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Tanzania’s Tourism Cluster

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Independent since 1961, Tanzania is one of Africa's most lauded success stories. With its legacy of openness to foreigners and cultural harmony, the country's leadership has built upon its inherited strengths to create an economy that, while still having a long way to go, has made significant competitiveness strides in recent years.

National Overview

Born of the 1964 merger between Tanganyika and Zanzibar, the country is one of the world's poorest with a life expectancy of only 42 years and more than one-third of its population living below the poverty line.[1] Its capital, Dar es Salaam, is also the nation's chief commercial center. Roughly double the size of California, Tanzania's population of 36 million shares borders with eight nations, some of which have been plagued by conflict in the past decade. These include Burundi, the Democratic Republic of Congo, Uganda, and Rwanda. Among the nation's more politically and economically stable neighbours are Kenya, Malawi, and Mozambique.

The nation is plentiful in natural resources. Rich in mineral wealth, Tanzania counts diamond and gold mining among its leading industries.[2] The country also is home to the world's second-largest freshwater lake, Lake Victoria, and the continent's highest point, Mount Kilimanjaro. Modern infrastructure remains limited for many of the nation's citizens. More than 90% of the population has no access to electricity and only 53% of rural citizens have access to potable water. Yet technology has made some headway: the number of reported cellular phone lines is ten times that of fixed lines.[3]

Developing its human capital is a stated priority of the Tanzanian government, which calls quality education "the pillar of national development" that will allow Tanzania to "create a strong and competitive economy which can effectively cope with the challenges of development."[4] The country's literacy rate of 73 percent is in line with neighboring Kenya and Uganda. A bilingual English and Swahili system helps prepare students for the global economy.

[1] CIA Fact book 2006: Tanzania
[2] CIA Fact book 2006: Tanzania
[3] CIA Fact book 2006: Tanzania
[4] Tanzania National Web Site, http://www.tanzania.go.tz/educationf.html

The Evolution of Government Philosophy

Tanganyika won independence peacefully in 1961 following colonialization first by the Germans and then by the British, who built a system of "local government on the basis of traditional authorities."[5] Following World War II, a period of UN guardianship oversaw elections and the creation of a new constitution. Pro-independence political leader Julius Nyerere became the nation's first prime minister in 1961, beginning more than two decades of single-party rule.

Nyerere's legacy is one of political cohesion and socialist economic experimentation. Promoting Kiswahili as the official language, Nyerere united Tanzania behind his vision of a proud and unified Tanzania that did not fall prey to the ethnic strife often found in its neighborhood. On the economic front, Nyerere's program of "African socialism" launched in 1967 meant the government would steer the "commanding heights" of the economy itself in order to increase the nation's economic independence. Banks and most industries were nationalized and the exchange rate regulated.[6] The final result of these policies of price control, import substitution, and "villagization" (resettling villagers into larger countryside communities to bring them nearer to services) left Nyerere's nation vulnerable to the collapse that was to come in the 1980s.

In 1985, Nyerere became one of the few post-colonial African leaders to step down peacefully, clearing the way for economic reform. By the mid-1990s a program of exchange rate liberalization, privatization of state-owned enterprises, and foreign ownership openness began to take hold, winning the country the attention and approval of foreign donors. These free-market reforms came at the same time as the introduction of multi-party elections; in 1995 Benjamin Mkapa took office with a plan to root out corruption and push ahead with economic progress.

Building on Historical Strengths, Facing Political Challenges

A chief strength of Tanzania, especially in the context of its neighborhood, is its political stability. From its founding in the 1960s, the nation embraced a national identity which superseded tribal boundaries. This created an environment in which peace could rage even when surrounded by conflict, permitting the nation's uninterrupted economic and political maturation.

[5] Tanzania National Web Site, http://www.tanzania.go.tz/educationf.html
[6] "Is Tanzania an emerging economy? A report for the OECD project 'Emerging Africa'," Bigsten/Danielsson, OECD, 1999.

In the past decade, this openness has extended to foreign investors. As noted by a 2005 U.S. Department of State report on investment climates, the government of Tanzania has created an "an attractive package of incentives for investors," and as a result "FDI in Tanzania has increased steadily in the last five years." In 2004, Tanzania was named the continent's best investment promoter, with the Tanzania Investment Center placing first among 48 national agencies.[7]

One potential cloud is Zanzibar's political future. Bloodshed and intrigue marked the region's first two political contests and tensions mar relations between the island of Zanzibar and the nation's mainland. Each side says it gives more than it receives from the political union.[8] With a largely Muslim population of one million, Zanzibar now lists tourism as its chief industry, meaning that any rift between the two parties has economic and reputational spillover effects that would be felt immediately.

Period of Economic Reform

In 1986, following the appointment of an interim government and amid economic crisis, Tanzania allowed its currency to depreciate and implemented a structural reform program. Steps taken include trade liberalization, export stimulation and exchange rate unification. Privatization programs were pursued and the public sector thinned. Private and, eventually, foreign banks were allowed to operate. The interest rate regime was liberalized and a policy of central bank autonomy implemented. The government put the Shilling under a managed float, reduced tariffs and pursued a policy of price stability. Having made "substantial economic progress," Tanzania received $2 billion of debt relief from the International Monetary Fund in 2000.[9]

The economic growth story is compelling. Tanzania has logged some of its continents best growth rates, averaging 5% since 2000.[10] Both GDP and GDP per capita have increased. Commodity growth, including gold, coffee, and cotton, has fuelled some of this progress. Tourism has grown to account for 6% of growth, with significant room for future expansion remaining. Inflation, which averaged 27% in the early part of the 1990s, now hovers around 3-

[7] "2005 Investment Climate Statement – Tanzania," U.S. Department of State http://www.state.gov/e/eb/ifd/2005/42185.htm
[8] **"**Zanzibar: Strife stalks Africa's only successful union," David White, Financial Times, August 2, 2005.
[9] "IMF and IDA Support Debt Relief for Tanzania," International Monetary Fund Press Release, April 5, 2000.
[10] "Tanzania Country Assistance Evaluation, 1996-2004," African Development Bank, 2006.

4% and nominal interest rates are lower than neighboring Kenya and Uganda at 13%.[11] Foreign investment, on an upward trend over the past half-decade, is among the highest in Africa, reaching as high as $240 million in 2002.[12]

Economic Obstacles Ahead

Serious challenges exist amid the progress, and poverty “remains widespread, deep and persistent.”[13] The inefficient and slow-growing agricultural sector remains the mainstay of the economy, accounting for nearly half of the nation’s GDP, 80 percent of its employment, and 85 percent of its exports.[14] Growth is not reaching all regions of the country, threatening the success of any poverty alleviation plan “given that poverty in Tanzania is mainly a rural phenomenon.”[15]

The state’s weak role also plagues economic performance. Tax evasion is a major problem and nearly three-quarters of Tanzanian firms surveyed across sectors cite high tax rates as a major constraint to growth and operations.[16] The informal economy, which generates no tax dollars, is growing rapidly -- according to Tanzanian government figures, the formal sector accounts for only six percent of the nation’s employment. As the OECD noted, “revenue generation remains one of the most urgent issues in Tanzanian reforms,” a problem which is only exacerbated by the nation’s aid dependency. [17] Only 10 to 12% of GDP is funded by tax receipts, with about the same percentage coming from international aid. International observers have argued such extreme aid dependence has “undermined domestic control of the development agenda and…may have resulted in poor governance.”[18] A socialist mentality also continues to inform decisions at the highest levels and hamper widespread adoption of market reforms.

