Age Wise Consumer Preferences towards Private Label Apparel Brands in Indian Retail Using Conjoint Analysis

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Abstract

Indian retail industry is one of the fastest growing industries in India, especially over the last few years. Though initially, the retail industry in India was mostly unorganized, however with the change of tastes and preferences of the consumers, the industry is getting more popular these days and getting organized as well. India's economy has undergone a substantial transformation since its independence in 1947. The Indian retail industry is the fifth largest in the world in terms of GDP, which is one of the fastest growing economies in the world and by 2030. The retail market of India has been declared as the most favorable market for making investments at the global level. Indian retail industry is the attractive and promising emerging market which is ranked number 4 globally.

Apparel segment is the second largest category in Indian retail and the present study focuses on apparel retail. Now-a-days private label brands or store brands are of growing importance in Indian retail as both the retailers and the consumers are benefited out of them. Retailers get greater margins on private label brands than on manufactured brands. Consumers also can save more on buying private label brands than on manufactured brands. There is been a growing importance towards private label brands across majority segments and for apparel sector it is of even more importance. The present article focuses on determining age-wise consumer preferences towards private label apparel brands in Indian retail empirically using conjoint analysis.

I. Introduction:

Indian Retail:

The Indian retail market is estimated at US$ 470 Bn in 2011, accounting for 35% of GDP and is expected to grow to US$ 675 Bn by 2016, @ CAGR of 7.5%. The organized retail market is estimated at US$ 26 Bn and accounts for 6% of the overall retail market for 2011. The organized retail market is projected to grow to US$ 84 Bn by 2016, @CAGR of 26%. With an estimated market of US$ 325 Bn, the Food & Grocery segment is the single largest retail category and accounts for 70% of the total retail market in 2011. The organized retail segment for Food & Grocery is estimated at US$ 9 Bn and accounts for 35% of all organized retail. The retail market in India offers significant opportunities for retailers & brands across categories. This is driven by factors such as a large consumer base, rising incomes & job opportunities, increasing consumer awareness, etc.

According to a new study by global management consulting firm AT Kearney says that in India, apparel, along with food and grocery, will lead organized retailing in India. India has one of the largest numbers of retail outlets in the world. A report by Images Retail estimates the number of operational malls to grow more than twofold, to cross 412, with 205 million square feet by 2010, and a further 715 malls to be added by 2015, with major retail developments even in tier-II and tier-III cities in India.

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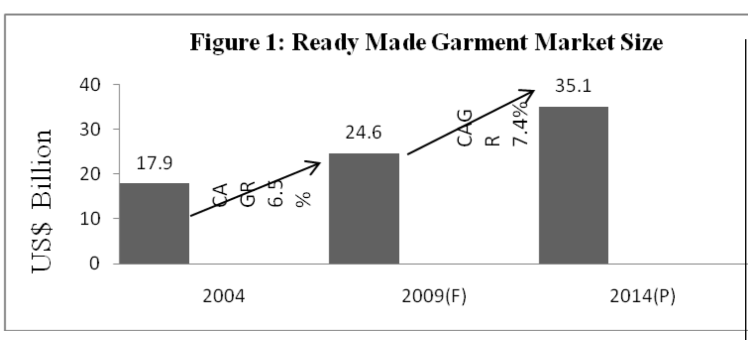
II. Private Label Brands:

A private-label product is a manufactured good that a retailer purchases from a supplier, with the intention of renaming, repackaging and selling it under the distributor's own brand name. Depending on the agreement between a manufacturer and a retailer, the manufacturer sometimes handles the packaging and labeling for the retailer for an additional charge. Otherwise, the retailer is responsible for the process of dressing up the product as its own. Thus, it can be said that Brands owned not by a manufacturer or producer but by a retailer or supplier who gets its goods made by a contract manufacturer under its own label are called private label brands. Manufacturers use either their own name, that of a middleman, or a combination of both when they are marketing their products. Private labeling occurs when middlemen, usually large retailers or wholesalers, develop their own brand. Building a following from scratch through private-label products, especially in rough economic times, is challenging because smaller retailers do not have the marketing budget compared to their larger sized competition. A relatively new concept of Private Labels has cropped up in Organized Retail in India.

III. Indian Apparel Retail Industry:

India has been ranked as the top retail destination globally for retail investment attractiveness among 30 emerging markets in the world. The Indian retail sector is the second largest untapped market after China. The Indian apparel retail industry had total revenue of $28,102.6 million in FY10, representing a compound annual growth rate (CAGR) of 9.9% for the period spanning 2005-2009. India's Apparel industry (domestic + exports) is expected to grow from the current $ 70 billion to $ 220 billion by 2020. The Indian domestic Apparel market size in FY10 was $ 47 billion and is expected to grow at 11% CAGR to reach $ 140 billion by 2020. India's exports have also recovered in FY10 following increased global demand and is currently worth $ 23.5 billion. The apparel market is dominated by men's apparel which accounts for 45 % of total apparel market. Women and kids apparel constitute 20% and 35% respectively. Madura Garments, Provogue India Ltd., Raymond Ltd., Koutons, Pantaloon, Levi, Globus, Westside are leading apparel retailers in India. Apparel retail chains have different formats including stand alone stores, exclusive showrooms, shop-in-shop and malls. But now brands prefer to come in malls which have a large catchment area over High Streets. This is mainly because in the next 2 years malls will attract higher footfalls and will be stronger than standalone stores. The market size of readymade garments is showing a positive trend and this trend is expected to continue in years to come. This can be seen from the Figure 1 below.



Source: North Bridge Capital Analysis

IV: Objective:

1. The main objective is to study private label apparel brands preference according to the gender of consumers

V: Research Methodology:

The Primary Data is collected from a sample of 500 respondents. The area of survey is the twin cities of Hyderabad and Secunderabad which are the capitals of Andhra Pradesh. The Hyderabad and Secunderabad cities are selected because they represent a greater cross-section of diverse population of the entire country, where a majority of diverse cultures exist and people of almost all the income and social levels can be found. The Hyderabad and Secunderabad cities are the best test markets in the country where all major retailers test the market in Hyderabad and Secunderabad. A Mall-Intercept Survey was conducted mainly at retail outlets of five major retailers as the private label brand orientation is found to be more in these five retailers.

The five retailers considered for the study are:

1) Shoppers Stop,
2) Vishal Mega Mart,
3) RPG Spencers,
4) Westside and
5) Big Bazaar.

VI: Null Hypothesis:

H_0: *There is no significance difference between consumer preference towards private label apparel brands and gender of consumers.*

VII: Conjoint Analysis:

The major and first objective of the study is "to study private label apparel brands preference according to gender" and in order to achieve the objective firstly conjoint analysis is conducted to determine the consumer preferences. Conjoint analysis is a technique for analyzing consumer utility levels for specific product attributes. It is used to determine how important each attributes for the consumers while making purchase decisions. It is also used to know how much utility the consumer derives from a given combination of these levels of attributes and it also helps to understand the feasible offerings from the marketer's point of view.

VII: Attributes and Levels:

The following attributes and levels are used in ther conjoint study as shown in the table 1 below:

Table 1. Attributes and Levels for Determining Consumer Preferences

S.No	Product Attributes	Levels
1	Price	Cheaper than Branded
		Equal to Branded
2	Quality	Good
		Medium
3	Design	Fashionable
		Normal
4	Assortment	Deep
		Shallow

VIII: Product Profiles or Concept Cards:

In order to find the consumer preferences the following 16 Concept Cards were given and ranked from 1 to 16 by the respondents in the study, where 1 means highly preferred product profile and 16 means least preferred product profile, as shown in the table 2 below:

Table 2. Product Profiles or Concept Cards List

Card ID	Price of Private Label Apparel	Quality of Private Label Apparel	Design of Private Label Apparel	Assortment of Private Label Apparel
1	Cheaper than Branded Apparel	Good	Normal	Shallow
2	Equal to Branded Apparel	Good	Normal	Shallow
3	Cheaper than Branded Apparel	Medium	Normal	Shallow
4	Equal to Branded Apparel	Medium	Normal	Deep
5	Cheaper than Branded Apparel	Good	Fashionable	Deep
6	Cheaper than Branded Apparel	Good	Fashionable	Shallow
7	Equal to Branded Apparel	Good	Normal	Deep
8	Cheaper than Branded Apparel	Medium	Fashionable	Deep
9	Cheaper than Branded Apparel	Medium	Normal	Deep
10	Cheaper than Branded Apparel	Medium	Fashionable	Shallow
11	Equal to Branded Apparel	Medium	Fashionable	Shallow
12	Equal to Branded Apparel	Medium	Normal	Shallow
13	Equal to Branded Apparel	Good	Fashionable	Deep
14	Equal to Branded Apparel	Good	Fashionable	Shallow
15	Cheaper than Branded Apparel	Good	Normal	Deep
16	Equal to Branded Apparel	Medium	Fashionable	Deep

IX: Results and Discussion:

1) Preferences of Males

Utilities of Attribute Levels by Males

The conjoint analysis is applied to the respondent rankings of 16 concept cards given to them and the following coefficient values and attribute level utilities are obtained as shown in the table 61 below.

Importance Values of Attributes by Males

In the present study the male consumers are attaching high importance to Price followed by Quality, Design and Assortment respectively, as shown in the table 3 below.

Table 3. Conjoint Results for Males Preferences

		Utility Estimate	Std. Error	Range of Utilities	Importance Values	Coefficients
Price	Cheaper than Branded	-3.669	.795	3.669	51.80	-3.669
	Equal to Branded	-7.338	1.590			
Quality	Good	1.666	.795	1.666	23.52	1.666
	Medium	3.332	1.590			
Design	Fashionable	-1.538	.795	1.538	21.71	-1.538
	Normal	-3.077	1.590			
Assortment	Deep	-.210	.795	0.210	2.96	-.210
	Shallow	-.420	1.590			
(Constant)		14.125	2.418	--	--	

Preference Score Model of Males Preferences is given as

$$S_{ij} = (-3.669*Price) + (3.332*Quality) + (-1.538*Design) + (-0.210*Assortment) + 14.125$$

The Male consumers prefer the private label apparel brands which are priced cheaper than branded apparel and even the quality is medium they are preferring and they want fashionable apparel and they wanted that the retailer should offer deeper assortments, as shown in the table and figure below, as Concept Card 8 is having maximum total utility value (Calculated based on Utilities of Attribute levels as shown in table 4).

Table 4. Preferences of Males

Card ID	Price of Private Label Apparel	Quality of Private Label Apparel	Design of Private Label Apparel	Assortment of Private Label Apparel
8	Cheaper than Branded Apparel	Medium	Fashionable	Deep

Model Goodness of Fit

The correlations were calculated for estimation sample and in the present study, the correlations were high as shown in the table below, indicating a good predictive ability. This correlation coefficient is significant at á=0.05, as shown in the table 5 below.

Table 5. Correlations Males Preferences (a)

	Value	Sig.
Pearson's R	.853	.000
Kendall's tau	.717	.000

a. Correlations between observed and estimated preferences

2) Preferences of Females

Utilities of Attribute Levels by Females

The conjoint analysis is applied to the respondent rankings of 16 concept cards given to them and the following coefficient values and attribute level utilities are obtained as shown in the table 64 below.

Importance Values of Attributes by Females

In the present study the female consumers are attaching high importance to Price followed by Quality, Design and Assortment respectively, as shown in the table 6 below.

Table 6. Conjoint Results for Females Preferences

		Utility Estimate	Std. Error	Range of Utilities	Importance Values	Coefficients
Price	Cheaper than Branded	-3.286	.747	3.286	51.92	-3.286
	Equal to Branded	-6.573	1.495			
Quality	Good	1.641	.747	1.641	25.93	1.641
	Medium	3.281	1.495			
Design	Fashionable	-1.366	.747	1.366	21.58	-1.366
	Normal	-2.733	1.495			
Assortment	Deep	-.036	.747	.036	0.57	-.036
	Shallow	-.073	1.495			
(Constant)	13.069	2.273				

Preference Score Model of Females Preferences is given as
$\mathbf{S_{ij}}$ = (-3.286*Price) + (3.281*Quality) + (-1.366*Design) + (-0.036*Assortment) + 13.069

The female consumers prefer the private label apparel brands which are priced cheaper than branded apparel and even the quality is medium they are preferring and they want fashionable apparel and they wanted that the retailer should offer deeper assortments. As Concept Card 8 is having maximum total utility value (Calculated based on Utilities of Attribute levels as shown in table 7).

Table 7. Preferences of Females

Card ID	Price of Private Label Apparel	Quality of Private Label Apparel	Design of Private Label Apparel	Assortment of Private Label Apparel
8	Cheaper than Branded Apparel	Medium	Fashionable	Deep

Model Goodness of Fit:

The correlations were calculated for estimation sample and in the present study, the correlations were high as shown in the table below, indicating a good predictive ability. This correlation coefficient is significant at α=0.05, as shown in the table 8.

