Investment Challenges in the hotel industry in Kigali, Rwanda: Hotel managers’ perspectives

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Paper type: Conceptual; exploratory

Abstract

Purpose: This paper describes the tourism investment policy in Rwanda. It further describes a survey of Kigali hotel manager’s perception and opinions on challenges for investment in the country’s hotel industry since 1994.

Design / Methodology / Approach: This research adopted both qualitative and qualitative methods. Fieldwork was conducted in Kigali over a two month period. Interviews were carried specifically with relevant government officials in charge of tourism and investments in the tourism industry such as the Rwanda Private Sector Federation and the Rwanda Office of Tourism and National Parks (ORTPN) to determine their role in facilitating investments in the tourism industry. Quantitative data on existing investments in accommodation sector were obtained from Rwanda Investment and Export Promotion Agency (RIEPA) which provided insight on the extent of local and foreign investments in the tourism sector in Rwanda. Apart from the interviews with key government stake holders in the tourism industry, data were collected through questionnaire and interviews with 12 hotel managers or owners.

Findings: The survey found that the perceived weaknesses of investing in the hotel sector are closely related to problems faced by the Rwandan tourism sector in general, such as the perception that Rwanda is not a safe tourism destination, the lack of skilled labour in tourism services, the lack of finances in the form of loans to potential investors and the lack of adequate tourism infrastructure.

Key words: Foreign direct investment; hotel investment; tourism, Kigali; Rwanda
1. Introduction:
Tourism is today widely recognised by various governments, international funding agencies and the business community as an effective tool for economic development (Ghimire, 2001:6) and many developing countries have turned to it as a possible alternative source of economic growth in order to solve the problems of declining agriculture (Oppermann & Chon, 1997; Sindiga, 1999). Indeed, governments of developing countries encourage tourism foreign direct investment (FDI) because of its expected contribution to development (Sharpley, 2002; UNEP, 2002; NEPAD, 2004; Mbaiwa, 2005). Tourism’s potential benefits, such as foreign exchange earnings, employment opportunities, infrastructure development and investments, have made it one of the integral components of economic development in these countries (Sharpley, 2002; Torres & Momsen, 2004; Mbaiwa, 2005). Neoliberalism emphasises outward-oriented economic development strategies, for example encouraging new sectors that are believed to stimulate growth, such as international tourism, export-oriented industries and non-traditional exports (Brohman, 1996; Torres & Momsen, 2004). The policy directives of the International Monetary Fund (IMF) and World Bank have found their way into Third World policy-making through structural adjustment lending, which means that lending is made conditional on the adoption of policies such as the reduction of state monopolies by selling state assets to private companies and liberalising the economy. Overall, these IMF and World Bank measures have paved the way for foreign investment and private sector involvement in tourism development (Brohman, 1996; Telfer, 2002:58). Neoliberalism has been criticised for focusing on increasing international tourism trade without considering other developmental goals such as raising the standard of living of the majority of the population and promoting more balanced growth among a variety of economic sectors.

To date the only academic studies of tourism development in Rwanda have been by Mazimhaka (2007) and Grosspietsch (2006). The present study surveyed the hotel investment environment in Kigali, the capital of the landlocked Rwanda in Central Africa. Although many tourism strategies are in place to revive Rwanda’s tourism sector, which collapsed after the 1994 genocide, tourism investments have remained sparse. The paper first discusses Rwanda’s tourism policy and then looks at Rwanda’s hotel investments since 1994.

2. Rwanda tourism policy
The Rwanda National Tourism Policy was adopted from the Rwanda Tourism Strategy in 2006. Its objectives are economic, social, environmental and cultural (see Table 1). Economically, the policy aims to increase foreign exchange earnings and government revenue by increasing lengths of stay and daily expenditure. Overall, the government’s target is to attract 70 000 visitors by 2010, each spending US$1400 during a seven-day stay in the country. This would enable Rwanda’s tourism sector to achieve its goals by 2020.
(MINICOM, 2004). The sector hopes to achieve this by fostering close cooperation between the public and the private sectors, financial institutions and non-governmental organisations (NGOs).

