

PRACTITIONER LEARNING PROGRAM

Local Tourism in Guatemala, Honduras, and Nicaragua

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Measuring the Local Economic Impact of Tourism

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THE PRACTITIONER LEARNING PROGRAM IN LOCAL TOURISM:
Creating employment based on the development of local tourism in
Guatemala, Honduras, and Nicaragua

Measuring the Local Economic Impact of Tourism

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About The SEEP Network

The SEEP Network is a global association whose members are committed to reducing poverty through the power of enterprise. Its membership of more than 80 organizations creates a network that is active in more than 140 countries and reaches over 35.4 million microentrepreneurs and their families.¹

SEEP's mission is **Connecting microenterprise practitioners in a global learning community.**

About the Practitioner Learning Program

The Practitioner Learning Program (PLP) is a SEEP Network initiative that explores key issues facing the microenterprise field. The PLP methodology was developed by SEEP as a way to engage microenterprise practitioners in a collaborative learning process to document and share findings and to identify effective and replicable practices and innovations to benefit the industry as a whole. The PLP combines a small-grant program with an intensive facilitated-learning process, usually over a period of one or more years, and utilizes workshops, e-mail discussion groups, conference calls, and distance learning. As participants implement activities in the learning network, they identify effective, replicable innovations and document these findings to benefit the industry as a whole.

The PLP's model of "learning by doing" maintains a focus on results, with the added benefit of increased institutionalized knowledge. The PLP focuses on learning at three levels: the individual organization, the PLP group, and the industry at large.

At the individual level, organizations have the opportunity to share with other organizations and to revise their individual work plans. At the group level, all participants involved in the PLP share experiences and ideas. Participants come to consensus on common themes they want to explore as a group, called the learning agenda. At the industry level, the PLP participants develop learning products (publications) documenting their lessons learned, challenges, and promising practices, to benefit the microenterprise and microfinance industry.

For more information on SEEP PLP initiatives and SEEP's more than 100 learning products, please see The SEEP Network website: www.seepnetwork.org.

About the Argidius Foundation

SEEP would like to thank the Argidius Foundation for providing the funding for this PLP. The Argidius Foundation provides financial support to a number of organizations to fund projects focusing on employment creation for low-income populations. Founded in 1956, the Foundation follows a strategy of support for market-driven enterprise development initiatives to alleviate poverty around the world. Recognizing that poverty is multidimensional, the Argidius Foundation seeks to create sustainable employment and leverage additional positive social impact through areas such as education, health, and the environment in Eastern Europe and West Africa, as well as in Latin America where the foundation has focused its efforts in Guatemala, Honduras, and Nicaragua.

1. Source: member self-reporting to SEEP or from members' websites and annual reports. Figures include association members of SEEP and their member MFIs. Some double-counting may occur.

About the Authors

Lendell Foan is the Director of New Business Development and Operations at Making Cents International, a Washington, DC–based consulting and training firm that equips youth and adults with the vision, confidence, and skills to create and grow their own businesses. Mr. Foan is an experienced business development specialist having managed long-term technical programs in Asia, Africa, and Central Europe in the areas of enterprise development, value chain analysis, program design, and practical ICT applications for business training centers and small business. Prior to joining Making Cents he was a Development Specialist at Development Alternatives, Inc., for 12 years, most recently serving as their Deputy Chief of Party on the USAID Private Sector Development Program in Timor-Leste where he was working closely with the public and private sectors on the development of the Tourism Association of Timor-Leste.

Rosa Franco served as the lead facilitator for this Practitioner Learning Program and traveled to Guatemala and Honduras to conduct PLP workshops. She helped with every step of the PLP process—recruiting and selecting participant organizations, defining the learning agenda, implementing the action plan, and monitoring individual and group progress. Ms. Franco’s 12 years of industry experience includes 5 years with the Consortium of Private Organizations to Promote the Development of Small and Micro Enterprises (COPEME) in Peru. As coordinator of a USAID initiative at COPEME, she helped promote links between small businesses and national and international markets with the goals of creating employment and reducing poverty. She has also facilitated workshops for other programs throughout Central and South America. In addition to consulting work, Ms. Franco is currently the Director of Credit Union Education for Credit Where Credit Is Due in New York City.

