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Africa Trade Policy Notes

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Tourism in Africa: Harnessing Tourism for Growth and Improved Livelihoods

HIGHLIGHTS

Tourism is one of the key industries driving the current economic growth in Sub-Saharan Africa (SSA). From a small base of just 6.7 million visitors in 1990, SSA attracted 33.8 million visitors in 2012.

The four pillars of successful tourism development are financial, economic, environmental and social sustainability. Without any one of these four conditions the sector will falter.

Studies commissioned by the Africa Region of the World Bank found that airfares were almost 50% more expensive to SSA, and charter tours were 20-30% more expensive than to comparable destinations elsewhere.

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Africa Rising

This more than any other time is the moment for pursuing tourism as a dynamic development option in Sub-Saharan Africa. Although Africa was badly hit by the global crisis, the continent avoided an even worse growth shortfall in 2009, thanks to prudent macroeconomic policies by governments and financial support from multilateral agencies, and rebounded in 2010. Africa's private sector is increasingly attracting investment from the United States and Europe, with China, India and others also investing heavily in the region. Private capital flows are higher than official development assistance and foreign direct investment is higher than in India. Returns to investment in Africa are among the highest in the world. The public sector has set the conditions for the exponential growth of information and communications technology (ICT), which could also help to transform the continent. With incomes rising, SSA countries' poverty rate declined from 59% in 1995 to 50% in 2005. Given this scenario, the World Bank concludes that SSA could be on the cusp of an economic takeoff, much like China was 30 years ago, and India was 20 years ago.

Tourism is one of the key industries driving the current change and tourism could be a transformative tool within this takeoff. From a small base of just 6.7 million visitors in 1990, SSA attracted 33.8 million visitors in 2012. Receipts from tourism in 2012 amounted to over US$36 billion and directly contributed 2.8% to the region's GDP (total contribution, including direct, indirect and induced, stood at 7.3% of GDP). (WTTC, 2013)

Tourism as an Economic Development Tool

Managed sustainably, tourism is an effective development tool. When tourism's environmental, social, and economic and other constraints are addressed, tourism energizes economies. With the full knowledge that tourism is a complex sector with tentacles into a myriad of other economic activities, all of which require careful management, countries with tourism assets are fully justified in deciding to prioritize tourism as a development tool.

Several entities are primarily responsible for the success of the sector. The government's political support at the highest level for tourism is essential. The government's role is to initiate the formulation of a strategy for the sector and then play the crucial coordinating role among the different public sector agencies involved, the relevant private profit and non-profit entities, and local communities. The government must also address market failures that affect the tourism sector and should create an enabling environment for private investment and, above all, must provide political and social stability. The government will also have to supply basic infrastructure and assist in the promotion of the country for marketing and investment. Without the private sector's investment in accommodation, attractions, and tourism services and facilities, and its knowledge transfer, there can be no tourism sector. Local communities must be receptive to the tourists that intrude into their communities and, to be so, they must participate in the benefits of tourism. External donors can provide the critical capital and technical assistance to support the sector and help raise it from one development level to another. Without any one of these active participants, the sector cannot grow to its full potential—or even, in the early stages, begin to put together a tourism package for visitors.

The potential for tourism growth in SSA is significant. The region has abundant assets, with expansive beaches, plentiful wildlife, extensive natural and cultural attractions, and adventure opportunities. Considerable opportunities for expansion exist in safari, beach, business, and diaspora tourism, including in regions of destination countries that have not yet benefited from tourism. Furthermore, SSA has great potential to expand products that are more recently in greater demand, such as nature/adventure tourism, cultural heritage tourism, and travel for wellness, health and retirement purposes.

Constraints

To achieve its tourism potential SSA will have to address a number of existing constraints: land availability, investor access to finance, taxes on

tourism investments, low levels of tourism skills, lack of security, safety and high crime, public health, visa requirements, and red tape and bureaucracy. Fortunately, individual countries can provide successful examples of policies and actions that have resolved these issues; most depend on the political will of governments for their resolution. Other critical constraints, where the resolution is dependent on the actions of government and of external service providers include:

Air transport. SSA's distance from source markets creates an acute need for higher quality and more competitive air access. Despite having 15% of the world's population, the continent is served by only 4% of the world's scheduled air service seats. Nevertheless, this seat supply grew by 6.5% between 1998 and 2009, and Cape Verde, Ethiopia, Mozambique and Tanzania experienced double-digit growth. A few foreign carriers dominate long-haul connections; only a few national carriers continue to operate, some in cooperation with international carriers.

