

# Beached prospects?

Katrina Manson

Africa's tourism sector is missing out on \$254 billion a year in untapped tourism potential, according to the latest survey from The Africa Group and *Africa investor*. **Matthew Thomson** and **Hubert Danso** dive deep into the numbers, and come up for air with strategies on how to chase tourism dollars

**W**hen a former war-torn country, Sierra Leone, was ranked among Lonely Planet's top 10 countries to visit two years ago, it underlined Africa's vast untapped tourism potential. The World Travel and Tourism Council (WTTTC) estimates the country's coastal market generates only US \$70 million in direct tourism revenues, about 3.7% of GDP.

Given its pristine beaches, rare wildlife and easygoing vibe, it could be much more. It is this sort of disconnect between potential and reality that drove The Africa Group (TAG) and *Africa investor* (Ai) to produce the latest in our seminal series of Wealth Cheque Reports, following on from

our investigations into the potential of unconventional sectors such as water and human capital (Ai, July-August), which showed that Africa produces about only half its potential annual output today across six key sectors of tourism, agriculture, water, forestry, fisheries, and human capital, missing out on \$762 billion every year. Of this, 27% came from untapped tourism earnings.

The tourism sector analysis draws Africa's potentiality into sharp focus. From the \$54bn of direct industry travel and tourism it earned in 2010, we estimate Africa's tourism sector holds a potential yearly value of approximately \$254bn – roughly five times current earnings. This is slightly less than northeast Asia's average \$271bn yearly

tourism earnings for the past five years, and comparable to the \$256bn combined yearly average earnings for the Caribbean, Latin America, Middle East, Oceania, Eastern Europe, and Southeast Asia.

Unlike the industrial, agricultural or financial sectors, tourism is heavily dependent upon reputation, intangible attraction and the capacity to adequately welcome, transport and host a diverse flux of discerning visitors. Yet the differential between inherent endowment and actual tourist spend is the most acute in Africa.

The biting reality is that Africa currently underperforms its peers in most of these categories. Africa accounts for 16 of the 20 least competitive

countries as ranked in the latest World Economic Forum Travel & Tourism Competitiveness Index. Perception is no friend either – Africa claims nine of the 20 most corrupt countries ranked in Transparency International’s 2010 Corruption Perception Index.

Africa’s current tourism output of \$54.5bn is also a complicated metric: South Africa, Egypt and Morocco account for 59% of total earnings of the 47 countries surveyed. Within sub-Saharan Africa (SSA), excluding South Africa,

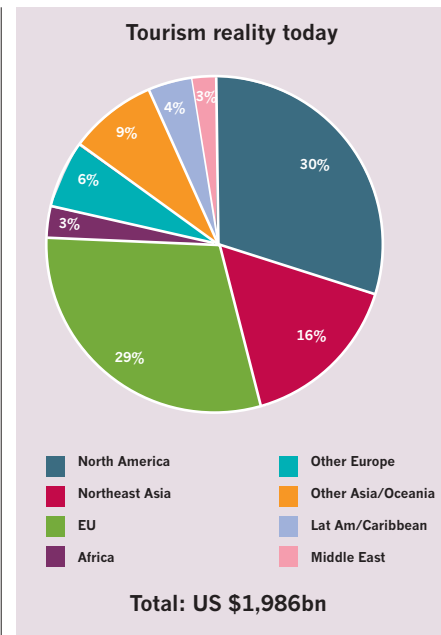
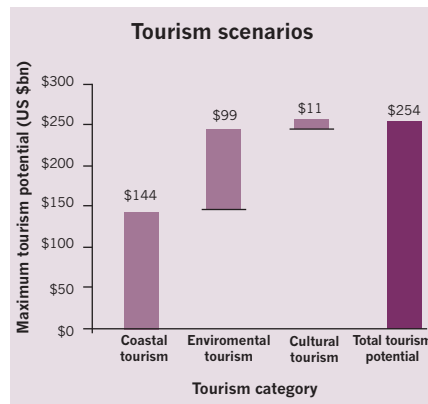
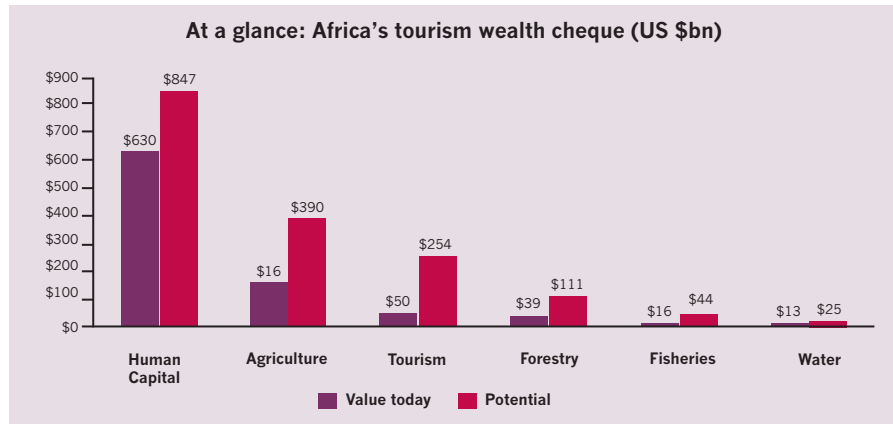
## South Africa, Egypt and Morocco account for 59% of total earnings of the 47 countries surveyed

