



**TOURISM:
MORE VALUE**

FOR ZANZIBAR

VALUE CHAIN ANALYSIS

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SUMMARY REPORT

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Abstract

SNV, ZATI and VSO, with support from the Norwegian Embassy have conducted the Tourism Value Chain Analysis in Zanzibar, mapping the financial flows within the industry, and the values accruing to 'the poor'.

With more than 100 interviews and over 300 tourist exit surveys, followed by a thorough analysis, the study concluded with suggestions for interventions to increase the participation of 'the poor' in the industry. These interventions were prioritized by participants in the stakeholder workshop, in terms of the expected size of impact and ease of implementation.

With the support of international Development Organizations a number of local organizations, private sector associations and the Zanzibari government will commit in the upcoming months and beyond to concrete action for implementing interventions. These will enhance the benefits for Zanzibaris within the tourism sector and its supply chains and envisage the establishment of a Destination Management Organisation.

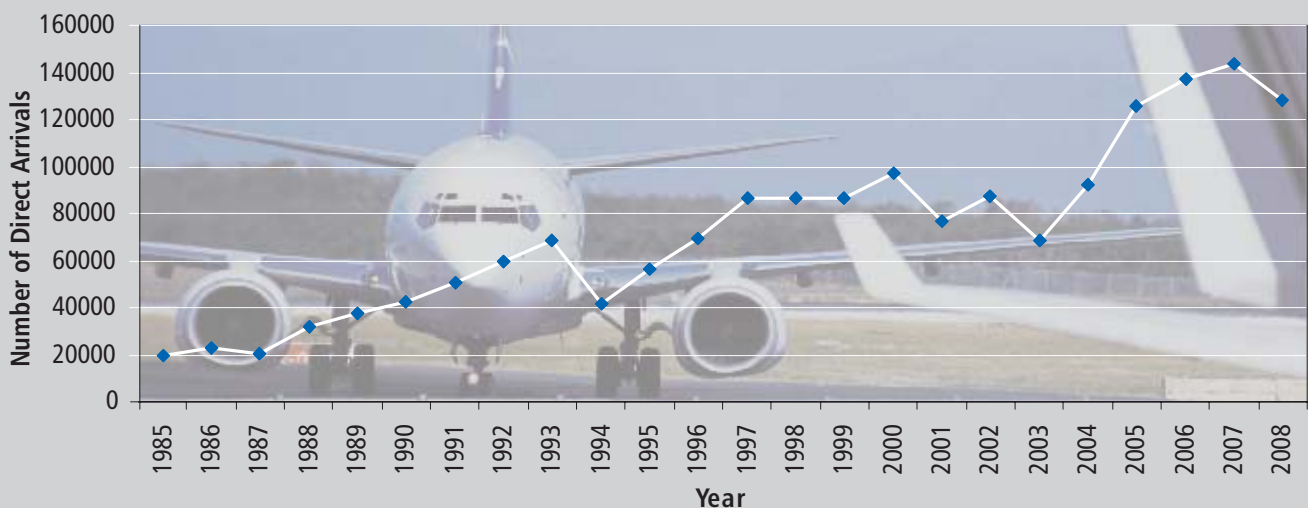
Zanzibar as a Tourist Destination

Tourism in Zanzibar continues to be a major contributor to National GDP with indications that this contribution will continue to increase as the industry grows still. This research investigates the proportion of revenue accruing to the poor from the industry and how this is distributed within the various tourism sectors.

The service sector to which tourism is thought to contribute greatly saw its share of GDP increased to 51 % in 2007 exceeding 43.5 percent recorded in 2006. The next largest sectors are agriculture at 27.3 percent, and industry at 15.4 percent (Zanzibar Economic Bulletin, March 2009).

The international arrival figures provided by the Commission for Tourism are thought to only show part of the picture with arrivals from Tanzania mainland not featuring. There was strong growth in arrivals in 2004 and 2005 after global tourism recovered from the events of 9/11 in 2001 and the Gulf War in 2003. However, growth was more modest in 2006 and 2007, with a drop in the last months of 2008 when the financial crisis started to take effect.

