

**THE FIRST-ORDINARY SESSION OF THE
AFRICAN UNION SPECIALIZED TECHNICAL COMMITTEE ON TRANSPORT, INFRASTRUCTURE, ENERGY AND
TOURISM**

**LOME, TOGO
13 - 17 MARCH 2017**

INVESTING AND FINANCING TOURISM IN AFRICA

by

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Background

- ❖ Destinations worldwide are increasingly opening up to tourism
 - ✓ creates jobs and enterprises,
 - ✓ Generates export revenues
 - ✓ Leads to infrastructure development
(UNWTO, 2015)

- ❖ Tourism is a major category of international trade
 - ✓ Total value of tourism exports - US\$1.5 trillion
 - ✓ US\$ 4 billion a day on average
 - ✓ International tourism represents 7% of the world's exports in goods and services
 - ✓ Tourism ranks third after fuels and chemicals and ahead of food and automotive products
 - ✓ In many developing countries, tourism ranks as the first export sector.
(UNWTO, 2015)



Tourism Growth from Emerging Markets Perspective

- ❖ International tourist arrivals in the emerging economies (Asia, Latin America, Eastern Europe, Africa)
 - ✓ Growing at double the rate (4.4% per year) that in developed economy destinations (+2.2% a year)
 - ✓ Number of arrivals in emerging economies expected to exceed those in advanced economies before 2020
 - ✓ In 2030, 57% of international arrivals will be in emerging economy destinations (versus 30% in 1980) and 43% in advanced economy destinations (versus 70% in 1980)
(UNWTO, 2015)



Zooming in on Africa

❖ UNWTO stats indicate:

- ✓ Africa attracted 53 million international visitors in 2015
- ✓ Tourism growth: 5.4% average annual growth between 2005 and 2014 (compared to the world: 3.8%).
- ✓ Tourism Receipts: USD33 billion (Euro 30 billion).
- ✓ UNWTO projects international tourist arrivals to grow to 7% in Africa by 2030.



Situational Analysis

- ❖ National governments have been at the forefront of large hospitality infrastructure developments
 - ✓ Limited success,
 - ✓ Failure in most cases
 - ✓ Government is not known to be a successful tourism operators

- ❖ Liberalization of the tourism sector
 - ✓ New approach to tourism infrastructure development
 - ✓ Governments to create a conducive environment
 - ✓ Private sector to invest and manage

- ❖ Growing interest in financing tourism development in Africa by
 - ✓ Commercial banks
 - ✓ Global brands
 - ✓ National development finance institutions such as the IDC in South Africa
 - ✓ International Development Finance institutions such as IFC, MIGA, AFREXIM



Key Economic Benefits - IFC as a Case Study

- ❖ An excellent example of key economic benefits gained through financing and investing in tourism/hospitality
- ❖ Since 1956, IFC has invested more than \$2.5 billion in 251 hotel projects in developing countries worldwide.
- ❖ These investments have had a major effect on local economies by contributing to economic diversification and sustainable growth.
- ❖ They have boosted the travel and hospitality sectors and generated much-needed jobs, foreign currency, and tax revenue.
- ❖ IFC's hotel investments create an average of 1.5 to 3 jobs for each hotel room.
- ❖ They also provide supply chain linkages from construction to operation and secure markets for local farmers and SME suppliers.



Africa is the New Battleground for Tourism Investments

❖ African hotel development projects at the start of 2013:

✓ Marriott:	36
✓ Carlson Rezidor:	32
✓ Hilton Worldwide:	29
✓ Starwood:	21
✓ Mangalis:	17
✓ Swiss International:	16
✓ Accor:	12
✓ Best Western:	12
✓ Rotana:	8
✓ Louvre Hotels Group:	7

Source: W Hospitality Group, 2015



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Market Entry Strategies

- ❖ Market entry approaches
 - ✓ New Builds
 - ✓ Acquisition of existing hotels
 - Marriott Hotels acquiring South Africa's Protea Hotels Group
 - Radisson taking over Hotel du 2 Fevrier right here in Lome

- ❖ Cherry picking of invest destinations
 - ✓ Nigeria
 - ✓ Kenya
 - ✓ Ghana
 - ✓ Gabon
 - ✓ Angola
 - ✓ South Africa

Challenges to Investing/Financing Tourism in Africa

❖ Government

- ✓ Bureaucratic red tape
- ✓ Uncoordinated government policies
- ✓ Unfriendly policies & regulations (visa regimes, EIAs)
- ✓ Lack of enabling infrastructure (Land/location for hotel/resort development, roads, airports, connectivity, water, electricity, sanitation)
- ✓ Tourism not always seen as a priority sector

❖ Finance Institutions

- ✓ Risk aversion of local commercial banks
- ✓ Lack of understanding of the economics of the sector
- ✓ Building costs (cost per key)
- ✓ Profit expectations



Challenges to Investing/Financing Tourism in Africa

- ❖ Operational issues
 - ✓ Limited availability of local operational skills in destinations
 - ✓ Quality assurance and standards
 - ✓ Limited access to tourist source markets due to poor destination marketing
 - ✓ Safety and security issues

- ❖ Other socio-economic issues
 - ✓ Revenue leakages
 - ✓ Crowding out of local tourism/hospitality entrepreneurs
 - ✓ Exclusion of SMMEs from full participation in procurement value chains

Recommendations for Improving Investment/Financing of Tourism in Africa

❖ Governments

- ✓ Create a conducive environment that leads to policy uncertainty reduction
- ✓ Reduce bureaucratic red tape that hinders investing in tourism
- ✓ Ensure policy coordination with other government departments in terms of decisions that impact tourism negatively (visa regimes for example)
- ✓ Ensure availability of water, electricity, sanitation
- ✓ Recognize tourism as a priority sector that is capable of creating jobs and wealth and allocate resources accordingly
- ✓ Ensure safety and security.

❖ Financing models

- ✓ Explore innovative investment and financing models that meet triple bottom line requirements (Profits, People, Environment)
- ✓ Partner with local investors/entrepreneurs to co-create wealth
- ✓ Establish dedicated regional/continental-level funding institutions/facilities that understand tourism and are able to structure appropriate financing (IFC, IDC, NEF, SEFA, Tourism Development Corporation in Kenya) for tourism projects
- ✓ Provide appropriate incentives to investors
- ✓ Provide investment risk mitigation measures



Recommendations for Improving Investments Financing of Tourism in Africa

- ❖ Operational issues
 - ✓ Ensure available of skills labour (customer service orientation)
 - ✓ Quality assurance and standards
 - ✓ Implement effective destination marketing and promotion strategies that lead to good occupancies
 - ✓ Encourage the development of domestic tourism
- ❖ Other socio-economic issues
 - ✓ Ensure inclusive growth by ensuring that local SMMEs become part and parcel of the tourism value chain and are given an opportunity to provide goods and services
 - ✓ Promote business development services to support the growth and development of tourism SMMEs.

Recommendations for Improving Investments Financing of Tourism in Africa

THANK YOU

