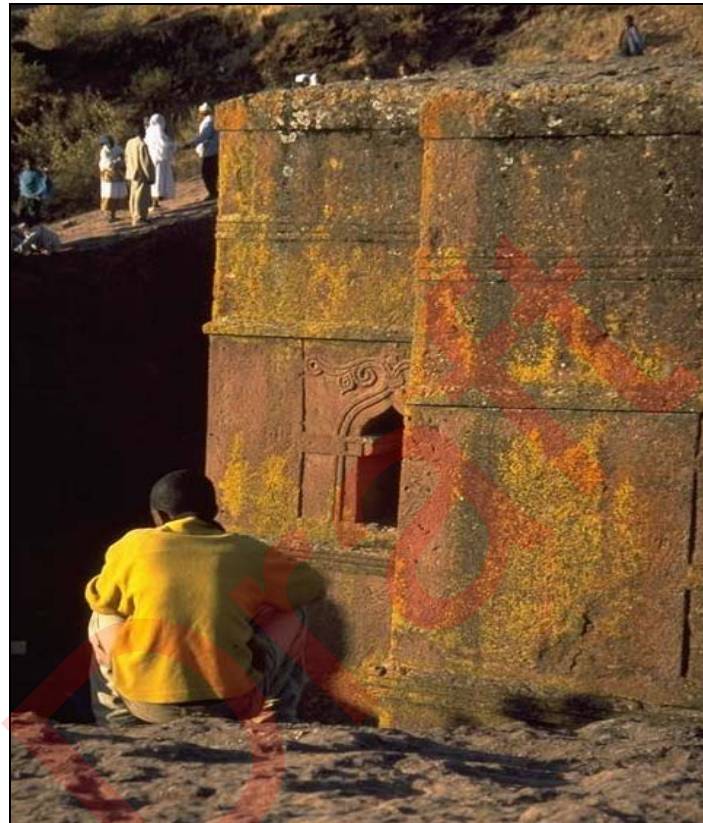


Enhancing private sector and community engagement in tourism services in Ethiopia



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Acronyms

BDS	Business development services
CBT	Community-based tourism
CSR	Corporate Social Responsibility
CTTI	Catering and Tourism Training Institute
DFID	Department for International Development
EDB	Ethiopian Development Bank
ESTDP	Ethiopian Sustainable Tourism Development Project
GoE	Government of Ethiopia
GTZ	German Technical Cooperation
IFC	International Finance Corporation
MCT	Ministry for Culture and Tourism
ODI	Overseas Development Institute
PASDEP	Plan for Accelerated and Sustained Development to End Poverty
PPI	Pro-poor income
SNV	Netherlands Development Organisation
ST-EP	Sustainable Tourism - Eliminating Poverty
TESFA	Tourism in Ethiopia for Sustainable Future Alternatives
UNDP	United Nations Development Program
UNWTO	United Nations World Tourism Organization
USAID	United States Agency for International Development
VCA	Value chain analysis
VFR	Visiting friends and relatives

Recommendations

Overview of tourism in Ethiopia:

1. Tourism statistics need to be dramatically improved in Ethiopia as they currently provide no basis for policy-makers to make informed decisions. At the most basic level, the international tourist arrivals and segments of the market can, and should urgently, be improved;
2. Tourism in Ethiopia in the future has to grow at roughly twice the rate as the last decade for Government to achieve its arrival targets. Marketing may have a role but the fundamental constraint is that tourism in Ethiopia is currently uncompetitive – in the bottom 10% of performance internationally and in the bottom quartile of African performance. Improving this performance requires a commitment to focus on improve the Ethiopian tourist product as a precursor engaging in an elaborate external marketing campaign;
3. Central to enhancing competitiveness is the need to improve the quality of tourist infrastructure, which is currently very low. Government should work with the private sector to create an environment in which this will be improved. Partly this is about Government changing what it is already doing and improving the regulatory environment. However this is also about Government taking action on areas which are currently not operating effectively, like training staff, improving business infrastructure, regulating service standards and prioritising the tourist sector;
4. Conference and business tourism is the most significant segment of the Ethiopian tourist market. Including transit tourists, this sector constitutes 83% of international arrivals. If the visiting friends and relations category of international tourism is excluded (because we have no information about this segment, other than arrival numbers) almost three-quarters of international bed-nights and two-thirds of international tourist spending in Ethiopia is accounted for by non-leisure tourists. In addition, business tourism generates over half the total pro-poor benefits of international tourism in Ethiopia. Business tourism in Addis Ababa, therefore should be included as a key element to any national tourist strategy; and
5. Although the number of leisure and visiting friends and relations tourists is low, they stay much longer than business tourists. As part of this study we have some clear ideas about international leisure tourist activity, spending and pro-poor benefits but there is an urgent need to better understand the VFR market which may well be more significant financially than international leisure tourism and may have more significant pro-poor impacts.

Accommodation:

1. Improve basic tourism statistics on accommodation supply, demand and revenue. Current official statistics are +/- 100% of actual for statistics such as classified hotel room numbers, and inaccurate by an order of magnitude for more challenging statistics, such as accommodation revenue;
2. There is an urgent need to increase the supply of good quality hotel accommodation throughout Ethiopia in order to improve the competitiveness of the sector;
3. Find out what is happening in low-end accommodation in Addis. The indications are that this is a very large (in terms of hotel rooms and pro-poor impact) and almost totally 'under the radar screen' domestic segment of the tourist market which has significant pro-poor impacts;
4. Hotel construction is important both because it is bringing higher-quality accommodation into the national hotel stock and also because construction is a significant sector financially and, outside Addis, is strongly pro-poor in its impacts. Seek mechanisms to incentivise the use of local materials for hotel construction to balance policy of duty-free import of construction materials for larger hotels in Addis Ababa;

5. Develop linkages between tourism in Addis Ababa with the rest of the country, partly to increase demand for tourism services outside Addis Ababa and also to reduce the seasonality of demand outside the capital;
6. The commercialisation of the hotel sector in Ethiopia is an increasing reality, partly due to a gentle commercialisation of formally state-owned hotels but more significantly due to the rapid rate of private sector hotel building. The state does, however, retain control of much of the top-end assets in the sector and there are strong practical and developmental reasons for a measured commercialisation of these assets;
7. A pro-poor tourism development strategy for Ethiopia should include a focus on tourism in Addis Ababa because the city captures about 86% of the national tourism accommodation revenue and very significant existing and potential pro-poor flows; and
8. Whilst the propensity of hotels in Ethiopia to employ staff from poor backgrounds is excellent from a pro-poor viewpoint, it is disastrous for service quality when combined with an almost total lack of adequate human resource development in the hospitality sector. There is an urgent need to improve skills throughout the hospitality sector to avoid the hotel sector either continuing to hire staff from poor backgrounds with deficient training (resulting in uncompetitive service standards), or hotels improving the quality of service by excluding the poor.

Tour operators:

1. Importance of inbound tour operators cannot be overstated. It is estimated that package costs (comprising 4x4 transport, accommodation and food and beverages) make up about three-quarters of tourist spending outside Addis Ababa. Therefore they are very important actors in leisure tourism value chain;
2. Inbound tour operators are a good example of how the private sector can develop a product which overcomes the poor enabling environment (poor road and ICT infrastructure; unreliable air links; lack of information about products in secondary destinations). However, the consequence of this is a mode of tourism which excludes many tourists who do not have 15 days or almost US\$2,000 in package and discretionary spending; or a tolerance of poor service standards; and
3. It is important that government works with tour operators to improve current products but also works on air linkages, and ICT and service standards to make the Ethiopian tourist product more accessible.

Transport:

1. In Addis Ababa, there is a need to regulate the quality standards of taxis and stop using the licence as an instrument mainly of revenue collection; and
2. Outside Addis Ababa, if increasing numbers of tourists fly to destinations rather than arrive on a 4x4, there will be a rapid increase in demand for local transport services. In non-metropolitan destinations, the opportunities for more basic forms of transport (such as motorbike powered taxis) should be investigated – as these will provide a denser service to tourists whilst placing lower barriers to entry than a car taxi for potential participants.
3. Whether or not Ethiopian Airlines recapitalises its domestic air fleet, there is a strong case to liberalise domestic airlines above the current 20 seat threshold – at least to 70 seats (at which size many domestic routes become viable);
4. The registration of tourist taxis in the urban areas should include annual quality checks as well as the collection of the registration fee; and
5. A strategy to promote short 'getaways' for conference tourists in Addis, to visit secondary destinations should be encouraged and built into conference itineraries.

Attractions:

1. Excursions are highly pro-poor and spending on them is very low. On aggregate we estimate over 70% of excursion spending by tourists accrue to the resource poor but international tourists are spending less than \$9 a day on excursions. The key challenge is to increase excursion spending;
2. Increased spending on excursions will happen through the broad strategy of increasing leisure tourist flows outside the Capital. However, much can be done to increase the excursion spend from the existing tourist flow by improving the quality of services available.
3. Spending on guides per trip is six times higher in Lalibela than in Axum or Arba Minch in part because the guides are better organised and better trained and have stronger links to the inbound tour operators. During the low season there is scope for cross-destination learning;
4. The management of attractions needs focused attention. In some instances, there may be a case for bringing in external management expertise (i.e. Crocodile Ranch and Nechsar National Park). More generally - at many attractions - there is no information, nothing to buy and nowhere to have a refreshment break;
5. A key issue for leisure tourism in Ethiopia is to increase tourist numbers. The main constraint to achieving this is the quality of domestic airline services and the availability sufficient accommodation of an adequate standard to accommodate a larger flow of tourists;
6. In-bound tour operators are critical stakeholders in leisure tourism in Ethiopia. They are the key intermediary between international leisure tourists and Ethiopian providers of tourism services. They are also very aware of the constraints and bottlenecks in Ethiopian tourism, from marketing Ethiopia overseas to delivering an acceptable standard of evening meal in Axum. Major tour operators are an important and potentially useful partner in developing tourism in Ethiopia – so should be included in any multi-stakeholder forum on tourism; and
7. In the tribal areas in the South it is important, both for poor people and the sustainability of the tourist product itself, to better organise transfers of resources from tourists to local people. Given the geographical spread of the tribal areas, it is suggested that a range of private sector and/or Non Governmental Organisations models for collecting and distributing fees in an efficient and transparent manner are piloted;
8. Excursions are a very effective linkage between tourism and local communities. Be cautious about applying 'traditional' community-based tourism approaches which have a history of poor financial viability and unsustainable and limited benefit flows to poor communities. More effective approaches normally involve creating pro-poor linkages with private sector tourism value and supply chains.

Food and beverages:

1. We recommend that a horticultural development programme is initiated in Lalibela where, unusually for the destinations surveyed, food is imported from elsewhere in Ethiopia representing a welfare loss from this particularly poor area of the country. This programme should identify successful existing initiatives, technically-able and progressive farmers and their incorporation into farmer-to-farmer training networks along with the provision of starter kits (including planting materials, basic implements, chemical or organic inputs and written agronomic guidance) and support with organisational development, microfinance and market linkage;
2. For the meat and dairy sector, a similar scheme to that being implemented for the vegetable export development programme – linking small scale farmers with large commercial farmers - may be appropriate to provide locally the high quality products required by the high-end tourist sector in Addis Ababa; and
3. In the fishery sector, the main challenge is one of effective regulation of the resource to allow the poor, who are already participating to avoid over-exploitation of fish stocks and

livelihood collapse. We recommend capacity building of GoE regional fisheries management teams and their provision with the physical and technical resources to implement regulations and stock assessments and community management plans, with a focus on increasing product value and quality, improvement of post-harvest handling and wastage minimisation rather than increasing production volumes.

Handicrafts:

1. There is an urgent need to improve the marketing and retailing of craft in Ethiopia to increase tourist spend – with the aim of doubling spend per tourist. In partnership with the private sector, crafts should be made available in better quality outlets that are convenient for tourists, with payment facilities that make craft purchase possible;
2. Lalibela is the only destination where there appears to be a supply-side constraint in the handicraft sector. This should be examined (in a comparative exercise with crafters in Axum who are participating in the tourism value chain much more successfully) to understand – and address - the blockages; and
3. As the centre of craft production and sales in Ethiopia, any craft initiative should include Addis Ababa.

Support and regulatory environment:

1. Whilst there are on-going externally funded initiatives to support the tourist sector in Ethiopia, these are mainly in niche segments of the market. There is a need to also support the mainstream tourist industry in Ethiopia;
2. The current state of public-private sector relationships in the tourist industry is poor and there is an urgent need for stakeholders to cooperate in order to build the sector;
3. The draft tourism law appears to have accurately pin-pointed the key issues facing the tourism sector. What remains is the important task of approving the policy and implementing it;
4. On the supply side there is an urgent need to increase – ideally by an order of magnitude - the numbers of students graduating from colleges that provide skills which are useful to the market by expansion;
5. This expansion is beyond the capacity of the public sector, so the private sector hospitality schools have an important role in improving human resources in the hospitality sector. Improving the standards of training requires more effective regulation by Government;
6. Links should be developed with international tourism schools in order to expose students to the standards and environment and cultural contexts of tourism source markets; and
7. On the demand side, there is a need to encourage employers to recognise and reward the required skills.

1. Introduction

1.1 Aims of this study

This study is funded by the World Bank and is being implemented with the guidance of the Government of Ethiopia (GoE) and the United Nations World Tourism Organization (UNWTO). The aim is to enhance the linkages between tourism in Ethiopia and local communities. The study will achieve this through a three-step process:

First, a diagnosis phase which will assess what are the trends in the tourist sector and, specifically, what are the current links between tourist activity and the poor in the local economy.

Second, a prescription phase will suggest a range of interventions that will improve the poverty reducing impact of tourism.

Third, an overview of the emerging Ethiopian Sustainable Tourism Development Project (ESTDP) together with suggestions as to how the Project can be designed to most effectively support tourism in Ethiopia will be produced.

The detailed Terms of Reference for the study are included in full in Annex 1. The key elements of this are to:

- Develop specific measures for improving value chain linkages for community/destination level participants in Ethiopia's tourism industry;
- Design implementation arrangements for a pro-poor value chain linkages component;
- Participate in consultative meetings at the local, zone, provincial and central level;
- Provide costing of the value chain linkages component;
- Identify prospective beneficiaries and service providers in the proposed programme;
- Conduct institutional analysis of the service providers likely to be involved in the proposed programme;
- Develop specific measures to actively include vulnerable groups (e.g. women, street children, unemployed, etc.) as beneficiaries in Ethiopia's tourism industry. These measures may be distinct from the value chain linkages component.

1.2 Background to the study

Ethiopia is one of the poorest countries in the world. With a gross national income per head of US\$170 in 2006, Ethiopia was ranked as the 204th richest country (with only Liberia, the DRC and Burundi in a worse position). It therefore follows that the main objective of the Government of Ethiopia (GoE) is poverty eradication. The Plan for Accelerated and Sustained Development to End Poverty (PASDEP) is Government's central strategy to achieve this goal. Like many poverty-reduction strategies, PASDEP has a focus on agriculture and social services. However, unusually for a low income country, PASDEP also recognises the contribution that tourism can make to reducing poverty. Specific mechanisms for poverty reduction through tourism are identified as:

- Employment policy favouring local people;
- Supply chain strengthening through identification and encouragement of actual and potential local sources of supply of foodstuff and other needs of tourist enterprises;
- Strengthening the informal economy by improving the quality of basic, informal accommodation and catering and of local handicraft production; and
- Training and licensing of local guides.

GoE is working with a number of international agencies that are focusing on the tourism potential of Ethiopia – the World Bank, UNWTO, the United Nations Development Program (UNDP) and some bilateral agencies such as the Netherlands Development Organisation (SNV), the Department for International Development (DFID), German Technical Cooperation (GTZ) and the United States Agency for International Development (USAID). Throughout the implementation of PASDEP, GoE will be undertaking a series of Sustainable Tourism - Eliminating Poverty (ST-EP) pilot projects. These are intended to:

- Improve the quality of the tourist experience at the destination;
- Increase the spending of every visitor through increasing the average length of stay in the area and increase spending opportunities;
- Increase the share of income earned from tourism that is retained in the area;
- Improve the distribution of tourism income to poor people in the community, directly and indirectly; and
- Ensure that tourism development in the area enhances and does not detract from the quality of the environment, the heritage or the local quality of life.

This project seeks to support the GoE to operationalise these objectives.

1.3 Research methods

This study is based upon a rapid appraisal technique which ODI has been developing over the past three years. The approach is action research rather than academic research. It focuses upon quickly gaining sufficient empirical evidence to inform practical development solutions – rather than a traditional ‘research’ preoccupation with the kind of large sample sizes required to demonstrate findings to specified degree of confidence.

The empirical basis of this report was based upon:

- An 11 day mission in June 2008 (Lalibela and Axum);
- A 13 day mission in July 2008 (Arba Minch and Addis Ababa); and
- An 11 day mission in December 2008 (Addis Ababa).

Over 160 key service providers in the tourism value chains on the Northern Historical Circuit, the Southern Circuit and the business tourism hub in Addis Ababa were interviewed by the team. Most of these interviews were in the form of structured questionnaires for accommodation providers, tour operators and small craft business.

The survey instruments were designed to obtain the following information from accommodation and restaurant suppliers, guides, construction companies, crafters:

- Market positioning of the company (budget, mid-range, high end);
- Scale of business and source markets;
- Numbers of staff employed, wages and non-salary benefits;
- Profitability of the company, costs and revenue; (cost-fee structure);
- Linkages to other sectors; and
- Feedback as to how the industry could improve its pro-poor impact.

In addition, interviews were held with local transport suppliers, farmers and support organisations to get a better understanding about how tourism activities impact on the local economy. The support organisations interviewed included the Church, training providers, umbrella organisations such as the Association of Tour Operators, and Government (at Federal, Regional, District, Woereda and Municipality spheres).

Table 1: Tourist suppliers and others surveyed

	Lalibela	Axum	Arba Minch	Addis Ababa	Total
Hotels	9	10	10	14	43
Restaurants outside hotels	2	0	0	2	4
Local guides	6	5	14	0	25
Construction sites	7	2	6	3	18
Crafters	7	4	5	6	22
Local transport	2	2	2	6	12
Farmers organisations	4	5	6	9	24
Tourist attractions	1	1	2	0	4
Support organisations	1	1	2	7	11
Total	39	30	47	47	163

Source: ODI survey

Accommodation providers were briefed on the research objectives and given assurance on the confidentiality of results. Typically interviews lasted from 45 to 90 minutes. The level of cooperation was generally high.

For non-accommodation small businesses interviews were less detailed. Although interviews were based on a questionnaire, the emphasis on different parts of the questionnaire reflected the diversity of enterprises sampled.

From this approach we were able to build up a clear picture of tourist activity in Lalibela, Axum and Arba Minch. These are small destinations so we were able to conduct a virtual census of the main tourist assets – visiting almost every hotel and attraction (see destination summaries in Annex 3). Clearly international tourists to Ethiopia visit places other than these three destinations, so Box 1 below explains how we extrapolate the findings from the three secondary towns to represent Ethiopia outside of Addis Ababa.

Box 1: Extrapolating findings from Lalibela, Axum and Arba Minch

In Ethiopia, international business and transit tourists are almost exclusively concentrated in Addis Ababa and we found little evidence of tourists visiting friends and relatives (VFR) staying in hotels. The main international tourist flows outside the capital are leisure tourists. We estimate (see calculations in Chapter 2 Section 2.2) that 27,000 leisure tourists visit Ethiopia annually and that they stay an average of 14.8 days (calculated from tour operator surveys) – this implies approximately 400,000 international leisure tourist bed-nights spent in Ethiopia.

We know from survey work undertaken in Lalibela, Axum and Arba Minch the number of international arrivals and their length of stay in these destinations, which account for approximately 94,000 bed-nights of this total. We also know from the hotel surveys in Addis Ababa that, although they comprise a small minority of the total tourist flow in the capital, leisure tourists spend approximately 111,000 bed-nights in the city (equivalent to 4.1 days each). This suggests that international leisure tourists are spending approximately 195,000 bed-nights each year outside Addis Ababa and not in the three secondary destinations surveyed.

To extrapolate from our results from Lalibela, Axum and Arba Minch to the whole of Ethiopia outside of Addis Ababa, we used two approaches:

First, where we have tourist daily spend figures (i.e. for accommodation, craft, guides, transport, food and beverages, we took the average international tourist spend figure from the three secondary destinations and multiplied up to correspond to 27,000 tourists for 10.7 days (calculated as their total stay of 14.8 days minus the 4.1 days spent in Addis Ababa).

Second, for items in the value chain where we do not have a tourist daily expenditure figure, for instance the construction of hotels and the number of domestic tourists outside Addis Ababa, we multiplied our findings from Lalibela, Axum and Arba Minch by a factor of just over three. This factor is obviously somewhat crude but reflects the ratio of international tourist activity captured in the three sample areas – compared with the rest of non-metropolitan Ethiopia. In the absence of other data, we suspect that our sample of Lalibela, Axum and Arba Minch includes about one-third of all tourist activity outside Addis Ababa.

In Addis Ababa, we were only able to visit a sample of tourism service providers because the destination is much larger. We visited, for instance, a sample of hotels stratified into 'top end', 'mid-range' and 'low-end' categories, with the results from each category weighted by their representation in the population as a whole.

In each of the secondary destinations three days were spent collecting data in four teams focusing upon tourism (hotels, restaurants, guides); small business (crafters, transport suppliers, construction companies), food supply chain and institutional issues. On the fourth day a workshop was held with local tourism stakeholders to present and discuss the findings with local specialists.

The only exception to this pattern was in the second mission where, due to the greater size and complexity of the Addis tourist destination, five days of data collection was included in the programme. In addition, the study team had an internal workshop prior to the national workshop on August 2008. A second mission to Addis Ababa in December 2008 was required to focus upon the key policy and decision-makers in Addis Ababa and better understand the hotel food supply chain.

The consequence of following this approach was that researchers were exposed to a great diversity of views from a wide variety of participants in, and around, the tourism value chain.

1.4 Conceptual framework

There has been considerable debate concerning the definition of 'pro-poor growth'. Some have argued that pro-poor growth can only be said to exist if the poor are making gains at a greater rate than the average growth in income of other sections of society. A competing, wider definition states that pro-poor growth is any growth that will have an impact on the earnings of the poor. The first definition focuses on reducing inequality whilst the second places greater emphasis on general growth. This study will proceed on the basis of this second definition.¹

The potential for tourism to accelerate economic growth and reduce poverty in many poor developing countries is gaining acceptance. This is particularly important in a country such as Ethiopia, where it is estimated that in 2004/05 39% of the population were living beneath the PASDEP poverty head count line of 1,075ETB (an average of US\$113 in 2008) per person per year. Two important aspects of poverty in Ethiopia need elaboration:

First, this locally-defined poverty line is well below the international level (US\$1 a day at 1995 PPP). The social impact of poverty in Ethiopia is reflected in the following indicators:

- Nearly one quarter of children born do not reach the age of five;
- In rural areas, only about 12% of people have access to safe water;
- Less than 50% of the population is within 10 km of a health facility of any kind; and
- The number of people per physician in Ethiopia is about 79,000 (compared with 25,000 in low-income economies in Sub-Saharan Africa.²)

Second, Ethiopia has successfully reduced head count poverty from 46% in 1995/06 to 39% in 2004/05 – less than a decade. The plan projects a further reduction of poverty to 34% by the end of the PASDEP period. By a broad range of non-income measures, the harsh conditions under which Ethiopians live are also improving³.

¹ Pro-poor tourism is defined as tourism that benefits the poor, irrespective of reductions in income inequality. See Mitchell and Faal (2008) The Gambia tourism value chain and prospects for pro-poor tourism

² GoE (2000) Toward Poverty Alleviation and a Social Action Program

³ Government of Ethiopia (2006) Plan for Accelerated Sustainable Development & the Eradication of Poverty

The negative impacts associated with tourism, such as reduced access to resources and negative social and cultural impacts sometimes threaten to overshadow the benefits that a vibrant tourism industry can generate.⁴

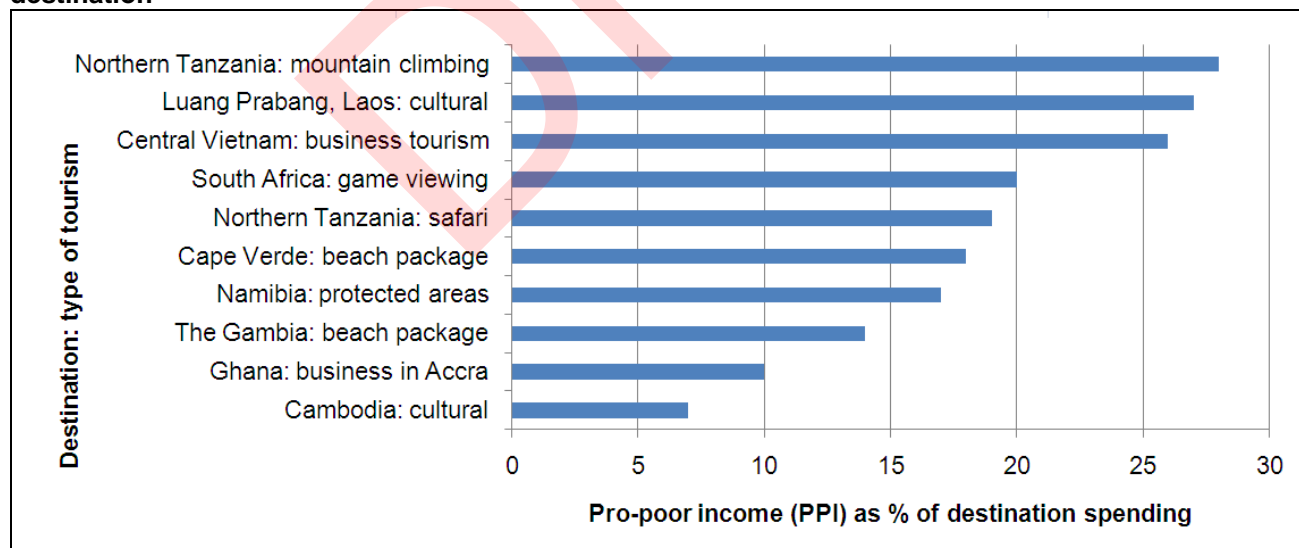
Box 2: Advantages of tourism in delivering pro-poor growth

- Tourism is generally labour-intensive – although less than agriculture – and therefore can impact on a large number of lives through the labour market;
- Tourism has considerable potential linkage, especially with agriculture and fisheries, which can minimise the ‘leakage’ effect. Due to the high income elasticity of demand for international tourism, it can offer a relatively rapidly growing market;
- Tourism provides opportunities for off-farm diversification, particularly in areas that do not attract other types of development options;
- Tourism can provide poor countries with significant export opportunities where few other options are viable;
- It may create initial demand for a good or service that can itself develop into a growth sector;
- Tourism products can generate demand for assets such as natural resources and culture, to which the poor often have access;
- Tourism delivers consumers to the product rather than the other way around; and
- Infrastructure associated with tourism development can provide essential services for local communities.

Source: Adapted from Roe, Ashley, Page & Meyer (2004) *Tourism and the Poor: Analysing and Interpreting Tourism Statistics from a Poverty Perspective*

Despite the existence of a substantial body of literature looking at the relationship between tourism and poverty reduction, researchers have by and large been unable to determine how much the poor benefit economically from tourism. Emerging evidence indicates that developing countries are able to translate tourist activity into benefits for local communities with very different degrees of success. In the best cases, it is estimated that between one-fifth and one-third of tourist turnover is pro-poor.

Figure 1: Total income earned by the poor as a percentage of total tourism expenditure in the destination



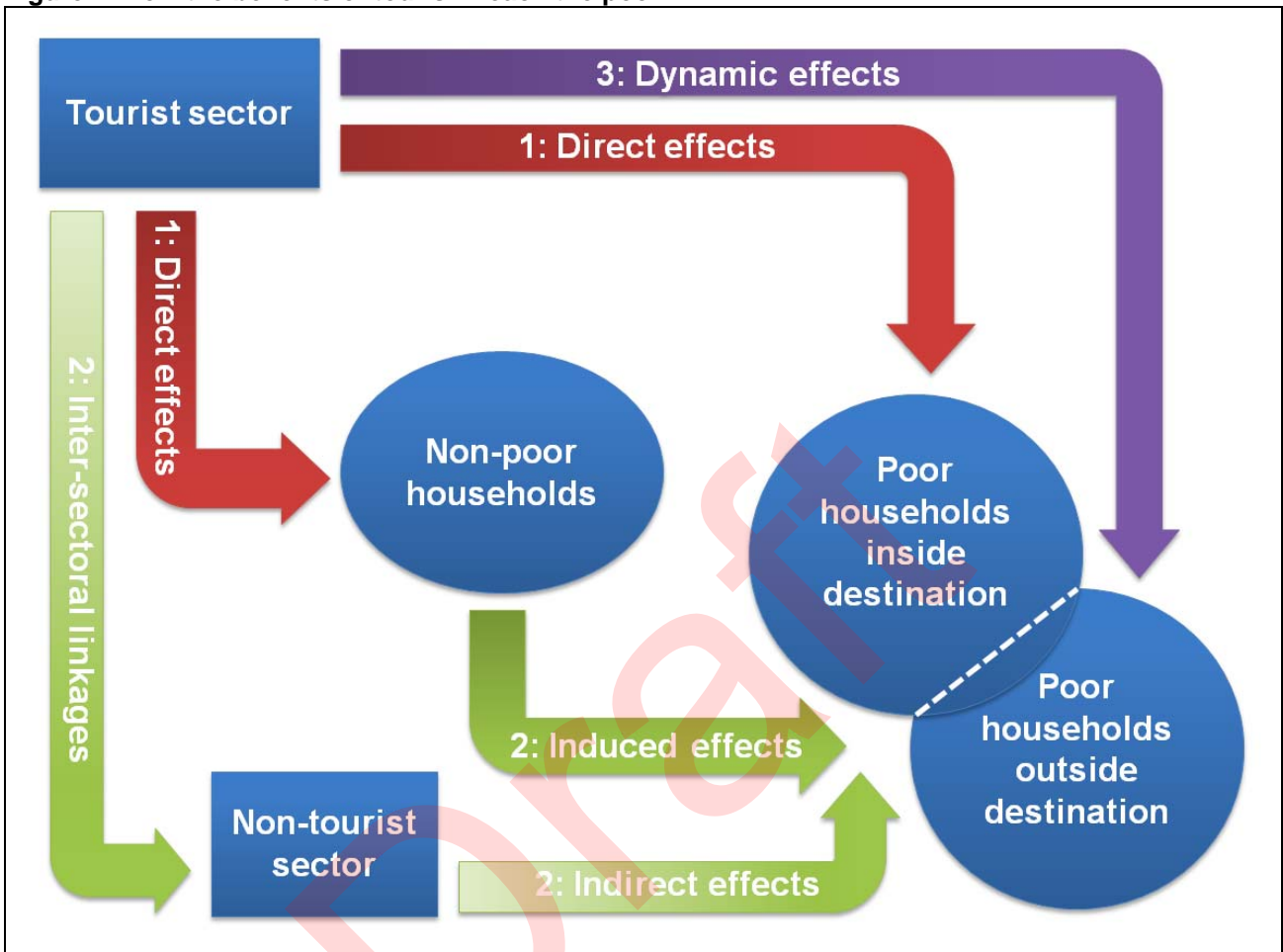
Source: Mitchell and Ashley (forthcoming) *Tourism & Poverty Reduction: Pathways to Prosperity*

However, as Figure 1 illustrates, African countries are represented at both ends of the spectrum and there does not appear to be any clear relationship between the type of tourism and the efficacy with which benefits reach the poor. Rather, the critical factor appears to be the extent of direct, indirect and dynamic *linkages* between the tourist sector and the economy around the destination.

⁴ See Mitchell and Faal (2008) *The Gambia tourism value chain and prospects for pro-poor tourism*

Getting beyond the issue of *how much* benefit flows from tourism to the poor, to an understanding of *how* this transfer takes place requires an appreciation for how these different types of linkages work. These are represented in a stylised form in Figure 2 below.

Figure 2: How the benefits of tourism reach the poor



Source: Mitchell and Ashley (forthcoming) *Tourism & Poverty Reduction: Pathways to Prosperity*

The ODI conceptual framework of pro-poor tourism is consistent with the ST-EP framework. This is important because this study is self-consciously aligning itself with UNWTO, which has been working with GoE for some time. The links between the seven different ST-EP mechanisms through which the poor can benefit directly or indirectly from tourism and the ODI framework are illustrated below.

Defining the ‘poor’ or ‘vulnerable’ is a challenge in any pro-poor tourism approach, as has already been found by the Netherlands Development Organisation (SNV), the International Finance Corporation (IFC) and ODI in existing value chain studies; however this is less problematic in a local economy where almost everyone is resource poor. We have adopted a dynamic definition of poverty, examining whether people benefiting from tourism are from a poor background to examine whether tourism can affect inter-generational livelihoods.

Table 2: Reconciling the 7 mechanisms with the conceptual model

The ST-EP seven mechanisms	ODI conceptual framework
1. Employment of the poor in tourism enterprises	Direct effects
2. Supply of goods and services to tourism enterprises by the poor or by enterprises employing the poor	Indirect effects
3. Direct sales of goods and services to visitors by the poor (informal economy)	Either direct (if entrepreneur is in tourist sector) or indirect effect (if entrepreneur is in non-tourist sector)
4. Establishment and running of tourism enterprises by the poor – e.g. micro, small and medium sized enterprises (MSMEs) or community based enterprises	Direct effects
5. Tax or levy on tourism income or profits with proceeds benefiting the poor	Direct effect (if tourist establishment pays levy directly to the poor) or dynamic effect (if redistribution takes place through the tax system)
6. Voluntary giving/support by tourism enterprises and tourists	Direct effect
7. Investment in infrastructure stimulated by tourism also benefiting the poor in the locality, directly or through support to other sector	Dynamic effect

Pro-poor value chain assessments in tourism are transforming the design of pro-poor interventions and enabling organisations such as SNV and IFC to identify actions that will have greater pro-poor impact. A key difference is that they no longer start with the identification of a target group, who it is assumed can engage in tourism; but start with analysis of the productive chain and market in order to identify which poor groups are participating, and how they can enhance their participation.

This means that planned interventions are more likely to be commercially realistic (as they are based on an understanding of market operations) and that interventions that reach higher numbers of poor people are found (by looking across the chain rather than at a given starting point). This approach is invaluable in identifying where to create deeper and wider linkages in Ethiopia's Northern Historical and Southern Circuit tourism value chains, whether in shopping, food supply or excursions. ODI and SNV have recently been applying value chain approaches to the study of tourism precisely because, as a technique, it lends itself to tracing these linkages in the local economy around tourist destinations. Value chain analysis (VCA) is a tool that enables the identification of stakeholders along a chain of transactions, from conception through production to consumption and after-use. The analysis helps structure ideas around the key processes and agents working within and outside the chain and where the benefits of the chain flow.

The same principles that guide value chain analysis for products may also be applied to tourism value chain analysis. This includes value chain mapping. This approach enables the identification of stakeholders of key processes and agents within (and outside) of the chain that can impact on the chains performance. In addition, identifies the characteristics of markets and marketing channels. Using value chain analysis to 'trace the tourism dollar' and investigate the pro-poor implications of tourism means examining the share of tourism expenditure on different tourist services, which in turn helps us to understand the share of benefits from tourism reaching the local economy and different groups of people. This requires sampling of the different tourism nodes, and tourists.

It is hypothesised that there are two broad ways that the impact of tourism on the poor can be increased:

- Strengthening linkages between tourism and poor people in the local economy can increase the size of the slice of the 'tourist cake' enjoyed by the poor (whether or not tourism, as a whole, is growing); and/or

- Expanding the tourism sector to increase the demand for goods and services provided by everyone can benefit the poor by increasing the size of the 'tourist cake' as a whole – provided their share is not diminished as the sector grows.

