of benefits from tourism activity. While 60% of white workers in the sector earn less than two minimum wages, 83.5% of Afro-descendants working in the formal sector and 85% of those

working in the informal sector do so. Systematic studies are needed throughout the region in this area.

C. Destinations in the region exhibit weak environmental management and low levels of adaptation to climate change

- 3.21 One of the global challenges for the tourism sector is finding a balance between economic, social, and environmental benefits and costs in tourism destinations (Sharpley, 2009). The scale of this challenge increases when evidence regarding the potential impacts of climate change and extreme natural events are taken into account. These are difficult to predict and prevent. Although tourism is a vehicle for economic growth, it needs environmental protection and conservation, as a failure to control or manage adverse impacts has serious consequences for the viability of tourism activity. In Latin America and the Caribbean, the challenge is no different.

1. Environmental sustainability

- 3.22 Tourism in Latin America and the Caribbean is closely linked to the natural environment. As a result, the sector's long-term competitiveness is highly dependent on the quality of its ecosystems and biodiversity. More than 50% of international tourists visiting Peru, Argentina, and Costa Rica indicate that the natural environment is the main reason for visiting the country (Bovarnick et al., 2010a), while 94% of Caribbean tourism enterprises consider that their business depends on it (Slinger, 2002). Despite this, environmental management in the region's tourism sector is currently weak, as described below. As indicated in the Environment and Biodiversity SFD, the Environmental Performance Index⁵⁶ for 2014 shows that levels of environmental performance in Latin American and Caribbean countries are relatively low in terms of ecosystem vitality and environmental health.
- 3.23 A salient example of this weakness is to be found in the region's protected areas. A significant share of tourism growth in Latin America and the Caribbean focuses on these areas. Almost 70% of all international visitors to Peru, Costa Rica, and Argentina visit at least one protected natural area during their trip. In addition, the region has five of the nine countries with the highest number of accommodations for ecotourists in the world,⁵⁷ with 99% of these accommodations located within or on the outskirts of a protected area (Bovarnick et al., 2010a). However, many protected areas are unprepared for tourism activity. The IUCN and the Biodiversity Indicators Partnership (2010) rate the management effectiveness of protected areas in Latin America and the Caribbean at 0.51 (on a scale of 0 to 1), surpassing only Africa (0.49). The management of 46% of the region's protected areas is inadequate, with serious weaknesses, while only 16% are managed in a manner deemed acceptable (see Table 1).

⁵⁶ Since 2002, the Environmental Performance Index has systematically monitored the countries' relative performance (Yale University, 2014).

⁵⁷ These countries are Costa Rica, Ecuador, Guatemala, Mexico, and Peru.

Table 1. Management effectiveness of protected areas by region⁵⁸

	EUR	Oceania	Asia	LAC	AFR
Average management effectiveness of protected areas	0.57	0.56	0.53	0.51	0.49
Proportion of protected areas with management effectiveness that is:					
Clearly deficient (<0.33)	8%	11%	16%	13%	22%
Basic, but with serious weaknesses (0.33-0.5)	23%	25%	25%	33%	31%
Basic (0.5-0.67)	39%	35%	34%	37%	31%
Acceptable (>0.67)	29%	29%	26%	16%	17%

- 3.24 An evaluation was conducted by Barros et al. (2015), based on metadata from 47 studies, concerning the impact of visitors on Andean natural areas in five South American countries. It showed that a proliferation of informal trails has caused extensive fragmentation of native vegetation and a reduction in biodiversity. The authors point to a need to improve controls on informal trails, to design and adequately maintain the trails in protected areas, and to set acceptable limits on change, all as important tools for avoiding environmental impacts by visitors. Similar results can be seen in tropical protected areas: research conducted in the recreational areas of eight intensely visited protected areas in Costa Rica and Belize (Farrell and Marion, 2011) showed that biodiversity was affected by visitors in these areas, with impacts including the erosion and widening of trails (by 13% to 24%), a lack of vegetation coverage (as much as 90% in some recreational areas), and exposed roots and damage to trees in recreational locations. Although there are a few isolated studies of carrying capacity in some of the parks studied, their dissemination is limited and there is an absence of policies and guidelines to orient administrators in assessing and managing visitor impacts.
- 3.25 In terms of generating income for protected areas, not all such areas have sufficient numbers of visitors to cover their financing needs. Institutional and management weaknesses can also lead to lost opportunities for maximizing tourism's contribution to conservation. Improvements to the system for charging entry fees to visitors in a number of countries in the region resulted in an increase in the share of revenue allocated to the maintenance of protected areas. In Honduras, revenue increased by 47%, while in Chile, Ecuador, and Argentina, they increased by 38%, 34%, and 30%, respectively (Bovarnick et al., 2010). Nonetheless, this area needs to be strengthened further, as the fees paid by visitors are frequently below their willingness to pay and lower than the costs of managing the protected areas. For example, a study of the Osa Peninsula in Costa Rica found that 66% of tourists were prepared to pay an additional US\$177 for their visit to Osa, and an additional US\$42 for their visit to Corcovado National Park (Center for Responsible Travel, 2011).
- 3.26 In terms of coastal tourism development in the region, several studies have pointed to an absence of comprehensive land-use planning, which has resulted in the following major impacts in Central America, the Caribbean, and Mexico, as a result of rapid tourism development: destruction of mangrove forests and wetlands, water pollution, accumulation of solid waste, landslides, and the destruction of coastal

⁵⁸ North America is excluded from the study because of a lack of comparable data.

ridges, forests, and dunes (Flores-Mejía et al., 2010; Padilla, 2015; Pérez-Maqueo et al., 2017). As indicated in the Environment and Biodiversity SFD (document GN-2827-3), the region has lost about 40% of its mangrove coverage, mainly due to coastal development, including urban and tourism-related projects. In destinations such as Cancún, Mexico (Padilla, 2015), and Roatán, Honduras (Doiron and Weissenberger, 2014), a decline in fish stocks has already been observed as a result of the destruction of mangroves and coral reefs, and due to intensive fishing to meet tourist demand.

- 3.27 Another indicator of the weak management of assets is the number of World Heritage Sites that are in danger of losing their designation because a lack of maintenance or management. Of the 55 sites throughout the world classified as being in danger of losing that designation, seven are in Latin America and the Caribbean. In addition, internationally renowned cultural destinations in the region are vulnerable to overuse or deterioration of their assets. A noteworthy example is that of Machu Picchu (Peru), a World Heritage Site that is recognized as one of the most important cultural tourism destinations in the region. Here, the pressure and insufficient management of almost 900,000 tourists that visit the Inca city each year are endangering the structural integrity and cultural authenticity of the site and its surroundings, including the Inca Trail (Larson and Poudyal, 2012). In some places in the region, the development and rehabilitation of historical and cultural centers has created a gentrification effect that, instead of integrating the poor, has pushed them out of their homes and away from the city centers. This happened, for example, in the Pelourinho historic center in Salvador de Bahia (Brazil), where increased property values and the priority placed on developing economic and cultural activities led to a 67% reduction in the resident population, thus minimizing residential potential to maintain the investments (Mogensen, 2000).