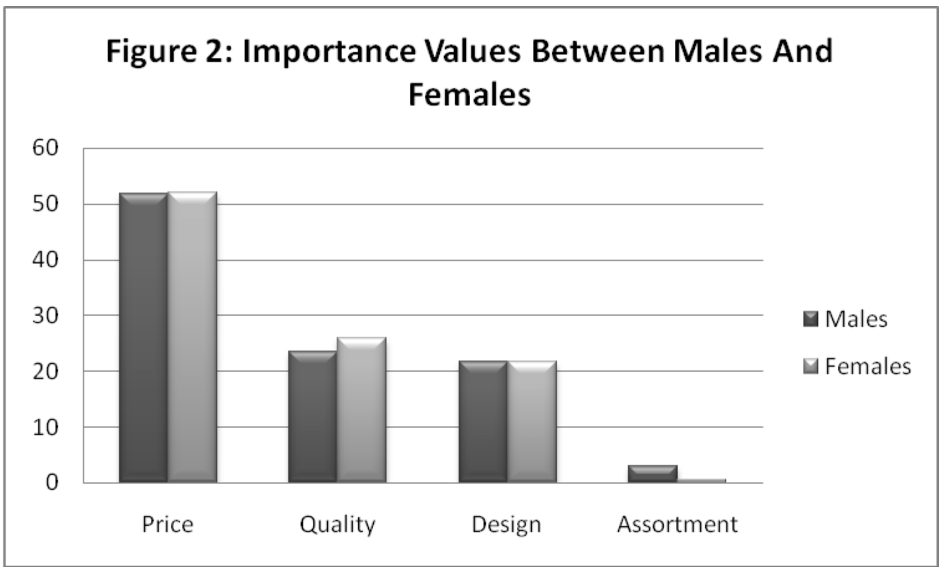
Table 8. Correlations Females Preferences(a)

	Value	Sig.
Pearson's R	.845	.000
Kendall's tau	.617	.000

a. Correlations between observed and estimated preferences

3) Comparison of Importance Values of Attributes between Males and Females

Males are giving more importance to Price compared to females, females are also giving more importance to Price but along with price females are giving higher importance to Quality and Design compared to males, whereas males are giving higher importance to assortment compared to females, as shown in the figure 2 below:



X: Hypothesis Testing:

Null Hypothesis

H_0: *There is no significance difference between consumer preference towards private label apparel brands and gender of consumers.*

***Kruskal Wallis Test between Consumer Preferences and Gender*:**

In-order to test the secondary hypothesis H_02 Kruskal Wallis tests between consumer preferences and gender is conducted and the following results as shown in the tables 9 and 10 below:

Table 9. Kruskal Wallis Test-Consumer Preferences and Gender-Ranks

	Gender	N	Mean Rank
Card 1	Male	325	253.23
	Female	175	245.43
	Total	500	
Card 2	Male	325	241.38
	Female	175	267.44
	Total	500	
Card 3	Male	325	247.29
	Female	175	256.47
	Total	500	
Card 4	Male	325	251.17
	Female	175	249.26
	Total	500	
Card 5	Male	325	250.34
	Female	175	250.80
	Total	500	
Card 6	Male	325	247.18
	Female	175	256.67
	Total	500	
Card 7	Male	325	242.22
	Female	175	265.88
	Total	500	
Card 8	Male	325	253.60
	Female	175	244.73
	Total	500	
Card 9	Male	325	250.77
	Female	175	249.99
	Total	500	
Card 10	Male	325	255.93
	Female	175	240.42
	Total	500	
Card 11	Male	325	252.29
	Female	175	247.17
	Total	500	
Card 12	Male	325	239.42
	Female	175	271.08
	Total	500	
Card 13	Male	325	255.18
	Female	175	241.81
	Total	500	

Card 14	Male	325	256.92
	Female	175	238.59
	Total	500	
Card 15	Male	325	258.59
	Female	175	235.47
	Total	500	
Card 16	Male	325	255.07
	Female	175	242.01
	Total	500	

Table 10. Kruskal Wallis Test-Consumer Preferences and Gender-Test Statistics[a,b]

	Card 1	Card 2	Card 3	Card 4	Card 5	Card 6	Card 7	Card 8
Chi-Square	.384	3.839	.464	.020	.001	.497	3.095	.435
Df	1	1	1	1	1	1	1	1
Asymp. Sig.	.536	.050	.496	.887	.973	.481	.079	.509
a. Kruskal Wallis Test, b. Grouping Variable: Gender								

Table 10. Kruskal Wallis Test-Consumer Preferences and Gender-Test Statistics[a,b]

	Card 9	Card 10	Card 11	Card 12	Card 13	Card 14	Card 15	Card 16
Chi-Square	.003	1.329	.145	5.557	.994	1.884	3.072	.989
Df	1	1	1	1	1	1	1	1
Asymp. Sig.	.953	.249	.703	.018	.319	.170	.080	.320
a. Kruskal Wallis Test, b. Grouping Variable: Gender								

Interpretation: As all the results for all the 16 cards are greater than 0.05 the Null Hypothesis H_0 that "*There is no significance difference between consumer preference towards private label apparel brands and gender of consumers"* cannot be rejected.

XI: Conclusion:

The gender wise consumer preferences towards the private label apparel brands are that "Consumers prefer those private label apparel brands which have cheaper price than the branded apparel, even though they are of medium quality, the design of the private label apparel should be fashionable and they should also have deeper assortments." Hence the retailers should emphasize more on the above factors while producing the private label apparel. When they are pricing the private label apparel brands they should take care that the price of the private label apparel should be fixed in such a way that it should be less than the price of branded apparels and it should not be even equal to the price of that of the branded apparel. The consumers are even compromising when it comes to the quality of the private label apparel that it could be even of medium quality, because then only they can get the private label apparel for cheaper price. As apparel is very much to do with fashion and design, consumers are very much particular about the design of the private label apparel brands that they should be of fashionable design. The consumers are also very particular about the availability or the assortment of the private label apparel brands in the retail outlet and they prefer that the private label apparel should be having deeper assortments in the retail outlet, which means that the consumers prefer to have all the varieties of the private label apparel available in the retail outlet.

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An Exploration of Luxury Hotels in Tanzania

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Abstract

Tourism is a tradable service activity that could allow some African countries to generate significant growth. Tanzania, given its unique natural assets, is an ideal candidate. However, despite being so richly endowed in touristic resources, Tanzania receives very few tourists and revenues from tourism. To explore the determinants of this performance, I conduct an international survey for upscale hotel managers to measure supply-side constraints on the operation of hotels. The survey reveals that hotels in the safari area in Tanzania are more expensive than comparable hotels, and that this difference in price cannot be accounted for by differences in supply constraints. Further, using cross-country panel data, I show that upscale hotel prices account for a significant fraction of cross-country differences in tourists.

Motivation

Poor countries typically have underdeveloped manufacturing sectors which represent small shares of GDP. Furthermore, the existing industry tends to involve mostly extractive activities. The small size of manufacturing is the result of poor infrastructure, lack of technical knowledge, lack of manufacturing tradition, and lack of companies with the necessary know how, among other factors.

One route to overcome this problem consists in creating technology transfer organizations that facilitate the upgrade of technology and the acquisition of know how by old and new manufacturing companies. Two such organizations are the Technology Transfer Center and the Bureau of Industrial Cooperation of the College of Engineering and Technology of the University of Dar Es Salaam.

An alternative route to development is the Indian model, which, reacting to the bottlenecks that existed in manufacturing, has consisted of developing the service sector. The development of information technologies and the fact that globalization has become politically acceptable, have led to the outsourcing of activities to developing countries. With outsourcing, some services have become exportable, allowing producers of these services to gain access to international markets where the value of these services is significantly higher than in the domestic economy. Hence, the potential of certain services activities to become engines of growth in developing countries increases with the outsourcing of these activities.

However, the potential for outsourcing to lift Africa from poverty is limited due to the low education levels that prevail in most African countries. In other words, most African countries do not have a comparative advantage in the service activities that are outsourced.

Are there other service activities in which African countries may have a comparative advantage and that may be exported allowing African producers to access international markets in which buyers have a high willingness to pay?

This paper proposes one sector that satisfies these conditions: tourism. According to the World Travel and Tourism Council, tourism directly generates approximately 3% of World GDP and approximately 9% indirectly. The growth of the tourism sector has been central to the development of countries such as Spain, Mexico and Thailand, where the total contribution of tourism to GDP is approximately 14%. Tourism is a labor intensive activity. Approximately 3% of the world¹s employment occurs directly in tourism

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and an additional 6% consists of indirectly related activities.

A significant source of comparative advantage in tourism is the abundance of natural and historical endowments, which include a wide range of attractions that are sufficient to mobilize international tourists. Some African countries are fantastically endowed with such attractions, some of which cannot be found anywhere else in the world.

This paper focuses on Tanzania because it has all the components I have mentioned so far. It is a big country with relatively good governance, yet very poor, with a tiny manufacturing sector. It also has incredible natural landmarks such as the Rift Valley, Ngorongoro Crater, Lake Manyara, Mount Kilimanjaro, Zanzibar and other beautiful beaches in the Pacific and, above all, the Serengeti and the Great Migration.

The puzzle that I intend to explore in the paper is why, despite being so richly endowed in touristic resources, Tanzania receives very few tourists and so little revenues from tourism. In 2008, Tanzania received 0.017 visitors per inhabitant – the 17th lowest ratio out of 147 countries. The revenues from tourism in that year brought US$17 per inhabitant, the 22nd lowest out of 137 countries.

To explore the determinants of this performance, I have conducted an international survey for upscale hotel managers. The survey provides information on the hotels characteristics and prices as well as on the difficulties that managers have faced to open and operate the hotel. These difficulties try to measure supply side constraints on the operation of hotels.

The two most significant findings are that hotels in the safari area in Tanzania are expensive, and that this difference in price cannot be accounted by differences in supply constraints. I conclude then that they must be largely due to differences in markups.

Using the cross country differences in hotel prices from the survey, I explore the aggregate relationship between hotel prices and the number of tourists. I observe that once we take into account cross country differences in demand, upscale hotel prices account for a significant fraction of cross country differences in tourists.

I conclude by elaborating several hypotheses about what drives cross country differences in demand and drawing some policy implications of the analysis.

The paper is organized as follows: Section 1 provides a description of the economic and historic context in Tanzania and of the tourism sector paying special attention to the sector in Tanzania, Section 2 presents the research questions and the methodology followed, Section 3 presents and interprets the findings, Section 4 draws aggregate implications, and Section 5 concludes.

1. Context

1.1 Tanzania

History. Tanzania, the biggest nation in East Africa, is believed to be home to some of the earliest humans in the world. A wide variety of cultures and languages in the country reflects millennia of various migrations and visitors. As Tanzania is on the eastern coast of Africa and includes many small islands, trade is a large part of its history. Around 1,500 years ago, coastal and island parts of present day Tanzania were organized into Swahili city states that made small fortunes trading with merchants around the Indian Ocean and beyond. Present day Tanzania was formed in 1964 from the merger of the two separate territories of mainland Tanganyika and of Zanzibar, a collection of islands off the coast of Eastern Africa.

There are two main ethnic groups in Zanzibar: the Tumbatu, who occupy the northern part of the island, and the Hadimu, who occupy more than 60 per cent of the total Zanzibar island. For many years, each village community operated independently of one another in autonomous monarchies or chieftanships. Due to their lack of unity, the African tribes were subject to early colonization by Arabs. In the early 16th century, the Portuguese colonized the area for nearly two centuries before the locals, with the help of Omani Arabs, recaptured the land.[1] In the 18th and 19th centuries, Zanzibar and parts of the coastal mainland that later fell under Omani rule, held some of the largest slave ports in the Arab world. The country also became a center in the ivory trade.

British explorers first developed an interest in Tanzania in the mid 19^{th} century. Shortly after the Omani Sultanate outlawed the slave trade, Zanzibar formally became a British Protectorate. While the islands of present day Tanzania were colonized by the British, the mainland Tanganyika was colonized by the Germans in the late 19^{th} century. A violent period of German colonial domination ended after World War I, when control of the territory was awarded to the United Kingdom in a League of Nations mandate. Following World War II, Tanganyika became a UN trust territory under British control. By 1961, Tanganyika became an autonomous region that held its own general elections. On December 9, 1961, Tanganyika became the first East African state to gain independence.

Zanzibar achieved independence from Britain in January 1964. However, a bloody uprising against the Omani Sultanate tainted the start of Zanzibar's independence, leading to the killing of several thousand Arabs and widespread violence. After a period of confusion and anarchy, Zanzibar accepted an offer of union with Tanganyika. Thus, in April 1964, the United Republic of Tanzania was formed through the signing of the Union Agreement. Under this agreement, Zanzibar, accounting for 3% of Tanzania's population, would have extensive autonomy within Tanzania, with its own President, legislature and bureaucracy. Between 1995 and 2010, Tanzania successfully held four multi party democratic elections.[2]

The world economic forum has ranked Tanzania 83^{rd} out of 139 countries based on the quality of its institutions. Tanzania ranks relatively high on measures that capture trust of politicians, investor protection, and the efficiency of the government and the state (low wasteful spending, efficiency of legal framework, low regulatory burden and low favoritism by government). In these measures, Tanzania ranks around the median. The darkest spot in Tanzania institutional framework is the widespread payment of bribes (112^{th} out of 139 countries).

Economic structure. Tanzania is one of the world's poorest economies with a per capita GDP of US $1,500 (PPP).[3] However, income is relatively evenly distributed with a Gini coefficient of 34.6 in 2000. Agriculture accounts for over 40 per cent of the GDP and 80 per cent of employment. Industry amounts to nearly one fifth of the GDP. The most significant industrial activities are the processing of agricultural commodities such as sugar, beer, cigarettes and twine; the mining of natural resources such as diamonds, gold and iron, and salt; and the production of cement, soda ash, shoes, apparel, wood products, and fertilizer. Services make up over 38 per cent of the GDP (see **Exhibit 1**). Within services, education is particularly significant representing 6 per cent of the country's GDP.

Tanzania is rich in natural resources, including hydropower, tin, phosphates, iron ore, coal, diamonds, gemstones, gold, natural gas, and nickel. However, Tanzania's infrastructure is weak, with an aging rail and port system that is used primarily for trade with inland countries. The World Economic Forum has ranked Tanzania 128 out of 139 countries. There is virtually no bright spot in Tanzanian infrastructure. It ranks 133^{rd} in fixed telephone lines, 120^{th} in cell phone subscriptions, 122^{nd} in the quality of electricity supply and 104^{th} in the quality of roads. The inadequacy of infrastructures has attracted donations by international bodies, such as the World Bank and the IMF, and provision from bilateral donors. The country is still heavily reliant on foreign aid, with 30 per cent of its federal budget funded by donor assistance.[4]

1.2 Tourism

History of the sector. In 1963, the United Nations Conference on Tourism and International Travel met in Rome to discuss the tourism industry. As one of the first major international discussions on the topic, the conference adopted a definition of the term "tourist." According to the definitions set forth by the conference, a "tourist" is a visitor, domestic or otherwise, whose trip includes an overnight stay.[5] By 1970, the United Nations World Tourism Organization was established as the leading international organization in the field of tourism. Its mission is to serve as a global forum for tourism and policy issues, ensuring that the 154 member states maximize the positive economic, social and cultural effects of tourism.[6]

Tourism has since grown to be the largest industry in the world on most economic measures, including gross output, value added, employment, and capital investment. Gross output from tourism is an estimated

10.7 percent of all consumer spending, and the industry employs around 255 million people, or nearly 11 percent of the global work force. Jobs in the tourism and travel industry include accommodation, restaurants and other food services, transportation, amusements and attractions, leisure activities, gift shops and many other enterprises. Given that many of these areas also serve local residents, the precise impact of tourism may be under or overestimated.[7]

Tourism is also a rapidly expanding industry, growing at an average rate of 6.5 percent between 1950 2005, from 25 million to 806 million travelers. In the same period, the (nominal) income generated by these travelers grew even more quickly, at up to 11.2 percent. Along with the growth in the industry as a whole comes the emergence of new destinations, many of which are in developing nations. Travel to the top 15 destinations, most of which are developed countries, decreased from 88 percent of total international arrivals in 1950 to 57 percent in 2005. In many developing nations, tourism has become one of the main income sources. By 2009, international tourism generated around US $852 billion in export earnings.[8] Added to the estimated $165 billion per year received from international passenger transport, the international tourism sector generates an average of nearly US$3 billion a day in earnings.[9]

Europe leads international tourism in volume, hosting 471 million visitors in the 2010, over 64% of its total population of 732.7 million residents. The Americas comes in third with 151 million visitors, about 20% of the total population of 745 million. The Middle East hosted 60 million visitors in 2010, about 14% of the population of 444 million. In contrast, Africa hosted 49 million visitors, representing less than 5% of the 1.03 billion residents of the continent. And even though tourism in Asia grew rapidly in the early 2000s, reaching a record 204 million that same year, this still only amounted to about 5% of the population of 4.16 billion.[10,11] The tourism industries in Asia and Africa thus have significant potential to grow, and can take the ratio of tourists to residents in Europe and the Americas as upper bounds to development in the respective tourism sectors.

