



Rainforest  
Alliance

Economic Impact Study

# Granada, Nicaragua Sustainable Tourism:

Economic Benefits for Many



# Sustainable Tourism: Economic Benefits for Many

## Economic Impact Study Granada, Nicaragua

The Rainforest Alliance's Sustainable Tourism Program would like to thank

- The SEEP Network and Argidius for authorizing the use of their "Tourism Impact Measurement" tool.
- The businesses in Granada, Nicaragua that participated in this study: the tour operator ORO Travel and the hotels Plaza Colón, La Casona de Los Estrada, La Gran Francia and Patio del Malinche.



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# The Tourism Industry's Value Chain

Money is a pliable material. It can start out in the tangible form of cash in the hand of a tourist to later become part of the industry's economic statistics and may even end up in vaults of the nation's central bank.

Much has been said of tourism's role as a generator of income, employment and wealth and great sums of money have been invested in efforts to stimulate tourism development. But it hasn't always been possible to clearly quantify the economic impact of tourism and—in this case— sustainable tourism, whether on its immediate economic surroundings to its macroeconomic influence on a national level.

For the purpose of evaluating that impact, the Rainforest Alliance undertook an analysis of five tourism businesses in the city of Granada, in southwestern Nicaragua. Measuring the economic impact of sustainable tourism is of great interest not only to the Rainforest Alliance, but also the local and national governments, businesses, non-governmental organizations, foundations and other representatives of the tourism industry.

This research was undertaken between January and April of 2009, with the goal of tracing the trail of money that tourists spent in the local economy and demonstrating its positive impact on practically all business sectors.

That money enters Granada's economy and circulates to reach an array of local businesses, the families of workers from the region and suppliers, when some of it is subsequently used to pay taxes. The current study analyzes and breaks down the direct and indirect economic impacts of sustainable tourism businesses on the local and national economies.

Tourism generates development, as is confirmed by the varied economic impacts that it produces.

When a tourist begins his or her visit, they have direct contact with the providers of tourism services (lodging, food,



Photo: Charlie Watson

transportation, tours, handicrafts, entertainment and other). Spending by visitors at this stage goes to the industry's primary sector.

Businesses that provide tourism services in turn require other businesses to provide them with the services and raw materials that they need to keep their operations running. This is what is called the secondary sector, and through it, the tourism industry has an impact on almost the entire national economy. Together these businesses constitute what is called the tourism industry value chain.

To better understand the economic impact of tourism, three types of economic effects must be analyzed: direct, indirect and induced.

- **Direct effects**<sup>1</sup>: These are also known as the "first exchange cycle." They refer, for example, to when a tourist in Granada utilizes services such as lodging, dining, car rental, or tours. The money that enters each business will be used to pay the salaries of their employees, to purchase the raw materials and supplies necessary for their functioning and other expenses.

- To illustrate this, we can use the example of tourists visiting the restaurant Papá Tiburón. The restaurant's owner will use the money they spend there to buy ingredients and supplies from an array of suppliers.

- **Indirect effects**: These are also referred to as the "second exchange cycle." If we continue with the example above, the restaurant purchases from its suppliers, which in turn purchase vegetables from farmers. The farmers need to purchase seeds, fertilizers and pay workers to grow the produce. In turn, the agricultural supply companies have to replenish their stock. The chain continues until the money is exhausted. The number of visitors and their average spending are the determining factors of both the first and second cycles.

- **Induced effects**: Also known as the "third exchange cycle," these refer to changes in the economic indicators of the households of people employed

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<sup>1</sup>Francisco José Calderón Vázquez. Málaga 2005.



Photo: Milagro Espinoza

in the tourism industry and related businesses. Needless to say, measuring this effect in the short term isn't easy. After time working in the industry—or with its suppliers—personal incomes will be stable, which results in improved living standards through the purchase of more and better quality products, the possibility of a better education for their children, better health and housing conditions and other improvements.

To the degree that a destination is more self sufficient in its value chain, the greater the impact produced by the above-mentioned effects. If a destination depends to a great degree on other areas for its supplies and raw materials, this results in leakage from its local economy. If a hotel that offers restaurant service uses a national bottled water supplier, then much of the money that it earns from water leaves Granada. On the contrary, if the bottling company were local, the money would remain in the city. Analyzing the economic impact of sustainable tourism in Granada

allows us to observe in which areas there is greater demand for local suppliers, which could generate opportunities for new businesses.

Various tools for measuring the economic impact of the selected businesses have been applied in the design of this study. Both the methodology and the processing and analysis of data are mentioned in this document. The study's final report places the results of the five businesses in the context of the economic impact of tourism on both the city of Granada and Nicaragua. It then examines the impact of the companies through the creation of employment, purchases from, or sales by other providers and monthly expenses. We would like to thank the businesses studied for their collaboration in helping us to profile the economic impact of sustainable tourism: the tour operator ORO Travel and the hotels Patio del Malinche, La Casona de los Estrada, Plaza Colón and La Gran Francia.

### Direct Effect

Where direct effects are produced – the primary providers of tourism services (lodging, food, travel agencies, transportation, etc.) perform their operations to cover needs and satisfy demand.

### Indirect Effect

The primary providers, as a function of the sum and volume of their needs, must increase their orders to their usual suppliers, who in turn place orders with their suppliers, who in turn purchase from their suppliers.

The indirect effects derived from the second and successive exchanges will weaken, losing strength until reaching the point of exhaustion.





Hotel La Gran Francia



Hotel Patio del Malinche



Hotel Plaza Colón



Hotel La Casona de los Estrada



Photos: courtesy of Oro Travel and Hotel Patio del Malinche.

# Results at a Glance

We begin with a list of the study's most noteworthy findings.

## A) Sustainable tourism is a good source of quality employment:

- Direct and indirect employment provides some of the principal evidence of the economic impact of the tourism businesses that participated in the analysis. Those five businesses have 116 direct employees and 232 indirect employees, which represents approximately \$90,000 in salaries during the four-month study period.
- These numbers become important when we consider the salary situation in the country's other economic sectors. For example, the average salary in construction is \$137.6<sup>2</sup> per month, whereas the average salary in the group of businesses studied was \$193.77<sup>3</sup> per month, or 40% higher.
- Another effect of employment has to do with employee origin. Local people represent 96% of the workforce and earn 90% of the salaries paid by the five businesses studied. Since nearly all of the income from those salaries goes to local people, they stimulate greater consumption and a more dynamic local economy.
- The 116 people employed by those five businesses represent 3% of the employees in Nicaragua's tourism industry. And those businesses represent 9% of Granada's supply of hotel rooms. These data show that sustainable tourism creates quality employment.

<sup>2</sup> Economist Intelligence Unit, "Country Report - Main report: August 1st 2009", [http://www.eiu.com/index.asp?layout=displayIssueArticle&issue\\_id=404717825&article\\_id=864717871](http://www.eiu.com/index.asp?layout=displayIssueArticle&issue_id=404717825&article_id=864717871), consulted 07/09/2009

<sup>3</sup> Corresponds to: \$89 909,9/116 employees /4 months = 193,77



Photo: Jessica Webb



- The salary levels paid by the five businesses also represent 3% of the salaries paid by the tourism industry on a national level. That money benefits 111 Granada households, or a total of approximately 588 people.

## **B) Sustainable Tourism boosts Gender Equity:**

- If we take the 116 employees and divide them into male and female, we find that 59% of the workers are men and 41% are women. This indicates an almost egalitarian employment opportunity for men and women.
- If we look at the total salaries paid by the businesses and again divide them by gender, we find that salary distribution is even fairer with 52% of total pay earned by men and 48% by women. This results in better quality of life for women by offering them a source of income that produces greater economic security.

## **c) Local Suppliers Benefit and New Market Opportunities are Created**

- The sustainable tourism businesses studied use a total of 111 suppliers.
- Of those, 34% are local businesses that offer perishable supplies such as fruit, vegetables, cakes and ice cream; the remaining 66% are national companies. That 34% of local businesses earn 16% of the money the hotels spend on supplies.
- The impact of purchases from local providers is still quite low, but this means there is a good opportunity for improving links between local businesses and thereby supporting the region's microenterprises. In this way, some of the leakage to other areas, such as Managua, could be avoided (See table 7).

