



The Tourism Sector in Mozambique: A Value Chain Analysis

VOLUME I



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Foreword

On behalf of the Government of Mozambique (GOM), the *Centro de Promoção de Investimentos* (CPI), and the Ministry of Tourism (MITUR) requested the Foreign Investment Advisory Service (FIAS) to conduct a study of the characteristics of the tourism value chain in Mozambique. The CPI and MITUR view the competitiveness of the tourism sector as a key pillar in the Government's pro-growth and poverty-reduction policy agenda.

The principal purpose of the study is to determine the salient features of the value chains in Mozambique's tourism sector and to identify the opportunities and constraints that might keep the sector from fulfilling its economic and social potential. The study identified five different itineraries – originating either regionally or internationally to points in northern and southern Mozambique. For each itinerary, every major activity along the tourism value chain was analyzed to identify whether the industry performance specific to each itinerary is conducive to the Government of Mozambique's (GOM) growth goals, and whether the service providers are competitive regionally and internationally. This study provides the GOM with analysis and benchmarking to highlight features of the itineraries from which the international competitiveness of the tourism sector is assessed and appropriate measures to improve the legal, regulatory and institutional framework are identified.

The report is split into two Volumes I and II. Volume I contains the core analysis, policy recommendations and detailed value chain analysis of three itineraries. Volume II includes the value chain analysis of two road based itineraries and other reference material from which additional policy recommendations were drawn.

The study was conducted by a core team led by Uma Subramanian (FIAS) and Andrea Goldstein (Organization for Economic Cooperation and Development) with Kristoffer Hvidsteen (FIAS) and Victor Abiola (FIAS) as core team members. Consultant Iain Christie provided technical inputs for the project. The team consulted with Gilberto de Barros (AFTPS), Irene Visser (CAFAF), Charles Schlumberger (TUDTR) on the study.

In preparing this report the team used some inputs from field work conducted by consultants, Amit Sharma, Iowa State University and Shaun Mann. In addition, the team conducted extensive detailed interviews with key stakeholders (foreign and domestic investors, tour operators, travel agents, hotel operators and domestic trade and professional associations) to supplement the information. The team worked closely with officials from relevant ministries and agencies and received guidance, inputs and excellent cooperation from the CPI and MITUR.

In the first half of 2006, the team will present its preliminary findings of the study at a Public-Private sector forum in Mozambique. Comments resulting from those discussions will be incorporated into the final report.

The project was co-financed by the FIAS, the OECD Development Centre and the Swiss Agency for Development and Cooperation.



MOZAMBIQUE

- SELECTED CITIES AND TOWNS
- ◉ PROVINCE CAPITALS
- ★ NATIONAL CAPITAL
- RIVERS
- MAIN ROADS
- RAILROADS
- PROVINCE BOUNDARIES
- - - INTERNATIONAL BOUNDARIES

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Abbreviations

| | |
|--------|---|
| ADR | - Average Daily Rate |
| BASA | - Bilateral Air Service Agreement |
| CAS | - Country Assistance Strategy |
| GOM | - Government of Mozambique |
| CPI | - Centro de Promoção de Investimentos (Investment Promotion Centre). |
| DB | - Doing Business reports |
| FIAS | - Foreign Investment Advisory Services |
| FDI | - Foreign Direct Investment |
| FUTUR | - Tourism Fund |
| GDS | - Global distribution system |
| GOM | - Government of Mozambique |
| GSA | - General Sales Agent |
| ICA | - Investment Climate Assessment |
| IFC | - International Finance Corporation |
| INE | - National Statistics Institute |
| LAM | - Mozambican National Airlines |
| MIGA | - Multilateral Investment Guarantee Agency |
| MITUR | - Ministry of Tourism |
| MSME | - Micro-, Small- and Medium-Sized Enterprise |
| OECD | - Organization for Economic Cooperation and Development |
| PARPA | - Plano de Ação para a Redução da Pobreza (Action Plan for Reduction of Absolute Poverty) |
| PSD | - Private Sector Development |
| RSA | - Republic of South Africa |
| SEATIP | - South East Africa Tourism Investment Program |
| SME | - Small and Medium Enterprise |
| TBF | - Tour based fares |
| TFCA | - Trans Frontier Conservation Area |
| TO | - Tour operator |
| UNCTAD | - United Nations Conference on Trade and Development |
| VAT | - Value Added Tax |
| VC | - Value Chain |
| WTO | - World Tourism Organization |
| WTTC | - World Travel and Tourism Council |

Executive Summary

Since the 1980s, the Government of Mozambique (GOM) has implemented many ‘first generation’ structural reforms such as adopting sound fiscal and monetary policies, privatizing public enterprises and liberalizing trade. The reforms have helped stabilize macroeconomic balances and supported the remarkable growth performance since 1992. In 2000, the GOM adopted the Action Plan for Reduction of Absolute Poverty (PARPA) as a medium-term rolling instrument incorporated into the public planning system. Tourism is seen as a priority area in which additional investment may create the jobs that are necessary to meet the PARPA objectives. This expectation is sensible and reasonable, as most developing countries have increased market shares in international tourism. Sub-Saharan Africa, in particular, has experienced very strong growth in tourism within the last two decades – increasing its market share of global arrivals from 1.5% in 1970 to 4.5% by 2003.

Despite a strong tourism asset base and its geographic proximity to South Africa, one of the world’s top destinations, Mozambique still trails behind all its neighbors excepting Malawi. Despite a quite impressive growth rate of 13% per annum (1999-2003), the average number of tourists per 100 inhabitants, at 2 for Mozambique is half of that of Africa, and well below the world average of 11 per 100 inhabitants. Mozambique’s poor performance reflects problems with the country’s overall image, product variety and quality of tourists’ experiences. Realizing this potential depends substantially on the ability of all players in the Mozambique tourism value chain – from providers of final goods and service, to other suppliers and government officials – to create and deliver high-quality tourism experiences that can transform the country into a “must see” destination in Africa.

This study provides the analytic input for policy dialogue with government and relevant private sector by examining the constraints and challenges that undermine growth of tourism in Mozambique. It outlines actionable measures that can help to catalyze tourism growth in the country, and presents recommendations for removing investment climate constraints that undermine the competitiveness of firms in the travel and hospitality industries. By focusing on constraints for each activity within the value chain of a tourism product, the study provides comprehensive insights that complement previous and ongoing work for tourism development in Mozambique (such as Trans Frontier Conservation Areas, Investment Climate Assessment and studies of institutional marketing). The study’s main objectives are to:

- a. Enhance public and private awareness and forge consensus on the scope, importance, and impact of investment climate constraints on the tourism industry;

- b. Identify and prioritize the challenges and opportunities for increasing the Mozambique's access to, and share of, global and regional tourism markets;
- c. Assess the performance of tourism industries (e.g. hotels, airlines, transport) along the value chain in responding to these challenges and opportunities confronting the travel and tourism sector in the country;
- d. Identify potential measures to address these constraints and
- e. Increase Mozambique's share in the value added in the tourism industry.

The value chain analytic framework applied in the study uses five selected travel itineraries representing diverse source markets (Portugal, South Africa, Europe), itineraries (air- and road-based), destinations (Maputo, Vilanculos-Bazaruto and Pemba-Quirimbas), tourism products (beach, MICE, adventure), and customers. The framework provides a step-by-step mapping and assessment of the chain of activities involved in the production and delivery of a tourism experience. Mozambique's competitiveness at the industry level, as well as the economy level more broadly, is analyzed using a number of metrics and indicators.

The value chain approach to tourism covers all stakeholders involved in delivering a tourism experience (see Table 1). This enables a strategic way of identifying and prioritizing critical issues along the chain, and developing targeted solution interventions to achieve maximum impact. The disaggregated approach allows drilling down at an itinerary-specific level while also capturing economy-wide policy issues. Thus the scope could include issues associated with specific bureaucratic constraints that affect ease of entry of small enterprises; taxes and duties that increase input costs of hotels; land use issues that constrain expansion of the hotel industry; protective government policies in the airline industry that affect price and supply of flights.

Table 1: Stakeholders in the tourism supply chain

| | Public | Private |
|-------------------|---|--|
| Service providers | LAM, airports operators and ground handlers, travel information offices, custodians of public museums, attractions, and monuments, municipal bus service providers, rail transport providers, and so on | Tour operators and travel agents, domestics airlines (e.g. Assas, Air Corridor), international airlines, ground operators in Maputo International airport, hotels, taxis, car and truck hire companies, "chapas", shops, restaurants, diving services, security services, and so on |
| Key Institutions | MITUR, FUTUR, CPI, Ministry of Industry and Trade, Civil Aviation Authority, Ministry of Foreign Affairs, Customs and Immigration | Industry and Business Associations (e.g. Hotel Associations, Travel Agency and Tour Operator |

| | | |
|--|---|--|
| | (e.g. Higher Technical Council of Customs), Ministry of Environment, Ministry of Transport and Public Works, Ministry of Lands and Urban Development, and so on | Associations, Tour Guide Associations, Divers Associations, and so on. |
|--|---|--|

Drawing on the value chain assessment and benchmarking methodologies the study identifies the following specific constraints, challenges, and opportunities for action. The study provides an action plan for clearing away the roadblocks for a more effective tourism development strategy that can enhance Mozambique's overall growth and competitiveness.

Priority Issues and Action Plan Matrix

| HIGH PRIORITY ISSUES | ACTIONS |
|--|---|
| <ul style="list-style-type: none"> • Visa requirements: Long visa processing times and higher costs relative to competing destinations that offer visa free entry. Brazil and Cape Verde do not require visas for Portuguese tourists; Mauritius, Seychelles, Maldives for EU citizens). • Delays and hassles for tourists are prevalent in airports. • Delays at the border crossings and high transaction costs of importing necessary goods across international and provincial border points raising cost of hotel operations, for instance. | <ul style="list-style-type: none"> • Provide and publicize clear information for visitors of entry/exit requirements and train immigration and airport staff to understand how to handle tourist expectations at entry/exit points. • Remove visa requirement for major source markets, keeping in view, upcoming initiatives like UNIVISA. Streamline frontier formalities (entry/exit) to reduce waiting times at borders. Also strengthen border processing capacity and intensify negotiations on one-stop border posts with South Africa and other selected transport corridors around the country. • Also mechanisms to enable tour operators to pre-arrange visa and entry permits should be established. |
| <ul style="list-style-type: none"> • Direct intercontinental air flights from other destinations in Europe are limited. As a result intercontinental air fares to Maputo are relatively more expensive when compared to business conference destinations in South Africa. • Bilateral Air Service Agreements restrict air services and fares. Regional air fares to Maputo are also less price-competitive when compared to airfares to South Africa. This undermines Mozambique's price competitiveness for business conference and leisure tourism • Domestic air services: Lack of reliability regarding delays, cancellations and re-routing, and international agents can not issue domestic airline tickets - resulting in operational delays and tourist being stranded in airports due to missed flights • Inadequate navigational facility at most domestic airports prevents night flying; resulting in lay over required at Maputo en-route to Vilanculos/Pemba • Loss and pilferage of baggage particularly on connections via Johannesburg airport | <ul style="list-style-type: none"> • Revisit bilateral air service agreements with the South Africa (e.g. to remove restrictions on seat capacity). Establish bilateral agreements with key source markets to create possibility for direct flights from the EU (e.g. to Maputo and Pemba). Liberalize agreements with other hubs in Africa. Also revise policy on charters to allow for more frequent back-to-back operations • Establish payment system and modalities to allow foreign travel agents and operators to issue air tickets, and access airline seat inventories for LAM and other domestic airlines • Review airport policies and establish monitoring systems at airports to measure performance and progress in service quality improvements e.g. customs, immigration, delays, baggage-related complaints. Carry out detailed audit and assessment of airport infrastructure improvement needs, starting with extension of runway and night flying equipment in Vilanculos and Pemba • Examine and resolve issues that originate from key regional connection points to Mozambique – particularly Johannesburg airport which is the source of many lost/stolen baggage, slow processing of insurance claims, and so on |
| <ul style="list-style-type: none"> • Bureaucratic constraints (e.g. 153 days to start a business; 212 days to secure licenses); reconciling | <ul style="list-style-type: none"> • Streamline administrative procedures – particularly licensing requirements and |

| | |
|--|--|
| <p>dealings with state, province and municipal authorities etc. adds to the cost of doing business. Permits for taxis, camping sites etc. take very long to secure</p> | <p>business start-up procedures for hospitality firms including: tour operators, taxi companies, and other ancillary service providers (restaurants and entertainment facilities) servicing the tourism industry. Also implement clear penalties to discourage license hoarding</p> |
| <ul style="list-style-type: none"> • Access to land particularly in good locations is problematic. Increasing competition for land-use rights for expansion of tourism are compounded by difficult property rights issues. | <ul style="list-style-type: none"> • Provide investors in hotels and other establishments with a one-stop source of accurate information and processing of user rights on land, with clear delineation of roles and responsibilities between the local and central levels of government. Also promote a pro-active system of community-driven preparation of land for tourism based investment and activities. Here, all land issues are dealt with, before hand, by the community itself, prior to the investor's bid for such tourism assets |
| <ul style="list-style-type: none"> • MICE market severely under-developed in Maputo leading to under utilization of Convention Center and hotel capacity. • Almost no presence in the international conference and event management market • No event organizers • No concerted marketing efforts for business tourism in Maputo | <ul style="list-style-type: none"> • Privatize the management of the Maputo Convention Center to improve visibility, revenue and capacity utilization. Set up a destination marketing organization that will promote tourism (including MICE tourism) in Maputo |
| <ul style="list-style-type: none"> • Weak presence of Mozambican tour operators in regional/ global markets and limited collaboration between foreign and Mozambican tour operators. Ability of Mozambican tour operators to be competitive due to: <ul style="list-style-type: none"> ⇒ Perception of poor service, slow responsiveness; ⇒ Limited understanding of market requirements ⇒ Inability to secure competitive discounts from hotels and airlines ⇒ Weak coordination curtails ability to optimize product pricing and participate effectively in sales promotion campaigns • Limited availability of ancillary services (entertainment activities, technicians, handicraft, and so on) • Poor skill levels within the tourism industry in general | <ul style="list-style-type: none"> • Develop industry codes of practice and a functioning accreditation system for tour operators and related hospitality businesses (tour guides, divers, translators, airport taxis). Establish a system to benchmark firm performance, and reward high performing firms within each industry. • Establish a systematic skills development program for tourism industry: <ul style="list-style-type: none"> ⇒ Augment curriculum and improve training in the Hotel Andalusia and Technical and Vocational Education and Training programs under the TVET project ⇒ Training programs including staff exchange, between emerging Mozambique hospitality service providers (e.g. divers, tour operators, travel agents, hotel staff and middle management, handicraft etc) and their counterparts in key source/competing markets • Increase level of private sector input and involvement in strategic decision making (e.g. at Board level) in these institutions. |

| | |
|---|---|
| <ul style="list-style-type: none"> • Weak demand due to poor packaging and marketing; and inadequate quality of product and services • Foreign tour operators do not invest much in marketing Mozambique as a unique destination • No brochures, post cards and other advertising materials to promote tourism in Maputo city • Public and private investment to develop, maintain and market tourism assets is low. • Limited co-ordination among stakeholders—airlines, hotels, tour operators, retailers, restaurants, and public sector agencies (e.g. MITUR, FUTUR, mayors, governors.) -- to effectively develop, manage, and market Mozambique's image and destinations | <ul style="list-style-type: none"> • Develop a coherent short-medium term strategy for tourism marketing <ul style="list-style-type: none"> ⇒ Pursue more aggressive joint marketing and collaboration between Mozambique and South Africa in order to leverage expected increases in tourists' visits due to the upcoming 2010 World Cup Championship. ⇒ Involve private sector actors along the value chain e.g. hotel and tour operators; tour guides, airlines in marketing Mozambique as destination ⇒ Define tourism image, and key source markets other than current sources ⇒ Update and manage distribution of promotional material on the country, including maps, schedules of events and country data, post cards, and so on, ⇒ Effective participation in world travel market events ⇒ promote e-tourism and on-line destination marketing techniques such as World Hotel link.com. ⇒ Develop joint public-private funding mechanisms for marketing |
| <ul style="list-style-type: none"> • Need for addressing cross cutting issues that cut across multiple ministries and agencies. Currently, the inter-ministerial committee is not being effectively deployed. • Unclear delineation of responsibilities between MITUR and FUTUR constrains effective public sector role in developing and marketing tourism in Mozambique | <ul style="list-style-type: none"> • Intensify use of inter-ministerial committee to address key tourism industry issues such as: <ul style="list-style-type: none"> ⇒ air transport issues with Civil Aviation Authority, ⇒ visas issues with Foreign Affairs Ministry, managing tourism assets (e.g. infrastructure, public works, urban and city transport development) ⇒ review responsibilities for tourism development and marketing between MITUR, DINATUR, CPI and FUTUR to eliminate overlapping roles and activities. |
| <ul style="list-style-type: none"> • There are no clear or concerted mechanisms to ensure the development and restoration of historic monuments and sites (e.g. Elephant Reserve, Ilha da Moçambique, Ruins of the Bazaruto Fishing Pearls Company) | <ul style="list-style-type: none"> • Establish responsibility for restoring, maintaining and marketing key existing tourism assets (e.g. the coastal resources, Elephant Reserve, Ilha da Moçambique, Ethnology Museum, etc.). Develop a sustainable financing plan for restoration and maintenance activities. Start with the Elephant Park and Ponto d'Oro. |

A more detailed action plan is provided in Chapter 4 of the report.

Chapter 1 – Introduction

Since the 1980s, the Government of Mozambique (GOM) has implemented many ‘first generation’ structural reforms such as adopting sound fiscal and monetary policies, privatizing public enterprises and liberalizing trade. The reforms have helped stabilize macroeconomic balances and supported the remarkable growth performance since 1992. In 2000, the GOM adopted the Plano de Ação para a Redução da Pobreza (PARPA) as a medium-term rolling instrument incorporated into the public planning system.

The PARPA progress report concluded that while Mozambique has achieved strong economic growth weaknesses and vulnerabilities remain¹: To reach the PARPA goals of an 8% annual growth of GDP for the next 7 years, the GOM must address the remaining vulnerabilities in the financial sector and constraints to private sector development, particularly those relating to the costs of doing business. The progress report further highlighted the need for diversifying into other sectors such as tourism, and for increased support to boost performance of Micro-, Small-, and Medium Sized Enterprises (MSMEs).

This study is part of a larger effort to achieve the goals outlined above. The Ministry of Tourism (MITUR) and the *Centro de Promoção de Investimentos* (CPI), on behalf of the GOM, requested FIAS² help identify salient features which matter most for efficiency and competitiveness of value chain in the Mozambican tourism sector and the business environment. The study analyses the microeconomic and structural dimensions of Mozambique’s tourism sector to single out the factors constraining the functioning of product and factor markets, as well as the delivery of financial- and infrastructure services that adequately meet the changing needs of the average tourist visiting Mozambique. The removal of these constraints will allow the tourism sector to improve its performance, and to contribute more to growth, employment and the reduction of poverty.

BACKGROUND OF THE STUDY: RECENT ECONOMIC GROWTH

Since the end of the armed conflict in 1992, Mozambique has staged a dramatic recovery with an average annual growth rate of 8% in the period 1992-2002. The poverty reduction goals have so far been met, with a 23% reduction of people below the national poverty line by 2003. One of the main drivers of the recovery has been the inflow of Foreign Direct Investment (FDI), particularly to a number of ongoing mega projects in the country (e.g. MOZAL I and II, SASOL, the Pande gas fields, the Cahora Bassa dam). However, these mega projects have done little to stimulate broad-based growth. Many remaining problems in the investment climate –

¹ Chairman’s summary of findings for IDA Board of directors Meeting July 2004 on the assessment of the progress of the PARPA.

² Advisory and technical assistance facility of the World Bank and the International Finance Corporation.

demonstrated by the *Doing Business*³ ranking of Mozambique – have also hindered the creation of new employment that is required to face demographic challenges and further reduce poverty.

The inefficiencies in the business environment have their heaviest impact on the country's 27,800 MSMEs, which make up the vast majority of Mozambican enterprises. The Administrative Barriers study carried out by FIAS in 1996, the World Bank's Investment Climate Assessment (2003), and the *Doing Business* reports all underscore the significance of the legal, regulatory and institutional environment for business. Although there's not any single pivotal obstacle, the cumulative effect of these barriers curtails firm productivity. This is exacerbated by low skill levels in the labor force, which largely off-set the advantage of an abundant supply of low-cost labor. The GOM has stepped-up efforts to address many of these issues, but a lot still needs to be done to improve Mozambique's global competitiveness.

Of particular concern is the weak state of the local private sector, which has not been able to take advantage of opportunities in the domestic, let alone regional, market. The GOM and the donor community agree on the need to develop sectors such as tourism and step up support for MSMEs that are labor-intensive and hence may bring about the desired goals of equitable growth. The tourism sector is labor intensive and the indirect contribution to the rest of the economy through linkages to other industries can be quite significant depending on how well integrated tourism is with the rest of the economy.

The tourism sector was once a significant part of the Mozambican economy but 19 years of armed conflict starting in 1972 put a stop to international arrivals and has set Mozambique back to square one. Mozambique's comparative advantage – its marine and terrestrial wildlife resource base and historical and cultural heritage – is still valid, although wildlife was decimated during the armed conflict. Images of armed conflict, landmines, and floods still linger in the minds of tourists.

Numerous studies, interviews and site visits, confirm Mozambique's potential as a world-class tourist destination. At present, tourism's current share of GDP is relatively small. Its direct contribution to the economy was estimated at 2.5% of GDP in 2003 according to the WTO. In comparison, tourism's share of GDP is about 6.9% on average in Sub-Saharan Africa, 8% in South Africa, and 10.2% worldwide. Yet, the future for tourism development in Mozambique is bright, and the prospects for growth are real. Already, tourism contributes about 12% of the country's exports. Hence it is becoming a significant driver with strong underlying positive trends for growth in the Mozambican economy. .

³ In terms of indicators such as 'starting a business', 'hiring and firing workers', 'enforcing contracts' and 'closing a business', Mozambique ranked almost last in the world in the 2004 report. For example, it takes 540 days to enforce a contract, 153 days to start a business, and it costs the equivalent of 100% of GNI per capita to do it. So, while government resources are strained and cannot be used to finance capital formation, tight regulation of the private sector curbs investment, and depresses efficiency and productivity growth.

In all, there is considerable opportunity for Mozambique to make up for the time it lost during the armed conflict years, catch up with neighboring countries and participate fully in international and regional growth of tourism. The growth path of the tourism sector appears to be hanging in the balance – it may take off on a rapid growth path or succumb to unfavorable conditions in the business environment for yet another decade of relative stagnation. This study helps to identify those issues that should be addressed by both the public and private sector in Mozambique in order to avoid stagnation and relative decline.

CONTEXT OF THE STUDY

The GOM views the tourism sector as a priority area for a variety of reasons including: (1) the sector has a vast potential to develop and increase revenues from a hitherto partly unexploited resource base; (2) international tourism will increase exports and diversify the export base; (3) tourism services are labor intensive and provide skill sets that are widely applicable in other trades.

Following the presidential elections in December 2004, the new government moved quickly to set an ambitious agenda. It reconfirmed the growth goals of the PARPA and spelt out its commitment to developing the tourism sector. The new GOM wishes to ensure that the benefits of tourism extend to all parts of the country and that strong linkages be forged between tourism and other sectors. The Ministry of Tourism was created in 2000 to develop the sector and it retained the same Minister following the elections. Its strategy is thus an extension of ongoing activities, policies and frameworks, based on four main objectives:

- Catalyzing private investment;
- Ensuring sustainable development;
- Improving technical capacity and quality through training; and
- Enhancing the tourism product.

The GOM recently developed a Strategic Plan and adopted a new tourism law to enable the growth of the sector⁴. The process of developing the framework was participatory, and there is now a sense that concrete action needs to be taken to consolidate progress made since 2000. Drawing on this background, this study helps to set out some clear priorities for a way forward for the sector. The study focuses on identifying impediments in the legal, regulatory and institutional environment, as well as inadequacies in infrastructure services that affect growth and development of the tourism sector. It then goes further to discuss some prospects for mitigating these impediments.

The study builds on FIAS' previous work in Mozambique, including the recent update on implementation of the 1996 Administrative Barriers study that found that, although there is a high-level government awareness of the need for reform, much

⁴ "The Tourism Policy and Implementation Strategy" and "The Strategic Plan for the Development of Tourism in Mozambique (2004-13)" both in 2003.

still remains to be achieved to ease the business environment confronting firms and farmers in Mozambique. Some progress has been made towards reforming customs procedures and business registration, but much-needed reforms in land and labor markets were still at a standstill in the run-up to the December 2004 elections.

The study feeds into other related activities in the WBG's program in Mozambique. It is one of the sectors studied under the Bank's PSD Growth and Competitiveness Strategy, which was jointly developed with the GOM and is aligned with the objectives of PARPA and the World Bank's Country Assistance Strategy (CAS) for Mozambique. The insights and recommendations from the study also feed directly into the two ongoing consultancies on Tourism Establishment Classification and Tourism Regulations in the country, and provides valuable input into the Trans Frontier Conservation Area (TFCA) project.

The study also has strong synergies with on-going work by MIGA and IFC, including the ongoing joint World Bank/MIGA capacity building project with Mozambique's investment promotion Agency (CPI), and MIGA's cross country benchmarking study that includes the tourism sector. IFC's strategic priorities in Mozambique include a focus on: a) financing natural resource-based and energy projects; b) supporting private infrastructure, focusing on privatization and liberalization; c) encouraging the development of small and medium enterprises, especially in the tourism and agribusiness sectors; and d) developing financial markets and pursuing opportunities in leasing, insurance and microfinance. In particular, IFC is assisting MITUR in developing some anchor investment projects to improve tourism products offer in Mozambique, which draw on findings from the study.