2. The vulnerability of tourism destinations to the effects of climate change and natural disasters

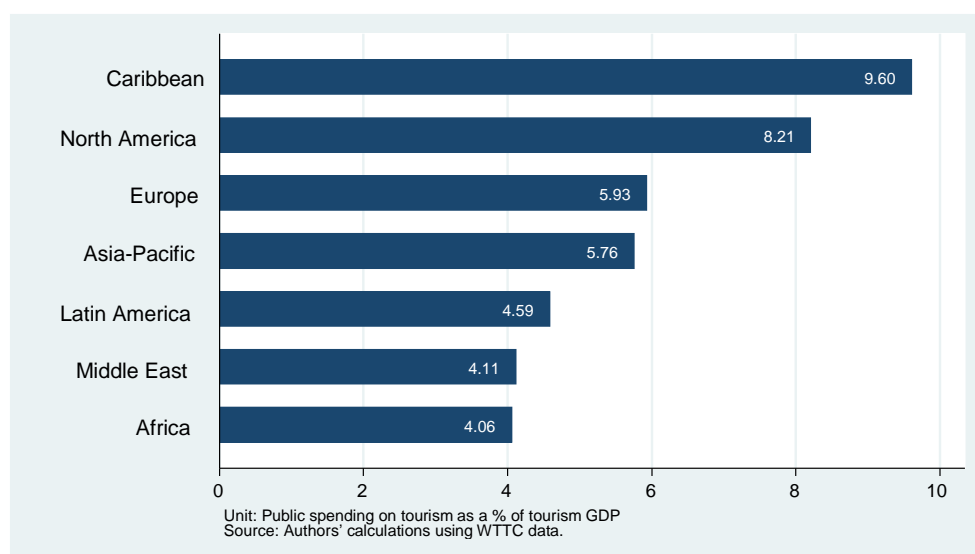
- 3.28 Tourism is currently considered one of the economic sectors that is least prepared for the risks of climate change. Various studies confirm that the tourism sector is very vulnerable to its effects (Scott, 2011; Scott et al., 2012a, 2012b; Simpson, et al., 2012; ECLAC, 2011). Impacts in terms of a loss of biodiversity and environmental services, ocean acidification, and coral reef bleaching, as well as greater water scarcity, increased hurricane frequency, and the spread of tropical diseases, among other things, all have direct implications for the number of visitors and the sustainability of tourism. Coastal tourism—which is crucial for Caribbean and Central American economies, as well as countries such as Mexico and Brazil—is particularly threatened. The most recent IPCC report confirms that coastal areas in Latin America and the Caribbean are experiencing the impact of climate change (ECLAC, 2015a), as there is evidence that sea levels increased gradually over the twentieth century. Sea levels are estimated to have increased by 2 millimeters to 7 millimeters per year along the Latin American and Caribbean coasts, with Ecuador experiencing the lowest increases and the north of Brazil and Venezuela recording the highest ones. Loss of the beach resource therefore represents a real risk that is already occurring in the region (Scott et al, 2012b; ECLAC, 2015). Nicholls & Cazenave (2010) contend that this increase in sea levels was undoubtedly the cause of the erosion seen from 1985 to 2000 in the great majority of the 113 beaches monitored in eight Caribbean countries (0.5 meters on average per year).

- 3.29 Similarly, Scott et al. (2012c) analyzed the potential impact of a future scenario of a one-meter increase in sea levels on 906 coastal tourist resorts in 19 Caribbean countries. They concluded that 30% of the resorts would be at risk of flooding, while around 60% would be damaged by erosion due to a lack of adequate coastal protection and management. Nicholls (2014), based on forecasts from the IPCC's Fifth Assessment Report (2013), projects losses or damages affecting 50% to 60% of tourism properties, 21 airports, and 35 ports in the Caribbean region. The author estimates the cost of rebuilding tourism resorts at between US\$10 billion and US\$23.3 billion in the period to 2050. In the case of Belize, a study of the vulnerability of coastal tourism to climate change found that 94% of accommodations and 79% of coastal tourist attractions are located in areas that are at high risk of flooding (Climate and Development Knowledge Network, 2014). These impacts could transform the competitive position and sustainability of coastal tourism destinations in the region, with major effects on property values, earnings from tourism and destination marketing, insurance costs, and, eventually, local and national economies.
- 3.30 At the same time, the evidence suggests that there is a correlation between climate change and extreme weather phenomena, meaning that tourism in the region is exposed to intense meteorological events such as hurricanes, tropical storms, and surges and tides. These have multiple economic, social, and environmental consequences (ECLAC, 2015). In Belize, for example, the 2014 Climate and Development Knowledge Network study indicated that the intensity of hurricanes and tropical storms has increased over the last 30 years, and that coastal areas are highly vulnerable to storm surges caused by these events. In the case of Cancún—one of the main tourism destinations in Mexico and in Latin America as a whole—the costs of damage caused by Hurricane Wilma in 2005 were estimated at US\$1.8 billion, more than 90% of which were borne by the tourism sector (ECLAC, 2006). In Jamaica, Hurricane Dean in 2007 caused estimated damage of US\$43.7 million to tourist areas, while Hurricane Ivan in 2004 inflicted costs of US\$25.7 million, between damages and lost income (ECLAC, 2011). In 2000, the Belizean tourism sector suffered losses totaling US\$80.2 million as a result of Hurricane Keith (ECLAC, 2003). Bueno et al. (2008) determined that, unless timely measures are adopted, an increase in the number of hurricanes will inflict losses totaling US\$22 billion annually on the Caribbean tourism sector and its associated infrastructure by 2050, and US\$46 billion annually by 2100 (equivalent to 21% of GDP).
- 3.31 Tourism in Latin America and the Caribbean is also vulnerable to natural disasters resulting from geophysical events such as earthquakes and volcanic eruptions, which cause loss of life and infrastructural damage and reduce the attractiveness of a destination to potential visitors. The Puyehue volcanic eruption in Chile in 2011 affected the lake-based tourist circuit, particularly Bariloche and Villa La Angostura. The Argentine economy is estimated to have suffered economic losses totaling US\$155 million in the first three months after the disaster, with an additional US\$168 million in annual lost tourism-related tax revenue (IDB, 2017).

D. The region faces tourism and environmental governance challenges in the destinations

3.32 In terms of sector prioritization, Latin America and the Caribbean shows one of the lowest competitiveness scores (4.5) in the WEF's TTCI (paragraph 3.11), together with Africa (4.4) and the Middle East (4.2). This is supported by the percentage of public tourism expenditure incurred per unit of total tourism GDP in Latin America in 2015, which is the third lowest in the world (4.5%, compared to 9.6% in the Caribbean and 8.2% in North America).⁵⁹ These results highlight the weak institutional framework for tourism in Latin America, which creates difficulties for positioning the sector as an important economic alternative, and for achieving satisfactory coordination with the private tourism sector and with policies that lie outside the tourism domain per se (such as infrastructure, security, environment). All of this has negative repercussions on the competitiveness indicators mentioned above (paragraphs 3.11 to 3.15). Linked to this institutional weakness and the inadequate public-private coordination, the effectiveness of tourism marketing in the region is low, ranking second lowest in the world (surpassing only the Middle East). This is leading to a loss of opportunities for increased tourism spending, particularly given that Latin America occupies one of the top positions in the world (second, after North America) with respect to the potential demand for nature tourism (based on internet searches, WEF, 2015). In the case of the Caribbean, although the ratio of tourism-related public spending to total tourism GDP (9.7%) exceeded that of North America (8.2%) and Europe (5.9%), expenditure per international tourist arrival is much lower than in these two latter regions (Figure 15).