Number of Tourist Arrivals in Zanzibar





Challenges for the Zanzibar Tourism industry

- **Infrastructure:** This includes access; the limited number of airlines servicing Zanzibar, and internal services such as transport and utilities (water and electricity).
- **Degeneration of Stone Town:** Unique buildings of cultural values re-main without proper maintenance, and the increasing use of drugs among the youths in Stone Town and beaches which has become a security threat to tourists.
- **Banking and Financial Services:** There are still limited international banking facilities to cater for the growing tourism activities, including insurance services and a financial assistance programme for both domestic and foreign investors.
- **Extreme seasonality pattern** of tourist arrivals in Zanzibar. The low season is centred on the month of May (the rainy season), with tourist arrivals peaking in August and around December/January (European summer and Christmas holidays).
- **Over-reliance on a small number of originating markets:** with approximately 70% of tourist arrivals from Europe and 43% from Italy alone, there is a risk of that should these key markets be affected by external events, such as an economic downturn or political events, a high majority of arrivals will be lost. Risk should be spread to avoid such a scenario.



Challenges for Sustainable Pro Poor Tourism in Zanzibar

- **Business environment does not favour small industry.** SMEs and small restaurants operating independent of hotels are not able to achieve economies of scale due to high, complex tax structures and the formalisation of informal sectors not viable. This causes a significant barrier to entry for ‘the poor’ with the informal sector in particular not able to formalise.
- **Zanzibaris have very limited access to employment in the tourism sector due to limited training facilities.** The existing institutions do not meet the demand of trainees. The Zanzibar Institute for Tourism and Development (ZITOD) currently offers basic training in tourism skills which does not meet the sector’s requirements. The Jambiani Tourism Institute offers high quality training but on a small scale. The additional issue of low school attendance and low levels of basic skills such as English language and Mathematics is also a concern for the ‘trainability’ of students from Zanzibar. The industry will inevitably give preference to potential employees with these basic skills.
- **Limited accommodation supply by Zanzibaris:** Most high quality accommodation units are owned and managed by foreigners.
- **Inability of suppliers of Local Goods to meet the quality required for the general operation of tourism sector businesses:** This largely refers to food and beverages, but also includes handicrafts, clothes and soft furnishings. Most products come from the mainland or are imported from India, Kenya, and South Africa among others.



Aim and Rationale of the Study

The aim of this study is to **monitor financial flows through the tourism industry within Zanzibar to enable mapping of where those Zanzibaris on low (or subsistence) incomes do and do not participate**. This study does not monitor the longterm benefits of tourism such as trickle down from non-poor households who participate in tourism, nor does it tackle the more complex issues of negative effects of tourism on the environment , 'the poor' and 'marginalized' or tax revenue spending. Such effects are measured elsewhere.

It is through an under-standing and analysis of where the financial revenues from tourism currently go and who currently does and who does not benefit that interventions can be suggested for increasing the participation of the poor. Per sector **Pro Poor Income (PPI)** is defined as a percentage of the overall revenues accrued to each sector.

Sustainable Pro-poor Tourism (SPPT)

Tourism that results in increased net benefits for poor people. It is stressed that this is not a niche of tourism but that any form of tourism can be made to be pro-poor. "The critical factor is not the type of company or the type of tourism, but that an increase in the net benefits that go to poor people can be demonstrated." Demonstrating an increase through actual measurement of the benefits of tourism to the poor has long been debated and the many differing measurements of the dynamic and complex linkages have made quantifying such effects open to interpretation and contextual debate. Mitchell and Ashley (2009) state four broad types of linkages:

- Long term dynamic effects – infrastructure or institutions arising as a result of tourism activity,
- Direct effects – profit for SMEs operated by poor, salaries for the poor etc.,
- Induced effects – trickle down from non-poor households, income from the tourism economy being spent within the non-tourism economy, some of which may accrue to 'the poor'.
- Indirect effects – through non-tourist sectors, income to the economy from tourism outside of direct employment, products and services supplied to the tourism sector.

Tourism, Growth and Poverty Alleviation

The Revolutionary Government of Zanzibar (RGZ) is currently undertaking a review of the Zanzibar Strategy for Growth and Poverty Reduction (MKUZA) with a view to establishing an updated strategy (2010). Tourism is a vital source for economic growth and potential for poverty reduction in Zanzibar. This study (the full report) will therefore provide crucial input into the review process and for formulating the new MKUZA strategy.