Lastly, the report is aligned with other donor-funded development projects ranging from coastal zone management to tourism marketing and eco-tourism development (see Annex 6). Strong coordination among donors is necessary to leverage resources in a manner that will ensure effectiveness of these various ongoing projects.

The remainder of the report is organized as follows; Chapter 2 examines tourism trends in Mozambique. Chapter 3 focuses on the tourism value chain in Mozambique, with description, analysis, and value mapping for 3 individual itineraries: 1) Lisbon-Maputo-Vilanculos/Bazaruto; 2) London-Johannesburg-Maputo-Pemba/Quirimbas; and 3) Europe/USA/Regional Traffic – Maputo. Two additional road-based itineraries were also examined to assess constraints unique to adventure and independent travelers that would travel Mozambique by car and/or train. A detailed breakdown of these two itineraries is provided in Annex 1 and 2 of the report. Drawing on the insights from all five itineraries, Chapter 4 provides a brief thematic assessment of the Mozambican tourism sector, and draws out implications for policy. A set of actionable recommendations are presented in an action plan matrix as part of the concluding sections of the report.

Chapter 2 - Tourism trends in Mozambique

The analysis presented in this report draws on a combination of primary and secondary sources of data. Primary data was collected and verified from interviews with a variety of stakeholders along the entire tourism value chain. Secondary data were drawn from the latest available reports of the Statistical Bureau of Mozambique, the World Tourism Organization, and various other assessments that have been undertaken on behalf of central or municipal governments in Mozambique. Generally, the tourism data in Mozambique is fraught with considerable margins of error; however, with the combination of data sources and verification across the value chain the overall picture presented in this report is nonetheless clear and accurate reflection of the current situation in the country. The World Bank's Transfrontier Conservation Areas and Tourism Development Project (TFCA) is addressing some of the tourism data problems in the country, in greater detail.

INTERNATIONAL ARRIVALS AND RECEIPTS

Travel and tourism⁵ is a vital economic sector with an estimated 10.6% share of global GDP⁶. Tourism is a labor intensive sector, generating about 8.3% of global employment or jobs for around 220 million people⁷. It also accounts for over 10% of total employee wages and salaries⁸. The sector is the world's largest tax payer and accounts for about 25% of world trade in services⁹. Tourism is the world's fastest growing industry and is predicted to become the world's largest outside agriculture in absolute terms by 2010¹⁰.

In the past 55 years, global international tourism arrivals have grown by an average 7% p.a. - from 25 million in 1950 to 760 million today¹¹. International tourism receipts have grown from US\$2 billion in 1950 to US\$622 billion in 2004 world wide – a growth rate of 11% p.a. mainly due to an increase in receipts per international arrival¹². With countries like India and China just beginning to develop an outbound tourism market and the demographic transition in Europe and the US, tourism is

5 Tourism is defined as spending a finite period of time (less than a year) out of ones' usual environment. Tourism as an economic activity uses the output a range of industries – some which are characteristic to tourism like transportation and accommodation and some which are merely connected to tourism like trade and construction. Tourism characteristic industries are industries whose output would be significantly reduced in the absence of tourism. For industries connected to tourism, tourism is but one of many different final uses. See Annex 7 for a more detailed description of the structure of the sector.

6 Cf. WTTC (2005)

7 Cf. WTTC (2005)

8 Cf. UNCTAD (2003) Employment Report 2003, World Investment Report: Direct and Indirect Employment, and WTTC (2005).

9 Cf. IFC (2000)

10 Cf. IFC (2000)

11 In most countries across the world the domestic tourism component is probably larger than international tourism component. However, statistics on domestic tourism are not readily available as the statistical systems by design don't capture this. Also tourism is a special category of final use in national accounting that is not singled out – except in the case of Tourism Satellite Accounts cf. WTO (2001).

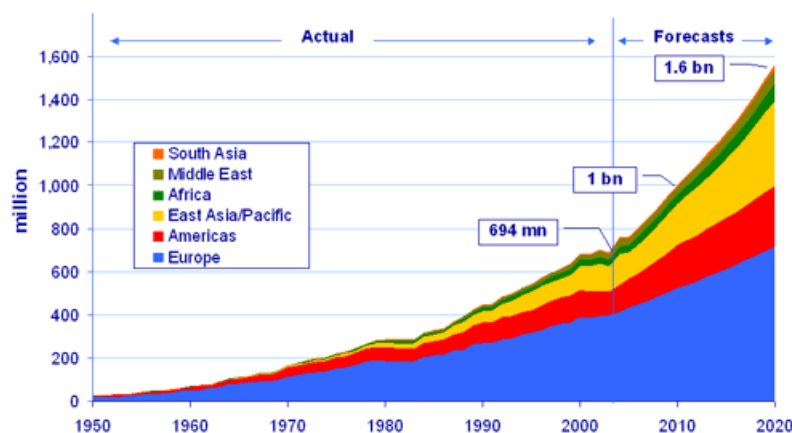
12 Cf. UNWTO (2005). The international tourism receipts are a standard component of the balance of payments and are defined as the cash spending by international visitors in the host country.

poised for more growth and international arrivals are predicted to reach 1.6 billion by 2020¹³.

Sub-Saharan Africa (henceforth, Africa) has experienced remarkable growth in tourism in the past two decades. First, the region's market share of international arrivals increased from 1.5% in 1970 to 4.5% in 2003 (Figure 1). That trend is projected to continue in 2005-2020, increasing Africa's share to 5% of total international arrivals by 2020¹⁴. In Africa, the fastest-growth markets are Southern and Eastern Africa, jointly accounting for 15 million or 52% of total arrivals to Africa.

Figure 1, International tourist arrivals 1950-2004 and forecast for 2005-2020

(Source: WTO (2005))



Mozambique has taken its fair share of the growth of the African market. Since the peace accord in 1992, international arrivals of tourists to Mozambique have grown rapidly from 240,000 in 1999¹⁵ to some

470,000 by 2004, an annual growth rate of about 13%¹⁶. This growth rate, however, is from a low level in absolute terms. At 4 and 2 tourists per 100 inhabitants respectively, both Africa and Mozambique compare rather unfavorably to a world average of 11 tourists per 100 inhabitants¹⁷.

Table 2: International tourism in Africa 1980-2004 and WTO forecast 2020

| | 1980 | 1990 | 2000 | 2004 | 2020 |
|--|------|------|---------|---------|------|
| International arrivals Africa (millions) | 7.3 | 15.0 | 29.0 | 30.8 | 77.3 |
| Africa's share of total international arrivals | 2.6% | 3.3% | 4.2% | 4.4% | 5.0% |
| International tourists to Mozambique | . | . | 240,000 | 470,000 | . |

Sources: WTO 2005 and WTO Barometer 2005, vol. 3, no. 3.

¹³ Cf. WTO (2003)

¹⁴ Cf. WTO (2002a) 'Tourism Vision 2020'

¹⁵ In 2003 Mozambique submitted statistics to the World Tourism Organization for the first time - the result of cooperation between Immigration and Tourism authorities, through the introduction of computerized entry registers and training of border officials in their use. The data from 1999 are the earliest available statistics. Other recent unofficial estimates which suggest that visitor arrivals to Mozambique were as high as 1,166,472 in 2005, of which 943,000 were tourists. About 90% of these arrivals were believed to be tourists from other African countries.

¹⁶ Cf. WTO (2005)

¹⁷ Cf. WTO (2003, 2005) and World Bank World Development Indicators (2005)

The average international receipts per arrival vary widely across the world as evidenced in table 3 below. In 2002, global average receipts were US\$675 per arrival. In Africa, international tourism receipts remain lower and average US\$404 in 2002. The difference is mainly explained by shorter average lengths of stay¹⁸.

Table 3 International tourism receipts for Mozambique and globally 2002*

| | 2002 |
|--|-------------|
| International tourism receipts Mozambique** (US\$ million) | 106 |
| Average International Tourism receipts per tourist arrival (US\$) | |
| World | 675 |
| <i>Africa</i> | 404 |
| <i>Europe</i> | 602 |
| <i>Americas</i> | 995 |
| <i>Asia and Pacific</i> | 721 |
| <i>Middle East</i> | 470 |
| Mozambique** | 240 |

*Sources: WTO 2004 Tourism Market Trends Africa Edition and WTO 2004b and INE. Notes: * Local currencies constant prices and current exchange rate, travel and passenger expenditure items from Balance of Payments statistics. ** 2003 data WTO (2005)*

Spending in Mozambique is comparatively low, international tourism receipts per international arrival reached US\$240 in 2003 – well short of the unit price in Africa (\$404) and the world (\$675). The disparity is explained by the short average length of stay, which is 2.3 days in Mozambique compared to 8.4 days for Kenya, for example¹⁹.

TYPES OF TOURISTS IN MOZAMBIQUE

In contrast to patterns observed elsewhere in Africa, the majority of international visitor arrivals in Mozambique are regional. On average, Mozambique attracts 6 times fewer inter-continental travelers than the rest of Africa. The share of inter-continental travelers of total arrivals is approximately 10% in Mozambique compared to approximately 60% for the rest of Africa.

South Africa accounts for the bulk of Mozambique's regional traffic with a share of 46% of all visitors to Mozambique. The only inter-continental market of any significance is Portugal with 26,000 arrivals in 2003 - a 4% share. All other inter-continental (EU except Portugal, Americas and Asia) markets generate a total of 23,000 visitors.

Of all tourist arrivals in Mozambique in 2003, the majority about 176,000 were business travelers. Visiting Friends and Relatives (VFR) account for 26% of all tourists. In total almost 70% of tourists are motivated by specific personal or

¹⁸ WTO (2004a).

¹⁹ Although the 2.3 days figure seems very low, it may be a reflection of a preponderance of business tourism (which innately is of a short-stay nature) and weekend trip leisure tourism.

business ties. The remaining 32% of the tourists visit Mozambique with the primary purpose of leisure, recreation and holidays. Compared to neighboring countries where the leisure segment accounts for upwards of 70% of tourists Mozambique's leisure market seems particularly depressed.

Table 4: Primary purpose of travel, Africa and Mozambique, 2001 and 2003

| | Mozambique 2003 | Africa 2001 |
|---|-----------------|-------------|
| Total tourists | 441,000 | 28,300,000 |
| <i>Leisure, recreation and holidays</i> | 32% | 59% |
| <i>Business</i> | 42% | 15% |
| <i>VFR</i> | 26% | 26% |
| Average length of stay (night) | 2.1 | . |

Source: WTO 2004a. and INE.

Mozambique's large share of business tourists stands out in comparison to the average share of business tourists in other African countries. The dominance of business tourists is not unusual for countries where leisure tourism hasn't taken off.

All segments and in particular the leisure segment is dominated by tourists from South Africa. An estimated +90% of the leisure market originates in South Africa. Inter-continental tourists are predominantly business or VFR tourists (an estimated 37,000) and a small share of leisure tourists (estimated 11,000)²⁰.

The preponderance of business and VFR tourists has ramifications for the distribution of tourism products. Both are Free Independent Travelers (FITs) that organize and customize their trips through purchases of individual products (such as the airline ticket) rather than tour-packages (e.g. airline ticket and hotel packaged together). In contrast the leisure segment is predominantly sold through professional customization of expensive and exclusive tour packages reserved for the high-yield market (e.g. safaris coupled with a beach extension in Mozambique or hunting in Mozambique). Most travel and tourism products in Mozambique are sold piecemeal to the tourists either directly by the service providers (e.g. hotels, airlines), their agents, or travel agencies²¹. Compared to other destinations in Africa such as South Africa and Kenya the volume of 'pre-packaged' or 'group' tours is hence very limited²².

MOZAMBIQUE'S POSITION IN INTERNATIONAL MARKETS

With the exception of Malawi which has relatively limited tourism resources in comparison to Mozambique, all other countries sharing borders with Mozambique are within the top 10 African tourism destinations. This is an asset in itself, but it is

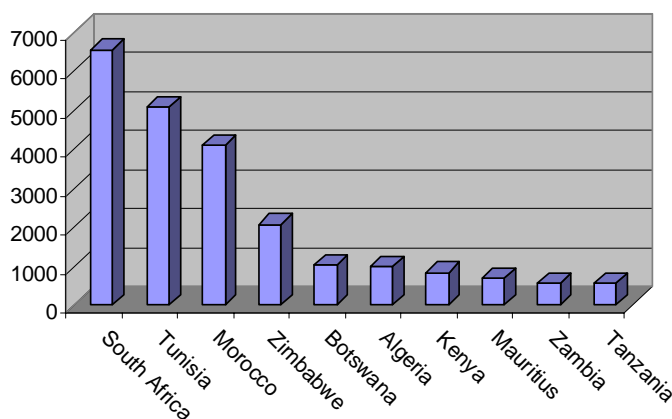
²⁰ Estimates are based on WTO fact book 2004, INE (2005), McEwen (2005), Tourism Intelligence (2005) and interviews.

²¹ Cf. Tourism Intelligence (2005).

²² FIT is not an unusual modality of tourism distribution: In Australia the FIT has a 90% share of the international tourism market. However, given Mozambique's current status as a relatively unknown international leisure destination, the need for increased package travel is much higher because tour operators and agents that put together such packages also provide support in marketing and promotion of the destination and increased in a manner that increases visibility and consumer confidence in the international market place

also goes to show that Mozambique is underutilizing its tourism resources compared to its regional neighbors.

Figure 2: International Arrivals Top Ten African Destinations in 2003 ('000) ²³



On the positive side this speaks to the tourists' willingness to travel to the region and alludes to Mozambique's potential to tap into these international tourism markets. On the negative side, the gap between Mozambique and its neighbors is a

reflection of the fact that the overall image, product variety and quality of tourists' experiences in Mozambique need improvement.

The tourism products and experiences available in Mozambique are quite unique – pristine beaches with wild marine life, but no big game viewing products. In 2004 a consulting firm surveyed all international tour operators in Mozambique, as well as national ones offering tours to them and/or working as inbound tour operators, on behalf of GOM. The tour operators were probed for which destinations are in direct competition with Mozambique. Although no competing country offered the same unique package of products and environment, the Indian Ocean islands (Mauritius, Seychelles, and Maldives) were identified as Mozambique's main competitors. The second tier of competitors is composed of Tanzania and Kenya (their coastline and isles) and a third features South Africa and Botswana. There are also competitors that emerge from unique source markets (Brazil and Cape Verde, competing with Mozambique for the Portuguese speaking tourists, for example). Put together, the performance in these destinations gives a guide as to what may or may not be feasible for Mozambique.

Table 5 below presents a general overview of how the global tourism market perceives Mozambique as a tourism destination. The assessment here is drawn from a marketing study conducted by the Mozambique government in 2004. The study documents the perspectives of intermediaries involved in selling Mozambique travel packages to UK, Germany, Portugal and South African tourists.

²³ Source: WTO (2004), Tourism Market Trends Africa Edition.

Table 5: Feedback from Tourists and Tour Operators on tourism in Mozambique

| | Positives | Negatives |
|--|--|---|
| Tourists | Nice beaches and a unique African-Mediterranean-Arabic Culture. Friendliness of the people and the quality of the accommodation. The hideaway-character of the destination. | Services – air transportation, food, and communication/information - is substandard, Limited number of attractions, Little interaction with locals and their culture. |
| Foreign Tour Operators | Non-commercial environment and the destination's unpretentious feel. The simple, unspoilt but luxurious character; its unique beaches; and the friendliness of the people. Value for money compared to Indian Ocean Islands. | Less value than Zanzibar, Mombasa and Mauritius, Bad or poor air access – International and domestic, Availability and quality of service providers – particularly inbound tour operators, Lack of tourism products to enrich customer experience, Shortage of dive sites, Bad image of Mozambique: poverty, hunger, specter of armed conflict, cronyism |
| Domestic Inbound Tour Operators | Unspoilt and unexplored features of the destination. The friendliness of the people, combined with the unique cultural heritage compared to neighboring anglophone countries. | Immigration formalities and malaria acted as deterrents to tourism |

Source: Marketing Plan for Mozambique (2004)

SUMMARY

Summarizing the tourism trends for Mozambique, nine features stand out:

- Africa is capturing an increasing share of the global tourism market and Mozambique is securing a fair share of that growth at an annual growth rate of 13%;
- Africa's, and especially Mozambique's, International Tourism Receipts are depressed mainly due to low number of tourists per 100 inhabitant, and lower expenditure per visiting tourist. Mozambique attracts 9 tourists less per 100 inhabitant, compared to the global average. Similarly, international tourism receipts in Mozambique were 1.7X, 2.5X, 3X, and 4.2X less than the average tourism receipts for Africa, Europe, Asia Pacific and the Americas, respectively.
- Compared to other countries in the region, Mozambique receives relatively few inter-continental visitors;
- Only few of other countries on the African continent (Tanzania, and Kenya) offer a SSS-product akin to Mozambique's, but they are further away from the Southern African countries;

- Mozambique's main leisure tourism product is Sun, Sand and Sea (SSS), which complements the tourism products in South Africa, Botswana, Zambia, Zimbabwe and Malawi, which do not have a SSS-product;
- Mozambique's neighbor South Africa is head and shoulders above any other country in Africa (top 25 globally), putting Mozambique in a unique position to tap this market for travelers desiring to experience more than one African country and/or relax on the beach;
- Mozambique currently does not have wildlife viewing product – big game,²⁴ which is the well-known sales-point for the inter-continental tourist visiting Africa. Instead, it has to rely on other countries in the region (e.g. RSA, Zambia, Tanzania, Kenya, Botswana, Malawi, and Zimbabwe) for tourists wanting this experience²⁵;
- Mozambique is mainly sold by way of individual private customization by VFR and business tourists in inter-continental markets;
- In the commercial distribution system (international tour operators) in the inter-continental markets Mozambique is primarily sold as a unique add-on to other standards travel (Safari-) packages.
- Mozambique is almost exclusively sold by way of individual customization – put together either by the individual traveler or by a professional agent for the high-end tourist segment. This contrasts with the market share of standardized 'group' packages in the larger south- and eastern African countries.

²⁴ The big five comprise elephant, rhino, lion, leopard and buffalo.

²⁵ There are new initiatives in the pipeline that may improve this situation (e.g. Limpopo Frontier project)

Chapter 3 - The Tourism Value Chain in Mozambique

The tourist experience consists of a series of individual experience points provided by multiple different entities from air carriers and hotels to restaurants and tours²⁶. Failure to provide a good experience at any point may undermine the entire experience and accordingly destroy the competitiveness of the destination²⁷. A country's competitiveness in the provision of tourism services is, therefore, complex and requires the harmonization of a diverse set of inter-dependent industries and the public sector.

Understanding the nature of constraints confronting the tourism industry itself, therefore, requires a rigorous assessment of the role of each value chain component in the overall tourism experience, the linkages to other agents, and the performance of the service providers, industries and institutions.

3.1 The Value Chain Framework for Mozambique's Tourism

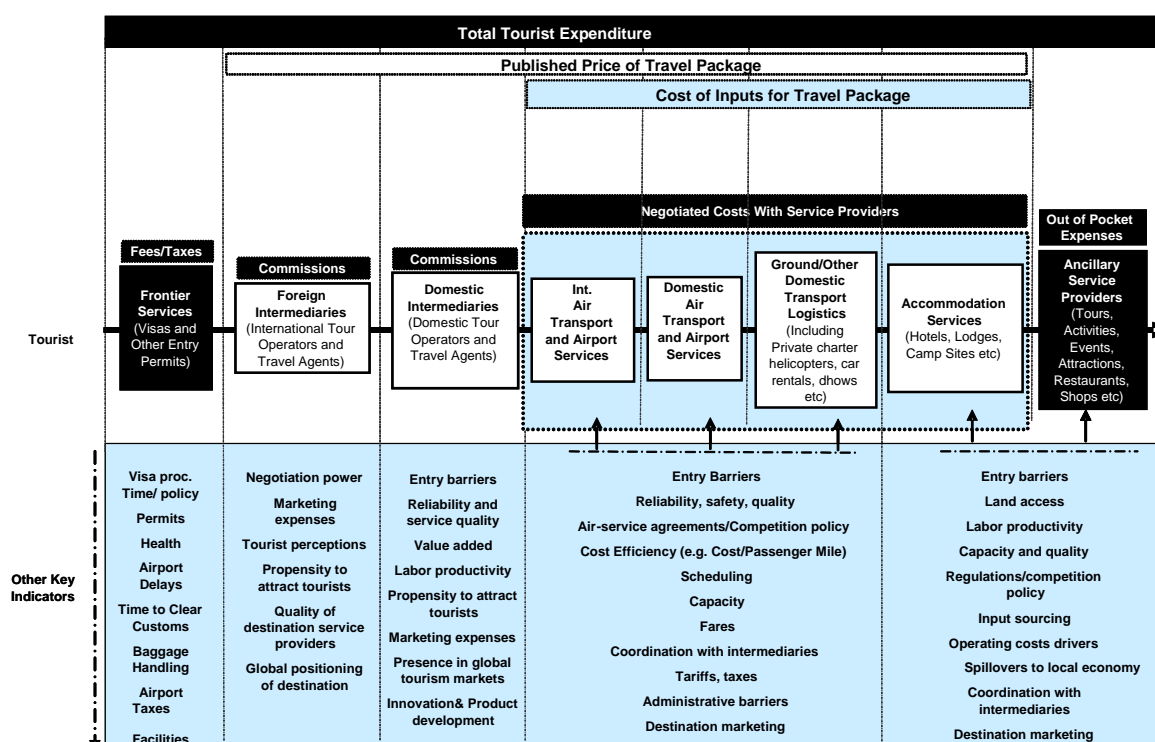
The value chain framework is based on concrete itineraries that are time, place, and price- specific. The tourism value chain – the itinerary - is mapped by way of economic organization, industrial and locational specificity within the parameter of total trip expenditure (see Fig. 3 below)²⁸. The study then goes further to identify how value is appropriated among the various service providers and suppliers in the industry. To assess the performance of operators within each segment a number of metrics and indicators are compiled and consolidated with insights on the factors affecting Mozambique's competitiveness. The approach emphasizes the supply-side aspects of the tourism experience and also enables the identification of industry-specific constraints, constraints driven by the economic organization and the location specific factors that curb the growth of the tourism sector. The framework helps set priorities for targeted intervention not only at a very industry and location specific level but also more broadly in terms of country-wide policies.

²⁶ Braithwaite (1992)

²⁷ Taylor (1996)

²⁸ Another approach is Clawson & Knetsch (1966), which divides the tourism experience into five trip phases, namely: (a) anticipation; (b) travel to destination; (c) on-site stay; (d) travel back; and (e) recollection. Yet another is Braithwaite (1992). However, for our purpose of understanding broader policy and market-based constraints that affects the tourism industry and the supply of tourism services a tailored and more detailed breakdown is necessary.

Figure 3: Value chain framework



3.2 Mozambique Tourism Value Chain Assessment

The analysis in this section focuses on 3 itineraries chosen to reflect the heterogeneity of tourism products, destinations and market segments that characterizes Mozambique's tourism offer. The travel package as the unit of analysis facilitates the identification of the origin and destination specific features and of the interactions of the economic agents in demand, supply and marketing of the package. While the itinerary-specific analysis may not fully reflect the nature of the broader business environment, it grounds the discussion regarding the business climate.

The following itineraries were selected for the analysis:

1. Lisbon - Maputo – Vilanculos/Bazaruto Archipelagos (Southern Leisure Tourism)
2. London/Johannesburg - Maputo – Pemba/Quirimbas (Northern Leisure Tourism)
3. Europe – Maputo (Business/Conference Tourism)
4. Nelspruit - Maputo – Inhambane - Vilanculos – Bilene – Maputo (Southern Adventure Tourism); discussed in Volume II of the report

5. Maputo - Nampula - Cuamba – Niassa Reserve - Pemba – Ibo (Northern Adventure Tourism); discussed in Volume II of the report

Discussions on the presentation, analysis and assessment of itineraries 1-3 are structured in the following fashion, in this section of the report.

- (a) Discussion of the type of tourism experience offered in the destination;
- (b) Using the framework outlined in Fig. 3. the itinerary is broken down into segments mapping each of the key steps/activities/agents that create and add value along the chain for a specific tourism product. Quantitative data on costs and prices for each segment of the value chain, together with other qualitative information on social and demographic change, physical environment, human resources, taxation, industry structure, and technology is provided²⁹. The nature of agents providing the tourism experience, the corresponding costs, and the distribution of value along the chain will also be discussed.

Itineraries 4 and 5 are presented in Annex 1 and 2 (Volume II) of the report, but insights and recommendations derived from them are presented in subsequent section of this report as well.

3.3 Lisbon - Maputo – Vilanculos/Bazaruto (Southern Leisure Market)

The itinerary from Portugal to Maputo and Vilanculos/Bazaruto connects Mozambique's key inter-continental (long-haul) market and the main leisure experience (the beaches of the Inhambane province). This 7-night itinerary comprises one night in Maputo and six on the Bazaruto Archipelago.

²⁹ This information was gathered through a questionnaire instrument, coupled with follow-up interviews with both public and private stakeholders.

3.3.1 Destination Analysis and Tourism Product Description



The destination cluster includes the districts of Vilanculos and the nearby Bazaruto archipelagos, which is designated a Marine Park³⁰ (see map). The main attractions are the beaches, diving, superb kingfish and marlin fishing, and extensive birdlife. These features have made the Inhambane province the heart of leisure tourism in Mozambique. Accommodation on the archipelagos is mostly in the luxury category, while accommodation on the coast caters for all kinds of travelers from campsites to luxury lodges. The main district of

Vilanculos is underdeveloped and functions mainly a transit point. The Vilanculos - Bazaruto tourism cluster has not yet capitalized on its proximity to the South Africa market (e.g. Kruger, Cape Town, and Johannesburg) and other nearby attractions like the Okavanga delta in Botswana, and the Victoria Falls of Zambia and Zimbabwe. Even though competing sun, sand, and sea (SSS) tourism experiences either are much farther away (e.g. Mauritius, Zanzibar, and Seychelles) or do not possess the same qualities (e.g. Port Elizabeth).