Studies commissioned by the Africa Region of the World Bank found that airfares were almost 50% more expensive to SSA, and charter tours were 20-30% more expensive than to comparable destinations elsewhere. The irregularity or non-availability of intra-regional air connections and of internal air transport constrains access to internal destinations and also prevents progress with multi-country tourism packages. The private sector has invested in some local airlines to compensate for specific deficiencies in routing and the high costs of internal and intraregional travel. Aviation has been slower to liberalize than other sectors in SSA but further liberalization of

all forms of air transport will be essential to improve the accessibility of the region for tour operators. Liberalization will have to be accompanied by major investments in infrastructure, training and safety equipment.

Road transport is notoriously poor in much of Africa, so it cannot compensate in most countries for the inadequacy of internal air transport. Yet, both Namibia and South Africa are examples of destinations that through consistent investment in infrastructure are now able to attract large numbers of self-drive tourists.

Tour operators. UK and US tour operators report that a higher proportion of tourists to SSA use tour operators (some 50-70%) than in other parts of the world (10-15%) because of the greater complexities of obtaining visas, booking accommodation and making tour arrangements when travelling to SSA. The tour operators considered that the countries with the highest potential for tours during the next five years to be: Botswana, Cape Verde, Namibia, South Africa and Tanzania, plus ten other emerging destinations.

Accommodation. Just 10% of the region's 390,000 hotel rooms are estimated to meet international standards, and South Africa has about half of this stock. Kenya, Mauritius and Seychelles have established hotel investment/development markets; maturing hospitality markets are in Nigeria, Senegal, Tanzania and Zambia. Unbranded guesthouses and lodges comprise the largest share of accommodation facilities. High hotel costs are primarily due to high hotel development costs and the cost of debt financing. In Nigeria, hotel construction costs are upwards of US$400,000 per room for a mid-market hotel; in Ghana the cost is US$250,000 per room. Median hotel development costs elsewhere in the world are US$200,000 per room for a full-service hotel. The occupancy rates and profitability of hotels in SSA show great disparities. Yet, despite these concerns, 23 international hotel corporations currently operate in SSA and the accommodation sector is expanding rapidly with several large hotel projects by major hotel chains in the planning or construction stage.

The Competitiveness of Tourism

In today's globalized market, every tourism product competes with every other at its price point. Although the prime decision maker is the individual traveler, the size of the flow of tourists to a particular destination is to a considerable extent determined by the world tourism industry, represented by tour operators, travel agents and transport services in the countries of tourist origin. Destinations can influence these external industry managers through effective and continuing promotion and marketing campaigns but will be successful only if there is a high-quality product to sell that is competitive in value and not just in price.

SSA tourism sectors must maintain competitiveness through:

- The quality of their tourism assets
- High standards in visitor accommodation
- Efficiency and safety in transport to, from and within the country
- Adequacy of a variety of infrastructure components
- The receptiveness of local populations to tourists
- The skills of the range of officials and employees with which tourists come in contact
- The safety and security the destinations offer visitors.

As already noted, the limited and costly access to SSA destinations from major tourism supplier markets and the infrequent, irregular and inadequate transport access within countries both have major implications for the competitiveness of SSA countries with other destinations

SSA Countries by Tourism Development Level And World Bank Income Ranking			
Tourism Development Level	Low Income	Lower-Middle Income	Upper-middle Income
Pre-emerging	Central African Republic, Chad, Comoros, Democratic Republic of Congo, Eritrea, Guinea, Guinea-Bissau, Liberia, Niger, Somalia, Togo	Republic of Congo, Equatorial Guinea, Sudan	N/A
Potential/Initiating	Benin, Burundi, Ethiopia, Madagascar, Mali, Mauritania, Sao Tome and Principe, Sierra Leone	Angola, Cameroon, Cote D'Ivoire, Lesotho, Nigeria, Swaziland	Gabon
Emerging/Scaling Up	Burkina Faso, The Gambia, Malawi, Mozambique, Rwanda, Senegal, Uganda, Zambia, Zimbabwe	N/A	The Seychelles
Consolidating/Maintaining and deepening success	Kenya, Tanzania	Cape Verde, Ghana	Botswana, Mauritius, Namibia, South Africa

worldwide. Furthermore, tourism is highly dependent on a range of infrastructure facilities, which are often lacking or inadequate in many SSA countries. The absence of any one of the infrastructure components, e.g., potable water, can seriously hamper tourism development or cause heavy capital and operating costs for the private sector managers of the tourism product.