Figure 15. Ratio of tourism sector public spending to total sector GDP by region (% , 2015)

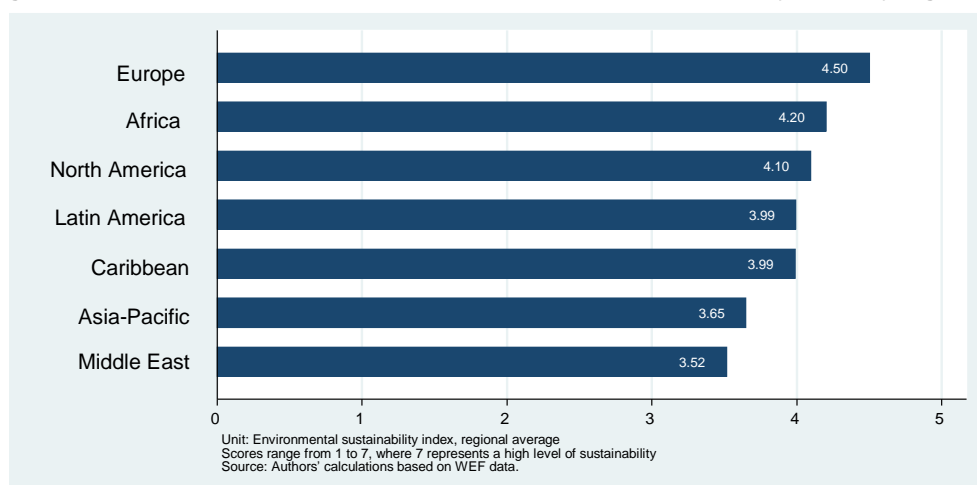


3.33 In environmental terms, and based on the WEF's TTCI competitiveness index (paragraph 3.11), in 2015 Latin America and the Caribbean scored 3.9 on the indicator that measures the effectiveness of public intervention to ensure that

⁵⁹ Based on WTTC data.

tourism is being developed in a sustainable manner. This was the same as the world average, but below Europe, Africa, and North America. Among the main causes of this situation are management weaknesses related to: (i) low respect for existing environmental regulations applicable to the tourism sector (3.9, below the world average of 4.1); and (ii) weak capacity for enforcing these regulations (3.5, also below the world average of 3.9). There is therefore room to push for improvements in environmental governance in the destinations, as these weaknesses lie beyond the remit of the tourism or environmental authorities; instead, their strengthening requires the involvement of various agencies.

Figure 16. WEF tourism competitiveness: Environmental sustainability index by region



- 3.34 The vulnerability of the tourism sector to the impact of natural disasters and climate change is exacerbated by limited management capabilities in Latin America and the Caribbean. Application of the Index of Governance and Public Policy in Disaster Risk Management (iGOPP) in 17 countries in the region (Lacambra et al., 2014 and 2016) reveals that governance conditions for risk management in these countries are at an embryonic stage (attaining an average of only 36.58% of full risk management compliance). The index assesses whether a satisfactory regulatory, institutional, and budgetary framework exists for the effective implementation of public policies on disaster risk management. Among the factors reviewed, the study analyzes the definition of sector responsibilities in the area of policy implementation, including in the tourism sector. According to the study, only 6% of these responsibilities have been defined in the tourism sector—the lowest level of compliance, and significantly lower than the average of the 10 sectors analyzed (27%).

IV. LESSONS FROM THE BANK'S EXPERIENCE IN THE SECTOR

A. Lessons learned from the experience of sovereign-guaranteed operations

- 4.1 The Bank's current portfolio of sovereign-guaranteed operations in tourism consists of 19 active operations for a total of US\$869.4 million, approved between 2006 and 2016. The main lessons learned in recent years are summarized below, based on

progress monitoring reports, loan documents,⁶⁰ technical notes,⁶¹ and contributions from sector specialists.⁶² The lessons learned are separated into technical and operational lessons.

1. Technical lessons

- 4.2 **Tourism sector governance.** Explicit mechanisms and channels should be identified or established within the framework of the projects to ensure the participation and cooperation of all public, private, and civil society agents relevant to sector development.⁶³ This will necessarily entail communication efforts between those responsible for the project and the other actors involved. Additionally, tourism is a fundamentally local phenomenon from the point of view of production and consumption, and communication and collaboration between institutions and sectors and with civil society should therefore take place at both the national and subnational levels.
- 4.3 **Geographic focus.** Tourism interventions should focus on specific destinations in order to avoid geographically scattered, fragmented investments, the viability of which is difficult to sustain.⁶⁴ In this respect, some of the lessons learned from operations to restore historic urban centers with tourism potential,⁶⁵ and to develop coastal, riverine, and rural/natural destinations include the following: (i) interventions should be geographically targeted and based on a clear sector rationale, and should be bound by the tourism potential and anchor attractions of the areas concerned; (ii) institutional and land-use planning mechanisms are needed to facilitate coordination between the different levels of government (national and subnational), within a common vision for development; (iii) to ensure the sustainability of the interventions, it is important to bear in mind residents' needs and patterns of use; and (iv) investments need to be planned, coordinated, and phased to ensure managed land use.⁶⁶

⁶⁰ 21 tourism operations led by CSD/RND were reviewed: [2606/OC-AR](#), [2835/OC-AR](#), [3566/OC-BL](#), [2450/BL-BO](#), [2321/OC-BR](#), [2411/OC-BR](#), [2409/OC-BR](#), [3257/OC-BR](#), [3058/OC-BR](#), [3067/OC-BR](#), [2984/OC-BR](#), [2912/OC-BR](#), [3682/OC-BR](#), [1824/OC-CR](#), [2587/OC-DR](#), [2966/OC-ES](#), [3383/GR-HA](#), [2439/BL-NI](#), [2453/OC-PR](#), [2601/OC-UR](#), and [3820/OC-UR](#). Relevant tourism-related information was also gleaned from 11 operations led by CSD/HUD: [AR-L1243](#), [BR-L1055](#) and [BR-L1386](#), [BR-L1117](#), [BR-L1187](#), [BR-L1421](#) (under preparation), [BR-L1430](#) (under preparation), [BR-L1431](#) (under preparation), [CO-L1125](#), [DR-L1084](#), [PN-L1146](#), and [SU-L1046](#).

⁶¹ Technical note on tourism in Brazil (2011); "Lessons learned from implementing sustainable tourism development projects: the PRODETUR program in Brazil" (2014); "Cancellation note for the Support for the National Tourism Development Program (National PRODETUR)" (2016); and the outputs of tourism operations in the Dominican Republic and Nicaragua.

⁶² A workshop was held with Bank specialists on Friday, 27 January 2016, and interviews were conducted with a number of project team leaders.

⁶³ This approach was included in the loan proposal for BR-L1256.

⁶⁴ This lesson learned was incorporated into the loan proposals for operations 3257/OC-BR, 3058/OC-BR, 3067/OC-BR, 2912/OC-BR, and 3383/GR-HA.

⁶⁵ These lessons were learned from Quito programs 822/OC-EC and 1630/OC-EC, 2587/OC-DR, and other operations to restore historic centers; they were incorporated into the loan proposal for operation 3879/OC-DR.

⁶⁶ This lesson learned is included in the loan proposals for operations 2409/OC-BR, 2411/OC-BR, and 2984/OC-BR.

- 4.4 **Strategic development model.** To avoid scattered, low-impact investments, tourism interventions should fall within the framework of tourism development models or plans, focusing on types of tourism that allow successful positioning in specific demand segments. In this context, public resources should be concentrated on catalytic anchor interventions in order to encourage and/or complement private investment. It is therefore essential to deepen knowledge regarding the effects of different financing mechanisms and regulatory frameworks on systematic public-private collaboration. There is also a need to explore ways of optimizing mechanisms for structuring PPPs based on incentives and risk allocations that can be assumed by all the parties involved.⁶⁷
- 4.5 **Regional integration.** In the case of countries that share regional public goods, international visitor arrivals are usually part of a more extensive tourist circuit that includes visits to other countries in the region. It is therefore important that local tourism service providers (including community-based projects) are integrated into those wider value chains, without which sector development cannot be viable.⁶⁸
- 4.6 **Environmental management.**⁶⁹ One issue that is recognizable in all Bank-financed tourism operations is commitment to the environment. This is reflected in the strategic environmental assessments produced during the preparation stage, as well as the inclusion of environmental management components in programs and activities, and specific investments in this area. Strategic environmental assessments have guided the selection of areas suitable for investment in the short term, and have revealed environmental fragilities and problems that needed to be addressed in the programs. Nonetheless, to ensure sustainable long-term outcomes, the Bank needs to deepen its support for systems to monitor environmental quality and biodiversity in the destinations (particularly in very fragile areas), as well as environmental control and enforcement.

