

# GETTING AHEAD OF THE CURVE: FINDING OPPORTUNITIES IN A FAST-CHANGING MARKET

## A MARKET SYSTEMS ANALYSIS OF THE TOURISM SECTOR IN SOUTHERN SHAN STATE



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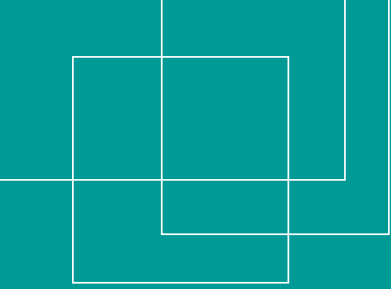
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This study was written by Steve Hartrich.

The research team would like to thank all those who participated in the interviews and focus groups.

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First published 2019

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ISBN: 978-92-2-133296-1 (web pdf)

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Printed in Switzerland.

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## Abbreviations

CBT:	Community Based Tourism
DMO:	Destination Management Organisation
DTDSO:	Danu Tourism Development Support Organisation
FIT:	Foreign Independent Traveller
ILO:	International Labour Organization
ITC:	International Trade Centre
KTO:	Kalaw Tourism Organisation
MHA:	Myanmar Hoteliers Association
MOHT:	Ministry of Hotels and Tourism
MTF:	Myanmar Tourism Federation
MTM:	Myanmar Tourism Marketing
SAZ:	Self-Administered Zone
SECO:	Swiss State Secretariat for Economic Affairs
SME:	Small and Medium Enterprise
UMTA:	Union of Myanmar Travel Association
UNCTAD:	United Nations Conference on Trade and Development
UNIDO:	United Nations Industrial Development Organization
UNOPS:	United Nations Office for Project Services

## Notes

**On confidentiality.** All data collected through primary research have been made anonymous so that individual cannot be identified. Instead, we refer in generic terms to ‘interviewee(s)’ or ‘informants’.

**On study limitations.** The study is largely developed based on the perceptions and opinions of key sector stakeholders. Although information was triangulated by different sources where possible, it is recognised that not all opinions and perceptions could be cross-checked and validated. Further, while the study is considered comprehensive, the research has been conducted in a highly dynamic sector and thus, the findings should be reviewed regularly to ensure that they are still appropriate.

**On the views and opinions.** The views and opinions in this assessment are those of the authors and not of the International Labour Organization or its country office in Yangon.

## Executive Summary

‘The Lab’ team of the International Labour Organization (ILO) conducted an analysis on the tourism sector in Southern Shan State as a means of understanding the constraints and opportunities in the sector. This analysis, along with a market systems analysis on the tea sector<sup>1</sup> have been conducted as part of the inception phase for the “SECO – UN Cluster on Trade and Productive Capacity, Myanmar” project. This project, which is funded by the Swiss Secretariat for Economic Affairs (SECO), will be coordinated by UNOPS and implemented by UNCTAD, ITC and UNIDO. The project is expected to enhance both the tourism and horticulture markets in Southern Shan State as well as strengthen the links between them. In the process, the project aims to create opportunities for SMEs and their workers as a means to reducing poverty within the region.

To this end, this analysis will be used to support the project implementation team to sharpen the implementation focus. As such, potential project intervention ideas which could address key market constraints flagged in the analysis have been proposed at the close of the study.

### A volatile sector

For the last quarter of a century, Myanmar and Southern Shan State have been on a tourism rollercoaster. In the early 1990s, Myanmar had very little tourism, but the numbers gradually grew until 2011, when the country opened up and tourism exploded – growing 550% in just five years since. With the current crisis in the Rakhine State featuring front and centre on Myanmar’s international image, ***foreign tourists visiting the Southern Shan State have dropped by nearly 30% in the last year***. Although some early indicators show that the region may recover later in the year, the impact has been damaging to businesses oriented to the foreign market and to some of their employees who have been laid off. Freelance guides are suffering too, one reported that he wasn’t sure how he would survive the rainy season because his workload and corresponding earnings had dropped to just one-third of what they were only a couple of years ago.

On the other hand, the study area is in the midst of a domestic tourism boom. ***Southern Shan State experienced a 25% increase in domestic tourists over the last year*** and they now outnumber international tourists by 2.5 times. This boom has also coincided with a shift in preferences of the domestic market, away from lower cost pilgrimage tours toward higher spending, experience-focused tours. Kalaw has been the epicentre of this boom, where domestic guests at high-end hotels outnumber internationals, and some activity-based businesses are fully supported by the domestic market.

### The analysis focus and core market constraints

***As the domestic market is rapidly growing and it is unclear if the international tour-based market will rebound during the duration of this project, this analysis focuses considerably on the domestic market as well as foreign independent travellers.*** The domestic market also has strong potential for this project as it has long been disregarded by key sector stakeholders – including donor-funded initiatives – who continue to develop activities and market them toward international markets.

1. Details of this analysis are presented in a separate report drafted alongside one another.



Given tourism's longstanding orientation toward the international market, the analysis indicated that the development around the domestic market has been limited. For domestic tourism, **core market constraints include the marketing, market research and product development functions**. The analysis also identifies that **poor information and planning** services at destinations and a **lack of destination coordination** between local actors are also key market constraints.

## The opportunities

A potential intervention strategy has been developed to address the underlying causes to the market constraints flagged in the analysis process. Within the strategy a keen focus has been put on developing sustainable and scalable interventions which put local market actors in the lead.

The strategy looks at four principle areas to address the market constraints and enhance growth in both the tourism offer and demand:

1. **Improve the visibility of the existing offer** to domestic tourists and foreign independent travellers;
2. **Diversify the existing offer** by modifying higher-end activities to better suit domestic demand and price points;
3. **Brand and market the offer** at a destination level to drive domestic tourists to experience new activities during peak and green seasons;
4. **Support responsible tourism initiatives** to ensure that increases in domestic tourism do not diminish the cultural and environmental value of the offer.

## Linking tourism and horticulture

Through the analysis it was indicated that nearly **all raw horticulture products are sourced locally by restaurants and hotels** and that a primary activity for domestic tourists is to spend money on shopping for locally grown products, most notably, tea and avocados. Through **increasing domestic tourist demand, the project could in turn increase demand on local horticulture products**, potentially reducing product wastage and marginally increasing both prices and farmer incomes. Potential interventions have been proposed which intend to enhance how horticulture features in both destination branding and future product development.









# 1

## Introduction

### 1.1 Project introduction

The Myanmar SECO – UN Cluster on Trade and Productive Capacity project was signed between the Government of the Republic of the Union of Myanmar through the Ministry of Commerce; the Government of Switzerland through the Swiss State Secretariat for Economic Affairs (SECO); and the implementing UN agencies: UNCTAD, ITC, UNIDO, ILO and UNOPS. The first phase of the project is planned to run for four years (2018 to 2022) with a total budget of USD 4.8 million.

The project aims to enhance horticultural productive capacity and improve tourism development, management and promotion for the Inle Lake region of Shan State, Myanmar. The project intervention is expected to enhance the livelihoods of the local beneficiary communities through income generation and employment creation, thus contributing to poverty reduction.

The International Labour Organization has been engaged to assist the Myanmar SECO – UN Cluster project through its work on Market Systems Development for Decent Work (the Lab). In this regard, the Lab has been tasked with conducting market systems analyses of both subjected sectors. The market systems approach is an implementation methodology which aims to address the root causes of why markets may not be meeting the needs of poor people. The approach works within existing market structures, aligning incentives between different market actors – both private and public – to improve the likelihood that positive results are sustained and even scaled-up after intervention. The market systems analyses for both sectors will be used as a basis alongside the findings from the project's inter-agency mission (end of November 2018); an initial rapid market assessment of the tourism and horticulture sectors; and detailed assessments of sector segments and dynamics, as preliminary analysis for the implementation of the project outputs. All these documents will support the redesign of the project's implementation phase, such that future interventions target key market constraints which have been identified through critical analysis.

This study, referred to herein as the market systems analysis (MSA), provides the analytical basis for identifying the constraints to, and opportunities for enhancing the tourism market in Southern Shan State.

## 1.2 Study purpose and scope

This tourism MSA was conducted to first identify the key constraints to the sector along with the corresponding root causes that limit how this market functions— particularly for the supply and demand of services and the business and workers that operate within them. For this study, the analysis looks at understanding the market around the project's target group: **workers** and **small and medium enterprises** (SMEs), with a focus on **income generation and employment creation** as a contribution for poverty reduction.

This MSA builds on an initial rapid market assessment of the tourism sector which was completed by the Lab in January 2019. The rapid market assessment (RMA) provided an initial assessment of tourism in Southern Shan State<sup>2</sup>, and narrowed the scope of this study. The RMA indicated that the project would be well positioned to implement in the following areas:

1. The fast-growing domestic tourism market; and
2. Geographic areas of Southern Shan State which have not been heavily influenced by donor-funded programming (i.e. not Inle Lake).

This research has therefore focused on better understanding the domestic market and the area outside of the immediate vicinity of the Inle Lake as these should have more potential for project impact and development.

As the project is also implementing in horticulture, the scope of this analysis looks at opportunities to strengthen the links between horticulture and tourism. This has been done in specific reference to tea, ginger and avocados which have been identified as high potential sectors for the project during the RMA.

## 1.3 Study methods

The research was carried out in two phases:

1. **Desk research:** Available literature was gathered to provide a framework for the primary data collection process. This included review of national laws, sector data and market trends as well as studies conducted by other development agencies on the tourism sector.
2. **Field research:** Primary research was conducted in Taunggyi, Pindaya, Kalaw, Ywangan, Hopong, Kakku, Inle Lake and Yangon during the first week of December for the RMA and the last two weeks of January for the MSA. This included:
  - a. 39 semi-structured interviews<sup>3</sup> with a variety of market actors like government officials, employers' associations, formal and informal business owners, workers, key industry informants and tourists. The range of businesses interviewed included tour operators, ground-handling agents, hoteliers, restaurateurs, transport service providers, tour guides, activity service providers and booking agents. The interviews provided an in-depth picture of the sector from a diverse set of actors and opinions.
  - b. On site observations and ad-hoc requests for information were conducted at local sales agents, information centres (all four in the region) and at key experiences (caves, pagodas, etc.)

2. The project scope is technically in the Inle Lake Area, however, to avoid ambiguity on the extent of that area, through consultation, it was identified that the boundaries of Southern Shan State were representative of the study area.

3. Interviews typically last between 30-60 minutes.

- c. A rapid survey of 56 domestic tourists to ascertain tourism demand and preferences. This survey was conducted on tourists departing Mandalay on bus toward Southern Shan State. It is by no means scientific and has been used in general terms to provide supporting evidence

A detailed list of all the interviewed stakeholder organisations is included in Annex A. All interviews were conducted on the condition that the interviewee would maintain anonymity.

The research is based on the methods of ILO's guide on Value Chain Development for Decent Work<sup>4</sup> and The Springfield Centre's Operational Guide on the M4P Approach<sup>5</sup>. This means the research uses different types of data (i.e. primary and secondary) and multiple methods (e.g. observation, surveys) to triangulate perceptions, biases and trends. Results will be validated by relevant stakeholders at a validation workshop in Taunggyi in the final week of March 2019.

4. International Labour Organization: *Value Chain Development for Decent Work – How to create employment and improve working conditions in targeted sectors* (2015).

5. Springfield Centre: *The Operational Guide for the Making Markets Work for the Poor. (M4P) Approach*, 2nd edition. (2014).







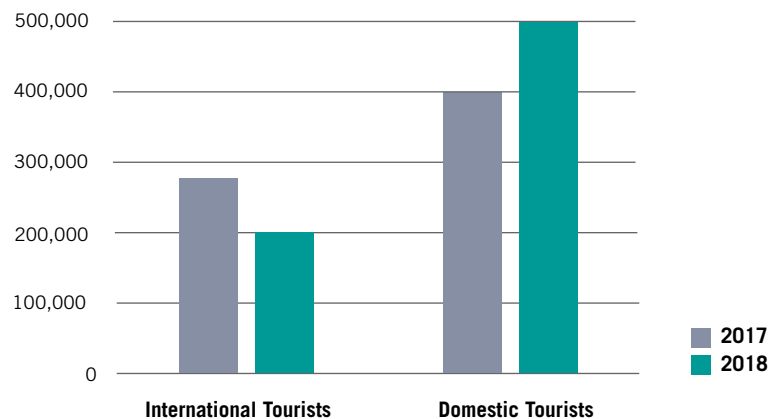
# 2

## Sector Structure

### 2.1 History and trends

Tourism in the Southern Shan State has experienced a long-sustained period of growth of international tourism over the last quarter century with considerable volatility in the last seven years. Using the number of hotels in Kalaw as a proxy for long-term regional tourism growth, Kalaw had just one hotel in 1993 and now has 70. Relative to the recent volatility, in the five years between 2011 and 2016, government statistics indicate that the annual number of international tourist visits to Myanmar increased by nearly 550%.

