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ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES

THE ROLE OF TOURISM IN ECONOMIC GROWTH, THE CASE OF
ETHIOPIA

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ADDIS ABABA

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ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES

THE ROLE OF TOURISM IN ECONOMIC GROWTH, THE CASE OF
ETHIOPIA

A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY FOR PARTIAL
FULFILLMENT OF MASTERS OF ART DEGREE IN DEVELOPMENT
ECONOMICS

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As a member of a Board of Examiners of the master's Thesis open defense examination, we testify that we have read and evaluated the thesis prepared by Sebile Sebsibe and examined the candidate. We recommend that this thesis be accepted as fulfilling the thesis requirements for the degree of Masters of art in Developmental Economics.

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Declaration

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The inception, design, research, and writing of this thesis paper was done by the author of this paper Sebile Sebsibe Abebe under a close supervision of Milkesa Wakjira (PhD). Hence, the author claimed the full ownership of this research paper and therefore takes full responsibility for the finding, analysis, and recommendations made in the paper.

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Endorsement

This thesis has been submitted to St. Mary's University, School of Graduate Studies for examination with my approval as a university advisor.

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June, 2017

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TABLE OF CONTENTS

<u>Acknowledgment</u>	iii
Table of contents.....	iv
<u>List of Tables</u>	v
<u>List of Figures</u>	vi
<u>List of Acronyms</u>	vii
<u>Abstract</u>	vii
<u>1: INTRODUCTION</u>	1
<u>1.1 Background of the Study</u>	1
<u>1.2 Statement of the Problem</u>	3
<u>1.3 Objective of the Study</u>	4
<u>1.3.1 General Objective</u>	4
<u>1.3.2 Specific Objectives</u>	4
<u>1.4 Significance of the Study</u>	5
<u>1.5 Scope, and Limitation of the Study</u>	5
<u>1.6 Organization of the Thesis</u>	6
<u>2: LITERATURE REVIEW</u>	7
<u>2.1 Theoretical literature</u>	7
<u>2.1.1 What is tourism?</u>	7
<u>2.1.2 Types and Forms of Tourism</u>	7
<u>2.1.2.1 Inbound tourism</u>	7
<u>2.1.2.2 Out bound Tourism</u>	8
<u>2.1.2.3. Ecotourism</u>	8
<u>2.1.2.4 Cultural tourism</u>	8
<u>2.1.3 Economic Contribution of Tourism</u>	9
<u>2.1.4 Tourism and Poverty Alleviation</u>	12
<u>2.2 Empirical Literature</u>	14
<u>2.3 General Overview of Tourism Sector in Ethiopia</u>	18

<u>2.3.1 History of Tourism Sector in Ethiopia</u>	18
<u>2.3.2 Trends in International Tourist Arrivals</u>	19
<u>2.3.3 Trends in Tourism Receipts</u>	22
<u>2.4 Distribution of Tourist Standard Hotel Accommodations and Transport Facilities</u>	23
<u>2.5 Tourism for Comparison with Competing Countries</u>	25
<u>3: RESEARCH METHODOLOGY</u>	30
<u>3.1 Research Design</u>	30
<u>3.2 Sources of Data</u>	30
<u>3.3 Data Analysis Method</u>	30
<u>3.4 Validity and Reliability of Data Gathering</u>	30
<u>3.5 Ethical consideration</u>	30
<u>4: DISCUSSION & DATA ANALYSIS</u>	31
<u>4.1 Tourism in Ethiopia</u>	31
<u>4.2 Trend and Compositions of Tourism from</u>	31
<u>4.2.1 Tourist Arrivals and Receipt</u>	31
<u>4.2.1.1 Tourist Arrivals</u>	31
<u>4.2.1.2 Tourist Receipts</u>	33
<u>4.2.2 Composition of Tourist</u>	34
<u>4.2.2.1 Sex, Age group, and Nationality</u>	34
<u>4.2.2.2 Purpose of Visit</u>	35
<u>4.2.2.3 Motivation for Travel and Source of Information</u>	36
<u>4.2.3 Accommodation Capacity</u>	37
<u>4.2.4 Employment in the Tourism industry</u>	38
<u>4.3 Challenges of the Tourism Industry</u>	39
<u>5: CONCLUSION AND RECOMMENDATION</u>	40
<u>5.1. Conclusion</u>	40
<u>5.2 Recommendation</u>	40
<u>Reference</u>	42

List of Tables

Table.2.1: The distribution of tourist class hotels by region.....	32
Table.4.1: Tourism arrivals and Receipts from 1963 to 2012.....	41
Table.4.2: Percentage Share of Tourism sector in FE Export.....	43
Table.4.3: Percentage Share of Tourism sector in FE Export.....	44
Table 4.4: Room capacity/all accommodation establishment.....	47

List of Figures

Figure.2.1 Number of tourist arrivals from 1963-2005 -----	29
Figure.2.2 Tourist arrivals by purpose of visit from1991-2008 -----	30
Figure.2.3 Tourism receipts from 1997-2008 -----	31
Figure.2.4 Tourism contribution to GDP 2011 -----	36
Figure.2.5 Tourism's Total Contribution to Employment in 2011 -----	37
Figure.4.1Tourism contribution to GDP (2006-2008 -----	42
Figure.4.2 Source of visitor’s tourism market to Ethiopia -----	44
Figure.4.3Motivation for Travel to Ethiopia -----	45
Figure.4.4 Source of information for Travel -----	46

List of Acronyms

LDC	Least Developed Country
ITAs	International Tourist Arrivals
ITRs	International Tourism Receipts
TIM	Tourism Income Multiplier
MSMEs	Medium Sized Enterprises
GDP	Gross Domestic Product
TLG	Tourism Led-Growth
UNESCO	United Nations Educational, Scientific and Cultural Organization
KTB	Kenya Tourist Board
FDI	Foreign Direct Investment
RSDP	Road Sector Development Program
ETC	Ethiopian Tele Communication
MoCT/MCT	Ministry of Culture and Tourism, Ethiopia
WB	World Bank
WDI	World Development Indicator
WTO	World Trade Organization
NBE	National Bank of Ethiopia

Abstract

Recently, tourism has gained significant strides as a poverty reduction strategy for low income nations, including Ethiopia. However, despite its huge potential the travel and tourism market has yet to develop to a point where it can make a significant contribution to Ethiopia's economic growth. Therefore, the objective of this study is to examine the trend and contribution of tourism sector to the Ethiopian economic growth. In order to assess the challenges the sector faces and assists policy makers and planners to understand the same to design appropriate policies. The study has employed descriptive research design, and used secondary data that were collected from the Ministry of Culture and Tourism, National bank of Ethiopia, Ministry of trade, and other sources records and Data.

The finding or results shows tourist prefer Ethiopia for enjoyment trip, and also the economic activities performed by the Ethiopian government to attract foreign direct investment (FDI) is encouraging visitors for business visits. On the other hand, even though Ethiopia is rich in historic, cultural and landscape it is one of the least visited country in the world, and the contribution of the sector to the GDP is very insignificant compared to other sectors in the economy. Also the employment rate in this sector is very low.

The main challenge the tourism sector is facing until now among many things are shortage of promotion, lack of infrastructure, and quality of accommodation, which is almost the same as other finding on previous studies carried out. As per the result the researcher has recommended policy measures likes having continues public investment in improving infrastructure, investment in physical and human capital, and also suggested ways in improving the promotional activity.

CHAPTER 1: INTRODUCTION

1.1 Background of the Study

As an internationally traded service, international tourism has become one of the world's major trade categories. The overall export income generated by international tourism, including passenger transport, exceeded US\$ 1 trillion in 2010, or close to US\$ 3 billion a day. Tourism exports account for as much as 30% of the world's exports of commercial services and 6% of overall exports of goods and services. Globally, as an export category, tourism ranks fourth after fuels, chemicals and automotive products. (UNWTO, 2011).

Worldwide, international tourism rebounded strongly, with international tourist arrivals up 6.6% over 2009, to 940million in 2010 (WTO,2010).The increase more than offset the decline caused by the economic downturn, with an additional 23 million arrivals over the former peak year of 2008.(WTO,2010).According to the April 2011 Interim Update of the UNWTO World Tourism Barometer, International tourist arrivals grew by close to 5% during the first two months of 2011, consolidating the rebound registered in 2010.

In spite of occasional shocks, international tourist arrivals have shown virtually uninterrupted growth: from 25 million in 1950, to 277 million in 1980, to 435 million in 1990, to 675 million in2000, and the current 940million. As growth has been particularly fast in the world's emerging regions, the share in international tourist arrivals received by emerging and developing economies has steadily risen, from 31% in 1990 to 47% in 2010. (UNWTO, 2011).

Tourism industry is one of the economic activities which have higher capacity to generate employment and attracting investments and foreign capital. It has also the capacity to generate direct and indirect effects in the local economy.

Despite its positive endowments and the good growth in tourism over the past decade, it remains true that Africa's tourism potential is underexploited and underdeveloped. For example, Africa attracted fewer than 4% of total international tourists and received less than 2% of international tourist expenditure in 2002 (WTO, 2002). In sub-Saharan Africa, only South Africa is among the top40 global tourist destinations and only 13 of the 135 leading hotels of the world are situated in Africa. (WTO, 2010).

Ethiopia was one of the first African countries to establish a tourist industry. In the 1960's, tourist arrivals grew at the rate of 12 percent a year. When the Emperor Haile Selassie was toppled and replaced by military regime, Ethiopia's tourist sector was on a par with Kenya's. Ethiopia then had actually more to offer than Kenya; both had spectacular scenery and abundant wildlife but Ethiopia also had historic sites and an identity defined by its own history, culture and peoples, rather than by colonialism.(Yabiebal, 2010).

We need to note that the tourism industry is an activity that continuously changes and is sensitive to what is happening in the local and international environment. Tourism declined greatly during the latter 1970's and the 1980's under the Coordinating Committee of the Armed Forces, Police, and Territorial Army (Derg).This was because restrictions on entry and free movement of tourists during the military government. During this period, apart from periodic upgrades of the infrastructure, there has been little investment and successive governments have largely overlooked the sector. Recovery began in the 1990's, but growth has been constrained by the lack of suitable hotels and other infrastructure. The current government, Ethiopian People's Revolutionary Democratic Front (EPRDF), had inherited the power to attract about 81,581 tourists in 1991 that was only 8000 more than the 1973 record. This flow increased steadily to 139,000 in1997, mainly due to the political stability and the market liberalization that attracted a large number of businesses, conference and vacation tourists. Unfortunately, the country had war with Eritrea in 1998. The war led to the decline in the number of tourists by 27,000, reducing the number of tourists to 112,000 in that year and increased to 115,000 by the year 1999.

