



Vietnam Private Sector Support
Programme

Final Report on Participatory
Tourism Value Chain Analysis in
Da Nang, Central Vietnam



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3rd September 2007

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Acknowledgements

This report is mainly summarizing the efforts of a remarkable group of people working together in Central Vietnam. Led by Christian Schoen of the Vietnam Private Sector Support Programme (VPSSP) with support from the authors of this report, the nine person local team was enthusiastic, skilled and hard-working. We acknowledge the achievements of Lam Thanh Binh, Nguyen Thanh Viet; Truong Si Hoai Nhan; Le Hoang Van; Nguyen Ho Quoc Bao; Tran Thi Thu Hien; Le Thi Hang; Ho Mai Anh and Tinh Thi Ly. We also acknowledge the support of our hosts in the Department of Tourism in Da Nang and the European Commission, which finances the VPSSP.

EXECUTIVE SUMMARY

This Report aims to improve the lives of people living in Da Nang, through developing the tourist sector and improving its links to the poor. The Report describes an innovative approach to tourist development – a participatory pro-poor value chain analysis – that was supported by local stakeholders and funded by the Vietnam Private Sector Support Programme. This is probably the first truly participatory tourism value chain exercise ever conducted. Because this exercise was, in many ways, a voyage of discovery, the Report seeks to capture the essential elements of the process – as well as present the findings of the exercise.

The study team completed 50 interviews, ten workshops and detailed hotel, tourist, taxi, and hostel surveys during two missions in Da Nang – one in November 2006 and a follow-up mission in April 2007. This Report includes an analysis of the tourism value chain in Da Nang itself, an outline of the strategic choices facing the sector, and some detailed proposals for addressing these problems.

The Tourism Value chain

The size of the tourism value chain in Da Nang is significantly larger than previously thought, at about \$42m in 2006. This represents a contribution of 5.6% to the economy of Da Nang. The main reason for tourist spending being larger than official statistics suggest is that significant expenditure by tourists is taking place outside the officially-defined ‘tourist’ sector of hotels, restaurants and transport (for instance, craft shops, and informal sector hostels and cafés).

The value chain is currently comprised about 60% domestic and 40% international, even though foreigners spend about 2.5 times as much money each day as domestic tourists. Whilst there are real advantages from balancing foreign tourism with domestic demand, the increasing dominance of domestic tourism in Da Nang reflects the failure to grow international tourism despite rapid growth nationally and in other destinations in the region. Reliance on the relatively low-value domestic sector as the future for Da Nang is risky because it is premised on ever larger numbers of relatively low-yield tourists. The feasibility of this strategy is questioned by the fact that, in 2006, the number of domestic tourists staying overnight in Da Nang fell.

Although domestic tourist demand has been buoyant until recently, it cannot compensate adequately for the failure of Da Nang to attract upmarket tourists (whether domestic or foreign). The importance of this is reflected in the fact that nearly 40% of total accommodation spending in Da Nang is generated by two upmarket hotels – with the rest being generated by some 100 formal sector hotels and 200 hostels. The failure to develop upmarket resorts on the coast has seriously constrained the growth of the tourist value chain in Da Nang.

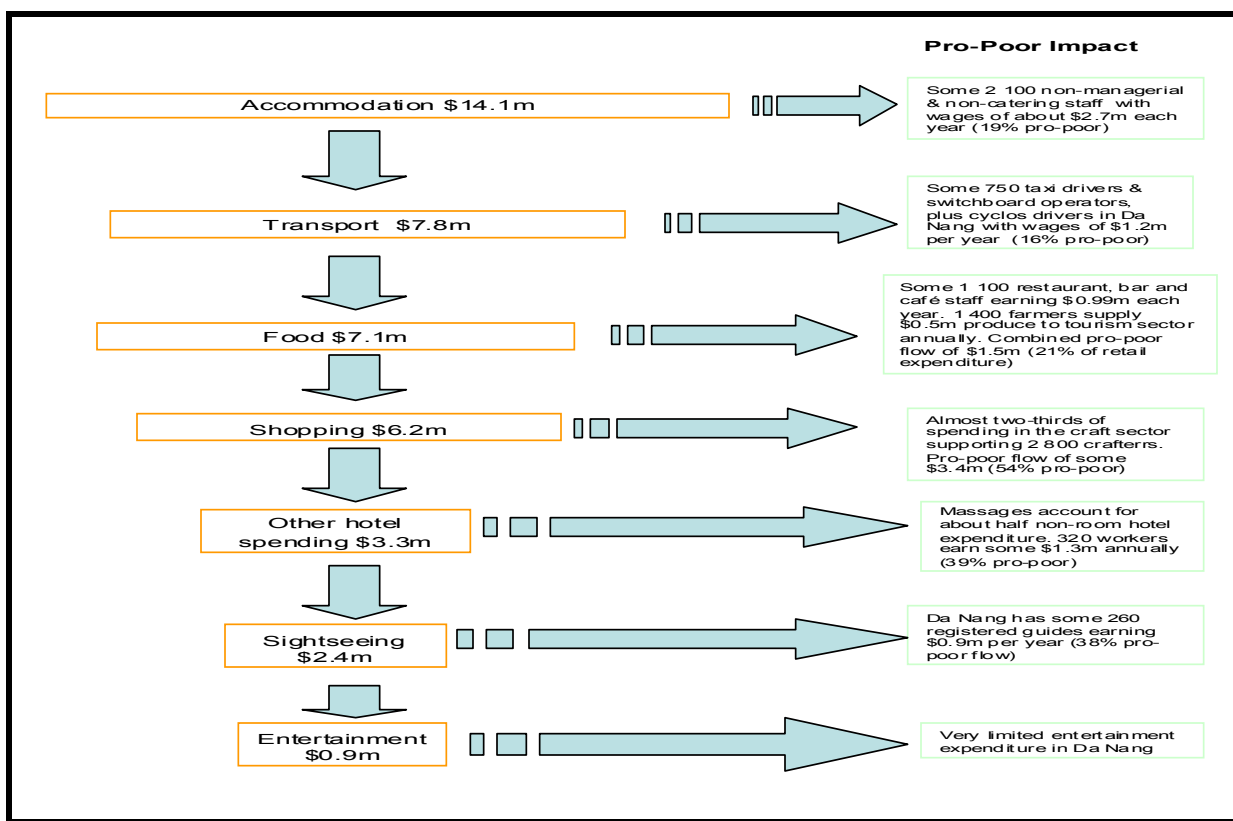
Linkages between the tourist sector and the poor are strong with at least 26% of tourist expenditure in Da Nang accruing to non-managerial workers and entrepreneurs – an estimated figure of \$11m last year. Typical earnings for this category of worker or entrepreneur are about \$100 per month. Whilst this level of income is not regarded as ‘poor’ in Vietnam – it falls below the international poverty line. The finding that about one-quarter of tourist turnover at the destination accrues to the poor compares favourably with existing, admittedly few and far between, international benchmarks.

Da Nang tourism has strong pro-poor linkages for several reasons. First, the direct linkages from tourism to the poor (wages paid to the 4,200 workers and entrepreneurs in tourist sector – such as hotel and restaurant works, taxi and guides) account for over half of all pro-poor benefit flows -

some \$5.8m in 2006. The importance of direct flows reflects the labour market conditions of low unemployment and high demand for labour that increase returns to labour.

Indirect linkages between tourism and people working beyond the tourist sector account for just under half of pro-poor benefit flows - some \$5.1m. This reflects the importance of tourist expenditure on craft and massage and, to a much lesser extent, the downstream linkages between tourism and the local agricultural sector. Interestingly, we estimate that slightly more people rely on tourism for their livelihood through these indirect linkages – about 4,500 workers and entrepreneurs – than the number of people working within the strictly-defined ‘tourist’ sector itself.

Figure 1: The \$42m Da Nang tourism value chain



Using the data from the tourism value chain exercise relating to tourist numbers and expenditure patterns in different segments of the market, it was possible to model the implications of four very different futures for tourism in Da Nang as part of a Tourism Development Strategy exercise. All the financial figures in these scenario exercises are based on current prices.

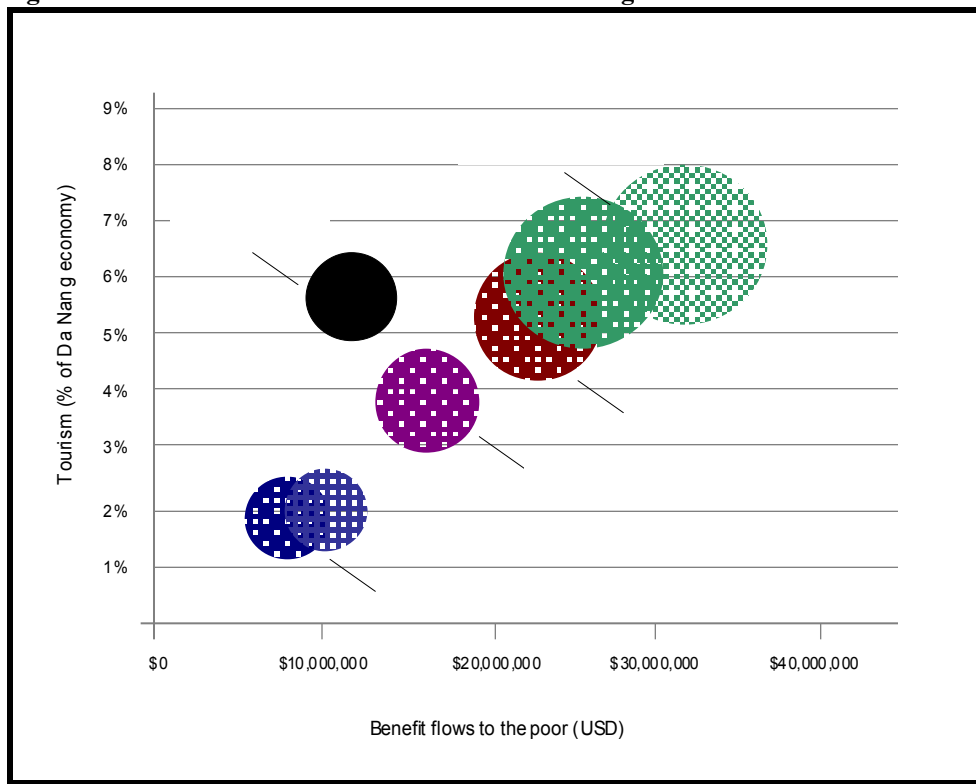
‘Nightmare scenario’ examines the consequence of extrapolating the recent trends in tourism demand in Da Nang. Average annual bed-nights occupancy in Da Nang have reduced over the last two years (2005 and 2006) by -6.4% for international visitors and -4.8% for domestic guests. Extrapolating these negative demand trends to 2012 clearly illustrates the serious consequence of this deleterious scenario. The tourist sector contracts from the current value of \$42m to about \$33m. Given the dynamic growth of the non-tourist economy in Da Nang (averaging 12.9% since 2000), this reduces the current contribution of tourism to the City economy from just below 6% today to

below 2% in just six years. The flow of benefits to the poor also haemorrhages if the current trends continue and fall from about the current level of \$11m per year to an annual figure of \$8m.

In other words, under the 'nightmare scenario' tourism virtually ceases to become an important economic sector for the City in six years. Falls in tourist demand that are as steep and protracted as envisaged under the 'Nightmare scenario' will render many tourist establishments unviable within a few years.

The '**Business as usual scenario**' is a less depressing view of future tourism in Da Nang. It looks at the implications of tourism carrying on very much as it has done for the past six years. This scenario is based on the pattern of tourism demand for the period 2000-2006 – so the very poor results last year are diluted with more positive figures from earlier in the Millennium. International tourist bed occupancy has been languishing for a decade and has declined by an average of 0.5% a year since 2000 - but domestic tourism has grown by an average of 11.4% a year over the same period. So, the question implicit in this scenario is, can Da Nang rely on buoyant domestic demand to drive tourist development in the future? There are some positives. Tourism, driven purely by domestic demand, is projected to grow from \$42m a year to \$66m a year by 2012. However, the non-tourism economy grows even faster, so the contribution of tourism to the City economy shrinks from nearly 6% today to just 3.8% in six years time. In other words, whilst buoyant domestic demand can grow the tourist sector, it cannot prevent a rapid decline in tourism's contribution to the City economy.

Figure 2 Alternative Futures for Tourism in Da Nang



The '**Harness the beach**' scenario works from the 'Business as usual' baseline and illustrates the impact of adding some nine hundred upmarket hotel rooms in six coastal resorts in Da Nang between 2008 and 2010. The scenario is entirely realistic and shows the dramatic impact of implementing the already approved coastal developments on the Son Tra Peninsular and China

Beach. Tourism is projected to grow from \$42m today to \$94m in 2012 and double the flow of benefits to poor people.

This scenario is the first one that allows tourism to almost maintain its contribution to the City economy. Under the 'Harness the beach' scenario tourism should contribute some 5.4% to the Da Nang economy in 2012. The reason that increasing the current room stock by slightly over one-quarter has such an important economic impact is that these rooms generate about \$97 of room revenue – compared with the more standard hotel stock in the City area on average room rates of \$12 per room per night.

Increasing the stock of up-market accommodation does not, however, come at the expense of the poor. The value chain analysis showed that, due to high levels of staffing and the good wages prevailing in 4 and 5 star hotels, increasing hotel revenue does not sacrifice the 'slice' of tourist turnover received by the poor.

In the '**Stay another Day**' scenario, we model the impact of increasing current lengths of stay (1.7 and 1.6 days respectively for international and domestic overnight tourists) from the 'Business as normal' scenario. The effect of tourists spending another day in Da Nang is to raise tourist revenue to over \$100m per year by 2012 – almost two-and-a-half times the current volume of business, and a doubling in pro-poor benefit flows.

These scenarios suggest that the only way that tourism can actually increase its contribution to the economy of Da Nang beyond the current level of nearly 6% is to achieve success on several fronts. First, in the short-term the recent sharp decline in tourism demand must be urgently reversed. Any continuation of the decline in mainstream domestic demand could make the tourist sector unviable in a very few years. Second and in the medium-term, getting the up-market coastal resorts up and running from 2008 to 2010 is essential to making Da Nang attractive to upmarket international and domestic tourists. Finally, the longer-term and difficult task of increasing tourist length-of-stay is the key to increasing tourism's contribution to the economy of Da Nang.

The shadow circles on the 'Nightmare' and 'Stay another day' scenario indicate the impact of increasing local linkages – through doubling the local supply of agricultural goods to the tourist sector and international tourist spending on craft in Da Nang almost doubling to the level of Hoi An. Whilst increasing local linkages does have a positive impact on the contribution of tourism to the economy and the poor of Da Nang, the impact is much more muted than variables influencing tourist demand in the City.

These scenarios suggest that there are three key strategic issues facing tourism in Da Nang, namely the need to:

- Reverse the recent collapse in tourism demand;
- develop the beach; and
- encourage tourists to stay longer.

The report ends with a review of the proposals generated by this study process and the progress achieved in implementing them over the since November 2006.

Getting Involved

This exercise is about getting people involved in the future of tourism in Da Nang. The Provincial Government, Tourism Association and private sector are implementing some of the proposals outlined above and these will become visible over the coming months. Discuss your own ideas for how to encourage tourism with friends and colleagues and give us your feedback at VPSSP Da Nang Office (Tel: 051 1-840013 - Fax: 051 1-840023 - E-mail: vpsspdanang@vnn.vn)



A part of the study team responsible for this Study

1 INTRODUCTION

1.1 Background

The Vietnam Private Sector Support Programme (VPSSP) is funded by the European Commission. VPSSP This Programme aims to reduce poverty and create jobs through the promotion of the private sector in three provinces – one of which is Da Nang Province. Da Nang is located on the coast in Central Vietnam, half-way between the two major cities of Vietnam, the political and administrative capital of Hanoi some 800km to the North and the commercial capital of Ho Chi Minh City (HCMC) a similar distance to the South.

Figure 3 Location of Da Nang Province



The VPSSP Programme plans to utilise sector and value chain analysis as a tool to understand, and improve, the performance of a small number of specific sub-sectors over the next 2-3 years. Tourism has been selected as the first sub-sector in the Da Nang economy to benefit from a value chain analysis.

This Report summarises an innovative rapid participatory value chain analysis process that was used to assess the tourism value chain in Da Nang Province from 6th to 17th November 2006 and a follow up mission from 17th to 27th April 2006.

Da Nang is the third city of Vietnam. It has a population of some 790 000 people and is booming economically – mainly as a result of labour-intensive export orientated manufacturing industry.

The provincial economy in 2005 was estimated at \$743m¹ and has been growing at an annual real average rate of 12.9% since 2001. Combined with modest demographic growth of only about 1.8% per year, this implies very rapidly increasing average incomes.

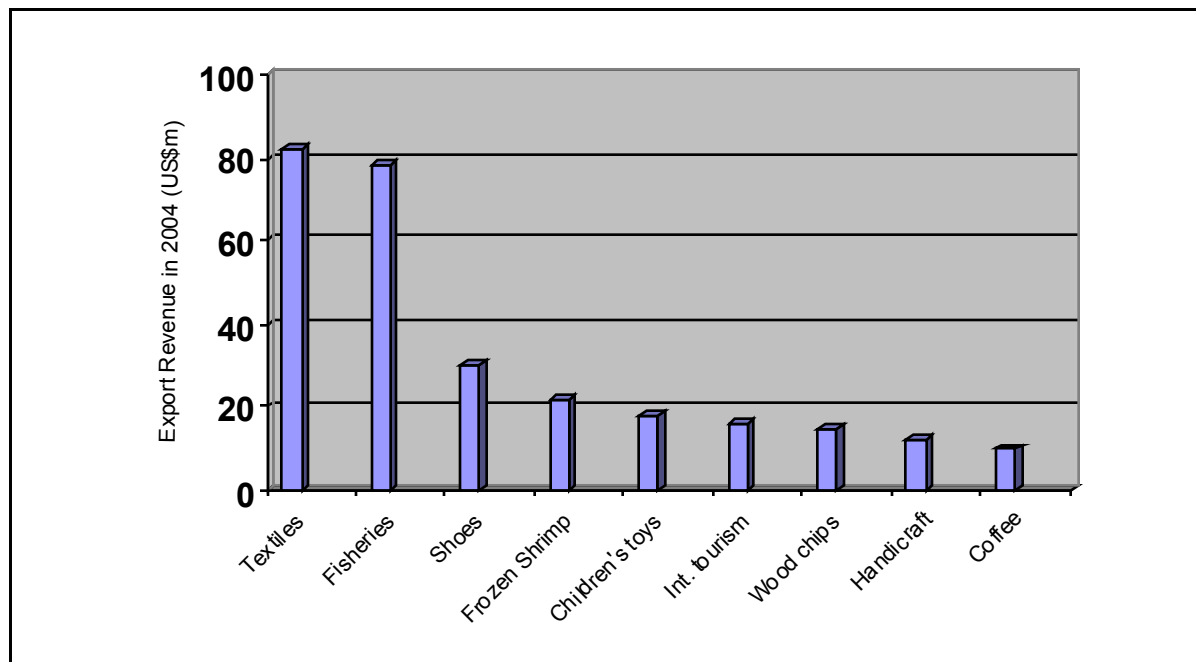
The size of the Da Nang economy equates to an average gross domestic product figure of \$950 per resident each year – which compares very favourably with the average gross national income per capita figure in Vietnam of \$690 in 2006².

1.2 Why tourism?

The rationale for selecting tourism as the first sub-sector to analyse in Da Nang demands elaboration. With international tourism comprising 5% of Da Nang’s total exports – international tourism is worth about \$16m out of a total export basket of \$350m (MCG Management Consulting 2006) – the prioritization of tourism above other more significant sectors of the Provincial economy appears anomalous.

As Figure 4 illustrates, it is certainly the case that, in terms of export revenue, sectors such as textiles, fisheries or shoes are much more significant than tourism. Indeed, international tourism (the part of tourism that constitutes an export) is ranked between children’s toys and wood chips in the Da Nang export profile. The apparent paradox of the People’s Committee identifying diminutive tourism as the lead economic sector for the Province has not been lost on the Vice Director of the Provincial Tourism Department.