Given the very modest level of tourist demand in Ethiopia and the surprisingly well-developed local linkages observed, particularly outside the capital, many of the recommendations to develop a more sustainable tourist sector involve growing the sector, as well as focusing issues of redistribution.

1.5 Limitations

Notwithstanding the experience of the study team and the fact that a 'tried and tested' approach was used in this study, this process of data collection and consultation was demanding. We would encourage anyone undertaking a similar exercise to adopt a similar approach in terms of grass-roots level data collection – particularly given the paucity of official data – and talking with large numbers of local stakeholders and presenting preliminary results back to local people and discussing the implications. However, we would recommend spending more time in each destination as well as more time in Addis Ababa, focusing upon how the different parts fit together into a coherent whole.

Some of the more obvious known gaps in our understanding are as follows:

- Our analysis of the Arba Minch destination did not include an assessment of the tourism product for which the Southern Circuit is best known – namely interacting with the tribal peoples of the Omo Valley;
- Addis Ababa is a tourist destination on a different order of magnitude from the other destinations visited. We estimate total tourist spending outside Addis Ababa at about US\$41.9m compared with US\$145.8m in the capital. So, Addis Ababa accounts for about 78% tourist expenditure in Ethiopia (excluding international tourists visiting friends and relations) and our study would have benefited from having more time in this location (this was the rationale for the third mission);
- Important tourism areas in Ethiopia are not included in this study. Most significantly, this includes the trekking in the Simien Mountains in the North; the Eastern Corridor to Harar; and a number of popular destinations around the periphery of Addis Ababa;
- The Southern Nations were the only Regional Government structure visited during the study. Representatives of other Regional structures only took part in the discussions at the national workshop in Addis Ababa; and
- No tourists were interviewed during the course of this study.

Given the significant scope of the project, the data collection required 188 researcher days in the field during the three missions. Although the study would have been enhanced by addressing the limitations above, it would not have been possible with the resources available for the exercise. In a situation of constrained resources, where it is not possible to cover everything, the important task is to target effort at the most important parts of the tourism value chain in Ethiopia. In consultation with the funder and the GoE, the team are satisfied that the resources available were put to the best possible use.

1.6 Previous work

GoE has been working with the World Bank developing a partnership around the ESTDP for some years. This study benefitted from the considerable volume of existing work which has been carried out on enhancing the development of tourism in Ethiopia.

In early 2006, the World Bank commissioned a value chain analysis of the tourism sector in Ethiopia to help design a strategy for tourism in alignment with the Government's vision for the sector. This analysis focused on the Northern Historical Circuit and concluded that a long list of factors constrained the competitiveness of the tourist sector in Ethiopia. Their recommendations focused on:

- Developing the regulatory framework (drafting the national tourism policy; national tourism council; sector development policy; and updating the Investment Code and laws and regulations to implement the policy);
- Marketing Ethiopia more successfully overseas (marketing and promotion strategy) to counter negative external views about the country;
- Undertaking destination specific actions to remove obstacles to tourism (avoiding flight cancellations; increasing coordination between tourism stakeholders; reducing the cost of 4x4 vehicles; curbing begging; improving sanitation; and improving the quality of handicrafts); and
- Improving skills levels throughout the tourist sector (expanding the Catering and Tourism Training Institute; training for handicrafts; conservation and restoration of historical relics; and tourism awareness amongst the public)⁵.

This analysis provided the empirical basis for 'Ethiopia: Towards a Strategy for Pro-Poor Tourism Development' which was published by the World Bank in June 2006. This strategy recommended:

- Increasing demand through market development and rehabilitation;
- Increasing revenue through deeper and wider supply chains;
- Enhancing the quality of the tourism product; and
- Strengthening institutional arrangements, with a clearer tourism policy framework; institutionalised dialogue between different stakeholders and enhanced destination management.

Since the publication of this strategy, a number of positive steps have been made by Government. The creation of the Tourism Ministry and National Tourism Council, the drafting of a tourism policy, the committing of resources for the rehabilitation of the Catering and Tourism Training Institute in Addis Ababa, and a number of airport, road and water investments were proposals in the strategy that are today a reality. More recently, the World Bank and GoE produced a Project Concept Note in May 2007 and held joint preparation missions (with GoE, UNWTO and SNV) in December 2007 and January 2008.

⁵ Global Development Solutions (2006) Value Chain Analysis for the Tourism Sector in Ethiopia, prepared for the Government of Ethiopia and the World Bank

2. Overview of tourism in Ethiopia

2.1 Supply

There is clear evidence of a supply-side response to the increase in demand for tourist services in Ethiopia during the last decade. This trend looks set to accelerate in the future, as the boom in hotel construction brings additional rooms onto the market across Ethiopia. Lalibela, Axum and Arba Minch currently have 956 hotel rooms in 31 hotels, with the construction of 23 new hotels (or significant extensions) underway that will double the number of hotel rooms available over the next three years.



In Addis Ababa, the construction boom is partly based on high profitability of building projects due to steeply increasing land prices, although the fact that ongoing fabrications are being converted to hotels suggests that the tourism market itself is pulling the rapid supply side expansion. For example, Green Land Tours and Hotels Ltd., Ethiopia's original and largest inbound tour operator, plans to operate 22 hotels in the country, with four due to open soon and another five currently under construction.

The supply of concrete is controlled by a cartel, which forces prices upward, but this is at least partly mitigated by a government waiver on duty on imported construction materials and capital goods, which is part of a policy package that aims to stimulate growth and investment in the tourism and other industries (Box 3).

Box 3: Ethiopian Government Investment Policy

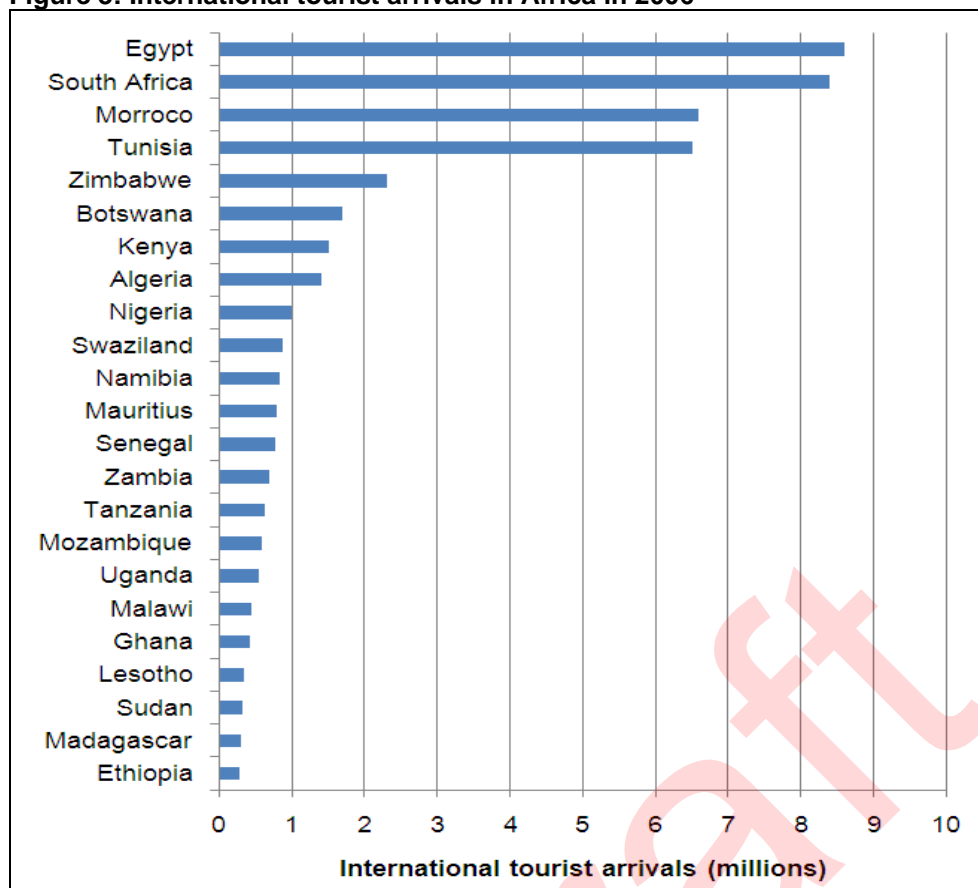
- Capital goods and building materials may be imported duty-free by star designated hotels and international standard restaurants.
- Buses for tourist use may be imported duty free.
- Four-wheel-drive passenger vehicles of the Land Cruiser type may be imported duty-free subject to the conditions that three brand new vehicles must be purchased within a period of one year in a maximum of two consignments.
- International investors require a permit and minimum capital of US\$100,000 for a single project (US\$60,000 for joint projects with domestic investors, US\$50,000 for sole investors in the areas of engineering, architectural, accounting and audit services, project studies, business and management consultancy services or publishing, and US\$25,000 for joint investments in these fields).
- Once production or service provision commences, a permit holder also requires a business licence.
- External loans must be registered with the National Bank of Ethiopia; international investors may open international currency accounts in authorised local banks for transactions related to their investment.
- International investors have the right to repatriate profits and dividends, payments on external loans, payments related to technology transfer agreements, proceeds from sale or liquidation of an enterprise and proceeds from the transfer of shares or of partial ownership of an enterprise to a domestic investor.
- Any investor may employ duly qualified expatriate experts required for the operation of the business
- Any investor is responsible for replacing expatriate personnel, except those in top management positions in an enterprise in which they are the sole or major shareholder, with Ethiopians within a limited period.

The diversification of accommodation supply into non-concrete based constructions as part of ecotourism products – for example, eco-lodges built with locally available materials – is constrained by a financial services sector that generally will not capitalise such investments. International investment in tourism sector enterprises is enabled by policies that allow ownership, repatriation of profits and employment of expatriates (with certain conditions – see Box 3). However, the development of enterprises that require the operation of four-wheel-drive passenger vehicles is hampered by high import tariffs and a waiver policy that is impractical for most small and medium enterprises.

2.2 Demand

The African continent receives approximately 6% of international tourist arrivals. Compared with other African countries, Ethiopia's arrival numbers are very low – at 0.6% of the African total and some 50 million arrivals in 2006.

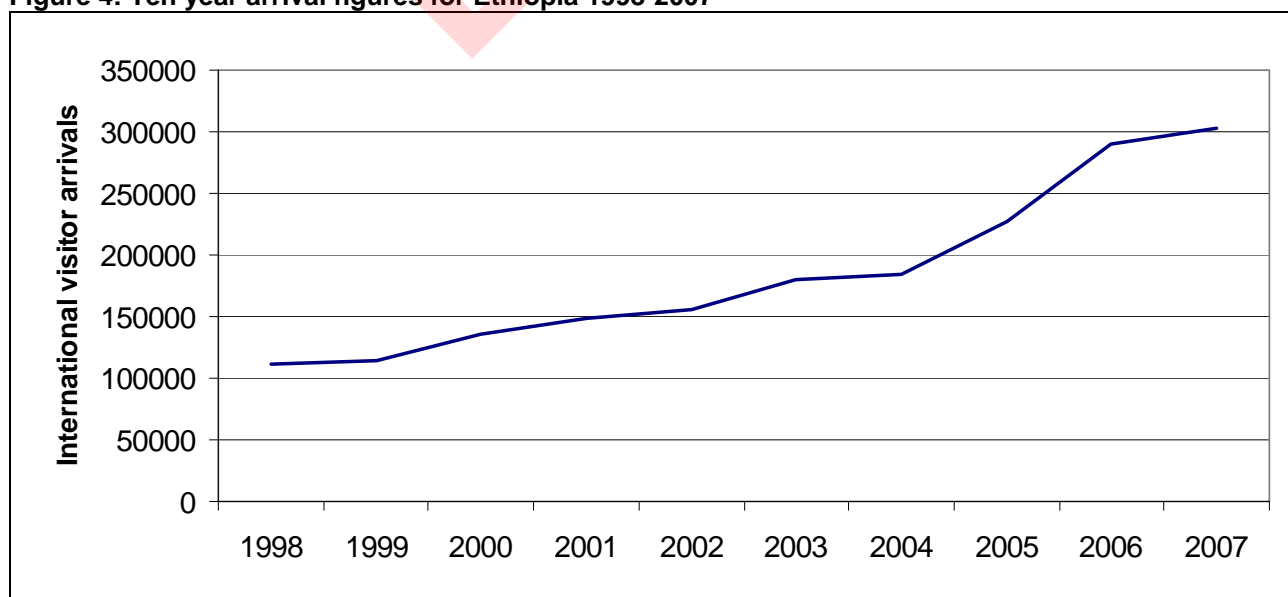
Figure 3: International tourist arrivals in Africa in 2006



Source: World Bank (2008) World Development Indicators

The demand for tourism services in Ethiopia has increased at a respectable average annual rate of just under 10% since 1995, resulting in an official arrivals figure of 303,241 in 2007 (see Figure 4). Whilst not spectacular, this rate of growth is slightly higher than average for Africa and the Middle East (which saw 8.2% annual growth in arrivals between 1995 and 2006), and so indicates a very small gain in Ethiopia's share of the African tourist market during the past decade.

Figure 4: Ten year arrival figures for Ethiopia 1998-2007



Source: MCT (2006) Tourism Statistics Bulletin 2003-2005

Note: Figures for 2006 and 2007 from MCT data sheets

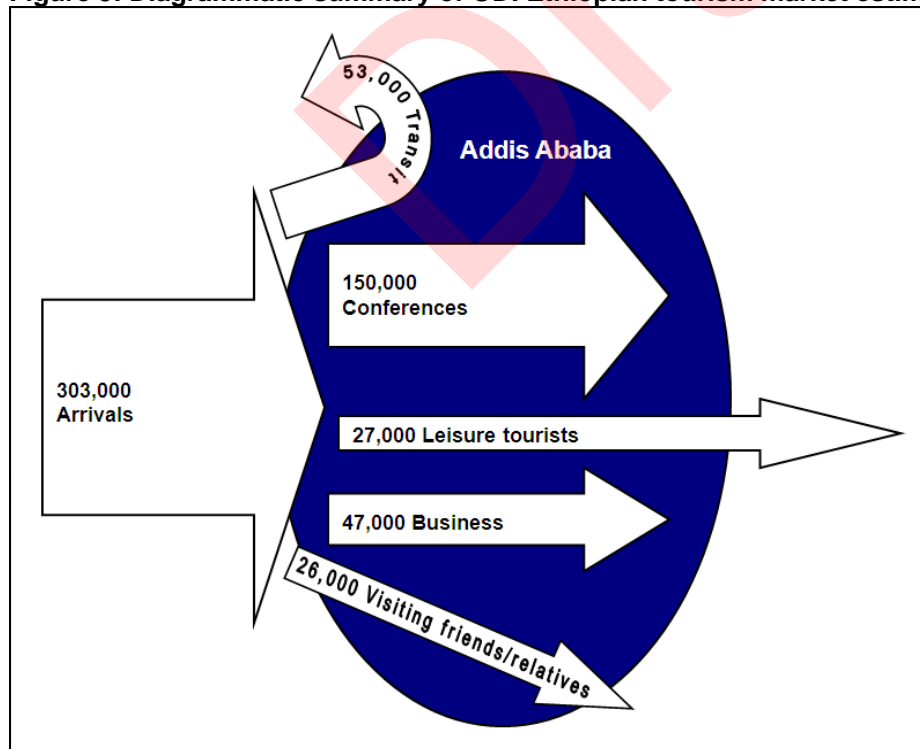
These statistics may be seriously misleading in two respects. First, the apparent surge in visitor numbers in 2006 and 2007 should be treated with caution. Comparing data from the Ministry of Culture and Tourism (MCT) Tourism Statistics Bulletin with data from the World Travel and Tourism Council (WTTC) data shows significant disparities. WTTC indicate arrival numbers for Ethiopia in 2006 and 2007 of 238,000 and 226,200 respectively. This suggests that visitor numbers have reached a plateau since 2005 – rather than having grown by an additional one-third as the official Ethiopian figures suggest.

Second, the arrivals figures include large numbers of passengers in transit in Addis Ababa. The 2005 figure of 227,400 arrivals (the most recent figure which disaggregates by market segments) includes 49,600 transit passengers – one-fifth of total arrivals. Clearly some ‘transit’ passengers are entering Ethiopia on transit visas and spending the night in hotels in Addis Ababa, whilst waiting for their connecting flights. However, these figures presumably include some passengers who remain in transit at Bole Airport. Tourists who have not entered Ethiopia should not be considered to be tourist arrivals.

In this project we use the official arrival statistics, but only with the explicit warning that there are grounds for questioning the accuracy of the figures by at least +/- 25%.

There is also scope for considerable confusion about the segments of the Ethiopian tourist market. The World Bank pro-poor tourism development strategy, on the basis of official statistics, identified leisure tourism as the segment with the best potential. This choice was based on official statistics indicating that vacation tourism is the largest segment of the Ethiopian tourist sector – as illustrated in Table 3 below. However, there are grounds to question these figures. On the basis of interviews with hoteliers, tour operators and conference facility managers, our estimates suggest a very different pattern of tourism currently in Ethiopia – which is represented graphically in Figure 5.

Figure 5: Diagrammatic summary of ODI Ethiopian tourism market estimates for 2007



Source: ODI survey

First, interviewing the two major conference facilities in Addis Ababa gives cause to question the official statistic that conference tourism in Ethiopia only comprises 7% of tourist arrivals.

The United Nations Economic Commission for Africa Conference Centre averages 100,000 delegates per year, and around 75% are from Africa. The African Union Conference Centre is smaller, with an estimated 50,000 arrivals per annum. This finding that 50% of total tourism arrivals were conference-related was corroborated by hotel interviews. Hoteliers estimate that business and conference tourists constitute a very high proportion of arrivals, with an average length of stay of 4.1 days. This segment of the tourist market is heavily focused on Addis Ababa, and the lack of conference facilities outside the capital, unreliable transport links with secondary destinations, and poor cellular telephone and internet services outside Addis Ababa add to the reluctance of this large market segment to venture far from the city.

Second, there is no evidence from tourist destinations or tourist stakeholders to support the assertion that more than 60,000 international leisure tourists visit Ethiopia each year. The ODI survey undertook detailed analysis of visitor numbers at the key tourist destinations and interviewed the main in-bound tour operators, and estimates that official statistics exaggerate the importance of international leisure tourism by two. Our analysis points to a tourist flow of approximately 21,000 international tourists on the Northern Historical Route, 12,000 international tourists on the Southern Route (half of whom have also travelled north) and 4,000 travelling east to Harar and the Ogaden Desert, or west of Addis (almost all of whom have also travelled either North or South). As many tourists on a trip to Ethiopia have an itinerary that involves travelling on more than one route we estimate that only 27,000 tourists a year visit Ethiopia for leisure purposes and venture beyond Addis Ababa (see Section 3.3 for details).

Table 3: Two recent analysis of Ethiopian international tourism by segment

Tourism segment	GoE statistics, 2005		ODI Estimates, 2007	
	International tourists	Percentage share of tourists	International tourists	Percentage share of tourists
Leisure	63,246	27.8%	27,000	8.9%
Transit	49,558	21.8%	53,000	17.5%
Business	46,008	20.2%	47,000	15.4%
VFR	21,732	9.6%	26,000	8.6%
Conference	16,385	7.2%	150,000	49.6%
Not stated	30,469	13.4%		
Total	227,398	100.0%	303,000	100.0%

Source: World Bank (2006) citing GoE statistics

This analysis is revealing, and goes some way to explaining why a destination with a long average leisure tourist length of stay (14.8 days) has such a low average international tourist length of stay. The reason is that, according to our calculations, 83% of Ethiopia's total international arrivals (i.e. 250,000 tourists) are on very short visits (as conference, business and transit tourists) of approximately 4.1 days.

Table 4: Analysis of Ethiopian international tourism by segment (excluding VFR)

Tourist segment	International tourists	Average length of stay (days)	Share of total bed-nights	Estimated spend per day (US\$)	Estimated percentage of total spend	Percentage of pro-poor impact
Conference and business	197,000	4.1	72.0%	127	65.5%	53.0%
Transit	53,000					
Leisure	27,000	14.8	28.0%	129	34.5%	47.0%
Total	277,000		100.00%		100.00%	100.00%

Note: International conference and business tourist numbers and their length of stay are estimated from hotel surveys in Addis Ababa. Their daily expenditure is derived from destination surveys undertaken in Addis Ababa. International transit tourist numbers are taken from GoE data. It has been assumed that transit passengers have the same length of stay and daily expenditure as conference and business tourists.

International leisure tourist numbers and their length of stay are estimated from inbound tour operator surveys. Their expenditure is derived from destination surveys undertaken in Lalibela, Axum, Arba Minch and Addis Ababa.

This indicates how important it is to look beyond international arrival numbers to assess the significance of a segment of the market. Although the Ethiopian tourist market is dominated by conference, business and transit tourists, they represent only 72% of the total number of international tourist bed-nights (excluding VFR tourists) because of the short duration of their visits. However, due to their high spend (approximately US\$127 per day) they contribute 65% of total international tourist spending. Conversely, whilst it might be tempting to overlook the small international leisure tourist flows (9% of arrivals – an average of 73 arrivals per day), their lengthy stays account for 28% of total international tourist bed-nights (excluding VFR tourists).

Length of stay and daily expenditure data for international VFR tourists is not available. However, on the basis of cautious assumptions the VFR markets may still represent a significant share of total international tourist expenditure. The possibility that the VFR market could be more significant economically than the leisure market in Ethiopia is further evidence of the importance of the diaspora to Ethiopian tourism.

From a pro-poor perspective, the contribution of the leisure and VFR markets is likely to be higher than their aggregate spending because a larger proportion of each US\$1 they spend reaches the poor than international business tourists based exclusively in Addis Ababa. We calculate that approximately 13% of international business and transit tourist spending benefits the poor (our estimate for Addis Ababa, so a reasonable proxy for the bulk of business travellers) yet 22% of international leisure spend is pro-poor – this suggests that conference and business tourists contribute only slightly more pro-poor impact than leisure tourists in Ethiopia.

The reason that international leisure tourism contributes almost as much to poor people as international business tourism, despite the fact that they are less than 10% of total international tourist flows, is because: they stay much longer, they spend over 70% of their holiday outside Addis Ababa (where there are stronger links between tourism and communities) and they spend much more on pro-poor activities, like excursions and craft.

It is likely that official tourist statistics are so inaccurate because many business travellers enter Ethiopia on vacation permits. Business visas are significantly more expensive and time-consuming to obtain for many tourists than leisure permits – particularly for African tourists.

The source markets for leisure tourism are Europe, the Americas and Asia. The majority are mature travellers who are interested in cultural history, with a minority of eco-tourists (mainly birdwatchers from the UK and the Netherlands). Whilst accounting for less than one in ten tourist arrivals in Ethiopia, the leisure segment is a very important component of tourism in Ethiopia. Each leisure tourists stays in Ethiopia for an average of 14.8 days, which is almost four times longer than the average business tourist. The main leisure destinations are outside Addis Ababa, which has important implications for spreading the impacts of tourism beyond the capital.

This analysis has important implications for a pro-poor tourist strategy in Ethiopia. Heritage and cultural tourism was the exclusive focus of attention in ESTDP until 2008. This has merit in terms of the extraordinary value and potential of this product and some of the segments pro-poor impacts, however, conference and business tourism demand in Addis Ababa dwarfs all else in Ethiopia. More recent versions of the ESTDP have, very sensibly, taken account of this important reality and have established Addis Ababa as an important recipient of ESTDP funding.

There is a danger that policy-makers in Ethiopia repeat the mistake, not uncommon in Africa, of equating 'tourist' with 'foreigner'. One consequence of this is a reluctance to recognise the importance of domestic tourism. It is striking that, even in places widely-regarded as 'leisure'

destinations, typically half the number of bed-nights is taken by domestic tourists (often mainly conference and business tourists but with some signs of an emerging domestic leisure tourist market).

In Addis Ababa, the number of international conference and business tourists is dwarfed by the domestic sector. International business travellers are almost entirely contained within 2,500 top-end hotel rooms and 3,000 mid-range hotel rooms in Addis. Whilst small, the international conference and business sector is very lucrative, and generates about US\$90m international exchange for the Ethiopian economy. However, 'beneath the radar' of most tourism analyses is an enormous domestic conference and business tourist sector which we estimate involves approximately 500,000 tourists staying twice as long in Addis as international conference and business tourists. Although domestic conference and business tourists spend less per day than international conference and business tourists, this is compensated by their additional bed-nights, and domestic conference and business tourism sector is likely to contribute almost as much financially as the international conference and business tourism sector to the Ethiopian economy.

The VFR market illustrates another form of Ethiopian tourism that is operating 'beneath the radar'. Apart from arrival numbers, there is little available information on this segment. On the basis of our illustrative estimates of visit length and spend, this sector could well be larger than the international leisure market. Given the importance of the diaspora in ways that extend beyond tourist spending (such as investors in tourist assets), this segment of the market should be prioritised for analysis.

The implications of this analysis of international tourist arrivals are really important for tourism in Ethiopia. Most important, only about one in eleven international tourists clearly choose to visit Ethiopia:

- Conference tourists visit Ethiopia because this is the location where – predominantly public sector – conferences are arranged;
- Transit tourists visit Ethiopia because it is en-route to their destination;
- Business tourists visit Ethiopia because for work-related reasons; and
- The diaspora visit Ethiopia for family reasons.

Presumably some of these tourists like Ethiopia and some do not but the point is that, in a sense, they arrive whether they want to or not. Only the 27,000 leisure tourists have made an explicit choice to visit Ethiopia.

In the future, Ethiopia can continue to rely on its good air links, diaspora and multilateral institutions to generate a reasonable international tourist flow. This flow will not increase rapidly but, because it does not represent discretionary travel, is also unlikely to fall. If tourism is to grow substantially in Ethiopia, the expansion will predominantly be in the number of people who visit the country through choice. It is for this reason that increasing the competitiveness of tourism in Ethiopia is absolutely central to creating a tourist sector which makes a more significant contribution to the economy and the people.

Competitiveness is a theme which will reoccur throughout this analysis. In the past, pro-poor tourism was sometimes seen as being exclusively focused on redistribution. The issue was not to 'grow the cake', but to increase the size of the 'cake slice' accruing to the poor. In a large and buoyant destination, this approach may be justified – although it does raise the strategic question of how to engage the private sector operators if the primary aim of the interaction is primarily to extract resources from them to redirect to the poor. However, in Ethiopia, any pro-poor tourist strategy must have a serious focus on growing tourism and a key strategy to achieve this is through increased competitiveness. This is because tourism in Ethiopia is currently so small that, even if a high percentage of tourism spending benefitted the poor, it would be largely irrelevant given the scale of poverty in the country.

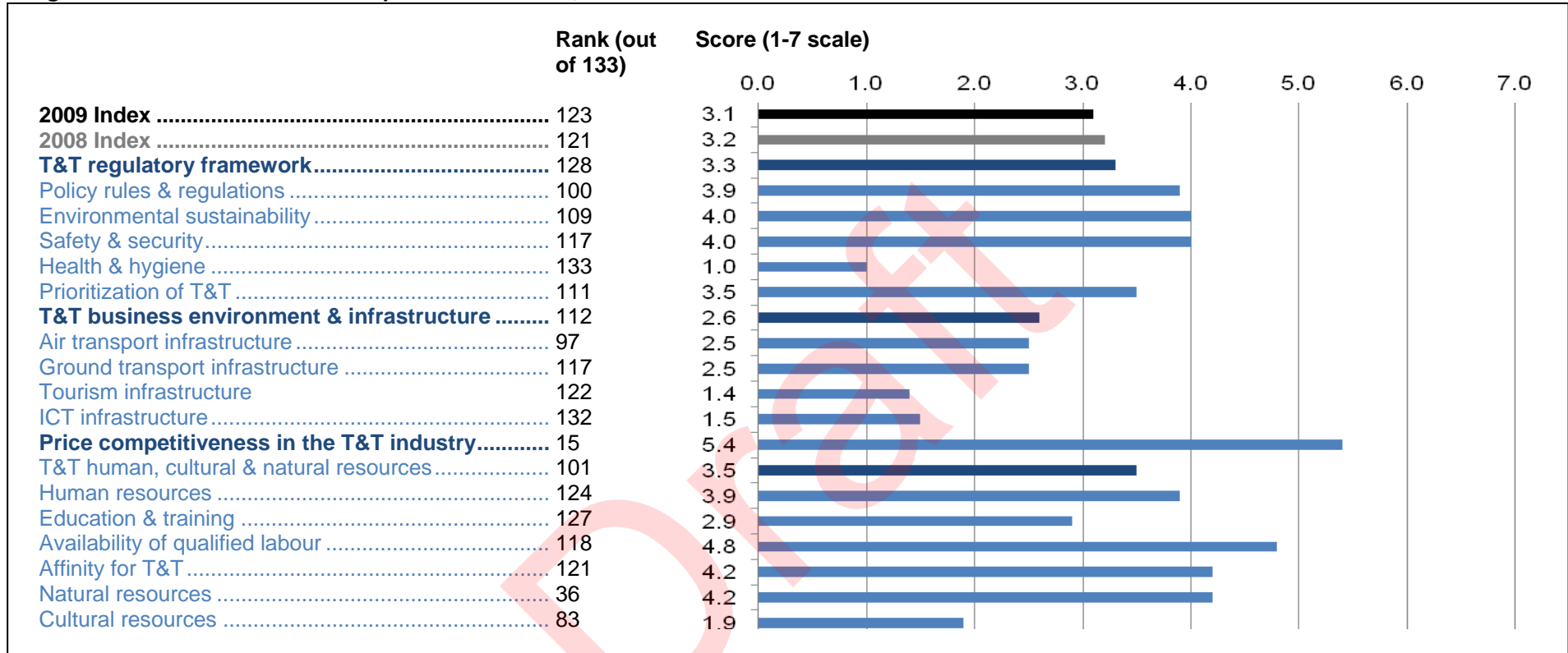
If our interest is to significantly increase the flow of resources from tourism to the poor in Ethiopia, the scale of tourism has to be increased by an order of magnitude in addition to broadening the beneficiaries of this expenditure.

The long-term vision of GoE is for Ethiopia to be one of the top ten tourist destinations in Africa by the 2020. If African tourism generally continues to grow at the same rate as for the last decade, this suggests that Ethiopia will need to attract some 2.6m visitors by 2020 in order to achieve this target. In turn, this implies an annual average growth rate in excess of 17%, which implies a very significant increase in market share of African tourism to be captured by Ethiopia.

For this goal of extremely ambitious growth and increasing market share to have any prospect of success, Ethiopian tourism has to be a competitive destination. The indications from the most comprehensive assessment of competitiveness in travel and tourism, by the World Economic Forum, do not auger well. In 2009, Ethiopia's competitiveness ranking actually fell from 121st to 123rd most competitive travel and tourist destination out of the 133 participating countries. Even within the Africa and Middle East region, Ethiopia is placed three-quarters of the way down the list when countries are ranked in terms of their competitiveness (see Figure 7).

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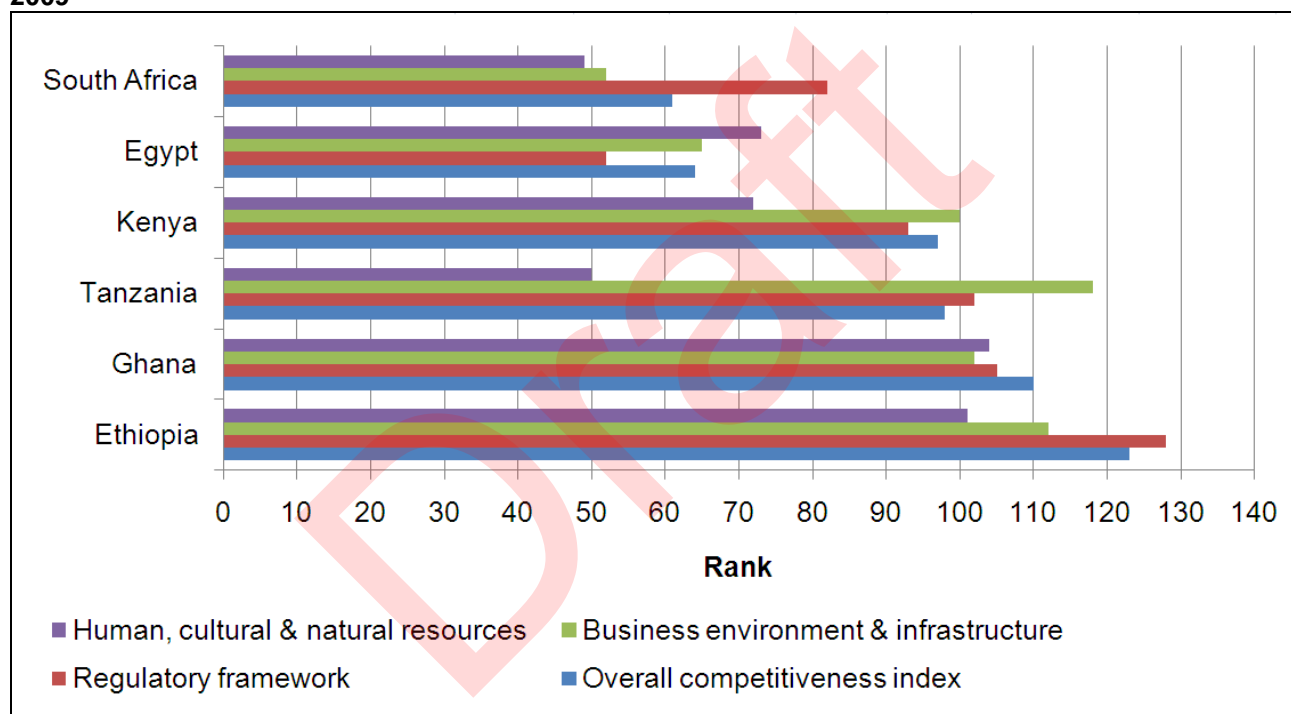
Figure 6: Travel and Tourism Competitiveness Index, 2009



Ethiopia performs relatively well in terms of price competitiveness, natural and cultural resources (with rankings against these criteria of 15th, 36th and 83rd respectively). These are important positives. However, most aspects of the policy rules and regulations are very poor in Ethiopia with onerous visa requirements, rules which frustrate international direct investment, opaque government policy-making and high business start-up costs. Safety and security is bad, government gives little priority to the tourist sector, and health and hygiene is the worst of all countries in the index. The only positive features are the openness of bilateral Air Service Agreements and reasonably short time required to start up a business.

Tourist infrastructure is generally very poor in Ethiopia, with some of the world's worst hotel rooms, ground transport network and ICT infrastructure. Air transport infrastructure, however, is reflected much more positively in the rankings. Human resources are very poor in terms of the availability of training services and trained staff – so it is little wonder that the tourism industry ranks Ethiopia as one of the places where recommendations to extend business trips are least common.

Figure 7: Ethiopian competitiveness rankings compared with other African business destinations, 2009



Source: World Economic Forum (2009)

Note: Rankings are out of 133 participating countries (1st = best, 133rd = worst)

This analysis indicates that Ethiopia is highly uncompetitive compared with other business tourist destinations in Africa. This is important because it is destinations like these from which Ethiopia will have to win market share if the tourist sector is to grow – whether the primary justification for that growth is to climb the league table of African arrivals, or to grow tourism activity in order to increase the flow of resources to the poor.

It is for this reason that a pro-poor tourism strategy in Ethiopia must engage seriously with issues of competitiveness and growth.

