



Recent Trends in Tourism Financial Flows



Trekking in the Huayhuash Range of Central Peru. Photo courtesy PromPeru.

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Tourism appears to many developing countries a promising source of economic development. Adventure tourism, given its emphasis on pure and pristine natural environments, lower barriers to entry for small business, and frequently reduced requirements for new construction in particular, is promising for countries with lower levels of capital investment and existing infrastructure.

In some places, it is already worth more, in terms of export revenues and share of GDP, than traditional commodity-based or manufacturing exports, and seems to offer opportunities for employment, earning foreign exchange and encouraging investment and economic growth. Many developing countries, therefore, are prioritizing attracting foreign direct investment (“FDI”) in their tourism sectors. However, this form of FDI is complex, and its dynamics and impacts are not well understood.

This brief supports adventure tourism market developers and tour operators working in developing/emerging markets with background on tourism finance and up-to-date information which can be used when creating new development initiatives.

In 2005, UNCTAD launched a research and policy analysis project, *Foreign Direct Investment in Tourism: The Development Dimension* to collect and analyze information about the role of transnational corporations (“TNCs”) in global tourism. Themes included:

- The extent of TNC activity;
- The role and implications of non-equity compared to equity modes of participation;
- South-South tourism and investment; and
- The linkages between hotel groups and their host countries.

The countries selected to participate in the study had a broad range of experiences. They included land-locked countries, LDCs, island economies, countries with a long history of FDI and those with a short history, as well as countries with policies that were welcoming to mass tourism and those that followed a more niche-oriented strategy. The countries covered were: Bhutan, the Dominican Republic, Kenya, Morocco, Sri Lanka, Tunisia and the United Republic of Tanzania.

Some of the conclusions of the research are as follows:

- Traditionally, tourism was placed below manufacturing or agriculture in terms of economic development potential since it was not seen as a significant or appropriate source of growth;
- In contrast, today, there is a significant re-appraisal taking place, which values tourism as a potential means of earning export revenues, generating large numbers of jobs – including for young people and women – promoting economic diversification and a more service-oriented economy, helping to revive urban areas and cultural activities, and opening up remote rural areas. Adventure tourism, although not called out specifically in this study, clearly has an edge over other forms of tourism in its ability to attract young business entrepreneurs and in addressing specific consumer demands also values and rewards local cultures;
- A significant part of tourism’s development potential stems from the fact that it links together a series of cross-cutting activities involving the provision of goods and services such as accommodation, transport, entertainment, construction, and agricultural and fisheries productions. Its industry structure encompasses a wide diversity of players, ranging from global TNCs to MSMEs. This enables participation in the industry at a number of different scales and levels of the market;

On the other hand, tourism has its downsides: 1) vulnerability to external shocks – economic, environmental and political; 2) ability to create problems of its own such as social and economic costs to communities and to the environment; 3) potential low wages and a lack of good human resource development practices; and 4) an association with an undermining of traditional values. The lesson is that tourism initiatives need to be managed carefully if they are to yield the desired benefits without undermining the local economy and the environment, social traditions and cultural resources;

- Tourism is still a relatively “un-globalized” industry. Contrary to common perceptions, one finding of the study is that FDI in tourism is relatively low compared to both other globalized activities (including services such as telecommunications and finance) and domestic investment. Tourism accounts for no more than 1% or 2% of total outward FDI stocks from the largest source countries and an even smaller proportion of total inward FDI stocks for the largest host countries. Reflecting this, tourism does not have as many global mega corporations as in other sectors.