Acknowledgements

The authors are grateful to the Argidius Foundation for funding this PLP and for the contributions and lessons learned from the four participating organizations, especially the input and insight from Elmor Wood of La Ruta Moskitia, Sonia Regalado-Baumgartner of Mesoamerica Travel, Silvia Rioja and Denia del Valle of the Rainforest Alliance, and Gifford Laube of Finca Esperanza Verde. In addition, we appreciate the time and support of Kim Jessen, Melissa Nussbaum, and Megan Epler Wood. Finally, we would like to acknowledge the work of Kenya Mejía and Isis Castro who developed and implemented this measurement tool for the purposes of this PLP.

Abstract

During the last decade, the growth of international travel to developing nations grew by 94.4 percent, compared to a growth rate of only 34 percent for developed countries.¹ Tourism therefore represents a key industry in which developing nations have an opportunity to overcome poverty by investing in tourism initiatives. This growth, matched with the growth of ecotourism and the overall greening of tourism as a whole, has led to an increase in economic development models looking at using tourism as an incentive to protect the environment. The challenge in developing such programs is to create economic opportunities for local communities that incentivize the protection of local natural and cultural resources. The question for policy makers, donors, and investors is not only how much tourism contributes to local economies, but also how to show local communities the benefits of such initiatives.

The SEEP Network, in an effort to explore these questions, supported the development of a measurement tool to attempt to quantify the direct and indirect impacts of tourism on local communities in Central America. This paper reviews how the information generated by the measurement tool can be used to assist communities, businesses, and policy makers in understanding the real and potential impacts of local tourism.

Why Measure the Economic Impact of Tourism?

Tourism is one of the fastest growing industries in Central America and has the potential to promote economic growth and help alleviate poverty in the region. Central America has many natural assets that relate to tourism: beautiful beaches, forests, a wealth of indigenous culture, and moderate prices. However, the challenge facing the Central American tourism industry is how to capture a high percentage of revenues to benefit local economies. The conservation of local natural and cultural tourist attractions could be at risk if there is not a clear correlation between tourism and economic opportunities for local communities.

Tourism is human resource intensive and therefore has a broad impact on economies, accounting for an estimated 10.3 percent of global GDP in 2007 with a worldwide growth rate of more than 4 percent per year.² One job in the core tourism industry creates roughly one and a half additional (indirect) jobs. Using this multiplier, it can be said that tourism creates (directly and indirectly) more than 230 million jobs, which represent some 8 percent of the total global workforce.³ Tourism also has a positive impact on women and youth, two groups often excluded from economic opportunity in developing markets. Women comprise between 60 and 70 percent of the tourism labor force, and 50 percent of the workers are age 25 and under.⁴

Benefits from tourism, in terms of employment and income generation, depend on how well an organization or business is linked to the local economy. This linkage can be based on natural attractions, local products and services, and other resources that support tourism. The more “local” the tourism, the greater the direct impact of tourist dollars for local communities. This is due to the fact that many of the attractions and activities are community-based and run by small, local businesses. In addition, many hotels, restaurants, and other providers purchase inputs or complementary products and services such as transportation, food, construction, agriculture, handicrafts, guides, and cultural performances from local businesses and vendors and therefore create additional employment and income opportunities in local areas.

Introduction to PLP Measurement Tool

The SEEP Network’s Ecotourism Practitioner Learning Program (PLP)⁵ examined strategies to promote sustainable job creation and increased incomes for small enterprises working both directly and indirectly in the growing ecotourism industries in Guatemala,

1. *Tourism and Poverty Alleviation: Recommendations for Action*, World Tourism Organization, 2002.

2. Accessed online at <http://www.ilo.org/public/english/dialogue/sector/sectors/tourism/emp.htm>. October 2008.

3. Ibid

4. Ibid

5. This PLP is focused on using ecotourism to create employment and alleviate poverty in Guatemala, Honduras, and Nicaragua. Two other learning products from this PLP are

- *Case Study of Finca Esperanza Verde: Creating Employment through Tourism in Nicaragua*; and
- *Getting to Win-Win in the Ecotourism Value Chain: Lessons from Central America*.