It is striking that all actions mentioned in the current MKUZA document are geared towards growth within the tourism sector, despite the recognition within earlier MKUZA documents that growth alone does not ensure poverty reduction. In addition, the challenges which are highlighted within the current MKUZA report are listed as: quality issues with regard to products and services and capacity for growth development. A mainstreaming of the UNWTO mechanisms for tourism revenue to add to poverty reduction is required within the structure and implementation of the next MKUZA strategy to ensure that growth from tourism equates into poverty reduction as intended by the strategy.



Methodology

The study follows the value chain analysis methodology developed by the UK based Overseas Development Institute (ODI), designed to trace financial flows through the industry and in particular proportion that which accrues to 'the poor'.

For the purposes of the study, 'the poor' are defined as the marginalized (as stated in MKUZA), primary producers and those from a poor background including those in nonmanagement employment and SME owners. This definition is broad and it is recognized that it includes groups which may not be covered in definitions of 'the poor' in other studies. The report focuses on Zanzibari nationals, although citizens of mainland Tanzania are legally entitled to work on the islands.

Over 100 interviews were carried out with actors from all sectors, including Small and Medium Enterprises (SMEs) and the informal sector and all findings extrapolated. At sea and airport, over 300 tourist exit surveys were conducted. The research then suggests recommendations for interventions based on the "Seven Mechanisms" for increasing participation of 'the poor' stated by the UN World Tourism Organization.

The sample selection for the field research was undertaken based on prior knowledge of the industry of the research partner organization ZATI and based on the inventory of the Zanzibar Commission of Tourism. The study area was separated into four geographical zones and this was used to make extrapolation more reflective of the separate natures of the industry in these areas and was used for all service providers:

Zone 1: Stone Town area

Zone 2: The Northern Peninsular and North-East Coast

Zone 3: The South-East Coast

Zone 4: Pemba

DEFINING THE POOR

BASED ON THE ZANZIBAR STRATEGY
FOR GROWTH AND REDUCTION OF POVERTY (MKUZA)

Zanzibari Citizens

1. **Excluded Groups**
 - Landless
 - Subsistence farmers
 - Living with disabilities
 - Foot fishers
 - Seaweed farmers (Mostly women)
 - Female headed households
2. **Those living in rural locations**
3. **Those living in Pemba**
4. **Those from a 'poor' background**

HOW CAN 'THE POOR' BENEFIT FROM TOURISM

The 7 UNWTO Mechanisms to alleviate Poverty through Tourism

1. **Employment** of the poor in tourism enterprises
2. **Supply of goods and services** to tourism enterprises by the poor or by enterprises employing the poor
3. **Direct sales of good and services** to visitors by the poor (informal economy)
4. **Establishment and running of tourism enterprises** by the poor – e.g. micro, small and medium sized enterprises (MSMEs) or community based enterprises
5. **Tax or levy** on tourism income or profits with proceeds benefiting the poor
6. **Voluntary giving/support** by tourism enterprises and tourists
7. **Investment in infrastructure** stimulated by tourism also benefiting the poor in the locality, directly or through support to other sector.





The Value Chain Analysis Methodology used for this research measures direct financial tourism revenues and percentages accruing to the poor defined prior to research. It does not measure the environmental and cultural effects of the industry on the poor and their assets. It is action research which aims to be of sufficient accuracy to inform decisions for interventions and to draw comparisons with other destinations.

Methodology

Included in this Survey

- Overview where tourism revenue is flowing throughout the tourism industry in Zanzibar.
- Direct financial impacts on 'the poor' who are defined prior to the research: PRO POOR INCOME = PPI
- Analysis of the barriers experienced by 'the poor' in engaging in earning tourism revenue:
- Issues and constraints
- Suggestions for interventions based on the financial and logistical analysis.