Figure 4: Export performance of various economic sectors in Da Nang, 2004



Source: MCG Management Consulting (July 2006) *Economic Potential Study Da Nang*

¹ Da Nang Statistical Office (2006) Da Nang Statistical Yearbook 2005 indicates gross domestic product for Da Nang in 2005 of VND 11.9 trillion, which equates to \$743m

² World Bank (2007) World Development Indicators 2007 Gross National Income per capita

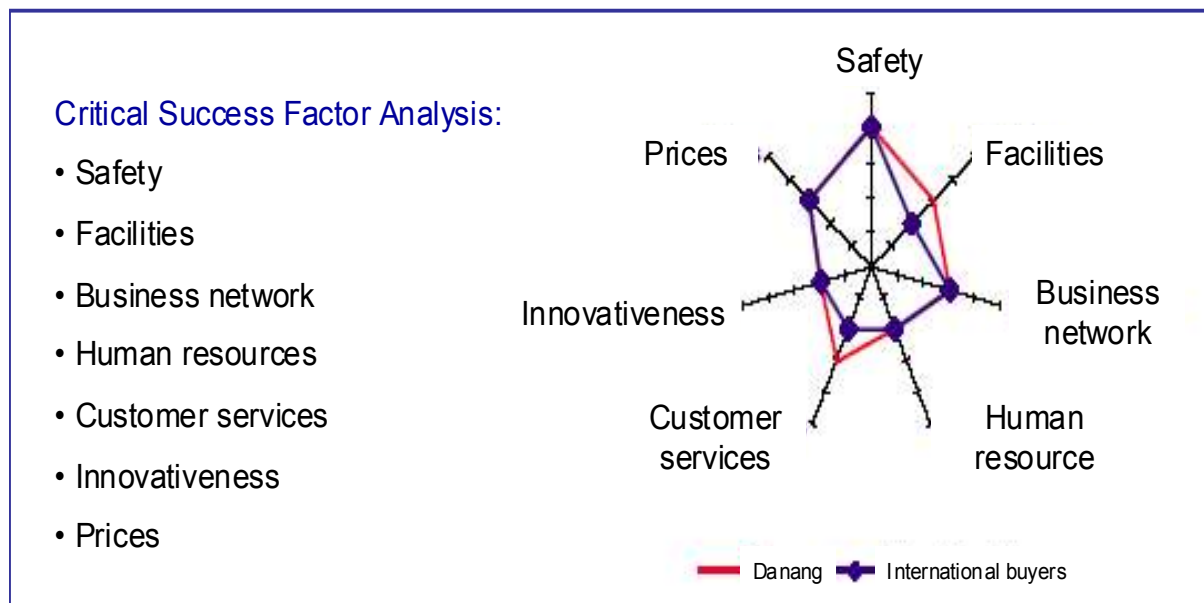
Note: Value of tourism exports is based on estimate that 40% of total tourism value chain of \$42m is derived from overseas tourists

There is, however, a robust rationale for selecting tourism to initiate a value chain exercise. First, looking at tourism only as an ‘export’ excludes domestic tourism. The official definition of ‘tourism’ as the activity taking place in hotels, bars and restaurants and the transportation sector is also restrictive – as the value chain analysis indicates. We estimate that tourists in Da Nang in 2006 contributed some \$42m to the local economy - suggesting that tourism is a much more significant sector in the local economy in Da Nang than Figure 4 suggests.

Second, a comprehensive and robust analysis of Da Nang’s economy assessed the five most promising sectors in the local economy for a value chain intervention (textiles and garments; wooden furniture; fisheries; transportation; and, tourism) against three main criteria:

- relevance to programme indicators (importance of the sub-sector in terms of jobs and SME involvement);
- growth potential (underlying competitiveness of the sub-sector based upon current performance and future potential); and intervention potential (opportunity for project interventions to achieve change at the local level).

Figure 5 Analysis of tourism sub-sector in Da Nang, 2006



Source: MCG (July 2006) Da Nang Economic Potential Study

In this assessment, it was concluded that tourism should be the first-ranked sector. Tourism was assessed as having:

- **relevance:** tourism workforce of 3 225 and 177 Small and Medium Enterprises;

- **growth potential:** Figure 5 indicates that tourism has strong alignment between the perceptions of local producers and international buyers; the sector has strong government support; a high level of private investment and significant impacts flowing from Vietnam joining the World Trade Organisation in November 2006; and
- **intervention potential:** mainly possible at local and regional level; the level of co-operation between enterprises and authorities is expected; and, the sustainability and systemic nature of change are considered achievable.

This study supports the main thrust of the rationale for tourism in the Economic Potential Study. It is shown later that tourism generates many more jobs and enterprises than the official figures suggest. The potential for deliberate intervention to stimulate rapid tourist growth is underlined in the strategy section of the Report.

Third, tourism has lower barriers to entry than many non-agricultural sectors of the economy. The consequence of this, combined with the labour intensity of the sector, is that tourist development often stimulates pro-poor growth (a pattern of economic growth which benefits poor people). As Vietnam is a low income country it is logical to prioritise the selection of an economic sector that has the potential, not only to grow the provincial economy, but also to include poor people as direct beneficiaries in this growth.

It is these reasons which contribute to the robust justification of the choice of tourism for the first value chain analysis under the VPSSP.

1.3 Value chain approach

Value chains are a way of representing the series of transactions from the provision of inputs for a primary product to primary production, transformation, marketing to final consumption and subsequent recycling.

In addition to being a way of representing a sequence of productive processes, value chains can also be:

- a tool to describe the inter-relationships between a range of functional activities, service providers, customers, supporting institutions and supply chains. The need to simplify reality can be fully appreciated with even a cursory view of the complexity inherent in a typical tourism stakeholder map (see Figure 13);
- conceptualized as an institutional arrangement linking and coordinating input suppliers, processors, traders and distributors of a product or service; and
- regarded as an economic model which describes how technology and factors of production may (or may not be) combined to allow producers to successfully access the market.

The tourism value chain developed by participants for Da Nang is described in more detail in Section 3.

1.4 Why Rapid Appraisal?

When local actors embark on a local economic development initiative, they want results, and they need them quickly. Conventional approaches often require a huge up-front investment in terms of time and money.

It often takes a long time to come up with a series of proposals – and these are not always practical and compatible with the local mindset. Rapid appraisal, as a research method, has several distinct advantages over a slower, desk-based approach to research.

First, as a trigger for progressive action by local stakeholders, long duration, desk-based research is remarkably ineffective. However comprehensive and rigorous the empirical analysis involved in detailed research projects, local stakeholders rarely embrace an analysis that they have not been instrumental in shaping.

Second, rapid appraisal can galvanise energy and creativity in the development process. The initial diagnosis should normally take no longer than two weeks with the immediate presentation of findings. In contrast, long lasting conventional research processes sap energy and often fail to engage local stakeholders. In extreme cases, commissioning research studies may provide decision-makers with an alternative to taking action.

Third, external consultants should not dominate a rapid appraisal process. They may play an important role in the first diagnosis, and they must be prepared to back-up local actors later on. In this study the first mission was highly participatory in terms of the research process and the diagnosis. However, the subsequent work which consisting of the implementation of concrete activities, and the subsequent mission in April 2007, was driven by the external consultants working closely with public decision-makers in Da Nang.

Successful local economic development initiatives depend, first and foremost, on the motivation, dedication, and insistence of local actors. Identifying their attitude and motivation for action is a crucial task of a participatory rapid diagnosis, and any practical proposal must closely relate to the capabilities and the motivation of local actors.

Finally, there is no inconsistency between rapid appraisal and strategic thought – as we hope to demonstrate in Section 8 of this Report. In the past, it was thought that Tourism Master Plans were the key tool for strategic thinking in the sector. However, more recently, there has been a growing recognition that Master Plans are sometimes weak in terms of analysing the strategic issues facing the tourist sector. Few Master Plans have made significant efforts to understand either the linkage between tourism and the non-tourist economy or the links between tourism and poor people. Rapid appraisal can interrogate the questions which concern policy-makers and, at least as important, can provide answers within a time-scale that reflects the realities faced by decision-makers.

1.5 Why Pro-Poor?

The aim to reduce poverty through tourist development might seem unnecessary in Vietnam, a Country with one of the most successful records in poverty reduction internationally. For the two decades since the adoption of the *doi moi* economic reforms in 1986, real economic growth has averaged 7% a year – with per capita growth an impressive 5%. The consequence of this has been to reduce the national poverty rate from 58% to 29% in the ten years after 1993³.

Perhaps even more impressive than the economic record has been the steady increase in the human development in Vietnam. The consequence of this is that Vietnam has a level of human development that exceeds that observed in several of her middle-income neighbours.

In addition to the objective economic success and human development performance, poverty features in very few discussions in Vietnam – with public officials, street vendors, hotel owners or taxi drivers. This subjective observation could reflect several factors.

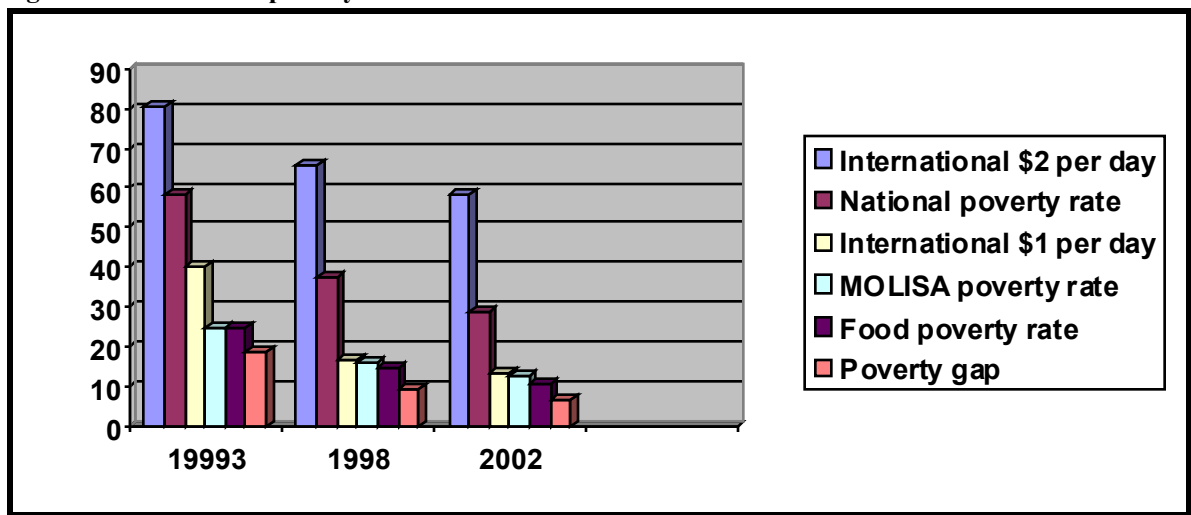
³ World Bank *et al* (2004) Operationalising Pro-Poor Growth A Country Case Study on Vietnam

After the trauma of the American War and economic collapse in the mid-1980s, it could simply be a human need to see poverty as a feature of the past and rather focus on a brighter future. Poverty is not mentioned because people do not want to be poor.

Despite Vietnam's dynamic growth performance it is still a poor country – ranked 169th in the world according to a national income per head figure of \$690 in 2005⁴. A remarkable feature of Vietnam that is not captured in these economic data is the considerable social capital of the population. Taking the Human Development Index (which assesses the health and education of a population as well as its income) Vietnam's international rank jumps to 109 – well ahead of middle income countries such as South Africa⁵. Notwithstanding the rapid decline in poverty (however measured) and the considerable social capital of the population, it is important to keep a focus on the distributional aspects of growth strategies in Vietnam.

The fact that the official poverty rate in Da Nang is just 7% reflects the low level of the national urban poverty rate (VND 300 000 or \$18 per household per month) – rather than the prosperity of its citizens. As Figure 6 illustrates, defining who is 'poor' in Vietnam is problematic. Restricting ourselves to income poverty, the poverty rate in Vietnam in 2002 ranges from 58.2% to 6.9% - depending on the choice of poverty line against which people's livelihoods are measured.

Figure 6 Indicators of poverty in Vietnam 1993 to 2002



Source: World Bank (2004) *Operationalising Pro-Poor Growth: Country Case Study of Vietnam*

In this pro-poor analysis we have defined the 'poor' as non-managerial workers. This implies a poverty threshold which most closely approximates the international \$2 per day rate. From our surveys in Da Nang an average non-managerial wage is about \$93 per month across several categories of employment (from hotel and restaurant workers to taxi drivers and pavement café workers). For single person households, this income is sufficient to lift the household out of even the most generous definition of poverty. However, for the households comprised of two or more people, a wage of \$93 per month is insufficient to lift the household from poverty.

⁴ World Bank (2007) World Development Indicators 2007

⁵ UNDP (2006) Human Development Report 2006

1.6 Structure of report

This Report summarises the series of activities that took place under the VPSSP from 6th to 17th November 2006 and the way forward emerging from this process.

The Report is structured to highlight the key elements of this analysis, including:

- Establishing the rationale for the process by placing tourism and the value chain approach in context;
- providing an overview of tourism in Vietnam;
- outlining the rapid, participatory value chain analysis process;
- outlining the analysis of the tourism sector in Da Nang;
- defining a tourist development strategy for Da Nang;
- highlighting the proposals; and
- defining an action plan to initiate the change process.

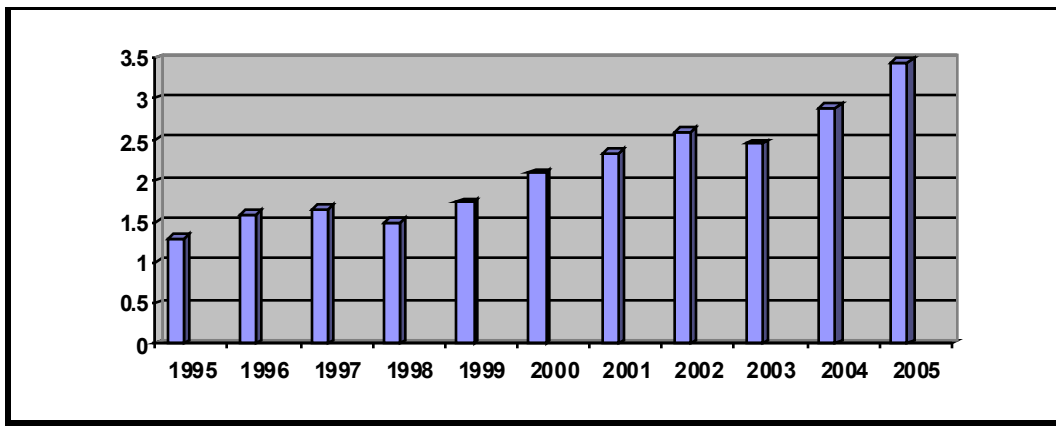
As this bringing together of participatory LED techniques and more conventional empirical value chain analysis is highly innovative, we have left space in this Report to reflect upon the lessons learned by the team from the processes to share with participants.

2. OVERVIEW OF TOURISM

2.1 Tourism demand

There has been reasonable, if slightly erratic, growth in international tourism in Vietnam over the past decade. Foreign arrivals have increased from 1.3m in 1995 to 3.5m in 2005 – an average annual rate of growth of 10.3% over the decade.

Figure 7 International arrivals in Vietnam in 2004 (millions)



Source: World Economic Forum (2007) *The Travel & Tourism Competitiveness Report 2007*

The Vietnam National Tourism Administration anticipates 4.4 million international tourist arrivals in 2007. Positive growth factors for Vietnamese tourism from international markets are illustrated in the Box below.

Box 1 Positive growth factors for international tourism in Vietnam

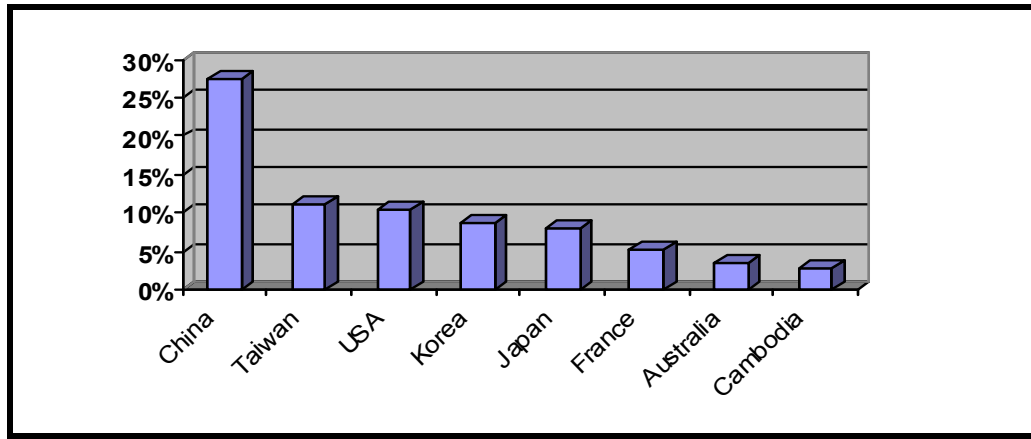
- Vietnam is considered to be a safe and peaceful destination with stable national policies
- Improving relationship with the United States and American Airlines services to five US cities
- Free visas for arrivals from Japan and South Korea
- Successful tourist campaigns of Vietnam National Tourism Administration (VNAT) and government
- Significant infrastructure investment over the past four years
- Significant foreign direct investment in tourism

Source: Euromonitor (June 2005) *Travel and Tourism in Vietnam*

An analysis of international arrivals to Vietnam illustrates the large and rapidly-growing importance of the Chinese market, which accounted for over one-quarter of all international arrivals in 2004.

More recent arrival statistics from 2006 indicate no change of this dominance. This has a particular impact on Northern Vietnam, which is a more accessible part of Vietnam to the Chinese market. Taiwanese arrivals have also almost doubled since 1999.

Figure 8 International arrivals in Vietnam in 2004



Source: Euromonitor (2005) *Travel and Tourism in Vietnam*

The United States has long been a significant source market for Vietnam. However, interestingly, the 1st, 2nd, 4th, 5th and 8th rank source markets are all Asian countries. The rapid increase in visitor numbers to Vietnam from more affluent Asian countries will have important consequences for the tourist sector.

For instance, whilst there is concern in the minds of some tourist stakeholders about a huge volume of low-value Chinese tourists ‘swamping’ Vietnam, tourist expenditure surveys demonstrate that visitors from Singapore have a higher daily tourist spend than any other nationality – including the Americans and all Europeans. Aside from the Chinese market – which because of its size, potential and other characteristics is in many respects rather unique – the existence of this rapidly growing and high-spending Asian regional market, raises exciting tourist opportunities that complement the burgeoning domestic and traditional international markets in the US and Europe.

From the analysis of source markets, it is unsurprising that about 60% of international arrivals are by air. Arrivals by sea are rising rapidly – as are arrivals by land from neighbouring states.

The most significant international tourist flows in Vietnam are in the South (through the HCMC gateway) at about 45% of arrivals and the North (through Hanoi) at about 40% of arrivals). Only about 15% of international arrivals are in Central Vietnam⁶, which is the location of our study area at Da Nang.

The purpose of visit for international arrivals at Vietnam is well-diversified. About half arrivals are for leisure purposes and the rest are split fairly evenly between business and visiting friends and relations. This diversity of motivations to travel is important because it indicates different types of tourist flow with contrasting seasonal characteristics, sensitivities and choices of destinations within Vietnam.

⁶ JICA (February 2002) *Comprehensive Study on Tourist Development in the Central Region of the Socialist Republic of Vietnam*

Domestic tourism is already important in Vietnam, and looks set to become more so. In 2004, domestic tourist spending was \$1.8bn (VND29.5 trillion) edging ahead of the \$1.6bn (VND26 trillion) for international tourist receipts⁷. The prominence of domestic tourism in Vietnam is virtually unique for a low income country and hugely significant for Da Nang. In 2004 Vietnam generated 19.8m domestic trips – about seven times more than the number of international inbound trips. However domestic trips are typically short from one to three days – perhaps reflecting the relatively limited leave entitlement of 12 days annual leave and 8 days public holidays for most employees.

Domestic tourism grew 23% in 2004 compared with 2003 and 126% compared with 1999. In order to reduce the outflow of foreign exchange resulting from outbound tourism, the Vietnamese Government is encouraging domestic tourism. Tourist events such as the Tourism Year of Dien Bien Phu, Festival Hue 2004, the Road of Central Heritages and Ho Chi Minh Trail, Hoi An Ancient Town, My Son-Holly Land of Champa and Phong Nha-Ke Bang have attracted very large numbers of domestic visitors. This is obviously important economically, but is also critical in enabling Vietnamese citizens to discover and understand their own Country. The enormous potential for future growth of Vietnamese domestic tourism is indicated by the fact that, on average, one out of every six Vietnamese people takes one trip each year.

2.2 Tourism supply

The supply of tourist accommodation is growing rapidly in Vietnam in response to the increase in arrivals and the prioritization of the tourism industry as a key foreign exchange earner.

In June 2004 there were approximately 3 800 hotels in Vietnam with 130 000 rooms. The Vietnam national Administration of Tourism (VNAT) estimates that an additional 50 000 more hotel rooms are needed in the next five years to cater for the 31 million tourists expected in 2010 (comprising six million international arrivals and 25 million local tourists).

