

## Value chain analysis and poverty reduction at scale

Evidence from tourism is shifting mindsets

### Key points

- Delivering poverty reduction at scale requires a shift in focus from isolated projects to market-based approaches
- Value chain analysis helps diagnose pro-poor impacts in supply chains and identify the best interventions
- A value chain approach in tourism has helped to explain why the poor receive a bigger share of tourism in some destinations than in others

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**M**any development interventions lack sustainable impact that can deliver at scale. One response is to use donor funds more effectively by harnessing the market to deliver pro-poor outcomes. Enable the poor to engage more productively in markets, the thinking goes, and poverty will be reduced through market engagement. 'Making markets work for the poor' emphasises the need to unblock access to profitable market opportunities.

The need – and opportunity – to harness markets for poverty reduction is evident in tourism. Developing countries are littered with well-intentioned community-based tourism projects, delivering small benefits to few people. Developed in isolation from commercial distribution channels, they lack the client volumes needed for commercial sustainability. In contrast, Ministries of Tourism and mainstream businesses often see increased arrival numbers as the barometer of success. Research by ODI suggests that neither approach is right, but tourism markets can – in some cases – be exploited for the benefit of the poor.

The 'pro-poor value chain' approach to tourism has been developed by ODI, the International Finance Corporation (IFC), and the Netherlands Development Organisation (SNV), as a way to shift thinking from projects to interventions that harness markets and deliver impact at scale. By 'value chain' we mean the full range of activities that are required to bring a tourist to a destination and provide all the necessary services (accommodation, catering, retail, excursions, etc.). The approach 'follows the dollar',



A porter on Kilimanjaro, Tanzania, where local people reap the benefits of mainstream tourism.

focusing on key points along the chain where interventions could expand income opportunities for the poor, within a commercial service sector. 'Pro poor income' (PPI) is the wages and profits earned by poor households across all the inter-related strands of the value chain. The aim is to support market-based interventions by analysing how poor target groups currently engage, how their positions can be upgraded, and how changes in value chain performance would affect them.

### From diagnosis to intervention

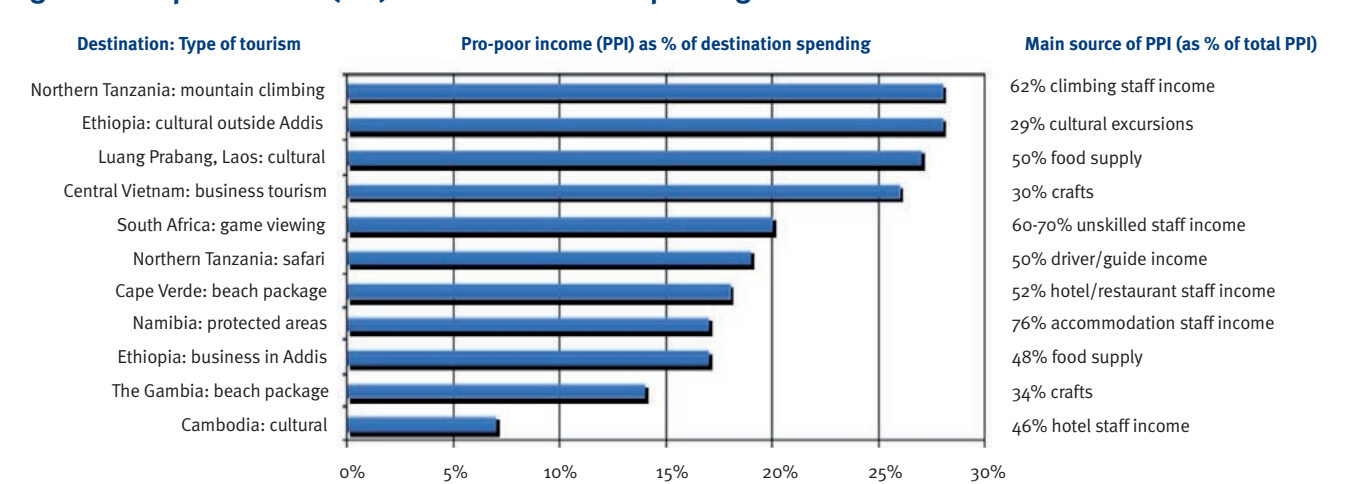
Differences between the pro-poor value chain approach and community tourism are marked. First, assumptions that some types of tourism (e.g. backpackers) or product (e.g. cultural tours) are inherently pro-poor are questioned. Analysis must replace assumption. Second, the