Tourism in Tanzania and surrounding areas:

Tanzania's rich, well preserved plant and animal life, both terrestrial and marine, are great attractions to tourists. Lured by its wildlife, the first visitors embarked in safaris at the end of the 19th century. Since then, large areas of the country have been dedicated to wildlife preservation, and what began as game hunting safaris have transformed into peaceful observations of the animals from buses or camping grounds.[12] A total of 28 percent of Tanzania's land area is protected for wildlife and nature, two thirds of which do not allow any human settlement.[13] In comparison, only 8 percent of Kenya's total land area is preserved for wildlife.[14]

Tanzania also shows off its rich cultural heritage of over 100 ethnic tribes to visitors, allowing tourists to experience the cuisines, music, and performances of the local peoples.[15] Zanzibar hosts more tranquil tourist attractions, including beaches and diving and snorkeling sites.[16] Tourists are also attracted to the islands because of the unique Zanzibari culture that is made up of a unique blend of Persian, African, Arab, Asian, and European heritage. In addition, Zanzibar is known for culinary experiences using the wide variety of spices and plants grown on the islands. Tourists also can explore the exotic species of wildlife inhabiting the area.[17]

The Seychelles islands boast beaches, natural parks, and marine parks, in addition to a modest number of bars and casinos. Diving, fishing, hiking, and island hopping are popular activities for tourists in the area. However, the Seychelles does not have nearly as rich or diverse a culture as Tanzania, nor does it have as exotic a collection of animals.[18]

Kenya, one of the more popular tourist destinations in Africa, is known as one of the original African safari locations, boasting lions, elephants, rhinos, leopards, and buffalo, among many others. The country is also known for its tropical beaches, coral reefs, and scenic mountains. In 2010, Kenya hosted a record number of tourists, at just over 1 million visitors to a nation of just over 41 million residents.[19]

In 2007, Tanzania had 692,000 visitors, over a 10 percent increase from the previous year.[20] Tourism increased further in 2008, with 750,000 visitors.[21] The Seychelles also experienced a large increase in tourism in the late 2000s, with over 174,000 tourist arrivals in 2010, representing a 10 percent increase from the previous year.[22] In the Seychelles, the number of tourists represents nearly 200 percent of the nation's population, while Tanzania's tourist volume amounts to less than 2 percent of the total Tanzanian population.[23] [24]

The tourism industry in Tanzania has yet to reach its full potential. In a 2010 survey of 109 Tanzanian hotels, the 54 hotels that responded to the survey reported an average bed occupancy rate of 35.6 percent, indicating that thousands of hotel beds are unoccupied each month. Of the beds occupied, nearly 50 percent are booked by international visitors.[25] The average tourist spent US $149 per day for an average of 11 days in Tanzania in 2009, earning the country about $1,600 per tourist.[26] In the Seychelles, on the other hand, the average bed occupancy rate of hotels has remained well over 50 percent for several years by the late 2000s. The tourists' average length of stay is around ten nights, with the number of visitors per month varying little by season, and each visitor spending over $2,200.[27] Over 75 percent of tourists visiting the Seychelles in 2010 were from Europe, while 13 percent were from Africa, and less than 10 percent from Asia.[28]

2. Empirical Strategy

2.1 Research questions and methodology

The goal of this study is to increase our understanding of the following questions:

- Why are there so few tourists in Tanzania?
- Is it because it is an expensive destination?
- If so why? Is it a problem of high marginal cost, or high markups?
- Why are markups so large?
- What would it take to increase the revenues?

Methodology . To explore these issues, I collected direct information from hotel managers on the importance of several potential constraints they face in opening and operating their hotels. The goal of the survey is twofold. It is reasonable to suppose that the decisions made by an individual hotel manager have little impact in the aggregate demand of tourism services in a country. Once aggregate demand is taken as given, the information from the hotel survey can be used to ascertain the relevance of various factors that impact the effect of the supply of hotel services on prices. After exploring the scope of supply factors to account for the dispersion in hotel prices, I inspected the significance of country level shifters on demand by correlating the size of the tourist sector and the aggregate of hotel prices.

The centerpiece of the analysis is the survey of hotel managers. Because I wanted to conduct a cross country micro level study of hotels I need to collect information on many hotels in various countries. The survey was administered personally, over the phone and via internet. Hotel selection was done in two stages. First, I selected the countries and how densely they should be covered in the dataset. Given the focus of this study, there is an over representation of developing countries where either there is a large tourism sector or where it could potentially be large due to its natural endowment. Examples of such countries include Mexico, Thailand, Colombia and Peru. In the sample there is a disproportionate number of hotels in Africa, especially in Tanzania, as it is the focus of this study.

In a second stage, my research assistants and I produced a list of hotels in target countries. We focused on hotels that declare to be four or five star hotels. The list was made based on an internet search. We then went down the list contacting hotel managers by phone or by visiting them (in Tanzania, Seychelles and Peru). Either way, we administered the hotel survey to the hotel managers or invited them to fill it online.

The focus on luxury hotels was motivated by several grounds. First, luxury hotels reflect the state of the art "technology" in hotel services. Hence, they are a natural way to measure the diffusion of the knowledge and techniques that are necessary to deliver "great" hotel services. Second, the presence of internationally recognized luxury hotels is necessary for the tourism sector of the given country to attract a significant number of foreigners and to become a significant driver of the economy. Third, the prices of luxury hotels reflect the state of the tourism sector. The development of the tourism sector follows several stages. In an initial stage only local hostels and typically bad hotels cater to domestic visitors and back packers. Once the destination reaches a minimal international recognition, few (typically one or two) foreign chains enter the market with upscale hotels, which cater to demanding international visitors. At this point, there is a gap in the distribution of hotels due to the relative lack of three and four stars hotels. As time goes by and local producers learn to deliver the services demanded by foreign visitors, they develop new three and four stars hotels and the distribution of hotels by star rating reaches its ergodic form. In this final distribution, both backpacker lodges and luxury hotels have a lower density. Note that the distribution of hotels by rating will affect the prices of luxury hotels. When there is little competition from three and four star hotels, luxury hotels will charge higher markups since international visitors that do not want to stay in backpacker lodges have no alternative than staying in the luxury hotels. As the destination becomes internationally recognized and there is more entry at the three and four star hotel level, luxury hotels may have to reduce their markups to remain competitive with foreign visitors. Hence, the prices of luxury hotels provide valuable information on the state of the tourist sector. Fourth, it is easier to obtain information on luxury hotels since they typically have international managers and webpages. Finally, luxury hotels tend to have an international clientele. This is particularly relevant because foreigners are more willing or able to spend money in tourist services and hence have a larger potential to make tourism a significant driver of growth in the economy.

Design of the survey. The survey is reproduced in the appendix. In the presentation section, I guarantee the confidentiality of the answers to the hotel managers. The first part of the survey collects "demographic" information about the hotel and the hotel manager. This includes hotel name, number of years since construction, whether it belongs to a hotel chain, number of rooms, star rating, and, the price for a double room in high (but not peak) season. When possible, the survey requests the internet rate. Next, the survey collects demographic data from the hotel manager. This includes his/her name, nationality and years of experience in the position and in the sector.

The following section of the survey asks about the significance of various challenges to the creation and operation of the hotel. These include:

1. Deficits in physical infrastructure (roads, harbors, airports, trains, etc...) and in telecommunications (telephone lines, cell phone networks, and internet).
2. Costs and delays in obtaining permits and licenses.
3. Costs of obtaining credit.
4. Restrictions and tariffs to the importation of goods.
5. Scarcity of qualified workers and labor regulations
6. High taxes and lack of subsidies
7. High degree of competition
8. High crime rate
9. Corruption of officials and workers

The final section invites hotel managers to describe their view about the key factors to succeed in the hotel business.

In addition to the answers to the survey, we collect other information about the hotels and the country where they are located. In particular, we use www.tripadvisor.com to collect information on the rating of the hotels by guests (both the average rating and the percent of guests that recommend it) as well as the number of reviews made on each hotel. From the World Bank, we collect data on income per capita and expropriation risk in the country.[2]

3. Analysis and findings

Descriptive statistics.— The dataset contains information on 129 hotels though we have been able to collect all the variables for only 119 of them. These hotels are located in 30 countries. Thirty of the 119 hotels are in Tanzania. Half of these hotels are in safari areas, the majority of the other half is in the islands, and the remaining few are in Dar es Salaam.

Table 1a reports means and standard deviations for all the variables for both the Tanzanian hotels and for the Tanzanian hotels in the safari areas. The hotels in the sample are very good hotels. The average self reported number of stars for the hotels in the sample is 4.65 with a standard deviation of 0.5. The average rating at tripadvisor.com is 4.17 with a standard deviation of 0.48. 85% percent of the visitors that write a review at TripAdvisor recommend the hotels at which they stayed. The average number of reviews is approximately 160. The average price is $560 with a standard deviation of $542. On average, the hotels in the sample are small (159 rooms) but the dispersion is relatively large (192). They are relatively new hotels (14 years of age on average). With respect to the relative importance of the various constraints, none of them seems particularly relevant on average. The expropriation risk also seems low.

Hotels in Tanzania are similar to the other hotels in the sample though they are some differences. They have a slightly higher rating than the average hotel in sample (4.36 vs. 4.16); fewer belong to chains (56% vs. 72%) are smaller (45 rooms vs. 159 rooms) and are younger (7.7 years vs. 14.15 years). The most significant difference though is that they are more expensive. The average price for a double average in high (but not peak) season in Tanzania is $731, while in the overall sample it is $560. This difference is more puzzling after realizing that Tanzania is a very poor country where annual income per capita is $500 ($1228 in PPP) while the average country in the sample has income of $8968 ($11203 in PPP).

This raises one of the key questions that motivates this paper.

Why are hotel prices so high in Tanzania?

One natural possibility is that the costs of opening and operating hotels in Tanzania are higher. To superficially assess this hypothesis we compare the managers' answers to the questions on the relevance of constraints, and as shown in Table 1, it does not seem that there are striking differences between the constraints faced by hotels in Tanzania and hotels elsewhere. The infrastructure deficit seems a bit more binding (3.4 vs. 3.01), as does the cost of importing goods (3.4 vs. 3.07) and corruption (2.76 vs. 2.52). On the contrary, the average relevance of crime (1.8 vs. 2.18), taxes (2.6 vs. 2.7), and administrative costs of obtaining permits and licenses (2.9 vs. 3.06) are lower. None of these differences seems economically or statistically significant. Slightly more relevant seems to be the competition between the hotels in the sample and their main rivals, which in the overall sample has an average relevance of 2.88 while in Tanzania it is only 2.28.

Within Tanzania, there seems to be two distinct markets: the safari and the beach areas. Table 1b reports summary statistics in these two markets. The most striking difference is that the price per room in the beach areas (mostly Zanzibar and the surrounding islands) is significantly lower than in the safari areas ($338 vs. $1140). Furthermore, hotel managers in Zanzibar reported a smaller significance of the infrastructure deficit (3.7 vs. 2.9), administrative barriers (2.9 vs. 2.5) and financing constraints (3.7 vs. 1.9) for the operation of their businesses.

Within country variation .— To further understand the drivers of the differences in hotel prices, we explore how much of the variation can be accounted for by the various measures of the quality of service as well as by the factors that may constrain the supply identified in the survey. To this end, we estimate the following regression:

pic=a0+a1*Xic+b0*Safari+b1*Zanzibar+uic, (1)

where "i" indexes the hotel, "c" the country, "p" is the log price of a double hotel room in high season, X is a vector of controls, Safari is a dummy that takes the value of 1 if the hotel is in Tanzania in the safari area (and is 0 otherwise), and Zanzibar is a dummy that is 1 if the hotel is in Zanzibar and surrounding beach areas (and is 0 otherwise). Finally, "u" is a Gaussian error term.[3]

Table 2 reports the estimates from this regression for various specifications of the set of controls, X. The quality of the hotel as measured both by the self reported number of stars and the rating from tripadvisor.com has strong positive and significant effects on the hotel price. Each additional star increases the hotel price by 40 to 60 percent while each additional point in TripAvisor's rating (which also runs from 1 to 5) is associated with a 40 to 50 percent increase in price. Moreover, the size of the hotel influences the cost

3 All standard errors are robust and clustered at the country level.

of accommodation; larger hotels charge lower prices. In particular, increasing the size of the hotel by one percent is associated with a 0.2 percent reduction in the price.

In the first column, we observe that the dummy for Tanzanian hotels in safari areas is positive and significant. In particular, these hotels have between 65 and 80% higher. In contrast, the Zanzibar dummy is not significantly associated with higher prices. The inclusion of the safari and Zanzibar dummies increases the explanatory power of the specification by 7 percentage points.

The significance of the dummy for the safari hotels in Tanzania persists after controlling for several factors that affect the profitability of hotels. The first of these factors is the degree of competition. As one would expect, higher perceived competition is associated with lower hotel prices; this effect is large and significant. Increasing the rating of perceived competition by one point on a scale of 1 to 5 reduces prices by 17 %. Further, competition increases the explanatory power of the specification by 6% percent. In column 2, I explore the relative effect of competition from similarly rated hotels and from hotels with lower star ratings. It turns out that the presence of competition from hotels in a lower star category significantly reduces (13 % vs. 7%) the prices of luxury hotels.

Other factors affect the price of hotel services because of their potential effects on the cost of supplying these services. As shown in columns 3 and 4, a few of the factors included in the survey appear to have a significant effect on prices. Both the constraints on employment, in terms of both labor regulations and lack of adequate workers, and expropriation risk appear to be factors that are associated with higher hotel prices. In some specifications, corruption and crime are also significant but enter with an opposite sign than one would expect, implying that higher corruption and crime are associated with lower prices. One interpretation of these coefficients is that corruption and crime may lower demand more than supply and hence cause the negative effect on the prices.

One last factor that affects hotel prices is whether hotels belong to a chain. Belonging to a chain is associated approximately with 50% higher prices than independently owned hotels.

As mentioned above, the Tanzania dummy for hotels in the safari area is large and significant despite controlling for the factors that affect the cost of supplying upscale hotel services. This suggests that Tanzanian hotels in the safari areas charge very high markups, deterring the arrival of tourists. This is quite evident when comparing the prices charged by Tanzanian and Kenyan hotels in safari areas.[4] As shown in Table 3, despite their higher rating on TripAdvisor (4.8 vs. 4.4), their smaller size (15 vs. 33 rooms), and their location in a richer country, safari hotels in Kenya are on average US$300 cheaper per night than those in Tanzania. . The only variable that could help rationalize some of the differences in prices, based on the estimates from Table 2, is the higher competition reported by Kenyan hotel managers than by their Tanzanian counterparts. This, however, is not sufficient to explain the difference in the prices charged by safari hotels in Tanzania and Kenya.

Aggregate implications of hotel prices .— To explore the aggregate consequences of the findings so far and to further increase our understanding of the hotel sector, it is worthwhile exploring the relationship between hotel prices and the aggregate size of the tourism sector. Table 4 reports the estimates from the following regression:

$$\text{Tourists\_capita}_c = a0 + a1 * \text{lprice}_c + u_c, \quad (2)$$

where Tourists_capita is the number of foreign visitors per capita in 2008, and lprice denotes the average log price of upscale hotels in the given country.