During the Ethio- Eritrean war, business travelers to Ethiopia considerably decreased in number and that was replaced by vacation tourists, whose steady increase was only temporarily halted during the war and showed significant increase after the war by threefold in the period under consideration. In general, business tourism increased slowly to double in 2005 compared to 1991. Conference tourism has been the least contributor to tourism with sluggish growth and falling share from the total tourist arrivals. (Yabibal, 2010).

Ethiopia's tourism potential is diversified and that could help the country to benefit more from the tourist sector. For example, natural attractions that include some of the highest and lowest places in Africa along with immense wild life including some endemic ones; a very old and well preserved historical traditions with fascinating steal, churches and castles are all a significant

tourist attraction places. In addition, an attractive cultural diversity of about 80 nations and nationalities; and various ceremonies and rituals of the Ethiopian Orthodox Church, which opens a window on the authentic world of the Old Testament are also very important in the tourism industry and significantly contribute to the revenue obtained from the sector.

On the other hand, it is one of the poorly performing countries in terms of tourist arrivals and consequently poor revenue from the sector. It is among the lowest tourism beneficiaries in the continent sharing only 0.58 %, 180,000 arrivals in 2003 (Tourism statistical bulletin, 2006). Ethiopia out performed only three countries in the continent in 2002 (Ministry of Culture and Tourism, 2003). For example, the total number of tourist arrivals in Ethiopia in 2006 was 290,000, which was five times smaller than the number in neighboring Kenya that had 1,644,000 tourists in the same year (WDI, 2010). Even then, it was a major source of foreign exchange earnings in the country claiming an average of 23.34% of the total export earnings from 1995 to 2007 (WDI, 2010).

In recent years, tourism business development has been the focus of study and research. In the analysis of tourism, economists emphasize the economic effects of tourism on the economy. The speedy growth of tourism causes an increase of household income and government revenues through multiplier effects, improvement in the balance of payment, and growth of tourism industry. Hence, the development of tourism has usually been considered a positive contribution to economic growth (Khan et.al., 1995; Lee and Kwon, 1995; Lim, 1997)

Though it is believed that the growth of tourism contributes to the growth of household incomes and government revenues, available empirical evidences on the link between tourism industry and economic growth has not yet been clear. Therefore, it is necessary to examine whether tourism growth actually caused the economic increase or, alternatively, did economic expansion strongly contribute to tourism growth instead.

1.2 Statement of the Problem

Economic growth is the most powerful instrument for reducing poverty and improving the quality of life in developing countries. Economic growth occurs whenever people take resources and rearrange them in ways that are more valuable (Romer, 1994). Like other sectors of the

economy, tourism brings in foreign exchange which can be used to import capital goods in order to produce goods and services, leading in turn to economic growth (McKinnon, 1964).

Ethiopia's travel and tourism market has enormous potential. The country not only offers the usual African game and cultural experiences to visitors, but also a rich array of historical and ecological sites that set it apart from most of its neighbors. However, despite its huge potential, the travel and tourism market has yet to develop to a point where it can make a significant contribution to Ethiopia's economic growth. While tourist numbers are rising, growth in arrivals and tourism expenditure are by no means commensurate with the potential of the country's attractions. By recognizing the role of the tourism sector in the country's economy, the government of Ethiopia has given due attention to the sector.

However, there arises a question of whether tourism growth actually caused the economic increase or, alternatively, did economic expansion strongly contribute to tourism growth instead. If the latter is the case, then it means the country should not worry much about the tourism sector, as the economic growth itself will take care of the development of the tourism sector. Otherwise, it is necessary to work and remove all the barriers or constraints for the development of the tourism sector if the link is from tourism to economic growth. Hence, it would be possible to argue that economic policies should be directed to improving the tourism industry for the economy to grow rapidly.

Therefore, this kind of information will help policy makers and planners to understand the relationship between tourism industry and economic growth and design appropriate policies. These study tries to examine the flow of tourism trend in Ethiopia and understanding the contribution of the sector to Ethiopian economy.

1.3 Objective of the Study

1.3.1 General Objective

The main objective of the study is to examine the trend and contribution of tourism sector to the Ethiopian economic growth.

1.3.2 Specific Objectives

1. Analyzing the patterns and trends of growth of tourism sector

2. Assessing the contribution of tourism sector to the GDP of Ethiopia.
3. To identify the bottlenecks of the growth of the tourism sector

1.4 Significance of the Study

Development of tourism sector would lead to economic growth and development through different directions. The urgent need for poverty assistance in Ethiopia and the substantial potential economic contribution of tourism in Ethiopian economy justify the interest in explaining the sector link with economic growth. Therefore, the research has its own importance as it gives ideas for further investigation on the brunt of tourism sector on Ethiopian economic growth.

The study as well is useful as it analyses the macro impact of the tourism sector in Ethiopian context and helpful in suggesting alternative polices that could improve the sector.

1.5 Scope, and Limitation of the Study

The study of this paper is limited on the assessment of tourism contribution to the growth of Ethiopian economy since 1995 up to the present time. The study also tries to see the trends in the flow of tourists and its prospect to the economy in macro level in making the life of the people sustainable. In addition it examines the problem tourism sector faces.

The study was originally planned to be conducted using econometric models, and show the relationship of economic growth and tourism sector has in Ethiopia, however due to lack of data and inconstancy, input was not found for the defined variables and time period. Therefore, the research methodology was changed in to descriptive analysis.

In addition, lack of time and limiting access to data were the constraints. Absence and in consistency of data figures in different source has created a limitation to relay on small sample. The data after 2013 also could not be accessed or found.

Due high inconsistency of data from different organization the researcher has preferred to use data from Ethiopian Ministry of Culture and tourism (MOCT) statistical office. The data that could be found in the MOCT is until 2012, as per the studies carried out by the Ministry.

1.6 Organization of the Thesis

The remaining sections of this thesis are organized as follows: Chapter Two deals with the review of some selected literatures. Chapter Three provides the Methodology used in this study. Chapter Four, deals with the brief presentation on the existence, and contribution of the tourism sector, as well as other findings on tourism. Finally, chapter Five summarizes the study and shows concluding remarks and draws policy implications.

CHAPTER 2: LITERATURE REVIEW

This section is organized in two major sub sections: theoretical literature and empirical findings. The theoretical literature sub section explores the theories, concepts and definitions related to the Tourism sector. The empirical finding sub section examines recent empirical findings on the tourism sector.

2.1 Theoretical literature

2.1.1 What is tourism?

Tourism is the act of travel for the purpose of recreation and business, and the provision of services for this act. Tourists are persons who are "travelling to and staying in places outside their usual environment for not more than one consecutive year for leisure, business and other purposes not related to the exercise of an activity remunerated from within the place visited"(UNWTO,2011).

2.1.2 Types and Forms of Tourism

Countries tourism resources can be broadly classified into natural tourism resources such as fauna, land escape and lakes and non-natural tourisms resources such as historical places, cultural heritages, and museums. There exist more than twenty tourism types having a great advantage to economic growth. Some of the common types are listed as follows:

2.1.2.1 Inbound tourism

Inbound tourism has gained popularity and so has the number of inbound tourists who may be of different types (Chaudhary, 2009):

- In bound international tourist: a tourist who spend the nights in a place outside his/her country of residence.
- In bound domestic tourist: a tourist who spend the nights in a place inside his/her country of residence but outside his/her usual environment.
- Same day visitor: a visitor who does not spend the night in collective or private accommodation in the place or country visited.
- Inbound international same day visitor: a same day visitor who does not spend the night in the place visited, which is outside his /her country of residence.

- In bound domestic same day visitor: a visitor who does not spend the night in the place visited, which is inside his/her country of residence but outside his/her environment.

2.1.2.2 Out bound Tourism

Out bound tourism consumption comprises the consumption of resident visitors outside the economic territory of the country of reference and provided by non-residents. It does not include goods and services acquired for or after the trip within the country of reference (Chaudhary, 2009).

2.1.2.3. Ecotourism

This is *responsible travel to natural areas that conserves the environment and improves the well-being of local people* (TIES, 1990). According to Clare Gunn and TurgutVar (2002), ecotourism is about *uniting conservation, communities, and sustainable travel*. This means that those who implement and participate in ecotourism activities should follow certain ecotourism principles. Some of these principles include things like building environmental and cultural awareness and respect, providing financial benefits and empowerment for local people, promoting moral and ethical responsibilities and behavior by all players, etc.

2.1.2.4 Cultural tourism

Cultural tourism (or culture tourism) is the subset of tourism concerned with a country or region's culture, especially its arts. It generally focuses on traditional communities who have diverse customs, generally unique form of art and distinct social practices, which basically distinguishes it from other types/forms of culture. Cultural tourism includes tourism in urban areas, particularly historic or large cities and their cultural facilities such as museums and theatres. It can also include tourism in rural areas showcasing the traditions of indigenous cultural communities (i.e. festivals, rituals), and their values and life style. It is generally agreed that cultural tourists spend substantially more than standard tourists do. This form of tourism is also becoming generally more popular throughout Europe (Chaudhary, 2009).

Cultural tourism gives visitors the opportunity to understand and appreciate the essential character of a place and its culture as a whole. This includes history and archaeology, people and their lifestyle (including the ways in which they earn a living and enjoy their leisure), cultural

diversity, arts and architecture, food, wine and other local produce, social, economic and political structures, and landscape of the area.

It gives access to information, experience and activities which can help the visitor feel involved with a place, its people and their heritage. Creating a relationship between the visitor and the host community is an important feature of cultural tourism. Concepts of sustainability, authenticity, integrity and education are as central to cultural tourism as they are to ecotourism.

Not all cultural products will be tourist attractions. The ability to attract visitors depends on the extent to which they meet, or are able to meet certain criteria. According to Chaudhary (2009), the following are the criteria necessary for tourist attractions in a given place or region: Perceived quality of the product, awareness of being a tourist attraction, market awareness of the product, customer service attitude - provides level of facilities and services that meets the needs of its visitors, sustainability, extent to which the product is perceived as unique or special, extent to which the product is perceived to provide a pleasurable experience and an enjoyable way for customers to spend their leisure time, development and presentation to realize this potential, community support and involvement, management commitment and capability

2.1.3 Economic Contribution of Tourism

Tourism's contribution to economic growth has been well documented in the literature for many developing countries, which were traditionally dependent upon primary products in export earnings; tourism has become a major source of foreign exchange earnings. This has been vital for such countries given their prevailing economic conditions.

Least developed country (LDC) or developing country ; - is the name given to a country which, according to the United Nations, exhibits the lowest indicators of socioeconomic development, with the lowest Human Development Index ratings of all countries in the world. The concept of LDCs originated in the late 1960s A country is classified as a Least Developed Country if it meets three criteria. (www.wikipedia.org)

- low-income (three-year average GNI per capita of less than US \$905, which must exceed \$1,086 to leave the list)
- human resource weakness (based on indicators of nutrition, health, education and adult literacy) and

- economic vulnerability (based on instability of agricultural production, instability of exports of goods and services, economic importance of non-traditional activities, merchandise export concentration, handicap of economic smallness, and the percentage of population displaced by natural disasters).

