

**THE IMPACT OF THE GLOBAL ECONOMIC RECESSION ON
ZANZIBAR TOURISM INDUSTRY:**

By

AHMADA, Mwanaidi Ali

THESIS

Submitted to
KDI School of Public Policy and Management
in partial fulfillment of the requirements
for the degree of

MASTER OF PUBLIC POLICY

2010

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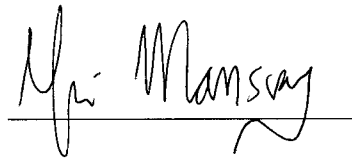
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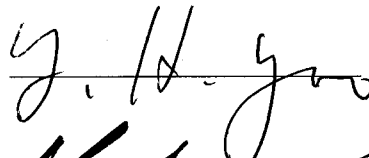
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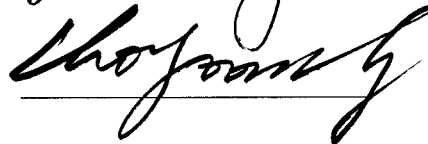
Professor Yuri Mansury, Supervisor

Handwritten signature of Yuri Mansury in black ink, written over a horizontal line.

Professor YOO, Yoon-Ha

Handwritten signature of Yoon-Ha Yoo in black ink, written over a horizontal line.

Professor CHO, Yoon-Cheong

Handwritten signature of Yoon-Cheong Cho in black ink, written over a horizontal line.

Approval as of July, 2010

ABSTRACT
THE IMPACT OF THE GLOBAL ECONOMIC RECESSION
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Both the north and south countries are uncertain about the benefit of relying on tourism as an engine of growth. Zanzibar is not exceptional; the Government has set out four principal development objectives: first, reduction of unemployment, second, poverty reduction, third, reducing regional economic disparities, and finally enhancing the Growth of GDP. Thus the current worldwide economic recession has put Zanzibar including tourism economy at risk. Therefore we believe that it is the right time to investigate the consequences of global economic recession (herein called GER) on the tourism industry in Zanzibar.

This research will assess the state of tourism industry in Zanzibar to see how the ongoing GER affects the sector. Among the significant focus of this research is to understand the extent of world economic recession in relation to tourism, and suggest short term and long term measures to counter the impact of recession in order to enhance economic development of Zanzibar. This study has used both desk data and primary information from the tourism stakeholders operating in Zanzibar. The first hand data was collected through face to face interviews with selected participants, whereas questionnaires were employed to mainly hoteliers and those dealing with international tourist, so as to assess their views with regard to the impact of economic recession on Zanzibar tourism industry. Statistical Packages for Social Sciences were used for analysis of the collected data.

The findings indicate that there is a significant impact on Zanzibar tourism industry resulting from GER. However, other factors such as poor airport services and power instability have also affected the growth of tourism development in Zanzibar. The findings also show that there are no specific measures that have been proposed to counter the negative impact. Based on the findings, the research provides recommendations and suggests areas for further investigation.

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This thesis achievement is through contributions of many people to whom I would like to show my appreciation.

Firstly, many thanks should go to Professor Yuri Mansury, my supervisor, who compassionately supported me with guidance, constructive ideas, advice, suggestions and comments to accomplish this study.

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Thirdly many thanks are to the entire team of Professors, Lecturers and the staffs of KDI School of Public Policy and Management for shaping my mind and empower me on the side of policy analysing and economy in general. Special dedication should go to Korea International Cooperation Agency (KOICA) for the sponsorship during the whole period of my programme. I have also to thank all KDI students 2008, for their keen cooperation and friendship, they made my life easily while in Korea; their contribution cannot be measured.

Many thanks should go to all tourism stakeholders in Zanzibar and MoFEA, their cooperation during data collection enabled me to gather the relevant and accurate data needed to accomplish this research.

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DEDICATION

I am happy to send this thesis dedication to my beloved family.

Special dedication to my father, mother and my son.

Their support and kindness made this happen.

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ABBREVIATIONS

ACRA	Associazione di Cooperazione Rurale in Africa e America Latina
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GER	Global Economic Recession
HBOS	Halifax Bank of Scotland
IMF	International Monetary Fund
IFIs	International Financial Institutions
ILO	International Labour Organisation
KOICA	Korea International Cooperation Agency
KDI	Korea Development Institute
LDCs	Less Developing Countries
MoFEA	Ministry of Finance and Economic Affairs
MNCs	Multinational Companies
MIGA	Multilateral Investment Guarantee Agency's
MDGs	Millennium Development Goal
OECD	Organisation of Economic Cooperation and Development
PAYE	Pay as You Earn
PPP	Public Private Partnership
RGZ	Revolutionary Government of Zanzibar
SPSS	Statistical Package for Social Sciences
SADC	South Africa Development Community
SAPs	Structural Adjustment Programs
SBA	Small Business Administration
SGR	Strategic Grain Reserve
TISS	Tanzania Inter-Bank Settlement System

TRA	Tanzania Revenue Authority
UK	United Kingdom
US	United State
UNDP	United Nation Development Programme
VAT	Value added tax
WTO	World Tourism Organisation
WTTC	World Travel and Tourism Council
WB	World Bank
ZSGRP	Zanzibar Strategy for Growth and Reduction of Poverty
ZATI	Zanzibar Association of Tourism Investors
ZCT	Zanzibar Commission for Tourism
ZRB	Zanzibar Revenue Board

LIST OF SYMBOLS

TZS	Tanzania Shillings
US D	Us Dollars
%	Percentage

CHAPTER ONE

BACKGROUND OF THE STUDY

1.0 Problem definition

The current global economic recession (GER) started in the United States but its consequences are being witnessed in all major economies of the world including United Kingdom, Japan and Dubai. Its impact has spread to all key sectors of world economies and the exact depth and breadth of the impact is still unclear (Baldwin, 2009, Barber, 2009, Chinn, 2009). The GER has definitely caused an economic growth crisis in developing economies and more so far Small Island economies. In these countries the GER has hit key economic drivers such as trade flows, foreign direct investment and agricultural exports (Blanchard, 2004, Chinn, 2009, Degrauwe, 2007). The rapid contraction in Global Domestic Product (GDP), rising unemployment levels and an overall slowdown in the pace of investment flows are among the outcome of the GER. Though GER affect almost all countries in the world, its seriousness differ where countries with weak macroeconomic and structural conditions are more affected.

The world economic statistics, as per International Monetary Fund (2009), shows that world economic growth was expected to decline to 0.5 percent in 2009, from about 3.5 percent in 2008 and the worst economic decline forecasted for developed economies (European Commission, 2008, Eurostat, 2009). Many African countries have experienced slowdown in economic growth rates. Zanzibar, a semi autonomous state in the United Republic of Tanzania, is not an exception as in the year 2008 the overall economic growth rate was 5.4 percent, 1.1 percent below that of the year 2007 (MOFEA, 2009).

The biggest concern about global economic recession in poor countries is that it has degenerated into a development crisis which seems to constitute a major threat to the nations poverty reduction plans and strategies. Many economists believe that reduction of poverty requires sustainable economic growth (WB, 2005, OECD, 2001, IMF & WB, 2005), however it is widely recognised that growth alone is not a sufficient condition, the most needed is economic growth that purposely target the poor people. This form of economic growth is commonly referred to as pro poor economic growth which is central in development debate in developing and least developing countries. Due to its nature, tourism has been recognized, by many poor economies, as a proper tool for enhancing pro poor growth. In the case of Zanzibar “the Strategy for Growth and Reduction of Poverty (ZSGRP, 2005)”, says clearly that tourism is a lead sector for its economic growth. Thus fluctuation in the tourism sector will necessarily disturb the trend of economic growth and development in poor economies.

Since the global economic crisis is affecting the economies of most tourists generating countries (such as United Kingdom, United States, Italy and Germany), it is likely that Zanzibar, which heavily depends on international visitors, will have experienced a severe impact on its tourism industry. To the best of our knowledge no academic researches have been conducted to explore the effect of ongoing economic recession to Zanzibar tourism industry. In addition, no feasible strategies have been put in place to hedge the impact of the recession to the tourism industry. It is the aim of this research to explore the impact the global economic recession of 2007-2009 has had, is having, and will have on the well-being and performance of the Zanzibar tourism industry and propose strategies to be implemented in order to minimise those impact.

1.1 Objective of the Study

Zanzibar recognises the significant of tourism in its economy; according to MOFEA (2010), tourism accounts for an average of 20 percent of Zanzibar's GDP. As tourism is so crucial in the Zanzibar current economy, the global economic recession has absolutely undesirable effects on her economy. The objective of this research is to investigate the impact GER (2007-2009) has had, is having, and will have on the well-being and performance of the Zanzibar tourism industry. Specifically, this study attempts to:

- Investigate the extent to which tourism industry, in Zanzibar, has been affected by global economic recession.
- Suggest appropriate strategies that will be implemented to hedge the impact of global economic recession on Zanzibar tourism industry.

1.2 Research Questions

The following questions will be tested in analysis to draw up conclusions on the impacts of the global economic recession on the Zanzibar Tourism industry.

- 1) What was the trend of the tourism industry before the global economic crisis of 2007?
- 2) To what extent has the GER affected the tourism industry in Zanzibar?
- 3) To what extent has the Zanzibar economy declined as a result of the GER?
- 4) Are there any measures in place to hedge the tourism industry from global economic recession?

1.3 Significance of the study

This research aims to analyse the tourism industry in Zanzibar and relate it to global economic recession. Besides fulfilling the requirements for master of public policy and management, we believe that the study will add knowledge, create awareness of those impacts and propose feasible measures to address the impact.

1.4 Delimitations

This research focuses on the economic impact of global economic recession on the tourism sector in Zanzibar. As tourism is a very complex industry which is fragmented in many other related economic activities, those that do not have direct relationship with tourism sector will not be considered. This is due to constraints of time resources, and completion of measurement. Though there are a number of areas that are impacted by the economic recession with respect to tourism, this study is limited to impact on (i) employment, (ii) business failure, and (iii) contribution to Gross Domestic Product and government revenue. The research focuses on the tourism companies operating in Zanzibar. The research however excludes the period of power outage in Zanzibar between December 2009 and February 2010.

1.5 Thesis outline

The research is organised into five main chapters whereby each chapter deals with specific aspects of the research. Chapter one is the background of the study in which the origin of the study and its objectives are stated. Chapter two presents a review of relevant literatures. In this chapter different issues of economic crisis impact to the tourism industry are examined. Chapter three of this research explains the methodology used in conducting this research. The chapter discusses primary and secondary sources of data as well as the main instruments of data collection used. Additionally the population and sample size are also stated. Chapter four is about presentation of the findings, interpretations and analysis of data. Finally, in chapter five, the research provides the conclusions based on the overall research findings in relation with the research questions. It is from these conclusions that the research suggests key recommendations and areas for further research.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

Tourism is believed to be the fastest growing service industry in the world, second to Information Communication Technology. It has extensive economic advantages for both host nations and global society. Tourism industry generates in average over four trillion dollars annually and contributes much in economic activities all over the world (WTO, 2008). Tourism industry helps to create job opportunities not only in the host countries but also in the tourists generating countries; it is estimated that out of every five employees in the global labour force are employed in the tourism sector (Fayissa et *al.*, 2007). Tourism and economic development are two concepts which depend on each other. While tourism enhances economic development, the economic development promoted tourism. Since the processes are dependent, the un functioning of one negatively impacts the other. Recent global economic recession has had unique features different from other major crisis that have happened in developed world in recent decades and spread to other economies and less developed countries (LDCs) alike. In LDCs the economic recession has impacted upon many areas of their economies including tourism. This chapter provides an in depth literature review on the issues of economic recession in the context of tourism industry.

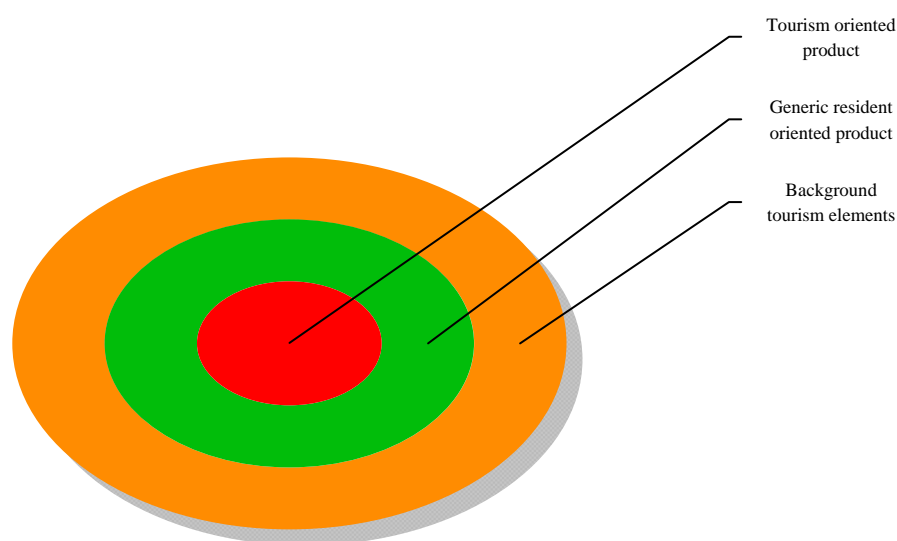
2.1 The Context of Tourism

Though, tourism is perceived as the world's biggest and fastest growing industry, it still remains a hotly debated subject (Buck, 1978; Echtner & Jamal, 1997; Jafari, 1974, 1981; Leiper, 1979; Smith, 1988), including the understanding of its meaning. Several definitions have been provided from various disciplinary perspectives including geography, psychology, sociology, anthropology and economics (Echtner & Jamal, 1997). Many professionals acknowledge the economic contribution of tourism sector. However from an academic

perspective, the definition of tourism has been widely debated and even today there are still scholars striving for a more precise meaning of tourism (Cohen, 2004; Weaver, 2006). Tourism has plural meaning (Smith, 1988). Related to production, tourism products constitute three layers as shown in the figure one. The first layer includes tourism-oriented products which consist of accommodation, food services, transportation just to mention a few. The second layer is generic resident-oriented products. This layer includes hospitals, barbershops or hair dressers, police force, infrastructure, and the like. The third layer is the background tourism elements. These are cultures, landscapes, and public attractions etc.