2. Operational lessons

- 4.7 **Institutional capacity.** Execution of Bank-financed tourism operations has generally been the responsibility of the tourism authorities (either national or subnational). The expectation has been that these entities will exercise a leadership and policy coordination role, with the participation of the authorities responsible for planning, the environment, infrastructure, and culture, as well as local governments that are beneficiaries. Despite the progress made under specific institutional strengthening components in tourism operations, problems with tourism authorities' leadership and interagency coordination persist. For this reason, further support should be provided for institutional strengthening processes at both the national and subnational levels, so as to ensure complete and timely program execution. The systematic sharing of experiences and lessons learned between executing agencies for the different tourism operations may be a good way of accelerating the adoption of emerging good practices and consolidation of the institutional framework for tourism in the Bank's programs.
- 4.8 **Investments in works.** As a result of tourism authorities' lack of technical experience in the design and execution of works and deficient levels of coordination

⁶⁷ UR-L1066.

⁶⁸ This lesson learned was incorporated into the loan proposal for operation 2450/BL-BO.

⁶⁹ All tourism programs.

with the authorities responsible for infrastructure, various technical challenges have arisen involving works related both to destinations' connectivity and basic services and to the development of natural and cultural heritage assets: (i) delays in contracting and preparing the detailed designs for works, which slow down the entire operation; (ii) problems of overestimation or underestimation of the cost of works; and (iii) variations in the cost of works due to changes in exchange rates or prices in target areas, which create deviations with respect to originally planned outputs. A number of solutions have been proposed to address these challenges, as follows: (i) providing technical assistance resources to executing agencies; (ii) hiring businesses with experience in works-related investments to support executing agencies with overall administration of the program;⁷⁰ (iii) using the cost estimation methodology developed by the IDB's Department of Infrastructure and Energy (INE) for infrastructure projects (see Transportation SFD), to address the risk of cost variations;⁷¹ and (iv) including a line for contingencies in the estimated budgets for works.

- 4.9 It is still too early to draw general conclusions about the results of these measures, but the importance of strengthening collaboration between tourism and infrastructure authorities to make tourism program works viable has been confirmed. In this regard, it is important to consolidate sector sharing of technical knowledge and align the work timetables of the respective institutions, under the same geographical and seasonal criteria. Moreover, in the case of businesses that support executing agencies, there is a need to establish incentives based on actual performance and avoid working under lump-sum payment arrangements based on the amount of time spent.

- 4.10 **Impact assessments.** Tourism operations approved by the Bank in recent years have used the "Technical Guidelines for Evaluating the Impacts of Tourism Using Simulation Models" (Taylor, 2010). In the case of Belize,⁷² these guidelines were adapted and used in the ex ante economic evaluation (Banerjee, Cicowiez, and Cotta, 2016). In Nicaragua,⁷³ the guidelines were adapted through construction of an Economic Local Impact Assessment Model (Cicowiez, 2016⁷⁴) and used to analyze the impacts of the National Tourism Program on the municipios of Granada and San Juan del Sur.⁷⁵ The results show positive effects in both municipios, stemming from an increase in the level of tourism activity following execution of the infrastructure investments. To date, no impact assessments have been carried out for the other tourism operations. The difficulties encountered include (i) problems in obtaining information on business and household expenditure⁷⁶ (required for constructing the baselines and simulation models included in the guidelines); and (ii) a lack of technical expertise on these methods in the region. Faced with these

⁷⁰ This approach was used in the PRODETUR operations in Brazil.

⁷¹ Approach to be used under operation 3820/OC-UR.

⁷² In operation BL-L1020.

⁷³ In operation NI-L1039.

⁷⁴ Reviewed final draft report, submitted 15 December 2016.

⁷⁵ Municipios where the activities and investments financed under operation NI-L1039 will be carried out.

⁷⁶ In the case of operation DR-L1035.

challenges, the Bank is exploring other impact evaluation tools that might solve these difficulties (paragraphs 4.13 and 4.14).

B. Results of the Development Effectiveness Matrix

- 4.11 Since the Development Effectiveness Matrix (DEM) was introduced in 2009, good results have been recorded in the levels of evaluability of the approved sovereign-guaranteed tourism projects. Moreover, efforts have been made to incorporate impact evaluation plans in tourism projects, with a view to producing empirical evidence on the results achieved with different investment categories and in various geographical contexts (paragraph 4.14).
- 4.12 In the case of non-sovereign guaranteed projects, the four tourism operations approved since 2014 were analyzed during their preparation using the old methodology of the Inter-American Investment Corporation, which did not include evaluability analysis, but took into account the following criteria: development results, IIC strategic development objectives, and financial and nonfinancial additionality. Since reform of the IDB Group's private sector windows was implemented in 2016, all non-sovereign guaranteed projects are subject to rating prior to approval using the DELTA tool, which assesses the degree of compliance with the following criteria: alignment with country and corporate priorities, contribution to development results, additionality, and evaluability.⁷⁷
- 4.13 In terms of ex ante economic evaluation of tourism projects, the Bank has launched a standardized framework that facilitates the comparison of different projects over time and uses a stated preferences design to improve projections for tourism demand "with the project." The framework also includes microsimulation modules for the detailed assessment of impacts on poverty and the most disadvantaged households. To tackle the deficit in economic and tourism data experienced at the subnational level by countries in the region, the Bank has been exploring and combining the use of new methodological procedures during the loan preparation phase.
- 4.14 In terms of the ex post evaluation of tourism projects, the impacts of the investments affect various economic sectors through the ramification of results, and this makes it difficult to isolate control groups. Quasi-experimental methodologies such as difference in differences or propensity score matching are appropriate in some cases; however, they are limited mainly by the frequent absence of data for sufficiently extended periods. Moreover, the inherent uniqueness of tourism destinations means that it is difficult to identify a valid counterfactual. All of this presents challenges for the ex post evaluation of economic impact, as the experimental method used is normally the classic approach, which requires random selection of treatment and control groups and clearly defined results. For this reason, the Bank has invested time and resources to improve ex post economic evaluation methodologies, focusing on methods of analysis that aim to represent entire local and regional economies through Social Accounting Matrices (SAMs). Nonetheless, given the complexity of building these SAMs and of conducting analyses based on

⁷⁷ DELTA [Development Effectiveness, Learning, Tracking, and Assessment] is the new tool used to evaluate the development effectiveness of private sector projects, and is the result of an exercise to harmonize the previous instruments. DELTA places special emphasis on the strategic selection of projects and their impact on final beneficiaries.

simulation models (even under the best of circumstances), it is important to have a range of alternative methodological tools that offer flexibility in the face of challenges and adjustments to theories of change that may occur during implementation of a project. The main challenge remaining in the ex post analysis of tourism projects is attribution. The Bank is exploring various promising methodological proposals, such as decomposition analysis with simulation models (being used for the first time in Nicaragua), and the synthetic control method (applied to analysis of a tourism policy in Argentina) (Castillo et al., 2016).

C. IDB Group lessons learned from non-sovereign guaranteed tourism operations

- 4.15 The IDB Group's current portfolio of non-sovereign guaranteed projects consists of seven loans to six private companies: five hotels in Costa Rica, Jamaica, Nicaragua, and Peru, and a car rental company in Nicaragua. At the time this document was completed, these projects represented total committed capital of US\$27 million.⁷⁸ Tourism operations account for 0.3% of all IIC operations. Of the six borrowers, five operate within international or regional brands: their shareholders are companies or individuals from the region or the specific country that have signed a franchise or management contract with an international or regional chain. The main lessons learned from private sector operations are as follows: (i) careful sponsor selection is important. Sponsors should be firmly committed to their projects and ideally have the financial capacity to provide additional resources if necessary; (ii) location is an important factor in ensuring the success of hotel investments; (iii) the complexity of negotiating financing for new hotels can lead to delays in the distribution of the first disbursement following loan approval, thus slowing works and delaying hotel opening dates. Given this difficulty, businesses need to be given flexibility on loan amortizations in the first few years; and (v) in addition to financing projects, the IIC is supporting positive socioenvironmental actions in destinations through the inclusion of these actions in its business model. The IIC must continue to provide technical support for these socioenvironmental actions through continuous interaction with the client, to ensure that results are monitored and best practices applied in future.