Table 1: National Tourism Policy objective

<table>
<thead>
<tr>
<th>Objective</th>
<th>Policy</th>
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<tbody>
<tr>
<td>Economic objectives</td>
<td>Increase foreign exchange earnings and generate government revenues; generate employment opportunities; promote rural economic development; stimulate infrastructure; enhance regional and international tourism linkages.</td>
</tr>
<tr>
<td>Social objectives</td>
<td>Promote favourable image to the outside world; increase awareness of responsible tourism; provide and maintain a legal framework according to international norms.</td>
</tr>
<tr>
<td>Environmental objectives</td>
<td>Promote tourism that is ecologically friendly; develop facilities in national parks in accordance with park management plans; provide and maintain a legal framework according to international norms.</td>
</tr>
<tr>
<td>Cultural objectives</td>
<td>Develop cultural attractions; develop cultural values; emphasise development of tourism based on Rwanda’s cultural diversity.</td>
</tr>
</tbody>
</table>

Source: Compiled by the authors on the basis of information from the National Tourism Policy (MINICOM, 2006).

Five role players will see to the implementation of Rwanda’s tourism policy:

- Rwanda Office of Tourism and National Parks, which is in charge of tourism promotion, development and conservation;
- MINICOM, which is the main government body in charge of tourism development;
- the local authorities, whose role is to plan community projects and ensure proper use of resources;
- the private sector stakeholders, whose role is to ensure the policy is implemented (e.g. by investing in tourism experiences and amenities such as hotels and restaurants and offering high-quality services); and
- the NGOs, which are expected to play a vital role, particularly in encouraging community-based tourism and protecting the environment by providing communities with technical skills and know-how.

Overall, there should be coordination between the private sector, the government and the communities to promote the tourism industry (MINICOM, 2006).

The Rwandan Government has created an environment conducive to attracting both local and foreign investment, in particular emphasising investment that will develop and promote quality and sustainable tourism products, such as:

- information on the tourism investment opportunities available in the industry to potential investors within and outside the country;
• promoting tourism as a priority sector for development, streamlining investment procedures in collaboration with the Investment and Export Promotion Agency and advocating for incentives in the tourism sector;
• promoting tourist projects and ventures by way of joint venture arrangements with local partners;
• advocating for a favourable fiscal, legal and regulatory framework in order to attract finance;
• allocating the necessary public funds to enable effective development and marketing;
• facilitating loans, equity and technical assistance for medium-term and long-term tourism financing; and
• supporting a concession policy where beneficiary concessions are granted for entrepreneurs and developers to undertake development of natural and cultural resources with local communities in a sustainable manner (MINICOM, 2006).

Rwanda has among the lowest FDI inflows in Africa (OECD, 2006:435), since it is a landlocked country with a poor image internationally, especially where security is concerned, and has poor infrastructure and high transaction costs, particularly in the transport and energy sectors. Domestic investors are still the main source of investment in the hotel sector. Since 1999, South Africa and India have been the only foreign countries to invest in its hotel sector. Dubai World, a major holding company owned by the United Arab Emirates, has invested over US$200 million in numerous, mostly ecotourism related, infrastructural projects since 2007 (Africa Travel Association, 2008). The government has privatised a number of hotels as a way of increasing the private sector’s role in developing tourism. Three top-class hotels have been constructed: two Intercontinental Hotels, rated four-star and five-star, in Kigali, and the Kivu Sun in Gisenyi (Nsekanabo,2005). Jeyakumar (2005) notes that investments in the hotel and restaurant subsector have attracted more investment than other subsectors such as travel agencies and tour operators, which is unsurprising since this is a rapidly growing sector of the Rwandan economy. In terms of distribution, almost all top-range rooms and hotels are situated within Kigali and they represent 65 per cent of all the hotels in the country (OTF Group, 2002).

