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Sustainable Tourism Investment Financing in Eastern Africa

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EXECUTIVE SUMMARY

Using data from the United nations World Tourism Organization (UNWTO) and the World Travel and Tourism Council (WTTC), this study has established that Eastern Africa, as one of the five UNECA African regions, is ranked only ahead of the Central Africa region in terms of total capital investments in the tourism sector for the period 2010 to 2017, behind North Africa, Southern Africa, and West Africa. The study identifies the factors that contribute to this trend and proposes specific policy recommendations to reverse it.

Safety and security issues, inadequate tourism infrastructure, lack of product diversity and innovation, failure to find the political will to promote Eastern Africa as a single investment and tourism destination, and high perceptions of corruption could be deterring capital investment. Accordingly, the study proposes specific recommendations on how to address these issues.

Many Eastern Africa Member States view tourism as a sector that could attract investment. They have, therefore, included it in their investment prospectuses. Accordingly, this study reviews tourism investment and financing models that could be relevant in facilitating sustainable growth and development of the sector in Eastern Africa. The review includes public sector-led, private sector-led and public-private partnership (PPP) models of sustainable tourism investment financing. Each model offers its own sources of financing, ranging from domestic commercial banks and development finance institutions, to regional and international finance institutions, to social impact investors. The study examines policy measures that could facilitate the different types of investments. Since tourism is an industry with linkages in many other sectors and relies on many small business operators at destination level, challenges impacting SME involvement in tourism were examined and relevant strategies have been recommended to enhance their participation in tourism development projects.

LIST OF ACRONYMS

AfDB	African Development Bank
AHIF	African Hotel Investment Forum
AIDI	African Infrastructure Development Index
AU	African Union
BER	Bureau of Economic Research
BLT	Build-Lease-Transfer
BOO	Build-Own-Operate
BOOT	Build-Own-Operate-Transfer
BOT	Build-Operate-Transfer
BT	Build-Transfer
BTO	Build-Transfer-Operate
CAR	Central African Republic
CPI	Corruption Perception Index
DBSA	Development Bank of Southern Africa
DFI	Development Finance Institution
DRC	Democratic Republic of Congo
EABC	East African Business Council
EAC	East Africa Community
EADB	East African Development Bank
EDB	Economic Development Board Mauritius
EU	European Union
FDI	Foreign Direct Investment
FSD	Financial Sector Deepening
GDP	Gross Domestic Product
GEPF	Government Employees Pension Fund
GIIN	Global Impact Investing Network
ICT	Information and Communication Technology
IDA	International Development Association
IDC	Industrial Development Corporation
IFC	International Finance Corporation
IFI	International Finance Institution

MFI	Micro Finance Institution
MICE	Meeting, Incentives, Conventions and Exhibitions
MIGA	Multilateral Investment Guarantee Agency
MPI	Migration Policy Institute
MTPA	Mauritius Tourism Promotion Agency
NEPAD	New Partnership for Africa's Development
NGO	Non-Governmental Organization
NTB	Non-Tariff Barriers
OECD	Organisation for Economic Co-operation and Development
OLI	Ownership, Location and Internalization
PIC	Public Investment Corporation
PPP	Public-Private Partnership
SAATM	Single African Air Transport Market
SANParks	South African National Parks
SBA	The United States Small Business Administration
SME	Small and Medium Enterprises
SMME	Small, Medium, and Micro Enterprises
TFC	Tourism Financing Corporation
TOMSA	Tourism Levy South Africa
UCT	University of Cape Town
UIF	Unemployment Insurance Fund
UN SDGs	United Nations Sustainable Development Goals
UNCTAD	United Nations Conference on Trade and Development
UNECA	United Nations Economic Commission for Africa
UNECA SRO-EA	United Nations Economic Commission for Africa Sub-region Office for Eastern Africa
UNIDO	United Nations Industrial Development Organization
UNWTO	United Nations World Tourism Organization
WBG	World Bank Group
WTTC	World Travel & Tourism Council

1.

INTRODUCTION AND BACKGROUND TO THE STUDY

Tourism has become one of the world largest economic sectors, with uninterrupted growth since the 1950s. Many countries continue to be or have become accessible to an ever-increasing tourist population in search of new destinations and experiences. According to the UNWTO, international tourist arrivals have been growing at an average annual rate of 4% since 2010 and exceeded the milestone of 1 billion a year for the first time in 2012. By 2017 they had surpassed 1.3 billion and are forecast to grow to 1.8 billion by 2030 (UNWTO, Annual Tourism Barometer 2018, Volume 16, March/April 2018). Growth in tourist arrivals has generated a wealth of jobs and associated socio-economic benefits. Globally today, the tourism industry accounts for 313 million jobs, or 10% of total employment. The industry contributes 10.4% to the world's Gross Domestic Product (GDP) (WTTC, 2018).

Tourism is an export product which generates considerable foreign earnings for destinations and, according to the UNWTO, global receipts earned by tourism destinations grew from USD billion in 1950 to USD 104 billion in 1980, USD 495 billion in 2000, and USD 1,220 billion in 2016 (UNWTO, Annual Tourism Barometer 2017). The impressive statistics consolidate the case for tourism as a key driver of socio-economic development and a major component of global trade (UNWTO, Tourism Toward 2030). This has provided the rationale why tourism has become a major focal point in socio-economic development policy in many countries of the world.

Although, numerically, much of the growth in international tourist arrivals has happened in the Middle East and Asia, Africa has enjoyed steady growth in international tourist arrivals, which averaged annual growth of

4.7% from 2005 to 2017, higher than the world annual average of 4% for the same period (UNWTO, 2018). A strong recovery of tourism in North Africa and solid growth in many Sub-Saharan African destinations led to an estimated 63 million international arrivals in Africa in 2017, a 9% increase over 2016. From a foreign-exchange perspective, the growth in arrivals numbers, pushed tourism receipts from USD 22.3 billion in 2005 to USD 36.5 billion in 2017. These numbers support the view of tourism as a significant export product and a major contributor to GDP (UNWTO, 2018).

The regional and sub-regional arrival aggregates for Africa are based on limited data, but the UNWTO still foresees a positive future for tourism in Africa. According to *Tourism Towards 2030* (UNWTO, 2011), tourist arrivals in Africa will grow to 134 million by 2030, more than double the figure of 63 million achieved in 2017. These projections are supported by the WTTC, which predicts that, by 2027, tourism's contribution to Sub-Saharan Africa's total GDP will rise to USD 178.5 billion; adding 22.3 million jobs, USD 52.4 billion to exports and USD 27.4 billion to investment (WTTC, 2017).

The role of tourism as an engine of socio-economic growth and development is recognised in the context of the 2030 United Nations Sustainable Development Goals (SDGs) as well as in the African Union's Agenda 2063. The aim of the SDGs is to end poverty in the world through implementation of economic growth strategies that address a range of social needs including education, health, social protection and job creation, while tackling climate change and seeking to protect the environment. Similarly, Agenda 2063 is a strategic framework for the socio-economic transformation of the African continent over the next 50 years. It seeks to accelerate implementation of the continent's growth and sustainable development initiatives. Tourism is expected to contribute to the achievement of both the SDG and Agenda 2063's goals of achieving socio economic development and ending poverty. Using 2013 as baseline, Agenda 2063, for example, sets a target of increasing tourism's contribution to the continent's GDP by at least 100% by 2023, while doubling the number of intra-African tourist arrivals (African Union Commission, 2015).

Despite the impressive performance achieved to date and the optimistic projections for the future, Africa is barely scratching the surface of its tourism potential. For this potential to be achieved, a multitude of challenges will need to be addressed according to the African Union Development Agency – New Partnership for Africa's Development (AUDA-NEPAD), the AU organ that supports and promotes the realization of the SDGs and AU Agenda 2063. The rapid pace at which the continent is urbanizing and the consequences, in terms of integrated waste management, transport and pollution, highlight the low levels of investment in infrastructure. Meanwhile, the capacity gap in the hospitality industry, poor connectivity and slow visa facilitation are some of the major challenges to the growth and sustainability of the tourism industry in Africa (NEPAD, 2018). Addressing these challenges must be at the front and center of any national, regional, or continental tourism development policy initiatives.

2.

RATIONALE AND AIMS OF THE STUDY

Although African tourism has been enjoying steady growth since 2005 and is forecast to become a major driver of economic growth, the continent's share of global tourism indicators is still very modest. For example, the 63 million tourist arrivals to the continent in 2017 represent just 4.7% of the estimated 1.3 billion global arrivals that year. Furthermore, arrivals are unevenly distributed and there are important disparities and variations within Africa: North Africa (Algeria, Morocco, Sudan and Tunisia) welcomed 21.7 million arrivals, while Sub-Saharan Africa (46 countries) received 41.1 million altogether (UNWTO, 2018). Of these, South Africa accounted for just over 10 million arrivals. Clearly, not all African destinations are growing and benefiting equally from tourism to the full extent of their potential.

African countries attracted just over USD 28 billion of the total investment capital of USD 882 billion generated by the travel and tourism industry in 2017, a mere 3% (WTTC, 2018). There is a direct correlation between a tourism destination's level of development and its ability to attract investment: much of Africa's share of travel and tourism capital investment went to those destinations in North Africa and Southern Africa that enjoy higher levels of tourist arrivals.

In Eastern Africa, although countries like Kenya, Tanzania, Ethiopia, and, more recently, Rwanda and Uganda, have been relatively successful in attracting capital investments for their tourism sectors, the total capital investment for the region was a mere USD 3.1 billion in 2017 (WTTC, 2018). For the period 2010-2017, total capital investments amounted to USD 26.67 billion against the continent's USD 235.17 billion for the same period. Compared to the other regions, Eastern Africa is clearly facing challenges in attracting sufficient capital investment to develop tourism into a catalyst for economic growth. In order to unlock the full potential of tourism as an engine of socio-economic growth, it is necessary to identify constraints and to find opportunities for fostering a more favorable tourism investment climate.

Hence, this study:

I. Identifies the main reasons for the comparatively low share of total investments in Eastern African and proposes remedial measures to reverse the trend.
II. Reviews models of tourism investment and financing that would facilitate tourism growth and development in Eastern Africa, including relevant policy measures.
III. Analyses the prevailing tourism environment in Eastern Africa and its suitability to attract and sustain financing and investment.
IV. Recommends strategies to enhance the participation of small, medium and micro-enterprises (SMMEs) in tourism development in Eastern Africa.
V. Provides policy recommendations that could be adopted by both the Member States and relevant Regional Economic Communities (RECs) in Eastern Africa.

3.

METHODOLOGY AND APPROACH TO THE STUDY

This section provides theoretical perspectives on tourism development and tourism investment financing, as well as the methodological approach used for data collection and analysis.

Identifying reasons for the comparatively low share of tourism investments in Eastern Africa and proposing solutions requires an understanding of the theoretical perspectives that guide the decision-making processes of tourism investors, as well as analysis of the empirical tourism investment data. The empirical analysis identifies tourism investment trends over time for each of the UNECA regions, thus making it possible to draw valid performance comparisons between them, and between individual countries within regions.

To ascertain the reasons for the region's overall low share of tourism investments in Africa, a three-pronged approach was used. First, was the analysis of national and regional economic development policies and plans, including the roles assigned to tourism. This process involved interviewing relevant tourism stakeholders in select countries in the sub-region to gain first-hand insights into the sub-region's tourism environment and its suitability for attracting and sustaining investments. Semi-structured interview schedules were used to gather information and data.

Second, field missions were undertaken and third, an examination of case studies of successful investment projects that have been recognised for their flagship status and catalytic role in the overall economy. The purpose of these case studies was to identify global best practices and experiences that could inform tourism investment and financing policy making in Eastern African countries.

Small businesses play an important role in successful tourism delivery. Hence, this study makes policy recommendations for enhancing SMME participation in the tourism sector in Eastern Africa, so that the benefits of tourism development are felt by a wider community. The study offers a set of policy recommendations that both Member States and RECs could adopt to make Eastern Africa the highly attractive tourism investment destination that it has the potential to become.

3.1 THEORETICAL PERSPECTIVES

The objective of this section is to review some of the existing evidence-based theoretical perspectives and frameworks to inform the evaluation of the tourism investment financing potential in Eastern Africa.

3.1.1 PERSPECTIVES ON TOURISM DEVELOPMENT

Tourism has been studied from many theoretical perspectives: development theory (Harrison 2014; Mowforth and Munt, 2009; Telfer, 2015); modernisation theory (MacNaught, 1982; Oakes, 1998; Sofield and Li, 1998; Andriotis, 2003; Sharpley, 2001; Aramberi, 2010); and neoliberalism theory (Telfer, 2015). The common thread of all these studies is their tendency to consider tourism as an element in the search for overall socio-economic progress and development.

Viewed from the development theorists' perspective, a country's indigenous arts and crafts, its culture and traditions, its natural heritage and its social structures are all commodities that can be exploited as commercial assets. They can, thus, contribute to economic development and modernisation (Harrison 2001). In this context, tourism is considered as a means of obtaining foreign investment, economic growth, foreign exchange and employment.

Criticism of tourism comes from dependency theory (Harrison, 2015). This position is based on the idea that international tourism is exploitative because there is an imbalance of power between developing destinations and international tourism corporations, such as tour operators and international hotel groups, who leverage their bargaining power to extract more profits from developing destinations (Britton, 1982, 1987a, 1087b, 1989). Proponents of the dependency theory argue that the international tourism system can "drain the developing country of much of the foreign exchange obtained through tourism via repatriated profits, payments for management contracts or franchises, and leakages associated with imports to construct hotels or provide tourists with goods and services that cannot be supplied from the destination's resources" (Harrison, 2015: 62).