Recommendations

1. Tourism statistics need to be dramatically improved in Ethiopia as they currently provide no basis for policy-makers to make informed decisions. At the most basic level, the

- international tourist arrivals and segments of the market can, and should urgently, be improved;
2. Tourism in Ethiopia in the future has to grow at roughly twice the rate of the last decade for Government to achieve its arrival targets. Marketing may have a role but the fundamental constraint is that tourism in Ethiopia is currently uncompetitive – in the bottom 10% of performance internationally and in the bottom quartile of African performance. Improving this performance require a commitment to focus on improve the Ethiopian tourist product as a precursor engaging in an elaborate external marketing campaign;
 3. Central to enhancing competitiveness is the need to improve the quality of tourist infrastructure, which is currently very low. Government should work with the private sector to create an environment in which this will be improved. Partly this is about Government changing what it is already doing and improving the regulatory environment. However this is also about Government doing things which are currently not happening effectively, like training staff, improving business infrastructure, regulating service standards and prioritising the tourist sector;
 4. Conference and business tourism is the most significant segment of the Ethiopian tourist market. Including transit tourists, this sector constitutes 83% of international arrivals. If visiting friends and relations category of international tourism is excluded (because we have no information about this segment other than arrival numbers) almost three-quarters of international bed-nights and two-thirds of international tourist spending in Ethiopia is accounted for by non-leisure tourists. In addition business tourism generates over half the total pro-poor benefits of international tourism in Ethiopia. Business tourism in Addis Ababa therefore should be included as a key element to any national tourist strategy; and
 5. Although the number of leisure and VFM tourists is low, they stay much longer than business tourists. As part of this study we have a clear idea about international leisure tourist activity, spending and pro-poor benefits but there is an urgent need to better understand the VFM market which may well be more significant financially than international leisure tourism and may have more significant pro-poor impacts.

3. The tourism value chain and pro-poor benefits

3.1 Accommodation

Supply

Ethiopia has a small number of hotels which are, generally, of poor standard. The most recent comprehensive information is presented in Table 5 below.

Table 5: Number of hotels in Ethiopia, by region and quality standard

Regional States	Number of hotels						Recommended for tourists	Total	Number rooms ¹
	5 Star	4 Star	3 Star	2 Star	1 Star				
Addis Ababa²	3	13	27	32	7	0	82	4,295	
Amhara	0	0	5	1	10	5	21	552	
Dire Dawa	0	0	1	2	5	2	10	294	
Gambela	0	0	0	0	1	0	1	22	
Harari	0	0	0	1	2	5	8	140	
Oromia	0	0	0	7	12	15	34	1,629	
SPNN	0	0	0	3	12	5	20	434	
Tigray	0	1	2	3	8	8	22	561	
Total	3	14	33	49	57	40	198	7,927	

Sources:

MCT (2006) Tourism Statistics Bulletin 2003-2005

¹ Derived from World Bank (2006) Ethiopia: Towards a Strategy for Pro-Poor Tourist Development

² Derived from ODI analysis of Tourism Office Statistics (2008)

This information illustrates a number of important issues:

First, there is a chronic lack of reliable tourism statistics in Ethiopia. Ethiopia is the first tourist destination in a low-income country that we have studied where policy-makers do not have access to reliable information about the number of classified hotel rooms in the capital.

Box 4: Inaccurate hotel data in Addis Ababa

Official estimates in the most recent official Addis Ababa tourism plan⁶ indicate that there are 28 classified hotels in the capital, with 1,940 rooms. Other official estimates suggest there are 49 classified hotels⁷. Concerned with these discrepancies, and with the support of the Tourism Office, our researchers located the original files, extracted the original data, and discovered that there are currently 82 classified hotels with 4,295 rooms in Addis Ababa – more than twice the number of classified hotel rooms in any of the official statistics.

The official estimate for total hotel revenue in Addis Ababa in 2006 was US\$11.1m (117,822,473ETB)⁸. On the basis of detailed interviews with 14 hotels in the city, we estimate the annual hotel revenue in Addis Ababa to be US\$82m. Several of the large hotels in Addis Ababa have revenues more than twice as large as the official figure for all hotels.

Second, there are few 5, 4 and 3 star hotels in Ethiopia (50 in total) and almost none outside Addis Ababa (9 in total). This is a supply-side constraint to developing up-market tourism and is exacerbated by the failure of the classification system to enforce international standards.

⁶ Addis Ababa City Administration (2006) Tourism Resource Potential and Opportunity Study and Project Identification (Draft Final Report)

⁷ MCT (2006) Tourism Statistics Bulletin 2003-5

⁸ Addis Ababa Tourist Commission (2006) Tourism Statistics 2006 Bulletin

Third, most official statistics conflate ‘tourists’ with ‘foreigners’ and so exclude the very large number of unclassified hotels serving the domestic business tourist market, particularly in Addis Ababa. Our survey of unclassified hotels in the capital revealed large numbers of small hotels, averaging 36 single rooms each. These hotels almost exclusively serve the domestic market (98% of guests are Ethiopian) and 99% of guests are business tourists staying for an average room rate of US\$5 a night.

The only official figure for the total number of hotels in Addis Ababa (including unclassified hotels) is a figure of 7,036 hotels in the draft Tourism Resource and Opportunity Study – but this contains no indication of room numbers or any other information. We suspect that this figure, if accurate, probably includes large numbers of establishments with one or two rooms. For the purposes of our estimates, we have assumed that there are about 200 hotels with an average of 36.5 rooms (a total of 7,300 rooms) in the low-end category in Addis Ababa. In the absence of any official data, this estimate is based upon the local knowledge of the research team.

Fourth, it is clear that there is a hotel construction boom underway in Ethiopia. During data collection at destination level we found evidence of a very significant supply-side response to rising hotel demand both within Addis Ababa and outside.

Table 6: Classified hotel construction activity in four tourist destinations, 2008

Destination	Existing		Under construction	
	Hotels	Rooms	Hotels	Rooms
Addis Ababa	82	4,295	6	1,048
Axum	12	418	9	531
Lalibela	9	261	9	208
Arba Minch	10	277	6	261
Total	113	5,251	30	2,048

Source: ODI survey

In the four destinations studied, which include 66% of the total number of classified rooms in the country, there are currently an additional 2,048 hotel rooms under construction – representing an almost 40% increase in hotel room supply. At least as important as the increase in the aggregate number of hotel rooms is the fact that these hotels are mainly of a quality much higher than the existing hotel stock – so new construction is rapidly bringing more, and better, hotel rooms to the market.

3.2 Hotel construction

Hotel construction is having an important impact on the local economies around destinations, and poor people within them, for three reasons:

First, as Table 7 illustrates, the scale of hotel building activity is very significant. The six largest hotel developments under construction in Addis Ababa currently amount to an investment of US\$124.1m, and between US\$3.3m and US\$5.6m is also being invested in each of the three destinations surveyed outside the capital. We estimate that some 4,460 hotel rooms are currently under construction nationally, which represents a very rapid increase in hotel room supply. Hotel construction is very slow process in Ethiopia, with a duration of 23 to 36 months per hotel being typical. In Ethiopia as a whole, the average duration of hotel construction of 33 months implying an annual construction spend of about US\$60m.

The scale of hotel construction activity can be demonstrated by comparing it with the revenues raised by existing hotels. The annual capital expenditure on the construction of six new hotels in Addis Ababa (US\$41m) equals half the estimated annual accommodation revenue for the city (US\$82m).

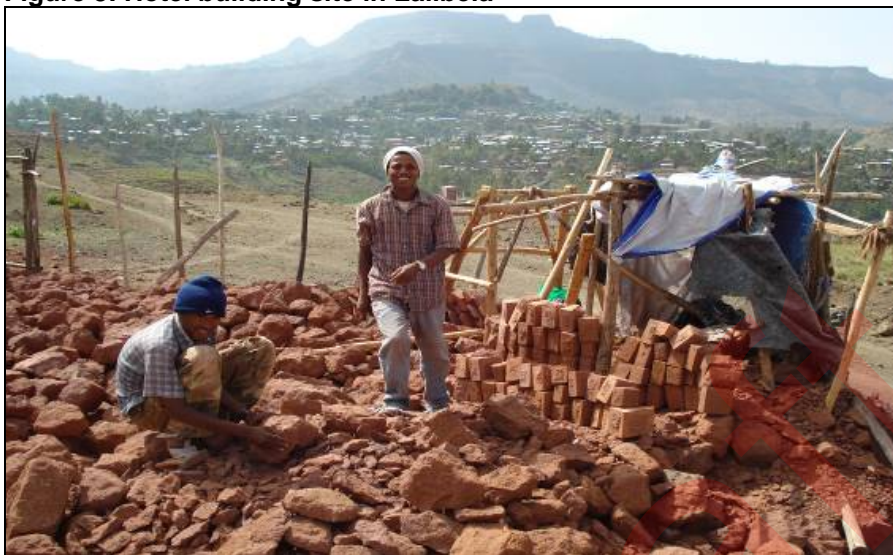
Table 7: Hotel construction in four destinations in Ethiopia

Destination	Capital expenditure (US\$)	Average duration (months)	Number of labourers	Wages as percentage of capital expenditure	Wages total (US\$)	Percentage local wages	Pro-poor wages (US\$)	Percentage pro-poor wages	Materials total	Percentage local material	Local materials (US\$)	Percentage pro-poor local materials	Percentage local capital expenditure	Percentage pro-poor capital expenditure
Arba Minch	5,560,000	23	534	19%	1,042,000	94%	493,440	65%	4,518,000	40%	2,135,450	50%	56%	28%
Axum	3,285,000	36	608	25%	821,250	100%	629,646	77%	2,463,750	40%	985,500	50%	55%	34%
Lalibela	4,560,000	24	435	27%	971,000	88%	451,600	62%	3,589,000	36%	1,081,350	50%	43%	22%
Sub-total	13,405,000	27	1,577	23%	2,834,250	93%	1,574,686	67%	10,570,750	39%	4,202,300	50%	51%	27%
Estimated Outside Addis Ababa	40,215,000	27	4,731	23%	8,502,750	93%	4,724,057	67%	31,712,250	39%	12,606,900	50%	51%	27%
Addis Ababa	124,055,116	36	1,151	22%	28,010,023	97%	2,163,300	8%	96,045,093	33%	32,457,055	10%	48%	4%
Ethiopia	164,270,116	33	5,882	23%	36,512,773	96%	6,887,357	23%	127,757,343	35%	45,063,955	20%	49%	10%

Source: ODI survey

Second, notwithstanding the concerns frequently expressed about the high level of imports of labour and materials in hotel construction, the level of leakages is sufficiently low to ensure real benefits to the destination economy. Almost all construction labour is Ethiopian and, even for the large, international-owned hotels in Addis Ababa, 33% of the building materials are sourced locally (within 100km). Outside Addis Ababa, 39% of the building materials for hotel construction are sourced locally. Much of the non-local materials for these secondary destinations are still sourced from national suppliers, and so benefit the Ethiopian economy.

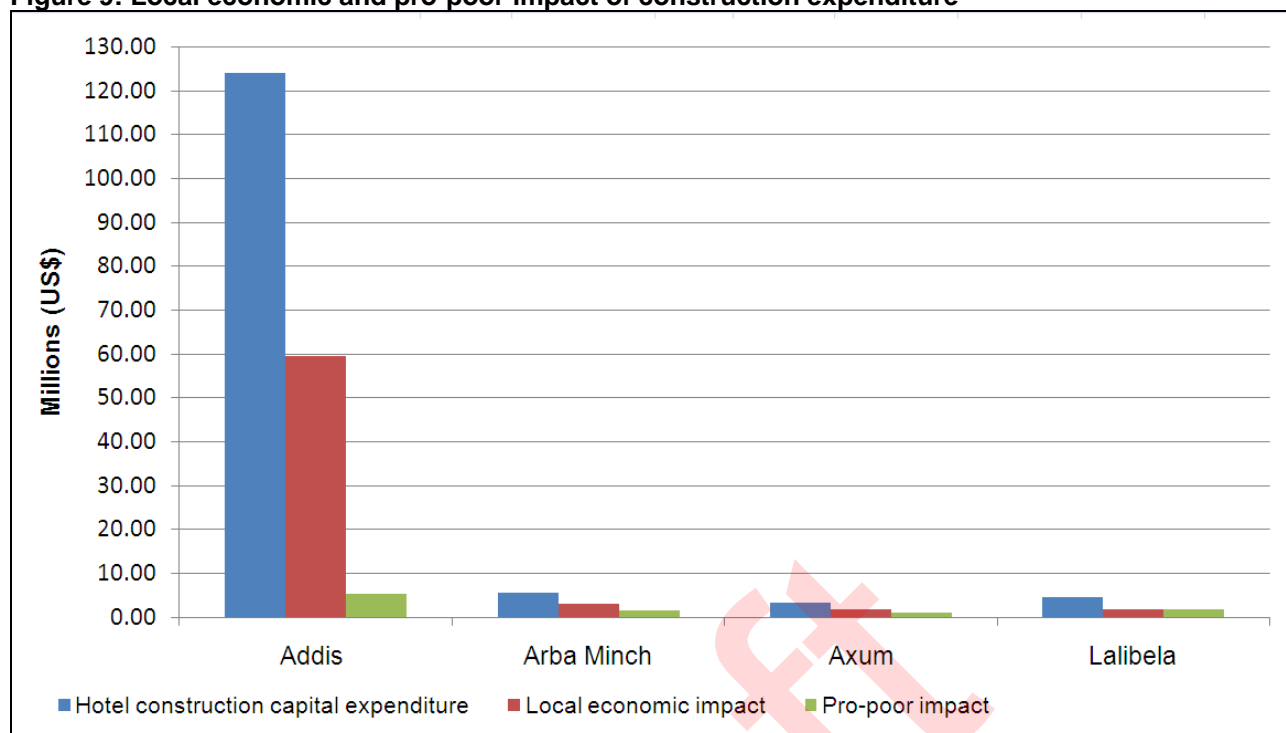
Figure 8: Hotel building site in Lalibela



Note: Demonstrating labour-intensive methods on an upmarket lodge development

Third, there are strong pro-poor linkages between the construction sector and local communities outside Addis Ababa. In the capital the use of sophisticated construction techniques and fittings limits the demand for unskilled labour, typically hired on a daily rate of approximately US\$2.50. Construction materials also have a lower pro-poor content in Addis Ababa, reflecting the use of industrial suppliers and electromechanical goods. This results in only 4% of construction expenditure flowing to the poor through direct and indirect links.

Outside Addis Ababa, hotel construction is extraordinarily pro-poor. Between 22% and 34% of total capital expenditure accrues to the poor people in the three destinations studied, with a weighted average of 27%. In addition to the considerable use of local materials, construction uses very large numbers of low-income labourers with a high proportion of female workers. For instance, in Lalibela, Axum and Arba Minch, where 899 people work in hotels - nearly twice as many workers, 1,577, are employed building hotels. Given the low cost of construction labour compared with the high cost of imported materials and transport costs, there appears to be a business case for adopting labour-based construction methods as a matter of routine. On the building site in Lalibela shown in Figure 10 for instance, an up-market lodge is being constructed using bricks which are cut from boulders that are hauled up from the local river bed. Each brick-maker has a daily target of 10 bricks. It would be difficult to conceive of a more pro-poor method of construction and it is critical that, with the expansion of hotel supply in Ethiopia, the pattern of hotel development outside Addis Ababa retains this labour-based approach and, to the extent that this is possible in a high-end metropolitan business destination context, hotel construction in Addis begins to look more like hotel construction in the secondary destinations, rather than visa-versa.

Figure 9: Local economic and pro-poor impact of construction expenditure

Source: ODI survey

Our estimate that almost 75% of hotel rooms under construction in Ethiopia are outside of Addis Ababa is significant. This suggests that one of the main constraints on tourism outside the capital, the lack of reasonable quality accommodation, is lifting.

Outside Addis Ababa, most hotels are being constructed by local entrepreneurs. This is evidence that the private sector is responding to the market demand for better quality accommodation. This has the advantage that local linkages are strong but, in many cases, results in hotels being owned by entrepreneurs with little experience in the hospitality sector.

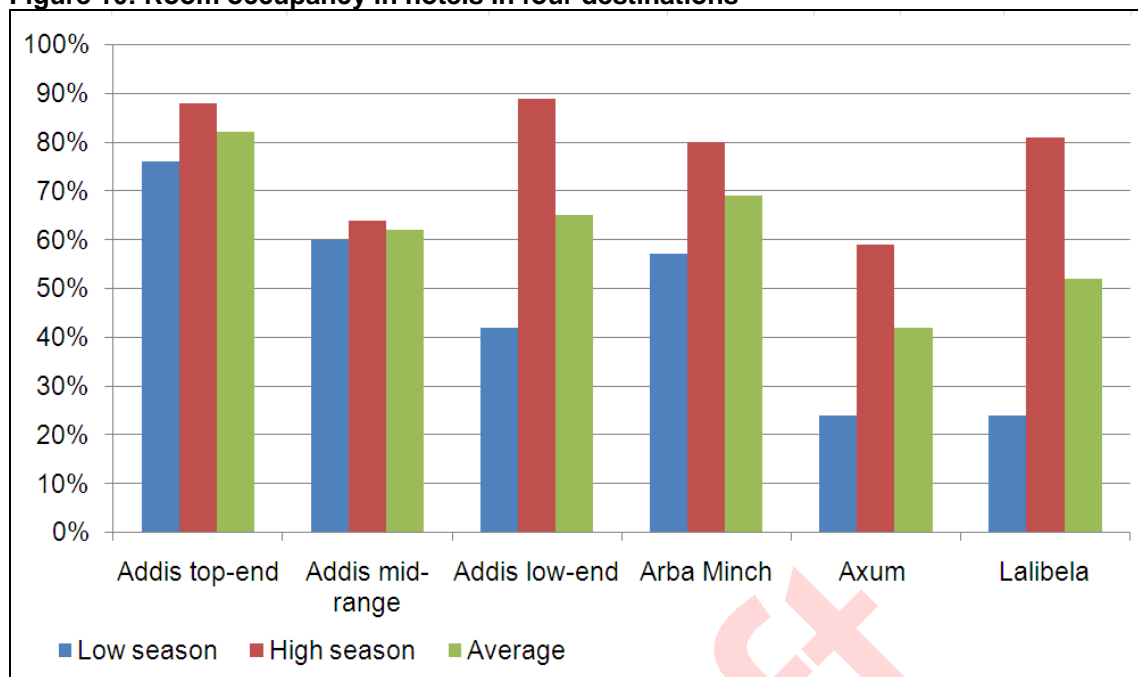
Only in Addis Ababa is there evidence of international participation in the hotel sector, with French, American, Irish and Chinese investors actively engaged. Although this participation may result in increased leakages from hotel operations, it is likely to bring international hospitality standards to a much broader range of hotels in Addis Ababa, which is an urgent priority for the tourist sector.

Demand

In Addis Ababa, hotel demand conditions are buoyant – particularly at the top end of market. This reflects the lack of supply of high quality hotels and the relative lack of seasonality of conference and business travel. Even in these hotels there is a significant leisure component (15% and 28% of rooms occupied in top-end and mid-range hotels respectively) which increases occupancy due to the counter-cyclical pattern of demand in these two segments of the market (the low season for conference and business tourism is during the holidays in the source markets, which is the high season for leisure tourism).

Low-end hotels in Addis Ababa are used exclusively by the domestic business market and experience much greater seasonal variation.

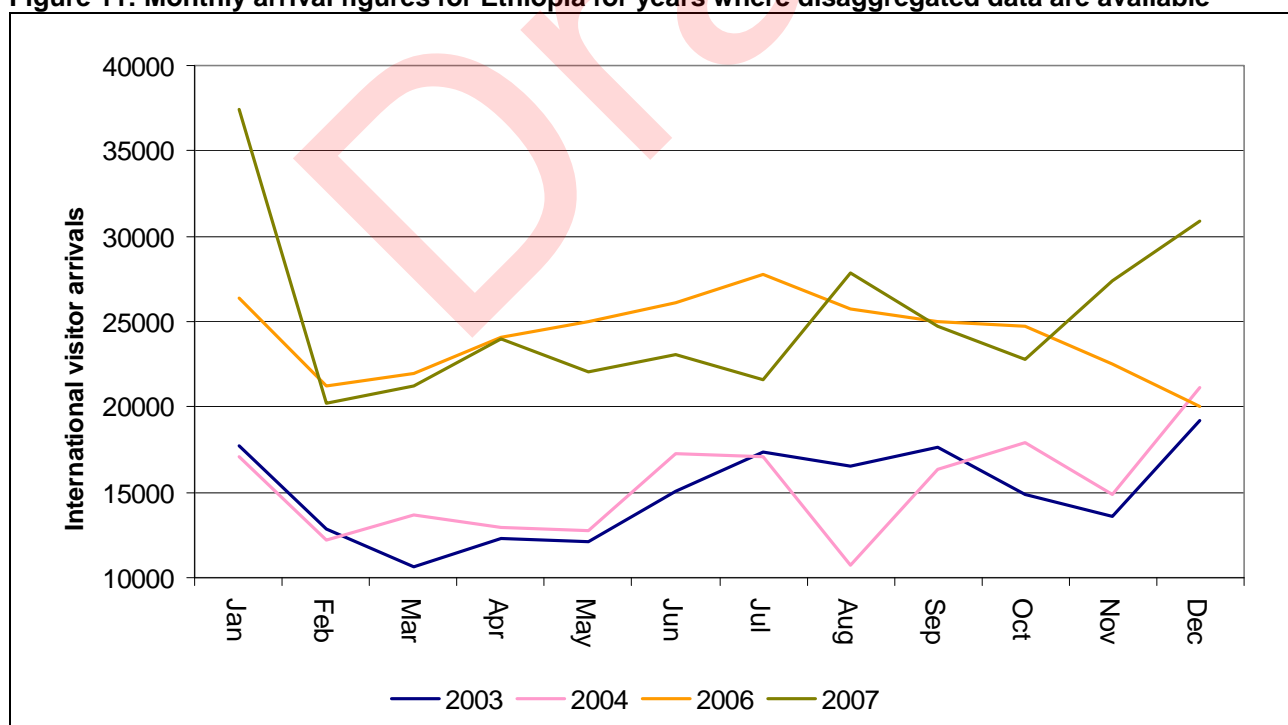
Figure 10: Room occupancy in hotels in four destinations



Source: ODI survey

At a national level, international tourist arrival numbers peak in November to January (see Figure 12). However, the large conference and business contingent means that – apart from the Christmas peak – monthly variation is relatively modest.

Figure 11: Monthly arrival figures for Ethiopia for years where disaggregated data are available



Source: MCT (2006) Tourism Statistics Bulletin 2003-2005

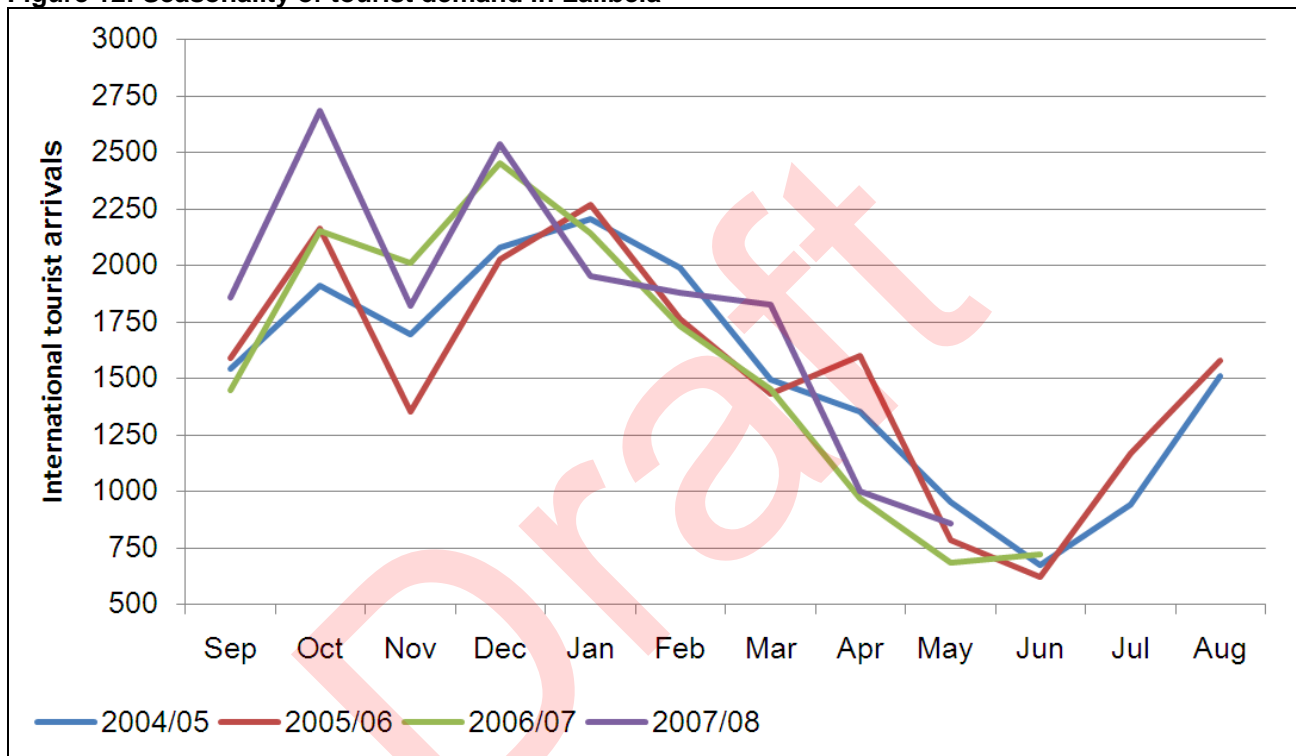
Note: Figures for 2006 and 2007 MCT data sheets.

Outside Addis Ababa, tourist destinations are much more dependent upon the leisure market and, as a result, have a much stronger seasonal pattern of international tourist arrivals.

In particular, there is a marked seasonality to tourist demand in Lalibela. Figure 13 is based upon visitor numbers at the rock churches and suggests that the pattern of this trend has remained relatively stable over the past four years. For about seven months a year, from September to March, international tourist arrivals are relatively high – exceeding 1,500 visitors a month in recent years. Within this high season plateau, there are clear peaks in October and December. This is followed by a five month low season with 500-1,500 visitors a month. The trough of the low season is in June.

This seasonality has consequences for occupancy rates in leisure-dependent destinations. Lalibela currently averages a relatively modest 52% annual room occupancy. This is a concern, particularly given the near-doubling of hotel accommodation in the destination in the next two to three years.

Figure 12: Seasonality of tourist demand in Lalibela



Source: National Tourist Information Office & Department of Tourism

Note: Visitor numbers at the rock churches are regarded as the most accurate proxy for tourist arrivals in Lalibela and were corroborated by the hotel survey data

In addition to impacting negatively on the financial viability of tourism accommodation suppliers, this demand volatility has adverse consequences for poor people linked to the tourism value chain in the local economy, such as crafters and food suppliers, who are least able to absorb changes in their livelihoods over time. Given that the central aim of the ESTDP is to increase linkages between the tourist sector and local communities, actions to reduce the volatility of tourism demand outside Addis Ababa should be a central goal of the strategy.

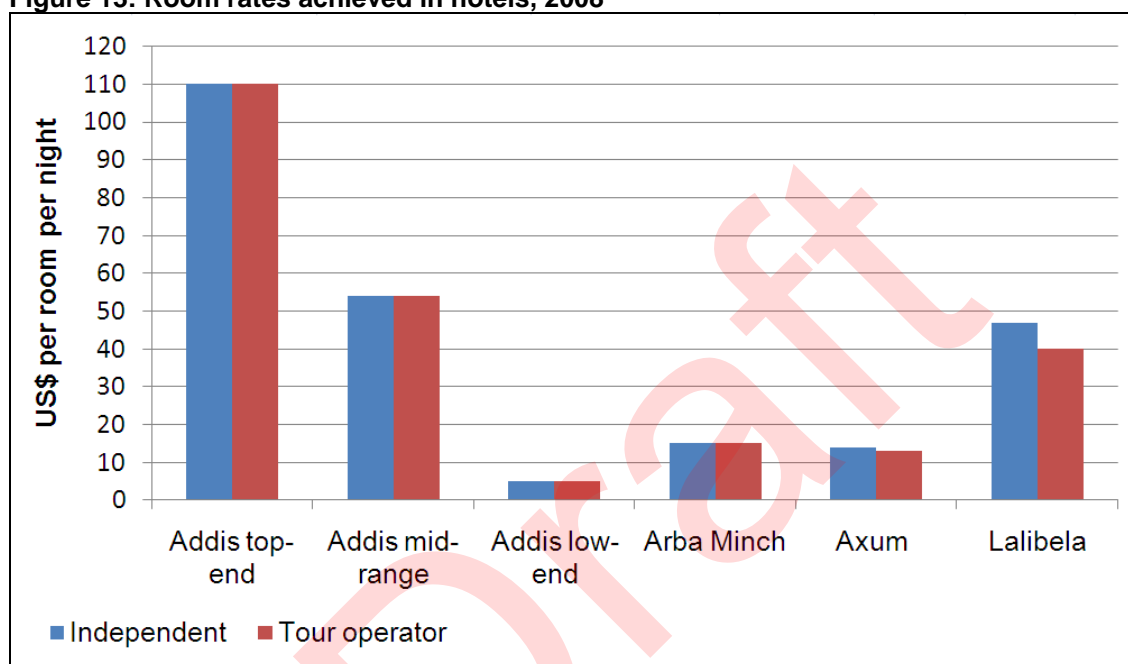
Room rates achieved by hotels vary greatly across different categories of accommodation and different destinations, from a high in Addis Ababa of US\$110 per room per night at top-end hotels to US\$5 per room per night at low-end hotels. Outside the capital, average room rates vary from US\$14 per room per night in Axum and US\$15 per room per night in Arba Minch to over US\$40 per room per night in Lalibela. The lack of differential in room rates offered to independent travellers and tour operators is striking in all destinations except Lalibela. This pattern contracts strongly with more mainstream tourist destinations, where large tour operators are often able to extract very significant discounts from accommodation service providers in return for advance contracts for rooms. This finding reflects a number of factors:

In most destinations in Ethiopia the independent tourist sector dominates, so hoteliers are not dependent upon tour operators, which reduces their economic power to require discounts.

In Addis Ababa, where conference and business tourism is dominant, only 25% of top-end hotel rooms and 15% of mid-range hotel rooms sold are contracted through tour operators, and low-end hotel rooms are not sold by tour operators at all.

Outside Addis Ababa, where leisure tourism is more significant, tour operators purchase 44%, 26% and 59% of hotel rooms in Arba Minch, Axum and Lalibela respectively. Therefore it is only in Lalibela, where 78% of the market is leisure tourists and tour operators book a majority of hotel rooms, that tour operators are able to achieve discounts on room rates.

Figure 13: Room rates achieved in hotels, 2008



Source: ODI survey

Ownership

The privatisation of Ethiopia's hotel stock is well underway. By 2004 it was estimated that approximately 36% of hotels remained GoE owned⁹.

However, GoE-owned hotels are over-represented in the small pool of top-end hotels. For instance, in Addis Ababa GoE has a significant stake in the Hilton, one of the 5 star hotels in Addis Ababa (although it is operated under a management contract), and both owns and operates the Ghion Hotel, as well as a number of the mid-range hotels. In Lalibela (Roha Hotel) and Axum (Yeha Hotel), the best quality hotel beds are in 3 star hotels under the ownership and control of GoE. In addition to conceptual concerns with GoE ownership of hotels, relating to undermining a competitive market in tourism services, there are two practical considerations:

First, a small number of managers of GoE-run hotels highlighted the difficulties of operating and maintaining an asset in the public sector. Effective personnel management and capital works procurement through GoE systems are a particular concern. This is a strategic issue for the competitiveness of the tourism sector in Ethiopia, where improving the capacity of the workforce and enhancing the quality of tourist infrastructure are urgent priorities.

⁹ World Bank (2006)

Second, there is strong vertical integration of the public sector tourism value chain in Ethiopia, which diminishes the opportunities for community and private sector engagement. The GoE-run inbound tour operator, the National Tourist Organisation, delivers tourists to GoE-run hotels which then make use of GoE-run suppliers who, in turn, source their supplies from state farms. This is a structural impediment to the development of enterprise and jobs at the local level. We have no evidence that this parallel, state-owned and state-managed economy is less pro-poor than the mainstream market; however, it clearly is a block to the development of enterprise and upgrading the quality of the Ethiopian tourist product.

Staff

Hotel staff are critical to any discussion of linkages between the accommodation sector and the local economy, because the direct employment of people from disadvantaged backgrounds is the main pro-poor impact of the established hotels (construction impacts were dealt with above and food supply linkages are dealt with in Section 3.6).

Hotel surveys generated a large amount of policy useful information about staffing in the accommodation sector:

First, hotels employ large numbers of staff. Staff per room ratios show a variation from 2.0 staff per hotel room for top-end hotels in Addis Ababa to 0.8 staff per room in Axum. Using the figure of 7,927 classified hotel rooms in Ethiopia, this translates to between 6,342 and 15,854 hotel workers in the country.

However, the true number of hotel workers is likely to be very much larger than this because hotel statistics overlook low-end hotels.

Table 8: Hotel staff in four destinations

Location	No. rooms	Total staff	Management staff	Non-management staff	Staff per room	Ave. non-management monthly wage (US\$)	Ave. non-management monthly wage incl. service charge & tips (US\$)	Percentage of non-management staff from a 'poor' background
Addis top-end¹	1,665	3,313	215	3,098	1.99	87	216	73%
Addis mid-range	2,392	4,018	215	3,803	1.68	67	104	64%
Addis low-end	7,300	9,000	500	8,500	1.23	29	36	99%
Arba Minch	277	348	14	334	1.26	28	40	91%
Axum	418	329	23	306	0.79	34	51	95%
Lalibela	261	222	19	203	0.85	42	76	100%

Source: ODI survey

Note: ¹ Top-end hotels include all 5 and 4 star hotels

² Mid-range hotels include all 3 and 2 star hotels

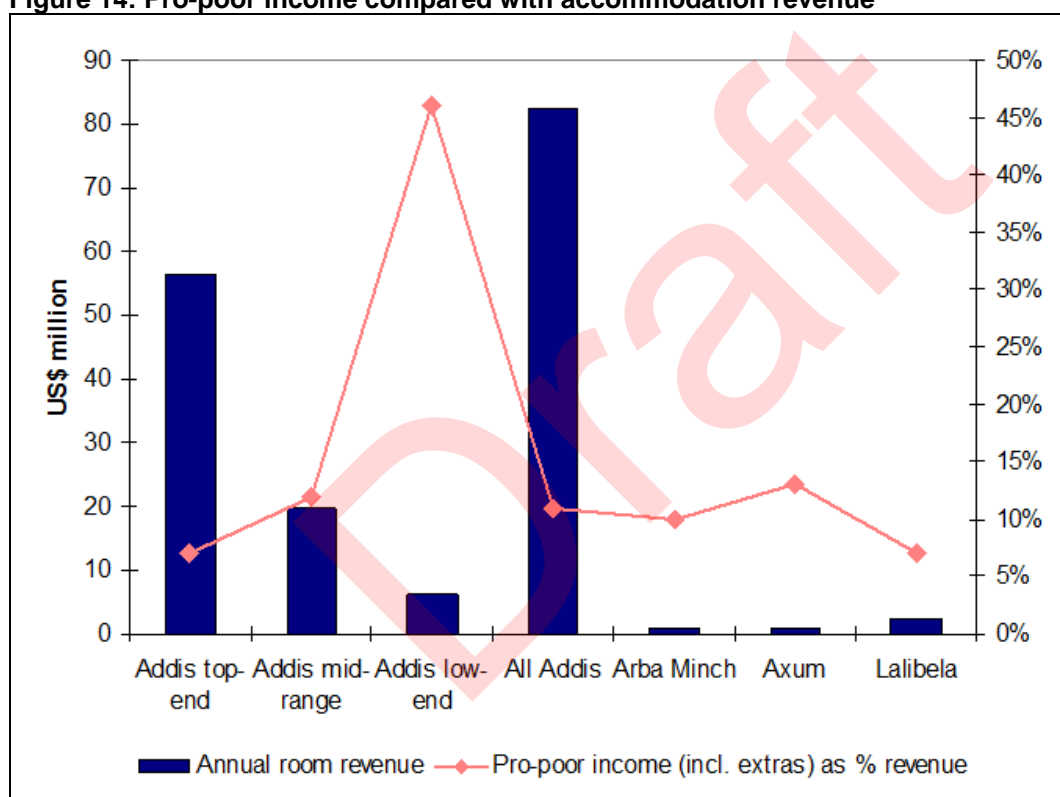
³ Low-end hotels include all 1 star and unclassified hotels

Second, the hotel sector absorbs the great majority of its workforce from staff from a poor background (as defined by hotel management). Unsurprisingly, barriers to workers from poor backgrounds are somewhat higher for mid-range and top-end hotels in Addis Ababa, but between 64% and 73% of staff still come from disadvantaged backgrounds. Outside Addis Ababa, almost all hotel staff are recruited from poor households in the local economy.