Table 6 below presents basic statistics on tourism in the destination. Tourism contributes marginally to the provincial economy (about 1% of provincial GDP and approximately 700 jobs) with approximately 30,000 tourists annually, Vilanculos/Bazaruto accounts for about 7% of national annual tourism receipts. Compared to global and African benchmarks, both number of visitors and revenue per visitor are slightly lower than the average for Mozambique in general³¹.

Table 6: Destination Characteristics in Vilanculos/Bazaruto Destination

| Destination Characteristics | 2003 |
|--|--------------|
| Number of Inhabitants | 1.25 million |
| Contribution of tourism to provincial GDP | 1% |
| Employment in tourism | 700 |
| Tourists | 30,000 |
| Tourist per 100 inhabitants | 2.4 |
| Share of tourism receipts (BOP) | 7% |
| International tourism receipts per arrival | \$247 |

Source: Abstract from Visser (2003)

³⁰ The Bazaruto Archipelago is a unique environment that contains interesting marine life and particular environmental concerns. It is a part of the marine protection partnership program in Mozambique: The partnership, consisting of the United Nations Environment Program (UNEP), UN Foundation, International Coral Reef Action Network (ICRAN) and Conservation International (CI), will provide financial support to activities being implemented by WWF in and around the country's Primeiras and Segundas Islands.

³¹ The average in Mozambique is skewed to Maputo, which remains the dominant tourist attraction in the country.

While the resource base is extensive (Table 7), only some parts have been exploited so far – mainly the beach and water sports based activities (including SSS, diving and fishing activities).

Table 7: Resource Base in Vilanculos/Bazaruto Destination

| Destination Resources |
|---|
| Long sandy beaches and protected reefs of the Vilanculos Archipelagos and the Bazaruto Archipelago that allow for recreational tourism activities like scuba diving, fishing, swimming, sand boarding, and bird watching. |
| Scenic marine park (lagoons, rich flora and fauna in coastal areas, flamingos, mangroves). |
| Bazaruto Marine Park which houses a variety of marine life (whales, dolphins, turtles, dugongs, spotted manta rays, whale sharks, whales, etc.). |
| Rural villages with local forests and plantations (e.g. coconut and cashew plantations, date palms, wild fruits, mangrove forest). |
| Arts and crafts, local traditions and music/dances, local cuisine (Tsonga people: traditional dress/customs) |
| Remains of the 'Great Zimbabwe' empire about 50 km from Ponta Chibuene. Remains are also found at other sites (incl. Bazaruto). |
| Rich and rare bird life in Panda and Bazaruto (e.g. green-pigeons, woodpeckers, weaver birds, wild ducks, and flamingos). |
| Ponta Dundo archaeological sites - includes Kanyala Sanctuary at Machulane (Northern Sitone) which is the archeological site of the first human settlement in Ponta Dundo. |
| Seafood, local cuisine, local music and entertainment mixed with original aboriginal culture and dances (e.g. Timbala Dance of the Chopis, Ginavhalatane of the Pales, and the Zorre of Gihengueni). |
| Zinave National Park (Great Limpopo TFCA) |
| Sand dunes that allow for sand boarding, hiking, horse riding and so on. |
| Terrestrial fauna like Samango Monkey, Night Ape, Red Duiker, Bushbuck, and others, that can be found around the Vilanculos wild life sanctuary. |

Source: Abstract from Visser (2003) and Ricardo (2004)

In Vilanculos/Bazaruto there's no strong collaboration across the different stakeholders in the tourism sector. This leaves the management issues on a destination level to dispersed and individual efforts or to the effect that issues not being addressed. However there are a number of overriding issues that need a broad-based approach.

To manage growth of the destination in a sustainable manner the cluster must convene to deal with the issues that threaten the destination and the opportunities the destination can pursue. Specifically for the marine park there is an institutional framework in place: (1) a public agencies: the Bazaruto National Park Services and the Administrative Post, which is the custodian of land resources (2) Local community and their elected committee members and traditional authorities (3) Tourism and hospitality service providers located on the Archipelagos. However, capacity is weak particularly in terms of enforcement of regulations of the Marine Park: land access and use e.g. zoning³², environmental threats³³, transparency regarding marine park fees³⁴, and maintenance of common tourism assets³⁵.

³² Without sources of revenue and employment, the displacement of the indigenous communities in Vilanculos-Bazaruto could become a serious concern. Ricardo (2004) refers to evidence of land grabbing and displacement of communities in Vilanculos Coastal Wildlife Sanctuary. A moratorium on new developments of the islands could be considered to maintain the fragile balance between the local communities and tourists.

The absence of an institutional coordination, monitoring and enforcement capacity inhibits the ability to deal with common problems, and to pursue opportunities in a coordinated manner that leverages resources. This undermines efforts aimed at securing and maintaining public good assets like the environment and the infrastructure in the destination. Also it limits the ability to communicate effectively within the private sector (e.g. between hotels and air carriers) and with the public sector on a local and country wide level on important issues such as land-use for expansion, disaster management, environmental degradation and so on. It also affects the efficacy with which stakeholders promote and market the entire destination as well as create common assets that may enhance the destination offering.

3.3.2 MAPPING OF SUPPLIERS AND SERVICE PROVIDERS INVOLVED IN THE VILANCULOS-BAZARUTO TOURISM EXPERIENCE

The package comprises international return flights from Lisbon to Maputo, ground transfers from the air port to Maputo, a double occupancy room in Maputo for one night with breakfast, a domestic flight to Vilanculos and transfer to Bazaruto by plane and road, and a double occupancy room in Bazaruto for six nights with all meals.

The process by which the package is assembled is reflective of the maturity of the Mozambique market. Instead of using a domestic tour operator to assemble anything but the international flight segments, the Portuguese tour operator (FTO) directly assembles the entire package. The FTO books the Lisbon - Maputo flight via a global reservation system (GRS); the connecting flights from Maputo to Vilanculos via a hotel or a domestic agent; and accommodation and transfers in Maputo and Bazaruto from Lisbon³⁶. Upscale lodges and resorts include transfers, meals and add-on services like fishing, diving and so on in the negotiated rates they offer to the Portuguese tour operators. The figure 4 below presents the costs of individual services and activities.

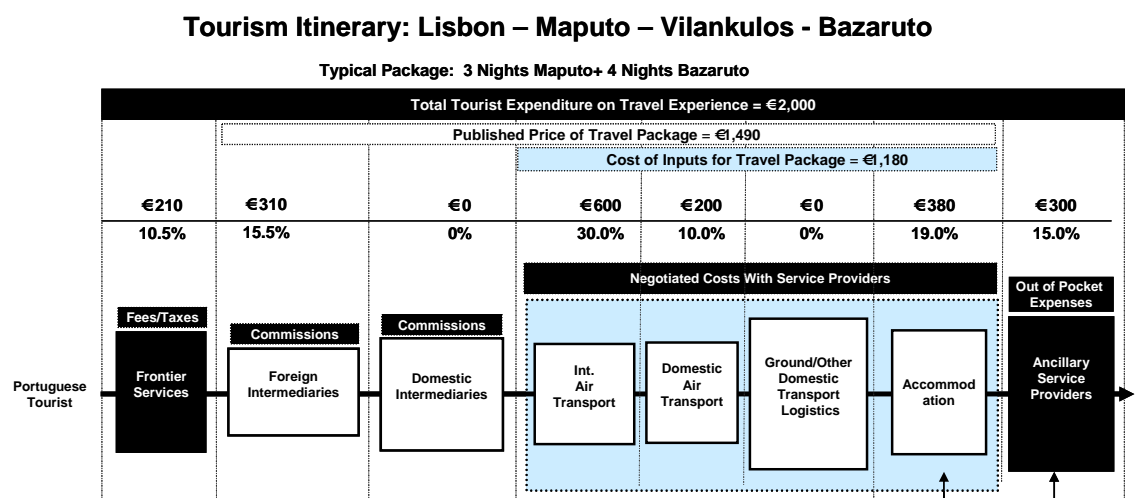
³³ Environmental sustainability concerns require strict enforcement of rules on construction and operation of tourism activities. Also, there are concerns about the impact of the increasing number of tourism workers and villagers and their impact on the islands eco-system; and the wind erosion, the mobile sand dunes, and severe soil erosion, and loss of vegetation cover that places the island at some risk of splitting. Waste management is not a major concern for Bazaruto archipelagos because of an elaborate waste recycling system, Cf. Ricardo 2004, pg 93.

³⁴ There is a tourism entry tax fees (US\$5) levied on tourists entering the island by the lodges and resorts in archipelagos, which were intended to generate revenues that would be transferred to support the development of the rural community. However, this has not worked out too well in Bazaruto because of strained relationships between resorts and the community.

³⁵ Some historic monuments (e.g. the Light House, ruins of the Fishing Pearls Company) also need to be restored and, where necessary, transformed into befitting archeological sites and edifice that document the heritage of the destination cf. Ricardo (2004).

³⁶ Anecdotal evidence from interviews and discussions with industry stakeholders suggests that foreign tour operators and travel agents account for about 97% of hotel/resort reservations in Vilanculos and Bazaruto.

Figure 4: Value Chain Map for Lisbon-Bazaruto Travel Package



The main economic agents that influence the costs and value of this particular itinerary are:

- (i) The Portuguese tour operators (16%);
- (ii) Airlines - international and domestic (40%), and;
- (iii) The hotel/resorts (19%).

These agents account for about 75% of the tourist's total travel expenditure. The domestic tour operators and ground transport operators (e.g. taxi cabs, car rental agents) neither play a central role, nor appropriate any significant value along this value chain. Their roles are linked more closely to the provision of ancillary products and services (e.g. day trips to attractions like Kruger Park).

The costs outlined in Fig 4 are actual expenditures paid by the traveler for these services, of which US\$310 is the commission that accrues to the Portuguese tour operator/travel agent; US\$600 is the “discounted” price of the ticket from Lisbon to Maputo; US\$200 is the domestic ticket price from Maputo to Vilanculos. The tourist pays about US\$380 to the hotel in both Maputo and Bazaruto. These costs figures also inclusive of costs of transfers from airport to hotel in destinations, some food, and entertainment activities.

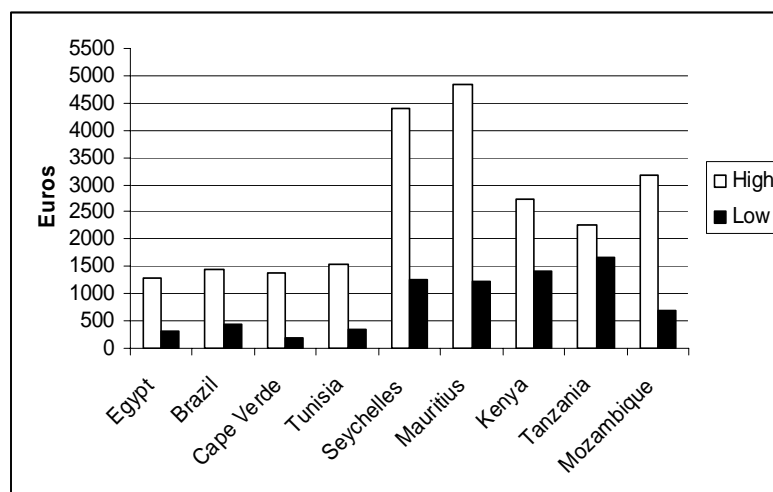
Other activities that command significant part of tourist revenues include frontier services and out of pocket expenses. Frontier services include visa costs and airport taxes, broken down as follows: (1) Airport tax for Lisbon Airport - €40 Euros; (2) Security tax - €20 Euros; (3) Fuels Surcharge - €70 Euros, and (4) Airport tax in

Maputo - €20 tax per person passing through the airport³⁷ (5) Visa fees in Lisbon - 60€. Except for the visa fees and Maputo airport tax, none of the other expenses are under the purview/control of Mozambican authorities.

This itinerary focuses on Vilanculos - Bazaruto where local artisan products and other ancillary services (including food providers) are very limited. Out of pocket expenses are therefore linked mainly to day trips to different attractions (e.g. Inhaca or Krueger). This itinerary explores a tourist's preference for a day trip to Krueger at a cost of about \$300 – 400 per person. Expenditures patterns on ancillary services and shopping in Maputo are examined in greater detail in subsequent sections of the report (Figure 7). Estimates are that tourists staying for about 5-7 nights in Maputo will spend about US\$100 on shopping and other activities, US\$210 on food and drinks, and a maximum of US\$300-US\$400 if they go on a tour trip to Inhaca of Krueger.

Figure 5: Price ranges of tours for competing destinations in Portuguese Market 2005

In the Portuguese market, Brazil, Mauritius, Seychelles, Dominican Republic and Cape Verde are the main alternative destinations to Mozambique's Vilanculos-Bazaruto. As shown in Figure 5, the 7-night itinerary to Maputo and Bazaruto is



priced at €1,490. In general, tours to the Bazaruto archipelagos range from €1,278 - €2,623. Cape Verde is the fiercest “low-end” competitor with 7-night package prices ranging from €369 - €1,389. Mauritius and Seychelles are high-end competitors with published package prices of similar itineraries ranging from €1,222 - €4,849 and €1,256 - €4,410

³⁷ A comparison of ICAO data shows that passenger service charges in Maputo airport is US\$20, which is comparable to US\$30-36 in Brazil, US\$15 in Cape Verde, US\$20 in South Africa, and US\$30 in Tanzania.

respectively.³⁸ The price comparisons are reference points of what is attainable in terms of either cost efficiency (Cape Verde) or quality standards and visitors' perception (Mauritius).

There are many reasons why Bazaruto cannot compete on price with Cape Verde, Brazil and similar destinations, and still cannot charge the premium of Mauritius and Seychelles. In the following those issues are explored and addressed to set out an actionable agenda for reform.

3.3.3 ASSESSMENT OF POLICY AND CAPACITY CONSTRAINTS ALONG THE TOURISM VALUE CHAIN FOR LISBON-BAZARUTO TRAVEL ITINERARY

Frontier Services: The services comprise the travel advisories, the convenience and costs of obtaining visas, and other expenditures related to trip preparation (e.g. vaccinations)³⁹. These out-of-pocket expenditures are in addition to the tour package.

It takes 10 business days and costs €60 for a Portuguese tourist to obtain a tourist visa for Mozambique consulate in Lisbon. Visas are also issued at Maputo airport for about €20. Table 9 below presents visa requirements for Portuguese tourists traveling to competing destinations⁴⁰.

Table 8: Comparative Visa Requirements for Portuguese Tourists Traveling to Competing Destinations

| Country of Destination | Cost of single entry at Consulate |
|------------------------|---------------------------------------|
| Mozambique | €60 at Consulate / €20 at border post |
| Brazil | Exempted |
| Cape Verde | Exempted for group Travel |
| Kenya | Exempted |
| Mauritius | Exempted |
| Morocco | Exempted |
| Seychelles | Exempted |
| South Africa | Exempted |
| Spain | Exempted |

Mozambique is one of a few countries among competing tourism destinations in Portugal that imposes visa requirements on Portuguese tourists. Although the cost of single entry visas is trivial at first glance (i.e. 3% of travel expenditures), its impact on relative competitiveness is not. Most tourists prefer and are advised (by travel agents and the Mozambique embassies) to obtain visas at the embassies in order to

³⁸ These indicators are based on a survey of published travel package prices from July-October 2005. Prices were sourced from both online internet search engines and published paper-based brochures of key travel agents that sell Mozambique tourism products in Portugal.

³⁹ Issues related to airports are addressed in the air transport section.

⁴⁰ Information provided in the table is based on online research and follow up interviews with consular offices for different countries between July and October 2005.

eliminate any risk of entry at border points⁴¹. Consequently they end up paying the higher costs at the consulate, and are subject to processing times of up to 10 business days. Also they are required to produce a letter of invitation. In the Portuguese travel market, where tourists seek to take advantage of the late booking sales promotions, longer visa processing times and higher costs act as a disincentive for choosing Mozambique over other destinations.

Also Portuguese tourists are advised to protect themselves against diseases like Bilharzia, hepatitis A & B, typhoid, diphtheria, tetanus, meningococcal meningitis, polio, and malaria. Land mines⁴², armed conflict, and crime (and weather shock such as floods and drought) in Mozambique are prevalent images in the media of travel advisory services. Like in many other countries, these issues are important realities and threats in Mozambique. However, unlike Mozambique, many touristy countries have been successful at promoting a better image of health and safety, without misrepresenting the threats that exist.

Intermediaries and Distribution Channels: Although most Portuguese tourists to Mozambique are Visiting Friends and Relatives (VFRs) and the demand for travel packages is very weak, commissions are comparable to those for travel packages to Brazil and Cape Verde. The FTO is able to maintain its margins by negotiating discounts off the published prices of component parts of the package.⁴³ The tour operator's ability to negotiate discounts is a key determinant of its competitiveness because it determines the lowest price that the operator can offer for the tour. Negotiation capacity depends on a number of factors:

- (a) Vertical integration enables tour operators, hotels and airlines to obtain economies of scale and economies of scope.
- (b) Existing capacity utilization of service providers of package components, e.g. low capacity utilization at hotels and airlines
- (c) The level of co-ordination within the industry – the higher the coordination among operators, hoteliers, airliners and destination management agencies, the higher the potential for leveraging economies of scale and sharing costs, allowing for lower prices

Table 10 provides a detailed breakdown of how the tour operator appropriates discounts, costs, and prices across various suppliers in the tourism value chain. The table shows a breakdown of sources of discounts that make up the Portuguese tour operator's commissions, with hotels in Bazaruto and Vilanculos providing the highest source of discounts followed by airlines. As a result, the Portuguese operator

41 Some associated risks include the following: Travelers arriving without a visa are subject to a fine of US\$ 518. Mozambican authorities impose a fine of US\$ 100 per day for each day travelers overstay the period of validity of their visas. These fines can be paid in local currency based on the current exchange rates. (See <http://www.realadventures.com/listings/1024455.htm>)

42 Although de-mining efforts are on-going.

43 The published price is the lowest non-discounted rate published by the supplier (i.e. rack rates for hotels, non-discounted fares from airlines and other suppliers like car rentals and so on).

can put together a Lisbon to Bazaruto packages at a cost of €1,180, and sell for €1,490 - a margin of €310.

Table 9: Breakdown of cost drivers Vilanculos/Bazaruto

| Cost Drivers | Negotiated Price⁴⁴ (€) | Standard Market Price (€) |
|-------------------------------|--|----------------------------------|
| Airlines (Foreign/Domestic) | 800 | 970 |
| Hotels | 380 | 728 |
| Transfers | 0 | 96 |
| Ground Transport | 0 | 0 |
| Cost of Package | 1,180 | 1,794 |
| Int. T. Operator/T. Agent | 310 | 0 |
| Domestic T. Operator/T. Agent | 0 | 0 |
| Price of Package | 1,490 | 1,794 |

Note: Ground transport, some food, and entertainment activities are provided by the hotels.

A number of inferences can be drawn from the Table.

1. Limited flexibility and high prices dissuade Portuguese tour operators from actively promoting and marketing Mozambican products. Bazaruto packages are priced at €1,490, which is only about 17% less than the published prices (€1,794) an independent traveler will pay for the same trip. This bandwidth is generally more flexible than what is obtainable by tour operators marketing competing destinations. In these destinations, tour operators can package their products at cheaper costs, sell a lot cheaper and vary prices accordingly to simulate demand. The limited availability of flights, in-flexible pricing limits, and low demand generally are important factors that limit the ability to package tours competitively within a flexible bandwidth.
2. Sales are mainly demand-driven and demand is weak due, in part, to a relatively poor image in the Portuguese market. Portuguese are well-informed on current issues in Mozambique, often focused on floods, diseases and droughts. In choosing a destination for leisure, the poor image of Mozambique projected in the Portuguese market works against the decision of the average tourist to visit the country. Tour operators are unable to engage in marketing to address these issues, and current marketing strategies of destination management organizations in Mozambique have not been very effective. Also, for the private sector, the risk of launching a private marketing campaign is considerable and not warranted given the current small scale in the accommodation and the regulation of competition in aviation.
3. The local operator in Mozambique is not involved in this segment of the value chain: Lacking market power and skills, Mozambican tour operators are unable

⁴⁴ This the sum of the tour operators cost of package and associated commissions. It is the price the tourist pays for the travel package.

to negotiate higher discounts with hoteliers and airlines than their Portuguese counterparts. They are unable to pool bookings to leverage buying power. Many of the hotels and resorts prefer to do business with well-known foreign tour operators which enjoy better reputation, infrastructures, and contacts.

4. Tour operators and travel agencies in Portugal are unable to issue domestic airline tickets. This complicates the transaction process (because the reservation process is not accessible online) and increases waiting time (tourists are often stranded in airports because of unannounced scheduling changes). Foreign tour operators and agencies are also not able to access seat inventories on domestic airlines (mainly LAM), making it more difficult for them to respond to last minute demand from tourists.
5. With respect to other possible areas of collaboration (e.g. meet and greet, ground handling, transfers and visitor transit services, facilitation of tourist participation in attractions and events, etc.) Portuguese tour operators are beginning to collaborate with a few excellent counterparts in Maputo. However, for many local tour operators and ground handlers, quality of service remain poor and unreliable, responsiveness slow, and understanding of market requirements is limited. In many cases, hotels and resorts provide these services in addition to their core business of hospitality and accommodation.
6. There is no systematic approach to a tourism skills development program. Skilled labor (e.g. bi or multi-lingual tour guides, translators, designers, curators, and so on) will become scarcer as tourism demand increases. Currently, during the high season tour operators already have to rely on staff from embassies to assist with translation and tour guide activities, for example.

The combination of these factors makes the Mozambican intermediaries almost irrelevant to this segment of the market. As a result, they do not contribute nor appropriate much value to this tourism product.

3.3.4 INTERNATIONAL AIR TRANSPORT FARES AND SERVICES

The Bilateral Air Service Agreements (BASAs) between Portugal and Mozambique reserve the Lisbon to Maputo route to two airlines – TAP and LAM (that had an operating agreement with Air Luxor during 2005⁴⁵). An assessment of the broader impact of the regulatory structure of international air traffic on tourism is discussed in Section 4.1 of this report. This section focuses on the air transport constraints between Lisbon and Maputo.

International airline tickets account for about 30% of total tourist travel expenditure. Portuguese tour operators currently purchase an international air ticket from Lisbon

45 However on September 16, 2005 the LAM-Air Luxor weekly flight arrangement was terminated, and has now been replaced by a code-sharing agreement with TAP. TAP recently announced an additional flight for the winter period (3 flights per week). See <http://www.trvlink.com/download/lis/lisdirects.pdf>

to Maputo at a negotiated price of about €600 (so called tour-based fares). They could only obtain this price by making special reservation arrangements for 90 seats on the weekly Lisbon-Maputo flight operated by Air Luxor for LAM⁴⁶. Portuguese tour operators are now in the process of negotiating a new arrangement with TAP. There are expressed concerns that the negotiations may end in higher air fares which may pose a major impediment to the competitiveness of Mozambique travel packages sold in the Portuguese market.

The use of charter flights, which may reduce costs of air fares and allow tour operators to manage their costs and pricing strategies more efficiently, has not been exploited on the Lisbon to Maputo route because the BASA between Mozambique and Portugal does not allow for such opportunities. The Mozambique Civil Aviation Authority has been slow to allow charters. It uses a very strict definition. In contrast, competing countries like Brazil have a more liberal interpretation and in many origin countries, charter flights are taking on the guise of scheduled flights – e.g. Thomas Cook Air in the UK and Corsair in France are examples. As a result tour operators have been able to feature comparable travel packages in Brazil for as low as €400 compared to €699 in Mozambique⁴⁷.

Also, in more mature transport and tourism industries, air transport is seen as an integral part of a supply chain involving tour operators and accommodation providers. Tour operators marketing destinations not only get highly discounted tour-based fares from airlines⁴⁸, they also share up-to-date information, and develop integrated promotional and marketing campaigns that influence tourist demand towards the destination (e.g. through invitation to journalists, familiarization (FAM) tours, and so on). This level of co-ordination currently does not exist in Mozambique and its absence is severely hampering product and market development.

3.3.5 DOMESTIC AIR TRANSPORT FARES AND AIRPORT SERVICES

In terms of time and convenience (the size of Mozambique) air transport is advantageous over other transport modes for traveling within Mozambique. As shown in Figure 4, domestic air transport fares from Maputo to Vilanculos account for up to 10% of tourist travel expenditure (i.e. €200). Also tourists pay about €150⁴⁹ in airport taxes and frontier service charges at both origin and destination countries.

Launched in July 2004, Air Corridor improved flight scheduling and overall air access to this destination and introduced more aggressive pricing and competitive services.

46 During the low season, some FTO can get a base air fare of up to €450 from Lisbon to Maputo. This allows them to offer cheaper packages to Maputo. Lisbon-Maputo packages for 7 nights, at a package price of €699 are not uncommon in this market segment.

47 Like Mozambique, Brazil is a day's flight (8-9 hours) from Lisbon, but it attracts 6-7 times the number of Portuguese tourists visiting Mozambique (which is also a day's flight of about 11-12).

48 TBFs not only allow tour operators and travel agents to put together competitively priced travel packages by leveraging cheaper air fares, they also help the airline increase yield and load factors through effective price segmentation.

49 Airport Taxes - €40; Security tax - €20; Fuels Surcharge - €70 and an additional €20 tax per person passing through the airport.