Many developing countries have experienced severe deficits, particularly in the current account of the balance of payments during past few decades. Furthermore, they have experienced an increasing burden of foreign debt. A relatively high percentage of GDP and of the budget is allocated for foreign loan settlement. With ongoing civil unrests in some of these countries, the situation results in high defense budgets. In view of this volatile economic background, foreign exchange earnings from tourism have been important contributions to economic development.

However, whether tourism actually contributes to the economic development depends, to a large extent, on how efficient these countries are in allocating earnings from tourism. Balaguer and Cantavella-Jorda (2002) argued that, in a more traditional sense, foreign exchange brought by international tourism could well be used to import capital goods in order to produce other goods and services, leading in turn to economic growth. This means that international tourists to a particular destination might contribute significantly to finance the country's imports. Further, they argued that, "if those imports are capital goods or basic inputs for producing goods in any area of the economy, then, it can be said that earnings from tourism are playing a fundamental role in economic development".

Currently, tourism sector is frequently justified on the bases of its potential contributions to economic growth and development. It is widely assumed that tourism can help to eliminate the widening economic gap between developed and less developed countries and ensure the steady acceleration of economic and social development in particular in developing countries (WTO, 1980 cited in Sharply and Telfer, 2006). Available evidence suggests that many developing countries are able to raise a significant proportion of government revenue from international tourism. For instance, the World Trade Organization (1998) claimed that these countries (most of them are highly specialized tropical, tourist countries) raise 10 to 25 percent of government revenue from the tourism sector. In some cases, more than 50 per cent of government revenue has been generated by the tourism sector.

Statistics show that tourism in LDCs is still limited: 2.6% of the world market share in terms of international tourist arrivals (ITAs) and of international tourism receipts (ITRs). However, the growth in ITAs has been faster in LDCs than in the developing countries as a whole: 42.5% in the former and 30.8% in the latter between 2001 and 2005 (15.8% for the world). Also in terms of ITRs: 50.3% growth in LDCs and 40.6% in the developing world between 2001 and 2004 (33.2% for the world).

According to WTO (2010), there are several reasons that make tourism an especially suitable economic growth sector for LDCs. First, tourism is consumed at the point of production; the tourist has to go to the destination and spend his/her money there, opening an opportunity for local businesses of all sorts, and allowing local communities to benefit through the informal economy by selling goods and services directly to visitors.

Moreover, most LDCs have a comparative advantage in tourism over developed countries in that they have assets of enormous value to the tourism industry - culture, art, music, natural landscapes, wildlife and climate, including World Heritage Sites. Visits by tourists to such sites can generate employment and income for communities as well as helping in the conservation of cultural and natural assets. Second, tourism is a more diverse industry than many others. It has the potential to support other economic activities, both through providing flexible, part time jobs that can complement other livelihood options, and through creating income throughout a complex supply chain of goods and services.

Tourism is labor intensive, which is particularly important in tackling poverty. It also provides a wide range of different employment opportunities especially for women and young people - from the highly skilled to the unskilled – and generally it require relatively little training. It creates opportunities for many small and micro entrepreneurs, either in the formal or informal economy since the start-up costs and entry barriers are generally low or can easily be lowered.

Tourism provides not only material benefits for the poor but also cultural pride. It creates greater awareness of the natural environment and its economic value, a sense of ownership and reduced vulnerability through diversification of income sources. Third, tourism has a spillover effect on countries economic growth and development. The importance of tourism to a country's economy can be measured by looking at the proportion of national income created by tourism commonly

known as tourism income multiplier (TIM). In an economy with a low proportion of leakages, such as low tax rates or low import levels, TIM will be high and tourism may in total contribute a great deal more income than that originally spent by tourists themselves (Holloway, 1989).

2.1.4 Tourism and Poverty Alleviation

By analyzing a wide number of case studies in different developing countries, WTO (2004) has identified seven different ways of addressing poverty through tourism. These can be applied in almost every country, provided a number of issues are suitably addressed.

The first way is simply through the employment of the poor in tourism enterprises. This can occur in small as well as large enterprises and in rural and urban areas. Policies that encourage the employment of local people are more likely to open up opportunities for the poor. The advantage of addressing poverty through existing tourism enterprises is that it enables the poor to benefit from the entrepreneurial skills and market access of others, and can potentially reach quite large numbers of people.

The Second is through the supply of goods and services to tourism enterprises by the poor. This can happen at various points in the tourism supply chain, including the choice of products featured by tour operators as well as goods and services provided to hotels, such as food, handicrafts, building services at the construction stage, and so on. The advantage in the supply-chain approach is that this can make use of existing skills in poor communities.

Third, through direct sales of goods and services to visitors by the poor. This is about the informal economy, and includes stalls selling food and handicrafts, pottering, some forms of transport, and informal accommodation. The informal sector is hugely important in many developing countries and this can be one of the most direct ways of getting visitor spending into the hands of the poor. However, it is characterized by chaotic trading conditions and over-supply.

Fourth, there is the process of supporting the establishment of tourism enterprises by the poor. These may be micro, small and medium sized enterprises (MSMEs) or community based enterprises. Compared with working in the informal economy, this is about helping poor communities develop something for the longer term, and about placing power and control in

their hands. Some of the challenges are access to capital, acquisition of skills, property rights and legal recognition, etc.

Fifth, is through a tax or levy on tourism income or profits with proceeds benefiting poverty reduction programs. This has the advantage of enabling resources to be channeled to the most needy people and communities without requiring their involvement in tourism activity either directly or indirectly. The approach can be at a national level, or at a local level. There are a number of examples showing how this can work quite well at a local level – such as negotiating concessions with tourism enterprises involving a proportion of income per bednight being given to the local community.

However, approaches involving taxes and charges have to be treated with caution in order not to deter investment and income flows in the long term. The sixth way has some similarities with the previous one but here we are talking about voluntary giving by tourism enterprises and tourists. This may include payments into general charities and programs, such as HIV/AIDS programs, by tourists and tour operators, or more specific support for projects in destinations visited. Many tourism enterprises are engaged in supporting social programs in their neighboring communities. Funds from tourists may be collected in the country of origin or in the destination, through voluntary supplements or invitations to donate.

Although these approaches can generate worthwhile resources that can be directed to needy causes, it is important to be sensitive in promoting this type of activity and to avoid token gestures. Finally, poor communities can benefit from investment in infrastructure stimulated by tourism. This is about the provision of roads, energy supplies, sanitation, clean water and telecommunications, on the back of tourism investment. Careful planning in such situations is clearly very important and local communities should be involved from an early stage.

2.2 Empirical Literature

Tourism is considered as an important and integral part of their economic growth and development strategies as it serves as a source of scarce financial resources, job creation, foreign exchange earnings, and technical assistance (Sinclair, 1998; Dieke, 2004). The available studies on this area are reviewed below.

Using Spain's economic data, Balaguer and Cantavella-Jorda (2002) examine the role of tourism's in long-run economic development. The hypothesis of tourism-led economic growth was confirmed by applying co-integration and causality tests. The results indicate that, at least, during the last three decades economic growth in Spain has been sensible to persistent expansion of international tourism. The increase of this activity has produced multiplier effects over time. External competitiveness has also been proved in the model to be fundamental variable for Spanish economic growth in the long run. Finally, they concluded that earnings from international tourism affect positively the Spanish economic growth.

Kreishan (2010) conduct a research on the causality relations between tourism earnings and economic growth (GDP) for Jordan, using annual data covering the period 1970-2009. The Granger causality test is used to investigate the direction of causality between tourism and economic growth. The findings of the study showed that there is a positive relationship between tourism development and economic development in the long-run. Moreover, the Granger causality test results revealed the presence of unidirectional causality from tourism earnings to economic growth. The study appears to support tourism led-growth (TLG) hypothesis for Jordan, which suggest that government should focus on economic policies to promote international tourism as potential source of economic growth in Jordan. Durbarry's (2002) study on Mauritius also supports the hypothesis of tourism-led economic growth. Other similar works by Tosun (1999), Guduz and Hatemi (2005) and Zortuk (2009) have also found empirical support for the tourism-led growth hypothesis in Turkey.

Eugenio-Martín et al. (2004) investigate the relationship between tourism and economic growth for Latin American countries (Costarica, Panama, Mexico, El Salvador, Chile and Honduras) from 1985 through 1998. They employed a panel data approach and the Arellano-Bond estimator

for dynamic panels. The countries are decomposed into three different groups according to GDP per capita. They obtain estimates of the relationship between economic growth and growth in tourists per capita conditional on main macroeconomic variables. The empirical results show that tourism development can contribute to the economic growth of medium or low-income countries, while such a role is unclear for developed countries. Based on their findings, they argue that low-income countries need adequate levels of infrastructures, education and development to attract tourists. On the other hand, Medium-income countries need high levels of social development like health services and high GDP per capita levels. Similarly, Skerritt and Huybers (2005) investigate the effect of International Tourism on GDP per capita of 37 developing countries. The results indicate that tourism positively affect economic development in these countries.

Similarly, employing the convergence approach based on Barro and Sala-i-Martin (1992) type analysis, Proenca and Soukiazis (2005) examine the impact of tourism on the per capita income growth of Portuguese regions and draw the conclusion that tourism can be considered as an alternative solution for enhancing regional growth in Portugal, if the supply characteristics of this sector are improved. While Cunado and Garcia (2006) also find some evidence of conditional convergence toward the African regional average (for Benin, Cameroon, Cape Verde, Djibouti, Egypt, Ghana, Kenya, Mali, Uganda, and Zimbabwe) and the U.S. (for Cape Verde, Egypt, Mauritius, Seychelles, and Tunisia), the coverage given to the contribution of tourism has been scant.

Brau et al. (2007) set out to empirically investigate the observations made by Lanza and Pigliaru (2000). They employ panel dataset of 143 countries, 14 of which are classified as 'small tourism countries' (17 countries are classified as 'tourism countries'; 14 of them are also classified as small). They try to evaluate the relative growth performance of these 14 countries by regressing economic growth on a set of dummy variables identifying groups of countries (OECD, Oil producers, LDCs, Small) and different control variables. The results indicate that tourism countries grow significantly faster than all the other sub-groups considered in their analysis. Almost half of the 29 countries classified as 'microstates' are heavily dependent on tourism. The authors conclude that small tourism countries perform much better than other small countries. In their findings, smallness can be bad for growth, while the opposite is true when smallness goes

together with a specialization in tourism. Although these findings are useful they cannot be considered definitive as the models do not include controls for factors that are considered important in the endogenous growth literature, such as investment and human capital (though they do include controls for some other factors, such as openness to trade and initial income levels).