D. Lessons learned from reports by the Office of Evaluation and Oversight (OVE)

- 4.16 The 1989 Evaluation Report on IDB Lending for Tourism Projects (document RE-156) is the last OVE evaluation comprehensively examining the Bank's actions in the tourism sector. The document concludes with a recommendation that further support be provided to the countries in the tourism sector, owing to its relevance in terms of foreign exchange earnings and employment creation, and its widespread impacts on the local economy.
- 4.17 There is also an OVE evaluation of the Multilateral Investment Fund (MIF) as a Bank instrument. The portfolio analyzed in this report includes a representative sample of tourism projects with the private sector. As part of the Second Independent Evaluation of the Multilateral Investment Fund (document MIF/RE-2-4), carried out in 2013, the Fund's portfolio over the 2005-2011 period⁷⁹ was analyzed. The tourism

⁷⁸ February 2017.

⁷⁹ The MIF created the Sustainable Tourism project cluster in 2004.

projects evaluated were aimed at promoting entrepreneurial skills, job training, and market access.

4.18 The following opportunities and recommendations contained in these two OVE evaluations are relevant for the strategic orientation set out in this SFD:

- a. **Environmental and social monitoring.** The development of tourism can create broad environmental and social benefits. However, uncontrolled growth also brings with it substantial environmental and social risks and problems. To avoid these, careful planning, management, and socioenvironmental controls are needed in the sector.
- b. **Hotel financing.** Financing for hotels should depend on the magnitude of the resulting environmental and social impacts and whether there is a demonstrated need for Bank financing. Selection of the type and size of accommodations should be determined through a viability analysis that takes into account market requirements, socioenvironmental costs, and, therefore, the expected net social benefit.
- c. **Sector know-how.** Success in achieving tourism program outcomes depends on exhaustive supervision by the Bank, as well as the existence of an executing agency that specializes in the sector and has the technical capacity necessary to conduct rigorous analyses of needs and opportunities in tourism. For interventions to be sustainable over the long term, specific expertise in the tourism sector is required in the Bank and in the executing agencies, as well as among local actors.
- d. **Focus on destination demand and strategic vision.** In the tourism sector, the majority of MIF projects prior to 2010 were developed from a supply-side perspective. Consequently, many of the interventions were unsuccessful in terms of their effectiveness and market impact.
- e. **Key role of public policy.** Direct actions in support of the private sector should not involve individual initiatives, but should instead be part of a comprehensive intervention strategy focused on the destination, therefore involving the participation of all relevant agents in their configuration (particularly the public sector). The MIF's successful projects were those executed in partnership with public institutions, having succeeded in linking support for the private sector with the official promotion strategy and the objectives of the destination's tourism development public policies.

4.19 Lastly, OVE has also analyzed a number of tourism programs through its country program evaluations in recent years. The most recent are as follows:

4.20 In its "Country Program Evaluation: Brazil, 2011-2014," OVE mentions that "the Bank's support for tourism was solely through sovereign-guaranteed lending, which encountered high implementation costs and delays and made little progress ... because of the lack of preparedness of executing agencies (Departments of Tourism) and the complexity of the programs... The National Department of Tourism does value highly the national information system for the sector that was financed by the federal loan." OVE's conclusions and recommendations are being closely followed with a view to improving the execution of tourism operations in Brazil, with prioritization of the timelines for executing institutional strengthening investments.

- 4.21 In the “Country Program Evaluation: Chile, 2011-2013,” OVE refers to the “Valparaíso Urban Development Project, which sought to reclaim selected territorial areas to stimulate productive private investment and to strengthen management of urban development... [and which] helped develop and implement a tourism development plan... 70% of inhabitants and tourists surveyed at project completion had a favorable impression of the recovery and rehabilitation of urban heritage in the city.” The experience of this project highlights the importance of tourism in making urban recovery investments viable.
- 4.22 In the “Country Program Evaluation: Guatemala, 2012-2016,” OVE refers to the “program for the Maya Biosphere Reserve [which] has been affected by the complexity of its design ... [which] encompassed different areas (tourism, culture, heritage, water bodies, biodiversity, conservation) and required the participation of five institutions coordinated by an execution unit ... [in addition to which] are the inherent difficulties of working in the Petén region (which is characterized by weak institutions and low State presence), and rising levels of violence and insecurity. In line with the program design, most of the resources have been for projects proposed by the communities.” The results of this type of multisector project suggest the need to restrict the scope of investments based on clear geographical and sector criteria when establishing objectives and the theory of change pursued through the interventions.
- 4.23 In the “Country Program Evaluation: Uruguay, 2010-2015,” OVE indicates that “in tourism, the scale of operations is still too small to produce high impacts, but the Bank’s support has helped the country move from a scenario of reactive development based on spontaneous demand, toward a planned, demand-inducing scenario, where there is room to expand the country dialogue on the focus of future operations.”
- 4.24 In summary, to address both lessons learned and OVE’s recommendations, this SFD proposes the following steps: (i) a set of guiding principles for future Bank actions in the tourism area that will ensure both strategic interventions with a geographic focus that is confined to tourism destinations, and social and environmental sustainability in the sector; and (ii) strategic lines of activity that will prioritize Bank action in areas such as development and innovation in products targeting profitable demand segments for the destination, social inclusion in the value chain, and strengthening of the institutional framework and governance of tourism, addressing the crosscutting nature of the sector. In particular, the four dimensions of success proposed in section V encompass specific lines of action and activities to address these recommendations and lessons learned.

E. IDB experiences in generating sector knowledge and other value-added activities

- 4.25 Since 2014, the Bank has been working in a variety of knowledge areas related to the dimensions of success in this SFD. The most noteworthy activities have been the following:
- a. **Tourism production chains with social inclusion:** With the aim of ensuring the inclusion of vulnerable groups (based on poverty, ethnicity, or gender) among the beneficiaries of tourism activities, the Bank has been preparing diagnostic assessments of tourism value chains in Haiti, Salvador de Bahia

(Brazil), and Mexico (in preparation). These assessments analyze current dynamics in the tourism production chain, identifying how tourism expenditure circulates throughout the chain and, in particular, whether the expenditure is reaching these vulnerable groups. They also consider the existence of opportunities for strengthening linkages with tourism. In the case of Haiti, opportunities were found to exist for generating stronger linkages in the hotel subsector. In Salvador de Bahia, it was found that Afro-descendants (particularly women) benefit least from the sector. The challenge going forward is to expand and harmonize these types of analyses with a view to establishing general conclusions. The absence of rigorous and reliable data on vulnerable groups at the subnational level tends to be one of the main obstacles faced, but these initial efforts are helping to develop new approaches to tourism planning in the region.

