

Primates and beyond

Tourism value chains in East Africa



In brief

- The importance of tourism for economic growth in Rwanda is hard to over-state. Tourism revenues are now more than double those of its next biggest export, tea. All of its other major exports are strongly beholden to international commodity price fluctuations, making revenues highly unreliable.
- Tourism is a strong job-creating sector in the wider region, however it has historically received less attention and investment than its more traditional sectors, meaning that it still operates quite far below capacity
- This brief uses the Global Value Chains (GVC) framework to assess the potential and best opportunities for upgrading within the Rwandan and Ugandan tourism industries. It breaks the sector into three categories of actors – consumers, distribution intermediaries, and service providers – and three separate value chains: leisure, business, and conference.
- The researchers provide a series of policy recommendations that are designed to promote three broad goals: regional integration, firm-level upgrading, and country-level upgrading.

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Overview

The importance of tourism for economic growth in Rwanda is hard to over-state. With intense pressure on foreign reserves and a still widening trade deficit, tourism is Rwanda's biggest source of export revenue: tourism revenues are now more than double those of the next biggest export, tea. Furthermore, Rwanda's other major exports – tea, coffee, and minerals – are strongly beholden to international commodity price fluctuations, making revenues highly unreliable and largely out of Rwanda's control; tourism products, by contrast, are highly differentiated, entailing much less fickle prices and room for considerable domestic innovation and policy to drive growth. Tourism is also one of the strongest job-creating sectors, with an unusually high proportion of costs constituting salaries. This is crucial for Rwanda, which is anticipating its large 'youth bulge' to soon graduate into job-seekers. Tourism further helps to spread the gains of development geographically, elevating rural and less developed areas more than, say, manufacturing. Finally, as this report argues, tourism has historically received less attention and investment than more traditional sectors in Rwanda and the region, meaning that despite impressive recent growth, it still operates quite far below capacity. East Africa as a whole captures less than 0.5% of global tourism revenues.

Rwanda's signature leisure tourism activity, gorilla trekking, can only absorb fewer than 100 people per day, and is operating near capacity. The number of tourists visiting any national parks in Rwanda was 185 per day in 2014. Yet Rwanda's hotels have capacity for over 8,200 people per day (44 times park visitor numbers), and many more are being constructed.

Growth of the tourism sector in Rwanda thus depends on significantly broadening the range of visitor activities. The Rwanda Convention Bureau and associated infrastructure has helped to double the number of association meetings held in Rwanda in two years, and has filled many hotel rooms. Now, opportunities to extend conference tourists' stay and increase their spending in Rwanda should be fully exploited. Yet for conference and leisure tourists, many tour operators pay little attention to Rwanda's many high-potential emerging activities, like mountain-biking, birding, safari, lake-based tourism, and artisan experiences.

The middle and lower end of the market has the clearest growth potential in Rwanda. This report finds that tour company packages in Rwanda typically start at \$800 per day, more than twice the cheapest packages in Kenya and Tanzania (around \$300 per day). Meanwhile, unlike in Latin America and South East Asia, tourists struggle to visit Rwanda and the regions without a tour company: there is a shortage of quality information online and in guide books, and many bookings require an on-the-ground representative.

Extending Rwanda's accessibility for middle-end consumers can bring

many benefits. China is the world's number one source of tourists, but Asian tourists are particularly price-sensitive; reducing prices could help open Rwanda to this huge consumer base. Middle and lower-end tourism firms are also much more likely to source from the domestic market, for both staff and goods, whereas the stringent standards regulations of high-end international firms often lead to reliance on imports. On the other hand, several high-end firms contribute significantly by training local staff who later go on to work in other firms; a few strong sector-leaders can play a very positive role.

