



The Tourism Sector in Mozambique: A Value Chain Analysis

VOLUME II

THE TOURISM SECTOR IN MOZAMBIQUE: A VALUE CHAIN ANALYSIS

Volume II



Foreign Investment Advisory Service
A joint facility of the
International Finance Corporation
and The World Bank

Foreword

The Tourism Sector in Mozambique: A Value Chain Analysis comprises Volumes I and II. Volume I contains the core analysis, policy recommendations and detailed value chain analysis of three itineraries. Volume II consists of 7 Annexes to the main volume. Annexes 1 and 2 contain value chain analysis of two road based itineraries. Annexes 3-6 comprises of additional reference material regarding the tourism sector and donor assistance to the sector in Mozambique. Annex 7 contains an introduction to the structure of the global tourism sector.

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Annex 1: Nelspruit - Maputo – Inhambane - Vilanculos – Bilene – Maputo (Southern Self-Drive Market)

To understand the importance of road and other infrastructure much better and to identify other constraints that may hinder growth of on Southern leisure tourism this section explores an itinerary of an adventure tourist from South Africa.

The South African market is one of the most important and closest source of tourists, from outside of Africa, for Mozambique. The outbound tourism market in South Africa increased by 40% from 2002 – 2003, and Mozambique is one of the top outbound destinations with a 25% increase in South African tourist visits from 276,100 in 2001 to 335,426 in 2003. About, 90-95% of these visitors travel by road, making the self-drive tourism market one of the largest sources of tourism in Mozambique. There is also increasing demand from tourist visitors to Mozambique (e.g. from Portugal or Italy) or third country nationals visiting South Africa (e.g. UK, German, Dutch tourists) for adventure trips to other emerging destinations in the country. It is therefore very important to examine the constraints to growth of this market segment.

South Africa is also the most important destination in Africa for European tourists. Intercepting some of them could potentially produce significant benefits for Mozambique tourism. Tourists from the UK to South Africa alone increased by about 25% from 343,943 in 2000 to about 463,021 in 2004. Similarly outbound traffic of tourists from France, Germany, the Netherlands and the USA to South Africa increased by 54%, 26%, 26%, and 10% respectively, between 2001 and 2003. South Africa attracted over 1 million tourists from these 4 countries in 2003 alone¹. Furthermore, South Africa also commands significant outbound traffic of about 28,000 tourists from Portugal - Mozambique's dominant outbound tourist market in Europe². Mozambique has a unique opportunity to tap into this pool of tourists by offering a beach tourism experience that is complimentary to the bush tourism experience provided in South African destinations such as Kruger.

Although it is still in its infancy, the self-drive market is one area where the activity of local Mozambican tour operators has been very visible and therefore different from the air based leisure tourism. This is so because:

1. Developing self-drive itineraries requires detailed local knowledge of the strengths, weaknesses, opportunities and threats of the multiple routes and destinations the tourist will visit. Therefore inbound tour operators are intricately involved in the design and assembly of a self-drive package. They can use their knowledge to customize the best possible routes and experiences for the tourist; they also often serve as guides.

1 About 257,018, 127,760, 456,468, and 187,447 tourists from Germany, France, UK, and the USA respectively

2 This is more than 25,392 Portuguese tourists to Mozambique in 2003.

2. Packaging self-drive tours involves a greater degree of trip planning, transport, and logistics management, combining air, land, and sea (sometimes). Managing road transport logistics presents additional risks and transactions costs that make it imperative for international tour operators interested in the segment of the market to establish partnerships with local ground operators.
3. Self packages require an experienced and competent person on the ground to establish and manage relationships with a multiple service providers in multiple destinations (e.g. car rentals, restaurants, hotels, farm cottages, plantation managers, and so on). Many of these service providers do not provide the same level of integrated services found in premium resorts and hotel in Bazaruto. Often, foreign tour operators do not have direct access to many of these service providers.

Assessment of Policy and Capacity Constraints along the Value Chain for A Self-Drive Adventure Tourism Experience

Many of the issues addressed in Section 3.3 above apply to road based tourism, including:

1. Third country tourists outside South Africa and Malawi are still required to obtain visas from the border posts. The costs about US\$25 and accounts for less than 2% of the tourist's expenditure. However, the inconvenience factors can be significant in terms of delays and risk of denial. A broader look at visa issues for third country nationals visiting South Africa is provided in Section 3.5.3 below.
2. Constraints to international air travel as similar to those outlined in Section 3.3, but more pronounced for European tourists (outside the Portuguese) who want to visit Mozambique directly, instead of traveling via South Africa. A more elaborate discussion is provided in Section 3.5.5 and 3.7.5.

This section of the report focuses on the roles of local tour operators in Mozambique, and how they contribute to value added in the tourism industry. It also examines particular challenges the tourist may face with regard to moving around within the southern coast of Mozambique.

