Can tourism development help reduce poverty? A Question for the MCA*

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The new U.S. aid initiative, the Millennium Challenge Account (MCA), aims to "reduce poverty through economic growth." It works on an innovative model rather like a foundation – eligible countries apply to the MCA to fund national development priorities. The MCA then assesses the proposals based on their potential to yield economic growth and poverty reduction. Several MCA-eligible countries have included tourism components in their funding proposals. How is the MCC to assess whether these tourism proposals are likely to promote poverty reduction?

Tourism undeniably plays a growing role in the economies of developing countries. It ranks among the top five exports for more than 80 developing countries, and is the principal export for a third of them. For 41 of the poorest 50 countries in the world, tourism contributes over 5 percent of GDP and/or over 10 percent of exports. Tourism has been touted as having great potential for growth and poverty reduction for several reasons. Among them are that tourism: delivers consumers directly to the product; has strong potential for linkages with other sectors; is relatively labor intensive; and promotes infrastructure development that has positive spillover effects.

On the flip side, tourism can be risky as a tool for sustained poverty reduction because it is: subject to market forces and increasing competition, particularly for countries dependent on undifferentiated products like beach resorts; often located far from where the poor are concentrated; dependent on seasonality and often unsuitable as the sole income-generating activity for poor households; often characterized by revenue that accrues outside the host country; and at risk of imposing non-economic costs on the poor through displacement from land and damage to or exclusion from natural resources.

Although little is known about the implications of tourism for poverty reduction, it is not surprising that existing research stresses that connecting the poor to tourism-led growth relies on factors such as secure property rights, and access to credit, infrastructure, education and training in sector-specific skills.

Several case studies of relatively small-scale tourism activities in Africa, Latin America and Asia (none of which include sun-and-sand attractions) suggest additional lessons for maximizing the poverty-reducing potential of tourism. Among them are: specifically targeting business and employment opportunities for the poor; investing in capacity building and training for potential workers; mitigating environmental, social and cultural impacts; building partnerships between destination communities and the private sector; promoting the participation of the poor in decision-making, including giving them a legal stake in investments; insuring that new infrastructure is accessible to the poor; and promoting a sound domestic regulatory framework to facilitate investment and prevent anticompetitive behavior.

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