ADB SUSTAINABLE TOURISM FORUM

The Economic Case for Tourism Investment

Speaker Name

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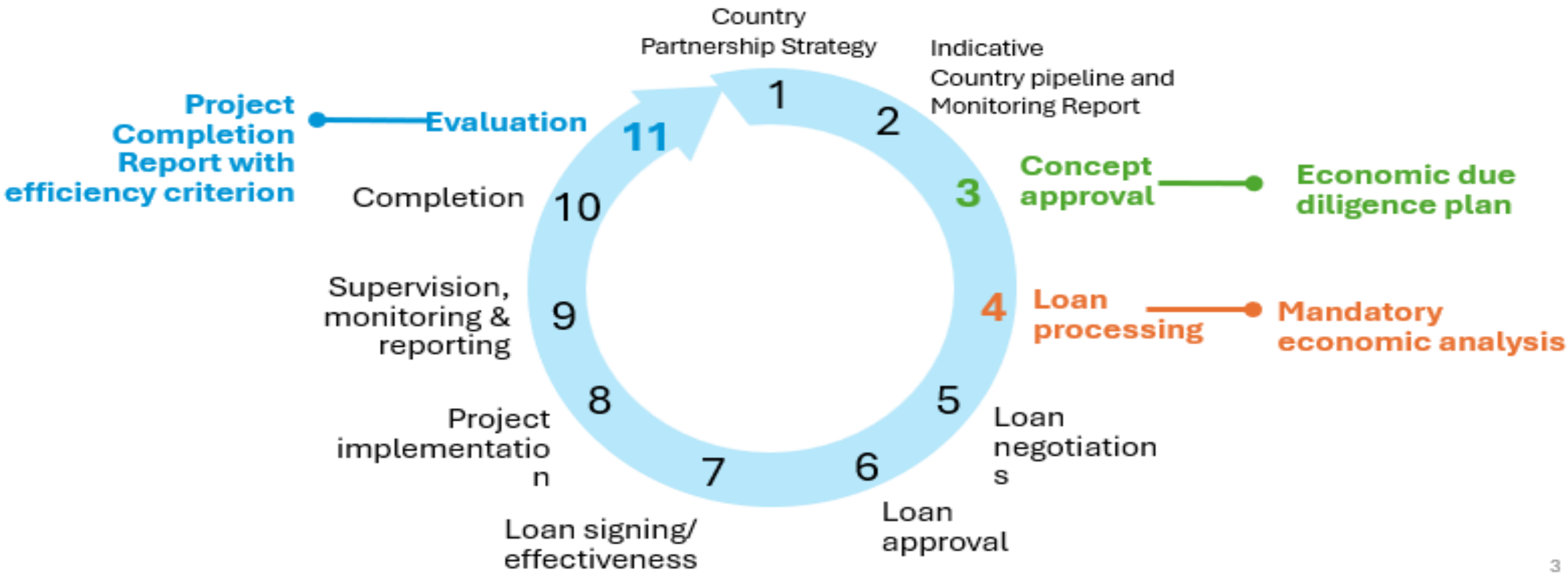
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Economic Analysis of Tourism Projects

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Role of Economic Analysis in ADB Project Cycle



CPS = country partnership strategy, PCR = project completion report, RRP = reports and recommendations of the president, TOR = terms of reference

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Economic Analysis Requirement at ADB



ADB charter requires staff to:

"take the necessary measures to ensure that the proceeds of any loan made, guaranteed or participated in by the Bank are used only for the purposes for which the loan was granted and with due attention to considerations of economy and efficiency" (article 14.11)



Economic analysis is a key tool to ensure that ADB operations comply with the mandate of the ADB Charter.

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Why Tourism Matters



Development Benefits

- Rising incomes increase demand for tourism and tourism services.
- Tourism generates foreign exchange earnings from international visitors.
- Sustainable tourism helps conserve cultural heritage, biodiversity, and environmental assets.
- Tourism creates jobs and stimulates growth across related sectors and value chains.

