Local Economic Development and Tourism

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\textbf{Introduction}

As discussed in Hawkins and Mann (2007), the World Bank dropped its engagement in the tourism sector during the 1980s after twenty years of financing Bank’s Tourism Projects which included infrastructure for resort sites, lines of credit for hotels, training, and some investment in hotels and other tourism related projects. At the time, World Bank lending for tourism in LAC was just above US$350 million. After the tourism department closed in the late 70s, some projects supporting tourism continued, but total lending fell to US$150 million by the mid-80s. It had reached a low of US$50 million by the mid-90s.

However, in the mid-90s the trend started reversing itself and by 2007 lending for tourism grew to US$175 million, and is expected to pass the $350 million dollar mark during 2008-09. The World Bank’s renewed interest in tourism derives from its direct and indirect roles in reducing poverty and achieving the United Nations Millennium Development Goals. Tourism is currently estimated to contribute around 10% of global GDP nowadays (Brida et al, 2007) and to be the largest contributor to employment worldwide. Thus tourism can impact positively on local economic development (LED) and, in turn, can lead to poverty reduction in destination communities and countries.

With its new focus on LED-based tourism, the World Bank has shifted its project objectives from supporting beach (sun, sand and surf) development projects to poverty reduction through agro-eco-tourism, community-based tourism, cultural and adventure tourism and, in general, the development of special niches where tourism can claim both environmental sustainability and social responsibility (Ba and Mann, 2006).

Inspired by the session “Tourism and Local Economic Development: Success and Challenges” within the Learning Event “Sustainable, Responsible Tourism in Latin America and the Caribbean” held in the Bank on April 14, 2008, this \textit{En Breve} explores four approaches to tourism as a driver of local economic development.

\textbf{Stand Alone Community Projects}

Community Based Tourism projects have a mixed reputation. Stand alone projects can be successful, as indicated by the remarkable experiences of Chalalan Ecolodge (see Box 1) and Salar de Uyuni in Bolivia (See Box 5), but their impact appears to be limited. Despite generous support from the Inter-American Development Bank in both cases, and additional help from GTZ (German Agency for Technical Cooperation) and Conservation International in the first case, and from Fundación PRODEM in the second, neither project has been able to expand operations or to generate companion enterprises to absorb the growing community labor force or to produce desired multiplier effects. Nor is it evident that either project could ever recover the original investments made by donors, despite their high profitability.
While very appealing, the Community Based Tourism model has been questioned by Overseas Development Institute tourism expert, Caroline Ashley as having consumed “vast amounts of community time and donor resources producing projects that are commercially not viable.” Ashley goes on to point out that when “enterprises that are, literally, run by a collective community group” they have “all the problems of collectives operating in a fairly sophisticated consumer market.”

Box 1 - Chalalán Ecolodge in Madidi National Park, Bolivia
---How to turn an initial funding by donors into a sustainable tourism operation---
Located within the Madidi National Park created in 1995, San José de Uchupiamonas is a remote indigenous community, relying on traditional farming, hunting, fishing, and collecting forest fruits. The initiative of constructing rustic cabins as Chalalán Ecolodge in the community started in 1992 and benefited from the significant donation received from the Multilateral Investment Fund of the Inter-American Development Bank (US$1,250,000) and Conservation International (US$200,000), in December 1994. The site was chosen because of its strong ecotourism potential and the project designed in the expectation of positive impacts on the local community.

The Chalalán Ecolodge began operations in 1998, when it received 400 visitors. Thanks to the continuous efforts by the members of Chalalán Ecolodge, the number of visitors doubled from 700 in 1999 to 1,406 in 2007. Cited as “Highly Commended” in the category of “Best in a Park or Protected Area” among the Virgin Holidays Responsible Tourism Awards 2007, Chalalán Ecolodge has achieved annual revenues of US$280,000 for the past 5 years. Malky Harb and Saavedra (2007) attribute the success of Chalalán Ecolodge, to the timely financial contributions from donors, to the existing social capital (characteristic of an indigenous group), and to its stunning location. Chalalán Ecolodge took advantage of its luck, but the model has not been replicated yet in other areas of Bolivia.