- b. **Air connectivity in tourism.** The importance of air transportation in countries that are highly dependent on tourism has led some governments to introduce incentives for expanding airline participation in their markets. Although these actions can have a beneficial impact on a country in economic terms, their success depends on several factors: (i) the potential of the outbound markets that the governments wish to develop, based on their travel and tourism expenditure propensities; (ii) the specific format of the incentives—in particular, the extent to which the mechanism harmonizes the economic incentives for airlines with those of the country; (iii) the transparency with which beneficiary companies are selected, and the competitive mechanisms used; and (iv) the duration of the agreements, and arrangements for evaluating and reviewing them. The Bank has therefore been preparing a proposed methodology for optimizing the performance of government contracts with airlines. The methodology suggests that contracts should be awarded based on a public auction, subject to an economic analysis to assess the potential of the new routes. Contracts should also progress in three stages. The first stage seeks to encourage airlines to reveal the minimum level of incentives necessary for them to operate the proposed routes, allowing the government to minimize costs. The second stage seeks to align the airline's incentives as well as possible with those of the country, so as to maximize the number of tourist arrivals. Once sufficient information is available for the relevant analysis, the third stage seeks to gradually reduce incentives so that only those routes that are profitable and sustainable for airlines are maintained. The future challenge will be to implement and evaluate the results of this methodology.
- c. **Tourism-driven development of natural and cultural resources with a focus on the market:** To ensure that there is concrete potential demand for the resources to be developed and the resulting new products, the Bank has been implementing studies based on the willingness to pay of visitors from different outbound markets. The novelty of these exercises stems from the fact that they are not limited to isolated products, but are instead included under the umbrella of broader interpretive themes that are capable of creating or reinforcing a story. This storytelling is aimed at enhancing destination attractiveness and differentiation and coordinating spatial planning around anchor points of interest that are connected and complement each other. The interpretive themes are expected to facilitate the subsequent systematic

coordination of public and private investment. The analysis now incorporates willingness to pay for the protection of ecosystem services (upon which the newly planned tourism products depend), providing a clear idea of the environmental sensitivities of different demand segments. These methods allow tourism investments to be prioritized based on market preferences and expected behavior in environmental terms; their use will therefore be expanded over the next few years in response to the results obtained through their initial application.

- d. **Evaluation of tourism policies.** Evaluation of the economic effects of different tourism policy instruments is an uncharted area, as there is a lack of strong empirical evidence on which to base stylized conclusions. Using different methodologies, the Bank's team has analyzed the effects of two tourism policy instruments on job creation in tourism. In Brazil, a difference in differences model was used to evaluate the employment creation impact of a fiscal incentive program implemented in the Northeast region (Garsous et al., 2015). In Salta (Argentina), the synthetic control approach was used to evaluate the province's tourism development policy (Castillo et al., 2016). Both studies represent a milestone for the region—particularly the study using the synthetic control method, as this allows a wide-ranging policy to be evaluated by means of dual analysis (location and industry), and causality of the results can be attributed to the policy instrument being analyzed. The challenge is to continue exploring different methodologies that would allow shared conclusions to be drawn regarding the effectiveness of alternative public policies.
- e. **Tourism and natural capital.** The Bank is leading international efforts to support the explicit inclusion of natural capital in national accounts (through general equilibrium models), using the Integrated Economic-Environmental Modeling (IEEM) platform. The IEEM is the first forecasting platform to include natural capital accounts under the new System of Environmental-Economic Accounting (SEEA). It allows questions to be formulated along the lines of “what would happen if,” with a view to estimating impacts not only on economic indicators such as gross regional product, but also on natural wealth and capital. Natural capital represents a key comparative advantage that substantially distinguishes destinations in Latin America and Caribbean from other world destinations. The IEEM has already been presented in various international forums, and efforts will continue to consolidate this work and its linkages with planning and management in the tourism sector.
- f. **Partnerships with other sector institutions.** There are areas within the tourism sector in which the Bank—recognizing the institutional competence, experience, and capacity already developed by other institutions—seeks to strengthen partnerships and foster joint actions. Accordingly, the Bank has a strategic partnership with the World Tourism Organization (UNWTO),⁸⁰ formalized through a Memorandum of Understanding signed by both institutions in 2004. This partnership complements the Bank's operational experience, and it acts to the benefit of countries in the region thanks not only to the pivotal value of the UNWTO's power to convene, coordinate, and create

⁸⁰ The UNWTO is the United Nations specialized agency responsible for promoting the developmental contribution of tourism. It is the main international agency and global forum for tourism policies and know-how.

consensus among actors involved in tourism,⁸¹ but also to its ample experience in other regions of the world that may be of relevance to Latin America and the Caribbean.⁸² Recent areas of collaboration since 2014 have been related to consolidation of the Bank's work in the area of harmonizing tourism statistics, through its participation in workshops led by the INRoute initiative,⁸³ in coordination with the UNWTO. These workshops have focused on generating recommendations for international tourism statistics at the subnational level, and they have culminated in the completion of the first manual in this area: "Tourism, territory and sustainability: a statistical insight at subnational levels". The Bank will deepen and widen this relationship through the participation and technical support of the UNWTO in the implementation of the Bank's knowledge agenda for the sector over the next three years (paragraph 5.5), as well as in its operational activities—particularly those relating to the strengthening of tourism sector governance (paragraph 5.18 et seq.).

- 4.26 **Prioritization of the focus on the sector.** Based on the empirical evidence, lessons learned, and the OVE recommendations described, there are areas of intervention in the sector that will not be priorities for Bank action over the next three years. These include: (i) interventions that are not aligned with a strategic tourism development plan for the beneficiary destination; (ii) interventions that fail to identify target tourism demand; (iii) interventions that do not explicitly address the framework for tourism governance in either the risk analysis for the program or through specific strengthening actions; (iv) interventions based exclusively on the provision of infrastructure and utilities; and (v) interventions in types of tourism or destinations with value chains that do not attempt to enhance the capture and distributional impact of the economic benefits of tourism at the local level, and/or to conserve the natural and cultural assets on which development of the tourism activity is based.

V. GOAL, PRINCIPLES, DIMENSIONS OF SUCCESS, AND LINES OF ACTION TO GUIDE THE BANK'S OPERATIONAL AND RESEARCH ACTIVITIES

A. Goal and principles of the Bank's work in the tourism sector

- 5.1 The Bank's goal in the sector is to promote the inclusive and environmentally sustainable economic development of tourism in Latin America and the Caribbean. Three basic principles will apply simultaneously to future Bank interventions in the sector:
- a. **Economic return principle:** with a view to increasing the net benefits derived from tourism activity, interventions will seek to achieve an economic return, incorporating estimates of the externalities affecting social welfare.

⁸¹ It has 156 member states, including six associate members, and more than 400 affiliate members, representing the private sector, academia, tourism associations, and local tourism authorities.

⁸² The UNWTO has specific programs for each region in the world that offer direct and specific support to the member states of the respective continent. These regional programs are directed at the Americas (including North America, Latin America, and the Caribbean), Africa, Asia Pacific, Europe, and the Middle East.

⁸³ A nonprofit entity operating under the auspices of the UNWTO. <http://www.inroutenetwork.org/>.

- b. **Social principle:** interventions will support social inclusion, aiming to use impact indicators to monitor the benefits accruing to the local population (particularly poor households and other vulnerable groups).
 - c. **Environmental principle:** Interventions will ensure the conservation and resilience of natural and cultural capital, as well as the maintenance of ecosystem services that benefit tourism and other economic activities.⁸⁴
- 5.2 The priorities for action arising from these basic principles will allow the Bank to promote innovation and best practices in the sector, and to align itself with the Sustainable Development Goals (SDGs) agreed upon under the United Nations 2030 Agenda for Sustainable Development. Tourism is explicitly mentioned in three of the 17 SDGs, in the areas of generation of decent jobs, responsible consumption, and sustainable use of marine resources.