**Fig 7: Value Chain Map for Southern Self-Drive Travel Package
Road-Based Tourism Itinerary**

Nelspruit - Maputo – Inhambane - Vilankulos – Bilene – Maputo

Typical Package: 6 Nights

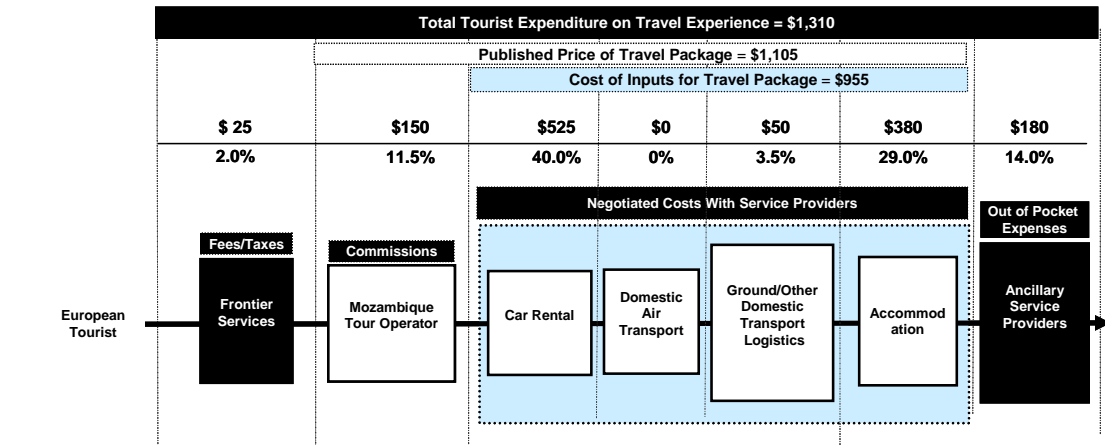


Figure 7 above outlines the costs and value each supplier in the chain contributes to the travel package. The packages are sold directly to the tourist or to a foreign tour operator. Packages sold to the foreign tour operator are resold as add-ons to a standard package. As a result, it is difficult to ascertain what the tourist outside Mozambique pays for this package. Car rental companies, hotels, and ancillary service providers account for 40%, 29% and 14% of tourist expenditures. Most of the ancillary service providers in this case are restaurants. Tour operators estimate that self-drive tourists spend about US\$20-30/day on food, drinks and materials needed on their trip.

These costs estimates are based on a six-night itinerary, with a mix of hotel and cottage accommodation, a rented 4X4 jeep at US\$100 per day, car rental insurance of US\$25 per day. The package costs about US\$1,105. Fuel expenses are paid out-of-pocket by the tourist. The domestic tour operator makes a margin of about US\$150 per tourist (i.e. about 11% of tourist expenditure).

Table 10 Cost drivers of the Southern road based itinerary

Cost Drivers	Negotiated Price (US\$)	Market Price (US\$)
Car Rental	525	750
Hotels/Resorts	380	600
Transfers (Pemba – Quirimbas)	50	50
Ground Transport	0	0
Cost of Package	955	1,400
Foreign Tour Operator/Travel Agent	N/A	N/A
Domestic Tour Operator/Travel Agent	150	0
Price of Package	1,105	1,400

Renting a car is the most expensive element of this travel itinerary, account for 47.5% of the package price. The tour operator however is able to negotiate up to 30% discount off the car rental companies, without guaranteeing any

allotments or joint venture arrangements. This suggests that the existing relationship between the tour operators and the rental companies work relatively well. It may also suggest that capacity utilization in the car rental industry is a bit low. In either case, the discounts are very helpful in making the tour operator's package competitive in terms of price, compared to competing destinations, as shown in the table below.

Table 11: Indicative Costs of Renting a 4x4 Jeep or SUV at Airport

Country	Rate daily
Mozambique	US\$100
Brazil (Rio de Janeiro)	US\$64
Kenya Nairobi	US\$ 130
Morocco	US\$184
Seychelles	US\$103
Spain	US\$170

Table 11 shows that 4X4 cars are not necessarily more expensive in Mozambique. However, because the roads in Mozambique are of mixed quality, and particularly poor in some areas, tourists are advised to rent only 4X4 cars for their trips at US\$100/day (excluding a US\$25/day insurance fee). In all other destinations in Table 11, tourists can rent smaller cars for less than 40-60% of the price of a 4X4 because the road network and

infrastructure is better. Road infrastructure and ancillary services are also very important for self-drive tourism. The roads are fairly good in the southern part of the country, with pockets of bad areas currently under repair (e.g. the road along Inhambane and Vilankulos network). Sections of the road between Maputo and Vilankulos are unpaved – mostly after the Quissico town.

Distances between filling stations can be very significant especially going south of Maputo. However, there are filling stations in Maputo, Macia, Xai-Xai, Quissico, Inhambane, Maxixe, Massinga, Vilanculos and Inhassoro going north. Although fuel and diesel are taxed in Mozambique, prices are comparable to those in competing countries as shown in the table below:

Table 1: Benchmarks of gas prices

	Mozambique	Kenya	Brazil	Mauritius	United States	South Africa
Diesel (US\$Cents/Liter)	79	76	49	56	62	80
Super Gasoline (US\$Cents/Liter)	88	92	84	74	87	81

Source: *International Fuel Prices 2005* (www.international-fuel-prices.com)

As one departs from Maputo, the availability and quality of restaurants begin to diminish. There are not many good restaurants along the southern coast and very few rest stops too. Signage along the coastal road network is good – except in Maputo where road signs and guides out of the city can be confusing. Signage in the rural areas and in the north needs to be improved.

Apart from high car rental prices, there are a number of other constraints and challenges confronting domestic tour operators in this business.

1. Museums, parks, and other potential attractions, sites, and landmarks need to be upgraded or restored to international standards so that they can become useful tourism assets that can be included in travel packages. Sometimes access to these sites is a big issue (the Elephant Reserve in Maputo). Because these assets are not fully developed, tour/ground operators in Mozambique are unable to include them in their portfolio of add-on attractions. As such, destination management and development issues sometimes constrain the tour operator's ability to sell other attractions and events that can help maximize the tourist's experience.
2. Marketing of self-drive packages is very limited and rudimentary, and relies heavily on word of mouth. Opportunities for direct marketing to tourists are very limited because Mozambique is still largely unknown as a destination suitable for this kind of tourism.
3. Although tour operators acknowledge that cross country transit between Mozambique and South Africa have improved, delays are still prevalent at the border. Also, it is usually not advisable to drive a South African rental car into Maputo because it attracts undue attention, delays, and harassment (sometimes) from Mozambique police and traffic wardens. As such tour operators in this business usually have to drive to Kruger to pick up their clients. This adds to the costs of doing business.
4. With increasing demand, tour operators servicing the self-drive market may begin to find it difficult to compete with others to secure the limited number of good quality hotel rooms available in the country. Availability of cheaper alternatives to high-end lodges and resorts will become a binding constraint as the industry grows.

Fortunately, safety and security is not much of an issue but drivers must take precautions not to drive at night.

Annex 2: Maputo - Nampula - Cuamba – Niassa Reserve - Pemba – Ibo (Northern Self-Drive Market)

Unlike the southern coast where growth in self-drive packages is fostering more entrepreneurship, the self-drive market in the north of Mozambique is almost non-existent. This is mainly because of accessibility issues. This section examines these issues through the lens of a travel itinerary designed for a European tourist. This itinerary is currently being tested by a few local tour operators in the country.