Reflecting on tourism development in Kenya through the mirror of dependency theory, Manyara and Jones (2008) analysed the implications of involving conservation-based organizations in tourism development. This study revealed that the development of community-based tourism enterprises had been solely driven by donor-funded conservation organizations and cautioned that reliance on donor funding, together with a preference for community partnerships that typically included white investors, increases dependence of local communities. Elsewhere, according to Wade et al (2001), tourism was not considered as a strategic tool for achieving economic development in Tanzania and, in the absence of international investment, the tourism infrastructure was minimal and limited to a few government-owned and managed facilities.

Alternative tourism, a more recent approach to tourism development, has found resonance with many critics of earlier conceptualizations because it introduces the notion of sustainability as central to tourism development (Butler, 1992; Brohman, 1995). In stark contrast to the exploitative mass tourism philosophies implicit in neoliberal conceptualisations, advocates of sustainable tourism in developing destinations focus on issues such as gender inclusivity and the participation of local communities in the tourism value chain through the development of their own SMMEs. This point of view identifies benefits through community empowerment and participative decision-making, the preservation of local cultures and respect for the environment.

Motivated by the impressive growth of international tourist arrivals to Africa, and aware of the great potential of tourism as a tool for socio-economic development, academic research into tourism in Africa is starting to gather momentum, although, as Rogerson (2011) noted, at a slow pace. Using various conceptual frameworks, research on tourism in Africa has focused on a variety of topics including models and analysis of the stages of tourism development (Christie et al, 2013; Twining-Ward, 2010; UNECA, 2011). Specifically, Okello and Novelli (2014) identified governance and leadership, funding and sustainability of protected areas, destination competitiveness and socio-economic impacts as issues salient to tourism development in EAC countries.

The conceptual framework of tourism development described in Christie et al (2013) and Twining-Ward (2010) is useful in that it allows for a categorization of African destinations according to their level of tourism development. The model, reproduced in Table 1 below, indicates the tourism development level for Sub-Saharan African countries. For the purposes of this study a column has been added to provide a categorization of SRO-EA countries according to the three levels of the model. This categorization will be useful for our discussion of tourism investment financing in Eastern African countries.

Table 3.1: Sub-Saharan African and ECA-Sub-Regional Countries Categorized by Tourism Development Levels

TOURISM DEVELOPMENT LEVEL	SUB-SAHARAN AFRICA	SRO-CA	SRO-EA	SRO-SA	SRO-WA
Pre-emerging	Central African Republic, Chad, Comoros, Democratic Republic of Congo, Eritrea, Guinea, Guinea-Bissau, Liberia, Niger, Somalia, Togo, Republic of Congo, Equatorial Guinea, Somalia, South Sudan	CAR, Chad, Congo, Equatorial Guinea	Comoros, DRC, Djibouti, Eritrea, Somalia, South Sudan,		Guinea, Guinea-Bissau, Liberia, Niger, Togo
Potential/ Initiating	Benin, Burundi, Ethiopia, Madagascar, Mali, Mauritania, São Tomé and Príncipe, Sierra Leone, Angola, Cameroun, Côte d'Ivoire, Lesotho, Nigeria, Swaziland, Gabon	São Tomé and Príncipe, Cameroon Gabon	Burundi, Ethiopia, Madagascar	Angola, Lesotho, Swaziland	Benin, Mali, Mauritania, Sierra Leone, Côte d'Ivoire, Nigeria
Emerging/ Scaling up	Burkina Faso, The Gambia, Malawi, Mozambique, Rwanda, Senegal, Uganda, Zambia, Zimbabwe, Seychelles		Rwanda, Seychelles, Uganda	Malawi Mozambique Zambia Zimbabwe	Burkina Faso, The Gambia, Senegal
Consolidating/ Maintaining And Deepening Success	Kenya, Tanzania, Cape Verde, Ghana Botswana, Mauritius, Namibia, South Africa		Kenya, Tanzania	Botswana, Mauritius, Namibia, South Africa	Cape Verde, Ghana

Adapted from World Bank.

3.1.2 PERSPECTIVES ON TOURISM INVESTMENT AND FINANCING

The WTTC defines tourism investment as “capital investment spending by all industries directly involved in travel and tourism as well as investment spending by other industries on specific tourism assets such as new visitor accommodation and passenger transport equipment, as well as restaurants and leisure facilities for specific tourism use” (WTTC, 2019). The WTTC definition also includes public sector spending on tourism-related infrastructure development, including tourism promotion, visitor information services, administrative and other services.

In the African context, much of the research on tourism investment has been conducted from the perspective of domestic and/or foreign direct investment (FDI) (UNCTAD, 2007). Using the Ownership, Location and Internalization (OLI) theory (Dunning, 1977) as a conceptual framework, researchers have sought to study factors that influence FDI in specific African destinations. OLI assumes that multinational companies make FDI decisions on the basis of an analysis of the advantages of setting up operations (Ownership) in a target country (Location) and applying their internal (Internalization) processes to make those operations profitable. Internalization advantages can be derived from foreign investors’ choice of wholly-owned subsidiary, licensing, or joint venture as their appropriate market-entry strategy.

OLI is particularly suited to understanding how international hotel brands decide to enter a particular tourism destination in Africa. Krugell (2005), for example, argues that an understanding of what motivates foreign investors is critical for African countries seeking to attract them, while Nansongole (2011) sought to uncover such motivations in Malawi and found that industry-level factors such as, protection of investment and the frequency of industrial action, in addition to expected tourist receipts, were as important as the overall economic environment for foreign investors.

Elsewhere, Snyman (2007) identified both country-level and industry-level characteristics in South Africa that influence FDI decisions. Exchange rates, inflation, budget deficits, infrastructure provision and political instability all had an important influence on investors. Market size and growth, labour costs, government policies, tariff and trade barriers also play an important role in shaping investment decisions. At the tourism-industry level, important determinants for FDI include growth potential and investment-incentive programmes.

It is generally the case that, the higher the number of tourists to a destination, the greater its ability to grow and attract investments (Dwyer et al, 2004; Dwyer and Forsyth, 1993). Tourism destinations with effective marketing strategies and well-funded promotional programmes are more attractive to investors (Yunis, 2004; Dwyer, 2005). Gautam (2007) shows that the ability of a tourism destination to attract foreign investment is influenced by political factors and incentives, the resources and conveniences offered, market characteristics, political stability and the ability of the destination to market and promote itself effectively.

From an Eastern African point of view, there has been an incremental growth in tourism-specific FDI in the region as a result of the investor-friendly policies in Kenya, Tanzania, Uganda and Rwanda (UNECA, 2011). These policies made it possible for international tourism and hospitality operators to gain a strong foothold in the region. In Kenya, for example, the industry has become dominated by foreign tour operators, while international hotel chains have made considerable investments in the development of new products and destinations. While these much-needed investments were regarded as a sign of international investor confidence in the country, an unintended consequence has been the high concentration of control of the industry in the hands of foreign investors and a crowding out of local entrepreneurship (UNECA, 2011).

The sources and methods of financing tourism vary, depending on the overall economic development and growth dynamics of individual destinations. Public sector spending on basic infrastructure – roads, airports, water, health and communications – amounts to an indirect form of financing of tourism development (Maxwell, 2005). Therefore, sustaining and expanding public sector investment in infrastructure can create the conditions for the emergence of a tourism sector capable of attracting financing from a variety of sources. Such sources include the public sector, domestic and international private investors, commercial banks, Development finance institutions (DFIs), international finance institutions (IFIs), venture capitalists, impact investors, foundations, NGOs and the diaspora (Phillips et al, undated). Each source has its unique set of investment mandates and financing criteria.

A destination's stage of development also plays a determining role in the types of investment and financing it attracts. Those at the bottom of the tourism-development ladder need investments to initiate a tourism market, as in South Soudan, for example. Destinations at the growing of tourism stage need investment that allows them to sustain growth and scale up (Rwanda and Uganda), while mature and well-established destinations (Kenya and Tanzania), require investments that contribute to the consolidation and deepening of the sector through product diversification, innovation and expansion.

4. OVERVIEW OF TOURISM PERFORMANCE IN EASTERN AFRICA

The UNWTO and the WTTC collect and disseminate tourism data to analyse tourism performance on a global, regional, sub-regional and individual country level. Such data is used to establish indicators for Eastern African countries including international tourist arrivals, tourism's contribution to GDP, the industry's contribution to employment and the capital investment generated by the sector. The capital-investment indicator is used here to establish trends and aggregates for Africa and for each of the five UNECA regions, for 2010 – 2017, which is the period for which the necessary data sets are most complete, and to establish the percentage share of each region. Tourist arrivals data comes from the UNWTO's April 2018 *World Tourism Barometer*, other data derives from the WTTC's *Data Gateway*[1].

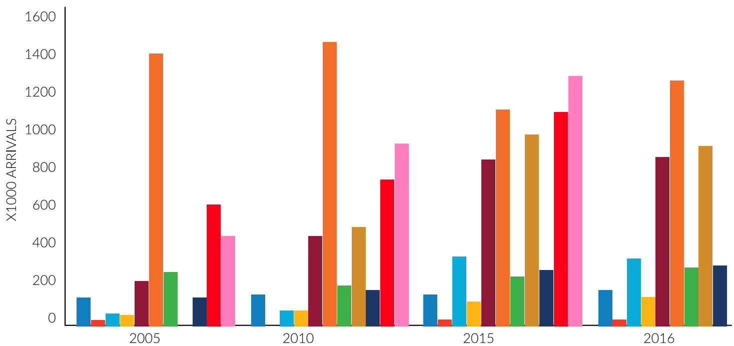
4.1 INTERNATIONAL TOURIST ARRIVALS TO EASTERN AFRICA

This study uses the most recent UNWTO international tourist arrivals data, where available, to analyse trends in the Eastern African countries covered by the UNECA's SRO-EA from 2005 to 2016[2]. International tourist arrivals for the period 2005 to 2015 have been on a growth trend, despite security issues and political instability (Figure 4.1), in all of the countries except Burundi and Comoros but, even there, the consolidated data for 2016 shows some recovery (Burundi more than Comoros). All Eastern African destinations have made some progress in growing tourist arrival numbers, albeit at different rates. Uganda, for example, has almost tripled its tourist arrivals during the period under consideration.

1 Available at, https://www.wttc.org/datagateway/

2 The 14 countries covered by the UNECA SRO-EA are Burundi, Comoros, D.R. Congo, Djibouti, Ethiopia, Eritrea, Kenya, Madagascar, Rwanda, Seychelles, Somalia, South Sudan, Tanzania and Uganda.

Figure 4.1 International Tourist Arrivals to Eastern Africa 2005-2016 (in 000)



	2005	2010	2015	2016
Burundi	148	142	131	187
Comoros	25.9	15	24	27
Congo Dem. Rep.	61	81	354	351
Eritrea	83	84	114	142
Ethiopia	227	468	864	871
Kenya	1399	1470	1114	1268
Madagascar	277	196	244	293
Rwanda	0	504	987	932
Seychelles	129	175	276	303
Tanzania	590	754	1104	1233
Uganda	468	946	1303	1323

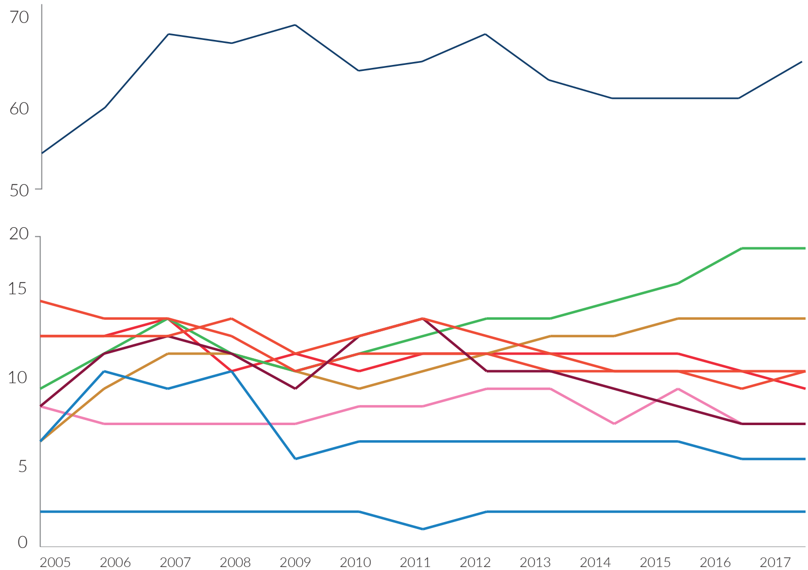
Source: Extracted from The World Bank. World Tourism Organization, Yearbook of Tourism Statistics, Compendium of Tourism Statistics and data files on 7 April 2019. No data for Djibouti, Somalia and South Sudan. Incomplete dataset for 2017.

4.2 TOURISM CONTRIBUTION TO GDP IN EASTERN AFRICA

This study uses the WTTC definition of tourism GDP as GDP generated by industries that deal directly with tourists, including hotels, travel agents, airlines and other passenger transport services, as well as the activities of restaurant and leisure industries that deal directly with tourists. That contribution in 2017, for example, was as high as 65.3% in Seychelles, 14.5% in Uganda, 13.6% in Tanzania, 10% in Kenya and 7.1% in Ethiopia (Travel and Tourism Impact, 2017) (Figure 4.2).