Honduras, and Nicaragua. When first engaging these enterprises, there was no obvious method for measuring the direct and indirect economic impacts of their activities.

The SEEP Network contracted consultants Kenya Mejía⁶ and Isis Castro⁷ to carry out research on existing methodologies measuring the economic impact of tourism at the local level. Based on their findings, Mejía and Castro created a measurement tool appropriate for local tourism in Central America. The tool's design and structure were based on a study conducted by Juan Antonio Aguirre on tourism expenditures and impact in Costa Rica,⁸ as well as a multiplier tool designed by Ken Hornback. Hornback's tool is used to measure impact in national parks in the United States⁹ and was recently updated by Daniel Synes and Dennis Propst from Michigan State University. The PLP tool was developed during the spring of 2008 and field-tested during the summer by four organizations participating in the Ecotourism PLP.

Ecotourism PLP Participants

Finca Esperanza Verde, an eco-lodge and organic coffee farm in Nicaragua

La Ruta Moskitia, a local tour operator in northeastern Honduras

Mesoamerica Travel, a private wholesale tour operator in Honduras

Rainforest Alliance, an international organization working to conserve biodiversity and ensure sustainable livelihoods. For the purposes of pilot testing this measurement tool, Rainforest Alliance worked with one of its pilot operations¹⁰ in Nicaragua.

Mejía and Castro helped PLP participants quantify the direct and indirect impacts of their operations through the development of a tool that has companies track spending. The tool allows organizations to obtain basic quantitative information, such as the number of jobs created, total salaries paid, operating expenses, direct sales, and total contributions to the treasury (taxes). The tool facilitates a clear identification of the relationship between the organization and local companies offering supporting tourism services within the same destination. In addition, the tool incorporates a survey to assess tourists' total expenditures within the destination area. Users of the tool then have a clearer understanding of their direct and indirect impacts on the local economy, as well as their induced impacts, or how employment generated by tourism affects the local economy. They also get relevant market data that can be shared with the communities in which they work to develop additional demand-driven resources, services, or businesses.

Direct and Indirect Impacts

Measurement tools benefit local enterprises because they provide them an indicator of the overall impact they are having in the community. Prior to the use of the tool, PLP participants could only track or estimate their direct impact on the economy based on their sales, local purchases, and salaries.

6. Kenya Mejía is an agronomist specializing in agribusiness management with experience in sustainable tourism projects.

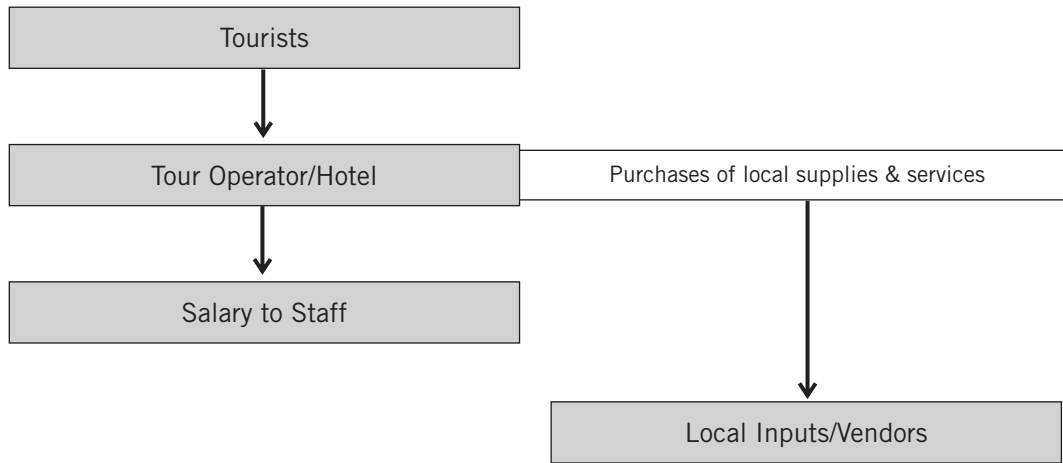
7. Isis Castro holds a Licentiate Degree (BA equivalent) in tourism with a specialty in tourism planning and development.

