CREATING SUSTAINABLE JOBS IN THE PACIFIC THROUGH SHARING ECONOMY TOURISM

Geneva Challenge 2017

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Executive Summary

Global unemployment is a multi-faceted problem: it has many causes and no clear solution. Productive work is important for people and their communities. It is a prerequisite for success at the individual level (reducing poverty) and macro level (spurring economic development). Unfortunately, recent reports suggest that global unemployment is getting worse.

The risk of protracted unemployment is particularly acute for people who are disconnected from mature labour markets and supply chains. Without access to customers or complementary businesses, many job seekers and small business owners have no opportunities to profit from their skills.

Our proposal focuses on employment in developing countries in the Pacific region (such as the Cook Islands, Kiribati, the Marshall Islands, the Federated States of Micronesia, Nauru, Palau, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu). For this area, a confluence of factors - low density, lack of industry, geographic isolation and struggling local economies - has produced the highest unemployment rate in the world.

The factors that create employment difficulties in the Pacific Islands also give it a comparative advantage in tourism. To capitalise on this opportunity, the World Bank recommends that Pacific nations focus on Chinese tourists, cruise ships, high-end resorts, and retirees. We have no doubt these segments will grow in the coming years, but a growing tourism industry may not translate into jobs for the unemployed.

Growth in “mass market” tourism is likely to be highly concentrated; with benefits accruing to major incumbent providers. This asymmetric growth is further exacerbated by the social and environmental costs of mass market tourism, such as illegal development, pollution, deforestation, and disruption of local cultures.

Recent evidence suggests many of these negative side-effects are less likely in the presence of independent or community-managed tourism ventures. When operators are part of the community, they are more likely to run their business in a way that creates inclusive growth. Unfortunately, the Pacific region is not structurally accommodating to small, independent operators.
NetworkEffect harnesses the opportunity presented by tourism growth to benefit local, underserved, and under-employed Pacific Island communities. Our solution, involving a simple online platform and supporting program of work, will expand and improve employment options by facilitating collaboration between independent tourism operators in the same area to better position them to capture the growing tourist market. Through NetworkEffect, small businesses and freelance service providers can connect with each other, cluster their services, and collaborate to achieve economies of scale.

NetworkEffect program staff will help identify current and potential entrepreneurs in underserved local areas, and connect them to the information, networks, and platforms they need to turn their tourism ideas into thriving sources of employment. This could be as simple as providing training to use e-marketplace apps (such as Airbnb) or providing advice on a potential tourism business idea.

From there, NetworkEffect will focus on proactively guiding the growth of service offering clusters in underserved locations, with the goal of creating an ecosystem of complementary offerings. This would involve mapping current offerings, and helping to fill identified gaps in the tourism chain (for example, a missing transport link between an accommodation site and a rural cooking class). This component of work is about ensuring a sufficiently mature economy - a critical mass - exists in a particular location to attract tourists.

Finally, NetworkEffect will support local operators to overcome scale and cash flow issues by identifying opportunities for providers to collaborate through sharing of capital - whether it be in shared physical spaces, equipment, vehicles, or similar. NetworkEffect will facilitate the design and setup of joint offerings (e.g. bundle deals between multiple providers), pooling resources (e.g. buying a shared industrial refrigerator), and financing (e.g. links to micro-credit).

Solving unemployment in disconnected regions is hard. Providing skills and training for non-existent or declining industries is futile. Direct employment through public works only succeeds so long as philanthropic dollars are flowing. Instead, our solution helps local communities create sustainable employment, in place, by building on a natural advantage the region already enjoys: it is one of the most beautiful and pristine locations in the world, rich with enduring cultural heritage.
The global unemployment challenge

Unemployment hurts individuals and undermines communities

Persistent unemployment has dire consequences; economic, political, and social. The impacts can be intergenerational, and tend to rise with the time spent unemployed. Persistent youth unemployment is especially damaging.

The economic consequences of unemployment manifest at both a personal and societal level. For individuals, unemployment raises the risk of future unemployment, depresses lifetime earnings, and compromises retirement savings\(^1\). Unemployment can also deplete

personal savings through its harmful impact on health\textsuperscript{2}. For society, unemployment represents forgone use of productive resources; communities can never retrieve the lost potential of wasted years. It also reduces tax revenue and fuels demand for social welfare spending\textsuperscript{3, 4}. Significantly, the skills of idle workers tend to atrophy\textsuperscript{5}, leading to the “scarring” effects of unemployment, compounding these negative results\textsuperscript{5}.

Unemployment can also alter a society’s political motivations. The political imperative to address unemployment (through jobs growth) and support job seekers (through social programs) grows as the number of unemployed expands. But this can create pressure and resentment among tax paying workers. These workers can exert political pressure to capture the rents from productivity growth – that is, they can advocate policies that prioritise wage growth over growth in the number of jobs. These shifting political balances will often serve to amplify existing inequalities in power.