Tourism's contribution to GDP has been more or less constant in many Eastern African countries but in Ethiopia there has been a downward trend, from 12% in 2010 to 7% in 2017. However, given that tourist arrivals have almost doubled during the period under consideration (Figure 4.1), this reduction in the relative share may be attributed to the buoyant economic environment that has led to substantial growth in other sectors (manufacturing and agriculture, for example), thus increasing their relative contributions to GDP. In Madagascar and Rwanda, tourism's contribution to GDP has been on an upward trajectory since 2010, a confirmation of the growing status of tourism as an important driver of economic development in those countries.

Figure 4.2: Tourism Total Percentage Contribution to GDP in Eastern Africa



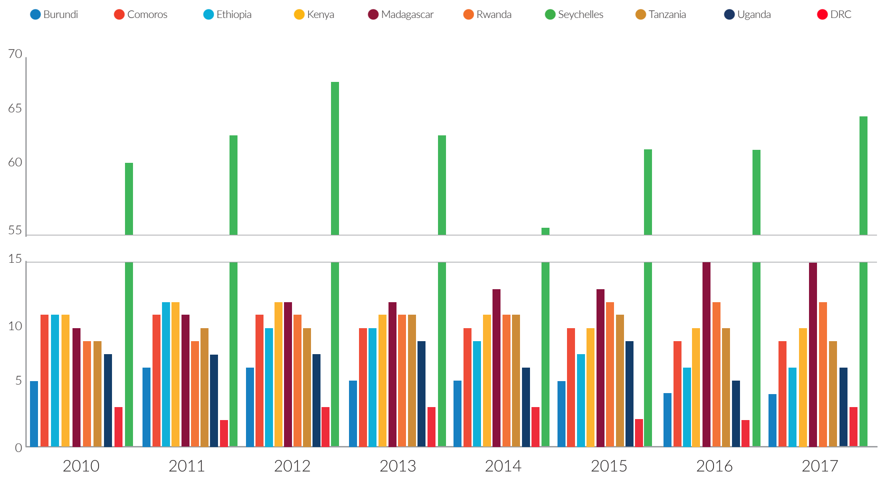
Burundi	6	10	9	10	5	6	6	6	6	6	6	5	5
Comoros	12	12	12	13	11	12	13	12	11	10	10	10	10
Ethiopia	8	11	12	11	9	12	13	10	10	9	8	7	7
Kenya	14	13	13	12	10	11	11	11	10	10	10	9	10
Madagascar	9	11	13	11	10	11	12	13	13	14	15	17	17
Rwanda	6	9	11	11	10	9	10	11	12	12	13	13	13
Seychelles	55	60	68	67	69	64	65	68	63	61	61	61	65
Tanzania	12	12	13	10	11	10	11	11	11	11	11	10	9
Uganda	8	7	7	7	7	8	8	9	9	7	9	7	7
DRC	2	2	2	2	2	2	1	2	2	2	2	2	2

Source: WTTC. No data for Djibouti, Eritrea, Somalia, and South Sudan.

4.3 TOURISM'S CONTRIBUTION TO TOTAL EMPLOYMENT IN EASTERN AFRICA

As a service industry, tourism impacts other sectors such as construction, agriculture and finance, to create a multiplier effect which supports many jobs and livelihoods. The low barriers to entry, make tourism an ideal industry for entrepreneurship, particularly youth and women-owned small-business development in both urban and rural areas. It is one of the sectors with the greatest employment-creation potential, providing one in every 11 jobs globally. Tourism's average contribution to job creation in Africa was 6.4% in 2017. Only four countries in Eastern Africa (Burundi, Ethiopia, Uganda and D.R. Congo) have performed below the African average (Figure 4.3). The contribution to employment has reached 66% in Seychelles, 14% in Madagascar, 11% in Rwanda, 9% in Kenya, and 8% in Comoros and in Tanzania. Although there is a slight downward trend for some of the countries in the region, the generally high contribution rates confirm the role of tourism as an important source of employment and job creation in Eastern Africa.

Figure 4.3: Tourism Total Contribution (%) to Employment in Eastern Africa



Source: WTTC. No data for Djibouti, Eritrea, Somalia, and South Sudan.

5.

TOURISM INVESTMENT TRENDS

WTTC data for 2010-2017 shows tourism investments trends for Africa, as a whole, and for each of the five UNECA regions. It can then be used to rank the regions based on their relative shares of the total tourism investment for the continent.

5.1 TOURISM INVESTMENT TRENDS IN AFRICA

Africa attracted a total of USD 235.17 billion in tourism capital investment from 2010 to 2017 (Appendix 3). South Africa (USD 44.33 billion), Egypt (USD 37.04 billion), Nigeria (USD 34.52 billion) Morocco (USD 31.22 billion), Algeria (USD 14.67 billion) and Tunisia (USD 7.17 billion) enjoyed the lion's share of these investments. Most of these destinations are also the continental leaders in tourism arrivals, which illustrates the link between tourism development and investment. Investment in the African industry went from USD 25.82 billion in 2010 to a peak of USD 33.04 billion in 2014, before declining from 2015 onwards.

5.2 TOURISM CAPITAL INVESTMENTS IN CENTRAL AFRICA

From 2010 to 2017, the Central African region attracted USD 4.7 billion in tourism investment, with Chad (USD 1.58 billion), Congo (USD 1.25 billion), and Cameroon (USD 1.17 billion) capturing 85% of that investment (Table 5.1). The Central African Republic (CAR) and São Tomé and Principe, at USD 0.08 billion each, received the least amount of investments. As in Africa generally, total tourism capital investments peaked in 2014. All member states, except CAR, are producers and exporters of crude oil and were affected by the downturn in commodity prices.

Table 5.1: Tourism Capital Investment (USD Billion) - Central Africa

Countries	2010	2011	2012	2013	2014	2015	2016	2017	TOTAL
CAR	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.08
Cameroon	0.10	0.12	0.13	0.15	0.17	0.16	0.16	0.18	1.17
Chad	0.14	0.19	0.21	0.23	0.27	0.19	0.17	0.17	1.58
Congo	0.08	0.16	0.19	0.21	0.23	0.12	0.13	0.13	1.25
Gabon	0.07	0.07	0.07	0.08	0.09	0.05	0.06	0.06	0.55
São Tomé and Principe	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.08
TOTAL	0.41	0.56	0.62	0.70	0.78	0.54	0.54	0.56	4.70

Source: WTTC. No data available for Equatorial Guinea.

5.3 TOURISM CAPITAL INVESTMENTS IN EASTERN AFRICA

Between 2010 and 2017, Eastern Africa attracted a total of USD 26.67 billion in tourism investments, led by Tanzania (USD 6.91 billion), Kenya (USD 5.71 billion) and Ethiopia (USD 5.11 billion), accounting for 66.4% of the total (Table 5.2). Uganda (USD 2.42 billion) and Madagascar (USD 2.39 billion) welcomed 18% of total investments, while D.R. Congo (USD 1.74 billion), Rwanda (USD 1.27 billion) and Seychelles (USD 1.07 billion) combined to bring in 15%. With USD 0.06 billion, Burundi received 0.2% of the regional total (Table 5.2).

Inflows of investments in tourism rose from USD 2.55 billion in 2010 to peak at USD 4.02 billion in 2014, followed by a steep plunge, particularly for Tanzania, that only started to reverse in 2017. Rwanda stands out as the only country in the region that has consistently maintained its tourism investment growth trend since 2010, while Ethiopia and Madagascar enjoyed growth from 2010 but suffered a decline in 2013, which was reversed the following year. Seychelles also had a break in its positive investment trend in 2015, possibly due to a moratorium on building large-scale tourist accommodation facilities, before growth resumed the following year (UNECA, 2018).

Table 5.2: Tourism Capital Investment (USD Billion) - Eastern Africa

Countries	2010	2011	2012	2013	2014	2015	2016	2017	TOTAL
Burundi	0.01	0.01	0.01	0.01	0.01	0.01	0.00	0.00	0.06
Comoros	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Ethiopia	0.46	0.54	0.64	0.59	0.64	0.70	0.77	0.77	5.11
Kenya	0.52	0.59	0.71	0.72	0.85	0.79	0.70	0.82	5.71
Madagascar	0.26	0.28	0.30	0.29	0.30	0.31	0.31	0.33	2.39
Rwanda	0.10	0.12	0.15	0.17	0.17	0.18	0.19	0.19	1.27
Seychelles	0.11	0.12	0.13	0.14	0.14	0.13	0.14	0.15	1.07
Tanzania	0.70	0.98	0.99	1.22	1.30	1.08	0.31	0.33	6.91
Uganda	0.20	0.28	0.34	0.34	0.33	0.30	0.31	0.32	2.42
DR Congo	0.18	0.21	0.23	0.24	0.27	0.25	0.19	0.18	1.74
TOTAL	2.55	3.12	3.49	3.72	4.02	3.75	2.91	3.11	26.67

Source: WTTC. No data for Djibouti, Eritrea, Somalia and South Sudan as the WTTC still combines the latter with Sudan.

5.4 TOURISM CAPITAL INVESTMENTS IN NORTH AFRICA

In line with its leading position in terms of international tourist arrivals, North Africa is also Africa's strongest magnet when it comes to tourism capital investments (Table 5.3). With more than USD 96 billion in capital investments from 2010 to 2017, the region outranks, by far, Southern Africa and West Africa, the continent's second and third top tourism capital investment regions. Egypt (USD 37.04 billion) and Morocco (USD 31.22 billion) received over 70% of North Africa's tourism investments, followed by Algeria (USD 14.67 billion) and Tunisia (USD 7.17 billion). Even strife-torn Sudan and South Sudan, which are still reported as a single entity by WTTC, and Libya managed to attract some level of capital investment; in fact more than any country in Central Africa, for example.

As in the other African regions, tourism investments in North Africa rose from 2010 (USD 11.81 billion) to a high in 2014 (USD 12.86 billion). Egypt and Tunisia, however, experienced decreasing levels of investments year on year (except in 2014 for Tunisia). Egypt, for instance, has suffered

decreasing amounts of tourism investment since 2010 to a low of USD 3.35 billion in 2017. Except for a short dip in 2015, Morocco has enjoyed increasing levels of tourism investment every year throughout the period.

Table 5.3: Tourism Capital Investment (USD Billion) - North Africa

Countries	2010	2011	2012	2013	2014	2015	2016	2017	Total
Algeria	1.66	1.81	1.88	1.89	1.99	1.81	1.82	1.81	14.67
Egypt	5.13	4.83	5.00	4.48	4.78	5.02	4.43	3.35	37.04
Libya	0.46	0.29	0.36	0.44	0.60	0.38	0.17	0.20	2.89
Morocco	3.17	3.60	3.68	4.04	4.14	3.87	4.16	4.55	31.22
Sudan/ South Sudan	0.36	0.49	0.32	0.42	0.41	0.48	0.49	0.53	3.50
Tunisia	1.03	0.95	0.94	0.90	0.93	0.86	0.81	0.76	7.17
TOTAL	11.81	11.97	12.17	12.18	12.86	12.42	11.87	11.21	96.49

Source: WTTC. No data for Mauritania.

5.5 TOURISM CAPITAL INVESTMENTS IN SOUTHERN AFRICA

Tourism capital investment in Southern Africa is a tale of one destination, South Africa, which, with USD 44.33 billion in tourism investment, has attracted 69% of the regional total, more than five times the investment received by the second-best performer, Angola (USD 8.49 billion). South Africa has attracted more investments between 2010 and 2017 than any other country in Africa. Botswana (USD 2.97 billion), Namibia (USD 2.96 billion), and Zambia (USD 1 billion) were other countries in Southern Africa that managed to attract at least some capital investments into their tourism industries. In Southern Africa, as in the other regions, investment flows peaked in 2014 (USD 8.7 billion) from USD 7.24 billion in 2010 (Table 5.4).

Table 5.4: Tourism Capital Investment (USD Billion) Southern Africa

Countries	2010	2011	2012	2013	2014	2015	2016	2017	TOTAL
Angola	0.77	0.97	0.99	1.10	1.29	1.15	0.97	1.26	8.49
Botswana	0.26	0.31	0.36	0.38	0.39	0.42	0.42	0.44	2.97
Lesotho	0.05	0.05	0.05	0.05	0.05	0.05	0.04	0.05	0.39
Malawi	0.02	0.02	0.02	0.02	0.03	0.03	0.03	0.04	0.21
Mauritius	0.12	0.15	0.12	0.12	0.11	0.10	0.11	0.12	0.94
Mozambique	0.10	0.18	0.35	0.41	0.42	0.29	0.19	0.22	2.17
Namibia	0.28	0.31	0.38	0.39	0.50	0.46	0.31	0.33	2.96
South Africa	5.47	6.10	5.93	5.96	5.72	5.09	4.73	5.33	44.33
Swaziland	0.02	0.02	0.02	0.02	0.01	0.01	0.01	0.01	0.12
Zambia	0.09	0.11	0.10	0.12	0.11	0.15	0.15	0.17	1.00
Zimbabwe	0.06	0.08	0.06	0.08	0.08	0.08	0.10	0.10	0.64
TOTAL	7.24	8.29	8.38	8.65	8.70	7.83	7.05	8.08	64.23

Source: WTTC

5.6 TOURISM CAPITAL INVESTMENTS IN WEST AFRICA

The pre-eminent destination for tourism capital investments in West Africa is Nigeria. From 2010 to 2017 the West African region received a total of USD 41.84 billion, with USD 34.52 billion, or 82%, flowing to Nigeria (Table 5.5). The only other countries in this vast sub-region to have received cumulative capital investments in excess of a billion dollars during the period under review were Ghana (USD 1.43 billion), Cape Verde (USD 1.18 billion), and Senegal (USD 1.04 billion). This level of performance in attracting capital investments is a clear indication that tourism is only at an embryonic stage of development in many of the countries in the region. Although total capital investments in reached USD 6.5 billion in 2014, influenced mainly by Nigeria, before falling back, Benin, Burkina Faso, Côte d'Ivoire, and Togo continued to experience stable to rising investment levels year on year.