average tourism GDP nears \$340m for 2010, but stands with a median of \$210m, just a third of El Salvador’s tourism GDP. Over a third of SSA pulls in under \$100m a year in direct travel and tourism industry GDP.

### Short-term boosts

Clearly, growing from \$54bn to \$254bn is a herculean undertaking. Policy-makers and investors must clearly prioritise the reforms that will have the greatest impact. Africa can capitalise on four potential components for success in the near term: reduce red tape, boost public appeal, attract private investment with tempting tax incentives and clever branding partnerships.

Tourists, especially from high-spend OECD countries, seek ease of entry logistically and bureaucratically. Streamlining visa processes, as Ethiopia has done with fast-tracked visa upon arrival for \$20, or, like Senegal, becoming visa-less (for many EU members and USA), means tourists have one less hurdle – both mental and bureaucratic – to overcome before travelling to Africa. Similarly, taking an aggressive stance to secure international air carriers and direct routings from OECD countries bolsters a market’s chance of alluring high-spend tourists or returning diaspora. For example, Liberia’s own presidential priority committee kept American



TSA approval for Monrovia airport high on the agenda to lock in the promising Atlanta-Monrovia connection.

A sustained image campaign, when correlated with credible attributes, can be an effective and visible way of putting one’s best foot forward. South Africa (“Experience South Africa”) and Egypt (“Where it all begins”) have performed well. A country like Ethiopia, which already boasts a first-class airline and world-class hotels, could benefit from a bolder tourism media drive. “It is mainly the bad perception of the country that hinders tourism growth, even though it has a rich culture, a fascinating history, a plethora of scenic environments and wildlife, a leading airline and a superb climate to offer tourists,” says Berhane Demissie, Managing Director at Ethiopia-focused private equity firm Schulze Global Investments.

A few modest but well-publicised tweaks in national investment codes can jump-start the “dreamers” – especially in the diaspora – who hold visions of eco-tours, boutique lodges and beachside cabanas. Duty-free imports, tax holidays and other select incentives for tourism-related investments can tilt an entrepreneur’s calculation in

Source: Ai-The Africa Group

favour of a risk-adjusted investment. Uganda recently introduced select tax incentives to assist with tourism-related capital expenditures to bolster the industry. The WTTC reports the linkage and indirect effects of tourism have almost three times as great an impact as direct tourism revenues. Logically, governments should consider it a priority to liberalise FDI rules into this sector given the economy-wide impact.