Column 1 reports a surprising finding: upscale hotel prices are associated with a greater number of visitors per capita. This relationship still holds after controlling for per capita income. The positive association between hotel prices and number of tourists suggests that demand shifts are important to explain

4 All Kenyan hotels in our sample are located in the Masai Mara area, which borders with Tanzania.

the relationship between hotel prices and number of visitors. To see why this is the case, consider the scenario where the demand for tourism was the same across countries (see Figure 2a). In this context, we should expect a negative relationship between prices and quantities, because cross country differences in these variables would reflect countries' differing placements along the single, unique demand curve.

An alternative is that different countries face different demand curves. As shown in Figure 2b, if we do not control for heterogeneity in demand, we may observe a positive cross country relationship between quantities and prices. However, once we control for demand heterogeneity, we should observe a negative relationship between hotel prices and number of visitors.

Column 3 of Table 4 attempts to control for the cross country heterogeneity in demand with the number of visitors in 2003. The number of visitors in the past may be a good proxy for current demand for at least two reasons. First, it should reflect the inherent attractiveness of the country. Second, if we assume that information about the attractiveness of a destination is transmitted via word of mouth, a greater amount of past visitors should directly influence the number of tourists considering travel to the destination.

After controlling for demand heterogeneity by the number of past tourists, we observe that upscale hotel prices have a significant negative effect on the current number of tourists. In particular, 1% higher hotel prices are associated with 0.3% reduction in number of visitors. Put differently, an increase of one standard deviation in hotel prices is associated with 10% of one standard deviation in the log number of tourists per capita.

4. Drivers of cross country demand heterogeneity and policy Implications

Table 4 suggests how significant is the effect of upscale hotel prices on the current number of visitors. However, it also shows that cross country demand shifters are very large. Therefore, understanding what drives this demand heterogeneity is key for the development of a successful tourism sector. This question goes beyond the scope of this paper. However, after having spent a few years studying the tourism sector and having talked to numerous government officials, hotel managers and members of tourism associations, I can formulate some hypotheses that I am confident are at least reasonable educated guesses.

One hypothesis is that the history of hotel prices should be a significant driver of cross country differences in demand. This hypothesis is almost a corollary to the findings in Table 4. If hotel prices reduce the number of tourists, and if current number of visits has so much effect upon future visits, the history of upscale hotel prices should be an important driver for the demand of a destination.

This argument raises four questions:

1. Is there any reason to believe that upscale hotel prices are more important than other hotel prices?
2. Why is there so much persistence in the number of visitors?
3. Should the government intervene to alter this persistence?
4. If so, how?

My answer to the first question is that upscale hotel prices provide valuable information about the state of the hotel services sector and its market structure. As mentioned above, expensive upscale hotels probably result from lack of competition from 3 and 4 stars hotels. As observed in Table 2, the competition from hotels with a lower category rating has a greater effect on upscale hotel prices than the competition from similarly ranked hotels.

The large association between the past and future number of visitors may reflect a variety of mechanisms. Two that I would like to stress are word of mouth and learning by doing. As mentioned above, word of mouth is possibly one of the key ways for the information about a destination's attractiveness and appeal to spread around. The larger the number of past visitors, the faster the diffusion of this information, and the larger the potential number of visitors that will consider the destination for vacation.

Learning by doing in hotels services is also an important driver of the persistence of the number of visitors.

It takes many years for the local population to understand what the foreign visitors demand and how to provide those services. The more visitors a country receives, the faster the learning is likely to occur. In my visits to Africa, I encountered many more local managers and owners of hotels in the more mature destinations. In less mature destinations, such as Tanzania, I encountered managers who, after working for upscale hotels for a significant number of years, had plans to start their own business in the tourism sector. Often, they planned to start in the hotel sector since the knowledge and capital required to start a hotel is significantly larger than, say, to start a travel agency. In some cases, local owners of travel agencies expand their services to the hotel industry.[5]

One important issue is whether the persistence of hotel visitors is optimal. That is, does it result from frictions and externalities or from conscious decisions of agents that internalize all the consequences of their decisions?

The answer to this question must be the former one. Clearly, hotel owners and managers do not take into account all the effects of the services they provide and the prices they set on word of mouth effects since most of these will affect the location more than the hotel per se. The same can be said about learning by doing. In addition to these two mechanisms, the pricing choices of hotels may have important externalities that I would like to discuss next.

When a few hotels in a destination charge a high price, they reduce their individual demand, but they also increase the average perceived cost of travelling to this destination. These perceptions about how expensive a destination is are important because they are likely to influence the number of tourists who are considering vacationing to this destination. Further, because pricing decisions affect the number of potential tourists, they also affect, in the medium term, entry. Places with higher prices, relative to the demand, tend to receive fewer tourists and as a result, fewer new hotels are built. This results in lower competition and higher markups. This is how I interpret the market structure in places like the safari area of Tanzania or Peru. If this hypothesis is true, the resulting scenario is suboptimal because a reduction in prices could lead to an inflow of tourists and potentially to more aggregate profits from tourism. (of course, the revenues will be also higher.)

In the light of these arguments, I conclude that there are significant externalities that lead to market inefficiencies and that give ample justification for the government to try increasing the touristic demand for its destination.

The final question I would like to address is how can the government of a certain country increase its touristic demand. From the arguments and findings presented above, it seems desirable to subsidize the creation of new hotels and the prices of hotel rooms. These types of measures are uncommon. Much more accepted practices are international marketing campaigns. Many of the managers and tourism specialists I met in Zanzibar argued for the necessity of an international marketing campaign in order to increase both the popularity of the island as well as to position it in the upscale market. It is probably difficult to attain both of these objectives simultaneously. In the Seychelles for example, the government has been careful to allocate new hotel licenses to upscale hotels and to be more flexible in the requirements regarding the minimum share of local workers with upscale hotels. Of course, they have targeted an upscale clientele after having reached a certain market size. At this point, the Seychelles and Zanzibar have a similar number of foreign visitors, but Zanzibar has approximately ten times the population of the Seychelles.

Another relevant comparison can be made between the Serengeti National Park in Tanzania and Masai Mara in Kenya. Masai Mara is the Kenyan side of the Serenegeti, occupying just one tenth of the total size of the Serengeti. However, it attracts ten times more visitors than Serengeti National Park in Tanzania. Is the low number of visitors in Serengeti National Park a suboptimal outcome or the optimal outcome once we take into account the value of preserving the unique ecosystems of the Serengeti?

I think the low number of tourists in the Tanzanian

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[5] This is for example the case of Tanganyika Wilderness Camps.

safari areas is sub optimally low for a number of reasons. First, it is, at least in part, due to policy mistakes in the past. During the Nyerere period (1961-85), tourism was believed to lead to dependency from the developed world. [29] Therefore the government invested few funds into tourism infrastructure and discouraged private and foreign investment.[30] Second, Tanzania is a very poor country that could greatly benefit from tourism. Third, a sizeable share of the rents from tourism is being captured by international hotel chains that host upscale tourists in their hotels and provide them with all the services they need. As a result, most of the local population does not benefit directly from tourism, other than the few workers that are employed in the hotels. Despite the high ratio of employee to tourist in upscale hotels, the very limited number of tourists overall greatly constrains the number of workers in the tourist sector. Fourth, the environmental impact of tourism can be greatly reduced by developing the adequate infrastructure that enables the parks to accommodate the demand, including the design of well preserved roads, rests areas, park rangers, and properly trained guides. Informal conversations with hotel managers make me think that few of the high entrance fees collected by the government are spent in developing this infrastructure.

5. Conclusions

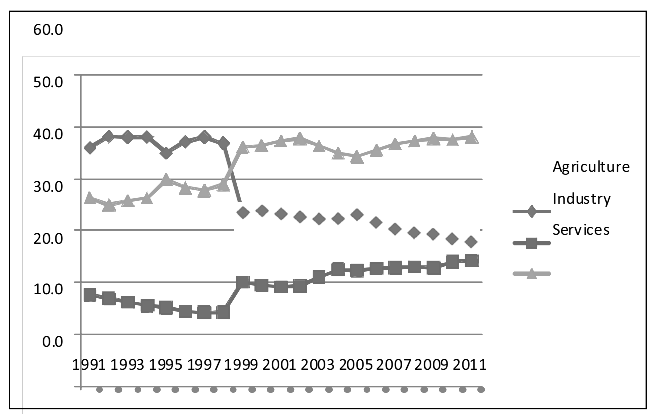
As the experiences of countries such as Spain, Thailand and Mexico suggest, tourism can be an important engine of growth and a significant source of added value in an economy. The potential for tourism to play such an important role is a greater priority in poor countries with innate natural and historical assets. One such country is Tanzania.

The goal of this project was to explore the drivers and influencing factors on the size of the tourism sector, particularly to understand why, despite all its potential, so few tourists travel to Tanzania. The starting point of the exploration was the abnormally high prices of upscale hotels in Tanzania, especially in the safari areas. After conducting a cross country survey to hotel managers, I have concluded that the factors that may affect the cost of supplying upscale hotel services are not sufficient to explain the abnormally high prices. I infer from this data that a more likely candidate is high markups. The interviews with hotel managers supported this conclusion.

Subsequently, I explored the consequences that high prices of upscale hotels may have for the total number of foreign visitors to the country. This exploration has yield three conclusions: that cross country differences in demand are large, that once we control for these differences, discrepancies in upscale hotel prices account for a significant share of cross country differences in demand, and that cross country differences in demand are very persistent.

Finally, I have speculated about the causes of cross country differences in demand and what implications they may have on policy. I have emphasized the role of word of mouth, learning by doing, and pecuniary externalities in driving differences in demand and argued that, on the basis of these factors, there may be room for the government to induce lower hotel prices and to try to independently increase the foreign perception of the country's attractiveness.

Exhibit 1 : GDP shares of agriculture, manufacturing and services in Tanzania



Source : World Bank

Figure 2a: Same Demand

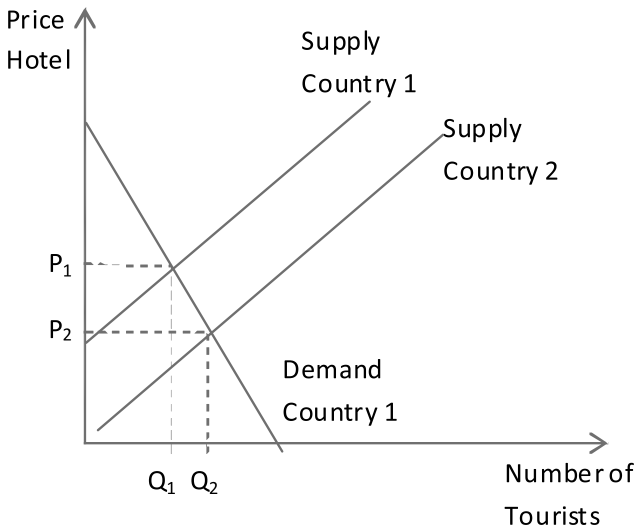


Figure 2b: Different Demand

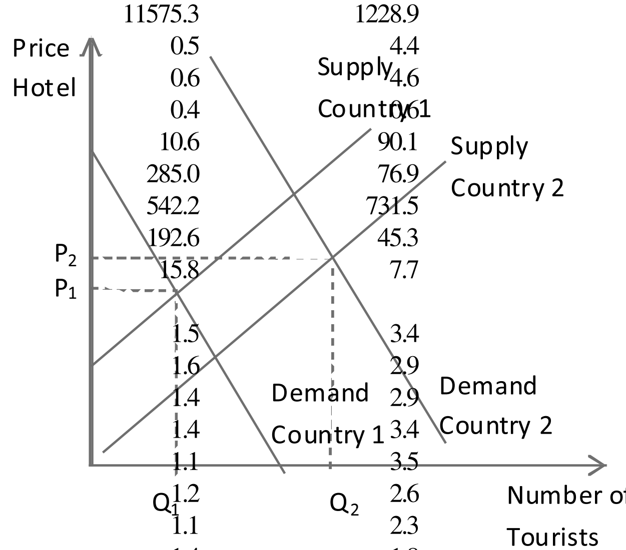


Table 1: Descriptive statistics for hotels in full sample and in Tanzania

	All Countries		Tanzania	
	Mean	**St. Deviation**	**Mean**	**St. Deviation**
GDP per capita (USD)	8968.2	12239.3	501.9	0.0
GDP per capita (PPP)	11203.7	11575.3	1228.9	0.0
Rating (trip advisor)	4.2	0.5	4.4	0.4
Star (self-reported)	4.7	0.6	4.6	0.6
Chain	0.7	0.4	0.6	0.5
% recommended	85.1	10.6	90.1	7.8
Number of reviews	160.0	285.0	76.9	64.9
Price per night (USD)	559.4	542.2	731.5	714.7
Number rooms	159.1	192.6	45.3	51.9
Age of hotel	14.1	15.8	7.7	6.9
Importance of constraints				
Infrastructure	3.0	1.5	3.4	1.4
Administrative	3.1	1.6	2.9	1.5
Cost of Finance	2.7	1.4	2.9	1.6
Cost of Importing goods	3.1	1.4	3.4	1.3
Employment	3.6	1.1	3.5	1.0
Taxes	2.7	1.2	2.6	1.3
Competition	2.9	1.1	2.3	1.0
Crime	2.2	1.4	1.8	1.2
Corruption	2.5	1.3	2.8	1.3
Lack of expropriation risk *	9.3	1.0	9.0	0.0
Number of observations	119		30	
Number of countries		30		

* Higher means lower risk

Table 2: Determinants of hotel prices

	(log) Hotel Price			
Log GDP per capita	0.13	0.13	0.12	0.12
	(0.06)	(0.05)	(0.054)	(0.04)
Rating tripadvisor.com	0.43	0.41	0.42	0.42
	(0.14)	(0.15)	(0.13)	(0.13)
Self-reported Stars	0.60	0.56	0.57	0.46
	(0.09)	(0.09)	(0.109)	(0.107)
(log) number of rooms	-0.22	-0.16	-0.13	-0.19
	(0.06)	(0.06)	(0.06)	(0.05)
Tanzania-Safari	0.79	0.80	0.77	0.65
	(0.14)	(0.11)	(0.16)	(0.12)
Tanzania-Zanzibar	-0.16	-0.29	-0.36	-0.13
	(0.14)	(0.15)	(0.15)	(0.14)
Competition			-0.17	-0.17
			(0.06)	(0.05)
Competition with same category		-0.07		
		(0.05)		
Competition with Lower category		-0.13		
		(0.04)		
Infrastructure			0.03	0.04
			(0.05)	(0.04)
Administrative			0.02	0.01
			(0.04)	(0.03)
Finance			-0.01	0.00
			(0.04)	(0.03)
Imports			0.03	0.01
			(0.04)	(0.04)
Employment			0.09	0.11
			(0.04)	(0.03)
Tax			0.02	0.04
			(0.05)	(0.04)
Crime			-0.10	-0.08
			(0.05)	(0.04)
Corruption			-0.08	-0.10
			(0.07)	(0.05)
Lack of expropriation risk			-0.12	-0.12
			(0.04)	(0.03)
Hotel Chain				0.53
				(0.14)
N	118	117	117	117
R2	0.49	0.56	0.62	0.67

Note: All regressions include a constant. Standard errors (in parenthesis) are robust and clustered at the country level.