Challenges and Risks

- Tourism can contribute to environmental degradation, pollution, and resource depletion.
- Rapid tourism growth may lead to social issues and community pressures.
- Increased travel can raise CO_2 and greenhouse gas emissions.
- Climate-sensitive destinations, especially islands, face greater sustainability challenges.

Implications for Investment

- Tourism can strengthen disaster resilience when designed sustainably.
- Poorly managed tourism may exacerbate climate and environmental risks.
- Tourism projects require careful planning, management, and economic appraisal of costs and benefits.

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Tourism as a Cross-Cutting Sector

- TRANSPORT
- WATER & URBAN DEVELOPMENT
- AGRICULTURE
- ACCOMMODATION
- FOOD & BEVERAGE
- RECREATION
- RETAIL & HANDICRAFTS
- ENVIRONMENTAL SERVICES



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General Types of Tourism Products by Theme



- 🌿 **Nature-Based Tourism (Ecotourism)**
  Hiking, trekking, diving, wildlife viewing, and other outdoor recreation.
- 🚜 **Agro-Tourism**
  Farm visits, rural experiences, local culture, and agricultural activities.
- 🏛️ **Cultural, Heritage & Religious Tourism**
  Historic sites, museums, cultural traditions, temples, churches, and festivals.
- 🏖️ **Sun & Beach Tourism**
  Coastal destinations, beach recreation, and resort-based leisure.
- 🌇 **Urban Tourism**
  City attractions, architecture, culture, shopping, and entertainment.
- 🎭 **Leisure & Entertainment Tourism**
  Theme parks, concerts, casinos, festivals, and recreational activities.
- 💼 **Business Events Tourism (MICE)**
  Meetings, incentives, conferences, conventions, and exhibitions.
- 🩺 **Health & Wellness Tourism**
  Medical treatment, wellness retreats, spas, and health services.
- ⚽ **Sports Tourism**
  Participation in or attendance at sporting events and outdoor sports.

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Typology of ADB Tourism-Related Projects

Type 1: Tourism-Focused Projects

- Tourism is the primary objective of the project.
- Investments, outputs, and outcomes are directly linked to tourism development.
- Supports tourism facilities, services, and attractions.
- Explicitly aligned with national or regional tourism development plans.
- Tourism objectives are clearly reflected in the project design and results framework.

Type 2: Tourism-Enabling Projects

- Main investment is in another sector (e.g., transport, energy, water, urban development).
- Infrastructure improvements generate significant tourism benefits.
- Tourism is an important secondary outcome.
- Project documents explicitly recognize the tourism-development link.

Type 3: Tourism-Supporting Projects

- Investments are primarily intended for another sector.
- Tourism benefits are indirect or ancillary.
- Tourism is not a central project objective.
- Limited discussion of tourism impacts in project documentation.