STA, Trans Airways, and other small carriers also began domestic services in 2004/5. LAM has responded to increased competition with marketing campaigns, new flights, and a series of promotions that have reduced air fares by about 50%.⁵⁰ However, the quality of service and perception of safety of these airlines still appears to be low for international leisure and business travelers – especially the upscale market. Staffs of the US Embassy, for instance, do not fly Air Corridor due to safety and quality concerns. Similarly, LAM was blacklisted as a result of safety concerns for its subsidiary Tran Airways in 2005, but this issue has now been resolved.

There are a number of other issues with air transport that undermine the tourist's experience. These include:

1. Problems with issuing tickets:
 - a. Tour operators and travel agencies are unable to issue domestic airline tickets. LAM is not offering its inventory through the major GRSs, and this practice inhibits efficient distribution of information and the ability of important foreign intermediaries to issue and change travel tickets for their clients. It also complicates the transactions process and increases waiting time because their clients can only receive the tickets by mail.
 - b. Foreign airlines are unable to change or reissue tickets, check and manage seat inventory and passenger flows due to frequent power outages. Although this is a minor issue for airlines landing in Maputo, the situation is worse in other airports further away from Maputo city. This is a difficult issue to tackle because it requires LAM to make significant investments in new CRS systems. They may also be foreign exchange and other constraints in financial instruments that are necessary to facilitate such transactions between international tour operators and domestic airlines in Mozambique.
 - c. The lack of effective communication inhibits sharing information on changes in flight schedule, flight times and delays. As a result, tourists are often stranded in airports because of a change in scheduling that they were not made aware of.
 - d. Travel agents selling LAM tickets cannot sell tickets for competing airlines like Air Corridor.
2. Domestic airlines are not using yield management techniques, which curbs their efficiency and profitability. A direct effect of this is that airlines do not work with tour operators to develop joint campaigns (e.g. through airline discount programs) with which they can maximize load factors.
3. Harassment and delays in customs and immigration cause significant inconveniences to the traveler and projects a bad first impression of the country. For example tourists can sometimes wait up to 2 hours before exiting the

⁵⁰ The costs range from €200-€250 for a flight time of approximately 90 minutes. Interviews with tour operators suggest that air fares reduced significantly when Air Corridor started to fly the Maputo – Nampula and Pemba segments.

Mavelene airport. Similarly, at departure, visitors are usually asked for customs declaration of all handcrafted items, which further exacerbates delays at the immigration counter. In addition they are often subjected to hassles at the security check point for flouting many customs regulations of which they were not made aware. For example, visitors are not allowed to take out more than 2 kilograms of cashews out of the country, but not many tourists are aware of this regulation, therefore many often violate it. Lack of awareness about export regulations and the resulting harassment by security often undermines the tourist's travel experience.

4. Reports of loss of baggage and pilferage, especially for connections points via Johannesburg airport, are not unusual and naturally detract from the tourist experience.
5. Tour operators and travelers expressed dissatisfaction with the schedule, availability, punctuality, and reliability of services offered by LAM and other domestic carriers.
6. The airport infrastructure and facilities in Vilanculos also affect domestic flight quality, costs and time. The length and strength of the runway in Vilanculos is insufficient to accommodate anything but turbo-propelled aircrafts. It cannot accommodate jet planes. This increases flight cost per kilometer because it limits the maximum weight the aircraft can carry to about 23 seats. Also it increases flight time by an additional 45 minutes plus the level of comfort and service in flight are not good. The airport also lacks the navigational and other equipment for night landing, which has serious ramifications for service delivery. Even small delays may result in cancellations because the time window for landing in Vilanculos is so small. Consequently tourists are forced to spend a night in Maputo, regardless of they wish to do so. As a result Portuguese tour operators are only selling tours to Vilanculos-Bazaruto with an overnight stay in Maputo. Mozambique's capital expenditure for expanding airport infrastructure, maintenance and services is the least among competing countries in the Portuguese market– even lower than the average for airports in Africa. This may also be due to the fact that the scale of operations and movement of international passenger traffic through Mozambique is still very limited.

3.3.6 HOTELS AND OTHER ACCOMMODATION IN VILANCULOS-BAZARUTO

For the Bazaruto itinerary, expenditure in hotel accommodation and for food/beverages is the second-largest cost component. Available data suggests that demand and occupancy rates are low for most of the year and hotels and resorts rely heavily on intermediaries for the supply of tourist visitors. As a result, foreign tour operators⁵¹ are usually able to negotiate discounts of up about 15-25% of the “rack”

⁵¹ Interviews confirm that about 97% of reservations for hotels and resorts in Vilanculos-Bazaruto destination come directly from tour operators and travel agencies.

rates, with no need to buy capacity in advance.⁵² Discounts off rack rates can reach 48% in certain cases, as is shown in Table 10. In a mature tourism industry, the tour operator will often seek an allotment of bed capacity for each travel season, given expected demand. This is, however, not the case for tour operators servicing Bazaruto Archipelago.

The quality and coverage of the statistics concerning all types of accommodation establishments is spotty at best. Moreover, the most recent available data is from 2003 and for some categories only 2002 data is available. Although the paucity of relevant data makes it difficult to fully assess the tourism product in the destination, direct observation and interviews with the industry participants allow for some considerations⁵³.

Good quality accommodation along the north coast from Maputo and all the way to Vilanculos - Bazaruto is limited and expensive. Very few are able to meet the demands of an upscale international tourist, and the standard and types of services and amenities offered (e.g. air conditioning) vary widely. Similarly, food and beverage options are limited to lodge and resort restaurants.⁵⁴

Table 10: Published daily rates (US\$) 2005 (per person double occupancy)

| | Number of Rooms | Published Daily Rates (2005) |
|------------------------------|-----------------|------------------------------|
| Archipelagos: Bazaruto lodge | 26 | 230 |
| Indigo Bay | 50 | 322 |
| Benguerra lodge | 12 | 376 |
| Coastline: Vilanculos lodge | 13 | 100 |
| Casa Rex | 7 | 65 |
| Palmeiras | 6 | 60 |

Source: Visser (2003) and own calculations

Table 10 above presents information on beds and published prices for hotels in this destination. Most establishments have fewer than 15 rooms, with the only real volume in camping sites (which may be un-licensed) at US\$6-10 per person. There are not many hotels and beds available for the mid-income market tourist (i.e. €60 - €100 per night). Mid-income, price sensitive tourists are an important segment of the Portuguese travel market. The total supply in Vilanculos- Bazaruto is estimated at 700 beds in 350 rooms in some 40 hotels and lodges. Of these, only about a third –

⁵² This is changing though, particularly for the high season. Interviews with tour operators suggested that many are beginning to find it difficult to obtain rooms in Bazaruto during the high season (usually in August) because of increase in demand from Italian tourists that visit during this period. As a result some tour operators plan to negotiate allotments for hotel rooms next year as a means of guaranteeing accommodation for their customers.

⁵³ In the research that led up to the Inhambane tourism master plan, it became apparent that Instituto Nacional de Estadísticas (INE) had underestimated the supply of beds by 20% in the Inhambane province and that registered room nights also were grossly underreported cf. Visser (2003).

⁵⁴ According to the Ministry of Tourism, it has begun classification of hotels and restaurants (expected to be completed in 2006).

265 beds in some 15 establishments – meet international quality standards⁵⁵. Upscale international accommodation is predominantly located in the Archipelagos, while the limited number of mid-range accommodation available is mainly on the coast. Table 11 below presents data on beds in the different parts of the destination along with some basic characteristics of the supply.

Table 11: Supply of beds in Hotels/Lodges in Vilanculos - Bazaruto 2003

| District | Total Beds | Basic quality | International quality | Less than 100 rooms | 100 and more |
|--------------------------|------------|---------------|-----------------------|---------------------|--------------|
| Vilanculos | 462 | 413 | 49 | 462 | 0 |
| Bazaruto | 216 | 0 | 216 | 216 | 0 |
| Inhassoro | 24 | 24 | 0 | 24 | 0 |
| Total in Province | 702 | 437 | 265 | 702 | 0 |
| Total country | 13,601 | 8,501 | 5,100 | 11,201 | 2,400 |
| Memo item: Maputo | 5,372 | 2,534 | 2,838 | 2,972 | 2,400 |
| Mauritius | 19,600 | 0 | 19,600 | 6,898 | 12,702 |
| Seychelles | 4,926 | 0 | 4,926 | 2,978 | 1,948 |
| Kruger | 6,000 | 0 | 6,000 | 6,000 | 0 |

Source: Visser (2003) and own research

Compared to Seychelles and Mauritius, a number of differences are evident. Supply of accommodation is very low – less than 700 beds in Vilanculos-Bazaruto region. Furthermore, this limited supply is characterized by very small establishments, with varied quality levels. These three factors constrain a tour operator's ability to organize travel packages for larger tourist groups. For example, with the current structure of supply of international quality beds in Vilanculos as shown in Table 10 a tour operator can only accommodate a maximum of 30 tourists, in the same hotel (Vilanculos Beach Lodge), for the same price⁵⁶. To accommodate groups greater than 30, the tour operator would need to split groups into two or more hotels, which will not deliver the same level of quality. In Bazaruto there's one resort, which can accommodate groups and to some extent packaged tours, but again it can only accommodate less than 100 guests per night.

The lack of data on accommodation such as bed and breakfast, self-catering bungalows and dormitories, and campsites makes it difficult to assess the supply characteristics of these facilities. Although some of them cater to high-end adventure tourists, a majority caters to back packers, domestic and regional tourists. Anecdotal evidence suggests that some of them observe prevailing rules and regulations while others operate more or less informally⁵⁷. The bias towards informality is due, in part,

⁵⁵ The differentiation of international and non-international accommodation is based on the judgment of tourism experts, tour operators and other agents in the tourism industry. There is no official rating system in Mozambique. In any event, a number of establishments will fall outside the rating system and are unsuitable for international tourism. There is no uniform global standard for evaluating hotel rooms. Traditionally, automobile associations provided the first kind of classifications and currently tour operators widely use their own set of classification to communicate standards to consumers cf. CTO (2002) for hotel classification and <http://www.hotwire.com/pop-up/hotel-ratings-popup.jsp?lid=hotel/results.jsp:booking-info:loc:0:ratings> for an example of TO rating categories.

⁵⁶ This assumes that the tour operator can secure all rooms in the largest establishment in the Vilanculos. In practice, the tour operator can do this by guaranteeing allotments of rooms and beds at the hotels.

⁵⁷ McEwen (2004) cites a study identifying a total of 1,300 beds in Vilanculos alone – 3 times the supply identified in Visser (2003).

to the significant start-up, entry, and growth barriers to entrepreneurs involved in this segment of the market. In general, all accommodation and hospitality firms face the following broad challenges in Mozambique:

1. Securing land-use rights and access to land is problematic and getting a good location can be difficult for both small and large hospitality establishments.⁵⁸ In addition, increasing competition for land-use rights for expansion of tourism to attractive coastal areas (e.g. for snorkeling, scuba diving) is fueling conflict between investors and the rural communities (who use the land for farming, fishing etc.)⁵⁹. Mechanisms to maintain the fragile balance of relationships between the local communities and tourist investors need to be reinforced.
2. Permits can take long to secure and paper work for new construction can be expensive for a small establishment (see Table 12).⁶⁰ Quality of available local raw materials is also questionable and imports of construction materials are more expensive due to high import duties of up to 26%.

Table 12: Delays and cost in securing a construction permit

| Costs of Paper Work for City | City Establishment |
|--|---------------------------|
| License from the City | US\$50 |
| Architectural | US\$2,500 (minimum) |
| Registration requirements of the Ministry of Commerce | US\$1,000 |
| Registration requirements for Ministry of | US\$1,000 |
| Registration requirements for Ministry of Environment including impact assessments of the | US\$2,500 |
| Meeting Fire Police | US\$50 |
| Health Inspection | US\$50 |
| Miscellaneous expenses (e.g. transport phone coffee, etc...). increases significantly the as you further away from | |
| Opening of Business Bank | US\$50 |
| Business Name | US\$50 |
| Total Estimate | US\$9,500 |
| Time Taken to Completion of paper | 6 – 12 |

Interviews with Small Establishments in Mozambique (2005). The data presented here corresponds to an investment value of between US\$150,000 – US\$200,000.

58 Some owners of small establishments expressed concern about biased Government policies that make it more difficult, relative to foreign investors, to secure the best locations for their businesses.

59 Ricardo (2004) refers to evidence of land grabbing and displacement of communities in Matutine, the Inhaca peninsula, Cabo de São Sebastião, and Vilanculos Coastal Wildlife Sanctuary

60 Construction costs for small establishments are usually below the US\$50,000 mark required to benefit from the provisions of the Mozambique Investment Code.

3. Tax administration is sometimes ambiguous and difficult for small businesses to navigate, often resulting in high effective rates. The 2003 World Bank investment climate survey of manufacturing firms suggests that a majority of companies (55% of respondents) found tax rates to be a major or very severe obstacle to doing business. As a result, an average firm reports only 67 percent of profits. Delays in VAT and other tax refunds were also cited as serious concerns for the private sector. Anecdotal evidence suggests that the same situation exists in the travel and hospitality industry. The basis for taxation is sometimes ambiguous and the burden can be prohibitive for small establishments who do not benefit from the investment code. As a result firms have an incentive to not declare, or to underreport their revenues. For example, firms consider the finance office in Vilanculos as one of the most corrupt departments to deal with. Officers come unannounced and show no transparency for estimating taxes. Imposition of fines, arbitrary tax assessments and other operational restrictions on businesses are said to be rampant.

Furthermore, for formal establishments that procure local products such as building materials, fish, fresh fruits and vegetables, vendors do not typically provide receipts. This limits the ability of (formal) small hospitality establishments to document such expenses for tax assessment purposes. In addition, hospitality firms also engage in other services which attract a variety of other taxes and levies. Table 13 below presents some indicative costs and taxes confronting a small establishment. The table illustrates a multiplicity of taxation that creates a big incentive for informal businesses in the tourism industry.

Table 13: List of applicable taxes

| Types of Taxes | Value (US\$) |
|---|--|
| Monthly taxes | |
| City Council (High season tax)* | US\$250 (US\$150 in low season) |
| Radio tax:: | US\$10 |
| Fire control tax | US\$100 |
| Social insurance for the workers | US\$500 |
| Annual Taxes (not an exhaustive list) | |
| Citizen tax (paid beginning o the year): | US\$500 (business pays for they workers) |
| Corporate tax (depends on type of business) + | US\$3,500 and US\$5,000 (Ambiguous) |
| Publicity/Advertisement taxes | US\$500 |
| Tourism tax | US\$150 - US\$300 |
| | |
| Total Annual Taxes | US\$5,350 – US\$10,000 |

* Used for garbage collection; fix roads, etc. But the infrastructure

+ Mid -low income group B pays between (tax determination is ambiguous, and businesses are not aware of the tax basis)

4. All but a very few inputs for hotel and restaurant operations are sourced from Maputo, where most products are imported. Although average import duties appear to be relatively competitive in Mozambique (see Table 14), some specific inputs that a very important for hospitality establishments in particular, and tourism industry in general, attract exorbitant taxes and tariffs. For example, hospitality firms face high taxes of consumer items classified as luxury goods, as well as VAT taxes (see Table 25). These high taxes have not only raised the relative prices of consumables and durable goods significantly, they also inspire a growing market of informal traders that peddle smuggled products of interest to the tourism industry (e.g. wines, alcoholic beverages, and so on). The same goes for used cars in Mozambique which cost about 1.5 times the price from South Africa (already inclusive of a 105% duty).

Table 14: Single Average Duties on Selected Imports

| Product Name | Seychelles (2001) | South Africa (2001) | Brazil (2004) | Kenya (2004) | Mozambique (2003) | Mauritius (2002) |
|--|----------------------|---------------------------|------------------|-----------------|----------------------|---------------------|
| Jams, fruit jellies, marmalades, fruit puree, cooked | 33 | 30 | 16 | 35 | 25 | 27 |
| Beverages | 108 | 19 | 22 | 27 | 25 | 65 |
| Alcoholic beverages | 130 | 23 | 22 | 27 | 25 | 72 |
| Wine of fresh grapes; grape must | 50 | 25 | 23 | 26 | 25 | 76 |
| Pumps & compressors, fans & blowers, centrifuges | 17 | 3 | 14 | 13 | 6 | 14 |
| Road vehicles (incl. air cushion vehicles) | 53 | 12 | 24 | 16 | 10 | 33 |
| Passenger motor cars, for transport of pass.& goods | 163 | 29 | 35 | 20 | 18 | 10 |
| Road motor vehicles, n.e.s. | 58 | 30 | 35 | 23 | 11 | 8 |
| Public service type passenger motor vehicles etc. | 75 | 29 | 35 | 28 | 13 | 10 |

5. Many hotels and independently owned local restaurants usually have to keep large inventories of food and beverages because of the limited number of reliable local suppliers, coupled with high variability of import processing time. It takes between 5-18.5 days to clear goods from ports in Mozambique. Similarly, the process for clearing trucks arriving in Maputo from South Africa takes 5-7 days⁶¹. Some lodges report keeping 10-day's worth of inventory levels for perishable food items. In comparison, restaurants in North America would typically hold inventories of perishable food items of no more than 3-4 days. A high inventory level of perishables is risky because any breakdown in power supply and failure of freezers or refrigeration equipment can result in significant losses. Such high inventory ties down working capital, and involves high costs for storage space and equipment. These costs will become exacerbated when the demand situation improves and hotels have to cater for a larger number of tourists. Also many hotels source products by way of retail distribution and not wholesale, which further increase costs.
6. Hotel expenditure on electricity in Mozambique is generally very high: Generally the cost of electricity from the public grid is very low (about US\$0.035/KwH). However, because supply is erratic, hotels are forced to generate their own electricity using diesel powered generators and solar energy. This can push average costs of energy to as high as US\$0.085/KwH. Alternative forms of energy are becoming available, but further development and use suffers from incoherent policy framework. For example, some investors have begun to use solar energy, which is cheaper, but import duties on solar energy equipment are very high (up to 50%) and back-up or support services not available within the country. Hotels also use natural gas and diesel to power generators. Estimates are that this costs about US\$750—US\$800 for a daily diesel consumption of about 1,200 liters.

⁶¹ Sources include ICA 2003 and recent interviews

7. The lack of good technical support services (e.g. electricians) in Vilanculos-Bazaruto also poses additional problems as technicians must come from Maputo. In the event of delays, hotels and lodges can suffer significant losses. For example, if a hotel does not have a back up, defective freezers can remain out of service for as long as 3 weeks. During this time, the hotel or restaurant must make daily and frequent purchases (increasing the operating costs) or must invest in new equipment.
8. Corruption in public agencies increases costs of transactions, especially for traded goods. The Kamatiput border in Gaza province is often cited as one of the most corrupt in the country⁶². In the recent past, businesses have had to close due to corrupt government practices. These complaints reflect broader concerns about corruption in Mozambique which compares very poorly with competitors (Table 15).

Table 15: Mozambique rankings in corruption perceptions index

| Country | Corruption perception Index |
|--------------|-----------------------------|
| Mozambique | 2.8 |
| Brazil | 3.7 |
| Cape Verde | 3.4 |
| Seychelles | 4.0 |
| Mauritius | 4.2 |
| Maldives | 4.2 |
| South Africa | 4.5 |

Source: Transparency International's 2005 Corruption Perception Index

9. Resolution of differences in interpretations and application of laws (e.g. in Xai-Xai and Inhambane) is slow and expensive – particularly for small establishments. The legal process is tedious and time consuming and issues such as redressing tax assessment mistakes made by the Finance Office in any of the provinces can only be resolved in Maputo, usually with the high costs of legal fees. For owner-run operations, such interventions are time-consuming and costly because owners must closely oversee operations.
10. The limited number of distribution channels (e.g. the lack of domestic tour operators and the poor penetration of international operators) vests a greater responsibility for marketing and selling on hoteliers. However, the small size and scale of hotel properties in Mozambique works against the hoteliers undertaking these marketing costs. Usually only large hotel chains are able to effectively distribute and sell products in-house on a large scale (e.g. Marriott & Radisson). There are limits to the resources local hotels can earmark; there are diseconomies of scale; and there is the overriding problem of appropriating returns on marketing.
11. Hotels are also taking care of transfers and related ground handling services within the destination. The absence of many reliable local tour operators leaves

⁶² From interviews with local stakeholders

every hotel with the task of transferring customers at quite significant diseconomies of scale.

12. The ability to apply yield management is limited because of the lack of distribution channels. The lack of domestic tour operators in the distribution mix poses a real problem as they are the most effective in packaging products (adding extras such as meals, tours, events etc.) and in terms of managing price and inventory. Also the small scale of the hotels, resorts and lodges works against managing complex price structures and room inventories over multiple channels⁶³.

3.3.7 GROUND TRANSPORTATION AND OTHER TRANSFERS

Portuguese tourists going to Bazaruto need to make two stops – first in Maputo, and then in Vilanculos. In Maputo, the tourist could take a taxi for less than €10, or rent a car for about €120/day. Taxi service quality is poor because most cab drivers use second-hand cars with high operating and maintenance costs. Section 3.4 and 3.6 of this report will discuss the challenges confronting car rentals in more detail, while section 3.7.7 presents issues related to taxis.

In Vilanculos, depending on the mode of transport, transfers to Bazaruto can cost between €25 and €70. For boats, there are no safety standards in place and no monitoring mechanisms to ensure compliance. The occurrence of an accident due to negligence may further undermine Mozambique's image as a safe leisure destination. ASSAS, a franchise of Pelican Airlines, has recently started flying to Bazaruto at a cost of about €70. Prior to this, transfers and ground handling activities in Vilanculos were handled directly by hotel representatives who assist the tourist with customs procedures and luggage handling in Vilanculos. In some cases, the costs of transfers are not included in quoted rates to tour operators.

3.38. ANCILLARY SERVICES AND ACTIVITIES:

Tourism expenditures on ancillary services are a big source of spillovers into the local economy. This study examines the constraints on tourist expenditures on ancillary services by assessing three main kinds of ancillary services namely:

1. Tourism attractions and associated tour activities (e.g. visits to game parks like Kruger, nearby Archipelagos, tours to museums and so on)
2. Independent businesses that cannot survive without tourism (e.g. dive tours, fishing, snorkeling, and associated businesses and so on)
3. Independent business that provide valuable services to the tourism industry (e.g. laundromats, housekeeping services, design and entertainment,, banking services, telecommunications, farmers and food suppliers, equipment leasing companies and so on)

⁶³ The most simple way of managing price and inventory is through a manual allocation of rooms over distribution channels, which naturally is impossible with just 9-68 rooms per property. A more advanced and demanding (costly) way is to dynamically manage room capacity and pricing interactively using online management systems.

There is very little detailed information available on the “out of pocket” expenditure of visitors to Mozambique, contrary to other countries. Generally, the availability of services diminishes significantly the further the tourist moves northwards of Maputo (see Section 3.7.8). In Bazaruto, some communities are beginning to provide rudimentary tourism activities such as rental boats for sailing and diving. However, the market is dominated by resorts which manage most of the excursions and trips. Local fishermen also supply fish and other seafood to hotels and their restaurants; some guards speak English and escort tourists to attractions like the Light House; local youth and children also perform traditional dance in the lodges.

In Vilanculos, town trips are possible, but there is not much content to show to the tourists. In fact, the district is underdeveloped and connected with bad secondary roads. The development of the water-front to diversify offerings has been proposed, backed by port authorities, but until now there has been no real follow up activity. The main hotel in the harbor is publicly owned, which may explain its poor performance. There are only 2 ‘good’ operators of speed boats who can organize marine activity trips for tourists. Nearby cities like Tofo are experiencing an emerging market of independent businesses like diving, fishing, and boat excursions⁶⁴. However, service is on-demand only; quality is low and scheduling is erratic. Many of the businesses operate informally.

For tourists that stop over in Maputo, day tours to Kruger are a popular activity. The trip to Kruger is about an hour from Maputo, with an additional 30 minutes wait time at the border. It should be acknowledged that some wait time is also attributed to delays at the South African end of the border posts. This trip is usually put together by a local tour operator, and is priced at US\$300-US\$400 per person for 2 nights. The local operator makes a commission of about US\$45 (15%) on each tour. Entry fees to the park are between US\$10- \$US20. Car rental costs are US\$125. The remainder goes to camping/accommodation charges, guide fees and add-ons (e.g. lunch packages)⁶⁵.

Organizing day trips to Kruger, however, also has its own constraints. Support services like banking and communications with counterparts in South Africa can sometimes be problematic. Mozambican tour operators cannot open bank accounts in South Africa, and transfer of funds from Mozambique to South Africa (and vice-versa) is costly in terms of time and fees. As a result, tour operators are exposed to higher transactions costs and operational inefficiencies when dealing with their South African counterparts. For example, to make a reservation in Kruger Park a Mozambique tour operator often has to go physically to Nelspruit to deposit the money. And because Kruger is a very popular attraction with less pressure on

⁶⁴ Some sample activity rates are as follows: for 1-day trips that include equipment (on a 5 day itinerary tourists would choose 2-3 of these): fishing for \$59-103 ; snorkeling for \$37-51; tour to an Island for \$37-45, and scuba diving for \$45-59.

⁶⁵ Package usually includes transfers from/to Maputo hotel, accommodation in camp grounds or hotels in Kruger, and some meals. It usually excludes drinks and expenses on border and other frontier charges (e.g. visas)

occupancy rates, hotels sometimes do not even bother to respond to the tour operator's requests for commissions.