Third, non-managerial hotel staff salaries are low but variable, ranging from US\$28 to US\$87 per month, with salaries lower outside Addis Ababa and in lower-end hotels. However, staff remuneration is considerably augmented with service charges (typically 10% of hotel bills levied on guests in most classified hotels and distributed equally amongst all staff on a monthly basis, often with none retained by the hotel) and direct tips to staff. The effect of service charges and tips is to increase the basic salaries of non-managerial staff in hotels by between 25% and 150% across different destinations.

From this basic information, it is possible to estimate the pro-poor impact of accommodation spending in a range of hotels in Ethiopia. Figure 14 compares annual hotel room revenue with pro-poor income (PPI) (defined as the incomes of non-management hotel room staff from 'poor' backgrounds as defined by their management) in our sample destinations. From this analysis, we estimate that across all hotels in all destinations US\$10.4m (or 11% of the national room revenue of US\$95.6m) accrues to non-management hotel room staff.

Figure 14: Pro-poor income compared with accommodation revenue



Source: ODI survey

There are, however, important differences between destinations. The dominance of the accommodation sector in Addis Ababa compared with the rest of Ethiopia can be demonstrated by comparing the US\$82.5m hotel room revenue generated in the capital with the estimated US\$13.0m for the rest of the country – 86% of Ethiopia's hotel room revenue is generated within the capital.

On the basis of the hotel survey, it is estimated that the 1,665 top-end hotel rooms in 16 hotels in Addis Ababa alone generate US\$56.4m hotel room revenue each year – equivalent to US\$113 per occupied room per night at 82% average room occupancy. The fact that these 16 hotels generate significantly higher accommodation revenues than the other hotel rooms in Ethiopia reflects the high room rates and occupancies in this segment of the Addis Ababa market relative to the rest of the country's hotels.

The pro-poor impact of hotel accommodation expenditure in top-end hotels is limited to an inclusive figure of 7%, despite the higher salaries paid to workers, the generous service charge payments and the higher staff per room ratios, because room rates are so high compared with staff salaries.

In low-end hotels in Addis Ababa hotel room revenue is much lower because, despite the larger number of rooms, rates average only US\$5 per room per night and room occupancy figures are a more modest 65%. While non-management staff wages are one-third of those in the top-end hotels and staff to room ratios are lower at 1.23 staff per hotel room, almost all staff are from poor backgrounds and salaries constitute nearly half of total hotel room revenue.

Outside Addis Ababa, the lower room rates and lower occupancy figures are serviced by staff earning significantly lower salaries – so the annual PPI ranges from 7% in Lalibela to 13% in Axum. For Ethiopia as a whole, it is estimated that 11% of accommodation revenue accrues to the poor in the form of wages for 'poor' non-management staff. This figure is relatively high by international comparisons, and reflects the fact that the hotel workforce is almost exclusively Ethiopian, and that hotel room rates (beyond top-end hotels in the capital) are low.

Recommendations

1. Improve basic tourism statistics on accommodation supply, demand and revenue. Current official statistics are +/- 100% of actual for statistics, such as classified hotel room numbers, and inaccurate by an order of magnitude for more challenging statistics, such as accommodation revenue;
2. There is an urgent need to increase the supply of good quality hotel accommodation throughout Ethiopia in order to improve the competitiveness of the sector;
3. Find out what is happening in low-end accommodation in Addis. The indications are that this is a very large (in terms of hotel rooms and pro-poor impact) and almost totally 'under the radar screen' segment of the tourist market has significant pro-poor impacts;
4. Hotel construction is important both because it is bringing higher-quality accommodation into the national hotel stock and also because construction is a significant sector financially and, outside Addis, is strongly pro-poor in its impacts. Seek mechanisms to incentivise the use of local materials for hotel construction to balance policy of duty-free import of construction materials for larger hotels in Addis Ababa;
5. Develop linkages between tourism in Addis Ababa with the rest of the country, partly to increase demand for tourism services outside Addis Ababa and also to reduce the seasonality of demand outside the capital;
6. The commercialisation of the hotel sector in Ethiopia is an increasing reality, partly due to a gentle commercialisation process but more significantly due to the rapid rate of private sector hotel building. The state does, however, retain control of much of the top-end assets in the sector and there are strong practical and developmental reasons for a measured commercialisation of these assets;
7. A pro-poor tourism development strategy for Ethiopia should include a focus on tourism in Addis Ababa because the city captures about 86% of the national tourism accommodation revenue and very significant existing and potential pro-poor flows; and
8. Whilst the propensity of hotels in Ethiopia to employ staff from poor backgrounds is excellent from a pro-poor viewpoint, it is disastrous for service quality when combined with an almost total lack of adequate human resource development in the hospitality sector. There is an urgent need to improve skills throughout the hospitality sector to avoid the hotel sector either continuing to hire staff from poor backgrounds with deficient training (resulting in uncompetitive service standards), or hotels improving the quality of service by excluding the poor.

3.3 Tour Operators

Ethiopia has a diverse variety of natural, cultural and historical attractions. In the north are rock churches and monuments that are visited by the great majority of leisure tourists. Around half of these visitors also proceed south to the tribal areas.

The tour products available in Ethiopia fall broadly into the following categories:

- Addis Ababa city tours;
- Short (one or two day) excursions from Addis Ababa (we estimate that there is a latent market of around 20% of business tourists, approximately 38,693 per annum, who wish to undertake excursions from the capital);
- Historical (Northern Historical Circuit) tours of 5 to 14 days;
- Cultural (Southern Circuit) tours of 5 to 14 days; and
- Speciality tours (ecotourism, trekking, Eastern and Western minority destinations).

Tours outside the Northern Historical and Southern circuits tend to be additions to the itineraries of visitors who undertake one of the longer circuit tours. Leisure tourists tend to stay in Ethiopia from 7 to 20 days (averaging 14.8 days) but stays of 21 days or more are becoming more common. Table 9 displays our estimations of the number of tourists purchasing tour packages, based upon information from two major tour operators. The figures demonstrate the concentration of tourist flows on the Northern Historical Circuit and the Southern Circuit, with only 10% of tourist flows top to the East or West of the country.

Table 9: Distribution of leisure visitors on tour packages in Ethiopia

Package	Tourists	Percentage of total	Stay in Ethiopia (days)
7 day North only	2,000	7.4%	7.0
10 day North only	2,000	7.4%	10.0
14 day North only	9,000	33.3%	14.0
10 days North plus 10 days East/West	2,000	7.4%	20.0
10 days North plus 10 days South	6,000	22.2%	20.0
10 days South only	4,000	14.8%	10.0
10 days South plus 10 days East/West	2,000	7.4%	20.0
Total/weighted average	27,000	100.0%	14.8

Source: ODI survey of inbound tour operators

The Tourism Office in Addis Ababa lists 121 official tour operators in Ethiopia. The largest, Green Land Tours Ltd., handles around 9,000 clients per year.

The cost of tours in Ethiopia vary significantly between tour operators who offer various service quality levels, different lengths of tour, different modalities (i.e. flying part of the route) and different locations (for example accommodation is much more expensive on the Northern Historical Circuit than the South Circuit, particularly as many Southern Circuit packages include camping). Tour costs per person per day vary from US\$44 to US\$231. On the basis of discussions with tour operators, we estimate the average package to cost US\$109 per person per day, taking into account the location of major tourist flows and the market share of a number of large, high quality operators.

Tours in Ethiopia are therefore relatively expensive. At an average of US\$109 per person per day, the popular ten day package costs over \$1,000 before flights to Ethiopia or any discretionary spending is taken into account. Inbound tour operators are therefore a very important node in the leisure tourism value chain – having a very strong influence on the pattern of tourism outside the capital through their purchase of tourism services. A number of the larger tour operators are also vertically integrating the value chain through ownership of accommodation as well as transport

services. Several of the more progressive tour operators have useful and practical suggestions for developing tourism and should be seen as an important resource – inbound tour operators are a critical partner in developing leisure tourism in Ethiopia and should be engaged with productively.

The lack of Ethiopian Airlines domestic flights capacity means that booking at short notice is extremely difficult, which represents a major constraint for tour operators in exploiting the conference and business market.

Transport costs and accommodation are the most expensive costs facing tour operators. A good quality Land Cruiser costs approximately US\$120 per day to hire (on an inclusive basis including a driver-guide). Vehicle costs are typical in an African context, and accommodation and driver-guide costs are low by international standards. In our analysis, just the transport and tour operator surplus figures are captured in the tour operator node of the value chain – as almost all accommodation and food expenditure is already captured from suppliers in the hotel and restaurant surveys (and to include both the meal sold by the hotel and paid for by the tour operator would involve double-counting).

Table 10: Estimated cost structure of in-bound tour operations (US\$ per person per day)

Component of package	Northern Route	Southern Route	Weighted average
Transport 4x4 with driver/guide	\$50	\$50	\$50
Accommodation	\$35	\$20	\$30
Food	\$15	\$15	\$15
Tour operator surplus	\$15	\$13	\$14
Total cost per person per day	\$115	\$98	\$109

Source: ODI survey of inbound tour operators

Tour operator owners and Addis Ababa-based employees are not poor, and the pro-poor capture of tour benefits is limited to their involvement in the components of the supply chain, namely transport, accommodation and food supplied to tourists on tours. It is assumed that some 13% of tour operator's costs are pro-poor as they accrue to the driver-guides, many of whom are from disadvantaged backgrounds. Expenditure on tour operations *per se* is not highly pro-poor, but is an essential activity to transport the tourists to places where the purchase of services tour operators, and tourist discretionary spend, benefits many in the local community.

Recommendations

1. Importance of inbound tour operators – it is estimated that package costs (comprising 4x4 transport, accommodation and food and beverages) make up about three-quarters of tourist spending outside Addis Ababa. Therefore they are very important actors in leisure tourism value chain;
2. A good example of how the private sector can develop a product which overcomes the poor enabling environment (poor road and ICT infrastructure; unreliable airlinks; lack of information about products in secondary destinations). However, the consequence of this is a mode of tourism which excludes many tourists who do not have 15 days or almost US\$2,000 in package and discretionary spending; or a tolerance of poor service standards; and
3. It is important that government works with tour operators to improve current products but also works on air linkages and ICT and service standards to make the Ethiopian tourist product more accessible.

3.4 Transport

Local transport

The local provision of transport, outside Addis Ababa, is sporadic. Detailed surveys in Arba Minch, Axum and Lalibela revealed a range of vehicles, including taxis, rickshaws and mini-buses, providing transport services to tourists. These services include airport transfers, trips within the destinations, and local excursions. The total revenues from these transport services amount to approximately US\$325,850 per year – or an estimated local transport spend of US\$625,902 for all local transport outside the capital.

Part of the reason for this limited expenditure are the very modest tourist flows outside Addis Ababa. The 21,000 international tourists who visit Lalibela each year for an average of 2.3 days each represent an average of 130 visitors in the destination at any one point in time. As a result, the town cannot even support a taxi service. Also, most leisure tourists are travelling on tour operator packages which include their own transport services which dwarfs expenditure on local transport.

Unsurprisingly, given the higher tourist flows in Addis Ababa and the lower proportion of conference and business tourists on tour operator packages, local transport services in the capital are more extensive: 218 yellow taxis registered to carry ‘tourists’; a much larger number of blue ‘local taxis’ (estimates range from 700 to several thousand); and 30 car rental companies, generating an estimated US\$3.6m annual revenue.

Table 11: Revenue by type of transport service

Destination	Estimated annual revenue (US\$)						Total estimated revenue	Pro-poor effect through local employment
	Airport transfer	Taxis/ rickshaws	Car rental	City tours	Local excursions			
Lalibela	51,040				103,840	154,880	16,104	
Axum	44,880	3,000			39,050	86,930	31,780	
Arba Minch					84,040	84,040	12,740	
Sub-total						325,850	60,624	
Estimated total outside Addis						625,902	116,448	
Tour operators						18,489,600	2,403,648	
All transport outside Addis						19,115,502	2,520,096	
All transport in Addis Ababa		2,190,000	1,170,900	190,099		3,550,999	600,000	
Ethiopia						22,666,501	3,120,096	

Source: ODI survey

Discussions with transport providers regarding their cost structure and margins suggested that 600 drivers in our sample destinations, each receiving either an average wage profit (for owner-drivers) (including tips of up to US\$100 per month) would amount to an annual PPI of 17% of local transport revenue. Extending the analysis to include the additional destinations outside

Recommendations

1. In Addis Ababa, there is a need to regulate the quality standards of taxis and stop using the licence as an instrument mainly of revenue collection; and
2. Outside Addis Ababa, if increasing numbers of tourists fly to destinations rather than arrive on a 4x4, there will be a rapid increase in demand for local transport services. In non-metropolitan destinations the opportunities for more basic forms of transport (such as rickshaws) should be investigated – as these will provide a denser service to tourists whilst placing lower barriers to entry than a car taxi for potential participants.

Domestic air services

Domestic air services have a critical role in the development of leisure tourism in Ethiopia. The standard seven day Northern Historical Circuit itinerary involves travelling 1,500km over roads that vary in quality from reasonable, as a result of the Government's ambitious road-building programme, to very poor. As a result of this, almost all tour operator packages include at least one journey (most frequently between Addis Ababa and Bahir Dar, Lalibela or Axum) by air.

At present, the GoE-owned airline, Ethiopian Airways, has a monopoly on the provision of scheduled domestic air services with carriers of more than twenty seats. Effectively this restriction gives the airline a monopoly on domestic routes because of the lack of viability of small loads. This has two important consequences for leisure tourism.

First, Ethiopian Airways' schedule imposes restrictions on the number of tourists who can be transported around Ethiopia's Northern Historical and Southern Circuits. Ethiopian Airways refused to provide information on the bookings and reliability of domestic air services, but anecdotal evidence – corroborated by the study team's experiences – suggest that it is difficult to get a seat on many domestic flights, and tour operators report great difficulties in accessing seats during periods of high demand. It is understood that Ethiopian Airways run their domestic operations at a loss, but that certain segments of the operation – such as the lucrative Northern Historical Circuit – are profitable. This suggests that there is potential to supplement the restrictions on tourist numbers travelling on some of the more viable routes through private sector providers.

Second, Ethiopian Airways has a very poor record of reliability for its domestic airlines. This contrasts strikingly with its well-capitalised and well-organised international operations. Although Ethiopian Airways do not release their performance statistics, it is understood from employees speaking off-the-record that about half their domestic services are late (defined as either cancelled or departing more than 15 minutes after the published departure time). In a sense this is a remarkable achievement, given that the domestic service is based upon five dated Fokker 50 aircraft and four Boeing 737s (mainly used for regional flights but with capacity for domestic operations in the morning and providing services to Mekele and Bahir Dar). There is no spare capacity to absorb any mechanical failures, and there are difficulties in obtaining spare parts for the ageing fleet (at present one of the Fokker 50 aircraft is being cannibalised to provide parts for the remainder of the fleet). There are however plans to purchase five Bombardier 70-seat aircraft in the next three years.

This combination of an infrequent and unreliable domestic air service is a very serious constraint on the expansion of tourism beyond Addis Ababa, and goes some way to explaining why over 90% of non-diaspora international tourists visiting Ethiopia do not venture beyond the capital. The market for international tourists prepared to endure the expense and time to spend up to two weeks moving around the Northern Historical Circuit (the most popular tour sold) mainly by road will always be limited, and is a serious constraint on the development of tourism beyond Addis Ababa.

Tour operators point to the provision of frequent and reliable domestic air services as being the main constraint to developing linkages between Ethiopia's burgeoning conference and small and fragile leisure tourist markets. Tour operators estimate that, with adequate domestic air services, about 20% of conference tourists would include an overnight stop on the Northern Historical Circuit in their itineraries. 30,000 conference tourists spending one night outside the capital has the potential to increase the number of tourist bed-nights outside of Addis Ababa by 10%, and perhaps more significantly in iconic destinations like Lalibela. An important advantage of this proposal is that it would generate tourist demand during the period of low demand in the leisure market and so would have the effect of increasing occupancy in peripheral destinations in Ethiopia.

Recommendations

1. Whether or not EA recapitalises its domestic air fleet, there is a strong case to liberalise domestic airlines above the current 20 seat threshold – at least to 70 seats (at which size many domestic routes become viable);
2. The registration of tourist taxis in the urban areas should include annual quality checks as well as the collection of the registration fee;
3. Lower cost (both for producers and tourists) forms of transport, such as the rickshaws in peripheral tourist destinations, should be encouraged where tourists flows are currently too low to support a fleet of motorcar taxis; and
4. A strategy to promote short 'getaways' for conference tourists in Addis, to visit secondary destinations should be encouraged and built into conference itineraries.

3.5 Attractions

As part of the study process, we reviewed a range of tourist attractions in Ethiopia. The diversity we found was striking.

An analysis of comments in visitor book in Lalibela Airport suggests that the beauty of the rock churches (part of the Northern Historical Circuit) is by far the strongest impression on tourists, along with good guides, friendly people and beautiful local stone architecture. Negative comments were few but related to the high entrance fee for the churches, some rather hideous structures built by the UNESCO to protect the churches, interruptions in water supply, and poor transport to the airport.

Figure 15: Bet Giyorgjis (St. George's) Church in Lalibela



Box 5: Ethiopian views on Lalibela

'I am really ashamed to have not seen these churches before now' Ethiopian USA diaspora

'Lalibela is Ethiopia's identity, strong like the rock. Keep it unpolluted and hand over this originality, beauty and identify undiluted to the next generation' Ethiopian domestic tourist

'I am an Ethiopian who lives in the US and visited Lalibela just for one day. And I truly was so impressed. This is all God's work and I am very happy people have kept their tradition in all respects' Ethiopian USA diaspora

'When I see the rock churches of the 11th Century, I think we are going backwards because they couldn't be produced today. People of Ethiopia must know their own heritage' Ethiopian domestic tourist

Source: Comments in the visitor book in Lalibela Airport

In addition to the rock churches serving as a tourist attraction for international tourists, it is clear they also serve an important function for Ethiopians. Whilst some 21,000 international tourists visit Lalibela annually, 140,000 pilgrims visited the site for the Epiphany in 2008. The US\$0.4m paid by tourists to the Orthodox Church to visit the rock churches currently supports 700 priests in Lalibela, and is one factor supporting the recent cultural renaissance in Ethiopia.

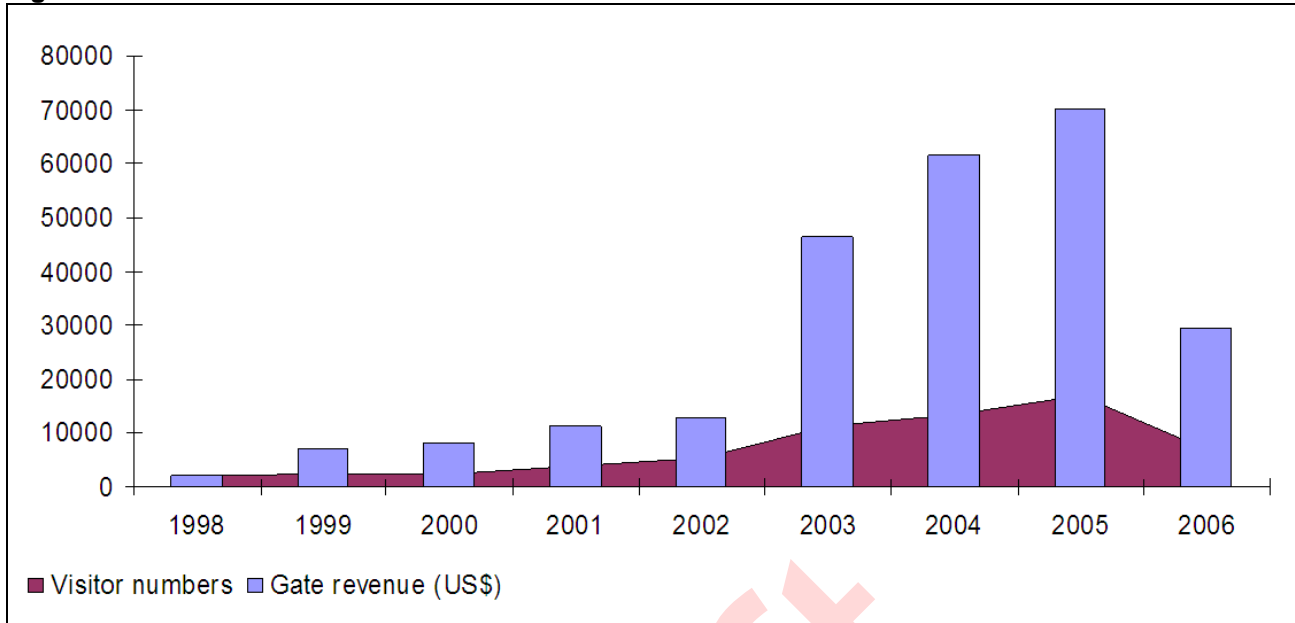
Figure 16: Head of the Orthodox Church in Lalibela



Although the stelae in Axum and the so-called crocodile market (viewing Nile Crocodiles in Lake Chamo) at Arba Minch are much smaller attractions than the rock churches of Lalibela, they are well-organised and generate considerable benefits for the local economy and community (see Annex 3).

However, the management of other attractions is much less successful. The Crocodile Ranch is a state-owned crocodile farm and is a thoroughly unpleasant tourist experience. The farm is poorly maintained, undercapitalised to the point of not being able to feed the crocodiles adequately and suffering a sharp drop in visitor numbers.

Figure 17: Crocodile Ranch – a tourist attraction in decline

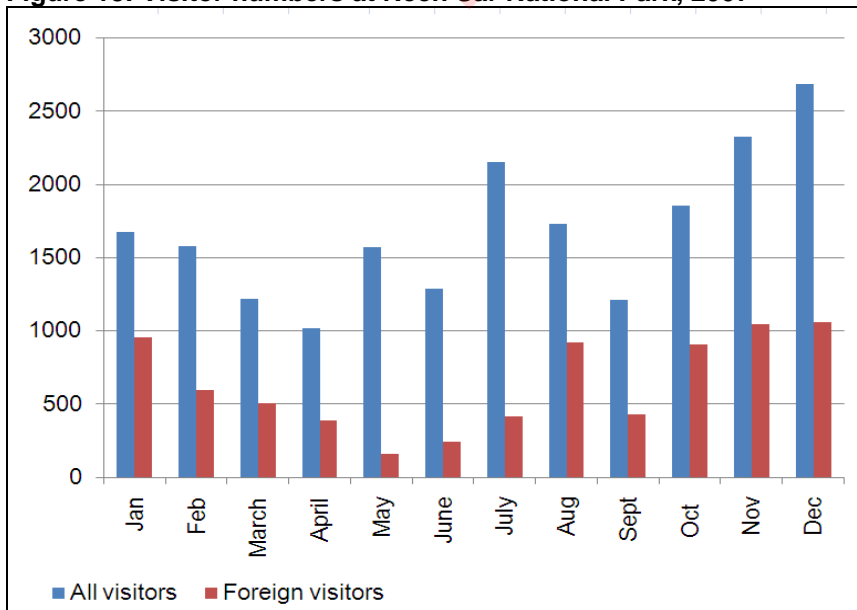


Source: ODI survey

Nechsar National Park, while small at 514 km², contains diverse habitats and is an important tourism asset for the Southern Circuit. In 2005, park management was taken over by African Parks Conservation. With improved management, visitor numbers increased and destructive practices, particularly illegal fishing in the adjoining Lakes Abaya and Chamo, came under control. This arrangement ended in early 2008 when African Parks Conservation left Nechsar after their attempts to gain support from the SNNPR Regional Government for their negotiations with the Guji communities who live in the Park failed. It would appear that the negotiations with the Guji communities became politicised between the two regional governments concerned, and the management of the Park will suffer as a result.

In mid-2008, tourism staff in neighbouring Arba Minch were very concerned by this development, because the town has branded itself as an eco-tourism destination and is in danger of losing its main tourist asset. This is a poignant illustration of the importance of the State in providing an enabling environment in which the tourist sector can function.

Figure 18: Visitor numbers at Nech Sar National Park, 2007



In Lalibela, between the north western group of churches by the ticket office and the Bet Giyorgis lies a low-income neighbourhood. Outside Bole Airport and the conference centres of Addis Ababa, this is probably the location with the highest density of tourist traffic in Ethiopia. How government chooses to manage this neighbourhood could provide a litmus test for the future of pro-poor tourism in the country. One option being considered is a relocation of the neighbourhood to clear the area – this could be an example of tourism impacting negatively on a low-income community. If, however, there was active engagement with the neighbourhood to upgrade the urban environment and offer services which could enhance the tourist experience, relocation would be unnecessary, and a missed opportunity to deepen local linkages.

TESFA (Tourism in Ethiopia for Sustainable Future Alternatives) is the most successful example of Community-based tourism (CBT) in Ethiopia. TESFA aims to help communities in Ethiopia to provide a service to tourists to enable them to make money, for example a network of community-run tourist enterprises have been established to allow tourists to trek through the Ethiopian highlands on the Meket Escarpment near Lalibela. TESFA was set up in 2004 and has received support from Save the Children (UK), the Royal Netherlands Embassy and more recently from the Irish Embassy/Irish Aid, a range of embassies and www.responsibletravel.com (a responsible web-based tour operator).

In many ways the TESFA project illustrates both the positive and negative aspects of the CBT model.

Box 6: CBT as a model for community-tourism linkages?

On the positive side, effective CBT projects are generally able to engage and train poor communities and distribute quite modest volumes of funds across a large number of households. This can have important positive effects on community's self-image and capabilities. It would appear that TESFA has also been able to set up a transparent financial system for collecting and distributing the proceeds from tourist trade.

The negative aspects of CBT are that it is often not financially sustainable and so is dependent upon the continual drip-feed of concessionary funding. In the most recent financial results available (July 2007 to June 2008), the TESFA project generated revenue of US\$19,800 and a net income of US\$12,800. Although these results are reasonable for a CBT project in its fourth year of implementation, the profit being distributed to the rural poor is probably significantly less than the donor funds being distributed to the eight urban professionals implementing the project in Addis Ababa, Lalibela and Meket.

TESFA is unusual for CBT projects in having an explicit aim to become financial sustainable and in having some links to a commercial tour operator. However, the volume of trade is so low (438 tourists in the last year) that there is a need to link to a more significant distribution channel before the project has any prospect of financial self-sufficiency or creating a scale of pro-poor impact to match the mainstream tourist sector. It is also important to commercialise the booking operation or, the flow of tourists will stop as soon as donor funds dry up.

It is concerns with the viability, sustainability and impact of the CBT model which have led organisations like ODI and SNV to focus on mechanisms to link resource poor communities with the mainstream tourism market, rather than attempting to create an 'alternative' to mainstream tourism. There are certainly cases in Ethiopia where a community-based approach has merit, for instance in natural resource management of the fishery at Lake Chamo or the collection and distribution of fees from photographers on the Southern Route. However, given the body of evidence against the success of community-owned and managed 'alternative' tourist products¹⁰, we do not believe this is an appropriate strategy for developing pro-poor tourism in Ethiopia.

Tour operators highlight the problems with the current arrangements for revenue collection and distribution for ethnographic tourists visiting the Southern Circuit. Visitors complain of 'hidden fees' for photography and video recording, and of aggressive and expensive marketing of local products.

¹⁰ See Mitchell and Ashley (forthcoming) Tourism and Poverty Reduction: Pathways to Prosperity

Communities experience inequitable distribution of revenues either via social hierarchies in the case of community tourism levies, or through visitors' discrimination of the most photogenic individuals in the case of photography. Inbound tour operators state that this issue is threatening to negatively affect the growing Southern Circuit market. Fees are a way in which communities can directly benefit from tourism revenues, but the manner of their collection and administration needs to be improved.

Tour operators suggested that interested parties such as communities and tour operators form a 'tourism board', with a committee to administer collection and distribution of the fund along the lines of a model used with the Himba people in Namibia, where the income is divided among the number of families in the village.

Another possible system is that employed in some Maasai villages in Tanzania, who charge a relatively high fee of US\$50 per visitor which buys total freedom to explore the village and take photographs without further charges.

International experience suggests that, whatever model of fee collection and disbursement is adopted, it is critically important to keep the system transparent and to make sure that the bulk of fees collected are distributed to local people. There are very few examples of Government-run schemes of this nature being successfully run in Sub-Saharan Africa – we suggest that a private sector and/or NGO operated scheme is more likely to be successful. The TESFA experience of institutional mechanisms to collect and distribute communal income could be relevant in this example.

The tourist guides in Lalibela are highly organised, with a Guide Association representing 89 well-trained independent guides. This provides an important linkage between the tourist sector and the community. In Axum, guides are much less organised with only 6 independent guides receiving regular work, from a group of 40 trained guides – the market for guides is undermined by the provision of state-sponsored guides by the local tourist office. In Arba Minch a Guide Association is being developed.

Table 12: Excursions for all visited destinations

Destination	Estimated annual revenue (US\$)	PPI through local employment (US\$)
Lalibela		
Church	420,500	315,000
Guides	133,500	133,500
TESFA	19,800	12,800
Sub-total	573,800	461,300
Axum		
Church	43,500	32,625
Guides	6,500	6,500
Stelae	61,585	30,793
Sub-total	111,585	69,918
Arba Minch		
Park entrance	70,000	35,000
Guides	19,656	19,656
Crocodile Ranch entrance	29,300	14,650
Crocodile market	84,500	42,250
Sub-total	203,456	111,556
Sub-total for sample destinations	888,841	642,774
Estimated total for outside Addis	2,719,938	1,966,948
Addis Ababa	48,119	24,060
Ethiopia	2,768,057	1,991,008

Source: ODI survey

In Addis, the survey of excursions was partial and only involved revenue collected in the capital's museums.

Recommendations

1. The main finding is that excursions are highly pro-poor and spending on them is very low. On aggregate we estimate over 70% of excursion spending by tourists accrue to the resource poor but international tourists are spending less than \$9 a day on excursions.
2. The key challenge is to increase excursion spending. Partly this will happen through the broad strategy of increasing leisure tourist flows outside the Capital. However, much can be done to increase the excursion spend from the existing tourist flow by improving the quality of services available.
3. Spending on guides per trip is six times higher in Lalibela than in Axum or Arba Minch, in part because the guides are better organised and better trained and have stronger links to the inbound tour operators. During the low season there is scope for cross-destination learning;
4. The management of attractions needs focused attention. In some instances there may be a case for bringing in management expertise (i.e. Crocodile Ranch and Nechisar National Park). More generally, at many attractions there is no information, nothing to buy and nowhere to have a refreshment break;
5. A key issue for increasing the significance of leisure tourism in Ethiopia is to increase tourist numbers. The main constraints to achieving this is are the quality of domestic airline services and the availability of accommodation of an adequate standard to accommodate a larger flow of tourists;
6. In-bound tour operators are a major asset for leisure tourism in Ethiopia. They are the key intermediary between international leisure tourists and Ethiopian providers of tourism services. They are also very aware of the constraints and bottlenecks in Ethiopian tourism, from marketing Ethiopia overseas to delivering an acceptable standard of evening meal in Axum. Major tour operators are an important and potentially useful partner in developing tourism in Ethiopia – so should be included in any multi-stakeholder forum on tourism; and
7. In the tribal areas in the South it is important, both for poor people and the sustainability of the tourist product itself, to better organise transfers of resources from tourists to local people. Given the geographical spread of the tribal areas, it is suggested that a range of private sector and/or NGO models for collecting and distributing fees in an efficient and transparent manner are piloted;
8. Excursions are a very effective linkage between tourism and local communities. Be cautious about applying 'traditional' community-based tourism approaches which have a history of poor financial viability and unsustainable and limited benefit flows to poor communities. More effective approaches normally involve creating pro-poor linkages with private sector tourism value and supply chains.

3.6 Food and beverage supply chains

Linkages between the tourism and agricultural sectors are very strong in Ethiopia. Overall, 44% of hotel spending on food (40% in Addis Ababa and 83% outside the capital) accrues to the poor, which is the highest ratio we have seen anywhere in Africa or Asia. When beverage expenditure (which we have assumed is not pro-poor) and the hotel mark-up on food purchases is added, this equates to 39% of tourist spending on food and beverages outside Addis Ababa and 12% in the capital reaching the poor – an overall figure of 15%.

The vast majority of produce consumed by tourists is sourced within Ethiopia and, therefore, provides income for the national economy. Large-scale agricultural producers are mainly engaged in export and, with the exception of some meat and poultry products for high-end hotels, the bulk of domestic supply including hotels and restaurants is sourced from small and medium scale producers (almost entirely small scale outside Addis Ababa). These producers are relatively poor and the government's successful intensive agricultural development programmes have enabled an unusually wide participation of small scale producers in commercial markets, often with attractive gross rates of return.

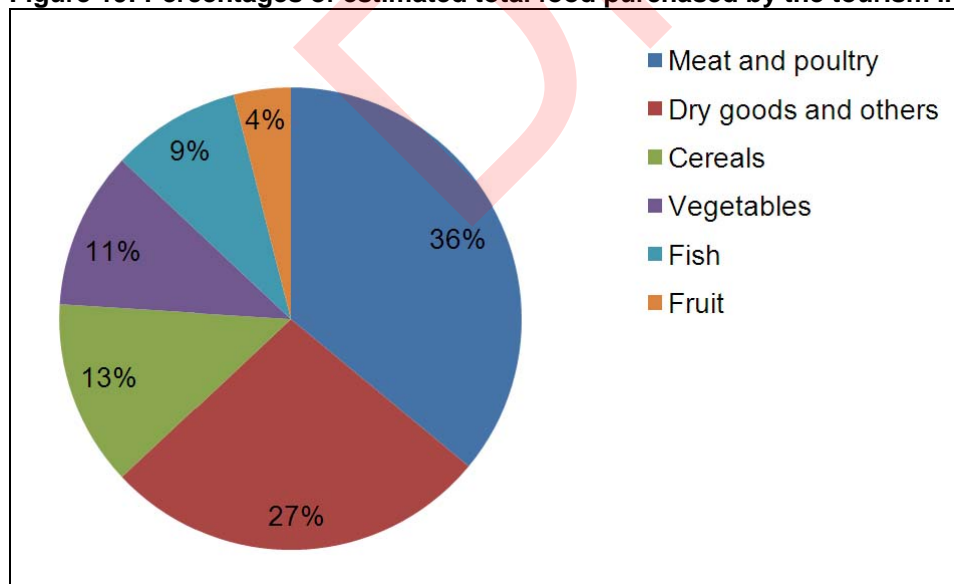
Ethiopian agriculture is characterised by small landholdings, the average size nationally being 1.02 hectares per household and 0.38 hectares per active farm labour. This means that even though gross margins may be favourable, absolute incomes are limited by low production levels.