To facilitate this expansion of capacity, government is planning a series of tourism investment conferences, investor survey trips and – in coordination with Ministry of Planning and Investment – to bring out special preferential investment policies.

2.3 Enabling environment

Notwithstanding the buoyant growth, a recent analysis cautions that Vietnam's tourism business environment ranking is poor within Asia.

Vietnam is judged to share a high long-term political risk with China and poor business environment with Indonesia. Euromonitor's assessment that Vietnam has stable national policies seemingly contradicts the Business Monitor view that the country has a high level of long-term political risk. This different assessment could reflect the two organisations assessing risk against a different time scale or perhaps focusing on a different kind of risk or simply reflecting the views of different groups of stakeholders. What is more important from our pro-poor tourism perspective is the fairly consistent message across a range of external organisations that there is room to improve the business environment in Vietnam.

⁷Euromonitor (2005) Travel and Tourism in Vietnam

The low ranking Vietnam receives for its tourism receipts and high rank for visitor arrival growth simply reflects the fact that tourism in Vietnam is expanding rapidly from a low base. The investment environment reflects the extent of government, domestic and foreign investment in the tourism industry, relative to the sector's contribution to GDP. The low ranking reflects Vietnam's low investment base from which it is expanding rapidly.

Table 1 Tourism business environment in Asia

Country	Long-term political risk	Business environment	International tourism receipts	Visitor arrival growth	Investment environment	Shock factor	Composite score	Regional rank
India	7	8	3	8	8	8	40	1
Singapore	8	8	4	4	5	2	31	2
Malaysia	5	5	6	2	6	6	30	3
Thailand	6	4	5	7	1	7	30	3
Hong Kong	4	7	7	3	4	5	30	5
China	2	3	8	5	7	3	28	6
Vietnam	1	2	1	6	3	4	17	7
Indonesia	3	1	2	1	2	1	10	8

Source: *Business Monitor International Vietnam Tourism Report Q2 2006*

Note: Low number = poor performance ranking on each criterion

The shock factor captures the special factors that have a heavy bearing on the tourist industry, including vulnerability to natural disasters and terrorism – the middle-ranking reflects the low threat of terrorism being partly offset by health concerns. The headline conclusion of this is that, within an Asian context, the business environment for tourism in Vietnam is needs to be improved.

The value of the World Economic Forum Travel and Tourism Competitiveness Index of 2007 analysis – represented overleaf - is that the analysis places Vietnam in a comprehensive international context of 124 countries and emanates from a very highly-regarded international organisation.

Vietnam performs excellently on price competitiveness with a rank of 10th out of the 124 countries in the Travel and Tourism Competitiveness Index. The Country has good safety and security (rank 51); perception of tourism by the national population (rank 51); and availability of qualified labour (rank 52) and reasonable prioritisation of travel and tourism strategies (rank 76).

Table 2 Travel & Tourism Competitiveness Index, 2007

Criterion	Rank (out of 125)	Score (1-7 scale)
Travel & Tourism Regulatory Framework	84	3.9
○ Policy rules & regulations	104	3.7
○ Environmental regulation	84	3.6
○ Safety and security	51	4.8
○ Health & hygiene	94	3.6
○ Prioritisation of travel and tourism strategies	76	
Travel & Tourism Business Environment and Infrastructure	95	2.8
○ Air transport infrastructure	90	2.5
○ Ground transport infrastructure	85	2.9
○ Tourism infrastructure	121	1.1
○ ICT infrastructure	88	2.1
○ Price competitiveness of travel and tourism	10	5.5
Travel & Tourism human, cultural & natural resources	76	4.6
○ Availability of qualified labour	52	4.5
○ Education and training	82	4.3
○ National tourism perception	51	5.1
○ Natural and cultural resources	84	3.8
Overall travel & tourism competitiveness index	87	3.8

Note: Ranking by each criteria out of a total of 124 countries

Source: World Economic Forum (2007) The Travel & Tourism Competitiveness Report 2007

Most of the other criteria have a rank in the range of 80-90th. Performance needs to be improved, but these rankings keep Vietnam out of the bottom quarter of countries in the Index. Vietnam performs really badly on the following criteria: air infrastructure (rank 90); health and hygiene (rank 94); policy rules and regulations (rank 104); and, tourism infrastructure (rank 121).

2.4 Assessment of issues facing the tourism sector in Vietnam

There are a number of key issues facing the tourism sector in Vietnam, the

- diversified nature of international demand for tourism in Vietnam across Asia, Europe and the United States;
- potential, as well as the risks, of an increasing reliance upon the Chinese source market;

- large and increasing importance of domestic tourism in Vietnam which involves offering visits that are affordable and practical within a three day trip from the two main metropolitan areas;
- need to reduce Vietnam's vulnerability to the vagaries of external shocks that blight the international long-haul tourism market;
- importance of business tourism and visiting friends and relations to complement the leisure travel market;
- evidence of a rapid supply-side response from the accommodation sector to increasing demand for tourist services, but an inadequate tourism infrastructure; and
- aspects of the regulatory framework for tourist development that are adverse, such as poor health and hygiene and very poor application of policy rules and regulations.

3 RAPID PARTICIPATORY VALUE CHAIN ANALYSIS

3.1 The Methodology

3.1.1 What is Participatory Appraisal of Competitive Advantage?

In the narrow sense, Participatory Appraisal of Competitive Advantage (PACA⁸) is a set of diagnostic tools used to assess the competitive advantages and disadvantages of a locality; and to develop concrete and practical proposals to stimulate the local or regional economy (PACA Exercise). In the wider sense, it is a participatory, bottom-up, pragmatic approach to local economic development.

PACA has some specific features. Conceptually it is an innovative recombination of existing tools and methods, including Participatory Rural Appraisal (PRA) and Michael Porter's structuring tools. The approach is based upon a quick and limited fact-finding effort of between one and two weeks. The process is designed to empower local people through training of local stakeholders and the limited involvement of external consultants.

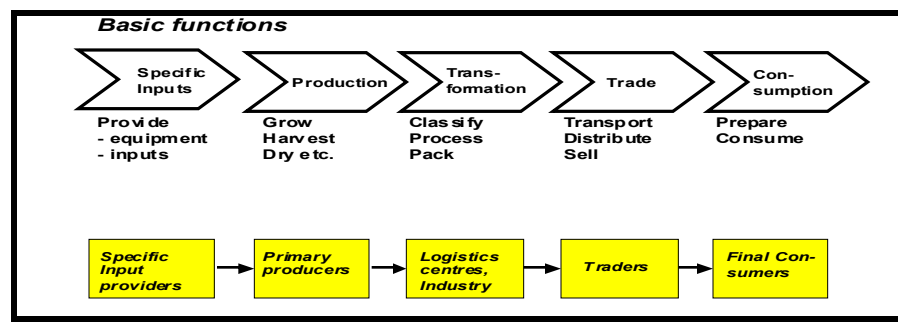
PACA has a strict action-orientation and focuses largely upon market- and business-orientated solutions to development challenges. The focus is upon looking for opportunities to achieve quick, visible results that involve the strong involvement of the private sector – rather than attempting to deal with long-term issues and main bottlenecks.

PACA employs several tools which have been developed in the context of participatory learning and action. Workshops are normally conducted using the Mesocard visualization method along with economic structuring tools. Other tools such as mapping, life-line, and four-field matrices are used to structure discussions.

3.1.2 What is Value Chain Analysis?

A simple product value chain is represented below.

Figure 9 Example of a simple product value chain



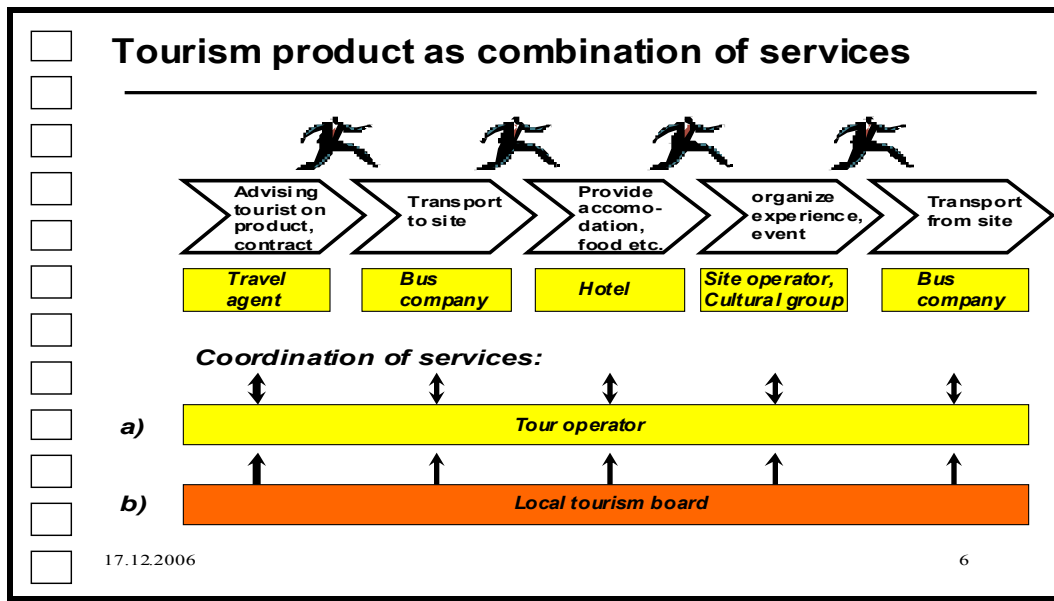
Source: Andreas Springer-Heinze (2006)

⁸ www.paca-online.org

Tourism is, however, not a product – it is a complex set of complementary tourism services. Because services cannot be stored, production and consumption of services are usually simultaneous and take place at a specific geographical location – the tourist destination.

The fact that with the tourism sub-sector the market (tourists) move to the product (the destination) – the opposite pattern to that observed in conventional product value chains – is captured visually by the human figures moving across a range of tourism services in Figure 10.

Figure 10 Tourism as a service value chain



Source

Source: Andreas Springer-Heinze (2006:2)

The full tourism value chain for Da Nang is outlined in Section 4. This proved useful to identify relevant stakeholders, their inter-relationships and organize the participatory investigation of the sub-sector.

To use a value chain mapping technique that is quickly teachable we decided to use GTZ's Value Links mapping approach. Value Links is a modular approach that builds on a set of principles and criteria plus orientation on the choice of available instruments, but is not an overly rigid framework.

3.1.3 Value Chains & PACA

There are some reasons to use PACA in regional value chain initiatives⁹:

Firstly, it is not necessarily useful to contract costly external consultants or researcher to conduct mappings and analyses of regional value chains.

⁹ Jorg Meyer-Stamer (2004) *Regional Value Chain Initiatives: An Opportunity for the Application of the PACA Approach* Mesopartner Working Paper 06

A PACA Exercise can render the necessary results much quicker and at a lower cost. Moreover, it would already involve, mobilize and motivate those players who subsequently would champion practical activities in a given value chain initiative.

Secondly, regional value chain initiatives are up against a variety of obstacles, such as lack of trust between companies and time constraints of business people. For that reason, PACA principles like swift action for quick wins are crucial to convince the players in a value chain that the initiative makes sense.

Thirdly, PACA is a proven method when it comes to connecting companies, supporting institutions and government. It overcomes communication barriers between these different sectors. Especially for government it is often difficult to project commitment and competence to the private sector. PACA can be very useful in overcoming this perception.

Finally, PACA is a methodology that is not only useful to launch a development initiative but also to assess and refocus ongoing initiatives. It can be used both to drive and to monitor and evaluate territorial development initiatives. It thus solves the difficult challenge of introducing monitoring and evaluation into a value chain initiative. PACA approaches have been used to inform value chain analysis (VCA) in developing countries – most recently in the case of fish in Indonesia. However, the PACA approach has not been applied to a service value chain before. Even more striking, the study team believe that this is the first time that a participatory approach has been applied to the development of a tourism value chain anywhere in the World.

This study is, therefore, innovative in the sense of trying to bring together two well-established approaches to local development – PACA and VCA - in a new way to provide deeper insights. Seeking to marry these two approaches is not the only innovative aspect of this study.

Traditionally, PACA approaches rely heavily on collecting and analysing the perceptions and views of local stakeholders. This is critically important and an element of the research method that was retained in this study.



A mini-workshop held during the study process in Da Nang

In addition, the qualitative views of local stakeholders were complemented with more quantitative primary and secondary empirical data sources. In particular, some effort was made to understand and analyse the public statistics collected by the Da Nang Tourist Department and the Department of Statistics.

In addition to the workshops and bilateral interviews with a broad range of tourism stakeholders in Da Nang, the study team undertook detailed surveys of 19 hotels (see Questionnaire in Annex 9); and rapid surveys of 10 hostels; 10 pavement cafes; 17 taxis and 37 tourists at the Cham Museum and Da Nang Railway Station. In addition these rapid surveys are an innovation to both the more qualitative PACA approach and the highly quantitative economic focus of many value chain analyses. What they add to the process is a small amount of empirical data that, whilst often from sample sizes are not statistically significant, provides a basis to 'test' some of the purely qualitative perceptions collected during interviews and workshops.

For example, the perception of public policy makers of 'tourism' is of very much a formal sector activity, comprising of 104 hotels, five main tourist restaurants and 309 taxis. It was only as a result of official secondary statistics followed up with targeted rapid surveys that the importance of informal sector activities such as the 200 hostels, the 6 200 pavement cafes and the scale of the craft sector became apparent to the study team.

It may be a paradox, but a virtue of outsiders looking at a sector in a particular locality is partly the comparative perspective – but also their ignorance of widely-held assumptions that simply are not true. Many tourism stakeholders in Da Nang firmly believe that hostels have nothing to do with tourism but are rented on an hourly basis for 'social evil' (surveys revealed 49% of hostel occupancy was low end business tourism and very much less 'social evil' than in the massage rooms of state run hotels) and that upmarket coastal resorts in Da Nang are inaccessible to domestic tourists (when 30% of room occupancy is due to domestic tourists).

3.2 The Process

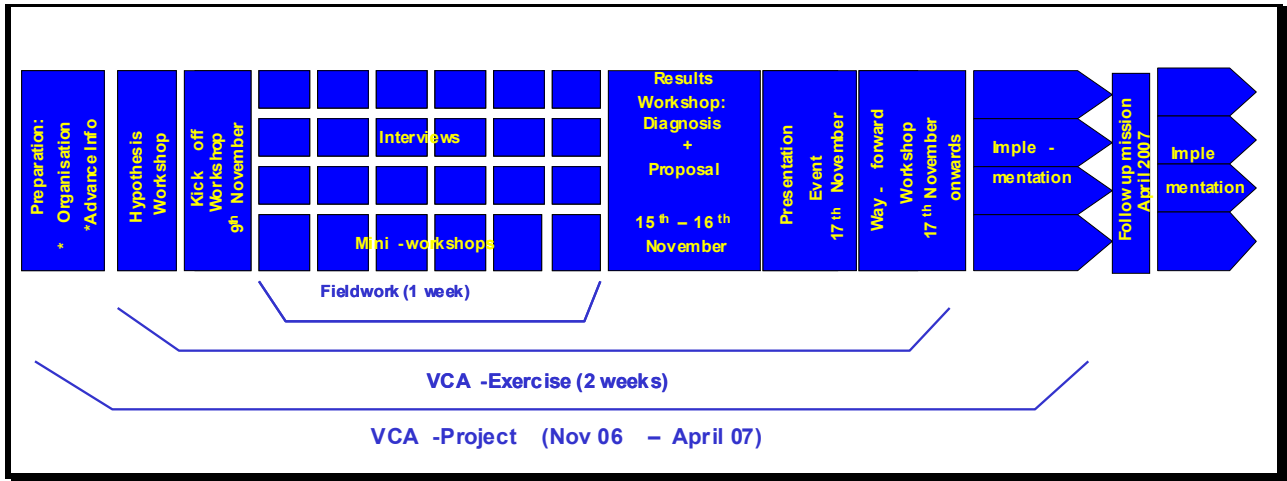
A host motivates and coordinates the PACA. The host can be a government agency, business chamber or NGO. In the VCA Tourism in Da Nang the host is the Tourism Department of Da Nang Province. The PACA team guided the implementation of this study.

The team consisted of four external consultants who are familiar with the PACA method and LED from the VPSSP (Christian Schoen and Truong Si Hoai Nhan) and MCG Management Consultants (Le Chi Phuc) and the Overseas Development Institute (Jonathan Mitchell). Key members of the local team were sourced from the Tourism Department (Nguyen Ho Quoc Bao and Tran Thi Thu Hien); Tourist Association (Le Thi Hang); and other organisations such as GTZ-SME An Giang (Nguyen Thanh Viet); NEDCEN (Le Hoang Van); Can Tho Tourism Department (Lam Thanh Binh). The VCA team members are fully listed in Appendix 1.

The power of this participatory value chain analysis is, however, based largely upon a much larger and more disparate group of stakeholders. These are the various stakeholders who participated in the various workshops, interviews, mini-workshops and presentations. These key players in the study are listed in Appendix 2.

The sequence of activities conducted by the study team in this rapid participatory value chain analysis is described in Figure 11 and the tables below.

Figure 11 Sequence of activities in VCA Tourism Danang



The follow-up mission in April 2007 was extremely important in three respects. First, after analysing the data collected during the first mission, empirical ‘gaps’ were located. The follow-up mission allowed these ‘gaps’ to be filled.

Second, allowing five months to elapse between the first and second missions allowed the team to respecting the absorption and implementation capacity of local actors. Because local stakeholders had some time to absorb the findings and proposals of the initial mission and had benefited from facilitated support between the two missions, the mini-workshops in April with taxi companies and the cluster of activities around the Cham Museum were focused and productive.

Finally, the tourism development strategy was produced during the follow-up mission.

Table 3: The Study Process

<i>Activity</i>	<i>Date</i>	<i>Outputs/Results</i>
Preparation works		
Introduction of Study	September 2006	Tourism Department and Tourism Association expressed their interest in the VCA. <i>Ref:</i> Description of VCA Tourism Da Nang.
Preparation work's assignment for each stakeholder	17 th Oct 2006	Plan and schedule were made. <i>Ref:</i> VCA Schedule Danang Tourism, Requirement Team, Prep Checklist, Advanced Info PACA, List of WS participants interviewees.
Da Nang Tourism information gathering and initial analysis	1 st – 6 th Nov 2006	Research reports on Vietnam Tourism and Danang Tourism were identified, shared and analyzed. <i>Ref:</i> Da Nang Economic Potential Study (MCG), Report on Tourism VDR Final, Matrix Tourism, Tourism SPM, Halong Market Research (VNCI), Tourism Expenditure Survey (GSO), Comprehensive Study on Tourism Development in the Centre Region of Vietnam (JICA)...
Completion of detail plan on PACA sequence and forming VCA team	3 rd Nov 2006	Schedule for PACA sequence was updated; Detail schedule for the hypotheses workshop was made; VCA team was formed. <i>Ref:</i> VCA Schedule V2, Extended Hypotheses Schedule, VCA Team list.
Completion of logistics	6 th Nov 2006	
PACA sequence		
Extended Hypothesis workshop	6 th – 8 th Nov 2006	Team members were trained to acquire key skills and knowledge, in particular facilitation skills, an understanding of LED, value chain perspective, PACA process, and the tourism sector. PACA team was organized in 4 sub-teams. Each sub-team has a combination of external and internal, balance in gender, and seniority. The team also formulated hypothesis and prepared for kick-off workshop.
Kick-off workshop	9 th Nov 2006	VCA team introduced PACA to more than 30 participants representing tourism enterprises, institutions, associations, and authorities of Da Nang. Then four sub-teams facilitated the participants to use Porter diamond model for analyzing Da Nang Tourism. <i>Ref:</i> Kick-off workshop minute
Interviews	9 th – 14 th Nov 2006	There were 37 interviews with representatives of hotels, restaurants, tour operators, transportations, souvenir shops, investors, management of attractions, and supporting institutions. The strengths, weaknesses of each actors, and linkages between them were identified. Interviews' minutes were completed after the interviews and handed in at the end of the next day. <i>Ref:</i> Minutes of 37 interviews.
Mini workshops	10 th – 14 th Nov 2006	4 workshops were conducted with representatives from hotels, tour operators, craft village, and supporting institutions. Sub-teams facilitated the workshops using the 5 forces model and interactive matrix. The mini-workshops provided general information concerning each sub-sector and its links. <i>Ref:</i> 4 mini workshops minutes.
Internal assessment	11 th – 13 th Nov 2006	The PACA team summarized the findings and formed a model for Danang tourism value chain.
Result workshop	14 th – 15 th Nov 2006	The PACA team analyzed collected information, synthesized findings, completed the value chain, prioritized proposals, and prepared for the presentation workshop.