“Governments need to create a regulatory environment that promotes FDI and protects investors,” says Asatu Shannon of Manocap, a west Africa-focused private equity firm. Shannon notes that while state actors are critical to facilitate conditions amenable to tourism growth, it is the private investors who insert themselves most adeptly into the actual market.

If poor perception is what ails

Africa's tourism, creative brand-based partnerships can be a helpful antidote to supply a salubrious and independent "halo effect" to the national image. Tourism agencies and independent tour firms should pursue innovative partnerships with well-known multinationals that could include consumer goods, luxury brands, or even automobile companies. Tourists from high-spend countries will associate a reliable and comfortable international brand with a particular market, effectively lowering the emotional barriers to entry. With the right arrangement, brands such as North Face can promote the wild wonders of Tanzania or Toyota the desert expanses of Namibia.

**Longer staying power**

For longer term impact, African tourism boards should adhere to the orthodox marketing principal of a focused value proposition to sell their product – the country. What exactly

does their tourism offering stand for – which theme and dream? Marketers must be realistic, crisp, narrow and unique and then remain persistent and consistent. Demise of SGI suggests that African tourist markets lose out because of an "insufficient focus given to identify a country's unique selling point". Consumers need to stubbornly associate an emerging destination with a single organic idea – and preferably an ideal. Establishing an effective tourism policy demands an integrated national strategy that celebrates and buttresses the national theme consistently. For example, Costa Rica has built a very successful niche around eco-tourism while Rwanda made impressive advances in marketing world famous gorilla parks.

Given the disparate and asymmetrical layout of African states, investors and policymakers should create regional tourist offerings to link the core with periphery tourist markets. Just as private equity firms target African companies

with regional footprints, Africa's individual tourism markets should leverage each other to establish larger synergistic markets. Regional delineation will enable groups to stand on their own appeal and be freed from the simplistic and the negative inferences of the Africa-as-a-country mindset. For example, Botswana can further leverage South Africa's universal appeal and Côte d'Ivoire can one day strap itself to Ghana's growing attraction. The

**Africa could tap directly into a \$4.7bn Chinese market by 2016 if the continent can capture just 10% of Chinese outbound tourism**

ambitious East African Common Market project can further extend its vision by issuing a single tourist visa across the five markets.

The UN World Tourism Organization estimates Asian and Pacific nationals account for a modest 3% of Africa's tourists. We believe Africa's mounting interaction with emerging markets, specifically China, offers immense opportunity for Africa's tourism sector. Given recent historical growth rates, The Africa Group maintains that by 2016, the continent could tap directly into a \$4.7bn market if the continent can capture just 10% of Chinese outbound tourism. An effective strategy would need to stretch beyond the logical visa and language considerations and build out a fuller understanding of the experiences visitors from the East seek. For example, a recent survey carried out by the Chinese Tourism Academy suggested that shopping plays an incredibly important role for Chinese tourists abroad. The Chinese wave combined with the explosive economic and political interaction between South-South markets militates strongly for a BRIC-focused tourism strategy alongside the conventional high-spend OECD tourist effort.

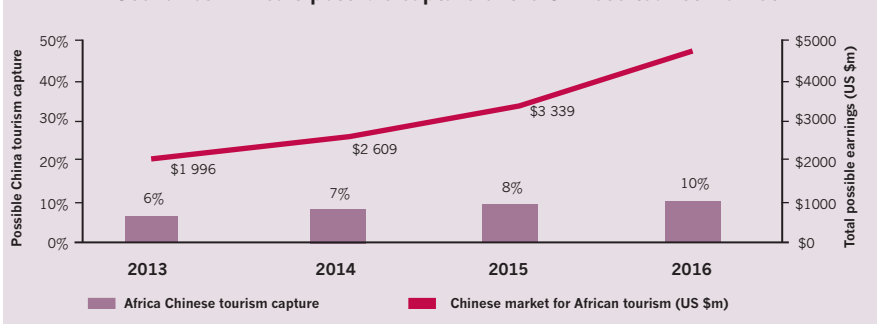
The significance of solid infrastructure for tourism cannot be overstated. The rugged appeal of "Africa" will only shine brighter with smarter infrastructure in