In supply chains that originate beyond the locality, most transactions between farmers, traders, retailers and hotel supply agents are arranged by brokers. It is these intermediaries who capture the bulk of the post-farm gate value in the supply chain. The Sheraton and Hilton hotels obtain some of their supplies, for example meat products, from their own farms to retain absolute control over quality and hygiene standards and production and supply regimes.

In the peripheral destinations that we surveyed, the proportion of foods sourced from the immediate locality ranged from 24% in Lalibela to 68% in Arba Minch, with almost all other non-beverage products sourced from elsewhere in Ethiopia. Outside Addis Ababa, local supply chains are entirely pro-poor – producers take their own produce to marketing centres and no value is lost to intermediaries. Quantities marketed are sometimes extremely small meaning that although the proportion of pro-poor flows are high, absolute incomes of smallholders are often low and they remain poor.

In Figure 19 we estimate the composition of the total US\$17.5m spent by hotels and restaurants on food and beverages consumed by the tourist sector (at a cost to the tourists of US\$54.9) in 2008.

Figure 19: Percentages of estimated total food purchased by the tourism industry in Ethiopia in 2008



Source: ODI survey

Meat and poultry

Meat and poultry are important elements of the tourist food supply chain for two reasons. First, hotels and restaurants spend 36% of their total food bill on these items.

Second, the indications are that this supply chain is highly pro-poor, with just under half of the value generated remaining on-farm and with secondary actors.

Table 13 shows the typical distribution of value in the supply chain for a medium size ox from a smallholder farmer to the Addis Ababa market.

Table 13: Distribution of value in the supply chain for a medium size ox from a smallholder farmer

	Farmer	Local market	Addis Ababa market	Butcher (sells to hotel)
Price/ox (US\$)	283	311	424	547
% value	52%	5%	21%	22%
Gross margin	18%	9%	27%	22%

Brokers, traders, transporters and slaughter houses each take their margin for the services they provide. Typically, a trader buys cattle from the farm and transports them to the local market where they are sold to a larger scale trader who transfers them to the central market in Addis Ababa. Brokers in the Addis Ababa market set the price and take a substantial commission. However, even with a long supply chain to the hotel sector in Addis Ababa and one involving many intermediaries, the small-scale cattle farmer still receives half of the end-price of a carcass delivered to a hotel.

However, high production costs and low production volumes (typically only four cattle per year) limit farmers' income. Commercial fattening farms are set up for the purpose of export, not for the domestic market. The estimated 2,509 cattle farmers supplying hotels are largely small-scale farmers, who earn estimated average annual gross incomes of US\$1,132 per year. The net equivalent is US\$204. In addition, they support an unknown number of secondary actors (herdsmen) who are even poorer.

Another poor group within the supply chain are butchers' assistants in Addis Ababa, who are paid US\$25-50 per month. Similarly to other secondary actors in tourism supply chains, we know very little about them, even in terms of their numbers. To calculate the true PPI of tourism revenues it will be necessary to perform more detailed research to populate value chains with more comprehensive employment and income data.

Poultry products are mainly supplied to tourist hotels from private commercial farms close to Addis Ababa and so are not regarded as pro-poor for the purposes of this analysis. As an indicative estimate, up to 40% of the meat bill of a large international hotel may be accounted for by poultry, but this proportion is likely to be much lower in establishments catering for Ethiopians for whom chicken meat is a luxury and mainly consumed during festivals.

The Sheraton Hotel owns a large poultry and dairy farm and processing industries in and around Addis Ababa. It also has its own supply of meat from its agro-industry (ELFORA). This vertical integration of the food supply chain is unusual for the hotel sector internationally and reflects the concerns of top-end hoteliers of the quality and reliability of meat supplied through the public markets. It is a positive feature for Ethiopia because, faced with similar concerns elsewhere, hoteliers often resort to food imports – with the consequential welfare loss to the national economy. However, the procurement pattern displayed by some top-end hotels in Addis Ababa does dilute the pro-poor impact of hotel food purchases because revenue is diverted away from the smallholder sector that supplies the public markets.

Cereals and pulses

Cereals are the most important crop type in Ethiopia, accounting for 65% of agricultural gross domestic product and around 13% of the hotel food bill, with production in 2007/08 of 13.7m metric tonnes. This high local availability means that all but top-end five star hotels in Addis Ababa source their supplies from within Ethiopia, with almost two-thirds of the revenues from tourism industry

purchases flowing to the poor. Although producers retain high proportions of end market product values, even in supply chains that are characterised by intensive multi-stage processing functions, their incomes can be low because the crop is highly input and labour intensive, squeezing the gross margin. However, producers still enjoy the highest of the margins in the supply chain, which are consistent with the amount of value added.

Rapid urbanization is triggering a growing demand for traded cereal products (flour, injera, bread and so on). Table 14 shows a typical supply chain for *teff*, an important cereal, a staple that forms the basis of Ethiopian food.

Table 14: Distribution of value in the supply chain for Teff

	Farmer	Small trader	Large trader	Miller
Price/kg	\$0.78	\$0.82	\$0.88	\$1
Percentage value	78%	4%	6%	12%
Gross margin	17%	5%	7%	12%

As a generalised model, we estimate that 2,604 producers supplied US\$2.1m of cereals to tourism in 2008 at an average yield of 1.2 metric tonnes per hectare and average price of US\$0.7 per kilogramme.

Fruit and vegetables

Ethiopia contains some commercial fruit and vegetable farms with direct tenders to supply the tourism industry, and the state-owned horticultural supply company, ET Fruit, supplies approximately 20% of the fruit and vegetable market in Addis Ababa. However, most hotels and restaurants buy in bulk from central markets via fixed price set period tenders with supply agents. In Addis Ababa the majority of the produce purchased flows through Atikelt Tera vegetable terminal.

The horticultural supply chain includes a large number of 'hidden' poor, who depend upon the fruit and vegetable industry for their livelihoods. These include the rural landless poor who are employed as labourers (paid around US\$1.2 per day; flows to these people are captured in the estimates of the proportion of revenues remaining on-farm). There are also numerous porters, waged retailers and 'scavengers' who have a more indirect relationship with the supply chain that is difficult to quantify or to ascribe directly to demand from the tourist industry.

The main horticultural production area supplying Addis Ababa is in the central Rift Valley. Smallholdings are typically small, up to about 0.25 hectares, which limits producers' incomes even though their margins per unit of output are reasonable. For example, a typical tomato farmer in Amhara Region sells tomatoes at a gross margin of 82% but this generates an annual net income of just US\$412. Because the output of each farm is so limited, many smallholders are organised into cooperatives for marketing purposes. In destinations outside Addis Ababa, 100% of vegetables are sourced locally, meaning that the entire supply chain is pro-poor.

Figure 20: The market in Axum


Average seasonal prices for a selection of fruits and vegetables at different stages in the supply chain are given in Table 15. Note that the price paid by hotels mostly falls between the wholesale and retail prices available to the public. Typically, farm gate prices are between one-third and one-half of the prices paid by hotels which is surprisingly pro-poor given the relative economic power of large, sophisticated hotels in the capital compared with the large numbers of smallholders in the rural hinterland.

Table 15: Indicative prices of horticultural commodities at different stages in the supply chain to Addis Ababa

Commodity	Farm	Wholesale	Public Retail	Supermarket	Hotel
Onion	2.15	3.2	5.1	10	3.8
Tomato	1.75	3	4.25	11	3.85
Cabbage	0.75	1.5	2.6	6.5	2.7
Potato	1.35	2	3.65	10	2.8
Papaya	1.5	5	5.85	9	4.8
Orange	3	6	6.15	10	5
Banana	2	4.5	5.5		4

Source: ODI survey

Table 16 illustrates how producers can make high margins and capture a high proportion of the value in onion and tomato supply chains. Note how the retail prices are invariable, despite up to 100% variation in farm gate prices, due to fixed price tendering to hotels with retailers' margins squeezed when farm gates prices are high.

Table 16: Example of two vegetable supply chains with indicative prices, distribution of value and gross margins

Commodity		Farm		Wholesale		Public retail	Hotel retail	
		Min	Max	Min	Max		Min	Max
Onion	Price/kg (US\$)	0.15	0.30	0.17	0.32	0.51	0.38	0.38
	Hotel value (percentage)	39	79	5	5	N/A	16	16
	Gross margin (percentage)	60	80	12	6	37	16	55
Tomato	Price/kg, (US\$)	0.10	0.17	0.23	0.30	0.42	0.38	0.38
	Hotel value (percentage)	26	45	31	34	N/A	21	21
	Gross margin (percentage)	35	62	57	43	29	21	39

Source: ODI survey

Note: Public retail prices were included for comparative purposes

We estimate that 433 producers supply US\$1.7m worth of fruit and vegetables to the tourism industry per year, based upon a yield of 10 metric tonnes from a 0.25 hectare plot at an average price of US\$0.4 per kilogramme.

Beverages

Beverages are supplied directly from breweries, mineral water and soft drink bottling companies and have limited direct pro-poor revenues. A more detailed analysis is likely to reveal some pro-poor impacts in the beverages supply chain (producers, processing staff from poor backgrounds, and informal distributors), but this analysis was not completed as part of this exercise.

Fish

The fish supply chain to the hotel sector is significant because we estimate that around 4% of national production (15,400 metric tonnes per year) is consumed by tourists, and the tourist supply chain provides the estimated mean gross annual income equivalents of 547 fishers at an average of 28% total value capture.

Fishers and their assistants at the Rift Valley lakes prepare fillets, which are collected by boats belonging to cooperatives and taken to central landing sites where they are purchased by one of two large integrated processing and marketing companies, Fish Processing and Marketing Enterprise (FPME) and Ethiofishery, or by independent fishmongers. The fillets (and, sometimes, whole fish) are processed, packed, and stored at lakeside facilities and then transferred to retail outlets in refrigerated vehicles. Some hotels and restaurants buy direct for the processing companies or fishmongers and others with smaller requirements buy from supermarkets.

Figure 21: A fisherman on Lake Chamo



Both Ethiofishery and FPME are engaged in maximising value and optimising quality of their products, working within maximum sustainable yield limits and standard certification frameworks. Ethiofishery claims this goal is hampered by the refusal of fishers' cooperatives to sell unprocessed fish for filleting in-house in used its own standardised method. A major issue facing the industry, with important longer term pro-poor implications, is the informal fishmongers' strand of the supply chain. This is effectively unregulated, uncertified and driven by high volume sales of variable quality, low priced products to hotels. These private fishmongers command between 20%-30% of

market share in Addis Ababa and their small overhead costs allow them to set prices as low as 10% of those of the integrated processing companies; they mainly target low-end tourist hotels and urban household consumers. The practice of unregulated large scale exploitation is a threat to the sustainability of the fisheries and, therefore, to the livelihoods of the producers who depend on them.

FPME is the largest and best-equipped of the two fish processing and distribution companies. It operates in most of the major fish landing areas – Lakes Abaya, Chamo, Langano, Zewai, and Lake Turkana in the Rift Valley and Lake Tana in the north (see Table 17). It supplies large hotels in Addis Ababa, including the Hilton, Ghion, Genet, Ras, Queen of Sheba, Jupiter, Red Cross and Filwoha, on a contract basis. The Hilton is the largest single buyer, receiving around 20-22 metric tonnes of fillet per year. Due to a shortage of supply, all the Nile perch that the company can source is delivered to the Hilton. The supply to hotels represents approximately 5-6% of the company's turnover in Addis Ababa, which is consistent with our estimate of the proportion of the national catch traded to hotels.

Nationally, FPME processes and distributes 800-1,200 metric tonnes per year, dealing with 4,000 fishers in Arba Minch, 4,000 in the Lake Zewai and Langano areas and 2,000 in Lake Tana. It has 252 permanent employees and pays around US\$20,000 per month in wages.

Table 17: PME fish sourcing and normal pricing in ETB

Product	Source	Buying	Selling ¹	Remark
Bagrus fillet	Chamo	23-24	54	
Barbus	Tana	2.3	14	Mainly sold to canning industry
Clarias	Zewai	3.0-3.5	28	<i>Clarias</i> bought whole fish - sold fillet
Clarias	Tana	3.5-4.0	28	
Nile perch fillet	Chamo/Abaya	33-35	54	
Nile perch fillet	Omo/Turkana	15-12	54	
Tilapia	Tana – BD	6.0	39.1	Tilapia bought whole fish – sold fillet
Tilapia	Langano	2.5	30	Bought whole fish – sold fillet
Tilapia fillet	Chamo	18	33.35	Buying price recently fell by ETB 6-7
Tilapia fillet	Zewai	3.0	25	Tilapia bought whole fish – sold fillet
Tilapia gutted	Chamo	13	21	

¹ Price includes VAT

Source: FPME Ltd

Ethiofishery works mainly from the southern Rift Valley and Lake Turkana employing 122 fishers and 48 other staff. The company specialises in relatively expensive high quality, low volume products (see Table 18), which it was planning to export to the EU but, in addition to the refusal of fishers to supply unprocessed fish, certification has been hindered by a number of technical issues that have prevented this. It supplies supermarkets, restaurants and top end hotels directly, including 1 MT monthly to the Addis Sheraton (around 9% of its entire production) and other clients include Hilton Hotel and Ethiopian Airlines.

Table 18: Ethiofishery fish sourcing and normal pricing in ETB

Product	Source	Buying	Selling
Nile perch fillet	Abaya/Chamo	31-34	60
Tilapia fillet	Abaya/Chamo	8-15	30
Nile perch fillet	Omo/Turkana	30-32	60
Tilapia fillet	Omo/Turkana	12-15	30

Source: Ethiofishery Ltd

In terms of poverty status, the fishery association in Arba Minch estimates that members are earning an average income of US\$15-\$20 a month, and that this income level is seasonal. But information from processing companies suggests that this is an underestimate and that fishers have an average monthly income of closer to US\$90.

Table 19 below summarises this section on agricultural and fisheries supply chains and presents our estimates for hotel food demand, and the extent to which this is pro-poor, based upon our estimates of revenue capture in each category of supply chain, for each of our survey destinations. Of the approximate total hotel purchase of food and beverages of US\$17.5m per year (relating to US\$54.9m of tourist spend), we estimate that around US\$8.1m (44%) are pro-poor (which equates to 15% of tourist spending on food and beverages). This high figure is partly due to the relatively low degree of importation (US\$1.3m or 9% of the total food bill in Addis Ababa and none elsewhere) and partly due to high rates of value capture by producers, who are among the poorest actors in supply chains.

In terms of increasing pro-poor impacts, the scope for increasing local sourcing of horticultural produce is quite small (because the proportion of products sourced in Ethiopia is already so high). However, there is some potential for replacement of high quality imports by the top-end hotels with nationally sourced products.

To this end, a Diversification Programme for Vegetable Export Development Ethiopia and Sudan, financed by the Netherlands-based Common Fund for Commodities, is being implemented by the Ethiopian Horticulture Exporters' Association. Although this is clearly an export-oriented initiative, the standards demanded by overseas markets are the similar to the international standards implemented by hotel chains such as the Sheraton and Hilton. The programme is a comprehensive package of support for smallholder farmers and includes development of input supply networks and irrigation infrastructure, provision of equipment and training for grading, packaging and cooling and the introduction of revolving fund based microfinance schemes to supply working capital.

The scheme does not deal with the poorest producers, acknowledging that certain minimum requirements, namely access to a water source and land, must be in place in order for growers to participate in high quality commercial horticulture. Its *modus operandi* is to link smallholders with large commercial export farmers as specialist out-growers – the rationale being that it is very difficult for large farms to diversify their production.

A similar scheme would be appropriate for meat and dairy production, where larger producers supplying high quality products are also currently geared up for export.

In the fisheries sector, where FPME and Ethiofishery already supply high quality products to major hotel chains; the major issues are:

- Improving and standardising the quality of fillets obtained from fishing cooperatives. A model of imbedded backward technical and logistical support would improve the companies' control over product quality while allowing producers to continue to supply a semi-processed product with added value; and
- Private fishmongers' value chain strands threatening the integrity and sustainability of the resource and the livelihoods of all actors in the chain, many of whom are very poor.

Table 19: Hotel demand for food in various destinations in 2008 (US\$'000s)

	Addis Ababa		Axum		Lalibela		Arba Minch		Estimated outside Addis Ababa total		Ethiopia total spend	Total PPI	Percentage PPI
	Total	PPI	Total	PPI	Total	PPI	Total	PPI	Total	PPI			
Meat	5,321	2,086	106	105	46	31	103	101					44%
Dry goods & other	4,291	1,682	39	16	14	6	25	10					39%
Cereals	1,846	1,086	56	48	28	20	73	71					63%
Vegetables	1,504	589	38	38	21	21	58	58					47%
Fish	1,312	346	29	9	16	5	45	45					31%
Fruit	655	252	13	11	6	4	17	17					43%
Total food	14,929	6,041	281	227	131	87	321	302					44%¹
Total beverages	8,339	0	244	0	77	0	225	0					0%
Total hotel food & beverage spend	23,268	6,041	525	227	208	87	546	302					
Total tourist food & beverage spend	49,749		723		308		644		6,004	2,208	55,753	8,250	15%
Percentage hotel food & beverage pro-poor spend		26%		43%		42%		55%					
Percentage tourist food & beverage pro-poor spend		12%		31%		28%		47%		37%		15%	

¹ Overall PPI figure for food spending in Addis Ababa is 40%, and outside Addis Ababa is 83%

Source: ODI survey

The assumptions we used when estimating the model that was used to construct this table were as follows:

- Marketing in Addis involves loss of value to non-poor intermediaries
- Imports to Addis Ababa from outside Ethiopia were also subtracted from pro poor revenues.
- Outside Addis Ababa all local supply chains were considered pro poor and non-local supply chains were assumed to have the same non poor loss factors as those to the Capital, except for meat for which an additional ten per cent was removed to account for commercial (non-poor) chicken production.
- For the estimated flows in Ethiopia outside our survey sample we averaged the proportions of each type of good sourced from the locality in the three destinations outside Addis Ababa.
- All producers are poor
- No intermediaries are poor and PPI effects in beverage supply chain have not been taken into account
- Secondary actors were excluded from the analysis

Recommendations

In short, in Addis Ababa, Axum and Arba Minch, the strong local supply linkages do not warrant major intervention beyond improvements in horizontal coordination (i.e. farmers cooperating for commercial advantage to reduce unit input costs or bulk up output to increase prices paid to producers) and fisheries governance.

Recommendations for specific geographic areas and sectors include:

1. We recommend that a horticultural development programme is initiated in Lalibela where, unusually for the destinations surveyed, food is imported from elsewhere in Ethiopia representing a welfare loss from this particularly poor area of the country. This would take the form of identification successful existing initiatives, technically-able and progressive farmers and their incorporation into farmer to farmer training networks along with the provision of starter kits (including planting materials, basic implements, chemical or organic inputs and written agronomic guidance) and support with organisational development, microfinance and market linkage;
2. For the meat and dairy sector, a similar scheme to that being implemented for the vegetable export development programme – linking small scale farmers with large commercial farmers, may be appropriate to provide locally the high quality products required by the high-end tourist sector in Addis Ababa; and
3. In the fishery sector, the main challenge is one of effective regulation of the resource to allow the poor who are already participating to avoid over-exploitation of fish stocks and livelihood collapse. We recommend, capacity building of GoE regional fisheries management teams and their provision with the physical and technical resources to implement regulations and stock assessments and community management plans with a focus on increasing product value and quality, improvement of post-harvest handling and wastage minimisation rather than increasing production volumes.

3.7 Handicraft products

The total value of crafts sold to tourists per year is estimated at US\$11.1m for all four destinations surveyed, and US\$11.9m for the whole country. Overall, it is estimated that 54% of tourist spending on craft flows directly to poor retailers and producers. Craft expenditure is, therefore, an important component of the tourism value chain, both in terms of the quantity of funds involved and, particularly, the pro-poor impact. There are, however, large differences between the four destinations in the survey.

On the Northern historic route, comparisons between the two destinations show that in Lalibela spending per international tourist on crafts, at US\$13 per visit, is about half the level compared with Axum, at US\$26 per visit. This difference in expenditure reflects the difference in variety, quality and price level of the items on sale in Axum and Lalibela.

In Lalibela, there is hardly any local production and 90% of the items on sale are procured from Addis Ababa, while in Axum 90% of the produce on sale is produced locally. As a result, not only the sales per tourist are higher in Axum, but also the portion of revenues that is spent locally (procuring local produce) is much higher in Axum (although it should be noted that products imported from Addis still add value to the Ethiopian economy).

In Arba Minch in the south, spending per international tourist is only US\$6 per visit. This reflects the fact that there are few craft retail outlets in Arba Minch, and few tourists take the detour to neighbouring Dorzé and Chensi. In addition, the value of much of the craft produce in the South is very low (mainly pottery and weaving).

Addis Ababa is the biggest market, both in production, wholesale and retail, resulting in US\$41 spending per tourist, and with 197,000 conference and business and 27,000 leisure arrivals an attractive and potential growth market. The number of producers are up to ten-fold higher in Addis than in the other destinations surveyed, yet in terms of retail outlets, Addis (with only 130-150 shops) appears under supplied when compared to other destinations such as Axum and Lalibela (with 40-50 shops each).

The value created or added at the four destinations is summarised in Table 20:

Table 20: Tourist spend in four destinations (US\$'000s)

	Lalibela	Axum	Arba Minch	Addis	Total
Value of products at retail level¹¹	266,000	300,000	49,000	9,907,000	10,522,000
Gross profit at retail level flowing into local economy	133,000	150,000	16,500	4,953,500	5,253,000
Local production of total sales	10%	90%	100% ¹²	90%	
Production value flowing into local economy	13,500 ¹³	135,000 ¹⁴	16,500	3,345,000	3,510,000
Total inflow into the destination economy	146,500	285,000	33,000¹⁵	8,298,500	8,763,000

Source: ODI survey

Extrapolating from the findings from the ODI survey, an estimate of tourist spending on craft for the whole of Ethiopia can be made using information on craft spending per day from the predominantly leisure tourist destinations of Lalibela, Axum and Arba Minch, and extrapolating this by the number of international leisure tourists and their average length of stay of 14.8 days (see Table 21).

Most leisure tourists also spend time in Addis Ababa, as this is the location of Bole International Airport. Many leisure tourists also follow itineraries which include a trip to the South (or, less commonly, East or West) added onto a visit to the Northern Historical Route, which requires transiting back through Addis Ababa. As a result, some of the Addis Ababa craft spending will also accrue to leisure tourists. However, even if one-quarter of craft spending in the capital is generated by leisure tourists on transit through the city, this suggests that the majority of total craft spend in Ethiopia is still from the business sector.

¹¹ This excludes local production that is sold outside Axum markets

¹² This includes production in the southern region

¹³ The inputs are mainly locally procured, but part of it is procured in Addis

¹⁴ Part of the sales in Axum includes imported items (less than 10% and US\$15,000 maximum)

¹⁵ In Arba Minch no distinction is made between retail and producers' level, since most products are sold by producers

Table 21: Estimating total tourist handicraft spend in Ethiopia (2008)

	Lalibela	Axum	Arba Minch	Average Leisure Tourist (outside Addis)	Average leisure tourist (including 50% of Addis Ababa craft spend)	Addis Ababa business tourist (50% of Addis Ababa craft spend)	Total (excluding VFR tourists)
International tourists	21,026	11,442	7,632	27,000	27,000	250,000	277,000
Average duration (days)	2.3	2.2	2.7	10.7	4.1	4.1	5.1
Total sales (international tourists only)	266,000	300,000	49,000	1.9m	5.0m	5.0m	11.8
Average spend per international tourist trip (US\$)	13	26	6	72	183	20	43
Average spend per international tourist per day (US\$)	6	12	2	7	44	5	8

This analysis suggests that craft spending in Ethiopia is low by international standards, which is likely to reflect two different issues.

First, business tourists often make relatively limited craft purchases and, on a short business trip, will often have their main retail opportunities at their hotel and at the airport on departure. Analysis suggests that only about 17% of craft sales in Addis Ababa are from these two locations, and there are also obvious constraints to craft spending in these locations such as the limited range of craft available in hotels and the absence of credit card facilities in many shops or an ATM airside at Bole International Airport.

Second, leisure tourists are spending a relatively little amount, even assuming a 25% share of Addis Ababa craft sales. International tourist craft spend on the six day safari circuit in Northern Tanzania averages US\$23 per tourist per day – significantly more than the daily craft spend of US\$17 per international leisure tourist in Ethiopia¹⁶. In cultural tourist destinations in South East Asia, daily craft spend figures of US\$30 per tourist are the norm – well over twice the current level of spending in Ethiopia.

¹⁶ Mitchell J and J Keane (2008) Tracing the Tourism Dollar in Northern Tanzania

Table 22: Overview of retail craft sales in Addis Ababa

		Number	Retail (US\$)	Retail total (US\$)
Mercato	Smaller shops	50	13,200	660,000
	Bigger shops	5	100,000	500,000
	Total			1,160,000
Post office area	Small shops	20	47,000	940,000
	Medium shops	20	193,000	3,860,000
	Large shops	1	386,000	386,000
	Total			5,186,000
Hotels	ETTE (Hilton, W)	4		233,000
	Hilton others	3		210,000
	Sheraton	1		112,000
	Ghion	3		192,000
	Others (Ararat etc)	4		200,000
	Total			947,000
Town shops	ETTE	5		437,000
	Dembel centre	4		180,000
	Misrah	1		18,000
	Weavers market	1		150,000
	Various shops	7		82,000
	Total			867,000
Airport	ETTE	1		130,000
	Other shops	4		520,000
	Total			650,000
Churchill road	Medium shops	5	96,500	482,500
	Total			482,500
Total retail		139		9,292,500

Pro-poor impact of craft production

For the Northern Historic Circuit, comparisons between the two destinations suggest that in both Lalibela and Axum there are craftsmen that produce crafts for tourists, but in Axum the 150 active craftsmen produce much more than the less active 100 producers in Lalibela. The total production in Axum amounts to US\$300,000, while the production in Lalibela amounts to US\$13,500. Most producers only produce relatively cheap products (such as postcards at US\$0.5 each), whereas in Axum high quality crafters sell their output at US\$50 or more. The production of crafts in Axum is roughly double the volume bought by visiting tourists, and the remainder is traded with Addis Ababa retailers. This demonstrates the potential for handicrafts to impact on the livelihoods of many producers, even in small tourist destinations.

In Arba Minch on the Southern Circuit, many producers are active in weaving and pottery yet the majority produce for domestic non-tourist markets, resulting in a very low income derived from tourists sales. The gross margins for tourist markets are much more attractive but are limited by the number of visiting tourists, and the total production value amounts to a US\$49,000.

In Addis, there are many producers dispersed throughout the city and active in a large variety of trades. The exact number of producers is unknown but is estimated at 3,345, and all are producing for Addis Ababa retailers or engaged as suppliers to larger companies. The total production is estimated at US\$3.3m, while retail gross margins absorb 64% of the retail value. An overview is provided in Table 23.

Table 23: Production and incomes in the four destinations

	Lalibela	Axum	Arba Minch ¹	Addis Ababa
Number of active producers	100	150	820	3,345
Production value at producer level (US\$) for retail only	13,500	135,000	49,000	3,345,000
Production value at producer level (US\$) exported to Addis	0	150,000	0	0
Annual income per producer (US\$)	135	1,250	60	1,000

Source: ODI survey

¹ Approximately 5% of producers sales in Arba Minch are to tourists, although margins for tourist sales are larger than for domestic sales

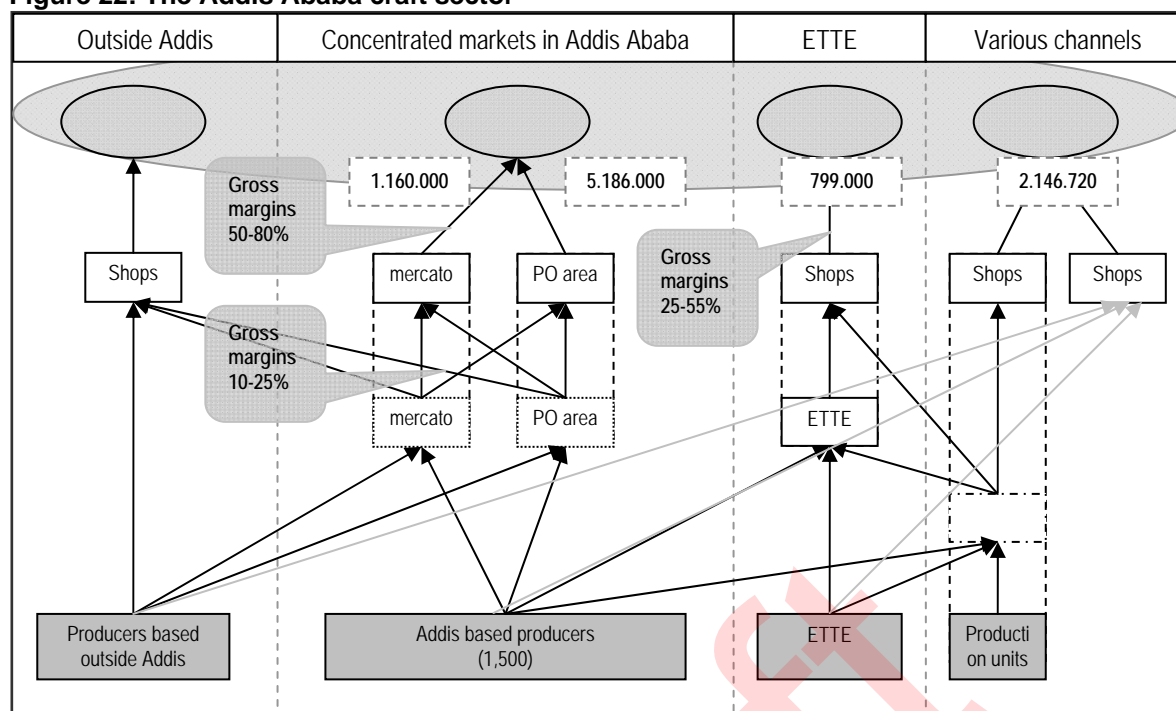
Based upon these figures, we can estimate that the US\$2.7m retail craft sales outside Addis Ababa have a production value of approximately US\$1.3m and, assuming an annual gross income per producer of US\$594 (the weighted average of producer incomes in Axum and Lalibela – Arba Minch is excluded as it is a special case) this suggest livelihoods for about 2,100 producers outside Addis plus 3,345 producers in the capital. In total this suggests the tourism sector supports 5,445 producers earning US\$844 a year.

Retail

In all destinations studied there are distinct distribution channels. In **Lalibela and Axum along the Northern Historical Route** there are many small outlets, with few producers selling directly to tourists and with the majority of the trade in the hands of a handful of bigger retailers. Most of the small retailers are self-employed, and employment is therefore limited to some 12 salaried workers (with total annual payroll of US\$4,000) in Axum. The number of small outlets is increasing, pressurising the margins for similar goods and outlets. The major retailers are able to sell throughout the year, while the smaller outlets are highly dependent on the short peak sales periods that occur twice a year.

In Arba Minch along the Southern Circuit there are hardly any retailers and most of the crafts are produced and sold outside Arba Minch, often by the producers themselves, either as individuals or as members of a cooperative. The total revenue at retail level is thus almost equal to the producers' value.

In Addis, the biggest market, most of the retail is concentrated in two geographical locations where some 100 shops serve as retail and wholesale points – the Mercato market and the Post Office area. There are many cross linkages between shops in each of these locations, between the two locations, between these locations and other shops and between Addis and producers, traders and retailers based in other regions and destinations.

Figure 22: The Addis Ababa craft sector

Table 24: Comparing distribution channels in the four destinations

	Lalibela	Axum	Arba Minch	Addis
Value of products sold at retail level (US\$)	265,000	300,000	49,000	9,907,000
Number of retail outlets	54	45	3	134
Percentage of sales through bigger outlets	64	90	15	64

Source: ODI survey

There is some regional trade between producing and destination areas. The surplus production in Axum is exported to Addis Ababa, for onwards sale to tourists or conventional export markets. Several emerging producers sell their products (and those of their colleagues) to traders in Addis Ababa, while the bigger retailers sell roughly half their produce to the capital. The estimated gross margins are approximately 25%, half the margins of direct sales to tourists in Axum, while it is expected that margins in Addis Ababa are larger. In Lalibela, 90% of the retailed crafts are procured from Addis Ababa, mostly via the main markets in the city.

Arba Minch along **the Southern Circuit** again appears exceptional in terms of handicrafts trade for tourist markets. The few retailers do not appear to import from Addis Ababa suppliers (in contrast to those in Lalibela) but the products of the local weavers are exported to the capital, mainly for domestic markets.

Addis Ababa serves as a production and distribution hub, serving its own (large) tourist markets but also exporting products to other destinations (such as Lalibela) and importing specialty products from other regions. There are some indications that producers are shifting production to Addis Ababa, and that Addis Ababa traders are increasingly importing crafts from neighbouring Kenya.

The number of poor people active in the handicraft industry is considerable, and there is scope for increasing their participation and the benefits they gain. 5,445 producers (often subsistence farmers or urban dwellers) earn an additional income by selling handicrafts, making on average US\$844 a year – although with great variations between producers.

The majority of the retail outlets in Lalibela, Axum and Arba Minch are small and owned and managed by the poor, while in Addis Ababa retailers are relatively well off. There are a total of 340 craft retailers outside Addis Ababa and 134 in the capital, resulting in a total workforce of 474. The diversity in retail outlet ownership and management is enormous – from micro traders with a poor background (for example in Lalibela) earning an income below the poverty level, to a state-owned company in Addis Ababa that creates (reasonably well-paid) employment for 300 employees.

Recommendations

In each of the four destinations there are more constraints to access the (potential) tourist markets than there are serious production constraints (with Lalibela being an exception).

The appropriate intervention point should therefore be the market site, using a pull strategy (increasing demand -> improving producers' position) rather than a push strategy where training producers might lead to improved production but will not improve the position of the producers. Training producers is expensive, reaches only a few and does not address the market position of the producers. It is only justified when there appears to be a clear supply-side constraint to responding to market demand (as appears to be the case in Lalibela). By focussing on the retail site, leverage can be achieved that reaches a larger number of producers, using the entrepreneurial attitudes of both traders and producers.

1. There is an urgent need to improve the marketing and retailing of craft in Ethiopia to increase tourist spend – with the aim of doubling spend per tourist. In partnership with the private sector, crafts should be made available in better quality outlets that are convenient for tourists, with payment facilities that make craft purchase possible;
2. Lalibela is the only destination where there appears to be a supply-side constraint in the handicraft sector. This should be examined (in a comparative exercise with crafters in Axum who are participating in the tourism value chain much more successfully) to understand – and address - the blockages; and
3. As the centre of craft production and sales in Ethiopia, any craft initiative should include Addis Ababa.

4. Support and regulatory environment

4.1 Business development services

The support environment for enterprise in Ethiopia is rather weak and was until very recently dominated by exclusively public sector service provision, with no specific focus on the tourism sector. This situation is beginning to change.

Box 7: Business development services (BDS) in Ethiopia

BDS in Ethiopia are a recent phenomenon – eight years ago there was little or no demand. Private sector BDS are emerging, supported by a policy reorientation, although the public sector still supports microenterprises that cannot afford to pay fees. There is currently an oversupply but the increasing number of new enterprises will stimulate demand.