Hazari and Sgro (1995) developed a growth model in which they model tourism as an added component to the domestic aggregate demand. Furthermore, they model the foreign supply of capital and the growth in export as dependent on tourism growth. They concluded that tourism has a positive impact on the long-run growth of the economy.

This is generated by tourism acting as a timesaving device, which allows the domestic population to consume now rather than later. They found that growth in tourism facilitates foreign capital inflow, thereby reducing the need for high domestic rates of saving and capital accumulation.

Dritsakis (2004) examined the impact of tourism on the long-run economic growth of Greece. He analyzed the causality of GDP, exchange rate and international tourism receipts and concluded that there is a strong Granger causality relationship between international tourism receipts and economic growth. In addition, the study finds that there is a strong causal relationship between exchange rate and economic growth, and moderate causal relationships between economic growth and international tourism receipts and between exchange rate and international tourism receipts.

Unfortunately, with respect of tourism and economic growth, there are very few studies that analyze a single country over a certain time period. However, the original motivation of studying economic growth must focus on the time-series dynamics of macroeconomic variables. Evidence from the annual time-series of individual countries is potentially more reliable in identifying the sources of countries' growth performances not least because it avoids questionable assumptions implicit in much cross-country work.

The literature in Africa is scanty. According to Fayissa et al. (2007), there are only few empirical studies that investigate the contributions of tourism to economic growth and development for African economies. Some of the available empirical evidences on the continent are presented as follows: Using a panel data of 42 African countries for the years that span from 1995 to 2004, Fayissa et al. (2007) try to explore the potential contribution of tourism to economic growth and development within the conventional neoclassical framework. Their findings show that receipts from the tourism industry significantly contribute both to the current level of gross domestic product and the economic growth of sub-Saharan African countries as do investments in physical and human capital. They argue that African economies could enhance their short-run economic growth by strategically strengthening their tourism industries.

Tsega (2008) using panel data set for the period 1995-2005 for forty-two African countries find that there is a positive correlation between economic growth and tourism sector. According to her findings the tourism sector contributes significantly to the economic growth of the countries. On the other hand economic growth is vital for the development of tourism sector.

World Bank (2006) conducted a research for government of Ethiopia entitled Ethiopia towards a strategy for pro-poor tourism development. By collecting quantitative data on tourism-centric locations, the organization conducted a comprehensive work in the country. Under the objective of responding to the government of Ethiopia request to define a strategy for tourism growth that commensurate with its vision for tourism, they report that the industry is under-performing relative to its tremendous potential value of its cultural heritage as an anchor for a tourism industry. They argued that this is attributed to weakness in Ethiopia's image, market presence and penetration resulting in a demonstrable weak demand for its products; a severely undervalued cultural and natural resource base; uncompetitive supplier and support services. Finally, absence of efficacy coordinating and communicating governance framework to guide and integrate the many stakeholders at both the national and sub national levels is also considered as one among the many factors for the low performance of the industry.

Yabibal (2010) using a panel data of 40 countries identify main determinants of tourist flows in Ethiopia. The study showed that the lagged tourist arrivals are a statistically significant determinant of tourist flows in Ethiopia in addition to per capital income of sending countries,

CPI ratio of Ethiopia and Kenya, urbanization rate and distance from Addis to capital cities of the sending countries.

Though Tourism is viewed as an engine for economic growth, little has been done in developing countries especially in Ethiopia. The limited studies were focused mainly on analyzing determinants of tourist arrivals on the country, challenges and opportunities. Moreover, the available empirical studies focus on analyzing the relationship between tourism development and economic growth conducted by employing different methods especially researches conducted in Ethiopia mostly employed a panel data approach.

From the above review on empirical works, the researcher concludes that tourism and economic growth are somehow linked positively, but it is difficult to generalize global or regional findings to a single country. Hence this study will try to fill the gap by trying to find the link between economic growth and tourism sector in Ethiopia using a time series approach and its contribution for the growth of the country's economy.

2.3 General Overview of Tourism Sector in Ethiopia

2.3.1 History of Tourism Sector in Ethiopia

Ethiopia's territory includes seven UNESCO World Heritage Sites, four important national parks, a source of the world's longest river (the Blue Nile), and sites revered among adherents to Christianity, Islam and Judaism and diverse African traditional societies. Ethiopia has very distinct cultural and historic products based on (a) ancient Axumite civilizations and the Ethiopian Orthodox Church; (b) the walled Old City of Harar with its seven gates considered as the fourth holiest city in Islam; (c) as a cradle of civilization, with fossilized evidence of the ancestors of homo sapiens as old as 4.4 million years B.C., and the much more famous Dinknesh, or Lucy. (www.tourismethiopia.org)

Though Ethiopia faces an image problem for tourists, it is worth noting that this was not always the case. Ethiopia was one of the first African countries to establish a tourist industry. Modern tourism in Ethiopia can be said to have started with the formation of government body to develop and control it in 1961. In common with many other countries (notably Morocco, Tunisia, Egypt and Kenya that also started investing in tourism in the late 1960s), tourism was considered a key economic growth sector in Ethiopia as early as 1966 when the first Tourism Development Master

Plan was developed. Guided by the plan, the government invested heavily in tourism infrastructure in the subsequent decade – including establishing Ethiopian Airlines for international and domestic air access, building airfields around the country at key tourism sites, building hotels at or near these sites, and establishing a national tourism operation to take tourists to the hotels and attractions. The main attraction was the “Historic Route” which at the time (1968-73) Ethiopian Airlines was servicing with seven flights per day. The “Historic Route” included Addis Ababa, Lalibela, Gondar, Axum and Asmara.(www.tourismethiopia.org)

From 1974, for two decades, the Ethiopian tourism industry suffered from the adverse effects of a prolonged civil war, recurrent drought and famine, strained government relations with tourist generating countries, and restrictions on entry and free movement of tourists during the military government from 1974 to 1991. During this period, apart from periodic upgrades of the infrastructure (such as airports and roads), there has been little investment and successive governments have largely overlooked the sector. The tourism sector is in urgent need of re-investment, in particular, the cultural and natural attractions, and human resources that form the basis of the tourism product, have been completely neglected. Linkages to international tourism networks, both for marketing and research purposes, have also been neglected. (www.wikipedia.org).

Lack of coordination between stakeholders and the government resulted in poor infrastructure development and under developed tourist sites as well as a shortage of skilled workers in the sector. Generally, there was lack of marketing and promotional strategy as well as low awareness of tourism by local communities. During the last few years, however, tourism has once again emerged as a growth industry taking advantages of the current peace and stability in the country. (www.wikipedia.org).

2.3.2 Trends in International Tourist Arrivals

The direct contribution of Travel & Tourism to GDP is expected to be ETB20, 628.5million in 2011 (4.6% of GDP). This primarily reflects the economic activity generated by industries such as hotels, travel agents, airlines and other passenger transportation services (excluding commuter services). But it also includes, for example, the activities of the restaurant and leisure industries directly supported by tourists (WTCC, 2011).

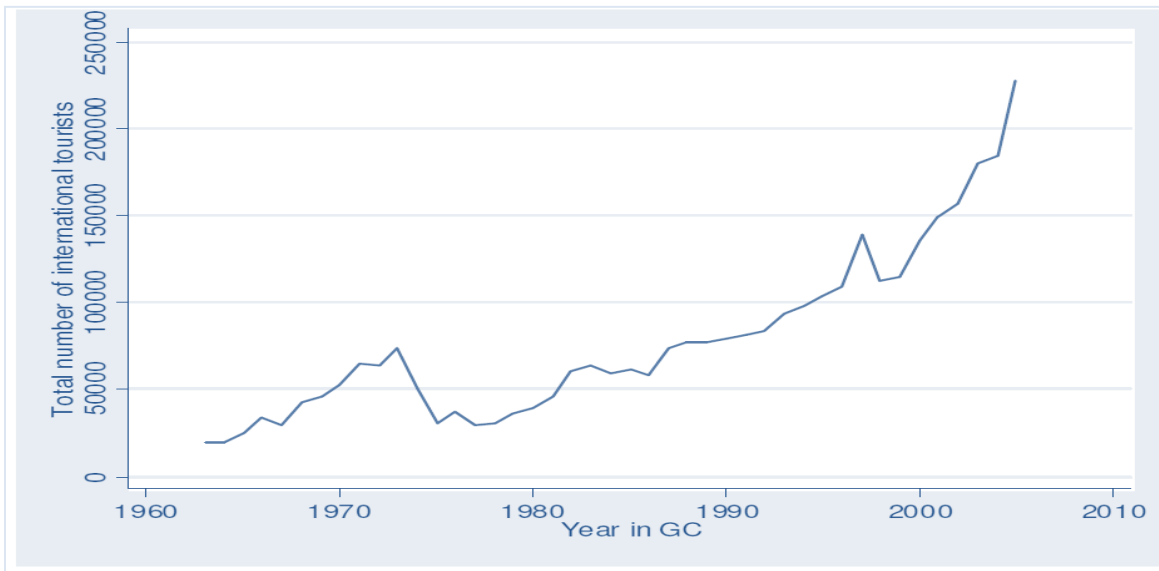


Figure.2.1: number of tourist arrivals from 1963-2005

Source: MoCT (2010)

As can be seen from figure 2.1: the number of tourist arrivals rise from 19,215 in 1963 to 73,662 in 1973. The number of tourists went down to 50,220 in 1974 and 30,640 in 1975. This has been due in part to natural phenomena such as droughts and famine. The other reason can be attributed to the political and ideological expediencies of the military government that took power by overthrowing Emperor Haileselassie in 1974. Though the number started to grow to above 60,000 after the year 1981 its rate was low. Due to the famine occurred in 1984, the number of tourists has declined from 64,240 in 1983 to 59,552 in 1984. From 2000 onwards, the number of tourist arrivals showed an increasing trend, due to the political stability and the market liberalization that attracted large number of business, conference and vacation tourists. Besides, the ongoing infrastructural development, especially road projects, can be mentioned as a major factor. When ascertaining tourism demand for the purposes of tourism planning or strategy development, it is critical that the total demand figures are further segmented by purpose of visit as this gives a more accurate picture of tourism demand. (Yabibal, 2010).