Table 3: Descriptive statistics of Safari hotels in Tanzania and Kenya

	Tanzania-Safari		Kenya-Safari	
	Mean	**St. Deviation**	**Mean**	**St. Deviation**
gdp per capita (USD)	501.9	0.0	720	0.0
gdp per capita (PPP)	1228.9	0.0	1543	0.0
rating (trip advisor)	4.4	0.2	4.8	0.3
star self-reported	4.7	0.5	4.6	0.5
chain0.8	0.4	0.7	0.5	
% recommended	91.4	4.7	96.7	2.8
number of reviews	50.8	26.8	66.0	23.1
price per night (USD)	1140.3	815.5	805.7	416.8
number rooms	33.5	27.5	15.1	15.6
age of hotel	9.6	8.4	7.4	3.6
Importance of constraints				
Infrastructure	3.7	1.2	3.1	1.2
Administrative	2.9	1.3	3.7	1.5
Cost of Finance	3.7	1.5	2.7	1.5
Cost of Importing goods	3.4	1.3	2.7	1.0
Employment	3.5	0.8	3.3	0.9
Taxes2.4	1.1	3.5	0.9	
Competition	2.5	1.1	3.3	0.6
Crime1.8	1.1	1.1	0.4	
Corruption	3.0	1.3	1.6	0.6
Lack of expropriation risk *	9.0	0.0	9	0
Number of observations	15		7	

* Higher means lower risk

Table 4. Upscale hotel prices and number of International visitors

	(log) International tourists per capita 2008			
log price upscale hotels	1.07	0.71	-0.29	-0.33
	(0.38)	(0.39)	(0.13)	(0.15)
log GDP per capita		0.73		-0.08
		(0.21)		(0.02)
(log) International tourists per capita 2003			0.94	0.99
			(0.03)	(0.05)
N	30	28	28	28
R2	0.16	0.42	0.96	0.96

Note: All regressions include a constant.
Standard errors (in parenthesis) are robust.

Appendix A: World Heritage sites in Tanzania

Tanzania has eight World Heritage Sites:[6]

Kilimanjaro National Park

The Kilimanjaro National Park is located near Moshi, Tanzania. It is centered on Mount Kilimanjaro, and covers an area of 753 square km (291 square miles). It was classified as a National Park in 1973 and was opened to public access in 1977. In 1987, the park became a UNESCO World Heritage Site.

Stone Town, Zanzibar

Stone Town, or Mji Mkongwe in Swahili meaning "ancient town", is the old part of Zanzibar City. The old town is built on a triangular peninsula of land on the western coast of the island and was awarded World Heritage Site status in 2000 . Justification for the inscription includes "its rich cultural fusion and harmonization; its great symbolic importance in the suppression of slavery; and the intense seaborne trading activity between Asia and Africa, which is illustrated today in the exceptional architecture and urban structure of the Stone Town."

The Ngorongoro Conservation Area

The Ngorongoro Conservation Area (NCA) is situated 180 km west of Arusha and covers an area of 8,288 square km (3,200 square miles). Its boundaries follow the boundary of the Ngorongoro Division of Ngorongoro District. The NCA supports a resident population of wildlife of up to 25,000 predominantly grazing animals. The conservation area is administered by the Ngorongoro Conservation Area Authority.

Selous Game Reserve

The Selous Game Reserve, located in the south of Tanzania, covers a total area of 54,600 square km (21,081 square miles) and is one of the largest fauna reserves of the world. It was designated a UNESCO World Heritage Site in 1982 due to the diversity of its wildlife and undisturbed nature. The reserve is home to typical savannah animals such as elephants, hippopotami, the rare African Wild Dog and crocodiles, which are all found in larger numbers compared to any other African park.

Serengeti National Park

The Serengeti National Park is Tanzania's oldest park, and one of the world's last great wildlife refuges, hence its World Heritage Site status. It is most famous for its annual migration of over one million white bearded (or brindled) wildebeest and 200,000 zebra. The park covers 14,763 square km (5,700 square miles) of grassland plains and savanna as well as riverine forest and woodlands. The park lies in the north of the country, bordered to the north by the national Tanzanian and Kenyan border, where it is contiguous with the Masai Mara National Reserve.

Kondoa Rock Art Sites

The Kondoa rock art site is a series of caves carved into the side of a hill looking out over the steppe. The cave site is nine kilometers off the main highway from Kondoa to Arusha, about 20 km north of Kondoa. The site has a collection of images from over 150 shelters depicting elongated people, animals, and hunting scenes.

Ruins of Kilwa Kisiwani and Ruins of Songo Mnara

The remains of two East African ports admired by early European explorers are situated on two small islands near the coast. From the 13th to the 16th century, the merchants of Kilwa dealt in gold, silver, pearls, perfumes, Arabian crockery, Persian earthenware, and Chinese porcelain; much of the trade in the Indian Ocean thus passed through their hands. Serious archeological investigation began in the 1950s. In 1981, it was declared a World Heritage Site. Some of the most remarkable ruins of the two sites include the Great Mosque and the Mkutini Palace. These ruins are also on the List of World Heritage in Danger.

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[6] This section borrows from http://www.tanzaniatourismonline.net/world_heritage_sites.html

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Talent hits a target no one else can hit; Genius hits a target no one else can see.

Arthur Schopenhauer

The reasonable man adapts himself to the world; the unreasonable one persists in trying to adapt the world to himself. Therefore, all progress depends on the unreasonable man.

George Bernard Shaw

A Ghanaian NGO's Quest for Socio-Economic Change: The Case of Jaksally

Priyanka Jayashankar*, Robert V. Goedegebuure*, Albert Ankrah***

Abstract

The case study focuses on how the NGO Jaksally has developed a multi-pronged approach towards poverty alleviation in rural Ghana. Jaksally, which had initially specialised in value chain development to uplift low income groups, is now diversifying its activities by foraying into healthcare, children's education and governance. The authors discuss to what extant Jaksally has succeeded in fulfilling its social mission of empowering women and the rural youth and in enhancing its outreach through various social interventions. The unique features of Jaksally's microfinance and enterprise development programmes have been brought to light. In the concluding framework of the case study, the authors outline the core strategies, which have enabled Jaksally to scale up its operations and enhance the social impact of its programmes. The various impediments to Jaksally's expansion have also been discussed in the case study.

I. Introduction:

Ghana is considered a West African success story, as it has made great strides in attaining both political and economic stability (IFAD, 2011). Nonetheless, the country has been predominantly relying on the exports of primary products (such as cocoa, gold and timber) and as a result, it has become vulnerable to commodity price fluctuations. As of 2003, the World Bank had estimated that food crop farmers constituted 59% of the poor in Ghana.

There is a high incidence of poverty in rural areas of Ghana, especially in self-employed households cultivating rural crops (Steel and Andah, 2003.) North Ghana, which is characterised by dry-Savanna vegetation, is drought-prone and small-scale farmers in the region lack access to modern agricultural inputs and basic social services and infrastructure (IFAD, 2011). While half of Ghana's workforce is concentrated in the agricultural sector (IFAD, 2011), small farmers, especially those engaged in shea cultivation, have an unstable income, which stems from the lack of market information, business knowledge and negotiating power (Rammohan, 2010.)

Ghana is currently ranked 135 out of 187 countries in the Human Development Index. It has been estimated that Ghana would require annual public investments of USD 124 per person in order to achieve all of the Millennium Development Goals (Sachs and McArthur, 2005.)

The Ghanaian development sector has drawn a wide range of non-profit organisations. In this study, the authors bring into the spotlight the social interventions spear-headed by the Ghanaian NGO Jaksally. The initial struggles and experiences of the organisation's founder Jeremiah Seidu have been discussed at length. The following research questions come under the purview of the case study:

i) How has Jak Sally emerged as a key player in the Ghanaian development sector?

ii) How has Jak Sally enhanced its social impact through a diverse range of operations?

iii) How has Jak Sally succeeded in fulfilling its social mission?

iv) What are the key components of its social intervention programmes?

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v) What are the unique features of the organisation's model and capacity building initiatives?

vi) As an NGO, where does Jak Sally see itself in attaining greater sustainability and outreach?

vii) What are the challenges faced by Jak Sally while enhancing its outreach?

II: Tracing Jaksally's History:

On a humid afternoon, Jeremiah Seidu, the founder of the NGO Jaksally, ushered in the research team into his modest office in the Bole district of North Ghana. Exuding immense warmth, Jeremiah described his tryst with social entrepreneurship, which began eleven years ago. "It was a time when I struggled to fund my own university education," he harks back.

Jeremiah had initially launched Jaksally with the intent of producing shea (an immensely popular cash crop) and sorghum on a for-profit basis. However, the maiden venture was barely smooth-sailing and within a year's time, returns from the business were almost negligible and the fledgling entrepreneur found himself undertaking menial jobs to supplement his income. To tide over the financial crunch, Jeremiah decided that Jaksally would have to be transformed into an NGO, which, in turn, would give him greater access to grants and patient capital.

"As I began funding my own university education, I decided that my social venture should also provide others access to education," he pointed out. Jeremiah was often startled by the gaping disparities between the poorer regions of North Ghana and the relatively prosperous areas in the South. Upon the completion of his university studies, Jeremiah pondered how his education could be of use to the impoverished communities of North Ghana. In order to bridge the socio-economic divide between Northern and Southern Ghana, Jeremiah resolved to harness the skills and resources of low-income groups in the Bole region. "If I could bring my people together, and give them the right education, we could create jobs for ourselves," he explained.

Following the metamorphosis of Jaksally from a for-profit entity into an NGO, Jeremiah developed a full-fledged social mission, which is to offer education, training and development to empower youth and women living in rural communities and also increase their knowledge of operating sustainable enterprises. The formation of cooperatives was also a top priority for Jeremiah: "I had always known that there is strength in numbers and so the challenge was to leverage on that strength and help them (low-income groups) to help themselves."

III. Evolving a Multi-Pronged Approach towards Development:

In the early days, Jaksally's founder had set his sights on value chain development for shea cultivators and the distribution of small ruminants. However, during the course of his field visits to the Ghanaian hinterland, Jeremiah realised that an NGO should have a multi-pronged approach towards development. It was also observed that women specialising in shea cultivation in North Ghana, often lacked access to alternative livelihood options, cooperatives, low-cost credit and skills training.

Consequently, Jaksally began diversifying its activities into the spheres of healthcare, children's education, microfinance, capacity building and governance. Citing the importance of empowering both women and children, he, explained, "You have to be able to generate your own income through microfinance, capacity building and enterprise promotion- you need to stay healthy by accessing medical facilities; you need to get empowered through education."

Jaksally has been working towards creating a workforce of "healthy, educated and well-informed women," who can benefit from shea cultivation, which is a rather strenuous process. Child rights advocacy has also emerged as a core focus area for Jaksally; as Jeremiah had reasoned, "if a child is ill and lacks access to healthcare and nutrition, his mother would not be able to engage in income generation activities on a regular basis." Jeremiah has constantly emphasized on a demand-driven approach towards development, whereby Jaksally's officials propose a project to members of a community so that they can provide their feedback/ suggestions before the project is implemented. Necessary training is imparted to the staff members in group's dynamics, group formation, sustainability and community entry, and exchange programmes are also organised from time to time.

The organisation has helped contribute to the following UN Millennium development Goals through its initiatives:

1. **Eradicate hunger and poverty:** The microfinance and value chain development activities have helped enhance food security.

2. **Universal education:** Jaksally's microfinance programme has enhanced children's literacy and has indirectly helped eliminate child labour

3. **Gender equality:** The capacity building, microfinance and value chain development programmes primarily focus on women beneficiaries.

4. **Maternal healthcare and reduction in child mortality:** Access to healthcare and health insurance has increased as a result of Jaksally's interventions.

5. **Combat AIDs and other diseases:** Jaksally has helped spread AIDS awareness and it has also assisted HIV-affected villagers.

6. **Environmental sustainability:** Jaksally is promoting eco-tourism-based enterprises at the grassroots.

7. **Global partnership for development:** Jaksally has entered into strategic partnerships with global NGOs and aid agencies to strengthen its capacity building programme.

IV: Organisational Structure of Jaksally:

Jaksally currently has a lean workforce, which consists of 12 full-time employees and 16 community volunteers. The program coordinator, project technical director, project accounts officer/administrator, field officer supervisor, administrative assistant officer, and field officers oversee most of the day-to-day operations of Jaksally.

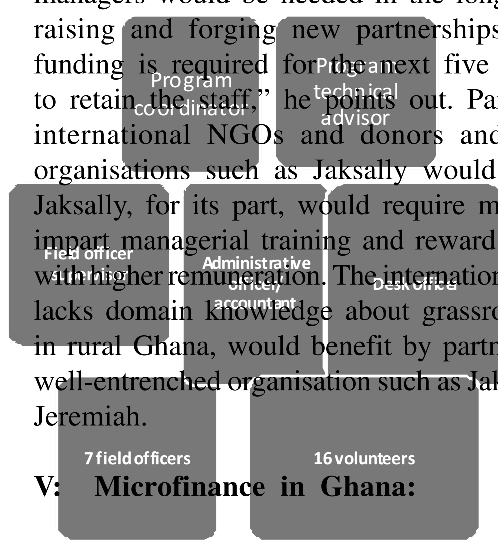


Figure 1

Jeremiah, who dons the role of the program coordinator, primarily focuses on developing proposals, projects and long-term strategies along with his team members. The organisation is yet to expand its workforce and there are not much hierarchical barriers in place. Nonetheless, Jeremiah states that more top-level managers would be needed in the long-run for fund-raising and forging new partnerships. "Continuous funding is required for the next five years in order to retain the staff," he points out. Partnerships with international NGOs and donors and home-grown organisations such as Jaksally would be symbiotic. Jaksally, for its part, would require more funding to impart managerial training and reward staff members with higher remuneration. The international NGO, which lacks domain knowledge about grassroot-level issues in rural Ghana, would benefit by partnering a locally well-entrenched organisation such as Jaksally, reasoned Jeremiah.

V: Microfinance in Ghana:

There is a diverse range of rural and microfinance institutions in Ghana, which include formal financial institutions (rural and community banks and savings loan companies), semi-formal players (NGOs and credit unions) and informal players (moneylenders, individual savings collectors and rotating savings and credit associations.) NGOs and CBOs (community-based organisations) play an important role in providing financial access to the poor in North Ghana, where there is a scarcity of commercial and rural banks (Steel and Andah, 2003.)