Beyond the economic and political ramifications discussed above, social cohesion and individual well-being can deteriorate under conditions of high unemployment\textsuperscript{7}. Unemployment has been shown to increase levels of family conflict and instability\textsuperscript{8}, which may be because the long-term unemployed often rely heavily upon their families for support\textsuperscript{9}. Future generations are affected too; a parent’s unemployment spells are correlated to lower wages for their children\textsuperscript{10}. In many countries, social connections outside the family are also negatively affected, as is psychological and physical well-being\textsuperscript{11}.

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Global unemployment is expected to grow

The outlook is grim. The global unemployment rate is expected to rise over the coming year as employment growth fails to keep pace with labour force growth. In particular, rising numbers of young people will be looking for jobs\textsuperscript{12}.

This is concerning, not least because decent work is a necessary precondition for eradicating poverty. According to the International Labour Organization (ILO), the incomes of the poorest need to rise by a total of US$600 billion to eradicate extreme poverty by 2030\textsuperscript{13}. This is impossible to achieve through aid or income transfers (total aid spending is only just over US$140 billion in 2016)\textsuperscript{14}. The poor need jobs.

Policymakers cannot rely on a rising tide of global growth to lift people out of poverty: slowing growth in global GDP is partly to blame for worsening unemployment. Even if growth continued, it is hardly lifting all boats; the growth that remains is largely jobless (as we discuss below). The current slowdown is driven by a gap in aggregate demand and low productivity growth\textsuperscript{15}. Given many major economies are pursuing austerity policies, we cannot rely on public sector investment to bridge the gap. The prospect of private sector investment (of sufficient magnitude) is similarly remote. Further, household consumption is itself dependent on better labour market outcomes. The global economy is currently stuck in neutral gear.

Policymakers also need to tackle inequities in the labour market. The link between economic growth and jobs is no longer certain. Even a miraculous turn in economic conditions would not guarantee better employment outcomes for everyone. The current system does not work for the poor: the world’s eight wealthiest people own as much wealth as the poorest half the world’s population, and the richest one percent own more than the poorest 99 percent\textsuperscript{16}. Simply kick starting global GDP growth may not help those who need it. While the world is richer than it has ever been, the world’s poorest are being left behind.


The causes of unemployment vary across different economies

Advanced and less developed economies face very different employment challenges. While employment in advanced economies is being threatened by automation and an ageing workforce, less developed countries (LDCs) are struggling to ensure a young and burgeoning population can access stable employment.

Developed economies are focused on technology. But there is little consensus on how technological change, including developments in robotics and machine learning, will impact labour markets in advanced economies. Some foresee the creation of new industries in which uniquely human traits remain economically valuable\textsuperscript{17}. Others are less sanguine, predicting displacement of vast numbers of workers\textsuperscript{18}. Adjacent to this debate on technological disruption, many commentators identify increasing geopolitical volatility as the predominant threat to employment in advanced economies in the coming years\textsuperscript{19}.

In this economic environment, advanced economies are likely to continue to specialise in their comparative advantage in high-skill service industries\textsuperscript{20}, allowing labour-intensive tasks to be automated or outsourced. These countries are poised to capitalise on the gains associated with increasing participation of women, rising life expectancy, and expanding middle classes in export markets. Policymakers should, however, take steps to ensure that growth does not exacerbate income inequality and entrenched unemployment.

Historically, LDCs have relied on the expansion of manufacturing, services and resources sectors to deliver economic opportunity and climb the growth curve; however these well-trodden paths are unlikely to provide unending yields\textsuperscript{21}. Countries that are only just now starting to industrialise may have to find different paths. For example, many formerly low-income economies relied upon textile manufacturing to narrow the gap with wealthier

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This will become more difficult as the network externalities of well-established regional supply chains raise barriers to entry into global textiles markets, and automation reduces demand for labour in these industries. Even with the shift of Chinese workers to higher value-added activities, few LDCs will be able to use textile manufacturing to join the ranks of advanced economies.

An alternative growth pathway is through natural resource exports, however this has not proven to be a successful one for many countries. Resource industries tend to be labour-intensive in their development phase, but require comparatively little labour in their production phase. They also have limited spillover effects into the broader economy. As a result, resource-intensive countries often develop industries centred around consumption, rather than exporting.

Finally, LDCs may pursue a services-led development pathway. Services have contributed more to global employment growth than manufacturing in recent years and LDCs have increased their share of global service exports from a quarter to a third over the past decade. LDC involvement in service industries is likely to continue to grow, as technological advancements make it easier to outsource labour across borders. Many see this as a viable development pathway, enabling less developed countries to “leapfrog” manufacturing-led growth. In fact, members of the World Trade Organisation (WTO) have recognised this by giving preferential treatment to LDCs that export services.