- Regarding this point, it is worth noting factors such as the availability of providers for certain services on a local level and the city's location just 40 km (25 mi) from Managua —certain public services are generally provided from the capital. The country's big processed food, general supply and bottled drink companies are, for the most part, located in Managua.





#### D) Legitimate Companies Produce Benefits for State and Local Governments:

- In the area of taxes, the results are significant, since during the four months of the study, \$3,500 were paid in salary taxes alone. According to projections, the total annual taxes paid by the companies should be \$173,000, including fees for licenses, permits and other taxes.
- This shows that because they are legally established companies that comply with their fiscal and legal responsibilities, sustainable tourism businesses are a good source of income for the state, which provides funds for promoting development on a local level.

#### E) Tourist contributions permeate all levels of the local economy.

- There is a multiplier effect associated with the sales by each of Granada's sustainable tourism businesses. For each dollar of sales by those businesses, tourists spent another \$1.58 at other businesses that provide tourism services. This includes tourist spending at restaurants and handicraft shops and payment for guides, local transportation, admission fees for sites of interest and purchases at convenient stores.
- We observed the existence of a cluster, or network of businesses —of which the hotels form a part— that work with one another and generate value for each other and the community in which they are located.
- Currently, the clients of those sustainable businesses spend a total of \$824,570 on other services. Approximately 50% of this is spent at the city's bars and restaurants. Another 27% goes to guides and tour services, whereas 15% is for local transportation.



Photo: Jessica Webb

- When classified by country of origin, the tourists from other continents exhibited the highest average spending. In first place were the Australians, with an average of \$790 during their stay. They were followed by the Dutch, with \$238, then the Swiss, who spent \$177, and the Germans, with \$157. These groups together represent 22% of visitors to Granada.
- On the other hand, tourists from the Americas spend less, but constitute 70.33% of visitors. Average spending by tourists in that group ranges from \$80 to \$115.
- If we use the origin variable, those from the Americas have an advantage. When we weigh the amount contributed by each nationality and the percentage of visitors that country represents, we find that for each \$100 spent by tourists, \$69 came from tourists from the Americas (USA & Central America), whereas the Europeans were responsible for \$47 of spending (see table 1).
- These data provide raw material for the design of marketing strategies and differentiating services with the objective of boosting the effect of tourists in Granada.
- We can also analyze the behavior of these tourists from perspective of the type of services that they made greater use of. This study shows that the American and German tourists spent more on guides and tours. Handicraft shops benefited more from Americans and Canadians, whereas the Swiss, American and German tourists spent more on local transportation. In the case of Costa Rican and Belgian tourists, most of their spending was for food and local transportation (see chart 5).

#### **F) Projection within National Tourism:**

- From January to April of 2009, Granada's sustainable tourism businesses served 1.84% of the total tourists in the country. In the process, they were responsible for 0.45% of sales on a national level.
- They received a total of 7,006 tourists who produced an impact of \$2,218,647.



Table1. Spending by Tourists in Granada by Nationality.

Nationality	Amount	Percentage of Visitors	Weighted Amount
Australian	790	0.85%	7
Dutch	238	1.69%	4
Swiss	177	9.32%	16
German	157	9.32%	15
Spanish	80	6.78%	5
Americans, Costa Ricans, Canadians & Salvadorans	98	70.33%	69

- If the adoption of best practices were extended to all the hotels in Granada and they obtained similar results in terms of the number of visitors, their impact would reach 20.24% of the total number of tourists in the country<sup>4</sup> and would generate 5% of national sales; a significant contribution to the Nicaraguan economy. This shows the potential for Granada to work as a sustainable destination, which could be key to local development.

<sup>4</sup> 1,84% corresponds to five hotels of a total of 55 en Granada (11% of the country's 503 hotels).



Photo: Jessica Webb

# Research Methods

The five tourism businesses that this research was based on participate in the Rainforest Alliance's Sustainable Tourism Program. Granada was chosen because it is a strategic destination for the country's tourism industry, given its historic and natural importance.

The tool used to measure economic impact in this study was developed by the SEEP Network's Ecotourism Practitioner Learning Program PLP, which was created in 2008 with funding from the Argidius Foundation<sup>5</sup>.

To compile the data that this statistical tool was applied to, researchers visited the businesses and conducted personal interviews, reviewed the books and other registers, and administered surveys to their clients.

Data on the management of those businesses were collected during the months of January to April, 2009. Other relevant elements, such as the monthly payroll, the details of monthly purchases and total sales were also reviewed. That information was analyzed in May of 2009.

The client surveys were given to a sample of 32 groups of tourists of different nationalities for a total of 118 interviews<sup>6</sup>.



Image 2. Formula for Tourism's Economic Impact.

<sup>5</sup> Argidius is a nonprofit organization with offices in Switzerland and New York that was created by a large European conglomerate. The mission of Argidius is to provide seed funding for initiatives that promote the development of small and medium enterprises.

<sup>6</sup> It should be noted that the client surveys were taken during just two weeks, and in the month of April, which is considered part of Granada's low season.



## How is economic impact measured?

To measure how much the economic activity of these tourism businesses influences and impacts the local economy, the following reasoning was applied:

As can be seen, a “multiplier” was utilized. There are many multipliers that can be defined according to the criteria required by specific economic sectors: geographic area, number of inhabitants, the type of business, whether they are for employment or for sales, among others.

As was previously explained, there are several money cycles. The function of the multipliers is to follow the path of money spent by visitors until it “escapes” from the region to be used for the purchase of products and services from another area, such as in the case of imports.

One objective of this study was to determine the economic impact of spending by visitors to Granada. In this case, the multiplier used was 1.65. This multiplier was determined in Costa Rica as a reference for rural communities<sup>7</sup>.

In order to determine the impact in the employment department, a multiplier of 2.0 was used, which means that for each employee in the industry, there are two employees in the secondary sector. In the case of measuring the impact of tourist spending on the salaries of workers in the tourism businesses, the multiplier is 1.0.

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<sup>7</sup> Juan Antonio Aguirre G. Ph.D., Profesor of Environmental Economy, the School for Field Studies, Center for Sustainable Development, Costa Rica. Creating a multiplier is very complicated and requires ample information and reasearch. For this reason, multipliers are usually taken from other studies done in areas similar to a study site. In this case, the Honduran Tourism Institute used the same multipliers, according to an interview with the head of statistics at that institution. According to documents about the impact of tourism that were consulted, it is possible to use corrective factor to deal with particular situations. For example, the fact that Costa Rica has a better transportation system than neighboring countries. For this tool, however, no correction was made and multipliers that had already been used in the region were simply adopted.



Photo: Jessica Webb

Now, for the evaluation of the economic impact to produce real and verifiable numbers it is necessary to define the measurement limits:

- **The study region:** The study region identified is the city of Granada, located 40 km (25 mi) south of Managua, Nicaragua.
- **Measurement proposal:** To evaluate the direct and indirect economic impacts of the tourism businesses participating in the Rainforest Alliance's best practices program in the city of Granada, Nicaragua and to put them into context.
- **Objective:** Measure the economic impact of five tourism businesses in the city of Granada, Nicaragua.
- **Currency:** The data are measured in US dollars (\$1 equals 20.30 córdobas<sup>8</sup>).
- **Time of application:** The tool will analyze data collected during four months – from January to April, 2009.

- **Hypothesis:** The hypothesis of the study is that the impact of sustainable tourism activities on Granada's general economy boosts local development and provides direct benefits for the population and local service providers.



Photo: Jessica Webb

<sup>8</sup> Official exchange rate according to the Central Band of Nicaragua on June 30, 2009





Masaya Volcano, located close to the city of Granada, Nicaragua.

# Tourism in Nicaragua

According to official statistics from Nicaragua's Central Bank and Tourism Institute, the country earned \$276 million from tourism in 2008. That income was the product of spending by 1,118,076 international visitors. Of those, 857,901 (77%) stayed in a hotel and 260,175 were day visitors, or people on excursions such as cruise ship passengers. 55% of those international tourists arrived by land (476,151), 41.5% (356,24) arrived by air and 3% arrived by sea.

Most of the tourists who visit Nicaragua are from other Central American nations, totaling 535,008, followed by North Americans, with 231,271 tourists, and Europeans with 56,431; South America accounts for just 17,824, whereas the remaining 17,367 come from the rest of the world.