Services are focussed on soft business management skills and technology transfer. A state agency is responsible for extension of BDS to micro and small enterprises, delivered through a network of regional analogues. This is a generic service to all sectors.

Support is also available online through a website that is the result of an eight-year BDS development programme (<http://www.bds-ethiopia.net>).

GTZ and BDS in Ethiopia

The German federal enterprise Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) introduced a BDS development service in 2001, based on regional youth facilitators and extension agents who were trained using a train the trainer model. A criticism levelled at this approach is that few of the young people selected had any formal training or experience in business and the support they provide is, therefore, limited.

The current Engineering Capacity Building Programme is based on the German Competency Economies for the Formation of Entrepreneurs model. Phase One worked in six sectors – leisure and leisure products, textiles and garments, construction, agricultural processing, pharmaceuticals and metal and chemical industries, and ended on 31 December 2008. Phase Two, which started on 1 January 2009, includes tourism as the result of requests from the Tigray, Amhara and Southern regions.

Phase One work had indirect links with tourism through support of enterprises in the weaving sector, including hand weaving, for example. Interventions focussed on marketing and technical skills upgrading. Of the 450 trainees involved in the programme, 70-80 are expected to qualify.

GTZ has an investment promotion office in Germany that promotes investment opportunities to German companies, engaging the private sector to pull value chains. In terms of programming, the company uses a value chain analysis and development approach and implements a three-layered intervention strategy:

- Macro: Policy environment constraints along the whole value chain, focussing on leverage points;
- Meso: Upgrading the capacity of public and private support institutions; and
- Reengineering: company level upgrading for local and international competitiveness.

GTZ's programme has become the first service provider in Ethiopia with a specific tourism sectoral focus. In 2007, it had an operational budget of 1m EUR. Phase One lasted for three years, Phase Two will last for 3.5 years and there will probably also be a third phase.

Financial services

Despite the requirement of most, if not all, Ethiopian banks for the submission of a business plan with loan applications, only the Ethiopian Development Bank (EDB) has the technical capacity to assess financing applications on a project basis. This means that it is extremely difficult to access credit unless the project is an orthodox brick or concrete construction that can be used as, literally, solid collateral, effectively excluding many potential new entrants in tourism-based small and medium enterprises. The EDB has a team of sub-sector specialists, including agricultural economists, and offers a business development service package to successful applicants.

Micro-finance institutions provide a range of products including group collateral, own collateral, individual loans and leasing (for example, of machinery). These products are appropriate for sectors not catered for by commercial institutions, such as handicrafts. Microfinance is an inherently small scale industry and does not have the scope to fund large new enterprises or investments.

Box 8: A direct effect of the financial industry on pro-poor tourism revenues

A key factor in the extent of benefit flows to the poor is discretionary, or out of pocket, spending. A major constraint on this in Ethiopia is the almost total lack of plastic (credit or debit card) transaction facilities outside high end hotels and restaurants in Addis Ababa. This limits (often security conscious) visitors' expenditure to the amounts of cash that they are prepared to carry in country, and all but eliminates the possibility of impulse purchases of more expensive items. It may also act as a further disincentive for conference and business tourists to venture into the hinterland.

Schemes from GTZ and USAID (see Box 9) have the potential to stimulate growth of tourism small and medium enterprises and, indirectly, elicit dynamic effects in the wider economy, for example through the development and capacity building of financial services providers such as the banking sector.

Box 9: USAID's Development Credit Guarantee System

The United States Agency for International Development's (USAID) Development Credit Authority works with the private sector in developing countries to expand investment in local development activities. USAID Development Credit Authority's Partial Credit Guarantees cover 50% of the risk for commercial loans to new sectors and new borrowers.

Loan or bond guarantees are often complemented by USAID-assisted training that develop banks ability to perform cash-flow analysis, due diligence and risk management on loans to underserved sectors. In addition to mobilising financing for specific projects, partial guarantees help demonstrate to local banks that loans to underserved sectors can be profitable.

The scheme particularly targets women and returned diaspora. Many of the latter are interested in investing in tourism enterprises.

4.2 Tourism development programmes

USAID Ecotourism Development Programme

The product mix of Ethiopia's tourism industry is currently relatively undiversified. To this end USAID is investing US\$14m over five years in an Ecotourism Development Program, which began in July 2008 and is being implemented by the Global Sustainable Tourism Alliance and its local development partners, with six components:

- Private sector competitiveness:
 - Product development (in conjunction with the biodiversity conservation component);
 - Marketing and public relations (in specific areas and countrywide); and

- Investment promotion – with support from the USAID Development Credit Authority’s partial loan guarantee system (see Box 9).
- Workforce human resources development: including an HR skills gap needs assessment, which will lead to:
 - Capacity building of training institutions; and
 - Synergy with GTZ’s University Upgrading Programme: development of Gondar and Awassa Universities’ tourism training facilities.
- Handicrafts development
- Communications and social networking
- Biodiversity Conservation:
 - Models of sustainable tourism in protected areas; and
 - Community Based Natural Resource Management in National Parks.
- Health:
 - Supported by US President’s Emergency Fund for AIDS Relief (PEPFA) funding and focussing on HIV/AIDS mainstreaming in the tourism industry, particularly in urban areas and transportation corridors.

Few people currently visit Ethiopia specifically for ecotourism and it faces stiff regional competition from destinations such as Kenya and Tanzania with their well branded and marketed natural attractions, considerable infrastructure and large, experienced and efficient ecotourism industries. In contrast, Ethiopia is a low volume, speciality destination that may struggle to emulate the mass appeal of its southern neighbours.

SNV and capacity building in tourism

SNV works through teams of sectoral advisors to build the capacity of implementing partners, referred to as ‘clients’. The Ethiopian programme builds modern pro-poor tourism theory into its objectives to:

- Increase tourists’ length of stay;
- Increase employment and other direct linkages;
- Increase tourism sector derived incomes; and
- Increase out pocket spending by tourists.

In Ethiopia it has four clients in the tourism sector:

- **Tourism, Parks and Hotel Agency, Southern Region:** The agency receives support with strategy and guidelines along with technical support for regional staff to assist their training of zonal colleagues in areas such as guiding, business management, hygiene, community consultation and service improvement;
- **Konso Special Woreda, Southern Region:** Konso was chosen strategically for its location at the gateway to the Omo valley at the heart of the southern circuit tourist route. The 12 villages in the project are linked to donor funding and projects implemented to date include the passing of a revenue act to collect fees from visitors, training for government desk officers and local guides, and the initiation of microfinance enterprises;
- **Chencha-Dorze community:** SNV provides capacity building support for marketing and destination management with products including handicrafts, locally guided tours, horse riding and performance and dance. The project’s target is for 200 households to earn incomes directly from tourism. Additionally, some participants are trained to enable their employment in local tourist lodges; and
- **A consortium of NGOs in Oromia Region:** Work focuses on environmental rehabilitation and management in the rift valley zone including Lakes Zwai and Langano.

In December 2008, SNV commissioned a baseline study in Amhara and Tigray Regions, including in-depth studies in the Northern Historical Circuit destinations of Bahir Dar, Gondar and Lalibela, to inform programming for its own Northern Portfolio and to identify intervention areas for other support organisations.

In addition, the organisation is recruiting a senior expatriate Senior Tourism Advisor to support the MCT with promotion, destination management and human resources development.

The Organisation's Ethiopian programme, therefore, has a wide scope, geographically and in terms of planned or ongoing work in mainstream tourism, speciality tourism, Federal level interventions and grassroots project implementation. In promotion, destination management and human resources development SNV has selected three areas that this report identifies as being key leverage points in Ethiopian tourism development.

The World Bank Ethiopian Cultural Heritage Programme

The World Bank Ethiopian Cultural Heritage Project (US\$5.7m, approved in April 2002 and closed in October 2008) aimed at testing an operational and implementation mechanism for a fuller integration of cultural heritage concerns into multiple development sectors at national, regional, and local levels.

The World Bank's Learning and Innovation Loan instrument, was spent on capacity building elements to test the nature of individual components for which viable technical, financial, and social solutions were developed by experimenting with different partnership arrangements, involving NGOs, government agencies, communities, and interested artisans.

The component objectives were to: 1) provide resources for site planning and analysis to formulate a conservation master plan at the Axum, and Gondar world heritage sites, and, finance the development of a series of pilot activities in architectural conservation, and archaeological consolidation; 2) develop the capacity of regional governments to effectively manage cultural resource assets, by establishing an information base aimed at planning, conservation, and threat mitigation; 3) implement the preservation of ancient craft traditions, and re-establish craft making as a vital part of community and national economic life by providing design guidance, technical skills, business understanding, and direct market linkages to generate local, and export products; and, 4) fund project management, that is, the Project Coordination Unit - Expert staff, Accountant, Procurement, and monitoring and evaluation specialists, among others.

Of the 11 component target indicators employed by the project all except that for procurement were met. There is tangible evidence that incomes of artisans have increased and products have been improved and that a mechanism to safeguard cultural heritage has been established with a relatively small level of financing. The project has been criticised, however, for its low level outreach in terms of the small number of artisans who participated. There were also political tensions among stakeholders at the local level that hampered progress in some cases.

4.3 Tourism promotion and governance

As a destination, Ethiopia suffers from two 'image problems'. The first is that it is largely unknown; many of its visitors have existing links to the country and are already aware of its tourism potential. Secondly, for many, the chief sources of information about Ethiopia are NGOs and the international media, from which they derive perspectives based upon the country in a context of conflict, famine and underdevelopment. The responsibility of reversing this situation and painting a picture of a vibrant, rich, stimulating and attractive destination lies with the Federal Government's Tourism Promotion Team (see Box 10).

Box 10: Promotion and stimulation of tourism in Ethiopia: The Federal view

The promotion role is performed by the International Tourism Promotion Team in the MCT. There is currently no marketing strategy but, like the sectoral policy, a draft is in production. The modest promotional budget of around US\$50,000-100,000 per year is a reflection of the low priority afforded to the sector by the government.

Current marketing activity is heavily subsidised by the state-owned national carrier, which covers approximately 25 percent of the costs incurred by Ethiopian delegations to travel fairs. These events form the bulk of the promotion campaign but the Tourism Promotion Team also works with travel writers and international media. The federal relationship with the latter has improved recently; a government source was critical of its role in propagating the world image of Ethiopia as state ravaged by famine and conflict.

In a recent statement the Ethiopian Prime Minister Meles Zenawi laid down the target of attracting one million visitors per year by 2020. In order for a significant increase in tourism, its government promoters acknowledge that inputs from the private sector are required. Currently the government operates a Chinese-style 'build, operate, transfer' model of infrastructure development. However, the privatisation, or transfer, process is very slow.

Tourism is a sector claimed by a number of ministries, given its revenue generation potential. Staff in international diplomatic missions give misinformation regarding the availability of visas on arrival in order to boost the income they need to justify their budget allocations. Promotional aspects of tourism are periodically undertaken simultaneously by the Tourism Promotion Team and the Ministry of International Affairs via its embassies, duplicating effort and wasting resources.

The question of Ethiopia's poor international image is blamed not only on international media and NGOs (which are said to play up problems to secure funding for aid and development programmes), but also Ethiopians themselves, who may tend to speak negatively of their Country when travelling abroad.

Unlike in many countries, the Ethiopian government takes both operational and administrative roles in the tourism sector (see Box 11). There is currently no effective means of coordinating the tripartite public, private and multilateral involvement in tourism development, although a dialogue between the government and investors is beginning to take place (see Box 12).

Box 11: The Institutional Environment of Tourism in Ethiopia

Most countries have two enabling structures in their tourism institutional arrangements, which are a national tourism administration (a ministry dealing with policy and regulation) and a national tourism organisation (usually known as a tourism board) responsible for marketing, product development, research and strategy that receives its budget from both public and private sources. This model has arisen from the need to separate *operation* and *administration* functions.

In Ethiopia, the MCT performs regulatory, promotion, marketing, standardisation and even service delivery roles in a highly centralised manner using public finances.

The following structures are in place:

Southern Ethiopia

- National level Federal Ministry
- Regional level Tourism, Parks and Hotel Agencies
- Zonal level* Tourism, Parks and Hotel Desks

*Konso special *woreda* is equivalent to a zone and has its own desk

Eastern Ethiopia (has no zones)

- National level Federal Ministry
- Regional level Culture, Information and Tourism Bureaux

Northern Ethiopia and Oromia

- National level Federal Ministry
- Regional level Culture and Tourism Bureaux

- Zonal level Culture and Tourism Bureaux

The MCT performs promotion, marketing, standardisation, licensing, and management of assets and resources such as national parks and wildlife. Regional and zonal structures simply decentralise the national remit to localities where there are tourism attractions – central government delegates to agencies, desks and bureaux.

Box 12: The Public-Private Interface in Ethiopia

The relationship between the private and public sectors in Ethiopia has often been characterised by mutual distrust and a lack of cooperation. The Council of Ministries is in the process of enacting a statute for the formation of a Public-Private Dialogue Forum, which is to be co-chaired by the Minister of Trade and the President of the Ethiopian Chambers of Commerce. It is through this body that both parties aim to identify constraints and opportunities for economic growth and set common development strategies.

Despite government rhetoric that tourism is a high priority sector, a policy (translated in summary in Box 13) has been under draft for the past eight years. After intense lobbying by interested stakeholders a brief section has now been included in the country's Poverty Reduction Strategy Paper (PRSP), which is entitled A Plan for Accelerated and Sustained Development to End Poverty (PASDEP). The content of the four pages afforded to tourism is somewhat generic and lacks any substantive guidance.

Box 13: Ethiopia's draft tourism policy (translated and summarised from Amharic)

Vision

To develop tourism in a responsible and sustainable way, enabling it to play a leading role in the economic development process of the country by executing its activities on a community based principle.

Principles

- *Respecting diversity.* Diversity of historical, cultural and natural wealth are the beauty and distinctive features of Ethiopia; therefore, each of these has to be known, respected, and developed equally as tourism attractions.
- *Ensuring participation and community benefits.* Communities have to play a major in developing of the tourism industry, with each member participating and benefitting in the development process.
- *Create a transparent and accountable work process.* The process of tourism development requires the participation of many actors or stakeholders. Therefore, a good governance procedure shall be prepared in order that all stakeholders abide by professional tourism ethics.
- *Create a sense of cooperation and coordination.* Initiating continuous and good networking by creating strong cooperation communication and close relation between Regional, National and international bodies working in the tourism sector.
- *Enhancing implementation capacity of the sector.* To ensure the comparative advantage of the country in tourism development, by strengthening the implementation capacity of all parties in the sector to provide high quality tourism services

Objectives

- To consolidate the country's comparative advantage and enable the industry to compete in international tourist markets.
- To develop a tourism industry that can play a major role in generating and retaining international exchange
- To create increased employment opportunities for communities around the sites of attractions and distribute tourism income to improve living standards of the people.
- To build a tourism industry that can improve the image of the country and advance the growth of the sector in a sustainable manner.

Main issues and strategies

- **To lead the country's tourism industry in a broad-based developmental direction**
 - Development of the tourism environment
 - Ensuring participation
 - Increasing visitor volume
 - Strengthening linkages in a cross-sectoral approach to poverty reduction

- Sequential development to avoid conflicts associated with mass tourism elsewhere
- **To Develop new attractions and improving existing ones considering type, quality and quantity**
- Developing high quality destinations and productions such as handicrafts
- Increasing flows of tourists in areas of the counties that are not in the current circuits
- Linking tour circuits to create a strong tourism package
- **To develop crucial infrastructure and service delivery institutions**
- Capacity building of federal and regional implementing structures
- Development of land and sea transport infrastructure, telephone and internet facilities and energy supply networks
- **To make Ethiopia a competitive destination in the world tourism market**
- Creation of an effective tourism promotion strategy
- Market analysis
- Building partnerships with domestic and international tour operators
- **To coordinate the efforts of stakeholders**
- Formation and consolidation of trade organizations
- Establishment of new fora:
 - Tourism Management Council formed by officials from federal and regional tourism offices
 - Government Tourism Common Forums formed from the relevant federal and regional executive bodies with NGOs, institutions and private sector stakeholders with interests in tourism
- **To increase the current low capacity of the tourism industry**
- Increase the capacity of major industry players with the introduction of professional standards for service providers
- Establishment of tourism training and education centres to address shortcomings in human resources development
- Improve the capacity state tourism institutions and systems in research, information dissemination and data collection and the creation and periodic publication of tourism satellite accounts.

The main thrust of this policy looks encouraging. Particularly important is the recognition that, in addition to providing a source of international exchange, the tourist sector can have a significant development impact through linkages with local communities. Also Government has clearly recognised the need to improve the competitiveness of the tourist sector and that improving the quality of tourism services is key to enabling Ethiopian tourism to compete in international markets and attract more tourists. Welcome also is the fact that Government clearly recognise their role in providing an enabling environment: through training of the workforce; provision of more accurate information; coordinating stakeholders including working with tour operators.

In short, our analysis suggests that the thrust of this draft policy correctly addresses the key issues facing the tourist sector. As such, the draft tourism policy should be completed, ratified and implemented. The findings and recommendations in this report may serve as a useful resource during this implementation process.

4.4 Human resources development

Supply

As part of the government's higher education capacity building programme, the Gondar College of Medical Science expanded its programmes to include courses in tourism studies, including the hotel and catering industries, ecotourism and conference tourism and tour operations and guidance. Awassa (Southern) University also has a tourism training school, which will receive a new purpose built training hotel as part of GTZ's university capacity development programme.

A constraint in rural areas is that highly trained and skilled Ethiopians tend not to want to work outside Addis Ababa. In general, lower level positions can be filled easily with no shortage of local applicants, but this is not the case for management roles, for which there is undersupply.

Language proficiency is a key issue; for example, in one hotel only 2 out of 256 employees passed a minimum standard English examination administered on its behalf by an external private sector organisation.

Tables 25 and 26 describe the patterns of admission for Ethiopia's largest (government run) tourism training school, the Catering and Tourism Training Institute (CTTI). Whilst this is only one service provider it is important because many hoteliers described the CTTI as the most important organisation for HRD in the Ethiopian tourist sector. These tables reveal that:

- Demand for the CTTI's courses is decreasing over time. This may be the result of competition from the private sector;
- There are severe constraints on capacity and the availability of teaching staff, meaning that new admission can only occur at the end of courses and that some courses do not run at all; and
- The scale of training activities is much too low. There are currently an estimated 4,450 hotel rooms under construction in Ethiopia – requiring about 7,000 new workers over the next three years. At the current rates of graduation, including the extension programme, it will take 30 years to train this number of workers – without taking any account of graduates leaving the sector or the backlog of inadequate skills in the existing hotel workforce.

CTTI may have the opportunity of acquiring the government owned Genet Hotel and of developing a new purpose-built training facility. The general manager identified the lack of availability of well qualified trainers, particular in international languages, as a key constraint in providing graduates of the quality required by the market.

The Lion Ethiopia Hotel and Tourism College is a private facility that was established in 2003. In the 2008/09 admission year the demand exceeded the course capacity for the first time, again due to physical limitations with classroom space. In comparison with the CTTI, Lion's courses are relatively cheap and more accessible to poorer applicants. The Vice Dean reported that enrolled students include day labourers and that tuition fees are waived in some cases.

High land prices in Addis Ababa make physical expansion unaffordable and, like CTTI, there is a major lack of well qualified trainers, particularly in international languages and specialist areas such as wildlife tourism and park management.

Table 25: Applications, admissions and graduations for the Catering and Tourism Training Institute's (CTTI) Regular Programme, 2001/02-2006/07

No.	Department	Academic Year															Remark				
		2001/02			2002/03			2003/04			2004/05			2005/06				2006/07			
		Number of applicants	Number of admitted students	Number of graduates	Number of applicants	Number of admitted students	Number of graduates	Number of applicants	Number of admitted students	Number of graduates	Number of applicants	Number of admitted students	Number of graduates	Number of applicants	Number of admitted students	Number of graduates	Number of applicants	Number of admitted students	Number of graduates		
1	Front Office Operation	652	32	29	NA* and NG**			250	32	29	NA and NG			305	32	27	235	32	30	1-year programme	
2	Food and beverage service	840	32	30	895	32	32	NA and NG			NA and NG			203	32	29	300	32	30	1-year programme	
3	Food Preparation	528	32	NG	NA		30	318	32	NG	NA		29	274	32	NG	NA		30	2-year programme	
4	Tour Guiding	NA and NG			235	32	NG	NA		28	NA and NG			250	32	NG	NA		32	2-year programme	
5	Housekeeping and Laundry Supervision	NA and NG			1144	32	NG	NA		28	Admission of students for this programme stopped because of shortage of instructors and teaching facilities										2-year programme
6	Hotel Management	256	32	NG	NA and N		NA		27	156	32	NG	NA and NG			NA		20	3-year programme		
7	Tour and Travel Operation	725	32	NG	NA and NG			NA		31	NA and NG										3-year programme
Total		3001	160	59	2274	96	62	568	64	115	156	32	29	1074	128	56	535	64	142		

*No admission

**No graduation

Table 26: Applications, admissions and graduations the CTTI Hotel and Tourism Management Training Institute Extension Programme 2001/02-2006/07

No.	Department	Academic Year																		Remark
		2001/02			2002/03			2003/04			2004/05			2005/06			2006/07			
		Number of applicants	Number of admitted students	Number of graduates	Number of applicants	Number of admitted students	Number of graduates	Number of applicants	Number of admitted students	Number of graduates	Number of applicants	Number of admitted students	Number of graduates	Number of applicants	Number of admitted students	Number of graduates	Number of applicants	Number of admitted students	Number of graduates	
1	Front office operation	254	42	38	296	42	36	324	42	38	176	42	37	153	42	38	126	42	35	All are one year program
2	Food and beverage service	350	42	40	378	42	40	336	42	41	282	42	39	194	42	39	172	42	39	
3	Food preparation	235	16	15	220	16	16	183	16	16	159	16	16	137	16	15	120	16	16	
4	Tour guiding	NA* and NG**			249	42	38	NA and NG			129	42	38	NA and NG			134	42	40	
5	Housekeeping and laundry Supervision	226	42	39	NA and NG			264	42	40	NA and NG			188	42	39	NA and NG			
6	Hotel management	346	42	42	280	42	40	258	42	40	215	42	39	195	42	41	184	42	40	
Total		1411	184	174	1423	184	170	1365	184	175	961	184	169	867	184	172	736	184	170	

*No admission

**No graduation

Demand

A high turnover in the tourism sector employment market means that there is a consistently high, and largely unmet, demand for skilled staff. According to hotel managers, the critical areas of skills gaps are:

- Front desk skills (must be bilingual in Amharic and English or French);
- Information technology, particularly internet use;
- Food and beverage management;
- Sales;
- General management; and
- Catering (the 2007 World Economic Forum indicators place Ethiopia at 124 of 124 countries for health and hygiene).

The remaining departments (such as maintenance, housekeeping and accounts) can be trained in-house. Most hotels provide some in-house training for staff, who tend to lack practical understanding of the sector because training institutions provide very limited hands-on tuition. However, the view of industry stakeholders is that only hotels such as the Hilton and Sheraton (plus a number of the smaller private sector hotels) pay sufficient attention to staff training.

Management level staff are often trained outside Ethiopia, for example in Kenya, Austria and Switzerland, where they have access to simultaneous theoretical and practical methodologies and learn in a high quality service environment.

There is a strong demand for outsourced training services. In-house training is time-consuming and managers are reluctant to invest in a workforce with high turnover rates but the needs of the market make it obligatory. The Sheraton, for example, spends two percent of its revenue on staff training.

Recommendations

1. Whilst there are on-going externally funded initiatives to support the tourist sector in Ethiopia, these are mainly in niche segments of the market. There is a need to support the mainstream tourist industry in Ethiopia;
2. The current state of public-private sector relationships in the tourist industry are poor and there is an urgent need for stakeholders to cooperate to build the sector;
3. The draft tourism law appears to have accurately pin-pointed the key issues facing the tourism sector. What remains are the important tasks of approving the policy and implementing it;
4. On the supply side there is an urgent need to increase – ideally by an order of magnitude - the numbers of students graduating from colleges that provide skills which are useful to the market by expansion;
5. This expansion is beyond the capacity of the public sector, so the private sector hospitality schools have an important role in improving human resources in the hospitality sector. Improving the standards of training requires more effective regulation by Government;
6. Links should be developed with international tourism schools in order to expose students to the standards, and environment and cultural contexts of tourism source markets; and
7. On the demand side, there is a need to encourage employers to recognise and reward the required skills.

5. Summary of the diagnosis

In an exercise such as this, there is a danger of getting bogged down in the details and losing sight of the strategic issues. This section seeks to pull together the results of the diagnosis and highlight some of the implications of this analysis.

5.1 Tourism competitiveness

Ethiopia has a relatively small tourist sector by African standards, and is ranked 23rd regionally by number of international arrivals. The country will have to double the rate of tourism growth if it is to have a realistic chance of meeting GoE's target of being a Top 10 African destination by 2020. Although tourism in Ethiopia is modest by global standards, it is an important part of the economy – accounting for inbound tourism expenditure of US\$792m, equivalent to 30% of exports in 2007¹⁷.

The likelihood of GoE's growth ambitions for tourism being realised requires urgent action to improve the competitiveness of the tourist sector in Ethiopia, which is currently very poor. On the most comprehensive travel and tourism competitiveness index currently available, Ethiopia was ranked the 123rd out of 133 participating countries in 2009. The main reason for Ethiopia's low competitiveness is a poor quality tourist product; inadequate infrastructure; very low human resources in the sector; and, a very poor regulatory framework. None of the constraints on the competitiveness of Ethiopian tourism are fixed and most can be improved relatively quickly if GoE provides a suitable enabling environment. The reason that Ethiopia has been able to grow its international tourist market without offering a competitive product is that according to our estimates, less than 5% of arrivals are discretionary (i.e. leisure tourist arrivals). Most tourists come to Ethiopia to attend a UN- or AU-related conference or business meeting, or to visit their friends and relatives. The country is lucky to have this essentially 'captive' market which will visit Ethiopia despite the poor quality of tourist services. However, for tourism growth to accelerate, Ethiopia cannot rely on visitors arriving simply because they are obliged to – increasingly it will need to be because they choose to visit Ethiopia. This is why increasing the competitiveness of Ethiopian tourism – a central plank of GoE's draft tourist policy – is so critical for the industry.

5.2 Tourism market analysis

In Ethiopia there is a focus of GoE and donor attention on niche leisure markets such as historic tourism, ethnographic tourism and ecotourism. This focus has diverted attention from the conference and business tourism segment and Addis Ababa as a destination, which account for the overwhelming majority of visitors and bulk of tourist spending in Ethiopia. Our analysis suggests that international conference and business tourism in Addis Ababa has a high daily spend (approximately US\$129 per day), accounts for approximately 72% of total tourist bed-nights (excluding VFR tourists), and accounts for over 55% of all tourist expenditure in the country.

Two other important segments of the tourist sector have also tended to be overlooked. First, tourists coming to Ethiopia to visit friends and relations are almost as numerous as leisure tourists, which is to be expected for a country with a large diaspora. We know virtually nothing about this segment and have not included it in our calculations, but believe on reasonable assumptions that it may account for up to 20% of the total international tourist market. Apart from the financial benefits to Ethiopia, diaspora tourism may also have important dynamic benefits – many examples of recent investment are from the diaspora, and they may also be influential in transmitting a more positive image of Ethiopia abroad. Second, we were surprised by the extent of domestic tourism in

¹⁷ World Bank (2009) World Development Indicators

Ethiopia. Domestic tourism accounts for approximately 20% of the tourist market, and probably produces many tourists as international tourism. Domestic tourism is predominantly business tourism in Addis Ababa, but increasingly has a leisure and religious dimension.

Leisure tourism is important to Ethiopia because, although it involves very small numbers of tourists (27,000 arrivals equates to approximately 74 arrivals per day), leisure tourists visit the country for relatively long periods (14.8 days) and have a high daily spend (US\$127), primarily because of the high daily costs of travelling in 4x4 vehicles. Equally as important, leisure tourists spend most of their time outside Addis Ababa in some of the poorest and most remote parts of the country.

5.3 Pro-poor expenditure

In this analysis, we 'traced the tourist dollar' and have accounted for US\$187.8m of in-country spend in 2008. This finding does not contradict the official aggregate figure of inbound tourist expenditure of US\$792m because our analysis has not included important items of expenditure such as visas, international receipts for Ethiopian Airways, and expenditure by VFR tourists. Instead, this study has focused on in-country spending because this is the type of tourist expenditure which can directly and indirectly reach resource poor communities. A value chain approach has been used to trace the supply chain serving the tourist market and to understand who is benefiting from tourist spending.

Across all nodes of the value chain and all destinations, we estimate that 16%, or US\$30.0m, of this expenditure accrued to resource poor communities (13% in Addis Ababa and 21% outside the capital) (see Figure 24). This is a much stronger pro-poor impact than we were expecting, given the importance of high-end business and conference tourism in the capital (which often has rather poor links to communities) and previous analyses suggesting weak links between tourism and the local economy in Ethiopia. This places Ethiopia in roughly a mid-point position between destinations with very poor local linkages (like cultural tourism in Siem Reap, Cambodia, and business tourism in Accra, Ghana, with a PPI of 6% and 10% of tourist spending respectively) and the best linkages (like cultural tourism in Luang Prabang, Laos, and mountain climbing tourism in Mount Kilimanjaro, Tanzania where 27% and 28% of tourist spending benefits local communities respectively).

Figure 23: Tourist expenditure and pro-poor impact in Ethiopia



Of the US\$30.0m of tourist expenditure accruing to resource poor communities, 35%, or US\$10.4m, is accounted for by expenditure on accommodation. This pro-poor flow represents 11% of tourist spending on accommodation. This is a typical pro-poor ratio for the accommodation sector and reflects the balancing out of two factors, one positive and the other negative. The positive factor is that almost all employment in Ethiopian hotels is indigenous and non-management jobs are available to staff from poor backgrounds – so there is virtually none of the wage ‘leakage’ observed elsewhere in Africa. The negative factors are that hotel wages are low and the workforce has very low capabilities. The main pro-poor issue relating to accommodation is to increase skill levels amongst the workforce (managerial and non-managerial) to exert upward pressure on wage and also to increase the quality of service which is currently a constraint on the expansion of the Ethiopian tourist sector.

Food contributes 26%, or US\$8.1m, of the total pro-poor benefits from tourism in Ethiopia. The tourist sector has a very low tendency to import food, and domestic agricultural supplies are mainly supplied by the small-holder sector. In addition, intermediaries between producers and the hotels and restaurants buying food are not capturing a disproportionate amount of value. The result of the interaction of these favourable factors is that 15% of tourist spending on food and beverages accrues to poor producers. This is a notable achievement and suggests little scope, other than increasing tourist food demand through growing the tourist sector and local initiatives in destinations like Lalibela (where only approximately 25% of hotel food supply is sourced from the immediate area), for increasing the pro-poor impact of tourist food supply.

21%, or US\$6.4m, of total pro-poor benefits are accounted for by craft spending in Ethiopia. This reflects that fact that, whilst craft spending is low, over half of every US\$1 spent by tourists benefits a poor producer or retailer.

Further details of the breakdown of tourist expenditure and pro-poor tourist expenditure in Ethiopia can be seen in Figures 25 and 26.

Figure 24: Breakdown of tourist expenditure in Ethiopia

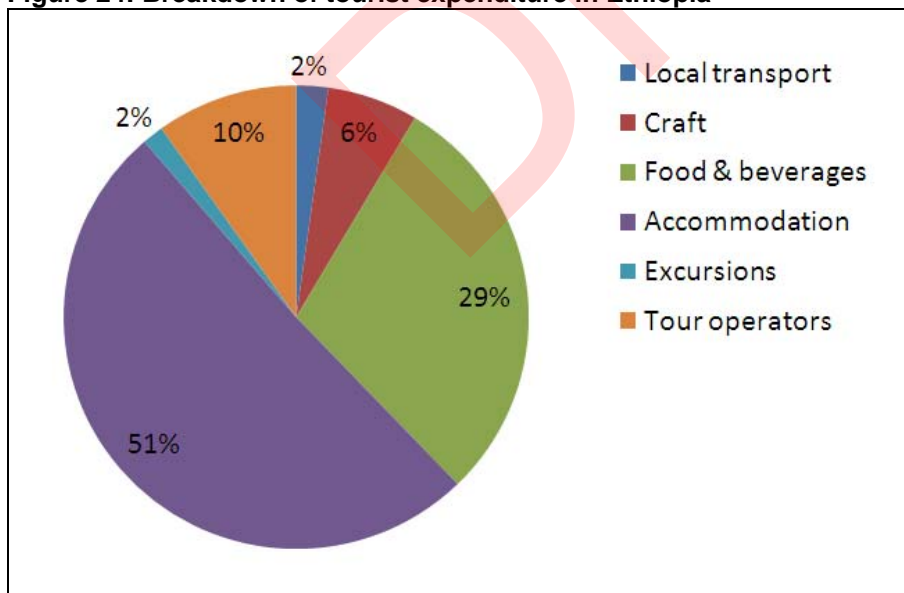
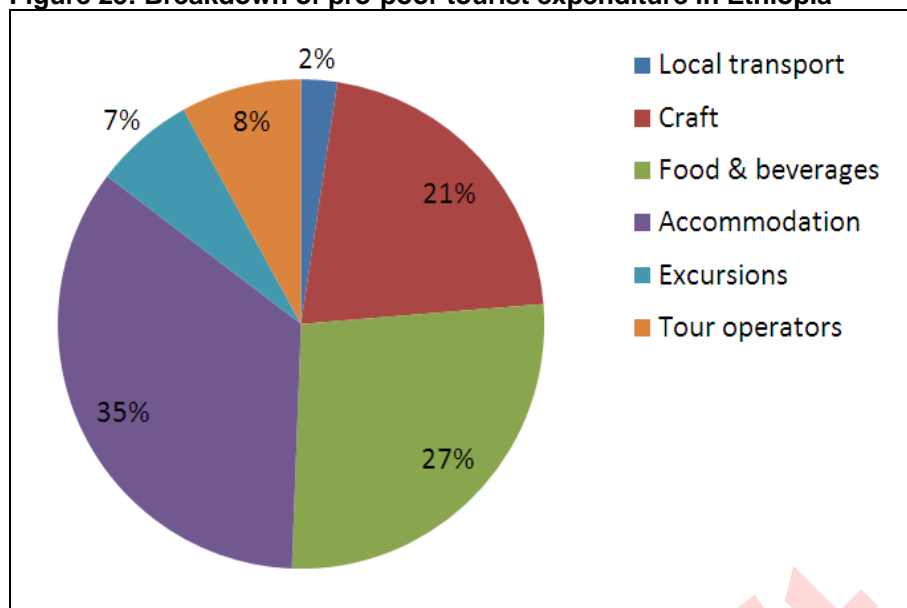


Figure 25: Breakdown of pro-poor tourist expenditure in Ethiopia



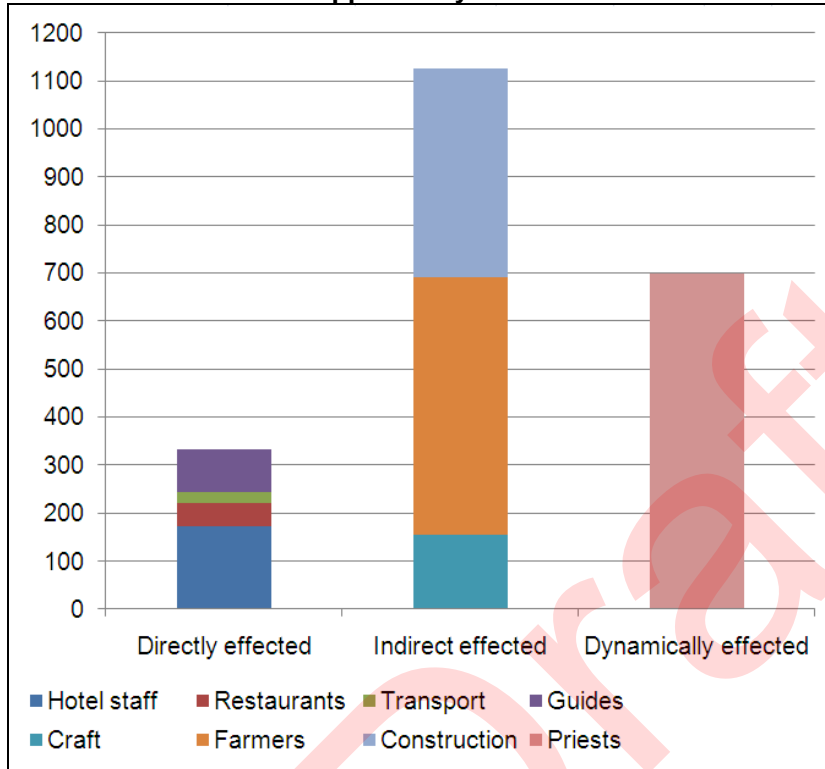
5.4 Tourism outside Addis Ababa

Although tourism in Addis Ababa dominates the tourism economy, tourist flows outside the capital are very important developmentally. First, tourism in secondary destinations in Ethiopia takes place in some of the most rural and poorest parts of the Country and is therefore an effective tool of redistribution. Second, the US\$41.9m spent by tourists outside Addis Ababa is very significantly more pro-poor than spending in the metropolitan area.

