The First Ordinary Session of the African Union Specialized Technical Committee on Transport, Intercontinental and Interregional Infrastructures, Energy and Tourism

THEME: Financing Infrastructure in Africa

Investing and Financing Tourism in Africa

I. Background

1. Globally, due to the vast opportunities created by the growth of the tourism industry, more and more countries are now turning to tourism development as an avenue through which respective developmental priorities could addressed. In the developed countries, the tourism sector is increasingly being seen as a viable alternative to the shifting industrial production base to the East, while in the African continent, as an option to the failure of traditional sectors, such as agriculture, to bring about meaningful socio-economic development. This paradigm shift towards the tourism sector has enabled an increase prospects for investment and demand for financing of related projects.

2. As a consequence, in 2015, for instance, the tourism industry accounted for 4.3% total global investments estimated at USD 774.6 billion.[1] Investments in tourism are further projected to grow at an average rate of 4.5% in the next decade to over USD 1.2 trillion or about 5% of the total investments. Likewise, the share of the tourism industry's total investments in Africa was 6.3% in 2015 valued at USD 29.6 billion. Over the next ten years investments in the industry are projected to grow at an average 4.1% to USD 46.3 billion or about 8.7% of total investments. Evidently, at the current 3.8% share of global tourism investments, which is forecasted to remain unchanged by 2026, more needs to be done to attract more investments given the tourism potential the continent harbors.

II. Situational Analysis

3. National governments have been and to some extent still are at the forefront when it comes to financing and investing in tourism development in Africa. This has mainly been more so the case when mega tourism infrastructure projects are involved, such as construction of large rated hotels or convention centres. This approach to tourism development has been instrumental especially when tourism destinations are at early stages of development and may not be attractive to the private sector for development due to the capital intensity nature of such projects. This has, therefore, meant that a number of governments have previously been or are currently involved, either directly or indirectly through government owned agencies, in running tourism enterprises. However, following the neo-liberalisation policies of the 1980s and 1990s, the majority of these governments have gradually divested from such ventures in favour of the private sector. The main role of governments is now predominantly to create a conducive environment for financing and for the private sector to investment in tourism.

4. As a result of the prioritisation of the tourism sector by a number of Member States in the continent, there has been an increase in demand for investment in tourism infrastructure development and a further increase in financing needs, as already observed. This has spurred an interest in a number of international financial institutions to focus on the continent. The International Finance Corporation (IFC), a member of the World Bank Group, for example, has been active in financing a number of hotel projects across the continent with 19 active projects in Sub-Sahara Africa (SSA) alone. IFC's sister organisation, the Multilateral Investment Guarantee Agency (MIGA), has also been instrumental in providing guarantees for tourism-related investment that has led to a reduction in the cost of capital. Besides the World Bank Group, there has also been a growth in alternative funding sources including, the Norfund and the African Export and Import (AFREXIM) Bank that have also been active in

[1] See WTTC 2016

financing a number of tourism projects in the continent. A number of Member States have also explored possibilities of issuing international bonds such as, Eurobonds, to finance tourism infrastructure development. A recent such example is the financing of the Kigali Convention Centre and hotel in Rwanda.

5. Due, therefore, to increased sources of financing major tourism projects in Africa, several multinational hotel chain companies have now set foot in the continent. West Africa has the highest number of chain-hotels under development accounting for 53% for the whole of SSA, almost twice that of East Africa. This could be attributed to the level of maturity of tourism destinations in these regions, whereby arguably East Africa's tourism infrastructure is more developed in comparison. The Carlson Razidor Hotel Group, for instance, currently has 37 hotels with a combined total of 8,000 rooms in operation, while 32 hotels, with a combined total of 6,953, rooms are under development in various parts of the continent. The table below summarises hotels under construction in Africa by key international companies.

Table: Hotel Chains Under Development in Africa

Rank	Hotel	No. of Hotels	Total No. of Rooms
1	Marriot	36	6,412
2	Carlson Razidor	32	6,953
3	Hilton Worldwide	29	7,250
4	Starwood	21	4,623
5	Mangalis	17	2,329
6	Swiss International	16	1,738
7	Accor	12	2,273
8	Best Western	12	-
9	Rotana	8	1,955
10	Louvre Hotels Group	7	-

Source: W Hospitality Group, 2015

III. Challenges

6. Despite the increase in interest in tourism investment as illustrated above, there are a number of challenges that are still an impediment to realising the full tourism potential in the continent. For instance, the prevailing environment is not very conducive if the continent is to increase its share the global tourism investments. This is largely due to the operating environment being perceived as unpredictable, though it must be appreciated that the there has been a remarkable improvement on its stability in the recent past. Nonetheless, already perceived as being risky, the recent targeting of tourism ventures by terrorists in a number of countries has only but exacerbated the matter. What is more, whereas at the mega levels, there appears to be support for tourism financing and investment, at the national levels, there is concern that mainstream banks have shied away from extending their services to national or African companies. In cases where national banks are financing tourism projects, the cost of credit remains comparatively high. This has further meant that the involvement of small micro and medium enterprises (SMMEs) in tourism development, coupled with the lack of information on sources of credit, has been somewhat minimal. Consequently, the minimal involvement of African companies could lead to high leakages of tourism revenue from national economies.

IV. Issues to be discussed by STC experts

7. In view of the preceding issues and challenges, more so, the continent's small share of global total investments, and the need to ensure maximum tourism benefits for Member States, the following are proposed for discussion:

   i. Increasing Africa's share of total global tourism investments – as noted, Africa's share remains small is unlikely to change in future, what measures need to be put in place to reverse this trend?

   ii. Models of tourism financing and investment – in view of the recent developments, what models for tourism investment and financing would be relvant to facilitate tourism growth and development in the continent and what policy measures would be appropriate? Examples for discussion would include public sector-led, private sector-lead or public-private sector partnerships.

   iii. Ascertaining the tourism environment to enhance financing and investment - given that the sector, especially, in the continent is perceived as being risky, what should be done to enhance confidence amongst potential investors?

   iv. SMME involvement in tourism development - In view of the fact that the involvement of SMMEs has been and still minimal in tourism development in the continent, what policy measures could be undertaken to address the challenges that such enterprises face?

V. Recommendations/Way Forward

8. On the basis of the above, the following recommendations are made:

   i. There is need to review the challenges that the continent faces that are responsible for the small share of the total global tourism investments given the opportunities that exist.

   ii. Based on lessons of best practice, there is need to explore models of tourism financing and investment that would be appropriate in encouraging tourism growth and development across the continent.

   iii. Working with relevant stakeholders, there is needed to address the key factors that hinder the securing of the tourism environment in the continent.

   iv. In order to ensure that there is no gap in tourism financing, it will be necessary to address the concerns of mainstream banks and other relevant financing institutions in Africa with a view to encouraging the involvement of SMMEs.

VI. Conclusion

9. In consideration of the fact that more and more countries are now turning to tourism, there has been an increase in investment opportunities in Africa and the number international financial organisations with interest in the sector has also grown. Of concern however, is the reality that continent's share total global tourism investments is rather small. In addition, the minimal involvement of the continent's mainstream banks and other related financial institutions has

meant that the involvement of SMMEs has somewhat been restricted. Clearly, these issues require urgent redress if the continent is to realise its full tourism potential.