## Hotel Capacity

According to data from 2008, Nicaragua's hotel supply consists of 503 establishments with 7,408 rooms and 12,494 beds. A significant portion of those hotels (28%) is in the western part of the country, namely Managua (27%) and Boaco (1%). The southwest, with 15% of the hotels, holds the second

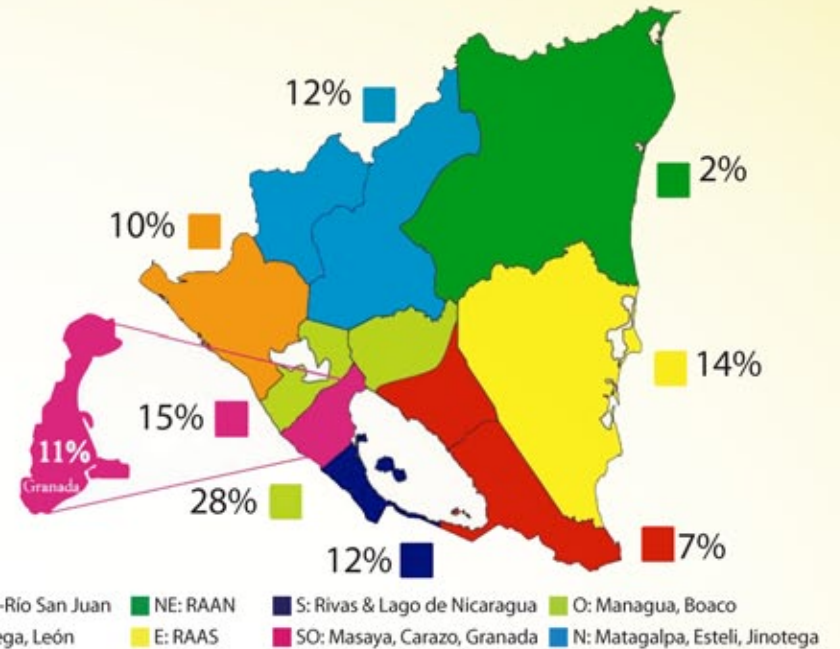


Image 3. Regional Distribution of Nicaragua's Hotels by Percentage.

Imagen diseñada por: Isis I. Castro Alberto

major concentration; this includes Masaya (2%), Carazo (1%) and Granada (11%) (See image 3).

## Work Force

In 2008, Nicaragua's occupied<sup>9</sup> work force consisted of 2,168,400 people. The primary sector, which includes agriculture, ranching, logging and fishing, accounts for 610,500 jobs. Manufacturing (construction, mining, etc.) has 414,900 employees. The tertiary sector, or service sector, is the biggest



job provider, employing 1,142,900 people. This includes people who work in businesses, the central government, transport, communications, banking, social, communal and personal services. Tourism is included in this sector.

## Job Creation

According to surveys<sup>10</sup> by the technical staff of CpmL-N<sup>11</sup> (Center for Cleaner Production - Nicaragua), the hotel industry generates 4,409 jobs, and hotels with 2-20 rooms account for 36% of those jobs. Hotels with 21-80 rooms account for 11% and hotels with more than 80 rooms account for 53% of jobs.

If we examine the hotels with 2 to 20 rooms, we find that 55% of the personnel work at service jobs and 45% perform administration duties.

Table 2. Job Creation According to Hotel Size.

Number of Rooms	Jobs Created	%
2 to 20	1587	36%
21 to 80	485	11%
More than 80	2337	53%
<b>Total</b>	<b>4409</b>	<b>100%</b>

Many of those administrators are owners, who may also work in service roles. The next table shows the salary ranges for the industry, according to hotel size.

<sup>9</sup>From the study "Sustainable Development Indicators for the Hotel Industry" by Center for Cleaner Production-Nicaragua (CpmL-N) within the framework of the project Strengthening Environmental Management in the Industrial and Service Sectors with a Focus on Sustainable Development (FOGASIDES), August 2008.

<sup>10</sup>The CpmL was created in 1998 as an initiative of the United Nations Industrial Development Organization (UNIDO) with funding from the Austrian government. "The Center for Cleaner Production promotes the application of concepts and methodologies that strengthen competitiveness and productivity in businesses in the goods and service sectors in an efficient manner, creating awareness about prevention and generating environmental benefits for society." In Nicaragua, the organization has the support of Decree No. 22-2006, page 2762, the National Policy for Cleaner Production, which reflects the government's commitment to improving its environmental standing with the national and international community. The National Policy for Cleaner Production is the result of collaboration by organizations, institutions and individuals who participated in its revision, updating, consultation and elaboration

<sup>11</sup> Preliminary data for January – May 2009 from the Nicaraguan Tourism Institute (INTUR).

Table 3: Administrative and Productive Salary Ranges.

Number of Rooms	Monthly Salary Ranges in C\$ (administrative)	Monthly Salary Ranges in C\$ (service)
2 – 20	1,000 - 6,000	600 - 4,000
21 – 80	1,400 - 9,000	1,000 - 6,000
More than 80	4,200 - 18,000	3,100 - 5,400

In the hotels and those with 2 to 20 rooms and those with 21 to 80 rooms, the average salaries are below the minimum salary established by the commerce, restaurant and hotel law. The total amount that the industry spends on salaries per year is \$10.9 million, of which 57% is dedicated to administrative salaries and 43% is for service workers.



Photo: Stock

Corn Island, located in the caribbean coast of Nicaragua.



## Number of Visitors in 2009

From January to May of 2009<sup>12</sup>, 470,607 international visitors entered Nicaragua, of which 79.3% were classified as tourists and 20.7% as excursion participants, or day visitors. By comparing these data with those from the same period in 2008, we observed an increase of 10.8% in tourist arrivals from the year before and a 5% increase in total international visitors. Nevertheless, there was a decrease of 12.7% in day visitors.

If we compare the 2008/2007 and 2009/2008 periods, there is a decrease in the growth of tourist and day visitor arrivals. This can be attributed to the economic crisis, which as decreased growth in developed countries such as the United States and European nations —Central America's principal tourism markets.

## Geographic Regions and Tourist Nationalities

If we look closely at the 380,000 tourists that visited Nicaragua between January and in May, 2009 by country to see which region tourists come from, we find that most originate from Central America, with 60.4% of the total. The second most important region is North America, with 27.3% —22.6% of tourists are US citizens—, making that country Nicaragua's single most important source of tourists. Europeans made up 8.1%, whereas 2.2% of the visitors were South Americans. (See chart and table).

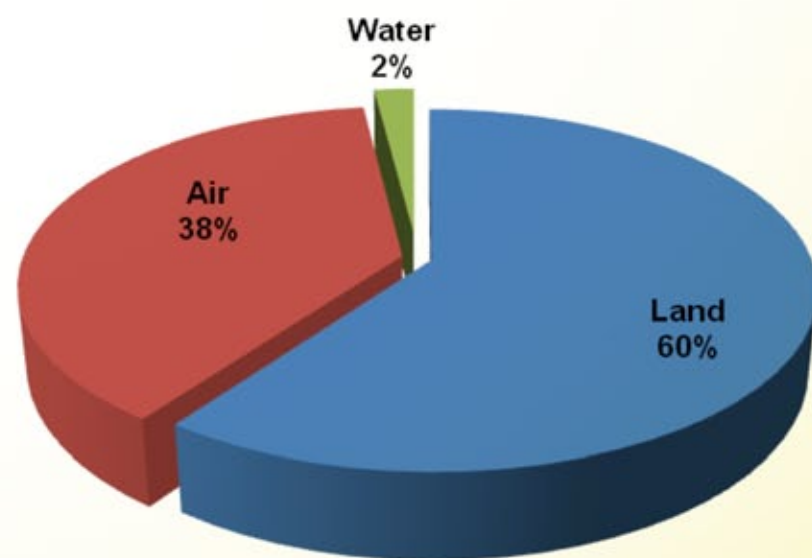


Figure 1. Arrivals by Transport Mode.

<sup>12</sup> Other points include: Las Manos, El Espino, El Guasaule, Teotecacinte, Las Tablillas, San Juan del Sur, Sarapiquí, El Castillo, San Juan del Norte, Boca de San Carlos, El Bluff, Corn Island, Delta & Papaturro.