Not covered by the survey

- Indirect, induced or long term benefits to 'the poor' through tourism.
- Adverse environmental and cultural effects of tourism on 'the poor' and their assets.
- Absolute and accurate figures as it is a rapid appraisal.
- Indirect benefits of taxes, licenses and fees paid to the government

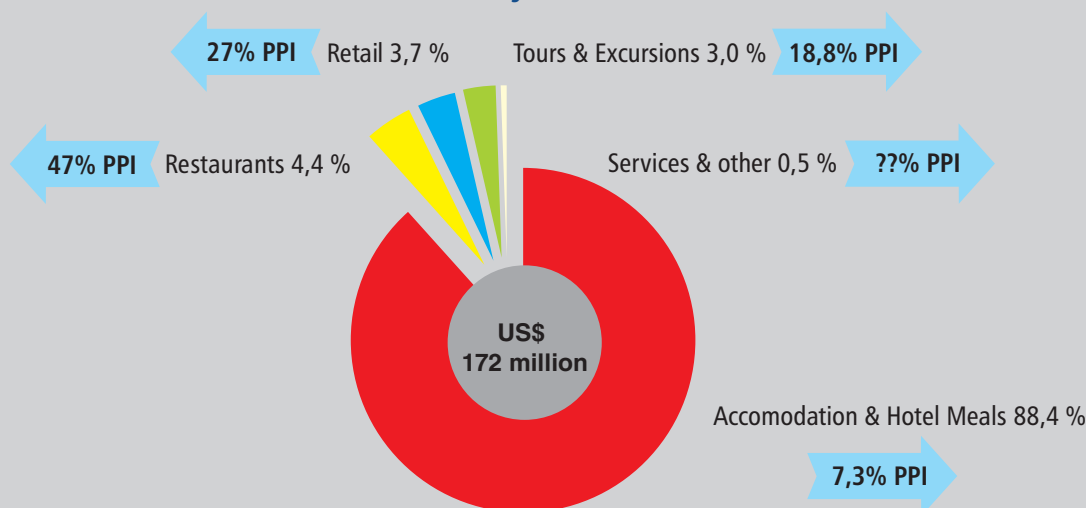
Mapping the Zanzibar Tourism Sectors and Nodes

Accommodation Providers	Food and Beverage Operations	Retail discretionary out of pocket spending	Tours and excursions	Services
<ul style="list-style-type: none"> • Number and Type • Costs, Turnover, Profitability • Employees • Government • Revenues 	<ul style="list-style-type: none"> • Independent Restaurants • Restaurants in Coastal Areas • Street Vendors • Linkages to the Food and Beverage Sector 	<ul style="list-style-type: none"> • Hotel shops and high end business • Employment • Micro enterprises and the informal sector • Souvenirshops • Painters • Clothes and material shops • Wood carvers 	<ul style="list-style-type: none"> • Tour operators • Dive Operators • Guides • Spice Farmers • Boat Trips- informal sector • Taxi services 	<ul style="list-style-type: none"> • Hotel outlets and high end businesses • Micro enterprises and the informal sector • Internet Cafés • Provision Stores

Main Findings

The total pro-poor benefit from tourism in Zanzibar is calculated as 10.2% for the sectors under analysis. This is strikingly low, considering the higher than normal baseline definition of 'the poor' adopted within this research. This is attributed largely to the size of the revenue that is channelled directly to the accommodation sector, bearing in mind that this includes meals consumed in the hotel.

Breakdown of Revenue by Sector and Pro-Poor Contribution



The vast majority of revenue to the industry (88%) is attributed to the **accommodation sector**, including hotel food and beverage operations, for which the pro-poor benefit was only 7%. The main factors for this low benefit to 'the poor' are the high set up and operation costs and high levels of 'taxation' which reduce the overall proportion of revenue going to 'the poor'. This low figure masks the fact that 7000 people are employed in the sector.