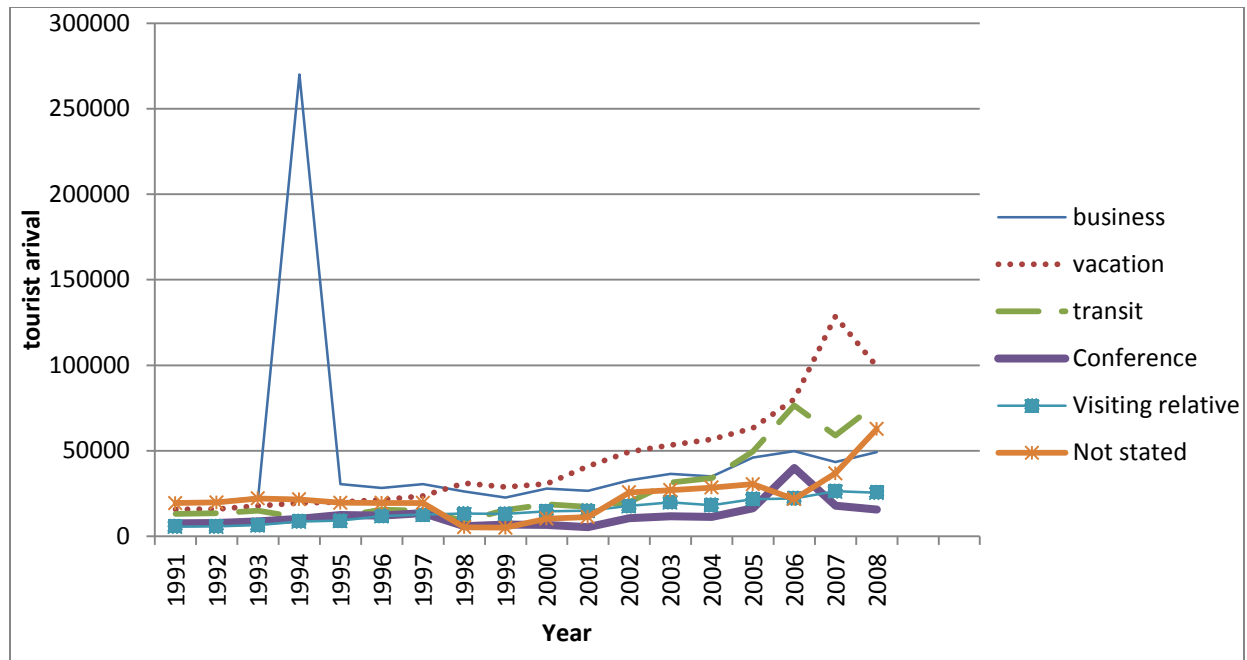


Figure 2.2: Tourist arrivals by purpose of visit from 1991-2008

Source: MCT (2010)

As can be shown from Figure.2.2 Business was the leading motive to visit Ethiopia from 1991 up to 1997. But in 1998 because of the Ethio-Eritrea war, business travelers to Ethiopia considerably decreased in number and they were replaced by vacation tourists, whose steady increase was only temporarily halted during the war. They showed significant increase after the war by threefold during the period under consideration. In general, business tourism increased slowly to double in 2005 compared to the number it had in 1991. Conference tourism has been the least contributor to tourism with sluggish growth and falling share from the total tourist arrivals.

The number of transit visitors in Ethiopia is directly related to airport efficiency, strong security and growth of the Ethiopian Air Lines (Yabibal, 2010). And except during the Ethio- Eritrean war and its aftermath (1998-2001), this number has grown steadily to register a five-fold increase in 2005 from the 1991 record. The recent growth is mainly explained by the growth of the Ethiopian Air Lines as one of the best airlines in Africa (World Bank, 2006). Almost every year, the number of visitors whose purpose was to visit relatives showed a continuous

but slower increase. Still more than 10% of the tourists' purpose of visiting Ethiopia is not known (Yabibal, 2010).

2.3.3 Trends in Tourism Receipts

The data on tourism receipts is available from 1971 onwards. The receipts show a stagnant and sometimes a falling trend throughout the Derg period. Figure.2.3: shows the trends in tourism receipts and the percentage growth starting from the year 1997.

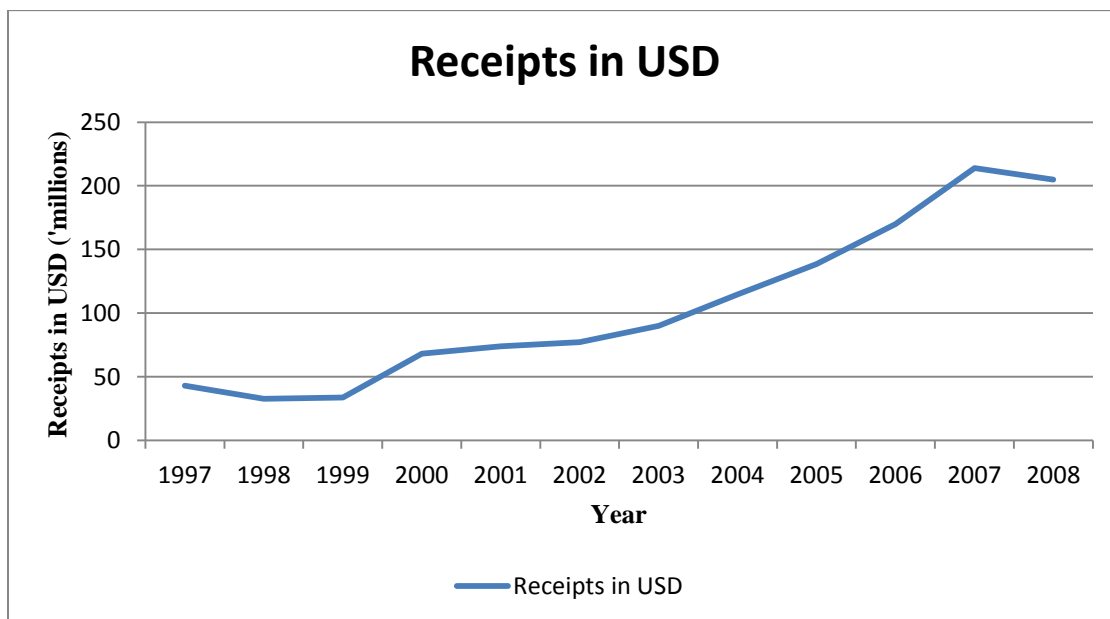


Figure.2.3: Tourism receipts from 1997-2008

Source: MCT (2010)

In the year 1998 the receipts dropped by 24 percent. That was due to the decrease in the number of arrivals because of the Ethio-Eritrea war. However, from the year 1998 onwards the receipts showed an increasing trend.

Specially starting from the year 2003, the receipts percentage growth remained double digit till it dropped to 4.2 in 2008. This was mainly due to the world economic crises. Despite this, Ethiopia managed to receive 204,855,489 US\$ out of the sector.

For this the Ethiopian Millennium Celebration was considered as one of the main factor that increased the number of tourists.

2.4 Distribution of Tourist Standard Hotel Accommodations and Transport Facilities

Tourism is to a great extent dependent on the type and quantity of accommodation available. Hotel accommodation is one of the major components of tourism development. A major weakness of Ethiopia compared to its competitors is its hotel supply. In Ethiopia where tourist attraction places are scattered all over the different regions, the distribution of hotel accommodation specially the tourist class ones are a bit unbalanced. This fact can be depicted by Table.2.1,

Table.2.1: The distribution of tourist class hotels by region: a comparison between the year 2004 and 2008

Regional states	2004		2008	
	Number of Hotels	Rooms	Number of Hotels	Rooms
Addis Ababa	38	2420	88	4449
Afar	4	109	9	174
Amhara	15	552	66	1781
Benshangul	1	26	6	122
Diredawa	5	294	16	551
Gambela	1	22	4	61
Harari	4	140	9	251
Oromia	44	1629	115	3083
Somali	13	434	11	215
SPNN	4	104	70	1661
Tigray	28	561	43	1335
Total	157	6291	437	13683

Source: MCT (2010)

Ethiopia has a limited supply of tourist quality hotel rooms, especially outside of Addis Ababa and the neighboring Oromia region. In fact, in five of the 11 regions there were five or fewer hotels considered of tourist standard in the year 2004. During the four years period, this situation

changed but still most of the high class and luxurious hotels were located in big cities and there were few big hotels around tourist destination areas especially in Tigray and Amhara region.

The other issues that can be raised along with hotel accommodations are transportation facilities and marketing and promotion activities. Transport is one of the basic components of tourism. Availability of transport is a necessary condition for a tourist to travel to different tourist attraction areas. In Ethiopia, transportation is one of the most important components of the tourism value chain. All other components depend on transportation as a key variable. The two modes of transportation to the cultural heritage areas are by car and by airplane. The route is from Addis Ababa through DebreMarkos, Bahrdar, Gondar, Debarq, Axum, Adigrat, Mekele, Woldiya, and Lalibela back to Addis.

Almost all visitors arrive in Ethiopia by flying into Bole International Airport. The airport handles over a million passengers a year and was up-graded in 2000 to a level that is more than adequate for current demand. Of the 400 or so scheduled flights into Addis Ababa each week, 290 (72%) are Ethiopian Airlines. Passenger numbers come close to those in Nairobi while Ethiopia has about an eighth the number of tourists of Kenya i.e. the number of tourists in Ethiopia were one eighth of tourists in Kenya. Air transport is also one of the primary means of accessing the historical sites, which are all accessible by air. Amongst the national parks, only Nechisar National Park, which is very close to Arbaminch, is accessible by air with a 52-seater plane, while Bale Mountains has a landing strip that can cater to a 17-seater plane.

While air transport is the primary means of getting to the historic sites, easy and fast access by road will always be cheaper. A cheaper and quicker means of reaching certain sites will stimulate tourist demand by drawing in those tourists (including domestic tourists) that cannot afford the higher cost of air travel. Currently the road transport in the country, both asphalt and gravel roads, originate from Addis Ababa to important cities, towns and centers of commercial, industrial and agricultural sites.

International high way links Addis Ababa to neighboring countries like Djibouti, Kenya and Sudan. Travelling by road allows tourist to experience Ethiopia's wonderful scenery, topography and land escape.

Marketing and promotional activities of Ethiopian tourism sector has been performed by Ministry of Culture and Tourism, Ministry of Foreign Affairs ,Ethiopian Airlines and private sectors specially tour operators. Some strong tour operators promote the country's attraction by offering their services through their websites, printed materials and by attending different international tour trade fairs.

Ministry of Culture and Tourism has promoted the country's tourism attractions by using its different publications, brochures and others, also the Ministry has its own website to promote the country's attractions. The Ministry has accomplished different tourism marketing and promotion activities by participating and facilitating different international tourism related trade fair. Due to very limited skilled staff, inadequate budget and poor marketing policy the country's tourism resources are not adequately promoted at desired level.

2.5 Tourism Sector Comparison with Competing Countries

Tourism is one of the major foreign exchange earners in Kenya and is second to the agricultural sector. According to Kenya Tourist Board (KTB), in the year 2006 the industry earned approximately US\$800 million and this was accrued from 1.8 million visitors (Daily Nation, 2007). 10% of Kenya's Gross Domestic product (GDP) is accounted for by the industry. The industry is growing at an average rate of 9% per year and the government is doing all it can to maintain this growth rate and even expand it to higher horizons.