Table 4. Regions and Nationalities with Points of Entry.

Regions / Nationalities	%	Most Used Entry Points			
		# tourists	Airport	Peñas Blancas	Others
<b>North America</b>	<b>27.3%</b>	<b>103,911</b>	<b>79.9%</b>	<b>12.9%</b>	<b>7.2%</b>
Canadians	3.3%	12,741	61.4%	27.8%	10.8%
Americans	22.6%	85,917	83.2%	10.7%	6.1%
Mexicans	1.4%	5,253	70.2%	13.0%	16.8%
<b>Central America</b>	<b>60.4%</b>	<b>229,986</b>	<b>17.4%</b>	<b>28.4%</b>	<b>54.2%</b>
Belizeans	0.1%	223	57.8%	16.1%	26.0%
Costa Ricans	10.8%	41,076	11.6%	77.7%	10.7%
Guatemalans	7.2%	27,446	19.0%	21.8%	59.1%
Hondurans	19.8%	75,344	2.5%	7.4%	90.1%
Nicaraguans	7.9%	29,956	70.8%	26.3%	2.8%
(living abroad)					
Salvadorans	12.7%	48,310	8.6%	20.4%	71.0%
Panamanians	2.0%	7,631	33.3%	53.5%	13.1%
<b>South America</b>	<b>2.2%</b>	<b>8,470</b>	<b>68.5%</b>	<b>21.7%</b>	<b>9.7%</b>
Argentines	0.4%	1,703	39.1%	46.2%	14.7%
Brazilians	0.3%	1,017	69.1%	19.2%	11.7%
Colombians	0.4%	1,690	83.0%	13.3%	3.7%
Peruvians	0.2%	912	85.2%	10.9%	3.9%
Venezuelans	0.3%	1,230	78.2%	16.5%	5.3%
Other South Americans	0.5%	1,918	67.4%	17.5%	15.2%
<b>Europe</b>	<b>8.1%</b>	<b>30,766</b>	<b>38%</b>	<b>35%</b>	<b>27%</b>
Germans	1.3%	4,762	35%	42%	23%
Spanish	0.9%	3,571	60%	20%	20%
French	0.8%	3,233	41%	41%	18%
Dutch	0.7%	2,646	36%	41%	23%
Italians	0.6%	2,197	42%	37%	21%
Swiss	0.4%	1,565	30%	39%	32%
Swedish	0.4%	1,377	43%	41%	16%
British	1.4%	5,444	21%	23%	56%
Other European	1.6%	5,971	41%	39%	21%
<b>Asia / Caribbean</b>	<b>2.0%</b>	<b>7,434</b>	<b>53%</b>	<b>20%</b>	<b>27%</b>
<b>Africa / Oceania</b>					
<b>Total</b>		<b>380,567</b>	<b>144,354</b>	<b>92,740</b>	<b>143,473</b>

Source: Nicaraguan Tourism Institute

<sup>13</sup> Other points include: Las Manos, El Espino, El Guasaule, Teotecacinte, Las Tablillas, San Juan del Sur, Sarapiquí, El Castillo, San Juan del Norte, Boca de San Carlos, El Bluff, Corn Island, Delta & Papaturo.



# Tourism in Granada, Nicaragua

## General Information

Granada, the capital of the department of the same name, is one of Nicaragua's principal cities after Managua. It is located on the northwest edge of Lake Nicaragua, 40 km (25 mi) southeast of Managua, just 28 km (17 mi) from Nicaragua's international airport, 90 km (56 mi) from the border with Costa Rica and within 50 km (30 mi) from the country's most popular Pacific beaches.

Granada covers an area of 531 sq. km (205 sq mi) and has a population of 105,171 inhabitants<sup>14</sup>, with a population density of 180 inhabitants per square kilometer and an average of 5.3 people per household.

The climate is defined as "semi-humid." Average annual rainfall oscillates between 1,200 and 1,400 mm with good distribution of rain throughout the year. The temperature ranges between 27°C and 27.5°C. The city's geographic coordinates are 11° 55' north and 86° 57' west.



Photo: Jessica Webb

<sup>14</sup> According to the national census of 2005, taken by the National Institute for Development Information (INIDE)

## Granada: a City for Tourism

Granada was founded on December 8, 1524 by Francisco Hernández de Córdoba. It was the first city established by Spain on Nicaragua's Pacific slope. The city is the principal port on Lake Nicaragua, from which one can embark for Ometepe Island or the San Juan River.

It is considered one of the most beautiful colonial cities in Central America, with many ancient churches and colonial-style buildings intact. At the heart of Granada, as in many of Latin America's colonial cities, is a scenic central park that is a popular meeting place for local people and is surrounded by important buildings. It is also one of the country's most important commercial, industrial and transportation centers.

Thanks to its colonial ambiance, Granada is the country's top city of historic value and national tourism. It is known as "La Gran Sultana" after a nearby volcano that was formerly called El Sultán. It was the region's most important city thanks to its strategic location on Lake Nicaragua, with easy access to two oceans – the Pacific and Atlantic. For four centuries it was Nicaragua's commercial center and it is currently the country's biggest tourist attraction. It consequently has very good and modern hotels to accommodate even the most demanding tourists.



Photo: Jessica Webb



The municipality of Granada lies within a region of volcanic formations; some of those volcanoes are dormant, such as Mombacho, located to the south of the city, which towers 1,344 meters (4,409 ft) high and covers an area of 2,487 hectares (6,145 acres). It is an important attraction for recreation and research because of the flora and fauna of its forests. Granada also has other interesting protected areas, which include:

- Laguna de Tisma: a lake covering 11,000 hectares (27,182 acres) that is protected as an important rest area for migratory birds. The area is also a refuge for native wildlife.
- Laguna de Apoyo: covers 3,500 hectares (8,649 acres) of excellent scenery with a great potential for sightseeing.
- Isla Zapatera: covering more than 5,000 hectares (12,355 acres), this island is a great attraction for adventure and cultural tourism thanks to its abundant archaeological sites.
- Rio Manares: this river flows along the municipality's southern border into Lake Nicaragua and is an excellent fishing area.

## Economic Data

Granada's economically active population numbers almost 53,000 inhabitants. The principal economic activity is concentrated in the tertiary sector (sales and services), which employs 63% of the economically active population. 18% of that population works in the secondary sector – activities related to the textile, furniture, baked goods, paper and other industries. The third place is occupied by the primary sector: ranching and agriculture, the most important crops being rice, beans, corn and sorghum.



# Sustainable Tourism's Impact in Granada

Now that we've noted the principal characteristics of this colonial city, we will examine the economic impact of the tourism businesses that participate in the Rainforest Alliance's Sustainable Tourism Program. The economic impact was measured by compiling data and studying such aspects as jobs created by those businesses, purchases by guests from other service providers, monthly sales and expenses, and others.

## a) Overall Economic Impact

In the area of employment, the study shows that during the four months of the research, the businesses provided 116 people with direct employment and 232 people with indirect employment. That is to say, as the following table shows, for each employee studied at a tourism business, there were two more in other sectors associated with tourism.

Table 5. The Employment Impact of the Five Businesses.

	Direct Employment	Multiplier	Indirect Employment	Description of Impact
Jobs Created	116	2.0	232	Indirect employment: For each person employed by the tourism businesses, two more people work in related sectors.



Photo: Oro Travel



During the study months, and as a result of spending by 7,006 tourists, those businesses earned \$1,334,634 in direct sales. If we use the corresponding multiplier (1.65) to determine the activity's economic impact, the result is \$2, 218,647.

Table 6. Overall Economic Impact of the Five Businesses.

	Tourist Spending	Multiplier	Impact <sup>16</sup>	Description of Impact
Wages and Salaries	89,909.90	1.0	89,909.90	Induced effect: Each dollar paid in wages and salaries circulates in Granada.
Local Suppliers	21,608.69	1.65	35,654.35	Indirect effect: the purchases that the businesses make from their suppliers in Granada, which earn 16% of total.
Fiscal Contribution	67,007.81	N/A	67,007.81	Fiscal contribution: Taxes collected from tourism activities, including those paid by the businesses and their employees.
Revenue of the Businesses <sup>17</sup>	1,344,634 <sup>18</sup>	1.65	2,218,647	The economic impact of the tourism businesses in Granada <sup>19</sup>

<sup>16</sup> Impact: tourist spending x multiplier in \$

<sup>17</sup> Could also be called "Business income"

<sup>18</sup> The sum of total local sales from January to April of 2009 (\$520,064) and spending by those tourists with other suppliers of \$824,570

<sup>19</sup> Does not include induced effect.

