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FDI IN TOURISM AND COMPETITIVENESS IN KENYA

by

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Country Overview

- Country struggling with growth recovery after two decades of stagnation
- Strong growth in the 60s and &70s (6% GDP growth); stagnation in the 80s (4%); decline in 2000 (-0.2%) but recovery thereafter: 2001 (1.1%); 2003 (1.2%) and 4.3% in 2005, 6.1 % in 2006
- Agriculture large but declining (23% of GDP now); services (about 60%)
- Tourism on growth path after episodes of insecurity and negative travel advisories: Ksh 48.9 billion in 2005; 56.2 billion in 2006.

Vision 2030

- Country been implementing Economic Recovery Strategy for Wealth and Employment Creation (ERSWEC) – (2003-2007)
- A new plan - Kenya Vision 2030 aims at making Kenya a middle level income country by 2030.
- Plan aims to make Kenya among the 10 long haul tourist destinations in the world
- Flagship projects for Tourism (2012)
  - Three resort cities – 2 at the coast and 1 in Isiolo
  - Improved marketing of little visited parks
  - Under-utilised parks intiative –e.g. Ruma, Marsabit
  - Certification of 1,000 home stay sites
- Related flagship project
  - Reclaiming all wildlife corridors and migratory routes

Sector Overview - 1

- Since 1980, services exports have accounted for about 50% of forex inflows and about 25% of forex outflows.
- Tourism: Liberal environment for most of post-independence period.
- Growth in arrivals but decline in per capita tourist expenditure, average length of stay, etc.
- A leading export earner
- Considerable competition in sector.

Sector Overview - 2

- Tourism revenue receipts grew by 23.5% p.a. between 1980 & 2003. In 2004, receipts grew by 52%.
- Considerable linkages to agriculture, Kenya Airways, MSMEs like curio dealers and taxi drivers
- Tourism is a vital sector in Kenya: 14.9% of GDP (latest economic survey); 3rd largest foreign exchange earner
- Identified as a key driver of economic growth (Vision 2030)

Development Impact of TFDI

- FDI thought to have played a major role in tourism
  - However, dynamics not well understood (extent, determinants and impacts)
  - Thus, perception is that sector is foreign dominated

Methodology

- Secondary and primary data
- Small survey (Nairobi, Coast, Nakuru, and Machakos):
  - 35 hotels and restaurants (11 with foreign ownership)
  - 30 tour operators/travel agents (11 with foreign ownership)
  - 14 suppliers of goods and services
- Limitation: small sample; incomplete info. Thus, difficult to isolate impacts of FDI

Extent of Foreign Ownership-1

- 168 classified hotels with an estimate of 29,385 beds (local 63.7%, joint 22.6%, foreign 13.7%)
- 1078 unclassified hotels
- 400 registered private villas and homes
- 2075 registered tour and travel firms (74% local, 17% joint, 9% foreign).
- Some foreign ownership in air transport services, including domestic services
- Casinos and Souvenirs: no data on foreign ownership

Extent of Foreign Ownership-2

- Tourism accounted for 10.7% of projects registered by KIA between 1997-2004
- Extent of foreign ownership appears less than suggested by previous studies (e.g. Sinclair, 1990) and commonly perceived:
  - Local investors (of Asian and British origin) bought hotels from foreigners after 1997 Likoni clashes
  - Some of these local investors have family ties in Europe and India
  - Also because of association between tourism and colonial history

Extent of South-South Trade

- Evidence of south-south FDI, though limited:
  - 2 hotels & 2 tour operators in the sample: Constitute 36.2% of the gross turnover
  - *Tourvest Group (SA)* have a stake in Vintage Africa
  - Serena group expanding to Rwanda (Kigali Inter-Continental Hotel and Kivu Sun hotel)
- Air transport – KQ acquired 49% stake in Precision Airline in 2003, lease with Singapore Air Leasing Enterprises, pilot training in SA
- South–south visitors increased
  - Africa (bed nights: 849,600 in 2002 to 1.4m in 2005)
  - Asia (bed nights: 93,800 in 2003 to 173,800 in 2005)

Modes of Investment Financing

- Financing is mainly through loans and equity
  - 52.6% through loans from commercial banks
  - 21.1% through equity
  - 15.8% through both loans and equity
  - Rest from own savings
- Hotels with foreign ownership rely more on own sources and equity for financing
- Hotels with foreign ownership allowed to borrow locally