The development of tourism in Tunisia represents an economic opportunity, a choice and also a basic future requirement. Improvement in the quality of hotel service is reflected in the multiplicity of high standard units, with a total capacity increasing from 15000 beds in 1987 to more than 65000 in 2000, or a four times increase, while the global rooming capacity rate has doubled. The quality of services also improved through the introduction of a new classification system for hotels, the 2000 standards. Efforts spent in terms of hotel training programs also illustrate this policy which will enable Tunisian tourism to better serve conventional customers and attract new types of clients. In quantitative terms, the rooming capacity in Tunisia has considerably developed, increasing from 100, 000 beds in 1987 to 226, 000 beds in 2004 and shall reach 300, 000 beds by 2025. The tourism sector contributes 7% to the GDP and generates 380, 000 direct and indirect jobs and covers 65% of the countries deficit. (WTCC, 2011).

In Tanzania, tourism is one of the fastest growing industries. International visitor arrivals in Tanzania grew since 1995 from 295,312 to 612,754 in 2005, with an expenditure of USD824,000 million in 2005 (TTB Annual report). Tourism represents the second largest factor of foreign currency income after the mining sector; contributing 14 % to the GDP. Tanzania is ranked as the 5th top tourism earner in Africa (US\$739 million in 2001). (UNWTO report).

Ethiopia provides diverse products ranging from landscape scenery, wildlife, culture, history, and archeology. The attractions are widely distributed throughout the country. Ethiopia's many national parks enable the visitor to enjoy the country's scenery and its wildlife, conserved in natural habitats, and offer opportunities for travel adventure unparalleled in Africa (Ministry of Culture and Tourism,).

The origin of international tourists includes Africa, Europe, America, Middle East and Asia. The contribution of Africa is considerable due to the presence of the African Union Head Quarters in Addis Ababa, the capital city of Ethiopia. Moreover, many international organizations have their offices in Addis Ababa. The tourism sector is growing fast (SNV, 2007).

Ethiopia has a total of 37000sqkm of national parks, game reserves and sanctuaries. These are home to some of the big game animals of which twenty one species of endemic animals and several subspecies are found only in Ethiopia. Kenya represents a useful benchmark. This southerly neighbor is acknowledged as a major African tourism destination. In part this is due to the wide range of game associated with the Rift Valley. The Rift Valley extends into the southWestern regions of Ethiopia (Frederick et al., 2004).

From the above discussion, we can conclude that Ethiopia has more to offer than those competing countries. If we take the nearest one as an example, Kenya's tourist attractions are more of natural like national parks, water sports, tea estates, wild animals and beaches. Ethiopia has much more than that; the country's historical places, the people's identity and cultural values are some that can be mentioned. Moreover, the seasonality problem did not affect the tourism sector in Ethiopia as much as Kenya, because the country is known for its thirteen months of sunshine. Despite this fact however, Kenya's tourism contribution in every aspect is greater than Ethiopia's.

A publication prepared by the World Travel and Tourism Council in 2011 clearly explains this fact by giving a rank for some competing destinations as well as world average. The competing destinations selected are those that offer a similar tourism product as Ethiopia and compete for tourists from the same set of markets.

The comparison of the countries in terms of total contribution of GDP and total contribution of employment ,along with the world avareage can be shown in figures 4 and 5consecutively;

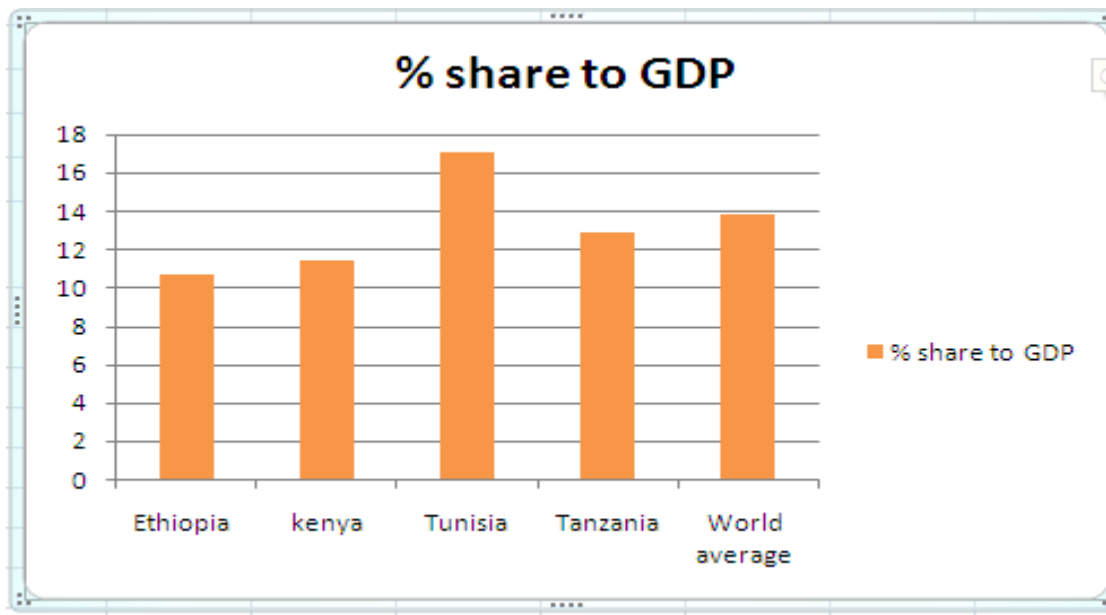


Figure.2.4: Tourism's Total Contribution to GDP 2011

Source WTTC (2011)

The ranking of WTTC put Ethiopia at the 74th place while other competing countries get a better rank in terms of tourism's GDP total contribution out of countries around the world. Figure.2.4 shows that the sector's percentage share to GDP is less than 3% in Ethiopia , 11.39 in Kenya , 17.04 in Tunisia and 12.86 in Tanzania. All countries, except Tunisia, are below the world average which is 13.8.

As explained earlier, Ethiopia has too much to offer compared to other competing destinations like Tunisia ,Tanzania and the likes but contributing less.

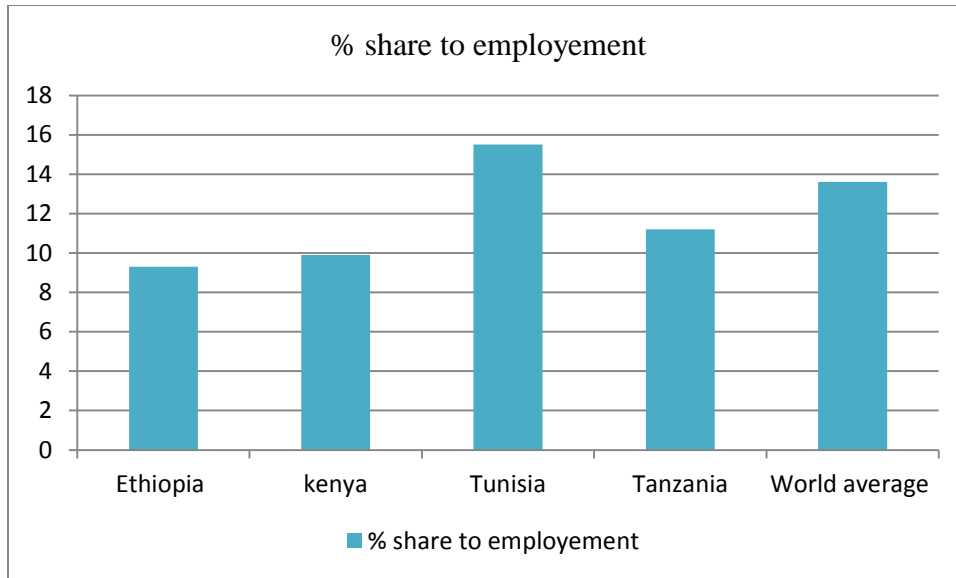


Figure.2.5: Tourism’s Total Contribution to employment in 2011

Source WTTC (2011)

When we come to employment contribution as can be seen from Figure 2.5, here again, all countries except Tunisia fall below the world average. In both cases, in terms of tourism contribution to GDP and the sector’s contribution to employment, Ethiopia is the least though having this huge potential of possessing tourist attractions that appeal to a wide range of interests. The combination of attractions is rare in a single country and includes a wealth of historical, cultural, archaeological and anthropological sites, as well as numerous areas rich in wildlife. Because of that, the country is expected to benefit from the sector a lot.

The sector showed an increasing trend in both tourist arrivals and tourism receipts from the year 1991 onwards and this was attributed to different factors like the increased investment in infrastructure, privatization and the peaceful political situation.

The major challenge for Ethiopia compared to its competitors is accommodation. The country has limited supply of tourist standard hotels especially around tourist attraction places. Regarding transportation facilities, the Ethiopian airlines are playing a major role since most of tourists enter the country through air transportation. The ongoing investment in infrastructure, especially on roads makes it easier for tourists who travel to destinations that are accessible by

road. Concerning promoting the country, little has been done so far and more is expected in order to change the image of the country.

Finally, a comparison is made with competing destinations; Though Ethiopia is more advantageous regarding tourism sector, i.e. the country not only offers the usual African game and cultural experiences to visitors, but also a rich array of historical and ecological sites that set it apart from most of its competing destinations, it is still at the bottom of the list in terms of the sector's total contribution to GDP and employment.

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Research Design

The study has employed descriptive research design.

3.2 Sources of Data

The study has used secondary data source obtained from Ministry of culture and Tourism (MOCT), National Bank of Ethiopia (NBE), United Nations Educational, Scientific and Cultural Organization (UNESCO), World Bank (WB), World Trade Organization (WTO) and Central statistics authority (CSA). The study also uses information's extracted from magazines, books, publications, and other periodical reports of government institution and other sources.

3.3 Data Analysis Method

This research makes use of descriptive method for data analysis, which is based on secondary data's. Method like statistical tables, averages ratios, line graphs and percentage, are used.

3.4 Validity and Reliability of Data Gathering

The secondary data collected and analyzed, are data's collected from internal source and external source. Which are survey results of those organizations.

3.5 Ethical consideration

Efforts will be made to make the research process professional and ethical. To this end, the researcher will clearly inform to the organization who has provided the required data the purpose of the study i.e., purely for academic. In addition, the study will be based on their consents. The researcher will also not personalize any of the findings during data presentations, analysis and interpretation. Furthermore, all the materials that will be used for this research will be duly acknowledged.

CHAPTER 4: DISCUSSION & DATA ANALYSIS

4.1 Tourism in Ethiopia

In the immediate past years, the tourism industry has emerged as one of the leading sectors that will drive the Ethiopian's economy in to greater development. It is the third main source of foreign exchange earnings in Ethiopia. Though, Ethiopia having so many historical and natural sites and divers culture, historical and natural tourism attractions, tourism is not the country's largest industries and the country could not get the economic benefits it deserve from the sector. However in recent years due to the development of infrastructure like roads and hotels and the crucial role played in marketing in changing the image of the country the sector has shown a significant growth despite the economic crises in the world.