The Investment Report (RIEPA, 2005) first classifies investments into three categories: new investment, restructuring, and rehabilitation or expansion. Most investments are new, especially the one-star and two-star hotels. Of the 32 hotel projects both operational and non-operational, new investments account for 75 per cent. Hotels that fall into the new investment type were all built between 2001 and 2004. Most three-star,four-star and five-star hotels fall into the second two categories. These hotels were built before the 1990s, although the reconstruction and renovations are more recent. Hotel investments are further categorised as operational and non-operational. Most of the hotels are operational. The total amount invested in operational hotels is US$32889 450, and these hotels have created 1509 jobs. By 2005 a
total of US$16 055 470 had been invested in non-operational hotels, creating 130 jobs. Given their ‘non-operational’ status, it is clear that most are still in the construction phase, which implies that on completion of these hotels more benefits are likely to be achieved in this sector.

Identification of firms

This section analyses and interprets the data from the survey conducted in Kigali.

3.1 Ownership type and market entry
Three-quarters of the hotels in Kigali are owned by Rwandan locally based investors, with government owning 16.7 per cent and a mere 8.3 per cent being foreign owned.
Table 2 shows that most of the hotels in the survey are privately run businesses. The others are business partnerships with government, under management contracts. Hotel Intercontinental was at first managed by a South African company, which later withdrew from the hotel. It is now managed by the government investment arm Prime Holdings. Hotel Novotel is managed by Libyans.

3.2 Source markets
The Rwandan tourism sector appears to lack statistical data on tourism receipts and it was not possible to get information on visitors to the hotels since 1995. However, the respondents said the number of visitors to the hotels has been increasing. Information about source markets is mixed. Visitors to four-star and five-star hotels are mainly from America. Some are from Britain, and European countries such as Belgium, France, Germany, Sweden and Italy. Local tourists, mostly from nearby countries such as Kenya, Uganda, Tanzania and the Democratic Republic of Congo, mostly stay in the smaller hotels.

It was not possible to obtain detailed information on occupancy rates for particular hotels, either because the hotels lacked proper management systems or because the owners did not wish to divulge this information. According to the respondents, occupancy rates for the four-star and five-star hotels are 50 per cent (based on estimates and not calculated from a base year), while one-star, two-star and three-star hotels are running at 30 per cent occupancy rates at times. The number of hotel rooms in Kigali has increased by about 50 per cent since the opening up of Rwanda (after the genocide). Most of the respondents were of the opinion that in the next decade the mid-range market segment is likely to offer the most growth opportunities for their hotels.
There were three main customer types: foreign business people, government conference delegates and NGOs. One hotel manager said 90 per cent of the business was from the corporate and government segments, which were ranked as most important by most of the managers. Foreign tourists were ranked third in importance by almost half the respondents. The lowest ranked customer type was the domestic Rwandan traveler.

**Table: 2. Ownership type and grades of hotels in Kigali**

<table>
<thead>
<tr>
<th>Name of a hotel</th>
<th>Ownership</th>
<th>Grading</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercontinental</td>
<td>A franchise/government (formally managed by a South African company).</td>
<td>5-star</td>
</tr>
<tr>
<td>Mille Collines</td>
<td>FDI/Government owns only 2.5% of shares</td>
<td>4-star</td>
</tr>
<tr>
<td>Novotel Libyans</td>
<td>Libyan Arab Republic 60% and the Government 40% (managed by Libyans)</td>
<td>4-star</td>
</tr>
<tr>
<td>Okapi</td>
<td>Private</td>
<td>3-star</td>
</tr>
<tr>
<td>Ninzi</td>
<td>Private</td>
<td>3-star</td>
</tr>
<tr>
<td>Sky Hotel</td>
<td>Private</td>
<td>3-star</td>
</tr>
<tr>
<td>Alpha Palace</td>
<td>Business partnership</td>
<td>3-star</td>
</tr>
<tr>
<td>Chez Lando</td>
<td>Family business</td>
<td>2-star</td>
</tr>
<tr>
<td>Isimbi</td>
<td>Family business</td>
<td>3-star</td>
</tr>
<tr>
<td>Castel</td>
<td>Private</td>
<td>1-star</td>
</tr>
<tr>
<td>Baubar</td>
<td>Private</td>
<td>1-star</td>
</tr>
<tr>
<td>Hotel Gorillas</td>
<td>Private</td>
<td>3 star</td>
</tr>
</tbody>
</table>