Figure 1: Tourist arrivals to Southern Shan State<sup>6</sup>



However, the crisis in the Rakhine State has had a profound effect on the number of international tourists traveling to Myanmar and nearly every key informant indicated that the number of international tourists had fallen drastically<sup>7</sup>.

**Data from the MOHT indicates that international tourists to Southern Shan State fell by 28% from 2017 to 2018<sup>8</sup>.** One hotelier indicated that tourists from western countries had dropped 35%-40% while another indicated that the number of guest-nights spent at his hotel fell 50% between November 2017 and November 2018. Cancellations are well above average – one hotelier who caters to international tourists indicated that his cancellation rate in October 2018 was about 40%, well above the business-as-usual rate of 10%.

6. Data provided to the research team at MOHT offices in Taunggyi.

7. One informant indicated that beyond the crisis in the Rakhine State, trends pointed toward Myanmar having a “normalisation” phase after a period of such explosive growth.

8. Data provided to the research team at MOHT offices in Taunggyi.

While tourist numbers have dropped considerably, some indicators demonstrate that the worst may be over. One tour operator said that detailed analysis of Google searches – such as “Is Myanmar OK to travel to?” - and other internet activity shows a re-establishment of external demand in the near future. Another tour operator oriented to European tourists indicated the 2018/2019 high season will have 10% more clients than last year.

**“10 years ago, everyone wanted pilgrimage tours, but that is changing”**

Tour operator

While international visitors have declined, the domestic market was perceived by many to be growing rapidly and shifting from pilgrimage to experience-focused travellers.

This perception is supported by MOHT data which indicates that **domestic travellers to Southern Shan State increased by 25% between 2017 and 2018 and now outnumber international tourists by 2.5 times**. Many in the tourism sector indicated that Kalaw has been the largest benefactor of this shift in tourism demand. A hotelier in Kalaw saw his hotel occupancy raise from around 35%-40% in 2016/2017 to 60% in 2018 – an increase in guest-nights of approximately 50% over the last calendar year.

Tour operators and ground handling agents identified that just a few years ago, few domestic tourists did tourism activities beyond those in traditional pilgrimage tours. That has changed considerably and rapidly. Three principle factors attributed to driving this change were identified as:

1. **The rise in popularity of Facebook** has both increased the visibility of tourism experiences as well as the demand for domestic tourists to travel such that they can post photos of new experiences;
2. **Emergence of direct buses from Yangon and Mandalay** to Nyaungshwe, Kalaw and Pindaya;
3. **A 15% devaluation of the Burmese Kyat** in 2018 which increased the price up for outgoing Burmese travellers and shifted their demand to travel domestically<sup>9</sup>;

Several stakeholders identified that domestic preferences rapidly shift and that destinations become trendy for two to three years and then phase out of popularity. As Kalaw is perceived as new and popular, it could be at a risk of becoming a victim of these shifting preferences.

9. Estimates based on MMK/USD exchange rates on 31<sup>st</sup> December 2017 and 31<sup>st</sup> December 2018.



## 2.2 Market overview

### The destinations

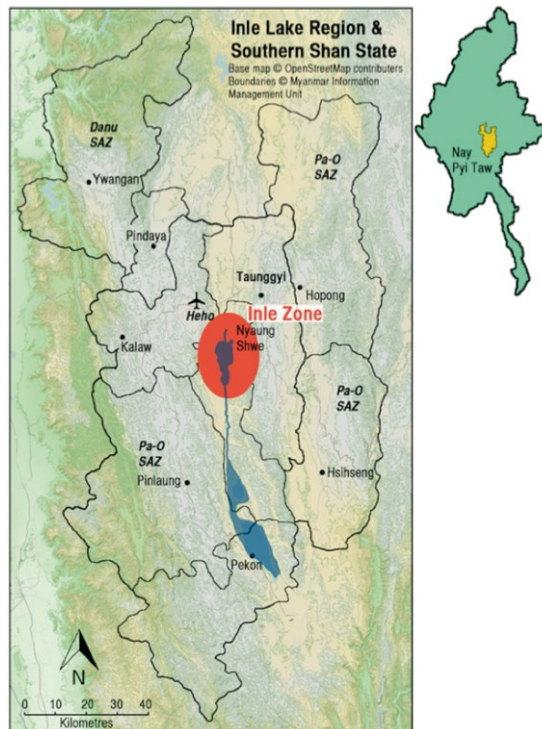


Figure 2: Map of Southern Shan State (Source: MoHT & GIZ, 2016)

Southern Shan State's tourism epicentre has historically been in and around **Inle Lake** – key informants repeatedly cited it as the second most visited tourist location in Myanmar. This assertion is supported by data which shows that it is the fourth most visited location by international visitors in Myanmar (including business travellers)<sup>10</sup>. Here, the lake has a long-tradition of guided boat tours through floating villages and trekking – these are the two principle tourist activities in Southern Shan State. Other activities have cropped up more recently including cycle-tours around the lake, motorbike tours<sup>11</sup>, cooking classes and horse-riding. In the last five years, the area around the lake has experienced a proliferation of higher-end hotels in advance of anticipated upticks in international demand – between 2015 and 2017, the number of operating hotels and available rooms in Nyaungshwe, the hub for Inle Lake, both increased by more than 30%<sup>12</sup>.

**Kalaw**, a former British outpost which offers more colonial buildings than all but one other British hill station in Myanmar, is the second most visited location in Southern Shan State by foreign tourists. Within the last two years, Kalaw has become the top destination for domestic tourists in Southern Shan State. The town benefits from a newly formed and active destination management organisation, several town festivals and an abundance of adventure tours which offer tourists the opportunity to visit the surrounding landscape by foot, bicycle, kayak, motorbike or jeep. It also has become the darling of local social media influencers and travel bloggers which has helped drive an influx of domestic tourists to the destination, many choosing to use it as a base for Pindaya, Inle Lake and Taunggyi.<sup>13</sup>

10. Destination Management Plan for the Inlay Lake Region 2014-2019.

11. According to one informant, such tours are only allowed for domestic tourists

12. Ministry of Hotels and Tourism, *Myanmar Tourism Statistics* (2015 and 2017).

13. Based on analysis from rapid domestic demand survey conducted in February 2019.

Some informants reported that **Taunggyi**, the capital of Southern Shan State, attracts domestic tourists from Yangon looking to enjoy its cooler mountain temperature and its proximity to Inle Lake. It also provides a cheaper base than Nyaungshwe to visit Inle Lake, Kakku, Hopong and a nearby winery. The domestic demand survey indicated that tourists have a strong preference for tasting the local cuisine.

**Pindaya** offers a cave with a Buddhist shrine and some nearby community-based tourism (CBT), though the rolling hills and villages with horticulturally rich landscapes seem to be the principal attraction. However, on-site observations indicated that most tourists passed through the town during the day – likely coming and going from Kalaw – rather than stopping to spend the night.

Beyond that, micro-scale tourist offerings are available for those looking to get a bit further off the beaten track. In the Inle Lake area, **Pekon** – a jumping off point for the south of Inle Lake or Samkar Lake (just south of Inle Lake) – seems to be up-and-coming as three new hotels have recently been completed. This area is linked to Kayah State, a rapidly developing tourist destination outside of the study area. Just east of the lake, **Kakku** has an impressive pagoda and is located near a CBT experience and small village that offers trekking and biking.

**Hopong** offers trekking to the highest mountain in Southern Shan State, though access to this has only recently opened-up to domestic tourists and is still off-limits to non-nationals due to its proximity to opium production. Hopong also offers access to a cave with considerable religious significance, a destination popular with domestic pilgrimage tourists.

**Ywangan** is a small community that is a 4 hour drive from Mandalay, with a variety of emerging activities on offer which include tours and tastings at Genius Coffee, trekking and CBT. It is also located near Sinlal Cave, the second longest cave in the ASEAN region<sup>14</sup> and is a short drive from both the Blue Lagoon and Main Ma Ye Thakinma Taung Pagoda – popular attractions with domestic tourists. The nearby Ashae Myin Anauk Myin Mount, at over 2,360 metres above sea level, is also developing into a popular trekking activity for adventurous domestic tourists.

## Prominent sector actors

Growth in the supply of tourism services has been financed or supported through a combination of foreign business interests, domestic business, national government support and donor-funded initiatives. Foreign investment is mostly concentrated on hotels in and around Inle Lake. Here, Singaporean investors have an overwhelming presence – nationwide they financed more than 60% of the foreign financed hotels<sup>15</sup>.

Domestically, some locals have financed hotels and most restaurant and tour operators are domestically owned and operated. Several interviewees indicated that the larger investments and businesses can generally be tracked back to ex-military officials. The Ministry of Hotels and Tourism (MOHT) has invested in CBT initiatives – sometimes without much prior research into the demand or potential community impact.

Donor-funded projects, which have been very concentrated in the immediate area around Inle Lake, have helped catalyse the development of several tourism activities and the availability of tourist information. In this respect, GlZ has been the most active. On the information side, they have supported the development of an information centre in Nyaungshwe, a VisitInle.com website, a tourism map in Kalaw and posters on responsible tourism.

14. One guide indicated that it was 5km long, but only 200 metres were available for tourists to explore.

15. National Tourism Statistics 2017.

They've supported the development of the Destination Management Committee and the Kalaw Tourism Organisation. However, funding for the second phase of the GIZ Private Sector Development Programme finished at the close of 2018. The project will operate a third phase centred around digitalisation and B2B of innovative product development, however, the scale, scope and start date of that programme are unclear.

In 2017, the IFC began supporting tourism development both nationally and in the Inle Lake region. To date, the project has helped update and revise the national tourism law (see Section 3.3). Within the broader Inle Lake region, the programme has helped establish the Inle destination brand and will focus on supporting the destination management organisation (DMO) to develop a work plan to promote responsible and sustainable tourism.

Beyond that, the DFID-funded, BIF Myanmar projects has supported the development of some smaller-scale activities around Inle Lake, including a horse-riding centre which has catalysed a spin-off near Pindaya. A NO-RAD-funded project, MIID, is expected to kick-off in the near future and intends to enhance the environmental management of Inle Lake which would enhance the tourism offer.

## Tourism demand

### The international market

Tourism businesses generally differentiate international tourists into two groups: those that book through tours and those who are independent travellers<sup>16</sup>. Data could not be attained on which group features more prominently within the region. Some informants indicated that tourists on organised tours outnumbered foreign independent tourists (FITs), while ground handling agents indicated that although that was true four to five years ago, the balance has shifted and that FITs are now more prominent in the region.

Many businesses either cater to organised tours or FITs, but the crossover, particularly at the activity level, is quite limited. This is perhaps due to the differences between how the experiences are coordinated between the two groups. FITs take ownership of coordinating experiences and thus the planning and decision making is left to the individual. On the other hand, foreign tourists who book a tour, often do so through an international sales agent<sup>17</sup>. This agent coordinates with a national tour operator who, in turn, has a network of ground-handling agents located in each of the various destinations, such as Kalaw or Nyaungshwe. The ground handling agents coordinate the transport, activities and accommodation for the national tour operator in and around that destination. This process is shown in Figure 3.



Figure 3: The coordination process for organised tours

FITs are perceived as budget travellers (commonly referred to as backpackers) who have a high sensitivity to price. While informants indicated that the number of backpackers had been growing recently, anecdotal evidence suggests that FITs are quite diverse, in preferences and age, and that many are not as price sensitive as the generalisation suggests.

16. Characteristics were reported through interviews of various actors in the market system. While not every tourist can be generalised so specifically into sub-groups, the characterisation indicates how these groups are perceived by key market actors and how they can potentially influence market dynamics.

17. They can also book directly with national tour operators.

For organised tours, three general groups were described by stakeholders. Their characteristics include:

- **European and North American tourists:** MOHT survey data<sup>18</sup> suggests that **this group is the largest** – 50% of all surveyed foreign tourists came from Germany, France, Spain, the UK and USA. This group is perceived as having the **highest budget of all tourists** and key informants supported the MOHT data by indicating that this is the largest international tourist segment<sup>19</sup>. Multiple operators and guides identified that this group generally does not like to visit temples and pagodas or spend money shopping.
- **Regional tourists:** MOHT survey data suggests that of the ASEAN countries, only Thailand (4%) registered more than 2% of all foreign tourist arrivals into Southern Shan State<sup>20</sup>. These tourists are considered to have similar preferences to higher income domestic tourists. Low volumes of Japanese and South Korean tourists (6% of all foreign arrival to Southern Shan State) were surveyed to have come to the region.
- **Chinese tourists:** Key informants indicated that 2018 was the first year that Chinese tourists came in any discernible number to Southern Shan State (4% of total foreign tourist). This could be a result of the lobbying work that the Myanmar Tourism Federation and Myanmar Hotel Association have been doing in China and travel curiosity of their rapidly emerging middle class. Despite the growth, a myriad of informants expressed concern as they perceived **Chinese tourists to spend comparatively less on food and activities, book experiences through Chinese operators, stay at Chinese hotels** and have less regard for the natural environment.