Usually the ground operator in Mozambique picks up the tourist from the Maputo airport for an overnight stay at a reputable hotel in the city³. High-end hotels usually arrange for transfers from Maputo airport to the hotel by themselves. The costs of these services are usually included in the hotel rates. The next day, the tourist flies to Nampula via LAM or Air Corridor⁴. Flights with LAM are not very reliable, with low service quality and frequent delays. The ground operator picks the tourist up from the Nampula airport for an overnight stay in the city (in a 3* hotel). Transfers from airport to hotel in Nampula are done independently by the ground operator, at a cost of about US\$10/person⁵. The tourist usually spends the rest of the day in Nampula relaxing from the long-haul trip. Some tourists may decide to visit the Ethnology Museum there which happens to be the biggest in Mozambique.

The next day, the tourist takes a ~7 hour train ride from Nampula to Cuamba, and stay there for about 2 nights. One full day is devoted to visiting the Cuamba Dam. The ground operator provides breakfast and lunch on the train at a cost of about US\$10/person⁶. The standards in comfort, service, and cuisine of the train is a below that which is required for an up-scale tourist⁷, and there are problems with time scheduling and delays. For example, trains take about eight hours between Nacala and Cuamba, a distance of 610 kilometers, but they then spend the same amount of time to reach Entre-Lagos (Malawi), from Cuamba, a stretch of only 77 kilometers⁸. However the train ride offers picturesque, scenic and cultural exposure to northern Mozambique and its peoples that somewhat compensate for these vices.

The train system also serves as the main mode for moving tradable goods and services between northern Mozambique, Malawi and Zambia, and can also serve as an important in-route for tourism traffic from these neighboring countries. Moreover, there are no good alternative means of transport because the road network is very poor, and so it the public transportation service. Therefore transfers from the train station to the hotel are organized by the hotel itself.

³ It is also possible to continue the connecting flight from Maputo to Nampula on the same day, depending on the arrival time in Maputo. The flight from Maputo to Nampula cost about US\$200 on average.

⁴ Air Corridor's entry into this segment has helped to reduce domestic flight prices from Maputo to Nampula by over 30%. This is a much welcome change for ground tour operators.

⁵ The ground operator usually has to rent pick up buses or cars for this purpose.

⁶ Food and drinks are usually ordered from the hotel in Nampula and taken on board the train.

⁷ Adventure tourist however may have different expectations to those of a regular upscale tourist.

⁸ <http://www.poptel.org.uk/mozambique-news/newsletter/aim181.html>

From Cuamba, the tourist travels by road through the Niassa Reserve. Although there are repairs ongoing, the road network remains very poor and inaccessible – even for a 4x4 jeep⁹. Moreover, good rental cars for this trip are only available at Lichinga (about 250km away from Cuamba) at a cost of about US\$250/day (this includes US\$8-US\$10 per day for the driver and US\$25/day for insurance). Having to rent a car from another city that is about 3 hours away from Cuamba significantly increases the tour operator’s costs of doing business. Moreover, the cost of car rentals are 2.5 times that in Maputo.

There are also currently no real options for accommodating self-drive tourists in Niassa. There is hunter’s camp in the Reserve, but these are not priced for tourists who plan only to stay for 2-3 nights for photographic safaris¹⁰. There are initiatives to make use of these hunting houses to serve other kinds of tourists too, but an appropriate pricing structure is yet to be developed. As such, self-drive tourists are unable to stay overnight in the Niassa Reserve. As a result most tourists are only able to stop by for a few hours on their way to Pemba – an 8 hour drive. This lack of accommodation in Niassa not only limits the potential for increasing the tourist’s length of stay in the region, it also undercuts the tourist’s experience in such an important destination¹¹.

In Pemba, the tourist spends a night at a 4-5* hotel. Pemba city itself is a small but quiet city. Like Vilankulos, most tourists use Pemba as an access point to the Quirimba Islands (Quilalea, Ibo, and so on). Tourists can get to Ibo Island by road (combined with a dhow trip) in 5 hours. Alternatively, they could take a small plane managed by one of the Island lodges. Although the Ibo Island is still not very developed, it is known for its historical assets which complement the beach experience. The self-drive tourist would usually stay about 2-3 days on Ibo Island before returning to Maputo by flight. Fig 8 below presents a value map of the cost and margins for this package.

The value map for self-drive packages in the north of Mozambique is a bit different from that of the south because the tour operator combines air and road transport (see **Fig 8**). Tourists going to northern Mozambique either have to fly in to Nampula or Pemba via Maputo. The only direct international flights to Pemba are those that originate from South Africa, Tanzania and the Comoros (double check). Tourists from Europe and other key markets cannot fly directly to Pemba from their

9 Niassa Game Reserve is situated in the far north of Mozambique on the border with Tanzania in Niassa Province. Niassa is the highest province in Mozambique with the Linga Plateau covering a quarter of it and is mostly 1000 m above sea level. The Rovuma River borders the Reserve in the north. A full range of miombo woodland while evergreen montane forests cover the slopes of the mountains. It is the last refuge of Mozambique's herds of buffalo, sable, roan and around 12 000 elephant. Roads are being repaired and reopened, bridges are being rebuilt, and anti-poaching measures introduced. – see <http://www.odyssei.com/travel-tips/13151.html>

10 Game hunters usually have to pay for minimum number of days, depending on the animal. For example, hunters have to pay about US\$7000 (7 days) to hunt a buffalo.