<i>Activity</i>	<i>Date</i>	<i>Outputs/Results</i>
		<i>Ref: 25 proposals were selected.</i>
Presentation workshop	17 th Nov 2006	More than 30 participants attended and commented on findings and 25 proposals.
Meeting with the Host for the follow-up	17 th Nov 2006	Tourism Department and Tourism Association commented on the VCA Tourism operation and outcomes, and expressed their interest in further cooperation with VPSSP in implementing the proposals.
Introductory Meeting with Host	17 th April 2007	Feedback on Draft Report and agree on activities for follow-up mission. Review of work plan for mission
Interviews and surveys	18 th – 22 nd April 2007	Interviews with Department of Tourism (Tourism Promotion Centre and Statistics); VNAT; Taxi drivers; hostel owners; hotel management; craft shops; DOLISA; Departments of Agriculture and Department of Statistics; Civil Aviation Authority; tour operators and restaurants. Surveys with taxi drivers, market stall owners.
Way forward workshop on English skills for taxis	23 rd April 2007	Action Plan was developed in mini-workshop format with representatives of the taxi industry and the Tourism Promotion Centre <i>Ref: Annex 8</i>
Way forward workshop on proposals around Cham Theme	24 th April 2007	Action Plan was developed with Cham Museum management, Apsara Restaurant, Furama Hotel and a tour operator <i>Ref: Annex 8</i>
Internal Strategy Workshop	25 th April 2007	Consultants from VPSSP, MCG and ODI developed strategic elements for tourism promotion strategy in DaNang.
Wrap-up meeting with Dept. Tourism	25 th April 2007	Reported back on findings of mission and next steps
Internal wrap-up meeting	27 th April 2007	VPSSP and ODI

3.3 Assessment of the process

3.3.1 Proceedings

The allowance of two weeks for study planning, team formation, initial information gathering and analysis was not overly-generous. However, because the team had a powerful combination of local, research knowledge and sector knowledge and experience, it was possible to generate a useful analysis and findings within a fortnight. In particular, the role of the host office in acquiring information, preparing logistics and sharing local knowledge was critical to the success of the mission.

In addition to the output, three days of extended hypothesis workshop at the beginning of the process trained and familiarised all team members with participatory value chain methodologies. As a result of this, the rapid participatory value chain analysis process was well-structured, and interviews and workshops were well-facilitated. This process is demanding in terms of the time required of the local team members. A number of the local team had on-going professional commitments during the study process, which reduced their ability to participate fully in the study process.



A textile and craft shop in Da Nang

After training the team was divided into four sub-teams which collectively conducted 37 interviews, four mini workshops, and two mini surveys with the local stakeholders of Da Nang tourism value chain. All links of the value chain were explored covering hotels, restaurants, transportation service providers, tour operators, support institutions, attractions, investors, and the tourists. The information gathered from the field work days was voluminous and helpful for the team in the later stages drawing the full value chain map, analysing the strengths and weaknesses of the chain, and refining proposals.

Information collected from the mini tourist survey, notwithstanding the small sample size, proved to be useful to strengthen the team's analysis and proposals. Besides, tour operators (Song Han, Vitour, and Hanh café) and tour guides, who work directly with tourists, hotels, restaurants, transportations, and attractions, did provide systematic information on the situation of local tourism and specific links of the tourism value chain.

The result of the field work could have been better if the team could have had more time to work on the tourist survey and interviews with other tour operators.

There are several important stakeholders who were not available for interviews or mini workshops on the time-lines implied by this study process. Limited participants joined the workshops and there were two mini workshops, with transport companies and restaurants, which were cancelled due to the absence of participants. Feedback from some of the interviewees and workshop participants revealed that local stakeholders received little information and received it late, and subsequently did not fully understand and were not prepared enough to join in and contribute.



The only five star hotel currently in Da Nang, the Furama Resort & Spa

The follow-up mission in April 2007 was able to develop a much stronger empirical base for the study, facilitate more focused Way Forward Workshops and initiate a tourism development strategy. During the presentation workshop, feedback was received from local stakeholders on the study process and findings. These are captured in Table 4 below.

Table 4: Summary of responses at the presentation workshop plus own insights

	<i>Pros</i>	<i>Cons</i>
Research method	<ul style="list-style-type: none"> - rapid appraisal and implementation; - a broad range of actors in the tourism industry get involved through interviews and mini-workshops; - outputs are specific and feasible proposals which are taken from an analysis of current situation of Da Nang tourism; and - a new and interesting method 	<ul style="list-style-type: none"> - lack of quantitative research may have biased the conclusions. The follow-up mission tested a number of assumptions used in the mission in November 2006 and found several of these to be flawed. - too much focus on supply-side research, is evidenced by a lack of tourists' participation (beyond the Tourist Survey).
Implementation and Presentation	<ul style="list-style-type: none"> - 2 weeks of intensive work generated a reasonably elaborate picture of Da Nang tourism; - clear and informative presentation; - the analysis does confront sensitive issues and - the narrower focus and better preparation of the Way Forward Workshops in April resulted in a sharper implementation focus. 	<ul style="list-style-type: none"> - lack of actual examples to illustrate the findings during the presentation; - participants in workshops and interviews should have been informed earlier, and more fully about the study process; and - some team members are too junior to conduct such a research study.
Outcomes	<ul style="list-style-type: none"> - a comprehensive tourism value chain of Da Nang; - a relatively robust analysis and findings on the strengths and weaknesses of Da Nang tourism; - 25 good proposals which are specific and highly feasible; and - A tourism development strategy that has an adequate empirical basis and is relevant to the concerns of policy-makers in Da Nang. 	<ul style="list-style-type: none"> - some findings are still unclear or based upon a single source of information that has not been validated; and - there is an inadequate explanation of strengths and weaknesses of each sub-sector in the tourism value chain

3.3.2 PACA host and VPSSP programme office Da Nang

The Da Nang Tourism Department was the host of this rapid participatory value chain analysis.

The contribution of the Department is vital for the success of not only two weeks executing the each of the two missions but also the follow-up of implementing the proposals. For the PACA exercise, the Tourism Department played important role in almost all the steps from planning, sharing helpful data and information, supporting in coordinating and inviting local enterprises and authorities to the interviews and workshops, assigning staff to join the team. It was observed that the host was motivated to implement PACA exercise and the contribution of the Department was crucial; however, the result would have been even better if the assigned staff had been more senior and able to dedicate themselves fulltime to the two-week exercise.

Along with the Tourism Department, Da Nang VPSSP programme office played a key role in arranging and preparing logistics to make sure that all the interviews and workshops were well-prepared. Two dedicated staff from VPSSP had to manage a huge amount of work from listing the stakeholders, sending invitations, and getting their confirmation via phone. Within a short period of time, 8 workshops and about 40 interviews had been arranged and more than 150 people were contacted. The only possible comment to make their work more efficient is that a list of all related stakeholders with their detailed contacts should have been ready a little while before the exercise actually started. Then the invitation letter and further information could have been provided to the local stakeholders earlier to enable them to be better informed and prepared to join in.

3.3.3 Final assessment of pre-assessed proposals

Rich qualitative and quantitative data and information gathered from the field work combined with pre-collected empirical data provided a good basis for the team to finalize the Da Nang tourism value chain map, analyze strengths and weaknesses of each link, and then generate robust proposals. The minutes of workshops and interviews were, at the beginning, available only in either Vietnamese or English which limited the accessibility of non bi-lingual speaking team members. This illustrates the important need for all team members to be able to digest the findings from all the interviews and mini-workshops and empirical analyses prior to generating the proposals. This was not systematically achieved in the very tight timescales prevailing during the first mission in November 2006.

In order to analyze the strengths and weaknesses of Da Nang tourism, the value chain was divided into nine categories: tour operators, transportation, accommodation, restaurants, entertainment, shops, attractions, support institutions, and related sub-sectors (see Figure 12 below). This approach allowed the team to dig deeper into each link of the chain and having the broad picture of how those links interact as well. To address the strengths and weaknesses of Da Nang tourism taking from the value chain analysis, more than 150 proposals were collected from both local stakeholders and the team. Then by using Pareto rule and assessing the proposals on three criteria (realistic and viable, suitable for quick implementation, and appropriate to produce visible effects) 25 proposals were finally selected.

During the process of analyzing the tourism value chain and assessing the proposals, it is crucial to have the contribution of all the team members with their industrial expertise and local knowledge. The complexity of the tourism value chain made the timing of the two-day results workshop too tight even when the team had innovative efforts to shorten the process.

Therefore, at the final stages of Pareto-ing and assessing the proposals, not all the members could manage to participate and contribute. This had the unfortunate effect of making the crucial decisions made in selecting the prioritized list of proposals and the tourism development strategy highly dependent upon external consultancy expertise. There is nothing inevitable about this outcome and some efforts were made in process design to avoid it. However, the undesirable model of using a broad-based study team to undergo training; collect data and present findings – but to be absent from the one or two crucial decision-making meetings during the study process – is a real danger.

1.6.1 Comparison with previous research techniques

This study is probably unique in combining rapid participatory LED research methods with more conventional value chain approaches. As part of an extensive review of the ‘tourism and poverty reduction’ literature review¹⁰, only one participatory tourism value exercise was identified – for a small town in North-East Brazil¹¹. However, this Brazilian study almost entirely fails to follow through on its participatory promise – so stakeholders in Da Nang are involved in a process that is unique in terms of research methods.

In the past many quantitative tourist studies focused on the macro-economic level with tourism satellite accounts or computable general equilibrium (CGE) modelling or input-output analysis to answer essentially macro-economic questions about the contribution of tourism to broader macro-economic growth and development. Many of these studies – particularly CGE, input-output and Social Accounting Matrix (SAM) models – focused strongly on inter-sectoral linkages between tourism and the rest of the economy. They have only recently started examining distributional issues. Conventional value chain approaches have also considered inter-sectoral linkages and, more recently, adopted a sharper focus on how the poor can access value chains.

By contrast, there is a strong strand of tourism analysis that focuses upon the micro-level, often with a qualitative anthropological epistemology. For instance, the literature has vast numbers of case studies of tourist attitudes or behaviour and their interaction with the indigenous culture in one specific area or hotel. These approaches have had a strong focus on poverty issues – but have tended to give inadequate consideration to issues relating to growing tourism and the impact of tourism on the rest of the economy.

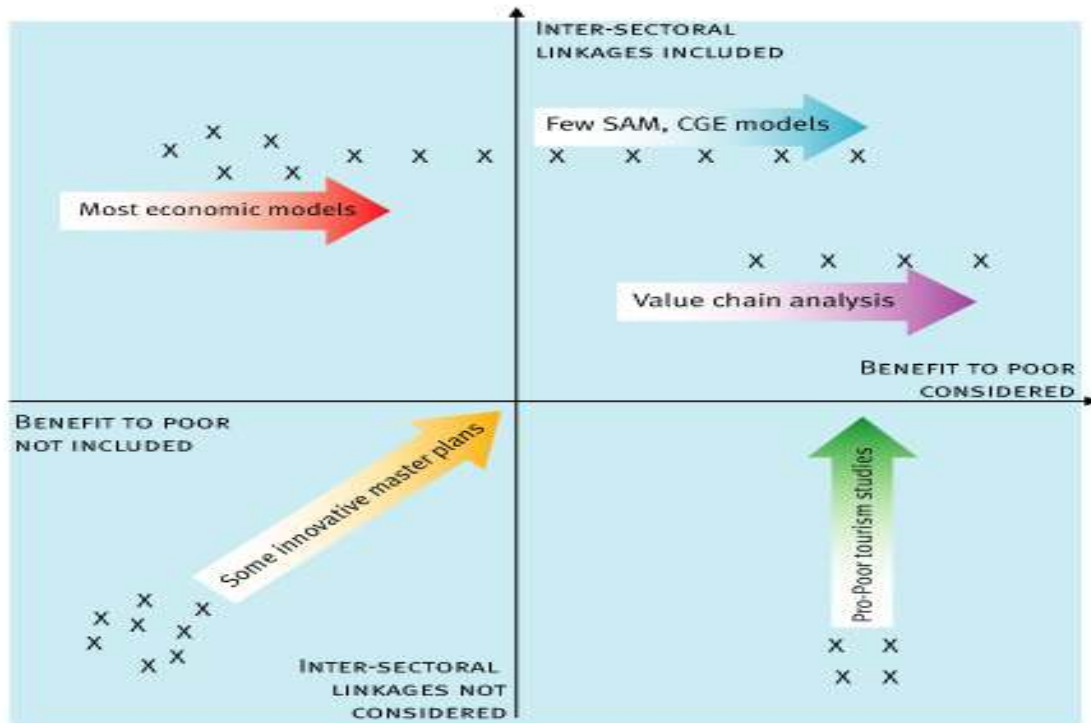
In the past, tourism Master Plans have often neglected to adequately either place tourism within the larger economic context or to provide an adequate treatment of pro-poor tourism issues. There are some indications that some recent Master Plans are adopting a more progressive approach. The findings of this tourism value chain exercise in Da Nang will provide useful evidence for the Department of Tourism to feed into their current tourism Master Planning process.

The figure below suggests that, at the forefront of tourism development studies, there is something of a convergence towards the North-East quadrant of the graphic. In other words, tourism researchers using a number of different research methods are seeking to adapt them to better meet the challenge of understanding the linkages between tourism and the rest of the economy, on one hand, and also to learn more about the links between tourism and poor people.

¹⁰ Mitchell, J & Ashley, C (June 2007) ‘Pathways to Prosperity: How can tourism reduce poverty? A review of the pathways, evidence and methods’ Study for the World Bank

¹¹ Slob, B & Wilde (2006) Tourism and sustainability in Brazil – the tourism value chain in Porto de Galinhas

Figure 12 Evolution of tourism research methods



The focus on the tourist destination – in this case Da Nang – as the spatial unit of analysis has a long-standing pedigree in tourism development studies. However, apply value chain and local economic development research tools to the tourist destination are rather less conventional. The destination focus in this study is important because it is a geographical area that has meaning for a wide range of stakeholders in the private and public sector. In other words, for the tourism value chain, the destination is clearly a sensible scale of analysis.

The synergy of participatory approaches with more rapid survey techniques has a number of distinct advantages over previously applied research techniques.

First, local stakeholders in Da Nang were clearly not comfortable with a research technique relying purely on collecting the views of local people. This phenomenological position - that the perceptions of people generate the most valid data - is a respectable philosophical position in the social sciences. However, the team responded to calls to explore the justification and empirical basis for the views expressed by stakeholders by supplementing the interview data with more quantitative data from official statistics and hotel manager and tourist surveys.

Second, the opposite view to the one expressed above - that the only data with validity is empirical and quantitative data – is also questioned by this study. An overly empiricist approach - that ignores the importance of local participation, capacity building, ownership and perceptions – will produce finely worded research publications but is a very blunt instrument to precipitate change on the ground. ODI has some experience of generating elegant analysis at the tourist destination level, which has precious little prospect of implementation¹².

¹² Ashley, C and J Mitchdl (2007) *Assessing how tourism revenue reach the poor* ODI Briefing Paper 21

The combination of rapid participatory techniques with robust empirical data collection is regarded as a model approach. Where the emphasis of a particular study is optimal will depend upon the special characteristics of the study area.

Finally, the design of this process to include a significant element of post-study external support has considerable intuitive appeal. It may be premature to assess whether this has been successful after only the two key study missions in November 2006 and April 2007 – and facilitated support between the two missions.

In addition, it is really difficult to attribute changes in policy or practice to specific interventions by external actors. Let us examine a concrete example to illustrate this conundrum. Between the first study mission in November 2006 and the second mission in April 2007, some very significant changes had taken place in the tourist sector in Da Nang. By far the most important of these was the decision by the state to act more assertively in the supply of tourism development land on the coast (specifically, government made it clear that it would take action against ‘investors’ hoarding tourism land that has received development approval).

The impact of this change in the regulatory framework has been dramatic and, by April 2007, development was underway on six coastal resorts in Da Nang. Our scenario modelling exercise suggests that this change may be the single most important event that will avert the collapse of tourism in Da Nang. The question remains: ‘what precipitated the change in government practice between the two missions of this study?’

The study team would like to believe that this research process had some impact; others may see the similar timing of the two events as entirely coincidental. In truth, we do not know the impact of this study process, if at all, and therefore cannot support the self-congratulatory assertion that the VPSSP intervention could have saved tourism in Da Nang.

3.3.5 Lessons learnt for future applications

The preparatory phase of the study and logistical and administrative support is critical for success in a rapid appraisal study process. This study reached a remarkable number and range of local stakeholders. In particular, the credibility of the study team was enhanced by the Department of Tourism hosting the exercise and the Department of Planning and Investment accommodating the VPSSP. This institutional credibility is very important when, for instance, arranging interviews with hotel senior management at which sensitive financial information is being sought.

However, important stakeholders were missed during the first mission and there is always room for more professional communication and briefing of stakeholders scheduled to participate in the study. For instance, the systemic problem of inadequate attendance at the mini-workshops could have been mitigated by adequate briefing of participants as part of the invitation and follow-up telephone calls to assess the likelihood of attendance.

Team selection is one of the most critical issues because it builds a bridge between the methodology and practice. In this rapid participatory value chain analysis the team faced three disadvantages. First, the lack of seniority of the local team members from Tourism Department and Tourism Association led to weak local knowledge. Second, because team members could not dedicate their full-time to the study process, progression was delayed due to team fragmentation. Finally, it is difficult to maintain such a broad and diverse study team throughout a multi-mission study. The involvement of the bulk of the team ended in November 2006. The post-mission implementation support and the follow-up mission in April 2007. This was partly due to conflicting demands on

team members. As is also quite normal in a transitional context, things change. In the five months between the two missions, half of the Da Nang-based non-consultant staff had changed their jobs.

The rapid transition from the collection of a huge amount of primary data to the generation of proposals during the first mission raised the challenge of making sure proposals were adequately based upon the empirical base of the earlier research. The difficulties of achieving this are multiplied when one is operating in a bi-lingual environment with data being generated across a large study team without a formal quality control process in operation. The merit of the follow-up mission in April was that it could acknowledge, and remedy, these deficiencies.

This study was undertaken in a dual medium environment, Vietnamese and English. The participation of translators in all interviews, meetings, workshops and training is considered essential for effectiveness. It is also critical to demonstrating a genuine respect for the local culture.

The combination of participatory and more quantitative empirical approaches to the collection of data was considered effective. Participation is important in terms of collecting a large volume of data quickly; enhancing capacity; building a coalition of stakeholders interested in change at the destination; and understanding the key concerns of local decision-makers. Empirical analysis is critical to allow triangulation of findings to check that what stakeholders believe to be the case, is actually true. Quantitative data also allows researchers to identify issues that have not been raised by local stakeholders, but, nonetheless, could be of strategic importance. The ability of data analysis to allow researchers to identify the two critical strategic issues facing tourism in Da Nang in the tourism development strategy is an example of this benefit.

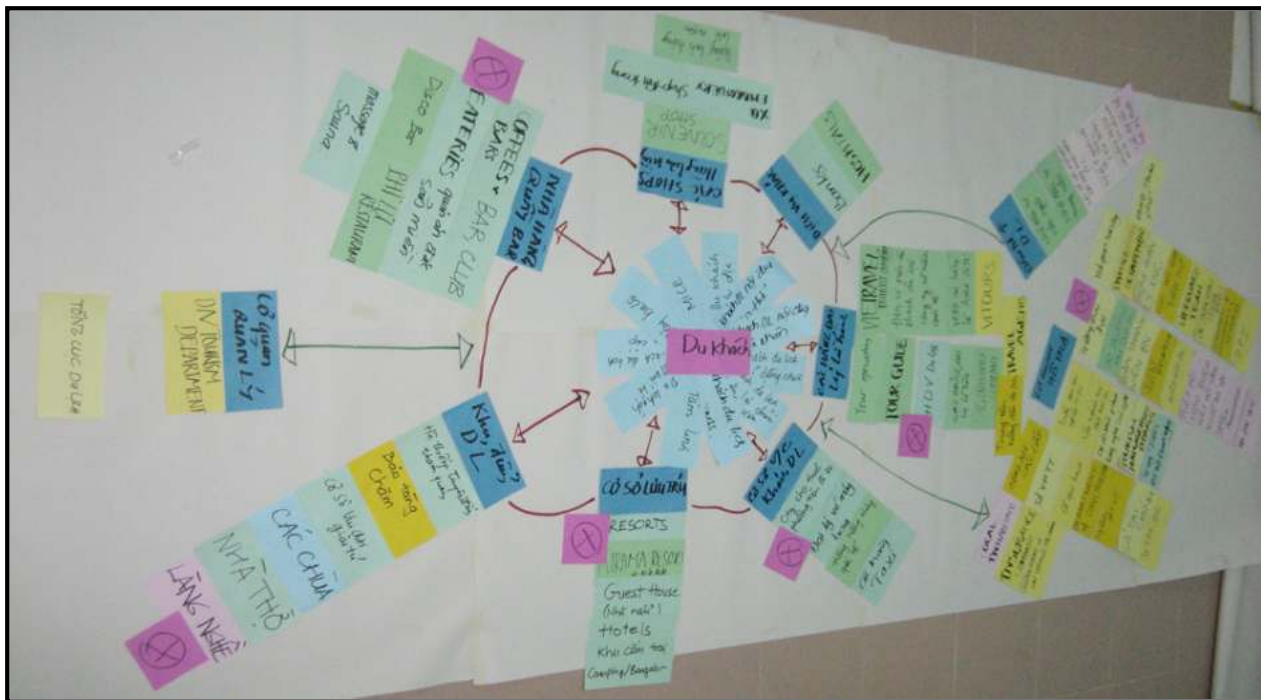
This study is able to demonstrate the empirical basis of the proposals generated. In addition, the study has generated a level of interest and enthusiasm for change at a local level which is very unusual and places a serious responsibility on the shoulders of all participants.