### 3.3 Impacts, investments and incentives

The UN Conference on Trade and Development (UNCTAD) highlights the following as some areas affected (positively or negatively) by FDI in tourism: consumer demand, capital formation, human resources, including knowledge and skills formation, procurement linkages, technology, the environment, corporate and competitiveness effects, and balance of payments (UNCTAD, 2007:88–9). Hotels in Kigali have contributed significantly to job creation and most of the staff are Rwandan. According to the survey, of 732 jobs created by hotels only 10 are taken by foreigners. Foreigners are mainly employed in managerial positions at four-star and five-star hotels. It is also clear that most of the employees at the four-star and five-star hotels are full-time workers and that there is an equitable spread in terms of gender.
Additional employment is created by outsourcing hotel work. Of the 12 hotels surveyed, seven confirmed that some of their services, such as catering, laundry and transport, were outsourced.

Pro-poor tourism has been defined as tourism that generates net economic, social, environmental or cultural benefits for the poor (Ashley et al., 2001). For tourism to be more meaningful, hotel investors have a role to play in extending benefits to the poor. Three-quarters of the respondents said they were aware of pro-poor tourism strategies. Hotels that were not aware of pro-poor strategies were the one-star and two-star hotels.

Some of the pro-poor strategies that the survey indicated have been put in place by investors and managers in the hotel sector were the provision of employment opportunities to the community, not only in the hotel but also in the form of outsourcing, and the purchase of local foodstuffs and other locally made materials to be used at the hotel. Some of the big hotels in Kigali have on many occasions helped the local artists to showcase their products on the hotel premises.

The survey revealed that 76 per cent of food and beverages is bought locally. The biggest share of imported food and beverages is purchased by international hotel chains that serve an international clientele, which suggests that hotels in Kigali could generate demand for other locally produced commodities, mainly in the agricultural sector. Less need to import food and beverages would mean less leakage of tourism incomes to the outside. About 45 per cent of hotel equipment such as furniture and fixtures is imported, and an even larger proportion (86 per cent) of the electrical equipment used by the hotels, such as televisions, stoves and telephone switchboards, is also imported.

The main incentives for hotel investors are tax concessions on imported building materials and imported equipment such as stoves and televisions. A large majority (90 per cent) of the respondents said they were aware of RIEPA’s incentives, and when it came to accessing these incentives only one hotel manager said it was a difficult process because a lot of bureaucracy is involved. According to the managers there is room for more incentives for investors in the hotel sector. The survey showed that the only tangible incentives are those for imported hotel equipment. Since a large percentage of the hotel electronic equipment, furniture and fixtures is imported, it is clear that incentives in the form of tax concessions on these are crucial for hotel investors.

Most of the hotels have performed reasonably well in terms of returns on investment.
75 per cent said their returns were fair, 17 per cent said they were good, and 8 per cent said they were very good. None of the respondents said the returns were excellent.

3.4 Positive and negative investment factors
UNCTAD’s report on FDI in tourism says: the decision of hotels on where to locate depends upon the extent of tourism demand for a specific destination, as well as its tourism specific assets (e.g. natural environment, culture). But the presence of a TNC [transnational corporation] hotel can also further contribute to tourist demand, and in fact the interrelationship between investors and tourist arrivals can be very difficult to disentangle, especially if attempted years after the process first began. (2007:33).