Tourism Performance

To understand better which SSA destinations are the highest performers and why, the Tourism Team in the Africa Region Financial and Private Sector Development (AFTFP) of the World Bank, developed a typology of SSA destinations, which ranked the 47 SSA countries by level of tourism development. The methodology entailed an analysis of the current situation and future prospects of the tourism sector and of its macroeconomic setting, using five key indicators. The typology produced four distinct groups of countries in SSA. The characteristics of the four groups are:

Pre-emergent. These fourteen countries have not yet developed their tourism sectors. The 14 SSA countries classified as having pre-emergent tourism sectors represent countries where market failure is almost complete. They have little governance or security, have shown low interest in tourism, and have poor short- to medium-term tourism growth prospects. This group also includes three countries with little or no tourism data: Equatorial Guinea, Liberia, and Somalia.

Potential. These fifteen countries initiating tourism have shown some interest in tourism but lack adequate governance of the sector. They have some basic infrastructure for tourism but still face market failures, such as with regulation, resources, and institutions, which also affect the macro economy.

Emerging. These ten countries are scaling-up tourism. They have solid institutions, are prioritizing tourism, and are performing reasonably well in terms of quality and competitiveness. The market failures that are evident (e.g., the high costs of access to the destination, financing, and hotel construction costs, together with continuing difficulties in land access) are mostly related to government market failures, though the small scale of tourism contributes to the high access costs.

Consolidating. These eight countries are working on deepening and sustaining tourism success, have relatively mature tourism sectors, are committed to tourism, and have the highest economic and tourism performance in SSA. The management quality and capability of the private sector is reflected in the accolades that selected hotels receive. Countries at lower levels of tourism performance should be encouraged to note that success in tourism is not dependent on income level. As the table below shows, two low-income countries are among the highest tourism performers in SSA and nine are in the "Emerging/Scaling up" category. Tourism could potentially create millions of jobs, among other economic benefits, if it is developed successfully.

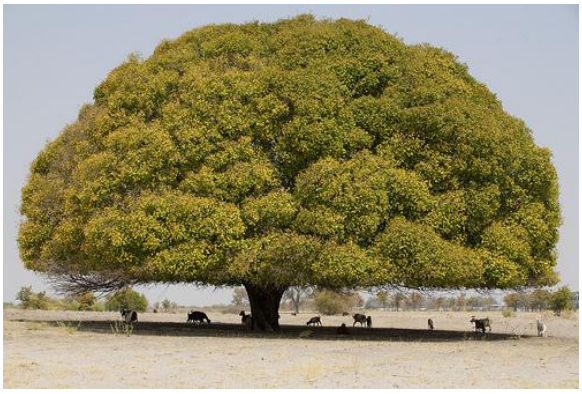
Yet, so far, just eight of SSA's 47 nations have achieved significant tourism success and employ 4% or more of their workforce in tourism. Ten other countries could achieve that same success in the foreseeable future, with fifteen others lined up behind.

Strategic Decisions

Governments that are contemplating initiating tourism or moving tourism from one development stage to another need to make strategic decisions on main issues from the outset in consultation with all stakeholders at the national and regional levels. These issues include: the scale of tourism development, the sustainability of the sector and financing of tourism and economic rents.

The Scale of Tourism Development

Before embarking on a program to initiate or scale-up tourism, governments must decide what the scale of the development should be. One of the most significant planning decisions is size: whether to build large resorts, boutique hotels, mid-sized projects, ecolodges, or some combination of the above. The scale of the development will determine the extent of the transformation that the investment can achieve, but, as noted below, if the development exceeds the absorptive capacity of the assets and resources available to manage the sector, negative consequences will ensue. Related issues are the income market that the destination should target. Planners will also have to decide, if there are several parts of the country suitable for tourism development, whether they want to consolidate their efforts in one location or disperse tourism developments to several regions. Starting with an anchor project in one location was the choice of countries that are now very large, successful destinations, such as Dominican Republic, Indonesia and Mexico. A government—or a public private tourism authority or statutory body –will also have to decide whether tourism development should be treated as an immediate once-and-for–all activity or as a continuing program with investments scheduled over a series of five- to ten-year periods.