While macroeconomic reforms have created an environment more conductive to growth, productivity has proved an obstacle. At roughly $2000, Tanzania’s value-added per worker is more than twice that of Uganda, but lower than Kenya’s $3551.[19] Larger, more capital intensive

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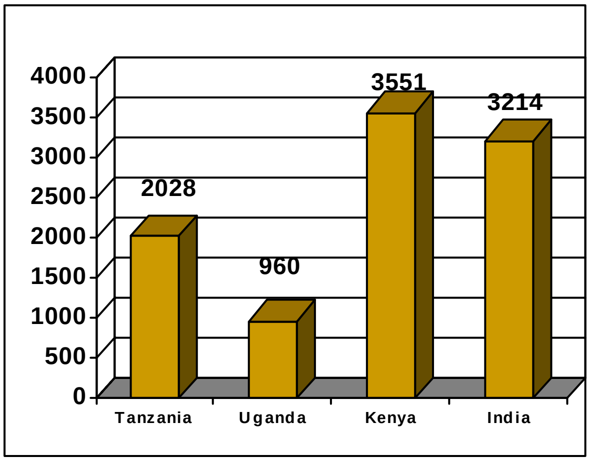
[11] CIA Factbook 2006: Tanzania
[12] “Tanzania Country Assistance Evaluation, 1996-2004,” African Development Bank, 2006.
[13] Ibid.
[14] CIA Fact book 2006: Tanzania
[15] “Tanzania Country Assistance Evaluation, 1996-2004,” African Development Bank, 2006.
[16] “Investment Climate Assessment, Improving Enterprise Performance and Growth in Tanzania,” World Bank, November 2004.
[17] “Is Tanzania an emerging economy? A report for the OECD project ‘Emerging Africa’,” Bigsten/Danielsson, OECD, 1999.
[18] Ibid.
[19] “Investment Climate Assessment, Improving Enterprise Performance and Growth in Tanzania,” World Bank, November 2004.

firms were more productive overall, with a significant gap in productivity between micro and large enterprises. Efficiency is an issue as both Kenya and Uganda have higher total factor productivity (TFP) figures.

A lack of skills and education among Tanzanian workers helps explain these numbers. As noted by the International Finance Corporation, the quality of the labor force is an "especially serious problem in Tanzania, even by regional standards. Workers in Tanzania tend to have considerably less formal education than workers in either Kenya or Uganda."[20] Most notably, the country has more than twice the percentage of workers relying solely on primary-level education than its neighbors.

Figure 1: Labor Productivity



Source: Investment Climate Assessment, Improving Enterprise Performance and Growth in Tanzania," World Bank, November 2004.

Business Competitiveness Poses a Challenge to Wealth Creation

Tanzania's business environment and the competitiveness of the corporate sector are weak. Tanzania's ranking in the Business Competitiveness Index in 2005 was low at 82 out of 116 nations surveyed.. However, Tanzania has jumped 9 levels in the BCI index since 2004.[21] (See Table 1). Reported improvements in labor-employment relations could partially explain the improved climate.[22] Data indicates that improvements in national business environment through gains in factor conditions played the most significant role in the change.[23]

Table 1: Percent Change In BCI Rankings Relative to Income Bracket

	Change	**Change**	**Change**	**Change**
Region/country	BCI Rank	BCI Score	COS Score	NBE Score

[20] Ibid.
[21] Building the Micro economic foundations of prosperity, Findings from the Business Competitiveness Index, Michael Porter
[22] Ibid
[23] Ibid.

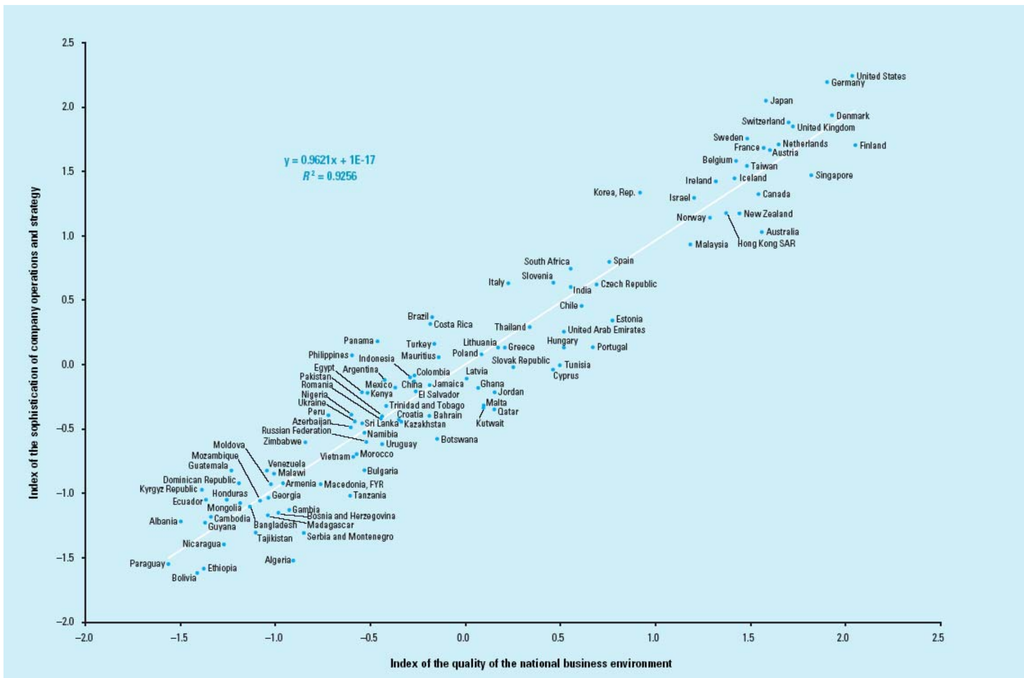
Low Income Countries		0.174	0.028	0.145
Country relative to income group				
Tanzania	**9**	**0.245**	0.0015	**0.230**
Kenya	-2	-0.14	-0.016	-0.125
South Africa	-3	-.075	-.003	-.072

Source: Building the Micro Economic Foundations of Prosperity: Findings from the Business Competitiveness Index, Michael

Tanzania Underperforms in Several Categories of Analysis of the BCI Index

Plotting the index of its company competitiveness against the quality of the business environment, it becomes clear that Tanzania's business environment is more sophisticated than the firms operating in it..[24] (See Figure 2). This gap may be due to poor development of an entrepreneurial culture, a lack of managerial creativity, as well as low levels of management education – all legacy factors from 20 years of socialism.[25] Porter points out that countries in this situation should make "efforts to improve entrepreneurship, strategic thinking, managerial practice, and business education" their priority.[26]

Figure 2: 2004 Company Competitiveness vs. Quality of the Business Environment



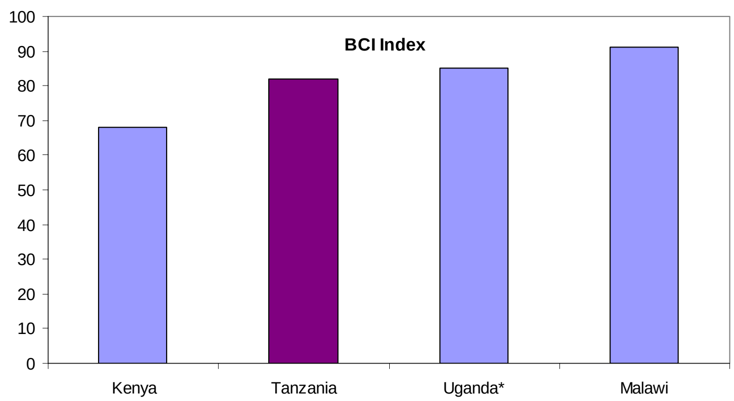
Source: Figure 6 from Building the Micro Economics of Prosperity, Michael Porter)

Tanzania's actual GDP underperforms its expected GDP given its level of micro economic competitiveness.[27] With Tanzania's relatively stable political legacy, the primary reason appears

[24] Building the Micro economic foundations of prosperity, Michael Porter
[25] Interview with Nichole Smaglick, Another Land, 10 April 2006.
[26] Building the Micro economic foundations of prosperity, Michael Porter

to be Tanzania's location in a bad neighborhood. Porter finds that a country's geographic location can affect its ability to achieve prosperity. Since Tanzania has ocean access, its location in a poor and often conflict-ridden neighbourhood likely creates a structural impediment to growth because its neighbors do not provide growth-friendly trade and investment opportunities.[28].