Still, as stand alone projects, Chalalan and Salar de Uyuni have proved sustainable and profitable and have undeniably generated local economic development in two of the poorest regions of Bolivia. Moreover, the projects have empowered their respective communities and bolstered ethnic pride. Indeed, their success could stem in part from the characteristics of the indigenous cultures, which maintain traditional values, staying close to the land and within the community, over financial growth.

Investments in Destination Cities or Regions can Stimulate Sustainable Tourism
Recent World Bank projects have focused on enhancing tourist destinations – improving the quality of life for residents while stimulating increased visitor growth. In Santa Rosa de Copan in Honduras (See Box 2) site of one of the great Mayan temple cities with the best preserved paintings in Central America, the World Bank has financed upgrading and works in the host city and at the ruins, as well as training and financial support through a grant facility for small businesses linked to the destination. At this writing, following its successful completion, the Copan Valley project is being extended to expand the tourist circuits, and to bring the benefits of tourism to the larger area of influence of Santa Rosa de Copan and the archeological site. Bank projects underway in Vilcanota Vally, Peru and Copacabana on Lake Titicaca, Bolivia follow similar approaches, building tourism markets and income by a combination of actions to improve local infrastructure, to make cultural heritage more accessible and to provide small grants for enterprise development. Vilcanota Valley counts also on the “geotourism map guide” developed by National Geographic Society (see Box 3) to further stimulate educated tourism.

In Puerto Limon in Costa Rica (see Box 4) the World Bank has begun its first “port-city” project, financing the improvement of sites of cultural and architectural interest to create a circuit for visitors and to stimulate local investment in tourism development. Projects under preparation in Sao Luis, and Santos, Brazil, and Colon, Panama, are following the same model. Impact evaluations
will be tracking indicators of jobs created in the tourism sector, as well as increased income and number of visitors.

**Micro Credits and Training: Investing in the Market to Stimulate Local Economic Development**

As micro-credits can offer timely capital to initiate or expand business they also create jobs, generate income and build local capacity in a variety of sectors thus contributing to local economic development. Several of the World Bank’s micro-credit programs have reported high demand and excellent returns from tourism enterprises. Conversely, the governments of Bolivia and Guatemala, to name two, have expressly requested Bank assistance to promote micro-credit programs for small tourism businesses. However, the World Bank policy recommends that micro-credit programs follow qualified demand, rather than predetermining it. That said, other institutions have supported micro-credit programs targeted to tourism, as described for example in Box 5 on Fundación PRODEM in Bolivia. DFID and the Finnish government’s international Cooperation Agency have announced plans to finance a large scale micro-credit program in Nicaragua, with a special line of credit for small scale and community based tourism businesses.

**Box 2 - Regional Development in the Copan Valley Project, Honduras**

Since 2003, the World Bank has been financing a regional cultural tourism development project in the Copan Valley, Honduras. The project, a $12 million credit from the International Development Association, has developed tourism circuits, signage, a Regional Investigation Center for Archeology and a visitor center at the Copan ruins as well as developed a circuit to other four nearby archeological and ecological sites. It has also financed infrastructure improvements in the host city of Copan Ruinas, and provided support to the preparation of management plans of all five sites, including Los Naranjos Eco-archeological Park. The project also includes capacity development activities through a grant and technical assistance program called Fondo Propiedad (Prosperity Fund). This fund financed 68 local tourism entrepreneurs, mostly women, benefiting more than 1,650 people directly and an estimated 25,000 people indirectly. Thanks to this project, the management capacity of the municipality of Copan Ruinas has been strengthened through the establishment of an Urban Planning Bureau and a Municipal Tourism Unit. These bodies have helped to refine and enforce critical urban development and management norms, as well as regulations for construction licensing, heritage protection, traffic control, street commercialization, environmental conservation, cadastre, street naming, and color and signage standards. As a result, and also as a consequence of the expansion of local economic activities, municipal revenues rose. In five years, this project has helped give Copan Ruinas a brand new image while expanding income generation opportunities to its poor inhabitants and increasing their sense of local heritage and distinctiveness. This model is now being shared with other municipalities in the Valley.