Tourism-related FDI is also largely concentrated in developed countries. Even though it has been growing fast, it is estimated to be as little as 10% in developing countries. This casts doubts on the perception that tourism-related FDI is extensive and dominates the tourism industry in developing countries. However, it is projected that tourism-related FDI and TNC activities are likely to increase significantly in the medium term in virtually all developing regions;

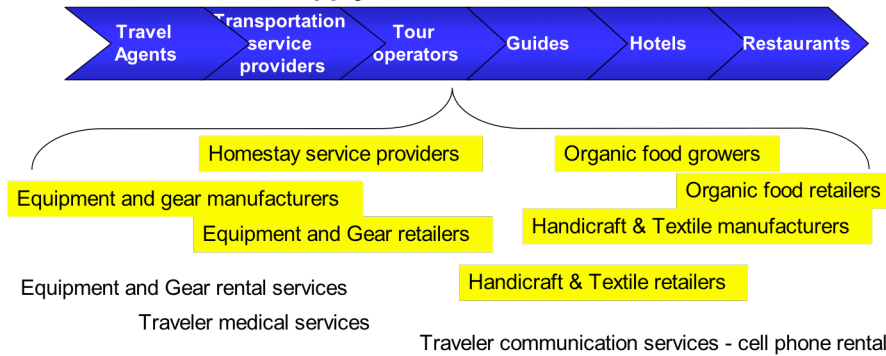
- Regional trends for developing countries are uneven. On the basis of the little information on tourism-related outward FDI provided by the two largest sources of such information (the U.K. and France), Latin America and the Caribbean and Asia dominate as recipient developing regions, while Africa and the Pacific receive very little such FDI. It is likely that these proportions will change over the next five years.
- The localization decisions for FDI flows depend on the extent of tourism demand for a specific destination, as well as its specific tourism-related assets (e.g., nature, culture). While demand from developed-country tourists is viewed as the single most important factor for choosing a particular location, growth of domestic demand is thought to be increasingly important. For example, a number of TNC executives cited the growth of domestic demand for business and recreational travel in China and Africa. Survey respondents also said that economic size and growth rates were also important reasons for their choice of location, and this could be indirectly affected by government policies and incentives for FDI;
- Privatization was a significant driver of FDI in many developing countries in the 1990s, and there continue today to be pockets where investment still occurs through privatization. However, in most cases, investment is usually in “greenfield” projects rather than through M&A activity as is found in other sectors of the economy;
- The largest source countries of outward FDI in tourism have long been the United States, the United Kingdom, France, and Canada, but a new trend, which is gathering steam, is the rise of South-South investment. As in other sectors of the global economy, a number of TNCs from developing economies are becoming active on the world tourism scene. At present, these TNCs are from economies such as Singapore, Hong Kong, and the United Arab Emirates; other source economies from the South include Cuba, Malaysia, Poland, South Africa and Mauritius. For many developing countries, especially the least developed, investors from the South may represent an extremely significant source of new investment, capital and expertise; and

- The study found that the key impacts of tourism-related FDI, both positive and negative, are as follows:
 - Impact on demand patterns. TNCs were found to put host countries on the map, and foreign brands have further enhanced their image as tourist destinations. In a particularly volatile industry, TNCs can be more robust and stable than local firms and, thus, help ensure the stability of, and confidence in, an economy. On the other hand, TNCs can perpetuate a country's poor image as a low-quality (= mass-market) destination. Even low-volume adventure tourism operators should recognize their power in this context, with the ability to establish compelling brands in little-known destinations built on authentic local resources, as opposed to manufactured commodities;
 - Impact on capital, technology and skills formation. Apart from LDCs and new markets, the financial contribution of tourism-related TNCs is relatively small in most developing economies, especially because much of their involvement takes non-equity forms. Despite the expectations of some host governments, they are not likely to assist in the development of infrastructure.