Impact of TFDI-1

	Sample size	Enterprises with foreign ownership			
		% of sample	% of rooms	% of Assets	% of Turnover
Hotels & Restaurants	35	31	42.8	-	56.2
Tour operators & Travel agencies	30	37	-	41.0	25

Impact of TFDI-2

- Difficult to disentangle: small sample; incomplete data
- However, enterprises with foreign ownership tend to have:
  - Better performance in turnover, no. of rooms, assets
  - More international & less domestic visitors
  - Higher number of visitors on holiday
  - Less reinvestment of profits, low foreign exchange reserves
  - Greater use of Internet, higher total purchases
  - More visitors on all-inclusive packages (tour firms)
  - Lower no. of skilled employees including women (hotels)
  - Lower no. of low skilled employees (tour firms)
  - Lower rate of staff turnover (tour firms)
  - More expatriate employees (tour firms)

Impact of TFDI-3

- We do not find differences with respect to:
  - Total number of visitors and occupancy rate
  - Extent of local purchasing
  - Share of profits distributed among owners
  - No. of employees and expatriates
  - Staff training & employee mobility
  - HIV policy
  - Engagement in environmental conservation

Role of Regional Integration-1

- About 22% of the hotels do business in the region; 50% of tour operators
- Firms with foreign ownership are more likely to do business in the region
- Integration has reduced the severity of some problems:
  - Customs clearance, cross-border movement of people are perceived to be minor after integration

Role of Regional Integration-2

- Teething problems still remain
  - Kenyan registered vehicles not allowed in game drives in Tanzania
  - Foreign registered vehicles charged higher in Kenyan game parks
  - Labour laws do not allow exchange of drivers: Tour firms cannot take tourists across the three countries
  - Tourist requires separate visa for each country
- No differences in perception for local and foreign owned enterprises for cross-border trade
- Great potential in marketing the region as a single destination
  - Economies of scale

Assessment of Policy Environment

- Lack of a specific & comprehensive policy: inconsistency, poor coordination, lack of vision
- No coherent integration and harmonization with related policies and national development priorities
- Open door policy to TFDI for many years
- Liberal GATS commitments in Oct. 1999
- However, no sector specific incentives for attracting TFDI
- Business environment (logistics, work permits, infrastructure, high taxation) still inadequate
- Perception of business environment similar

Tourism Economic Impact Study -TTC

- Recent study
  - Re-affirmed key role in the economy, vision for the future and part of economic recovery program
  - Tourist expenditure (air arrivals) – KES 72 billion in 2006 from KES 56 billion in 2005.
  - Domestic tourism adds another KES 10 billion

Competitiveness -1

- On-going study at KIPPRA
  - Making comparisons with regard to tourist arrivals, receipts and market share for major competitors and aspiration destinations
  - Egypt, Tanzania, Tunisia, South Africa (competitors), Malaysia and Singapore (aspirations)
  - Arrivals considerable for Malaysia (16 M in 2005), South Africa (7 M) but very low for Kenya (0.6 M)
  - Tourism receipts high for Malaysia, south Africa and Egypt but low for Kenya in comparison – marketing expenditure low for KTB
  - Marketing expenditure – Malaysia USD 117.9 million, Singapore (USD 89.5, South Africa USD 70.2 million, Egypt USD 48 million, Tunisia USD 43.1 million.
  - Kenya spends about USD 5.4 million, Tanzania USD 3.2 million

Tourism Competitiveness

	Regulatory framework	Ground transport infrastructure	Price Competitiveness
Singapore	8	3	26
Malaysia	31	15	2
Tunisia	34	27	23
Egypt	58	58	5
South Africa	62	35	48
Tanzania	80	68	63
Kenya	98	84	82

Competitiveness?

- Kenya needs to improve on
  - Regulatory framework
  - Address poor roads infrastructure
  - Increase budgetary allocation on tourism promotion
  - Favorable taxation regime
  -

Policy Implications -1

- Finalization of tourism policy
- Improvement of the business environment
- Deepening of regional integration
- Promoting and strengthening domestic tourism

Policy Implications - 2

- Need for planned and balanced expansion of rooms and facilities in the whole country
- Informal accommodation sector to be controlled
- Proactive programs dealing with seasonality
- Investment incentives and guidelines being drafted
- Tourism specific EIA guidelines being drafted