Tourism is an economic activity whose product is service oriented exchanged or marketed in a way similar to the products of other industries. Some of its characteristic are (i) monopoly over natural and historic resources, of one tourist destination over another (beaches, mountains, history, culture, etc) unique to a particular country; (ii) non –economic value judgement, due to the differential of environment and consumer perception; in other words, the product is not tangible like other consumer goods and is valued according to a person's satisfaction derived from a series of psychic experiences; (iii) on the spot market, meaning that the production, purchase, and consumption takes place in the same market whereby a greater distribution of services and caused economic activities are generated; (iii) perishability of product (transportation, gastronomy, service), whereas non perishability of natural resources (beaches, mountain, etc).

Figure 1: Layers of Tourism Product



Source: Adopted from Jafari (1974)

In the view point of consumption, tourist related products are experienced '*in situ*'. In other words consumers travel to the product, and the outcome of the consumption is experience gained. Moreover, the quality of tourism product is not judged by its economic value, but the quality is mainly judged by consumers' aesthetic. Another peculiarity of tourism product is that it does not conform to the law of diminishing marginal utility (Jafari, 1974). Non diminishing marginal utility, meaning that additional purchase of travel does not lead to a reduction in consumption demand. In principle, tourism destinations in the world differ and each tourism destination provides different experience. From the view point of planning, tourism planning approach has passed through four stages. These stages are mentioned from recent approach as community-oriented approach; a physical / spatial approach; an economic/industry-oriented approach; and boosterism.

Some commentators have tried to investigate the relationship between sustainable tourism and mass tourism. For example in reviewing the development of tourism industry Clarke (1997) suggested a four-position pathway to understand the evolution of tourism industry. These positions are namely dichotomous, a continuum, movement, and a convergence. Though a majority of tourism academicians concur that tourism should not be viewed as an isolated development tool or as a separate phenomenon, the contention is still prevailing on whether tourism should be justified as an extra disciplinary, interdisciplinary or multidisciplinary study.

2.2 Tourism Development in Zanzibar

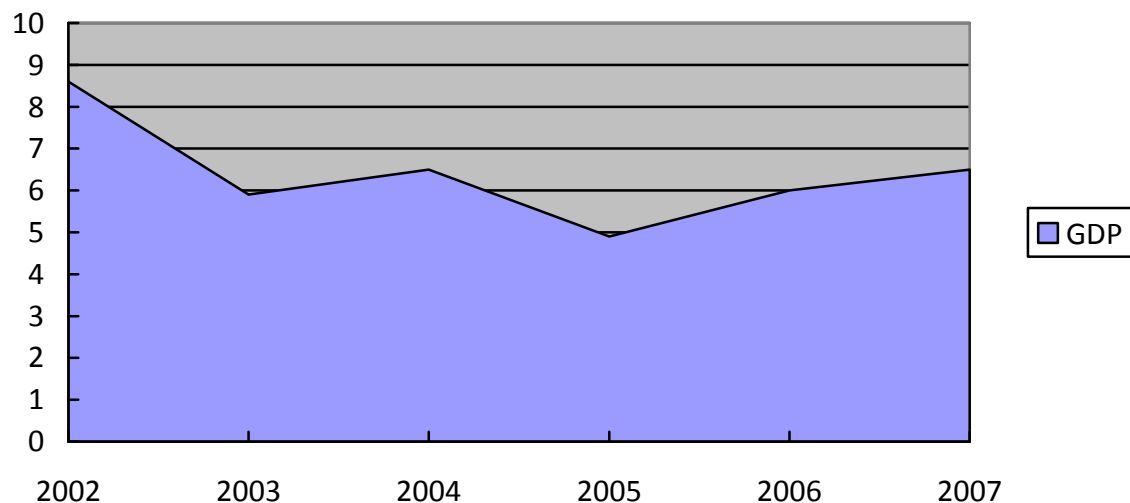
In the United Republic of Tanzania (hereafter URT) tourism plays a very important role in the economy. Despite its contribution of about 25% to foreign earnings, tourism accounted for approximately 10.3 percent of the Gross Domestic Product and nearly 14,800 jobs in 2007 (Luhano 2001). Tourists arrivals in Tanzania grew by 11.6 percent to 719,031 in 2007, as compared with 2006, which is the highest growth recorded since 2000. The earnings from the tourism sector was estimated to have grown by 26 percent in 2007. It is estimated by the World Travel and Tourism Council (hereafter WTTC) that tourism industry would directly employ about 300,000 people in 2008. However, the real impact is even greater because travel and tourism touches all the sectors of the economy. It is estimated that Tanzania's travel and tourism indirectly account for about 400,000 jobs. Furthermore, Tanzania earned USD 1,198,764,519 in 2007. These earning accrued from 719,031 international visitors to Tanzania. Tanzania tourist receipt increased from USD 740.0 million in 2004 to 1, 198.8 million in 2007.

Zanzibar has also experienced an impressive tourism growth similar to that of Tanzania mainland. Zanzibar is a paradise for nature based tourism. In the year 2002, Zanzibar

attracted 143,237 international tourists, equivalent to 240% higher than 42,141 international arrivals recorded in 1990. The experience shows that unpolluted beach and cultural diversity are the tourism attractors for Zanzibar. Zanzibar earned USD 164,452,598.0 in 2007. These earnings have accrued from 100,221 international visitors who visited Zanzibar. Zanzibar tourist receipts increased from USD 71.3 million in 2004 to 164.5 million in 2007. It is estimated that tourism in Zanzibar has created 45,000 direct jobs and it is expected that by 2015 tourism will surpass agriculture in terms of employment generation and GDP contribution. Currently, the tourism sector contributes 25% to the Zanzibar Gross Domestic Product (MOFEA, 2009).

However, ZATI indicated that tourism only contributes 20 % to GDP. One of the problematic areas in Zanzibar tourism industry is presentation of tourism statistics. The author observed that the contribution of tourism to Zanzibar Growth Domestic Product is still unclear as different authorities provide and record different figures. For example in 2007 Zanzibar Commission for Tourism recorded 143,283 tourists who visited Zanzibar. However, ZATI argued that international tourists who visited Zanzibar through domestic flight were not recorded (2010 Personal communication). Thus the total figure to be recorded should be 219,047 which are 53% higher than the official statistics. The author concluded that tourist statistics in Zanzibar are not as per world tourism organisation definition. During year 2007, GDP growth rate of Zanzibar raised to 6.5 percent from 4.9 percent registered in 2005 as shown in the chart 1.

Chart 1: Zanzibar GDP growth rate %



Source: (MoFEA, 2010)

The major sources of growth during the period emanated from service sector which contributed 43.9 percent. Recently tourism in Zanzibar became a great economic sector and is regarded as primary sector. The Zanzibar Government formulated economic policies to support tourism for numerous reasons. Firstly, Zanzibar is rich in natural and cultural resources that form the basis of tourist attractions. Secondly the tourism industry generates foreign exchange earnings for economic development; it also has other economic benefits such as tax revenue and employment creation within the sector and linkage with other sectors (Kweka *et al.*, 2001), and (Wade *et al.*, 2001) who argued that tourism has the highest potential for economic development in less developed countries (LDC's) Zanzibar included. They said that tourism offers many economic benefits, which comprises of poverty reduction and achieving high standards of living. Moreover incomes generated from tourism are used in other public services such as hotels, schools, hospitals, leisure centres and infrastructures. A

good and reliable infrastructure will facilitate more tourism activities hence more income and jobs.

The impact of tourism on Zanzibar economy is confronted with many problems (Johannan, 2007). Mass tourism from Multinational Companies (MNCs) that build big hotels and leisure centres have the positive impacts in economic development. Nevertheless, while citizens are enjoying these benefits, they have adverse effects such as environmental degradation, detriment of local culture and most of the profits is ploughed back to the MNC parent countries (Lea, 2001). While it can be argued that the host economy benefits from tourism growth, the fact remains that MNC's continue to exploit less developed countries (LDCs) therefore limiting the economic gain from tourism growth. Koth argues that Zanzibar is not gaining enough economic return from tourism through official channels, given the resources quality and value of coastal area being allocated (Koth, 1999). Most of the package tours covering air flights, hotels, and transport are paid prior to departure from Europe; therefore tourists are less inclined to spend more directly in Zanzibar (Kulindwa, 2001). This in turn, makes it hard for Zanzibar to assert control over the tourism industry.

The same argument has been provided by Tanzania Tourist Sector Survey (2007) that the majority of visitors to Tanzania and Zanzibar come into the country for leisure and holiday and under the package tour arrangement. Another area of concern is cost implication with regard to infrastructure facilities, whereby the Zanzibar Government borrows money from other sectors to build the infrastructure in order to attract more tourists with the perception that it will boost economic growth. These might ruin the development of other sectors of the economy if the tourism business fails to contribute sufficiently to cover initial investment cost (Berk and DeMarzo, 2007; Perks, 2007; Atril and McLaney, 2008). Supporting the

argument Shah and Gupta (2000) emphasized that little attention was given to the fact that the diversion of resources from other sectors to tourism facilities would have an adverse effect on the environment or society concerned.

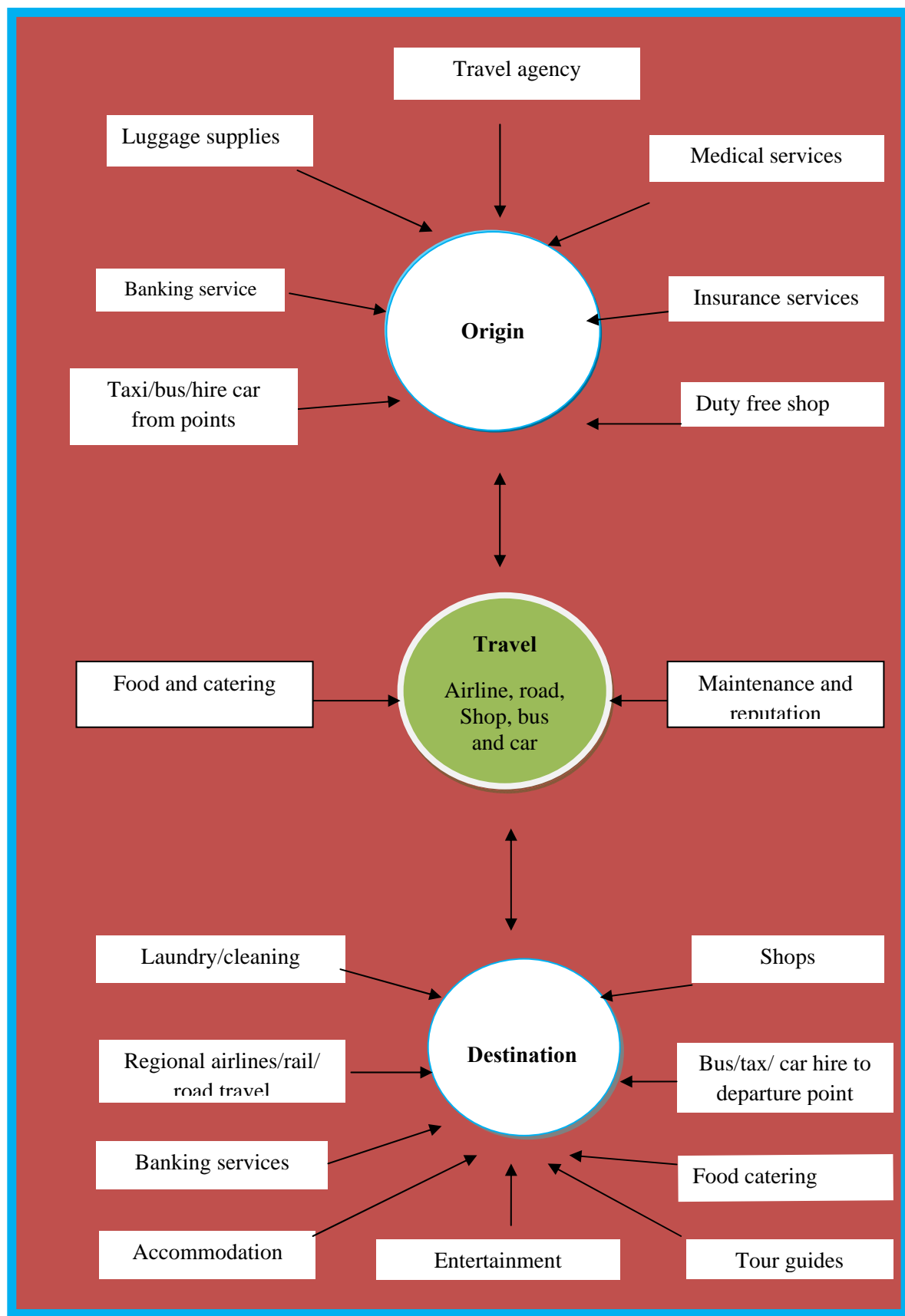
High population growth rate and rapidly developing tourism infrastructure such as hotels has put the coastal area of Zanzibar on great pressure. In addition, due to the development of tourism, local residents have restricted access to the beach and their landing sites (Personal communication with villagers, 2009). In Zanzibar, land use conflicts have been reported and land convictions of local inhabitants have taken place due to tourism. In some cases, the government itself has forced people to sell their lands because of the creation of tourism zones which has lead the loss of livelihood (Chachage, 1998). This research argues that the decision by communities to sell their land was not motivated by the creation of tourism zones, instead it is due to inappropriate land laws and regulations which have left the communities empty handed and without any long term livelihood alternatives. The significance of tourism zonation system has lead to economical viable and environmental friendly tourism destination. We should remember that land is the most dependent resource for development and constitutes a number of players. Thus if land use will not be balanced villagers will continue to violate government laws and regulations and then sell their land illegally to potential buyers.