This report highlights that the quality and size of domestic tour companies in Rwanda is currently low. Global industry professionals report this, but state that they nonetheless rely on domestic tour companies, as the market is too small to justify local offices. This 'missing link' of quality local information and logistics means that many local activity and accommodation providers struggle to make themselves known to potential customers. This may, in turn, disincentivise entrepreneurs from creating new, or expanding existing, tourism activities or lodgings. For example, 80% of guests at the Volcano Lodge find the hotel through the owners' own tour company, Volcano Safaris. The firm said, "We're forced to be tour operators, otherwise we would have no business", and state that if local tour companies could bring 50-60% of their guests, they'd close their tour company arm down.

Certain firms benefit from the poor market information available to consumers. By connecting local firms with international consumers, global tour operators and transport firms capture 40-50% of tourism spending in Kenya. Given the weaker domestic intermediaries, this percentage is likely even higher in Rwanda, meaning most tourism revenue may never reach the economy. Restaurants in Kigali also note that tour operators receive a cut (50%) for recommending particular restaurants to visitors. If similar practices are in place for hotels and activities, certain quality providers not represented by tour operators will face unfair competition, and also struggle to thrive. This may be a particular challenge for firms offering less expensive products; tour operators' cuts, as a set percentage of spending, are lower, reducing incentives to promote the activities.

Better intermediaries (local tour companies) and information (for independently-organised holidays) are therefore crucial for the healthy growth of the tourism sector. The distribution intermediary segment of the tourism chain is critical for linking global businesses and tourists with domestic suppliers, increasing tourists' spending and increasing the revenue share for Rwandan firms. Robust growth is forecasted for online portals (such as Expedia, TripAdvisor, etc.), which presents an opportunity for domestic distribution intermediaries to functionally upgrade to offer online sales and marketing.

As well as improved information and logistics, the report highlights that firms at almost all levels need support to better understand and cater for foreign customers' preferences. This should include direct consultancy

for firms (which might be funded by the proposed ‘tourism tax’, or could involve peer mentoring), and also educational partnerships emphasising practical training for undersupplied skills like customer service and accounting.

International business tourism clients demand strong data and analytical services (for example, to ensure firm travel policies are respected), and Rwanda’s domestic firms often fall short in this respect. To encourage more business tourism, local distribution intermediaries should look to partner with leading international companies that can satisfy this demand. International Air Transport Association (IATA) certification is an important first step for local distribution intermediaries to partner with lead international business tourism firms.

Finally, the deregulation of domestic and regional air travel would be transformative in bringing prices to internationally competitive levels, to bring more tourists to the region as a whole, and to strengthen regional tourism value chains.

1. The EAC tourism industry as three actors and three value chains

Although tourism is an important contributor to the economies of the East African Community (EAC) such as in Kenya, Rwanda, Tanzania, and Uganda, the region remains a niche player in the global industry, generating less than 0.5% of total worldwide tourism revenue in 2014 (WTTC, 2015a). In efforts to stimulate further growth in the sector, EAC governments have implemented a number of measures with the goal of driving regional tourism growth and integration, including a common entry visa, a standard classification criterion for hotels, and shared marketing platforms.

To assist such efforts, this report uses the Global Value Chains (GVC) framework to assess the potential and best opportunities for upgrading within the Rwandan and Ugandan tourism industries. It breaks the sector into three categories of actors—consumers, distribution intermediaries, and service providers—and three separate value chains: leisure, business, and conference.

Direct service providers offer the largest opportunity for employment in each chain, but it is the distribution intermediaries—global tour operators, Travel Management Companies (TMCs), Destination Management Companies (DMCs), Convention Bureaus, Professional Conference Organizers (PCOs), and so on—that mostly control the sector’s upgrading potential, by facilitating links with end markets.

2. Accessing leisure tourism markets

North America and Europe are key source markets for Rwanda and Uganda’s leisure tourism products, much of which revolve around flora

and fauna offerings.

Worldwide, direct booking and online packages are prominent distribution channels, whereas in the EAC, package booking remains dominant. This results from the region's emphasis on itinerary-based travel to access ecotourism attractions, consumers' unfamiliarity with East Africa, concerns about the ability of inbound operators to deliver quality products, and the difficulties associated with organising domestic transport and other services independently.