Figure 3: BCI Index Ranking



Source: Business Competitiveness Data

National Diamond Shows Strong Factor Conditions While Other Areas Need Improvement

As expected, Tanzania's national diamond shows several poorly ranked factors. However, the country is not without strengths. As indicated below, factor conditions are strong. Tanzania has decent ranking in judicial independence and effective legal frameworks. A sizable population provides good human resources at a low cost. The literacy rate is surprisingly high at 73 percent. The labor force has a basic education stemming from the nation's socialist legacy; however, the dearth of skilled workers remains a weakness -- evident from the limited number of tertiary institutions. There are only six established institutions of higher learning.[29] The country's wealth of natural resources including solid minerals, game and fishing reserves, and beaches are among factor conditions capable of contributing to the country's development.

Outside the isolated incident of the 2001 embassy bombing in Dar es Salam, safety and stability remain a great advantage over its neighbors. [30] Anecdotes abound regarding the determination of the police to protect Tanzania's image of safety by squashing any hints of crime toward tourists. Infrastructure challenges are rampant as access to electricity is low. Black-outs are common, especially during the dry season. The median enterprise suffers from 48 days of black outs per year versus 21 for Kenya.[31] Tanzania relies on hydro-power generated from tributaries of Lake Victoria. Several countries depend on the same source, taxing its capacity. This situation is

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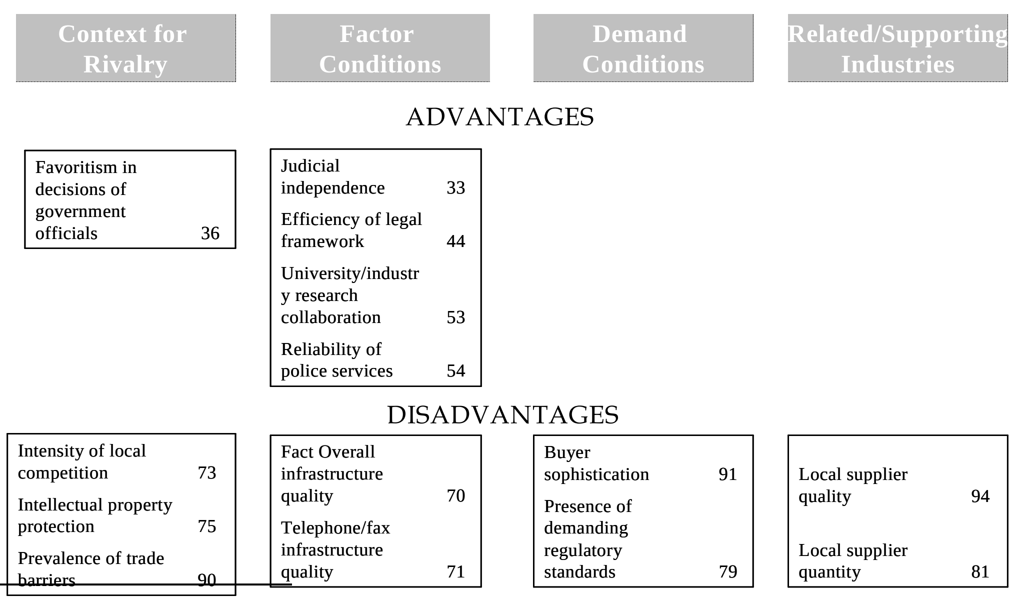
[27] Ibid
[28] Building the Micro economic foundations of prosperity, Michael Porter
[29] http://www.tzonline.org/websiteslinks.htm, accessed on April 27th 2006.
[30] http://www.africantravel.com/countryinformation/tanzania.html, accessed on April 27th 2006
[31] IFC Investment Climate Assessment, Improving Enterprise Performance in Tanzania, 2004

exacerbated by dry seasons and the alleged draining of Lake Victoria for energy needs by other countries. [32] Road development is weak. There are also complaints about the outdated airport and the quality of transportation and logistics services.[33]

Tanzania's location is both an advantage and disadvantage. Potential spillover gains are possible given proximity to Nairobi, a regional hub for business travel and tourism. However, Tanzania is not a gateway country like Kenya and thus must work hard to attract business, investment and tourists. On the positive side, Tanzania has a long coast line and benefits from a port in Dar es Salaam. Port and customs delays are significantly longer than in comparable countries,[34] however, and as a result, Tanzania does not enjoy the benefits it should from its coastal location. The context for rivalry is generally weak. The BCI rankings show there is not excessive favouritism by the government toward particular companies, implying there should be a positive environment for firm development. The intensity of local competition, however, is very low. Only three Tanzanian companies are among the top 100 companies in the East Africa Region. In the last year alone, equity values of listed Tanzanian companies dropped 12% on average. [35] The Tanzanian stock market itself is "embryonic," with only five companies listed, a total market capitalization of 0.2 percent of GDP, and a turnover of about 7.6 percent of GDP.[36]

Figure 4: National Diamond



Source: Business Competitiveness Indicators

[32] "Africa's Top 1000 Companies: East Africa Ranking," *African Business*, April 2006
[33] IFC Investment Climate Assessment, Improving Enterprise Performance in Tanzania, 2004
[34] IFC Investment Climate Assessment, Improving Enterprise Performance in Tanzania, 2004
[35] "Africa's Top 1000 Companies: East Africa Ranking," *African Business*, April 2006
[36] IFC Investment Climate Assessment, Improving Enterprise Performance in Tanzania, 2004

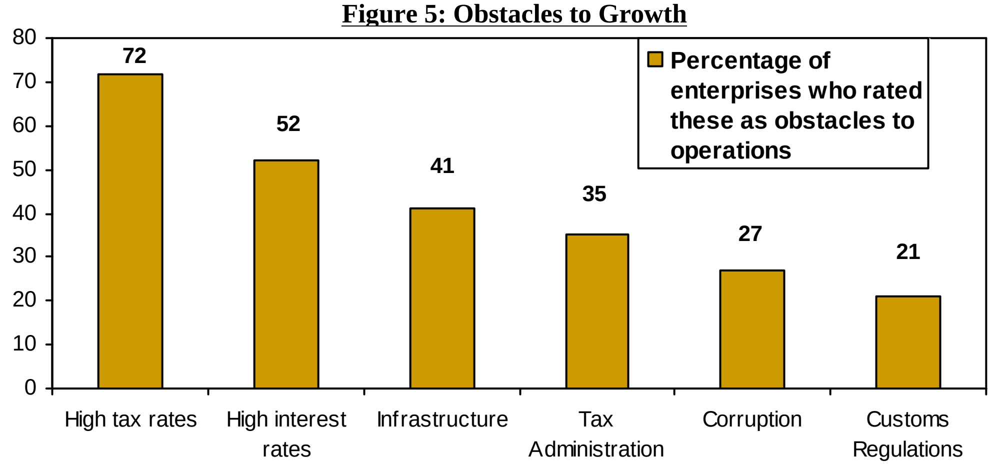
Although the government has made considerable strides in improving the banking sector, firms, --- especially SMEs -- continue to report difficulties in accessing financing given high interest rates. Most companies in Tanzania rely on retained earnings for funding, making high growth rates virtually impossible.[37] Innovation is poor at even the most basic level, with most new ideas for products and services coming from foreigners.[38] Additional factors include long lead times in establishing businesses and a legacy of socialism resulting in less demanding consumers.