2.3 Impact of Tourism in economic growth

Tourism is classified as one of the fastest growing industries worldwide. It contributes extensive economic benefits on both sides, for the tourist home country as well as the visiting country (see figure 2). The figure 2 shows different tourism stakeholders in both host and home country. That is to say, tourism contributes extensively in the economic development of both host and home countries. As an invisible export service, international tourism facilitate

the foreign currency inflow of host destination economy. The foreign currency contributes directly to current account and balance of payment (Mbaiwa, 2000). The income generation process does not stop at this point. Some part of the earnings from tourism business and tourism related activities are spent within host destination economy and therefore leads broadened money circulation in the economy, and the accompanying multiplier effect (Baayens, Nijkamp & Van Moutfont, 1998; Felsentein & Freeman, 1998). There are a range of techniques which have been used to measure multiplier effect in the tourism industry including input output model and Keynesian model (Harris & Narayanan, 1999). However there is an upsurge of literatures concerning misuse of multiplier analysis (Hudson, 2001; Yu & Turco, 2000).

Figure2: The elements of tourism industry



Source: own research (2010).

The logic behind the ‘multiplier concept’ is that, the sales of one economic sector depend on the needs and demand from other sectors of local economy (Baaigens et al. 1998, Frechtling and Horvath, 1999). In other words, any changes of demand in tourism will affect input/demand within the value chain of tourism industry including those who are supplying goods and service to the sector. Furthermore the effect does not stop at the tourism suppliers, but also spreads to entrepreneurs who directly feed tourism suppliers (third beneficiaries). It is simple to assume that, any change in tourism expenditure will cause change in local economy in term of household income, production, local government revenue and employment.

However, countries where economic leakage exists usually experience lower employment and income multiplier, mainly because of high import. According to Mbaiwa (2000), it is difficult for small island development state like Zanzibar to meet the required inputs/supply of growing tourism sector from local suppliers. For example, in mainland Tanzania a multiplier analysis of international tourism indicated a significant income and employment benefit beyond the direct impact of tourism spending.

Table 1: Share of Fresh Foods Locally Sourced by Hotels and Restaurants

Fresh Food Item	%Sourced in Zanzibar (estimate)
Fish and seafood	90%
Fruits	80%
Eggs	75%
Herbs and spices	60%
Poultry	50%
Vegetables	20%
Meat (excluding poultry)	10%
Milk and milk products, Honey, Jams, pickels	5%
Staples(cereals, potatoes, cassava, sweet potato)	2%

Source: BESO Report, March 2002

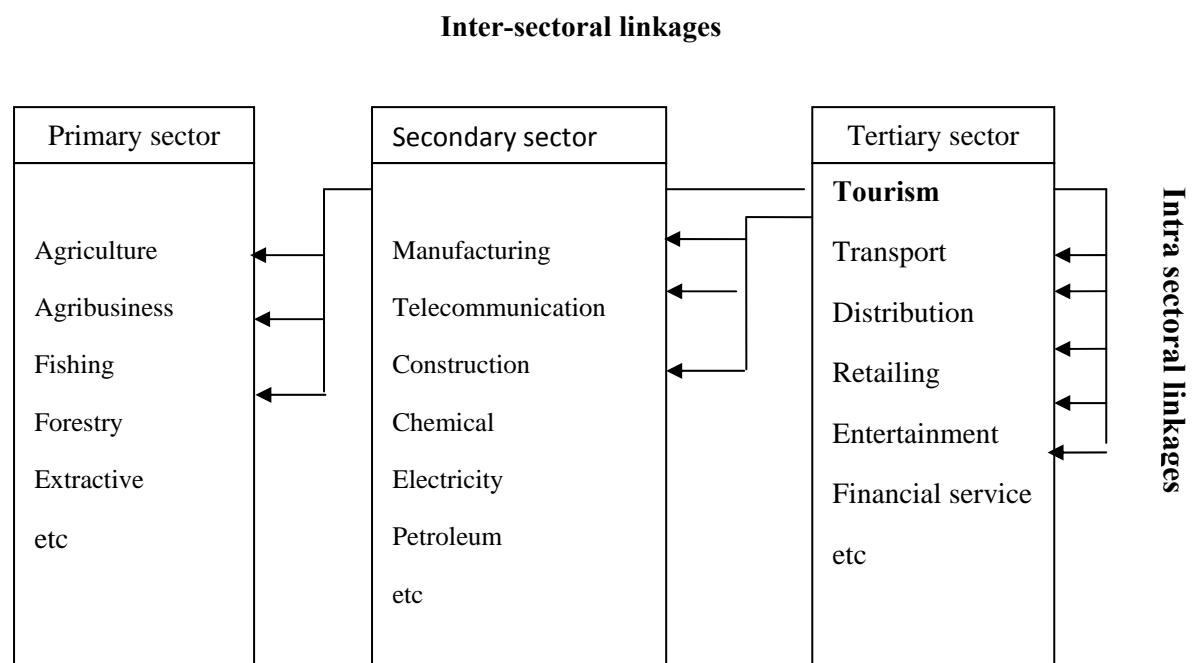
In case of Zanzibar, the multiplier effect is perceived to be moderate. As shown in table 1, hotels and restaurant ordered most of their inputs such as fruits and fishes from local suppliers, however vegetables are imported from mainland Tanzania.

In less developed countries where limited alternative development opportunities exist, tourism seems to be the most promising tool for income generation. A majority of rural people in less developed countries are subsistence farmers or fishermen and therefore, if they become involved in the tourism industry, it is possible for them to raise their household incomes (Daiz Benevides, 2001). The growth of tourism in less developing countries provide monetary incentive and create conducive environment for the development and sustainability of local art and crafts, whereas the market for local products is created by tourists' hotels. In deed the introduction of tourism in less developing countries, does not deliver much as expected. Though greater part of tourism activities occur in the less developed countries, much of the benefits are repatriated and enjoyed by residents in developed countries.

The successful development of tourism requires reliable road, water, sewage system, infrastructure and security to mention a few (Nijkam, 2000). Generally, these utilities are economically indivisible in the sense that, simultaneously serve tourism industry and local people (Daiz Benevides, 2001). It is generally believed that the tourism sector develops backward and forward linkages in an economy. For instance, when an improvement in local services like transport or electricity benefits tourism but also benefits everyone in the area. The extent at which such improvements can actually support and promote business activity in a "South Countries" has not much been researched and the factors involved are more complex than might initially be supposed.

Lesley (2005) state that tourism is the number one sector for creating linkage with other economic activities as shown in figure 3. However this link depends upon demand related factors (such as the types of accommodation with respect to size and class, ownership, tourism industry maturity, the type of tourism, the promotion of local product), supply related factors (for example physical limitation, production pattern, quantity and quality of local production), market and intermediary factors (supply poorly adjusted to demand, marketing and infrastructure constraints,) and government policy.

Figure 3: Inter - and intra - sectoral linkages



Sources: Meyer (2006)

Tourism is believed to employ many people compared to other service sector (Teffer & Wall, 2000, Yu & Turco, 2000). Tourism provides three types of employment as shown in table 2.

Table 2: Types of tourism employments

Types of Employment	Comment
direct employment	All people who are directly serving tourist in tourism services area such as restaurant and hotels),
Indirect employment,	Involve employment generated by business which support tourism sector such as banks and local transport
Induced employment,	Employment generated when local residents, who directly or indirectly receive hard cash from tourism, spend their income in the society.

Sources: Author

The effects of tourism expenditure on host countries have been widely discussed in many economic literatures (Farrel, 1994 and Dieke, 2000). However, it is not clear what percentage of tourism expenditure remains in the host countries and host communities. According to the World Tourism Organisation (2005) out of US\$ 100 spent by tourists in the less developing countries, only five dollars are retained by the local communities. This implies that the induced employments which have been claimed by many tourism planers and economists (Wang & Bixler, 1997, Teffer & Wall, 2000, Luft, 1997, Farrel, 1994) have been overestimated. In the same vein, Wall and Mathieson (2006) argued that currency flows generated by tourism do not always constitute primary or secondary effects because some of the currency inflows are not directly initiated by tourism expenditure (for example tertiary effect such as imported goods). Despite of these leakages many developing countries are still relying heavily on tourism.

Many researchers have cautioned about the high dependency on tourism sector (Taylor et al, 1991). Thus, high dependency on tourism means high level of leakage for destination especially in developing countries where local suppliers cannot meet the required demand. Leakage is a slippery word and the term used to describe the amount of money paid by tourists as a price for holiday or other tourism activities that never reach the host destination in the first place due to the involvement and dominance of external tour operators or leaves a host destination (in term of or expatriate profits or imports). In the context of tourism sector, the term can be classified into three categories. Category one is import related leakage. Tourism destination with low quality of local produced good/service or weak economy, can have highest import leakage. This type of leakage also called internal leakage. Category two is associated with too much involvement of intermediaries, thus the money paid to tour operators, as for tourism trip, in the tourists generating country is higher than that received in host destination. Sometime this type of leakage is called external leakage. Invisible leakage, category three, is the opportunity costs or real losses related to resource deterioration or damage. This source of leakage is linked with informal currency transaction and exchange tax avoidance. Zanzibar has all the three forms of leakages.

Although there are few documented studies of how inflation due to tourism, affects a host population, there is plenty of conventional wisdom to suggest that some price rises are linked to this cause. Tourism is also supposed to contribute to arise in standards of living in the host locality. Raising a price put the local poor in difficulties, as they cannot afford to buy their basic needs including food. For example in all tourism zones of Zanzibar the prices of local food and houses have gone up due to increased number of tourism based immigrants. As the owners are trying to exploit tourism opportunities and attract more revenue, the local poor

fail to pay for basic services because of higher prices (personal communication with villagers, 2010).

Evidently many houses in the stone town and coastal areas have been bought from local residents and turned into hotels, guest house and holiday villas. In addition, local business has put more focus on serving tourism market, which in turn limits the choice of local poor people. It is likely to say that tourism acts as a catalyst for poverty in the local areas. Regarding destination sustainability we can argue that the ongoing move of turning local house into hotels is against the principle of sustainable development and sustainable tourism. We anticipate this move will raise social difficulties in the near future as the young generation will be forced to leave their village; they will not afford to have own residencies. This phenomenon is very common in least developing countries.

On the other hand it is strongly believed that the level of exchange rate is very crucial for tourism development as a five percent rise or drop in the cost of travelling overseas leads to a fall or growth in the tourism movement of between six to ten percent (Yair & Liran, 2004). It is also believed that if the world income grows up by one percent it will result in a 1.7 percent growth in visitor's number, and 1.3 percent increase in expenditure per visitor. Some commentators have argued that the influence of exchange rate on tourism is very little. For example an increase in value of New Zealand dollar by one percent reduced international arrivals by 0.02 percent. It is argued holiday makers are characteristically greatly sensitive to fluctuations in exchange rates compared to business and conference travellers. In New Zealand for instance, when the value of dollar rises by one percent, the number of holiday makers fall by 0.2%. Perhaps a similar kind of research would provide the same result in Zanzibar.

Mathieson and Wall (1982) argued that developing countries are characterised by high level of unemployment, regional income disparity and low income, low level of industrial development that are held back by the small size of domestic market and heavy dependence on agricultural products for export earnings. In order to reduce poverty, a country requires pro-poor growth. Tourism is described as the world's largest service industry and already providing significant contribution in many third world countries. Many researchers recognise the potential of tourism industry in the pro poor growth. Tourism is a labour intensive industry thus creating many economic opportunities to disadvantaged groups such as women. Tourism not only boost informal sector but also enable women and communities to capitalise their assets in order to improve their household income. The emerging of the tourism sector in developing countries has a more significant effect on economic growth and poverty reduction whereby through inflow of currency, many infrastructures and human resources have been generated. However, most tourism business is focused on profit earning and not poverty reduction

2.4 Potential of Development Partners in Tourism Growth in Zanzibar

Capital is regarded as fundamental for the success of any business investment, and tourism is no exception. For prosperity of any business, capital and other strategic resources are needed to facilitate growth. Emerging destination, like Zanzibar, requires both financial and strategic support to cope with growing competition in the world tourism market. Financial and technical assistance is required for tourism related training, infrastructure and information management to boost the industry to its full potential. Coordinated and improved foreign aid programs will practically enhance the development of a sustainable tourism industry (Wade et al 1999). Thus financial assistance, from both national and international organisation, is highly needed for tourism to prosper.