8. *Measuring the Economic Impact of Tourism Spending by Visitors to National Parks in Costa Rica*. Juan Antonio Aguirre. Center for Sustainable Development, Journal of Tourism and Cultural Heritage. 6 (1): 11–26. 2008.

9. *Estimating Economic Impacts for National Park Visitors: MGM2—Money Generation Model*. Department of Parks, Recreation & Tourism Resources. Michigan State University (www.prr.msu.edu/mgm2) Accessed September 2008.

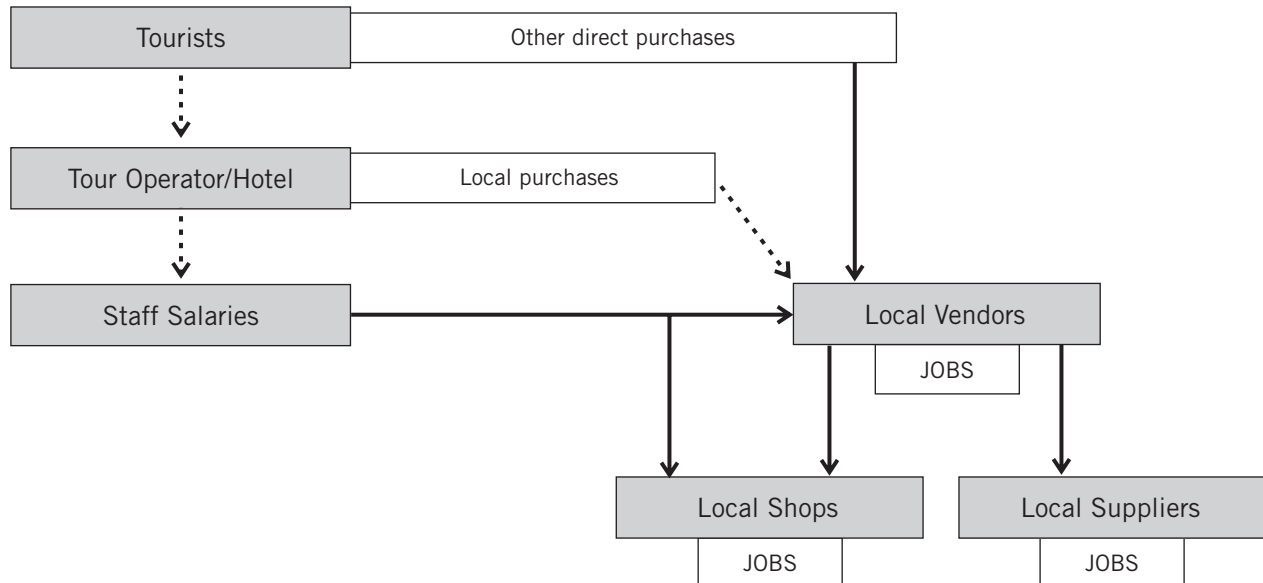
10. The Rainforest Alliance Sustainable Tourism Program promotes best practices for hotels and tour operators throughout Central America, working to minimize environmental footprints and respect local societies and cultures.

Pre-Tool Tracking of Local Economic Impact



The tracking mechanism above fails to capture the full scope of the economic impact of local tourism. The tool developed during this PLP expands upon these data and creates an understanding that local tourism provides an additional impact to local economies through direct expenditures by tourists to local vendors, as well as the local purchases made by PLP participants and their staff (from salaries) in the local market. The increased economic and job opportunities for local businesses are detailed in the diagram below.

Using the Tool to Understand the Broader Economic Impact



Quantifying the exact economic impact of a tourism business can be a challenge. Most economic impact studies that attempt to identify contributions in terms of sales, taxes, revenues, and jobs generated by tourism-related activities apply a variation of the following formula:

$$\text{Economic Impact of Tourism} = \text{Number of Visitors} \times \text{Average Expenditure per Visitor} \times \text{Multiplier}$$

The multiplier is a way to quantify total economic (direct, indirect, and induced) impact on the local economy. For the PLP tool, Mejía and Castro incorporated the findings from Aguirre’s study of Costa Rica that found a 1.65 multiplier effect for economic impact, and a 2.0 multiplier effect for indirect job creation from local tourism. These multipliers are also accepted and used by the Honduran Institute of Tourism.