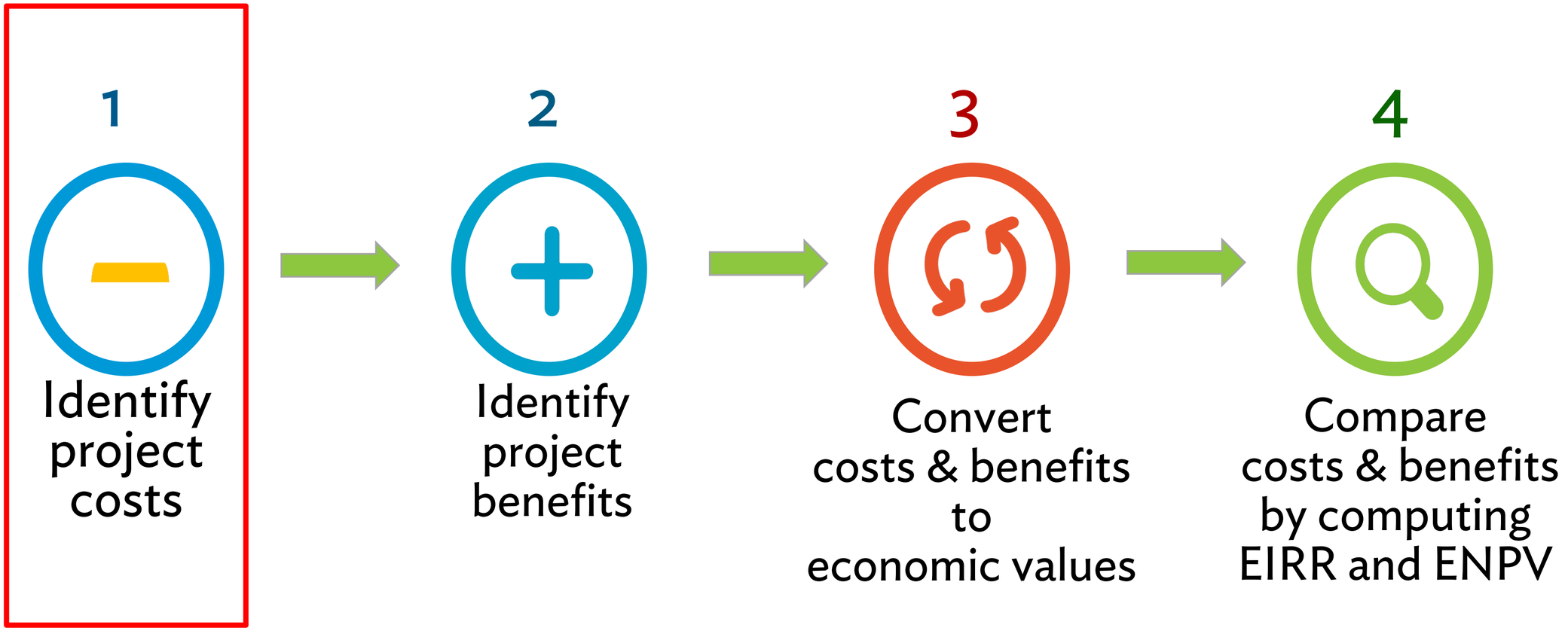
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Steps for Economic Analysis Appraisal

1. **Establishing a rationale for the project investment.**
2. **Scoping:** Information and data collection
3. **Demand Analysis:**
   - **Understanding tourism structure and characteristics.**
   Understanding the tourism demand structure
4. **Project Counterfactual –** With and Without Scenario
5. **Identifying Project Costs**
   - *Inclusion of external costs*
6. **Identification and Valuation of Project Benefits**
7. **Investment Criteria and Decisions**
8. **Sensitivity and Risks Analysis, and Sustainability**

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Key Steps on Cost-Benefit Analysis



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Starting point is the financial costs of the project