The circulation of money and its impact can also be measured through the salaries paid by the businesses. This category has an induced effect on Granada's economy, since each dollar that a local employee receives flows into the local economy.

Purchases from local suppliers have an indirect effect. The businesses spent \$21,608.69 in this area, which when we consider the multiplier (1.65), corresponds to \$35,654.35. This impact would be greater if there were more local suppliers. Only 34% of total suppliers are local and they earn only 16% of the money the businesses spend on goods and services.

Table 7. Purchases from Suppliers Registered for the Five Businesses.

Total Purchases and Spending on Suppliers	Purchases and Spending on National Suppliers	Purchases and Spending on Local Suppliers	% Local Spending
\$139,239.87	\$117,631.17	\$21,608.69	16%

## Importance of the Total Economic Impact Within the Economy

### On the national level:

As we already mentioned, the businesses analyzed together employ 116 people. Those positions represent 2.63% of the employment created by Nicaragua's hotel industry. Those employees represent 0.015% of the economically active population in the area of sales and services.

We also mentioned that the amount paid in salaries during the four months was \$89,910. According to data compiled by the Center for Cleaner Production of Nicaragua, the industry pays \$10.9 million in salaries per year on a national level. This means that Granada's sustainable companies are responsible for 3% of salaries in the industry<sup>20</sup>.

If we compare the same areas to other economic sectors, it is notable that the salaries paid by the businesses in this study are much higher. For example, the average salary in the construction industry is \$137.60<sup>21</sup> per month, whereas the average pay at these businesses is \$193.77<sup>22</sup> per month, which is 40% higher.

The 7,006 tourists that visited between January and April of 2009 were responsible for \$520,064 in sales. Based on data provided by INTUR, 380,567 tourists stayed in the country between January and May spending a total of \$115 million<sup>23</sup>. Thus, during the study period, businesses accommodated 1.84% of the tourists that visited the country and generated 0.45% of national sales.

### On the local level:

Tourism businesses that practice sustainable management are responsible for a significant portion of Granada's tourism development —the companies in question represent 9%<sup>24</sup> of Granada's total hotel supply. The \$89,910 in salaries paid in the four months reached 111 Granada households, or approximately 588 people.

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<sup>20</sup> Considering the same number of employees at the beginning and end of the year.

<sup>21</sup> Economist Intelligence Unit, "Country Report - Main report: August 1st, 2009"; [http://www.eiu.com/index.asp?layout=displayIssueArticle&issue\\_id=404717825&article\\_id=864717871](http://www.eiu.com/index.asp?layout=displayIssueArticle&issue_id=404717825&article_id=864717871), Consultada el 07/09/2009

<sup>22</sup> Corresponds to: \$89 909.9/116/4 months = 193.77

<sup>23</sup> Estimate by the author of this study based on official INTUR data on arrivals in 2008.

<sup>24</sup> According to the study: "Sustainable Development Indicators for the Tourism Industry" by the Center for Cleaner Production of Nicaragua, Granada has 55 hotels.

<sup>25</sup> Average household size in Granada is 5.3 people.



And if we consider the portion of Granada's economically active population employed by the business and service sector, those five businesses employ 0.35% of those workers<sup>25</sup>.

## B) Impacts of Job Creation

As previously mentioned, the five businesses in this study provided employment for 166 people; this datum is enriched by information that the research uncovered about various aspects of that employment.

In the first place, those workers represent 2.63% of all people employed in Nicaragua's hotel industry. But also, 59% of them are men and 41% are women, which indicates a high level of gender equity.

Secondly, if we take the amount paid in salaries (\$89,910) and make an extrapolation that factors in seasonality, this group of companies should pay \$317,300 in salaries per year. According to the Center for Cleaner Production of Nicaragua, the total amount of salaries paid by the industry is \$10.9 million. Thus the Granada tourism businesses that practice sustainable management are responsible for 3% of that total.

Table 8. Overview of the Number of Employees and the Economic Impact of Salaries.

Business	No. of Employees	Amount in Four Months	% Amount
A	5	\$2,631	2.93%
B	47	\$41,015	45.62%
C	12	\$13,121	14.59%
D	20	\$18,757	20.86%
E	32	\$14,387	16.00%
<b>TOTAL</b>	<b>116</b>	<b>\$89,910</b>	<b>100.00%</b>

Localism is another characteristic of employment provided by tourism businesses that practice sustainable management, and 96% of the workers in question live in Granada. This means that \$81,417 (90%) of the salaries entered the city's economy.



Photo: Oro Travel

Finally, if we examine salary distribution by sex, we find that 52% went to men and 48% to women. This demonstrates a trend toward gender equilibrium, as is illustrated by the following table.

Table 9. Salaries Paid By Employee Sex and Origin.

	# Employees	% Employees	Salaries	% Salaries
Local Men	68	61%	46,106.24	57%
Local Women	43	39%	35,310.57	43%
Subtotal- income of Granada employees	111	100%	81,416.81	100%
Foreign Men	1	20%	521.29	6%
Foreign Women	4	80%	7,971.81	94%
Subtotal - income of foreign employees	5	100%	8,493.09	100%
Total	116	100%	89,909.90	100%
Men's Salaries	69	59%	46,627.53	52%
Women's Salaries	47	41%	43,282.38	48%

### c) Impact on Local Suppliers

During the four months of this study, total sales by the five businesses were \$520,064, which if projected annually would be \$1,450,929 for 2009<sup>26</sup>. In order to earn this, the businesses made \$139,239 in purchases from suppliers, which if projected annually, would be \$417,708<sup>27</sup>.

When we examine purchases from suppliers that operate only in Granada, the amount is \$21,608, or 16%. This implies a high dependence on external suppliers and a consequent leakage of money from Granada's economy.

The rest of the purchases (84%) were from industries or other businesses based primarily in Managua. As previously mentioned, this situation represents a good opportunity both to support businesses in Granada and for small and medium enterprises to enter the market.

<sup>26</sup> The annual projection is based on data from the first four months and records of occupation during Granada's high and low seasons from previous years.

<sup>27</sup> The 16% of purchases from local suppliers would be \$ 66,833 and the 84% of purchases from national providers, \$350,874.



Photo: Oro Travel



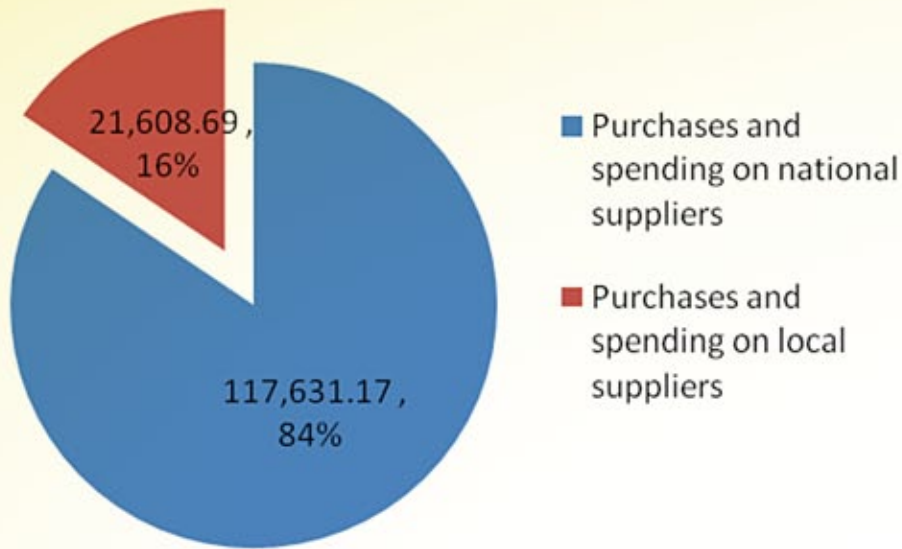


Figure 2. Distribution of Local vs. National Purchases.