The World Bank and World Tourism Organisation (an affiliated United Nations institution) have been playing a crucial role in financing tourism worldwide. For the case of Zanzibar the first tourism plan was drafted in 1983 by UNDP and WTO when a number of consultants were hired to formulate and set up the tourism industry including the design of proposed tourism institution. Another financial support provided by donors went towards the preparation of indicative master plan of 2003. Matheson and Wall (1982) argued that the World Bank has assisted in overcoming many problems in tourism industries by providing subsidies, long term loans, tax and duty concessions.

2.5 Meaning of Economic recession

Economic recession is not a new phenomenon as it has occurred on several occasions in the past. Many scholars have come out with several names for economic recession such as economic meltdown and credit crunch (Claessense *et al.*, 2009). Although there is no official definition of recession; economic recession has been associated with a period of decline in economic activity (Turner, 2008). Many academic researches including Bauernfeind (2009) acknowledge that economic recession is characterised by (i) negative growth of GDP and (ii) recession to occur for a minimum of two consecutive quarters. Though the two elements have been cited by many professionals and experts as basic attributes in describing economic recession, there are few scholars who have trouble supporting it as other important variables have been ignored. They claim that any definition on economic recession should consider other attributes of economic system such as consumer confidence, consumer spending levels, national unemployment just to mention a few (Anderson, 2009). International Monetary Fund (IMF) defines recession as two consecutive declines in a country's GDP. Some scholars argued that the IMF definition is very narrow as it only considers GDP as an economic indicator of recession. A recent ILO report asserts that the ongoing economic crisis might hit several important sectors of the world economy such as automotive, tourism, construction,

finance, real estate and services; and important measure should be taken to protect societies from its negative impact (ILO, 2008). It is forecasted that due to economic downturn, unemployment could rise worldwide; it was estimated to rise to 210 million in late 2009, from 190 million in 2007 (Somavia, 2008).

The most cited impacts of economic recession are (i) Falling of the market (The purchasing power of consumer comes down and therefore reduce the level of consumption of good and service), (ii) if the recession persist for long time it turns into a depression, (iii) drive small and medium enterprise into bankruptcy and therefore increases the rate of unemployment, (iv) investors refrain from investing their money into business, especially in production industries, because they are afraid of losses and (v) the government, both in developed and developing countries, reduce and prioritize their expenditure; they allocate and spend less in their development budget.

2.6 Impacts of Global Economic Recession to Tourism Industry

The current GER is expected to cause the global economy's worst performance since 1930's. Conditions are changing quickly and expectation is deteriorating rapidly. Most industrialised countries are either experiencing recession or are expecting to do so; while in the developing countries economic growth is slowing down. Almost all sectors are being-effected by the recession and tourism is among the service sector most severely impacted. Tourism industry contributes about ten percent of the growth of African economies (WTO, 2006). However at this time of global economic recession the contribution of tourism sector to African economic growth is likely be affected. Block (2009) pointed out that the global economic recession is expected to reduce the number of travellers particularly long distance travellers.

It is widely believed that global economic recession to tourism contributes to increased in domestic travel, increased regional travel and reduced long distance travel (E.U,2009). For

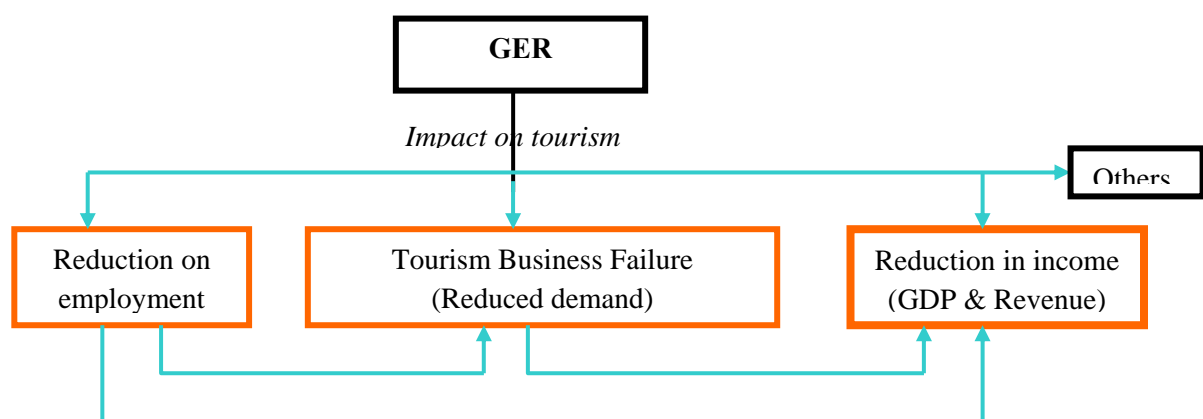
example Japan experienced 14.1 % decline in international passenger traffic in the year 2008. Germany experienced a significant drop in demand for summer booking in 2009 and Thomas cook reported a 20% decline in summer booking in the year 2009. Such a phenomenon has significant effects on the tourism industry in Zanzibar as most of its visitors are from developed world. Reduced long distance travel mean that visitors from western European and American cancel their trips to Asia and Africa in favour of short and mid distance trips near to their home countries (Ihucha, 2008).

Pigram and Wahab (1997) asserted that tourism is an integral part of the global economy. According to him tourism is principal economic sector in the world. Among the characteristics of tourism is that it rests on complex environment. Tourism environment comprises of socioeconomic and cultural phenomena as well as a biophysical element, which represents both a resource and an opportunity for tourism as well as a limitation on the manner of its development. Tourism can be a very volatile industry, sensitive to change in perception and taste and to altered economic or political circumstances (Long, 1993). To support Long (1996) argument, Hall and O'Sullivan (1996) pointed that political regulations and stability to large extent influence the host destinations image. Political instability might devastate tourism resources such as national park and thereafter no people will be interested to visit for the purpose of leisure. However some commentators pointed that political instability is among the source for heritage tourism. This is evidently in the Shinandoah Valley.

“Although it is impossible to pin down an exact number, thousands of visitors come to the Valley each year to visit Civil War sites. New Market Battlefield Park, for example, receives 45,000 to 65,000 visitors a year, while Belle Grove on Cedar Creek battlefield (the only other battlefield providing public access and interpretation) is visited by about 50,000 per year, a large portion attracted by their interest in the Civil War”(www.nps.gov.history,)

Economy fluctuations will have either a positive or an adverse effect in tourism industry (Tarlow, 2008). In the business context, the professional component of tourism is constrained to keep abreast of change, be aware of, and respond to changes in all areas like technology and many factors, which helps to shape the tourism market. Many empirical studies have been done in response to tourists' and tourism's changing socioeconomic circumstances, political and cultural changes. This industry is a highly sensitive and vulnerable activity and it is not without reason that tourists can be scared off by any number of real or perceived threats to safety, health and financial well being. For instance during the civil war in Rwanda in 1992, tourism in Zanzibar and East Africa was seriously affected. The same happened during the gulf war after September 11, when most tourists cancelled their travel bookings. World Tourism Organization (2009) asserts that international tourism started slowing down since June 2008. The organization expected that the number of visitors across border will either remain dormant or decrease by 2 percent. Figure 4 shows three major impacts of global economic recession to tourism. Thus the focus of this research is on the impact of GER on employment, tourism business, GDP trend and revenue collection.

Figure 4: The impact of economic recession on tourism



Sources: Author (2010)

2.7 Unemployment

From the study of the literature presented above, it can be argued that a reduction in the number of employees, both part time and full time, in other economic sector would have adverse impact on tourism. For a person to engage in travel he/she should first satisfy his/her basic need such as food, shelter and clothes (Bellot & Totor 1990). The degree of satisfaction for basic need depend upon the income of respective individuals and the higher the income implies the more satisfaction level. On fulfillment of basic and safety needs normal income people look for self esteem including traveling for leisure. It should be noted that, during economic crisis there is a high number of jobs cut and therefore the level of earnings for average income people decrease. Somavia (2008) stated that it is estimated that due to the global economic recession unemployment could rise worldwide. Moreover Somavia (2008) emphasizes that unemployment raised from one hundred and ninety (190) million in 2007 to two hundred and ten (210) million in late 2009. Specifically Hall and Jamieson (2008) argued that there will be a sharp rise in unemployment especially in service sector. For example HBOS (Halifax Bank of Scotland) which was taken over by Lloyds axed forty thousands (40,000) jobs. This is not the only the sector that has been affected as Virgin Atlantic also announced that it would cut down six hundred (600) jobs.

Metro (2008) pointed out that Construction Industries across UK were affected by economic recession in which at least 300,000 jobs were lost. Moreover in Europe and America more than a million workers have been protesting demanding action to be taken by their Governments in order to protect their jobs whereby more than ten percent of the people will lose their jobs in different sectors as a result of deepening economic recession (Metro, 2009). From the above scenarios unemployment is the major issue that majority of people are most worried about, since people are likely to lose their income it is likely that they will be conscious of how they spend. Due to these reasons tourism activities will definitely be

affected. Among the major cities in the world which have experienced a decline in their tourism industry is Rome. Rome has noted dramatic declines in hotel occupancy; in the October 2007 the occupancy rate fell by 17.5 percent compared with the same month last year.

Generally, there is a fall in global air travel because economic recession disturbs the economies of well advanced countries. Tourism is a leisure activity and constituted on movement of people. Disturbance in economic activities will surely cause reduction of demand in tourism industry (low number of travelers) and therefore many tourism enterprises resorted to “employee lay-out strategy” to survive in the market. In other words, reduction of employees in other sectors of the economy such as agriculture, construction just to mention a few leads to reduction of employment in tourism sector.

2.8 Business Failure

Many companies across the globe have been reporting sharp declines in their sales in the years 2008 and 2009 in contrast to the previous years. There are different perceptions which agree or disagree that business failure could have been caused by the economic recession. According to Peterson (2009) most of the business failures are caused by the management itself. For example, the performance of the GM Motors Company has been short of attaining its planned targets and management was considered to be contributory to the failure. Jim Jones (2009). In contrast to this argument Liou and Yang (2008) stated that business failure is a result of the auditing team failing to detect and prevent financial frauds. A study by (Berk and DeMarzo, 2007; Perks, 2007; Atril and McLaney, 2008) asserted that business failure is a result of cash flow problems whereby the business depends on its cash flow for its growth. However cash flow problems such as late payment of debtors as well as high recurrent spending leads to business failure.

Due to economic instability, many people especially in United State and Europe have cut down luxurious expenditure such as long haul travelling to forestall the crisis and the losses that might result from the current economic disaster. Based on that fact, it can be concluded that travel had led to a decrease in the number of regular and business travellers. The travel cut has shocked many big firms. This is mainly due to the fact that increase in demand for travel stimulates business growth. This implies that due to economic crisis tourism and travel industry has faced tremendous losses. With no doubt during global economic recession many tourism business failed to balance their expenditures and sales. And in most case expenditure exceed revenues. Furthermore, tourism enterprises failed to collect receivables timely from their debtors. These cumulative problems led small tourism businesses to shut down their activities while some went bankrupt.

It is obvious that new and small businesses are often at the forefront of technological advancement. With the reduction in consumer demand caused by global economic recession, small and low profile businesses are experiencing a double squeeze. For example, the number of small businesses that filed due to bankruptcy reached 43,000 in 2008, compared to 28,300 and 19,700 businesses in 2007 and 2006 respectively. Tourism business formation and expansion may slow down due to recession for several ways. First, for a new business to be feasible it requires new customers. But economic recession is always associated with less spending. This means that an entrepreneur who is interested and willing to start up a new tourism oriented businesses will decide to wait until demand levels returns to normal.

The second impact is limitation of startup capital. In order to establish a new business, an entrepreneur needs to have enough capital and the amount of capital required will depend on the nature and scale of the proposed business. In other word credit facilities is paramount for the growth of business. Generally, due to global economic recession both private and public

banks limit their lending to small tourism business. In the same vein the limited tourism business curtail borrowing from banks. In a recent report issued by United State Small Business Administration (SBA, 2009) it is argued that a devastating effects on the economy and small firm to a large extent is caused by the credit freeze in the short-term funding market. Furthermore by late 2008, the normal production of goods and services had virtually stalled. This means that the economic recession makes difficult environment not only to start a new business, but also it undermines new start-ups that are struggling to get by.

2.9 Government revenue and Gross Domestic Product

Recently there has been realised the importance of service industry in world economies. Tourism contributes significantly in a countries revenue and Gross Domestic Product. However accurate measurement of the contribution demands sophisticated statistical techniques and input from different sectors. Due in part of a lack of reliable actual data on the amount of contribution of tourism to a country's Gross Domestic Product, many researchers use estimated data to measure the contribution of tourism to Gross Domestic Product. The revenues structure in many developing countries hinge on tourism related sources. Any adverse impact to the tourism sector as a result of world economic recession is likely to impact domestic revenue collection. Tourism related taxes such as restaurant levy, hotel levy, tour operation levy, and, seaport and airport service charges are likely to be affected in one way or another.

With global recession it is expected that the disposable incomes will fall and so demand for tourism/leisure will also fall. The impact is that potential tourists will either decide to stay in their own countries or decide for short trips in neighbouring countries where they will spend less than what they would spend if they decided to go for longer trips to Africa and other continents. This necessarily results into a fall in business entities in the tourism industry.