During the pilot testing of the PLP tool, the SEEP Network was interested in learning about the usefulness and possible applications for such a tool. What the practitioners found was that, in addition to providing financial and economic impact data, the tool could be used to assist in the management of tourism activities by:

- 1) creating a direct and tangible connection to the local community;
- 2) assisting the tourism enterprises in making strategic management decisions; and
- 3) helping to set public policy at a regional and even national level.

Connecting to the Community

Finca Esperanza Verde

Finca Esperanza Verde (FEV) is an eco-lodge and organic coffee farm operated by the NGO Sister Communities of San Ramón, Nicaragua. The lodge and farm provide an environmentally friendly source of employment and income for Nicaraguans. FEV also serves as a financial resource for the municipality of San Ramón, with 10 percent of its profits reinvested to support community development projects such as building schools and health clinics and expanding water and access to electricity.

Prior to pilot testing the measurement tool, FEV kept data on operating expenses but had never integrated this information. By compiling several separate sets of information (employee lists, salary ranges, input purchases, etc.), FEV was able to generate a more concise view of its total economic impact within the municipality of San Ramón.

A key function of the measurement tool is understanding tourist expenditure habits. This was achieved by conducting a direct survey of PLP participant clients. Using results from the guest survey, FEV was able to better understand that their guests were spending their money on:

Item	%
Guides/tours	8
Tickets to sites of interest	10
Handicrafts/souvenirs	20
Local Transportation	12
Lodging	50
Total	100%

These percentages show that FEV is, in fact, creating income opportunities for multiple actors in San Ramón, even those not directly employed by FEV. These data provide FEV with valuable information for establishing a dialogue with the community on the other economic opportunities generated by the lodge. The findings also highlight prospects to continue growing local businesses in the future—for example, restaurants, shops, and musical or cultural activity groups.

Mesoamerica Travel

Mesoamerica Travel, a private wholesale tour operator in Honduras, developed a relationship with a small community called Buenos Aires in 2007. Buenos Aires is located at the entrance to Cusuco National Park and is home to an eco-lodge financed by the United Nations Development Program. Representatives from Mesoamerica Travel saw the natural beauty and tourism potential in this area and helped to form a Tourism Commission in Buenos Aires. Mesoamerica is now working with the Commission to upgrade the eco-lodge and improve other tourism services so that Mesoamerica and other tour operators feel more comfortable sending tourist groups to Buenos Aires.

Using data from January to July 2008, Mesoamerica applied the measurement tool to evaluate the impact of tourist groups it sent to Buenos Aires and Cusuco National Park. The surveys showed that tourists spent their money on the following services:

Type of service	%
Lodging	12.5
Food and beverages	25.0
Local guides	62.5
Total	100%

The information draws from a low number of tourists (25) due to the fact that it was collected during the low tourist season. With this tool, Mesoamerica can show the Commission in Buenos Aires that tourists are spending a high percentage of their expenditures on guide services, which are typically low in cost and short in length, rather than on lodging. Mesoamerica can highlight to the Commission that by increasing the number of nights a guest stays in Buenos Aires, they could increase the economic benefits of tourism within their community. If guests had a reason to stay longer, the community would see an increase in job opportunities and economic benefits. Possible ways to increase the duration of visits include improving lodging and expanding options for additional activities and attractions beyond guided tours of the park—for example, musical or dance exhibitions by local performers.

Management

Rainforest Alliance

The Rainforest Alliance works to conserve biodiversity and ensure sustainable livelihoods by transforming land use practices, business practices, and consumer behavior. The Rainforest Alliance Tourism Program works with tourism businesses to boost local economies, minimize their environmental footprints, and respect local societies and cultures. In 2003, the organization began its Sustainable Tourism Program to promote best practices in Central America, reaching out to hotels and tour operators throughout the region.