11 Niassa is one of the largest protected Miombo forest ecosystems in the world, and the largest conservation area in Mozambique

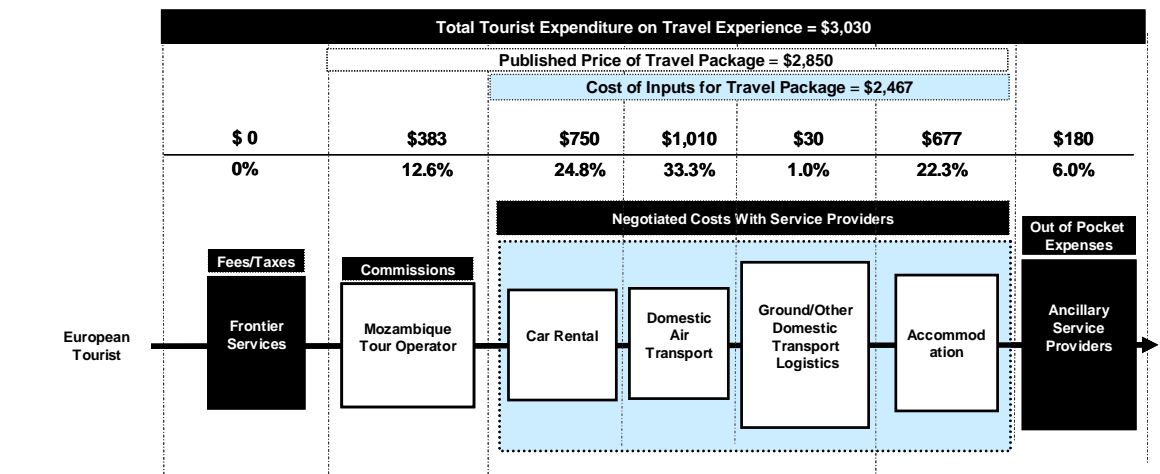
countries on origin. As such, the self-drive packages for northern Mozambique are more costly.

Fig 8 below presents the operating costs along the value chain of this northern itinerary¹². It shows that the tour operators accrue up to 12% (US\$383) of tourist total expenditure.

**Figure 8: Operating costs for Northern self-drive itinerary
Road-Based Tourism Itinerary**

Maputo - Nampula - Cuamba – Niassa Reserve - Pemba – Ibo

Typical Package: 6 Nights



Most of the constraints to the development of the southern self-drive market also apply to the northern itinerary. Unlike the southern road-travel itinerary however, the Fig 8 shows that the costs of domestic air fares are the most significant element of the northern itinerary, followed by car rental costs, and accommodation. This suggests that price competitiveness of domestic airfares is very important for the development of tourism in northern Mozambique. This is particularly true because destinations in the north are further away from Maputo and South Africa – which are closest major hubs for tourist travel flows to these destinations. The only alternative tourist hot spot in close proximity is Tanzania.

¹² The itinerary could have extended for two or more nights in Niassa. However because accommodation is currently not available it was not possible to include this in the package.

Annex 3: Legislative framework

The Government of Mozambique has adopted a number of policies and passed legislation for improved natural resources management and other areas related to tourism. These include:

- National Forestry and Wildlife Policy and Strategy (1995)
- Forestry and Wildlife Law (1999)
- Land Law (1997)
- National Environmental Management Program (1995)
- Environmental Framework Law (1997)
- Investment Law
- Tourism Policy and Implementation Strategy (2003)
- Tourism Law (2004)

In order to ensure the effective co-ordination and integration of sectoral policies and plans related to environmental management at the highest level, a *National Commission for Sustainable Development* (NCSD), linked to the Council of Ministers, was created in 1997 by a provision in the Environmental Law.

In 2000 the *Ministry for the Co-ordination of Environmental Affairs* (MICOA) created a *National Directorate for Environmental Impact Assessment* (DNAIA). The Environmental Impact Assessment Regulations specify that all programs and projects that may affect, directly or indirectly, sensitive areas be subject to an EIA. Included are conservation areas and zones of archaeological, historical and cultural value that should be preserved.

Private sector activity is considered the prime engine for economic growth, increase of employment and overall poverty alleviation in Mozambique. Adequate legislation and its implementation are a key factor for the promotion of investment in the tourism industry. The Investment Law and legislation regarding fiscal benefits and profit repatriation and employment of foreign employees are also considered essential in the context of the legal framework for tourism.

Annex 4: National Parks and National Reserves

National Parks				
Province	Designation	Year of Creation	Area (km ²)	
Cabo Delgado (North)	Quirimbas National Park	2002	7,506	
Sofala (Centre)	Gorongosa National Park	1960	5,370	
Inhambane (South)	Zinave National Park	1973	6,000	
	Bazaruto National Park	1971	1,600	
Gaza (South)	Limpopo National Park	2001	10,000	
	Banhine National Park	1973	7,000	
Total Area	37,476 km²			
National Reserves				
Province	Designation	Year of Creation	Area (km ²)	
Niassa (North)	Niassa National Reserve	1964	Core area = 15,000 Buffer zone = 17,000	
Zambezia (Centre)	Gilé National Reserve	1960	2,100	
Sofala (Centre)	Marromeu National Reserve	1960	1,500	
Manica (Centre)	Chimanimani National Reserve	2000	7,500	
Inhambane (South)	Pomene National Reserve	1964	200	
Maputo (South)	Maputo Special Reserve	1960	700	
Total Area	44,000 km²			
Hunting areas				
Province	Designation	Year of Creation	Area (km ²)	
Sofala (Centre)	Hunting area no. 5		6,868	
	Hunting area no. 6		4,563	
	Hunting area no. 7		5,408	
	Hunting area no. 8		310	
	Hunting area no. 10		2,008	
	Hunting area no. 11		1,928	
	Hunting area no. 12		2,963	
	Hunting area no. 14		1,353	
	Manica (Centre)	Hunting area no. 4		4,300
		Hunting area no. 9		4,333
Hunting area no. 15			2,300	
Total area	32,001 km²			
Grand Total Area			103,477 km²	

Annex 5: International arrivals from key source markets to Mozambique and competing destinations

Mozambique receives few inter-continental tourists compared to countries in the region. Tanzania has a natural British/German patronage, Kenya and South Africa a natural British patronage, the Seychelles a French/British patronage, and Mauritius also a French/British patronage. While Mozambique certainly has a strong position in the Portuguese market, its share of visitors from other key OECD markets such as the UK, Germany and the US is minimal, compared to South Africa, Kenya, Tanzania, Seychelles and Mauritius. Most countries are able to attract substantial amounts of visitors from across Europe and the US.