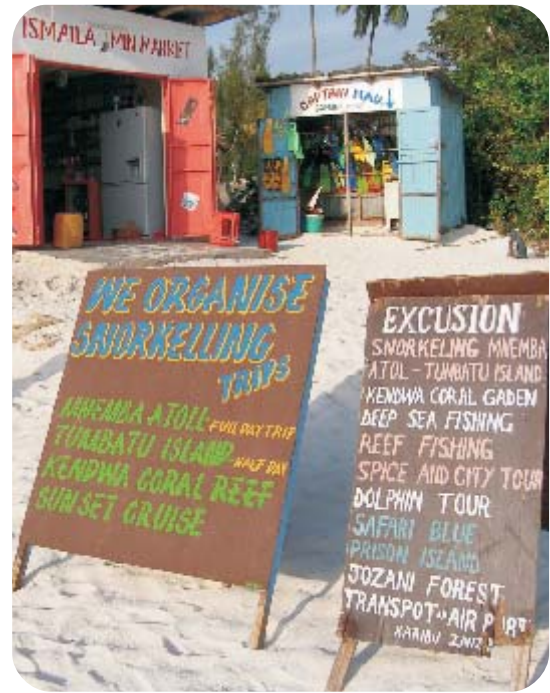
The accommodation sector was classified simply for sampling purposes, defining three 'types' of hotel; high-end niche (type A), mass, middle market (type B) and budget. Analysis of these hotel 'types' (table below) showed the mass tourism model 'type B' to give significantly lower benefits to 'the poor'. Furthermore it showed a slightly higher pro-poor impact from hotel revenue for 'type A' hotels than 'type C'. However, the average rack rate for 'type A' hotels is 4.5 times higher than that of 'type C', indicating that the average pro-poor impact from hotel revenue for 'type A' tourists per day will be 3.6 times higher than that of 'type C'. When this is taken in addition to recent research which indicates that 'type A' tourists spend three times that of 'type C' tourists per day throughout the entire value chain (not only the hotel revenue), the development of 'type A' hotels is considered favourable for poverty reduction.

- **All non-management Zanzibari staff salaries and benefits**
70 % of all staff are Zanzibari (6813 people)
66 % of all staff are non-management Zanzibari (6362 people)
- **All locally produced commodities**
100% of all fish 80 % of all fruits
44% of all meat 20 % of all vegetable

PPI = 7% for accommodation sector
this is attributed to high tax and high set-up costs.

Pro-Poor Income by Hotel Sector and Hotel 'Type'

	Type A: "QualityNiche"	Type B: "MiddleMarket"	Type C: "Budget"	TOTAL
Number of hotels	27	26	142	195
PPI in Percent of revenue	9.5 %	5.5 %	11.9 %	7.3 %



- Very few restaurants outside hotels (high set up and fixed costs)
- Higher local linkages - more local products on the plate

PPI = 47% for independent restaurants

- High demand for imported goods
- Lack of awareness of current tourist mix of Zanzibari culture
- Cost effectiveness of imported (cheaper) items
- High end shops and SMEs mainly owned by non-Zanzibaris
- Difficulty of exporting heavier items (woodcarvings)
- Shops not rented so not always in good locations
- Low product diversification –very definite skill bases

PPI = 27% for the retail sector

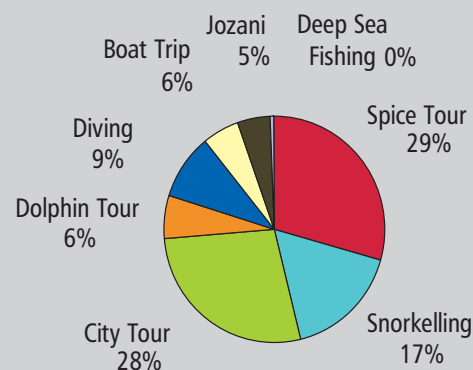
Similarly striking is the extremely low overall revenue going to **restaurants** not attributed to hotels. This is due to the high set up costs for small businesses resulting in a very small number of such establishments. Pro-poor benefit for the restaurant sector, which only constitutes 4.4% of the industry is however considerably higher; 47%, due to higher proportions of revenue being spent on staff, many of which are Zanzibari, and a higher propensity to buy local supplies. An enabling environment for such businesses would therefore have a higher impact on 'the poor'. Other sectors represent small segments of the market in terms of revenue and a diverse range of pro-poor benefits are encountered.

The **tourism retail industry** is dominated by foreign imports, and although many of the high end shops are foreign owned, they generate a high level of local employment. Retail SMEs provide a low entry point for people from a poor background,

although with the exception of Zanzibari wood crafts, the dominance of Maasai stock reflects the business ownership, mostly being mainland Tanzania residents.

There are 42 registered **Tour Operators** with an office in Stone Town which offer their services to tourists, and 20 dive centres with a breakdown of trips and revenue. Although 74% of the 80,000 trips are taken through the tour operators, approximately 60% of revenue is generated by dive centres.

