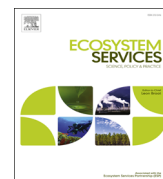




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Tourism in Zanzibar: Incentives for sustainable management of the coastal environment



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ABSTRACT

Tourism was identified in the late 1980s as a sector with major potential for driving economic development in Zanzibar and has since grown enormously from roughly 19,000 annual visitors in 1985 to well over 200,000 by 2007. Although tourism is now one of the most important sectors of the economy, contributing roughly 25% to GDP, the impact of tourism on poverty reduction and the environment has been decidedly mixed. The rapid expansion of tourist infrastructure on the coast, combined with a population growth rate of over 3%, has put great pressure on coastal areas. In some areas local villages have seen their access to the beach and sea greatly restricted with resulting loss of livelihoods, while relatively little of the economic benefit from tourism has gone to local communities. The coastal and marine environment is seriously degraded due to both human and natural causes. The paper explores the reasons for this, focusing on the role played by the distribution of benefits from tourism and the (dis)incentives this creates for sustainable management, especially among local communities that steward the marine ecosystem. It does this by estimating the incomes (wages, profits and taxes to local government) generated from five major categories of tourism found in Zanzibar, and quantifying the distribution of incomes among five different stakeholder groups. The resulting recommendations are relevant not only for Zanzibar, but for all developing countries that rely on international tourism.

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1. Introduction

Tourism is one of the fastest growing economic activities worldwide and nature-based tourism is a major component of the industry. Nature-based tourism can contribute to economic development and create strong incentives for sustainable management and conservation of ecosystems when it generates income and employment to the local economy; Costa Rica and Mauritius are often cited as successful examples. But maintaining tourism and the income it creates for future generations requires sustainable management of the natural capital underpinning tourism, and this will occur only when all key stakeholders have a strong stake in sustainable management.

Broadly speaking, there are two groups of key stakeholders (1) those directly involved in tourism like the private sector, line ministries, local communities and civil society organizations; but also (2) agencies responsible for macroeconomic management, like the Ministry of Finance and Planning or others which control the national budget and make decisions that may indirectly affect tourism such as infrastructure development, business regulation, and investment in education of the labor force. They need to understand what tourism

contributes to the economy, how to increase the benefits, and what can potentially be lost under mismanagement of natural capital.

Measuring the distribution of benefits is a critical for sustainable management of an ecosystem. Many studies have shown that incentives for sustainable management are strongest when benefits accrue to those who steward natural resources. In developing countries (both middle-income and low-income), much of the tourism business is controlled by foreign operators and much of the income from tourism may accrue to them rather than the domestic economy. And even when the domestic economy provides much of the labor, it may be the case that workers and business operators from large urban areas benefit, while local communities are left out.

At the macroeconomic level, policy-makers in many countries face a challenge of job-creation and poverty reduction; these goals are as important as the traditional macroeconomic goals of economic growth and stability. Furthermore, there are always competing uses for land areas, especially coastal areas where the majority of the world's population lives. Understanding the contribution of tourism to the domestic economy, employment, the balance of payments is necessary to determine how much to invest in tourism and supporting activities.

Zanzibar is a small, densely populated island archipelago off the coast of Tanzania with many endangered and rare species of

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corals, fish, seagrass, mangroves, and other flora and fauna. The average per capita GDP was only \$415 in 2007 and roughly 50% of the population falls below the poverty line (Office of the Chief Government Statistician, 2006, 2008). Its population of 1.1 million is highly dependent on the marine ecosystem, which accounts for 30% of GDP, 25% of which is from coastal tourism (Lange and Jiddawi, 2009). Poverty reduction and economic development will depend on sustainable management of its natural capital, especially the coastal ecosystem (Grootenhuys and Lopez, 2003; Revolutionary Government of Zanzibar, 2007; Ruitenbeek et al., 2005).

In the Zanzibari economy of 30 years ago, there was very little tourism; local communities had free access to the coastal ecosystem and received all the benefits, almost entirely from artisanal fishing.¹ International tourism² was identified in the late 1980s as a sector with major potential for driving economic development in Zanzibar. Since then it has grown enormously, from only 19,368 visitors in 1985, when the promotion of international tourism by the government began, to an estimated 219,047 in 2007. Its spectacular beaches and coral reefs, combined with a rich cultural heritage, make Zanzibar a unique tourist destination and it has been declared a World Heritage Site.