**Box 3 - Geotourism Maps and Geotourism Circuits**

A concept wider than ecotourism, “geotourism” promoted by National Geographic Society refers to tourism that sustains or enhances the geographic character of a place, such as its environment, culture, aesthetics, heritage, and the well-being of its residents. In its Vilcanota Valley Project, the Bank collaborated with National Geographic Society and Peruvian authorities on a geotourism map guide for Peru. In Guatemala, some small coffee growers are opening up their farms to “geotourists” so that they can taste coffee, see the coffee production process, and learn about the local Mayan culture. The Bank is supporting this initiative through the Guatemala Competitiveness Project (US$18.8 million loan) with PRONACOM (National Competitiveness Program), in collaboration with Anacafé (Guatemalan National Coffee Association) which will produce another “geotourism map guide.”
Both stand alone and micro credit projects in tourism emphasize the importance of human capital and generally include technical assistance components, as illustrated by the cases of Chalalan Ecoodge, Santa Rosa de Copan and Fundación PRODEM. Experience has shown that financing alone cannot generate local economic development through tourism. Like any business, micro-enterprises require some basic finance and, tourism enterprises can benefit enormously from technical assistance in language, in cultural understanding (for international clients in particular), in marketing and web-management.

While tourism cannot be developed everywhere, in “destinations” with potential, tourism can lead to robust local economic development, as these positive experiences demonstrate. Whether they support a stand alone community-based project, development of a specific destination, or a micro-credit program, tourism projects can bolster local economic development.

References
5. Carolyn Ashley, comments on a proposed tourism development project for Jamaica, email, September 18, 2008.

Box 4 - Puerto Limon, Costa Rica
The World Bank’s recently approved City-Port of Limon Project, on the Caribbean coast supports tourism development to capture benefits of the port modernization and expansion project for the city. By financing the rehabilitation of the historic city center, it has created walks and inviting spaces for both citizens and transformed the city from a mere transfer point for tourists from cruise ships into a “must-do” stop-over. In doing so it stimulates a new generation of tourism businesses and sales of local products, providing employment and income generation opportunities which have been falling since the modernized port has become automated and reduced its labor needs. Evidently, the project is meeting the country and city’s needs. The government of Costa Rica has requested similar collaboration for its other City-Port on the Pacific side – Puntarenas.

Box 5 - Fundación PRODEM, Bolivia -
--Promoting small and micro tourism enterprises--
Since its creation in 1986 as a non-profit micro-finance institution Fundación PRODEM has contributed to shaping Bolivia’s banking sector toward the poor. In 1992 Fundación PRODEM created BancoSol, a commercial bank to offer a full range of financial services to micro-businesses in urban areas, followed seven years later by a private financial fund (PFF) focusing on rural clients. Recently, in response to the Bolivia’s burgeoning tourism market, Fundación PRODEM invested directly in developing the tourist destination “Salar de Uyuni” in a park of dramatic landscapes, by the world’s largest salt lake. The Inter-American Development Bank has also supported the first stage, a community tourism endeavor, of a long term development project. The recently built eco-lodge owned and managed by the local indigenous community (a 32% equity share holder), with assistance from PRODEM, is already financing micro-enterprises aimed at contributing to the tourist experience and to the ecolodge operations: tour guides, handicrafts, laundries, signage, environmental management etc. Within fifteen years PRODEM plans to sell out its shares to the community and to leave the operations in the hands of the community and micro-enterprises.

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