These include hotels, restaurants, tour operators and other businesses directly related to the tourism industry. According to WTO (2009) the number of international tourists in the world, during the ongoing economic recession, is expected to drop as part of the side effect of the global economic recession. This decline will have a negative impact in the collection of revenues accrued from the tourism industry in the form of VAT – Hotel, Hotel levy, Restaurant and Tour operation levies as well as a contracted labour Market.

As highlighted earlier the world economic crisis will result in business closing and hence an increase in unemployment rate. This will result in collection of less tax revenues from corporations as the fall in demand and supply of goods will result in low profit margin and hence less taxable income. The decline in the number of tourists will force all major investors in the tourism sector to reduce the number of employees which will negatively impact the collection of income tax and pay as you earn (PAYE).

CHAPTER THREE

STUDY AREA AND METHODOLOGY

3.0 Introduction

This chapter aims to discuss the methods employed in data collection for this study. The study employed both secondary and primary sources of information. For secondary data the researcher focused on journals, books, newspapers and many other documents. Primary source data was collected through questionnaires mailed to both foreign and local tourism investors and personal interviews were conducted for key informants. The SPSS package was used to analyse the collected data.

3.1. Study Area

Zanzibar is semi autonomous state within the United Republic of Tanzania. Zanzibar is made up of two main Islands (Unguja and Pemba) and a number of small islets. Zanzibar has approximately a total area of 2,654 square km. The islands are located between 4 degree – 5 degree south of the equator and 39 degrees longitude. Zanzibar is estimated to have a population of 1,193,127 in 2008, with a density of 370 people per square kilometre and annual growth rate of 3.1 percent. The average economic growth for Zanzibar is 6.0 percent for the year 2003 -2009, with varying growth rates between 6.5 percent and 4.9 percent. Zanzibar has experienced an impressive increase in GDP; from 6.0 percent recorded in 2006 to 6.5 percent in 2007. The service sector which is dominated by tourism is the main driver for economic growth accounting for about 43% of GDP.

The challenges to tourism development identified in less/least developed countries in general (Telfer and Sharpley, 2008) are in evidence in Zanzibar. The island suffers severe macro economic problems, such as unemployment, inflation and increasing debt (RGZ, 2007). The

local economy is highly dependent on agricultural products, particularly cloves, and, as a result, the island remains highly dependent upon external aid for development (Zanzibar Budget, 2008). The lack of robust economic alternatives has led to the adoption of mass tourism development as an alternative source of foreign exchange earnings; tourism now accounts for 25% of GDP. Among the key challenges confronting the tourism industry in Zanzibar is the issue of 'patron and client' relationship (Tosun, 2000) that dominate its tourism development. In addition tourism in Zanzibar is heavily dependent on international tourists. Thus, it is easily affected by any global and political instability and, hence, Zanzibar represents an appropriate case study both in its own right and as an example for other developing countries.

3. 2. Methodology

3.2.1 Population and Sample Size

In this research the population consists of organizations that are directly involved with tourist activities in Zanzibar. The inclusion of participants in the study focused on the researcher's conception of their ability to present necessary and quality data. The researcher used judgemental sampling that calls for a special effort to locate and gain access to the individuals who have the requisite information (Sekaran, 2003). According to the study, judgement sampling is the best sampling method which enables a researcher to obtain information that is needed from very specific people who alone possess the required information. The research includes 10 key informants' interviews. With regard to questionnaire, fifty five questionnaires were mailed to tourism stakeholders; eighteen to hoteliers, ten to restaurants operators, twelve to diving operators and fifteen to informal tourism dealers. Despite the small sample size, the researcher is confident that the findings

from this study are very logic. Sekaran (2003) stated that, a sample size of thirty percent is more than enough to make study viable.

3.2.2 Data Collection Instruments and Design

According to Yin (1994) there are five ways which are often used in collecting and analysing data in a business research. These are survey, experiment, and analysis of archival information, case studies and histories. In order to achieve the objectives of this study we used survey method. Self completed questionnaires with open and closed questions were developed. The questionnaire was comprised of two sections and total 16 questions. The first section is about individual or company characteristics. The second parts contain questions adopted from relevant literatures and some questions were measured by using a yes or no response scales. The author sent out questionnaires to a total of fifty five tourism dealers and at the end of survey, 55 companies returned filled in questionnaires. According to Zanzibar Commission for Tourism, registered tourism businesses in Zanzibar is about 200, thus, have 55 respondents is more than thirty percent as recommended by Sekaran (2003).

3.2.3 Data Analysis

There are many techniques which can be applied to analyze quantitative data. The nature of this study drives the researcher to use SPSS for analysing the collected data. The SPSS has been widely used in social science research, like the one on hand. Though it has undergone many revisions, still, it is very common and most used computer software to analyse quantitative data (Bryman & Bell, 2003).

3.2.4 Limitations of the Methodology

This study could be more effective if the researcher had adequate time to conduct an in depth investigation. Hence time was one of the limiting factors; however, the researcher tried to

overcome this problem by utilizing effectively the time given so as to fulfil the purpose of the study. The bias of the researcher is also one of the limitations because the researcher intends to gather certain information therefore it is likely that the researcher designed the interview questions focusing on the objectives of this study and from his own perception of the situation. This directed the interviewee towards the interviewer's expectations. However in order to allow for effective participation, the researcher incorporated some open ended questions.

CHAPTER FOUR

PRESENTATION, INTERPRETATION AND ANALYSIS OF FINDINGS

4.1 Introduction

In chapter three the researcher explained the methods and instruments used for data collection.

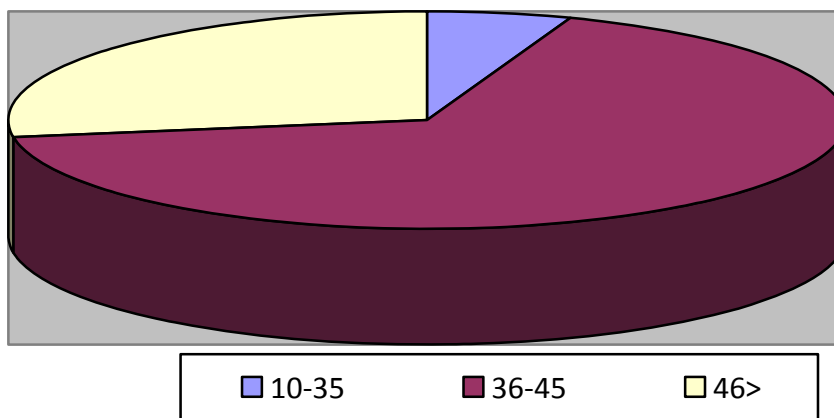
In this chapter the researcher seeks to present and analyse research findings. Discussion of the findings focus on responses gathered through face to face interview to key informants and responses from returned questionnaires.

4.2 Data gathering

Forty eight (87%) of the respondents interviewed were males while females were 7 (13%).

Their age range varied considerably. There were 5.6% of males at the age of 18-35 while females were 96% at this age. There were 67% of males at age between 36- 45 and females 4%. In the age group of 46 and above, there were 27.4% males while females were 0%.

Chart 2: Age distribution of respondents



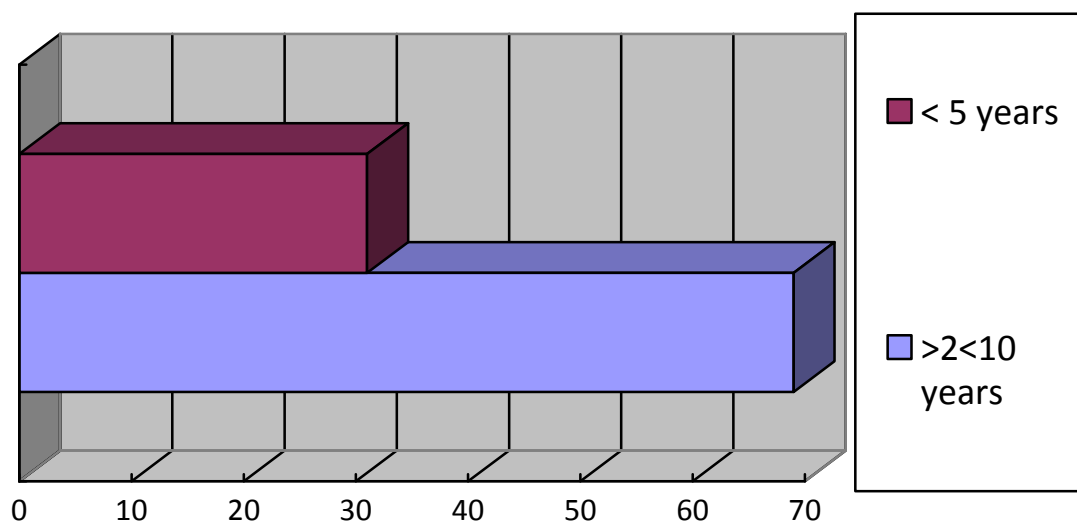
Source: Research findings

Most of the interviewees were between the age of 36 – 45 comprising of actual working age that has a leadership role, knowledgeable and experienced. The tourism industry in Zanzibar is male dominated. Women are culturally restricted from participating in tourism employment due to male interpretation of Islamic religious norms. The work culture in the industry is construed to be unacceptable socially for Muslim women.

Based on researcher experience, though women in Zanzibar are eager to work in the tourism sector and always try to pose challenges toward the gender division, they face traditional and cultural obstacles. Traditionally, Zanzibari men as guardians are given power over the women. The Islamic culture evidenced that it is easier for males to work in the hospitality industry and far from their family than females who are more responsible for taking care of the family.

Sixty nine percent (69%) of the interviewed participants have worked in their organisations between two and ten years whilst thirty one percent (31%) have worked for less than five years as indicated in the figure 5 below.

Figure 5: Experience of interviewees (in percentage)



Sources: Research findings

Traditionally, to be appointed in the top management position (either in public sectors or private organisations), one should have long working experience. This shows that knowledge and experience matters where being able to understand the managerial role and being trusted is concerned. Due to the nature of tourism activities long working duration of employees is very important. Ten face to face interviews were conducted. Out of these participants one interview was conducted with the Executive Secretary for Zanzibar Commission for Tourism. Two respondents from two different tourism attraction were interviewed which were director for achieve and antiquity, and manager for Jozani Conservation Area. Six more interviews were conducted, each from the MOFEA, the Zanzibar Association of Tourism Investors (ZATI), the Zanzibar Revenue Board (ZRB), the Zanzibar Chamber of Commerce Industry and Agriculture, and the Office of Chief Government Statistician-Zanzibar (OCGS).

One more interviews were held with local women from Nungwi Village. In order to get information from demand side tourists, the researcher organised five informal (ad hoc) interviews with tourists. The tourists interviewed were from Italy, United Kingdom, France, German and one from United State. It was intention of the researcher to organise at least one interview with tourist from Asia and Africa, but due to limited number of tourist from those countries it was not possible to do so. We still believe that their absence does not affect the finding of this research. Interview guidance was sent to all respondents before the interview as required by respondents to enable them to have prior information about what was required by the researcher.

Most respondents agreed that tourism is of great potential for economic development of Zanzibar and most of them declared that the global economic recession had an adverse effect on the tourism industry and tourists as well. The findings show that the degree of impact differs between the sub sectors of tourism while some sectors have been more affected by the

economic recession than others. Almost all interviewees pointed out that the diving sub sector has been more affected compared to the other sub-sectors.

4.3 Contribution of Tourism to the Economy of Zanzibar

Based on reviewed literature it is obvious that tourism has big potential for economic development. About 92 percent of respondents disclosed that tourism is a very important economic sector in Zanzibar and it contributes much to employment creation directly and indirectly through multiplier effect, foreign exchange earnings, poverty alleviation and Gross of Domestic Products. It is surprising that, to date, there is no official data that show the exact contribution of tourism to Zanzibar Gross Domestic Product (GDP). Because the tourism industry combines retail and wholesale trade, and hotel and restaurants sub sector, it has not been separately categorised in the national account system which is used in Zanzibar. It has been difficult to quantify the GDP contribution of the tourism industry, because its activities are included in transport, hotel, restaurant, trade and cultural activities.

To overcome this, many respondents suggested that Zanzibar should institute a tourism satellite account in its system of national account. Despite the lack of official statistics tourism is termed as number one contributor in the Zanzibar economy. It is provisionally estimated that tourism accounted for 25 percent of GDP in 2008. In the year 2007, Zanzibar earned some USD 164,452,598.0 from international arrivals (International Visitor Survey, 2007). The figure does not include expenditure of tourists travelling to Zanzibar by domestic flights. This data does not appear in the tourism statistics. Even considering leakage from import from foreign countries, it is obvious that tourism is significant source for flowing of foreign exchange in Zanzibar, and help significantly to reduce the trade deficit which has narrowed from \$ 51 million in 1996 to \$ 48.65 million in 2008.

While there is no official statistical record on the tourism related employment in Zanzibar, it is widely acknowledged that tourism currently employ 10,500 persons directly and provide approximately 9,351 indirectly jobs. The extent of employment differs among the sub sectors of tourism whereby the accommodation sectors are main employers. The accommodation sector employs approximately 9,351 persons. Other persons are employed in tourist shops, ground tour operators, tourist restaurants and the like.

On the hands, tourism provides other type of induced employments. This includes those people who supply the tourism sector including restaurants and hotels. In general tourism sector is perceived as an engine for Zanzibar economy as it contributes to the government collection in term of licences and taxes levies on the sector. It is however important note that the tourism industry in Zanzibar has not escaped from global economic recession as there is a substantial decline in tourism arrivals and receipt, the hotel bookings and air travels (discussed later).