Box 14: Tourism and livelihoods

Figure 29 indicates the number of livelihoods supported by the tourist sector in Lalibela, a small town of approximately 10,000 inhabitants in a remote part of Wollo, one of the poorest regions of Ethiopia. The tourist sector directly provides a livelihood for 333 people working in hotels, restaurants, transport companies and as guides. However, 1,827 people, more than five times as many, benefit from tourism as craft workers, farmers, hotel construction workers or priests (who receive income from church entrance fees). In this way, the benefits of a small number of tourists each staying an average of just over two days can spread across the entire local economy.

Livelihoods in Lalibela supported by tourism

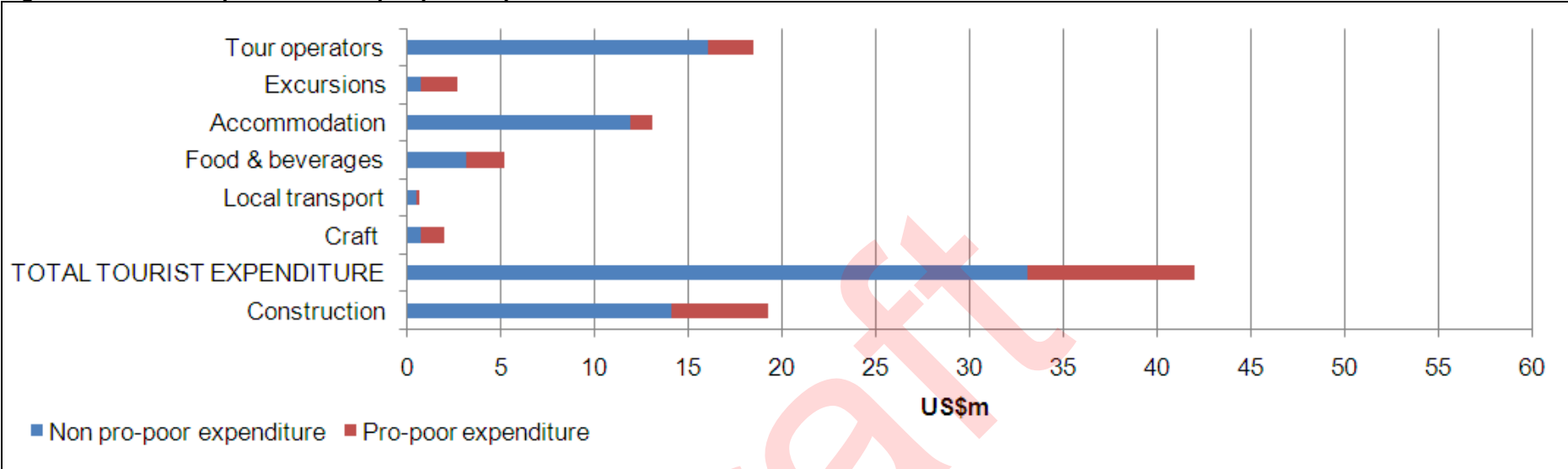


This analysis excludes the induced effects created by the 2,160 people who directly and indirectly earning a livelihood from the tourist sector, when they spend their income in the local economy.

In this way, the benefits of a small number of tourists each staying an average of just over two days can spread across the entire local economy.

Hotel construction is highly pro-poor outside the capital and the volume of construction leads to significant absolute pro-poor flows.

Figure 26: Tourist expenditure and pro-poor impact outside Addis Ababa



6. Implications of the diagnosis exercise

The first implication of this study is that there is a need for programme of support to assist entrepreneurs, communities and GoE to extract the maximum development potential from tourism in Ethiopia. The comparative assessment of these destinations suggests significant potential to both support the private sector in developing a more competitive and growing industry, and also to increase the participation of the poor.

Four key problems facing tourism in Ethiopia are identified:

1. Tourism in Ethiopia is uncompetitive;
2. Conference and business tourism in Addis Ababa has very low discretionary spend;
3. Pro-poor opportunities outside Addis Ababa are being missed; and
4. The quality of tourism information is extremely poor.

Table 27: Intervention logic

Problem statement – where are we?	Area for change – where do we want to go?	Strategy – how to we get there?
Tourism in Ethiopia is uncompetitive.	Improve the quality of the tourism product and then increase awareness of what Ethiopia has to offer – in order to accelerate growth in tourism services	<ul style="list-style-type: none"> • Work with product owners / managers to increase awareness of international service standards and enforce state regulations to ensure these standards are implemented (including encouragement of international operators participating in Ethiopia) • Work with product owners / managers to implement an effective system to improve the skills levels of existing hospitality staff. Support improvements in the relevance of the curriculum and training standards for new entrants to the hospitality labour market • Work with government to define a sustainable enabling environment that supports competitive and pro-poor tourist development. • Work with in-bound tour operators to more effectively market Ethiopia to the international market.
Tourism in Addis Ababa has very low discretionary spend	Diversify, in terms of increasing linkages between business tourism in Addis Ababa and the poor. Also encourage tourist flows movements 'Out of Addis'	<ul style="list-style-type: none"> • Increase pro-poor impact of business tourists in Addis Ababa. Increase the local content of hotel construction. Work with conference organisers to increase the number of City excursions and improve the quality of craft retail outlets to increase spend by business tourists. • Encourage conference tourists travelling outside Addis Ababa by incentivising conferences held outside the Capital. Also for conferences participating in events based in Addis Ababa, work with conference organisers and transport operators to encourage 'Out of Addis' excursions (overnight trips to satellite towns and destinations on the leisure tourist circuit).
Pro-poor opportunities outside Addis Ababa are being missed.	Support communities to link with private sector operators and change corporate practice	<ul style="list-style-type: none"> • Initiate destination-level multi-stakeholder (private sector, government and communities) processes to identify opportunities to remove blockages to appropriate tourist development; encourage sustainable private sector – community – government linkages; increase out-of-pocket expenditure and encourage responsible tourism initiatives by the corporate sector.
Policy-makers in Ethiopia operate in an information vacuum.	Give policy makers access to reliable, policy-relevant information	<ul style="list-style-type: none"> • Collect and analyse reliable basic statistics on tourist arrivals, length of stay, itineraries, expenditure, attitudes. Improve data on the quality, quantity and utilisation of tourism infrastructure. Learn from case studies on the impact of policy innovation on comparable tourist sectors.

In the section below, the rationale for the intervention logic table is discussed, and examples of appropriate interventions are highlighted.

6.1 Tourism in Ethiopia is uncompetitive

If tourism in Ethiopia is going to expand beyond the current small flow of approximately 830 international tourists per day, the destination has to attract people beyond those obliged to be there. At present, the very small numbers of discretionary tourists is a rational response to a highly uncompetitive tourist sector. Why should tourists choose to visit a destination with some of the worst tourist infrastructure and most poorly-trained staff in the world?

Service quality levels are presently seriously constrained by the limited capacity of human resources. The low standards of tourism training establishments are perpetuated within a liberalised market – we recommend that a standards regulation system be designed and implemented by MCT for the tourism training sector, to ensure that fee-based training is delivering high quality and good value to both students and the tourism labour market.

One of the key strengths of Ethiopian tourism is also its key weakness. The sector is very indigenous – almost all the tourist product is owned, managed and staffed by Ethiopian nationals. While this is positive in the sense of minimising ‘leakages’ overseas, it also means that managers in the sector may be simply unaware of international service levels.

This situation presents policy-makers attempting to develop a more competitive tourist sector by raising quality standards closer to international levels with some tough choices. The more difficult and slower option is to work with the managers of tourist products to raise their awareness of the problem (through a management training programme and bringing specialists from elsewhere and limited study tours overseas in more competitive destinations such as Egypt and South Africa).

It is also suggested that ESTDP facilitates the implementation of a significant programme of in-service training for existing staff (critical given the very low staff turnover in the tourist sector). This would have the effect of increasing service levels without diluting indigenous ownership, management and work in the sector. Given the planned rate of expansion of tourism in Ethiopia, in-house training would need to be augmented by increasing skill levels of new entrants to the hospitality sector. This would require larger numbers of better trained personnel being available to employers. The role of government in regulating and enforcing higher service standards on private sector training providers is critical.

A quicker and easier alternative would be to import hospitality skills from elsewhere. This would be an improvement on the current situation because it would raise the competitiveness of the sector. It would, however, be associated with some dilution of the benefits of tourism to Ethiopia.

A strategy which combines support to Ethiopian owners, managers and staff with the encouragement of international direct investment from world-class product owners could combine the benefits of both approaches. This is because ESTDP support to local staff would be combined with them facing competitive pressures to raise service standards in response to new investors offering higher quality services. A number of recent investors in the tourist sector are from the diaspora, who have gained hospitality experience overseas. This is an ideal way of combining the benefits of both local capacity strengthening and international exposure.

As service levels increase, GoE should consider working with in-bound tour operators (including conference organisers) to market the Ethiopian tourist product more effectively. Partnerships of this kind are likely to be more cost effective than more traditional approaches to marketing – such as government delegations attending tourism fairs and institutional solutions like establishing tourist boards. Such partnerships also have the advantage of bringing public policy-makers into much

closer contact with the private sector. Whilst this can create governance problems if not done in an organised manner, it has the benefit of exposing government to the concerns of the industry.

Development of the tertiary sector by the government and GTZ is important in terms of higher level longer-term training, but a strategy to supply all training institutions with qualified, experienced trainers and a relevant curriculum is a top priority if the newly developed purpose built facilities are going to represent anything more than expensive infrastructure, in which poor quality training continues. This requires larger scale, higher level development of the tertiary education system in tourism, assisted by external technological inputs in curriculum development and linkages with the private sector and other academic disciplines such as business, marketing and management science.

The detailed design of initiatives like these requires careful thought to ensure they are compatible with a market development approach. The developing world is littered with examples of well-intentioned, but often ineffective, unsustainable and actually damaging, initiatives seeking to improve service levels through heavy investment in heavily-subsidised, supply-side training interventions. It is important that the immediate beneficiaries of such interventions (tourism product owners) both recognise the importance of these initiatives, have an input into the design process and contribute financially to their implementation. Only then will a sustainable range of training suppliers emerge to provide these services.

Given the small size of the secondary tourist destinations in Ethiopia, it is likely that initiatives to enhance the skills of new entrants to the hospitality labour market will focus initially on Addis Ababa. In-house training initiatives should, however, be tailored to train staff at the work-place in the capital and the more important secondary destinations.

The government has an important role to play in creating a conducive enabling environment for growth and development of higher quality tourism services in Ethiopia. The current priority attached to tourism and the resulting enabling environment is inadequate and this is damaging the competitiveness of the sector. Government should receive long-term technical assistance to support the rapid adoption of the existing tourism policy; the development of a national tourist development strategy to operationalise and implement the policy and highlight some of the trade-offs involved in tourist development. Government must adopt and implement a rigorous and objective set of quality standards in the industry to incentivise the upgrading of quality standards.

A much closer working relationship between government and the private sector is critical to address the mutual distrust prevailing in the sector. The upcoming private-public dialogue forum is a welcome development and there are a number of 'best practice' examples of such initiatives internationally. The Government-Private Sector Forum in Cambodia (<http://www.cambodia-gpsf.org/default.aspx>) provides a good example of a more incremental and less expensive model of achieving many of the benefits of improved collaboration between government and the private sector.

As the constitution gives all spheres of government concurrent responsibilities for tourist development, support to government should include interventions at federal, regional and local spheres.

6.2 Tourism in Addis Ababa has very low discretionary spend

Tourism in Ethiopia is currently virtually a 'one trick pony'. Tourism in Addis Ababa constitutes 78% of international tourist expenditure and has much lower levels of discretionary spending than elsewhere, which dilutes the impact of tourist activity on the poor. Because of the relative size of the Addis Ababa tourist market, an incremental change in spending patterns here will have a much larger impact than more significant changes achieved elsewhere.

The focal areas which are likely to yield the most significant pro-poor impacts are:

Craft sales to conference and business tourists in Addis, which are currently subdued. Our analysis suggests that, while craft sales to the business and conference sector are unlikely to reach the sometimes spectacular levels seen in the leisure sector internationally, they could be increased through interventions at the retail node. If business tourists had a better choice of craft outlets than over-priced and generally unattractive hotel shops, the ramshackle stalls in the post office area of the city or the shops on the airside of international departures at Bole International Airport (which, although impressive, often do not take credit cards and do not offer an ATM service beyond immigration).

There is no reason why so few conference tourists engage in a city tour in Addis Ababa. In comparable African conference tourist destinations, 80% to 90% of conference delegates participate in city tours and these are generally built into the itinerary by conference organisers. Working with conference organisers in Addis Ababa to build in such events into conference programmes, and working with suppliers to ensure tours are of sufficient quality, should be a priority.

A longer-term proposal is to encourage business tourist events to be located outside of Addis Ababa. This strategic aim is justified by the need to spread the benefits of tourist activities over a wider geographical area in Ethiopia. The need for this to happen is strengthened by the finding that tourist activity is 50% more pro-poor (per US\$1 of tourist expenditure) outside Addis Ababa than in the capital. In Ghana, for instance, the Government has developed fiscal incentives to encourage the decentralisation of hotel and conference facilities away from the capital, Accra.

In the shorter term there is an urgent need to unlock the latent demand of Addis Ababa-based conference tourists to see something of non-metropolitan Ethiopia. Tour operators estimate that as many as 20% of conference tourists in the capital would be keen to have an overnight trip outside the city. This should be encouraged because it will spread the benefits of tourist activity over a broader geographical area and may present conference tourists with greater opportunities for out-of-pocket expenditure and extensions to their length of stay. Spill-over from conference tourism could also be used to balance the volatility of seasonality in leisure tourist demand.

Encouraging trips outside of Addis Ababa would require a team within GoE to work closely with transport operators, tour operators and conference organisers (working with product managers to assemble and market 'outside of Addis Ababa' packages to conference delegates in their conference booking forms). To succeed, this initiative would require reliable and high volume transport linkages between Addis Ababa and secondary tourist destinations. It is also likely to require a significant upgrading of the quality of tourist services in secondary destination, to raise these to the level that they are acceptable to international conference tourists.

6.3 Pro-poor opportunities outside Addis Ababa are being missed

The intervention above has a focus on the largest tourist destination in Ethiopia, the capital. However, creating a more diversified tourism product for Ethiopia – as well as spatial equity and pro-poor impacts - justify a cluster of interventions designed to improve and growth the trade in tourism services in the country's secondary destinations.

To have a realistic prospect of achieving its aim of growth and strengthened linkages in the tourist sector outside of Addis Ababa, this intervention should focus on areas with current tourist flow. The experience of time-bound development programmes attempting to develop a new tourist destination in areas with small existing flows and then develop linkages with poor communities is not very successful. As the majority of international tourist bed-nights outside of the capital are

spent either on the Northern Historical Circuit or Southern Circuit, there is a rationale for focusing the ESTDP on these areas – perhaps with a budget from which to finance excellent interventions which come from outside these areas.

It is important to recall how small tourist flows are outside Addis Ababa. A total annual flow of 27,000 international leisure tourists travelling outside Addis Ababa equates to an average of just 74 tourists per day. Experience suggests that it is challenging enough to create or strengthen existing linkages between tourists and poor communities where there is a steady but small flow of tourists, without compounding the difficulties by intervening in areas where few tourists venture.

Strategies will vary in the different destinations and there is no ‘one size fits all’ model. Each of the initiatives below is relevant to at least one of the tourist destinations and emerged from the local stakeholders:

- Increase the proportion of food supplying the tourist sector from local farmers in specific smaller destinations, such as Lalibela;
- Increase craft sales and the proportion of craft sold in destinations which is locally made – share ‘best practice’ from Axum with destinations like Lalibela;
- Train local communities to access the rapidly expanding formal sector jobs in the tourist sector and construction industry;
- Diversification of the tourist product – for instance supporting trekking initiatives to supplement the historical or cultural experience and encouraging conference tourists to take excursions outside Addis Ababa;
- Improving the guiding services up to the standard of Lalibela
- Acting rapidly to resolve the management problems in several important attractions in the secondary destinations (i.e. Nech Sar National Park and Crocodile Ranch);
- Establish a forum where the public, private and community sector can discuss tourism at a local level; and
- Generate a conducive policy environment to create a stable policy framework for tourist development at the local, regional and federal level;
- Corporate social responsibility projects – for instance the Church in Axum and Lalibela operating orphanages for street children; and
- Increasing reliability of domestic flight services between Addis Ababa and secondary tourist destinations – by introducing competition on these routes.

These projects imply a mixture of intervention opportunities. In Table 28 below these are grouped into four broad typologies.

Table 28: A categorisation of pro-poor tourism intervention opportunities

Types of pro-poor tourist intervention	Characteristics
Corporate Social Responsibility (CSR) Example: using funds accruing to the Church generated from tourism payments to visit rock churches to fund welfare projects for street children	These are traditionally charitable projects which use funds generated from tourism to fund social welfare projects - often unrelated to the core tourism business
Community-based tourism projects (CBT) Example: The TESFA (Tourism in Ethiopia for Sustainable Future Alternatives) village trekking and home-stays around Lalibela	Projects normally promoted by an NGO and funded by donors in which the community owns and manages on a collective basis as an ‘alternative’ tourism product
Corporate change projects Example: Olive Tree Hotel in Lalibela hotel seeking to deepen its own linkages with the local economy and community by increasing the local content of supply chains	A new generation of CSR which harnesses the strength of the core business of the tourism enterprise to generate improved development impact in the local economy
Improving the enabling environment Examples: Government formulating a clear vision for tourism; regulating the quality of hotels and hospitality skills training institutions and supporting	These projects operate at a more strategic level than the individual project. They seek to create an environment in which the whole range of tourist businesses can develop more effectively. The focus

<p>the creation of competitive markets (for domestic flights). Government resolving the inter-regional conflicts that destabilised the concession to manage the Nech Sar National Park.</p>	<p>is on government clarifying what is its appropriate role in facilitating appropriate tourist development and focusing on improving its performance in this area.</p>
<p>Pro-poor value chain development Examples: increasing expenditure on locally-sourced guides, food, excursions, building materials, craft and transport</p>	<p>Examining supply chains into the mainstream tourist value chain, identifying and overcoming barriers to increasing the participation of poor people in the tourism value chain</p>

In the past, linkages between tourism and the poor was sometimes seen as being synonymous with CSR or CBT initiatives. In recent years there has been a mounting questioning of the impact of CSR and CBT projects in terms of the scale of their impact on poor communities. This analysis has demonstrated that the core operations of mainstream tourism can deliver significant and sustainable benefits to very large numbers of poor people living around tourist destinations. Action by GoE could enhance these pro-poor linkages.

6.4 The quality of tourism information is extremely poor

This study has highlighted the general paucity and inaccuracy of tourism sector statistics in Ethiopia. The only official data that the team have relied upon are the international arrival numbers. All other data verified by the team have proved to be highly inaccurate. None of the four destinations assessed has any accurate idea of the number of tourist arrivals (with the partial exception of Lalibela and Axum that rely on church statistics on numbers of entrances to religious sites), ratios of international to domestic tourists, tourist expenditure, length of stay, or qualitative tourist options. The lack of information makes it difficult to formulate a meaningful programme without spending large amounts of time collecting primary and reviewing secondary data.

For instance, this study has uncovered what we believe to be a very large and highly pro-poor local low-end market domestic tourist market which, even with our most conservative estimates, makes a highly significant contribution to the local economy. The same may well be true of tourists from Ethiopia's diaspora. It is imperative, therefore, to perform additional research on the low-end domestic market to establish its actual size and flows of benefits to the poor. The role and poverty status of secondary actors in tourism supply chains is also a high priority for research and policy development. For example, we estimate that in the fishing value chain there are perhaps five times as many extremely poor secondary actors being supported than fishers, who are themselves poor, that we counted during our survey, and yet very little is known about these secondary actor's numbers and income levels, or how their involvement in this commercial market can be made more beneficial.

Annex 1: Terms of Reference

Terms of Reference for Tourism and Pro-Poor Linkages Strategy Development in Ethiopia

1.0 Background

Ethiopia has enormous potential as a tourism destination offering a rich array of cultural, historic and natural sites that set it apart from most of its neighbours. UNESCO recognizes eight world heritage sites (as many as Egypt and more than any other country in Africa): Axum's obelisks, the monolithic churches of Lalibela, Gondar's castles, the Omo Valley, Hadar (where the skeleton of *Lucy* was discovered), Tia's carved standing stones, and the Semien National Park, and the walled city of Harar, added to the UNESCO list in 2006. However, a series of challenges face Ethiopia in attempting to carve out tourism market share in the region and transform cultural and heritage value into economic value. The World Heritage sites, as well as many other of equal though unrecognized significance and beauty, have been neglected and there has been little public investment in their maintenance, interpretation for visitors and infrastructure to access them. The public investments (hotels, human resources and airports) made during 1970s have also stagnated and had little reinvestment.

The Government of Ethiopia and WB are now preparing the Ethiopia Sustainable Tourism Development Project (ESTDP) "the proposed Project." The proposed Project provides an opportunity to address poverty and development issues in Ethiopia, using the rich tourism resources as the vehicle for generating tourist expenditure on goods and services provided by Ethiopians. In the PASDEP (Ethiopia's PRSP), government has prioritized the development of the tourism sector emphasizing that the historic and cultural sites need to become productive sources of jobs, incomes and economic growth for Ethiopians. The Bank's strategy for Africa is centred on job creation, and this is a pillar of the emerging Country Assistance Strategy dialogue in Ethiopia.

Though tourism is potentially important to Ethiopia's growth and wealth distribution, a specific strategy needs to be developed to ensure that communities and the poor benefit from this expected increased trade. The development objective for this work is to increase domestic private sector investment in tourism trade in the short-term, and the pro-poor (community level income and job creation) impact of tourism trade in the medium-term. In providing an investment strategy that streams directly into a component of an operation, the potential impact of this activity can be leveraged to maximum effect. The ESTDP is under preparation and this work offers a unique opportunity to focus specifically on the dimension of enhancing domestic trade in services directly complementing the activities of the ESTDP that are focused on product and market development; i.e. creating an improved platform to grow trade in services around tourism.

2.0 Objective

The objective of this consultancy is to develop strategies to ensure that investments made in the proposed project translate to benefits to communities and the poor. In order to do this the consultants will have to investigate constraints to the participation of domestic businesses and communities in the tourism sector and recommend ways to overcome the constraints or catalyze increased awareness in the domestic market for potential investments, innovations, income and employment generating opportunities in the tourism sector. Therefore consultancy services are sought to develop:

- 1) Specific interventions to support pro-poor value chain linkages within the ESTDP.
- 2) Specific interventions to support vulnerable population groups, in order to ensure that they benefit from the poverty reduction impact of a growth in Ethiopia's tourism industry.

3.0 Suggested Methodology

Various studies have shown that the highest pro-poor impact in the tourism value chain is in micros and small enterprises that supply goods and services to the tourism sector; mainly shopping goods (art and crafts, souvenirs etc...), transport and activities (guiding, trekking, camping etc...). The consultants should focus on these areas.

A second area of focus should be the involvement of communities in the ownership of resources or services that tourists might wish to purchase. The ESTDP would like to initiate the development community based

tourism enterprises such as lodges and campsites or community based service provision such as guiding and trekking. The consultants should identify potential

The intended objective of this work is to (a) prepare an investment strategy that leads to employment and income generation in domestic tourism services in 6 regions and 3 federal municipalities. The work will be focused on finding solutions for already identified supply side trade and policy constraints (access to markets, skills and training, technology, and finance as well as the public institutional capacity and policy constraints) facing the private sector and communities. The methodology will draw on UNWTO's ST-EP program, which focuses on integrating communities and small businesses into tourism supply chains.

Approach: a combined team of local and international tourism experts, small business development expert, and a microfinance specialist will be deployed to the focal ESTDP areas where they will carry out stakeholder consultations and field assessments of potential investment and innovation opportunities. The team will then present these findings to a focused stakeholder group in Addis Ababa who will provide feedback on the appropriate mechanisms and instruments to best deliver the desired results (investments and jobs).

Capacity Building: the team will work closely with concerned federal government agencies (Ministry of Trade and Industry, MCT, Ministry of Finance and Economic Development) and their regional equivalents, the local private sector and community-based organizations to identify capacity building needs. These investments will be highlighted for implementation during the ESTDP. During the activity, capacity will be built in the implementation support organizations that will benefit the overall ESTDP.

Dissemination and Learning: in the development of domestic tourism services this approach is ground-breaking and will inform the development of a trade in services business module within the AFTFP department. A case study of this will be published as an internal Learning Note. The exercise will also be used as a case study in the development of a trade in services training module underway through the World Bank Institute. Outside the Bank, the case study will be used to prepare a joint ODI/World Bank policy note and this will be disseminated through ODI and World Bank information dissemination networks.

4.0. Scope of Work

4.1 Overall Responsibilities

1. Develop specific measures for improving value chain linkages for community/destination level participants in Ethiopia's tourism industry.
2. Design implementation arrangements for a pro-poor value chain linkages component.
3. Participate in consultative meetings at the local, zone, provincial and central level.
4. Provide costing of the value chain linkages component
5. Identify prospective beneficiaries and service providers in the proposed programme.
6. Conduct institutional analysis of the service providers likely to be involved in the proposed programme.
7. Develop specific measures to actively include vulnerable groups (e.g. women, street children, unemployed, etc) as beneficiaries in Ethiopia's tourism industry. These measures may be distinct from the value chain linkages component.

4.2 Detailed Responsibilities

Development of Pro-Poor Value Chain Linkages

- The consultant(s) will identify pro-poor tourism linkage opportunities for community-level beneficiaries of the proposed World Bank Ethiopia Sustainable Tourism Development Project (ESTDP). This will include analyses of supply linkages in the i) accommodation, ii) restaurants, iii) shops/markets, and iv) excursions sectors in each of the destinations supported by the proposed ESTDP to determine pro-poor effects. Cross-linkages between the four different sectors should also be examined. Where appropriate, supply linkages in additional tourism-related sectors should be analyzed.
- In order to establish a baseline for the Results Framework of the proposed project, the consultant(s) will measure and record the present level of involvement in terms of income and employment of direct and indirect participants of Ethiopia's tourism industry in the affected destinations. These include but are not limited to: small enterprise owners (e.g. hotels, restaurants), micro enterprise owners (e.g. souvenir stalls, crafts sellers, drinks kiosks), NGOs and/or civil society associations, and vulnerable groups (vulnerable groups identified include: street children and orphans, women and girls, beggars, marginal farmers with unproductive land, disabled persons and the elderly).

- The consultant(s) will identify prospective service providers in a value chain that is providing goods and services to the tourism industry in the affected regions.
- Conduct a capacity and needs assessment of prospective service providers in the tourism value chain.
- Identify the types of training support required by prospective service providers in order to effectively engage in the tourism value chain.
- Identify constraints/areas for further improvement and opportunities, including in the general enabling environment, tourism policy and physical infrastructure needs.

Development of Mechanism(s) to support Vulnerable Groups

- The consultant(s) will identify and develop specific mechanisms to enable vulnerable population groups to benefit from the poverty reduction impacts of Ethiopia's tourism industry. These measures will likely be distinct from the value chain linkages component; examples are revenue sharing mechanisms among communities, facilitation of philanthropic flows etc. Other appropriate measures should also be assessed and considered for implementation within the ESTDP.
- A rapid assessment of vulnerable groups was conducted in the areas of Lalibela, Axum and Addis Ababa during the January 2008 Bank mission. The vulnerable groups identified in these areas were (in random order): street children and orphans, women and girls, beggars, marginal farmers with unproductive land, disabled persons and the elderly.
- Prepare a clear analysis on the bottlenecks – technical, social or economic – that hinder the poor and vulnerable from participating more in the tourism value chain.
- Conduct a capacity and needs assessment of vulnerable groups (both those identified in the January 2008 mission and other vulnerable groups that may be identified in other regions/areas of the country. Given Ethiopia's large geographic size and diversity of populations, the groups considered vulnerable may differ significantly both inter and intra regions). The findings of the capacity and needs assessment of vulnerable groups is also an input to the Results baseline of the proposed project.
- Identify the types of support (training, access to finance, etc) required by vulnerable groups in order to improve or stabilize their immediate livelihood situations. The longer term objective is to enable poor vulnerable groups to participate more in the tourism value chain.

Implementation Arrangements

- The consultant(s) will design implementation arrangements for a pro-poor value chain linkages component in the affected regions. This includes defining the key stakeholder groups and organizations relevant to serve as counterparts to the ESTDP at the local level. These counterparts are likely to differ among regions and destinations, due to the varying institutional structures found in each region.
- A structure to communicate and interact with communities will be developed and established. This structure will take into consideration location-specific factors, but be sufficiently robust to serve the entire project.
- The consultant(s) will present a costing of both the proposed value chain linkages component, and the vulnerable groups support initiative. Costs should take into account training needs of prospective beneficiaries and service providers.
- The consultant(s) will design financing mechanisms to catalyze the participation of prospective beneficiaries in the value chain linkages component. (New financing mechanisms are required to address the present gaps in access to credit among the poor. The shortcomings of the current government-run microfinance programme were evident in the three areas previously surveyed, Lalibela, Axum and Addis Ababa).

5.0 Expected outputs

Two products will be delivered:

A) An investment strategy and action plan leading to increased local community and MSME participation in tourism services trade. Among others, this strategy will (i) identify appropriate capacity building and training needs for potential and existing MSME and community service providers to tourism enterprises and tourists; (ii) identify appropriate financial instruments to be deployed to increase the role of MSME and community service providers; (iii) identify appropriate institutional arrangements at federal, regional, Woreda, and municipal levels for communicating with and engaging MSMEs and communities in the provision of tourism services; (iv) identify the types of incentives that may be needed to move local communities from either passive or non-productive participants in the tourism sector (e.g., through begging or unorganized informal activity) to productive participants in a pro-poor tourism framework.

B) A brief case study format paper (6-8 pages) of the methodology and recommendations. This paper will be the main knowledge sharing instrument and will be shared across the region.

6.0 Budget and Timeline

This is complex work to deliver involving the team travelling to the regions of Tigray, Amhara, Oromia, S.N.N.P.R.S, Afar, and the municipalities of Harar, Dire Dawa, and Addis Ababa. The consultants will have to conduct several regional workshops as well make extensive local consultations, particularly with NGOs, finance delivery organizations and local administrations. It is anticipated that roughly 7 days in each region will suffice and 3 days per municipality; a total of about 40 days in the field for the team.

7.0 Team Specialization

The areas of specialization required are: MSME development, micro-finance, and tourism. The international team should identify and work closely with national counterparts from the private sector and where possible with individuals or teams nominated from the regional governments. The work should be coordinated with the Federal MCT and be supported by the regional governments.

Draft

Annex 2: Pro-poor growth and other conceptual issues

Box 1: Definitions of pro-poor growth

The debate in development circles is between those with a 'restrictive' who argue that pro-poor growth describes a situation where incomes for the poor benefit disproportionately more than the aggregate average (so, if the economy grows by 5%, incomes of the poorest quintile must grow by more than 5%). What this means is that growth can only be pro-poor if it reduces income inequality. At risk of over-simplification, this definition emphasises equality above growth.

A less restrictive definition is that sometimes described as the 'World Bank' position namely, that pro-poor growth is simply growth that has a positive impact on the incomes of the poor – without the stipulation that the poor have to benefit disproportionately more than society as a whole. The emphasis is rather more on growth than redistribution. By this definition, growth is 'pro-poor' even where the incomes of the poor are growing at 7% in the context of 9% aggregate economic growth – as is the case in China at present. In this example, there is dramatic poverty reduction (about 0.8b Chinese people left poverty over the past decade) even though income inequality is increasing.

For the purposes of this study, we will adopt the looser 'World Bank' definition of pro-poor growth. This is partly for conceptual reasons and partly for practical reasons.

Conceptually, the focus of this study is to examine how changes in one part of the economy – tourism - can impact positively on incomes of the poor. Our primary focus is not to reduce inequality. If this study motivates changes that benefit poor people in Ethiopia through developing a more vibrant tourist sector and also benefits already-affluent hoteliers and restaurant-owners, this presents us with no conceptual quandary. In the context of a tourism sector in Ethiopia that is struggling, it would be irresponsible to focus on redistribution without considering the health of the industry itself. Such a myopic strategy simply risks spreading the pain from a possible future down-turn in the tourism industry into a great number of households on the margins of poverty.

There are also practical difficulties with determining the precise distributional impact of changes in tourism between different income quintiles in a context where data is not easily available. In most of the recommendations contained in this study we are simply unable to state with any confidence whether the poor will benefit proportionately more or less than the non-poor.

Pro-poor tourism: our definition of pro-poor tourism follows that of pro-poor growth. Namely, that tourism is pro-poor if it benefits poor people. The issue of who are the poor in Ethiopia is important, so that we are clear about our beneficiary group.

Box 2: Value chain analysis

Value chain analysis emphasizes the different ways in which activities along the chain are coordinated. It defines chain governance as the process of specifying, communicating and enforcing compliance with key product and process parameters along the chain.

At any point in a value chain, the three parameters to be specified are:

- What is to be produced: product design and specifications;
- How it is to be produced: process specifications; and
- How much is to be produced and when: production scheduling and logistics.

Basic tools in a value chain analysis include the following:

- Value chain mapping, which enables the identification of stakeholders of key processes and agents within (and outside) the chain who can impact on the chain's performance. It also defines characteristics of different markets and marketing channels, through the identification of different needs of different types of buyers;
- Identifying the challengers facing agents (producers, intermediaries and processors) in the chain; and
- Explicit consideration of the different ways in which knowledge and skills gaps can be filled.

Annex 3: Tourism in Lalibela, Axum and Arba Minch

Supply

Lalibela is a small and isolated town, with a population of about 8,400, located at 2,630m in the hills of Amharaland. The town is a World Heritage Site principally because of the eleven rock churches in the area. Lalibela is served by a small airport.

Figure 1: St. George's Church, Lalibela



Lalibela is a small tourist destination. It has nine tourist hotels containing 261 hotel rooms – and almost half of these are contained within two of the larger and mid-range hotels.