Table 5.5: Tourism Capital Investment (USD Billion) - West Africa

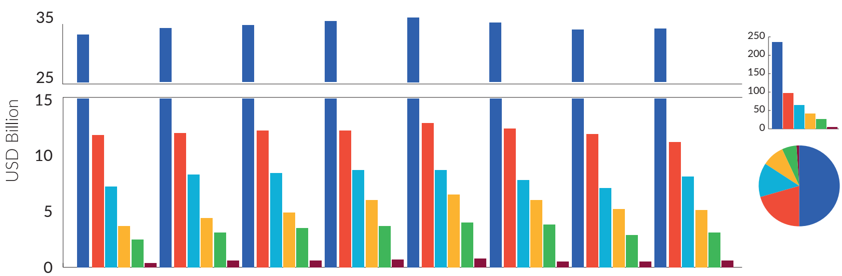
Countries	2010	2011	2012	2013	2014	2015	2016	2017	TOTAL
Benin	0.05	0.05	0.05	0.05	0.06	0.06	0.06	0.07	0.45
Burkina Faso	0.03	0.03	0.03	0.04	0.04	0.04	0.04	0.04	0.29
Cape Verde	0.17	0.19	0.14	0.13	0.13	0.13	0.13	0.14	1.18
Ivory Coast	0.04	0.05	0.08	0.11	0.15	0.15	0.17	0.18	0.94
Gambia	0.02	0.03	0.03	0.02	0.02	0.02	0.03	0.03	0.20
Ghana	0.14	0.15	0.23	0.21	0.20	0.17	0.17	0.17	1.43
Guinea	0.01	0.01	0.02	0.02	0.02	0.02	0.02	0.02	0.14
Mali	0.10	0.12	0.09	0.11	0.12	0.11	0.12	0.13	0.91
Niger	0.03	0.03	0.04	0.04	0.05	0.04	0.04	0.05	0.32
Nigeria	2.94	3.56	4.00	5.06	5.53	5.09	4.28	4.07	34.52
Senegal	0.11	0.13	0.13	0.14	0.13	0.12	0.13	0.15	1.04
Sierra Leone	0.05	0.07	0.05	0.03	0.03	0.02	0.02	0.02	0.29
Togo	0.01	0.01	0.02	0.02	0.02	0.02	0.02	0.02	0.14
TOTAL	3.70	4.43	4.91	5.98	6.50	6.00	5.23	5.10	41.84

Source: WTTC. No data for Guinea Bissau and Liberia

5.7 SUMMARY OF TOURISM CAPITAL INVESTMENTS ACROSS THE UNECA REGIONS

Eastern Africa received 11% of the total tourism capital investments in Africa from 2010 to 2017 (Figure 5.6). Even though Eastern Africa has some of Africa's most mature and well-established tourism destinations (in Kenya and Tanzania, for example), the overall performance in attracting tourism capital investments pales in comparison to North Africa (41%), Southern Africa (27%) and West Africa (18%). A reasonable expectation would be for Eastern Africa to attract tourism capital investments of at least similar levels to those achieved by Southern Africa. The two sub-regions are similarly endowed when it comes to tourism assets (abundant wildlife, beautiful scenery, unique attractions, exotic beaches and islands, city life experiences, fascinating cultures). The Eastern African performance goes against the observed norm of a positive correlation between levels of tourism development, or tourism arrivals, and capital investments.

Figure 5.6: Summary of Tourism Investment (USD Billion) across Regions 2010-2017



	2010	2011	2012	2013	2014	2015	2016	2017	TOTAL	%
Africa	25,8	28,5	29,7	31,4	33,0	30,7	27,8	28,2	235,5	100
North Africa	11,8	12,0	12,2	12,2	12,9	12,4	11,9	11,2	96,5	41
Southern Africa	7,2	8,3	8,4	8,7	8,7	7,8	7,1	8,1	64,2	27
West Africa	3,7	4,4	4,9	6,0	6,5	6,0	5,2	5,1	41,8	18
Eastern Africa	2,5	3,1	3,5	3,7	4,0	3,8	2,9	3,1	26,7	11
Central Africa	0,4	0,6	0,6	0,7	0,8	0,5	0,5	0,6	4,7	2

Source: WTTC

6. FACTORS CONTRIBUTING TO EASTERN AFRICA'S COMPARATIVELY LOW SHARE OF TOURISM INVESTMENTS

Stakeholders who participated in this study identified issues that are common to most countries in the region and that may contribute to its relatively low share of tourism investments.

6.1 SAFETY AND SECURITY ISSUES

The conflicts in Somalia and South Sudan, rebel activities in the Great Lakes region, the threat of terrorism in Kenya, disease outbreaks and episodic elections-related political violence have all been identified as major factors affecting tourism investment flows. Travel advisories in source markets result in a lowering of international tourist arrivals and raise perceived investment risk.

Buigut and Amendah (2015) studied the effects of terrorism on tourism demand in Kenya for the period 2010-2013 and found that terrorism negatively and significantly affects the number of visitors. Using the number of fatalities in a terrorist event as a unit of measure, the researchers were able to show that a 1% increase results in tourist arrivals decreasing by about 0.132%, equivalent to an annual loss of about KES 157.1 million (USD 1.5 million) in tourism revenues.

Fletcher and Morakabati (2008) examined the relationship between tourism activity, terrorism and political instability in the cases of Kenya and Fiji and found that longer-lasting political events, such as coups and international problems, have far more effects than a short-to-medium-term, one-off terrorist attack. Lee (2011) characterized tourism as perishable in nature and concluded that terrorism is one of those factors that have been shown to have a negative impact on tourism in many countries, including Kenya.

Kinyanjui (2014) assessed the relationship between terrorism and foreign direct investment in Kenya and found that, by decreasing foreign investor confidence, terrorism activities negatively affected FDI in Kenya. Diriye (2015) suggested that, as a major provider of employment and economic prosperity in Kenya, the tourism industry must be able to remain resilient in the face of terrorism which affected businesses and caused a reduction of the number of tourists visiting the country that, in turn, caused unemployment and low productivity.

Many tourist hotels in Mombasa have closed down and the buildings fallen into disrepair as a result of the terrorist attacks that have damaged the image of the destination. In a media interview following his 2015/2016 budget speech, Henry Rotich, Kenya's finance minister, acknowledged that terrorist activities continued to undermine the investment climate in the country and have contributed to the loss of jobs and declining activity in the tourism industry. He went on to declare that tackling insecurity decisively remains the top priority of the government's strategy to sustain the growth momentum of the economy while creating jobs and reducing poverty (The Telegraph, 2015).

RECOMMENDATIONS

I. Effective crisis management and communication systems
II. Develop a tourism communication hotline in destinations
III. Engage authorities and travel partners in source markets to share information and mitigate the negative impact of travel advisories
IV. Develop domestic and regional tourism to counter the negative effects of international tourism staying away
V. Robust media and political marketing drive to change the image of the sub-region.

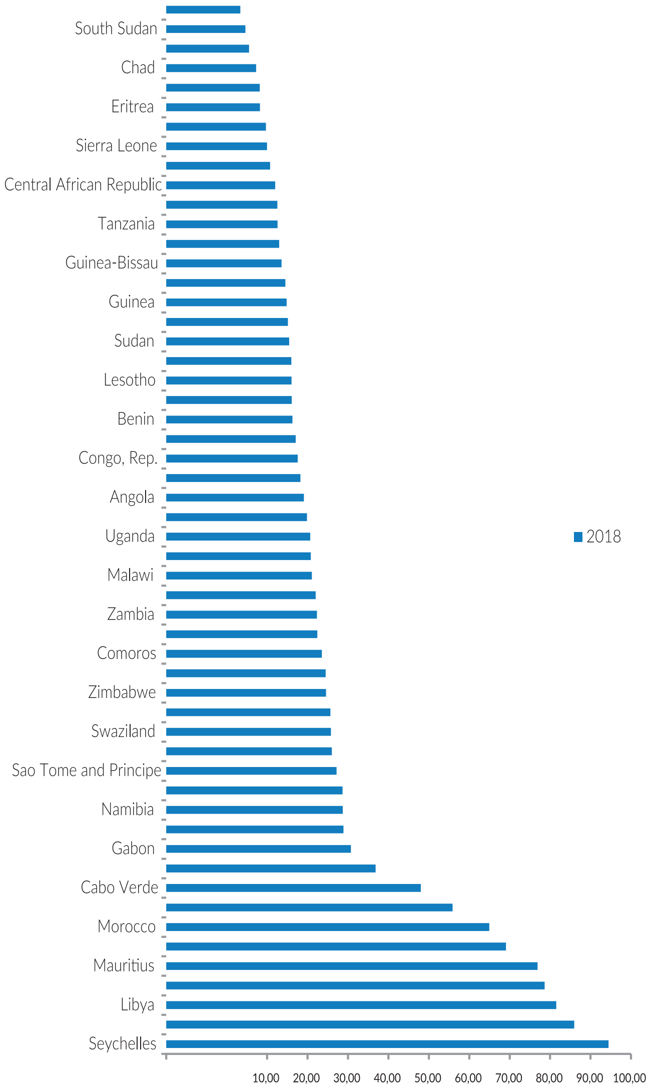
6.2 INADEQUATE TOURISM INFRASTRUCTURE

The lack of adequate tourism-enabling infrastructure is an impediment to attracting tourism investments. The development and maintenance of airports, roads, railways, waterways, harbours and marinas, as well as the provision of basic services including power, clean water, sewerage, electricity, health facilities and telecommunications is primarily the responsibility of governments. In the absence of basic infrastructure, investors will stay away.

The countries that are doing relatively well in growing and expanding their tourism sectors are those that have invested heavily in developing tourism-enabling infrastructure. Ethiopia, Kenya, Tanzania, Rwanda, Uganda and Seychelles are good examples and airline companies, such as Ethiopian Airlines, Kenyan Airways, and RwandAir, continue to play critical role in opening up the sub-region to international, regional, and domestic tourism.

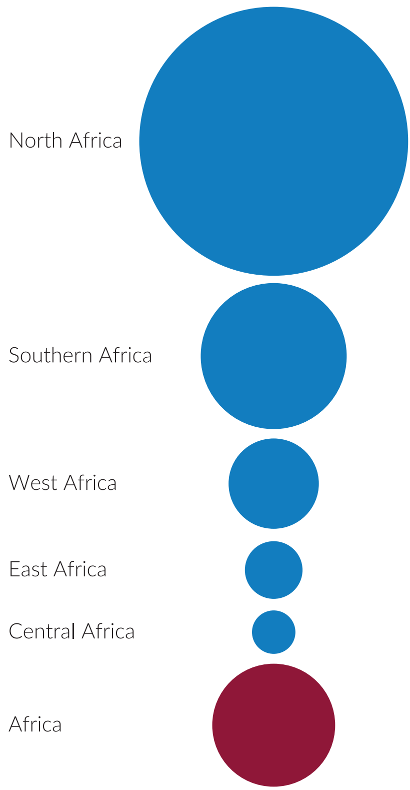
Many Eastern Africa countries suffer from poor tourism-enabling infrastructure because of poor public investment (Figure 6.1). For example, in the 2018 *African Infrastructure Development Index* (AIDI), Eastern Africa ranks fourth, ahead only of Central Africa in overall infrastructure development (Figure 6.2). Seychelles is the only country from the region with an AIDI ranking among the top 10 African countries but Madagascar, Ethiopia, Eritrea, D.R. Congo, South Sudan, and Somalia feature among the bottom 10 because of low performance in ICT, transport, power, water and sanitation (AIDI, 2018). Without these basic infrastructural elements, tourism development can simply not happen.

Figure 6.1: African Infrastructure Development Index Country Scores



Source: **AfDB 2018.** *http://infrastructureafrica.opendataforafrica.org/pbuerhd/africa-infrastructure-development-index-aidi-2018*

Figure 6.2: 2018 African Infrastructure Development Index Sub-Regional Comparison



Source: **AfDB 2018.** *http://infrastructureafrica.opendataforafrica.org/pbuerhd/africa-infrastructure-development-index-aidi-2018*

RECOMMENDATIONS:

I. Governments should prioritise investments in the development and maintenance of tourism-enabling infrastructure in regions with proven tourism potential.

II. Governments need to foster a business environment conducive to private sector investments in the tourism industry.
III. Decentralize infrastructure beyond main cities to open new tourism routes and destinations.
IV. Countries with limited connectivity should consider taking advantage of the AU's Single African Air Transport Market (SAATM) to improve air connectivity that will open up new tourism opportunities.

