

The Tourism Satellite Account- Positioning Tourism for Success in St.Lucia

Introduction

Tourism Satellite Accounting (TSA) is a much misunderstood concept that has oftentimes been confused with a full economic impact assessment of the tourism sector. The tourism **sector** is comprised of a series of tourism **industries** or **activities** (e.g. accommodation, attractions, construction, entertainment, transportation, retail shopping, restaurants, tours, water sports etc.) and within the traditional national income accounting framework those activities are allocated disjointedly among the various economic sectors.

Essentially, the TSA attempts to reconcile supply and demand within that tourism sector by categorizing distinct sections from the existing national accounts and restructuring them separately to measure the economic contribution of consumer expenditures, capital investment, government revenues and expenditure, foreign trade and business expenditure from tourism. The TSA does not, by itself, measure the overall economic impact of tourism but rather through a more precise determination of the *value-added* of the tourism sector, it provides a more reliable estimate of tourism's *direct impact* on the economy, which can then be used with other statistical methods to determine the sector's *indirect and induced impacts*. Those three estimates (direct, indirect and induced) together constitute the tourism sector's *total economic impact*.

However measured, tourism in St.Lucia is not only the single largest sector in terms of its contribution to GDP, its foreign exchange earnings and its employment but it is the only sector that can and does increase the country's effective market size on a daily basis. St.Lucia, and indeed the Caribbean region, has traditionally relied on the limited measurement of tourism through the proxy of hotels and restaurants' value added in the National Accounts. Currently, what tourism statistics are available are mostly sparse and concentrated on simple analyses of regional and international tourist arrivals and rough estimates of tourist expenditure, without adequate in-depth analysis of the impact of tourism activity on the economy.

The two major challenges facing tourism policy-makers, statisticians and researchers are therefore: (1) how to present a rational, universally acceptable and technically sound definition of the tourism sector within clearly delineated boundaries; and (2) how to more

precisely measure the economic value-added and impact of the tourism sector. Those challenges derive from the fact that the “tourism industry” or the group of industries identified in the tourism sector does not exist as a distinct entity in the traditional national accounts or national statistical system. Thus, data on the range of economic activities directly attributable to tourism may be found in the statistical infrastructure, but they are disjointed, and widely dispersed among other economic sectors. Consequently, the value-added of the tourism sector has been consistently underestimated in traditional national income accounting.

TSA Initiatives in St.Lucia

In late July 2009, the St.Lucia Tourist Board (SLTB) announced that in conjunction with the Central Statistics Office (CSO) it had commissioned the services of *Tourism Economics* (a division of *Oxford Economic Research*) to produce the first Tourism Satellite Accounts for St.Lucia. The current initiative ensued from years of preparatory work by the CSO, which in 2006, through a CARICOM sponsored initiative, undertook a pilot TSA project in St.Lucia over a two (2) week period. This allowed the country to gain a deeper understanding of TSA issues as well as to embark upon the preparatory stage of TSA implementation. Relatedly, the Caribbean Tourism Organisation (CTO), through the European Union (EU) sponsored Caribbean Regional Sustainable Tourism Development Programme (CRSTDP), carried out a TSA Readiness Assessment and Implementation Plan in May 2007 and St.Lucia was placed in the second of three tiers of readiness based on its adherence to SNA '93¹, its system of tourism statistics and its assessed TSA readiness.

Implementing a TSA is a most complex and involved process, which requires the involvement of an expert, who could be engaged to assist with the technical process. The exercise would include discussions and collaboration with a wide range of entities including the CSO, St.Lucia Tourist Board, SLHTA, ECCB, and relevant private sector enterprises. Careful examination of economic statistical systems and tourism data compilation and reporting methods would be undertaken and, where necessary, “Supply

¹ The United Nations' System of National Accounts 1993 (SNA 93) consists of a coherent, consistent and integrated set of macroeconomic accounts; balance sheets and tables based on internationally agreed concepts, definitions, classifications and accounting rules. It provides a comprehensive accounting framework in which economic data can be compiled and presented in a format that is designed for the purposes of economic analysis, decision and policy-making.

and Use” tables would be used as a necessary platform for pursuing the rigorous statistical system building that is required for successful implementation of a TSA.

History of TSA

After years of targeted statistical systems development in collaboration with other international institutions, in 1993 the United Nations Statistical Commission (UNSC) adopted a new System of National Accounts (SNA), which recommended the adoption of a new concept called “Satellite Accounting”, designed to enhance and expand countries’ ability to more accurately capture the economic impact of previously undefined “sectors” such as health, tourism and the environment. The resulting analytical work would be done within the framework of existing national income accounting systems but in a more flexible manner without overburdening or compromising the central national income accounting system.

In 2000 the World Tourism Organisation (UNWTO), following collaboration with the Organisation for Economic Cooperation and Development (OECD) and the European Union Statistical Office (EUROSTAT), issued a Recommended Methodological Framework (RMF) for the development of tourism satellite accounts, which was endorsed by the UNSC and subsequently adopted by several developed and developing countries including Australia, Brazil, Canada, Chile, Dominican Republic, France, Italy, South Africa, and Spain. The RMF was subsequently updated in February 2008.

The UNWTO describes the TSA as the “only way to have an overall view of tourism's impact on the economy on an equal footing with all other sectors”. The TSA is now preferred as the most reliable method for measuring the economic impact of the tourism sector in any given country. It allows countries to measure tourism’s true share of GDP in addition to other critical indicators such as induced impacts, job creation and tourism capital formation in a manner that facilitates direct comparisons with other key sectors. In the Caribbean, the Bahamas, Barbados, the Dominican Republic, Jamaica and Trinidad and Tobago have all done pilot TSA’s. However only the Dominican Republic has done a full- fledged TSA on a consistent basis.