Key players in sub-Saharan African tourism (US \$bn)



Source: Ai-The Africa Group

Scenarios: Africa's possible capture of the Chinese tourist market



Source: Ai-The Africa Group


place. The historical scarcity of decent roads, airports and hotels in west Africa hampered tourism prospects for years and continues to dampen potential. East Africa's tourist infrastructure is improving, from cheaper flight connections to cleaner hostels. Slowly bolstered by a new wave of Afro-optimism, investor confidence, diaspora entrepreneurialism and Chinese-funded linkages, we observe the landscape changing. Financial infrastructure, such as ATMs, decent health clinics, reliable exchange rates, and secure overland transportation with driver services and reliable taxis all contribute to a sense of dependability and predictability that tourists seek when venturing to new lands.

"Focus dollars on communicating improvements in infrastructure and other logistical elements currently viewed as disorganised or downright dangerous," says Jeremy Tamanini, founder of Dual Citizen, a country branding consultancy.

"In most African tourist countries, governments do not need to sell the obvious – if a country has sun, sand, and water, chances are tourists will come... if they can access it," says Manocap's Shannon.

Almost half (46%) of Africa's tourists are themselves African, reiterating the need for a diversified customer base that goes beyond the Western-centric tourist model of the past.

Intra-African tourism is particularly beneficial because it creates opportunities for entrepreneurs to provide services across the value chain catering to Western, rustic, indigenous or functional focused consumer base.

"The African diaspora and former expatriates who happen to be well informed do the majority of self-directed travel," says Takudzwa Mhlanga, CEO of Mukela Travel Technologies, an Africa-focused travel technology developer. "The good news is the viral coefficient from this group is prolific and this only bodes well for African tourism." 

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## How it all adds up

### We analysed Africa's tourism potential within three primary buckets:

- **Coastal tourism** (\$144bn) – Tourist earnings per km data for Mauritius were used as a baseline proxy to estimate potential revenues for other markets. Mauritius, an island of 1.3 million people, derives the bulk of its tourism earnings from coastal-related tourism. We applied the unadjusted earnings ratio (\$6.9m/km of coast) to Africa markets with coastlines, deliberately excluding or discounting areas where even the boldest Afro-optimists would have trouble envisaging a bustling coastal tourism market. We excluded Somalia and Western Sahara and slashed Eritrea, Madagascar and Angola by half. We then took a 24% discount for accessibility that was calculated using Tunisia's road ratio (km of road per 100 sq km of area) and applied it to the remainder of eligible coastal locals. Tunisia was selected as a benchmark as it has moderately developed infrastructure considered to reflect the average African country. Finally, a 10% "haircut" was applied for social and political risks that we considered a longstanding feature to how foreign tourists will continue to view the continent.
- **Environmental tourism** (\$99bn) – For the largest 30 countries, earning potential was estimated using earnings per sq km of species. Earnings per

species per sq km data from Botswana was used to estimate potential revenues for other countries as Botswana derives the bulk of its tourism revenue from environmental tourism. Half the potential \$99bn per year environmental tourism potential lies in non-plant biodiversity, which includes the safari tourism sub-category. The remaining earning potential in the environmental tourism category is based on flora and the natural landscape. Similar to coastal tourism, we applied an accessibility discount of 28%, calculated using Kenyan road density as a proxy. An identical 10% social-political risk factor was taken as a final haircut.

- **Cultural tourism** (\$11bn) – Cultural tourism earning potential was estimated at an unadjusted \$16bn for the continent, \$11bn once adjusted. Potential earnings were assessed using revenue per visitor values from OECD data on cultural tourism trips – 40% of visitors cited cultural reasons as the key driver with an average spend of \$575 each. We took the actual figures of international visitor arrivals to Africa and applied the same ratio but applied a 25% average-spend discount based on the differential between average hotel prices between eight OECD and eight African countries.



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