VI: Overview of the 'Banking on change' Programme and the VSLA Model:

The 'banking on change' microfinance programme was launched in order to provide Ghanaian villagers access to financial services. Jaksally has adopted a village and savings loan association (VSLA) model, which is widely prevalent across West Africa. Members of a VSLA group typically pool their savings into a fund, which is used as a source of working capital. Jaksally has created several VSLA groups or savings clubs in 120 villages that are spread out across four districts in Ghana:

Table: 1

Region	District	Number of VSLA groups
Northern region	Bole district	122
	Sawla district	122
	West Gonja	24
Upper West Region	Wa West district	10

Seven field officers and 16 community volunteers have been deputed to oversee the savings clubs, each of which typically consists of 30 members. Each VSLA group has a lockable cash box, wherein the savings can be deposited. A service charge of 10% is levied every month on the amount lent out from the savings fund. The loan tenor is for a period of three months and the minimum loan size has to be thrice as much as the respective member's savings contribution. The average loan size is usually 1,750 Ghanaian cedis (approximately USD 1,069.) Each savings club is managed by a five-member committee, which consists of a chairperson, a box keeper, a records keeper and two money counters. A capacity building programme has also been brought in place, whereby savings club members gain an understanding of the concept of savings and loan repayment, record keeping, governance issues, democracy and leadership. Jaksally also strives to foster trust among rural communities and it has formulated bye-laws for the VSLA groups.

A separate social fund has also been created by savings clubs through which interest-free loans can be disbursed to members in times of emergency. Fines are levied whenever there is a delay in loan repayment. Jaksally's VSLA model is financially self-sustainable and it does not require external capitalization. As Jeremiah Seidu explains, "The interest amount and fine payment are only collected by the savings clubs not Jaksally. Our role is to train them (savings club members) to run the VSLA independently."The Banking on Change programme has grown steadily since 2009, as indicated below:

Table: 2

	2009	2010	2011
1. Gross loan portfolio	USD 26,875	35,556	81,387
2. Operating costs	USD 34,298	34,298	64,296

There are totally 8769 VSLA group members, out of which 7,679 are women and 1000 are men. While admitting that "men mostly view microfinance as a women-centric activity in rural areas," Jeremiah Seidu emphasized on the need for involving men in women's development in Ghana, which is a patriarchal society.

Field officers and volunteers have drawn several low-income communities towards the Banking for Change programme and client satisfaction has increased over the years:

Table. 3

Performance ratio	Percentage Increase
1. Attendance rate	89.2%
2. Retention rate	100%
3. Membership growth rate	3.2%

The VSLA model of credit disbursal is usually cost-effective compared to other methodologies of micro-lending. It has been estimated by Care International (Allen, 2006) that the average cost of developing a client under the VSLA model is USD 20-45, as opposed to a typical MFI's cost structure of USD 200-300. As a result of Jaksally's capacity building initiatives, 30 savings clubs have gained a cooperative status. The Banking on Change programme is gradually attaining more financial sustainability:

Table: 4
Financial performance indicators

Average savings per member mobilised to date (USD)	**32.4**
Return on savings (percentage)	**18.4%**
Average outstanding loan size (USD)	**40.9**
Average write-off per graduated group (percentage)	**0.1**

Jeremiah Seidu also plans to develop a more diversified financial product portfolio and he is currently exploring the prospects of conducting preliminary market research for launching education, water and sanitation loans. Households in Ghanaian villages, which are often characterised by irregular and unpredictable cash flows, would benefit from barter-based microfinance initiatives. For instance, farmers could use yam or shea nuts to pay for their insurance registration fees. Likewise, fowl/goats could be used by a VSLA group member in order to pay his/her children's school fees.

VII: Banking on Socio-Economic Change:

Jaksally has made attempts to monitor the socio-economic change brought about by its microfinance programme. The social performance indicators used by Jaksally include housing, household feeding pattern, number of children back to school, the size of businesses, the number of businesses, the increase in acreage of farms and the increase in number of bags of food products being bought in bulk by members. Jaksally's socio-economic intervention has brought about a palpable change in the lives of low-income groups:

i) An increase in household income from 50 GHC to 500 GHC (33 to 333 $ per annum)
ii) A 47% rise in access to health care
iii) A 37% increase in access to education for girls
iv) A 60% increase in access to food
v) A 35% increase in access to housing
vi) A 57% increase in rural investment
vii) A 77% growth in investment in agriculture
viii) A 37% growth in rural employment

The Banking on Change initiative has also enabled some of the low-income groups to recruit community teachers for their kindergartens. Parents can now afford to buy uniforms for their children and pay school fees. Following the launch of VSLA groups, the attendance rate at the state-run Community-Based Health Planning and Services has tripled during the period from January to June 2010. There has also been a 37% increase in health insurance registration among VSLA groups. Jaksally's microfinance intervention has helped mitigate income shocks among the rural poor. On an average, a family (wherein at least one member is part of a VSLA group) can earn a surplus income of USD53 on every 100 kg bag of maize sold during the lean season. Most families coming under the ambit of the VSLA programme can have three square meals each day.

However, the Jaksally staff members grapple with several constraints while enhancing the outreach of the microfinance programme. Transport facilities and office equipment are inadequate and field officers lack access to the internet. Managing projects in local dialects remains a challenge in those regions, in which literacy levels are low. Jaksally lacks the core funding to recruit staff with the required domain expertise in microfinance and capacity building.

VIII: Perspectives from the Field:

Members of the VSLA groups shared their experiences and testimonies with the authors:

Dayouri Lucille

Dayouri Lucille, who hails from the Upper west region, is currently engaged in farming, bee keeping and petty trading. She is married with five children and also volunteers for many community development projects run by Jaksally.

The fifty-four year old VSLA member is active in parish activities and she bagged an award from the bishop of the Catholic diocese of Damongo in North Ghana. Dayouri has participated in a vocational training programme and she points out, "Through collaboration, Jaksally has brought together a number of women together. Today, I believe I can achieve something because I am being productive. My group members and I have learnt through interaction and teamwork. We are able to pay our children's school fees."

Mary Margaret Haruna

Mary Margaret Haruna is a retired teacher and educationist. A mother of three, Mary Margaret is an active church leader and also a member of the Nuukange Christian Mothers group backed by Jaksally. She has strived to develop her business acumen and she is currently engaged in the sale of wooden boards. "Jaksally has given us training on how to manage our funds. I am also able to save money. I can take care of my children's school fees since my husband has passed on," explained Mary.

Robert Tampieloung

Robert, who is in his early 40s, originally belongs to the Upper West Region. He is currently based in Kakiasi of the Bole District in North Ghana. Robert is a farmer but also engages in petty trading. He operates a drinking bar in Kakiasi, and is a member of Nour-en VSLA group run by Jaksally. Robert could not complete his polytechnic education after his father passed away in 1992. However, he and his family can now aspire for a better quality of life after benefiting from Jaksally's cooperative initiative. "Jaksally had given us hope that there is strength in numbers. Today our people are ready to work together as a cooperative looking out for each other. We pool monies together and are accountable to each other. Jaksally has showed the way," Robert pointed out.

IX: Note on shea cultivation in Ghana:

The semi-arid climate of Northern Ghana (which receives rainfall of 1000 mm per year) is conducive to the cultivation of shea trees (DFSC in Carette et al, 2009 and Hatskevitch et al, 2011). The collection and processing of shea nuts is typically labour-intensive since shea trees are widely dispersed across bushlands and farms. Mostly rural women are involved in shea processing and they either work individually close to their homes or organise themselves into cooperatives (Hatskevich et al, 2011). Minimal investment is required for shea tree cultivation (Folds, 2011) and shea fruits are among the few natural resources, which are accessible to the landless poor (Carette et al, 2009). Hence, the development of micro-enterprises and pro-poor value chains in the shea industry is now viewed as a key poverty alleviation strategy by aid agencies and policy makers.

The shea nut collectors gather the fruits, which drop from the shea trees, subsequent to which the pulp around the fruits is removed and the shea nuts are dried and stored (Fold, 2008 and Hatskevitch et al, 2011.) The nuts are later boiled and ground for extracting the vegetable oil, which is skimmed off and purified into shea butter (Folds, 2008.) Since antiquity, the shea tree has been an integral part of rural Ghanaian households. While shea wood is used extensively for making farming tools, shea butter is an important source for cooking oil and the shea fruit pulp is also sweet and edible (Folds, 2011.)

X: The shea value chain in Ghana:

Shea is an important commercial crop in Ghana and several other African countries. Shea butter has several applications in the confectionary and cosmetic industries. Women in rural Ghana collect shea nuts, which are purchased by local traders. The shea nuts are later converted into butter at processing units. Alternatively, the nuts can be sold to importers. Finally, the shea butter is bought by domestic consumers and butter importers. The shea value chain is typically characterised by low efficiency, as nut collectors and processors lack market access and are unable to sell their produce in bulk quantities at a profitable price.

XI: Schematic overview of the shea value chain:

Figure: 2

XII: Jaksally's Approach towards Value Chain and Micro-Enterprise Development:

Value chain development remains a core competency for Jaksally. "During the early phase of operations, we worked primarily with women who were cultivating shea," recalled Jeremiah Seidu, while pointing out that the creation of pro-poor shea value chains is a daunting task in Ghana.

In most of the areas in which Jaksally operates, shea trees grow in fallow areas/bushlands. In some cases, the trees are also cultivated in privately owned plantations. During field visits, Jaksally officials observed that nut collectors (who are mostly women) were susceptible to snake bites. Jeremiah Seidu also pointed out that nut collectors sell their produce at a low price to middlemen, who seldom use accurate weighing scales. In order to create a pro-poor value chain, Jaksally has launched 10 cooperatives consisting of shea nut collectors. The women's cooperatives are able to obtain protective gear and footwear to safeguard themselves against snakebites. Jaksally has enabled the cooperative members to sell the shea nuts at a higher price and also gain more market access.

Mass transportation and warehousing facilities have become affordable for the shea nut cooperatives backed by Jaksally. Actors across various levels of the shea value chain have benefitted from Jaksally's intervention. The NGO is running two shea processing plants, which can help generate employment for locals and also generate income for funding capacity building programmes on a sustainable basis.

Besides marketing a range of shea products, Jaksally is playing a pivotal role in developing the shea value chain across Ghana through policy-based initiatives. It has partnered the Dutch aid organisation SNV to establish the National Shea Steering Committee, which would act as a regulatory body for overseeing shea nut collection and processing in Ghana. Micro-enterprise development remains a challenge due to the lack of skills training and technological inputs. Despite these impediments, Jaksally has backed micro-enterprises cutting across a diverse range of sectors, as indicated in the table below:

Table: 5

Enterprise category	Growth (a year-on-year estimate)
1. Food industry	45%
2. Agricultural acreage	57%
3. Petty trading and table top business	67%
4. Transport	35%
5. New business in all sectors	87%

On an average, a micro-enterprise's revenues increase from USD 30 to USD 500 after two years of establishment with Jaksally's backing. Micro-entrepreneurs have also been able to scale up their operations. For instance, a woman, who previously used to sell goats, is now engaged in cattle trading. Likewise, a micro-entrepreneur selling one gallon of petrol each week, is selling eight gallons. Jaksally has also launched a range of cooperatives, which include 15 general cooperatives, 10 shea cooperatives, one soya cooperative and a bee-keeping cooperative. Jeremiah Seidu has constantly emphasized on environmental enterprise projects, which entail bee-keeping and honey production. The bee pollination has been beneficial for cashew and shea nut cultivation (as pollinators, bees are known to enhance crop yields, especially for cashew/shea nuts.)

Male VSLA members cultivating cashew nuts have seen higher yields, while women been able to sell higher quantities of shea. Jaksally is also making inroads in the eco-tourism sector by encouraging local communities to set up homestays with their savings. With the view of promoting land ownership and agricultural activities on a larger scale, Jaksally has assisted landless agricultural workers to acquire land on lease. As a result of this intervention, women can own land, develop apiaries, cultivate cash crops and increase their savings by selling agricultural produce. As part of an animal husbandry initiative to supplement women's income, small ruminants have been made to graze under shea trees to reduce the biomass content in the soil, which in turn, would enable women to collect shea nuts easily.

XIII: Strategic Partnerships:

Jaksally has entered into strategic partnerships with leading aid organisations. "We believe in numbers and partnership and a multifaceted approach is needed to meet the development challenge," pointed out Jeremiah Seidu. Jaksally has partnered Plan Ghana, which is affiliated to the international NGO Plan International. With the backing of Plan Ghana, Jaksally has on board eight staff members in its microfinance programme, which is currently its biggest project. Jaksally has directly reached out to 8,340 households. The microfinance programme is also having a far-reaching impact at the grassroots. As a result of Jaksally's microfinance-led intervention, 50, 580 children have access to shelter, food and education.

The aid organisation SNV played a pivotal role in building up the Jak Sally team, which now consists of 13 full-time employees. Jaksally has gained a better understanding of the VLSI methodology and the formation of cooperatives due to the training imparted by SNV.

Besides rendering financial support, SNV has trained Jaksally's officials in proposal writing. SNV has enabled Jaksally to scale up its microfinance activities considerably and Jaksally has reached out to 7,000-8,000 women and 100 communities thanks to SNV's capacity building initiatives. The partnership has brought about a 57% rise in employment and production, a 200% increase in income, and a 67% increase in rural investment.

The Canadian Society for Animal Science has been roped in as a strategic partner to develop a small-ruminant project, which would help shea cultivators supplement their income through animal husbandry activities during the lean season. The shea cultivators have also obtained protective gear and anti-snake venom from the Canadian Society for Animal Science. "The strategic partnerships have improved the quality of training and capacity building programmes and have catalysed the formation of cooperatives," explained Jeremiah Seidu.

XIV: Health, Education and Governance-Based Interventions:

Realising that a holistic approach towards socio-economic development is needed in rural Ghana, Jaksally is making headway with healthcare, education and governance programmes.

While the microfinance initiative has had a trickle-down effect in mitigating child labour, Jaksally is scouting for suitable partners to establish schools to rehabilitate children as well as vocational training centres for young adults. Child labour remains rampant in mining areas, which are adjacent to Cote D'Ivoire. In times of conflict, Ivorian refugees tend to flee towards Ghana and this has a spill-over effect on Jaksally's operations. Nonetheless, Jaksally, which still grapples with resource constraints, is yet to work on a full-fledged basis with children, who are conflict victims. The current thrust is on advocacy-based programmes to eradicate child labour, explained Jeremiah, adding that it is an uphill task to sensitise local authorities, families and various community members towards the issue of children's education. Jaksally plans to develop capacity building initiatives to scale up its child labour eradication programme.

The healthcare programme's outreach has increased drastically across 100 villages and four districts. Over 10,000 household heads participated in a healthcare campaign, wherein the relevance of clean water and sanitation was highlighted. While all of Jaksally field officers and volunteers have been involved in the healthcare initiative, Jeremiah pointed out that the healthcare, water and sanitation-related campaigns currently cannot be scaled up due to the lack of skilled staff members. An AIDS awareness programme was launched, wherein 100 communities and 8,000 households participated. HIV+ villagers have been enrolled in Jaksally's VSLA groups and they have collectively been able to generate income of over USD 3000 annually. This enables them to avail of anti-retro viral treatment and other medical facilities. Nonetheless, the battle against AIDS at a community level is fraught with several challenges.

Jaksally is constantly in search of partners, who can co-develop specific livelihood activities for AIDS affected individuals. "As Ghana has gained the status of a middle-income country, donor funding for HIV treatment and AIDS-related activities is hard to come by," said Jeremiah. While plans are afoot to develop a micro-insurance scheme based on a barter system, collaborations with Government-backed organisations such as the Ghana Health Service are yet to concretise fully.