Breakdown of Tours and Excursions as a Percentage of the Total Trips



Number of total trips:
80,000 per year

75 % are through tour operators
25 % through dive centers



Not including the accommodation sector, relatively high and almost equal amounts are spent on retail as on tours and excursions, both sectors having a moderate proportion of SMEs by total revenue. This suggests both an under usage of the natural and cultural resources that the islands have to offer and a characteristic of the market segment.

Many SMEs are found to give a high pro-poor benefit and are dependant on non-cash assets, such as land ownership in prominent locations. This is not, however always the case and many local salesmen do not have physical access to markets enjoyed by those who rent, and can choose locations. Such entrepreneurs do not tend to be Zanzibari.

The informal sector is present and diverse with a high contribution to pro-poor impact, although it is highly restricted. It includes street sellers, fishermen livelihood diversification strategies to incorporate tourist trips and henna tattoo and hair braiding in coastal areas. In many cases, formalization and upgrading is required to improve income to the (poor) beneficiaries, with customers also benefiting from an improved service. However, the effect of taxation and licensing on such enterprises incorporated into such formalization strategies may, in many cases render the operations unprofitable.

Primary agricultural producers face many constraints, particularly with the high demands of the private sector in terms of quality and consistency of supply, but also those of low capacity to produce crops required by the tourism industry to the high seasonality due to lack of irrigation.

There are many constraints and difficulties in measuring the pro-poor tourism benefit in a destination as large and complex as Zanzibar, which involves the arrival and activities of tourists through many individual and diverse supply chains. Many assumptions have been made and general simplifications of tourist flows imposed.

As originally stated, however, this is a rapid assessment technique which is designed to show fields where intervention is deemed necessary, with the choice of areas for revue open to interpretation. For these reasons, comparison with other destinations which have undergone this analysis with different poverty contexts and have thus adopted different definitions of poverty is not seen as feasible, practical or appropriate.

Areas for Sustainable promotion of Pro Poor Tourism development include education and specifically training of Zanzibaris for employment in the industry and increased linkages to primary producers. As they represent such a high proportion of the industry, attention is focused on accommodation providers for interventions. Also owing to high set up and operating costs, smaller businesses, including individual restaurants and tour operators, have difficulty in forming and maintaining financially sustainable operations unless economies of scale are achieved.

- PPI for Tour operators: 43 %
- PPI from dive centres 0,7 %
- PPI from taxi services 29 %
(tourism component only)

PPI = 18,8% for Tours and Excursions

Formal sector

- 3 in town; employ by Zanzibari women
- 21 in hotels also employ non-Zanzibari women

Informal sector

- Women have seasonal work as diversification from seaweed collection.
- Average 3 US\$ per day - constraints vary with village

PPI = 30% for the spa services



Revenue from each sector and the benefit of each to 'the poor'

	Accom. & Hotel Meals	Restaurants	Retails	Tours & Excursions	Services/ other
Revenue (US\$)	152 million	7,5 million	6,6 million	5,2 million	0,8 million
% Total Revenue	88,4	4,4	3,7	3,0	0,5
% Pro-Poor Benefit	7,3	47	27	18,8	not known
Net Pro-poor benefit	11,2 million	3,6 million	1,7 million	1,0 million	Minimal

Issues concerning improving the participation of the poor

1. Employment of the poor in the tourism industry

With the industry requirements of highly suitable staff, the pool of Zanzibari nationals with an interest of working within the tourism industry and being in possession of the required skills is already employed. Basic skills, such as English language and mathematics are fundamental to both working within the industry and to receiving training for employment. The additional cultural and religious issue of members of the Islamic faith participating directly in the tourist industry can also reduce the desire or suitability for such a career.

2. Supplies of goods to the tourism industry (linkages)

There is evidence of interest within the industry for sourcing locally produced supplies, although these must be of guaranteed quality and of continuous supply before tourism enterprises will engage in direct linkages to producers. The supply issues for the poor are concerning the level of risk of dedicating resources to producing specifically for the requirements of the industry without a guaranteed demand. The bridging of this divide is required through small intermediary strategies.

3. Direct sales through the informal sector

In many cases, formalisation of informal activities would render the activity unprofitable due to the high taxes and license fees that this entails. In other cases, the improved service that would result of formalisation; improved supply chains and higher marketability is seen to justify such a move.