## The domestic market

In 2017, aggregated domestic tourist expenditures were about half of those from the international market<sup>21</sup>. Given the drop-off in international tourists since 2017 and the corresponding growth in domestic tourists, the market share of aggregated domestic tourist expenditures is considerably higher. Domestic tourists can be segregated into two separate groups: pilgrimage tourists and activity-based tourists. The typical characteristics of the two groups include:

- **Pilgrimage tourists** typically travel with extended family or community groups to **the pagodas and temples and the markets** surrounding those key sights. They typically have packed itineraries, travel by bus, most commonly stay in monasteries or sometimes guesthouses. They can come from both rural areas and urban centres. All-inclusive pilgrimage tours typically cost between **USD 8-13 per day** depending on length and accommodation type.
- **Activity-based tourists** typically come from Mandalay and Yangon<sup>22</sup>, and can have a varied profile though they were identified as being educated but not necessarily of wealth. Domestic tourists preferred to **see as many key sights as possible in a short period of time**, with the idea of box-ticking the sight and sharing the experience through photos on social media. While this is true, some noted that young Burmese follow trends of international tourists and are looking for fresh experiences. Survey data on domestic tourists points to **high untapped demand in activities such as cultural classes (cooking or paper-making), adventure tours, and local food tasting**<sup>23</sup>. Operators indicated that these tourists have a typical budget of around USD 20-35 per day<sup>24</sup> though high-end hoteliers in Kalaw said that Burmese tourists were more predominant guests than international tourists.

18. This data comes from a 2018 survey of 356 foreign tourists which was provided to the research team by the Ministry of Hotels and Tourism in Taunggyi. It is unclear how this data was collected and how reliable it is and thus has been used for approximations only.

19. This sub-group has wildly different preferences – for example one tour operator indicated that French and British differed in the accommodation and adventure experiences they preferred.

20. Ibid.

21. *Travel & Tourism Economic Impact 2018 Myanmar*. World Travel and Tourism Council. 2018.

22. One hotelier in Kalaw indicated that 50% of his domestic guests were from Mandalay and 50% from Yangon.

23. From rapid domestic demand survey conducted in February 2019.

24. Ibid. Results indicated a median budget of USD 23 per day for under 30s.

Until the last three years, domestic tourism in Myanmar was almost exclusively composed of pilgrimage tourists. Although there has been a shift, it still has much space for growth – tour operators estimated that 90%-95% of the domestic tourism market is pilgrimage based.

**“If you fail at domestic tourism, you can’t serve internationals”**

Tour operator

Stakeholder and business perceptions of domestic tourists are highly varied. Tourism businesses often fail to recognise that domestic tourists should be considered as tourists in their own right, but at the same time recognise their fast emergence and importance.

They are perceived as having weak spending power but multiple stakeholders indicated that they outspent international tourists while on holidays. While they are often disregarded, they in fact appear to be essential to developing new destinations and stabilising seasonality.

## Key sector challenges

### Seasonality

The high season for both international and domestic tourists runs from October through February when the weather is dryer. During the rainy season, it was reported that only 10% of the number of peak season tourists come to Southern Shan State despite the weather being markedly better than in Mandalay or Yangon where most national tourists come from.

The weather does impact some core activities to the region, most notably trekking where the paths become muddy, the rivers unpassable and leeches more prevalent. Camping, an activity which is strongly linked to trekking, is also challenging as the experience becomes cold and wet. Because these two core activities are largely unavailable, domestic tourists travel to Bagan where the rainy season is perceived to be shorter and the activities are less affected by the rain.

The rainy season has a clear impact on businesses and workers<sup>25</sup>. Some tour operators indicated that they reduced and discounted tour offerings during rainy season, while others said that they completely stopped offering tours to domestic tourists. Hoteliers identified that accommodation prices at Inle Lake and Kalaw generally dropped by 50%-65% of peak season prices and occupancy reportedly ranged from between 2% to 20%. Guides who traditionally work between 80%-100% of the days during peak season said that they were at most 20% busy during rainy season. Staff at tourist hotels and restaurants are temporarily laid-off.

**Table 1:** Summary of Seasonality Impacts on Tourism in Southern Shan State

	Rainy Season	High Season
Time of year	March– September	October-February
Hotel occupancy Kalaw	2%-20%	65%-100%
Hotel prices	35%-50%	100%
Tour guide utilisation	0%-20%	80%-100%

However, tourism to Southern Shan State in rainy season is not impossible. Several informants indicated that Spanish tourists are active during this period and as a result, Spanish speaking guides are busy too. Many locals identified that rainy season is the most beautiful time of year and that depending on perspective, the weather is conducive for many activities, with rains arriving on a fairly reliable schedule of early morning and/or afternoon showers.

25. Several businesses indicated that it uses the rainy season to train staff or develop new ideas or products.

## Sustainability

Sustainability of tourism has been identified as a core threat to the sector. In and around Inle Lake, the rapid expansion of hotels with limited wastewater treatment infrastructure combined with excessive pesticide use from extensive tomato farms on the lake, has severely degraded the lake's environment as well as its unique character. This has threatened the principal attraction to the destination and in fact, to the Southern Shan State.

Beyond this, stakeholders from across the sector indicated that domestic tourists' lack of appreciation for the natural environment is a threat. Trekking guides said that popular trekking routes were littered with plastic and other rubbish and that tourists let the pursuit of the perfect photo cloud judgement about the appropriateness of trampling on farmers' crops or picking their flowers. Observations at some pagodas indicated a prevalence of rubbish and one tea producer mentioned that tourists walking through his field were a threat to the quality of his tea.

On the positive side, key actors in the industry clearly understand that lake contamination and excess rubbish devalue the region's key tourism asset – its natural beauty. Associations in both Kalaw and Nyaungshwe identified trash pick-up as one of their principal organisational activities and another in Pindaya had campaigned to make Pindaya Cave smoke-free. Thant Myanmar has setup water stations throughout Nyaungshwe to encourage tourists to refill water bottles rather than throw them out, and the Myanmar Tourism Marketing enlisted a Burmese celebrity through a social media campaign to set an example of better waste management for domestic tourists. Lastly, Tourism Transparency developed the “dos and don'ts” of tourism, an illustrated comic-themed poster and 60-page guidance booklet in both Burmese and English.

Some concerns were identified on carrying capacity of destinations and activities. Some trekking guides indicated that the trek between Kalaw and Inle Lake had become so popular that residents from villages on the route had become annoyed with the constant stream of tourists. Similarly, MOHT has seen capacity challenges and a need to push out to less touristed areas like Pindaya and Samkar Lake.

**“Whatever they have, they just throw on the ground”**

Hotelier, Kalaw

**“We can't have 100 tourists watching a cow get milked”**

Tour operator

## 2.3 The role of the target group

The objective of the project is to improve the economic situation in the horticulture and tourism markets leading to increased incomes for male and female farmers, workers and SMEs as well as new/retained employment as a contribution for poverty reduction.

Within Myanmar, SMEs in the service sector are defined as those with 100 or fewer employees<sup>26</sup>. With the exception of larger, higher-end hotels around Inle Lake, virtually every business in tourism is classified as an SME. Thus, the overwhelming majority of those employed in tourism are working in SMEs and the target group is relatively wide.

26. *Myanmar Micro, Small, and Medium Enterprise Survey 2017: Descriptive Report*. Central Statistical Organization, Ministry of Planning and Finance and UNU-WIDER. May 2018.



**The recent drop in international tourism has had a considerable impact on those working in the sector.** Many hotels, restaurants and tour companies have laid-off staff to reduce their operational costs and remain viable. Freelance guides have been impacted too – reporting that this year’s workload was 30%-60% of that in previous years.

**The seasonality of tourism also has direct and profound impacts on the stability of employment.** During green season, hotels, restaurants and tour operators draw-down human resources. One hotelier kept a permanent staff base for the entire year and increased staff by 65% during peak season through hiring temporary employees. Another hotelier kept everyone working year-round but forced them to take two months’ leave at 50% pay during green season. Freelance tour guides reported working 80%-100% of the time during peak season (prior to 2017) and 0%-20% during low season.

For those that do not have a secure, year-round job, they either have to make enough money during peak season and budget it to last the year or need to take up employment elsewhere during green season. For those needing a second job, most reportedly go to the farm which coincides with rainy season.

### Box 1: The impacts of falling international tourism and seasonality on a tour guide

Meet Thant<sup>27</sup>. Thant works as an adventure guide in Kalaw. He leads tourists on hikes to Inle Lake, rock climbing excursions and camping trips in the area and sight-seeing trips through colonial Kalaw. Just three years ago, he had more work than he could handle during peak season, sometimes having to call in sick just to have a day’s rest. This year, things are different. He’s working just eight or nine days per month and once green season comes, he won’t have any work at all. During this period, he will head back to the farm and try to grow vegetables, but still isn’t sure how he will survive.

In looking at **gender**, observation indicates that women are much more prevalent in the service sector, working almost exclusively in restaurants and hotels, as sales agents, and in tour operator offices. Guides reported that between 50%-65% of the guides were women too. This seems to square with national statistics which indicated that the services and sales sector has 50% more women than men and accommodation and restaurants 18% more women than men<sup>28</sup>.

When both male and female managers were probed about the role of women in the sector, they provided three key insights.

1. Women featured more prominently in the sector as they prefer stability whereas men prefer day-wage labour with quick returns;
2. Pay for positions is equal regardless of gender;
3. Management positions had historically been filled by men, however, this has changed recently and the balance is roughly 50/50.

27. Story comes from research interview, though the name has been changed to protect anonymity of the worker.

28. *Annual Labour Force Report-2017: Quarterly Report, 1<sup>st</sup> Quarter January--March 2017*. Ministry of Labour Immigration and Population: Department of Labour. September 2017.









# 3

## The Tourism Market System

The market system is the overall picture of how a market operates. The market system includes the supply-demand transactions in the core value chain as well as the 'supporting functions' and 'rules and regulations' that shape the way businesses and employees work in this core value chain. The market systems analysis takes a broader scope than a typical value chain analysis, because different actors in the value chain do not operate in a vacuum; their commercial success or well-being of the target group are influenced - directly and indirectly - by what happens in their surroundings. For example, financial services, which are a supporting function, do not directly operate within the tourism value chain, but they strongly influence how tourism businesses set-up, grow and operate and how tourists access and pay for every transaction during their experience.

Figure 4 shows an illustrative market system for the tourism sector in Southern Shan State which includes a simplified value chain surrounded by the supporting functions above and rules and regulations below. The remainder of section three will provide additional details on each area identified in the figure below.

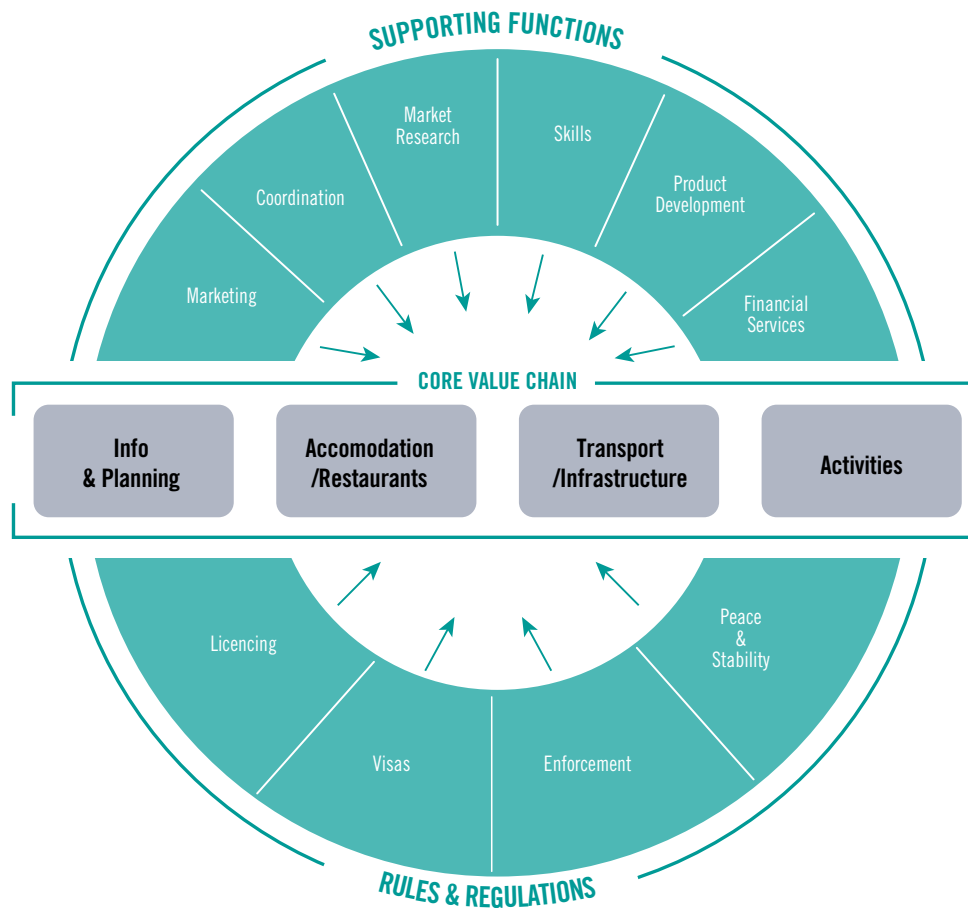


Figure 4: The Southern Shan State Tourism Market System

## 3.1 Core market

The core value chain in a tourism market system is somewhat different than that of a traditional commodity-based value chain. In a traditional value chain, the process of value addition to the commodity - from producer to processor to client - is the focus. In a tourism value chain, the tourist, and the supply-demand transactions throughout the tourism experience are the focus of the analysis. The following sub-sections briefly discuss each of the principle services in the tourist experience.