4. DIAGNOSIS OF THE TOURISM SECTOR IN DA NANG

4.1 The tourism value chain map

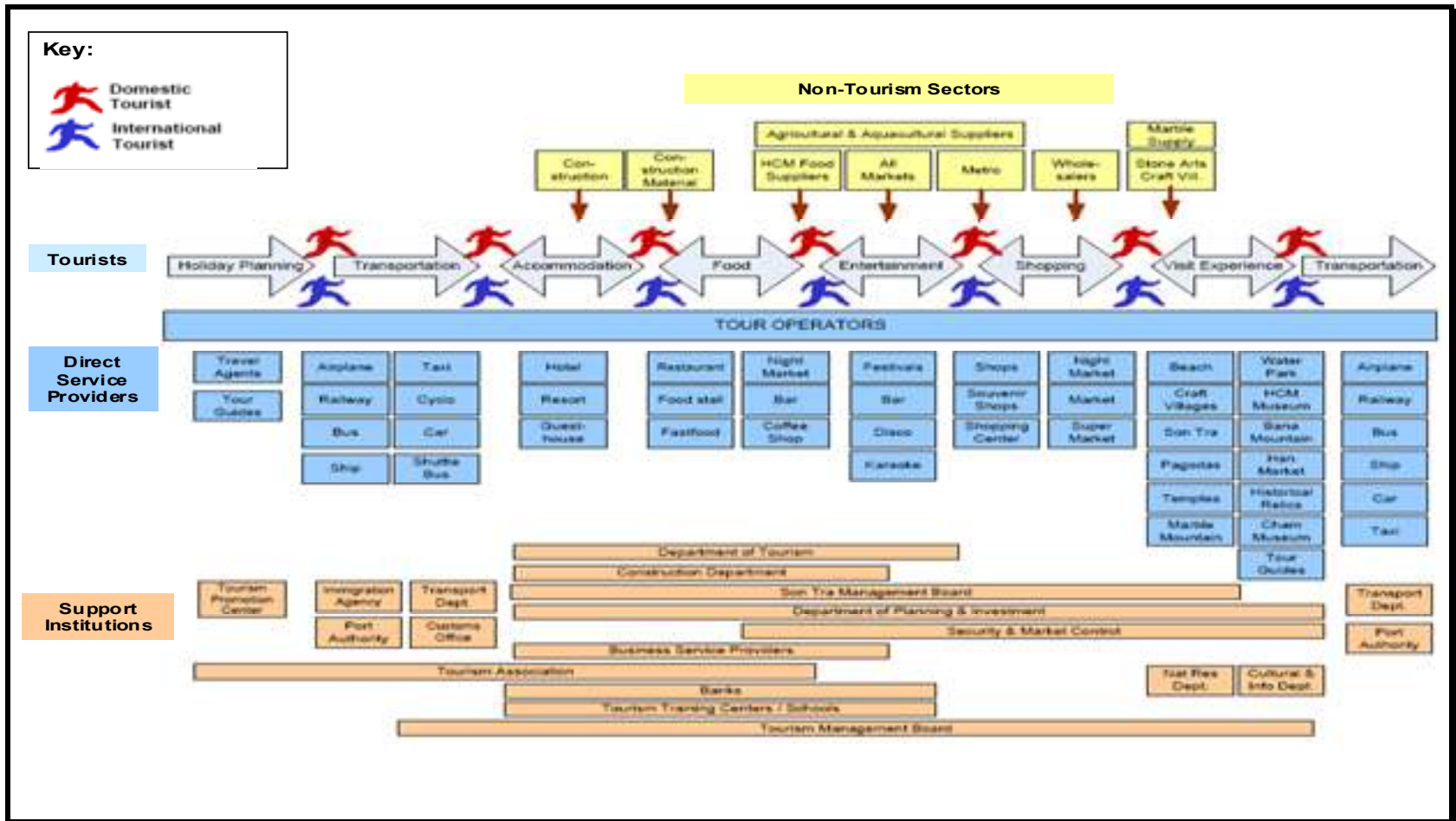
The study team mapped stakeholders participating in the Da Nang tourism value chain by identifying important stakeholder groups on Mesocards during the hypothesis workshop. These stakeholders were then grouped into categories, as illustrated below. At the centre of the map are tourists and the radial categories include, for instance, the accommodation sector, restaurants, transportation and a wide variety of supporting institutions.

Figure 13 Tourism stakeholders mapped in Da Nang



The value chain map in Figure 14 overlaid illustrates how important the role of value chains as a way of organising a highly complex reality.

Figure 14 Da Nang Tourism Value



4.2 Tourism demand

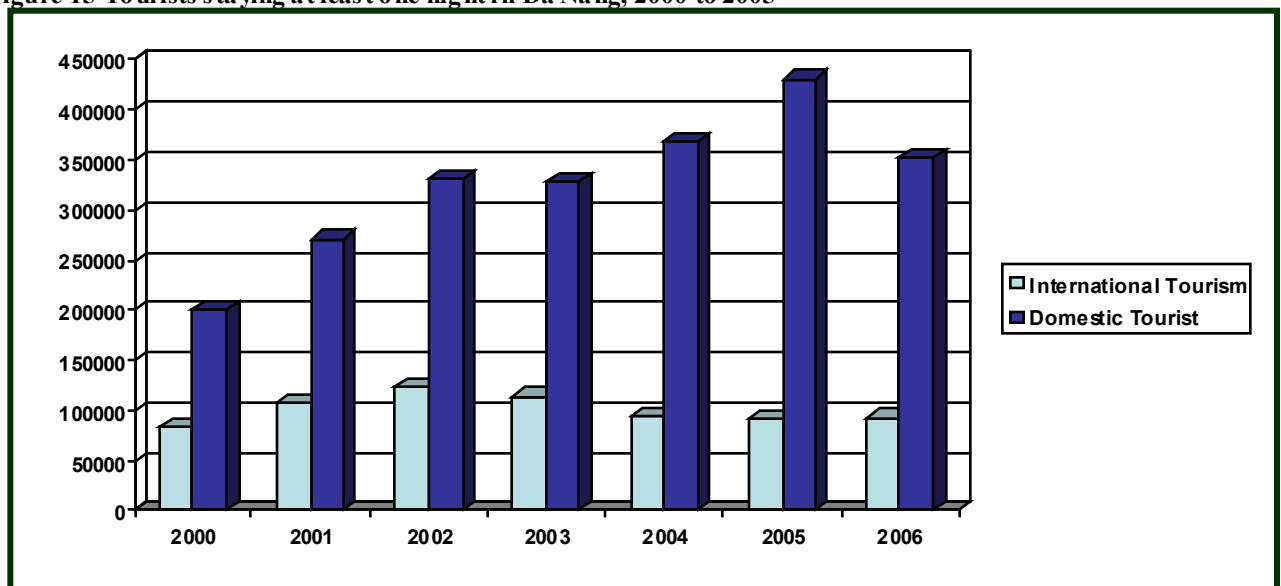
Tourism statistics in Da Nang are very detailed. There can be few places in the world where public authorities hold data on the numbers of foreign and domestic tourist arrivals from tour agents (meaning people travelling on organized tours, but also those arriving by ship, air and coach) and the number of hotel bed nights and even data on hotel revenues from monthly hotel returns.

As with all tourism statistics though, users should maintain a healthy scepticism about the reliability of the data and always seek two (and preferably three) independent sources of data – so we can triangulate our estimates. The goal here is to present figures where we can give an indication of the reliability of the figures.

Whilst the base tourism data in Da Nang is impressive, the way it is aggregated and presented is not. In fact the aggregation of tourist numbers collected from the survey of hotel accommodation on the one hand and tour agents on the other – which are clearly not mutually exclusive categories and therefore include significant double-counting – is misleading and does need to be corrected. Interestingly, the Euromonitor Travel and Tourism in Vietnam of 2005 listed the lack of accurate and timely statistical information about the Vietnamese tourism industry as a major impediment to investors and a serious negative growth factor for the industry.

The Department of Tourism uses the number of tourists arriving in Da Nang as the key indicator of tourist demand in the City. The annual average growth in the number of tourist arrivals has been 11.9% for domestic and 5.7% for international tourists, respectively from 2001 to 2006 and in 2006 some 774,000 tourists visited Da Nang – an increase in 17.3% compared with the previous year¹³.

Figure 15 Tourists staying at least one night in Da Nang, 2000 to 2005



¹³ Da Nang People's Committee Department of Tourism (2007) Report on Tourism Operation Activities 2006 and Action Plan 2007

Source: Department of Tourist Statistics, annual summaries of monthly hotel returns

The danger of concluding, in the light of these increasing arrival numbers, that tourism demand is buoyant in Da Nang is serious. This is partly because it masks a very serious problem of tourism demand in the City. It also takes one of the greatest weaknesses of tourism in Da Nang - the fact that huge numbers of tourists visit the City for a very short time and contribute virtually nothing to the local economy – and presents this as a positive feature of tourism.

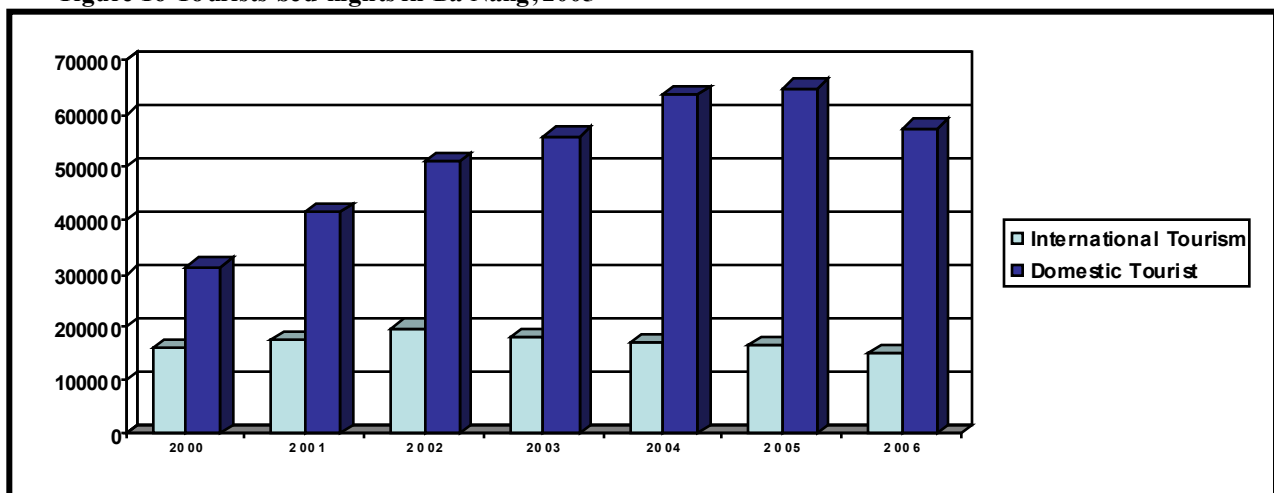
Figure 15 presents the number of tourists staying at least one night in Da Nang. These figures fail to capture tourists who visit Da Nang but do not stay the night (for instance many tour itineraries for coach and cruise ship tourists, pass through the City and stopping for an hour at the Cham Museum and an hour at the Marble Mountain craft village before moving on to Hue or Hoi An for the evening).

Notwithstanding data concerns, two striking trends are apparent from the Figure.

First, international tourism in Da Nang is in the doldrums in terms of the number of overnight visitors – implying a dramatic loss of share in this buoyant national market. Since 2000, when international tourist arrivals to Vietnam have increased by over 40% the number of international visitors spending at least a night in Da Nang has stagnated at around 100 000, with a gently declining trend of -0.5% per year since 2000.

Second, the only reason not to be very concerned by the declining international tourist arrivals could be having absolute faith in the domestic tourist sector to make good feeble international performance. This bullish view of domestic tourism might have had some credibility in the past (although the future scenario exercise indicates even this is misplaced), but that evaporated in 2006. At a time of strong tourism growth in Vietnam, domestic overnight arrivals to Da Nang dropped by 18% - from 431 239 to 351 806. This dismal demand picture was also confirmed in the hostel survey, so there is no evidence of reducing demand for hotel beds being mitigated by any increase in hostel bed occupancy.

Figure 16 Tourists bed-nights in Da Nang, 2005

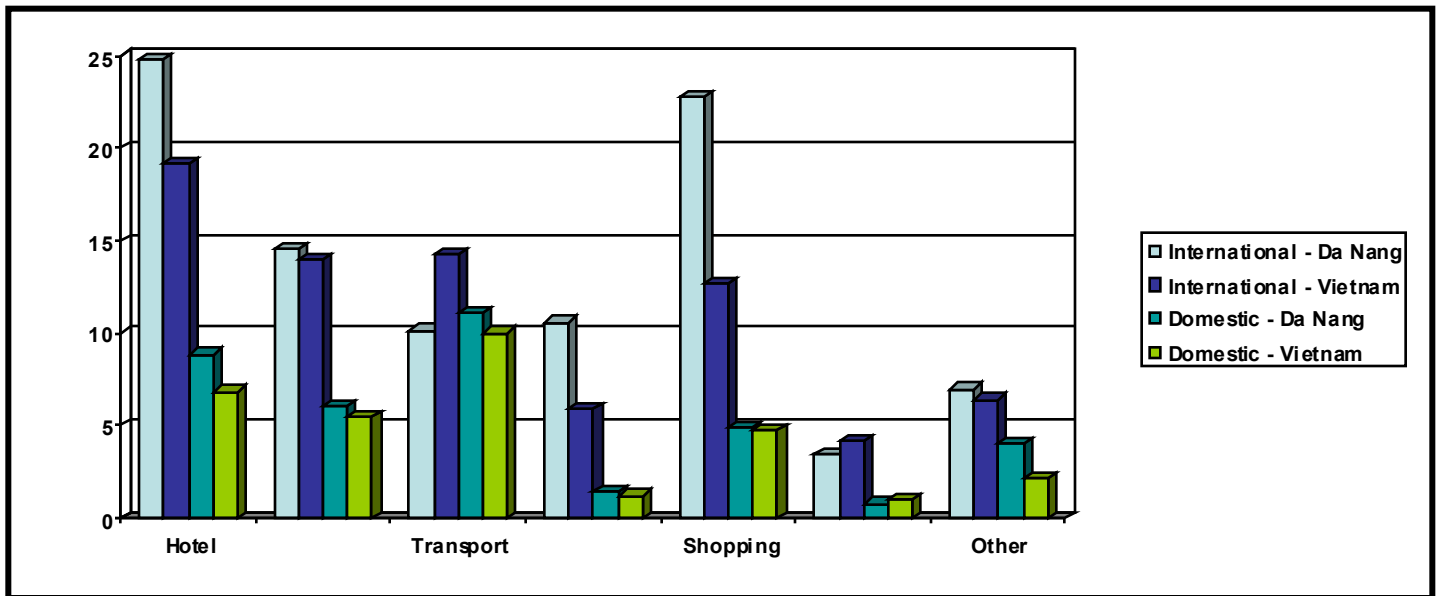


Source: Department of Tourist Statistics, annual summaries of monthly hotel returns

Tourism in Da Nang is therefore in an extremely uncomfortable position. Visitor numbers and bed nights occupied are dropping and the recent increase in international tourism has completely bypassed Da Nang.

Another reason for questioning a strategy of complacency about the foreign tourists (justified by optimism in the capacity of domestic tourists to drive tourism growth) – beyond the fact that domestic arrivals statistics are poor in Da Nang, is that the destination cannot afford to lose out on upmarket visitors. Our analytical work in Da Nang found the Government Statistics Office expenditure survey to be accurate in all respects except it rather under-estimated hotel expenditure in Da Nang (easy to do in a destination with only two upmarket hotels). The survey indicates that the average domestic tourist in Da Nang in 2005 spent \$37 per day and the average international visitor spent \$93.5. This means that, taking into account the slightly shorter domestic LoS and the much lower daily spend, nearly three domestic arrivals are needed to compensate for each international tourists not attracted to Da Nang. Taking a domestic-focused approach to increasing the size of the tourism value chain in Da Nang is likely to be much slower than an approach which includes the expands international and upmarket domestic tourism.

Figure 17: Tourist expenditure for tourists in hotels in Da Nang and Vietnam average, 2005



Source: Government Statistics Office (2005) Tourist Expenditure Survey 2005

International Tourism

The results of the survey of tourists suggest a significant number of international tourists, who spend time in Da Nang do not stay overnight.

The bulk of the international tourists interviewed at the Cham Museum and railway station were only in Da Nang for long enough to visit the Museum visit or a similar amount of time to make their rail connection. Expenditure by these tourists in Da Nang is typically a few dollars on a taxi, museum ticket or cool drink.

Box 2 Results from the survey of tourists

- Average expenditure of tourists making a day visit to Da Nang is very low, averaging US\$12
- As soon as tourists stay at least one night in Da Nang, daily expenditure increases more than four-fold to US\$53 per day (for domestic and international tourists combined) – this is because the major items of expenditure for tourists are accommodation and food. The underlines the importance of a strategy targeted at getting day trippers to Da Nang to stay – even just for one night;
- The average length of stay in Vietnam of tourists interviewed was 20.4 days. The average length of stay in Da Nang in the survey was 1.4 days – only rising to 2.1 days if the day-trippers were excluded (compared with figures of 1.7 days and 1.6 days for international and domestic overnight visitors from Tourism Department figures) . This corroborates the very short length of stay data in Da Nang, within the context of rather long visits to Vietnam;
- All international tourists interviewed were also visiting Hue and / or Hoi An – a number of domestic tourists in Da Nang were not visiting either of these cultural destinations. Developing the relationship between Da Nang and these other two destinations is an important aspect of the future for Da Nang tourism;
- Expenditure on souvenirs and craftwork is very low in Da Nang, about \$3 per tourist per day. Interestingly, these are the figures reported by tourists who have often spent very significant sums on craft work in Hoi An. One couple interviewed reported craft expenditure in Hoi An during a two day trip of US\$1 000. This indicates the scale of the missed opportunity in Da Nang; and
- Many foreign tourists have negative perceptions of Da Nang as a tourist destination. Commonly-raised comments included the ‘dirty beach’; and the ‘industrial’ character of the City.

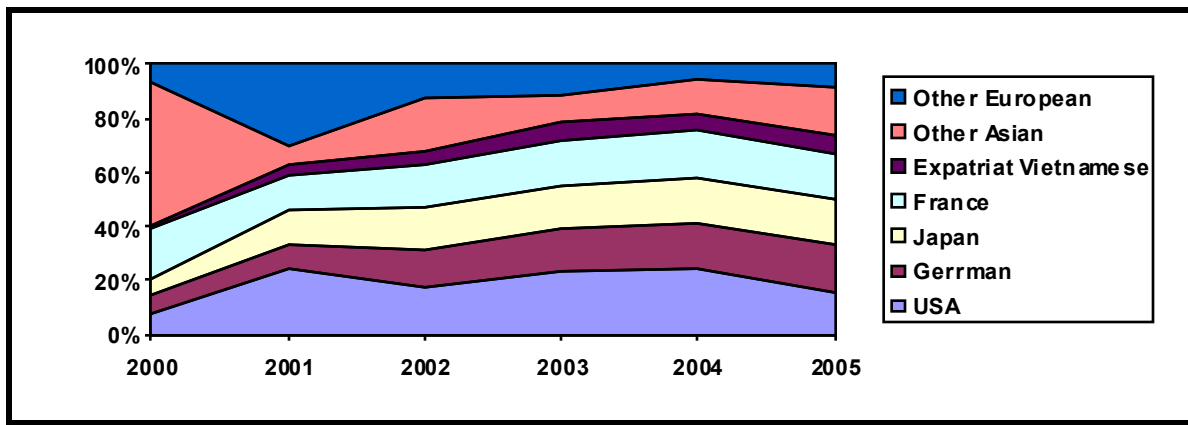
Source: Survey of 38 tourists at the Cham Museum and Da Nang Railway Station

The centrality of the Cham Museum in any strategy to encourage foreign tourism in Da Nang is clearly illustrated that, in 2005, almost two-thirds of all foreign visitors visiting the City paid a visit to the Museum. Put bluntly, more foreign visitors to Da Nang see this Museum (about 104

000 or 95% of the total of 110 000 visitors in 2005) than see a hotel (some 90 000 in the same year).