UNWTO TSA vs. WTTC Estimation Model

The UNWTO recommended methodology is fundamentally different from the World Travel and Tourism Council's (WTTC) approach; while the former seeks to build on the existing system of national accounts and construct an accurate and reliable TSA within that system, the latter is done by projecting the tourism sector's economic performance and contribution based on estimated relationships between various demand and supply variables within the economy. Those relationships rely heavily on data and estimated economic coefficients that may not always be available in small developing countries. Thus, although the WTTC approach may be easier to do and more appealing to the average observer, it does not necessarily rely on tested, well-established and reliable relationships between economic variables in a tourism economy. Ironically, the WTTC approach may work best in those countries that have already constructed a TSA based on the UNWTO RMF.

Nonetheless, a properly constructed TSA is a rather time and resource consuming process and may take more than five years to complete. One must therefore be careful to avoid being immobilised by the daunting task of doing a full TSA and in so doing "allowing the great to become the enemy of the good". While the ultimate goal must be to construct a proper TSA in accordance with the UNWTO's RMF, the task can be approached in an incremental manner. This could entail a gradual development of the system of tourism statistics, integrating it into the national accounts and constructing, where necessary, supply and use tables, which can provide a solid platform for the TSA development process.

Since the construction of a TSA cannot be done simply as a tourism sector issue but would have to be an integral component of the National Accounts and national statistical systems, a more holistic approach to establishing a sustainable TSA system would require national statistical capacity building such as that envisaged by the UNWTO approach. Nevertheless, there is now an urgent need for TSA adapted to the realities of St.Lucia and credible enough in both its results and approach to allow for targeted economic policy development, fiscal policy initiatives, business and economic planning and more efficient resource allocation. An attractive but unreliable approach devoid of credibility and rigorous construction would be counterproductive.

Economic Impacts

Many tourism practitioners in St.Lucia and the region justify the development of TSAs on the misguided basis of it being able by itself to indicate tourism's full economic impact, and by that fact, would strengthen their demands for more resources to be allocated to tourism sector development. However, one must first caution that tourism is all about providing the visitor with a unique and memorable experience and the development of all sectors of the economy would almost always benefit the tourism sector, the wider economy and the visitor's overall experience. Indeed, enhanced education, development of the cultural industries, more efficient service delivery mechanisms in the public and private sectors, superior business facilitation systems, progressive social transformation practices, more rigorous infrastructural upgrades and improved strategies for agricultural and manufacturing sector advancement would all, in some way, rebound to the benefit and comfort of the visitor and the progress of the tourism sector.

Although the tourism sector is led by the hotel and accommodation sub-sector, a typical tourism experience could involve a vast number of direct and indirect services transactions across many economic sectors. These can include transactions with airlines, hotels, guesthouses or private villas, car rental companies, public utilities, restaurants, retail outlets, local taxis, water sports companies, golf clubs, destination management companies, yacht charter companies, marine transport companies, entertainers, tour guides, laundry service providers, food suppliers, local banks, telecommunications companies, bars and night clubs, among others.

The tourism sector can generate substantial economic benefits to both host and source countries. Especially in the developing world, one of the primary motivations for a country to promote itself as a tourism destination is the expected economic improvement from activities in the sector. However, it is not only the visitors' spending within the sector that determines the sector's impact. Tourism businesses buy goods and services from other sectors such as retail, construction, agriculture, manufacturing, transport, entertainment, telecommunications etc. There is a multiplier effect of that spending as some of the money received from one seller is in turn used to purchase goods and services from other sellers and the process continues. The economic impacts that arise from the multiplier process can be divided into three stages, namely direct, indirect and induced impacts of tourism.

The **direct** impact, which is restricted to first round expenditure, relates to direct spending by tourists within the tourism sector (accommodation and distribution sub sectors of hotels, restaurants etc) .

Indirect or “upstream” impacts refer to impacts that arise from the purchase of inputs such as raw materials, telecommunications, energy etc from other sectors of the economy and from imports. However, only goods and services produced within the country are considered. Import leakages are discounted and therefore are not considered to have any indirect impact on the national economy. I

The **induced** impact occurs when persons within the economy, who have received income or profits due to the demand for goods and services by tourists, either directly or indirectly, subsequently spend that income on domestically produced goods and services. The process is one whereby household disposable income gets spent and re-spent in successive rounds as the expenditure of one individual becomes the income of another, the process being reduced or ‘dampened’ in successive rounds by import leakages².

Conclusion

In conclusion, it may be useful to reiterate the distinction between *value-added* and *economic impact* when assessing the uses of a TSA. The TSA measures the value-added of the tourism sector and can be used along with impact studies to measure total economic impact of the sector. However, the TSA by itself is not a tool to determine the total economic impact of the tourism sector.

- Value-added of the tourism sector measures the additional value or output generated at each stage of production; specifically the contribution of the various factors of production (land, labour, capital and entrepreneurship) to increasing the value of tourism services in any calendar year and equals the sum of the income received by the owners of these factors during that period.
- Total economic impact refers to the tourism sector’s generation of economic output within the entire economy in the form of inputs required from other industries or sectors. It estimates the total economic output (direct, indirect and induced) generated across all industries within the local economy as a result of activities in the tourism sector. In other words, that output, which would not have been generated at all were it not for the existence of the tourism sector.

² See Henry & Alexander- Tourism & Transport Consult International- Economic Impacts of 1998 Tourism, CTO Tourism Economic Impact Project