B. Dimensions of Success, Lines of Action, and Activities

- 5.3 To promote inclusive and environmentally sustainable economic development through tourism, the four challenges faced by the sector in Latin America and the Caribbean (identified in section III) must be tackled in a comprehensive manner. In this regard, the four dimensions of success—outcomes which are expected to be attained through the planned interventions in this SFD—address these challenges while taking into account the economic, social, and environmental dimensions of the tourism sector, as well as the crosscutting challenge of tourism governance. The following four dimensions of success are proposed: (i) support tourism that generates greater economic benefits through the more effective exploitation of the region's tourism resources. Under this first dimension of success, the market failures that lead to the underutilization of natural and cultural heritage in the sector will be addressed, improving knowledge and actions concerning the factors that determine tourist arrivals to the region's destinations, as well as tourism expenditure and its linkages with destination economies; (ii) foster tourism aimed at providing benefits to the local population, particularly the poor and other vulnerable groups; (iii) support a model of tourism in which natural and cultural heritage resources are exploited in a sustainable manner and in which destinations strengthen their resilience to climate change and the risk of natural disasters. Under this third dimension of success, the market failures that lead to the overexploitation of natural and cultural heritage by tourism will be addressed, improving the leadership role of the tourism sector in protecting, developing, strengthening, and improving the region's natural and cultural environment; and (iv) foster a tourism governance framework that allows maximization of the economic, social, and environmental benefits of tourism in the region. This last dimension of success will address market failures related to information asymmetries and sector fragmentation, as well as the balance of power/influence in destinations, with a view to ensuring the efficient allocation of public investment, the capture and maintenance of private investment, leadership by local communities, and the adoption of cohesive visions of tourism development in the destinations.

⁸⁴ This principle will ensure that interventions comply with the Environment and Safeguards Compliance Policy (Sector Policy OP-703) in a consistent manner, and that they internalize the guidelines contained in the Bank's Special Program for Biodiversity and Ecosystem Services (document GN-2703).

5.4 Each of the four proposed dimensions of success is broken down into lines of action that will guide operational and knowledge activities in the tourism sector. These lines of action have been identified on the basis of interventions that have proven empirically effective in promoting the inclusive and sustainable economic development of tourism (section II of this document): (i) developing and innovating tourism products, taking into account the main determinants of travel among demand segments and the structure of their tourism expenditure once at the destinations; (ii) placing local, poor, and/or vulnerable populations at the heart of tourism development strategies; (iii) reinforcing the competitive position of local firms and human resources throughout the tourism value chain; (iv) strengthening sector environmental management; (v) increasing climate change resilience in the destinations; and (vi) strengthening the framework for tourism governance in Latin America and the Caribbean.

5.5 Under the lines of action for each dimension of success, this SFD proposes a series of operational and knowledge activities that the empirical evidence—together with lessons learned and project evaluations—has shown to be most effective for achieving the identified goal. In this respect, it is proposed that operational activities be approached in a comprehensive manner, based on the destinations' strategic tourism development plans, responding to the requirements of tourism demand and incorporating a holistic vision for boosting sector competitiveness, social inclusion, and environmental sustainability. To this end, activities will be geographically focused in order to limit the spatial range of interventions, while facilitating interagency and cross-sectoral coordination, as well as local management of the impacts of tourism. Activities will also adopt a thematic approach that prioritizes the types of tourism and demand segments with the greatest socioeconomic returns for destinations. Within the territorial approach, interventions in destinations will not be based on the provision of infrastructure and basic services alone: these are enabling conditions, but they are insufficient for attracting demand. Within the thematic approach, the type of tourism or tourism subsector will be selected based on the capacity for economic benefits and their distributional impact to be captured at the local level. Country strategies will specify the activities to be implemented in each case, consistent with the particular needs and conditions of each country.

1. Dimension of success 1. Tourism-generated economic benefits increase over time

5.6 The first dimension of success addresses the challenge presented by the weak level of exploitation of the region's tourism resources and the limited generation of economic benefits due to poor sector competitiveness. Based on the international evidence and experiences laid out in section II, the activities planned in the lines of action under this dimension will prioritize interventions aimed at shaping the different determinants of demand and increased tourism spending in the destination's local economy, as an indicator of sector economic benefits. The following line of action is proposed under this dimension:

5.7 **Line of action:** Development of and innovation in tourism products as a foundation for shaping the determinants of tourist arrivals and the interactions of tourism expenditure with destination economies, thus increasing the tourism multiplier effect.

5.8 Operational activities:

- a. Integrated destination planning and development of public natural and cultural heritage assets,⁸⁵ in types of tourism that make it possible to differentiate, improve, deconcentrate, and diversify current products and services, including the promotion of regional tourist circuits.⁸⁶
- b. Support for the provision of quality connectivity and basic services infrastructure (energy, sanitation, ICTs, water, and all the services that enable tourist stays) for visitors in the destinations and regional circuits, while also addressing the needs of the resident population and emphasizing cross-sectoral and interagency coordination.⁸⁷
- c. Design and implementation of cost-effective tourism promotion and marketing strategies to capture target demand, through both offline and online channels, coordinating public-private efforts.
- d. Promotion of technology adoption and innovation throughout the tourism production chain, coordinating private and public efforts to this end.
- e. Improvement of security conditions in the destinations, including regional tourist circuits.⁸⁸ To this end, activities will be supported that are consistent with the Citizen Security and Justice SFD, aimed at: (i) promoting the sector's institutional capacities in the areas of strategic and preventive planning, risk identification, information, management, monitoring, and evaluation of visitor safety; and (ii) strengthening the ex ante and ex post evaluation of different policy options for managing security in destinations, particularly with respect to recovery from crisis situations.
- f. Support for the development, consolidation, and market access of tourism enterprises that are either innovative or have a demonstration effect for the sector and/or destination concerned.

5.9 Knowledge activities:

- a. Preparation of studies of current and potential tourism demand, with a view to understanding the determinants of travel decisions and the structure of expenditure once at the destination. The studies will be used to select and diversify demand portfolios based on the segments that offer the highest socioeconomic returns for the destinations.
- b. Analysis of the feasibility of implementing smart destinations (which already exist in other regions of the world) based on the use of ICTs to promote innovation and interconnect the tourism value chain.

⁸⁵ Upgrading of heritage assets by means of physical installations and management tools that allow them to be visited and used by targeted tourism markets.

⁸⁶ The activity will be carried out in a manner consistent with the Sector Strategy to Support Competitive Global and Regional Integration (document GN-2565-4)

⁸⁷ The activity will be carried out in a manner consistent with the Transportation, Water and Sanitation, Energy, and Innovation, Science, and Technology SFDs, where appropriate.

⁸⁸ The activity will be carried out in a manner consistent with the Sector Strategy to Support Competitive Global and Regional Integration (document GN-2565-4) and the Citizen Security and Justice SFD.

- c. Preparation and dissemination of impact evaluations of flagship projects to determine best practices, focusing on key demand determinants and the structure of the tourism expenditure of different outbound markets and its interaction with different types of destinations.

2. Dimension of success 2. The share of economic benefits from tourism that is captured by the local population and vulnerable groups rises over time

- 5.10 This dimension seeks to address the challenge of generating greater and more equitable socioeconomic benefits for the local population, particularly groups that require an explicit focus in tourism development policies, such as women and vulnerable groups, poor households, indigenous peoples and Afro-descendants, at-risk youth, etc. To this end, the dimension focuses on correcting factors that currently hinder social inclusion and the capture of benefits from tourism, through the reinforcement of the local linkages of tourism value chains. Based on the evidence and experiences presented in section II, the activities planned within the lines of action under this dimension will prioritize interventions to ensure that tourism expenditure reaches target social segments. Two lines of action are proposed under this dimension:⁸⁹
- 5.11 **Lines of action:** (i) place poor households and other vulnerable groups at the heart of tourism development strategies, while simultaneously meeting the requirements of tourism markets; and (ii) expand the participation of the local population and communities in the tourism value chain, while meeting the requirements of tourism markets.
- 5.12 **Operational activities:**
 - a. Design and implementation of social inclusion plans for the tourism sector, based on diagnostic assessments of the tourism value chain that identify which nodes should be the focus of the efforts, thereby enabling existing opportunities for local participation, gender equity, and the inclusion of poor and vulnerable groups to materialize.
 - b. Development and implementation of labor best practices in the sector,⁹⁰ improvements in the environment and conditions for local entrepreneurship and employability, with emphasis on the poorest and most vulnerable groups. This will include promotion of the accreditation of labor skills acquired through official organizations. Equality of opportunity for women—in terms of wages, employability in managerial and leadership positions, and sector entrepreneurship capacity—will be sought.
 - c. Implementation of policies and mechanisms to support the formalization of employment and tourist enterprises.
 - d. Promotion of credit and guarantee mechanisms for the financing of key stages of tourism value chains, with emphasis on local MSMEs.