Whilst these ‘lost’ international tourists obviously represent a loss of potential revenue to Da Nang, they also represent an opportunity. If Da Nang could retain for a single night the international tourists that currently already pass through the City without staying overnight - this would increase the international bed nights significantly without any additional arrivals.

Figure 18 International tourists and day visitors in Da Nang, 2000 to 2005



Source: Department of Tourism statistics

Like Vietnam, Da Nang has a very diverse international tourist sector in terms of region of origin. Of international visitors whose origins are known, some 42% are Asian and 42% European; and one-fifth are American. This represents a healthy mix of very different source tourist markets.

Domestic Tourism

Contrasting with the international sector, the domestic tourist sector in Da Nang has, until recently, been buoyant. Government statisticians suggest that hotel data are the most reliable way to estimate domestic tourism numbers. Even when visiting friends and relations, it is considered quite normal for Vietnamese tourists to stay in hotel accommodation – which suggests that hotel data is likely to be a reliable measure of domestic tourism. Significant growth – in the order of 16% per year - was realized until the downturn in 2006.

The rapid recent growth in international tourism in Vietnam should not blind us to the vulnerability of this industry. In the past five years, terrorism, natural disasters and health scares (SARS and Avian flu) have highlighted the vulnerability of a tourism strategy focused upon international visitors in Asia. The potential medium-term risks inherent in a reliance upon long-haul travellers with a rapidly increasing recognition of the environmental costs of cheap aviation are also significant. In addition, Vietnam is blessed with a seasonality pattern where the domestic summer peak (when metropolitan Vietnamese flee the heat of Hanoi and HCMC for the coast)

perfectly complements the international winter peak season. Occupancy is an important issue for tourism in Da Nang for several reasons.

First, aggregate occupancies in Da Nang are worryingly low. Hotel returns in 2006 suggest some 723 000 occupied bed nights in a destination with 3 258 beds (implying some 1.19m bed-nights available each year). This equates to an average room occupancy of 60%, or less to the extent that tourists share rooms. The hotel surveys suggest room occupancy figures of around 55%, the official room occupancy figure for 2006¹⁴.

Second, with the majority of costs of running a hotel fixed, the viability of hotels is very sensitive to occupancy figures, particularly when falling from an already low base. Finally, there is a significant increase in the supply of hotel accommodation over the next three years which will not assist the adverse demand conditions.

These are sound reasons for seeking to develop domestic tourism as an important asset for Da Nang tourism. Domestic tourism in Vietnam is growing much faster than international tourism – even though Vietnam is one of the more dynamic emerging tourist markets internationally. In 2004 only 24% of the Vietnamese population took a holiday. This represents a rapid increase from the corresponding figure of 11% for 1999.

The fact that Vietnam is one of the most rapidly growing emerging economies in the World and three-quarters of the population are currently non-holiday takers, illustrates the potential for future domestic tourism growth. During the value chain analysis it became increasingly clear that the tendency to equate domestic tourism with low-end activity (and the corollary of international tourism with upmarket activity) is becoming increasingly obsolete. The hotel surveys and Department of Tourism statistics reveal that, already, about 30% of tourist demand in the two most upmarket hotels in Da Nang is from domestic tourists. This relates to hotels with average daily room rates of \$95 and no preferential pricing policy for either Vietnamese residents or nationals. The converse is also true, only 26% of the total foreign bed nights in Da Nang in 2006 were spent in these two upmarket resorts. This suggests that a consequence of expanding upmarket accommodation in Da Nang is likely to attract the domestic elite as well as increasing international tourists.

4.3 Tourism supply

Da Nang has 101 hotels with 3 260 rooms and 6 100 beds – about 2.7% of the national bed stock. The average size of 33 rooms per hotel is very close to the national average. Until 2000, hotels were overwhelmingly state-owned but a rapid expansion of private hotels, together with some restructuring of government hotels (the ‘equalisation’ process through which many hotel workers have purchased discounted equity in their workplace), has created a more diverse accommodation sector. Currently 67 of Da Nang’s hotels are fully private, 19 are partly (generally majority) State-owned and only 15 are fully State-owned.

¹⁴ Department of Tourism (2007) *Report on Tourism Activities 2006 and Action Plan 2007*

Table 5: Da Nang hotel stock

Category of Hotel:	100% State-owned		Partly State-owned		100% private-owned		Total	
	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms
5 Star	0	0	0	0	1	186	1	186
4 Star	0	0	0	0	1	123	1	123
3 Star	3	203	3	164	4	249	10	616
2 Star	5	224	3	217	5	201	13	642
1 Star	0	0	5	173	9	156	14	329
Standard	5	204	3	84	30	487	38	775
Other	2	96	5	99	17	392	24	587
Total	15	727	19	737	67	1 794	101	3 258

Source: Tourism Department augmented with a telephone questionnaire to clarify ownership issues

To this hotel accommodation should be added the estimated 1 800 rooms in the 200 hostels in Da Nang. Whilst hostels are seen by many as the location of ‘social evil’ and nothing to do with tourism – a survey of ten hostels revealed that 49% of visitors were tourists (generally business tourists, such as vendors visiting Da Nang to collect supplies from wholesalers). Most of the remaining visitors were street vendors who cannot be defined as ‘tourists’ because they are being paid at the destination – making them ‘migrants’. Even at an average occupancy of 46% and average room rate of \$2.7 (compared with \$9.73 for private hotels and \$14.38 for state managed hotels), the estimated annual turnover of the hostel sector represents about 6% of total accommodation expenditure in Da Nang and 15% of pro-poor flows.

A number of problematic issues are raised by this data:

- The international market in SE Asia generally requires hotels that are 3+ Star or higher at one end of the spectrum or backpacker type accommodation at the other. Da Nang has

- little of either. With less than 10% of hotel rooms in the 4 and 5 Star category and a hostel sector which is hidden away – the hotel stock is not appropriate for the international visitors (and, increasingly, also upmarket domestic visitors);
- Whilst the State has an interest in one-third of hotels, this amounts to 45% of hotel rooms – because State-owned hotels are larger than private hotels. It is unusual in a mixed economy to have the State directly competing with the private sector in the provision of commercial services because this can provide negative incentives for the private sector to invest (the argument is that public investment ‘crowds out’ private investment). The fact that the State has interests in 60% of 3 Star hotel rooms is a particular concern because it is the upgrade and marketing of these establishments that hold the key to increasing capacity for international visitors – before new capacity on the coast comes on stream; and
 - The preponderance of private hotels (70% of all private hotels and half of all private rooms) below the 1 Star category suggests that finance may well constitute an important barrier to entry for entrepreneurs in the accommodation sector. The financing constraint could explain the classic ‘Vietnamese style’ economic structure – observed across the whole economy – with a small number of large state dominated enterprises (average of 46 rooms per hotel), a emerging small business in the private sector (average of 26 rooms per hotel) and a multitude of survivalist enterprise (200 hostels with about 9 rooms each).

To get a clearer picture of the accommodation sector, detailed surveys were made of twenty hotels and ten hostels during the two missions. This survey generated a number of important findings, outlined in Box 3.

Perhaps the most remarkable finding is that the private sector accommodation sector not only exists, but is thriving. Many face onerous financing costs; competition with state-run hotels; an adverse enabling environment and, an inability to access the coastal land for tourism development that is identified in the Master Plan for Da Nang. Notwithstanding these problems, many private sector hotels appear to be operating profitably.

High financing costs reflect the generous spread enjoyed by banks between the bank base rate of interest and the rates at which they on-lend to customers. These spreads are large for asset-based finance on the debt to equity ratios allowed by financiers in Vietnam. Also, the longest repayment period available to hoteliers is five years - an extremely short period over which to purchase an asset with a useful economic life of 30 years or more. Finally, the provision for depreciation seems to be very large by international standards – at around 20% of total costs

The inability of government to make any progress on implementation of the coastal tourist development area since designation in the Da Nang Master Plan of 2004 has seriously undermined the ability of tourism to attract international and top-end domestic tourists in the City. All stakeholders are in agreement that the beach is Da Nang’s most important natural tourist asset, and yet Da Nang has only two hotels on the coast that are able to utilize the asset.

Box 3 Hotel and hostel survey findings

- Upmarket 4 and 5 star hotels are labour-intensive and employ 1.5-2.0 non-restaurant staff per hotel room. The comparator for state managed, other private hotels and hostels is 0.5, 0.3 and 0.2 full time equivalent staff per room respectively. This implies a non-restaurant hotel workforce of some 2 100 workers in Da Nang.
- Seasonality and ownership structure significantly influence occupancies. Weighted average private hotel room occupancy varied from 54% in the 'low' season to 86% in the 'high' season – an annual average of 70%. The corresponding occupancy figures for the state managed sector are 41%, 81% and 61% respectively. Despite clear seasonal patterns of occupancy, there are not major swings in the room rates. Weighted average room rates only increase about 10% during the 'high' season.
- Only 19% of private rooms and 40% of state-managed rooms were booked through a tour operator and rates offered to operators were not discounted compared with rates offered directly to the public – this suggests an important independent tourist sector where hoteliers are not beholden to tour operators and can successfully negotiate reasonable room rates with operators;
- About three-quarters of guests are domestic, with the remainder split fairly evenly between ASEAN and non-ASEAN tourists. This accords reasonably well with the statistics for hotel bed nights from the Department of Tourism, that 74% of bed nights are domestic and 26% are international. Domestic tourists are a higher share of the total in the more expensive state-managed hotels and the much cheaper hostels;
- Average room revenue per night was estimated at \$17.67 for state managed hotels and \$14.44 for private hotels, except the two upmarket beach hotels where average room rates are some \$95 and hostels with average rates of \$2.70 per night.
- Non-managerial grades earn an average of some \$68 per month in private hotels and \$85 in state-managed hotels. Management grades earn an average of \$145 per month and \$105 in the private and state sector respectively. This differential between management and non-management grades is significantly lower than has been observed elsewhere in the developing world. Several hotel managers mentioned skills shortages amongst hotel staff and the upward pressure of the tightening labour market on wages. Staff costs comprise about 20% of total costs and reported power and utility costs are significantly higher in the private sector (28% total costs) than in the public sector (14% total costs);
- There is little evidence of government support in the development of private hotels – indeed hoteliers seemed relieved when government is not obstructing development; and
- The cost structure of private hotels is dominated by very large financing and depreciation costs which typically make up 40% the total hotel costs in the private sector. State-managed hotels carry virtually no debt on their balance sheets.

Source: Hotel survey 2006

In November 2006 it was reported that the only activity in the 670Ha designated coastal tourism development area has been the clearance of 13.5Ha of land in anticipation of development. In the absence of progress in the area designated for coastal tourist development, there was some activity in an area that is not designated for development – on the Son Tra peninsular. Five Vietnamese investors have received development licences as below.

Table 6: Resorts on the Da Nang Peninsular with development licenses

Project name:	Physical scale	Investment
Hai Buy Resort	100 rooms	\$19.4m
Savico	150 rooms	\$9.7m
Bien Don	50 chalets rooms and restaurants	\$3.2m
Tien Sa Resort	200 rooms	\$12.8m
Son Tra	250	\$32.3m
Total	750 rooms	\$77.4m

Unlike the area designated for coastal tourist development in the Master Plan, there was development activity on two of these resorts in November 2006.



Resort development on the Son Tra Peninsular in November 2006

The change by April 2007 was striking. In response to government making it clear that development licenses that are not implemented within the specified timescale will be relinquished, there is now demonstrable implementation of six large, upmarket coastal resorts between Son Tra and Marble Mountain. The tourism strategy exercise underlined the importance of the addition of approaching 910 upmarket coastal hotel rooms on the viability of tourism in Da Nang. Particularly important is the foreign ownership and management arrangements for these resorts that will support the distribution channels to achieve reasonable occupancy rates for these hotels.

The man-made competitive advantage of Da Nang is the good air transportation accessibility which positions the City as the gateway for Central Vietnam¹⁵. One of the most obvious ways that Da Nang can increase its length of stay is to exploit its position not only as the transportation gateway to Central Vietnam but as the accommodation hub between Hoi An and Hue – so tourists stay in Da Nang and visit the other centres on a day trip basis.

Air links from the two metropolitan areas to Da Nang are critically important for the health of the tourist sector – both domestic as well as international. In fact, given the shorter length of stay for domestic than international visitors and the distance of the two main domestic source markets from Da Nang, it is possible that the air link between Hanoi and HCMC on the one hand, and Da Nang on the other, is more important for the domestic than the international sector.

This air link is currently totally dependent upon Vietnam Airlines – the state-owned airline company which is growing fast with revenues for 2005 projected to top \$1bn. There is a perception that Vietnam Airlines service is expensive and unreliable. Previously Pacific Airlines also flew into Da Nang, but this service has been suspended. In any case, the cross-ownership between the two airlines militates against competition on price or service quality criteria.

The sale of a 30% stake in Pacific Airlines to a Qantas in April 2007 is potentially highly significant because, Qantas have justified this acquisition in terms of their corporate goal of developing low cost carriers in the SE Asia Region. This sale could sharpen competition in the domestic market in Vietnam¹⁶ which would be very positive for a destination such as Da Nang. The concern is that, given the extent of cross ownership between Vietnam Airlines and Pacific Airlines, this injection of foreign capital and expertise might not stimulate competition between the two airlines.

4.4 Supporting structure – Strengths and Weaknesses

Tourism Association: The official representative of local tourism actors is Da Nang Tourism Association, which was established in 2005 and officially operated in 2006 with 70 members, including hotels, transportation companies, and tour operators. The mandate of the Association is to: promote local tourism, provide training to members, sharing good practices and advocating policies. Tourism Association has one fulltime staff. However the Chair and Vice Chair manage two large hotels in therefore are not able to dedicate much time for Association work.

¹⁵ Boye, G (March 2002) *The Tourism Sector in Vietnam: Challenges and Market Opportunities*

¹⁶ Business Monitor International (2006) *Vietnam Tourism Report Q2 2006*

As a result, Tourism Association has not yet implemented any significant activities for its members. Improving communication among members and among committee boards is a priority for the Association to be able to plan and implement activities to support its members. To address this issue, the team proposes supporting the Tourism Association to create a website, which will serve as a communication channel between members and from the membership to tourists.

The Tourism Department: Currently, the most active and also the main support institution for local tourism enterprises is Da Nang Tourism Department.

The Department has responsibility to manage and develop local tourism. Under the Department, the Tourism Management Division is conducting the management tasks, while the Tourism Promotion Centre plays a key role in implementing activities to promote the location and develop the City's tourism. All the local hotels and tour operators are sending reports on their current business situation to the Department every month. The Department is also responsible for classifying sub-two-star hotels and verifying the standards of all the hotels in Da Nang. Although receiving limited budget from the People Committee and Viet Nam Administration of Tourism, the Department has been implementing a series of activities to support local tourism such as: destination promotion via delivery brochures, provide information on local tourism via the website, magazines and other tourism information outlets, participating in tourism Marketing domestically and internationally and training for local tourism enterprises to improve their staff skills.

However, the effectiveness of the Tourism Department is limited due to limited resources and capacity. A typical example is the misleading presentation of the rich statistical data collected by the Tourism Management Division. Improving the statistical data processing and presentation may provide more reliable source of information for the leaders to make tourism policies and strategy and other stakeholders who may concern. Moreover some of the supply-side support initiatives may, whilst well-intentioned, distort the competitiveness of the local business development service market. Also, enterprises are currently reporting to the Tourism Department and other government authorities on a monthly basis which takes time and effort. A system which shares information between government authorities may save time and money for the enterprises. Because of the important role of the Tourism Department, most of the proposals are directly or indirectly related to the Department.

Universities and Training Centres: Da Nang has four universities and colleges which have vocational programs on tourism. Furthermore, the Tourism Department and some local training centres also provide courses on tourism. However, the quality of the training provided by those organizations is perceived to be low quality by the local tourism enterprises. The training is seen by hotel managers as overly-theoretical and graduate trainees are not able to meet the practical requirements of their jobs.

Local tourism enterprises currently send their staff to other cities such as Hue, Vung Tau, and Ho Chi Minh City - or invite trainers from those cities to Da Nang. The training on tourism at a management level has not been provided by any local university or centre.

However, the quality of local tourism vocational training is improving. Local universities, colleges and training centres are actively seeking cooperation with local tourism enterprises to redesign training method and content to fit with practical requirements. Trainees are spending more time working in the field (hotels or tours), and courses are designed toward meeting specific requirements of each customer. The Vietnam National Tourism Administration has just announced their intention to establish a Tourism College in Da Nang in 2007. This is a critical weakness because, as the tourism development strategy illustrates, if Da Nang does not have an adequately trained workforce, either tourism investments will be deterred or migrant labour will 'leak' the benefits of the tourism value chain away from Da Nang.

4.5 Surprises

During the interviews and workshops with tourists and local stakeholders of Da Nang tourism, the team had encountered some findings which were surprising. And they are:

- That tourism in Da Nang is in serious trouble in terms of falling arrivals and occupancy figures which threaten the viability of the destination;
- The rapid growth, and more recent downturn, in domestic tourism and the fact that it accounts for over two-thirds of total Da Nang tourism revenue;
- International tourism has languished in the last five years and Da Nang is losing market share rapidly;
- The City has a great seasonality pattern with demand patterns for different source markets complementing each other – evidenced by a domestic peak in summer and foreign peak in winter;
- The wholesaler Metro Cash & Carry dominates the food supply chain to the tourism value chain;
- In the past, the City has failed to develop the designated coastal tourist area or take advantage of the beach. The speed at which this situation has turned around with a more assertive regulatory stance by government is striking;
- The City lacks shopping and entertainment facilities for tourists;
- In the view of some foreign tourists: “Da Nang beach is dirty and boring”;
- For the foreign market, Da Nang has functioned more like a transportation hub to Hue and Hoi An than a destination in its own right;
- Cham Museum is the only attraction in Da Nang to many foreign tourists;
- It takes 6 months for hotels to get their classification approved.

4.6 *Quantification of the tourism value chain*

The Da Nang tourist value chain is quantified below to illustrate the quantity of economic value generated by each of the functional areas of the tourism value chain. This is partly to allow policy makers to understand:

- the impact of tourist expenditure in the non-tourism economy;
- which areas of tourist expenditure have the potential to be increased; and
- how successfully the poor are accessing different components of the tourism value chain.