The opportunity to address unemployment in the Pacific Islands

The Pacific needs jobs

At 14.5 percent unemployment, Pacific Island small states have more jobseekers out of work than any other region on Earth, eclipsing sub-Saharan Africa’s rate of 7.4 percent. While this headline figure itself is astonishingly high, it masks even greater underlying issues: more than a quarter of young people are unemployed, and those lucky enough to find employment are often underemployed and insecure, frequently having to work in the informal economy without adequate social protection. This feeds into a vicious cycle of economic and political instability that has proved very difficult to break.

Opportunities to boost employment in Pacific Island countries are limited by many factors. There is a lack of industry; low population; geographical isolation and dispersion; coordination costs; and the need for environmental protection (precluding resource extraction in some regions). These regional characteristics make it difficult for common LDC industries (say, textile manufacturing) to flourish in small Pacific Island states.

Tourism is a massive growth industry

These same factors listed above, however, give Pacific Island states a comparative advantage in tourism. Tourism is a big and growing sector in Pacific Island small states. In 2016, tourism generated over 12 million jobs in the Pacific, over 12 percent of the region’s total employment.

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The United Nations has designated 2017 as the International Year of Sustainable Tourism for Development, and the opportunity for tourism in the Pacific is enormous. Pacific Island tourism is projected to grow significantly over the coming decades, generating an additional 3 million jobs. This will accompany a growth in economic contributions from $227 billion in 2016 to $323 billion by 2027, representing 13.6 percent of GDP.\(^1\)

However, these robust projections are not guaranteed to materialise for all Pacific Islanders - particularly those from micro-nations. The Pacific Islands lag behind similar archipelagoes, such as the Indian Ocean Islands, in terms of both revenue and visitor numbers. Moreover, there is a wide disparity in tourism industry size and performance amongst Pacific Island countries. Fiji, Vanuatu and Samoa collectively represent 82 percent of the small state industry (see Figure 1)\(^1\). Even when controlling for variation in GDP, the economic contribution of tourism varies. This means there is significant scope for smaller players to exploit the gains from tourism, but to achieve these growth projections, the Pacific needs a concerted and inclusive strategy\(^2\). Figure 2 illustrates the potential employment growth in the tourism sector of select Pacific Island small states - showing the potential for significant gains.

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\(^2\) Ibid.

Figure 1. Share of 2013 tourism receipts across Pacific Island small states

Figure 2. Projected growth in total employment from tourism (direct and indirect) across Fiji, PNG, Vanuatu, Solomon Islands, Tonga, and Kiribati
The World Bank suggests Pacific Islands should target four key markets: Chinese tourists; cruise ships; high-end resorts; and retirees.\textsuperscript{43} Notably, the Caribbean employs a number of these strategies. The Seychelles and the Maldives have similarly transformed their tourism industries by luring Chinese consumers through marketing, direct flights, and an improved product offer.\textsuperscript{44,45}.

Consistent with these broad objectives, Pacific Island countries are pursuing a four-part strategy:\textsuperscript{46}

1. **Improving connectivity** with growing and established markets by offering direct connections (rather than stopovers).

2. **Diversifying tourist sources** by attracting a greater volume of tourists to overcome dependence on tourists from Australia and New Zealand.

3. **Attracting investment** in tourism operations by upskilling the labour force, increasing the capacity of the public sector and the strength of public institutions, and enhancing regional destination marketing.

4. **Improving the efficiency** of the tourism sector by: improving links between tourism and the local economy (such as food supplies); pooling private sector resources (like cold storage and warehousing); and establishing regional training facilities.

Although there is much to be optimistic about, challenges remain. First, there are barriers to stimulating growth in Pacific Island tourism. These include, for example: difficulties in accessing some Pacific Island destinations; declining competitiveness with ageing facilities; limited demand from long-haul markets; constrained marketing budgets; and insufficient data for effective decision-making.\textsuperscript{47} Second, there is a risk that expanding the tourism industry will not boost employment.\textsuperscript{48}

\textsuperscript{43} World Bank Group. (2016). *Pacific Possible: Tourism*.


\textsuperscript{46} World Bank Group. (2016). *Pacific Possible: Tourism*.


The need for inclusive growth

There is no guarantee that the growth projected in Pacific Island tourism will be inclusive. For instance, tourism in Tuvalu generates less than 1 percent of total employment, and in Papua New Guinea it is just 0.8 percent\(^{49}\). Employment aside, even the earnings may go offshore to international headquarters of major firms. The UN Trade and Development Commission estimates that developing countries only capture approximately 50 per cent of tourism earnings, and suggests that this could be raised by strengthening local linkages and capacity along the tourism supply chain\(^{50}\). In a similar vein, the World Tourism Organisation advocates seven approaches for poverty reduction through tourism\(^{51}\):

1. employment of the poor in tourism enterprises;
2. supply of goods and services by the poor;
3. informal selling to tourists by the poor;
4. developing micro, small or community-based tourism enterprises;
5. taxes or charges on tourism with proceeds benefiting the poor;
6. voluntary giving by tourists that benefits the poor; and
7. collateral benefits to the poor from tourism investment and activity.