4. Establishment and running of tourism SMEs

The main issues of 'doing business' are common to the tourism industry in general; the replication of successful business ideas by other entrepreneurs and the low business development skills of 'the poor'.

5. Expansion and growth of the tourism industry as an indirect pro-poor strategy

Due to the high dependency of imports of both labour and supplies from the mainland and beyond, the expansion of the industry in general terms is not seen as a viable strategy for pro-poor growth. There is a case for increasing 'cultural tourism' as such little revenue accrues to local crafts and tours, although these activities have a relatively high pro-poor impact.



Improving the Participation of 'the Poor'

From the financial analysis of the industry and from the constraints to both, growth and increasing pro-poor benefits stated by those interviewed, suggested interventions have been deduced. These interventions are analysed in terms of the seven mechanisms for increasing pro-poor participation by the UNWTO.

The suggested interventions cover the following areas:

- **Employment of the poor in the tourism industry**
 - Improvement of training facilities
 - Raising basic skill levels
- **Supplies of goods to the tourism industry (linkages)**
 - Introducing direct linkages to the industry from producers
 - Irrigation and rainwater harvesting for agricultural farmers
 - Improved handling practices for meat and dairy
- **Direct sales through the informal sector**
 - Formalisation of operations to include improved market linkages
 - Upgrading of products
- **Establishment and running of tourism SMEs**
 - Availability of business development skills training
 - Availability of micro credit (in association with the above)
 - Skills auditing for individual skills.
 - Creation of an enabling environment for SME setup

and to a limited extent:

- **Expansion and growth of the tourism industry as an indirect pro-poor strategy.**
 - The development and marketing of cultural tourism.

Prioritisation of interventions

From the 'long list' of interventions suggested, priority interventions were identified through discussion and group work within the validation workshop on 29th September 2009. The list was analysed in three areas; employment, linkages and with SME informal sector development grouped together. Interventions were ranked in terms of ease of implementation and net pro-poor benefit, by groups represented by delegates with appropriate expertise and interest.

In prioritising the interventions, the issue of a 'trade off' of ease of implementation of the interventions against their net benefits to the poor was raised and that many of the interventions are causative; in that some are prioritised as they are required before others can be put in place. This is included as an issue of 'ease of implementation' and was considered during the ranking exercise, but it should be borne in mind that many interventions are related and cannot be considered in isolation.



Stakeholder Workshop
 29th September 2009 at the Zanzibar Beach Resort
TOURISM: MORE VALUA FOR ZANZIBAR
 Celebrating the World Tourism Day 2009



Summary of Main Findings

1. High proportion of tourism revenue is directed through the hotel sector – low PPI (Pro-Poor Impact)
2. Small individual restaurant sector – high PPI
3. Less spent in tours and excursions than on retail – suggests an under-usage of cultural resources
4. SMES – in retail sector dominated by non-Zanzibaris through access to supplies for sought after prominent products and prominent locations.
5. Informal sector is significant: formalisation in some cases will improve revenue and customer experience, in others will reduce profitability through tax.
6. Agricultural linkages hindered by variety, quality and high seasonality of produce. These features are a pre-requisite for private sector interest.
7. Only more wealthy fishers can engage with tourism but face lack of current market information and high perishability.

Conclusion

It was found that the industry is heavily dependant on imports of both primary supplies and staff of suitable quality, both of which are normal avenues for participation of ‘the poor’. With the industry, and therefore the demand for these commodities, growing at a faster rate than increased supply of both workforce and primary products, it is suggested that expansion and growth of the industry will not produce

increased benefits to the poor through such areas. For pro-poor growth to be achieved, attention should be placed more on strengthening linkages to the poor for the existing industry in line with the seven mechanisms suggested by the UNWTO. The stakeholder workshop has shown high interest from all involved parties to contribute to increasing the benefits of the industry for the Zanzibari poor rather than increasing the overall industry. There is also a case for redirecting the industry to include more cultural tourism. This is relevant to the increased local handicraft sales and cultural tours as to diversify the product and contribute to position Zanzibar with its worldwide unique cultural heritage.

From 2010 onwards SNV shall follow up concrete steps for interventions and identify cooperation possibilities with VSO, CORDAID, IDUT, the Norwegian Embassy, BEST AC, FINTRAC, ZATI, and other local organizations, government bodies and international development partners.

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Connecting People's Capacities

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