SUMMARY OF CONSTRAINTS TO GROWTH OF TOURISM IN VILANCULOS-BAZARUTO

- Unlike many of its competitors (e.g. Mauritius, Seychelles, Brazil and Cape Verde), Mozambique's visa requirements still pose unnecessary bottlenecks that may discourage tourists from key inter-continental source markets (particularly in the Portuguese market that look to last minute travel deals) from coming to Mozambique.
- Current Bilateral Air Service Agreement (BASA) between Mozambique and Portugal still limits nature of competition and supply of air transport services between both countries.
- Domestic air transport services are fraught with complaints about reliability covering delays, cancellations and re-routing, poor in-flight quality which are important turn-offs for customers.
- Quality of airport infrastructure and services also need to be improved – for example, length and quality of runways limits type of aircraft in Vilanculos and Pemba. Baggage handling delays and security are an issue in airports
- Securing use rights and access to land particularly in good locations is problematic for new establishments. This situation is compounded by difficult property rights issues, and long wait times for securing building permits (e.g. for camping sites).
- Peak season in Mozambique is very short (about 3 months), compared to competing destinations – and this limits growth. Furthermore, the imbalance between demand from tourism visits and supply of beds (high quality) during very short peak seasons will limit future growth.
- Mozambique does not feature prominently in global tourism markets, brochures and on-line marketing platforms. The demand and profit incentives for foreign tour operators to actively invest in marketing Mozambique as a leisure destination are very limited. The country's image tainted by disease and armed conflict further dampens tourists' and outbound tour operators' interests in the country
- Tourism product development in the Southern coast has improved a lot over time, but more needs to be done. There are very few tourism products outside the sun, sand and sea, and insufficient cultural product offering to complement this. There are no clear or concerted mechanisms to ensure the development and restoration of historic monuments and sites (e.g. Bazaruto Light House, Ruins of the Bazaruto Fishing Pearls Company). Safety and security issues in certain pockets in Maputo and XaiXai; and also tourists must take precautions not to drive at night. The impact of wind erosion and the impact of sand dunes are also emerging concerns, and there are currently no contingent plans in place to address them. Severe soil erosion, mobile sand dunes, and loss of vegetation cover places the Archipelago at significant risk of splitting. All these force the need for integrated plan for developing and managing the destination.
- Costs of hotel operations in Bazaruto are high due to high costs of transport and logistics across international and provincial border points. Roads in the Southern coast are generally in good condition, but need adequate maintenance. Hotels also complain about high cost of utilities (electricity and water).

- Although there are a few outstanding tour operators in Mozambique, foreign outbound operators and their clients often complain about poor and unreliable service and slow responsiveness to customers' needs. As a result there is weak coordination between foreign (e.g. Portuguese) and Mozambican tour operators
- Lack of safety equipment, standards and enforcement among tourism ancillary service providers could limit future demand (e.g. lack of decompression chambers for diving and snorkeling, or poor safety regime and oversight on water transportation services).
- Investment Code does not provide even playing field for small and medium enterprises in the hotel and ancillary tourism services industry (e.g. small establishments like bed and breakfast facilities, tour operators, diving, and vendors). Many of these businesses face the same constraints as large hotel establishments with respect to limited land access rights, access to financial institutions, and lack of start up capital, lack of operating and safety standards and poor knowledge.
- Local value added is very small. Limited number of restaurants, tour operators, event planners, suppliers and good technical support services in close proximity. Some local community initiatives (e.g. cultural dances and local fishermen operating dhow trips) are emerging, but many of these local entrepreneurs need capital and know-how to build better businesses.

3.5. LONDON - JOHANNESBURG - PEMBA - QUIRIMBAS (NORTHERN UP-SCALE MARKET)

The package is an 8 day 7 night package out of Johannesburg to Quirimbas via Maputo and Pemba. The package includes air and ground transfers all foods, some drinks and non-motorized water sports activities.

3.5.1 DESTINATION ANALYSIS AND TOURISM PRODUCT DESCRIPTION

The North – comprising the rich historical past of Ibo Archipelago and Pemba, the marine life and beauty of possibly one of the most scenic archipelagos in the world, and the unique biodiversity of Quirimbas Marine National Park – is Mozambique’s unscathed ‘tourism jewel’.

The Quirimbas Archipelagos comprise a string of 31 islands stretching more than 200 kilometers north to the Tanzanian border strung along the coast parallel to Pemba. The main attraction of the Quirimbas is the serene beauty, the local fishing communities, the marine and bird life. The Archipelagos are composed of fossil coral rock and have lush vegetation and mangrove swamps. They support a wide variety of wading birds, turtles and terns. The archipelagos are designated as a Marine National Park endorsed by the World Wildlife Foundation (WWF).

The Pemba-Quirimbas hosts only a small number of visitors and a minute share of tourism in Mozambique. It has recently been discovered by investors – three Archipelagos have been developed into small eco-tourism resorts/bungalows, two more are coming on stream and there is interest in developing more – and it will soon have the largest supply of superior class accommodation in Mozambique. For adventurous travelers, it is a wonderful experience visiting Ibo and the Quirimbas Archipelago, which was once a trading point and now hosts the largest community of tourists in the Archipelagos.

Pemba-Quirimbas competes with Maldives, Mauritius and the Seychelles. Prime destinations in the Quirimbas should at least be able to attract comparable prices if their image, service quality, and visitor’s perception of value-for-money improves. South African travel agents sell packages to destinations in these other countries for as high as US\$4,643, US\$4,570 and US\$3,979 respectively.

Some of the issues discussed in Section 3.3 are also very relevant in the Quirimbas and other parts of northern Mozambique. However, the drive toward community-based tourism development appears to be stronger in the north.

3.5.2 VALUE MAPPING OF THE PEMBA-QUIRIMBAS TOURISM EXPERIENCE

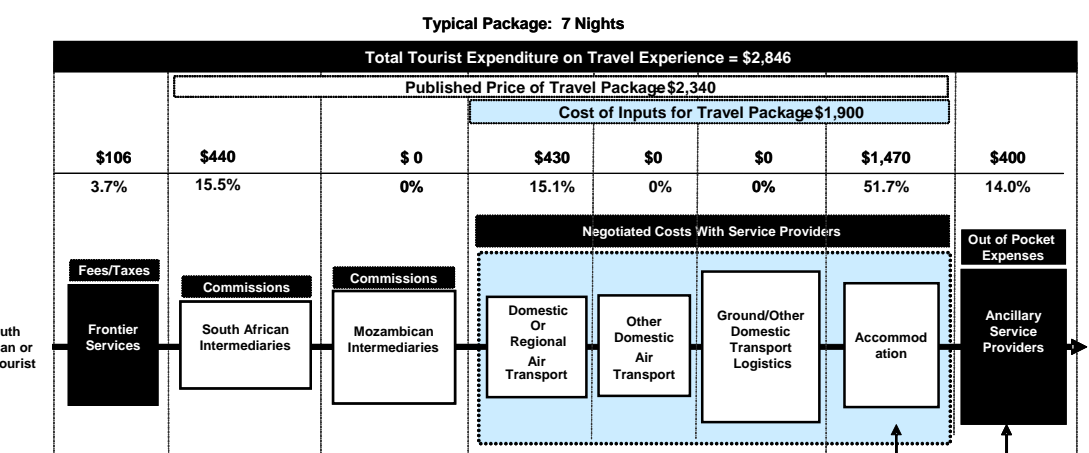
To understand some of the constraints to growth of Mozambique tourism in the South African market (and the British market by extension), the study examines the

activities along the value chain of a travel itinerary for an upscale South African tourist going from Johannesburg to Quilalea Island, as shown in Fig. 6 below. This itinerary is assembled in a 7-night travel package priced at US\$2,340 for a double occupancy room, in a 4-5 star hotel. The cost of food and drinks and some events (e.g. diving) are all included in the package price. Hotels and resorts also exempt tourists staying up to seven nights from paying the helicopter lift transfer fees (up to US\$250) from Pemba to the Quirimbas. Costs of obtaining visas, airport taxes are out of pocket expenses for the tourist. This itinerary is later extended to understand related issues in the UK market.

The package is sold by South African tour operators either on the local market or to a tour operator in London as an add-on package to a tour in other African countries. The British tour operator then applies the commission to the Mozambique package, assembles the tour with the primary package (e.g. a safari in Kruger Park) and the international flight segment, and sells the entire package through a travel agent. Only very few specialized tour operators (like Africa Archipelagos Whitney) package Pemba, Quirimbas, or Bazaruto as an independent destination for British tourists, and their prices range from £1,455 - £2,882 for 7-night packages.

To assemble the package, tour operators in South Africa typically book the Johannesburg - Pemba flight via the airline reservation system, and then call the hotels, lodges or resorts in the Quirimbas directly to make reservations. In addition to accommodation services, upscale hotels in the Quirimbas also provide visitor pick-up services, ground transportation and transfer from the Pemba airport, food and selected add-on activities like fishing and diving.

Figure 6: Value Chain Map for London - Johannesburg - Maputo - Quirimbas



In an even more acute manner to the Lisbon-Bazaruto value chain, domestic intermediaries (e.g. Mozambican tour operators and travel agencies) and other ground operators (e.g. ground transport organizers, taxi cabs, car rental agents, and

so on) play very little role, and do not appropriate any significant value within the chain. The main economic agents that influence the costs and value of a tourism product in this segment of the market are: the South African intermediaries, regional (e.g. LAM) or domestic (e.g. Air Corridor) airliners that fly to Pemba, and the hotel/resorts. These agents account for 19.2%, 16.4% and 64.4% of the published package price, and 15.5%, 15.1%, and 51.7% of total tourist expenditures respectively.

In this case study, the hotel costs includes all accommodation and entry fees to surrounding destinations, all meals, snacks, picnics, on board catering for activities, teas & coffees, diving and use of our dive boats, fly fishing & surf casting equipment, snorkeling and use of non-motorized boats/canoes and dhow excursions, laundry, executive lounge facilities in airport, and immigration, customs & check-in assistance. In addition, estimates are that tourists may spend an additional US\$400 on trips and shopping in surrounding islands⁶⁶.

3.5.3 ASSESSMENT OF VALUE CHAIN COMPONENTS OF THE PEMBA-QUIRIMBAS TOURISM PRODUCTS FOR THE SOUTH AFRICAN & UK MARKET

Frontier Services: With the exception of Tanzania, South African and British nationals do not require visas for leisure travel to many of the destinations that compete with Mozambique's sun, sand, and sea products (Table 16).

Table 16: Visa Processing Requirements, Processing Times, and Associated Costs

| South African National | | UK National | |
|------------------------|-------------------|-------------|-------------------|
| Going To: | Visa Requirements | Going To: | Visa Requirements |
| Brazil | Exempted | Brazil | Exempted |
| Cape Verde | Exempted | Cape Verde | |
| Kenya | Exempted | Kenya | Exempted |
| Mauritius | Exempted | Mauritius | Exempted |
| Seychelles | Exempted | Seychelles | Exempted |
| Tanzania | Yes | Tanzania | Yes |
| Zambia | Exempted | Zambia | Yes |
| Mozambique | Exempted | Mozambique | Yes |

With the signing of the visa waiver agreement between South Africa and Mozambique on April 15th, 2005, a visa is now not required for visits of up to 30 days. This is certainly a step in the right direction, and more needs to be done. Unlike many of its well known and established competitors (e.g. Maldives, Mauritius, Seychelles), Mozambique still requires nationals from many key international source markets of interest (e.g. EU, U.S.A, and Japan) to obtain entry visas for tourism. As

⁶⁶ Of this US\$400, less than 5% is estimated as expenditure on handicraft and curios.

discussed under the Lisbon-Bazaruto package, the financial cost of obtaining visas is insignificant, but the processing time can be, and may deter tourists from taking advantage of late booking spontaneous trips. This is particularly true for the over 1 million leisure tourists who visit South Africa yearly from Germany, U.K, France, and the U.S.A., who are unlikely to prefer Mozambique over other destinations (e.g. Mauritius, and Madagascar).

For third country nationals wanting to visit Mozambique through South Africa, visas are available at border posts. However, because Mozambique is still a relatively new and unknown tourism destination, many international tourists are unwillingly to risk visa rejections at the airports or border posts they are not familiar with. They prefer to secure the visa before leaving their country where they are faced with longer visa processing times relative to other competing destinations like Maldives, Brazil or Cape Verde.

Moreover obtaining visas at border posts will increase waiting time. For example, it takes about 50 – 120 minutes to disembark and exit the Mavalene airport. In comparison, it takes about 15-20 minutes in South Africa, 40-60 minutes in Kenya, and 30-45 minutes in Tanzania. As such a tourist already experiences a disproportionately large amount of waiting time in Maputo compared to other countries. Additional time (30-45 minutes) on visa procedures further exacerbates this unpleasant situation. Furthermore, tourist travelers that have to make multiple stops (e.g. to Bazaruto and the Quirimbas) may miss their connecting flights and get stranded at the airport – hereby compromising their experience.

The situation is very similar at border crossings, where tourists have to wait for almost 1 hour. It should be mentioned that delays at border crossing are also related to waiting time in both Mozambican as well as South African border posts. Many competing countries for Mozambique have carefully designed frontier formalities (including visa waivers) that eliminate unnecessary restrictions on movement of persons, without compromising associated revenues, security or information (e.g. visa waivers, one-stop border posts, and so on).

3.5.4 INTERMEDIARIES AND DISTRIBUTION CHANNELS

For destinations that are not well known, very few tourists will venture to purchase tourism services directly from service providers because of the level of uncertainty and risks associated with such an activity. The tourist is unable to ascertain service quality ex ante and ex post the tourist is unable to get a reimbursement in case services are not delivered. Consequently, most tourism products for relatively unknown foreign destinations are sold through traditional distribution channels – i.e. networks of tour operators and travel agents that undertake a series of transactions that pool together, package and provide guarantees for deliveries of tourism services e.g. flights, hotels, tours, transfers, activities and events. They lend their credibility to these transactions, and are therefore culpable for any shortfalls in services.

As there are no domestic tour operators in Pemba and Quirimbas, the gap in the supply chain is bridged either by the hotels and lodges themselves or by international tour operators. Without representation in Pemba/Quirimbas, Maputo tour operators have no advantage over Johannesburg tour operators. South African tour operators and the hotel's own sales offices and sales agents are the main intermediaries for Pemba/Quirimbas (Table 17)⁶⁷. The South African tour operator's cost of assembling the package is 41% less than the FIT price. These negotiated discounts fall within the 40-60% global range. By buying from the tour operator at US\$2,340, the tourist saves about US\$1,035 in comparison with the FIT price⁶⁸.

Table 17: Breakdown of cost drivers Pemba/Quirimbas

| Cost Drivers | Negotiated Price (US\$) | Market Price (\$US) |
|--|-------------------------|------------------------------|
| Air Transport (Johannesburg - Pemba) | 430 | 750 |
| Hotels/Resorts | 1,470 | 2,625 |
| Transfers (Pemba – Quirimbas) | 0 | 0 (Free for 7 night package) |
| Ground Transport | 0 | 0 |
| Cost of Package | 1,900 | 3,375 |
| South African Tour Operator/Travel Agent | 440 | 0 |
| Mozambique Tour Operator/Travel Agent | 0 | 0 |
| Price of Package | 2,340 | 3,375 |

Deep peak-season discounts of up to 44% on hotel rack rates and 43% on air fares suggest that the degree of negotiation among tour operators, airlines and hotels in the Quirimbas is higher than in the Lisbon-Bazaruto case. It may also indicate that hotels have low occupancy rates, and are therefore dependent on South African tour operators to drive tourism demand to these destinations. On average, the South African tour operator makes a commission of US\$440 (about 19% of the package price). A small amount of this is used to pay for some services (information gathering, minor ground handling activities, and so on) carried out by local agents in Mozambique.

The implications of the absence of local tour operators for the hotels and lodges are multiple, but mainly lower value, flexibility, and service provision and raise operating costs for hotels which have to engage in non-core activities such as “meet and greet” arrangements and local tour operation (e.g. transfers, and tours, events, attractions management and operation):

1. While the share that the tour operators get out of each business transaction may be attractive the volume of possible transactions, dictated by the

⁶⁷ There are some emerging joint venture arrangements between some tour operators in South Africa and a few Mozambican counterparts.

⁶⁸ This assumes that the tourist will pay actual hotel rack rate if he books with the hotel directly.

number of beds, limits the types of tour operators that will find it relevant to actively develop and promote the destination: niche high-end tour operators.

2. The destination is primarily appropriate for niche tour operators that assemble highly customized tours that appeal to a small segment of discerning travelers. This group is less preoccupied with price but very concerned with the service levels and the overall uniqueness of the experience. The absence of local tour operators may in turn hurt the ease and comfort level of international niche tour operators sending their coveted clients into destinations without a professional service network.
3. Hotels usually depend upon local tour operators for ticketing and transfers. Hoteliers cannot substitute for local tour operators in providing these services efficiently. Absence of an effective mix of marketing and distribution channels affects the growth and development of the destination.
4. The difficult business climate coupled with the inefficient structure of the airline industry, and the absolute size and biased distribution of the current market effectively smothers dynamic development of a tour operator industry in Pemba/Quirimbas. Uncertainty, risk and entry barriers also pose significant obstacles.

3.5.5 INTERNATIONAL AIR TRANSPORT FARES AND SERVICES

None of the international air carriers fly directly from London to Maputo, so the UK tourist will need to fly through Johannesburg for an estimated price of about US\$1,200, in addition to about US\$400 for the connection flight between Johannesburg and Pemba⁶⁹. This is about 1.5 times the price a Portuguese tourist pays for a flight from Lisbon to Pemba via Maputo, adds more connections and takes 8 hours more each way due to the routing.

3.5.6 REGIONAL AIR TRANSPORT FARES AND SERVICES

Although the air fare from Johannesburg to Pemba makes up only 18% (US\$430) of the price of the package, this is rather high for a 3-hour direct flight. Although the Jo'burg – Maputo route accounts for most passenger traffic flow into Mozambique, limited competition makes it one of Africa's most expensive ones. Only one airline – LAM – flies from Johannesburg to Pemba, while on the Maputo-Quirimbas route tour operators have a choice between Air corridor and LAM. Liberalizing this route is expected to accelerate the bankruptcy of LAM – with significant political

⁶⁹ The alternate routes through Nairobi and Dar-es-Salaam are much shorter (5,000 fewer km) but are not well served. Looking forward this is perhaps a better route for the inter-continental market.

implications. USAID completed an air transport study (http://www.tipmoz.com/upload/cat_files/cat3_link_1138767956.doc).

Pemba International Airport is the second busiest airport in northern Mozambique with 29,166 passengers in 2002. Currently, there are 380 domestic seats and 510 international seats available weekly in Pemba. The low frequency of flights between Johannesburg and Pemba limits travel from Johannesburg. Flights from Johannesburg to Pemba operate bi-weekly (every Wednesday and Friday), while return flights to Johannesburg operate three times a week, with a stop-over in Maputo. Direct flights take around three hours, while flights that stop over in Maputo will take between five and six hours.

Currently, 2 airlines provide regular air service to the Pemba airport. These include: LAM with 41 weekly flights and Air Corridor with 20 weekly flights all from Maputo with stops en route. Pemba airport has a total of about 890 available seats arriving weekly, and annual load factors are fairly high, averaging 70%. Average demand is about 560 passengers per week, which leaves over 300 available seats. Hence supply of seats is reasonable to meet any anticipated short-term increases in demand. However, Pemba airport may be further developed to become the destination point for direct inter-continental flights to the north of Mozambique. This will require an extension in the airport runway and other infrastructure and navigational improvements.

Finally, the absence of navigational and other equipment for night landing limits flight scheduling and convenience of connections. As was the case for Vilanculos the time window for landing implies that even small delays may result in cancellations. Consequently tourists are forced to layover in other cities (e.g. Maputo), which limit the attraction of the destinations for international travel packaging.

3.5.7 HOTELS AND OTHER ACCOMMODATION

Expenditure on hotels and resorts is the highest cost component of this package, accounting for 62.8% of the price. Although hoteliers in northern Mozambique and in the Quirimbas highlighted the same main constraints to doing business as elsewhere, the impact north is amplified given remoteness and lack of adequate infrastructure.

1. The advantages of high labor content induced by low wages, is offset by low productivity: Labor productivity and access to skilled labor for important services (such as marketing, sales, accounting) is particularly weak. Staff per room ratios is about 3:1 in the average hotel in the Quirimbas. This exceeds industry

norms of around 2:1⁷⁰. Higher skilled and management staff are mainly recruited from Maputo, or as expatriates (mainly from South Africa) because such skills are currently lacking in the local market. These factors affect productivity and operating costs of the hotel.

2. Expensive electricity and water supply (*Same as in Vilanculos-Bazaruto*), which for the Archipelagos is an effect of the conditions of self-generating electricity and de-salinating or shipping in water.
3. Significant rent seeking by public officials that increases operating costs.
4. High costs of sourcing imported inputs: A significant part of inputs used by hoteliers and property developers, especially in upscale facilities, are imported – mainly South Africa (Table 18)⁷¹. The logistics of importing food and other supplies is particularly challenging for these hotels and resorts because air fares are expensive, and the road network is not very good. Moreover, very few local suppliers in the region are able to meet the quality, volume, time and price requirements to supply these resorts on an efficient and reliable basis. .

Table 18: Sources of Goods and Services for Accommodation Development and Operation

| 90% + sourced from RSA | 50-90% sourced from RSA | Sourced locally |
|--------------------------------|-------------------------|-------------------------|
| Architects | Investors | Unskilled Labor |
| Interior Designers | Quantity Surveyors | Some Consumables |
| Furniture/Fittings & Equipment | Contractors | Some Building Materials |
| Senior Management | Skilled Labor | |
| Advertising and Sales | Transport | |
| | Quality Food Supplies | |

Source: Interviews with hoteliers and property developers.

5. Limited demand and low capacity utilization: There are only about 140 available beds in Pemba that are registered and usable for international tourism standards. Despite this small size, however, the average yearly occupancy rate is just between 30-40%. The key problem is therefore not barriers to entry for hotel developers, but poor current demand and short duration of tourism peak season.
6. Limited marketing capacity: Although some of the resorts are establishing marketing relationships with potential source markets abroad, they still spend very little on sales and marketing (estimates are about 4%).⁷² Hoteliers contend

⁷⁰ Sometimes high staff per room ratios is attributed to a desire to create goodwill in the surrounding communities. In this case, hotelier suggest that they more staff because of their commitments to providing local employment – indicating that marginal productivity of staff is lower than necessary.

⁷¹ Smaller mid-market properties are inclined to source more locally because their daily rates are generally lower, and their clientele are willing to substitute quality for price.

⁷² For example, private sector marketing and public relations activities in Mozambique are mostly done by hotels and exclusive island properties and the Polana Hotel, Maputo. Other hotels are also advertising, especially in Maputo – Ibis, Catembe Gallery Hotel, and Vilanculos Beach Lodge are some examples. But marketing does not seem to be effective because occupancy rates remain low.

that high operating costs limit their ability to devote more resources. As high-quality marketing and professional services are lacking in the region, resorts rely on foreign, rather than domestic service providers.

7. Limited availability of cheaper alternatives to high-end lodges and resorts: Table 19 below shows that out of the 250 beds in Pemba, 140 are of international luxury standards. This limits opportunities for tour operators to create cheaper packages, and stimulate more demand, by offering a mix of hotel quality and prices to suit a variety of tourist budget groups.

Table 19: Tourism indicators for Pemba - Quirimbas 2004*

| | Pemba-Quirimbas | Share | Total Mozambique |
|-------------------------------|-----------------|-------|------------------|
| International Tourists | 7,000 | 1.6% | 441,000 |
| Share Business | 4,000 | 2% | 200,000 |
| Share Leisure | 3,000 | 1.2% | 241,000 |
| Hotel beds | 250 | 1.8% | 13,807 |
| Luxury quality beds | 130 | 1.7% | 7,616 |
| Number of hotels +100 rooms | 0 | 0% | 7 |
| Number of hotels 50-100 rooms | 1 | 5.9% | 17 |
| Number of hotels <50 rooms | 15 | 5.1% | 296 |
| Room-nights* | 25,000 | 3.8% | 664,375 |
| Average occupancy rate** | 30% | . | 28.9% |
| Employees in Hotels | 350 | 3.3% | 10-11,000 |
| Population | 1,245,872 | 6.4% | 19,406,703 |

*Source: MITUR(2005), INE (2005), AdM (2004), McEwen (2005), Visser (2004) CIA Factbook (2005) and own calculations Note: * International tourists and subdivisions, Room nights and receipts all 2003 data. ** estimated occupancy rate*

3.5.8 GROUND TRANSPORTATION AND OTHER TRANSFERS

Transfers from the Pemba airport to the Quirimbas is done by air using a private charter helicopter or plane. Unlike in Vilanculos, where transfers have now been taken over by ASSAS, air lift to the Quirimbas is still managed by hotels/resorts.⁷³ These costs are excluded from package price because some resorts offer it as a complementary service for guests that stay for 7 nights or more paying full international rates. At US\$250 per round trip, transfer is fairly expensive when compared to Bazaruto.