In the Pacific Islands, there is a risk that the benefits of growing the tourist industry will accrue only to existing operators. Tourism relies on strong, interconnected networks. It is difficult for new and independent operators to innovate in isolation, given the relative power of existing operators, poor economies of scale and barriers to collective action.

Major incumbents in the tourism industry have a significant advantage\(^{52}\). This is partly a function of resources - multinational firms can cross-subsidize their businesses and inject


significant capital upfront - but it also relates to synergy, scale, and innovation\textsuperscript{53, 54}. A large firm, because of its scale, brings a lot of value to external partnerships: the larger the business, the greater the prospect for synergy with other operators. Larger firms can link with adjacent businesses (such as cruise ships) or complementary experiences (such as a nearby attraction) to offer packages, mutual discounts to customers, and to collaborate on marketing. These links create ecosystems or networks of operators - a vital requirement to a thriving tourism industry\textsuperscript{55}. Very few tourism products can survive in isolation; the success of a tourism operator depends in part on its size and the quality of its network\textsuperscript{56}. Indeed, research has shown that not just the success of a tourism business, but also its very ability to innovate and develop is a function of its network\textsuperscript{57}.

This raises a problem for independent or community operators. First, they depend on the existence of local complementary products. Without being big enough to provide a holistic tourism product through horizontal integration, smaller operators rely on others to survive. A local room share provider will not have many guests if there is nothing to do; an independent snorkel operator will have no customers if there is no accommodation nearby. Second, even if these complementary tourism products exist, independent operators face something of a collective action problem. Networks are not costless: they take time and effort to establish and maintain. We return to this later.

**Managing the environmental impact of the tourism industry**

The environmental ramifications of growing the Pacific Island tourism industry must be taken into account. Policymakers should aspire to create sustainable growth; that is, growth which does not destroy or deplete the underlying asset. There is a risk that commodifying cultural traditions (experience tourism) can erode their cultural significance\textsuperscript{58}. Further, there is a risk that more visitors and the associated tourism infrastructure can destroy environments or otherwise impose harm on local


communities. Costa Rica provides an example of how economic development through traditional tourism can have significant negative effects (see Box 1). The Costa Rican environment has many parallels with the nations we focus on, however the Pacific Islands have the added environmental vulnerability of being isolated ecosystems.

**Box 1 – Social and environmental impact of tourism in Costa Rica**

The transition from high-yield, low-volume tourism to mass-market tourism (resorts, cruise ship docks, and residential villages) in Costa Rica brought many negative impacts.

Costa Rica is a Central American country with most of its activity in coastal areas. It is a popular beach resort destination for tourists from the United States, and can be accessed easily by airplane or cruise ship.

Rapid expansion around the 1990s and 2000s lead to unsustainable and illegal developments, water pollution, deforestation, and the exclusion of other users of natural resources (such as local fishermen). Proliferation of “sun-and-sand” tourist resorts - often lead by property developers - has led to tourism experiences occurring inside economic bubbles.

When cruise ships dock, passengers are often whisked off on busses run by major tour operators, who collaborate with the cruise liners. Very little economic benefit accrues to local communities and workers.

Some commentators argue that focusing on environmental vulnerability disadvantages small island states by generating a narrative of helplessness. Instead, they argue, we should not place regulatory or moral limitations on what small states should do in pursuit of development. In our view, effective policy should strive to balance environmental and economic concerns. The environmental impacts of some forms of tourism are impossible

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61 Ibid.

to ignore. Whether it is the dredging of mangroves for a golf course, clearing shore vegetation to make space for resorts, or the poor management of large volumes of waste.

By and large, these negative impacts are associated with traditional tourism operations. There is evidence that some forms of industry are more likely to be sustainable than others. The governance of an enterprise, in particular, seems to have a significant effect on its sustainability and broader impact. Locally managed operations, such as independent or community-run tourism providers, are correlated with lower negative externalities. When the owners have a clear stake in the pre-existing community, they are less likely to design services that exploit and deplete the natural capital⁶³.

Managing the impact of tourism on culture

The Pacific Islands have long had an ambivalent experience of the historical spread of global capitalism. Beginning in the late 18ᵗʰ century, Britain, France and Germany colonised many Islands, and later, the Pacific became an arena of geopolitical struggle between the United States and Japan. Over several centuries, foreign powers were responsible for

slavery, nuclear testing, and localised conflicts among many Pacific peoples. New development strategies that focus on further integrating the Pacific into the global economy must be attentive to this historical context.

Our proposal, which would help Pacific peoples to participate in the global tourism market, is deeply informed by this context. In considering how this complicated history should shape our proposal, we considered two countervailing approaches to the relationship between Pacific and global cultures.

The first can be traced to Levi-Strauss' notion of the “tristes tropiques". This line of thought posits that Pacific peoples have been irreparably damaged by colonialism and must be protected from contact with the outside world to prevent further loss. Whilst emphasising the destructive history of colonialism, this position has been critiqued for its cultural determinism. It removes agency from Pacific peoples and reduces them to their suffering and victimhood. By accepting this condition of impairment, the tristes tropiques approach compounds the violence it purports to condemn.

