

UNIVERSITY OF THE WESTERN CAPE

DEPARTMENT OF GEOGRAPHY AND ENVIRONMENTAL STUDIES

**THE IMPACT OF THE HOTEL SECTOR ON TOURISM
DEVELOPMENT IN KIGALI**

BY



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UNIVERSITY *of the*
WESTERN CAPE

A thesis submitted in partial fulfilment of the requirements for the degree of
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ABSTRACT

The potential of tourism to contribute to economic growth in terms of increasing foreign exchange, creating employment opportunities, generation of government revenues, creating incomes, contribution to poverty reduction, acting as a catalyst of economic development and stimulation of investments have been advanced as the reasons for government support for tourism. It is against this background that countries in Africa such as Rwanda have implemented economic reforms such as privatisation and liberalisation in order to improve the investment climate.

The main purpose of this study was to provide a detailed literature account of the tourism investment environment in developing countries, to examine opportunities, constraints and challenges of the hotel investors in Kigali, examine the role of government in providing a conducive investment climate for hotel investors in Kigali and to investigate the impact of the hotel sector on tourism development in Kigali, Rwanda.

Both qualitative and quantitative research methods were used to collect the data. Data were collected through questionnaires to hotel investors and interviews to government policy makers.

Findings suggest that tourism can contribute to economic development of developing countries through its benefits. Much as investing in tourism has positive developmental aspects to developing countries, tourism investment environment in developing countries has been constrained by various reasons such as inadequate financial institutions, constant political instabilities, lack of adequate tourism infrastructure, lack of human resource, small market size, poor tourism planning to mention but a few.

Various investment opportunities are available in Rwanda. Progress in economic performance, political stability, recognition of tourism as an engine of Rwanda's economic growth, the geographical location (in the centre) and the fact that tourism is still a virgin industry present important opportunities for potential investors in Rwanda's

hotel sector. Despite the existence of investment opportunities, investors in Rwanda's hotel sector have faced problems such as the continued poor image of the country, lack of tourism infrastructure, the nature of the position of the country (land locked) lack of skilled personnel and lack of proper tourism information. The challenge for Rwanda is therefore to improve her image abroad that was formerly tarnished by the 1994 war and genocide. Improvement in infrastructure, human resource and proper methods of tourism information can also lead to improved investments in the tourism sector.

Findings have further suggested that hotels in Kigali have indeed contributed to tourism development. Effects of the hotel sector have been noticed in urban tourism development, development of the tourism infrastructure in Kigali, creation of employment opportunities for the communities, generation of government revenues and contribution to poverty alleviation.



DEDICATION

This work is dedicated to my parents and my family



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DECLARATION

I declare that *The Impact of the Hotel Sector on Tourism Development in Kigali* is my own work, that has not been submitted for any degree or examination in any other university, and that all the resources I have used or quoted have been indicated and acknowledged by complete references.

Josephine Gatsinzi

November 2006

Signed.....



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LIST OF ABBREVIATIONS

AGOA	Africa Growth Opportunity Act
APRM	African Peer Review Mechanism
BDS	Business Development Services
COMESA	Common Market for Eastern and Southern African
CPA	Cotonou Partnership Agreement
DRC	Democratic Republic of Congo
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GEAR	Growth Equity and Redistribution
ICT	Information Communication Technology
IMF	International Monetary Fund
IPA's	Investment Promotion Agencies
LDCs	Less Developed Countries
MDCs	More Developed Countries
MDG's	Millennium Development Goals
MINECOFIN	Ministry of Finance and Economic Planning
MIGA	Multinational Investment Guarantee
MINICOM	Ministry of Commerce, Trade, Investment Promotion and Tourism
MNC's	Multinational Corporations
MNE	Multinational National Enterprises
NEPAD	New Partnership for Africa's Development
NGO's	Non Government Organisations
OTF	On the Frontier
RIEPA	Rwanda Investment and Export Promotion Agency
RTA	Rwanda Tourism Agency
RPSF	Rwanda Private sector Federation
ORTPN	Rwanda Office of Tourism and National Parks

RWA	Rwanda Wildlife Agency
SME's	Small Medium Enterprises
WAIPA	World Association of Investment Promotion Agency
WTM	World Travel Market



CHAPTER ONE: INTRODUCTION

1.1 Introduction

At the World Investment Conference in Geneva (WAIPA, 2005) Africa was identified as one of the continents with a significant potential for developing tourism. Indeed, the New Partnership for Africa's Development (NEPAD) has recognised tourism as one of the key engines of growth in Africa. NEPAD argues that tourism can generate significant spin-offs in terms of foreign currency, increased government revenue, employment opportunities and incomes, infrastructure development and economic development for many developing countries. Tourism's potential can be realised through developing interregional integration, regional marketing strategies, developing partnerships through sub regions and by providing African people with the capacity to be actively involved in sustainable tourism projects (Gauci, Gerosa and Mwalwanda, 2002; NEPAD, 2004).