### Information and Planning

#### Tour-based tourists

Tourists travelling through tours and those travelling independently receive planning information in quite different ways. Foreign tourists book tour experiences generally through an international sales agent who works through a national tour operator in Yangon to sell the experience<sup>29</sup>. These operators work with a network of ground handling agents in the various destinations to book the accommodation, transport and activities/guides for the travel experience throughout Myanmar. Through this process, little decision-making is left to the tourist relative to the duration of the stay or the services that they utilise though they can select options or add-ons to the tour.

29. Foreign tourists can book directly through the national tour operators as well and often do so.

In organised tours, operators and the ground handling agents do most of the planning. They have a preferred list of hotel providers which have been selected based on their visits to the hotel and supported through publicly available guest feedback. Tour operators usually trial activities before including them in packages and some higher-end tour operators develop their own activities for their market.

For domestic tourists, pilgrimage tour operators are well-established – over 500 businesses are members of the Myanmar Domestic Tour Operators Association, an organisation principally composed of small-scale pilgrimage tour operators. The most common tours are weekend-based, three-day, two-night, all-inclusive tours which are packed with travel to temples, pagodas and monasteries. These experiences are generally sold through a network of 600 independent sales agents who are responsible for communicating what is involved in the tour. However, as product differentiation between the various tours is limited, price and location are often the most important decision-making factors.

Apart from pilgrimage tours, national tour operators have largely ignored the domestic market. That is starting to change, as two tour operators identified that they recently shifted their business strategy toward the local market. However, they may be doing this somewhat blindly, with management from one operator indicating that it was unaware of consumer preferences in this market.

## Independent Experiences

For FITs, booking accommodation can be done easily through online booking agents such as Agoda and traveller reviews for accommodation and services can be viewed on TripAdvisor. However, apart from that, local activities generally cannot be booked online – they need to be done through local agents or at local shops. This is for two reasons:

1. **Financial services restrict transactions** from foreign accounts, limiting the ability of FITs to buy activities from smaller service providers online<sup>30</sup>; and
2. **E-commerce is in its infancy in Myanmar**, and thus the infrastructure and culture around it are unfamiliar to the Burmese.

Activity based businesses expressed frustration over the financial limitations as they indicated that their margins would be higher if tourists could book in advance rather than on arrival when intense competition drives down prices and margins.

Destination specific websites for Southern Shan State ([visitinle.com](http://visitinle.com)) and Kalaw and its environs ([visitkalaw.com](http://visitkalaw.com)) have been developed recently and both provide tourists with a list of the activities, hotels, and restaurants services in English. However, neither website showed up in the top 10 results pages when cursory Google searches were conducted to find travel information in Kalaw and Inle Lake and thus, their relative accessibility and use is unclear<sup>31,32</sup>. Apart from those two websites, various pages (Rough Guides, Go-Myanmar) have extensive information on the principal destinations in the region.

As a domestic or foreign independent tourist, **it is quite challenging to arrive at a destination and find out about or book experiences** (see box 2). During the research, the information centres in Heho, Nyaungshwe, Taunggyi and Kalaw were visited. At three of the four centres, staff did not speak English. Information brochures, maps and diagrams offered a very brief flavour of the various destinations in the region, but lacked information that could link tourists to

30. Tour guides identified this challenge, though it is unknown to what extent it exists.

31. MOHT indicated that continued maintenance of such pages is needed, and that no funding existed to do so.

32. The [visitinle.com](http://visitinle.com) webpage has fairly scant information that links to private businesses offering activities so would be difficult to plan specific activities from this page.

specific businesses offering services or activities. This severely limits the visibility of the variety of offer as well as the ability for tourists to make decisions to book those services. Potential consequences of the lack of information included shorter durations of stay, less money spent on activities and less feedback/word of mouth on positive travel experiences.

### Box 2: Why isn't there anything to do in Nyaungshwe?

Armed with knowledge of the wide range of activities in and around Inle Lake, the research team set-out to book some of these activities in Nyaungshwe. In visits to several agents, it became clear why independent tourists say there isn't much to do in the area – local agents simply do not sell a wide spectrum of activities. When the research team asked several agents, “what can we do here?” the sales agents first indicated a boat trip. When asked what else was on offer, they indicated trekking and later, after some delay, biking. Beyond that, nothing else was offered even though the area offers cooking classes, horse-riding, motorbike tours, canoeing and trade workshops – all of which are largely sold to foreign tour-based tourists.

In summary, the underlying causes to poor information and planning include:

1. Local activity providers linked to tour operators linked to Yangon/Mandalay;
2. Activity providers perceive market as international tour-based tourists;
3. Local sales agents are unaware of diverse offering;
4. Information centres lack information on business services; and
5. Poor infrastructure and familiarity for booking activities online.

## Accommodation and Restaurants

### Accommodation

Accommodation supply appears to be sufficient in the principle tourist areas, both in terms of availability, quality and price range of stock. The area around Inle Lake has an oversupply across all stocks. One hotelier oriented to international clients noted that the hotel had been losing money over the last year due to the sharp drop in international clients. Other research indicated that the rapid rise in hotels around the lake (30% increase between 2015-2017), largely came in at the price point of USD 100 per night, while tourist demand at that price point had decreased or flatlined at best.

In Kalaw, hoteliers indicated that they reach 100% occupancy during festivals days but operate with healthy spare capacity throughout the remainder of high season. cursory research indicates that Pindaya and Taunggyi have sufficient stock. Some smaller destinations like Ywangan, Hopong, Kakku, and Pekon have historically had limited accommodation options, but observation indicates that this is quickly changing as hotels in each of those four destinations had been completed in the last year or were nearing completion as of February 2019. One informant indicated that informal homestay and bed and breakfast accommodations are offered in smaller destinations, however, they do operate illegally.

Some hoteliers indicated that they had difficulty with high turnover of lower skilled staff though this might be dependent on management style. One informant indicated that when staff are treated as part of the family, turnover is not problematic.

Relative to range of stock, pilgrimage tourists largely stay in guesthouses or monasteries and domestic activity-based tourists stay at all quality levels. One high-end hotelier with a price point of more than USD 100 per night indicated his target is 60% local tourist as clients but this year their share reached 80%.

## Restaurants

As food safety has been identified as a potential implementation component of the project it has been reviewed as a part of this analysis. In this review, it was determined that the application of food safety measures largely depends on the onus and knowledge of restaurant management. This is largely due to three principle reasons:

- **Restaurants do not receive information on food safety when starting up** their business or in obtaining a license. One restaurateur who opened within the last year said she not aware of any standards for food safety compliance.
- **Domestic training opportunities on food safety are few and far between.** Italy's Instituto Cooperazione Economica Internazionale (ICEI) is in the process of running a food safety training for restaurants around Inle Lake. However, that may have limited long-term impact as high staff turnover will cause restaurants to limit trained staff.
- **Enforcement of food safety regulations through inspection are exceptionally rare.** Restaurateurs at Inle Lake said that inspection was non-existent for formalised restaurants though some small stands had been checked at local markets. In Kalaw, one restaurateur said her restaurant had been inspected twice, but that she had never heard of a restaurant being shut-down for poor compliance.

As a result, few restaurants meet national food safety standards apart from those where management has been trained abroad and see value in applying such standards to their client base.

Despite the poor application of food safety standards, it is unclear how considerable an impact food safety has on decision-making about tourism to Southern Shan State. For domestic tourists, restaurateurs indicated that the food safety was no better or worse than in other parts of the country. And although some domestic tourists may have preferences for restaurants with better food safety, most destinations had restaurants that met decent national standards. For international tourists, one might conclude that food poisoning is a calculated risk of travel to many destinations in developing countries and that food safety in Myanmar is not perceived as better or worse than that of other comparative destinations.

In evaluating the link to horticulture, restaurateurs and hoteliers indicated that all restaurants sourced their raw horticulture products from Southern Shan State. An estimated 90% of restaurants and hotels sourced products from local markets while the remaining 10% – higher-end restaurants – sourced from trusted producers which could meet their quality standards for higher income segments.

## Transport and Infrastructure

Transport and infrastructure are challenging within Myanmar and Southern Shan State. Substantiating that this is more severe relative to other countries is that Myanmar ranks last in the Asia-Pacific and Indian Ocean region in travel & tourism infrastructure, tourism infrastructure, and ground transport infrastructure<sup>33</sup>.

33. *Travel & Tourism Investment in ASEAN*. World Travel & Tourism Council. October 2016.

In looking at transport, it can be segmented into two groups: 1.) travel between Southern Shan State and the rest of Myanmar; and 2.) transport within and around Southern Shan State. For the former, domestic tourists arrive to Southern Shan State, most commonly from Yangon and Mandalay, via car or bus. The trip between Yangon and Nyaungshwe lasts around 10-12 hours and costs about USD20. An influx of direct buses travelling from Yangon/Mandalay directly to Kalaw, Taunggyi, Nyaungshwe, Pindaya and Ywangan can be easily reached by direct bus from Mandalay. Tour operators indicated that domestic tourists preferred travel by bus than by air, in part because the bus is cheaper but also because the buses arrives directly at the destination and Heho airport is still a USD15-25 taxi ride from their destination.

International tourists arrive via bus from other Myanmar “hotpots” (Mandalay, Yangon, or Bagan) or more commonly by plane at Heho Airport, located roughly equidistant (between 30-60 minutes’ drive) from Taunggyi, Nyaungshwe, Pindaya and Kalaw. For those arriving by plane, a one-way flight between Yangon and Heho costs approximately USD 100 for an international tourist and USD 35 for Myanmar nationals. The cost for international tourists to fly between Yangon and Heho is about twice the cost of a flight from Yangon to Bangkok, which thus may reduce regional competitiveness.

Options to travel within Southern Shan State were reported to be limited. Apart from shuttle/bus options between Nyaungshwe-Kalaw, Nyaungshwe-Taunggyi (seven times per day) and Kalaw-Taunggyi (once per day), public transport between other destinations are largely unavailable. For example, no direct bus or shuttle service exists between Nyaungshwe and Pindaya - tourists must travel by taxi or a combination of three individual bus trips (with wait times) to make the trip. As one operator indicated, he did not believe the volumes travelling these routes were viable to carry regular travel services.

For smaller destinations like Hopong, Kakku and Pekon, tourists need to travel in informal transport such as on a bench in the back of a truck. This limits accessibility and in turn, the competitiveness of these destinations. One means of mitigating the lack of accessibility is through renting cars, which at USD 20-25 per day can be cheaper and more flexible than taxis.

## Activities

Several interviewees indicated that the lack of diversity of tourist activities limits both the attractiveness of, and the duration of stay in, the destination. Some informants and tourists alike perceived tourism to be limited to boat tours through the floating villages on Inle Lake, bike tours around the lake and multi-day treks from Kalaw to Nyaungshwe.

However, the diversity of activities throughout the region is impressive. Jeep tours, horse riding, trekking, kayaking, rafting, traditional paper-making and an elephant camp experience are just a few of the experiences which have developed recently.

Community-based tourism (CBT) is quickly developing too with one or more experiences located near Inle-Lake, Kalaw, Pindaya and Ywangan. Each experience offers a snapshot into local lives – buffaloes ploughing land or villagers doing traditional trades, playing music and tending to land. The accommodation is simple and the profits, in part, get reinvested into community development. However, at a price point of between USD70-90 per day, the spectrum of tourists that can afford CBT is quite limited.

That brings to light a larger issue, many (but not all) new activities are oriented toward international, tour-based tourists in both price point and offer. Secondly, many of the more expensive activities are developed by, and/or sold directly to, tour operators and thus are not accessible to FITs and domestic activity-based travellers. Ground handling agents believed that such activities were too expensive for non-European, non-tour markets and thus they were not marketed to them.