4.6.1 Accommodation

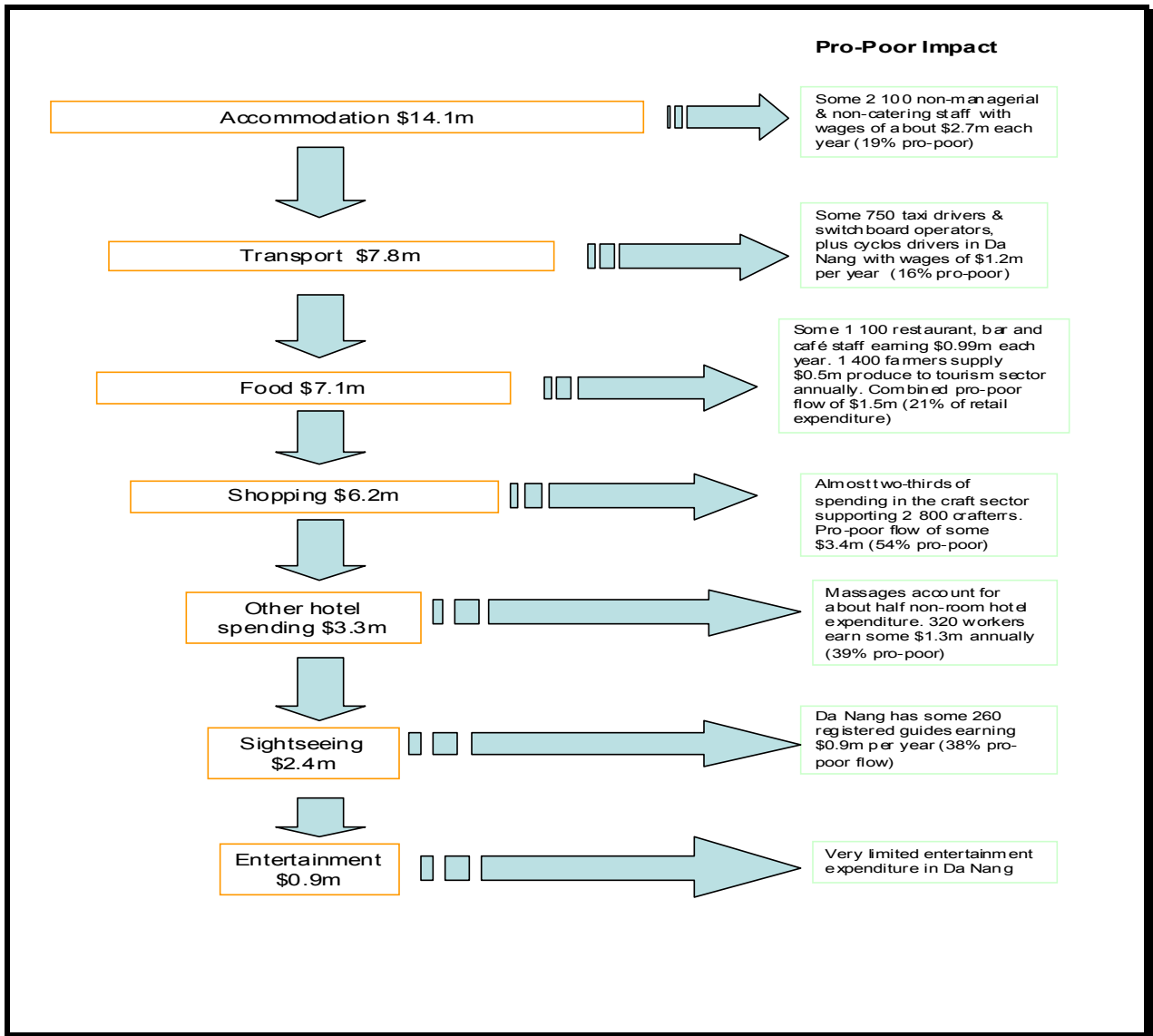
Accommodation expenditure can be estimated from three different sources.

First, the Department of Tourism collect information monthly on hotel income (disaggregated into room, food, shopping and other categories) which is, in effect, a Census rather than a sample because data is collected from all 101 hotels. This suggests that the hotel accommodation revenue in Da Nang in 2006 was \$9.2m. This figure will be inaccurate only to the extent that hotel returns underestimate revenue to minimize their tax liability.

There is some evidence of rather serious under-reporting of hotel income to the Department of Tourism. If the \$5.4m revenue in 2006 and associated bed-nights received by the two upmarket beach resorts in Da Nang are excluded from the hotel total, this leaves just \$3.7m revenue to cover the remaining 665 000 bed-nights in 2006 – implying just \$5.6 per guest per night, which are much lower rates than reported in the hotel surveys or by tourists themselves.

The second source is the *Tourist Expenditure Survey 2005* produced by the Government Statistical Office and based on questionnaires completed in hotels in Da Nang by some 438 foreign and 798 domestic visitors to Da Nang in July 2005. This suggested international and domestic self-arranging (meaning tourists not on a package tour who would normally not know the cost of the different components of their tour) tourists spent \$24.9 and \$8.9 per night on accommodation. Multiplying the unit costs by the total number of international and tourist bed-nights in Da Nang in 2006 generates an estimate of hotel expenditure last year of \$8.8m. This could be lower than the revenue figures hotels report because 2005 expenditure data is applied to 2006. Also, both estimates of accommodation expenditure exclude the funds generated by the 200 hostels in Da Nang.

Figure 19 Local linkages from the \$41m Da Nang tourism value chain



Source: Study team calculations

The methodological issue with surveying the spending habits of tourists who could be spending \$10 a night for a basic hotel or \$120 for an upmarket beachfront hotel is that it is necessary to stratify the sample to make sure that it is representative of the whole population of tourists. It is not clear, with tourists self-completing questionnaires that this was done – which could account for the low average spend figures.

From the information we have from hotel surveys, it seems likely that the *Tourist Expenditure Survey* included very few tourists from upmarket hotels. To illustrate this point, if the accommodation expenditure of international visitors at the Furama Resort is spread across all international tourists (assuming the 82% of foreign bed nights outside the Furama are accommodated for free) it still results in an average foreign tourist accommodation expenditure of \$22 per night – not far off the \$24 figure in the *Expenditure Survey*. In other words, accepting the *Expenditure Survey* figures requires us to assume that out of the 101 hotels in Da Nang, only one presents foreign tourists with a bill, which is implausible.

The third source of information on hotel revenues was provided by the Hotel and Hostel Surveys from hotel management themselves.

In our value chain estimates below, therefore, we assumed that:

- the information provided by the two upmarket hotels themselves, and corroborated by Department of Tourism, is correct;
- the information in the *Tourism Expenditure Survey* relates to all other hotels;
- we need to add in the revenue from the survey of ten hostels which is not captured by either the expenditure survey or the monthly Tourist Department returns.

This equates to total estimated revenue of \$14.1m in 2006.

Applying the non-managerial staff to room ratios and wage rates collected from the Hotel and Hostel survey suggests some 2 100 staff working in the accommodation sector earning an average of \$107 per month – a pro-poor benefit flow of \$2.7m, or 19% of tourist accommodation expenditure.

4.6.2 Transport

Transport spending by tourists is very high in Vietnam. Our best estimate from the *Tourism Expenditure Survey* from daily figures of \$11.6 and \$10.2 for domestic and international tourists respectively – generating a total expenditure estimate for 2006 of \$7.9m. These expenditure figures are not dissimilar from the Vietnamese average - so are probably robust.

Our taxi survey indicates that the 309 public taxis in Da Nang account for about 70% of this turnover. Tourists make up an estimated 60% of taxi passengers, split fairly evenly between domestic and international tourists. All the main taxi companies in the City operate a system where two drivers work from one vehicle – so each driver works a very long day fifteen times a month. Average daily revenue was \$47, 55% of which (\$27) was retained by the taxi company to cover the cost of the vehicle (taxi companies have a sliding scale of lower % retention with increasing turnover – to incentivise taxi drivers to maximise revenue). In addition, an average of \$12 was paid daily for petrol. This resulted in a calculated income of \$135 per driver per month and a stated income of £101 per month. This income was attributed to the 700 taxi drivers.

A wage of \$93 was estimated for the 47 taxi switchboard operators. Combined this amounts to a wage of \$1.2m per year.

Da Nang has about 70 cyclo (cycle rickshaw) drivers who, it is estimated, earn an average of about \$2 per day. Department of Tourism figures suggest hotels charge tourists nearly \$0.5m for transport, presumably for hotel transfers.

It is therefore estimated that pro-poor benefit flows are \$1.2m a year, equivalent to some 16% of total expenditure on transport.

4.6.3 Food

The Tourist Expenditure Survey 2005 estimates that the average foreign and domestic tourist spends \$14.6 and \$6.0 on food and drink daily. Applying the 2006 bed-night figures, this implies a total retail tourist spend of \$5.7m.

Department of Tourism statistics indicate \$5.1m spending on food and drink in hotels during 2006. Hotel surveys provided a basis for estimating retail food sales, staffing and food and beverage purchasing patterns. The four most prominent tourist restaurants in Da Nang were surveyed (Phi-Lu, Apsara, Hannakin and Kim Do) to obtain the same information from the non-hotel sector.

A rapid survey of ten of the roughly 6 000 informal sector pavement cafes in Da Nang was undertaken to establish the extent to which they serve the tourist market. In the town centre about 7% of informal sector restaurant turnover is tourist-related – so we cautiously estimated just 2% of turnover of pavement cafes across the City as a whole. However, even this small % implied tourist-related retail sales of \$1.3m a year, a reflection of the scale of catering taking place on the streets of Da Nang.

We estimate that, taking into account all hotel, formal sector restaurant and informal sector cafes in Da Nang, tourism-related retail sales in 2006 were about \$7.1m. Some 1 100 employees and entrepreneurs earned just under \$1m in wages during the year.

In addition to the wages of non-management staff working in catering, the importance of the agricultural supply chain for local farmers was also estimated. Food and beverage purchases constitute an average of about 34% of the value of food sales (a higher % for more basic outlets and a lower % for upmarket outlets), which equates to \$2.4m wholesale purchases. On the basis of interviews with restaurants (in and outside hotels and the Metro wholesale outlet) it was estimated that 75% of all formal sector food purchases are from Metro (the other 25% being from City markets that are well connected to the agricultural hinterland) and that the wholesaler purchases 10% of its stock from the local area. Assuming farm-gate prices are some 50% of wholesale prices; this suggests that local farmers may receive less than \$0.5m from supplies into the tourism value chain each year.

However, given that agricultural output per farmer in Da Nang is only \$358 per year, even \$0.5m of local food procurement could generate a livelihood for 1 400 farmers (or two-thirds of the number of people working in hotels). Also, whilst there is a legitimate debate about whether a hotel worker earning \$100 a month is ‘poor’, agricultural supply chains do tend to target large numbers of the poorest people in the local economy.

Combining benefits to non-management restaurant and café workers and local food supplies, some \$1.5m or 21% of retail food and drink sales accrue to the poor.

4.6.4 Shopping

The Tourist Expenditure Survey 2005 estimates that foreign and domestic tourists spend \$22.8 and \$4.9 daily on shopping respectively in Da Nang – suggesting total shopping to the value of \$6.2m in 2006.

In the context of Vietnam, these figures are good, particularly for international tourists (with comparable figures of \$12.7 and \$4.7 for foreign and domestic tourists respectively). However, international tourists in neighbouring Hoi An spend an average of \$42.4 per day on shopping – yet almost exactly the same as Da Nang tourists on almost all other categories of expenditure. This suggests that the absence of an abundance of good retail outlets for the international market is losing the Da Nang economy about \$3m per year.

Examining what the \$6.2m is spent on in Da Nang is revealing. Just taking into account the Marble Mountain stone carving and the leading silk clothing retail outlet in Da Nang, it is estimated that \$3.9m of this total – some 63% - is spent by tourists on craft goods which provide a livelihood for almost 3 000 crafters and is profoundly pro-poor. That the tourism-generated craft supply chain creates one-third more jobs than hotels in a City with a curiously invisible craft sector is striking.

Interviews with stallholders in the Han Market suggested that even non-craft tourist retail expenditure is about 19% pro-poor as a result of stall-holder incomes and local procurement practices.

On aggregate, it is estimated that \$3.4m, or 54% of total shopping spending, flows to poor people in the form of retail wages or craft incomes. This figure is likely to be conservative as the craft supply chain was not explored in detail. For instance, the livelihoods generated by the silk production process (silk worm farmers, silk weavers, etc) upstream of the garment fabrication at the retail outlet were not taken into account in this analysis.

4.6.5 Other spending

In most tourism value chain analyses ‘Other’ spending is a rather small residual category mentioned at the end of the analysis. In Da Nang ‘Other’ spending is more prominent. This is partly because it is so significant estimated from the *Tourist Expenditure Survey* at \$4.00 and \$7.00 per day for domestic and international tourists respectively.

This equates to a total of \$3.3m in 2006 – almost half total spending on food and drink. In a number of state-managed hotels ‘Other’ revenue is as much as a fifth of total revenue.

The second reason for drawing attention to ‘Other’ hotel expenditure is that much of it relates to massage services, with important pro-poor and gender implications. In the analysis it is assumed conservatively, on the basis of hotel interviews, that half of ‘Other’ expenditure is spent on massage services and that massage workers typically pay 25% of their takings to the hotel in which their premises are based. Working on the basis of turnover and staffing information provided by hotels with massage facilities, it is estimated that some 320 massage workers in Da Nang each have a gross turnover of some \$8 750 per year. Taking the amount retained by massage workers as the ‘pro-poor’ benefit flow, this equates to about 39% of total retail expenditure on ‘Other’ services. This estimate is based on the conservative assumption that none of the non-massage ‘Other’ expenditure has a pro-poor element. This is a robust assumption for expenditure like telephone charges in hotels, but less so for labour-intensive services - like laundry services.

4.6.6 Sightseeing

The *Tourist Expenditure Survey* which is \$1.47 and \$10.6 for domestic and international tourists respectively – suggests a total spend on sight-seeing in 2006 of \$2.4m. The difference in spending patterns between domestic and foreign tourists is striking and reinforces the validity of a strategy to try and increase the number of foreign tourists in Da Nang.

There are some 265 registered tour guides in Da Nang with an average revenue of \$288 per month (fluctuating between a high season of \$450 and low season of \$125 per month). This suggests total annual revenue of about \$09m, which represents about 38% of total retail expenditure on sightseeing.

4.6.7 Entertainment

Entertainment spending is very low in Da Nang with daily spending of \$0.7 and \$3.40 for domestic and international tourists respectively – only slightly below the national average for Vietnam in the *Tourist Expenditure Survey*. This implies a total spend of less than \$0.9m in 2006, with a little of half of the expenditure being made by international tourists.

Given the small scale of entertainment expenditure, no specific analysis was undertaken to assess its pro-poor effects.

4.7 Assessment of results of the tourism value chain analysis

This analysis has a number of implications for the tourism sector in Da Nang. These include:

1. the size of the tourism value chain in Da Nang is significantly larger than previously thought, at about \$42m in 2006. This represents a contribution of 5.7% to the economy of Da Nang. The main reason for tourist spending being larger than official statistics suggest is that significant expenditure by tourists is taking place outside the officially-defined 'tourist' sector of hotels, restaurants and transport (for instance, craft shops, and informal sector hostels and cafes);
2. the tourism value chain is currently about 60% domestic and 40% international, even though foreigners spend at least 2.5 times each day as domestic tourists. Whilst there are real advantages from balancing foreign tourism with domestic demand, the increasing dominance of domestic tourism in Da Nang reflects the failure to grow international tourism despite rapid growth nationally and in other destinations in the region. Reliance on the low-value domestic sector, as the future for Da Nang is risky because it is premised on every larger numbers of relatively low-yield tourists in a context where numbers are currently falling;
3. although domestic tourist demand has been buoyant until recently, it has not been able to compensate adequately for the failure of Da Nang to attract upmarket tourists (whether domestic or foreign). The importance of this is reflected in the fact that nearly 40% of total accommodation spending in Da Nang is generated by two upmarket hotels – with the rest being generated by some 100 formal sector hotels and 200 hostels. The failure to develop upmarket resorts on the coast has seriously held back growth of the tourist value chain in Da Nang;
4. linkages between the tourist sector and the poor are strong with at least 26% of tourist expenditure in Da Nang accruing to non-managerial workers and entrepreneurs. This figure compares favourably with existing, admittedly few and far between, international benchmarks;
5. Da Nang tourism has strong pro-poor linkages for several reasons. First, the direct linkages from tourism to the poor (wages paid to workers in tourist sector as hotel and restaurant works, taxi and guides) account for over half of all pro-poor benefit flows. The importance of direct flows reflects the labour market conditions of low unemployment and high demand for labour that increase returns to labour. Indirect linkages account for just under half of pro-poor benefit flows and reflect the importance of tourist expenditure on craft and massage and, to a much lesser extent, the downstream linkages between tourism and the local agricultural sector.

5 TOURISM DEVELOPMENT STRATEGY

5.1 Introduction

Tourism in Da Nang is in trouble. Our analysis illustrates that tourism activity has a value of \$42m a year, which represents just under 6% of the City economy, one-quarter of which (some \$11m) is directly received by the 'poor'. However, worrying trends are evident. International tourism has been in the doldrums for many years but, since 2002 there has been a sharp decline in international bed-nights averaging about -7% per year based on the Department of Tourism statistics.

The study team initially thought that languishing international tourism was unfortunate but would always be more than compensated by surging domestic tourism demand. There are three weaknesses to this argument:

- The Achilles heel of many seaside resorts is a high level of seasonality that drives down occupancy figures and can threaten destination viability. A strength of Da Nang tourism is the counter-cyclical domestic and foreign tourist seasons and this is too important an asset to be given up without a struggle;
- Tourist expenditure surveys show, not only that international tourists spend at least 2.5 times as much as domestic tourists, but that also a higher proportion of expenditure is made on items such as sightseeing and retail expenditure that have strong linkages with the local economy and poor people within it; and
- In 2006 official returns from the Department of tourism show a dramatic drop in domestic tourism in Da Nang both in terms of numbers of overnight guests (-19%) and bed nights (-11%)

For this strategic session the key issue identified was how to **grow the tourist sector and increase linkages with the local economy**. The perspective taken was that of our client department, the Provincial Department of Tourism. The time frame initially adopted was ten years. However, given the rate of change in Vietnam, a five year time horizon was adopted for the analysis of alternative futures for Da Nang tourism.



Bhudda overlooking Da Nang City from the hills

5.2 Framework

Table 7 outlines variables that members of the study team regarded as the driving forces to achieve tourism growth and linkages with the local economy. These driving forces were selected on the basis of a ranking as to their importance and uncertainty.

In summary, for tourism revenue growth, key factors identified were the length of stay, daily tourist expenditure, arrival numbers and investment in appropriate tourist product. Issues relating to the quality of the workforce, the availability of quality craftwork, excursions and entertainment facilities were also highlighted. It is not possible to quantify the relationship between improved quantity and quality of local tourist infrastructure – such as tours and entertainment areas – and tourist demand because many different variables affect demand simultaneously. However, the example of differential craft expenditure by international tourists in Hoi An and Da Nang does illustrate the cost, in terms of revenue forgone, of failing to supply goods and services required by tourists.

For increasing linkages between tourism and the rest of the economy the key drivers identified are craft and the agricultural supply chain. These variables were then input into a computer spreadsheet model which was designed to measure the significance of these different drivers for tourist development in Da Nang.

This process was undertaken by three external consultants working on the project. Obviously this was not the ideal method, but has been included as a demonstration of the tourism development strategy process. This can incorporate more local stakeholders at a later date.

Table 7: Drivers of change in Da Nang tourism

Variable	International Tourism		Domestic Tourism	
	Tourist revenue growth	Linkage with local economy	Tourist revenue growth	Linkage with local economy
Length of stay	+++		++	+
Expenditure per tourist per day	+++		++	+
Arrival numbers	+++		++	+
HR quality of tourist workforce	++	+	+	+
No. & quality of tourist excursions	++	+	+	+
Business enabling environment inc. public sector	++		+	+
Sales & craft product quality	++	++	+	+
Investment in tourist accommodation	+++		++	+
Procurement policies (i.e. food & construction materials)		++		++
Quality of entertainment infrastructure	++	+	+	+

Source: Internal workshop with part of the study team

Key:

- ‘+++’ close link between variables
- ‘+’ some relationship
- ‘ ’ no relationship at all

5.3 Analysis

Using the data from the tourism value chain exercise relating to tourist numbers and expenditure patterns in different segments of the market, it was possible to model the implications of four very different futures for tourism in Da Nang as part of a Tourism Development Strategy exercise. All the financial figures in these scenario exercises are based on current prices.

