

## Is Africa the next tourism growth frontier?

by Jaco Maritz

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*Summary report of a panel discussion at the Africa CEO Forum, held in Kigali, Rwanda, on 25 and 26 March 2019.*

*Panellists:*

*Nneka Eze, Partner and Office Director, Dalberg Nigeria*

*Sebastian Mikosz, Group Managing Director & Chief Executive Director, Kenya Airways*

*Lionel Zinsou, Managing Partner, SouthBridge Group*

*Mossadeck Bally, Founder, Chairman and CEO, Group Azalaï Hotels*

*Olivier Granet, Managing Partner and Chief Executive Officer, KASADA Capital Management*

On 23 May 2018, Arsenal, the iconic top-flight English Premier League football club, announced a unique partnership that would immediately divide opinion. For three years, from the season following the announcement, the first team, the under-23s and the Arsenal Women's team would don new sporting kit emblazoned with "Visit Rwanda" on the sleeve.

On its website, The Gunners (as the club is dubbed by its passionate followers), announced the Rwanda Development Board, through its subsidiary, the Rwanda Convention Bureau, as the club's first official sleeve partner and their official Tourism Partner.

Some fans and commentators slated the African country for spending, what was speculated to be, an exorbitant amount on marketing the country as a tourism destination, rather than using the money on other development goals. The fact that President Paul Kagame is an outspoken supporter of Arsenal, was highlighted by these detractors. However, a few marketing experts argued that it was a canny move to position Rwanda Tourism as a brand on its own.

Controversy aside, this partnership perfectly highlights the advent of an era where African tourism is being rediscovered as a potential inclusive growth driver to combat joblessness and boost development.

According to the 2018 UN World Tourism Organisation's (WTO) Tourism Highlights report, the growth rate for tourism receipts on the African continent significantly outstripped the global average year-on-year. Growing at 8%, it was 63% (3.1%) above the world average of 4.9%. In a separate category that looked at growth in international tourist arrivals, Africa led the pack at 8.6% (Europe came in second at 8.4%).

One reason for this growth is the emphasis that various African governments are placing on tourism, making it a focus area in their development plans, said Nneka Eze, Partner and Office Director for Dalberg Nigeria. Overarching campaigns, such as "Magical Kenya" and "Visit Rwanda", show how these governments support a concerted effort to get visitors to their shores, understanding the positive impact of increased forex flows and inclusive growth.

"We are the only continent where 5% to 6% growth does not create anything (significant) in terms of the labour market," said Lionel Zinsou, Managing Partner of the SouthBridge Group and previous Prime Minister of the Republic of Benin. He stated that Africa "desperately" needs to focus on sectors where inclusive, job-creating growth was possible, sectors that were less capital intensive and have a larger scope to provide employment for people at different qualification levels.

Starting with one hotel in 1994 in Bamako, the capital city of Mali, Mossadeck Bally's Group Azalai Hotels (now with 10 properties) have created 1 000 direct jobs and at least another 2 000 indirectly. "We have not only created jobs. Whenever a hotel opens in a city, it has a very real impact on local economies," Bally said. A new hotel brings an increase in taxes for the central and local government; it also enlarges the potential market for informal and local vendors and service providers such as security or car rental agencies.

Even with a positive growth trajectory, the absolute global share in tourism receipts (US\$37 billion of US\$1.3 trillion) and international arrivals (63 million of 1.3 billion) for the African continent still remain very low: only 5% and 3% respectively.

It is in this gap between the clear potential contained in tourism and the reality of its limited current economic contribution where the investment opportunities exist.

### **Unexploited Hotels and Accommodation Potential**

The 10th edition of the W Hospitality Group's annual *Hotel Chain Development Pipelines* report, shows the noteworthy investment opportunities in accommodation provision and the exponential growth in this pipeline over the last decade.

In 2009, when the first edition of the report appeared, the pipeline activity for hotel chain development in Africa stood at 29 692 rooms in 144 hotels. Today this is measured at 76 322 rooms in 418 hotels.

Olivier Granet, Managing Partner and Chief Executive Officer of KASADA Capital Management, believes that the market is still undersupplied. "If you take the number of hotels in all of the African continent, it represents less than 2% of the worldwide supply. There is a need to find new solutions between the local entrepreneurs, who have the land and would like to develop a hotel, and the financing institutions who recognise the potential of the hospitality industry to deliver the jobs," he stated.

KASADA Capital Management is the consultancy firm entrusted to bring to life the hotel development plan of a dedicated investment fund of US\$1 billion from AccorHotels (the French multinational company owning hospitality brands such as Sofitel, Ibis and Novotel) and the Qatari firm, Katara Hospitality. The fund will target greenfield and brownfield projects, as well as conversions of existing hotels through acquisitions in sub-Saharan African countries.