Although tourism is the most important sector of the economy, there has been very little economic analysis of its contribution to the national economy or impact on the lives of Zanzibaris. While the potential to contribute to economic development is great (e.g., 'pro-poor tourism' (Ashely and Mitchell, 2007)), foreign tourism has also been a powerful force for environmental degradation, social change and disruption (Gossling, 2003). The impact of tourism on poverty reduction and the environment has been decidedly mixed. The rapid expansion of tourist infrastructure on the coast, combined with a population growth rate of over 3%, has put great pressure on coastal areas. In some areas local villages have seen their access to the beach and sea greatly restricted with resulting loss of livelihoods, while relatively little of the economic benefit from tourism has gone to local communities. The coastal and marine environment is seriously degraded due to both human and natural causes: uncontrolled tourism development, rapid population growth, overfishing and destructive fishing practices, overharvesting of mangroves, dumping of untreated wastewater from urban areas and periodic coral bleaching.

Economic analysis provides a powerful tool for decision-making about the role of tourism in Zanzibar's future development. This paper assesses the extent to which Zanzibaris benefit from tourism, the (dis)incentives created for sustainable management of the coast under current management, and identifies ways to increase participation and benefits for local communities.

Tourism is not a single, homogeneous activity—it has many different segments with different economic, environmental and social impacts on each set of stakeholders in Zanzibar. This paper disaggregates tourism into five different market segments and five different stakeholder groups. The economic analysis then estimates (1) the incomes from coastal tourism contributed to the macroeconomy (wages, profits and taxes to local government); (2) the distribution of economic benefits from each tourism segment among different stakeholder groups; and (3) the impact of tourism development on the access of local communities to the coastal ecosystem for livelihoods.

The paper is organized as follows: the next section describes the overall methodology and data sources used. Section 3 describes the economic value of coastal tourism,

and the distribution of benefits among five different stakeholder groups in Zanzibar and outside Zanzibar. Section 4 discusses the access of local communities to the coastal and marine ecosystem and how this is impacting on livelihoods. The final section integrates the valuation of tourism ecosystem services with the national income accounts, and discusses the policy implications for marine conservation and sustainable development, as well as priorities for further work. While the data available for this study date from 2007, the analysis and recommendations are still relevant to Zanzibar, and to all developing countries that rely on international tourism.

2. Measuring and valuing international tourism in Zanzibar

2.1. Definitions and methodology

This paper estimates the economic contribution from international tourism to the Zanzibari economy. The economic contribution is defined in terms of contribution to national income, which is based on market transactions and (largely) observed prices, rather than a measure economic welfare. Contribution to national income is useful to measure income and employment, revenue received by government and the balance of payments.

Income in the national accounting sense is called 'value-added,' and is calculated as gross revenue (the value of output) minus the cost of intermediate inputs (goods and services) used for production. Value-added can be disaggregated into two main components:³

- Compensation of employees—wages and salaries plus benefits and in-kind payments.
- Gross operating surplus or Mixed income—a residual income that remains after paying for all other production costs. This component of income is a mix of several things: the earnings of the self-employed who are not paid an explicit wage; the 'surplus' to cover the cost of capital and depreciation; and resource rent that may occur when natural resources are the basis for economic activity.

Value-added accrues mainly to the private sector as employees and owners of businesses. The government of Zanzibar, like all governments, also benefits from economic activities, as the recipient of taxes and fees that are paid out of value-added. Relatively little information is available about all taxes and fees in Zanzibar. Such revenues are only included in this analysis if they are either reported or can be reliably estimated. Reliable sources of estimation include (a) visa and airport departure fees paid directly by tourists in Zanzibar, and certain taxes and fees paid by businesses which include tourism-related levies (hotel bed night levy, restaurant levy and tour operator levy) and part of the VAT, income and other taxes and levies. This represents a lower bound estimate of taxes and fees paid to the Zanzibar government. There is no estimate of additional taxes and fees that may be paid to the mainland government.

2.1.1. Key stakeholder groups

In an economy, different agents receive income by providing labor or capital to production. Given the importance of income distribution for development, poverty reduction and sustainable management of coastal ecosystems, the agents are differentiated into five groups: Beneficiaries in local communities where coastal tourism occurs:

¹ Fisheries operated as an open access resource with no management. This was sustainable at that time because the population and fishing capacity was low relative to the resource.

² There is a very small domestic tourism sector; international tourism dominates and is the only sector discussed here.

³ A certain category of taxes, taxes on production, is also part of value-added, but is not significant in most of Zanzibar's marine-based economic activities.

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