4.4 Development Partner's Contribution to the Tourism Sector in Zanzibar

Development partners supplement the Zanzibar budget deficit being one of the poorest countries in the world. International Monetary Fund support to Zanzibar has proven to be an effective instrument that boosts Zanzibar economy. Through the umbrella of United Republic of Tanzania, respondents from the Ministry of Finance and Economic Affairs obtained that fourteen (14) donors contributed a total of TZShs 73,196 million to the Zanzibar budget, in fiscal year 2008/2009. Among the organisations which provide financial assistance to Zanzibar are the European Union, United Nation, World Bank and International Monetary Funds. Financial support has also been received from French government to Zanzibar Tourism Development Insitute, the only public tourism training institution in Zanzibar. The researcher is informed of substantial amount of foreign money inflow to private organisations

in Zanzibar (Non government organisation, Faith based organization and Community organisation), including tourism organisations, but the amount contributed by these organisations is still unclear. This is because the capturing and management of AID inflow to Zanzibar is still very weak, while some partners are not transparent on the value of their support.

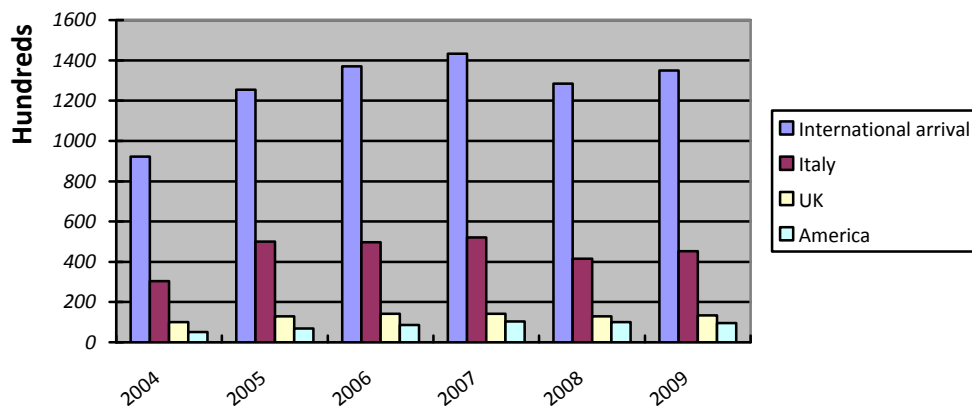
4.5 The Impact of the Global Economic Recession on the Tourism Industry in Zanzibar

Zanzibar is a small Island and is characterized by agriculture and service sectors as the backbone of the economy. Tourism and Trade are regarded as the driver of the Zanzibar economic growth. The ongoing global economic recession has not spared Zanzibar as most economic sectors, with no exception of tourism, have been affected in varying magnitude. It is the objective of this study to explore the impact of global economic recession on Zanzibar tourism industry. Some of the possible adverse impacts but not limited to tourism are:

4.6.1 Tourists' Inflows

The official data collected from Zanzibar Commission for tourism show that there has been steady increase of tourists' inflow to Zanzibar for the years 2003 to 2007 and a slight increase in tourist's arrivals between 2008 and 2009. When respondents were asked about the unexpected relative decrease of tourist inflow in 2008, most claimed that global economic recession had affected the financial liquidity of most people in the originating countries including United State, and United Kingdom. However, some respondents relate the decrease in tourist's number with the power blackout which lasted for one month and three months in 2008 and 2009/10 respectively. It is still unclear how the power blackout affected the tourism industry and it is beyond the scope of this study.

Figure 6: Tourist's arrival by nationality



Source: Zanzibar Commission for Tourism, 2009

The researcher observed that the Zanzibar tourism market is dominated by international arrival where as arrivals from Europe are leading, followed by United state of America and Africa. The study reveals that domestic tourism in Zanzibar is very low with exception of nursery and primary school students who visited tourist attractions as part of their studies. The low number of domestic tourism is because of extreme poverty and many residents look to satisfy their basic needs including food and shelter. For instance most Zanzibaris earns hardly than US \$ 1.5 a day and therefore find it difficult to spend the money for leisure activities. Other reason for the small domestic inflow is due to lack of education and negative attitudes towards tourism as a whole. The researcher found that there is no record of domestic tourists in Zanzibar. The absence of data can have two implications. First, the data is too small to the extent that it cannot be recorded. And second, it means the responsible institutions lack technical expertise to capture the information. In general domestic tourism does not have a considerable contribution to the national economy. This finding is contrary to World Tourism Organization (2003) statement that domestic tourism could highly contribute to economic development as international tourism does. With regard to current economic

crisis the situation can be worse than before and this will deprive them of leisure activities, especially tourism activities.

According to Zanzibar Commission for Tourism (ZCT, personal communication, 2009), the first sign of decline were evidenced at the end of 2008 when the number of airlines to Zanzibar decreased by 50 percent. There were 12 flights that came directly from Europe to Zanzibar before the recession began. The number of the flight went down to only six bringing in a total of 44,017 tourists visiting Zanzibar compare to 52,227 tourists in 2007 from the month of June to September. This represents a reduction of 8,210 tourists that visited Zanzibar during the same period in 2008. The decline in tourism activity is likely to reverse the recent gain by the service sector which is the main driver of growth in Zanzibar. Statistics indicate that there has been a decline in tourist arrival in Zanzibar since June to December 2008 to a tune of 17.2 percent compared to corresponding period in 2007. Total tourists arrivals from January to December 2008 declined by 10.4 percent to 128,440 from 143,283 registered in corresponding periods in 2007. See figure 6.

According to manager of Amani B. Bungalows, a local owner hotel, the number of tourists' arrivals to his hotel decreased by sixty percent (60%) when tourists cancelled their earlier bookings or postponed their travelling plans due to the global economic crisis. The statement is also supported by the manager of Jambo guest house who claim that hotels business has significantly shrunk in 2008 by almost eleven percent (11%) compared to the year 2009. However this result conflicted with findings from other tourism operators who revealed that the global economic crisis is not the only reason for the decrease in tourists' arrival in Zanzibar. Some respondent associate low numbers of tourists' arrival in Zanzibar with poor marketing, low quality service and poor infrastructure. The government of Zanzibar is blamed for not taking the initiative in marketing tourism abroad as well as within the country

compared to neighbouring competing countries such as Kenya and Uganda. The country endowed with natural resources, which need to be fully explored by foreign and domestic tourists, should be marketed within and outside the island. Some of the international tourists however responded that due to the global economic recession they have reduced travelling plan to Zanzibar instead they visit natural and man- made Wildlife areas in their own countries.

4.6.2 Employment

Empirical data worldwide show that due to the GER unemployment is increasing in both least developing countries (LDCs) and developed countries as activities in automotive, tourism, finance, manufacturing and constructions have slowed down. Additionally ILO (2009) argued that due to economic crisis, unemployment could increase to a range of eighteen (18) to thirty (30) million by the end of 2009. In the context of Zanzibar employment is one of the perceived benefits from the tourism industry. However this benefit has declined due to the global economic crisis as pointed out by Mr. Moh'd Jecha, x-employer of Venta Club. Findings from all tourism stakeholders revealed that jobs layoff is rampant in all sectors of tourism. For example, the Director from the Jozani Park stated that working hours have been reduced.

Data from Zanzibar Investment Promotion Authority revealed that the inflow of Foreign Direct investment to Zanzibar has decreased tremendously due to the global economic disaster. Foreign direct investment is one of the perceived benefits. The high number of foreign direct investment means, high number of employment opportunities. Although the utilization of employment opportunities created by foreign direct investment depend upon a number of factors including technology and host country policies. Therefore a decline in FDI inflow has automatically led to unemployment and loss of new jobs creation. Findings from

the Office of Chief Government Statistician revealed that the unemployment rate generally is expected to rise with future massive job shedding. The data shows that about forty eight thousand employees (48,000) from different sectors have been laid off in the years 2008/2009. However the said statistic did not clearly show the extent of expected employment in tourism sector

4.6.3 Impact on Overseas Development Assistance

Performance of Zanzibar revenue has been impressive with revenue collection surging from TZS 110, 652,537,776 to TZS 139,561,305,544 in the year 2007/08 and 2008/09 respectively. On the other hand total expenditure increased from TZS 179,209,642,893 to TZS 232,455,259,290 at the same period. The deficit was financed through external finance through loans and grants. Like many other developing countries of Africa, Zanzibar depends on foreign donor inflows in order to finance its development expenditures. However, development partners have assured Zanzibar of their continued assistance and therefore they expect there will be no aid cancellation.

4.6.4 Business Scenario

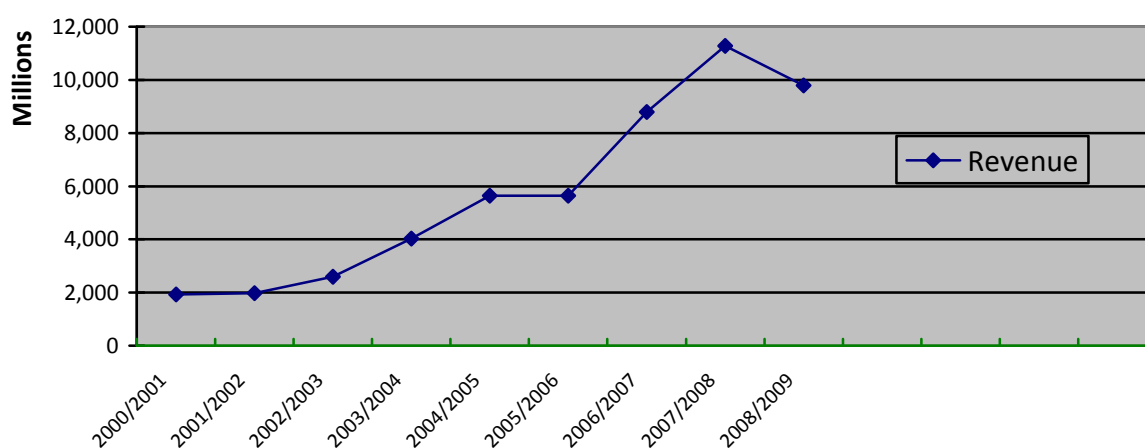
Tourism is a very complex industry with interlink age with several business activities such as tour operator agencies, restaurants, hotels, pharmacies, air lines, travelling agencies and curio shops as indicated in figure 2 above. The occurrence of shock in the industry spreads to all sub sectors hence the adverse effect. As per the chairman of Zanzibar Chamber of Commerce Industry and Agriculture, the impact of the current economic crisis has spread to all tourism oriented business. Many tourism businesses have reported business failure especially in small local guest house as disclosed by managers of the concerned organizations. Findings show that big hotels re- scheduled their construction plan in financial year 2008/2009 due to economic recession. Though, flow of foreign direct

investment in Zanzibar has been growing in the recent years, notably in the tourism sector. Its growth rate has been derailed by the global economic recession as most other investments, which accounted for more than 80 percent of total FDI, from developed countries such as United Kingdom and Italy. This is because the financing pattern of foreign direct investment is composed of mainly direct equity investment, long term and short term shareholders, intercompany loans and suppliers' credit from related companies overseas.

4.6.5 Government Revenue Collection

The finding shows that the global economic crisis has impacted on government revenue collections such as tax and tour operation levy; whereas the accommodation sector has suffered the most. Tourism revenue has decline from Tanzania shillings 11,274,105,814 in financial year ending 2007 to 9,787, 560,243 in financial year ending July 2008 as indicated in the figure seven. The data does not include the revenue collected by ZCT.

Figure 7: Trend of Tourism revenue in Zanzibar in TZshs

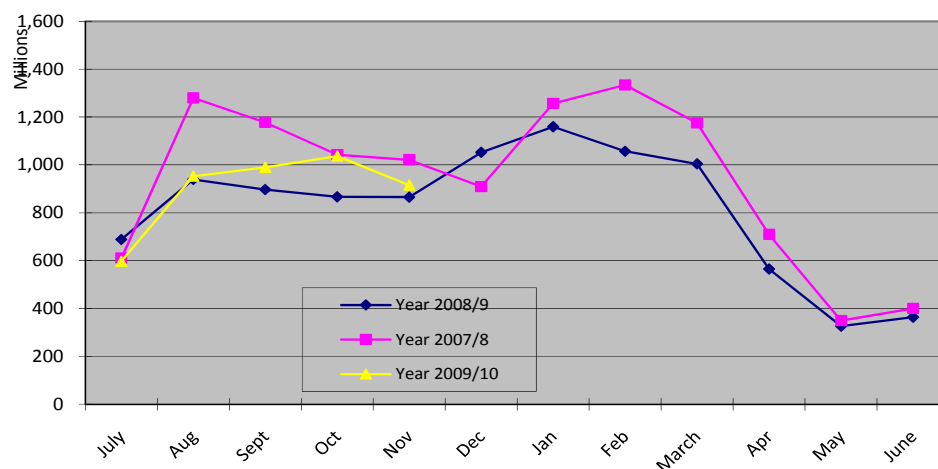


Source: Zanzibar Revenue Board, 2010

Figure eight presents monthly overlapping of tourism revenue for the financial year 2007/8 and 2008/9. In the figure tourism revenue collected on August 2007/8 was Tanzania shillings

1,178,376,981 which is far less the revenue collected in the same month in the financial year 2008/09, which is TZS 897,330,499. This clearly proves that global economic recession has impacted tourism industry in Zanzibar. However, the month of December 2008, show a bit recovery of revenue.