**Figure 1: Steps involved in value chain diagnosis**

| Phase                                       | Step   | What to do?  | Why?   |
|---|--------|--|--|
| Phase 1: Diagnosis                          | Step 1 | Preparation  | To define the destination, type of potential target group, and assessment team/partners                        |
|   | Step 2 | Map the big picture: enterprises and other actors in the tourism sector, links between them, demand and supply data, and the pertinent context   | To organise a chaotic reality, understand the overall system   |
|   | Step 3 | Map where the poor do and do not participate   | To avoid erroneous assumptions about poor actors. To take account of the less visible suppliers                |
|   | Step 4 | Conduct fieldwork interviews in each node of the chain, with tourists and service providers, including current/potential poor participants   | To provide data and insights for Steps 5 to 8  |
|   | Step 5 | Track revenue flows and pro-poor income. Estimate how expenditure flows through the chain and how much accrues to the poor. Consider their returns and factors that enable or inhibit earnings | To follow the dollar through the chain down to the poor, and assess how returns can be increased               |
| Phase 2: Scope and prioritise opportunities | Step 6 | Identify where in the tourism value chain to seek change: which node or nodes?   | To select areas ripe for change, drawing on Steps 1 to 5. To ensure Steps 6 to 8 are focused on priority areas |
|   | Step 7 | Analyse blockages, options, and partners in the nodes selected, to generate a long list of possible interventions  | To think laterally and rationally in generating the range of possible interventions                            |
|   | Step 8 | Prioritise interventions on the basis of their impact and feasibility  | To generate an intervention shortlist, comprising interventions most likely to deliver impact                  |
| Phase 3: Feasibility and planning           | Step 9 | Intervention feasibility and planning  | Package selected interventions for funding and implementation  |

Note: These steps are iterative and cannot be entirely sequential, e.g. some initial thinking from Step 6 (where to focus) will help in focusing resources within Step 5.

**Figure 2: Pro-poor income (PPI) as % of destination spending**



Source: Adapted from Mitchell and Coles (2009). Indicative results: some differences are due to methodological variance.

... type of intervention needs rethinking. Government bodies influence a value chain, but cannot reshape a product or market by decree. Lateral thinking is needed to identify market-based interventions that engage with the private sector and enable the market to work more effectively for the poor.

... The three phases are: a situational diagnostic; scoping and prioritisation of opportunities; and intervention planning (Figure 1).

**How value chains work for the poor**

Value chain diagnostics in a variety of destinations yield rich comparative findings. They show clearly that the impact of this sector on the poor varies considerably. It is, therefore, meaningless to use development funds to support tourism just because of its inherent characteristics (i.e. labour intensity, gender profile or growth potential). Sometimes international tourism is an effective way to transfer funds from

rich tourists to poor people at destinations where, for every \$4 spent by a tourist, \$1 reaches the poor. Sometimes it is not (Figure 2).

A comparison of results tells us about the pro-poor relevance of different market segments, direct employment in the sector, and about inter-sectoral linkages.

**Market segments:** similar types of tourism perform differently in different contexts. In Laos, Vietnam and Cambodia, cultural tourism dominates. In Laos and Vietnam tourism is pro-poor, but in Cambodia, only 7% of tourist spending reaches poor households.

**Direct employment in tourism:** the pro-poor impact of people working in the tourist sector is often surprisingly muted, given that tourism is proportionately more labour intensive than other non-agricultural sectors, and many of those in tourism jobs are from poor backgrounds. As wages are generally low, wage income to non-managerial staff is often only 10% of hotel turnover, sometimes less. However, direct employment can be significant when the wages of tourist workers are relatively high (as in Cape Verde and South Africa) or the impact of low wages is counteracted by high labour intensity and generous tipping (e.g. climbing Mount Kilimanjaro in Tanzania, where four staff accompany each tourist).