4.2 Trend and Compositions of Tourism from

4.2.1 Tourist Arrivals and Receipt

4.2.1.1 Tourist Arrivals

Ethiopia continues to demonstrate steady rise in the number of visitors throughout the year from 1963 to 2008, from 19,215 in 1963 to 596,341 in 2012, as shown in Table.2. In this year under review, the peak month for arrival falls during November/December and the mini pick was in July.

The Mode of Transport was Bole international airport as the main access point to Ethiopia, handled more than 86 percent of the total visitors arrival during the year under review. The remaining balance used the boarder passing as the port of entry to the country, as depicted in

Table.4.1: Tourism Arrivals and Receipts: from year 1963 to 2012

YEAR IN G.C	ARRIVALS BY AIR	ARRIVALS BY OTHER MODE OF TRANSPORT	TOTAL	RECEIPT IN 000' BIRR
1963	19,215		19,215	
1964	19,836		19,836	
1965	25,412		25,412	
1966	33,696		33,696	
1967	20,401		20,401	
1968	42,114		42,114	
1969	46,418		46,418	
1970	53,187		53,187	
1971	64,542		64,542	19,669
1972	63,940		63,940	23,009
1973	73,662		73,662	25,655
1974	50,220		50,220	22,159
1975	30,640		30,640	15,133
1976	36,929		36,929	11,106
1977	28,984		28,984	4,338
1978	30,817		30,817	3,330
1979	36,400		36,400	11,272
1980	39,500		39,500	14,668
1981	45,931		45,931	21,342
1982	60,629		60,629	14,843
1983	64,240		64,240	17,078
1984	59,552		59,552	12,986
1985	61,459		61,459	18,136
1986	58,529		58,529	10,367
1987	73,144		73,144	29,550
1988	76,450		76,450	39,271
1989	76,844		76,844	42,901
1990	79,346		79,346	52,282
1991	81,581		81,581	38,824
1992	83,213		83,213	57,763
1993	93,072		93,072	107,822
1994	98,070		98,070	114,315
1995	103,336		103,336	144,972
1996	108,885		108,885	182,665
1997	114,732	24,268	139,000	279,000
1998	90,847	21,153	112,000	225,000
1999	91,859	23,141	115,000	252,000
2000	108,954	27,000	135,954	577,800
2001	116,438	32,000	148,438	642,000
2002	130,939	25,388	156,327	676,100
2003	160,234	19,676	179,910	778,000
2004	172,954	11,124	184,078	994,408
2005	193,288	34,110	227,398	1,202,368
2006	290,458	39,568	330,026	1,494,812
2007	311,943	45,898	357,841	1,987,241
2008	330,157	53,242	383,399	1,979,539
2009	371,553	55,733	427,286	4,711,676,247
2010	402,742	65,563	468,305	7,667,096,000
2011	450,157	73,281	523,438	9,467,696,701
2012	512,853	83,488	596,341	27,387,839,099

Source; MTC, 2013

4.2.1.2 Tourist Receipts

Tourism kept on being one of the receipts of currencies in the country with tourism balance continually reflecting positive balance of the year under review. As can be shown from figure.6 in 2008, tourism generates 13.98 percent of Ethiopia's total export earnings. The contribution of the industry to the Ethiopia's gross domestic product (GDP) declined from 1.12 percent in 2007 to 0.77 percent in 2008(Figur.4.1). Growth in tourism consumption was driven by the number of vacation tourists.

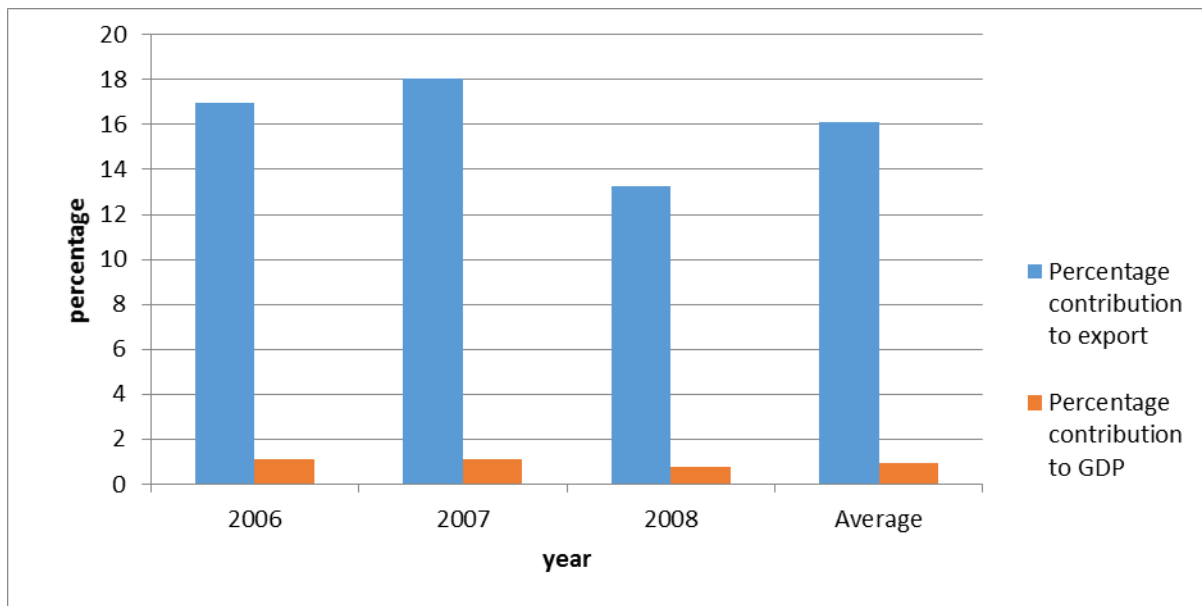


Figure.4.1: Tourism contribution to Export and GDP at market price for the years 2006 to 2008

Source: National Bank of Ethiopia staff computation annual report 2003/04, MCT (2010)

As depicted in Table.4.2 Tourism earnings has grown from 246,415,374 USD in 2009 to 411,638,987 USD in 2011, an increase of 189.27 percent.

Table.4.2: Percentage Share of Tourism sector in FE Export(2009-2011)

YEAR	TOURISM FE FE RECEIPT		EXPORT IN MILLIONS USD\$	%SHARE OF TOURISM SECTOR IN FE EXORT	GDP CURRENT MARKET PRICEIN MILLION US\$**	% CONTRIBUT ION TO GDP
	USD	% Change				
2007	213,936,063	25.8	1,185.1	18.05	19,539.0	1.09
2008	204,855,489	-4.42	1,465.7	13.98	26,579.0	0.77
2009	246,415,374	20.3	1,447.0	5.78	32,256.0	0.76
2010	333,352,000	35.3	2,003.1	6.01	3,486.5	0.96
2011	411,638,987	23.5	2,747.1	6.6	38,539	1.1

Source; MTC, 2013

On the other hand, Ethiopian market share in the international tourism market has shown a substantial growth. In terms of arrival in 1991 world total was 442,500 tourist and the Ethiopian share was 82 and in 2007 from the world total arrival 903,000 the Ethiopian share has grown in to 214. Also, the receipts has grown from 0.0074 percent in 1991 to 0.0250 in 2007.

The contribution of the tourism sector to the GDP has not been as significant as the other sectors, and it has shown volatile trend through the years under review.

4.2.2 Composition of Tourist

4.2.2.1 Sex, Age group, and Nationality

From the total visitors in 2009, 2010, 2011 and 2012, 72 percent were male and the balance 28 percent was females. In regards to the review of age distribution, the majority of the visitors were in between 40-60, accounting for 28.9 percent of the total traffic record. Group 21-40 and 41-60 continue to dominate during these years. As depicted in Figure: 7 the dominance source of visitor market to Ethiopia are visitors from Europe (Figure.4.2).

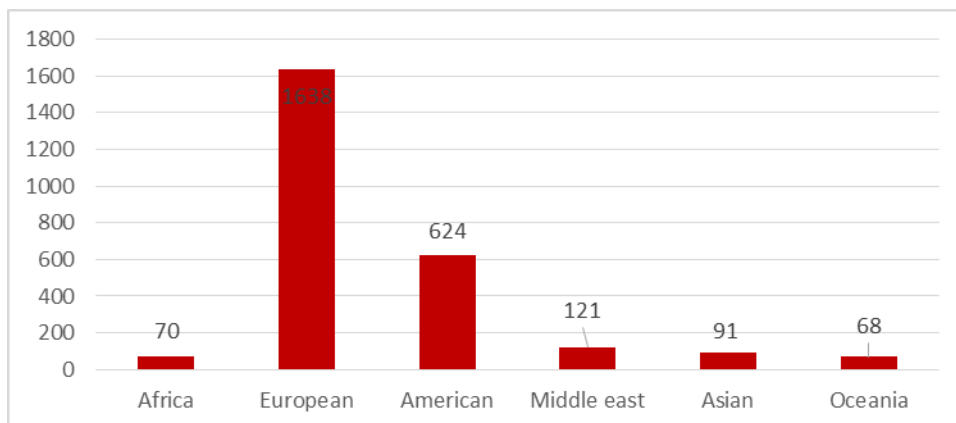


Figure.4.2: Source of visitor's tourism market to Ethiopia.

Source- MOTC, 2013

4.2.2.2 Purpose of Visit

The trend from 2008 to 2012 depicted more than 20 percent of the visitors, came for the purpose of leisure and holidays, followed by those who came for Business. This suggest that Ethiopia preferred for enjoyment trip, and as also shown in Table:4.3, the economic activities performed by the Ethiopian government to attract foreign direct investment (FDI) is encouraging visitors.

The visitors who came for visiting relative and friends and for conference were the least, despite the growing importance of tourism worldwide.

Table: 4.3. Percentage Share of Tourism sector in FE Export by purpose of Visit (2009-2011) /

Year	PURPOSE OF VISIT						TOTAL
	BUSINESS	CONFERENCE	LEISURE & HOLIDAY	TRANSIT	VISITING RELATIVES & FRIENDS	NOT- STATED	
2008	49,209	15,721	99,394	77,572	25,482	62,779	330,157
2009	71,374	47,516	138,070	81,481	35,593	53,253	427,287
2010	77,816	36,145	171,414	84,229	28,672	70,029	468,305
2011	91,064	50,531	183,008	86,020	37,116	75,699	523,438
2012	130,321	57,475	191,537	90,990	45,174	80,844	596,341

Source; MoTC,2013

4.2.2.3 Motivation for Travel and Source of Information

Many tourists are motivated to visit Ethiopia due to cultural attraction, natural and wildlife, history and others.