If we look at the number of suppliers, of those 111 businesses, 34% are local and 73% work on a national level. Also, 20 were identified as common suppliers, meaning that two or more sustainable tourism businesses in this study purchase from them. Only the three of the common suppliers are local businesses.

The majority of payments to national suppliers were for national service (a total of \$51,575) and food service (\$25,965) companies.

A more detailed breakdown can be found in the following table:

Table 10. Amount Purchased from Local and/or National Suppliers in US\$.

Type of Supplier	Local Supplier	National Supplier	Total
Public Services	-	51,575.05	51,575.05
Food	5,960.51	20,005.12	25,965.63
Alcoholic Beverages	199.07	10,872.36	11,071.43
Fruits & Vegetables	6,559.51	-	6,559.51
Fuel	338.35	5,412.96	5,751.30
Maintenance	3,626.43	1,739.92	5,366.35
Office Supplies	328.51	3,346.38	3,674.89
Disinfectants &/or Detergents	1,148.26	2,413.12	3,561.38
Hardware	188.00	2,817.08	3,005.08
Groceries	132.12	2,228.80	2,360.92
Communications	-	2,351.13	2,351.13
Cakes	1,426.23	-	1,426.23
Coffee	559.28	354.87	914.15
Bottled Water	-	704.22	704.22
Non-alcoholic Beverages	-	614.80	614.80
Ice Cream	25.57	-	25.57
Other Supplies	1,116.85	13,195.37	14,312.22
<b>TOTAL</b>	<b>21,608.69</b>	<b>117,631.17</b>	<b>139,239.87</b>

In this data sample, it is worth noting that 100% of the purchases of fruits, vegetables, ice cream and cakes were from local suppliers. It is also noteworthy that 68% of coffee purchases were local and 61% of the maintenance services were provided by Granada businesses. On the other hand, public services,

<sup>28</sup> Other suppliers not specified in the tool such as: amenities, photocopies, cutlery, glassware, laundry.

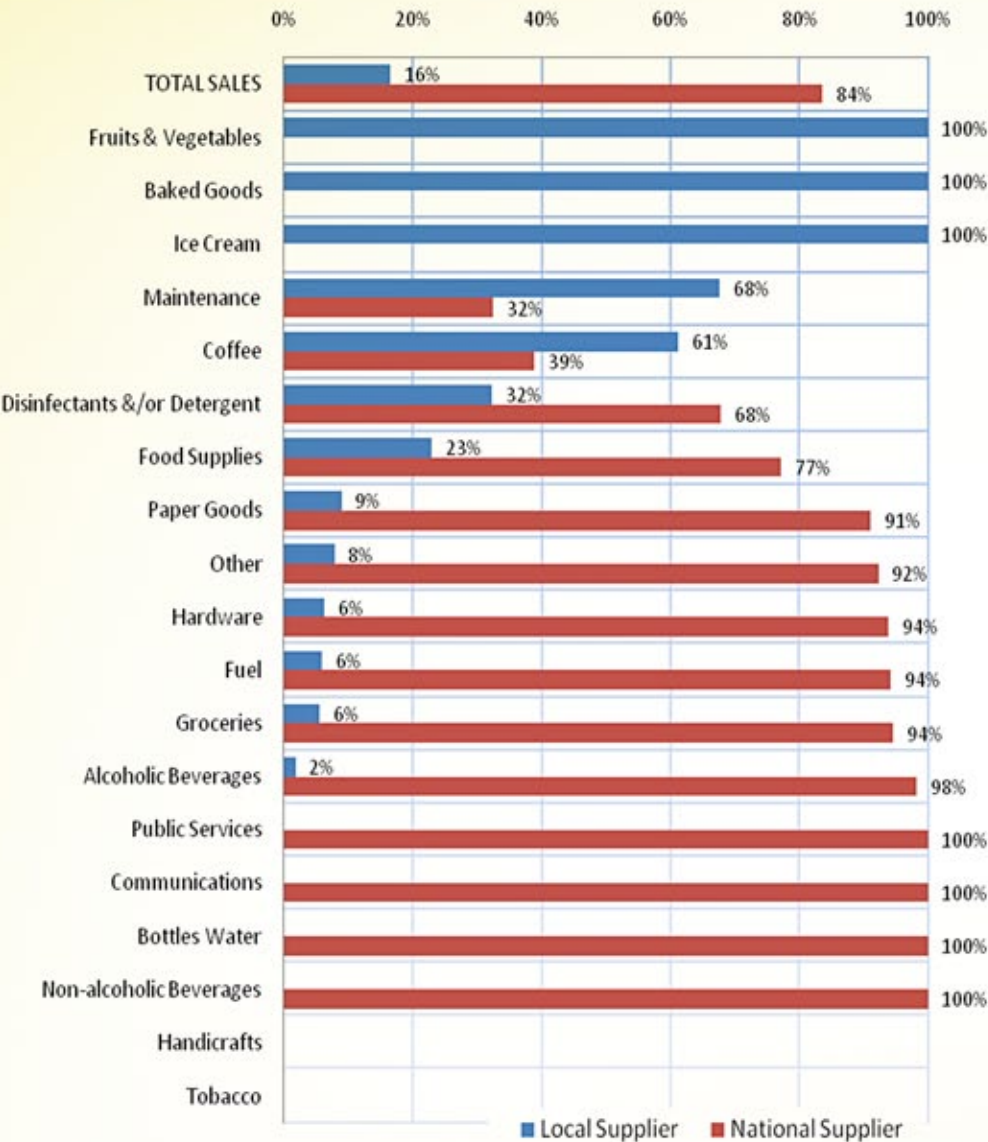


Figure 3. Comparison of Purchases from Local and National Suppliers.

communications, bottled water and non-alcoholic beverage sales are dominated by national suppliers. Tobacco and handicrafts are items that the sustainable tourism businesses don't purchase.

By comparing the different categories of goods and services provided by local and national suppliers, some impacts on the tourism destination can be identified.

#### d) Impact through Tax Payment

As part of salary payment, the tourism businesses transferred \$3,449.93 to the state in taxes during the four months, which if projected for all of 2009, would total \$10,359. The following table summarizes the number of employees and their economic impact through the payment of salaries and taxes by the businesses participating in the study.

Regarding other types of taxes, the businesses spent \$4,023 for operating permits and paid \$3,182 in income taxes. The amount paid in sales taxes was \$56,351.

The total payment of taxes during the four months of the analysis was approximately \$67,000. The estimate



for all of 2009 was \$172,743, based on tax payments during the first semester of the year and a projection of the volume of sales.

Table 11. Summary of Numbers of Employees and the Economic Impact Generated by Salary and Tax Payment.

Business	No. of Employees	Payment in 4 months	% Amount	Taxes	% Taxes
A	5	\$2,631	2.93%	\$89.87	2.61%
B	47	\$41,015	45.62%	\$2,388.99	69.25%
C	12	\$13,121	14.59%	-	0.00%
D	20	\$18,757	20.86%	\$971.07	28.15%
E	32	\$14,387	16.00%		0.00%
<b>TOTAL</b>	<b>116</b>	<b>\$89,910</b>	<b>100.00%</b>	<b>\$3,449.93</b>	<b>100.00%</b>

### e) Impact per Tourist Dollar

Another interesting area analyzed by this study is the tourists' distribution of money through spending on optional services.

In the first place, according to our research, tourists spend an average of \$192 per visit to Granada (what is defined as the first cycle of exchange). This

amount generates a \$316 indirect impact on the local economy (second cycle of exchange).

In second place, in order to serve a tourist, the businesses had make an expenditure of \$3.08 in purchases from local suppliers, money which in turn generated \$5.08 in impact on the local economy.

Now, each dollar of sales by Granada's sustainable tourism businesses was accompanied by \$1.58<sup>29</sup> in purchases by the tourists from businesses that offer other tourism services. For example, if a tourist spends \$100, this generates an additional \$158 for the local economy. That spending is divided between the following areas: \$76 for restaurants, \$43 in payment for guides and tours, \$24 for local transportation, \$8 on handicrafts and \$4 on admission to sites of interest and \$3 in convenience stores.