Table 1: Hotels in Lalibela

Name	No. rooms	No. Staff	% guests international	Rack rate for international guest in double room
Larger mid-range hotels				
Lal Hotel	65	41	90%	\$40
Roha Hotel	64	53	90%	\$40
Yemeha Hotel	34	37	100%	\$35
Seven Olives	30	40	95%	\$27.50
Jerusalem Guesthouse	25	22	80%	\$45
Tukul Village Hotel	12	22	100%	\$50
Smaller and lower-range hotels				
Lalibela Hotel	13	12	50%	\$13
Andinet Hotel	10	4	0%	\$2
Heaven Guesthouse	8	3	15%	\$5
Total	261	222		

Buoyant tourist demand is also fuelling a boom in construction activity in Lalibela. We visited seven construction sites in the town which, combined, will be adding some 200 additional rooms – roughly doubling the current bed stock – over the next three years.

In addition to the sharp increase in hotel bed supply, this construction boom will also increase the quality of hotel accommodation available in Lalibela, with most new accommodation being 3 or 4 star. All investors were not only Ethiopian, but also with strong links to the Lalibela area. The constraints on investment cited by investors are the shortage of cement and the difficulties of accessing funds for construction – even though Lalibela has recently benefited from a bank opening a branch in town. The consequence of these constraints creates insurmountable barriers to entry for investors who are not already affluent and cash-rich. Another consequence is the very slow rate of building additional hotel space, with an average development duration of 23 months.

Recommendation 1: *The constraints on cement supply can be address quickly and effectively by allowing the importation of cement whilst domestic supply is being developed. This will reduce the cost and increase the availability of this basic building material.*

Table 2: Hotels under construction in Lalibela

Development	Rooms	Capital expenditure	Duration of build (months)	Average labourers on site	Local materials (percentage)
Motel on airport road	40	N/A			
Church Hotel	40	\$400,000	20	80	40%
Mountain View Hotel	30	\$800,000	24	80	40%
Central site	28	\$400,000	48	25	15%
Paradise Hotel	20	\$160,000	20	20	40%
Hotel Lal extension	16	\$2,000,000 ¹⁸	24	100	30%
Tukul Village Hotel	12	\$500,000	36	75	25%
Prester John	12	\$100,000	20	40	35%
Jordans	10	NA	36	NA	NA
Total	208	\$4,360,000		420	35%

Source: ODI survey

As well as tourist accommodation, Lalibela also has a local airport with daily services to Addis, two restaurants used by tourists; 89 tourist guides; 22 transport suppliers and 54 craft shops.

Although also an important town on the Northern Historic Circuit and a World Heritage site, Axum is very different from Lalibela. The town is much larger (population 41,500) the centre of the former Aksumite Kingdom and a bustling regional centre. The main tourist attraction are the Stelae.

Figure 2: The return of the Rome Stele to Axum



¹⁸ Includes a conference hall and gym and restaurant as well as additional hotel rooms

Table 3: Hotels in Axum and Adwa

Name	No. rooms	No. staff	% guests international	Rack rate for internationaler in double room
Larger mid-range hotels				
Remhai Hotel	71	80	30%	\$32
Yeha Hotel	63	42	80%	\$35
Africa Hotel	46	28	70%	\$10
Exodus Hotel	23	36	35%	\$12
Smaller and lower-range hotels				
Huruy Hotel	36	7	0%	\$3
Genet Hotel	35	16	20%	\$2.50
Bazen Hotel	19	3	16%	\$2
Ethiopsis Hotel	10	20	45%	\$8
Arc Hotel	20	19	20%	\$5
Adwa Hotels				
Abraham Hotel	30	31	50%	\$7
Soloda Hotel	35	22	50%	\$7
Mayassa Hotel	30	25	50%	\$9
Total	418	329		

Axum/Adwa has the same number of hotels but a very different hotel stock compared with Lalibela. Axum/Adwa has more rooms in total and is orientated to the budget domestic market than Lalibela – which primarily serves the international market.

There is also significant on-going hotel building in Axum. 9 hotels are in the process of construction. We estimate these hotels are larger than those being constructed in Lalibela, averaging 59 rooms and \$3.1m capital expenditure each – with 105 labourers on each site on average. Some 40% of materials are supplied from the local economy.

Axum also has a local airport, 6 active tourist guides; 16 transport suppliers and 45 craft shops.

Arba Minch

Arba Minch is the gateway to the Omo Valley – the Southern Cultural Circuit. The town is 400km? South of Addis Ababa and has some of Ethiopia's richest agricultural land in its hinterland. It is also located next to the 514 km² Nech Sar National Park. Between 2005 and 2007 was managed by African Parks – a South African conservation management NGO - on a 25 year management contract. African Parks left the Park in 2007 and after the failure of the authorities to relocate the Guji people, who were living in the Park, outside its borders. Park management has reverted to the Regional Tourism Parks Agency. Like Axum, this small destination is dominated numerically by domestic tourists – almost half of whom are business travellers. There are just three hotels used by the large majority of international tourists, the Bekele Molle and Swanes Hotel and Paradise Lodge.

Table 4: Hotels in Arba Minch

Name	No. rooms	No. staff	% guests international	Rack rate for international (if applicable) in double room
Mid-range hotels				
Bekele Molle Hotel	32	33	70%	\$13
Swanes Hotel	70	47	100%	\$35
Paradise Lodge	39	53	40%	\$20
Smaller and lower-range hotels				
Arba Minch Tourist Hotel	26	137	10%	\$10
Abyssinia Pension	11	7	15%	\$8
Kairo Hotel	22	16	5%	\$5
Haleleluya Pension	33	6	5%	\$4
Abaayaa Hotel	10	22	5%	\$5
Wubert Hotel	21	18	0%	\$5
Arba Minch Hotel	13	9	2%	\$5
Total	277	348	43%	

Currently there are six hotel construction sites in Arba Minch (including extensions of existing hotels) which will roughly double the hotel room capacity of the destination – adding 261 additional rooms. This new hotel supply is interesting in that it is dominated by eco-lodge accommodation which is relatively upmarket compared with the existing stock.

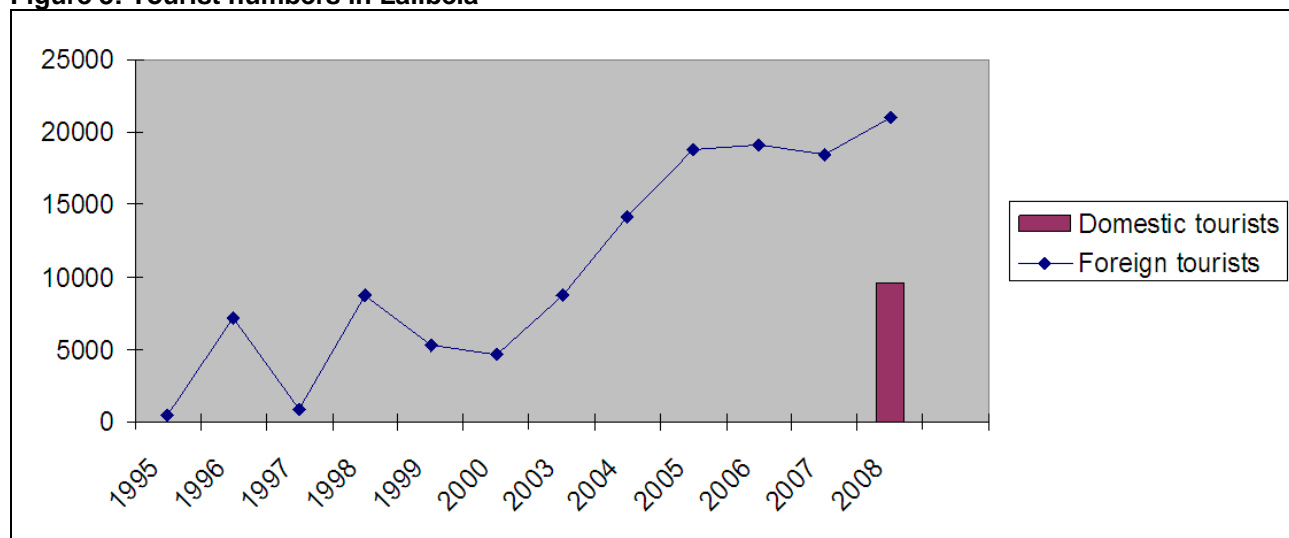
Demand

Lalibela

Tourist demand in Lalibela is buoyant. Over the past eight years, the arrival numbers of international tourists has increased about 15% a year from about 5,000 to 21,000 visitors a year. These numbers are based upon visitors buying a US\$20 pass to visit the churches, so will be a fairly accurate estimate of the extent of international tourism – as hotel managers estimate that nearly 80% of visitors are leisure tourists to Lalibela.

The key source markets for Lalibela are Europe (64%), 13% from the US, 2% other African and 8% other international - with domestic travellers making up about 16% of bed-nights.

Analyses of leisure tourism in Africa often have a blind spot when it comes to domestic tourism. The 140,000 pilgrims that visit Lalibela for the Epiphany celebrations in January are mainly poor and spend little money in Lalibela on food or accommodation – but they are tourists. Interestingly, the Department of Tourism has just started collecting information on domestic tourists visiting the churches. The first year of data suggests that there are about half as many 'regular' domestic tourists as international tourists in Lalibela – so, far from an insignificant tourist flow, domestic tourists are an important source of demand for the town.

Figure 3: Tourist numbers in Lalibela


Source: Department of Tourism, based on church entrance pass sales for international tourists

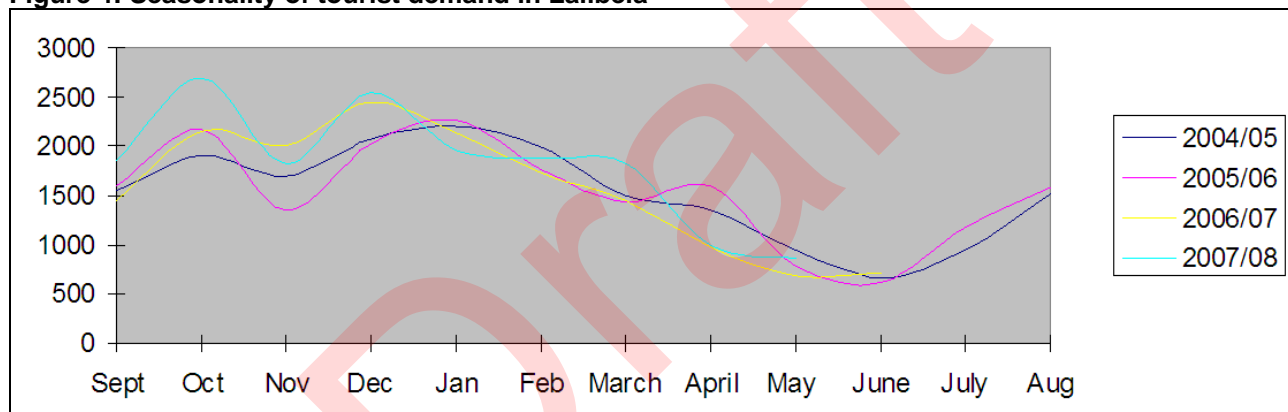
International and domestic tourists tend to stay in accommodation at contrasting prices. The highest quality hotels in Lalibela are used 80%-90% by international tourists spending about \$48 per person per night on accommodation. By contrast, hotels predominantly serving the domestic market cost about \$7 per night. Even where Ethiopians stay in the same hotel as internationalers, the dual pricing arrangement means that domestic tourists spend about one-third as much as international tourists for the same facilities.

There is a marked seasonality to tourist demand in Lalibela. Figure 8 suggests that the pattern of this trend has remained relatively stable over the past four years. For about seven months a year, from September to March – international arrivals are relatively high – exceeding about 1,500 visitors a month in recent years. Within this high season plateau, there are clear peaks in October and December. This is followed by a five month low season with 500 – 1,500 visitors a month. The trough of the low season is in June.

This seasonality has consequences for occupancy rates in Lalibela – which currently averages a relatively modest 52% annual room occupancy. This is a concern, particularly given the near-doubling of hotel accommodation in the next two to three years.

Recommendation 2: *Lalibela should be actively marketed to source markets that travel during the summer months and are sensitive to the level of overcrowding during the traditionally busier times of year.*

Figure 4: Seasonality of tourist demand in Lalibela



Source: National Tourist Information Office & Department of Tourism

As a result of this differential accommodation spend; the free entrance for Ethiopian nationals to view the churches; and the almost exclusive sale of crafts to international tourists dominate tourist spending in Lalibela.

From interviews with a range of tourist suppliers (hotels, guides, crafters, restaurant, church, etc), the following expenditure patterns are estimated for the average trip to the destination of 2.2 days. Tourism is worth about \$3.6m to Lalibela with each international and domestic tourist spending about \$169 and \$13 for each trip respectively. So, whilst domestic tourism is important to Lalibela, 94% of spending is from internationalers.

Table 5: Composition of \$3.7m annual tourist expenditure in Lalibela

Item:	International tourists spending			Domestic tourist spending			All tourist spending		
	Per visit	Per day	Per year	Per visit	Per day	Per year	Per visit	Per day	Per year
Accommodation (1)	\$106	\$46	\$2,224,551	\$15	\$7	\$145,149	\$77	\$34	\$2,369,700
Excursions									
- Church entrance (2)	\$20	\$9	\$420,500	-	-	-	\$14	\$6	\$420,500
- Guides (3)	\$6	\$3	\$133,500	-	-	-	\$4	\$2	\$133,500
- Excursion transport (4)	\$2	\$1	\$34,962	\$2	\$1	\$16,078	\$2	\$1	\$51,040
Sub-total	\$28	\$13	\$588,962	\$2	\$1	\$16,078	\$20	\$9	\$605,040
Craft (5)	\$13	\$5	\$266,000	-	-	-	\$9	\$4	\$266,000
Food & beverages (6)	\$14	\$6	\$303,000	\$3	\$1	\$27,440	\$11	\$5	\$330,440
Airport transfers (7)	\$3	\$1	\$71,130	\$3	\$1	\$32,710	\$3	\$1	\$103,840
Total	\$164	\$71	\$3,453,643	\$23	\$10	\$221,377	\$140	\$61	\$3,675,020

Notes:

- Hotel surveys indicated average room rate in hotels serving the international market is \$46 p/p/p/night and in predominantly domestic hotels \$7 p/p/p/night multiplied by an average length of stay of 2.2 days reported by hotels and 21,026 international and 9,644 domestic leisure tourists (based on entrance to the rock churches). Although about 22% of tourists visiting Lalibela are business tourists, almost all of them visit the rock churches – so are captured by these church entrance statistics;
- The Church is reluctant to disclose recent earnings from church entrance. However it is not difficult to define the minimum figure, by applying the 200 ETB entrance fee to 21,026 international tourists would raise \$420,500. This figure is cautious as additional charges, such as for using video cameras, are applied to tourists. Ethiopian nationals do not pay to visit the rock churches;
- Lalibela has a well-organised Guides Association with 89 members. Typically, guides are paid a fee of \$15 a day and each work for an average of 100 days a year – guides report that they rarely work for domestic clients;
- Transport surveys indicated total spending on excursion transport of some \$51,040 per year. This expenditure is apportioned to international and domestic tourists in proportion to their arrival numbers;
- Interviews with crafters point to annual retail craft sales of \$266,000 in Lalibela from the 54 retail outlets in the town. Craft retailers reported that almost all sales were to internationalers and the Diaspora;
- Food and beverage sales in the six hotels used by almost all international tourists total \$303,000, implying \$14 for each international tourist. The hotels used by predominantly domestic tourists have low F&B sales. To these were added the sales of two restaurants used by many domestic tourists, John Café and Tebi Ber which raises sales to \$27,440, or \$3 per tourist; and
- Transport surveys suggest an airport transfer market of \$103,840 a year – this total was apportioned between the 30,670 international and domestic tourists in proportion with their numbers. Lalibela has no internal taxi service.

Axum

Tourist flows in Axum are similar to those in Lalibela in terms of the total number of visitors (adding together international and domestic visitors). However, in almost all other respects tourist flows in Axum contrast strongly with those in Lalibela.

First, Lalibela is dominated numerically - as well as economically - by international visitors. Axum has only half as many international tourists but almost twice as many domestic tourists as Lalibela.

Second, as a result of a more domestic-orientated tourism in Axum and the much shorter length of stay (1.0 days rather than the average of 2.2 days in Lalibela), tourist spending is correspondingly much lower. The tourism value chain in Axum is about one-third the financial size as in Lalibela.

Figure 5: Tourist numbers in Axum (European calendar)

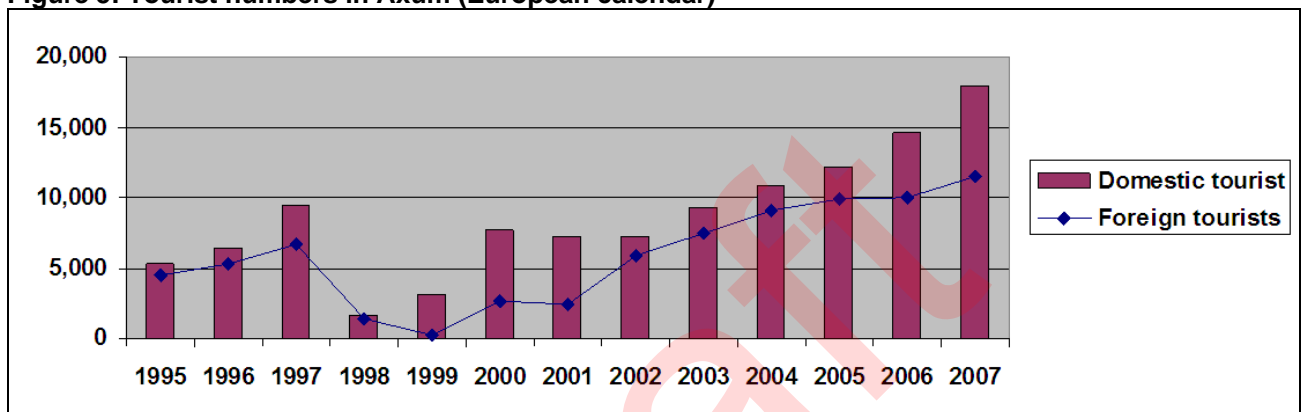
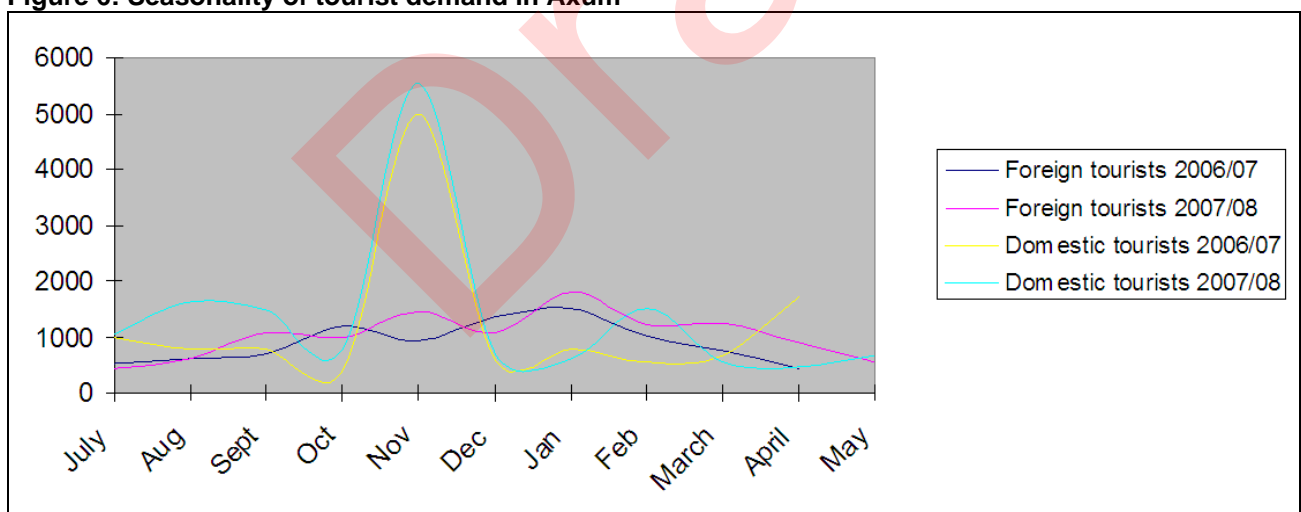


Figure 6: Seasonality of tourist demand in Axum



Tourism statistics are reasonably accurate in Axum because, like Lalibela, the figures are derived from ticket sales to see the Stelae. It is likely that this captures almost all leisure tourists in Axum – but could exclude some business travellers who might not visit these historic structures.

Table 6: Composition of \$2.2m annual tourist expenditure in Axum

Item:	International tourists spending			Domestic tourist spending			All tourist spending		
	Per visit	Per day	Per year	Per visit	Per day	Per year	Per visit	Per day	Per year
Accommodation (1)	\$51	\$23	\$578,965	\$9	\$4	\$406,235	\$32	\$14	\$985,200
Excursions									
- Church entrance (2)	\$4	\$2	\$42,000	\$0	\$0	\$1,500	\$1	\$0	\$43,500
- Guides (3)	\$1	\$0	\$6,500	-	-	-	\$0	\$0	\$6,500
- Excursion transport (4)	\$1	\$1	\$15,100	\$1	\$0	\$23,860	\$1	\$0	\$39,050
- Stelae (5)	\$5	\$2	\$57,210	\$0	\$0	\$4,375	\$1	\$1	\$61,585
Sub-total	\$11	\$5	\$120,900	\$1	\$0	\$29,735	\$3	\$1	\$150,635
Craft (6)	\$26	\$12	\$300,000	-	-	-	\$6	\$3	\$300,000
Food & beverages (7)	\$21	\$9	\$237,000	\$11	\$5	\$485,983	\$13	\$6	\$722,983
Airport transfers & other transport (8)	\$1	\$0	\$10,055	\$1	\$0	\$37,825	\$1	\$0	\$47,880
Total	\$109	\$50	\$1,246,920	\$22	\$0	\$959,778	\$57	\$25	\$2,206,698

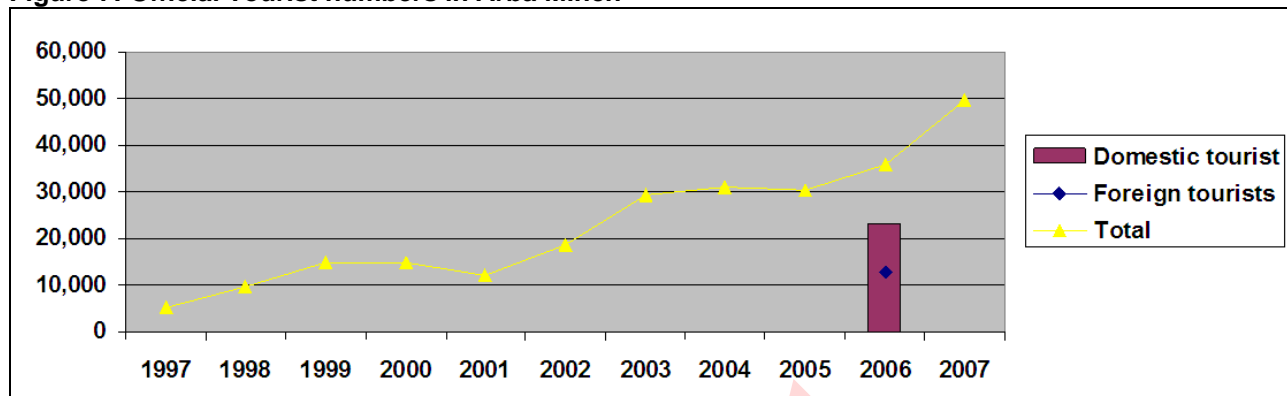
Notes:

- Hotel surveys indicated average room rate in hotels serving the international market (Yeha, Africa and Ramhai Hotels) is \$23 p/p/night and in predominantly domestic hotels a \$4 p/p/night room rate is typical. Multiplied by an average length of stay of 2.2 days reported by hotels and 11,442 international and 17,961 domestic leisure tourists (based on entrance to the stelae field). Most tourists visiting Axum are business tourists (some 58%), it is thought that many of them do not visit the stelae – so are not captured by the Office of Public Accounts figures. For this reason the number of domestic leisure tourists arriving in Axum is inflated by 58% - to 42,800 arrivals per year to estimate the true domestic tourist inflow;
- In 2007/08 the Church estimate 7,000 internationalers (about 60% of the total) visited the Church, paying 60 ETB per person equals \$42,000 revenue. 1,564 domestic visitors (about 9% of domestic leisure tourists) in 2006/7 paid 10 ETB per person – raising \$1,500 revenue;
- Axum has 40 trained guides, of whom only 25 earn some funds from guiding and only 6 are active. Guides estimate only about 650 days guiding work in Axum each year – which averages 108 tour groups a year at \$10 a day. This equates to \$1,100 a year for the six active guides and a total of \$6,500 for guiding sector in Axum;
- Transport interviews in Axum indicated that the excursion market has a turnover of about \$39,100 a year in Axum – this expenditure has been apportioned to international and domestic leisure tourists in proportion to their numbers;
- The Office of Public Accounts sells entrance tickets for the stelae and collects revenue figures disaggregated for international and domestic tourists in terms of tourist numbers and revenue;
- The survey of crafters indicated retail sales of \$300,000 a year, almost entirely to international tourists;
- Hotel and restaurant surveys estimated annual F&B sales in Axum at \$722,983. Identifying the amount spent by international tourists is not problematic because their expenditure is concentrated in the three international standard hotels. The remaining expenditure was allocated to the domestic tourist sector; and
- Spending on airport transfers and intra-urban transport (tuk-tuks) is \$47,880 and is allocated to international and domestic (leisure and business) in terms of their numbers.

Arba Minch

It is difficult to establish tourist flows in Arba Minch because the official tourist statistics are very inaccurate. The official picture, presented below, presents a picture of reasonable growth in tourism arrival numbers over the past decade.

Figure 7: Official Tourist numbers in Arba Minch



Source: Arba Minch tourist office statistics

The problem is that the empirical basis of these figures is very weak. The official visitor numbers for 2006 from the Arba Minch tourist office are 35,779 – our best guess is 27,196 tourists. The official statistics are based on number of tourists reported by hotel management to be staying at 7 hotels (Bekele Molle, Swanes, Arba Minch Hotel, Abaayaa, Kairo and Arba Minch Tourist hotels and the Abyssinia Pension). To these are added the number of visitors to the Nech Sar National Park the Crocodile Ranch, the Crocodile Market, car rental company and souvenir shop. The problems with this approach are:

First, hotel visitor numbers reported to government are too low. Guest numbers are collected from seven hotels which cover only 70% of hotel beds in Arba Minch – so 30% of tourists are ‘lost’.

Second, the official statistics include significant double counting. A tourist who stays in the Swanes Hotel and visits the Nech Sar Park and the Crocodile Market is counted as three tourists.

Third, the official statistics are very inaccurate. Hotel managers, concerned about reporting their true business volume to the tax authorities, appear to engage in a significant level of under-reporting. The visitor numbers of the Crocodile Ranch and Nech Sar Park held by the tourism department are highly inaccurate. For instance, visitor numbers to the Crocodile Ranch, Nech Sar held by the tourist department for 2006 are 11,765 and 7,111 respectively and the numbers held by the management of these government-owned attractions themselves are 6,939 and 12,694 respectively.

The most inaccurate figures in the whole analysis are tourist revenue which the local tourist office estimate at \$159,680 and our analysis suggests is over \$2m per year.

Table 7: Composition of \$2.02m annual tourist expenditure in Arba Minch

Item:	International tourists spending			Domestic tourist spending			All tourist spending		
	Per visit	Per day	Per year	Per visit	Per day	Per year	Per visit	Per day	Per year
Accommodation (1)	67	25	513,718	19	7	362,882	29	12	876,600
Excursions									
- Nech Sar entrance (2)	8	3	63,500	0	0	6,500	2	1	70,000
- Crocodile Ranch entrance (3)	1	0	7,100	1	0	22,200	1	0	29,300
- Crocodile Market (4)	11	4	84,500	0	0	0	3	1	84,500
- Guides (5)	1	0	9,828	1	0	9,828	1	0	19,656
- Excursion transport (4)	3	1	23,530	3	1	60,510	5	2	84,040
	25	9	188,458	5	2	99,038	16	6	287,496
Sub-total									
Craft (6)	6	2	49,000	0	0	0	3	1	49,000
Food & beverages (7)	36	13	274,400	19	7	369,979	36	13	644,379
Airport transfers & other transport (8)	0	0	0	0	0	0	0	0	0
Total	\$156	\$58	\$1,190,504	\$44	\$16	\$831,899	\$90	\$35	\$2,022,403

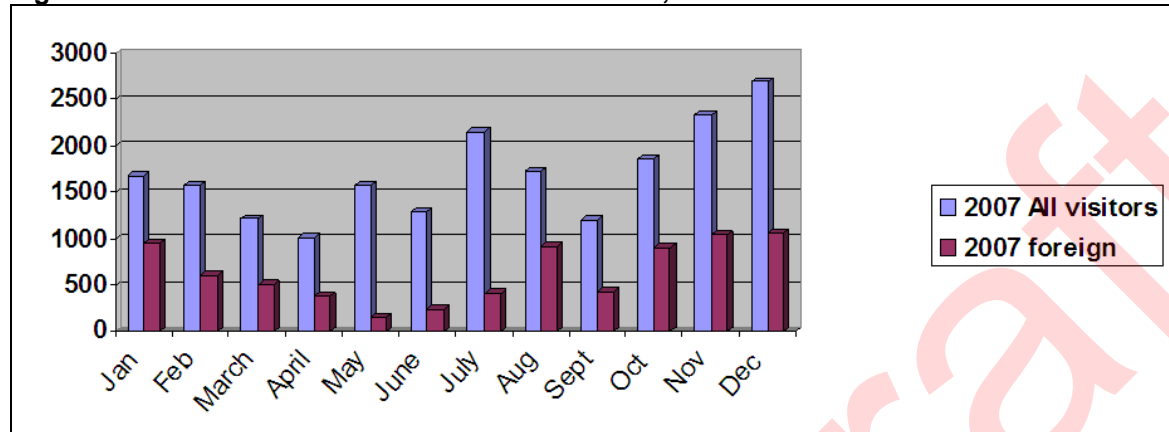
Notes:

- Hotel surveys indicated average room rate in hotels serving the international market (Bekele Molle, Swanes and Paradise Lodge Hotels) is \$25 p/p/p/night and in predominantly domestic hotels a \$6 p/p/p/night room rate is typical (unusually, though there are signs of a higher income leisure market with Arba Minch Tourist Hotel being 90% leisure and 90% Ethiopian guests and \$10 p/p/p/n, together with the more usual \$4-\$5 p/p/p/n accommodation). Multiplied by an average length of stay of 2.7 days reported by hotels and 7,632 international and 10,369 domestic leisure tourists (based on entrance figures to the Nech Sar National Park in 2006/07 – with the visitors from Arba Minch excluded from the domestic tourist figures). Many tourists visiting Arba Minch are business tourists (some 47%) and few of them would be reflected in the National Park entrance figures. For this reason the number of domestic leisure tourists arriving in Arba Minch is inflated by 47% - to 19,564 arrivals per year to estimate the true domestic tourist inflow;
- In 2006/07 Nech Sar National Park collected which equated to \$70,000 revenue at current exchange rates (ETB 695,419). Park entrance is \$10 (ETB 110) for internationalers and \$1 (ETB 10) for domestic visitors. Applying these entrance fees in proportion to the 7,632 international visitors and 7,392 domestic tourists who are not students implies the revenue source was divided between internationalers and domestics on a roughly 10:1 basis – so \$63,500 from international tourists and \$6,500 from domestic tourists;
- The Crocodile Ranch is a government-owned crocodile farm. Most recent records are for 2006, when there were 6,939 visitors which raised \$29,200 revenue from the gate. International tourists pay \$5 (ETB 50) and domestic tourists \$4 (ETB 40) and much less for concessions (students and local people) – so the average gate revenue of \$4.2 per tourist implies a ratio of four domestic visitors for each international tourists – i.e. 5,551 domestic tourists raising \$22,200 gate revenue and 1,388 international tourists raising \$7,100 gate revenue. The farm also generates revenue from the sale of crocodile skins. In 2006 the sale of 742 skins raised just \$19,930 (\$27 per skin) due to the poor quality of the product;
- The Crocodile Market is an excursion involving a road transfer to Lake Chamo and a 1½ hour boat trip to view the birds, hippos and crocodiles on the lake shore. Interviews with boat owners suggest that the Guides Association (2 boats) and Fishers Association (9 boats) generate about 1,300 trips per year with an average of 6 passengers per trip (implies about 7,800 tourists) – almost all of whom are internationalers. The average fare for a six person trip is \$65 (ETB 650) – so total annual revenue is some \$84,500.
- Arba Minch has 14 guides in the 'See Us Arba Minch Tour Guide Association'. Their average fee is \$12 per day and typically they have 7 trips a week in the low season (April to Sept) and 8 trips a day in the high season (October to March). Assuming an average trip length of one day – this equates to 1,638

trips a year (117 trips per guide per year) and a total revenue of \$19,656 (\$1,404 per guide per year). Guides estimated that spending on guides was fairly equally split between international and domestic tourists;

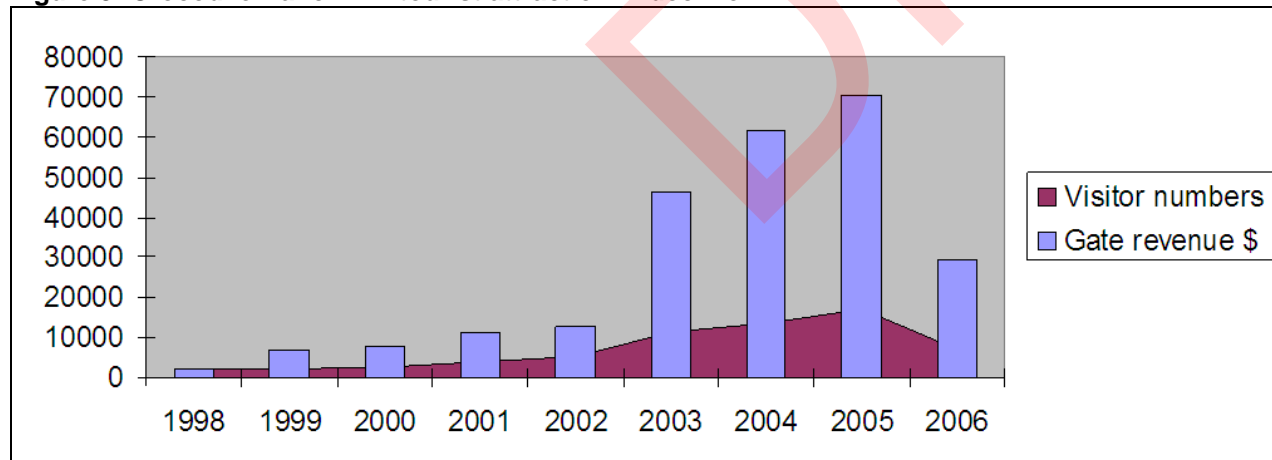
6. Transport interviews in Axum indicated that the excursion market has a turnover of about \$84,040 a year in Arba Minch – this expenditure includes taxis and buses transporting tourists within town, to the nearby attractions of Nech Sar and the Crocodile Ranch / Market as well as the more distant Chencha and Dorze. This revenue has been apportioned to international and domestic leisure tourists in proportion to their numbers.

Figure 8: visitor numbers at Nech Sar National Park, 2007



Note: Domestic visitor category includes people from the locality (who are not 'tourists') and excludes business tourists (who are 'tourists')

Figure 9: Crocodile Ranch – A tourist attraction in decline



Source: Statistics from the attraction