Table 2: The biggest tourism generating markets (arrivals) 2001-2003

	2001	2002	2003
Europe to Africa ('000)	10,604	10,904	11,170
Southern Africa ('000)	1,346	1,347	1,600
East Africa ('000)	2,239	2,269	2,349
Portugal market shares			
RSA	21,729	29,088	28,920
Tanzania	873	1,486	2,288
Kenya	561	565	647
Seychelles	2,388	846	522
Mauritius	1,733	1,616	1,599
Mozambique	30,600	19,086	25,392
UK market shares			
RSA	356,759	442,910	456,468
Tanzania	34,125	43,269	43,656
Kenya	153,968	154,933	177,339
Seychelles	17,076	18,890	18,765
Mauritius	77,888	80,667	91,210
Mozambique	5,900	13,638	5,798
Germany market shares			
RSA	203,911	248,990	257,018
Tanzania	21,190	17,855	19,222
Kenya	156,414	157,394	180,156
Seychelles	16,822	15,145	15,903
Mauritius	50,866	53,762	53,970
Mozambique	.	.	.
France market shares			
RSA	82,745	112,078	127,760
Tanzania	16,990	22,059	22,103
Kenya	47,802	48,101	55,057
Seychelles	25,459	28,326	25,990
Mauritius	197,595	202,869	200,229
Mozambique	.	.	.
US market shares			
RSA	170,611	182,591	187,447
Tanzania	30,806	38,159	36,419
Kenya	65,191	65,599	75,086

Seychelles	5,805	2,954	2,793
Mauritius	3,923	4,116	4,505
Mozambique	.	10,401	5,035

*Sources: WTO 2004a and WTO 2004b. Notes: * Intra-regional share of tourists is only 8% in North Africa, but 75% in Southern Africa (East Africa 48%). ** Local currencies constant prices and current exchange rate.*

Annex 6: Tourism-related donor assistance in Mozambique

The following donors have existing programs or have shown an interest in tourism development in Mozambique:

World Bank TFCA/PoDE-CAT/Communications – The World Bank are funding the TFCA project in Mozambique that included the institutional development of the TFCA support unit, legal support to facilitate the actual establishment of TFCAs and support in management and infrastructure development in selected TFCAs. The second phase of the TFCA program is also developing bush-beach linkages with Vilankulos-Bazaruto and is specifically funding tourism development in that destination eg. tourism master plans (as in two other destinations). Also allocations have been made for improving the tourism business environment. The PoDE project provides technical learning at the firm level for small and medium enterprises, including in the tourism industry. PoDE has helped train over 28,000 staff from SME's, including 3,400 from the tourism industry. The projects linkage program has helped Mozambican firms secure US\$58 million worth of contracts. Of this amount only \$600,000 has been secured by SME's in the tourism sector. Moreover in the tourism sector PoDE is financing the hiring of experts for the Ministry of Tourism. The Communications sector reform project contains a component that is funding a privatization of LAM, a reform of the management structure of Mavalene airport, capacity strengthening of the Civil Aviation Authority, and liberalization of the rules governing the air transport industry. The World Bank has also given budget support to the Coastal Management Program, implemented with joint DANIDA funding by MICOA (Ministry of Environment).

IFC/SEATIP/PEP-Africa – The IFC are engaged in the SEATIP (South East Tourism Investment Program) and PEP (Private Enterprise Partnership) in Mozambique. The SEATIP aims to support the development of regional tourism between Mozambique, South Africa, Swaziland, Zimbabwe, Malawi and Tanzania. The core of the program is the promotion of 'tourism routes'; one 'southern circuit' focusing on integration of southern Mozambique, Swaziland and Mpumalanga and Kwazulu-Natal province in SA and one 'northern circuit' focusing on regional tourism in northern Mozambique, southern Tanzania and Malawi. Also the program involves Private sector (SME) and community development/participation in tourism. PEP is drawing up proposals for the funding, transference and anchoring of these SEATIP components in the management structure within MITUR. Looking forward SEATIP is focusing on development and marketing of tourism anchor investment projects. SEATIP have a private sector focus and will finance of up to 1.5 billion in privately managed tourism projects (mainly lodges and hotels).

USAID has prepared a long-term tourism development program focusing on private sector development. The program will have duration of 3 to 5 years and is focused

on northern Mozambique (the northern ARC) with predominantly technical assistance and capacity building. Also the program funds the CARR foundation's work in developing eco-tourism in the Gorongosa National park the Carr Foundation, the WWF lead in the creation of the national park on Lake Niassa and restoration of - and interpretation for archaeological sites in the north. Specifically the project also set's out to develop a destination management plan for Pemba/Cabo Delgado and broadly address issues related to business enabling environment for tourism.

SIDA Malonda/Nakosso – The Swedish Government is funding through its Malonda Program Private Sector development in Niassa Province in Mozambique. Although tourism is not a core activity in the program, the program has funded through its Nakosso program, marketing of Niassa Province in Mozambique, the development of a tourism website for Niassa and limited studies on tourism opportunities in Niassa Province.

GTZ Inhambane – The German Development Cooperation (GTZ) has a small project to promote cultural activities in the Inhambane province.

KfW Limpopo/Manica – The German Investment and Development Bank KfW has been a major donor in the Limpopo TFCA. The majority of its funds have been channeled through the Peace Parks Foundation, which has been active in wildlife management, including translocation of elephants and other large mammals to the park. It has also funded several initiatives in tourism development in Inhambane Province within the context of its Private Sector development program. Initiatives included the funding of a study on Coastal Zone Management, the development of a draft tourism and tourism marketing strategy for Inhambane Province and GTZ has also funded some eco-tourism related activities in Manica province, namely in Chimanimani Reserve. Also the program is funding work on the topics investment promotion and improvement of the investment climate.