### Box 3: Do CBT experiences need to be so expensive?

At USD 70-90 a day, CBT may be out of reach for most tourists. But does the experience need to be so expensive? Signs of “CBT-light” exist but are perhaps under-utilised. A hotel in Kalaw offers cooking classes, oxen cart rides, biking and horse riding for USD 15. A new higher-end restaurant in Pindaya offers free tours to a nearby village to observe women doing traditional weaving and rolling cheroot cigarettes. Such services could fill the tourist demand for CBT activities but do not price them out of reach from their budget.

**“Local people don’t like to walk”**

Trekking guide

Preferences between international tour groups, FITs, and domestic tourists can range quite substantially. Tour operators and guides indicated the domestic tourists do not like multi-day trekking experiences but do like camping and motorbike adventure tours. **Domestic tourists like spending money on locally grown horticulture products** such as tea and avocados. Given their propensity to shop, one could argue that **domestic tourist expenditures, dollar for dollar, are more impactful on the poor than those from international tourists** – benefiting the market-stall owner directly rather than the large tour operator.

**“International tourists don’t buy, they just take photos!”**

Domestic tour operator

**The link between tourism and horticulture seems to be strong and rapidly growing.** In Pindaya, trekking experiences pass through tea plantations and always include stops at small, family-run tea processors to taste tea. They sometimes stop at larger factories that process green and black tea. One Yangon-based operator packages tea tours in with the Danu CBT experience. Guides indicated that most tourists were unaware that Pindaya was a tea producing region before arriving but that they were happy with its incorporation into the trekking experience. Though tea is heavily incorporated into tourism in Pindaya, the potential to further develop it exists. For example, it is difficult to buy tea on the tours.

**“Tourists love tea tours”**

Trekking guide

Beyond the link to tea, the rich horticulture heritage of Southern Shan State is incorporated into most trekking tours. Other concrete links between tourism and horticulture include Genius Coffee in Ywangan which has a coffee plantation tour, tasting experience and store that sells packaged coffee as well as Prime, a large organic producer, in Heho which offers tours of its organic farm facilities.

## 3.2 Supporting functions

### Marketing

The lack of a coherent and reasonably funded marketing strategy for both international and local markets is one of the most severe constraints to growth and development of tourism in the Southern Shan State.

#### International Marketing

The consensus by nearly every actor interviewed was that more could be done to promote the country abroad – particularly in light of the ongoing crisis in the Rakhine State which has negatively impacted Myanmar's image to external audiences.

Tourism marketing is actively led by the private sector and most notably by Myanmar Tourism Marketing (MTM) – an association which acts on behalf of the government to market tourism in Myanmar – and tour operators. MTM is a volunteer run association of business professionals in the tourism sector which markets exclusively for international tourists. Its annual marketing budget is a paltry USD 700,000, less than 1% of the USD 80 million annual budgets for both Malaysia and Thailand<sup>34</sup>. Despite having a thin budget and limited to no market research to use, they do a lot – they work with travel exhibitions both regionally and in Europe and have plans to advertise on CNN and BBC and push marketing into India in the current “look east” strategy. However, as a volunteer association, no one is committed full-time to activities and members must balance their own business activities with association functions. As a result, MTM's activities appeared to be delivered on an ad-hoc basis rather than with the backing of a consistent and coherent strategy which might better focus their limited budget.

**“We can do a good product  
but we cannot sell it to the  
international community.”**

Ground handling agent

In their efforts to enhance their business interests, tour operators indicated that they attended travel exhibitions in Germany, the UK and Spain to market their businesses and set-up B2B meetings with sales agents who are based abroad. At a destination level, ground handling agents indicated that they felt that tour operators were responsible for promoting tourism internationally.

Though largely lacking in the international picture, the government now sees value in better targeted marketing. In August 2018, MOHT launched a digital marketing taskforce in partnership with several private sector associations. This shows promise, however, it is unclear to what extent financial and human resources support the delivery of meaningful actions.

#### Local Marketing

Marketing at the community level is almost non-existent. That is, marketing for the destination of Southern Shan State as a whole or to a specific destination within it – for example, Pindaya – does not exist. This is due to local associations being too fragmented with too few resources to commit to marketing than can add value – instead they choose to focus on activities with more tangible benefit, such as community trash pick-up.

34. *Rapid Market Assessment of Responsible Tourism in Vietnam 2017*. ILO, the Lab. 2017



**“Most businesses don’t know anything about marketing.”**

Marketing company

Although limited, MHA and MOHT have done some community focused marketing in their efforts to attract Chinese tourists to the region and in financing bloggers and influencers to market six destinations in Southern Shan State, respectively.

Beyond that, marketing is focused on selling tours, accommodation and activities and is relatively ad-hoc. The most coordinated marketers are tour operators who use Facebook (targeting the younger generation), TV, and newspapers (targeting the older generation).

Activity-based businesses rely heavily on Facebook as a means for marketing, though this is conducted at the micro-business level and with few exceptions (see box 5 below), does not reach a larger audience or sell a larger destination experience. Small businesses are simply unaware of how to effectively market via social media and lack the human resources needed to actively create and curate attractive content.

**“We need more marketing in rainy season.”**

Tour operator

Given the fragmented nature of marketing at the local level, some marketing opportunities seem to be missed. Locals indicated that the climate during rainy season in Southern Shan State is pleasant and is comparatively much better than in Yangon and Mandalay. However, marketing to drive domestic tourists to the region to take advantage of better weather, discounted hotels and activities and uncrowded experiences has not been trialled. In looking at the activities, better marketing could help break the perception that each destination offers roughly the same activities: trekking, camping and CBT. Basic branding

could drive local demand to experience these destinations for different reasons. Ywangan could be branded as Myanmar’s home for coffee; Pindaya a tea paradise; Kalaw as the colonial and adventure capital; and Nyaungshwe as the gateway to the Inle Lake.

#### Box 4: A business that helped a destination go viral.

Ride Behind Kalaw, an adventure tour company has become successful in a quick period of time due to an effective social media presence. At 125,000 Facebook followers, they are easily Southern Shan State’s most recognisable business on social media. They have amassed this following through actively posting high-quality photos and videos that sell the experience and the landscape around Kalaw – the business requires that tour leaders have experience in PR and taking photos and video. This caught the attention of popular national travel bloggers and influencers who have since been drawn to visit Kalaw. The result is that Ride Behind Kalaw has been one of the key drivers to tourism in Kalaw and now has significant leverage in marketing to and influencing the domestic tourism market in Southern Shan State.

In summarising the challenge of marketing, the core underlying constraints include:

1. **Very limited government budget** to finance consistent international marketing;
2. **Lack of coherent international marketing strategy;**
3. **No market research** to guide local or international strategies and understand effective ways of how tourists receive information;
4. **Lack of community coordination** to market destinations as a whole;
5. **Perception that tourism is international only** by larger associations;
6. **Lack of knowledge on effective social media marketing** at the business level; and
7. **Little destination differentiation** due to poor community branding.

## Coordination

Nationally, the Myanmar Tourism Federation has 11 travel and tourism associations that operate under it including MHA and MTM. This means that at the regional or community level, the human and financial resources within these individual associations are often too limited to effectively coordinate and deliver on local initiatives. As a result, coordination between tourism businesses within Southern Shan State is relatively weak and without solid sector coordination, destination marketing is ineffective and the development and delivery of community-focused initiatives is nearly non-existent.

The best example of collective strategy development is the *Destination Management Plan for Inlay Lake Region 2014-2019*, which provides a relatively comprehensive overview of the regional strategy. However, the rate at which the plan has been delivered on is unclear. One informant indicated that a destination management committee is in charge of overseeing the implementation of the plan, though it is largely ineffective and not action oriented – a product of its bureaucratic structure which includes nine sub-committees.

The largest coordination body which has an active base is the Myanmar Hoteliers Association (MHA), a nationwide group of hoteliers that has local chapters throughout Southern Shan State. Locally, MHA has tried to drive some initiatives to generate more tourism, but their efforts seem to be poorly focused and out of touch with market demand<sup>35</sup>.

The Kalaw Tourism Organisation (KTO) was founded in July 2018 by a group of hoteliers with the objective of preserving the cultural identity and beauty of the town. In eight months, they've been highly effective, getting buy-in and eventual lobbying support from the town's political representative. They've developed a heritage trail and have organised tree-planting, community trash pick-up days, staff skills training and a community tourism website. They also understand their unique selling points – climate, environment and colonial history, and are in the process of understanding how they can market the destination externally.

### Box 5: What makes KTO so successful?

Through this research, KTO was perceived as the most effective community coordination body in the region. But why are they so effective? Three key factors have supported their quick rise:

- Up-front support from the political representative: This can help if KTO advocates for a night market – it can use political support to make the land available for it.
- Diverse membership. Its 30 members include hoteliers, guides and restaurateurs which may neutralise discussions from getting into one specific business line or another, helping keep the focus on community development that benefits all.
- Community: Most members are originally from Kalaw and thus have both long-standing personal relationships with other members and an interest to develop the community. Kalaw as a community is of a size such that it can have a sufficient base of members to drive initiatives but not too many to the point where it becomes overly bureaucratic or slow.

Apart from MHA and KTO, Southern Shan State has chapters of the Myanmar Tour Guide Association and Myanmar Restaurant Association, though they are relatively small and have challenges in organising activities. Some small, informal coordination groups exist around Inle Lake, but the community is large in number of businesses and geography, which makes effective outreach difficult.

35. For example, in Pindaya, MHA are lobbying to get a local peacock registered as an endangered species and in Southern Shan State they produced a 4-hour Southern Shan State travel series on DVD in Burmese language. Both efforts may have some impact on domestic tourism, however, from discussions it seemed that MHA largely do not consider domestic tourism as a market.

Many of the business owners around the lake, particularly for larger hotels, are non-local business owners and may have varying appetites for coordination.

The core underlying constraints to effective community coordination can be summarised as:

1. **Fragmented tourism associations at the national level** limit the available resources to coordinate initiatives on a local level; and
2. **Lack of diversity in association business types** keeps coordination activities narrowly focused on initiatives that directly benefit membership businesses rather than the community as whole (and in turn the business).

## Market Research

Market research can considerably support the development, orientation and marketing of new products. However, in Myanmar, this function is largely missing and associations and operators indicated that this is one of the biggest constraints to the sector. The lack of market research keeps actors uninformed about the changing sector dynamics. And as a result, businesses and associations have been slow to recognise the rise in FITs and domestic tourists and the potential impact that reorientation to those segments could have.

Large tour operators may be the only actors collecting meaningful market research, however, it is for private use. One operator indicated that it used client surveys to adapt tours – shifting demand to Kalaw after tourists rated the destination highly, or dropping hotels that weren't popular with certain market segments. Another operator had a digital analytics team which looked at data from Facebook and Google to drive decision-making. With that research in hand, the operator is shifting its strategic orientation away from tours catering to foreigners toward the domestic market.

The MOHT reportedly has one person collecting data and managing its statistics and it synthesises data annually into a two-page leaflet that is publicly available. The data is broad and/or at a national level – for example, number of hotel rooms per destination or total number of visitors by nationality (though not disaggregated by tourism or business travellers). The lack of available meaningful data is a result of a lack of resources.

The MOHT office in Taunggyi has collected basic data on domestic tourists and conducted a detailed survey on international tourists, which includes data on tourist duration of stay, earnings and how they found out about Southern Shan State. However, neither data set is available to the public. Some informants indicated that they did not feel that data collected and published by MOHT was reliable.

The business associations largely do not collect market research for their members as they are under-resourced or volunteer run and did not recognise this responsibility to be theirs. UMTA indicated that it had started work in research and development, but admitted that meaningful research had not yet started.

In summarising the underlying constraints to market research, they include:

1. **Lack of human resources in MOHT** to collect, analyse and publish meaningful market research;
2. **Poor distribution of localised data** by MOHT Taunggyi;
3. **Lack of acknowledgement by most tourism associations** that market research could be a function of the organisation to bring value to members; and
4. **Lack of resources in tourism associations** to collect market research.

## Skills

Industry experts and business owners all cited that skills development was a constraint. At the lower-skilled customer interfacing positions in hotels, food and beverage and activities, business owners indicated that it was difficult to find and keep staff that were skilled. Hoteliers indicated that once lower-skilled staff learned English, they were often head-hunted by international telecommunications companies. Some managers found difficulty in identifying how the lack of skills impacted their businesses at this level, though one hotelier indicated that he employs two unskilled staff when one skilled staff member could do the job.

Businesses and industry experts identified that management and supervisory capacity was scarce and that its lack of availability was more limiting to business. Some businesses had invested in training for staff in such management positions, as the turnover of these staff is relatively low and the perceived business benefits from upskilling are considerable.