The promotion of grassroot-level governance is also a core focus area for Jaksally in rural Ghana, wherein social practices such as polygamy and low levels of literacy are widely prevalent. The traditional leadership structure in Ghana is usually hierarchical and is characterised by prescribed kinship and lineage succession (Arthur and Nsiah, 2011) and tribal chieftains and local politicians tend to meddle with the activities of NGOs in villages.

Hence, organisations such as Jaksally can ill-afford to ignore tribal chieftains, who wield immense power across communities. The chieftaincy system is critical for social cohesion in Ghana and traditional rulers play a decisive role in shaping governance structures across diverse tribal communities (Arthur and Nsiah, 2011.) Underscoring the importance of working with traditional rulers at the grassroots, Jaksally has co-opted 90 tribal chieftains and 45 queen mothers into its VSLA groups.

Management committees, which are formed to oversee VSLA groups, undergo training on a regular basis. The VSLA groups have helped promote grassroot-level governance and two VSLA members got elected into the local assembly. Currently, five field officers are manning the grassroots-governance initiative across four districts and Jaksally plans to launch an e-governance programme in the long-run.

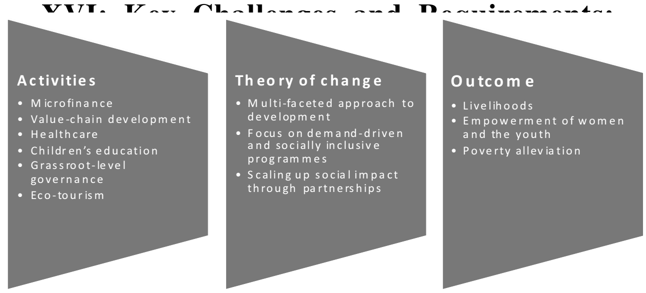
XV: **Reflecting on Jaksally's Theory of Change:**

After making its debut in shea value chain development, Jaksally has evolved to be a multi-faceted NGO in the Ghanaian hinterland. Jaksally has diversified into a broad range of activities spanning microfinance, children's education and eco-tourism and at the same time, the founder Jeremiah Seidu has constantly espoused the social mission of empowering the rural youth and women and creating sustainable livelihoods. One can infer from the case study that the microfinance and value chain development activities have helped create sustainable livelihoods, alleviate poverty and have also empowered the target beneficiaries. The healthcare, children's education and grassroot governance initiatives can lead to the desirable outcome of empowerment and poverty alleviation and also contribute indirectly towards strengthen the livelihood initiative.

Likewise, the eco-tourism initiative resonates with the social mission of livelihood creation and empowerment. While Jaksally's activities come under the gamut of all the eight millennium development goals, a theory of change (an underlying set of assumptions, which helps establish linkages between an NGO's various activities and its desired outcomes) would have to be clearly articulated. It is evident that Jaksally has a multi-faceted and holistic approach towards development activities, since the organisation has not confined itself to a specific set of operations (such as value chain development or microfinance) in order to achieve its social mission. The process of development is also socially inclusive, as demonstrated in the case of chieftains and queen mothers being co-opted into VSLA groups. Local communities also have a participatory role in defining the scope of Jaksally's projects, and this goes to show that Jaksally's development programmes are demand-driven. Strategic partnerships with leading international organisations have enabled Jaksally to scale up its outreach and social impact.

Figure 3

XVI: Key Challenges and Requirements:



Seidu. Constant reliance on donors would not lead to financial sustainability and Seidu envisages interest in establishing a commercial bank, which can provide microfinance services based on the VSLA model. Jaksally's founder also cited the need for conducting more market research to develop a diverse microfinance product portfolio (take for instance, water and sanitation micro-loans, education loans and micro-health insurance products.)

With the view to emerge as a financially sustainable social enterprise, Jaksally has already established two shea nut processing plants, which are run on a for-profit basis in order to cross-subsidise the expenditure incurred on various developmental programmes. The lack of funding is still impeding Jaksally's training and recruitment activities.

The children's education and healthcare programmes cannot be scaled up due to the dearth of funding and technical assistance from strategic partners. While Jaksally's capacity building programme has helped spawn several VSLA groups, the surplus funds mobilised through the groups can be invested in developing micro-enterprises, which would lead to greater financial sustainability and reduce dependence on grants in the long-run. Jeremiah added that business development counselling can be offered as a value-added service for the VSLA members.

Jaksally also needs more exposure to successful models created by other NGOs for fostering micro-entrepreneurship, scaling up its microfinance programme, tackling AIDS and child labour, and also taking its governance initiative to the next level. "The thrust should be on more partnership models and exchange programs, research activities on what we are doing now, and publicity of our work to more people and organisations," signed off Jeremiah Seidu.

XVII: Key Case Study Discussion Points For Readers:

1) In your view, should Jaksally continue to adopt a multi-pronged approach towards development?

   Or should it narrow down its focus to a few initiatives (such as microfinance or value chain development)?

2) i) What strategies would enable Jaksally to raise more funds and partner high-profile, international donors/NGOs?

   ii) Which programmes have the most acute need for technical expertise from partners?

3) i) Should Jaksally continue to adhere to the VSLA model?

   ii) How viable would it be develop a VSLA-based commercial bank?

   iii) Is there scope for Jaksally to adopt other micro-lending methodologies (for instance, the Grameen model)?

   iv) What are the product diversification strategies, which you would recommend for Jaksally's microfinance programme?

4) i) Would it be viable for Jaksally to run the children's education, healthcare and grassroot-governance programmes, given its current resource constraints?

   ii) What can be done to attract funding and technical expertise for the above programmes?

5) What is hindering Jaksally from scaling up its social impact through its various programmes?

6) i) How can the value chain development and micro-enterprise initiatives be scaled up?

   ii) What kind of business development services can be offered?

7) What metrics would you suggest for determining how Jaksally has succeeded in fulfilling its social mission?

8) What kind of social audits and surveys in rural Ghana would be enable Jaksally to develop more demand-driven projects, wherein rural communities have a participatory role?

9) Can Jaksally continue to adhere to the theory of change (as indicated in figure 3)? If yes, please explain why – if not, please suggest an alternative theory of change.

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Argument is the worst sort of conversation.

Jonathan Swift

Sometimes your best investments are the ones you don't make.

Donald Trump

Interviews

Mr Vinay Singh, CEO, Vital Wires Consulting.

As a CEO of Vital Wires Consulting Mr.Vinay Singh provides overall leadership to the company. He is also directly responsible for marketing and key deliveries. Mr.Vinay brings business & consulting experience from some of the best companies and clients in Asia Pacific and the Americas. Vinay has been creating SAP solutions, service packages and delivery mechanisms for midsize clients in India and USA for more than 7 years. He holds a degree of bachelors in chemical engineering from IIT, Roorkee.

1. **Please brief us about your professional background.**

Vinay Singh: In year 1996, I started my career as a chemical engineer at Reliance Industries Ltd. While it was amazing to be a tiny hand in the making of the largest grass root refinery of the world, I soon realized that it was information technology consultancy where my heart was. In next few years to follow since year 1999, I was lucky not only to quickly grow as a information technologist, but also to have the opportunity to work with smart people at clients such as Citibank, P&G, Cisco and Janus Mutual in South East Asia and America. In year 2003 while working at Sapient I felt that best way to realize the potential was to start a firm. I started my first entrepreneurial venture Gravity and ran it for 6 years. In year 2010, I and my co-founder from the previous venture, Vivek Gaur, got together to use our years of experience with midsize companies to conceptualize a focused pure play SAP solutions company Vital Wires Consulting.

2. **Please describe your journey from 1996 till date, climbing up the ladder from a IITian to an Entrepreneur.**

Vinay Singh: When I look back, I feel I always did my dream job. Exiting IIT Roorkee's amazing environment only to know that I was going to work at Reliance was as exciting as making the switch from chemical engineering to information technology a few years later. After reliance I liked my first day at Nucleus because I had to open an Oracle text book to find solution to a problem. For a year I enjoyed writing code that I knew only few could write. Soon I transformed into having the mindset of measuring my value addition in the form of a solution that I provided. Real transformation occurred at my next employer. It was while working at Sapient with some of the smartest colleagues, I grew in faculties that eventually lead me to believe that I could create much more value and best way to do that was to become an entrepreneur.

3. **How do you look towards the SME market for the ERP solutions?**

Vinay Singh: I feel SME's can address their own business challenges by equipping themselves with a mature ERP solution. However the it's space where ERP adoption has just picked up pace in India. I see it as a fast growing market.

4. **What according to you is the biggest hurdle faced by the Technology Industry today?**

Vinay Singh: I feel the biggest hurdle faced by technology industry is the way industry has sold itself to its consumers. IT is perceived as a cost by most business owners and leaders particularly in midsize segment. It's on the industry itself to start working towards return on IT investment and articulate it in that manner.

5. **What are the different kinds of services provided by you?**

Vinay Singh: We help midsize companies implement SAP ERP in a way that addresses their USPs, strategic enablers and pain points to facilitate the best return on investment for them. Once they have an SAP system, we also offer services to help them maintain and constantly evolve their systems to best serve their business

6. What kind of background and domain expertise you look for in your employees?

Vinay Singh: We typical hire chartered accountants, engineers and MBAs for business process consulting and MCAs as technical consultants. Expect that process consultants will have domain experience in their respective fields of 3-5 years.

7. As a CEO what kind of environment you create for your employees so that they feel motivated?

Vinay Singh: As a philosophy we believe that humans have tremendous amount of streachability and the distances they cover depends on how they were enabled and how they were lead towards a goal. We focus on helping our people fulfill their goals. As a team we live by our core values, which help us create an environment that facilitates growth, leadership and a trustworthy enjoyable relationship.

8. How do you see Indian market, and what are your future plans for the same?

Vinay Singh: We are very excited about the India market. Only 15 % companies in midsize segment have a mature ERP product. Prospect of growth and competition from China is making it necessary for companies not to ignore a critical enabler such as ERP. We want every midsize company to implement an ERP system. We are focused in North India and plan to expand our services to other parts of the country by June 2011.

9. The buzz word Cloud is what people are looking for, what are the strategies Vital Wires suggest to meet the changing requirements?

Vinay Singh: At the heart of our DNA is to provide solutions that enable ROI for our clients. We understand how our target segment is going to benefit from this trend and have an assessment of their readiness to get into this model of computing for their enterprise solution. We have clear plans to make investment into this trend.

10. Who is your role model?

Vinay Singh: At different stages of my life different people have been my role model and sometimes I look up to more than one person. In all the cases it's been very normal people around me who I have been working with and felt like learning a few things from. Among famous people Sir Richard Branson inspires me as someone who represents entrepreneurship in true sense.

11. Please give your views on Entrepreneurship? What different qualities shall an entrepreneur have?

Vinay Singh: I think entrepreneurship is a great cause. To say the least one creates jobs. It's the best way to make a positive impact on the society. If one did well, one can leave a big positive impression on large part of society. I feel it's more effective and dignified than charity. Passion to carry through is what helps you survive. You have to make your guts as strong as possible.

12. Any Message for us?

Vinay Singh: CEO Insight is a great initiative. I have seen some of the interviews and content. It's quite useful and inspiring.

Mr Vikas Kedia, CEO, Internext Technologies, Inc.

Vikas Kedia is the CEO, Internext Technologies, Inc. Mr Kedia runs four online finance communities on mortgage, debt, insurance and credit. Vikas Kedia was born in Kolkata, graduated from Sri Ram College of Commerce, Delhi. He finished MBA from IIM-Bangalore in 2000. After this he did research on Ad-Hoc processing of data. It was during this period that he first thought about starting a website to help people in debt. The following is an exclusive interview of Mr Vikas Kedia.

1. Your professional journey till date has been quite eventful. Please give us an Overview.

Vikas Kedia: I like to think of my professional journey as having been serendipitous. I graduated at the top 5% of my class from IIM Bangalore in the year 2000. In my summer at Deutsche bank the problem of knowledge management kept bothering me. I realized that I was spending most of my time chasing emails, people and researching issues to which others already have the answer. So after graduating I started Knowledge Enabled Networks. (Kenets)

The idea behind Kenets was basically to create a P2P knowledge exchange product and sell it to companies. We successfully developed the product but when we started selling it to companies, we realized that the sales cycle was too long.

Then I tried developing a product to do click fraud detection. During this time also the problem of knowledge management kept haunting me.

With time I realized that P2P knowledge exchange had a lot of value when used by individuals. So I started four different community websites on debt, mortgage, insurance and credit. And even now in 2009 the idea remains same but the organization has grown to 200 employees with 5-6 offices around the world.

2. When it comes to family and profession, which one should be the priority? Do you believe that being an entrepreneur one has to undermine some family over profession?

Vikas Kedia: Relative priority between family and profession is an individual choice. Everybody will make this choice based on their unique circumstances. And I think these choices change over time.

I don't think that being an entrepreneur one has to undermine family over profession. It is very important to understand that we are not going to make an idea succeed by working few more hours every day, what makes a idea succeed is the concept. If the concept is not good enough then even if you work 16 hours a day, it will not succeed. The idea should be able to stand on its feet even if you work 8 hours a day. I don't think to be an entrepreneur it is a necessary condition that you will have to undermine family over profession.

3. What made you start with Internext? What are basic principles that you have adopted?

Vikas Kedia: The key insight is that, If a person A staying in New York has some problem there is high likelihood that person B staying thousand of miles away may have had the same problem some months ago. So if somehow we can make it easy for person A to ask that question and person B to discover and then be able to answer that question it will create value. We create a technology platform which allows person A to ask the question and person B to answer that question. When we see people are interacting with each other it will attract a lot of people to the community. Then may be out of 100's of people that the community will attract may be 1% will need professional help. Then if we are able to capture this 1% who need professional help and allow different companies to talk to these people and eventually offer services then there is money to be made. Well that's the key idea behind Internext.

This basic principle that we adapted has competitive advantage and scalability. We also make sure that we use the best technology available. The 4 communities currently have more than 400,000 members sharing their knowledge and all we do is enable the technology platform.

4. In such a competitive industry where there are so many established players, where does Internext see itself?

Vikas Kedia: I believe that consumer finance overall is a very competitive industry but we operate in a subset of the consumer finance industry. I don't think we have a lot of finance communities on topics like debt, mortgage, insurance and credit. We see ourselves in a good position vs our competitors. Our challenges are how to use evolving social network sites like twitter and Face-book and integrate it with our community. We want to enable two way flow of information. People should be able to bring their identity from face book to our communities and be able to take the content from our communities into face book.

If you look back 3 or 4 years ago. You will see that people had started to exchange pictures, upload songs on our community. But then what happened was that communities like facebook and orkut came along and people stopped uploading pictures to our website. They started using facebook or orkut since these were more general social networks. One really does not want to upload their vacation pictures on more than one website.

But that's ok; face book is a generic community ours is a specific community.

5. What are your dreams or ambitions? Regarding Inter Next and for self?

Vikas Kedia: Internext has hired about 200 people now all across the globe and my immediate goal is to grow it to 1000 jobs. I like creating jobs; that's my way of giving back to my country. The bigger goal is to take the company to NASDAQ.