The prevailing high level of political and economic stability in Rwanda since 1994 has motivated investors to invest in tourism-related projects, particularly in the hotel sector. All the respondents believed the political situation was beginning to look promising for guaranteeing investor confidence. At the time of writing, investors in the hotel sector were motivated by the fact that there were few hotels in Rwanda; in other words, the industry was still virgin territory, with a market that was not saturated. It is clear that the government’s main motivation for investing in four-star and five-star hotels was to encourage the development of tourism through these hotels and to build international levels of service in Rwanda. International hotel chains are usually known for better services, since they invest substantial sums in training hotel staff (Dunning & McQueen, 1981).

Table 3 summarises positive and negative experiences of the hotel industry as perceived by the respondents. They viewed the government’s proactive involvement in creating an enabling environment for the tourism industry as the strongest incentive to invest in the sector. For example, tourism was designated as a priority sector in October 2002 (MINICOM, 2006). The government has in addition provided financial support to improve the tourism infrastructure and development. Rwanda is said to have achieved.

Table 3: Perceived positive and negative experiences of the hotel industry

<table>
<thead>
<tr>
<th>Feature</th>
<th>Experience</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political-economic</td>
<td>Most respondents saw the existing political and economic environment as stable. The political situation in Rwanda is more promising than ever before.</td>
</tr>
<tr>
<td>Environment</td>
<td></td>
</tr>
<tr>
<td>Destination image</td>
<td>Perception of Rwanda as a tourist destination in recent years has been very negative, but the country has improved greatly and is more promising.</td>
</tr>
<tr>
<td>Government’s role</td>
<td>All respondents thought the government recognises the significance of tourism</td>
</tr>
</tbody>
</table>
in the economy. They anticipate that in the near future tourism will be the leading economic sector.

Locality

Rwanda’s strategic location has facilitated movement in the Great Lakes region and helped to tap into the East and Central African markets.

Investor information

Information on investment opportunities is provided to potential tourism investors adequately through the one-stop centre – RIEPA.

Economics reforms

Positive steps have been taken towards liberalization of the economy and privatisation since 1995 and this is in line with promoting investments. Some hotels have been privatized.

Market size

The market for hotel development is still limited, but has been increasing.

Standard

Standard and availability of tourist attractions are still low – there are few tourist attractions and even the few that exist are mainly focusing on mountain gorillas.

Skilled labour

There is lack of skilled labour in Rwanda. The Rwandan business environment has been constrained by lack of human capital, among other constraints (OECD, 2006).

Infrastructure

Almost all respondents saw Rwanda as lacking basic infrastructure – water, electricity, roads and airports – was lacking. Lack of sufficient energy has continued to affect the country’s competitiveness. There has been rehabilitation of important national roads, but roads are still poor, particularly in the rural areas (OECD, 2006). Telecommunication infrastructure is unaffordable for the ordinary person.

Expensive destination

Rwanda is currently served by one airport – travelling to the country is very expensive, which discourages potential tourists to Rwanda.

Investment options

Promotional efforts in terms of incentives and government policy towards FDI have mainly been in the form of import duties. Not much has been given to investors in the hotel sector.

Access to land

Views on the availability of land were mixed. Some respondents believed that land for investment is available depending on where you want to invest; others that getting a site for investment is difficult because the land belongs to the government.

Source: Interviews with hotel managers; OECD (2006).

remarkable social and political progress since the 1994 genocide and is now one of the countries in Africa with the highest degree of personal safety and lowest levels of corruption (UNCTAD, 2006; OECD, 2006). Political strategies to achieve peace and stability in the country date from the formation of the transitional government and the institution of the parliament of national unity in July 1994. In terms of tourism, the government has provided security in all the tourism areas not only to protect the tourism infrastructure but also to ensure safety for tourists. For instance, tourists who visit the mountain gorillas are guarded by the army (Manzi, 2004).