The second approach, which emphasises the cultural agency of Pacific peoples, is advocated by Marshall Sahlins. Sahlins called the “tristes tropiques“ approach a “facile historiography” that reifies the role of white colonists in Pacific history at the expense of the creativity and continuity of Pacific traditions. Sahlins argued that cultural change is not synonymous with cultural destruction, asserting that “the very ways societies change have their own authenticity, so that global modernity is reproduced as local diversity.

The contrast between Levi-Strauss and Sahlins illustrates a core tension - between an impulse to preserve the cultural integrity of Pacific peoples, and a countervailing impulse not to lock them in historically-conceived constructions of cultural loss. Our model, which attempts to simultaneously economically empower communities who risk being left behind while preserve their cultural autonomy, carefully avoids the excesses of both tropes.

By acknowledging communities' agency to chart their own development, we resist both the specter of unconstrained capitalism indifferent to local traditions, and the equally pernicious tendency to exploit “exoticised” peoples. Our proposal exists inside what Anna Tsing describes as the "zone of awkward engagement" between local and global dynamics that exist not in simple binaries, but in relationships of friction.

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66 Ibid., p. 2.
Our proposal to use the sharing economy model to drive sustainable employment growth through tourism

In the previous sections, we established that:

- Pacific Island small states face significant employment challenges
- The same region has a comparative advantage in tourism
- Growth will not automatically be inclusive and sustainable

In this section, we apply economic, social, anthropological, and business concepts to show how the sharing economy and social network technologies can contribute to inclusive and sustainable growth in the Pacific tourism industry.

The sharing economy can even the playing field for independent tourism operators

The rise of the ‘sharing economy’ has been called one of the most disruptive economic trends of the last decade\(^\text{68}\). The sharing economy refers to new industries that harness peer-to-peer platforms to help strangers do business; not necessarily “sharing” per se.

While assets and services have always been shared between private individuals for free or fee, what makes this macro trend different is the use of technology to reduce the transaction costs of renting out assets and services to other private individuals, thereby dramatically lowering barriers to market access. These platforms provide security, reduce search costs, and exploit economies of scale. The Brookings Institution estimates a growth trajectory taking the global industry from US$14 billion in 2014 to US$335 billion by 2025.

Exponential growth in the sharing economy is causing major structural change in the global tourism industry in particular, as traditional hotel chains and transport monopolies give way to platforms such as Airbnb and Uber that connect consumers directly with individual vendors. These changes bring unprecedented opportunities for rethinking how the tourism industry works, particularly in developing economies. However, they also present challenges that could work against inclusive growth if not addressed early.

The sharing economy brings many potential benefits for small, local operators. By expanding the supply of tourism products, and making it simpler and often cheaper for travellers to stay in local communities, the sharing economy has the potential to grow the tourism market. This effect may be particularly acute in the Pacific Islands, where the price differential between local operators and multinational tourism providers is larger.

An inclusive and accessible sharing economy also helps to support micro-entrepreneurship by allowing small providers to “outsource” corporate overhead costs that may otherwise have been prohibitive. For example, the cost of establishing and maintaining marketing and payment platforms can discourage individuals from launching new tourism offerings. The rise of peer-to-peer sharing economy platforms allow operators to focus solely on their service.

A well-regulated sharing economy also overcomes another major barrier facing small tourism enterprises and single operators: trust. Platforms that include ratings and review systems enable travellers to pre-vet operators, thereby increasing their likelihood of directing business to smaller providers rather than exclusively using larger chains.

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Risks must be carefully managed

The sharing economy also has the potential to hurt smaller operators. One of the biggest risks is that due to its online, organic nature, the sharing economy benefits those who are already highly skilled and connected.

Clear, concise communication (in a language spoken by international visitors), as well as a strong understanding of marketing and management, enable some operators to drastically outperform others. Similarly, operators working through sharing economy platforms need a modest amount of capital and management resources. A tourism product cannot exist without basic maintenance and infrastructure – for example, providing amenities and cleaning as part of accommodation. Both of these issues exacerbate the risk of low overall returns for small and independent operators. It simply is not viable for many potential providers without some initial assistance.

Further, the growth of sharing economy alternatives has the potential to put some mainstream operators, such as low-end hotels and taxi drivers, out of business. To avoid this cannibalisation effect, policymakers should aspire to boost sharing economy activity in areas not yet at market saturation. In this way, sharing economy concepts and tools can be used to expand the overall market, rather than shifting profit from one group to another.

Sharing economy platforms can break down many of the barriers to providing an independent tourism service. But significant difficulties still remain in ensuring those most in need of economic development will see benefits. It is far from guaranteed that the sharing economy will bring jobs to people in remote Pacific Islands, if left unguided.