Irish Aid Niassa/Inhambane – The Irish development program is focused on Niassa and Inhambane Provinces, particularly in rehabilitating and building of roads. It is funding the Niassa component of the new road between Lichinga and Pemba, which will dramatically improve access to Niassa Province and will speed up tourism development in the northern region. It is also funding a feasibility study on the new road between Pafuri and Mapinhane (near Vilankulos) that will form the northern edge of the proposed southern tourism circuit, connecting the Limpopo TFCA with the Inhambane beaches.

DANIDA Coastal Management – DANIDA has embarked on a long-term program with MICOA on Coastal Management. Though the emphasis is on natural resources management significant focus is on tourism development and coastal zoning. The CDS (Centro de Desenvolvimento Sustentável – Center for Sustainable Development) is the executing agency for Development (CDS) is the agency

undertaking the MICOA project with regards to micro zoning. The CDS has successfully completed various zoning proposals in zones with high potential for tourism and has planned zoning projects for many other districts along the coast in Mozambique.

AFD Quirimbas – France is spending 5 million USD on biodiversity conservation and livelihood work with communities developing a national marine park in the Quirimbas Archipelago. The World Wildlife Fund (WWF) is co-financing and implementing partner. AFD is also looking into co-financing the Limpopo TFCA with KfW.

Other donors and development partners include Peace Park Foundation, the IUCN, SNV (Dutch Development NGO that has expressed interest in Conservation Management in Nampula Province), TechnoServe (an American NGO focusing on enterprise development). Previous donors have been AusAID (funding of the development of the national tourism policy), the Ford Foundation (supporting community tourism in Tete and Manica provinces) the Commonwealth funding the Tourism Marketing Survey and the EU (funding of development of Tourism Master Plans in 1997).

The IUCN has created a Mozambique Country Program for 2003-2006 addressing economic incentives for stakeholder in natural resource management, which should provide some support for tourism investment in the nature-based sector.

Annex 7: Overview of the Structure of the International Tourism Industry

All export industries compete in an international market but few have such complex structures and such a variety of intermediaries and individual buyers as tourism. A country develops the elements of a tourist product, with or without external assistance. Then a number of players (suppliers, wholesalers and retailers) in the tourism system assemble and distribute the end product for consumption by the buyer, the tourist.

The inter-dependency and multiplicity of service providers, institutions and suppliers involved in the tourism value chain makes the tourism sector particularly susceptible to the transference of inefficiencies of specific industries or the compounded effect of a generally hostile and poor business environment by way of increased costs, reduced service and quality, which collectively undercuts the ability to deliver an internationally competitive final product.

Also markets for tourism products are forward markets, which are characterized by the time lag between the transactions of ownership and consumption: a stylized example is a hotel room which has to be reserved at some point prior to consumption without effective means of asserting the quality of service *ex ante*. Agents may opt to change preferences and not exercise the right to purchase a service and conversely the provider may opt not to deliver the service on the agreed terms. For example, almost 50% of hotel cancellations occur 1 day or less in advance of the service delivery (cite source). And flights are customarily over booked by some 20% resulting in contractual tensions between customers and service providers. The absence of good and timely contract enforcement procedures increases the risks and transactions costs associated with a tourist's travel experience, and may significantly compromise the ability of businesses to meet consumer expectations – thus undermining growth of tourism.

The end product that is assembled for sale consists of:

- The tourist asset;
- The services of the transportation sector to deliver the tourist from the country of origin to the country of destination;
- Hotels and other tourist accommodation;
- Food and beverage suppliers;
- The services and activities of those who provide equipment to enjoy the asset, as in diving and skiing, those who help the tourist to better understand his/her surroundings, e.g., museums, guides, and those who provide entertainment for the tourist through music and dance, festivals and casinos;
- The services of other suppliers of goods and services, such as handicrafts and duty-free shopping;
- Transport for internal transfers; and

- The internet with is pervasive in most of these areas.

Some consumers purchase most of the components of the end product in a package tour and others purchase selected elements. At an extreme, the Individual Tourist (IT) may purchase only transportation from one distributor and accommodation directly from the supplier. A schematic supply chain, distribution channels is shown in the chart below.

While this in general describes the international tourism marketing distribution system, variations abound. For example, many hotels or groups of hotels, set up offices of representatives abroad in key markets (many African Safari companies do this); there are many brand names that are only marketing organizations providing reservations and referrals (e.g. Best Western Hotels); others indicate a quality standard (e.g. Leading Hotels of the World)

Tour operators and travel agents mainly handle the sale of the end product to the consumer, although transportation companies also sell the end product directly to tourists. Another group that has become an increasingly important player in the tourism supply chain is the “Holiday-maker”. This group is both producer and distributor. Cruise ships and all-inclusive hotels are in this category and have a high repeat business that allows them to by-pass other distributors. The distributors decide which end products to market to separate segments of potential demand based on the quality and competitiveness of the product, the evidence of market acceptability through the positive or negative reactions of returning tourists, and the margins the distributors receive from selling a particular end-product. These decisions can be influenced by the promotional and marketing activities of tourist destinations, as discussed below.

The facilitators of the end-product sale are the developers of computer reservations systems (CRSs) and global distribution systems (GDSs) and financial service providers who facilitate payment transactions between the producers, distributors and consumers. Increasingly, the Internet is becoming a major source of sales of the tourism and travel end product, which is exceeded in sales volume only by computer equipment.

The final consumer is the tourist and is the object of all the attention from all the players in the tourism industry. Tourists reside mostly in high-income countries in the North and mainly in Europe, North America and Asia (Japan and Australasia). The combined preferences of consumers, including those of regional and domestic tourists, where these are significant, determine the success or failure of tourism destinations.

TOUR OPERATORS

Tour operators determine the itinerary, content, timing and maximum size of package tours. The tour operator contracts several months ahead of time with airlines, hotels, and local transportation and tourist service companies. The tour operators contract the services of local ground operating companies to supply smaller services locally, such as local tours and guides. They then sell the total package to the consumer, generally through travel agencies but also through their own marketing arrangements. The tour operators' markup on their packages is between 15 and 35%. Turnover is large but the industry is very competitive and operating costs and overheads can be relatively high so that margins are often slim.