⁸⁹ The lines of action and the priority activities will be carried out in a manner consistent with the Indigenous Peoples Policy (Sector Policy OP-765) and the Gender Policy (Sector Policy OP-761), as well as the Social Protection and Poverty SFD.

⁹⁰ Activities will be carried out in a manner consistent with the Labor SFD (document GN-2741-3).

- e. Technical assistance and training for local MSMEs and human resources in the tourism sector, with a view to adjusting the quality of service to the expectations and requirements of the target demand.
- f. Support for development, innovation, quality improvements, and market access among private tourism services that generate net social benefits and have a positive distributional impact, regardless of the size of the business or the purchasing power of the target tourist demand.

5.13 Knowledge activities:

- a. Preparation of social diagnostic assessments and inventories of gender, poor, and vulnerable groups present in the destinations, based on standardized criteria and methodologies.
- b. Studies and diagnostic assessments of the causes and conditions of job and business informality in the sector.
- c. Preparation and dissemination of impact evaluations of flagship projects to determine best practices, focusing on policy alternatives and distinguishing by the income, gender, and ethnic diversity of the beneficiaries.

3. Dimension of success 3. The region's natural and cultural heritage assets are exploited in a sustainable manner by the tourism sector and the impacts of climate change on the sector are managed

5.14 This dimension emphasizes the importance of the effective implementation of environmental management and climate change adaptation tools in tourism. The lines of action under this dimension will prioritize interventions to ensure conservation of the natural and cultural endowment, and to reduce the vulnerability of destinations to risk in the long term—particularly the effects of climate change and natural disasters. Two lines of action are proposed under this dimension:

5.15 **Lines of action:** (i) strengthen environmental management in tourism destinations;⁹¹ and (ii) improve the capacity to manage risks associated with the vulnerability of tourism to climate change and natural disasters.

5.16 Operational activities:

- a. Preparation and implementation of strategic environmental evaluations of policies, plans, and programs in the area of tourism development. Support for environmental impact studies for tourism investments in destinations.
- b. Support for financing efforts (entry fees in protected areas, concessions, grants, etc.), conservation and effective management through tourism in protected areas, biological corridors, ecosystems of high ecological value in destinations, including the conservation of private and community-owned areas.
- c. Design and implementation of strategies, instruments, and continuous reporting systems, and adoption of new technologies (sensors, etc.) to improve

⁹¹ The line of action proposed and its activities will be carried out in a manner consistent with the Environment and Biodiversity SFD.

the management of tourist flows in destinations, and monitoring and tracking of the impact of tourism on the natural and cultural environment.

- d. Design and implementation of comprehensive risk management plans for natural disasters, including the effects of climate change.
- e. Investment to support tourism infrastructure that includes features to prevent and mitigate natural disasters and adapt to climate change, including innovative opportunities for using natural capital to reduce vulnerabilities. Mobilization of mixed climate financing to reduce the cost of public financing for these investments.
- f. Development of innovative risk transfer and adaptation mechanisms, such as insurance against meteorological events, disaster recovery funds, and other financial instruments.
- g. Promotion of environmental good practices in the private sector, including LEED or other types of certification that have proven effective in the sector,⁹² as well as the adoption of mechanisms for the efficient use of energy and water, including renewable energy and bioclimatic construction materials.
- h. Support for policies and activities that foster low-carbon tourism activity, including support for destinations wanting to move towards carbon neutrality.

5.17 Knowledge activities:

- a. Preparation of vulnerability maps for tourism destinations in the region.
- b. Preparation and publication of updated studies concerning the vulnerability of the different types of tourism to the impact of climate change.
- c. Preparation and dissemination of impact evaluations for flagship projects in terms of environmental management or climate change resilience in the tourism sector, to identify best practices.

4. Dimension of success 4. Tourism governance in Latin America and the Caribbean is strengthened through greater interagency coordination, public-private collaboration, and leadership by local communities

5.18 This dimension addresses the crosscutting challenge of governance present in the challenges faced by the region, in terms of the generation of economic benefits, poor social inclusion in the sector, weak environmental management, and the vulnerability of destinations. To maximize the socioeconomic and environmental benefits of tourism, there is a need for a cohesive, balanced governance framework in which all stakeholders are heard and interact efficiently and transparently, and in which a shared vision is generated regarding the type of development desired for the destination. Based on the evidence and lessons learned presented, three lines of action are proposed:

5.19 **Lines of action:** (i) foster interagency coordination between authorities in the tourism sector and their peers in other sectors at the national and subnational levels; (ii) support public-private coordination in the destinations; and (iii) foster leadership

⁹² The Bank will only support certification programs that involve tangible and proven improvements in environmental management by companies and/or destinations; these may also, where applicable, yield private benefits for tourism companies (from energy or other types of cost savings).

and participation by local communities in the process of tourism development in their areas.

5.20 Operational activities:⁹³

- a. Strengthening of the capabilities of tourism institutions to allow them to lead the sector at the transnational,⁹⁴ national, and subnational levels, including institutional reorganizations, training, and the design, implementation, and evaluation of sector regulatory frameworks.
- b. Support for interagency and cross-sectoral coordination by fostering interagency entities and technical task forces, creating or strengthening destination management organizations, supporting the adoption of agreements or other contractual mechanisms, using technological platforms or tools to facilitate the transfer of knowledge and information, among other possible actions.
- c. Implementation or consolidation of tourism information systems at the national and subnational level (e.g. Tourism Satellite Accounts, systems of tourism statistics, tourism observatories), including efforts to support international harmonization and the adoption of new data sources and technologies.
- d. Improvement of the technical and operational capabilities of the national and subnational authorities responsible for managing natural and cultural heritage from a tourism perspective, including their roles and responsibilities with respect to policy design, regulation, and monitoring of the sustainable use of the assets.
- e. Support for the creation and consolidation of entrepreneurial networks in the destinations (especially involving local MSMEs), through financing,⁹⁵ the adoption of new technologies, training, and technical assistance.
- f. Design, implementation, and evaluation of mechanisms for public-private collaboration (public-private partnerships or other innovative financial instruments), to leverage private capital focused on destination promotion, the development of resources, and the provision of infrastructure and basic services.⁹⁶
- g. Investment and technical assistance to support participation and leadership by local communities in the design of tourism policies and instruments for the tourism-related management of local natural and cultural heritage assets.

⁹³ These activities will be carried out in a manner consistent with the Decentralization and Subnational Governments SFD.

⁹⁴ The activity will be carried out in a manner consistent with the Sector Strategy to Support Competitive Global and Regional Integration (document GN-2565-4)

⁹⁵ This activity will be carried out in a manner consistent with the Support to SMEs and Financial Access/Supervision SFD.

⁹⁶ This activity will be carried out in a manner consistent with the Transportation, Water and Sanitation, and Energy SFDs.

5.21 Knowledge activities:

- a. Preparation of a rigorous conceptual framework for subsequent standardized, comparable regional measurement of the various dimensions of tourism governance in Latin American and Caribbean destinations.
- b. Design of tourism observatories that make it possible to move towards the measurement of tourism sustainability at destinations, with harmonized economic, social, and environmental tourism indicators in the region.
- c. Analysis of alternative policy tools to improve the allocation of public resources in the capture of private investment and in public-private collaboration.
- d. Preparation and dissemination of impact evaluations of flagship projects based on alternative models of tourism governance.

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