These factors, along with, low per capita income and a poor neighbourhood, create weak internal demand conditions in Tanzania.[39] This contrasts with the sophisticated demand generated by international tourists. Demand sophistication is increasing as the number of European tourists rise and regional tourism develops. Regulatory standards and consumer protections are weak, hobbling the development of stronger demand conditions.

Weak suppliers in related and supporting industries accompany the low demand. The main risk here is that suppliers in neighboring Kenya are much more sophisticated and Tanzanian companies are finding they are more successful when sourcing from them[40] Local suppliers, on the other hand, complain they are not competitive because of infrastructure challenges, lack of access to capital, and weak internal demand, making the argument a circular one.

The corporate view of doing business in Tanzania is that high tax rates, high interest rates and infrastructure are major obstacles to doing business.

Figure 5: Obstacles to Growth



Source: IFC Investment Climate Assessment, Improving Enterprise Performance in Tanzania, 2004

[37] Ibid
[38] Interview with Nichole Smaglick, Another Land, 10 April 2006.
[39] Business Competiveness Database
[40] Ibid

Although corruption is ranked lower, interviews with business people working in the region unveiled some concerns over corruption[41]. Nevertheless it is not considered the greatest impediment and, the government is committed to fighting the extent of corruption that does exist.

Policies to Improve Situation Directionally Correct but Require More Effectiveness

The Tanzanian government appears committed to maintaining macroeconomic stability, strengthening the financial sector, improving governance and enabling the private sector. There are attempts to improve the tax system but a closer read shows the government is still "reviewing" a variety of policies and has yet to take specific actions. [42] Nevertheless, officials are moving in the right direction by attempting to implement changes to the tax system, due to be implemented by June 2006, which will make it easier to easier to pay and collect.[43]

In the realm of private sector development policy, a coherent Monitoring and Evaluation (M&E) system for the business environment, SME development and poverty reduction has been developed. Reforms have made it easier to license businesses and the government approved the establishment of a National Micro Finance bank, currently running as a state-owned enterprise.[44]

The Tanzanian Government's Poverty Reduction Strategy Paper (PSRP) emphasizes the country's goal of reducing poverty by developing infrastructure, building human capacity and creating a competitive economy. Policy decisions have targeted agriculture, tourism, and mining clusters. Land rights reform, energy and trade are also priorities. Tanzania is actively pursuing governance and business environment reform with a new Anti-Corruption Law and has created a mechanism for registering grievances concerning unethical conduct of civil servants.

Growing Clusters and Exports Require Encouragement

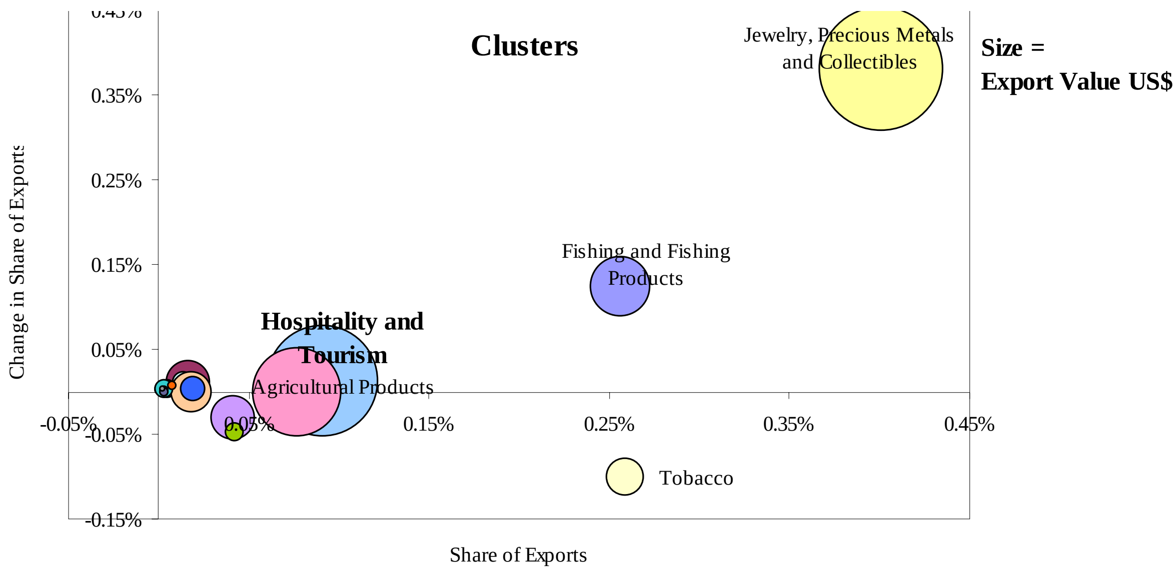
Tanzania's largest trade partner is the UK. This is positive given the bad neighbourhood; however, few firms have international certification for their products and burdensome customs

[41] IFC Investment Climate Assessment, Improving Enterprise Performance in Tanzania, 2004
[42] Tanzania: Letter of Intent and Memorandum of Economic and Financial Policies, July 14, 2005
[43] Ibid
[44] Ibid

processes delay both exports and imports. It is worth noting the UK is Tanzania's largest trading partner given that there are only three flights a week between the two countries.

All of Tanzania's largest clusters take advantage of the country's natural resources. Jewelry and precious metals and tourism are the clusters with the largest export value. Agribusiness and fisheries are also significant contenders given domestic and export demand. The precious metals segment is growing, spurred on by added investment in diamond and gold mining[45]. There is also growth in other semi precious stones such as Tanzanite. [46] Tourism has a large total value amount but is not expanding as rapidly. The government can do a lot to develop this industry and position it to become an even more significant enabler of SME growth.

Figure 6: Cluster Growth: Share of Exports, Percent Change in Share and Value



Tourism Cluster Overview

The tourism cluster has grown substantially over the past decade; the number of international visitors more than doubled from 1995 to 2004 at a CAGR of 7.86%.[47] Of those visitors, 74% travel for leisure or holiday – and thus classify as tourists.[48] The cluster ranks 2nd in value for Tanzania, but nets the country significant foreign reserves – second only to agriculture.[49] Total

[45] http://www.tzonline.org/websiteslinks.htm, accessed on April 27th 2006.
[46] http://www.tzonline.org/websiteslinks.htm, accessed on April 27th 2006.
[47] World Tourism Organization: United Republic of Tanzania
[48] Ibid.
[49] England, Andrew. "Tourism: Growth held back by lack of capacity", *Financial Times*, 2 August 2005.

direct tourism revenues in 2004 were estimated at $764 million.[50] Tourism activities also create spillover revenues in related industries such as agriculture, fisheries and retail.

Tanzania's tourist attractions focus on its natural endowments. The country boasts 31 game reserves – including the Serengeti and Ngorongoro Crater, Mt Kilimanjaro – Africa's highest peak, the beach islands of Zanzibar and Pemba, and archaeological sites such as the Olduvai Gorge, thought to be the origin of man. Tanzania has the highest concentration of animals on the planet and has dedicated 25% of its land reserves to parks – the most of any country in the world[51].

Cluster History

The tourism industry in Tanzania is only moderately developed. During the socialist era, minimal attention was paid to the industry as the Government focused on self-sufficiency and equitable development. With the country's transition to a capitalist economy in 1985, tourism has played a larger role in the economy and has solicited greater government support. The industry's youth, however, has resulted in underdeveloped tourism infrastructure, including hotels, restaurants, and local tour operators. It also is affected by the weakness of related and supporting infrastructure such as roads and power.