And goal for myself at the personal level is to get married:-)

6. What is the market and marketing challenges that InterNext face in the recent global downturn?

Vikas Kedia: We have four communities. The debt and credit community are positively correlated to the recession and the mortgage and insurance communities are negatively correlated to the recession. So I think overall our business is recession proof.

7. Do you plan your moves in advance or move along as new opportunities open up?

Vikas Kedia: We have strategic goals with us on what we are doing and why we are doing this. But we optimize our tactical goals on a monthly basis. I basically got it down to three points:

- *Kaizen Method* – Within the organization if we recognize that we can make small improvements we will do these. The idea is there is no one big thing that will get us where we want to get. There are actually a lot of small things that will help us to get where we want to get. So we keep on making the small improvements keeping in mind the broader strategy.
- *Key stats management* - We measure some key statistics and these act as headlights and guide as we plan ahead.
- *Outcomes theory* - We focus on the output and not the input.

8. How do you see the current recession affecting the industry?

Vikas Kedia: We are a part of the consumer finance industry. I think this recession will lead to people rethinking their attitude about savings.

9. What does InterNext do for employee motivation?

Vikas Kedia: It's a very interesting challenge. One thing that we try to do is have small divisions and have people who have shown initiative and IQ in the past lead these divisions. The idea is to have clearly measurable outputs for each division. Also make it clear to the person leading that division and the people in that division that they will do good if their division does good.

10. What is your company size and what is the procedure to adopt in recruiting the new candidates.

Vikas Kedia: We have close to 200 employees worldwide. We have tried to keep the recruitment process simple. We have 2 HR managers – one is responsible for day shift and the other for the night shift. We try to keep the advantages of a smaller leaner organization in hiring. So people in the company can recruit others that they think will help their division. The HR manager is really there to do the reference and background checks. All the hiring is done by the people who are responsible for the output.

11. What does it take to be a CEO?

Vikas Kedia: A. It takes a lot of hard work. B. Logical thinking C. Ability to create self sustaining human systems.

12. What is the difference in the entrepreneur turned CEO after 25 plus years of experience and in the young fresher CEO with no corporate experience, according to you?

Vikas Kedia: An entrepreneur with 25 years of experience in the corporate world, has a better idea about how a big company runs. He is better suited to design systems that can scale.

The advantages of being a young CEO is that it is more likely that he will not have any pre conceived notion about how a big company works. This can be of value at times since he can look at things with fresh eyes and look at problems with a new perspective. So I think both have advantages and disadvantages.

13. In today's time of economic downturn, where do you see entrepreneurship as an option for fresh MBA graduates? What according to you are the hurdles to entrepreneurship in India?

Vikas Kedia: Economic downturn happens every 4-6 years that's how economic cycle works so its nothing new. Some of the worlds largest companies have been created during recession. But yes it is difficult to find investors during recession and hence it has an negative impact on entrepreneurship. But if you have some capital of your own that you can invest on your idea then I think it's a great time to enter the industry because things are cheaper now and you can hire better talent.

The biggest hurdle to entrepreneurship in India is that the Indian culture is against failure. We need to decide what failure means. Is it just a learning curve? or, Is it that you could not succeed because you are dumb / lazy ?

14. Do you think that initiatives like The CEO Insights can benefit the student and the corporate community?

Vikas Kedia: Oh! Yes when I was a student I found it difficult to understand what was a CEO thinking? what skill sets did the companies want from me when I applied for a job?

Now when I am a CEO I feel, why don't students realize the skill sets that I am looking for?

So having a bridge like CEO insights is awesome.

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International Trade and Business Updates

Economic Development in Africa Report 2012 ***Structural transformation and Sustainable Development in Africa*** **by UNCTAD on 13th June 2012**

African governments face a major dilemma. On the one hand, structural transformation is necessary for achieving substantial and broad-based improvements in human well-being. On the other hand, structural transformation, together with rising affluence and a growing population, will necessarily intensify environmental pressures because of the increasing demand for natural resources, including both material and energy inputs used in production, the expanding magnitude of waste and pollution, and the growing reliance on non-renewable resources. The Report suggests that this dilemma can be resolved by employing a development strategy called sustainable structural transformation and also includes a set of stylized facts on resource use and productivity in Africa. This information is based on the first comprehensive, comparative and quantitative study on the levels, trends and composition of resource use in Africa.

Source: www.unctad.org> Publications

Global Financial Stability Report 2012, A ***Report by the Monetary and Capital Markets Department on Market Developments and Issues by IMF on 18th April, 2012***

The April 2012 Global Financial Stability Report assesses changes in risks to financial stability over the past six months, focusing on sovereign vulnerabilities, risks stemming from private sector deleveraging, and assessing the continued resilience of emerging markets. The report probes the implications of recent reforms in the financial system for market perception of safe assets, and investigates the growing public and private costs of increased longevity risk from aging populations.

Source: www.imf.org > Research

Jugaad: A Frugal, Flexible Approach to Innovation **authored by Navi Radjou, Jaideep Prabhu and Simone Ahuja published in Knowledge@Wharton on July 03, 2012**

In Jugaad Innovation: Think Frugal, Be Flexible, Generate Breakthrough Growth, authors Navi Radjou, Jaideep Prabhu and Simone Ahuja present a new approach to innovation that is fueling growth in emerging markets as well as developed ones. In their book, they outline the six principles of jugaad, a Hindi word meaning "an improvised solution born from ingenuity": Seek opportunity in adversity, do more with less, think and act flexibly, keep it simple, include the margin and follow your heart.

Source: www.knowledge@wharton.org>

World Trade Report 2012 ***Trade and public policies: A closer look at non-tariff measures in the 21st century,*** **by World Trade Organization on July 2012**

Regulatory measures for trade in goods and services raise new and pressing challenges for international cooperation in the 21st century. The World Trade Report 2012 examines why governments use these non-tariff measures and to what extent such measures may distort international trade. Non-tariff measures (NTMs) can serve legitimate public policy goals, such as protecting the health of consumers, but they may also be used for protectionist purposes. The Report reveals how the expansion of global production chains, climate change and the growing importance of consumer concerns in richer countries affect the use of NTMs. Further the focus of the Report is on technical barriers to trade (TBT) regarding standards for manufactured goods, sanitary and phytosanitary (SPS) measures concerning food safety and animal/plant health, and domestic regulation in services. Finally, the Report looks at international cooperation on NTMs.

Source: www.wto.org> Research and Analysis

Euro zone debt crisis: Scenario analysis and implications for developing Asia-Pacific **UNECAP MPDD Working Paper: WP/12/03 on July 31st 2012**

The ongoing euro zone debt crisis creates an undesirable scenario for the global economy as well as for the Asia-Pacific region given that the region has close economic linkages. The paper aims to provide quantitative estimates of the potential impact of the euro zone debt crisis on merchandise exports as well as on economic growth and poverty reduction efforts in the region. The results indicate that a one-percentage-point fall of output growth of the euro zone would result in a total export loss of $166 billion. In addition, the protectionist threats could further increase the loss in exports by $27 billion. On social development, the disorderly euro zone debt crisis scenario would prevent 8.19 million people to get out of poverty and another 1.15 million would be pushed back into poverty as per the $1.25-a-day poverty line.

Source: www.unenscap.org> Publications

Redefining the Emerging Market Opportunity Driving Growth through Financial Services Innovation by Ranu Dayal and Ernest Saudjana on May 31, 2012

Redefining the Emerging Market Opportunity: Driving Growth Through Financial Services Innovation, which was prepared in collaboration with The Boston Consulting Group, recommends that established financial providers worldwide look to developing countries as the leading source of long-term business growth and shareholder return. Emerging economies now represent “a historic opening to provide new financial services to low-income populations rapidly transitioning to middle-income status, as well as to regional companies evolving to world-class competitors,” according to the report, which is being released today at the Forum’s East Asia Summit in Bangkok.

The report, documented by 33 real-world case studies, concludes that the most significant emerging-market financial services opportunities lie in three business activities: consumer financial services, small- and medium-size enterprise financing, and corporate bonds.

Source: www.bcgindia.com>Publications

The Millennium Development Goals Report 2012 by United Nations Development Programme on 02 July 2012

Three important targets on poverty, slums and water have been met three years ahead of 2015, says this year’s Report on the Millennium Development Goals (MDGs). Meeting the remaining targets, while challenging, is possible % but it opines that only if Governments do not waiver from their commitments made over a decade ago.

The report further finds that achieving the MDGs by 2015 is challenging but possible, much depends on the fulfillment of MDG-8—the global partnership for development. Finally the report concludes that the current economic crises besetting much of the developed world must not be allowed to decelerate or reverse the progress that has been made.

Source: www.undp.org> Research and Publications

Should Global Goal Setting Continue, and how, in the post 2015 Era? **by Sakiko Fukuda-Parr, Department of Economic and Social Affairs, United Nations, Working Paper No. 117, on July 2012**

The Millennium Development Goals (MDGs) were introduced to monitor implementation of the United Nations Millennium Declaration which set out a vision for inclusive and sustainable globalization based on human rights principles. This paper critically assesses the MDG experience including their policy purpose, ethical commitments, political origins, and consequences. It proposes that post-2015 goals should be based on principles of equity, sustainability and human security and address key contemporary challenges such as climate change, unemployment, inequality and global market instability.

Source:www.undp.org> DESA > Working paper Series

Has India emerged? Business Cycle Stylized Facts from a Transitioning Economy **by Chetan Ghate, Radhika Panday & Ila Patnaik, ICRIER, Working Paper No. 260**

This paper presents a comprehensive set of stylised facts for business cycles in India from 1950-2010. The authros view that most macroeconomic variables are less volatile in the post reform period, even though the volatility of macroeconomic variables is still high and similar to other emerging market economies. Consistent with other emerging market economies, consumption volatility has gone up, a result that is robust to a variety of specifications. Further, in terms of co-movement and persistence however, India looks more similar to advanced economies, and less like other emerging market economies. Finally the authors argue that these changes are driven primarily by structural changes caused by liberalization policy, and not by "good luck.".

Source:www.icier.org> Working paper Series

Asian Initiatives at Monetary and Financial Integration: A Critical Review Research Paper 46 by South Centre on July 2012

Whilst the first steps towards Asian trade cooperation stated in 1970s, it was the Asian Financial Crisis of 1997 that triggered Asian efforts at monetary and financial integration. This paper argues that the conditions for Asian monetary integration are not conducive but that efforts at monetary cooperation should proceed at three fronts – exchange rate cooperation, coordination of capital flows control, and strengthening of regional financial liquidity management as in the Chiang Mai Initiative and regional surveillance.

In the area of financial integration, the authors critically review the reasons and performance of regional local currency bond markets. While the advantages of local currency bond markets are well known, the authors highlight the risks and downside, namely foreign exchange volatility, macro-economic instability, non-inclusive financing, and pro-cyclicality. The authors propose attention should be given to other institutional financing structures namely more regional and national long-term credit/development banks that can reduce instability associated with capital markets while addressing the problems of currency and maturity mismatch as well as pro-cyclicality and non-inclusive financing.

Source: www.southcentre.org> Publications

Change begets change. Nothing propagates so fast.

Charles Dickens

I believe in the discipline of silence, and could talk for hours about it.

G.B. Shaw

Good communication is just as stimulating as black coffee, and just as hard to sleep after.

Anne Morrow Lindbergh

BOOK REVIEW

Jim Collins and Morten T. Hansen (2011), ***UNCERTAINTY, CHAOS AND LUCK- WHY SOME THRIVE DESPITE THEM All GREAT BY CHOICE*** (Harper Collins Publishers), 304 pages, ISBN: 978-0-06-212099

Radha Raghuramapatruni*

'Great by Choice" is a sequel to Jim Collins's best-selling "Good to Great" (2001), which identified seven characteristics that enabled companies to become truly great over an extended period of time. Mr. Collins's new book tackles the question of how to steer a company to lasting success in an environment characterized by change, uncertainty and even chaos. Like his previous work, this book builds its conclusions on a framework of painstaking research, conducted over nine years and overseen by Mr. Collins and his co-author, Morten T. Hansen, a management professor at the University of California, Berkeley on the companies that rose to greatness—beating their industry indexes by a minimum of ten times over fifteen years—in environments characterized by big forces and rapid shifts that leaders could not predict or control.

Then the authors compared those companies—Amgen, Biomet, Intel, Microsoft, Progressive Insurance, Southwest Airlines, Stryker—to similar, but less successful, "control" companies: Genentech, Kirschner, AMD, Apple, Safeco, PSA and United States Surgical. It is an indication of the volatile nature of today's business success that, using 2002 numbers, Microsoft came out as a "10Xer" while Apple was its less successful "control" company, a ranking now reversed. More on that below. Collins and Hansen draw some interesting and counterintuitive conclusions from their research. These findings were full of provocative surprises. Such as:

The best leaders were not more risk taking, more visionary, and more creative than the comparisons; they were more disciplined, more empirical, and more paranoid.

Innovation by itself turns out not to be the trump card in a chaotic and uncertain world; more important is the ability to scale innovation, to blend creativity with discipline.

Following the belief that leading in a "fast world" always requires "fast decisions" and "fast action" is a good way to get killed.

The great companies changed less in reaction to a radically changing world than the comparison companies.

Like its predecessor, "Great by Choice" is far from a dry work of social science. The authors challenge conventional wisdom with thought-provoking, sticky, and supremely practical concepts. Mr. Collins has a way with words, not least with metaphor. A whole chapter is devoted to pursuing a "bullets-then-cannonballs" approach to competition. The book's organizing metaphor is built around the story of Roald Amundsen and Robert Falcon Scott, the two men who set out separately, in October 1911, to become the first explorers to reach the South Pole. Amundsen won the race by setting ambitious goals for each day's progress but also by being careful not to overshoot on good days or undershoot on bad ones, a disciplined approach shared by the 10Xers, according to Messrs. Collins and Hansen. Scott, by contrast, overreached on the good days and fell apart on the bad, mirroring the control companies in "Great by Choice."

The authors find Amundsen-style discipline in Peter Lewis of Progressive Insurance, who refused to play the analysts' game of "predicting" quarterly earnings and made Progressive the first SEC-company to publish monthly financial statements so that analysts could follow actual results instead. Another disciplined leader is Andy Grove, who was willing to take decisive action at Intel, such as abandoning the business of

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memory chips in 1985, but only after immersing himself thoroughly in the evidence of a changed marketplace. Herb Kelleher of Southwest Airlines, the authors say, was always preparing for the next recession even when none was in sight.

Finally, in the last chapter, Collins and Hansen present their most provocative and original analysis: defining, quantifying, and studying the role of luck. The great companies and the leaders who built them were not luckier than the comparisons, but they did get a higher Return on Luck.

This book is classic Collins: contrarian, data-driven, and uplifting. It contains strong ideas that are simple to communicate and the case descriptions are informative, insightful and illustrative further he and Hansen show convincingly that, even in a chaotic and uncertain world, greatness happens by choice, not chance.

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Think like a wise man but communicate in the language of the people.

William Butler Yeats

Tell me and I'll forget, show me and I may remember, involve me and I'll understand.

Chinese Proverb

The surest way to ruin a man who does not know how to handle money is to give him some.

George Bernard Shaw

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