The road-based itineraries discussed in Annex 1 and 2, Volume II of this report uncover other issues related to ground transportation. Some of them include: (a) Car rental services are more expensive in the north. They can be as high as 2.5X prices in the south, partially due to an acute undersupply of car hire services, which in itself is a derivative of the impact of tariffs, used car importation costs, and high maintenance costs. (b) There are no adequate road side services for self drive tourists such as rest-stops, gas stations, restaurants, motels, etc. (c) Scheduling and service

⁷³ The cost for the transfer is about \$125.00 per person one-way and the helicopter takes 4 people with 20kg soft luggage per person (hand luggage included). The plane, on the other hand seats about 8 people.

quality of local trains are below the required standards for an up-scale tourist, limiting the ability of tour operators to rely on train rides for travel tours. A more detailed discussion can be found in the road based itinerary in Volume II (Annex 1 and 2). A summary of constraints affecting tourism products in northern Mozambique is provided in the table below;

SUMMARY FOR CONSTRAINTS TO GROWTH OF TOURISM IN PEMBA-QUILALEA

- Visa requirements pose unnecessary hurdles that may discourage over 1 million third-country nationals (e.g. EU, Japan, and USA) already in South Africa from taking an add-on trip to Mozambique. These requirements, coupled with long processing time and harassment at border posts make Mozambique a less attractive destination for stop-over relative to Maldives, Seychelles, Madagascar and other place that do not impose such visa requirements.
- In addition to visa issues, high costs and difficulty of access to Mozambique hinders tourism development. Air-transport within Mozambique itself is expensive. Infrequent international flights to Pemba (two flights per week) due to low volume, leads to high air fares. The same is true for costs of transfers from Pemba to the Quirimbas (by private charter planes or helicopters), which are also very expensive.
- Quality of airport infrastructure and services prevents use of larger planes (e.g. in Pemba and Vilanculos) that can reduce costs and improve on-flight service quality. Poor in-flight service quality and safety of airlines, in particular, are still perceived to be a significant turn off for tourists. There is also no capacity to fly/land at night, which in turn increasing travel time because tourists are forced to stop over in transit points like Maputo, even when they don't want to. Reliability covering delays, cancellations and re-routing, negative perception of safety of domestic airliners are impediments to consumer confidence in Mozambique as a leisure tourist destination
- Securing user rights and access to land particularly in good locations is problematic in Pemba- Quirimbas. Hotels also complain of high costs of generating their own electricity, lack of good technical support services in close proximity, high costs of sourcing inputs from South Africa, and high inventory holding costs and risks due to lack of reliable local suppliers. Put together these impediments significantly increase operating and maintenance costs of hotels.
- Itineraries discussed in Volume 2 of the report also show that tourism product development in the Northern coast is still limited. There are very few tourism products outside the sun, sand and sea. Development of the Niassa Reserve offers some opportunities for diversification and product variety, but access and accommodation remain inadequate in this destination. And the lack of an integrated tourism development plan may result in unmanaged growth that leads to bottlenecks and negative externalities. Put together, these factors also make it less interesting for tour operators and

ground handlers to become active in promoting tourism products in Northern Mozambique.

- High transport and logistics costs due to difficulty of access to the north by air or road. The road-based itineraries examined in Volume 2 of this report show that road network in the Northern coast is in poor condition, and access to many potentially attractive tourism spots is difficult. Road side services—rest-stops, gas stations, restaurants, motels, etc. - are inadequate. Rental car prices in the north can be as high as 2.5X that in the south, partially due to an acute undersupply of car hire services (impact of tariffs, high maintenance costs), and the lack of alternative transport systems limits access to tourism assets. For example, delays and service quality of local trains is below the required standards for an up-scale tourist, limiting the ability of tour operators to rely on train rides for travel tours. Put together these factors limit exploration of new tourism activities (particularly for self drive tourists).
- Local value added remains low, but community driven programs are beginning to help improve this situation. For example, local fishermen now operate dhow trips for tourists. But many of these fishermen need capital to build better and safer boats. More still needs to be done to extend the benefits of tourism to local communities.

3.7 BUSINESS/CONFERENCE TOURISM: EUROPE/USA – MAPUTO

3.7.1 DESTINATION ANALYSIS AND TOURISM PRODUCT DESCRIPTION

Maputo was among Africa's most beautiful and fashionable cities with an impressive skyline of tall buildings and a cosmopolitan Portuguese/African atmosphere attracting many visitors. The armed-conflict changed all that, and the city is only now beginning to recreate some of its former glory: the imposing historical buildings, the excellent hotels, the renowned wide avenues lined with red acacias and lilac jacaranda trees, restaurants and a nightlife which thumps with a heady Latino beat. Its proximity to South Africa, Botswana and Zimbabwe and specifically the Kruger National Park beckons the potential to link up with the large flows of tourists to these destinations.

Table 20: Tourism indicators for Maputo city 2004*

| | Maputo | Total Mozambique |
|-------------------------------|------------|------------------|
| International Tourists | 175,000 | 441,000 |
| - By air | 55,000 | 68,000 |
| - By road | 120,000 | 373,000 |
| Share Business | 140,000 | 200,000 |
| Share Leisure | 20,000 | 80,000 |
| Share VFR/Other | 15,000 | 160,000 |
| Hotel beds | 3,500 | 13,807 |
| Luxury quality beds | 2,832 | 7,616 |
| Number of hotels +100 rooms | 7 | 7 |
| Number of hotels 50-100 rooms | 14 | 17 |
| Number of hotels <50 rooms | 50 | 296 |
| Arrivals | 55,383 | 1,166,019 |
| Room-nights* | 335,744 | 664,375 |
| Capacity annually | 1,095,000 | 2,299,500 |
| Average occupancy rate | 30.7% | 28.9% |
| Guests | 163,051 | 315,876 |
| Hotel receipts (US\$)* | 27,330,091 | 37,577,916 |
| Employees in Hotels | 3-4,000 | 10-11,000 |
| Population | 1,190,000 | 19,406,703 |

*Source: MITUR (2005), INE (2005), AdM (2004), McEwen (2005), Visser (2004) CLA Factbook (2005) Note: * International tourists and subdivisions, Room nights and receipts all 2003 data.*

Maputo receives around 200,000 visitors and is by far the premier destination in Mozambique. Most of these arrivals are business travelers and a fair share is made up of transit passengers for other domestic destinations, i.e. road travel to Gaza, Inhambane and Sofala provinces. The leisure segment is estimated at 30,000 - 40,000 people making Maputo a premier leisure destination as well.

Table 21: Summary of Tourism Resources in Maputo

| Resource Base |
|---|
| Conference, Meeting and Hotel facilities |
| Cultural facilities |
| Seafood, local cuisine |
| Local music and entertainment |
| Museums, History and Architecture |
| Harbor and Scenic marine parks |
| Harbor, Maputo city and Scenic marine park |
| Arts and crafts, local culture and music/dances |
| Railway |
| Festival, fairs |
| Long sandy beaches |
| Inhaca island |
| Elephant reserve |
| Kruger Park (Greater Limpopo TFCA) |

Source: KPMG (2003) and Visser (2003)

Currently most tourism assets in Maputo are still underdeveloped – and have not yet been exploited to present a range of products that could be packaged for more unique tourism experiences. There is an abundance of facilities for business travelers, including a newly-constructed convention center catering for up to 700 people which beckons Maputo to pursue more vigorously the Meetings, Incentives⁷⁴, Conferences and Exhibitions (MICE) tourism products. Currently, these facilities are underutilized and in principal Maputo can aspire to capturing some percentage of the \$47.7 billion spent on internationally rotating MICE activities (Box 1)

Box 1: Global MICE tourism

Global MICE tourism accounted for \$90 billion in 1997 and the industry is growing at between 8 and 10% annually. The opportunity for Maputo to participate in this market arises from the fact that 53% of world meetings and conferences rotate world wide, with the remaining 47% being rotated around specific regions such as Europe (27%) and Asia (4%). Africa hosted a mere 3% of international meetings and conferences in 1998: in actual terms 77 of the surveyed 2,648 international meetings, which took place that year. Of these, South Africa hosted 45 of them, making it the 21st main international destination for MICE events. Despite these low absolute numbers, in terms of growth rates, the number of MICE tourists visiting South Africa increased from 14,000 in 1993 to 95,000 in 1998 a 46% compounded annual growth rate. (City of Johannesburg Tourism Strategy: <http://www.joburg.org.za/unicity/tourism.stm>)

⁷⁴ 'Incentives' are travel as part of a motivational incentive scheme to motivate employee effort. Travel incentive schemes market is predominated by the US market.

Meetings-conference tourism, if fully developed, offers a high end form of tourism in terms of tourism expenditure; and its benefits have a broader reach when compared to leisure tourism because it requires a broader range of services. It also serves as a cost effective way to showcase Maputo's tourism potential to a significantly large number of investors, managers, and professionals. MICE visitors can spend twice as much as ordinary visitors. Many of them also want to maximize their enjoyment on a short and often demanding business trip and may therefore extend their stay for one or two nights immediately after a conference, for instance.

Conference tourism also provides the necessary environment for promoting Maputo as a destination for other forms of tourism like incentive tourism. Employing effective marketing strategies during their stay could persuade a significant number of visitors to return as leisure visitors. Lastly, the potential for advertisement and news coverage of large conferences and events provides a relatively cheaper, but very effective way of putting Mozambique on the global tourism map.

Maputo's proximity to Kruger puts it in a position to tap into the leisure tourism markets as an add-on package. The product offer of Maputo and the region complements the tourism agenda offered in the Kruger and South Africa. Mozambique's heritage is imbued with Latin-Mediterranean influences that permeate culture, history, architecture giving it a unique flavor. It has a rich music and dance scene a range of sites and beaches that all provide a unique urban experience. Moreover the resources in the Maputo area - Inhaca, Libombo, Limpopo, Xai-Xai, Namaacha - could be linked to create a truly unique experience.

However, MICE (business) tourism in Maputo faces intense competition – particularly from South Africa and its other neighbors. Unlike leisure tourism where Mozambican and South African tourism products are complementary (i.e. bush-beach products), MICE products in Maputo will compete directly with other established destinations like Johannesburg, Cape Town, Arusha, Nairobi, and so on. As such, competition is expected to be generally more intense for MICE tourism than any other tourism product in the country.

MANAGEMENT OF MAPUTO'S BUSINESS TOURISM FACILITIES

The new conference center is a facility built to international standards. It is 2 years old and was initially built for the African Union Summit in July 2003. Sources of meetings currently held in the conference center include the following: NGOs and international organizations like the World Bank, United Nations, corporations, and the World Economic Forum. The center's conferencing facilities include: an auditorium (750 seats), meeting rooms, and other meeting facilities.

Current marketing efforts are very weak. There are no paper-based or on-line brochures or advertisement materials for the conference center. Marketing is limited to the interpersonal level. Capacity utilization is unknown; however, based on

number of meetings, it appears the center is utilizing approximately 2.5% of its capacity.⁷⁵

Other tourism resources in Maputo also show signs of neglect. Beach areas are not clean, often with a lot of litter that diminish the quality of the beach. Although the city has a beach association of private sector operators that take steps to keep the area clean and safe, the efforts have had limited impact. Some streets in the districts are increasingly being perceived as unsafe to walk for tourists due to lack of adequate lightening that leaves the tourist with a perception of insecurity.

Other tourism assets in close proximity to the city (e.g. the Elephant Park and Ponto d'Oro) are also underutilized due to poor access from Maputo and poor destination management. For example, the bay connections to Catembe, the road via Salamanga; buffer zone to Elephant Park, and the road from Elephant Park to the beach are all poorly maintained. There is also lack of accommodation and food service facilities at the park. Park infrastructure like signage, driving paths, security, refreshment and picnic areas, emergency medical assistance, other emergency services, information center, Park entrance, etc are almost none existent. And except for Park Managers, there are no hospitality workers present to assist the tourist.

The conference center is currently owned and managed as a state owned enterprise. Soft budget constraints may partly be why the center is exploited to a fraction of its capacity. The absence of a commercial convention and meetings bureau severely limits the ability to use the conference center capacity by not providing the complementary services that will attract MICE tourism. The capacity for packaging of the conference center with rooms, excursions etc. and promoting and marketing such packages is central to using the current excess capacity – both at hotels and at the conference center.

3.7.2 VALUE MAPPING OF THE EUROPE-MAPUTO URBAN/BUSINESS TOURISM EXPERIENCE

The locus and costs of activities along the value chain of a conference tourism package for Maputo is presented in the Fig. 7 below. The package discussed here is a virtual package based on available published prices. The assumption is that the package is assembled by a conference coordinator, an event planner and/or destination management company⁷⁶. The package is designed for small conferences hosting about 500 people from a variety of countries including U.K, Portugal, South Africa, U.S.A, and surrounding African countries like Nigeria, Kenya, South Africa and Mauritius. Participants stay for 5 nights, in a double occupancy room, in an

⁷⁵Total capacity of all rooms is 1,504 daily. That is, a total capacity of 1,504 available for 260 days (working days only), or a total of 391,040 per year. Capacity utilization is approximately 2.5%, not counting the banqueting space and rentable office space. The center needs 4-5 big national or international events to break even on its costs.

⁷⁶ For ease of analysis, it is assumed that the event planner covers all business related expenses of each participant in the conference.

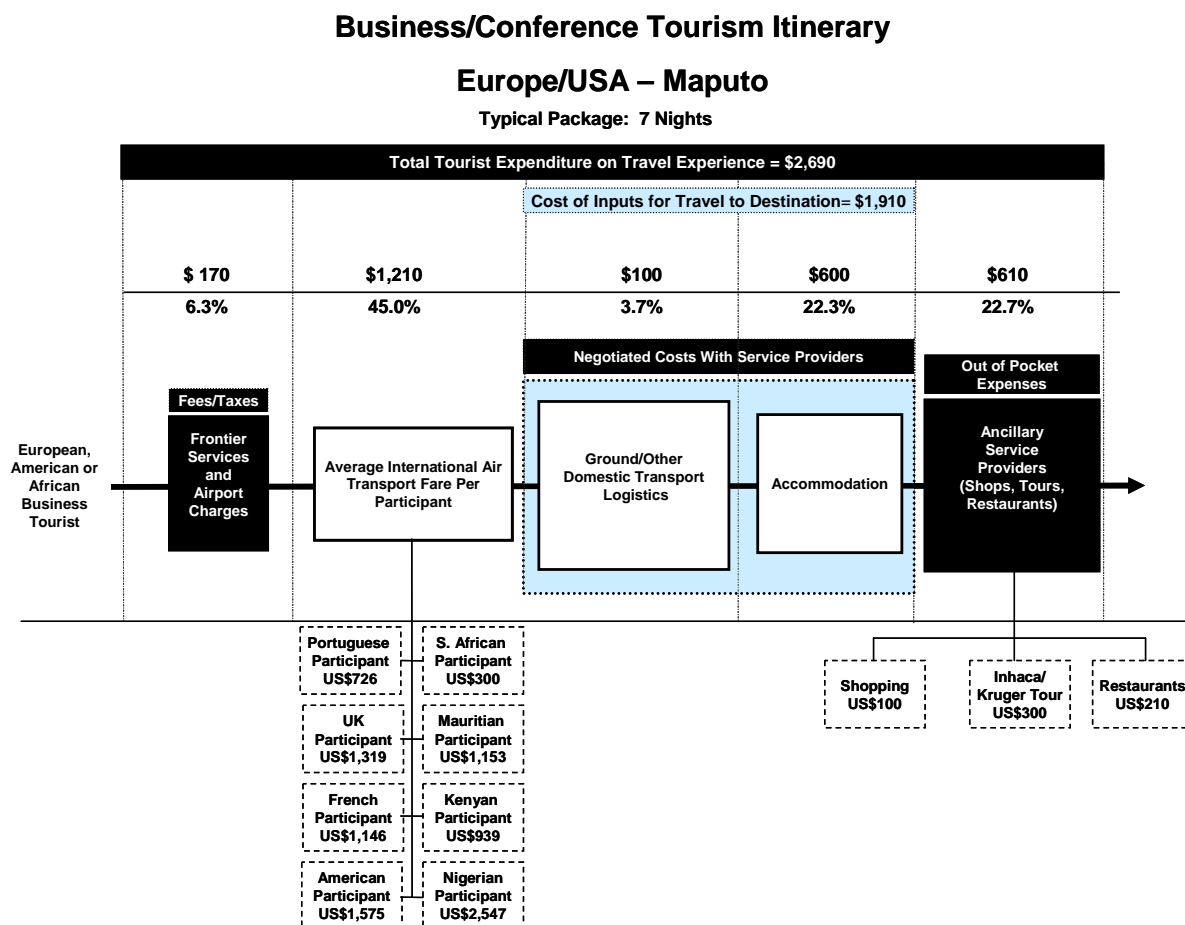
upscale 4-5 star hotel/lodge. The package also includes add-ons of 2-day weekend trips to a leisure destination in close proximity to Maputo (either Kruger or Inhaca). Unlike typical leisure packages where the cost of the intercontinental flight is not included in the package price, the package in this case consists mainly of the cost of visitor pick-up and other ground handling services, accommodation and conference facilities.

With the help of local agents, or through their corporate offices, participants make their own reservations independently in hotels recommended by the event planner and also available through the tour operator. Add-on attractions and post conference leisure activities are bought from local tour operators in Maputo. Participants take taxi for transfers from airport to hotel. Each participant books the flight from his country of origin to Maputo. Thus, although all participants will gather together as a group, there is a strong element of individuality, risk, and complexity in scheduling and planning a major conference. This coupled with the high profile of clients makes event planners place high emphasis on *security, location, access, previous experience and price*, as important factors that influence their choice of a destination for major conferences.

Also conference tourism requires availability of ample capacity to accommodate large groups of tourists within a specific time period. Although many participants will travel independently from a variety of destinations, all participants make use of the same service providers at the destination. The capacity of these service providers to handle large numbers of people therefore becomes a significant determinant of competitiveness in this market segment.

The main economic agents that influence the costs and value of a tourism product in this segment of the market are the event planners, international and regional airlines, and the hotel/resorts. Airlines and hotels account for a majority (over 60%) of the travel expenditures. Domestic tour operators and travel agencies appear to play some significant role, accounting for over 20% of tourist expenditures, if they are successful in selling tour packages to business tourists. This usually would require close coordination with the event organizers and hotels. However, ground operators (e.g. ground transport organizers, taxi cabs, car rental agents, and so on) do not seem to play a significant role, as they account for less than 5% of tourist travel expenditures.

Figure 7: Value Chain Map for Business Tourism In Maputo



ASSESSMENT OF VALUE CHAIN COMPONENTS OF BUSINESS TOURISM IN MAPUTO

Frontier Services: Although the requirements for business visas are slightly different from single entry tourist visas, the constraints for business travelers visiting Mozambique are largely the same as those discussed under leisure tourism packages. Unlike South Africa which exempts many European nationals from visa requirements, Mozambique still requires most nationals from Germany, UK, USA, Portugal, and African countries to obtain visas. South Africa is more open – hence more attractive - to European event planners and participants because they do not have to deal with hassles and time costs of securing visas. There is also less risk that participants will be denied visas for attending the events, which in turn may undercut participation rates at such events.

INTERMEDIARIES AND DISTRIBUTION CHANNELS

Mozambique has few active domestic tour operators and most of these are based in Maputo. This contrasts with the prevalence of tour operators in countries like South Africa, Tanzania and Kenya.

| Country | Number of active tour operators |
|---------------------|---------------------------------|
| Kenya | 220 |
| Tanzania | 75 |
| Uganda | 50 |
| Mozambique (Maputo) | 8 |

Maputo does not have any destination management companies that are active in promoting MICE tourism in the country and providing ground services for event management. FUTUR, which is involved in promoting tourism, appears to focus more on leisure activities. As a result, private marketing efforts for the conference events are very modest and limited to interpersonal contacts. There are no brochures, no advertising materials, and no cost information on the conference center online, in a manner that is easily accessible to potential client and events managers worldwide.

INTERNATIONAL AND REGIONAL AIR TRANSPORT FARES AND SERVICES

Connectivity and price of air transport services are two factors that affect Maputo's potential for MICE. Fig 7 above shows that the average cost of air transport for both regional and intercontinental participants attending the conference in Maputo is US\$ 1,207. If the same conference were held in Johannesburg, the average flight costs per participant would be US\$981.⁷⁷ The sources of these differences in flight costs are shown in Table 18.

Table 23: Costs of Air Transport to Maputo and Johannesburg (2005)

| Origin / Destination | Maputo | Johannesburg |
|----------------------|----------|--------------|
| New York | 1,575.00 | 1,037.00 |
| London | 1,319.52 | 1,230.68 |
| Paris | 1,146.06 | 1,019.52 |
| Lisbon | 726.00 | 915.00 |
| Lagos | 2,502.00 | 2,202.00 |
| Mauritius | 1,153.00 | 530.00 |
| Nairobi | 939.00 | 615.00 |
| Johannesburg | 300.00 | - |
| Maputo | - | 300.00 |

⁷⁷ The event planner therefore saves an average of US\$226 per participant (i.e. US\$113,000 for 500 participants).

Conference held during the period of Nov 19-22 2005. Prices from Sidestep.com on October 7, 2005

There are a number of inferences that can be drawn from Table 23.

1. Air fares for other African countries (especially Lagos, Nigeria) to Maputo are generally as expensive as from Europe to Maputo, despite the relative proximity of these countries to Mozambique. It costs the business tourist 35-55% less to go from Kenya and Mauritius to Johannesburg, than to Maputo.
2. With the exception of Portugal which has a working bilateral agreement with Mozambique, airfares from other parts of Europe to Maputo are higher than the fares from Europe to Johannesburg. The most cost-effective way from UK, France, and Germany to Maputo is via Johannesburg⁷⁸. The routing through Johannesburg adds about US\$300 to the trip, and increases flight time by as much as 4-5 hours compared to Portuguese travelers who fly directly from Lisbon to Maputo.
3. The BASA with South Africa effectively awards the route Johannesburg – Maputo to LAM and South African Airways. The effects are duopolistic competition with common agreements limiting traffic and scheduling. This result in fewer seats available, poor scheduling, wait lists, higher prices and poor service quality.

The widespread problems with baggage-handling in Maputo airport and other deficiencies in service quality, such as food and shopping also detract from Maputo as a MICE destination.

3.7.6 HOTELS AND OTHER ACCOMMODATION

As shown in Table 20, Maputo has a large enough and varied capacity to hold a significant number of business travelers at any point in time, unlike Vilanculos, Bazaruto, Pemba and other destinations in Mozambique. Average annual occupancy rates are generally low (hovering at 30%), and as such, hoteliers are more flexible in giving significant discounts to tour operators. Average daily rates in Maputo hotels have reduced by over 22% since 1999, and average revenues per available room have reduced by 42% since 1999. Currently, corporate and seasonal discounts can be up to 25%.

Higher end hotels dominate the market, accounting for about 40% of all international standard rooms in Maputo. All hotels in Maputo face a number of constraints and challenges that undermines their operational capabilities, profitability, and quality of service. Some of these constraints are quite similar to many of those

⁷⁸ Nairobi and Dar Es Salaam as also important connection points, but are generally more expensive transit points to Maputo.

identified for Vilanculos-Bazaruto and Pemba-Quirimbas. However, there are some important subtle differences.

1. Although lack of trained staff also prevails in Maputo, it is less of a problem than in the Quirimbas, where relocation of staff to the Archipelagos is difficult. However, hotel managers observe low staff productivity as reflected by a staff of 3 employees per room, instead of 1.5-2. Low wages are off-set by low productivity levels. Managers also reported inefficiencies at the supervisory staff level, most of which are Mozambican locals. As a result, department heads spend up to 40% or more of their time training operating staff. The hotel association in Maputo is trying to coordinate common staff training programs but these are still mostly for operational employees. There remains a need for trained staff at both the operational and supervisory/managerial levels.
2. Hotels in Maputo are experiencing higher incidences of pilferage which forces them to change operating supplies (e.g. linen, tablecloths, cutlery and so on) more often than necessary – sometimes as frequently as every 2-3 months. Cutlery and glasses sometimes have to be replaced almost every week, and the costs can easily add up to as much as \$50,000 over 2 years for a typical 4-star hotel with 200 rooms. Some hotels reported having lost half their operating equipment in a year. On an average, hotels lose up to 10% of the value of their equipment every year due to pilferage.
3. Water in Maputo is highly corrosive, in the absence of softeners, linen and equipment is frequently damaged. With frequent equipment breakdowns, hotels must hold higher inventories that impose higher costs on operations. Maintenance in general is very expensive. For example, air-conditioning maintenance contracts cost about \$100,000 per year, which is as much as 5% of total sales of some hotels in the city.
4. Hotels in Maputo also complain of high cost of utilities (electricity and water supply), poor supply, and frequent interruption. Some opt for self-provision of water and power, but are also confronted with high import duties (about 35%) on compressors, for instance.
5. Beyond operating constraints, taxes (e.g. VAT) and duties (especially the luxury tax) significantly affects costs of inputs – particularly imported food and beverages (See table 24 below). Even though local linkages with agricultural and livestock industries are possible, most of the vegetables, meats, and poultry used in these establishments is imported. As a result, costs in food and beverage, and rooms division are almost 5% higher than those of similar establishments in Kenya and Tanzania. This is due in part to higher relative costs of sourcing imported food and beverage products⁷⁹. This situation encourages black

⁷⁹ For example, South African tourists complain that the same glass of (South African) wine in SA is available for a 1/3rd of the price that is being sold in Mozambique.

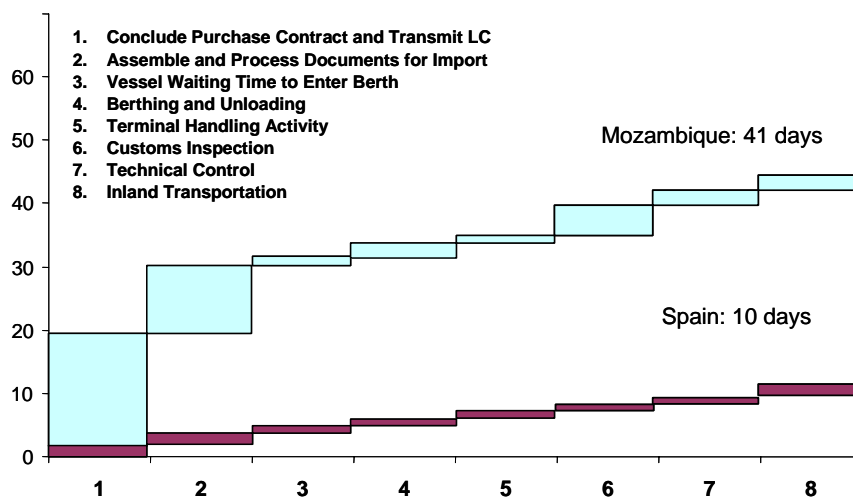
marketteering. For example, some lower scale hoteliers are able to get beverages at greatly reduced prices on the black market (all kinds of liquor – scotches, wines, whiskies, liqueurs, brandies, etc. – are available in the black market in Maputo). This makes it difficult for those that play by the rules to compete on an uneven playing field. It is hard for formal and typically large, foreign businesses to buy on the black market.