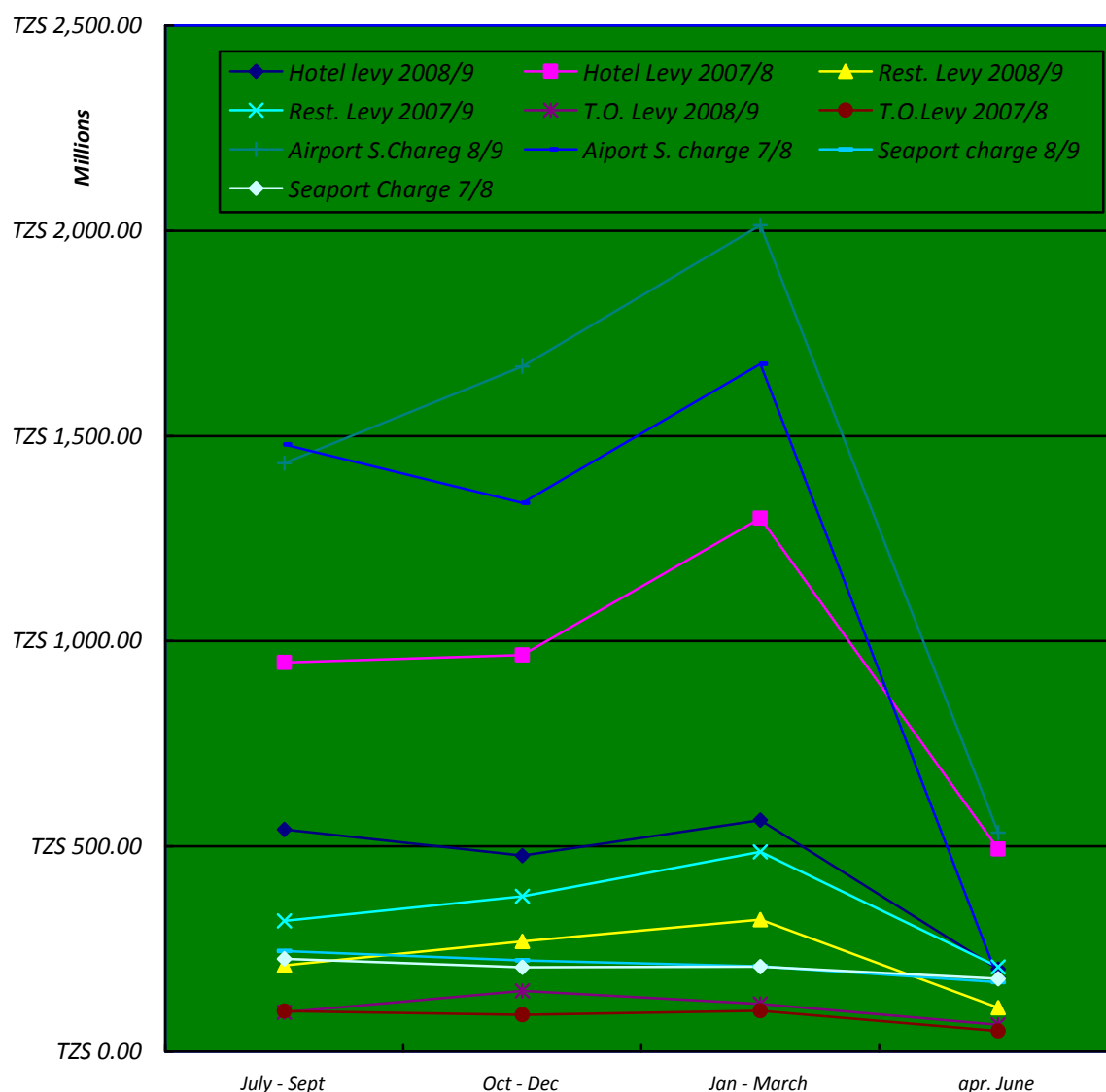
Figure 8: Monthly Overlapping of Tourism Revenue in Zanzibar



Sources: Zanzibar Revenue Board, 2010

In the context of tourism subsector, as it is mentioned earlier the accommodation sector is the one which is affected most. The research found that the accommodation related revenue decreased from TZS 167,546,358 to 147,629,014 as seen in figure nine. Other sections of tourism revenue affected by the global economic recession include restaurant levy, tour operation levy and sea and service charges. The only section of revenue which has not been severely affected by global economic recession in Zanzibar is tour operation.

Figure 9: Tourism revenues: Source ZRB (2010)



Source: Zanzibar Revenue Board, 2010

Supporting the above findings when interviewed, the Commissioner for Development and Sectoral Planning of Zanzibar Revenue Board disclosed that revenues have significantly declined. This has led government to postpone some of public projects, for example, road rehabilitation and supplying clean and safety water as a result of economic recession. In this case therefore, the government has lost its potential to deal with social welfare issues

especially poverty reduction as a result of the decrease in foreign exchange earnings and revenue collection. Poverty is severe in most of the less developed countries Zanzibar included and it has been a major concern for most governments. The decline of tourism activities in Zanzibar due to the current global economic recession has had an adverse effect on poverty reduction initiatives.

4.7 Measures Taken to Hedge the Risk of the Economic Recession to the Economy and Tourism Industry in Zanzibar

The ongoing economic recession is a major concern of many national and international organisations. Economic growth in many countries has been affected and Less Developed Countries are no exception. This disaster needs to be addressed accordingly to lower its impact to businesses level and governments as a whole. Many respondents believed that the effect of the economic crisis that started in America and Europe has extended to emerging countries including Zanzibar. The finding showed that no specific measures have been taken by the government to minimise the impact in tourism industries. Instead, the specific measure has been placed on agricultural sector as shown the box one below.

The finding shows that the exchange rate had a major influence on the inflow of international visitors. Ironically, when the Zanzibar economy falters, the tourism sector benefits as Zanzibar's tourist services are more affordable in the eyes of foreign visitors. With regard to the long term, within the context of the international tourism activity, Zanzibar's tourism sector appears to have stagnated. This is a situation resulting from the inability of Zanzibar's political leaders to promote the changes that are needed to make the national economy more competitive, including deregulation in strategic sectors, and urgent amendments to the labour and fiscal laws, to name only a few. With regard to the structural limitations on Zanzibar's tourism industry, one of the main obstacles to its full development is the lack of professionalism of the industry's key players; a lack of vision for tourism development; and

the tendency to give preference to beach and cultural attractions over natural attractions that abound in the Island. Another factor that has a very negative impact on Zanzibar's tourism is the tendency to use trade strategies based on low prices rather than quality and the sustainability on tourism operations. Zanzibar is not among the countries receiving the most foreign currency from tourism, since it offers a product that is cheap instead of offering a tourist product that is of high quality and competitive. This situation undermines the contribution of tourism in Zanzibar economy.

According to the Chairman for Zanzibar Association for Tourism Investors many hotels offer some incentives to tourists to attract them to increase their length of stay. Addition he stated that many hotels reduced their price to 50% to entice tourists to visits. However, tourism investors are very pessimistic toward this measure due to stiff competition within the region. Neighbouring countries such as Kenya, Mozambique and Uganda provide their tourism authority a surplus budget to promote tourism within and outside their boarder.

Some measure are directed towards the rehabilitation of tourism support sectors such as agriculture and trade as detailed in box number (1) one.

Box one: Specific areas that need immediate measures, on agriculture:

- ✓ Provide productivity-enhancing safety nets to poor smallholder farmers by supplying critical inputs such as locally adapted quality seeds, fertilizer, animal feed, small irrigation pumps, and veterinary drugs and services. Technical advice, market and price information, local seed multiplication and targeted interventions for women farmers, ethnic minorities and other vulnerable groups should be included. Restrictions on imports and other taxes should be reduced. For landless rural poor people, a similar package could be provided together with access to small cultivation plots for market or kitchen gardens.
- ✓ Rehabilitate rural and agricultural infrastructure to help remove infrastructural barriers to domestic trade and flows of food. Expanding ongoing efforts to rehabilitate small scale irrigation structures, storage facilities, rural roads, soil conservation schemes to restore soil fertility. These initiatives can be supported by cash or food for work programs.
- ✓ Reduce post-harvest crop losses and improve household and community based food stocks through pest and disease control and post harvest support for storage rehabilitation, supply of small scale silos, small processing equipment and improvement of storage techniques, and by reinforcing extension services with inputs, refresher training and logistics.
- ✓ Remove artificial constraints to domestic trade throughout the food chain in order to link smallholder farmers to markets, including removal of bureaucratic barriers to transporting and trading inputs and food, “informal” taxation, etc. Such interventions could address quality of produce; reliability of supply; efficiency improvements; waste reduction; collective marketing; investments in small-scale market infrastructure; value addition activities such as rural processing; and facilitation of contractual arrangements between smallholders and companies.
- ✓ Improve animal health services. In many countries, animals are an important source of power for plowing, harvesting and transport, and of food and nutrition. Animals can also serve as an informal means of savings and generation of cash for input, investment and food purchases. The availability and quality of animal health services and medicines and feed are important to protect smallholder assets and to support crop production, nutrition and livelihoods.

Source: Ministry of Finance and Economic Affairs (2009)

As indicated above the Zanzibar government has yet no concrete plans to bailout the tourism sector which has been affected by global economic crisis. Perhaps because the government does not have enough resources for financing a rescue plan. Due to the GER there has been employment cut in the tourism sector. So, the bailout plan could boost tourism activities by helping to subsidized tourist costs hence increasing the number of visitors to tourism sites. However, there is indirect stimulus package to Zanzibar economy which aims to minimise the impact of GER. According to the MOFEA for Zanzibar, government of URT will get \$220 million as a stimulus package from the G20 to combat the global recession. Through this package the Zanzibar government will get its share of 4.5%; approximately \$ 10 million. Though there are specific measures for tourism bailout in place, respondents suggested general measures that could be considered.

Table 3: Short term measure to combat economic recession in Zanzibar:

Measures	Responsible Authority(s)
Monitor key domestic indicators and institute an early warning system. This include monthly trend in revenue collections and government expenditure.	Department of economic management and budget – Ministry of finance and economic affairs
Implements national development programmes focusing much on areas that will stimulate growth while at the same time enhance development of social sectors.	National development and sectoral planning – Ministry of Finance and economic affairs
Strengthen domestic revenues measure both from taxable and non-taxable sources and expand tax base during 2009/2010 fiscal year.	Department of economic management and budget – Ministry of finance and economic affairs
Join TISS in order to do away with float problem which distorts government revenue/ expenditure plans.	Zanzibar Revenue Board (ZRB) and Tanzania Revenue Authority (TRA)
Strengthen Public Private Partnership (PPP) and remove nuisance taxes during 2009/2010 budget which inhibit private sector development.	Ministry of finance and economic affairs – Zanzibar
Continue to institute fiscal discipline by prioritizing expenditure in key and crucial areas.	Ministry of finance and economic affairs – Zanzibar
Allocate funds during 2009/2010 budget to establish Strategic Grain Reserve (SGR) to stabilize prices in the economy and reduce inflationary pressures	Ministry of finance and economic affairs – Zanzibar
Continue to request donor community to honor their aid commitments so that Zanzibar can attain Millennium Development Goals (MDGs)	<ul style="list-style-type: none"> Ministry of finance and economic affairs- Zanzibar

by 2015.	<ul style="list-style-type: none"> Ministry of finance and economic affairs – Tanzania
Continue to supply employment generation activities so as to reduce vulnerability among the disadvantaged communities.	<ul style="list-style-type: none"> Ministry of tourism, trade and investment – Zanzibar Ministry of finance and economic affairs – Zanzibar Ministry of Education and vocational training – Zanzibar
Promote cultural tourism (the Stone Town and other heritage sites).	<ul style="list-style-type: none"> Ministry of tourism, trade and investment – Zanzibar Private tourism stakeholders

Table 4: Long term measure to combat global economic crisis in Zanzibar:

Measures	Responsible Authority(s)
Building a new Zanzibar Airport and create a better competitive conducive environment for tourism services so as to attract more tourists in the country.	<ul style="list-style-type: none"> Ministry of finance and economic affairs – Zanzibar Ministry of communication and transport – Zanzibar
Construct and develop new seaport at Maruhubi to cater the Special Economic Zones as well as transit trade.	<ul style="list-style-type: none"> Ministry of finance and economic affairs – Zanzibar Ministry of communication and transport – Zanzibar
Improve environmental management particularly in tourism areas.	<ul style="list-style-type: none"> Department of environment – Zanzibar Zanzibar Commission for Tourism Zanzibar Investment and Promotion Authority
Initiate and implement Special Economic Zones as well as free port.	<ul style="list-style-type: none"> Ministry of tourism, trade and investment – Zanzibar Ministry of finance and economic affairs – Zanzibar
Establish Agro processing Industries	<ul style="list-style-type: none"> Ministry of Agriculture, livestock and environment
Implement Zanzibar irrigation Master Plan to improve food production and mitigate the impact of food shortage to inflation.	Ministry of Agriculture, livestock and environment
Diversification of exports (mainly cloves) to other products and encourage more investment on fish and fish products.	Ministry of Agriculture, livestock and environment

CHAPTER FIVE

CONCLUSIONS, RECOMMENDATIONS AND AREAS FOR FURTHER STUDIES

5.1 Introduction

This chapter provides conclusion and recommendations based on the field work and supported by the literature review.