Included in Economic Analysis

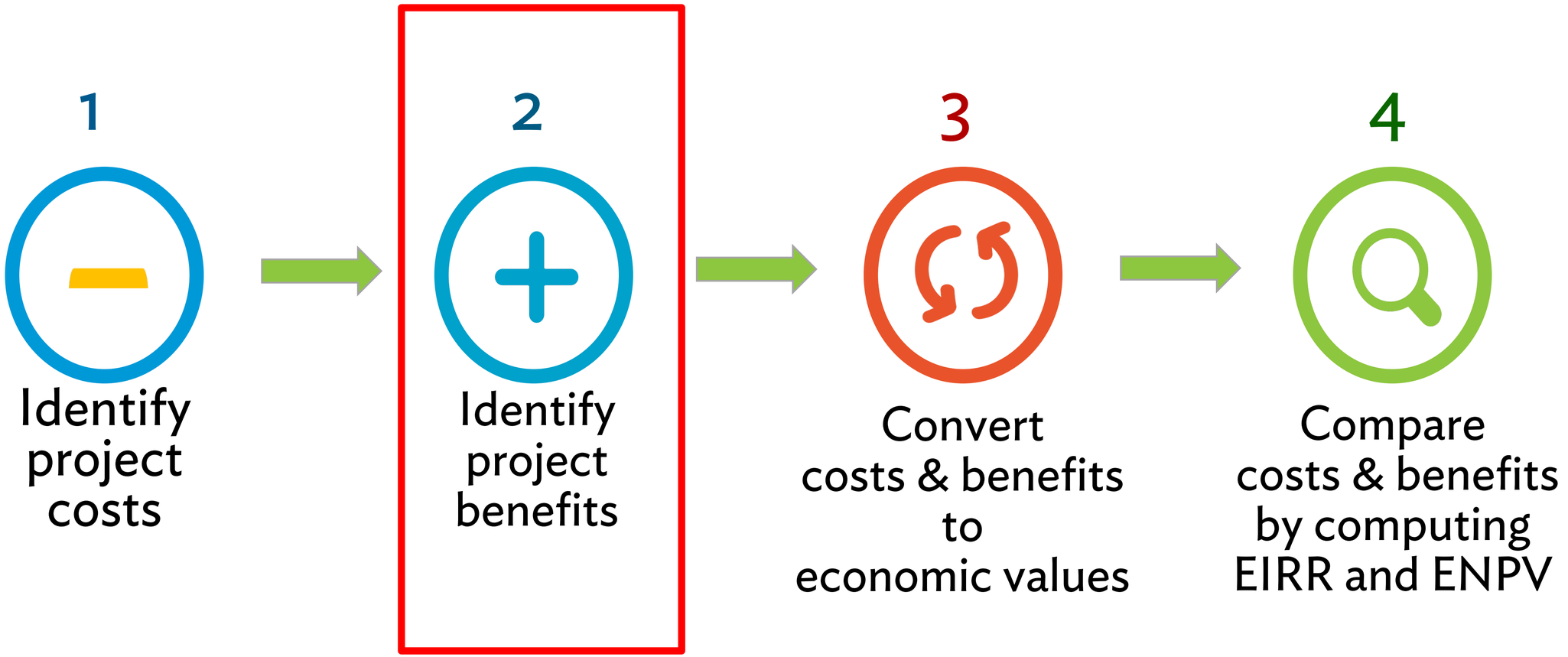
- **Investment cost** includes land, buildings, machinery and equipment, and construction and installation.
- **Labor cost (e.g wages** for construction and installation)
- **Operations and maintenance** of asset during project's life
- **Physical contingencies** additional resources that may be required to cover physical uncertainties beyond the base cost

Excluded from Economic Analysis

- **Price contingencies**
- **Transfer payments (taxes and subsidies)**
- **Interest payments**