Hotel investors found Rwanda’s central location an added advantage. Rwanda is strategically located in that investors in this sector can benefit from the easy movement of people. In terms of market potential, Rwanda stands a chance of capturing a bigger market in the region.
Location-specific advantages are those factors that make the location attractive to international hotel companies (Johnson, 2002). To discover what these factors are in Kigali, respondents were asked to rank the perceived advantages and disadvantages of operating hotels. The highly ranked perceived advantages were the country’s infrastructure, government recognition of the significance of tourism for developing the economy, the size and the growth rate of the economy, and the size and nature of the city. Cities are preferred to rural areas, and infrastructure was seen as an advantage of operating hotels in Kigali rather than in other areas of Rwanda. However, less than one-quarter (23 per cent) of the respondents said the infrastructural networks – roads, water, electricity and accessibility to other services such as telecommunication and banking services – are better in Kigali than in rural areas of the country.

Although Rwanda seems to have done a lot to boost tourism and hotel investment, considerable obstacles and constraints remain. Its negative image as a result of its recent history has influenced both foreign and local investors in all sectors of the economy. Investors are still anxious about investing in Rwanda and this has also affected the number of potential tourists to the country.

4. Conclusion
The World Economic Forum’s (2008) Travel & Tourism Competitiveness Report (which did not include Rwanda) once again highlights tourism’s reliance on other issues such as safety and security, land use planning, healthcare and environmental issues if it is to create an enabling environment for investment. Our study revealed that increased investment in the hotel sector in particular can have positive impacts on the destination. These include increased job opportunities, government revenue, infrastructural development, forward and backward linkages, transfer of technology, increased competition, and improved quality of services. Tourism investors in Rwanda have been favoured by the existing political stability, the government’s determination to promote tourism and the access to regional markets. However, Rwanda’s tourism sector nevertheless faces numerous problems, the most prominent being a poor international tourism image, lack of adequate infrastructure, lack of reliable data on tourism receipts and lack of skilled labour.

For investors in Kigali’s hotel sector, the perceived strength of investing in the hotel sector lies in the government policy on tourism. They are encouraged by the government’s move to boost its tourism sector and make it one of the country’s engines of economic growth. The current political stability in the country is further motivation. In a bid to increase tourism investment, hotel investors are provided with sufficient information on investment
opportunities; however, only a few incentives are offered, in the form of tax concessions on imported hotel equipment. The survey also indicated that the government provided infrastructure irrespective of its budget constraints, and that there have been improvements in the transport networks and rehabilitation of other tourism infrastructure. The government has also managed to improve on electricity and water services. Electricity shortages are not as acute as they have been in recent years (OECD, 2006).

The perceived weaknesses of investing in the hotel sector are similar to the usual problems faced by the Rwandan tourism sector:

- the perception that Rwanda is not a safe tourism destination;
- lack of skilled labour in tourism services;
- lack of international demand for tourism services;
- lack of finances in the form of loans to potential investors;
- lack of adequate tourism infrastructure; and
- lack of an adequate market for hotel services.

Rwanda’s tourism sector has generally improved greatly since 1994. UNCTAD notes that ‘FDI and TNCs have the potential to make a useful contribution to the tourism economy in developing countries’ and ‘can provide access to the tangible and intangible assets needed to help developing countries become players in the global tourism market’, but warns that FDI ‘is not a panacea and can only be effective as part of an appropriate overarching policy framework’ and ‘is best seen as a useful potential catalyst that can be a complement to domestic investment, but not a substitute’ (2007:89).
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UN (United Nations), 1998. International trade in tourism-related services: Issues and options for developing countries. UN Conference on Trade and Development and Trade and Development Board Commission on Trade in Goods and Services and Commodities. Expert meeting on strengthening the capacity for expanding the tourism sector in developing countries, with particular focus on tour operators, travel agencies and other suppliers, 8–10 June, Geneva.