On the other hand, there is also a clear opportunity for increasing the use of local suppliers, if we consider that for each \$100 in sales by the sustainable tourism businesses, only \$4 is in turn spent with local suppliers in Granada, mostly for fruits, vegetables and other food items.

<sup>29</sup> As you can see, this data is very close to the 1.65 multiplier that has been defined.

## f) Impact on Other Service Providers

Beyond the payments that tourists make when staying in hotels, a variety of other sectors benefit from their visits, which represents an additional impact on the city's economy.

The businesses in this study reported 7,006 tourists during four months. The projection of visitors for all of 2009 would thus be 18,798. Those visitors injected \$824,570 into Granada's commerce, according to interviews and data collected in the course of this investigation<sup>30</sup>.

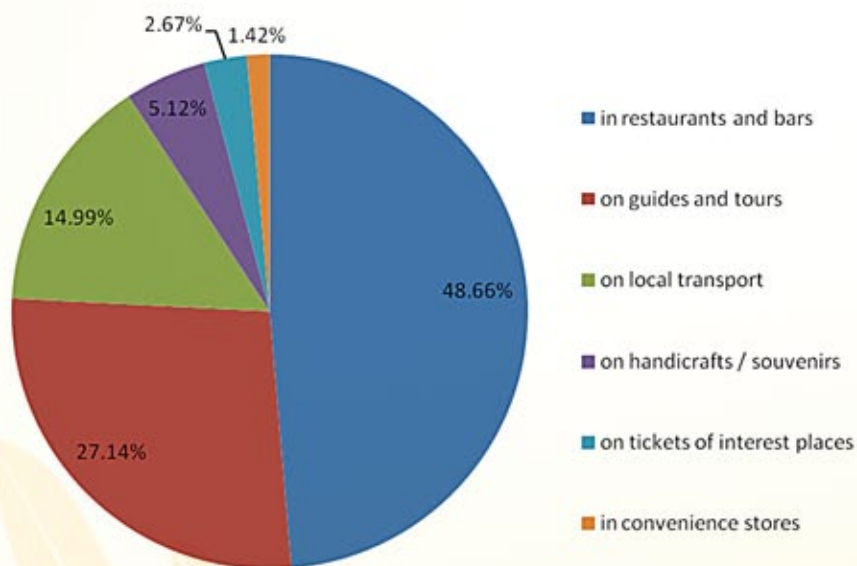


Figure 4. Distribution of Total Spending by Tourists.

Approximately 50% of that spending benefited the city's restaurants and bars. Another 37% of the pie went to the city's guides and tour operators, and 15% was spent on local transportation<sup>31</sup>.

The following chart illustrates the breakdown of that spending, including handicrafts, admission to sites of interest and others.

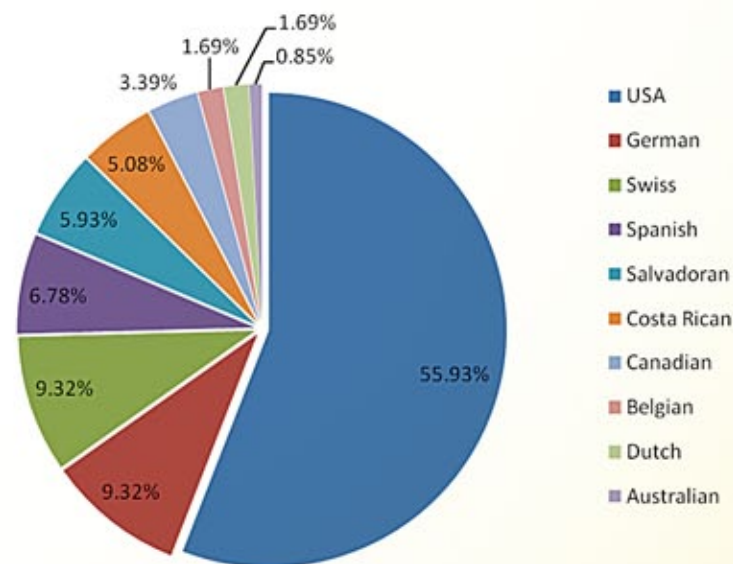


Figure 5. Distribution of Tourist Nationalities.

<sup>30</sup> 32 groups of tourists – a total of 118 tourists – were interviewed over the course of two weeks in April of 2009. This sample represents 1.68% of the total visitors between January and April of 2009. The sum of spending by the tourists in the sample was \$13,888. The data in from this sample was extrapolated for the number of visitors registered by the businesses.

<sup>31</sup> To determine the distribution of overall spending by the tourists, we considered only 31 groups, since one of the surveys lacked the breakdown of spending.



In Granada, the majority of tourists come from the United States: 56% of the visitors reported during the study. They were followed by visitors from Germany and Switzerland with 9.32% each. Other nationalities visit in smaller numbers, such as Spaniards (7%), Salvadorans (6%), Costa Ricans (5%) and Canadians (3%). The following chart illustrates the distribution of nationalities of tourists that visited during the month of April.

If we calculate average spending per person per day in Granada, the Australians were the tourists that spent the most with an average of \$790. They were followed by the Dutch, with \$237.50, the Swiss with

Figure 6. Tourist Spending by Nationality.

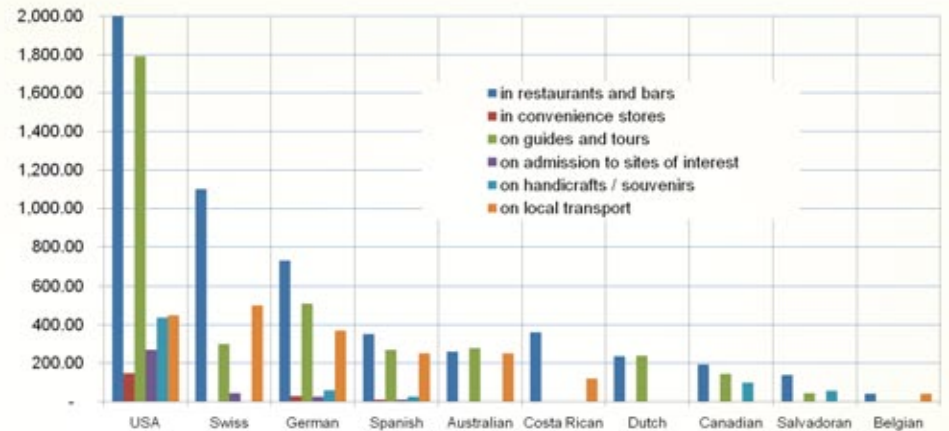
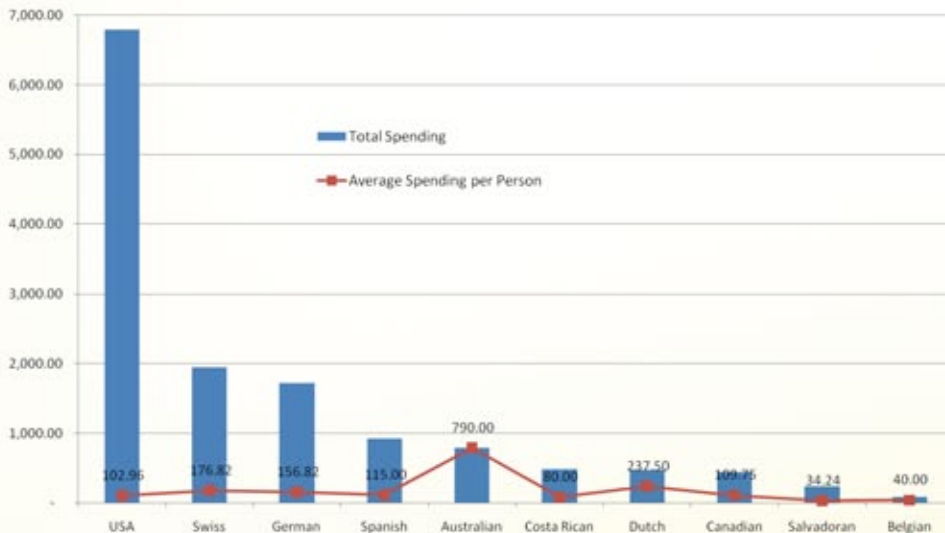


Figure 7. Tourist Spending by Nationality and type of expense.