Table 24: Duties on imports in Mozambique 2005

| Duties on Imports | |
|-------------------|-----------|
| Basic Duties | 25% |
| Others/Luxury Tax | 25%- 125% |
| Value Added Tax | 17% |

6. Import procedures are sometimes cumbersome and result in unnecessary delays (see Fig 8 below). For example, there are instances where importation of a compressor was delayed by one week, despite the fact that all necessary paper work was in order. The delay was due to extraordinary pre-testing requirements for that equipment. A similar experience was reported by a firm importing tiles. Importation of products through the Maputo port is particularly problematic because of lengthy procedures for completing purchase contracts, difficulty of assembling and processing documents for imports and longer customs and inspection times than necessary (see Figure 8).

Figure 8: Value Chain Map for Business Tourism In Maputo



Source: Global Logistics Indicators, Supply Chain Metrics and Bilateral Trade Patterns, Hausman, Lee and Subramanian, Policy Research Working Paper 3773 (2005)

3.7.7 GROUND TRANSPORTATION AND OTHER TRANSFERS

In Maputo, transfers are by taxi. The quality of taxis in the capital leaves much to be desired, partly due to the age of the fleet and partly due to the poor maintenance. Neighboring Tanzania imports second hand Japanese vehicles (via Dubai), at a cost of \$6,000 per car and provides very good taxi service. In contrast Mozambique levies high duties and taxes on imported vehicles. Reputedly, there are more licenses issued than taxis and these are hoarded, awaiting better times. An explanation of the dynamics of taxi ownership and management in Maputo is presented in Box 2 below.

Box 2: Maputo: Taxi Ownership and Management⁸⁰

On average, a taxi investor/owner has 2-3 taxis. The total number of taxis in the city is about 400 (up from 150 in 2003), however there are only premium parking spaces.

Taxi drivers rely on second hand cars which have high operating and maintenance costs. Second hand cars can be bought locally or from South Africa. Cars from South Africa are about 1.5X cheaper than those sold in Mozambique, despite the fact that South African cars prices include 105% import duties. There is no financing available for would-be cab drivers. Most have to rely on personal savings to start their business.

Obtaining licenses for cars is a big challenge. The procedure involves the following activities: tax license: 6 month inspection (costs \$50): 3rd party insurance (Mt. 2 million per year): criminal/police documentation by owner; residence documentation; government insurance (life insurance); permits from city council; and a driving license. It can take up to a year to complete this process. The authorities provide a temporary permit in the interim which is valid for only one month and can only be renewed within 2-3 days of expiration. The renewal process takes 3 days during which the car is off the road. The results in losses of up to 10% of monthly revenues. There are between 1-2 drivers per car and they have no training for dealing with tourists. Priority areas for training include: English language; presentation and professionalism; and selling skill.

⁸⁰ Mt. 2 million is about US\$86

3.7.8 ANCILLARY SERVICES

A few firms in Maputo are available to provide laundry services, maintenance, landscaping, and so on, but currently hotels are not sourcing these services in significant quantities. Local food producing firms contribute very little value to the tourism value chain; over 90% of high skilled labor is sourced from South Africa; and almost all machinery and equipment are imported from abroad. The inability of Mozambican firms to provide these goods and service is a reflection of the weak capabilities of the economy.

There is room for increasing the value and volume of ancillary activities and services in Maputo though they are definitely better than Bazaruto and Quirimbas. For example, the only tours currently available are: half day city tours, night life tours, and day trip to Inhaca. Tourists patronizing some of these tours have not reached a critical mass to allow for regular scheduling. As a result tour operators only conduct tours when there are a minimum number of individuals – making its frequency erratic. Daily tour trips to Kruger are also attractive to business tourists, but this is also fraught with challenges as discussed in Section 3.3.8.

There is also very little exploration of cultural tourism in Maputo. Curios and dancing are some of the experiences currently available in the city. Opportunities to conduct “village tours” just outside of city limits have not been fully exploited mainly due to access and logistical problems. Marketing is also very weak, and the few local tour operators in the business do not have appropriate vehicles; and lack trained human resources to manage such tours.

Discretionary shopping expenditure is estimate at about 5-10% (~US\$100) of a visitor’s total expenditure. There is potential to further increase this share, but prospects are limited because a majority of the tourist’s shopping activity takes place in the informal sector. While visitors can walk the city streets and locate handcraft vendors, there is limited effort to provide a formal operating environment for these vendors. This not only impacts vendors due to low visibility, but also increases the perception of risk for visitors who may feel insecure about buying souvenirs around street corners and roadsides.

SUMMARY OF CONSTRAINTS TO GROWTH OF THE BUSINESS/CONFERENCE TOURISM IN MAPUTO

- Nationals from key source markets (e.g. U.S., U.K., etc) require visas into Mozambique. This makes Maputo a relatively less attractive destination for business tourism compared to Johannesburg, Cape Town, and other prominent destinations in Southern Africa. Hassles, delays, and long visa processing times at border posts further undermine this competitive position.
- Direct intercontinental air flights from other destinations in Europe are limited. As a result intercontinental air fares to Maputo are relatively more expensive when compared to business conference destinations in South Africa. Similarly, regional airfares to Maputo are expensive and less price-competitive when compared to airfares to South Africa. These limitations in both intercontinental and regional air transport are directly linked to restrictive Bilateral Air Service Agreements. Put together, they undermine Mozambique's price competitiveness for business as well as leisure tourism.
- Current marketing efforts for business and MICE tourism in Maputo are very weak. Maputo does not have any professional event planners and destination management companies that are active in promoting business tourism. Its conference facilities are very good, but lack visibility in the global tourism market place. Marketing efforts are extremely limited, no brochures, advertising materials etc are available – hence capacity is grossly underutilized. Some of these inadequacies are attributable to poor public sector management of Convention Center, raising the urgent need for privatization.
- Management of tourism assets is also becoming a source of concern for tourism enterprises. There are no clear or concerted mechanisms to ensure the restoration, development, and accessibility of historic monuments and sites (e.g. Elephant Reserve, museums, the beach areas and so on). As a result, the aesthetic and physical value some of these assets is being to depreciate significantly. For example beaches are becoming littered; poor lightning on street are undermining tourist sense of security, and so on. Another example is the Elephant Reserve and Ponto d'Oro where there is:
 - a. Lack of access and management
 - b. Inadequate road via Salamanga
 - c. Roads from Elephant Park to the beach are poorly maintained.
 - d. Lack of accommodation and food service facilities at the park.
 - e. Park infrastructure like signage, driving paths, security, refreshment and picnic areas, emergency medical assistance are inadequate,
 - f. Other emergency services and information center services, are also inadequate
 - g. Park entrance, etc are almost non- existent.
 - h. Except for Park Managers, there are no hospitality workers there to assist the tourist.
- Poor quality of taxi services because most cab drivers use old second-hand cars with high operating and maintenance costs

- Although less severe compared to other destinations (e.g. Bazaruto and Quirimbas), hotels and other tourism establishments face high transaction costs of importing necessary goods across international and provincial border points. High luxury tax, high transport costs, high costs of delays, high import duties and VAT on food items, parts (e.g. compressors) and other equipment are often cited as examples. There are also high inventory holding costs and risks due to lack of reliable local suppliers and high variability in import processing and delivery times. And lastly, hotels report very high levels of pilferage, high cost of self generated electricity, poor quality water that is corrosive, and difficulty with documenting non-taxable expenses. Put together, these factors undermine operational competitiveness of hotels in Maputo

Chapter 4 - Constraints to Tourism Development in Mozambique: Implications for Policy

Mozambique has valuable intrinsic assets and a strong comparative advantage in tourism, as evidenced by the analysis of various destinations presented previously. This is also confirmed by the growing interest in the country from South African, Portuguese and other investors - often in collaboration with local partners. However, at the present time, Mozambique is at a crossroads. Industry-specific issues such as poor accessibility and positioning in the international marketplace, absence from the international distribution networks, and thin product line dispersed across locations have to be addressed to allow the tourism sector to grow. More generally, poor investment climate increases finance and inputs costs, drains resources from the private sector, creates an uneven playing field and entry barriers for innovative entrepreneurship. Dynamic development of the tourism industry in Mozambique is smothered by the confluence of these obstacles.

Drawing on the insights from the value chain assessments presented in Chapter 3, and other research that has been conducted by the GOM, this section presents a synopsis of some key constraints to the development of tourism in Mozambique under the following themes:

- Ease and Costs of Access to Destinations
- Hotels, Resorts and Alternative Tourism Accommodation and Utilities
- Tourism Institutions and Stakeholder Co-operation in Developing, Maintaining, and Marketing Tourism Resources
- Linkages, Leakages, and Increasing Value Added

4.1 EASE AND COSTS OF ACCESS TO DESTINATIONS

Difficulty and cost of access are limiting growth of tourism in Mozambique. The combination of visa restrictions, delays and cancellations of flights, pilferage and poor baggage handling, harassment of visitors at border entry points, a heavily regulated and protected airline industry that limits availability and quality of flights, substandard road infrastructure and ground transportation services, all create enormous obstacles for tourism. Several of these issues can be addressed through carefully targeted reforms that not only increase demand for Mozambique tourism but also provide benefits more broadly to private sector.

1. Visas and Frontier Issues: Competing countries like Brazil, Cape Verde, Mauritius, Seychelles, and Maldives allow visa free entry to Portuguese, other EU and U.S. tourists. This places Mozambique at a competitive disadvantage with respect to openness to intercontinental tourists for major source markets. Although one concern is the issue of reciprocity, the proposed UNIVISA initiative will give Mozambique (and other SADC countries) an opportunity to

improve ease of access to tourists.⁸¹ Also mechanisms to enable tour operators to pre-arrange visa and entry permits should be established.

2. Air Transport Services: Costs, time, and service quality of air travel to Mozambique remains unnecessarily high compared to competing countries.
 - a. Costs: With the exception of Lisbon⁸², most flights from Europe and the U.S. to Maputo are routed through Johannesburg and hence are more expensive than flights to destinations in South Africa, Kenya, or even Tanzania (see Table 24). Similarly, at US\$1,000 the cost of air access and transfers from Maputo to the Quilalea Island⁸³ is more expensive than necessary.
 - b. Time and service quality: Since Maputo is the key entry point, every foreign tourist traveling to the Quirimbas, Bazaruto, or other Mozambican destinations will have to endure two or three stop-overs. Apart from the associated inconveniences, such an itinerary adds at least four hours to the tourist's travel time, exacerbated by delays at airports due to lack of harmonization in airline scheduling and ticketing, inadequate airport services and baggage handling. Sometimes these delays result in overnight stays in Maputo. Premium destinations in the Bazaruto Archipelago and the Quirimbas Islands are particularly affected because package prices and tourist expectations of service quality are compromised.
 - c. The air transport regulatory framework inn Mozambique limits competition in the industry: The policy of single-designation affects the supply of seats, reduces flexibility in scheduling, increases price and reduces service quality. The country's civil aviation policy is largely focused on protecting the national carrier (LAM), rather than supporting the industry's overall development. It is difficult to create a business climate that is conducive to attracting tourists with anti-competitive regulation of a key sector accounting for upwards of 40% of the trip expenditure. Mozambique has signed the 1988 Yamoussoukro Declaration and the SADC Protocol⁸⁴, both of which provide for granting of 5th Freedom rights. All air carriers of the signatory countries should be free to fly to any airport within the two protocols, offer the desired capacities and frequencies, and set tariffs without any regulatory approval. Mozambique is yet to fully implement this Protocol. There already is a World Bank-funded project Communication Sector reform Project which supports liberalization of the air transport sector in

⁸¹ The UNIVISA will allow tourists with a visa for one SADC country to enter into other SADC member countries without additional visa requirements..

⁸² Only Portugal outside South Africa has regular flights to Mozambique. Unfortunately, Portugal is not a hub in Europe and the Portuguese flights do not bring in more Europeans.

⁸³ Including transfers

⁸⁴ SADC Protocol on Transport, Communications and Meteorology

Mozambique. Activities under this project also include privatizing LAM and reforming management of Maputo airport. However these activities are yet to be fully implemented.

Box 3: Reform of National Air Carriers in Africa

Many countries have survived the break-up of their national air carriers. Nigeria lost its national carrier and several private airlines have stepped in to fill the gap. Some African countries have also managed to see their national airline carriers prosper: Kenya Airways, for example, through a strategic partnership with KLM (which holds a 26% stake), has made Nairobi a hub with multiple connections to African and Indian Ocean destinations, as well as Asia. Air Mauritius maintains pooling arrangements with British Airways and Air France, and Senegal, which turned the demise of Air Afrique into an advantage by creating *Air Sénégal Internationale*, a subsidiary of Morocco's RAM, which now covers West Africa, Europe and pools with SAA to New York. On the other hand, Zambia liquidated its flag carrier and is now served by several international carriers as well as good regional service within the country; Ghana is now served by at least 15 international scheduled companies (often with triangular routes), despite the serious problems of its now defunct state-owned airline, Ghana Airways.

3. Airport Infrastructure: Mavelene airport does not compare well with most international airports in terms of service quality (e.g. baggage handling, airport shopping, and food). Lack of good quality “non-aviation” airport services not only reduces the quality of tourism experience; it also adversely affects revenues generated for airport maintenance and operations. In Vilanculos, limited airport infrastructure (mainly runways and navigation equipment) limits the type of aircraft that can land there. The infrastructure also restricts the time window for flight arrivals (e.g. excludes night flights). Improving airport services would be high priority for both Vilanculos and Maputo. Improvements in Mavelene airport would have spillover effects for other locations such as Vilanculos and Pemba. Upgrading runways and navigational equipment are important for the growth of tourism in Vilanculos.
4. Ground Transport Services: The most prevalent means of ground transfer in Maputo are taxis that offer poor services. High import duties, taxes and costs of importation play a significant role in escalating start up and operating costs for taxi or car hire business. A used car in Mozambique costs 1.5 times as much as in South Africa due to taxes levied on imports. Poor quality of roads and high costs of spare parts also increase maintenance costs. As the tourists travels north of Maputo the availability of taxis and car rentals begin to diminish rapidly with car rental cost inching up to US\$250/ day - twice the price in Maputo (US\$125/day).
5. As shown in the adventure tourism itineraries discussed in Volume 2 of this report, there is also a functioning train system that extends from South Africa into several parts of Mozambique, connecting neighboring countries like Malawi. Rail-based tourism is one of the new inroads for tourism product development in the north, around the Niassa Reserve, and an important means of attracting regional tourism traffic from surrounding countries (e.g. Malawi, Zambia, and so on). However, the rail infrastructure is severely dilapidated and has suffered

significant destruction from the armed conflict and the floods of 1999 and 2000. Major rehabilitation and upgrading of the system is needed⁸⁵.

POLICY RECOMMENDATIONS

HIGH PRIORITY INTERVENTIONS

- Review airport policies and establish monitoring systems at airports to measure performance and progress in service quality improvements e.g. customs, immigration, delays, baggage-related complaints
- Carry out detailed assessment of airport infrastructure and improvement needs. Develop related airport infrastructure starting with improved runways in Vilanculos to enhance service quality and landings for larger aircraft. Invest in equipment to facilitate night flying into key airports in the country (Maputo, Vilanculos, and Pemba).
- Revisit bilateral air service agreements to facilitate direct flights from other EU countries and regional links with key hubs in Africa. Particular attention should be paid to improving traffic flow capacity between Mozambique and South Africa.
- Reform visa and other frontier formalities (both entry and exit) for nationals from key tourism source markets. This should include providing clear information of entry and exit requirements to visitors. Also improve capacity of service men, procedures and information on entry/exit restrictions and requirements at other border posts – particularly those between Mozambique and South Africa.
- Allow local and foreign travel agents and tour operators to issue air tickets and access airline seat inventories.
- Reduce complexity of licensing procedures for taxis and car rental operations, and review duties on imports on essential commodities and equipment necessary for improving service quality in the tourism industry in Mozambique.

OTHER AREAS NEEDING ATTENTION

- Revise duties and taxes on imported vehicles
- Establish an industry code of conduct for taxi, car hire, and other related companies
- Explore new financing options and instruments to support taxi and car rental companies to invest in better quality cars e.g. secured lending.

85 The World Bank launched a US\$110 million for Railway Project in October 2004 to rehabilitate the Sena Line (including its spur lines, totaling 600 km); and finance improvements in the Machipanda Line (including maintenance and operation of the Line which represents approximately 300 km), and prepare its long-term railway and ports development plans. The project is managed by the “Portos e Caminhos de Ferro de Moçambique (CFM)”. It will make cost effective and efficient transport available for the freight and passenger traffic in the Zambezi Valley. These improvements in transport infrastructure and urban facilities will impact positively on current itineraries and the expansion of available and emerging tourism assets.

4.2 HOTELS, RESORTS AND ALTERNATIVE TOURISM ACCOMMODATION AND UTILITIES

Hotels, lodges and resorts face a difficult business environment that includes lengthy procedures for securing land for development and expansion, high costs and low quality of utilities, cumbersome import procedures, high duties and taxes on imported inputs and so on. In addition, the lack of reliable ancillary services (e.g. local service providers for ground handling, laundry services, landscaping, transportation to islands, and so on) places additional burden on hotels to provide these services themselves – mostly at higher costs because they cannot take advantage of economies of scale in sourcing, production, and distribution.

1. **Low occupancy rates.** Rooms are being sold at rates well below rack rates in some hotels (especially in Maputo), reflecting weak demand. Low occupancy rates are partly driven by low expenditures on marketing, poor promotional strategies, limited ability to assemble attractive packages in low seasons and limited diversification of the tourist base. In Maputo, the excess hotel was the result of an oversupply of hotels that derives from expectations of high growth of business tourism (e.g. through operations of the Convention Center). These expectations did not materialize; and as a result, some hotels are beginning to convert the excess room space into offices.
2. **Land related issues:** Hotel and resort capacity in Vilanculos – Bazaruto and especially in Pemba- Quirimbas is extremely limited. Supply constraints severely restrict the number of tourists that can be accommodated especially during peak seasons. Expanding capacity quickly is becoming increasingly difficult primarily of constraints in acquiring land use rights in the Pemba-Quirimbas as well as the Vilanculos-Bazaruto regions. As a result, there is a high risk of turn off for private investors.

Although fast track mechanisms are being put in place to expedite the process for securing a land title, the process can still take several years. There is general confusion on how and where to secure a "Duat" in Mozambique - i.e. user rights to a specific piece of land. Focus here therefore should be on helping investors and firms with the right information about key players and stakeholders they should be negotiating with when securing user rights to a piece of land.

Another important factor here is the absence of legal and regulatory framework for enforcing and resolving contractual issues between investors and local communities. Most agreements between investors and the community usually prescribe some form of transfer of tourism

revenues. There are currently no clear and transparent mechanisms for monitoring any revenue transfer process. This lack of transparency and enforcement breeds distrust between investors and the rural community. The land administration service has failed to develop a more effective operational framework which also includes ways to address customary land use rights and its interfaces with commercial use rights. Another problem is that land administration is centralized in Maputo but governors issue approvals on local land rights.

3. **Obstacles in the Business Environment:** It takes 153 days on average to start a business in Mozambique⁸⁶. In addition, it takes about 212 days to secure relevant licenses. Small firms are finding it difficult and stressful to comply with tax requirements – and the costs sometimes are very high (e.g. luxury tax). Reconciling differences in regulations and dealings with state, province and municipal authorities etc. also adds to the cost of doing business especially for small players. Cost of finance is also high and access is particularly difficult for small enterprises.
4. **High duties and taxes on imported inputs:** Inputs are usually not available in the required quantity and quality from local sources. Most food, beverage, and equipment are imported from South Africa - with high import tariffs and taxes. Import potential through the Maputo port remains largely unexploited due to lengthy procedural and inspection costs.
5. **Logistics Costs:** The import process is cumbersome and time-consuming, and transport and logistics costs are very high. Therefore the costs of sourcing equipment and inputs are very high. The northern regions, such as Pemba – Quirimbas, are particularly affected. The inefficiency of logistics also forces hotels to hold high levels of inventory tying down scarce working capital and increasing storage costs. In Bazaruto for example, inventory levels can be as high as 10-days compared to 3-4 days for comparable hotels in North America.
6. **High cost of utilities,** such as electricity and water, increase the cost of hotel operations. In most hotels, particularly on the coast and in the north, power is privately generated through fuel based generators or solar panels. Poor water quality in Maputo and the coast affect operational costs.
7. **Low Productivity and Need for Training:** Low wages are off-set by low productivity levels. Managers also reported inefficiencies at the supervisory staff level. As a result, department heads spend up to 40% or more of their time training operating staff. The hotel association in Maputo is trying to coordinate common staff training programs but these are still mostly for

⁸⁶ It takes 38 days in South Africa, 54 in Kenya, 12 in the Maldives, 46 in Mauritius, 35 and 96 in surrounding countries Zambia and Zimbabwe respectively. Source: Doing Business, World Bank.

operational employees. There remains a critical need for trained staff at both the operational and supervisory/managerial levels. There is a hotel school and some technical vocational education training programs in place, but these programs are not adequately tuned to the needs of the private sector, and their scope is too limited to meet the broader needs of the service providers along the entire tourism value chain.

POLICY RECOMMENDATIONS

HIGH PRIORITY

- Delineate roles and responsibilities for land use rights between the local and central levels of government.
- Provide investors with a one-stop source where they could secure accurate information and guidance on approaches and mechanisms for securing user rights on land. Also Promote a pro-active system of community-driven preparation of land for tourism based investment and activities. Here, all land issues are dealt with, before hand, by the community itself, prior to the investor's bid for such tourism assets⁸⁷.
- Encourage the hotel industry to work jointly with tour operators, airlines, public agencies on short-term marketing programs to increase occupancy and lengthen the tourism season by diversifying tourism product and market base both in the north and the south. This could be achieved by setting up a joint public/private action group (e.g. a public-private action group or consortium for marketing).

OTHER AREAS NEEDING ATTENTION

- Develop a legal framework for resolving contractual disputes between community and investors, with respect to breach of agreed land use and revenue sharing arrangements (there is already a mechanism for giving investors land which they must develop in two years or hand back to the state).
- Increase regulatory oversight, transparency and monitoring of compensation mechanisms and arrangements between communities and investors
- Review the investment code to ensure a level playing field between mid-priced and smaller hospitality establishments, and their upscale counterparts. Also review tax structure, tariffs and duties on imported equipment and machinery where necessary
- Use the investor outreach materials developed by PODE to effectively galvanize, rekindle, and sustain investors' interest in the tourism sector.
- Establish a monitoring framework that would make tracking and disbursement of tourism taxes and revenue transfers to be more transparent.

⁸⁷ Mozambique Case Studies: Getting Access to Community Land, by Christopher Tanner, FIAS Report

- Establish industry benchmarking system to monitor operational and competitive performance of the hotel industry relative to competing countries.

4.3 TOURISM INSTITUTIONS AND STAKEHOLDER CO-OPERATION IN DEVELOPING, MAINTAINING AND MARKETING TOURISM RESOURCES

Product Development, Branding and Marketing: Currently Mozambique still uses the same marketing punch line as Namibia -- “Land of Contrasts”. Mozambique needs to define its product line and image more clearly. Other country experiences have shown the critical importance of taking a long-term strategic view, with broad based consultations with key agencies including UNESCO. So far, the strategy of southern Mozambique has been to focus on South Africa and link to southern African regional circuits – which *per se* appears reasonable—but it is important to note that this has happened by default rather than resulting from any strategic planning. In the north, Quirimbas has focused on international high-yield and low- volume tourism. Mozambique can draw on the experiences of different countries (e.g. Costa Rica, Thailand, and so on) in developing a coherent strategy (see Box 4).

Box 4: Long-term tourism development strategies in Latin America

Costa Rica has built its image as a wilderness destination for over 20 years and has seen its industry grow from 332,900 visitors and US\$84.5 millions revenue in 1980 to 1.45 million visitors and US\$1,360 millions revenues in 2004. This total amounts to US\$ 1,100 spending per person and exceeds by 34% the world’s average – partly because visitors stay longer in the country than in comparable sustainable tourism destinations such as Croatia.

These issues are reflected partially in the low average receipts per tourist arrival in Mozambique compared to competing countries. If Mozambique were able to add an equal value per tourist arrival the international tourism receipts would amount to approximately \$300 million from the current level of \$106 million.

Table 25: International tourism receipts per arrival 2003

| Country | Average Receipts/ tourist |
|------------|---------------------------|
| Tanzania | US\$815 |
| Uganda | US\$724 |
| Kenya | US\$681 |
| Mozambique | US\$240 |

Source: World Tourism Organization

a. Public investment in development and marketing is small.

FUTUR’s annual budget for destination marketing for the past 3 years has been in the range of US\$200-300,000, on a total budget of US\$1.9 million. Public sector spending in 2005 for destination marketing in competing countries dwarfs that of Mozambique.⁸⁸

⁸⁸ World Tourism Organization, 2005. Marketing and National Tourism Organizations.

Table 26: Public expenditure for tourism marketing 2003

| Country | Public Expenditure for marketing (million US\$) | Tourist arrivals 2003 |
|--------------|---|-----------------------|
| South Africa | 11 | 6.5 million tourists |
| Kenya | 6 | 0.9 million tourists |
| Mozambique | 0.2-0.3 | 0.4 million tourists |

More importantly, FUTUR needs to focus on the quality and extent of public spending on marketing. Partnering with private sector service providers would enable leveraging resources and prioritizing more effectively.