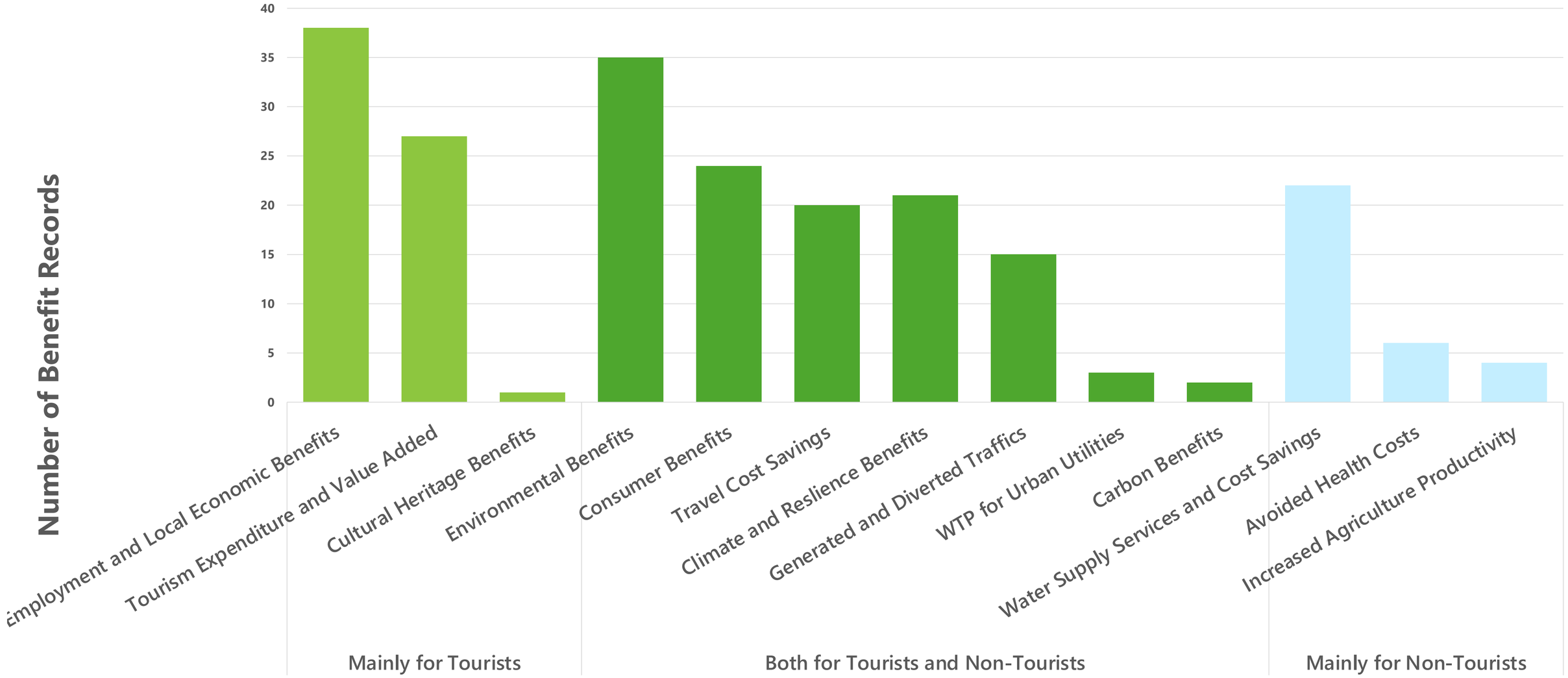
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Key Steps on Cost-Benefit Analysis



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Frequency of Economic Benefit Types in Tourism Projects