They can introduce, however, a diverse range of new technologies and skills into the economy, including advanced management, environmental and financial systems. Adventure companies in particular offer excellent examples of this, working with local outfitters and tourism suppliers to learn about good practices for conservation and tourism management. Excellent examples exist throughout the adventure industry and are highlighted every year at major industry events such as the Adventure Travel Trade Association's World Summits. These improve the productivity and sustainability of the sector and economy and, potentially, lead to beneficial spillovers to other firms and sectors. Adventure operators and other industry participants reading this report are encouraged to think of their own business activities from this perspective – how influential are you in shaping the direction of industry development in the destinations in which you operate? Are you communicating the results of your efforts to your customers and partners?;

- Impact on human resources. In addition to skills formation (including a wider diversity of skills), tourism-related TNCs generate employment and, in some cases, they generate proportionally more employment than local firms. Though contrary examples exist, TNCs often pay higher wages and offer a better package to employees than local firms. However, in more mature destinations or those with a history of public investment in training, these distinctions between TNCs and local firms are less marked or absent; and
- Impact on local firms. Tourism-related TNCs are making an effort to establish linkages with local suppliers and distributors, sometimes to a greater degree than equivalent local firms, which generates economic activity and business opportunities. There is generally little evidence of TNCs crowding out local firms. The diagram below offers a basic view of how adventure tourism companies are supported by a range of businesses in a local economy.

Adventure Tourism Supply Chain



Many developing countries have now become more open to tourism-related FDI. This represents a sea change from the 1960s and 1970s when foreign involvement in a country’s tourism industry was frowned upon. Today, tourism has arguably fewer FDI restrictions in developing countries than many other economic activities; in fact, it is often actively promoted. This proactive stance can take the form of “soft” policies such as government support for trade fairs and maintenance of tourism Internet sites, and “hard” measures, which include providing incentives to foreign investors.

The potential benefits to be gained from attracting global investment will be limited if a host country does not have a wider policy framework to make the most of the opportunities and minimize any costs and drawbacks.

To take full advantage of FDI as a catalyst and a complement to domestic investment, a coherent and integrated policy framework is essential. This is not simple since tourism is a cross-cutting and interlinking activity, with a long value chain that involves the provision of services by many providers, private and public.

The number and range of policies that need attention are large, far-reaching and diverse.

- Most countries devote a considerable amount of attention towards attracting FDI in tourism but much less attention is paid to policies that will help a country fully benefit from this FDI;
- The contribution played by tourism in terms of creating beneficial linkages to MSMEs (small-and-medium size enterprises) and domestic enterprises depends to a large extent on the size and breadth of the domestic economy. Therefore, national policies toward tourism investment should differ depending on each countries’ context; and
- The research also points to the value of a coordinated approach between all parts of the economy that affect, and are in turn affected, by tourism, including environmental planning, education, transport, telecommunications, mining, forestry, agriculture, and financial services.

The findings already highlight a general lack of communication and coordination between policymakers working on tourism, investment, economic development, competition and trade issues.

Conservation Finance

World Wildlife Federation (“WWF”) has written an excellent overview on conservation finance, which we summarize as follows. **It provides us with an excellent way of understanding the different means that are being used to protect natural areas, oftentimes a key element in the development of an adventure tourism industry in a particular locale. Conservation**

finance strategies or mechanisms help ensure long-term sustainable financing for projects and programs beyond the projects'/programs' life spans.

Traditional fundraising is generally secured from government, foundation, corporate or individual sources in support of a project's development and implementation, usually for not more than 5 years. Conservation finance goes beyond this by introducing innovative, market-based approaches such as debt-for-nature swaps, environmental funds, and payment for ecosystem services ("PES"). These financing mechanisms are highly tailored to different natural resource management objectives and can range from a diving fee system for a marine protected area, a water fund to conserve an upstream watershed, or a fully endowed region-level protected areas trust fund.

Sustainable conservation finance is growing in use around the world. Many governments have increased their commitments to ensuring sustainable financing for national and regional systems of protected areas, such as recent agreements signed at the Convention on Biological Diversity.

The following is a list of some of the main conservation finance mechanisms currently in use today:

- Environmental and/or conservation trust funds;
- For-profit investment funds;
- Debt-for-nature swaps;
- Payment for ecosystem services ("PES");
- Tourism-based revenues and fees;
- Resource extraction fees;
- Real estate and development rights; and
- Earmarked taxes and other charges.

Sources: Recent Trends in Tourism Financial Flows

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