Regional Positioning

The industry's late development is felt most significantly in relation to Kenya. Tanzania's more populous and wealthier neighbour has an older and more developed tourism cluster and attracts far more visitors on an annual basis: in 2004, 1 381 000 visitors entered Kenya compared to the 583 000 entering Tanzania.[52] Kenya is a formidable competitor: the two countries share many of the same attractions including game parks, beaches, and wildlife. Kenya leverages those assets by spending more than four times Tanzania's tourism marketing budget: $6.6 million annually.[53] Kenya is easier to access, with more frequent and cheaper direct flights from Europe on international airlines as well as its privatized national carrier. Kenya's tourism infrastructure is

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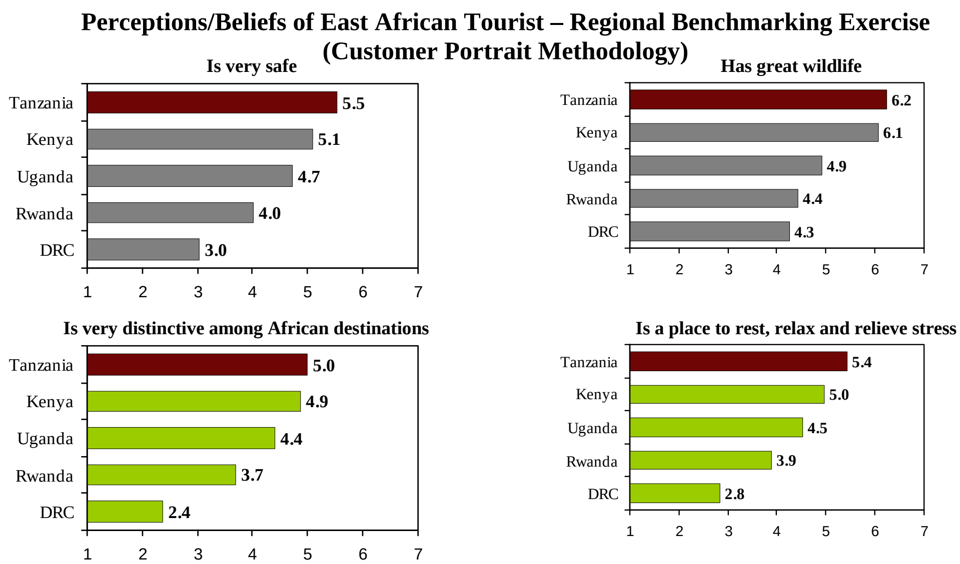
[50] Ibid.
[51] Interview with Nichole Smaglick, Another Land, 10 April 2006.
[52] World Tourism Organization: United Republic of Tanzania, Kenya
[53] According to Peter Mwenguo, Director of Tanzania Tourist Board, quoted in: England, Andrew. "Tourism: Growth held back by lack of capacity", *Financial Times*, 2 August 2005.

also better developed, with more hotels and tour operators as well as deeper relationships with international travel specialists. Capacity is also an issue. An international tourism consultant noted that while the Serengeti Game Park (Tanzania) is seven times larger than the Masai Mara Game Park (Kenya), the Sergenti hosts only seven lodges while the Masai Mara has seventeen.[54]

Though Kenya attracts more tourists in absolute terms and Uganda boasts the fastest growing industry in volume with a 2000-2004 CAGR of 21.5%, Tanzania ranks first in the region in all critical areas of customer perception.[55] According to a 2002 survey of East African tourists conducted by the OTF Group, Tanzania is perceived to offer the best wildlife and the most preferred location to rest and relax, as well as the safest regional destination.[56]



Differentiation Strategy and Regional Comparisons

The need to compete with Kenya, in addition to tourism investment capital constraint, drove the Tanzanian government to pursue an up-market differentiation strategy with hotels and attractions fewer in number but at the high-end. Positioning itself as an "authentic" destination, unspoiled and off the beaten track, Tanzania seeks to deliver a premium experience to travellers turned off by Kenya's high volume, mass market approach. It also leverages the country's international

[54] Interview with David Pluth, Independent Tourism Consultant to Tanzania National Parks, 30 March 2006.
[55] World Tourism Organization data
[56] ontheFRONTIER Tourism Visitor Quantitative Study from Rwanda National Competitiveness and Innovation Program: "Plan to Unleash Rwanda's Tourism Potential", June 15, 2002, OTF Group. (This graph not to be reproduced or shared outside MOC Spring 2006)

brand as a safer destination with welcoming people, positioning it as a friendlier alternative to Kenya.

Given limited government and internal resources to invest in tourism-related infrastructure, Tanzania welcomed foreign direct investment to the cluster. Incentives for foreign firms include a freely tradable currency, flexible labour laws and improved regulation regarding foreign ownership of land.[57] As a result, 60 percent of hotels are foreign owned.[58] David Pluth, a consultant to Tanzania National Parks, argues this was a pragmatic decision on the part of the Tanzanian government: "If they wanted the hotels, they had to depend on the foreigners. They didn't have a choice." Tanzania has a small, educated business class which has eagerly worked for and partnered with foreign firms in order to advance the interests of the cluster.[59]

Foreign ownership offers Tanzania its only hope of delivering on its high-end strategy; even with the presence of major firms such as Serena, Movenpick, and Sheraton Hotels, Tanzania does not yet provide a truly high-end offering. Despite re-investment of profits in the industry, experts concur the strategy has been only moderately successful and some implementation flawed. For example, in an effort to keep the number of tourists low for sustainability purposes and promotion of a perception of scarcity, the government has banned the construction of any new lodges in the game parks. This comes in spite of high demand and a belief among tour operators that undersupply exists in the market, even when accounting for sustainability needs. These operators believe the government is trying to create a perception of premium through scarcity rather than undertaking the more difficult task of actually creating products, services and infrastructure worthy of a premium.

Sources of Industry Revenues

While not delivering entirely on its positioning as a premium destination, Tanzania has differentiated itself from Kenya and is seen as the higher-end destination. This is reflected in the cluster's revenue break down.

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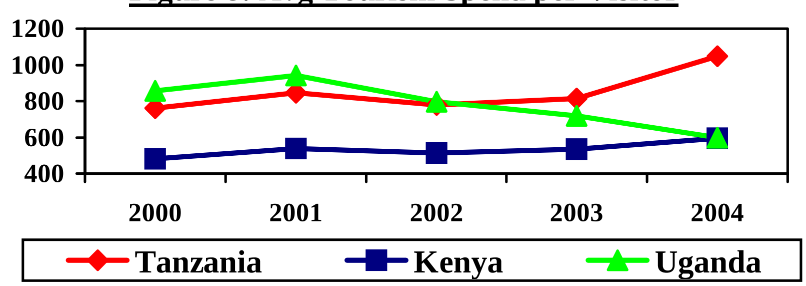
[57] Interview with David Pluth, Independent Tourism Consultant to Tanzania National Parks, 30 March 2006.
[58] England, Andrew. "Tourism: Growth held back by lack of capacity", *Financial Times*, 2 August 2005.
[59] Interview with David Pluth, Independent Tourism Consultant to Tanzania National Parks, 30 March 2006.

Figure 7: Tourism Revenue Breakdown

Number of Visitors	X	Length of Stay	X	Spend per Day	=	Total Industry Revenue
583 K	X	12 Days	X	$109.20	=	$764 Million*

Tourism revenues are largely driven by three factors: the number of visitors to a country, their length of stay and the amount they spend on a daily basis. Consistent with its high-end positioning strategy, Tanzania has focused on the latter two. According to Saleh Pamba, Director of Tourism in the Ministry of Tourism and Natural Resources: "We are not going to over-invest and bring in too many people. We are interested in low-impact tourism that generates more funds and makes it sustainable."[60] This focus has succeeded in driving a higher overall spend-per-visitor compared to regional competitors. A tourist in Tanzania spends on average nearly twice that of a visitor to Kenya both because of higher hotel and park fees, and because he spends an average of 12 days in Tanzania versus 8 in Kenya:[61]

Figure 8: Avg Tourism Spend per Visitor



Supporting Institutions

Two government entities support Tanzania's tourism strategy: the Tanzania Tourist Board (TTB) and the Tanzania National Parks Association (TNPA). The TTB is charged with representing the industry abroad, maintaining directories of lodges and operators, and marketing the industry to prospective visitors and investors. The TTB also honours members of the cluster annually

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* Source data from: World Tourism Organization, Financial Times

[60] England, Andrew. "Tourism: Growth held back by lack of capacity", *Financial Times*, 2 August 2005.