Tourism investment in African countries is becoming more liberalised and countries such as Rwanda, Burundi, Kenya and Nigeria are singled out for economic reforms, privatisation initiatives and liberalization. Although 50%-80% of foreign direct investment (FDI) in Africa is in natural-resource exploitation, investments in services are on the increase (UNCTAD, 2004). This begs the question of what implications this may have for the tourism industry in a poverty stricken country such as Rwanda.

Despite the economic progress Rwanda has attained since the 1994 genocide, the country has remained one of the poorest countries in the world with Gross Domestic Product (GDP) per capita of US \$ 258. The population of Rwanda is estimated to be 9,037,690 million, which makes Rwanda one of the most densely populated countries in Africa (World Bank, 2005). Approximately, 60% of the people are said to be living below the poverty line. The Rwandan economy is dominated by agricultural production of small scale and fragmented farms. Agriculture generates 91% of employment, 41% of GDP and 72% of exports. Tourism has remained the third largest earner of foreign currency next to coffee and tea, before and after the genocide (Grosspietsch, 2006; UNCTAD, 2001).

Much as tourism has been identified as one of the primary engines of Rwanda's economic growth; tourism is still poorly managed with no accurate and up-to-date information on tourism activities. Data shows that the majority of successful investors in hotels are Rwandan business people.¹ There is little FDI in this sector at the moment; yet according to the government's investment policies, there is great potential to attract more FDI in the sector (AIPA, 2002). This study will use the hotel industry in Kigali to investigate opportunities, shortcomings and successes of the tourism investments.

1.2 Rationale for the study

The tourism industry in Rwanda is hard-pressed with a number of problems which *inter alia* include lack of information on tourism operators and a harmonised system for collection of tourism statistics (MINICOM, 2004). The only data available on investment in Rwanda's tourism industry to the general public is a data sheet containing information about the type of investment, name of company, number of employment opportunities and capital invested amount. Detailed information about the opportunities, problems, shortcomings and successes of the outcomes of the investment policies and the investors are unknown. The study therefore intends to fill this void by using the hotel industry in Kigali as a case study.

Although many strategies are in place to revive Rwanda's tourism sector from its collapse since the 1994 genocide, tourism investments have remained few. It is argued that increased investments in Rwanda's tourism sector could lead to greater economic benefits such as employment opportunities, increased domestic investments, technology transfer, creation of linkages with other economic sectors and eradication of poverty (Forsyth and Dwyer, 1994; Kuslivan and Karamustafa, 2001).

¹ Data on hotel investors was obtained from the Ministry of Commerce/RIEPA

1.3 Aims of the research

Against the background outlined above the aims of the study are:

- To provide a detailed literature account of the tourism investment environment in the developing world.
- To examine opportunities, constraints and challenges of hotel investors in Kigali, Rwanda.
- To examine the role of government in providing a conducive investment climate for hotel investors in Kigali.
- To analyze spatial patterns of investments in hotels in Kigali.
- To analyse the nature and extent of foreign and local investments in hotels in Kigali city (see research questions in next section).
- To make a set of recommendations to government, policy makers, and potential investors on challenges, constraints and opportunities in investment in the hotel sector in Rwanda.

1.4 Research methodology

A variety of research approaches were employed in collecting data and information. Both qualitative and quantitative research methods were used in this study with a strong empirical focus on hotel investment issues in Kigali. Different documents and reports were analysed in order to provide necessary background issues to tourism investments in Rwanda. Documents and reports consulted included: World Bank reports, World Tourism Organisation reports and government policy documents. Data was also obtained from relevant Rwandan government offices and Internet sources.

Fieldwork was conducted in Kigali for two months, December 2005 and January 2006. In addition, personal interviews were carried out with relevant government officials in charge of tourism and investments in order to determine their role in facilitating investors in the tourism industry.

Interviews were particularly carried out with officials in Rwanda Investment and Export Promotion Agency (RIEPA), Rwanda Private Sector Federation (RPSF) and Rwanda

Office of Tourism and National Parks (ORTPN). Responses were recorded after permission was obtained from the interviewees. Interviews were guided by a set of questions that were drafted prior the research process (see appendix A).

According to Rwanda Investment Promotion Policy², investment promotion refers to activities that are designed to inform prospective investors about the host country such as building an attractive image of country for new investors. It is further stated that an investment promotion agency does the coordination of activities designed to improve a country's investment climate, provides assistance to potential and existing investors in their daily problems, targets investors, advocates for the policy and the generation of investment (MINICOM, 2004). It is in this regard, that questions around the efficiency of RIEPA in processing applications (the pre-approval, screening and evaluation, approval phases) and the process of acquiring visas for investors were investigated.