Sustainability

The four pillars of successful tourism development are financial, economic, environmental and social sustainability. Without any one of these four conditions the sector will falter.

Financial sustainability: Financial sustainability of the investments in accommodation and tourism services depends on the competence of the private sector, together with the creation of a supporting policy environment and provision of infrastructure by government, and the acceptance of tourism by the local population.

Economic sustainability: The range of products and services that can be developed for tourism demand makes tourism a catalyst for entrepreneurial activity. Sound government policies will help to extract the maximum economic benefits from tourism. There may be sources of financing available to governments, such as economic rents, to help them maintain a healthy and productive sector.

Environmental sustainability: Though often referred to as a 'smokeless' industry, the dependence of tourism on natural resources makes any negative impacts more conspicuous. Tourism can only be sustainable if the natural assets on which it is based are protected from degradation. This is particularly true in Africa, which is variously marketed as a nature, wildlife, resort and cultural heritage destination. Consequently, a well-managed tourism sector will protect its natural resource base in new developments and mitigate negative impacts on the environment from previous developments

and from external sources. Carefully management tourism can become a tool for environmental protection and for financing conservation. The costs of regulation, preservation and monitoring can be high not just financially but technically for governments. Multilateral and regional agencies, as also bilateral agencies, NGOs and foundations can provide both financial and technical assistance to SSA governments to assist them to manage their environments.

Social sustainability: A critical concern for tourism managers everywhere is how to extend the benefits to the poor and to local communities. Hotel managers or owners, in such varied destinations as the Eastern Cape in South Africa and Fiji, have deliberately involved the local community in their activities, sometimes with outside technical assistance. Interdependence between the local community and the tourist accommodation generally improves relations between the two and the benefits are mutual. Sustainability considerations have graduated from being a minor additional component to a central concern for corporate risk management, with the specific objective being to gain the support of the local community for the business that is occurring on their doorsteps.

The Financing of Tourism

The main sources of finance for tourism are: the government's budgetary resources and the private sector through its investments in accommodation and tourism services, promotion and marketing internationally, and, where the government has failed to provide it within its project area, through its investments in infrastructure, sometimes by public private partnerships. Additional financing comes from local communities and the NGOs that represent them, which can contribute land and labor in a partnership with the private sector, donors or NGOs to add value to their land and donors, which can assist governments, the private sector, and local communities with a myriad of supporting services for the sector. A neglected source of government funding may well be the economic rents that tourism generates. In the tourism context, an economic rent is created by the value that natural or cultural assets add to man-made structures. Economic rent is defined as a profit above normal market rates of return that is obtained from an asset that is in fixed supply and scarce. The public good is served when the economic rents are used to ensure the sustainability of the asset. User fees, taxes and auctions are among the ways to monetize and capture part of the value added by natural and cultural assets.

Recommendations for Tourism Development in SSA Countries

The particular recommendations appropriate for countries at each stage of tourism development follow the typology already discussed: pre-emergent, potential/initiating tourism, emerging/scaling-up tourism, and consolidating /deepening and sustaining success. The one stage of development for which no recommendations can be made is the pre-emergent. In most cases these fourteen pre-emergent countries are either war-torn, suffering civil strife or have recently emerged from these situations but have not yet reached stability. Little can be done by external agencies until responsible, democratic governments are empowered to establish stable political regimes and ensure the safety and security of local populations.

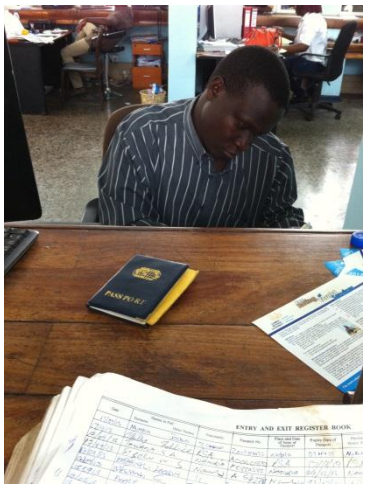
Initiating Tourism: Making land available for tourism development and improving transport policies and infrastructure in countries at the beginning of their tourism journey requires a practical approach, which requires a focus on the tourism asset with the highest potential. Countries such as Dominican Republic, Indonesia, Mexico, and Turkey, focused scarce resources on the locations and market segments with highest growth potential. This effective strategy removed, in each location, some critical constraints, such as infrastructure, security, and lack of skills, and from the outset attracted world-class investors. These "first movers" played a critical role in launching the destination. Targeting areas of high potential also enables destinations to focus promotion activities on one or two iconic attractions, to pilot key and delicate policy reforms for land and air transport, and create appropriate institutions with coordinating

mechanisms in a contained setting. The success of these first developments, which had public sector and donor support, encourages new investors to finance projects in other areas and carried these countries to the next stage of development.