6.3 LACK OF TOURISM PRODUCT DIVERSITY AND INNOVATION

A common factor limiting investments in the tourism sector in the EAC where the most established tourism industries are located, is the lack of diversity of tourism products and experiences. Although some EAC Member States (Kenya and Rwanda, for example) have successfully embarked on initiatives to diversify into the Meeting, Incentives, Conventions and Exhibitions (MICE) sector, and have attracted considerable investments in the form of world class branded hotels and convention centres, EAC Member States have traditionally positioned themselves as wildlife and beach tourism destinations. As such, there has been very little differentiation from destinations in Southern Africa, for example, that also offer similar experiences but that, through innovation, have succeeded in diversifying and expanding their tourism industries and are attracting far more tourism investments as a result.

According to Weidenfeld (2018), innovation, the process of converting new ideas into marketable outcomes, has a pivotal role in driving economic growth. When applied successfully to the tourism economy, innovation leads to diversification of products and services, the creation of new markets and new processes that make a destination more dynamic, resilient and competitive in attracting investments. Eastern Africa's diversity of cultures, for example, gives the sub-region scope to innovate, diversify and expand its tourism product base beyond wildlife and beach tourism.

There is a growing demand for new and novel tourism experiences that meet the ever-changing expectations, tastes, preferences and requirements of tourists today. This constitutes a unique opportunity for tourism actors in Eastern Africa to design new packages of products and services. Cultural tourism, community-based tourism, agri-tourism, urban tourism and entertainment, shopping tourism, medical tourism, culinary tourism and faith-based tourism, among others, comprise niches that could be targeted for development and investments to meet the growing demand for novel experiences from domestic, regional, and international tourists. For example, a young tourism entrepreneur interviewed in Kigali, Rwanda, indicated that entertainment is fast becoming an important driver of intercity tourism in Eastern Africa, with a growing number of people from the region, mostly middle class, visiting cities such as Kigali, Nairobi, Dar es Salaam or Kampala for short stays filled with entertainment and nightlife experiences. He believed this niche could be packaged cost effectively and could become a major driver of investments in tourist facilities including accommodation, restaurants, and entertainment spots specifically geared to tourists. Tour operators, travel agencies and accommodation providers could capitalise on this trend and design creative and innovative itineraries and packages that could enhance occupancy levels and help absorb the increased room capacity in the major cities.

Another tourism stakeholder considered that Kenyan devolution has provided an impetus and is driving tourism planning and development at the county level and creating entrepreneurial and investment opportunities. There is a drive for counties to brand and market themselves and many of them are embarking on initiatives to make tourism an important driver for the local economy. This is resulting in the packaging of arts and culture festivals, local cuisines and local natural attractions to market them to visitors as viable up-country holiday options. Domestic tourism is also growing in Kenya and there is an increasing trend among Kenyans to consider holiday destinations other than Mombasa (one of the leading destinations in the country), which is adding momentum to these up-country destinations and stimulating local tourism entrepreneurship and investments.

RECOMMENDATIONS

I. Identify lucrative niche products that can be developed and brought to market to enhance the tourism product range.
II. Work with national, provincial or local authorities to identify cultural artefacts that could serve as the basis for new tourism products.
III. Promote the development of projects known to attract tourists, such as integrated waterfront developments, spectacular architectural projects or innovative conference facilities (i.e. attractions that could act as catalysts for further investments into the tourism sector - see case study of V&A Waterfront.
IV. Develop investment portfolios and proposals for new products and destinations that can be showcased to investors
V. Identify and create new markets for the existing product base.
VI. Identify tourism products, services and itineraries that appeal to domestic and regional tourists.
VII. Provide incentives to tour operators to work with airline companies to develop affordable tour packages that promote domestic and regional tourism and address seasonality.

6.4 FAILURE TO PROMOTE THE SUB-REGION AS A SINGLE INVESTMENT DESTINATION

The failure by Member States to apply Article 80 of the EAC Treaty, which calls on them to promote the region as a single investment destination, may explain the sub-region's relatively low share of investment flows, according to a representative of the East African Business Council (EABC)[3].

The failure to remove barriers and build Eastern Africa into a fully integrated economic zone with common investment, taxation and visa regimes is rendering efforts to market and position the region as a destination much more challenging. For example, the cumbersome border crossing protocols for tour vehicles and tourists alike make the development and marketing of "Pan-EAC" tourism itineraries difficult.

RECOMMENDATIONS:

I. Improve the macroeconomic and business environment in Eastern Africa.
II. Harmonize and implement policies that facilitate investments in the region.
III. Remove or simplify non-tariff barriers (NTBs), such as regulations on the movement of tour vehicles across borders, that impact tourism.
IV. Improve air and road connectivity to facilitate and accelerate tourism development.
V. Expand the T12 Single Tourist Visa to all countries in Eastern Africa.
VI. Prioritize and provide incentives for investments that promote domestic and regional tourism.

3 The EABC representing the 6 EAC countries was established in 1997 to promote the interests of the Private Sector in the regional integration process Its mandate is to foster an environment that is conducive to business and promotes the private sector's regional and global competitiveness through policy reforms.

VII. Harmonize tourism standards and address the skills gap.
VIII. Improve customer service levels across Eastern Africa.
IX. Identify and remove all impediments to packaging and marketing Eastern Africa as a single tourism destination.
X. Support initiatives such the East Africa Tourism Platform.
XI. Implement effective e-commerce and online marketing strategies for tourism.

6.5 LACK OF TRANSPARENCY AND ACCOUNTABILITY

Transparency and accountability are essential factors in building investor trust and confidence, but Eastern Africa suffers from perceptions of high levels of corruption (Table 6.5). The 2017 Transparency International Corruption Perception Index (CPI) rankings show that Seychelles (CPI 60), and Rwanda (55), are the second and fourth cleanest African countries by this metric but, elsewhere in Eastern Africa, corruption perception levels are extremely high. Two of the world most corrupt countries, politically unstable and war-torn South Sudan and Somalia, are in the Eastern Africa sub-region. The overall worst performing CPI region is Sub-Saharan Africa, which presents a further hurdle for tourism promotion in Eastern Africa. Rampant corruption raises the cost of doing business and makes it challenging for businesses to maximise profits (IDC, 2012). It affects the image of a country or region (Ekine, 2018) and discourages tourism, as well as investment in the tourism industry.

Table 6.5: Transparency International's 2017 Corruption Perception Index (CPI) for African Countries

Country	CPI Score 2017	Global Rank 2017
Botswana	61	34
Seychelles	60	36
Cabo Verde	55	48
Rwanda	55	48
Namibia	51	53
Mauritius	50	54
Sao Tome and Principe	46	64
Senegal	45	66
South Africa	43	71
Burkina Faso	42	74
Lesotho	42	74
Tunisia	42	74
Ghana	40	81
Morocco	40	81
Benin	39	85
Swaziland	39	85
Zambia	37	96
Côte D'Ivoire	36	103
Tanzania	36	103
Ethiopia	35	107
Algeria	33	112
Niger	33	112
Egypt	32	117
Gabon	32	117
Togo	32	117
Djibouti	31	122
Liberia	31	122
Malawi	31	122
Mali	31	122
Gambia	30	130
Sierra Leone	30	130
Kenya	28	143
Mauritania	28	143
Comoros	27	148
Guinea	27	148
Nigeria	27	148
Uganda	26	151

Country	CPI Score 2017	Global Rank 2017
Cameroon	25	153
Mozambique	25	153
Madagascar	24	155
Central African Republic	23	156
Burundi	22	157
Zimbabwe	22	157
Congo	21	161
Democratic Republic of the Congo	21	161
Chad	20	165
Eritrea	20	165
Angola	19	167
Equatorial Guinea	17	171
Guinea Bissau	17	171
Libya	17	171
Sudan	16	175
South Sudan	12	179
Somalia	9	180

Source: Transparency International

RECOMMENDATIONS:

Kodongo (2018) makes the following recommendations on how to fight corruption:

I. Build a national work ethos through the education system.
II. Make corruption expensive and unattractive for perpetrators by the imposition of strict legal consequences.
III. Seize the profits of economic crimes and ostracise perpetrators.
IV. Impose strict standards of ethical conduct on candidates for public office.
V. Share financial crimes information with international regulatory bodies to combat off-shore concealment of illegal profits.

7.

SUSTAINABLE TOURISM INVESTMENT AND FINANCING MODELS

As already observed Eastern Africa Member States countries are keen to attract investments into the tourism sector. This is best exemplified below:

Invest Burundi:

Burundi has an untapped tourism potential that the government wishes to develop and that is also at the centre of the development strategy of the country.

Ethiopia Investment Commission:

Ethiopia commands a large and untapped potential for tourism and hospitality business … Addis Ababa's significance as the political capital of Africa … sharpens Ethiopia's potential for business tourism.

Invest in Eritrea:

This (tourism) sector has huge potential based on the scenic and topographic diversity of the Country as well as its history … There are also good investment opportunities aimed at developing the historical and cultural heritage of the Country.

Djibouti Invest:

The Republic of Djibouti has a great potential in tourism...

Invest in South Sudan:

The country is a beautiful tourist destination with vast diversity of fauna and flora, scenic beauty, diverse culture, historical sites and variable climate.

KenInvest:

"As one of the world's most popular business and leisure tourism destinations, investors have the opportunity to leverage several Government-led programmes to attract investment into the (tourism) industry."

Tanzania Investment Centre:

"Tanzania's tourism industry accounts for about 24.0 % of its exports and 17.2% of GDP. This is a fast-growing sector that offers plenty of investment opportunities."

Seychelles Investment Board:

"Opportunities...abound in peripheral activities within the tourism industry such as adventure tourism, medical tourism and entertainment. We need to engage holidaymakers to spend more rather than just staying in a hotel."

Evidently, Eastern Africa Member States countries recognise the potential for tourism to contribute to national and regional development goals and are seeking to exploit opportunities for attracting financing for the tourism sector. However, major challenges remain. Only a fraction of hotel projects, for example are completed in Africa on time and many projects remain in development for years partly because of promoters' inability to raise the required financing (Table 7.1).

Table 7.1: Hotel Chain Development Pipelines in Africa: 2015-2017 Scheduled vs. Actual Hotel Openings

	Schedule	Actual	Actualization
2015	69	27	36%
2016	110	54	49%
2017	95	51	54%
TOTAL	289	132	46%

Source: Hotel Chain Development Pipelines in Africa 2018. W Hospitality Group.

7.1 PUBLIC SECTOR TOURISM INVESTMENT FINANCING MODELS

Tourism is a government-led but private sector-driven industry. The public sector's role is to provide infrastructure to support tourism and to formulate tourism policies that create an environment conducive for private sector involvement. Historically in Eastern Africa the government's role extended beyond provision of infrastructure and policy coordination to include the funding of tourism investments. This was the dominant model in many African countries immediately after independence. However, it proved unsustainable in many countries, and was replaced by a model based on private investment and management.

Various public sector entities remain the main source of funding for the management of national tourist attractions such as conservation areas, heritage sites, and museums in many African countries. Government appropriations for these purposes are generally very strictly defined, which has led to many national parks organisations to offer concession agreements to private investors that create, manage and operate revenue-generating tourism activities for job creation and parks community development.

Sources of public sector financing for tourism development include:

7.1.1 NATIONAL DEVELOPMENT FINANCE INSTITUTIONS

State-owned national development finance institutions, such as South Africa's Industrial Development Corporation (IDC) or the Kenyan Tourism Financing Corporation (TFC), have units dedicated to financing the tourism and hospitality sector by providing asset-based finance through instruments designed to fit the risk profile and cash flow of tourism investment projects. These units typically also supports the financing of fixed assets and capital expenditure as long as projects have a significant developmental impact, such as job creation, empowerment and rural development.

The TFC is a tourism-focused funding institution for the development of hotels, restaurants, health spas, entertainment centres, and shopping malls. Established in 1965, it has a mandate to facilitate and provide affordable development funding and advisory services for long-term investment in Kenya's tourism industry. The TFC provides funding for projects that:

- have a significant socio-economic development impact;
- are aligned to the counties' investment plans and the National Tourism Master Plan;
- demonstrate financial and economic feasibility and sustainability;
- include substantial resources from developers;
- make a significant contribution to the transformation of the tourism industry;
- are located in rural and marginalized areas that lack accommodation and have a demand for these facilities;

- encourage the employment of women, youth, and people with special needs;
- promote energy efficiency; and
- are promoted by investors with management experience.

7.1.2 PENSION FUNDS

An African model for tourism financing from pension funds is the Public Investment Corporation (PIC), the largest investment management institution on the continent, with assets of over ZAR 2 trillion (USD 136 million) under management. It is wholly owned by the South African government and focuses exclusively on the public sector. The PIC's client base comprises 23 public sector entities that operate pension, provident, social security and guardian funds. The PIC has invested in tourism-linked projects, such as airports and the mixed-use V&A Waterfront development in Cape Town. The model is one that could be profitably emulated in Eastern Africa.

7.1.3 REGIONAL DEVELOPMENT BANKS

The Development Bank of Southern Africa (DBSA) and the East African Development Bank (EADB), for example, provide medium- and long-term financing to projects with potential to generate substantial socio-economic benefits and promoting regional integration. The African Development Bank (AfDB) provides finance, policy advice and technical assistance to support development projects. Tourism is a priority sector within Agenda 2063; the development banks could be expected, therefore, to become increasingly involved in tourism development and investment financing.