They:

- Assemble and package tourism products;
- Market and sell tourism products: both packages but travel agents also provide individual components for FIT;
- Coordinate tourism product provision – which often means that they are linking destinations and tying several destinations into circuits;
- Provide information about tourism products;
- Secure transactions in forward markets assuming the responsibility of delivery and as an integral part they assume responsibility for mitigating problems;

International tour operators also provide inbound domestic operators with feedback on market needs and thus domestic tour operators play an important role in constantly modifying and diversifying the product base, and, marketing the destination. Inbound tour operators also provide basic functions such as accompanying tourists for the last leg of their trip (from air port to final destination) or through other difficult phases of travel like problems with bookings, unexpected occurrences, etc.; and developing or co-developing and promoting tours, events, attractions and other ancillary services that help them sell the core hotel and transport products.

Although a few large firms dominate, the industry is characterized by small and medium-sized enterprises, particularly in specialty markets. There has also been a trend to consolidation in the larger tour companies based in Europe, Canada and Japan. In general, tour operators are interested only in the bottom line but individual companies have shown more commitment to the tourism destination companies. The largest tour operator in Germany, TUI (part of Preussag), has an expressed interest in partnerships with developing countries that incorporate a social agenda. British Airways Holidays have substantial environmental programs. Thomson in the UK (subsidiary of Preussag) is currently considering developing a policy for ethical tourism.

The proportion of packaged holidays varies significantly by destination. For example, packaged holidays in outbound traffic to Africa from the UK approach 50% of all travel, but are as low as 5% of total travel to Australia and New Zealand. The chief reasons are that many UK citizens have family ties in Australia and New Zealand and are housed and guided around by relatives; there is no language barrier; and the threats to physical safety and health are perceived to be negligible. By contrast, many tourists visiting less familiar destinations perceive them to be higher risk and prefer to have arrangements made for them and travel in groups.

The growing entry of tour operators into the African market influences the competitive climate in which African hotels operate, since it places them in permanent competition with other destinations worldwide. Group travel also has price implications. Charters or block booking of airline seats for group travel can reduce the overall cost of the package and open the market to new demand, but it also places a downward pressure on the prices and, therefore, profits of both airlines and hotels. In the Caribbean, which has become a case study of the impact of tour operators on hotel operations, hotel managers have conceded ever-larger discounts in the prime winter season, as well as in summer, to attract group business.

The change from individual traveler (IT) rates to package discounts is claimed by hotel interests to have resulted in lower average achieved room rates in the Caribbean. This has required either ever-higher occupancy rates to break-even. Or it required reducing operating costs that affect the quality of the product and, ultimately, demand for it. This situation, however, arises where there is over capacity of accommodation and/or a temporary shortfall in demand. A compensating factor for the hotels is that, through package tours, part of the downward price pressure is absorbed by airlines.

The horizontal integration of airline and hotel investors has stimulated the growth of larger hotels to accommodate group travel efficiently. All-inclusive hotels are also more numerous. While these are under scrutiny for their perceived lack of linkages to local communities and the local economy, they attract higher income tourists and have a high repeat business.

The smaller hotels have been adversely affected by group travel because of the unwillingness of tour operators to disperse a large group of tourists among a number of small hotels, often of varying quality. Another consequence of group travel is that small hotels have been penalized by lack of availability of airline seats for individuals.

Tourists whose decision to travel is made with a short lead time are often the ones most able to afford full-price airline tickets and rack rates, i.e., advertised rates, at quality hotels. But, lack of airline space can limit access and the tourist may become aware that the favored hotel may well be offering a discounted rate for groups. IT tourists pay by travelers checks or by credit card during their stay and on departure, while some tour operators tend to delay their payment for hotel services until well

after these have been provided (by one to three months), creating cash-flow problems for hotel managers.

Package tour operations may have had some negative effects on the profitability of hotels in a number of destinations, but they also move large numbers of tourists to a variety of destinations worldwide—a volume that could not have developed solely through IT. Tour operators are associated with mass tourism, but, in fact, cater to a broad range of income levels. Many contain units that are specialized in niche markets, such as adventure tourism, eco-tourism, birding, fishing, golf, diving, etc. Consequently, tour operators will continue to have an enormous influence on the direction of the flow of tourists for the foreseeable future and African tourism managers must attempt to persuade them of the attractiveness of the African region. The most persuasive argument will be the creation of an efficient, highly competitive tourism product.

TRAVEL AGENCIES

Travel agencies need to be licensed or accredited by the Airline Reporting Corporation and/or International Airlines Travel Agent Network in order to be able to issue airline tickets. Most developed countries have created professional associations and most travel agencies join these. There are also specialized professional associations such as the Association for the Promotion of Tourism to Africa and the Africa Travel Association.

Tour operators use travel agencies as a marketing outlet. Individuals relied more heavily on travel agents until the advent of the Internet for the processing of their travel requests, though they still rely on the travel agent for advice on their chosen destination.

Travel agencies sell airline tickets and end products packaged by tour operators and distributed through national networks. The travel agent will sell only those products that benefit operations. The travel agent will wish to retain clients and so will only send them to reputable tour operators, who can be guaranteed to provide the services advertised and will not go bankrupt—as has happened.

The commission structure set by the tour operator creates a major incentive or disincentive to promote specific packages. Travel agencies generally earn between 10 to 15% on tour operator packages, somewhat higher than the industry average for domestic travel transactions except business travel. However, this is under pressure as airlines have reduced or eliminated commissions to travel agents – on complicated trips, travel agencies are now required to charge for the services they provide. This, together with burgeoning information technology and the Internet, is changing the way business is done in the travel industry.

AIRLINES

Commercial airlines operate scheduled services and also, frequently, their own corporate tour operations. Charter airlines operate their own services and lease their services to tour operators. Tour operators can operate their own charter airline services. The ever more complex and even incestuous service and leasing arrangements between scheduled carriers, their corporate offshoots, tour operators, and charter services are indicative of the competitive nature of the airline industry today, which is driven to reduce costs and increase airline occupancy rates because margins are so slim. Many of the major airlines of the world are currently in financial difficulty and the industry reported losses of over US\$8 billion in 2004.