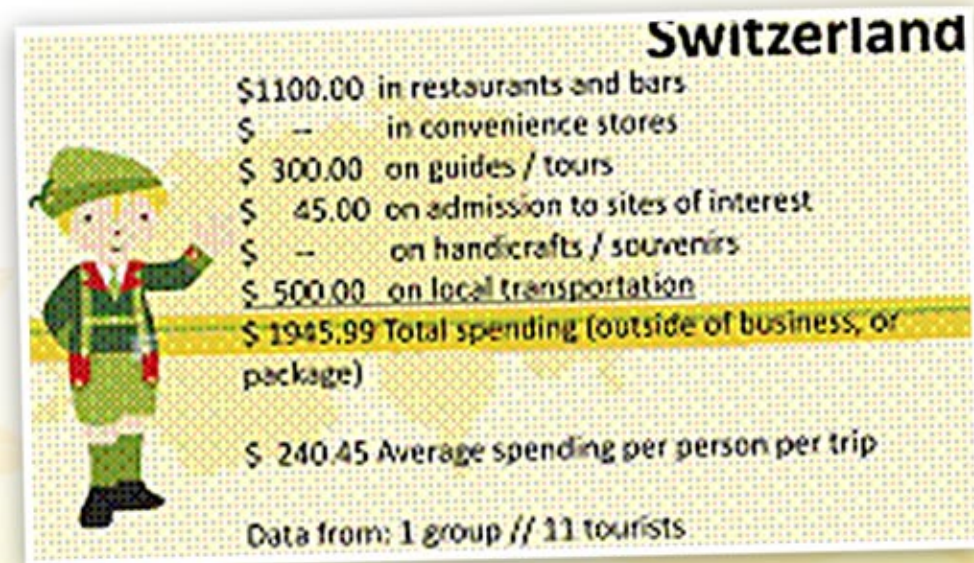
\$176.82 and lastly the Germans with \$156.82. Tourists from Costa Rica, the United States, Canada and Spain registered average spending between \$80 and \$115. The tourists who spent the least were the Salvadorans (\$34) and Belgians (\$40).

The previous charts illustrate total spending by tourists with other service providers and average spending per person per trip according to nationality.

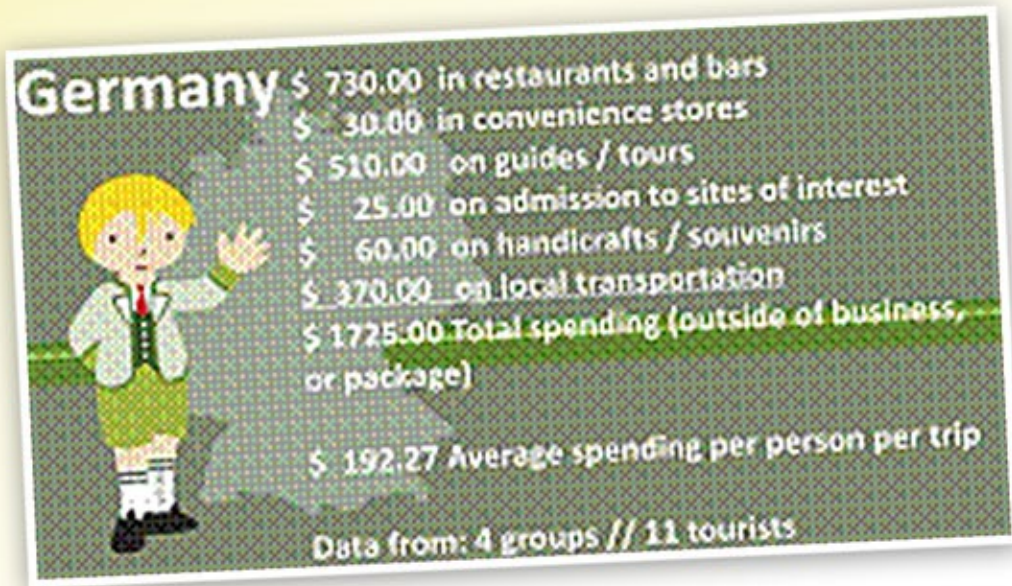
The second chart illustrates several important points:

- All the tourists spent money on meals outside their hotel, or outside of the tour package on which they visited Granada.
- The tourists from the United States and Germany use more guide and tour services (the North Americans spent \$1,791 and the Germans spent \$510 during the study period).
- Handicraft stores were frequented by Americans, who spent \$435, followed by Canadians (\$99), Germans (\$60), Salvadorans (\$55) and Spaniards (\$25).
- One characteristic of the Dutch tourists was that their spending was very reasonable and only on food and the payment of guides.
- In the area of local transportation, the Swiss, American and German tourists spent the most. The Dutch, Canadian and Salvadoran tourists also mentioned having spent money on transportation.
- The Costa Rican and Belgian tourists only spent money on food and local transport.

The following illustrations summarize the spending of the four principal nationalities within and outside of their hotel, or tour package. They also include the number of tourists surveyed and the size of the group:







Extracting and detailing these data permits a visualization of the diffusion of tourist dollars into the city's many commercial sectors and demonstrates the contribution of sustainable tourism to local economic development. For example, all the nationalities hired guides, used local transport, purchased items in local shops and supermarkets and took home handicrafts and other souvenirs from the locality.

Image 4. Summary of Spending Outside the Hotel by the Four Principal Nationalities.

## Conclusions

# Sustainable Tourism, A Motor of Development

One particular datum doesn't precisely reflect reality until placed in context. Being able to observe the economic impact of the tourism businesses in Granada that participate in the Rainforest Alliance's Sustainable Tourism Program within their local and national contexts allows us to better comprehend and quantify their direct and indirect effects.

The analysis of various economic aspects such as job creation, the volume of tourists, purchases from suppliers and spending by tourists in the city's businesses reveals that sustainable tourism and its economic impact constitute an engine of local development, providing direct benefits for the population and local service providers.

The research also allows us to follow the trail of money as it moves from the tourism businesses to circulate through the economy of Granada and the national tourism industry, confirming the wide reach

and impact of businesses that are managed in a sustainable manner.

The creation of jobs and the quality of those jobs is one of the areas that best represent this economic impact. We have seen that the 116 jobs in question constitute 3% of the employment generated by the national tourism industry and that their salary levels are 40% higher than other sectors, such as construction.

Another noteworthy point is the level of gender equity among employees (59% men and 41% women) and their salary distribution (52% earned by men and 48% by women). Another notable characteristic is employee origin, with 96% of the workers from the city of Granada.

This last point means that most of the salaries enter Granada's economic circuit benefiting 111 households and 588 people. The impact of this injection of money includes improvements in the quality of life for workers' families —an induced effect that can only be measured in the long term. Another significant impact was the spending by the five businesses' clients in Granada's other businesses.



The contribution of those visitors during the four-month study period was \$824,570. Nearly half of this money was spent on food, 27% was spend on guides and tours and 15% on local transportation.

Tourist behavior according to nationality is an area rich in information that could be useful in the design of better marketing strategies. We indicated that the data and interviews demonstrate that Australians are the biggest spenders, averaging \$790, whereas Americans, Costa Ricans, Salvadorans and Canadians spent between \$80 and \$115.

Though the amount is much smaller, it should be viewed from another perspective, considering that those nationalities represented 70.33% of the visitors registered.

In the area of suppliers, we uncovered significant contributions and opportunities. During the four months, the sustainable tourism businesses earned \$520,064, whereas they spent \$139,239 on the goods and services needed for their operations.

That spending went to 111 suppliers, which implies an opportunity for businesses in Granada, given that only 34% of those suppliers are local.

Regarding local suppliers, it is worth pointing out that 100% of the vegetables, fruits, cakes and ice cream were purchased from Granada businesses, which were followed in importance by maintenance services and coffee purchases.



Photo: Oro Travel

Sustainable management generates economic results that influence not only the economy of that business but also that of other businesses, entities and inhabitants in the region and country that are linked to that business. It is thus important to try to make sustainability the dominant model of tourism management in Granada and to help the city to become a sustainable destination with global recognition, which will generate wellbeing for the local population while guaranteeing the conservation of this unique site's nature and culture.





# Credits

## Project

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## Case Study:

Analysis of the Economic Impact of Sustainable Tourism Businesses on Local Communities  
– the Case of Granada, Nicaragua.

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