7.1.4 INTERNATIONAL FINANCE INSTITUTIONS

The World Bank's private sector arm, the International Finance Corporation (IFC), provides a variety of funding instruments that can be structured to meet the requirements of tourism investment projects. It has financed over a hundred hotels in Africa. The Multilateral Investment Guarantee Agency (MIGA) – also part of the World bank Group – offers political risk insurance guarantees, while the International Development Association (IDA) has a private sector window that provides financing to investors to expand and scale up tourism investment projects in poorer countries. There is renewed interest at the World Bank in financing priority socio-economic development projects in Africa, including tourism development projects (Box 7.1 below).

In response to the growing focus on sustainable tourism, defined by the UNWTO as "tourism that *that takes full account of its current and future economic, social and environmental impacts, addressing the needs of visitors, the industry, the environment and host communities"*, public sector financial institutions are offering financing options, including green bonds, concessional lending, subsidies, and technical assistance to tourism businesses transitioning to sustainable operations. South Africa's *Green Tourism Incentive Programme*, for example, provides grant funding of up to ZAR 1 million to encourage tourism enterprises to move towards cleaner and renewable energy sources and the efficient utilization of water.

BOX 7.1: TOURISM INVESTMENT FINANCING - GOOD NEWS FROM THE WORLD BANK

Helping East Africa Attract Investment in Priority Sectors

Extracted from a blog submitted by Axel van Trotsenburg on 4 September 2018 to worldbank.org/voices ahead of the 2018 Development Finance Forum, Kigali, Rwanda, 11-12 September 2018.

IDA is the soft loan lending arm of the World Bank and one of the largest sources of assistance for the world's 75 poorest countries. Today, 39 of these client countries are in Africa. IDA is replenished by donors every three years, and in our current cycle, IDA18, we continue to receive their strong support. Also, for the first time, our donor partners' contributions are being complemented by funding from capital markets.

This new financing model is letting IDA reach an unprecedented level of resources--$75 billion for this three-year period. We expect to commit about $45 billion of this to Africa by the end of the cycle in June 2020. And our first year of IDA18, which recently ended, shows we are on track. In the year ending June 30, we committed $15.4 billion for Africa out of a global total of $24 billion in IDA resources.

Paralleling the big gains for IDA, the shareholder countries of the World Bank Group agreed in April to a major capital increase both for IBRD, which lends to governments of middle-income countries, and for IFC, which invests directly in private enterprises. MIGA, our other private-sector arm, is also strengthening its financial position.

So, we have much more financing to offer—but how exactly are we helping bring more private investment to Africa? The answer is a mix of innovation and time-tested approaches. IDA18 offers a new Private Sector Window (PSW) in partnership with IFC and MIGA, combining the Bank Group institutions' robust support to the private sector in the poorest markets. The PSW works in several ways to boost investments in IDA countries, by creating an enabling environment, making complementary investments, providing guarantees, and directly investing in the private sector. It builds on IFC's innovative work in mobilizing and managing third-party capital from investors that have strong standards and corporate governance for investment in the poorest countries, as well as MIGA's leveraging impact to unlock investment potential.

By blending public and private resources, the PSW can help the private sector create markets and show that, with the right risk/return profile, frontier markets are investible and profitable. This in turn encourages further investment. In its first year, the PSW made a strong start, committing $185 million of IDA resources and unlocking more than $600 million of IFC investment and MIGA guarantees. This further mobilized $800 million of private financing to the most difficult IDA markets.

Already the PSW is building experience to share in sectors that are high priorities for East Africa. On agribusiness, for example, it supported MIGA in providing a political risk insurance guarantee for a raisin processor in Afghanistan. On housing finance, it provided local currency risk mitigation to support IFC investments in mortgage companies in both West Africa and Bangladesh. There are also tourism projects under consideration.

Along with the PSW's innovation, IDA has long prioritized public-sector interventions as a key to spurring private sector development. Over the past decade, IDA has invested $7 billion a year on average to help our client governments improve the regulatory environment, carry out sector reforms, and build enabling infrastructure. These are critical efforts for the private sector to be able to invest, grow, and thrive.

Now, through increased country allocations and IDA's special financing windows, IDA18 has already scaled up support to governments, including in East Africa. In total, the East African countries have access to over US$7 billion of allocations over the three-year period, and they can also leverage additional funds through regional and other special windows. These financial resources are meant to promote development in Africa, and the success of this effort will be determined also by the investments of the private sector, especially the African private sector.

https://blogs.worldbank.org/voices helping-east-africa-attract-investment-priority-sectors

7.1.5 POLICY CONSIDERATIONS

The majority of Member States in Eastern Africa regard the tourism sector as a critical tool for socio-economic development in line with the SDGs and Agenda 2063. At the same time, new models of financing sustainable tourism investments in a cost-effective manner are beginning to emerge.

Each Eastern African Member State should urgently consider reviewing current national tourism development approaches in a manner that moves tourism development from rhetoric to action. When it comes to translating policy discourse into actionable plans with budgets, targets, timelines, and accountabilities, many countries fail to create the necessary conditions for action, blaming a lack of resources.

That international development finance institutions have identified tourism in East Africa as a priority sector is an opportunity for public sector tourism stakeholders to work with these institutions to help with:

- securing financial/technical support for the development and implementation of national tourism development policies;
- securing financial/technical support for the development of sustainable Tourism Development Masterplans (TDMs);
- securing financial/technical support for the development of tourism investment policies that prioritise demand-driven projects;
- securing financial/technical support for the design and implementation of key tourism support and management activities;
- funding or co-funding mechanisms that facilitate access to finance for small tourism businesses (particularly youth and women-owned and rural-based);
- the development of a regional tourism development framework; and
- financing the development and maintenance of infrastructure.

7.1.6 CASE STUDY: CAPE TOWN'S V&A WATERFRONT: AN EXAMPLE OF SUSTAINABLE TOURISM INVESTING

INTRODUCTION

The V&A Waterfront is situated in the oldest working harbour in the southern hemisphere, with the iconic Table Mountain as its backdrop. Visited by 25 million visitors annually, it is one of Africa's most visited destinations and contributes significantly to South Africa's socio-economic growth by leveraging its geo-strategic location and unique coastal, marine and ocean assets.

ECONOMIC IMPACT

The V&A Waterfront makes a significant economic contribution to the city of Cape Town, Western Cape Province and the country. It was the catalyst in the regeneration of the foreshore and has become a magnet for locals, as well as domestic and international tourists. More than 2,000 people live in the precinct and up to 180,000 visitors are welcomed daily during peak season. The project provides direct jobs to 21,790 people, of whom 205 are directly employed by V&A Waterfront Holdings (Pty) Ltd (the property management company). A 2016 survey of the 234 small business tenants trading at the Waterfront indicated that: 92% of products on sale are made in South Africa, 1% are from SADC (excluding South Africa), 6% from the rest of Africa and only 1% of businesses sell products from outside Africa.

SOCIAL IMPACT

V&A Waterfront is committed to inclusive development, not only through its philanthropic activities, but as a core element of its business strategy. The proposed budget for FY18 forecasts a total value of ZAR 6.8m, in social spending with approximately 3,800 direct beneficiaries.

ENVIRONMENTAL IMPACT

The V&A Waterfront is committed to optimal levels of resource efficiency and has implemented green business practices throughout its property. A green lease and tenant specification standard is applied for all design, construction and refurbishment phases.

CULTURAL IMPACT

The V&A Waterfront has positioned itself to support the growth and development of local arts and culture. Efforts in this arena span a wide variety of initiatives, including the flagship busker development programme, cultural rites of small-scale fishers and the soon to be opened Zeitz Museum of Contemporary Art Africa (MOCAA) – hosting the world's largest collection of contemporary art from Africa and its diaspora.

7.2 PRIVATE SECTOR-LED TOURISM INVESTMENTS FINANCING MODELS

The role of the private sector is to drive the growth and development of the sector by providing the financial and human capital and the management expertise required to transform government tourism investment plans into actual businesses. Private funding comes from commercial banks, national, regional, and international development finance institutions (DFIs), private equity investors, venture capitalists, micro finance institutions (MFIs), social impact investors, philanthropic foundations, NGOs and in many cases, the diaspora.

7.2.1 COMMERCIAL BANKS

Commercial banks are driven by profit and require borrowers to provide substantial collateral, which, combined with the high interest rates, makes them one of the least preferred sources of financing (Rao, 2010). Tourism SME entrepreneurs prefer government grants.

Table 7.2: 2017 Average Bank Lending Interest Rate for Eastern African Countries

Madagascar	60.00
Uganda	21.28
DR Congo	20.62
Rwanda	17.17
Burundi	14.80
Kenya	13.67
Seychelles	12.24
Comoros	10.50

Source: The World Bank. No data was available for Ethiopia, Eritrea, Somalia, South Sudan, Tanzania or Djibouti.

Local commercial banks in Eastern Africa are generally wary of projects in the tourism sector, particularly hotel investments, because of their complexity and long time frames, which ties up capital and increases the risk of default. Hence, they tend to provide shorter term loans, with 7 years as the average repayment term, compared to 10 to 12 years for development finance institutions. This may, however, be changing, as lenders develop a better understanding of the industry and are starting to devise creative ways of managing risks and providing more capital (Nathan, 2017).

Raising affordable commercial debt for building hotels is a major hindrance to the development of the tourism and hospitality sector in many African countries. This is leading more and more investors to turn to mixed-use schemes as more feasible investment financing models than stand-alone hotel developments. Mixed-use schemes combine a hotel development, residential apartments, retail, and office on the same site and provide consistent cash flow that can be used as project-generated equity to reduce the amount of debt funding required by the development.

The mixed-use model has been applied successfully to develop iconic and world class tourism attractions such as Cape Town's V&A Waterfront (Case Study 7.1.1), Johannesburg's Melrose Arch, which currently comprises 200 000m^2 of mixed-use development with 350 000m^2 planned future phases generating an ultimate value in excess of R16,5 billion. Another example is the Anahita World Class Sanctuary in Mauritius which used the proceeds of the sales of luxury homes to finance the development of the rest of the resort.

7.2.2 INDIVIDUAL PRIVATE INVESTORS

Hotel investments in Eastern Africa have been driven mainly by local private investors with access to prime land and using their own resources drawn from buoyant economic growth. The construction of world class hotels by local investors has contributed to lifting the image of the major cities such as Nairobi, Addis Ababa, Dar es Salaam, Kampala, and Kigali, drawing them to the attention of global property and hospitality investors.

Many global hotel brands have entered Eastern Africa through management contracts, bringing much needed world class expertise, skills and technology, as well as access to global hospitality distribution systems. While management contracts are a form of FDI, it is nonetheless the local investors who assume the credit risk because international hotel operators rarely put money in the "brick and mortar" aspect of the hotel, preferring to leverage their brands through franchise, or marketing agreements (The Economist, 2009).

7.2.3 IMPACT INVESTORS

Not all private sector tourism financing models are motivated by the desire to maximise profits. Impact investors such as, DFIs, MFIs, NGOs, foundations and social investors, measure their returns from the tourism sector based on a set of predetermined social or environmental objectives, as well as the potential financial return. This relatively new investment paradigm is gathering momentum as more and more businesses accept the idea that they can do well by doing good (Le Houerou, 2018). However, the extent to which impact investing contributes to improving the lives of its beneficiaries has yet to be evaluated sufficiently (UCT, 2017).

The Global Impact Investing Network (GIIN, 2015) estimates that some 155 impact investors including, 20 development finance institutions (DFIs), have made investments in Eastern Africa worth USD 10 billion. The IFC, Kenya's Tourism Finance Corporation (TFC) and Business Partners International are some examples of impact investors that support the tourism sector in East Africa.

7.2.4 DIASPORA FINANCE

Remittances from people who have migrated, and who, together with their descendants, maintain a connection to their country of origin (Ratha and Plaza, 2011) can be used as “diaspora financing” for projects in many sectors, including tourism. Countries with large diasporas such as, Cabo Verde and Ethiopia, often rely on the diaspora as an important source of finance, technical skills and expertise and have strategies for harnessing that source for development purposes (Ketkar and Ratha, 2009).

Ghana, Kenya, Nigeria, Rwanda, Egypt and Ethiopia are some of the African countries that use diaspora bonds as an instrument to access the resources of their relatively large diasporas. East African countries enjoy steady inflows of remittances, with Kenya, Uganda, and Ethiopia as the lead recipients (Table 7.3). Indeed, remittances represented 3% of the Kenya’s total GDP in 2012 when USD 315 million was transferred from the diaspora in the United States alone (MPI, 2015).

Diaspora finance can be a viable and sustainable source for financing tourism and hospitality projects (hotels, restaurants, tour operations). The Ghanaian diaspora in the United Kingdom, for example, included 23% of its members in 2017 who indicated that they would be interested in investing in the accommodation and food services sector in Ghana, while 39% indicated an interest in government bonds (The Commonwealth, 2018a). A survey of the Kenyan diaspora in the United Kingdom reported that 21% of participants indicated an interest in investing in the accommodation and food sector in Kenya while 39% reported an interest in Kenyan government bonds (The Commonwealth, 2018b).