[61] Source data from: World Tourism Organization, OTF Group

through the Tanzania Tourist Board Awards.[62] The TNPA is responsible for managing the country's national parks, including game and park land reserves.

Industry experts say that while the TTB should be managing marketing and working with operators, investors and hoteliers, it is largely ineffective. They allege the TTB is corrupt; one tour operator who asked his remarks not be attributed stated that TTB members do little aside from attending international tourist fairs. TTB staff is either unqualified or unwilling to act as an agent of change for the cluster.[63] Another industry member stated that part of the problem with the TTB was its limited funding and consequent inability to conduct serious initiatives, despite "exotic" ideas.[64]

Conversely, the TNPA is able to use park funds, including entrance fees, for marketing and promotional purposes. One individual suggested the TNPA has become more active in promoting the tourism industry abroad as a result of the TTB's limited activity. Industry members believe the TNPA to be more pragmatic, effective and transparent, despite being understaffed.[65] A tour operator stated that a greater role for the TNPA would benefit the industry.[66]

This overlap of activities and confusion of roles has created inefficiencies in the marketing and coordination of the cluster. Further, because the TNPA is the most active agent of tourism promotion, marketing messages focus on parks and wildlife, overlooking other attractions such as the country's beaches and cultural sites. A regional tourism expert noted that Tanzania relies too heavily on its natural beauty to attract tourists rather than appropriately packaging a variety of offerings that would induce tourists to see the country as a destination in itself rather than a stop on a regional safari.[67] This criticism is partly explained by the TTB-TNPA dynamic.

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[62] Africa Travel Magazine Yearbook, http://www.africa-ata.org/ttb_awards.htm. Accessed 2 May 2006.
[63] Interview with Tanzanian tour operator, identity withheld.
[64] Interview with Tanzania tourism expert, identity withheld.
[65] Interview with Tanzania tour operator, tourism expert, identities withheld.
[66] Interview with Tanzanian tour operator, identity withheld.
[67] Interview with Eric Kacou, Director, OTF Group, 5 April 2006.

Cluster Diamond

Analyzing the cluster using the Diamond framework provides insight into its primary strengths and weaknesses. With the exception of demand conditions, which are quite good, the cluster's performance is mixed.

Regarding *Context for Rivalry*, the cluster is open to foreign ownership, with 60 percent of hotels internationally owned. Many industry associations act to lobby the government, set standards, and maintain codes of conduct. Western agencies, which conduct much of the country's business, are not involved. The Tourism Confederation of Tanzania represents all private businesses in the industry, arguing for favourable macroeconomic policies. The Tanzania Association of Tour Operators represents 110 members, for whom it sets standards.[68] Less promising, however, are the lack of framework for domestic operators to obtain credit, a legacy of corruption in the industry, and the remaining influence of socialism.

Factor Conditions are largely split into natural endowments, which are very favorable, and country infrastructure, which is unfavourable. The cluster depends heavily on Tanzania's natural beauty, wildlife and archaeological history. Human capital is mostly a hindrance; though Tanzania has an educated business class, it is small. The majority of cluster labor is poorly educated and low-skilled. Industry educational institutions are of low quality and have not succeeded in training students to meet the needs of a premium-positioned cluster. Physical infrastructure, particularly energy and roads, is a significant problem and requires substantial investment and upgrading. Domestic capital throughout the industry is limited; while some FDI has come in, it is insufficient for the cluster's growth needs.

[68] Tanzania Tourist Board. www.tanzaniatouristboard.com. Accessed 2 May 2006.

Figure 9: Cluster Diamond

Context for Rivalry	Factor Conditions	Demand Conditions	Related/Supporting Industries
+ Industry facilities largely controlled by private sector: 60% hotels foreign owned + Many associations of tour operators, hoteliers, etc for standards, lobbying + Reinvestment of profits into industry growth - Land ownership restrictions - Poor financing for domestic enterprises - Conflict among relevant Gov Agencies - Legacy of corruption	+ Excellent natural endowments + Cultural attractions and archaeology + Educated business class - Poor power, road infrastructure - Lack of human capital - Limited capital for investment - Poor use of technology	+ Perceived to have great wildlife, beaches, friendly people, good security + Increase in length of stay from 8 to 12 + Target emerging tourist markets + Low tourist density, “unspoiled”, “authentic” + Complementary destination to others in the region - Slower growth in visitors than region - Fragmented target market - Few daily international flights	+ Agriculture/Fisheries industries support hoteliers + Rapid growth in hotels; capacity utilization flat during growth - Poor transportation industry, airline access +/- Potential supporting industries still underdeveloped: Mining, ICT, Gems, Handicrafts, Game Hunting

Demand Conditions are generally positive. As stated above, Tanzania is perceived favourably in the region. Growth in the number of tourists, however, is slower than the rest of the region – from 2000 to 2004, visitors to Tanzania grew at a 3% CAGR while Kenya grew at 6% and Uganda at 22%.[69] International visitors to Tanzania's national parks, though, grew at 6%, suggesting that visitors were undertaking more parks-related activities. The country traditionally has targeted primarily Western European tourists but is increasingly seeking to target “emerging” tourists from markets such as Eastern Europe, China and Latin America. A tourism industry consultant noted that several years ago, Tanzania made a pitch to the Spanish-speaking market and increased tourist numbers from that market by 500 % in two years.[70]

Few *Related and Supporting Industries* exist for the tourism cluster in Tanzania. Agriculture is a supporting industry given the cluster's food service component. Fisheries is a rapidly growing cluster which also contributes to a nascent food culture, particularly in the island of Zanzibar. Transportation – a critical supporting industry – is poorly developed and slows cluster growth. Other potential supporting industries, including gems and handicrafts, are underdeveloped to

[69] Source data: World Tourism Organization
[70] Interview with David Pluth, Independent Tourism Consultant to Tanzania National Parks, 30 March 2006.

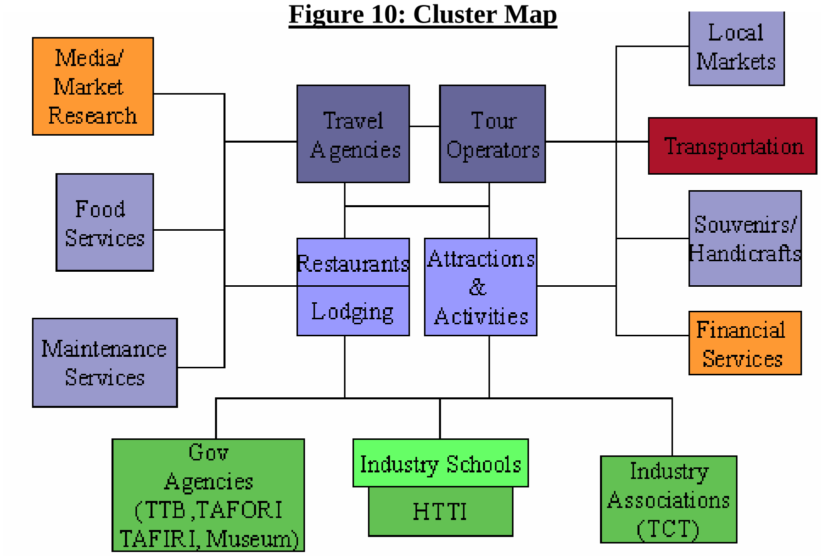
date. Game hunting, which is regionally available only in Tanzania, is moderately developed with estimated annual revenues of $14 million.[71]

Cluster Map

The cluster is small: at the core of the industry are approximately 200 tour operators. 144 are members of the Tanzania Association of Tour Operators (TATO), the remaining are non-licensed operators who present a threat to the reputation of the industry. The sector is highly concentrated with a few international companies such as Abercrombie and Kent, Takims Holiday Tours & Safaris Ltd and Ranger Safaris dominating the game parks market. Given its foreign dominance, the lodging sector features greater quality of service and management. Local entrepreneurs are concentrated in the tented camps business.