**Inter-sectoral links between tourism and the non-tourism economy:** indirect effects through supply chains help to explain why some destinations transfer 25% of tourist spending to the poor and others less than 10%. Farmers, artisans and construction workers in the tourist supply chain are, in general, poorer and more numerous than those working in hotels and restaurants. Tourism in Cambodia is not very pro-poor because the links with the non-tourist economy are weak, leaving it reliant on direct effects to transfer resources from tourists to the poor. Other destinations demonstrate strong linkages via food or craft spending.

**The food supply chain** to the tourist sector may be an important source of pro-poor impact. Such potential is realised in countries like Ethiopia, with few imports and a diversified agricultural sector, dominated by small-holders who receive a high percentage of the prices hotels pay for food. As Figure 3 shows, over \$7 million, or around 13%, of the \$55 million spent by tourists on food and beverages reaches resource-poor food producers. This derives from hotel food purchases of \$16 million, which come from around 6,300 domestic producers – estimated to support 25,000 farm jobs. In many other developing countries, food imports and purchases from commercial farms in the food supply chain result in a less effective transfer mechanism.

**The craft chain** is a major beneficiary of tourists' out-of-pocket spending, which is generally more pro-poor than the large ticket items (such as hotels). Luang Prabang in Laos is a good example. Craft spending per tourist is high (\$33 per visitor) because quality is high. Over 50% of this reaches the poor,

because crafts are traditionally made by ethnic minority women, often sold by producers or small traders, and draw heavily on local raw materials (silk, cloth, paper, and silver). In contrast, craft spending in Siem Reap (Cambodia) is a less effective channel for PPI. Spending per tourist is lower and only 5% reaches the poor, because of imports, and kickbacks demanded by tour operators from retailers.

### From description to prescription

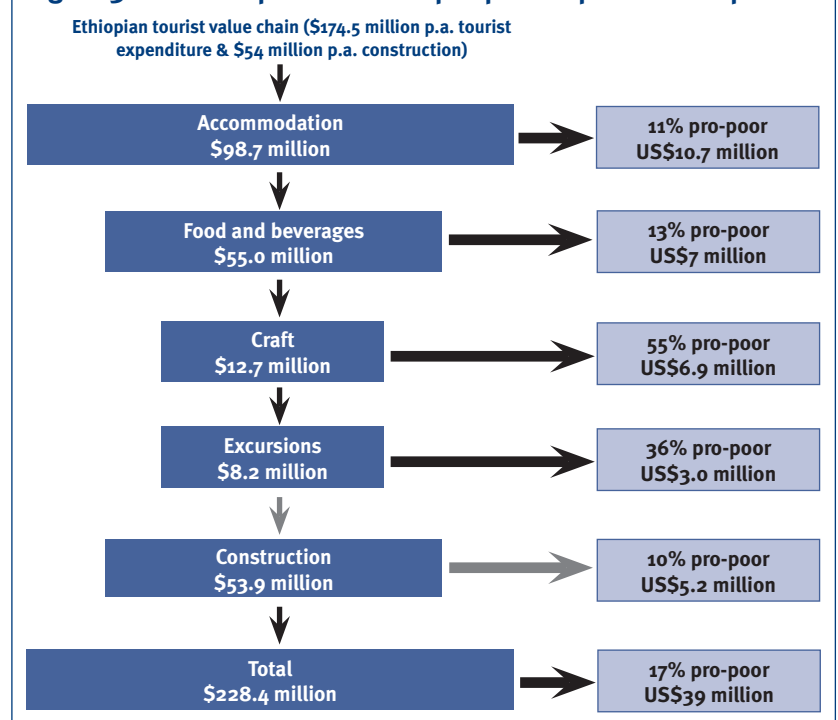
Shifting from diagnostic analysis to prescription of interventions is an art, not a science, because opportunities cannot be generated mechanically. Solutions need to be realistic, but identifying what might work cannot always be deduced from simply looking at what is.

For instance, just because the craft supply chain in Luang Prabang is pro-poor does not mean that simply expanding craft sales is a viable strategy. Craft spending is high by international standards and may be near saturation level. The food supply chain in Cambodia is not pro-poor, but this does not imply opportunity. The agricultural potential of the country is weak and it is next door to competitive producers: Thailand and Vietnam.

Identifying interventions requires assessment of governance structures and markets within the destination, complemented by insights from elsewhere, and data that can be used to interrogate proposals. The value chain focus, on boosting direct impacts on poverty, needs to then be combined with other objectives, such as macro-economic goals.