Our solution: NetworkEffect

Introducing NetworkEffect

The NetworkEffect program aims to harness the global expansion of the sharing economy to drive inclusive and sustainable employment growth across the Pacific Islands. It facilitates collaboration between small and independent tourism operators located near

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each other. The ambition is to overcome the barriers that prevent these operators from realising the benefits of growth in the tourism industry. By helping them connect, cluster, and collaborate, NetworkEffect can bring the skills, scale and strategy that independent providers need to succeed and create jobs. Our solution has two components: a platform and a program of work.

The first component of NetworkEffect is a basic online platform that can be accessed through a smart phone or other device. Modelled on a radically simplified social media profile, NetworkEffect identifies clusters of existing or aspiring tourism entrepreneurs. The platform will also trawl established sites (such as Airbnb) to locate other operators in the region.

The users of the NetworkEffect platform – independent operators – may have insufficient scale to attract tourists; however, the platform allows them to partner with others to establish a viable operation. Users can view what their neighbours offer, and identify opportunities for collaboration. Potential offerings may include tourism services (for example, accommodation, tours, experiences, transport or dining) or infrastructure (for example, storage or refrigeration). Figure 3 shows the NetworkEffect interface - designed to remain as simple and accessible as possible, with the objective of locating and connecting operators to kick start collaboration offline.

Figure 3. Stylised interface for the NetworkEffect online platform
The second component of NetworkEffect is a staffed program built on three key pillars of work. First, identifying current and potential local entrepreneurs, and cultivating the skills they need to succeed on sharing economy platforms (Connect). Second, linking local operators together to facilitate the growth of tourism ‘clusters’ in targeted communities that do not currently have critical mass to attract tourists (Cluster). Third, identifying opportunities for shared capital investments among operators, to increase utilisation of resources and unlock business potential (Collaborate).

**Connect**

One of the biggest barriers to the sharing economy supporting inclusive growth is access. Those who tend to benefit most from sharing economy platforms are technology-literate and often live in metropolitan areas. By contrast, many existing and aspiring small and medium-sized tourism operators in the Pacific Islands have neither of these characteristics, and so run the risk of being left behind.

NetworkEffect Connect aims to identify and support individual entrepreneurs in underserved areas of the Pacific Islands – whether current or aspiring – to help them build the skills needed to operate successfully within the sharing economy.

Program staff would travel to meet with locals in targeted regions, presenting the NetworkEffect platform and concept and working with them on deploying it in ways that are personally useful. As well as supporting profile creation for current and aspiring tourism operators, program staff would also hold workshops and support individuals to capitalise on mainstream sharing economy platforms such as Airbnb, BedandBreakfast, and TripAdvisor.

**Cluster**

Tourism growth occurs when a critical mass of infrastructure, attractions and services coalesces in a particular place. Therefore, the next phase of NetworkEffect focuses on deliberately and proactively guiding the growth of service offering clusters in underserved locations.

NetworkEffect Cluster will use data from both the NetworkEffect mobile platform and the initial groundwork of Connect to identify promising locations. Program staff would once again be working closely with local communities, actively building an ecosystem in target areas. These clusters will be cultivated to ensure they cover all major service offerings by encouraging connections between operators through the online platform and recruiting new operators to fill service gaps. For example, if a target community already has a number of accommodation providers and local experience guides, but is hampered by a lack of transport options between the
community and the closest larger hub, NetworkEffect *Cluster* would focus on working with local operators to establish a new transportation service or to find an external partner.

**Collaborate**

While many people aspire to start and expand tourism-related enterprises, capital and maintenance costs can stand in their way. These are problems of scale and cash flow. To succeed, NetworkEffect must help operators overcome these problems by encouraging greater sharing of capital, whether it be in shared physical spaces, equipment, vehicles, or similar.

NetworkEffect *Collaborate* builds on the work of guiding ecosystem growth that is the focus of the Cluster pillar by tackling barriers to accessing much-needed durable assets and resources. This could be by facilitating sharing arrangements between different operators with overlapping needs (for example, food vendors sharing cold storage facilities) or by connecting operators with other sources of finance (such as lenders, microfinance institutions, or philanthropic organizations).

As with other sharing economy platforms, rating and review systems on the main NetworkEffect platform will support such an aim by enabling individuals to overcome trust barriers before working together.

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**Box 2 - NetworkEffect Connects, Clusters and Collaborates to drive sustainable employment growth in Niutoua, Tonga**

In 2013, the remote island Kingdom of Tonga launched its first high-speed internet service – an incredible development made possible by running fiber optic cables from Fiji, with the support of the World Bank, Asian Development Bank, and the Tonga Cable Corporation. With broadband connection now a reality, access to sharing economy platforms is possible, but not widely used. In fact, a brief look at Airbnb postings, for example, show low overall coverage, with most listings concentrated in the capital of Nuku'alofa and run by Westerners.