For the economic test, Rainforest Alliance had La Gran Francia Hotel, a partner in the Sustainable Tourism Program, located in Granada, Nicaragua, use the PLP's economic impact measurement tool. The hotel offers 21 rooms, as well as two bars, one restaurant, a swimming pool, and a convention center. The hotel applied the tool to one year's worth of its own data (July 2007 to June 2008) on the total number of guests and number of nights stayed in an effort to gauge the economic impact of the hotel on the local community.

$$\begin{array}{|c|} \hline \text{La Gran Francia Hotel's} \\ \text{Local Economic Impact} \\ \hline \$154,655 \\ \hline \end{array} = \begin{array}{|c|} \hline \text{Number of} \\ \text{Visitors} \\ \hline 738 \\ \hline \end{array} \times \begin{array}{|c|} \hline \text{Average} \\ \text{Expenditure} \\ \text{per Visitor} \\ \hline \$127.00 \\ \hline \end{array} \times \begin{array}{|c|} \hline \text{Multiplier} \\ \hline 1.65 \\ \hline \end{array}$$

Note: Average expenditures based on guest survey conducted in August 2008.

In addition to guest spending, the hotel employs approximately 90 local staff, which creates an estimated 180 jobs within the community of Granada.

For an organization like Rainforest Alliance, identifying these results contributes significantly to its ability to manage and assess the performance of partners in its Sustainable Tourism Program. Rainforest Alliance plans to use the tool to benchmark and measure the progress of its partners in achieving the economic goals of the program.

Policy

La Ruta Moskitia

La Ruta Moskitia (LARUMO) is a tour operator working with indigenous communities in the Rio Plátano Biosphere Reserve in northeastern Honduras. LARUMO is an alliance of micro-businesses that have developed ecotourism products and services for domestic and international markets. These micro-businesses are community-owned and operated, and therefore all of the financial benefits of La Ruta Moskitia go directly to the local communities. LARUMO provides the micro-businesses with technical assistance to help develop and refine their facilities and operations, while also organizing tour groups to visit the communities.

The broader goal of LARUMO is to protect the Rio Plátano Biosphere by sponsoring conservation and generating income for the communities through sustainable tourism. Direct economic benefits from tourism will lead to a decreased economic dependency on hunting, overfishing, and extractive land practices such as slash and burn agriculture and overgrazing by cattle.

As with Finca Esperanza Verde and Mesoamerica Travel, the measurement tool allows LARUMO to engage in a direct dialogue with communities regarding the indirect and direct impact that tourism has in their local economies. Results from applying the tool provide substantive evidence of the benefits of natural resource-based economic livelihood alternatives for indigenous people that can be used to defend the communities if land conflict issues or land policy changes were to arise. LARUMO can use this information to engage in higher level discussions with park managers, donors, and Honduran government officials assessing current or future activities within or bordering the park, to ensure a continuation of their communities' conservation efforts.

Conclusion

The governments of Honduras and Nicaragua, and those for most of Central America, understand the economic benefits of tourism. Casual Web searches for any of these countries will lead you to country destination promotions, travel services, and government tourism boards promoting the natural resources with which the region is blessed. Tourism can tempt investors and governments to exploit rather than protect the very natural resources that tourists travel and spend their resources to enjoy. A community-based approach that connects communities to tourism activities is needed to protect and manage natural resources and to better understand the economic benefits for doing so.

In implementing the Ecotourism PLP, The SEEP Network quickly identified a gap in knowledge on the part of tour operators and local communities on the real economic impact of tourism. The tool developed with SEEP support generates a comprehensive view of the economic impact of local tourism by taking into account the direct, indirect, and induced effects. This tool was directly tested at the community level, with PLP participants gaining an understanding of how their businesses were impacting the communities in which they operate. The tool can also be applied as a management enhancement for companies/investors because the information it generates is useful in influencing government investment or conservation policies. Understanding this information answers the question “why measure the economic impact of tourism?” It provides a lens that tourism operators and development practitioners can use to identify opportunities to better engage, link, and improve the economic impact of tourism activities for populations that may otherwise be disenfranchised.