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Sub-regional Office for Eastern Africa (SRO-EA)

Implementing the African Continental Free Trade Area in Eastern Africa: From Vision to Action

Concept Note for the Ad Hoc Expert Group Meeting: Sustainable Financing of Tourism Development in Eastern Africa

20 – 22 November 2018

Kigali Convention Centre

Rwanda

I. Background

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. This has led to increase of investments in the sector at 4.5% of the global total share valued at USD 882.4 billion in 2017, with a projected steady growth rate of 4.3% over the next ten years.[1] Similarly, over the same period, the share of the tourism industry's total investments in Africa was 5.7% valued at USD 28.2 billion. In East Africa, the combined total investments were valued at USD 1.6 billion with Kenya accounting for over 50% of the total. With an average growth rate of 4.6% the share of Africa's global tourism investments, and more so, that of East Africa, is forecasted to remain small. With the industry currently identified as a priority economic sector by the African Union in its Agenda 2063, by a number of Regional Economic Communities, including the East African Community, and a number of Member States, more needs to be done to attract more investments given the potential the continent harbours. The on-going continental initiatives – in particular the African Continental Free Trade Area (AfCFTA) - are certainly steps in the right direction.

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. For instance, in an effort to spur tourism growth and development post-independence, the Government of Kenya in its first tourism policy document, *Sessional Paper No. 8 of 1969,* sort to take lead in promoting tourism investment in Kenya resulting in significant ownership of tourism facilities. Such an approach, 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. This trend is nonetheless changing, particularly, following the neo-liberalisation policies of the 1980s and 1990s. This has resulted in the majority of these governments 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.

[1] See WTTC 2018

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. 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 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 example is the part financing of the Kigali Convention Centre and hotel in Rwanda. In addition, the Pinnacle Tower (touted to be Africa's tallest building that will house the Hilton Hotel) under construction in Nairobi, Kenya is financed by a private investor firm Hass Petroleum and the White Lotus Group.

Despite the increase in interest in tourism investment, there are a number of challenges that are still an impediment to realising the full tourism potential in the continent and by extension the East African region. 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 there has been a remarkable improvement on its stability in the recent past. This has further been strengthened by the political risk guarantee provided by MIGA that has enhanced investor confidence. 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. What is more, such SMMEs lack the necessary skills necessary to enhancing their capacity to secure financing, including undertaking feasibility studies, developing invest briefs, and understanding the structure of say joint ventures. To mitigate this, some Member States have established tourism development funds, most notably the

Kenya Tourism Finance Corporation, and have extended tax incentives to private sector players to encourage investment. However, the capacity to tap into innovative sources of financing including say the diaspora bonds, remains low.

II. Objectives of the AEGM

In view of the preceding issues and challenges, the main goal of the AEGM will be to explore avenues through which financing for tourism development in the Eastern Africa region could be sustained in line with the African Union Agenda 2063, Agenda 2030 for Sustainable Development and AfCFTA. This will be done through the sharing of best practice across the globe, the continent and the Eastern Africa region. More specifically, the AEGM will deliberate on the following issues:

i. Increasing Eastern Africa's share of total global tourism investments – as noted, the region'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 relevant to facilitate tourism growth and development in the region 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 is minimal in tourism development in the region, what policy measures could be undertaken to address the challenges that such enterprises face?

III. Provisional Programme

Wednesday 21st —Thursday 22nd November 2018

Presentations:

- Geoffrey Manyara, Tourism Expert, Office for Eastern Africa, ECA
- Belize Kariza, Head of Tourism, Rwanda Development Board, Rwanda
- Salifou Siddo, Tourism Financing Expert, SME Trade Links
- Ms Iounna Pillay, Secretary General, Seychelles Chamber of Commerce
- Jonah Orumoi, CEO, Tourism Finance Corporation, Kenya
- Ms Nura-Lisa Karamagi, CEO, Hotel Association of Tanzania

IV. Participation

The plenary session will gather experts from Eastern African countries, as well as representatives of the private sector, civil society organizations, and other relevant institutions. For further information and clarification, please contact, Ms. Emelang Leteane, leteane.uneca@un.org

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