The potential of the diaspora as a viable source of financing for tourism development through direct investments in the accommodation and food services sector is, thus, clear. However, in the absence of the appropriate legal framework and market mechanisms for harnessing diaspora finance, many countries in Eastern Africa may not be able to convert inflows into domestic savings to be used as a sustainable source of development finance.

Table 7.3: Eastern Africa Diaspora Remittances (USD Million)

Remittance (US$ Millions)	2010	2011	2012	2013	2014	2015	2016	2017p
Burundi	34	45	46	49	56	51	31	34
Comoros	87	108	110	116	126	129	131	138
Congo, Dem, Rep	16	115	12	33	22	142	16	17
Djibouti	33	32	33	36	36	63	58	62
Eritrea	...	...	...	...	...	...	...	...
Ethiopia	345	513	938	833	1796	1087	772	816
Kenya	686	934	1211	1304	1441	1569	1745	1970
Madagascar	382	281	275	297	286	272	250	262
Rwanda	106	174	182	170	184	159	173	181
Seychelles	17	25	18	13	15	18	22	24
Somalia	...	...	...	...	...	...	...	...
South Sudan	...	...	...	...	...	...	...	...
Tanzania	344	410	390	382	389	388	411	435
Uganda	771	816	913	941	888	902	1146	1375

Source: The World Bank – Migration and Remittances Data – April 2018.

7.2.5 PRIVATE SECTOR CONCESSIONS IN PROTECTED AREAS

When designed and implemented correctly, private concessions in protected areas can generate considerable benefits for surrounding communities and a wide range of stakeholders, while ensuring the conservation of natural resources and biodiversity (Spenceley and Casimiro, 2012). Private sector commercial concessions have been successfully implemented in Namibia and South Africa to generate revenue for their national park organizations.

The South African National Parks Commercialisation Programme has resulted in the introduction of high-end accommodation in national parks by concessionaires such as Singita, which has contributed greatly to diversify and extend the range of accommodation options. Commercialisation has also resulted in a more efficient management of visitor facilities, contributing to an enhanced visitor experience (Case Study 7.3.3).

7.2.6 LEVIES AS A SUSTAINABLE MODEL OF FINANCING TOURISM MARKETING

Effective marketing is a critical factor in building a successful tourism destination. Tourism levies, collected by operators directly from users of their services, supplement government budgetary allocations to tourism marketing activities. Levies are usually paid to a national entity that administers them and transfers funds to the appropriate agency for specific activities.

Tourism Levy South Africa (TOMSA), is an example of a private sector-led initiative to manage the collection and disbursement of a 1% levy charged to tourists for their use of various tourism services. It provides supplementary funding – worth ZAR 148 million in 2016 – to South African Tourism for the sole purpose of supporting the overall marketing and promotion of destination South Africa locally and internationally. The Tourism Fund in Kenya, which charges a 2% levy, fulfils a similar objective to TOMSA. Its specific mandate is to diversify the resource base for financing development of a sustainable tourism industry through innovation, service excellence and stakeholder engagement.

A major challenge facing tourism levy collection agencies is widening the contributor base beyond the larger and well established operators because operator membership in the scheme is voluntary. Many SME operators cannot afford cannot afford the additional administrative burden, so they stay out of the system (TOMSA, 2016).

7.2.7 Policy Considerations

Governments in Eastern Africa need to attract more and longer-term private investment in the tourism sector. To do this, they need to:

I. Encourage pension funds and insurance companies, to provide finance to the tourism sector;
II. Encourage industry-based levy schemes to contribute to tourism promotion;
III. Encourage protected-area managers and communal land owners to consider concessions as a strategy for attracting private sector operators and investors;
IV. Provide incentives and guarantee schemes to commercial banks to increase lending to tourism entrepreneurs, particularly SME operators;
V. Protect impact investors and borrowers against currency conversion risks to capital.
VI. For tourism mega projects, consider issuing a tourism development bond targeting members of the diaspora.

7.3 PPPS AS A MODEL OF FINANCING TOURISM INVESTMENTS

Public-private partnerships (PPPs) allow public sector entities access to private sector finance, technology, skills and management expertise to implement strategic investment projects. They have been used to build critical tourism-enabling infrastructure such as, highways, airports, harbours, water and sanitation plants, power stations and ICT networks, in African countries including Kenya, Uganda, Rwanda, and Tanzania in Eastern Africa. While PPPs can deliver high quality, modern, and highly efficient infrastructure services implementing and managing them can be very challenging. In Eastern Africa, Uganda's solid PPP programme is a result of many factors, including support from the presidency and the Ministry of Finance, lessons from earlier successful privatization programme and a well-designed legal framework (Africa Renewal, 2017).

7.3.1 TYPES OF PPPS

PPP contractual agreements are specific to the type of project for which they are intended (Table 7.4). The table below describes the most common models of PPPs.

Table 7.4: Most Common Models of Public-Private Partnerships

PPP Types	Description
Build-Transfer (BT)	The public sector orders and finances a project, while the private sector delivers it on site. This form of PPP is applicable where the public sector maintains a strong interest in ownership but seeks to benefit from private construction and operation of a facility.
Build-Lease-Transfer Model (BLT)	The private partner finances, builds and operates a public service facility on a time-bound lease. This allows the contracting party to recover the costs of construction and a reasonable profit. On the expiration date of the contract, the ownership of the asset is transferred to public sector.
Build-Transfer-Operate (BTO)	The private partner designs and builds a facility for the public owner and usually provides the financing for it. The private partner transfers ownership of the completed facility to the government which then leases it back to the private partner under a-long-term lease during which the private partner has an opportunity to recover its investment and a reasonable rate of return.
Build-Operate-Transfer (BOT)	The government turns over development and initial operation of what typically would be a tourism project to the private actor(s) who finance the project, undertake its construction and operates the new facility for a specified period after which it is expected to transfer ownership to the government usually at no cost.
Build-Own-Operate-Transfer (BOOT)	The private developer obtains the exclusive franchise to finance, build, operate, maintain, manage and collect user fees for a fixed period to amortize investment. At the end of the franchise, title reverts to a public authority.
Build-Own-Operate (BOO)	The government either transfers ownership and responsibility for an existing facility or contracts with a private partner to build, own and operate a new facility in perpetuity. The private partner generally provides the financing.

Source: Suat Teker & Dilek Teker (2012)

7.3.2 PLANNING TOURISM PPPS

PPPs have been used as a financing model with great success to develop critical tourism infrastructure in many African countries. They work best when they are an integral component of tourism investment policy. Kunst (2011) identified key roles and the standard operating procedures used by government entities to guide the successful planning and implementation of tourism investment projects:

- Public specialized agencies, assume responsibility for tourism development planning and its implementation;
- The key regulatory instrument is the physical planning including identification of the zones suitable for tourism development projects;
- Specialized government agencies regulate and control the development of such zones/areas;
- The public administration usually assumes the role of a regulator and controller of tourism development;
- In most cases, the private investor bears the bulk of the costs (and risk) of tourism development, while the government agencies monitor their development;
- There is a preference for an integrated developmental approach, with only one legal entity as the leader of all investment activities (coordinator);
- The public administration usually seeks to avoid financing investments in the infrastructure of the zones/areas predetermined for tourism development;
- The land is either sold to investors/developers or long-term leased and, upon expiration of a concession, the physical facilities become government property.

The role of the public sector actors is to develop a clear overall policy and regulatory environment for potential private tourism investors to follow, thereafter to enforce the rules through monitoring and evaluation.

As a result of the active state policy and taking control in the sphere of tourism investment, Egypt's tourism sector has recorded impressive results. Apart from the introduction of clear and transparent rules, especially favouring the preservation of the environment and the heritage, in the years from 1990 to 2007 some of the uninhabited barren coastal areas have been turned into tourism development zones. Further, total hotel accommodation capacity has increased from 50 thousand to more than 170 thousand rooms… From only a few branded properties in the 1990-ies (mostly in Cairo, Luxor and Aswan), the number of hotel establishments with international brands rose to 169 in year 2008. Finally, one should also be aware of the fact that such a dynamic growth in accommodation capacity brought about an equally impressive increase in tourist arrivals. Namely, in the 1990-2007 period, the number of tourist arrivals to Egypt has risen from some 2-3 million to more than 13.0 million. (Kunst, 2011. P.10)

7.3.3 SANPARKS COMMERCIALISATION PROGRAMME: A CASE STUDY OF SUCCESSFUL INVESTOR MOBILISATION STRATEGY

INTRODUCTION

In the early 2000's South African National Parks (SANParks) initiated "The SANParks Commercialisation Programme" with the specific aim to increase net revenues that commercial activities contribute to the SANPARKS core function of nature conservation. The key objective was to identify and mobilise investors who would pay fees to SANPARKS for conservation efforts within the SANPARKS reserves. The criteria in the selection process were their experience in nature-based tourism and their financial capacity.

TENDER PROCESS

The IFC) was the lead advisor in the commercialisation programme. There were two phases to the SANPARKS process: a market review and implementation in four steps including registration of interest by potential investors, pre-qualification, due diligence where pre-qualified bidders were able to assess the investment site and, finally, bidding and adjudication.

The concession contracts were for 20-year, non-renewable concessions to use a defined area of land and/or buildings in return for a fee. There were also financial, environmental management, social, and empowerment obligations on the part of the concessionaire included in the contract.

INVESTOR IDENTIFICATION

SANPARKS took a twin pronged approach, actively seeking out strategically important investors, while encouraging potential concessionaires to submit themselves for pre-selection.

INVESTOR MOBILISATION

Investor mobilisation was also a combination of requesting proposals from interested parties combined with direct approaches to potential investors via their diplomatic representatives and direct marketing to a targeted group of around 40 potential investors known to SANPARKS and the IFC.

INVESTOR RESPONSE

Eight of the 13 sites selected by SANPARKS received a high level of interest and elicited bids that were financially sound. Four of the sites were not considered "prime" sites and failed to get any real interest. It will be very difficult to impose too much conditionality on investors in more marginal investment sites. None of the initially interested international investors submitted final bids.

UPDATE ON PROGRAMME OUTCOMES

The Commercialisation Programme has resulted in the introduction of high-end accommodation in national parks by concessionaires, such as Singita, which has contributed greatly to diversify and extend the range of accommodation options. Commercialisation has also resulted in a more efficient management of visitor facilities, such as restaurants and retail shops, contributing to an enhanced visitor experience. The outcome since operational inception in 2002 has been globally positive.

Sourced from SANParks Archives.


ANTANANARIVO

8.

ENHANCING SME PARTICIPATION IN TOURISM DEVELOPMENT

The global tourism industry is dominated by large and powerful international firms, though small businesses form an integral link in the value chain, particularly at the destination level (Daly and Gereffi, 2017). In addition, small businesses from other sectors – arts and crafts, agriculture, construction, manufacturing, financial services, retailers, street vendors and community-based businesses – participate as providers of goods and services. This ability of the tourism industry to support such a wide variety of sectors and enterprises makes it appealing to economic development policy planners. However, SME development support systems will need to be set up to assist them to enhance their role in the growth and development of the industry.

8.1 ROLE OF SMALL BUSINESS IN THE ECONOMY

Globally, the World Bank estimates that formal SMEs contribute up to 60% of total employment and up to 40% of national income (GDP) in emerging economies. SMEs make significant contribution to the economies of Eastern Africa. In Kenya, for example, SMEs constitute 98% of all businesses, creating 30% of new jobs annually and contribute 3% to GDP (African Review, 2017). Likewise, in Rwanda SMEs constitute 98% of businesses and contribute 41% of all private sector jobs (The New Times, 2017).

8.2 CHALLENGES TO SME GROWTH AND DEVELOPMENT

In Eastern Africa, as in many other African countries, SMEs face a myriad of challenges that limit their ability to grow and become sustainable. For example, 80% of SMEs in Rwanda need technical assistance and capacity building, yet only 36% of them have received any sort of technical assistance over the past three years (The New Times, 2017). Rwandan SMEs are not the only ones facing challenges. Inadequate capital, limited market access, poor infrastructure, inadequate expertise, rapid changes in technology, corruption and an unfavourable regulatory environment face Kenyan SMEs (*Deloitte, 2016)*. In D.R. Congo, access to finance is a major hurdle to SME growth and sustainability (Woldie, Bushige Mwangaza, Thomas, 2018).

In South Africa, SMEs face challenges similar to those experienced by their Rwandan and Kenyan counterparts. Most SME entrepreneurs lack the skills, mind-set and business acumen to run a business (BER, 2016). The majority SME operators fail to carry out proper business planning because they lack adequate knowledge of the sector in which they operate. Access to finance is another challenge they face because of inadequate collateral, a lack of credit history, inability to produce a business plan acceptable to a lender, poor market research, the absence of a viable business idea and lack of access to profitable markets. Five out seven small businesses fail in their first year and four out of five close by their fifth year (BER, 2016). Tourism SMEs face extra challenges because global tour operators, hotel companies and investors often control supply chain decisions and procurement opportunities at destination level, which leads to value leakages or SME's being kept out of the supply chain altogether (Daly and Gereffi, 2017).

8.3 MEASURES FOR ENHANCING SME PARTICIPATION IN TOURISM DEVELOPMENT

Countries in Eastern Africa need to adopt policy measures to support the sustainability of SMEs in the tourism industry. Hence, governments need to:

I. Remove unnecessary bureaucracy;
II. Provide support for small businesses, including information, technology, training and a business environment that encourages small business creation and maintenance;
III. Provide market access by seeking public and private procurement from local SMEs, enforcing local-content requirements, creating SME industrial parks, supporting local craft industries, establishing and maintaining links between the hospitality sector and local industries, and assisting direct tourism SMEs to attend relevant tourism fairs and exhibitions at home, in the region or abroad, to market their products and services.
IV. Provide access to finance (Woldie, Bushige Mwangaza, and Thomas, 2018, in Nega and Hussein, 2016).