Lead firms in the leisure tourism GVC have the ability to overcome these obstacles and package individual services into cohesive and smooth tourism experiences. This has important implications in the EAC, where the domestic market for tourism is underdeveloped and local tour operators and service providers must depend on relationships with global tour operators for clients. Relationships can be nurtured through marketing outreach or exposure at trade shows, but it requires that domestic businesses undergo process upgrading to develop public relations and communication skills. Oftentimes, these efforts fall short, and service providers are forced to functionally upgrade to tour operators in order to access consumers.

The profile and product of the lead firms currently operating in the EAC can broadly be divided into three categories:

- Exclusive operators that specialise in unique safari products in Africa;
- Luxury companies that offer custom and group packages around the world, including Africa; and
- Mid-tier providers that concentrate mostly on group tours inside the EAC.

Rwanda and Uganda's competitive niche lies in the exclusive safari products and luxury custom and group packages (the first two categories). Many of the businesses in these categories place an emphasis on being pioneers in the field through innovative environmental and economic partnerships. Rwanda has managed to capitalise by strategically identifying attractive investors and pursuing Public-Private Partnerships (PPPs) with companies such as Wilderness Safaris and Governors Camp Collection.

3. Learning from international lead firms in business tourism

Business tourism consumers are companies who travel internationally for business. The lead firms serving these customers are distribution intermediaries that offer travel management and analytical services (TMCs) designed to help consumers reduce costs and demand for travel. Worldwide, the industry is consolidated around four major TMCs: American Express Global Business Travel, Carlson Wagonlit Travel, HRG

Worldwide, and BCD Travel.

The four leading global TMCs are active in Rwanda and Uganda through partnership arrangements with local affiliates. Developing a partner network is the TMCs' standard operating procedure in emerging markets and not unique to the EAC—TMCs open wholly owned subsidiaries or initiate joint ventures in markets where there is sufficient demand. For lead business tourism firms, data collection is crucial, meaning their domestic affiliates must have a broader expertise than those in leisure tourism. Specifically, partner companies are expected to collect, clean, and code data related to whether bookings adhere to travel policies.

TMCs also demand three prerequisite of potential local partners:

- International Air Transport Association (IATA) certification;
- High volume of bookings for business travellers through General Distribution Systems (GDS); and
- Certified financial records as well as access to finance.

Business travel in Rwanda and Uganda is mostly regional—the DRC, Uganda, Tanzania, Kenya, and Burundi accounted for 89.4% of business visitors in Rwanda in 2014. Thus, regional companies have access to more consumers. Satguru, a regional company that started in Kigali, accounts for an estimated 60-65% of airline bookings in Rwanda. For these firms, access to TMCs provides opportunities for knowledge transfer—partners of TMCs regularly report selling travel management services to local clients after learning the skills from the global firms—as well as branding opportunities.

4. A new market that requires coordination: Conference tourism

The conference tourism value chain comprises the activities required to attract and stage 'Meetings, Incentives, Conference and Exhibition' (MICE) events. The consumer is the organisation hosting the meeting. While there is overlap with the business tourism value, it also has its own ecosystem of actors. There are two primary distribution channels: direct booking, when the conference organisers contact hotels or meeting sites directly; or third party, which is where convention bureaus or convention specialists serve as key distribution intermediaries.

The Government of Rwanda has placed an emphasis on conference tourism, using a contract with the World Bank to hire the Business Tourism Company as a consultant to provide strategic oversight and help create the Rwanda Convention Bureau (RCB). The RCB has doubled the number of association meetings in Rwanda in two years and is attempting to increase delegate spending from \$245 per day to closer to the global average of between \$600-650. The RCB can further assist the development of the country's tourism industry by driving spill-over into the leisure

tourism chain and by mitigating some of the risk of seasonal downturns for service providers.