There is a spectrum. At one end: destinations with already high linkages between tourism and the

**Figure 3: Tourist expenditure and pro-poor impact in Ethiopia**



rest of the economy can boost PPI by simply expanding tourist spending. At the other end, destinations with low linkages should prioritise strengthening linkages, rather than just sector expansion.

The choice of intervention ‘entry point’ is critical. Past projects focused on specific production sectors, such as supporting craft workers or farmers, while our research has recommended action in:

- The retail end of the chain: e.g. making it easier for tourists in Ethiopia to change foreign currency to increase spending on cultural goods;
- The labour market: skills development may help the poor enter formal employment (e.g. language training in Rwanda), but collective action (among Kilimanjaro porters in Tanzania) or diffusing ‘best practice’ among hotel employers on minimum wages, can have direct and significant impact; and
- The regulatory and enabling environment: in Cambodia ending lucrative exclusivity agreements, reducing corruption and lawlessness, and investing in human capital would increase the impact of tourism on the poor.

This approach facilitates ‘what-if’ analysis. In Da Nang, Vietnam, flows of income to the poor were calculated for various policy options. This showed that strengthening linkages alone would have a relatively small impact on PPI. The main recommendation was for local government to make a small regulatory change to stop property developers hoarding beach-front land. Within a year, 5,000 upmarket hotel rooms were under construction, thus substantially developing both the tourism sector and its impacts on the poor in Central Vietnam.

## Implications for practitioners

Work on tourism value chains so far has three clear implications for practitioners who aim to intervene to boost impacts on poverty in this sector.

First, detailed analysis helps to challenge the assumptions that often underpin development interventions. Assumptions like ‘tourism is inherently pro-poor’ or ‘direct effects are smaller than indirect effects’ or ‘craft and food supplies have great potential’ are true in some cases and not in others. Of course, detailed description alone does not provide answers, but it is an important first step.

Second, if interventions aim to reduce poverty, the scale of pro-poor income generation must be a key criterion in project selection, together with the likelihood of success and the sustainability of the impact on the poor. Using the framework above, it is possible to assess the impact of very different interventions, such as increasing craft expenditure by 10%, or

marketing the destination more effectively to bring in 1,000 additional tourists. This is rarely done in the tourism sector. Imposing this rigour could help weed out interventions that have a plethora of desirable-sounding objectives, but end up focusing on small-scale, and often temporary, pro-poor benefits.

Third, benefiting the poor does not necessarily mean working directly with them. The lead firms in the tourism value chain are almost always well-established private sector organisations. The value chain approach highlights how engagement with them can deliver important change, while working with the poor in isolation from commercial networks is unlikely to do so. Furthermore, while tourism is mainly a private sector activity, the external governance of the value chain (the regulatory and enabling environment) that is the domain of the public sector often has a critical impact on pro-poor outcomes.

This value chain approach to tourism is part of a wider shift in thinking. It shares objectives for sustainable poverty reduction at scale with those who use other approaches, such as Making Markets Work for the Poor. It goes beyond conventional supply chain analysis (of a single firm and its relationships) by taking an entire sector as the unit of analysis, including external institutions and a diversity of firms and strands.

The approach has its gaps: social impacts on the poor; dynamic impacts and macro contributions to poverty reduction. And it poses challenges: international organisations adopting a value chain development approach in tourism find it requires a set of skills from number crunching, to lateral thinking on market-based solutions, which are not always found among traditional partners and consultants.

The value of the approach lies first in challenging assumptions and generating an empirical basis to assess options, particularly concerning scale of impact on the poor. Second, the approach generates benchmarks through comparable analysis in contrasting destinations. Explaining how and why a destination differs from others helps to explain the key factors differentiating tourism–poverty linkages. Third, combining a wide perspective of the multiple strands and actors in the chain with a specific focus on barriers to entry and terms of engagement of the poor target group, helps inform the design of market-based interventions. The diversity of recommended market interventions is a breakthrough, but this needs to be developed still further, drawing on the toolboxes used by other practitioners who share the objective of reducing poverty at scale.

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## Endnotes and references

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Findings are sourced from a range of ODI reports on tourism value chains and destinations. See <http://www.odi.org.uk/programmes/tourism/default.asp>.

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ISSN 0140-8682



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