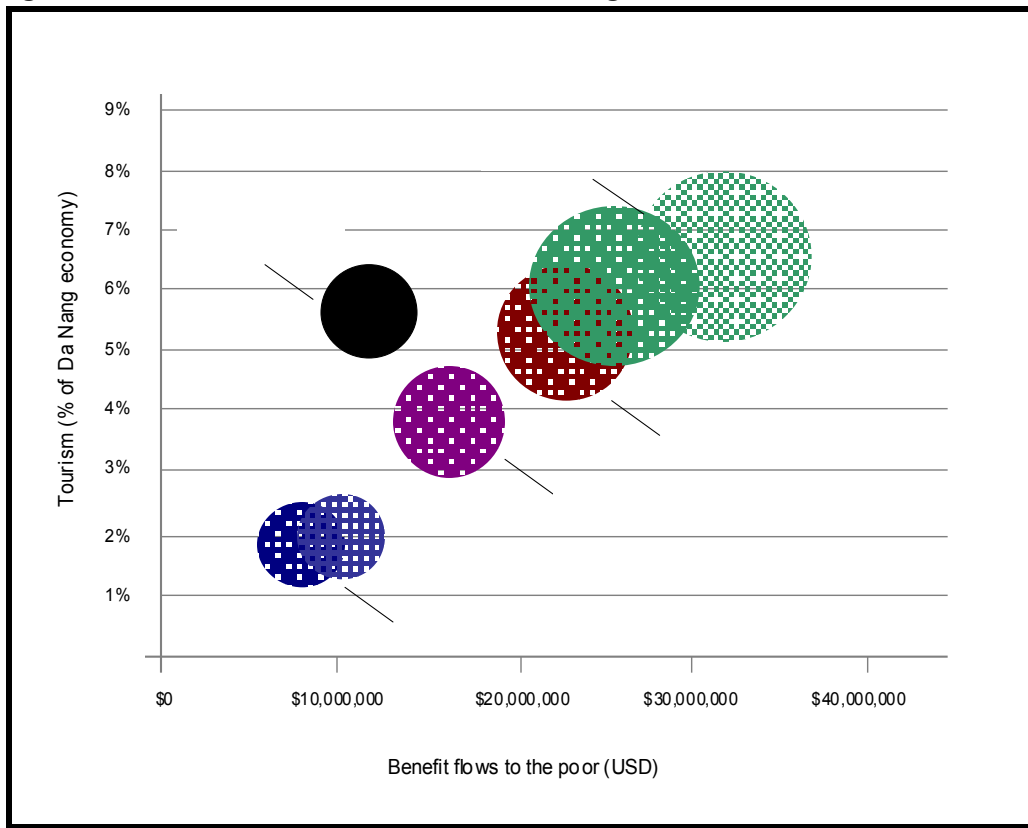
‘**Nightmare scenario**’ examines the consequence of extrapolating the trends in tourism demand in Da Nang over the past two years. Average annual bed-nights occupancy in Da Nang have reduced over the last two years (2005 and 2006) by -6.4% for international visitors and -4.8% for domestic guests. Extrapolating these negative demand trends to 2012 clearly illustrates the serious consequence of this deleterious scenario. The tourist sector contracts from the current value of \$42m to about \$33m.

Given the dynamic growth of the non-tourist economy in Da Nang (averaging 12.9% since 2000), this reduces the current contribution of tourism to the City economy from just below 6% today to below 2% in just six years. The flow of benefits to the poor also haemorrhages if the current trends continue and fall from about the current level of \$11m per year to an annual figure of \$8m.

In other words, under the ‘nightmare scenario’ tourism virtually ceases to become an important economic sector for the City in six years. Falls in tourist demand that are as steep and protracted as envisaged under the ‘Nightmare scenario’ will render many tourist establishments unviable within a few years.

The ‘**Business as usual scenario**’ is a less depressing view of future tourism in Da Nang. It looks at the implications of tourism carrying on very much as it has done for the past six years. This scenario is based on the pattern of tourism demand for the period 2000-2006 – so the very poor results since 2005 are diluted with more positive figures from earlier in the Millennium. International tourist bed occupancy has been languishing for a decade and has declined by an average of 0.5% a year since 2000 - but domestic tourism has grown by an average of 11.4% a year over the same period. So, the question implicit in this scenario is, can Da Nang rely on buoyant domestic demand to drive tourist development in the future? There are some positives. Tourism, driven purely by domestic demand, is projected to grow from \$42m a year to \$66m a year by 2012.

Figure 20 Alternative Futures for Tourism in Da Nang



However, the non-tourism economy grows even faster, so the contribution of tourism to the City economy shrinks from nearly 6% today to just 3.8% in six years time. In other words, whilst buoyant domestic demand can grow the tourist sector, it cannot prevent a rapid decline in tourism's contribution to the City economy.

The **'Harness the beach'** scenario works from the 'Business as usual' baseline and illustrates the impact of adding some nine hundred upmarket hotel rooms in six coastal resorts in Da Nang between 2008 and 2010. The scenario is entirely realistic and shows the dramatic impact of implementing the already-approved coastal developments on the Son Tra Peninsular and China Beach. Tourism is projected to grow from \$42m today to \$94m in 2012 and double the flow of benefits to poor people.

This scenario is the first one that allows tourism to almost maintain its contribution to the City economy. Under the 'Harness the beach' scenario tourism should contribute some 5.4% to the Da Nang economy in 2012. The reason that increasing the current room stock by slightly over one-quarter has such an important economic impact is that these rooms generate about \$97 of room revenue – compared with the more standard hotel stock in the City area on average room rates of \$12 per room per night.

Increasing the stock of up-market accommodation does not, however, come at the expense of the poor. The value chain analysis showed that, due to high levels of staffing and the good wages prevailing in 4 and 5 star hotels, increasing hotel revenue does not sacrifice the 'slice' of tourist turnover received by the poor.

In the **'Stay another Day'** scenario, we model the impact of increasing current lengths of stay (1.7 and 1.6 days respectively for international and domestic overnight tourists) from the 'Business as usual' scenario. The effect of tourists spending another day in Da Nang is to raise tourist revenue to over \$100m per year by 2012 – almost two-and-a-half times the current volume of business, and a doubling in pro-poor benefit flows.

These scenarios suggest that the only way that tourism can actually increase its contribution to the economy of Da Nang beyond the current level of nearly 6% is to achieve success on several fronts. First, in the short-term the recent sharp decline in tourism demand must be urgently reversed. Any continuation of the decline in mainstream domestic demand could make the tourist sector unviable in a very few years. Second and in the medium-term, getting the up-market coastal resorts up and running from 2008 to 2010 is essential to making Da Nang attractive to upmarket international and domestic tourists. Finally, the longer-term and difficult task of increasing tourist length-of-stay is the key to increasing tourism's contribution to the economy of Da Nang.

These scenarios suggest that there are three key strategic issues facing tourism in Da Nang, namely the need to:

- Reverse the recent collapse in tourism demand;
- develop the beach; and
- encourage tourists to stay longer.

5.4 Implications

The ‘**Nightmare scenario**’ scenario raises the frightening prospect of Da Nang, as a tourist destination, ceasing to be fundamentally viable. Extrapolating the recent declining tourist demand for six years, Da Nang will only have some 527 000 occupied bed nights in 2012. Even if all hotel building stops overnight, for a destination with 3 258 rooms, this implies an aggregate occupancy of 44% (or 35% if the already-started hotels are completed) compared with an occupancy figure of 54% in 2005.

The cost structure of accommodation (i.e. a relatively high proportion of costs are fixed) means that hotels are very sensitive to any fall in occupancy rates and a tipping point in the viability of accommodation is usually around the 50% occupancy figure. As the hotel surveys indicated, different hotels have different cost structures and contrasting occupancy figures. However, ‘Nightmare scenario’ for Da Nang does render the destination – on aggregate – unviable within six years if the adverse tourist trends continue.

This raises the spectre of the ultimate ‘lose-lose’ scenario where entrepreneurs businesses are failing, banks cannot recover bad debt and the poor are losing jobs and business. Contemplating this scenario after the very successful initiatives since 2000 to broaden the ownership of tourist assets through the equalisation process – the implication of which will be to spread the financial shock very broadly to households least likely to have coping mechanisms – provides ample motivation to deal with the two strategic issues that constrain tourism in Da Nang,

This scenario also highlights the dangers of focusing on arrival statistics as a way of assessing the health of the tourist sector – compared with a more nuanced approach that looks at how long tourists stay, what they spend and who benefits from this expenditure at the destination.

The ‘**Business as normal**’ scenario is, in some ways, more worrying than the ‘Nightmare scenario’. It indicates that, even if Da Nang gets over the recent downturn in tourist demand and returns to the longer-term pattern of domestic growth and international stagnation – tourism cannot avoid becoming a small and diminishing contribution to the City economy. More of the same will not work - the critical strategic issues of attracting more upper end and longer-staying tourists are highlighted.

Three important implications arise from the ‘**Harnessing the Beach**’ scenario.

First, the critical importance of creating adequate human resources to staff the new, up market coastal resorts is clear. Staffing up market hotel rooms requires about two staff per room in Da Nang – excluding restaurant staff (compared with 0.5 staff for state-run hotels and 0.3 staff for other private sector hotels). This suggests that, over the next three years, demand for at least 2,000 international standard hotel jobs will be generated in Da Nang. If the local labour market is unable to meet this demand, the labour will be imported from elsewhere – to the detriment of both the local ‘poor’ and the operational efficiency of the new resorts.

Second, whilst ‘Harnessing the Beach’ is entirely feasible (construction has started on all the resorts and the key issues facing public policy-makers is to make sure that it continues and an adequate supply of human resources is trained), it only buys the tourist sector a ‘reprieve’ on tourist growth for three or four years. In a dynamic economy, like Da Nang, it is not good enough simply to grow- this growth has to be maintained. By 2012, ‘Harnessing the Beach’ in isolation (i.e. developing six up market resorts but continuing existing trends for the rest of the sector) results in a bigger and more pro-poor tourist sector – but actually falls behind in terms of percentage contribution to the City economy.

Third, an explicit aim of the ‘Harnessing the Beach’ option should be, in addition to the international market, to allow Da Nang to cater for the upper end of the domestic market. Currently one-third of tourist demand at the existing two up-market coastal resorts in Da Nang is from the domestic sector and growth prospects for this sector are excellent. Encouraging domestic tourism is important, partly because it is a growth sector and has reverse seasonality with the international sector. It is also much less sensitive to the external ‘shocks’ that can cause volatility in the international sector (such as SARS and Bird Flu) and also mitigates the potentially damaging economic effects of the surge of foreign exchange that can damage the export competitiveness of the non-tourist economy (an important consideration in the 94% of the Da Nang economy which is not related to tourism and has a strong export orientation).

In a sense, it is obvious that ‘fixing’ the tourist in Da Nang for a longer period under the ‘**Stay another Day**’ scenario, assuming no change in visitor numbers or daily spend, results in a corresponding increase in tourist turnover. The difficult issue is *how* to achieve this? This is where many of the initiatives progressed by the tourism value chain study process focus.

The empirical analysis suggests that ‘Strengthening **local linkages**’ *per se* has a limited impact – either on the economy or the poor. The effect of doubling retail expenditure for international tourist (from the current level of \$22.8 in Da Nang to the \$42.4 prevailing in neighbouring Quang Nam) and doubling the proportion of agricultural supplies procured locally (from the current 20% to 40%) has a relatively incremental impact on all scenarios.

Under ‘Nightmare scenario’ strengthening local linkages increases tourist turnover from \$33m to \$35m per year and increases pro-poor flows from \$8m to \$10m (just below where benefit flows to the poor are today). At the other end of the spectrum under ‘Stay another day’, strengthening local linkages increase tourist activity from \$104m to \$109m and pro-poor flows from \$25 to almost \$32m per year. In themselves these are useful, but not enormously significant, improvements.

This reflects the fact that tourism in Da Nang is already inherently rather pro-poor and, due to diminishing returns, additional benefits become increasingly difficult to achieve. It also reflects the poverty of the rural hinterland around Da Nang. Whilst, doubling local agricultural procurement has no impact on tourist turnover and only increases pro-poor benefit flows by about \$0.5m per year – this would have a dramatic effect on the 1 400 additional farmers accessing the tourism value chain.

The important point is that local linkages should be seen as a critical *means to an end* – rather than an end in their own right. In Da Nang the main goal is to attract upper-end tourist and slow them down. For instance, the reason the study team dedicated time to facilitating improvements around the Cham Museum in Da Nang was not simply to raise revenue from the excursion and benefit the livelihoods of any poor people participating in the activities. The objective was to provide a reason for tourists spending an hour in the museum on a bus tour to stay for lunch. For tourists already staying in Da Nang, the proposals for a cultural evening, night tours and a candle-lit market are not intended just to create a little additional revenue for a new excursion, but rather designed to encourage tourists to stay for an extra night. As our projections illustrate, yield very significant benefits to entrepreneurs and the poor in Da Nang.

Encouraging business tourism in Da Nang is an important element of the strategy to retain tourist for longer and is completely compatible with encouraging up market beach-front accommodation, as the Furama has discovered. The *Tourist Expenditure Survey 2005* found that business tourists stay in Da Nang twice as long as leisure tourists. Foreign tourists visiting relatives and travelling for relaxation have a LoS of just 1.7 and 2.0 days respectively (exactly the same length of visit as for Quang Nam and Hue). This suggests that any attempt by Da Nang to encourage longer visits by seeking to emulate its neighbours will fail – partly because Da Nang is different. However, even if Da Nang was not different, the strategy would fail because tourists have a short LoS at well-developed cultural, leisure destinations in Central Vietnam.

However, the LoS for foreign tourists attending conferences and on trade affairs are 4.0 and 3.3 days respectively. The irony here is that Da Nang's greatest tourist asset beyond the excellent transport infrastructure and China Beach may be precisely the fact that it is a vibrant industrial City with a tourist sector attached – rather than a tourist playground with a local economy focusing on serving the tourist market and, therefore, locked into a short stay leisure tourism scenario.

6. PROPOSALS

Local economic development is not just about long-term, strategic goals. It is also about the achievement of pragmatic ‘quick wins’ that can be implemented with impact and rapidly. In Appendix 7, twenty five proposals generated by this process are detailed and justified. In this section the proposals are clustered beneath categories that reflect the strategic challenges facing tourism in Da Nang:

- Reverse the recent collapse in tourist demand;
- develop the beach; and
- encourage tourists to stay longer.

6.1 Reversing the recent collapse in tourist demand

Perhaps the most important action under this strategic goal is to help tourist stakeholders understand that, despite increasing tourist arrivals, Da Nang tourism has experienced a very recent and very serious down-tum in tourist demand.

Beyond recognising the problem (by, for instance, improving data processing by the Department of Tourism), the actions under this strategic challenge focus upon improving the tourist enabling environment in Da Nang. Many of these activities seek to support enterprise development in the City through stimulating tourist demand; tourism strategy development; developing stronger local supply linkages; and reducing administrative constraints to enterprise.

Short-term proposals:

- Set up information boards and maps indicating tourism attractions at crucial points (Department of Tourism, PPC);
- Improve the data processing in the Department of Tourism by giving advice (Department of Tourism, VPSSP)
- Support Tourism Association to build a website (Tourism Association, VPSSP);
- Create Da Nang tourism promotion brochures and deliver freely (Department of Tourism);
- Form Advisory Panel of tour guides to work with the Tourism Promotion Centre (Department of Tourism, Tour Guide Association);

- Introduce Da Nang Hotel Award (Tourism Association);
- Provide beach volley ball facilities (Department of Sport, Department of Tourism); and
- Introduce new forms of public-private dialogue forum for tourism (Department of Tourism, VPSSP).

Medium term proposals

- Set up more stone statues in the City (PPC, Stones Craft Village);
- Tourism awareness campaign (mass organizations);
- Develop a Da Nang tourism strategy – without copying Hoi An or Hue. It is clear that tourism in Da Nang should not mimic these two very different destinations but can link Da Nang tourist development with these neighbouring localities through, for instance, day trips (Department of Tourism, PPC and VPSSP); and
- Department of Agriculture with Metro to identify and support new entrants to agricultural supply chain (Department of Agriculture, Metro).

Long term proposals

- Memorial plaques at historical sites in the City (PPC, Department of Culture and Information); and
- Extend closing times of bars and clubs to encourage investment in night entertainment (PPC).

6.2 Harnessing the Beach

As the scenario modelling experience illustrated, not only developing accommodation on the beachfront at Da Nang, but developing a high-end tourist product is essential for the City to move to the next level of tourist development. This partly requires appropriate accommodation to be constructed but also for a range of appropriate supporting services to be available.

Short term proposals

- Encouraging English language skills for taxi switchboard operators (initially and, later, with taxi drivers themselves) is an important support strategy to encouraging more up-

market tourists to beach resorts. Two-thirds of these tourists are likely to be foreign in the short-term and a high proportion of these do not speak Vietnamese. Unless non-Vietnamese speaking tourists can communicate with taxi operators, this vital part of the tourist infrastructure is inaccessible to them (large taxi companies)

Medium term proposals

- Organise beach volley ball tournament (Department of Sport, business opportunity);
- Study the development of the beach front in Nha Trang and consider the lessons learned – particularly with respect to the entertainment and other facilities provided on the beach-front (VPSSP, DPI, Department of Tourism, and PPC)

Long term proposals

- Include deposit and performance bonds in future resort development licenses to avoid a repeat of the apparent land ‘hoarding’ experiences of recent years and to ensure that the current resorts being constructed are completed (DPI, PPC).

6.3 Staying another Day

Getting tourists to slow down and stay longer in Da Nang is the variable that will have the largest impact on the economic contribution of tourism to the City economy. It is also the most difficult variable to influence and none of the proposals listed below will, in isolation, achieve this goal.

The cluster of activities below focus on providing evening entertainment in Da Nang (cultural evenings at the Museum; night tours of the city; candle-lit market along the river; better gastronomy; access to craft; etc). This partly reflects weaknesses in the destination in these activities.

However, in addition, the impact of providing evening entertainment for a tourist is to ‘lock’ them into staying another night at the destination. Evening entertainment is also very important for a destination where tourists are generally occupied during the day (on the beach or on day trips to cultural sites for leisure tourists and working for business tourists). This is the link between the seemingly inconsequential and disconnected initiatives proposed below, and the grand vision of retaining tourists for longer in Da Nang.

Short term proposals

- Connect Cham Museum and Apsara Restaurant using architectural theme (Apsara, VPSSP, Cham Museum)

Medium term proposals

- Weekly candle-lit market along the Han River (business opportunity);
- Concession Cham Museum shop to up-market outlet (Cham Museum);
- Once weekly cultural evening in grounds of the Cham Museum (Cham Museum, Tourism Association, Apsara); and
- Facilitate enterprise development and cluster activities in Marble Mountain village – e.g. joint purchase, joint marketing (VPSSP, Non Nuoc Association).

Long term proposals

- Work with tour operators to design night tour of Da Nang (Tourism Association, tour operators); and
- Encourage linkages between restaurant chefs, Metro wholesaler and visiting expert chefs (Metro, Tourism Association)

7. WAY FORWARD

Since the Presentation Event there have been a number of meetings with the host and two follow-up missions from external specialists to operationalise the action plan agreed in the diagram below.

Specifically, there has been material progress with the following proposals:

- Improving statistical data processing: a technical expert has been selected and a scope of work and implementation programme agreed. The Department of Tourism is awaiting the approval of the EC Delegation to finalise the Report recommendations;
- Support for the Tourism Department Website: the Department intends to establish a website that can provide information and include an on-line booking service. During the April mission the study team liaised between the Department and the World Hotel Link (which already runs a booking service for independent travellers needing accommodation in Da Nang). The concerns the Department has with the WHL were addressed throughout the mission. There are, for instance, no financial barriers to entry for small and less well-resourced hotels making use of this service. Indeed, it was to serve these establishments that WHL was originally conceived. There is no obstacle to the Departmental website linking through to the WHL booking service;
- At the Cham workshop in April 2007, it was revealed that the Cham Museum is to become operationally independent in Q3 2007. This institutional change will allow the Museum management to go forward with plans for a weekly Cham cultural evening; open a new souvenir shop within the Museum; open a café in the Museum; and form an institutional linkage with the Apsara Restaurant and the tour operator – Vitour. This collaboration will focus on initiating the planning of the cultural evenings in May 2007 for implementation in Q3 2007 and will also work to enhance the knowledge of Cham culture of the existing Museum guides;
- At the taxi Way Forward Workshop in April 2007, all of the four largest taxi companies in Da Nang participated. It was agreed to jointly locate training materials and trainers by the beginning of May 2007, hire accommodation for training and select trainees in June and start training with three classes each week. The training of taxi drivers is more complicated logistically because of the larger number of trainees. It was agreed that each taxi company would run a course for its own drivers. Materials will be located in August; and trainers, accommodation, and trainees located in September 2007.

Appendix 8 outlines the conclusions of these Way Forward Workshops in detail.

Investigation
Preparation
Implementation

Figure 21 Action Plan

	2007												2008					
	January	February	March	April	May	June	July	August	September	October	November	December	January	February	March	April	May	June
Agree responses to proposals in Tourism Report																		
<i>Review proposals in Report</i>																		
<i>Resolve queries & refine / change proposals as necessary</i>																		
Establish Advisory panel comprising tour guides & Tourist Association																		
<i>5.1: Agree operating procedures for Forum</i>																		
<i>5.2: Establish the forum</i>																		
OUTPUTS:																		
Improve statistical data processing																		
<i>Define user-group(s) of stakeholders needing tourism data</i>																		
<i>Design new data sheets and publish</i>																		
New Proposal: Improve Da Nang Tourism Dept. website																		
<i>Draft Terms of Reference</i>																		
<i>Agree finance & select service provider</i>																		
<i>Implement design phase</i>																		
Support Tourism Association re-design website																		
<i>Draft Terms of Reference</i>																		
<i>Agree finance & select service provider</i>																		
<i>Implement design phase</i>																		
Improve Da Nang tourism brochures																		
<i>Design brochures with TA & Guides</i>																		
<i>Resolve funding & distribution issues</i>																		