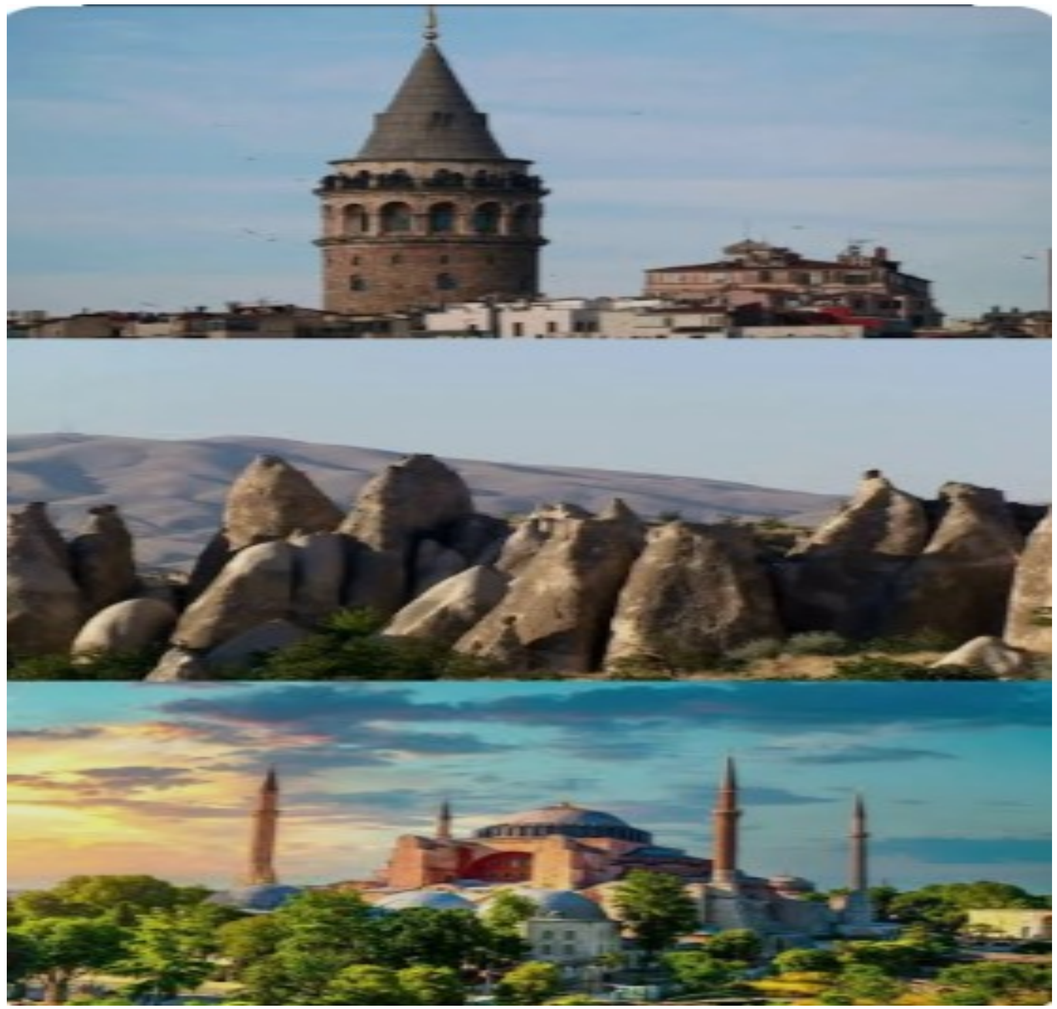
Notes: Bars show the number of records assigned to each major economic benefit type. A project may contribute multiple records to the same benefit type; counts therefore do not represent unique projects.

Tourism Project Benefits and Valuation Methods

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Benefit Category	Examples	Common Valuation Method
*Tourism Expenditure and Value Added	Additional visitor spending on accommodation, food, transport, recreation	Incremental tourism expenditure; value-added analysis
Consumer Benefits	Improved visitor experience, enhanced access, reduced congestion	Consumer surplus; willingness-to-pay (WTP) analysis
*Travel Cost Savings	Reduced travel time, vehicle operating costs, improved accessibility	Travel cost and transport economic analysis
*Employment and Local Economic Benefits	Increased jobs and income in tourism-related sectors	Value-added approach; selective linkage analysis
*Cultural Heritage Benefits	Conservation of heritage sites, historic districts, cultural assets	Contingent valuation (CVM); choice experiments; benefit transfer
Environmental Benefits	Improved biodiversity, coral reefs, beaches, water quality, landscape amenities	Travel Cost Method (TCM), CVM, choice modeling, benefit transfer
Climate and Resilience Benefits	Reduced disaster losses, flood protection, ecosystem-based adaptation	Avoided damage cost; replacement cost; resilience valuation
*Carbon Benefits	Reduced emissions or increased carbon sequestration	Social cost of carbon; carbon market values

Common Issues and Pitfalls



- Weak demand analysis
- Overstated benefits
- Poor attribution
- Generic sensitivity analysis
- Overuse of multipliers

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Thank you!

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Group Exercise

1. Based on the TOC, select the BENEFIT cards that best represent your project from Set 1
2. From the selected cards, *further* select cards that are directly related to TOURISM BENEFITS
3. Based on the tourism benefits identified, select cards from Set 2 that represents the best VALUATION approach of the benefit

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