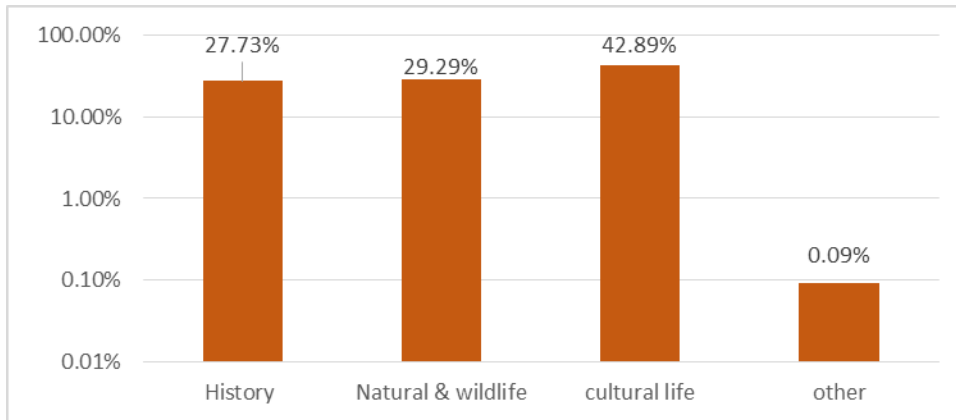


Figure.4.3. Motivation for Travel to Ethiopia

Source; MOCT, 2013

As it is shown in Figure: 4.3 Cultural attractions were cited by 42.89 percent of visitors, making it a very important factor for visiting Ethiopia. While 29.29 percent stated that the natural and wildlife in the country attracted them and for the 27.73 percent history was what motivated them to visit Ethiopia.

As also seen in Figure:4.4, Source of information for the majority of the visit to Ethiopia in 2012 was information from friends/relatives accounting 31.41 percent of the population of visitors. The second most common source of information for international visitor is internet accounting 30.75% percent. Travel agents, the Bible, adoption agencies, and academic writing stated among other sources of information accounting for 26.95 percent of the distribution.

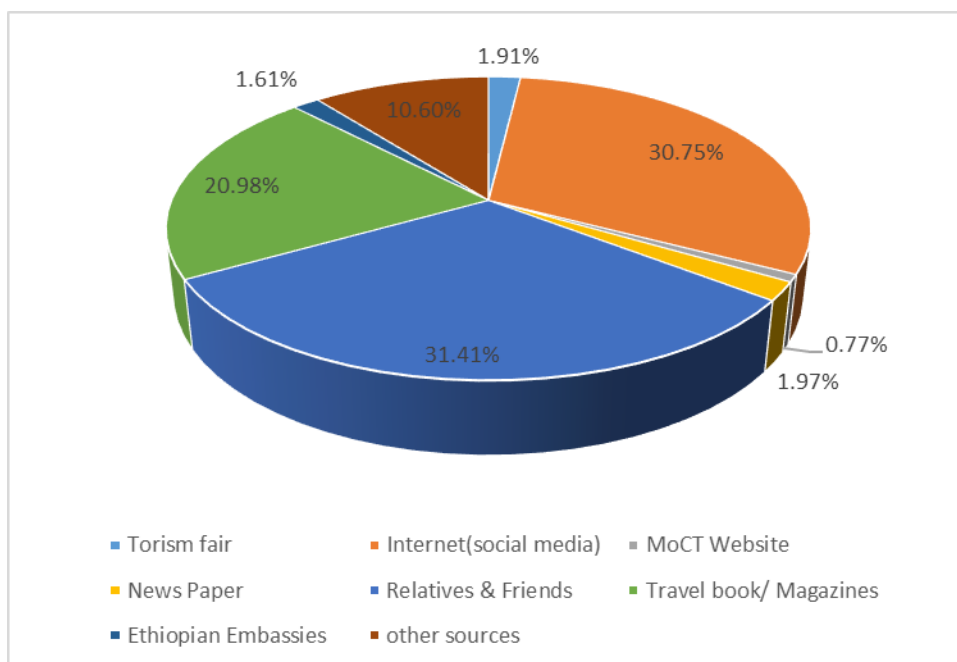


Figure.4.4 Source of information for Travel

Source; MOCT, 2013

4.2.3 Accommodation Capacity

The Ministry of Culture and Tourism has adopted a system of approving and classifying the hotels on the bases of facilities and service provided by them. The total number of registered tourist hotels increase from 426 units with 14,118 rooms in 2009 to 595 units with 19,998 rooms in 2012, as shown in Table: 4.4.

Table: 4.4. Room capacity/ all accommodation establishment

Total	year							
	2009		2010		2011		2012	
	count	%	count	%	count	%	count	%
Hotels and similar establishment	14,188	100	18,128	100	19,025	100	19,998	100
5 stars	794	6	794	4	–	–	–	–
4 stars	921	7	921	5	–	–	–	–
3 stars	1,691	12	1,691	9	–	–	–	–
2 stars	1,465	10	1,465	8	–	–	–	–
1 star	698	5	698	4	–	–	–	–
Unclassified hotels	8,549	61	12,559	69	19,025	100	19,998	100

Source; MTC, 2013

On the other hand there has been a huge progress in terms of Road, Airport and tele infrastructures in the past ten years. The road sector development program (RSDP) which started in 1997, has so far embarked \$4 billion dollar to upgrade and repair over the years ahead. This reflects the recognition of the importance of the road sector for national economic growth, and for profiting to a maximum from the country's assets.

Ethiopia's has upgraded airports facilitate for the transport of goods and to encourage investment. There are now two international airports Addis Ababa and Dire Dawa. Smaller airports such as Bahirdar like Arba Minch, Lalibela, Mekele, Axum and Gonder have been upgraded and new airports like Semera, Robe (Goba), Hawsa Aif field has been put to work in order to encourage tourism.

As an objective to support the free-market economy and investment venture and satisfy the demands of the private sector and to fully participate in the rural development program, ETC has launched its three years accelerated development program (ADP).

4.2.4 Employment in the Tourism industry.

Employment opportunities are created by the tourism sector through Directly in tourism business establishments such as accommodation units, restaurants, travel agents, and recreation business souvenir etc., and indirect and also indirectly in those business which supply goods and services to the sector.

In 2012, the job created in Tourism sector alone in Ethiopia is estimated to be more than 700,000 jobs. Of this jobs the recorded number of employees and their distribution working in different accommodation facilities throughout is not defined on the available data. This indicates for Ethiopia that has more than 90 million population, the sector has not yet opened a lot of job opportunities.

On the other hand specifically on tour operators and travel agents there have been an effort made to legalize tour operators.

4.3 Challenges of the Tourism Industry

The major challenge that the Ethiopian tourism sector faces until today is not having enough marketing and promotional activities, limited quality of hotels, hotel accommodations like transport and lack of infrastructures.

As per many assessments done in the past the tourism sites, and cultural diversity is not being promoted enough in other countries. Whereas the country in some eyes is still being considered as people with hunger and with no natural resources.

In terms of infrastructure on the survey made time to time, most visitors (more than 34.26 percent) were concerned with the state of infrastructure and other facilities, and complained on the poor states of roads leading to tourist sites. On the other hand, lack of clean water at many lodges, electric power and internet and mobile coverage was among the issues tourists have faced.

The other challenge that the tourism sector is facing is the level of customer service provided; at the Airport long lines for check in and check out process, rudeness of Airport personnel's, cooling facilities during hot season; at hotels poor hygiene and maintenance, and price not matching the service that is being rendered. All in all the service that is being rendered in the country is considered time consuming and unavailable at times, that lead them to spend extra time and money beyond their budget.

Ethiopia is considered as a trouble free country by many, however, there have been few reports on street crimes such as mugging, purse snatching and pick pocketing by thieves that operate in teams. In addition, even though there is no published figure stated in recent times, tourists have shown a decline in interest in visiting Ethiopia after the declaration of state of emergency in end of 2016.

In addition, lack of credit card facilities, lack of population and environment protection special in the cities, street begging problems that will lead to harassment, and uncleaned facilities at tourist sites and camp sites and restoration of historical attractions was one of the issues stated by many visitors. These and factors have affected the tourism sector growth and contribution to the growth of the Ethiopian economy.

CHAPTER 5: CONCLUSION AND RECOMMENDATION

5.1. Conclusion

The main goal of this study is to investigate the effect of international tourism on the economic growth of Ethiopia. Despite the fact that tourism represents an activity that exerts considerable economic, political, cultural and social impact, and taking into account the results obtained, it could be concluded that direct tourism contribution to the overall economic growth in Ethiopia is low.

The level of tourism contribution to the overall economic growth in the country varies and it primarily depends on diversity and quality of supply. It is worth mentioning the sector show a growing tendency in terms of the number of foreign tourist arrivals. Therefore, it is necessary to adjust tourism supply with the international tendencies in the tourism market, in order to incite positive effects on the entire economy.

The growing tendency in the number of foreign tourist arrivals in the country can be positively assessed from the aspect of economic integrations with many countries, as such increase can be directly correlated with it (those accession affects the attitudes of foreigners, countries become more open and accessible, legal regulations alter, etc.). The scope of the study leaves space for further research that could examine the possibility of comparing the results achieved by the economic integrations that the country has made with the rest of the world.

5.2 Recommendation

In order to enhance the Tourism sector and its receipt in Ethiopia, the study has forwarded the following policy prescriptions and measures in addition to the policy implication that had been taken this should be added.

- ❖ The researcher encourage in having a continuous public sector investment in improving infrastructure particularly roads, water electricity, public toilet facility, internet and arranging a credit card payment facility throughout the country.
- ❖ The results show that the conventional sources of growth such as investment in physical and human capital and the ability of households to have the wherewithal of spending on health, housing, nutrition, and other household items can enhance their productivity and

spur their economic growth. A policy implication which may be drawn from this study is that Ethiopia can improve its economic growth performance, not only by investing on the traditional sources of growth such as investment in physical and human capital, trade, and foreign direct investment, but also by strategically harnessing the contribution of the tourism industry and improving her governance performance.

- ❖ Playing a role on environmental and ecotourism, cultural tourism, sports tourism, and discovery tourism is a mandatory aspect.
- ❖ Upgrading the standard in accommodation facilities such as toilets, kitchen, and facilities that cater for the elderly and people with disabilities, and also the standard of hotels and their services. This in turn will contribute to increase in the number of visitors in general.
- ❖ As tourism is everyone's business, it is absolute concern of everyone in Ethiopia to make sure international visitors have safe and peace of mind in our country.
- ❖ Concerned authorities have to merge efforts and come up with a real solution across the board for lack of hygiene that would benefit for the tourism industry, and for general cleanness of our establishment and street.
- ❖ The growing threat of fraudulence at all level should be discouraged to lure more visitors in to the country. Meaning fair price should be charged for an acceptable service and products that tourist consumes.
- ❖ The promotional effort as well need to be intensified, by using technique like developing well detailed and easy accessible websites, in order to establish new source market in East Asia, Middle east, South Americans and Eastern Europe to avoid the adverse effect of the current economic and financial crisis.

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