The provision of formal skills development training for tourism is exceptionally limited in Southern Shan State. MOHT indicated that it trains approximately 1,000 workers per year in Southern Shan State but needed to constantly train staff given their propensity to leave the sector<sup>36</sup>. Privately, the Inle Heritage Foundation has a training programme which graduates 40 students per year from a 10-month course. MHA indicated that it has trained around 40 hotel workers per year over the last 10 years in Pindaya. Beyond that, it was reported that LuxDev funded three rounds of ad-hoc training by the École hôtelière de Lausanne (EHL) to supervisory staff in Kalaw.

In summarising the underlying constraints to skills:

1. **Tourism is perceived as a stepping stone to better career opportunities** and thus workers use it to develop professional or language skills before moving to other sectors;
2. **High staff turnover** in non-management staff limits the willingness of businesses to invest in training these staff; and
3. **Lack of locally available, regular training services** to train basic skills and keep up with the constant demand.

## Product Development

Several industry experts indicated that the lack of product development is a key contributing factor which limits how long visitors stay in Southern Shan State<sup>37</sup>. However, diverse activities and services do exist, but perhaps are not on offer for FITs and domestic tourists (see *Section 3.1: Activities*).

New activity products are typically developed for the international tourism market and are generally done through two avenues. The first, and more common method, is that Yangon- or Mandalay-based tour operators – who have been working with international tourists for years and have a good sense of their preferences<sup>38</sup> – invest in product development. Operators did this in a myriad of ways. One larger tour

**“Locals are not experienced enough to develop products that Westerners like”**

Tour operator

36. No other actors identified MOHT doing this degree of training.

37. MOHT data indicates that international tourists stay, on average three days in Southern Shan State. This is consistent with perceptions from business owners and stakeholders.

38. Operators who collect client feedback data use this in product development.

operator had a team of five product development staff who worked continuously to develop new ideas. When they developed a kayaking experience at Inle Lake, they invested in the infrastructure, trained staff on how to deliver the experience and then handed over the activity to the ground handling agent to manage. Another operator, who wanted to set-up a CBT experience, spent two weeks living in a village to better understand what tourists would like to do (being pulled by oxen-drawn carts) and not like to do (trying local rice whiskey).

Trialling the experience is an important step in product development. When one tour operator's CBT experience was 75% developed, he invited friends and colleagues working in the tourism sector to trial the tour with him and provide feedback on the experience. He adapted the experience based on that feedback which he felt strengthened its offer.

The second product development model is through NGO or donor support. GIZ has supported the development of CBT and trekking experiences through the Danu Tourism Development Support Organisation<sup>39</sup>; BIF-Myanmar, a canoe experience captained by local women and successful horse-riding business; an American NGO, papermaking in Pindaya; and Practical Action, a new CBT near

Kalaw. This model has had mixed results in terms of sustainability as products can be developed to meet NGO/donor objectives without strongly considering market demand for, or commercial viability of, these new products.

**“Create a new idea and in one year it is copied – though it's slower than Vietnam.”**

Tour operator

Copycatting of successful tour ideas is accepted in tourism - those in the product development space see it as a natural part of the sector rather than a threat to the development of new ideas. One reason for this is that tour operators, who develop these products and sell them to tourists overseas, receive payment from the tourists while they are still overseas and booking

a larger package. This largely protects their price and margin from intense competition. Further, copycatting for high-value activities seems to be between operators and ground handling agents oriented toward foreign markets rather than by small local SMEs that adapt these products to serve FITs and domestic travellers.

As a result, the product offer for FITs or domestic tourists is much less diverse than for those who book through tours. It is unclear exactly why this is the case, though several potential underlying causes could be that small, local businesses:

- **Perceive the infrastructure costs to be too high.** For example, cooking classes offered by tour operators are hosted in modern kitchens which partially look like a science laboratory and require a considerable investment. They also can cost USD 80 per day. However, cooking classes could be more informally offered at a local's house which would carry limited investment cost and thus limited activity cost to the tourist.
- **Do not see the viability to create lower cost replications** or variations of similar activities or that tourists would be willing to do a lower cost option.
- **Lack entrepreneurial spirit or confidence** to copy or modify newer ideas until they have been sufficiently copied by others
- **Perceive that tourism is for foreign tourists on tours** and thus have difficulty in orienting themselves to FIT or domestic markets.

39. One operator indicated that CBT is generally set-up through NGO or government initiatives

## Financial Services

Entrepreneurs and small businesses that want to source capital as a means of starting and building their emerging businesses will struggle to find it. This clearly limits the start-up and growth of new ideas, activities and services by SMEs in the tourism sector.

Why do small businesses have difficulty accessing finance? The financial sector in Myanmar is nascent and financial lending is unfamiliar to business owners at the entrepreneur or small business level. One informant indicated that micro-lending is relatively new and underdeveloped in Myanmar in comparison to neighbouring countries, so funding from such sources is scarce. For more traditional banking services, the lack of familiarity that SMEs have with financial products limits the accessibility to these services in two ways: 1.) small business owners are largely unaware of the availability of such loans; and 2.) they lack the understanding to build the strong financial history and bankable business models that banks need to open credit lines.

Collateral is also generally lacking from these sub-groups which puts access to financial services further out of reach. However, in January 2019, the Central Bank opened up the possibility of collateral free loans as a means of providing financial inclusivity to SMEs<sup>40</sup>. The loans would be offered at a maximum rate of 16% per year which is 3% higher than the maximum interest rate allowed with collateral. As this regulation is quite new, it is unclear if private financial institutions will have appetite to increase lending risk with the trade-off of a marginal increase of return of just 3% per year.

Larger businesses, which are oriented to international tourism and meet the banking requirements are also struggling to get financing. As one ground handling agent quipped, it's hard to obtain a loan and then pay-it off when the business is losing money.

In summarising the underlying constraints to financial services, they include:

1. **Nascence of financial sector** limits familiarity of products to SMEs;
2. **Lack of micro-finance services** available on the market;
3. **SMEs do not meet the lending requirements** such as collateral, business plan and credit history to access traditional lending; and
4. **Declining business climate** in tourism puts loans out of reach for businesses who are currently losing money.

## 3.3 Rules and Regulations

Within the rules and regulations, two constraints were most commonly cited by private stakeholders: licencing and visas. However, the government appears to have heard these stakeholders' concerns – perhaps in part as a response to stimulate demand after the recent drop in international tourists – and regulations to both licencing and visas are in the process of becoming less burdensome.

### Licencing

MOHT is the government agency tasked with regulating the tourism sector and within their remit, they control the permitting and licencing processes for hotels and guesthouses, transport services, tour operators and tour guides<sup>41</sup>.

40. Htin Lynn Aung. *Central Bank permits loans without collateral at 16pc interest rate*. Myanmar Times. 15<sup>th</sup> January 2019.

41. *Assessment of Skills Gaps and Potential for Entrepreneurship Development in the Tourism Value Chain in Hsipaw, Myanmar: Participatory Value Chain Analysis Report*. (2018).



The guiding document for licencing is the Tourism Law, which was revised substantially in September 2018 and is expected to be approved and put into regulation by mid-2019. Key stakeholders indicated that the new law intends to make the licencing process faster, more affordable and less onerous to renew<sup>42</sup> to incentivise smaller businesses to get licenced. It also levies more severe penalties to the unlicensed, changing the current punishment of a MMK 50,000 (USD33) fine to three years in prison and a fine of MMK 20 million (USD 13,000).

The new law will assign enforcement to MOHT branch offices. In Southern Shan State, this will fall under the responsibility of the MOHT Taunggyi office. To support the uptake on the law, MOHT Taunggyi indicated that it would plan a series of awareness raising meetings with stakeholders.

One hotelier indicated that the licencing process can be slow and often requires some form of bribery to process the application more swiftly. Hoteliers and restaurateurs currently have challenges getting alcohol licences and thus operate outside of the legal framework. The new tourism law will automatically include alcohol licencing in with hotel licences but the alcohol licencing process for restaurants will not change as a part of the law.

Tour guides indicated that obtaining a license was challenging and as a result, many guides operate as unlicensed. The principle challenges are that the process precludes many from participating: guides need to have completed secondary school, attend a training in Yangon and pass a test to get certified. One guide identified that in 2014, approximately 3,000 applied to attend this training and just 250 were selected. Some others reported concern with the quality of the curriculum at this training, indicating that was from the 1960s and equipped the guides with limited value-added skill.

Beyond tourism licences, business registration is also a challenge. By a comparative metric, the World Bank Doing Business Report rates Myanmar 171 out of 190 countries in how easy it is to start a new business<sup>43</sup>. From a financial perspective, businesses looking to complete the registration process pay three distinct specific fees<sup>44</sup>:

- Registration fee – MMK 1,000,000 (USD 625);
- Taxes – MMK 200,000 (USD 125); and
- Registration agent – MMK 200,000 (USD 125).

As a result of the high registration fees and a general lack of enforcement and penalties, many micro- and small-scale operators have remained unregistered and unlicensed. It is unclear if the current changes to the tourism law and its penalties for operating without a licence will push informal businesses to register.

## Visas

Entry visa requirements were also identified as a deterrent to international tourists as foreign nationals from most countries need to obtain a visa in advance of arriving to Myanmar. Although a visa is required prior to entry (for most countries), the process of obtaining it has become much easier over the years as a standard single-entry, 90 day visa, requires completion of an online application process and USD50<sup>45</sup>.

42. Renewals will be required every three years instead of every two years as is the current requirement.

43. World Bank Group. 2018. Doing Business 2018, Reforming to Create Jobs, Comparing Business Regulations for Domestic Firms in 190 Economies, 15th Edition.

44. Process and data extracted from *Assessment of Skills Gaps and Potential for Entrepreneurship Development in the Tourism Value Chain in Hsipaw, Myanmar: Participatory Value Chain Analysis Report*. (2018).

45. As extracted from the Ministry of Labour, Immigration and Population via information website: <https://evisa.moip.gov.mm/HowToApply.aspx>

Perhaps as a response to the decline in international tourist numbers, visa requirements for tourists from larger Asian economies have been eased in recent months. As of October 2018, tourists from Japan, South Korea, Hong Kong and Macau no longer need a visa to enter the country for 30 days. And tourists from China and India can obtain visas on arrival as of October 2018 and December 2018, respectively. One interviewee indicated that visas on arrival would be opened up for tourists from the European Union by end of March 2019. Although it is unclear to what extent such changes will impact international arrivals from these countries, it is considered a progressive step toward stimulating international demand.

## Enforcement

The role of enforcement in sector regulation is relatively weak. Interviewees could provide few examples of any type of enforcement either from MOHT for licencing or at the township level for food safety in restaurants. The only concrete example of enforcement penalising a business occurred when authorities shutdown businesses that were operating new activities in and around Inle Lake without a licence.

On one hand, it could be argued that a lack of enforcement benefits the sector as it allows businesses to better serve the market in light of the licencing challenges. Lack of enforcement allows hotels to sell alcohol without a licence as well as unlicensed guesthouses and tour guides to provide extra market supply when licencing may otherwise constrain it. On the other hand, poor enforcement potentially diminishes the quality standard of tour guides and tour operators as well as restaurant compliance with food safety regulations.

Informants indicated that as a part of the new tourism law, enforcement of tourism licencing will be moved from the national level to the district level (MOHT Taunggyi). It is unclear if resourcing will be allocated to MOHT to effectively enforce at this level and whether enforcement will become more effective.

## Peace & Stability

Roughly half of the Southern Shan State falls into the jurisdiction of the Pa-O and Danu Self-Administered Zones (SAZs). While most of the area within these SAZs is open to tourism – a competitive advantage for Southern Shan State relative to other regions in Myanmar – small areas within the Pa-O SAZ are reportedly producing opium and thus are not accessible to tourists. These areas include:

- Hopong: Access to the tallest mountain in Southern Shan State has been off limits for years, however, this has recently opened to domestic tourists for trekking.
- Pinlaung: Although largely underdeveloped from a tourism perspective, this could facilitate a future link to Samkar Lake or tea-based tourism.
- Kakku: The surrounding hills could facilitate trekking, CBT or avocado-based tourism.

The three areas identified above currently have little tourism activity on offer, which is heavily impacted by their accessibility to tourists. One entrepreneur located near Hopong indicated that he been planning to opening a guest house and corresponding adventure activity hub for the last five years, though had been waiting for improved stability in and accessibility to the region before doing so.