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NetworkEffect Connect would work with existing and aspiring local tourism operators in Niutoua, on the Eastern tip of Tonga’s largest island of Tongatapu to build both the awareness and skills needed to connect directly with potential customers. For example, underutilised spaces in homes could be rented as accommodation, and services needing local guides (like guided tours to the Mapu’a ‘a Vaea blowholes and Anahulu cave) could be created and marketed through a platform such as Airbnb Experiences.

NetworkEffect Cluster would take a community-wide view of Niutoua, analysing the current spread and diversity of their tourism service offerings, identifying any critical gaps that may be hindering the ecosystem from growing, and working to fill those gaps. For example, Niutoua may have a great range of experiences on offer, but be held back by a lack of viable accommodation options that discourages visitors from staying in the community for longer than a day. Program staff could then run an educational or training program to help interested locals establish a room-share style accommodation offering.

NetworkEffect Collaborate would focus on barriers to capital in Niutoua that may be standing in the way of new local operations starting up or growing. For example, local tour guides may benefit from being able to share central resources such as office space, backend office tools, and payroll management. Similarly, a community member with the potential space to get an accommodation service going might benefit from linking up with an organization that could provide a micro-loan or small grant.
Key benefits of this approach

Rather than attempting to artificially create industry growth, our approach harnesses the momentum building in an already growing field to ensure the benefits of that growth are shared more broadly. Our approach would help underemployed people in the Pacific islands gain employment through launching or scaling micro tourism ventures, by:

1. Offering advice and training to aspiring tourism providers, including with respect to the use of sharing economy platforms and other technologies;
2. Helping providers (who could not individually attract tourists to remote areas) band together to build a viable tourism offering;
3. Reducing the transaction costs associated with offering tourism services;
4. Allowing small providers to lower costs by outsourcing administrative activities or sharing infrastructure; and
5. Helping newly established tourism providers win the trust of potential consumers.

In turn, these outputs would promote inclusive and sustainable growth in the Pacific.

Regulatory risks

Like many sharing economy initiatives, NetworkEffect would challenge existing regulatory frameworks. It would be difficult to regulate relationships between the various parties – tourism operators (new and established), consumers, platforms, local communities, and the relevant state – without discouraging new entrants. Those who stand to benefit the most from establishing micro-tourism businesses might be least equipped to comply with rigorous regulatory regimes.

There is also a risk that the value of NetworkEffect will be harvested by established players. According to one commentator, “the sharing economy seems poised to do a great deal of taking – extracting more and more value from participants while continuing to enjoy the veneer of disruptive, socially-minded enterprise”\(^{77}\). Incumbent operators may even try to influence the regulatory regime to quash or extract rents from new providers. The potential for this type of regulatory capture will depend on the economic contribution and political associations of established firms. (By contrast, tourism consumers and aspiring micro-operators are not well placed to influence regulation.)

Consumers chiefly need to be protected from fraud (misrepresentation of tourism offerings), privacy violations (misuse of personal data, including financial data), and threats to personal safety (for example, unsafe food preparation or transport). Operators, on the other hand, are subject to two key risks. First, much like consumers, they have limited

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information about their counterparty and may therefore be vulnerable to fraud. Second, the work performed by many local and independent operators may not be covered under relevant employment law. (This may include, for example, the imposition of work health and safety obligations on the employer.)

Risks to consumers and operators pose a threat to the long-term viability of the scheme. However we do not wish to over-react and stifle initiatives that could generate employment and tourism opportunities. Indeed, many risks can be mitigated through platform design.

User reviews (feedback) can help protect both consumers and operators by “spreading true information about bad behaviour”78. For example, the capacity for consumers to publicly report the level of service they receive provides a reputational incentive for operators to offer a safe and high-quality service.

Technology also protects consumers in other ways. For example, consumers can track transportation and geo-locate services on a mobile device, and technology (such as PayPal) can safely facilitate third party transactions to improve data and financial security.

If scaled, NetworkEffect could also incorporate a third-party dispute resolution mechanism (for example, a low-cost mediation service.) This would assist operators (who lack resources) and consumers (who face logistical barriers) to settle outstanding claims without unduly disrupting the operator’s enterprise.

A compulsory insurance scheme could also be considered, wherein a portion of NetworkEffect revenue was set aside to purchase basic liability insurance on behalf of tourism operators.

**Evaluating impact**

All too often, promising and well-intentioned development interventions are implemented without giving due attention to impact evaluation. Given the paucity of development funds, it is critical that we know what does and does not work so we can reallocate resources accordingly. Projects like PlayPump are stark reminders of this necessity; despite winning the World Bank Development Marketplace Award in 2000 and attracting significant funding from high-profile donors, it was an ineffective innovation79. An upfront impact evaluation could have saved millions for more effective solutions.

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NetworkEffect would be rolled out alongside a study of its effectiveness. We would need to know what works, so we could retain those elements, and what does not, so we could make necessary improvements. While we are sanguine about the program’s prospects, if expectations are not met we should be prepared and able to be transparent about that.