The RCB relies on the assistance of two key types of distribution intermediary: conference associations such as the International Congress and Convention Association (ICCA) to gain access to customers; and Professional Conference Organisers (PCOs), which manage customers' on-the-ground experience. The RCB has created an association for PCOs, hosting training and networking sessions where domestic businesses learn about the industry. Uganda does not have a formalised conference sector, instead relying on service providers such as the Serena Hotel to pursue conferences on their own.

5. Regional integration still faces barriers

The most prominent linkages in the EAC's leisure tourism value chain are tour packages spanning multiple countries. East Africa has one of the largest shares of foreign visitor spending as a proportion of overall tourism revenues of any region in the world, and this encourages EAC participation in global tourism value chains instead of the creation of regional tourism value chains. As a result, lead firms are based outside the EAC, in the countries from which demand emanates, and domestic tour operators and DMCs play a subservient role because of their lack of access to markets.

In business tourism, by contrast, most demand comes from regional consumers. This has allowed regional Travel Management Companies such as Satguru to develop a significant presence in a number of EAC and western African countries. Moreover, the domestic affiliates of TMCs can serve as both inbound and outbound agents.

In order to strengthen regional integration, there is also a need to address tourism challenges in the neighbouring destinations of Uganda, Kenya, and Tanzania. Across all tourism GVCs, the barriers to regional integration can be categorised among the following factors:

- Infrastructure: There is disparity in the quality of roads and air infrastructure in Uganda and Rwanda, which increases the cost of access to national parks in Uganda and discourages investments by some of the companies that cater to high-end consumers in Rwanda.
- Control or management of tourism attractions: Rwanda takes an aggressive approach to cultivating PPPs with conservation-focused organisations, while elite businesses in Uganda have near monopoly access to key concessions surrounding the country's national parks.
- Regulating markets such as aviation: A critical step toward the establishment of new air carriers is the deregulation of domestic and regional air markets, which are dominated by bilateral Air Service Agreements.
- Setting quality, training, and environmental standards: An initial focus

for the EAC has been to develop a common classification certification for lodging establishments in the region. However, implementation of both classification certificates has been slow, with uneven commitment to the established standards across countries.

- Developing border policy: Kenya, Rwanda, and Uganda have agreed to a common entry visa, but Tanzania's non-participation currently limits its effectiveness. Additionally, the EAC ranks as one of the least competitive regions in the world for trading goods across borders, which contributes to higher costs for the large-scale construction projects needed for lodging providers in the business and conference tourism chains.
- Stimulating tourism demand and investment: Funding shortfalls and industry resistance to a unified approach are barriers to regional promotion efforts. The discordant approaches associated with management of tourism attractions—Rwanda recruiting conservation-focused actors through PPPs; Uganda giving elite businesses substantial competitive advantages—is a barrier to increasing regional investment.

6. What can be done? An indicative list of recommendations

Based on the barriers to upgrading and regional integration that exist in tourism value chains within the EAC, Duke CGGC advances recommendations that are designed to promote three broad goals: regional integration, firm-level upgrading, and country-level upgrading. The specific recommendations are as follows:

EAC integration

- Form a regional Convention Bureau to develop Professional Conference Organizers and attract more business travel;
- Create a regional development and infrastructure fund for tourism;
- Seek Tanzania's participation in the EAC tourist visa;
- Boost initiative to implement classification certifications for service providers;
- Liberalise the air market;
- Harmonise technical standards at border to improve firm access to imports;
- Tailor promotional content to address key deficiencies

Firm-level upgrading

- Strengthen partnerships with hospitality institutions and training institutions, to emphasise and provide practical training;
- Pool resources across firms for marketing efforts;
- Identify strategic trade shows;
- Pursue certification

Country-level upgrading

- Develop strategic web content to market and improve access to products;
- Step up outreach in key target customer markets;
- Strengthen and host forums for stakeholders to communicate and collaborate;
- Build stronger linkages with supporting industries;
- Expand educational partnerships for practical training.