The air distribution channels that deliver tourists to and from the region constitute the main restriction on the flow of tourists to Africa, with the chief issues being:

Weak bargaining power of governments to open routes for their national airlines because of the small size of the fleet and their reluctance liberalize air policy (open skies);

The power of tourism distributors to control the direction of tourism demand, airline seat availability and, to an extent that varies by destination, the price of the airline seat and hotel room, and, frequently the cost of the total end product price;

The airlines hub-spoke system of passenger delivery improves aircraft utilization and airline load factors, but can adversely affect the numbers of through-passengers able to travel on to hotels in destinations located beyond a major destination spoke; and

Insular local air transport systems comprise a collection of national and regional airlines operating both inter- and intra-regionally.

Each of these systems has different characteristics in terms of route structure, average spoke length, numbers of carriers operating, type and passenger capacity of aircraft in use, and the number and runway length of airports served.

HOTEL COMPANIES

Within the international tourist sector, multinational corporations have engaged in both horizontal integration in the form of foreign direct investment, leasing, management contracts, franchising and marketing agreements for hotels, and vertical agreements between hotels, airlines, tour operators and travel agencies. For example, approximately 78% of major hotels along the Kenyan coastline and around 66% of those in Nairobi and in the National Parks and Reserves have had some foreign investment, although less than 20% have been subject to total foreign ownership. Equity holdings have been acquired, for instance, by the tour operators: African Safari Club, Hayes and Jarvis, Universal Safari Tours, Kuoni, Polmans, TUI, Franco Rossi and I Grandi Viaggi, as well as by British Airways and Lufthansa. Foreign

hotel chains have managed a number of hotels, and franchising contracts with such groups as Holiday Inn, Hilton, Intercontinental and Sheraton, have occurred.

International hotel chains have relatively few properties in developing countries and these are frequently in major business centers and are managed rather than owned; in these cases the commitment is for the length of the management contract. The French group, Accor, has the largest presence of any international hotel operator in developing countries, a number of which have been financed with the assistance of the French Government. The most significant tour operator investments in African destination countries have been by German tour operators in Kenya and the Maldives, where relatively high tourism volumes were anticipated on a continuing basis.

Business travel produces higher margins than leisure tourism; therefore, hotels tend not to seek management contracts for tourism hotels in developing countries. As a consequence, there are now a number of local and regional hotel groups, such as the Alliance hotels in Kenya, Southern Sun International in South Africa and Beachcomber in Mauritius.

MARKETING AND PROMOTION¹³

Marketing and promotion are often overlooked when countries establish a tourism sector, yet without it demand may never be generated for the product in sufficient quantity for it to be viable. Empirical evidence suggests that marketing of a country internationally should be a joint public-private sector activity. Some experts believe that because the industry is fragmented and each unit is involved in selling its own perspective, the activity should be led by the public sector particularly in a new or fledgling destination. The rationale is that only the government can reflect the country's tourism policies and image in the messages to be delivered to tourists. By controlling marketing a Government can prevent the "wrong" messages being sent externally, such messages generally relate to cultural, social inclusion and ethical issues. The British Tourism Authority illustrates the extent of government involvement in developed countries. BTA receives about GBP 35 million annually from the government and an additional GBP 16 million from the private sector.

The public-private sector effort will promote the country as a whole and specific regions or destinations within the country. Individually, hotels, groups of hotels, or destinations that include several non-affiliated hotels and tourist service providers, will promote their own accommodation and services. Smaller hotels have the most difficulty in absorbing advertising costs and can often be assisted by national and regional hotel associations with joint promotion and marketing, combined with a joint computerized reservation system.

¹³ This section deals with marketing and promotion of a country as a tourism destination.

The promotion of tourism in foreign markets targets the general public through advertising campaigns and travel agents and tour operators by a variety of means. Many countries hire public relations firms, specialized in tourism marketing, to handle their advertising campaigns in major destination markets. Most companies develop a special logo, music and or message for their countries that can become instantly recognizable. An advertising campaign targets a mix of media for the general public: television, radio where it is important, the Internet, where many countries now have their own websites, the travel sections in newspapers, travel magazines, travel books and even documentaries, and brochures.

Tour, airline and travel agency operators also consume these same mixed media messages as the general public, but they are specifically targeted also. The travel industry trade press is a prime target for country promotion. The tour operators and travel agencies are targeted through paid familiarization trips to the destination, bonus trips for successful marketing of the country, paid conferences in selected regions, and ultimately incentive commission structures. Simultaneously with the marketing and promotion by the country and individual resorts or hotels within that country, tour operators are also advertising their package holidays through the same print and visual media, directly to tourists and through travel agents and, increasingly, the Internet.

TOURISM AND TECHNOLOGY

Technology has already had a major impact on marketing and on the structure of the tourism industry. All sections of the tourism industry are using information technology and cannot today survive without it. Tourism has become an information intensive industry, in which the speed and efficiency with which information is processed in every aspect of the industry has grown exponentially since the information age began. Tourists can now determine the price and availability of their preferred destination in minutes from their computer terminal. Technology is also available to enable potential visitors to take a virtual tour of their hotel and the resort as whole, as well as the natural assets they will visit, such as a rain forest or an underwater reef. In the industry, there is much consolidation and destination management systems (DMSs) such as APOLLO, AMADEUS, GALILEO, SABRE, WORLDSPAN, HOTEL AUTOMATION, THISCO, link airlines and hotels in vast networks. Some well-known DMS are the Irish Gulliver system, the UK's VisitBritain program, the Canadian Travel Exchange and, in Africa, the Namibia Wildlife Resorts central reservation system. Individual service providers are paring costs by selling mostly on the internet: easyJet, airTrans, RyanAir, Southwest Airlines and easyRentacar are examples.

The impact of the new technology on consumer preferences and on the industry itself is not yet well understood but will have significant impacts. Computerized reservation systems drastically reduce the costs of a booking to airlines. The productivity of travel agents is considerably higher; yet demand for their services by the producers, other distributors and consumers may decline. At the same time, the

technology should increase demand for tourism through greater transparency about the price and quality of the product offered, as well as make destinations more competitive with each other.