A joint research project on SME access to finance conducted by FSD, the World Bank and Central Bank of Kenya in 2015 showed that, although the supply side of Kenya's financial sector has expanded rapidly in recent years, SME lending must increase and improve further, in order to ensure inclusive and sustained economic development in the country. Lack of a common definition for what constitutes SME, a high cost of credit due to inefficiencies in the administrative process of registering loan collaterals, legal costs for such a process and the generally high overhead costs continue to be impediments to SMEs accessing finance (Berg et. al, 2015).

The Central Bank of Kenya et al (2016) recommends policy reforms to facilitate SME access to finance in Eastern African countries, including:

- Harmonizing the definition of SMEs to understand better how the SME finance market is developing over time (Berg et al, 2015);
- Increasing the scope of credit information sharing (Berg et al, 2015);
- Improving the regulatory environment for SMEs (Berg et al, 2015);
- Creating a more conducive factoring and leasing environment (Berg et al, 2015);
- Introducing development finance institutions;
- Establishing a tourism "window" dedicated to lending to tourism SMEs;
- Developing a package of incentives and guarantees to manage risk and stimulate lending to SMEs;
- Providing competitive lending rates specifically for SMEs;
- Reviewing collateral requirements and rely more on credit scoring for lending decisions (Finfund, 2017);
- Using technology to speed up credit application processes and reduce costs;
- Providing financial literacy and training to SME entrepreneurs; and
- Develop and pilot an SME Growth Index to track SME progress and development in Eastern Africa and that includes a wide range of indicators, including access to finance, to inform policy formulation.

CONCLUSION AND SUMMARY OF RECOMMENDATIONS

The factors holding back increased tourism capital investments in Eastern Africa include safety and security issues, inadequate tourism infrastructure, lack of tourism product diversity and innovation, a failure to promote the region as a single investment and tourism destination and high levels of corruption perception that discourage investors. Notwithstanding these problems, many Eastern African countries rightly see tourism as a factor in attracting domestic and foreign investment in their economies. Therefore, the sector features prominently in their investment prospectuses. The review of tourism investment and financing models in this study is designed to assist governments of the region in designing strategies for sustainable growth and development of the sector. Public sector-led, private sector-led and PPP models of sustainable tourism investment financing each have their advantages and disadvantages. Each national and conjunctural context will have specific needs that will determine which model would be most appropriate to employ.

There are, however, lessons that can be applied so that the optimal policy choices can be made (Table 9). The final policy decisions will be based on the individual requirements of Member States and the Regional Economic Communities to foster an environment that attracts investments and promotes sustainable and inclusive growth of the tourism industry in Eastern Africa.

Table 9: Summary of Recommendations

Factors Contributing to Low Investments in the Tourism Sector in Eastern Africa	Policy Recommendations
Safety and Security Issues	• Develop specific regional communication and crisis-management systems; • Develop a tourism communication hotline in destinations; • Engage authorities and travel partners in source markets to share information and mitigate the negative impact of travel advisories; • Develop domestic and regional tourism; • Improve the image of Eastern Africa through international marketing and promotion drives.
Inadequate Tourism Infrastructure	• Prioritize investments in the development and maintenance of tourism-enabling infrastructure in regions with proven tourism potential and market demand; • Foster a business environment conducive to private sector investments in the tourism industry; • Decentralize infrastructure beyond main cities to open up new tourism routes and destinations; • Take advantage of the Single African Air Transport Market treaty to improve air connectivity and open up new tourism opportunities in Eastern Africa.

Lack of Tourism Product Diversity and Innovation	• Identify lucrative niche products to develop; • Identify artefacts as the basis for new tourism products; • Encourage integrated developments as catalysts for further investments into the tourism sector; • Identify and create new markets for the existing product base; • Develop potential new investment opportunities; • Identify tourism products, services, and itineraries that appeal to domestic and regional touristst; • Incentivize tour operators to work with airlines to develop affordable tour packages that promote domestic and regional tourism and address seasonality.
Failure to Promote Eastern Africa as a Single Investment and Tourism Destination	• Improve the macroeconomic and business environment; • Harmonize policies that facilitate investments; • Remove/simplify non-tariff barriers (NTBs) that hurt tourism; • mprove air and road connectivity; • Expand the T12 Single Tourist Visa to all Eastern African countries;

Failure to Promote Eastern Africa as a Single Investment and Tourism Destination	• Prioritize and incentivize investments that promote domestic and regional tourism; • Harmonize tourism standards; • Address the tourism skills gap; • Improve customer service; • Remove all obstacles to packaging and marketing Eastern Africa as a single tourism destination; • Support initiatives such the East Africa Tourism Platform; • Implement e-commerce and online marketing strategies for tourism.
Perceived High Levels of Corruption	• Emphasize ethics throughout the educational system; • Impose stiff fines and mandatory jail sentences for corruption; • Confiscate all proceeds from corruption and publicly ostracize offenders; • Impose strict standards of ethical conduct on anyone seeking public office; • Block or repatriate illicit financial outflows from African countries to other jurisdictions.

Public Sector-Led Tourism Investment Financing	Policy Recommendations
Need for Eastern African countries to adopt policies and strategies to develop tourism regionally by raising its continental share of investments, improving diversity and innovation, raising levels of domestic and regional tourism with help from the IFIs.	• Secure financial/technical support for country-level tourism development policies; • Obtain support for tourism development masterplans (TDMs) that include sustainable tourism principles; • Secure financial support and advice for the development of tourism investment policies and the compilation of portfolios of investment opportunities; • Secure funding and advice for capacity building programmes; • Seek assistance with the establishment of SME funding or co-funding mechanisms; • Develop a regional tourism promotional framework; • Secure financing for the development and/or maintenance of infrastructure supportive of tourism.
Private Sector-Led Tourism Investment Financing	• Encourage pension funds and insurance companies to invest in the tourism sector; • Encourage concessions;

Private Sector-Led Tourism Investment Financing	• Provide incentives to commercial banks to increase lending to tourism entrepreneurs, particularly SME operators; • Impact investors should operate in local currency; • Secure assistance in designing schemes to provide minimum protection again extreme local-currency volatility. • Issue tourism development bonds targeting the diaspora.
Enhancing SME Participation in Tourism	Policy Recommendations
Remove red tape and unnecessary bureaucracy	• Simplify processes for starting and running a small business; • Provide tax rebates for SMEs to allow them to retain earnings; • Create dedicated government institutions to promote SME development; • Eliminate cumbersome and unnecessary bureaucracy; • Establish one-stop-shop facilities for SMEs.
Provide Effective Non-financial and Financial Business Support.	• Promote technology use or sector-specific information useful to SME operators; • Provide skills training, coaching and mentorship programmes;

Provide Effective Non-financial and Financial Business Support.	• Learn from other countries like Brazil and India that have created conducive environments for a thriving SME sector.
Provide Market Access	• Ensure procurement from SMEs; • Promote and enforce local content in publicly-funded projects; • Encourage local-content programmes; • Establish of cluster-based industrial parks for SMEs; • Support local SME competition with foreign-owned operators; • Strengthen and deepen linkages between the hospitality industry and local industries; • Assist direct tourism SMEs to attend relevant tourism fairs and exhibitions at home, in the region or abroad, to market their products and services.
Providing Access to Finance	• Harmonize the definition of SMEs; • Increase the scope of credit information sharing; • Improve the enabling environment for SMEs; • Create a more conducive environment for factoring and leasing;

Providing Access to Finance	• Encourage Social Impact Investors to increase opportunities for SMEs to access finance; • Encourage the establishment of a tourism "window" dedicated to lending to tourism SMEs; • Develop a package of incentives and guarantees to stimulate lending to SMEs; • Provide competitive credit rates to SMEs • Review collateral lending and introduce credit scoring; • Apply technology to speed up credit application processes; • Provide financial literacy and training to SME entrepreneurs; • Develop and pilot an Eastern African SME Growth Index.

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APPENDIX: TOURISM CAPITAL INVESTMENTS (USD BILLION) – AFRICA

Countries	2010	2011	2012	2013	2014	2015	2016	2017	Total
Algeria	1.66	1.81	1.88	1.89	1.99	1.81	1.82	1.81	**14.67**
Angola	0.77	0.97	0.99	1.10	1.29	1.15	0.97	1.26	**8.49**
Benin	0.05	0.05	0.05	0.05	0.06	0.06	0.06	0.07	**0.45**
Botswana	0.26	0.31	0.36	0.38	0.39	0.42	0.42	0.44	**2.97**
Burkina Faso	0.03	0.03	0.03	0.04	0.04	0.04	0.04	0.04	**0.29**
Burundi	0.01	0.01	0.01	0.01	0.01	0.01	0.00	0.00	**0.06**
CAR	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	**0.08**
Cameroon	0.10	0.12	0.13	0.15	0.17	0.16	0.16	0.18	**1.17**
Cape Verde	0.17	0.19	0.14	0.13	0.13	0.13	0.13	0.14	**1.18**
Chad	0.14	0.19	0.21	0.23	0.27	0.19	0.17	0.17	**1.58**
Comoros	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	**0.00**
Republic of Congo	0.08	0.16	0.19	0.21	0.23	0.12	0.13	0.13	**1.25**
Ivory Coast	0.04	0.05	0.08	0.11	0.15	0.15	0.17	0.18	**0.94**
Egypt	5.13	4.83	5.00	4.48	4.78	5.02	4.43	3.35	**37.04**
Ethiopia	0.46	0.54	0.64	0.59	0.64	0.70	0.77	0.77	**5.11**
Gabon	0.07	0.07	0.07	0.08	0.09	0.05	0.06	0.06	**0.55**
Gambia	0.02	0.03	0.03	0.02	0.02	0.02	0.03	0.03	**0.20**
Ghana	0.14	0.15	0.23	0.21	0.20	0.17	0.17	0.17	**1.43**
Guinea	0.01	0.01	0.02	0.02	0.02	0.02	0.02	0.02	**0.14**
Kenya	0.52	0.59	0.71	0.72	0.85	0.79	0.70	0.82	**5.71**
Lesotho	0.05	0.05	0.05	0.05	0.05	0.05	0.04	0.05	**0.39**
Libya	0.46	0.29	0.36	0.44	0.60	0.38	0.17	0.20	**2.89**
Madagascar	0.26	0.28	0.30	0.29	0.30	0.31	0.31	0.33	**2.39**

Appendix: Tourism Capital Investments (USD Billion) – Africa

Malawi	0.02	0.02	0.02	0.02	0.03	0.03	0.03	0.04	**0.21**
Mali	0.10	0.12	0.09	0.11	0.12	0.11	0.12	0.13	**0.91**
Mauritius	0.12	0.15	0.12	0.12	0.11	0.10	0.11	0.12	**0.94**
Morocco	3.17	3.60	3.68	4.04	4.14	3.87	4.16	4.55	**31.22**
Mozambique	0.10	0.18	0.35	0.41	0.42	0.29	0.19	0.22	**2.17**
Namibia	0.28	0.31	0.38	0.39	0.50	0.46	0.31	0.33	**2.96**
Niger	0.03	0.03	0.04	0.04	0.05	0.04	0.04	0.05	**0.32**
Nigeria	2.94	3.56	4.00	5.06	5.53	5.09	4.28	4.07	**34.52**
Reunion	0.12	0.15	0.16	0.17	0.18	0.14	0.15	0.17	**1.24**
Rwanda	0.10	0.12	0.15	0.17	0.17	0.18	0.19	0.19	**1.27**
South Africa	5.47	6.10	5.93	5.96	5.72	5.09	4.73	5.33	**44.33**
Senegal	0.11	0.13	0.13	0.14	0.13	0.12	0.13	0.15	**1.04**
Seychelles	0.11	0.12	0.13	0.14	0.14	0.13	0.14	0.15	**1.07**
Sierra Leone	0.05	0.07	0.05	0.03	0.03	0.02	0.02	0.02	**0.29**
Sao Tome and Principe	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	**0.08**
Sudan and South Sudan	0.36	0.49	0.32	0.42	0.41	0.48	0.49	0.53	**3.50**
Swaziland	0.02	0.02	0.02	0.02	0.01	0.01	0.01	0.01	**0.12**
Tanzania	0.70	0.98	0.99	1.22	1.30	1.08	0.31	0.33	**6.91**
Togo	0.01	0.01	0.02	0.02	0.02	0.02	0.02	0.02	**0.14**
Tunisia	1.03	0.95	0.94	0.90	0.93	0.86	0.81	0.76	**7.17**
Uganda	0.20	0.28	0.34	0.34	0.33	0.30	0.31	0.32	**2.42**
DR Congo	0.18	0.21	0.23	0.24	0.27	0.25	0.19	0.18	**1.74**
Zambia	0.09	0.11	0.10	0.12	0.11	0.15	0.15	0.17	**1.00**
Zimbabwe	0.06	0.08	0.06	0.08	0.08	0.08	0.10	0.10	**0.64**
Total	**25.82**	**28.52**	**29.73**	**31.39**	**33.04**	**30.68**	**27.76**	**28.22**	**235.17**

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