- b. Incentives for private investments in development and marketing are low given the inherent public goods nature of tourism assets. According to a recent market survey, only about 10% of European-based Africa travel specialists currently market Mozambique. This was confirmed by a range of high-end international tour operators, including Abercrombie and Kent, Go Africa Tours, Hartley Safaris, Kuoni, Wilderness Safaris and Wild Frontiers, which all feature competing countries like Kenya, Tanzania, South Africa, Namibia and Botswana. FTOs are not investing in marketing due to weak demand, poor quality of product, and high fixed costs of marketing emerging destinations like Mozambique in frontline marketing products⁸⁹. Similarly, compared with industry norms, hotels in Mozambique spend very little (~4% of operating costs) on sales and marketing.⁹⁰ Promotion and marketing of individual hotels, lodges and resorts is also disjointed, and not in coordination with travel agents, service providers, hotels etc.
- c. The product base in Mozambique needs to capitalize on assets that have so far been relatively unexploited, e.g. cultural heritage sites such as Ilha da Mocambique; birding in Bazaruto. A number of attractions, events, and important heritage sites in Mozambique appear to have been neglected. Underdeveloped transport and logistics infrastructure that limit access to (current and prospective) destinations, events, and attractions limits the ability of local tour operators to develop and market a sizable portfolio of tourism experiences. Many of the attractions in Maputo, like the Elephant Reserve for example, are yet to be fully developed or made easily accessible.

89 For example, the value chain analysis for Lisbon-Bazaruto suggests that FTOs make about €310 in commissions on the value of the package. One top FTO, for example, estimated the cost of featuring a Mozambican destination or package, on a two-page spread in a global catalogue, is about US\$40,000. With sales commissions of about \$310 on each package sold, this tour operator will have to sell about 130 of such travel packages to cover its marketing costs alone. Many of the tour operators in Portugal do not sell up to this amount of packages annually.

90 Rani Group recently commissioned an ad campaign in South Africa via its office in South Africa. This campaign alone was 12 times the entire budget for marketing in 2003/4.

d. Weak presence of domestic tour operators in the industry

This further limits the prospects and scope for product development and marketing. Many of the marketing activities of Mozambican tour operators are still based on one-on-one personal contacts. Very few have functional websites for online marketing. Certain tour operators (e.g. Dana Tours), resort managers and other stakeholders do attend travel markets in Portugal, UK and South Africa, and there is growing evidence that this has contributed to the flow of tourist traffic from these destinations. However, Mozambique's representation in the main tourism media and events, such as the Indaba and the Portuguese trade fair as well as the global London Travel Market or ITB Berlin remains weak, and this has limited the country's ability to access global tourism markets.

The Vilanculos/Bazaruto products are not assembled and packaged in a way so that they effectively reach international 'generalist' safari operators such as Kuoni in the UK market that could position Mozambique as an add-on package. The conference product in Maputo is not assembled and packaged at all. The lack of local-global networks disconnects the Mozambican destinations from the source markets and the international tour operators are not channeling information to domestic operators on market needs. The absence of domestic operators makes Mozambique a higher risk destination for the regular tourist. There are no domestic tour operators to help with on the ground problems such as last minute delays, unexpected cancellations etc. Also, there is no-one to enforce breach of contracts of service delivery. Contract enforcement overall is very weak. In sum, there is a relatively high risk of unchecked fly-by-night operators and international tour operators are hesitant to expose their customers to this experience. EU tour operators are particularly weary of the liability they may assume as a result of poor service or negligence of a local counterpart, which may undermine their client's tourism experience.

e. Limited co-ordination among stakeholders

Since many tourism assets (e.g. landscapes, sun and sea) are public goods, without effective coordination, the potential for negative externalities e.g. loss of rents, degradation, over-extraction, are high. A much greater degree of coordination among stakeholders and destination management institutions is essential to: (1) heighten the country's image, improve market positioning, increase product variety, and enhance destinations; and (2) find innovative ways to increase number of tourists and improve incentives for longer stays and higher average expenditure in Mozambique.

Airlines, hotels, tour operators, retailers, restaurants, and a whole range of public sector agencies (e.g. MITUR, FUTUR, mayors, governors, etc.) are not effectively working inter-sectorally to develop, promote and manage tourism destinations and more broadly, Mozambique's image and positioning in external markets. For instance, in Pemba, resorts are directly marketing their own properties independently

abroad. By not working with airlines or domestic tour operators they are not able to tap into the full potential of the destination.

There are some efforts at coordinating within industries but these measures are not functioning very effectively. For instance, hotel associations exist in the south and center of the country and one is in the process of being formed in the north; but they are not able to lobby effectively with any level of the public sector.

f. Delineation of Responsibilities among Public Agencies:

The roles and responsibilities among tourism related agencies have to be clarified. MITUR, the Ministry of Tourism, has a department for marketing and promotion. FUTUR is also responsible for tourism marketing. While FUTUR has private representation on its Board, it does not seem to be involved in harmonizing its own marketing efforts with those of MITUR.

Much of FUTUR's revenue comes from leasing the hotel properties it holds on behalf of the government. Some of these properties occupy strategic sites or are the best-known hotels in the country. The hotels may be more profitable under private ownership and management e.g. on a long -term concession basis.

MITUR is severely under-staffed to perform its policy and regulatory mandate adequately, both in terms of writing the regulations and enforcing them smoothly and transparently. The Ministry has had a good start with its policy and strategy work, as well as the new framework law, and is working on licensing and classification currently. It has also made significant progress with the recently approved Trans-Frontier Conservation project. Key issues concerning MITUR include:

- a. Addressing land acquisition and land use rights and the remedial measures necessary to ensure protection of the rights of indigenous communities
- b. Licensing, classification and inspection of tourism establishments⁹¹ that is currently ongoing
- c. Overlapping and unclear regulatory policies and enforcement across local and - national levels of government
- d. Developing clear guidelines for professional and vocational education within the industry
- e. Develop clear guidelines for marketing, including who pays for destination marketing, as distinct from marketing individual properties
- f. Data gathering and statistics to augment the current system

⁹¹ List included in law but, differentiating across different types of lodging facility, restaurants, including health and sanitary standards; travel agencies and tour operators)

POLICY RECOMMENDATIONS

HIGH PRIORITY

- Maputo's central position as the key entry-exit point, the main business tourism destination, and its institutional base, it would be high priority to develop business tourism market in Maputo more coherently. Specific activities could include:
 - a. Create a destination management organization for Maputo
 - b. Privatize the management of the convention center
- Provide assistance to:
 - a. Train potential and current local entrepreneurs and service providers in those activities that require special technology and regulations (e.g. diving, sail boat operators, deep sea fishing)
 - b. Organize courses in business systems for Tour Operators,
 - c. Promote distance learning for hospitality service providers
 - d. Build local capacity mainstream twinning and staff exchange programs between Mozambique tour operators and foreign tour operators in key source markets
- Develop industry codes of practice and a functioning accreditation system for tour operators and related business (e.g. tour guides, translators, curators, designers etc)
- Develop a short-term marketing plan to address key potential source markets. This should be informed by feedback from industry professionals and visitors on destinations and source markets.
 - a. Pursue more aggressive joint marketing and collaboration between Mozambique and South Africa in order to leverage expected increases in tourists' visits due to the upcoming 2010 World Cup Championship
 - b. Update and manage distribution of promotional and communication material on the country, including maps, schedules of events and country data, post cards, and so on
 - c. Promote e-tourism and on-line destination marketing techniques e.g. World Hotel link.com
 - d. More efficient use of attendance at travel market salons on a shared basis with operators
- Review responsibilities for tourism development, marketing, training and regulatory enforcement between MITUR and FUTUR to eliminate overlap and refine their respective roles and responsibility.
- Establish mechanisms for effective public- private dialogue and action:
 - a. Find effective mechanisms for joint private-public action on development and marketing of destinations, e.g. Bazaruto for cultural tourism; the Niassa reserve in the north
 - b. Form of a consortium among domestic tour operators, hotels and airline representatives, to embark on joint promotion of the country's image.

- Make more effective use of inter-ministerial tourism committee. In this context increase effective dialogue between Ministry of Civil Aviation and Ministry of Tourism or FUTUR. Revisit delineation of responsibilities of MITUR and the Ministry of Agriculture on wildlife and tourism policy also needs to be extended to those cross cutting areas of importance, such as infrastructure, lands and public works, etc.

OTHER AREAS NEEDING ATTENTION

- Develop an investor outreach program that will identify and track investors interested in developing tourism assets in Mozambique.
- Extend the Integrated Development Plans, which are being developed for Vilanculos, to in Maputo and Pemba- Quirimbas. They may include zoning for tourism development (including Priority Areas for Tourism Investments); establish land use standards, set ceilings for carrying capacity (e.g. number of hotel beds); propose land use and site plans with infrastructure (water and sanitation, energy, access, together with technical, environmental and building standards, draft regulations and implementation arrangements.

4.5. LINKAGES, LEAKAGES, AND INCREASING VALUE ADDED

One of the inherent benefits of tourism is that it has extensive forward and backward linkages – and the way these are managed can have significant impact on the overall economics of the industry. Increased purchase of goods/services outside the hotel will support additional activity, while sourcing from local producers/ firms, will encourage higher value added in the local economy. The current situation, however, holds a lot of room for improvement.

1. Spillover effects into other sectors are minimal: Expenditures on ancillary goods and services are difficult to estimate but can be substantial. The average tourist will spend, at a minimum, US\$20 on a handicraft, which translates to US\$10 million into the economy on the basis of 500,000 tourists per year⁹². The average tourist expenditure in Kenya and Tanzania on curio purchase is US\$79 per tourist.⁹³ Shopping, handicraft stores, excursions and entertainment for tourists are not well developed – and the further one goes from Maputo. Suppliers face high costs and markets are small. Apart from curio purchase, other forms of tourism (e.g. cultural tourism) that can add value to the tourist experience and expand tourism expenditures to local communities are still largely unexploited in Mozambique. According to tour operators, limited exposure of local indigenous culture such as crafts diminishes the uniqueness and attractiveness of the tourism experience.

Most of the inputs required for operating hospitality and tourism businesses are being partly or wholly sourced from outside Mozambique. Local markets for sourcing even fruits, vegetables, meats, poultry, fish, and seafood, are vastly underdeveloped. Over 90% of high skilled labor is sourced from South Africa.

2. Rising Informality and Loss of Markets: Many of these informal operators are potential front-line operators: diving, deep sea fishing and water based excursions; bush safaris; specialty markets. Even some hotels and lodges operate outside the formal economy. It appears that the main reasons for the informality are related to the bureaucratic requirements such as licensing, access to finance, contract enforcement and more broadly, lack of enforcement of regulations. While informality does not in itself mean poor quality goods or services (or indeed small size), it does limit the potential for selling in international markets. It also compromises quality in the absence of regulation – something that is very important, for example, in diving, boating, fishing, flying and climbing. EU tour operators are responsible for the safety of tourists under their care and they cannot therefore deal with informal operators. Also, by operating the ancillary services in the formal sector, the prices and value of products and services will be ramped up through exposure to international markets, which in turn will have positive spillover effects on several of the other services.

92 Adapted from ARC Implementation Plan – USAID proposal April 2005

93 Commonwealth Secretariat Study 2003, “The Value of Artisans to the Kenyan Economy”

POLICY RECOMMENDATIONS

High Priority

- Develop a training program for potential and current ancillary services providers that require knowledge of special technology and compliance with regulations (e.g. diving, deep sea fishing).

OTHER AREAS NEEDING ATTENTION

- Reduce logistics costs in accessing these goods and services, particularly in the northern region.
- Provide support for handicrafts, including by setting up centers that provide both training and selling opportunities
- Improve understanding of factors underlying informality.
- Identify key inputs that can be sourced locally and then focus on development of those markets. Determine the extent to which logistics, infrastructure, standards, import duties are a constraint to developing national supply chains. It must be remembered that otherwise luxury items like Scotch whisky, wines, and air conditioners are critical inputs for these businesses.

The key policy recommendations emerging from above are presented in the Action Plan matrix below. Key stakeholders responsible, timeframe, and possible monitoring indicators are identified for each recommendation in order of priority.

For the recommendations in the Action Plan matrix, donors active in the area have been identified⁹⁴. The recommendations will be discussed with the respective donors, government, private sector, NGO's and other relevant stakeholders. The implementation of the final recommendations should be coordinated with donor funded projects to harness synergies with ongoing projects. The World Bank's Communications project has an air transport component which would cut across some of the recommendations on access to the destinations. The WB TFCA project has a tourism component that cuts across issues of integrated development planning. The PoDE project is covering capacity building. The PoDE, TFCA and the USAID funded Tourism ARC project contain elements of business enabling environment for tourism. The DANIDA and World Bank funded project on coastal zone management and the AFD funding conservation project interfaces with both integrated development planning and land issues. The SIDA and KfW funded projects both deal with issues related to marketing. The Irish funded project on road

⁹⁴ Please see Volume II, Annex 6 for a description of donor funded activities in Mozambique tourism related sectors.

infrastructure in Inhambane and Niassa broaches the recommendations on road access for tourism.

Action Plan Matrix – High Priority Initiatives

| Action | Responsibility/Coordination | Time Frame | Monitoring indicators |
|---|---|---------------------|---|
| 1. Ease and Costs of Access into Mozambique | | | |
| <ul style="list-style-type: none"> • Provide and publicize clear information for visitors of entry/exit requirements and train immigration and airport staff to understand how to handle tourist expectations at entry/exit points. • Remove visa requirement for major source market, and streamline frontier formalities (entry/exit) to reduce waiting times at borders. Also strengthen border processing capacity and intensify negotiations on one-stop border posts with South Africa and other selected transport corridors around the country. • Accelerate implementation of UNIVISA • Also mechanisms to enable tour operators to pre-arrange visa and entry permits should be established. | MITUR; Customs; Ministry of Foreign Affairs | Short – Medium Term | <ul style="list-style-type: none"> # of nationalities of key source markets with visa exemptions Publications produced, printed and readily available at entry points # of hours it takes to pass through border posts # of days/hours it takes for nationals of key source markets to obtain visas |
| <ul style="list-style-type: none"> • Establish payment system and modalities to allow foreign travel agents and operators to issue air tickets, and access airline seat inventories • Revisit bilateral air service agreements with the EU countries and key hubs in Africa (particularly South Africa) to facilitate higher capacity and flexibility for direct flights to Maputo, Vilanculos, and Pemba. Also revise policy on charters to allow for more frequent/flexible back-to-back operations • Review airport policies and establish monitoring systems at airports to measure performance and progress in service quality improvements e.g. customs, immigration, delays, baggage-related complaints. Carry out detailed audit and assessment of airport infrastructure improvement needs, starting with extension of runway and night flying equipment in Vilanculos • Examine and resolve issues that originate from key regional connection points to Mozambique – particularly Johannesburg | Airport Authority, Civil Aviation Authority, Ministry of Transport, Airlines Coordinate with World Bank Communications Project air transport component | Short/Medium term | <ul style="list-style-type: none"> # of domestic airline tickets sold by tour operators, # of back-to-back charter operations conducted by charter airlines, # hours taken to clear customs in airport, # of baggage lost complaints filed, Airport capacity to handle larger aircraft, |

ACTION PLAN MATRIX

| Action | Responsibility/Coordination | Time Frame | Monitoring indicators |
|---|--|-------------------|--|
| airport which is the source of many lost/stolen baggage, slow processing of insurance claims, and so on. | | | |
| 2. Improve Availability & Quality of Hotels, Tour Operators and Other Hospitality Services | | | |
| <ul style="list-style-type: none"> Provide investors in hotels and other establishments with a one-stop source of accurate information and processing of user rights on land, with clear delineation of roles and responsibilities between the different levels of government. Also promote a proactive system of community-driven preparation of land for tourism based investment and activities. Here, all land issues are dealt with, before hand, by the community itself, prior to the investor's bid for such tourism assets | MITUR, with Inter-ministerial Committee, Provincial governments (relevant departments). Ministry of Planning. PEP Africa's tourism anchor project will develop guidelines to help investors navigate procedures for securing land use rights; and technical assistance to streamline administrative procedures | Medium Term | Guidelines issued and regulations in effect. # of days taken to secure a Duat # of disputes resolved between investors and communities # of days taken to resolve disputes on user rights on land |
| <ul style="list-style-type: none"> Develop industry codes of practice and a functioning accreditation system for tour operators and related hospitality businesses (tour guides, divers, translators, airport taxis). Establish a system to benchmark firm performance, and reward high performing firms within each industry. Establish a systematic skills development program for tourism industry: <ul style="list-style-type: none"> ⇒ Augment curriculum and improve training in the Hotel Andalusia and Technical and Vocational Education and Training programs under the TVET project ⇒ Training programs including staff exchange, between emerging Mozambique hospitality service providers (e.g. divers, tour operators, travel agents, hotel staff and middle management, handicraft etc) and their counterparts in key | MITUR with INNOQ, PoDE, Hotels association, Tour Operator association and, other relevant Industry Associations; Hotel Andalusia Coordinate with the USAID ARC project in Cabo Delgado | Short-Medium Term | # of accredited tour operators and hospitality service providers # of beneficiaries of international exchange programs Increased tourist satisfaction |

ACTION PLAN MATRIX

| Action | Responsibility/ Coordination | Time Frame | Monitoring indicators |
|--|---|-------------------|---|
| <p>source/competing markets</p> <p>⇒ Increase level of private sector input and involvement in strategic decision making (e.g. at Board level) in these institutions.</p> | | | |
| <ul style="list-style-type: none"> Streamline administrative procedures – particularly licensing requirements and business start-up procedures for hospitality firms including: tour operators, taxi companies, and other ancillary service providers (restaurants and entertainment facilities) servicing the tourism industry. Also implement clear penalties to discourage license hoarding | <p>MITUR PoDE with Ministry of Commerce</p> <p>Coordinate with USAID and World Bank TFCA project</p> | Medium Term | <p># of days it takes to secure business licenses</p> <p># and magnitude of penalties against non-performing license owners</p> |
| 3. Marketing, Product Development and Maintenance of Tourism Assets | | | |
| <ul style="list-style-type: none"> Establish responsibility for restoring, maintaining and marketing key existing tourism assets (e.g. the coastal resources, Elephant Reserve, Ilha da Moçambique, Ethnology Museum, etc.). Develop a sustainable financing plan for restoration and maintenance activities. Start with the Elephant Park and Ponto d'Oro. | MITUR with Ministry of Education and Culture | Medium Term | Terms of Reference. Action plan with clear responsibilities |
| <ul style="list-style-type: none"> Privatize the management of the Maputo Convention Center to improve visibility, revenue and capacity utilization. Set up a destination marketing organization that will promote tourism (including MICE tourism) in Maputo | Ministry of Foreign Affairs, Maputo Convention Center; Min. of Tourism, | Short-Medium Term | <p>% monthly capacity utilization of conference facilities</p> <p># of events (domestic versus international)</p> <p># of total guests per month (domestic versus international)</p> <p>\$\$ revenues per month</p> |
| <ul style="list-style-type: none"> Develop a coherent short-medium term strategy for tourism marketing <ul style="list-style-type: none"> Pursue more aggressive joint marketing and collaboration between Mozambique and South Africa in order to leverage expected increases in tourists' visits due to the upcoming 2010 World Cup Championship Involve private sector actors along the value chain | <p>CPI Hotel Association CTA MITUR or FUTUR, Tour Operators</p> <p>Coordinate with KfW funded marketing</p> | Short- Med Term | <p>Adoption of an interim strategy with a 1 year action program</p> <p>% of increased government expenditure on marketing</p> <p>% of increased private expenditure in marketing (by typology of tourism</p> |

ACTION PLAN MATRIX

| Action | Responsibility/ Coordination | Time Frame | Monitoring indicators |
|---|------------------------------------|-------------------|---|
| <p>e.g. hotel and tour operators; tour guides, airlines in marketing Mozambique as destination</p> <ul style="list-style-type: none"> ○ Define tourism image, and key source markets other than current sources ○ Update and manage distribution of promotional material on the country, including maps, schedules of events and country data, post cards, and so on, ○ Effective participation in world travel market events ○ promote e-tourism and on-line destination marketing techniques such as World Hotel link.com. ○ Develop joint public-private funding mechanisms for marketing | plans for Inhambane | | business/firm) # of tourists # of tour packages sold |
| Improving Institutional Focus and Co-ordination | | | |
| <ul style="list-style-type: none"> • Intensify use of inter-ministerial committee to address key tourism industry issues such as: <ul style="list-style-type: none"> ○ air transport issues with Civil Aviation Authority, ○ visa issues with Foreign Affairs Ministry, ○ managing tourism assets (e.g. infrastructure, public works, urban and city transport development) ○ review responsibilities for tourism development and marketing between MITUR, DINATUR, CPI and FUTUR to eliminate overlapping roles and activities. | MITUR, Inter-ministerial Committee | Short-Medium Term | # of tourism-related issues addressed and resolved by the committee Clear cut difference in performance measures for FUTUR, DINATUR, and MITUR |

ACTION PLAN MATRIX

ACTION PLAN MATRIX - OTHER AREAS NEEDING ATTENTION

| Reduce Difficulty and Cost of Access | | | |
|--|---|--|--|
| <ul style="list-style-type: none"> Complete implementation of 5th freedom rights for neighboring African countries in line Yamoussoukro Declaration and SADC Protocol agreements | Ministry of Foreign Affairs; MITUR and Department of Civil Aviation Coordinate with World Bank Communications Project air transport component | Medium-Long Term | # of airlines taking advantage of 5 th freedom rights within the region # of route points served by different airlines Regional air fares |
| <ul style="list-style-type: none"> Prioritize road investment program to consider need for improved road networks in the North, through strategic selection of O/ D points. Also improve road maintenance, signage and accessibility to key tourism assets (e.g. in Maputo Elephant Reserve) | Public Works/ Highway Department, Ministry of Transport. MITUR | Short-Medium Term | % increase in expenditure for road maintenance activities % increase in kilometer roads networks effectively maintained. # of tourism assets per Km ² with easy and adequate road access |
| Strengthen Destination Management and Product Development in Provinces | | | |
| <ul style="list-style-type: none"> Explore integrated tourism development zones as pilots that can be replicated. This should begin with the preparation of integrated provincial tourism development plans starting with Maputo and the Pemba- Quirimbas region to address physical infrastructure development issues including zoning; land use standards, ceilings for carrying capacity. The plans should also include contingency arrangements to mitigate the damaging impact of natural occurrences (e.g. cyclones, mobile sand dunes, hurricanes) on key tourism assets. Integrated Development Plans are already underway for Vilanculos. Develop clear national guidelines, modalities and standards for cleaning up waste associated with natural occurrences (e.g. floods, hurricanes) that damage the aesthetic/physical value of tourism assets (e.g. beaches). Create appropriate institutional and legal framework for resolving disputes between community and investors, with respect to land use rights, compensation, and other agreements. Develop | Local municipalities in consultation with private sector, MITUR, Ministry of Environmental Coordination(MICOA), Ministry of Land and Urban Development. Coordinate with the World Bank TFCA projects tourism component; and with the DANIDA funded coastal zone management project with MICOA in Vilankulos. | Medium term Short-Medium Term | Integrated plan Natural disaster management plan Guidelines for negotiations with community and legal codes governing contractual relations. |

ACTION PLAN MATRIX

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|---|---|-------------|--|
| guidelines for investor interaction with community in Priority Areas for Tourism Development (PATIs) and Trans-frontier Conservation Areas (TFCAs). | | | |
| Improve Tourism Revenue Management and Data Gathering | | | |
| <ul style="list-style-type: none"> Establish a monitoring framework geared towards tourism satellite accounting that would make tracking and disbursement of tourism taxes and revenue transfers to be more transparent and effective. Particular attention should be paid to strengthening the collection of tourism statistics from peripheral provinces to facilitate more effective policy making. | Ministry of Finance; MITUR, Hotel Association, Provincial Heads and Local Chiefs, MOF | Medium Term | Published data. Total tax revenues and disbursement of revenues. Action plan to redress any inefficiencies and inadequacies in data collection. |
| Strengthen Overall Safety and Environmental Standards in the Industry | | | |
| <ul style="list-style-type: none"> Promote the adoption of appropriate international standards (e.g. ISO 7000 for management, ISO 14000 for management environmental compliance, and others such as food safety and security. Develop food safety and quality standards and training compliance program for local food producers to meet standards and quality requirement of supermarkets, and hotel chains. Review and monitor compliance with international aviation safety standards Establish industry benchmarking system to monitor operational and competitive performance of the hotel industry relative to competing countries. | INNOQ with PODE, MITUR, Department of Civil Aviation, Airlines (LAM), Airport Operators | Medium Term | # of certified tourism-related businesses for each respective standards (e.g. ISO14000) |
| Increase Investment and Local Value Added | | | |
| <ul style="list-style-type: none"> Review the Investment Code to ensure a level playing field between large and small hospitality establishments. Extend the benefits of the investment code to other stakeholders in the tourism value chain (e.g. tour operators and ancillary service providers – restaurants) More effective use of PoDE's investment outreach program | CPI and Min of Finance | Short Term | # of tourism businesses taking advantage of investment code benefits # increased level of domestic investments flows due to investment code incentives |
| <ul style="list-style-type: none"> Revise taxes, tariffs and duties on imported equipment, machinery, food and drinks and refurbished vehicles that are important to quality of service in the tourism industry | Min of Finance, Ministry of Industry and Trade | Medium term | % of taxes and duties reduced by product group % change in import prices of key tourism related input products % change in quantity of imported tourism inputs due |

ACTION PLAN MATRIX

| | | | |
|--|------------------|------------|---|
| | | | to revised taxes, duties and tariffs |
| <ul style="list-style-type: none"> • Develop small scale financing and technical support for SMEs in handicrafts and other ancillary services | PODE; PEP Africa | Short term | Revenues from handicrafts and ancillary services (from tourist expenditure surveys) |