## 3.4 Constraints summary

The constraints flagged throughout the above sections have been summarised in the below table:

**Table 2:** Constraints Summary

Constraint	Underlying Causes	Impact on market
<b>Core Market</b>		
<b>Information &amp; Planning</b>	<ul style="list-style-type: none"> <li>- Market perceived solely as tour-based foreign tourists</li> <li>- Local sales agents unaware of diverse offering of activities</li> <li>- Information centres lack information on business services</li> <li>- Lack of domestic infrastructure and familiarity in booking activities online</li> </ul>	FITs and domestic tourists have limited knowledge of offering and spend less time and money in the region
<b>Accom/ Restaurants</b>	<ul style="list-style-type: none"> <li>- Restaurants do not receive food safety information</li> <li>- Limited food safety training opportunities</li> <li>- Poor enforcement of food safety regulations</li> </ul>	International tourists contract food poisoning which effects positive feedback on travel experiences
<b>Transport</b>	<ul style="list-style-type: none"> <li>- Perceived lack of volumes between destinations within the region</li> </ul>	Accessibility to smaller destinations limited
<b>Activities</b>	<ul style="list-style-type: none"> <li>- Market perceived solely as tour-based foreign tourists</li> <li>- Poor connection from activity providers to FITs and domestic tourists</li> </ul>	Activities are almost completely aligned to the interests of one market segment, limiting opportunity in other segments
<b>Supporting Functions</b>		
<b>Marketing</b>	<ul style="list-style-type: none"> <li>- Very limited government resources</li> <li>- Lack of international marketing strategy</li> <li>- No market research to guide strategies</li> <li>- Lack of community coordination</li> <li>- Perception that tourism is international only</li> <li>- Lack of knowledge on effective social media marketing</li> <li>- Poor community branding</li> </ul>	Potential market demand limited, which is particularly concerning given recent drops in the international market
<b>Coordination</b>	<ul style="list-style-type: none"> <li>- Fragmented tourism associations at the national level</li> <li>- Lack of diversity in business types within associations</li> </ul>	Poor destination marketing and development and delivery on initiatives limit destination appeal
<b>Market Research</b>	<ul style="list-style-type: none"> <li>- Lack of human resources in MOHT</li> <li>- Poor distribution of localised data</li> <li>- Lack of acknowledgement by most tourism associations of importance</li> <li>- Lack of resources in tourism associations</li> </ul>	Actors largely uninformed about sector dynamics; develop and market poorly targeted products
<b>Skills</b>	<ul style="list-style-type: none"> <li>- High turnover of lower-skilled staff as tourism is perceived as a step to better career opportunities</li> <li>- Lack of locally available training services</li> </ul>	High operational costs to employ ineffective staff
<b>Product Development</b>	<ul style="list-style-type: none"> <li>- High perceived infrastructure costs</li> <li>- Do not see the viability to create lower cost replications or variations</li> <li>- Lack of entrepreneurial spirit</li> <li>- Lack of knowledge on foreign tourist preferences</li> <li>- Perception that market is international only</li> </ul>	Tourists perceive few activities are on offer and limit durations of stay

Constraint	Underlying Causes	Impact on market
<b>Financial Services</b>	<ul style="list-style-type: none"> <li>- Nascence of financial sector limits familiarity</li> <li>- Lack of micro-finance services available on the market</li> <li>- SMEs do not meet the lending requirements</li> <li>- Declining business climate</li> </ul>	Small businesses constrained to start-up new ideas and grow
<b>Rules and Regulations</b>		
<b>Licencing</b>	<ul style="list-style-type: none"> <li>- High cost of tourism licences (to change)</li> <li>- Lack of enforcement</li> <li>- Selective process to licence guides limits supply and pushes guides to operate without a licence</li> </ul>	Businesses and freelance guides often do not have licences which reduces the quality and standardisation of the tourism offer
<b>Enforcement</b>	<ul style="list-style-type: none"> <li>- Lack of resources in MOHT for licencing and at the municipality level for food safety</li> </ul>	Limits the perceived need for licencing and diminishes quality of food safety









# 4

## Opportunity

The purpose of this market systems analysis is to provide an initial foundation for the project to determine the scope during its implementation. In taking stock of the analysis, the project would be best placed to focus efforts in addressing key constraints in the supporting functions, namely: *marketing, sector coordination, market research and product development*. In the core value chain, *information and planning* should also be addressed to enhance the visibility of activities and services on offer to FITs and domestic tourists. Lastly, given its scope, it is unlikely that the project will be able to meaningfully address core challenges to the rules and regulations and thus should not focus implementation efforts here. Similarly, the analysis indicates that the project may generate more impact by addressing the constraints to the abovementioned areas rather than on improving *food safety*. In addressing *food safety*, efforts have limited sustainability and will do little to drive more tourism market demand relative to other implementation measures.

In creating opportunity, the project must also ensure that if tourism demand is enhanced, particularly for the domestic market, that sustainability and destination carrying capacity are also protected. This is to ensure that more tourism does not also generate more rubbish or an overabundance of visitors at key sites and destinations which ultimately diminishes the value for all.

### 4.1 Key market actors

For sustainability purposes, it is recommended that the project implement with existing market actors taking the lead in delivering interventions. To help ensure that the partners have the right incentives and abilities to take initiatives forward, the below table summarises perceived organisational motivation and human and financial resource capacity to drive change in such initiatives.

**Table 3:** Key Stakeholders in the Tourism Sector.

Organization	Relevant information	Motivation/Capacity <sup>46</sup>
<b>Tour Operators</b>	<ul style="list-style-type: none"> <li>- Mostly based in Yangon and Mandalay, heavily influence where foreign tours travel and thus wield power in the sector.</li> <li>- They conduct market research to support product development teams which develop new activities.</li> <li>- Have long been ignoring the domestic market though some are now strategically shifting to focus on it.</li> <li>- Market to tourists abroad and now locally.</li> </ul>	Motivation: Medium/ Low Capacity: High
<b>Ground Handling Agents</b>	<ul style="list-style-type: none"> <li>- Coordinate the activities, transport and accommodation for tour operators.</li> <li>- Generally live and work in the community and have strong networks and relationships with local businesses.</li> <li>- Unclear to what extent they can create new products or influence tour operator decision-making.</li> </ul>	Motivation: Medium Capacity: High
<b>Tour Guides Association (local)</b>	<ul style="list-style-type: none"> <li>- Two informal groups of tour guides based in Kalaw and Nyaungshwe</li> <li>- Have limited resources and thus activities are small: organising informal exchanges with guides from other parts of Myanmar and looking to launch a trash pick-up in Nyaungshwe</li> </ul>	Motivation: Medium/ High Capacity: Low
<b>Ministry of Hotels and Tourism - Taunggyi</b>	<ul style="list-style-type: none"> <li>- Process licences for tour operators, guides, hotels and transport services and will soon be tasked with enforcement of them.</li> <li>- Have collected regional data on tourism though have not shared that publicly</li> <li>- Conduct trainings for hospitality staff throughout the region</li> <li>- Supported Southern Shan State influencer marketing campaign in October 2018.</li> <li>- Unclear what resources they can commit to taking a more prominent role in coordinating marketing, market research or product development for the region.</li> </ul>	Motivation: Medium Capacity: Low
<b>Kalaw Tourism Organisation (KTO)</b>	<ul style="list-style-type: none"> <li>- Are well organised and drive activities with community improvement as the central focus (see box 6 and text above).</li> <li>- Have interests in tackling marketing for Kalaw as a new initiative.</li> </ul>	Motivation: High Capacity: Medium-High
<b>Myanmar Hoteliers Association</b>	<ul style="list-style-type: none"> <li>- Branches in each of the principal destinations and have a considerable membership base and budget to finance activities.</li> <li>- Generally perceive market demand as international tourists and have yet to focus initiatives toward domestic demand.</li> <li>- Initiatives have been assessed to be out of touch with market demand.</li> </ul>	Motivation: Medium Capacity: Low
<b>Danu Tourism Development Support Organisation</b>	<ul style="list-style-type: none"> <li>- Has been supported by GIZ to develop trekking routes and two CBT experiences in and around Pindaya.</li> <li>- Have not developed any initiatives without donor support</li> <li>- They will struggle to operate without donor funding and do not seem to have a financial sustainability focus.</li> </ul>	Motivation: Medium Capacity: Low
<b>Myanmar Restaurateurs Association</b>	<ul style="list-style-type: none"> <li>- Has 33 members in Southern Shan State, which are mostly large restaurants, though have few resources to drive initiatives.</li> <li>- Have concentrated on lobbying for easing of alcohol licencing.</li> <li>- Recognise challenges in food safety as key to the sector.</li> </ul>	Motivation: Medium/ High Capacity: Low
<b>Myanmar Tourism Marketing</b>	<ul style="list-style-type: none"> <li>- Volunteer run and delivering a service which is traditionally delivered by governments.</li> <li>- Deliver on a lot given the limited budget, but the coherence of a strategy behind the actions is unclear.</li> <li>- Has exclusively an international focus in marketing.</li> </ul>	Motivation: Medium Capacity: Medium/Low
<b>Union of Myanmar Travel Association</b>	<ul style="list-style-type: none"> <li>- Are a formal organisation with staffed employees and remits looking into marketing and R&amp;D.</li> <li>- Perceived to have strong membership and well networked with tour operators nationally, and thus has relatively more power than other associations.</li> </ul>	Motivation: Medium/ High Capacity: Medium

Source: Research interviews across sector actors.

46. Motivation indicates the perceived organisational motivation to drive change in potential project initiatives.  
Capacity is related to human and financial resource capacity to drive change in such initiatives.

## 4.2 Potential areas for intervention

Based on findings of the constraints analysis and given the assessment of the key market stakeholders, several potential areas for intervention have been identified. These interventions are focused on addressing the underlying causes to key constraints. They also have a sustainability and scalability focus, such that business and coordination bodies can continue, scale-up or replicate interventions beyond the life of the project.

In looking at the four-year project timeline, the below is tentatively proposed as an action plan for the project to take forward. This should be reviewed and updated with regularity when new market information or analysis becomes available in light of changing sector dynamics. The identified interventions take a portfolio approach, and it is recognised that some may never get traction while others may become very successful. The idea is to test many initiatives and put resources into those that succeed while minimising investment into those that do not.

Based on this analysis, the proposed intervention strategy could work to achieve the following<sup>47</sup>:

1. **Improve the visibility of the existing offer** to domestic tourists and foreign independent travellers;
2. **Diversify the existing offer** by modifying higher-end activities to better suit domestic demand and price points;
3. **Brand and market the offer** at a destination level to drive domestic tourists to experience new activities; and
4. **Support responsible tourism initiatives** to ensure that increases in domestic tourism do not diminish the cultural and environmental value of the offer.

**In linking tourism initiatives to horticulture**, it is noted that nearly all raw horticulture products are sourced locally by restaurants and hotels. Additionally, many informants indicated that domestic tourists concentrated their spending on shopping for locally grown products, most notably, tea and avocados. By the very nature of **increasing domestic tourist demand, demand on the horticulture products themselves will also increase**. Increasing domestic demand can be considered more impactful, dollar for dollar, on the local economy as domestic spending goes to smaller producers and market stall owners rather than to larger tour operators based outside of the region. This could potentially reduce some product wastage and marginally increase both prices and farmer incomes. Interventions in the third wave (below) will also look to enhance the link between tourism and horticulture.

47. It is understood that implementing agencies are doing supplementary analysis which may support the development of other, complementary measures.

## First Wave: Develop a basis for good market research, strengthen destination coordination and improve the visibility of the existing offer<sup>48</sup>

1. **Support sector based associations to do one-off, practical market research on domestic tourist demand.** The market research could look at better understanding domestic, activity-based travel to Southern Shan State in terms of price points, activities demanded, activities not demanded, and the means by which they receive information and make decisions. In this regard, tour operators already conducting market research could play a valuable role. More likely, this could take the form of working with the Regional Tourism Committee, Destination Management Organisation of Southern Shan State, or national associations such as MTF or UMTA. Such research will demonstrate 1.) the importance of the domestic market to the business community; 2.) that it can be collected and analysed within existing association resources; and 3.) that it can add value to association members. Findings should be synthesised in a sharp looking report which shows the relevance of growing domestic tourism and can be disseminated to businesses through the various national and regional associations.
2. **Support enhanced visibility of existing activities at local sales agents and information centres** at key destinations such that FITs and domestic travellers are better informed of the existing activity offer. The first step would be to understand why both sales agents and information centres do not offer information on more activities. Depending on that result, the project could, for example: 1) work through associations and key activity-based businesses to connect them to sales agents and information centres; 2.) provide sales agents with an inventory of all activities in the area with price points and contacts; and 3) show market information to sales agents (collected in intervention 1) on the preferences of domestic travellers and the value of selling services which adhere to those preferences. Some willingness and support will be needed from MOHT who operate the information centres.
3. **Work to understand if community stakeholders can potentially work together to deliver on joint initiatives.** Given their fragmented nature, tourism associations are quite weak at the destination level. Here, the project could look at engaging locally-based associations, working groups or general tourism stakeholders in key destinations. It may be prudent to follow the model of KTO, in that members should be business owners from the community with both a personal and vested interest in the community. Such an informal coordination body would also benefit from having a broad range of actors from various parts of the sector. This will help neutralise the potential for initiatives to benefit one specific interest group rather than the community. In developing coordination, it is important that the project start small and not force such coordination bodies. It should work to highlight the demonstrable benefits of an association like KTO while allowing space for the members to decide if such an arrangement is feasible and how and what collective initiatives should be driven.
4. **Work with KTO to develop and test a quick campaign to promote green season in Kalaw<sup>49</sup>.** This could involve setting up a basic tagline on the green season and working through Ride Behind Kalaw to market to domestic tourists to demonstrate that 1.) the weather in green season is comparatively better than where they are; 2.) the surrounding area is more beautiful during green season; and 3.) Tourists can still engage in many activities during holidays. Actively monitor and measure impact of the campaign to test if a more thorough roll-out would be worthwhile for Kalaw as well as other destinations in the following season.