Scaling-up: At the next stage, with political support, airline access, and land availability for tourism development assured, investment and destination promotion becomes critical for attracting investors. Destination promotion involves marketing campaigns, source-market awareness building, and positive image enhancement. Investor promotion involves providing information that will build confidence and streamline the process of investment. Some countries have opted for a one-stop-shop where investors can find a centralized source of information and guidance for investing in a country.

Professional investment conferences are held around the world, at which investors, lenders, insurance companies, real estate agencies, and financial institutions meet, network, and discuss topics of interest. In Tanzania, for example, an investment promotion forum and an outreach program organized by MIGA in 2002 resulted in over $100 million in investment in the following two years. The main components were an investment forum and a follow-up investor outreach program. Investors can be attracted by direct financial assistance, such as bonds or special-purpose taxes, indirect assistance (e.g., zoning), and fiscal measures such as tax breaks. Although these may not be necessary for viable projects, tourism is replete with incentives and investors are not shy to seek them.

Sustaining and Deepening Tourism Successes: As growth increases, strategies are needed to disperse tourists to different areas and, where possible, to distribute arrivals more evenly during the calendar year. Tanzania's northern circuit is overloaded and the country is trying to create new areas for tourism growth in the south, in the Pemba and Mafia Islands, the Selous Reserve, and Zanzibar. Clearly, sun and sand destinations may be easier to replicate than those involving wildlife, cultural or historic sites. If growth is not managed the viability of resorts is threatened. Costa Rica best illustrates the successful management of higher tourism numbers through an escalation of already high standards and by focusing on its brand image of nature conservation, complemented by the introduction of "green" certification for hoteliers and service providers.



Increasing visitor arrivals in the non-peak season or seasons can best be achieved by pricing incentives, by diversifying the tourism product, and by the scheduling of special events, such as film or music festivals, in the off-season. The benefits of non-peak tourism accrue to the providers of accommodation and their employees, who might otherwise be released or work part-time, but also to the many beneficiaries of the tourists' considerable discretionary spending.

Implementing Change

In order to implement the specific recommendations noted above, all countries must also address issues of political support and capacity building for tourism. Specifically, the private and public sectors must address the following:

- Encouraging tourism managers to focus on the value of their product to be competitive in the international market.
- Garnering strong political support for tourism at a high level in government. It is essential for the government to take the lead in creating effective institutions and coordinating mechanisms to maintain a dialogue with all stakeholders.
- Understanding the vital role played by the private sector and the need for government to

create an enabling environment for investments, as well as to provide supporting infrastructure for those investments.

- Engaging with donors and leveraging their capacity to assist the tourism sector in many vital areas, such as infrastructure, training, and pro-poor tourism.
- Understanding the needs of investors for information and the value of setting up "one-stop" shops for such information.
- Addressing the critical role of air transport and the necessity to liberalize air policies.
- Addressing the poor connectivity within countries and regions, and the need to improve road and internal air access to these; whether through private sector entrepreneurship or government investments or a combination of both.
- Understanding the current constraints to tourism and illustrations of solutions by other countries to the issues of: land availability, investor access to finance, taxes on tourism investments, low levels of tourism skills, lack of security, safety and high crime, public health, visa requirements and red tape and bureaucracy.
- Assessing the scale of development that is appropriate to the country's assets and management resources and determining where and when development will take place.
- Noting the four pillars of sustainability for tourism: financial, economic, social and environmental, all of which are essential for sustained tourism growth.
- Understanding the potential for financing tourism by appropriating to government the economic rents that tourism generates.

This policy note has been adapted from *Tourism in Africa: Harnessing Tourism for Growth and Improved Livelihoods*, a World Bank publication that is part of the Africa Development Forum series.

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