Bally's Azalaï has achieved noteworthy success in a region where many other hotel chains would tread with caution. The passion and skills that he had to employ over the years, navigating risks and unique challenges, was complimented by Granet during the panel discussion. "I am sure that if he was in another part of the world, he would have developed 100 hotels," he stated.

Bally conceded that hotel developers in other areas of the world definitely benefit from existing ecosystems, something that is not present in many of the African countries where he has set up hotels. He argued that this lack of an ecosystem – existing infrastructure and supporting policies – was the underlying reason why hotel projects are extremely time consuming and capital intensive on the continent. Hotel managers have to wear the cap of hotel developer as well: managing the entire process from land acquisition, zoning permissions, contractor procurement (often not available locally), whilst battling corruption and bureaucracy and finding innovative financing solutions where equity is scarce.

He lamented the absence in Africa of financial players, such as pension funds and insurance companies, when it comes to available equity for tourism development. "In Europe and America, most of the hotels are owned by the pension funds, insurance companies and public banks. This makes financing much easier."

Zinsou believes that consistency in political vision is required to overcome these challenges; "at the very least," he said, "you need to see that the public policies are not being counterproductive, e.g. having restrictive visa requirements and formalities in place."

KASADA Capital Management is now bringing unparalleled liquidity to the market with its equity offering, hoping that it will enable a full suite of tourism accommodation products. Granet, former CEO of AccorHotels Middle East and Africa, commented on the natural market progression in hospitality. This is where chain developers often start with a five-star hotel to attract international travellers with high-quality conference facilities. They then flesh it out afterwards with economy- and mid-scale products and other offerings such as serviced apartments as part of the full suite of products. "This is exactly what we will try to bring to the market," he said.

## **The Role of Air Travel**

Africa has only a 2.2% share of the world market for passenger air travel, according to 2018 International Air Transport Association (IATA) statistics. This is even less than its market share of hotel beds available.

Sebastian Mikosz, Group Managing Director & Chief Executive Director of Kenya Airways, holds the view that it is relatively easy to travel to African countries that are already offering popular tourism attractions and have sufficient infrastructure support. "I believe that from the areas from which the main flow of tourism comes, you already have enough traffic capacity today," he said.

For Mikosz, tourism destinations should establish themselves first, encouraging and attracting demand, where after air transport options will follow – often from charter services as opposed to the national carriers.

"There are countries that built the destinations, and then the traffic came," he said, using Madagascar's Nosy Be or Egypt's Sharm El Sheikh as examples. "Each trip starts not with an airline; it starts with a hotel."

On the topic of African airline prices, the panellists were in agreement: the cost of air travel on the continent is inflated. Even Mikosz supported this argument, listing government taxes, existing monopolies in the industry and infrastructure costs as contributing factors.

### **Developing Attractive Destinations**

In order for a destination to be attractive to a potential tourist, Mikosz listed three "ingredients" that had to be in place: the perception of political stability; the perception of financial stability and appropriate infrastructure.

He also stated that African tourism packages, especially the tailor-made ones aimed at the individual top-end customers, are overpriced and hurting the industry.

In the end, it takes a combined effort of public policy and political will to support the formation of an appropriate ecosystem for tourism to flourish. Zinsou referenced the success that Benin has achieved by rehabilitating their national park in the north of the country. Togo, for example, has achieved incredible success with reforms in policy and targeted tourism interventions over the last couple of years. Bally referenced Rwanda's visa policy as an example of a change that created an influx of tourists - an example he hopes other countries would follow.

For Bally the existence of sound public policies across all the development stages of tourism will benefit the industry. "Make land easily accessible for hotel developers. Make it at a reasonable price," he suggested, adding that financing vehicles for tourism investments also need to be diversified.

### **Understand the Realities, Seize the Opportunities**

There are worthwhile opportunities to be explored within tourism on the African continent. It can bring noteworthy returns for those Southeast Asian companies who seek to understand the realities of the sector and its challenges, but realise where the rewards outweigh the risk.

As Zinsou stated, success lies in the art of execution and the division of risks. This is something that Bally understands all too well, strategically finding new locations for his hotel chain to spread the risk geographically, and as such, cope with unexpected external disruptions like political instability.

"We... know what is going to happen if you don't understand the reality of the market," said Granet. "But once you understand the reality, then yes, there is huge potential." The millions that KASADA Capital Management is going to be investing into the continent is a case in point of the business opportunities that are open for the taking. It is a market definitely poised for further growth.

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