48. The initiative are proposed in waves to show a staged approach to addressing constraints. Tentative timelines for each wave could be: 1<sup>st</sup> wave 0-12 months; 2<sup>nd</sup> wave 12 – 30 months; and 3<sup>rd</sup> wave 30-48 months, though these will depend on partner interest and uptake, project resourcing and the project work plan.

49. A member of KTO indicated that the organisation was already considering this.



## Second wave: Support diversifying activities, further market research and collectively branding market destinations

5. **Support the modification of existing activities to meet the price-point and demand for local tourists.** As new product development is costly, perhaps such development is best left to tour operators in the short-term. What may be more prudent is to look at domestic tourist demand (intervention 1) and then support small activity-based businesses to modify (or copycat) existing products at a price-point that meets this demand. This will diversify the general market offer away from the perceptions that the region only offers boat tours, trekking and camping and could potentially enhance the offer during green season.

Though this will be dependent on the consumer preferences that the market research identifies, examples of such modified activities could be CBT light (see Box 4) or more “authentic” cultural classes (cooking or paper-making), adventure tours and local food tasting – areas that an initial demand survey indicates are untapped<sup>50</sup>. The project support could be to: 1.) demonstrate that domestic demand for these activity-based businesses exists; and 2.) support the business to develop the business model and marketing plan to take the idea to market. The project should be careful to ensure that social project objectives do not cloud judgement on the commercial viability of the model.

6. **Work with tour operators oriented to the domestic market to enhance product development at a lower cost.** This supports a two-pronged approach to product development and works through those that have a solid client base, actively collect market information and have finances to support future product development. The role of the project will be dependent on the tour operator’s existing focus, but it could act as an interlocutor or field agent, providing information, data and contacts on the local market and the potential businesses that could co-create new products with them. The idea is to leverage the tour operator’s drive to create products and its financial backing to invest in the potentially high product development infrastructure costs. This could also involve linking tour operators to the new activities created as a part of intervention 5.
7. **Test the possibility of conducting destination market research with local coordination bodies.** This intervention is dependent on the success of interventions 1 and 3 and the idea is to get the newly formed destination coordination bodies to conduct and deliver some basic, community-focused market research. The focus of this initiative will be to demonstrate that 1.) market research is relatively easy to collect and could be collected by the coordination body without future support; and 2.) market research can enhance the tourism offer in the community.

50. From rapid domestic demand survey conducted in February 2019.

8. **Work with local coordination bodies to enhance destination branding and marketing:** With market research in hand (intervention 7), coordination bodies could be supported to create a marketable brand to differentiate the destination offer from that of others – for example, Ywangan could be branded as a coffee paradise and Pindaya branded for tea. Such efforts should be coordinated with the IFC who are also have a remit to work on branding in the region and have already supported the establishment of the Inle destination brand.

The second component of the intervention could be to market the destination brand to the domestic markets in Yangon and Mandalay. Opportunities may also exist to build on the work that KTO will do to market green season (intervention 4) to market in green season for other destinations. The project will need to think carefully on how the marketing can be an effective function of the coordination body given its limited resources. If it cannot exist, the project should think of alternative mechanisms. One idea is to work with existing businesses that are sufficiently large and incentivised to continuously market its company in line with the destination branding – Ride Behind Kalaw has already managed to do this in Kalaw (see Box 5).

9. **Support upskilling and more coordinated social media marketing by individual activity providers.** Burmese tourists receive information on travel experiences through Facebook and many become motivated to travel after seeing attractive Facebook posts. The problem is, most hoteliers and activity providers in Southern Shan State have a very limited Facebook following and posting new and attractive content is not perceived to be core to their business – they often have neither the time nor resources to do it.

In this light, the project could work with MHA to reorient some of their services<sup>51</sup> to target more collaborative Facebook outreach for businesses. This could involve MHA supporting capacity building – much in the way that they already support hospitality staff training – to train hoteliers, ground handling agents and activity service providers on effective social media marketing. The results would encourage more effective business marketing. If businesses worked together to cross-post content and collaborate on messaging, this could strengthen the outreach of individual efforts and potentially induce network effects which support stronger marketing for the destination. Such efforts link to intervention 8 to focus messaging and collaboration around a destination brand. In practical terms, training may be best placed at the start of the green season when staff have more time to be trained and to apply training directly afterward.

10. **Support MOHT in creating and executing a simple responsible tourism campaign for Southern Shan State:** With more domestic tourists arriving to the destination, the project will also need to protect the sustainability of the offer. This could include developing a simple campaign perhaps building on initiatives by Thant Myanmar to reduce plastic bottle waste, or MTM's work with a national celebrity to put rubbish in the bin. Though Tourism Transparency has done quite a lot of work in the “dos and don'ts for tourists” campaign, simple and concentrated messaging in a new campaign would go a long way to complement the work already done here. MOHT may be the best placed to roll out such a campaign regionally or even nationally, though their appetite for delivering on such an initiative should first be tested. They may be a key agent to initiate such a campaign through the destination management committee.

51. Research indicated that MHA have a strong international focus and current initiatives may not be well focused to driving meaningful change; thus there may be scope for reorientation of services.

### Third Wave: Develop products that enhance branding and links to horticulture, integrate destinations into a broader region.

11. **Work with activity-based businesses and domestic oriented tour operators to develop products that link to destination brand and horticulture.** Such an intervention will look to build on the successes of interventions 5 and 6 and will work to support product development that fits in line with the branding strategies identified in intervention 8. Given how prominently horticulture features already in the area, it is envisaged that product development here will strengthen the link between tourism and horticulture, through an enhanced offering of coffee, tea and potentially avocado tours and sales of their value added products – for example, packaged coffee, packaged pickled tea and avocado-based conditioner.
12. **Explore the integration of destinations into a “hub and spoke” set-up.** Some smaller destinations lack accessibility and this potentially limits their ability to enter the wider tourism market. In this regard, it could be worth co-branding adjacent destinations into a hub-and-spoke set-up. For example, Kalaw (a hub) could be co-branded with Ywangan and Pindaya (the spokes). In this set-up, Kalaw, the principle destination, could potentially become more attractive as it offers a wider array of activities while simultaneously pushing tourist volumes out to destinations. In theory, this would 1.) preserve the carrying capacity of the immediate area around Kalaw; 2.) keep demand for high-value tourism services, such as accommodation, in Kalaw; and 3.) enhance visibility of, and activities in, smaller destinations. This provides an initial step to open up smaller destinations to wider tourism and potentially can generate enough travel volumes for regular transport links to be established between the hub and spokes to improve accessibility. A similar set-up could be offered from Taunggyi (hub) to Hopong and Kakku (spokes).

It is noted that this could be a complex undertaking for the project and it is thus recommended that its potential and feasibility be evaluated at the start of the third wave.

13. **Develop a strategy for local coordination bodies to carry on annual market research without project support.** Dependent on the success of intervention 7, it would be of value to ensure that the market research function is continued by these coordination bodies. At this stage, they are presumably familiar with how to conduct such research and understand its value. However, the continued value that new research can bring will be lost if the collection process is not institutionalised into the body itself. Project support in this regard will be dependent on the form, function and capacity of the coordination bodies and thus should be evaluated then.









# 5

## Conclusion

The project has a considerable opportunity to transform the tourism sector in Southern Shan State in a way that generates SME growth, creates and improves jobs and eventually reduces poverty for workers and their families. **The analysis in this study provides the project with a starting point** to engage with, and drive change in, the sector and through it, 13 potential intervention areas have been identified (see Section 4.3). These interventions aim at enhancing the tourism offer and demand for the domestic market and foreign independent tourists. Such interventions can **create growth opportunities for small businesses** as well as potentially **smooth out the seasonality impacts for their workers**.

On the tourism supply side, the project could first look to **improve the visibility of the wide array of activities already on offer** such that they are visible to both domestic and foreign independent tourists. This will be followed by working to **diversify the existing product offer** to complement the existing offer oriented toward international tours with those that better suit domestic tourist preferences and budgets. This can include modifying existing activities to suit the domestic demand, rather than developing new products from scratch. **Part of the enhanced offer could eventually be to strengthen tourism links to horticulture** focused tours.

**On the demand side**, the project could work with active destination coordination bodies– as well as promote the informal development of other destination-based coordination bodies – **to support stronger market research and targeted marketing and branding**. In relation to developing new coordination bodies, this will involve working to get active members of the community with both personal and vested interests to come together to develop and drive joint initiatives.

If the project has success and tourism supply and demand are enhanced, it needs to address challenges that may arise due to increased domestic tourism namely the potential environmental concerns that come with tourism. This will involve looking at initiatives to **protect the environmental sustainability of tourism** such that the cultural and natural heritage of the tourism offer are also protected.

Finally, it should be noted that although this analysis is considered comprehensive, the project should strive to revisit, update and build upon it as the project team gathers more insights in the sector, its constraints and the market actors. This will help the project more aptly adapt and deliver in a rapidly changing sector.

## Annex A: Research Interview List

### *Semi Structured Interviews*

1. Activity-based company (Kalaw)
2. Activity-based company (Nampan)
3. Activity-based company (Pindaya)
4. Danu Tourism Development Support Organisation
5. Eco-Tourism Lodge (Pindaya)
6. Ground Handling Agent (Taunggyi)
7. Ground Handling Agent Nyaungshwe
8. Ground Handling Agents Inle Lake
9. Hotelier Kalaw
10. Inle Heritage
11. Kalaw Tourism Organisation
12. Key Informant – Development worker (1)
13. Key Informant – Development worker (2)
14. Key Informant – Myanmar tourism specialist
15. Marketing Company
16. Ministry of Hotels and Tourism (Taunggyi)
17. Myanmar Domestic Tour Operators Association (1)
18. Myanmar Domestic Tour Operators Association (2)
19. Myanmar Hoteliers Association (Kalaw)
20. Myanmar Hoteliers Association (Nyaungshwe)
21. Myanmar Hoteliers Association (Pindaya)
22. Myanmar Tourism Marketing (Yangon)
23. Prospective eco lodge entrepreneur (Hopong)
24. Restaurant with activities (Pindaya)
25. Restaurateur Kalaw
26. Restaurateur Nyaungshwe
27. Restaurateurs Association (Nyaungshwe)
28. Tour Guide Association Inle Lake
29. Tour Guide Kalaw
30. Tour Guide Pindaya
31. Tour Guides Association (Kalaw)
32. Tour Operator Mandalay
33. Tour Operator Yangon (1)
34. Tour Operator Yangon (2)
35. Tour Operator Yangon (3)
36. Tour Operator Yangon (4)
37. Transport sales agent
38. Union of Myanmar Travel Association (Yangon)
39. Web-marketing company

### **Observations / unstructured interviews**

- Info Centres
  - Heho Airport
  - Nyaungshwe
  - Taunggyi
  - Kalaw
- Hopong Cave
- Pindaya Cave
- 5-day market (Pindaya)
- Kakku Pagoda
- Train Kalaw
- Sales agents Nyaungshwe
- Transport providers (Nyaungshwe)
- Trekking/CBT/micro-scale tea production factory



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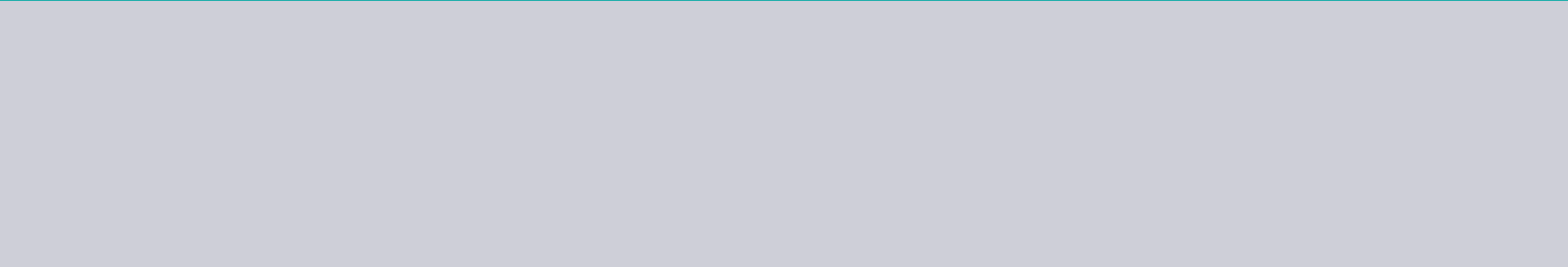
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ISBN 9789221332961



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