5.2 Conclusion

It is the purpose of the research to examine the effect of global economic recession on the tourism industry using the case study of Zanzibar. The study observed that tourism industry has significant contribution for economic development of Zanzibar. Among the envisaged benefits are job creation, foreign exchange earnings, poverty reduction and government revenues and improvement of infrastructure such as road. Based on the analysis of the data and the main indicators of Zanzibar's tourism industry between 2007 and 2009, we can state that the existing GER has certainly had an impact on the tourism sector of the Zanzibar economy, although moderate. This moderate impact is basically reflected in the reduced tourist expenditures, job losses in the sector, and a reduced number of tourists.

There are job cuts in every aspect of the tourism industry and some tourism operators have closed down their businesses. In addition tourism revenue has dropped from Tanzania shillings 11,274,105,814 in 2007 to TZS 9,787, 560,243 in 2008. Another strategic area which has been impacted by global economic recession is reduction of poverty. Tourism is perceived as the second most important contributor after agriculture. Tourism in Zanzibar plays a crucial role in economic development and poverty reduction; mainly due to introduction and implementation of pro poor tourism in Zanzibar. The adverse effect of the global economic recession on the tourism has pullback the government effort toward poverty reduction. Thus the national goal of reducing poverty by 10% by 2010 will hardly be achieved based on the current trends.

Although economic recession has been mentioned as the main factor that affected the tourism industry in Zanzibar, the research confirms the following factors that have greater impact on Zanzibar's tourism industry than failure of the financial markets and the level of economic activity:

- The government is not putting enough efforts into promoting the tourism sector abroad resulting in a low inflow of tourists compared to neighbouring countries and underutilization of its resources, hence low foreign exchange earnings and revenue collection.
- The introductions of artificial attraction in most tourists generating countries have proved to be a threat to tourists' inflow to Zanzibar. The ongoing global economic crisis has lead potential long haul travellers to shift from natural tourism attractions to man-made attractions.
- Corruption remains a major problem for many government departments in Zanzibar. The money squandered could have been used to improve infrastructure networks within tourism sites and boost tourism.
- To a large extent poor infrastructure and utilities has contributed to the low number of international tourists. For instance the power blackout which last for three months and poor airport indicated as among the reasons for low number of international travellers to Zanzibar.

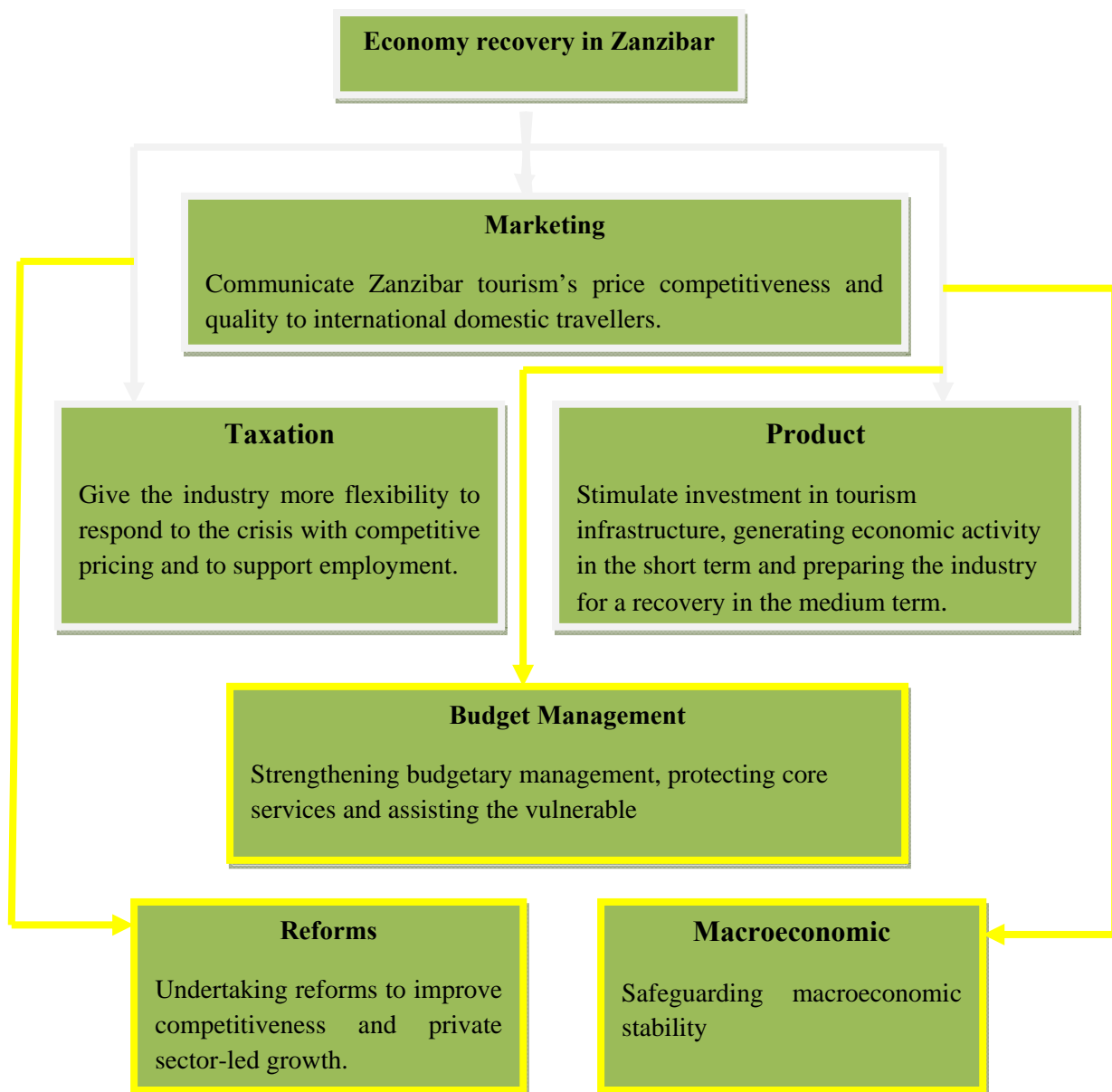
In this research we conclude that economic recession is not the only factor that has affected tourism industry in Zanzibar. Economic recession is just one of the factors. Domestic factors as we mentioned above need also to be considered to make the analysis more realistic.

5.3 Recommendations

The economic crisis has been observed particularly in the tourism industry, the Zanzibar economy as in other developing countries. Therefore to survive the recession, Zanzibar tourism should increase value of its product significantly and market it effectively. A joint public private partnership can help to enhance economic activity in Zanzibar and reduce the intensity and time-span of the recession. Tourism operators should continue to enhance their products value and competitiveness through price-discounting and special offers. However, the industry cannot protect its international market share and stimulate domestic tourism without assistance from government. This research proposes policy measures to encourage co-operative government/industry actions, focused specifically on the two main goals: reducing jobs cut and make tourism industry to recover. The proposed measures are in six categories as shown in the figure ten.

The proposed strategies consider the environment where financial resource is very scarce and can be easily implemented by the third world countries and Zanzibar included. In fact this is not a 'government bailout' but is rather a founded under the slogan of public private partnership approach. At the centre of this approach is improves linkages between tourism industry and government for maximising the tourism sector's continuous productivity and effectiveness. Thus when the world economy become normal, tourism will have a leading role in driving the recovery of the Zanzibar economy.

Figure 10: Policy Strategies for economy recovery



Source: Own compilation

5.3.1 Marketing

For realising the potential of an improved product value, the Zanzibar tourism industry must communicate its price-competitiveness domestically and internationally. In Zanzibar, tourism industry suffers from market failure and, as a result, public funding is needed to maximise its effectiveness. Moreover, while a weak exchange rate makes Zanzibar more attractive as a

tourism destination, it also reduces the budget for international market of putting Zanzibar at a disadvantage compared with its competitors overseas. Increasing promotion budgets will be an effective response to current market conditions. It will be used to promote the whole tourism packages, such as airline and hotel discounts. Tourism promotion campaigns should also be used aggressively to promote domestic tourism. Zanzibar's will only holiday at home if they are aware of the competitive tourism packages on offer. Co-operative marketing is required to preserve tourism's share of discretionary spending. Thus, government agencies, such as Zanzibar Commission for tourism, must work together with industry to ensure that effective promotional messages are communicated to consumers. Given the high labour intensity of tourism, investment in tourism marketing has a large multiplier effect, which means it stimulates the broader Zanzibar economy.

Delegates to conferences, exhibitions and conventions are perceived to attract quality visitors who spend more than the holiday tourists. This form of tourism is very important for both jobs creation and expenditure. Extra budget can support the agency's resources and enabling them to attract high number of delegate in the coming years. Conference tourism in Zanzibar is worst affected by the crisis. Meetings and conferences held by Government agencies play a major role in contributing to tourism businesses including airlines, travel agents, restaurants and hotels. Poor airport will negatively impact on tourism businesses. Therefore, governments should work hard on improving tourism infrastructure.

5.3.2 Product

Government investment in tourism infrastructure is vital for the current and future sustainability of tourism industry. In the current environment, such investment would have counter-cyclical and longer-term positive impacts, reducing jobs cut and provide more job opportunities, providing confidence for the future and maximising yield from tourism

industry during the recovery. The government should allocate funding for tourism infrastructure investment on both a local and major scale to create associated investment by the private sector.

5.3.3 Taxation

Payroll tax is a considerable disincentive to retain staff during difficult times and has a disproportionate impact on labour-intensive industries such as tourism. In an operation like a five-star hotel, payroll tax can constitute up to 5 per cent of total operating costs. While this value may appear small, such margins can be the difference between retaining or employing staff and reducing staffing levels. There will never be a better time to engage in discussions about payroll tax, when its reduction or removal would have a real impact on employment levels. Tourism competes not just on price but also on quality, and tourism accommodation quality depends on the regular refurbishment of furniture, fittings and equipment. The recession will leave some hotel rooms empty, presenting opportunities for refurbishment. Zanzibar's tax system depreciates hotel equipment for long time, over 7 to 10 years, but, to be competitive, rooms must be upgraded more often. Depreciating room equipment for over 3-4 years would trigger investment in hotel refurbishment and help give Zanzibar tourism a quality advantage over its competitors. This would have the added benefit of stimulating the construction sector and spreading the benefit far and wide.

5.3.4 Macroeconomic stability

Macroeconomic stability, in any country, is a crucial for economic development and growth. It underpins the investment plans and business confidence that are required for sustainable economic growth. Macroeconomic stability makes business communities and residents to plan and save for the future. Another importance of macroeconomic stability is helping governments to plan, finance and implement programs that bring core services. Though there

are many factors influencing macroeconomic stability in countries, but the common is fiscal policy. With the global recession Zanzibar governments is facing undesired and enormous budget deficits. In adjusting to the global recession, sound exchange rate and sound monetary policies are required to support fiscal policy. In short, fiscal policy is the fundamental macroeconomic policy instrument for the Zanzibar economy. Due to the pressure caused by fall in trade terms of loss of export markets, there is a need for Zanzibar government to control inflation and, protecting international reserves and in concert with flexibility in exchange rate policy. For Zanzibar to emerge health from the global recession it should maintain well-functioning financial system.

5.3.5 Strengthening budgetary management and protecting core services

Due to the significance of maintaining fiscal discipline in an environment where revenues are declining, Zanzibar government must protect and prioritize expenditure. For having good management of public expenditure, such as reprioritization of expenditure, Zanzibar government through Ministry of Finance and Economic Affairs, should provide better fiscal environment required for fiscal stability. The Zanzibar government should prioritize their expenditure so as to support the basic public services such as health, education, roads and other service. The prioritizing expenditure to support the public service is very fundamental for not only supporting economic recovery and meeting country development objectives but also for long-term growth. Through budget prioritization the government can be able to recognize lower priority areas and therefore savings can be forwarded to the areas of higher priority. Zanzibar government should put more attentions on the following areas:

- Strengthen the effectiveness of revenue collection including from fishing licenses.
- Increase transparency, efficiency and effectiveness of public expenditure.
- The government should improve its accountability within the budget process.

- The government should improve the management of limited financial resources within the budget process.
- For achieving better value for money result the government should implement its procurement Act, of 2001.
- The government should improve its audit department so as to provide better audit service. The sound audit department can help to improve the transparency, effectiveness, and accountability of national financial management systems. The department will also help to improve fiscal capacity.

5.3.6. Policy Reform

For Zanzibar to have substantial economic growth policies reforms is required to improve its competitiveness and services. These reforms should be addressed to all existing institutional and structural weaknesses. In other words, immediate reforms are required and such reforms are trade policies and financials reform.

5.4 Limitations of the Study

The study was done with limited financial resources. This hindered the researcher from seeking more information which could be obtained to enrich study findings. The researcher experienced difficulties during data collection as the Tanzania Governments is ranked as a high power distance cultural (Hofstede, 1980), hence the researcher followed protocol to get data. This to some extent prolonged the time for conducting this research. Availability of information was another limitation factor whereby some of the data such as the total tourism budget and the amount of aid given by donors to tourism were treated as confidential. Despite the above limitations, it is the researcher's belief that the information collected is relevant and answers most asked research questions.

5.5 Areas for Further Studies

The researcher could not manage to focus on all sectors of tourism activities in Zanzibar. This is due to the fact that the tourism sector is so broad whereby it comprises of different subsectors such as museums, hotel resorts, Game reserves, beaches and historical sites. The researcher believes that other studies could be conducted to involve the subsectors result.

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