Except for a few five-star hotels, food and sanitary products procurement could use greater coordination that is currently the case. In 1999 there were only 38 restaurants of international standard outside of hotels. Local restaurants have a great appeal, especially for tourists seeking an "authentic" African experience.

Figure 10: Cluster Map



Transportation has been one of the biggest cluster weaknesses. Few international airlines have access to Dar Es Salaam, with only KLM and Ethiopian flying frequently. Costs of domestic airlines – of which there are 28 – are high and service is considered worse than in neighboring countries. The road transportation is good in the parks and attraction areas, but the rest of the

[71] England, Andrew. "Tourism: Growth held back by lack of capacity", *Financial Times*, 2 August 2005.

country's network is in poor condition. A rehabilitation project funded by China is being carried out to ameliorate the rail services, but this will not be operational until 2008. A project to operate a cruise ship from the coast of Zanzibar into Mozambique will start in 2007 and transportation on Lake Victoria is also being studied.

Supporting institutions such as the Hotel and Tourism Training Institution (HTTI) are present but weak. Hotel managers and tour operators have been calling for a review of the curricula to adapt the training to their needs. The lack of teaching staff has been a recurrent problem in the state institute. There is also a dire need for new managerial training. Industry associations have been formed, but the consensus is that leadership is absent and the value of these associations has not yet been realized.

Finally, supportive industries such as the handicraft sector and the financial sector are only remotely involved in the cluster. There are few examples of cooperation between tour operators and local handicrafts.

Role of Government

The government's leadership has been instrumental to cluster growth. Through the development of the "Integrated Tourism Master Plan" (master plan) in 1991, the government gathered stakeholders to agree on a vision for Tanzania tourism's future. The plan listed the major impediments in achieving this vision and a process to tackle them. It also provided a mechanism for monitoring and adjusting to international trends. In the absence of an institution overseeing all cluster activities,[72] the review of the master plan in 1999 and 2002 were important in involving all partners in the adjustment process[73]. A key attribute of the master plan was to define the role of the government:

> *The Government's role is to regulate, promote, facilitate and provide very conducive environment for the sustained growth and development of tourism. The private sector is thus engaged in development, promotion and marketing of tourism products, construction of tourist accommodation facilities; and provision*

[72] Vice President's office on Environment issues, the Ministry of Natural Resources and Tourism, Ministry of Transport, Donor's community, The Tourism Confederation of Tanzania

[73] The reviews were in response to the terrorist attacks of August 1998 and September 2001

of tour packages and other related services for the sector's sustainable development.[74]

The results of these efforts are mixed. To create an improved business environment, the administration provided a series of incentives to encourage competition and investment in tourism infrastructure, including exemptions on tourism capital goods[75] and additional tax breaks for "strategic investors." This strategy of providing lucrative incentives has attracted many foreign companies, particularly in the hotel and camping segments. Local entrepreneurs, lacking access to capital, have benefited very little from these incentives.

This disequilibrium compels the government to review its investment strategy and develop mechanisms to facilitate local entrepreneurs' access to financial and technological capital. The land reform bill passed in 2004 has not clarified all the concerns related to land access. It is still unclear which among the local, municipal and state authorities has power to deliver land titles and impose restrictions on new construction in the national parks. These clarifications will be critical in the new phase of tourism expansion in the southern and coastal areas of the country.

The government has been sensitive to human resource shortages in Tanzania, particularly in the private sector. It streamlined the application process to obtain working permits for foreign managers and is actively negotiating more flexible labor laws.

Role of Foreign Aid

The international community is an important ally of the Tanzanian government in its attempt to enhance the tourism industry. Initiatives are underway to coordinate the cluster efforts of the aid community. In 2002, aid agencies decided each would focus on one aspect of cluster development. The Dutch Aid program, for example, will support the conservation of historical sites and promote archeological tourism. The French agency has declared its interest in rehabilitating the HTTI, however technical and funding problems have seriously delayed the project. The USAID program focuses on local community empowerment via cultural tourism and links American tour operators to specific rural communities. While using the aid agencies to

[74] The Integrated Tourism Master Plan of Tanzania, 2002
[75] Goods for Hotels, Camping safaris, restaurants and tour operators like cutleries, carpets, automobiles are exempt from regular import tariffs

implement the master plan seems sensible, it is crucial that coordination efforts include not only the government but the private sector and other stakeholders. Signs of duplication are seen, especially concerning local community empowerment and capacity building.

Sources of Competitive Advantage

Tanzania's sources of competitive advantage in the tourism cluster are threefold: unspoiled natural endowments, favourable image in the eyes of potential travellers and a supportive government that recognizes the need for private-sector leadership. These three enable Tanzania to capture a higher willingness to pay than regional competitors.

Natural endowments, like natural resources, are themselves a comparative rather than competitive advantage. Tanzania, however, has made great efforts to develop and capitalize on its endowments in a sustainable manner. Low tourist density promotes scarcity while also reducing the environmental impact of the cluster and preserving the "authenticity" of the experience, though there is some question above as to whether capacity could be added.

Tanzania benefits from its favourable perception in the region. A tour operator noted Kenya's brand has suffered because of its mass-market tourism.[76] Its culture and people are viewed as friendlier and laid back; the unofficial national motto is "pole pole" – "slowly, slowly."

Finally, the government's pragmatism in its approach to the cluster has resulted in the creation of a favourable investment climate for the private sector. The government recognized it could not develop the cluster itself and that its interests would be best served by allowing private and foreign investors to lead that development instead.

Principal Challenges

Despite the above-mentioned advantages, the cluster's growth is constrained by several factors, including the conflict between the TTB and NTPA, human capital, poor energy infrastructure and insufficient high-quality hotel capacity.

[76] Interview with Nichole Smaglick, Another Land, 10 April 2006.

The TTB/NTPA issue is discussed at length above.

Tanzania lacks skilled talent in many parts of the tourism cluster, particularly in front line roles such as customer service. *Human capital* is seen by some, including those in government, as the primary constraint to industry growth. Zakia Hmdani Meghji, the Minister of Natural Resources and Tourism stated:

> *"The National Tourism Policy [1999], attaches importance to service delivery as a key factor for tourism to succeed; quality of service was in a recent international visitor survey singled out [by visitors] as one area that needed improvement. Employers in the industry attribute poor [non-professional] service delivery to inferior formal training."*[77]

The weakness of industry-specific educational institutions leaves hoteliers to offer ad hoc staff training. This is especially difficult for smaller enterprises, which have neither the time, resources, nor the management expertise to undertake such efforts. High industry turnover further discourages hoteliers and operators from investing significantly in employee training and development.