We would conduct a mixed methods impact analysis, given the program’s success depends on a wide range of factors, some of which are not easily quantifiable. We would engage with an independent research group to design and conduct the study, to ensure the results are trusted by third parties. Obvious potential partners include J-PAL and IPA, however we would be likely to pursue the lower-cost approach of engaging with university research groups. The following gives a high-level outline of our intended study, which would be subject to the advice of whichever research partner we took on:

**Quantitative study**

Outcome measure: While our preferred outcome measures are employment, income and number of visitors, data in our target regions are poor and are unlikely to establish a reliable baseline for these measures. Financial constraints may also preclude the collection of this information. As a result, we propose to evaluate the program’s success by the level of activity, and diversity of active users on our own and our partner sharing economy platforms (e.g. NetworkEffect profiles used, nights stayed on AirBnb, reviews of activities on TripAdvisor).

Method: Our preferred method would be a randomised controlled trial, however spillover effects between clusters (villages), limited comparable study sites, and financial constraints may prohibit such an approach. As a result, it may be necessary to use a less rigorous experimental approach, such as difference-in-differences.

**Qualitative study**

The benefits and risks of our program would not be captured by quantifiable measures alone; It is necessary to test frictions in the implementation process, cultural sensitivity, and a wider range of outcome measures, such as empowerment, aspirations and attitudes about future prospects. The study would involve surveying a range of stakeholders, including participants, clients, staff, and wider community.

**Pilot region**

We plan to conduct the study in a country that is reasonably representative of other Pacific Island countries, in terms of factors such as size, tourism, income, and infrastructure. It must also have a sufficient number of study sites to satisfy research design specifications, and be amenable to research activity. We have identified Tonga as a suitable pilot region according to these criteria.
Scaling NetworkEffect

The beauty of the NetworkEffect concept is that it has wide applicability across different regions. Both tourism and the sharing economy are growing across every continent, and many other developing countries are grappling with similar problems to the Pacific Islands. It is by no means a unique problem, to attempt to grow tourism in an inclusive and sustainable way, so that it can drive employment growth.

For example, Peru and Rwanda have each experienced rapid tourism growth over the past 5-15 years. Government prioritisation of tourism in Peru led to 50 percent growth in direct GDP contribution from 2006-2012\(^{80}\), while Rwanda implemented a multi-pronged strategy that saw tourism boom from 2005 onwards\(^{81}\). Both countries provide very different case studies to the Pacific Islands, however, all three face similar trends in the disparity between urban and regional wealth, and the danger of multinational providers taking a large portion of the rents from tourism growth if not managed in the right way. If the NetworkEffect model could be proven in the Pacific, versions of it could scale to new geographies.

The concept of a platform and program designed to guide inclusive growth of the sharing economy might also have applicability to established urban areas. Here, the program could target underrepresented groups within urban areas, enabling them to better access and leverage sharing economy tools to build their own businesses. For example, a city like Sofia, the capital of Bulgaria, faces inequality but currently much of the sharing economy tourist trade occurs in wealthier areas, owned and operated by those already ‘in the know’. A program that connects, clusters, and supports collaboration within underserved communities in Sofia could have a positive impact on both employment and inequality.


The team

Our team represents a broad range of academic disciplines. We are all undertaking graduate studies in public policy at the University of Oxford.

Andrew Wheeler
Andrew’s academic background is in development economics – he holds a M.Sc. in Economics for Development from the University of Oxford, focusing on intergenerational equity in the Asia-Pacific, and a Bachelor of Commerce (Honours) from the University of Melbourne. Prior to graduate study, he worked in business strategy, and has independently advised Save the Children and ChildFund on a range of development policy issues in the Pacific.

Eleanor Brown
Eleanor’s academic background is in politics and gender studies – she holds a Bachelor of International Politics (Honours) from the University of Melbourne. Prior to graduate study, she worked in business strategy, advised several gender equality NFPs, and assisted Australia’s representative to the United Nations Third Committee of the General Assembly on human rights, primarily relating to gender.

Hamish McKenzie
Hamish’s academic background is in anthropology and environmental studies – he holds a Master of Environmental Change Management from the University of Oxford, and a Bachelor of Anthropology (Honours) from the University of Melbourne. Prior to graduate study, he worked both as a climate change reporter, and in consulting, advising primarily on cultural and creative industries.

Joanne Rossiter
Joanne’s academic background is in law and business – she holds a Bachelor of Laws (Honours) and a Bachelor of Commerce from the Australian National University. Prior to graduate study, she worked for the Australian Government on a range of legal, social and economic policy issues, including education and employment.

Toby Phillips
Toby’s academic background is in chemistry and biology – he holds a Bachelors of Science (Honours) from Flinders University. Prior to graduate study, he worked in social and welfare policy for the Australian Government, including in remote Indigenous service delivery. He also volunteers in NFP management, having held board-level and international advisory roles.
Bibliography

The global unemployment challenge


The opportunity to address unemployment in the Pacific Islands


Our proposal to use the sharing economy model to drive sustainable employment growth through tourism


Our solution: NetworkEffect