Poor *energy infrastructure* adversely affects the cluster in two ways, both of which undermine the high-end positioning strategy. First, tourists in a premium hotel with frequent power cuts and noisy diesel generators will not perceive the destination to be high-end. Some tour operators argue, however, that many tourists, particularly those on eco-friendly tours, say these enhance the "adventure" of the experience.[78] Second, foreign investors are more reluctant to invest in a country with poor power infrastructure due to the additional costs of operation, including diesel for generators and unpredictable power availability for construction. According to a survey by the International Finance Corporation, 59% of managers in Tanzania cited Power as the greatest obstacle to enterprise growth – far more than in neighboring countries (44% in Uganda, 49% in Kenya).[79]

Finally, Tanzania has *insufficient capacity* of high-quality, international-standard hotels to meet current demand, and constructions plans fall far short of projected future needs. A tour operator

[77] Investment Forum on Tourism, 22nd-24th October 2002, Arusha, Tanzania. http://www.tzonline.org/tourism.htm. Accessed 21 March 2006.
[78] Interview with Nichole Smaglick, Another Land, 10 April 2006.
[79] International Finance Corporation, Investment Climate Survey: Tanzania, 2004.

noted that all game park lodges are already booked through the summer of 2007.[80] Despite evident demand, existing major hotel chains and government incentives, foreign firms are reluctant to invest due to the challenges outlined above. Additionally, the government's desire to promote scarcity through a ban on additional construction in the game parks bars investors from the most profitable attractions.

Recommendations: Business Environment

Reform Taxation Policies

Tanzania should continue to simplify the tax system. Despite complaints, taxes are no higher than the rest of the region, but it appears the complexity of the national and local tax regime is burdensome. Streamlining the system may reduce frustration with multiple payment systems. Bringing informal businesses into the formal sector can increase revenues without increasing taxes. To achieve this, the government should reduce the time and cost of business licensing. and post all regulations, requirements and payment options online. Finally, improving the collection process and reducing accompanying corruption will improve the revenue base significantly.[81]

Improve Infrastructure (*Power*)

The government has begun to improve the power situation. In May 2002, it signed a two year contract with a South African company to assume management of the state owned electricity utility (TANESCO)[82]. While this has resulted in improvements, the company remains constrained by government underinvestment and a severe drought, both of which limited hydro electric power generation.

In the short term, the government should create scheduled and communicated rolling blackouts, minimizing impact on tourist destinations and major hotels. In the medium term, the government should privatize TANESCO; it will need to unbundle aspects of the value chain e.g. transmission

[80] Interview with Nichole Smaglick, Another Land, 10 April 2006.
[81] IFC Investment Climate Assessment, Improving Enterprise Performance in Tanzania, 2004
[82] Ibid.

and distribution,[83] to increase the attractiveness of the business to outside investors. In the long term the government should invest in energy capacity by diversifying away from hydro power and consider geothermal or alterative energy sources.

Improve Infrastructure (*Air Transport & Logistics*)

Improve and modernize two international airports; train customs and immigration officials in customer service and rapid processing to improve the traveller and air export experience, particularly for supportive industries such as gems, fresh fruits and vegetables.

Strengthen Ties to the International Economy

Improve customs processing for imports and exports. Reforms should focus on shortening processing times and reducing excess regulation. There is also scope for reducing and simplifying tariffs. Capitalize on SADC relationship for regional trade and investment.

Improve Corporate Sector Business Environment

Increase Access to Finance for Small and Medium Sized Enterprises

Standardize financing options and structures for SMEs and improve communication of available financing products for domestic enterprises. Tanzania should also privatize the state-owned Tanzania Investment Bank to drive efficiencies. The government should abandon its plan to create special SME windows in existing banks because large banks lack the expertise to deal with smaller companies. Instead, the government should consider creating an agency for “cooperative financial institutions” that serve as intermediaries between larger banks able to make loans to profitable SME financing companies.

Make Land Ownership Easier

Increase communication and transparency of rules and accelerate the transition from leasing to full ownership for foreign firms.

[83] Ibid.

Create Standards

Tightened regulations and standards to improve expectations of quality from local businesses will improve conditions for rivalry and demand. Publicize best practices and establish a Better Business Bureau to address quality complaints

Recommendations: Grow the Cluster

Eliminate Duplication of Government Agency Activities

Abolish the TTB and shift its responsibilities to the TNPA. The objective of this controversial initiative is to align incentives, augment efficiency and coordination in the cluster, improve working relationships with tour operators, and consolidate revenues for reinvestment in marketing activities. The Tanzania Tourist Board is past the point of reform, the TNPA should be injected with sufficient capital to subsume all of its activities.

Conduct Strategic Target Customer Segmentation

To date, Tanzania has targeted high-end tourists from specific country markets, but has not sub-segmented to select the most appropriate or profitable customer segments for the cluster. Tanzania should identify discrete and profitable psychographic segments beyond income and location, e.g.: Honeymooners, Extreme Vacationers, Total Experience, Regionally based expatriates, etc. Create a unique targeted value proposition for each of the selected segments and tailor marketing messaging and channel partner work accordingly.

New Product Development

To improve packaging options, further increase length of stay and draw niche premium travelers, develop options and attractions outside game reserves and beaches in the form of cultural and archaeological activities. These new products could be marketed to tour operators through site visits, international tourist fairs and travel literature. In addition, Tanzania should make existing sites more user-friendly, train tour guides and improve access roads to sites.

Improve Packaging Options

To present Tanzania as a holistic holiday destination rather than just a country with great animals and safari, the TTB/TNPA should market multiple in-country destinations to potential tourists by developing an international marketing campaign, showcasing complementary activities at international tourism fairs and advertising complementary activities at popular sites. TTB/TNPA should work with tour operators to create multi-day, multi-activity tours and provide incentives to existing large scale hotels to invest in Zanzibar and Pemba.

Substantial Investment in Human Capital

Tanzania should create incentive programs for training to stimulate demand from private enterprises. These would include voucher schemes providing partial payment, improvements in existing training institutes' curricula, and the creation of specialized schools developed with the larger hotels and tour operators. The government should also improve access to business education through partnerships with foreign universities or by developing a reputable business school in Tanzania.

Further, Tanzania should develop an apprenticeship program to encourage private enterprises to invest in young, lower skilled, potential long-term employees. Such a program would include:

- Specialized payment structures, external to current labor laws
- Easy termination for non-performance
- Links with training institutes for recruitment

Tanzania should create a network of Business Development Service Centers to provide resources for SMEs to seek local and affordable assistance in running their enterprises.

Strengthen Regional Cluster to Improve Overall Customer Experience

Collaborate with neighboring countries to develop a regional tourist visa with Kenya, Rwanda and Uganda. Prices would remain the same but this would eliminate some of the hassle of regional travel. To provide a more consistent experience, the four countries should standardize regulations, entrance fees, and signage. Standardization and collaboration will also encourage foreign investment in the East Africa tourism industry as well as open markets for domestic enterprises

Augment Use of Technology

Build upon the existing user-friendly Tanzania Tourist Board web site infrastructure to increase online activities and options for customers, including an online searchable database of hotels, and tour operators with reservations systems, and interactive itinerary planning tools.

Increase Marketing Budget

Bring Tanzania more in line with Kenya and other regional players in the amount of Park and other Government tourist revenues dedicated to marketing efforts.

Further Develop Supportive Industries

Increase linkages between tourism and local industries such as wood carvings & other handicrafts, gems, game hunting and fishing

Improve Access

Tanzania should work with major airlines to encourage more frequent flights to Dar-es-Salam and Arusha at high season. The TTB/TNPA may use growth numbers, major hotel and tour operator projections to make the case for increased demand.

Conclusion

An examination of Tanzania and its tourism cluster shows an impressive record of political evolution and economic growth. In order for Tanzania to enjoy the full benefits of its efforts, the nation must build upon its successes by harnessing the power of both the public and private sectors. A sustained focus on improving the overall business climate and increasing the competitiveness of the tourism sector will provide gains for the nation and its future.

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