Quantitative data on existing investments in accommodation sector was obtained from RIEPA and this provided insight on the extent of local and foreign investments in tourism. Furthermore, this provided insight on the trends of the existing tourism investments as compared to other investments in Rwanda.

The study also made use of qualitative data. Qualitative data on the tourism industry was obtained from ORTPN while information on the extent of privatisation of hotels and their role in facilitating private investors in the tourism sector was obtained from RPSF officials. This provided an understanding of the strategies that are designed to improve tourism investments in Rwanda.

Apart from interviews, data was also collected through a 13- page questionnaire with the covering letter detailing the particulars of the researcher. The questionnaire was designed in English and administered by the researcher to the hotel owners/managers. The researcher distributed the questionnaires based on the list of hotels obtained from Rwanda tourism website. For other hotels that were not on the list, the researcher with the help of people residing in Kigali managed to get to know them. Questionnaires were distributed

² This is a policy that reflects both Rwanda's investment needs and priorities.

to 12 hotels which were randomly chosen (see appendix B for example of a questionnaire). Appendix C shows photographs of some of the hotels that participated in the survey.

The questionnaire was divided into three sections. Section one sought detailed background information on hotels such as the establishment date of the hotel, nature of ownership (whether business partnership with government, personal business, leasing agreement or franchise agreement), the hotel occupancy rate, services and facilities available at the hotel, how many visitors has the hotel received since opening and the hotel grades. How many jobs does the hotel offer to Rwandans and non-Rwandans, is there a gender bias? Examination of the linkages with other economic sectors such as construction, transport and agriculture was also investigated, in other words whether the hotels import food, drinks, furniture or whether they buy them locally. Is some of the work outsourced to other service providers or do the hotel employees do it.

Section two of the questionnaire was used to gather information on the investment opportunities in terms of government policies towards the promotion of the tourism industry. Respondents were asked to comment on the following: The existing economic and political environment, perception of Rwanda as a tourist destination, promotional efforts in terms of investment incentives, standard of Rwanda's tourist attractions, availability of tourism infrastructure (e.g. electricity, water, roads and airports), favourable information on investment opportunities, Rwanda's strategic location, liberalized trade regime and privatization, streamlined bureaucracy, cheap labour, access to land, and the size of the market for hotel development. Based on the fact that tourism is among the priority sectors in the country and one of the engines of economic growth, more questions were designed to find out the opportunities the government has put in place to encourage tourism investments more particularly in the hotel sector, constraints encountered by investors and possible implications of these investments were also examined in the same section of the questionnaire.

Section three of the questionnaire focused mainly on perceived risks that influence investor's decisions on a scale (from 1 'not very important' to 6 'very important') and it

also sought information on major factors preventing investors to develop in other areas of Kigali. In order to cross check on the information asked earlier in the previous sections in regard to tourism opportunities and constraints, investors were asked to rank policy measurements and constraints in investment decision making. Furthermore, the section sought information on perceived advantages of operating hotels in Kigali and outside Kigali. Questions in this section also sought information on the contribution of hotel development to the tourism sector in order to make sense of the positive implications for the hotel investments. Following are some of the research questions to hotel owners and investors.

Investors/owners

Some of the key factors that affect the decision of businesses to invest include appropriate infrastructure, technology, Internet connectivity, market accessibility, having a pool of local talent and cultural factors such as language. Concerns for investors may include the nature and the degree of risks – commercial, political, technological - they are likely to encounter by investing in a country. What happens if an investor is confronted by such risks? What strategies have the investors put in place to reduce the risk to a minimum acceptable level (e.g. insurance sources, assume the risk and include it into its profit/loss to management)? What role do these risk factors play in investing in Kigali's hotel sector, especially seen against the context of the country's recent political situation? What policy instruments are in place to encourage pro-poor tourism and fair trade oriented practices by government and investors? What were the reasons for choosing a specific locality? What is the level of satisfaction with their return on investments? What synergy is there between foreign and local investors? What contributions are the investors making to creating employment and attracting tourists? Interviews with investors about the process can be useful for the promotion of the agency.

1.5 Study area

The study area is Kigali city. Kigali is the capital city of the Republic of Rwanda. Other than being the capital city, it is also the main commercial hub of Rwanda. The city's economy is based on trade of locally produced coffee, tea, cattle and tin ore.

Kigali is part of the Central Province 'Kigali city Province'. The other provinces in the country are Northern, Southern, Western and Eastern Provinces. Kigali is built on two interlocking hills namely Jali and Kigali³ (KEDS, 2002). For a better picture of the location of Kigali City within the rest of the Rwandan provinces see Figure 1.1.

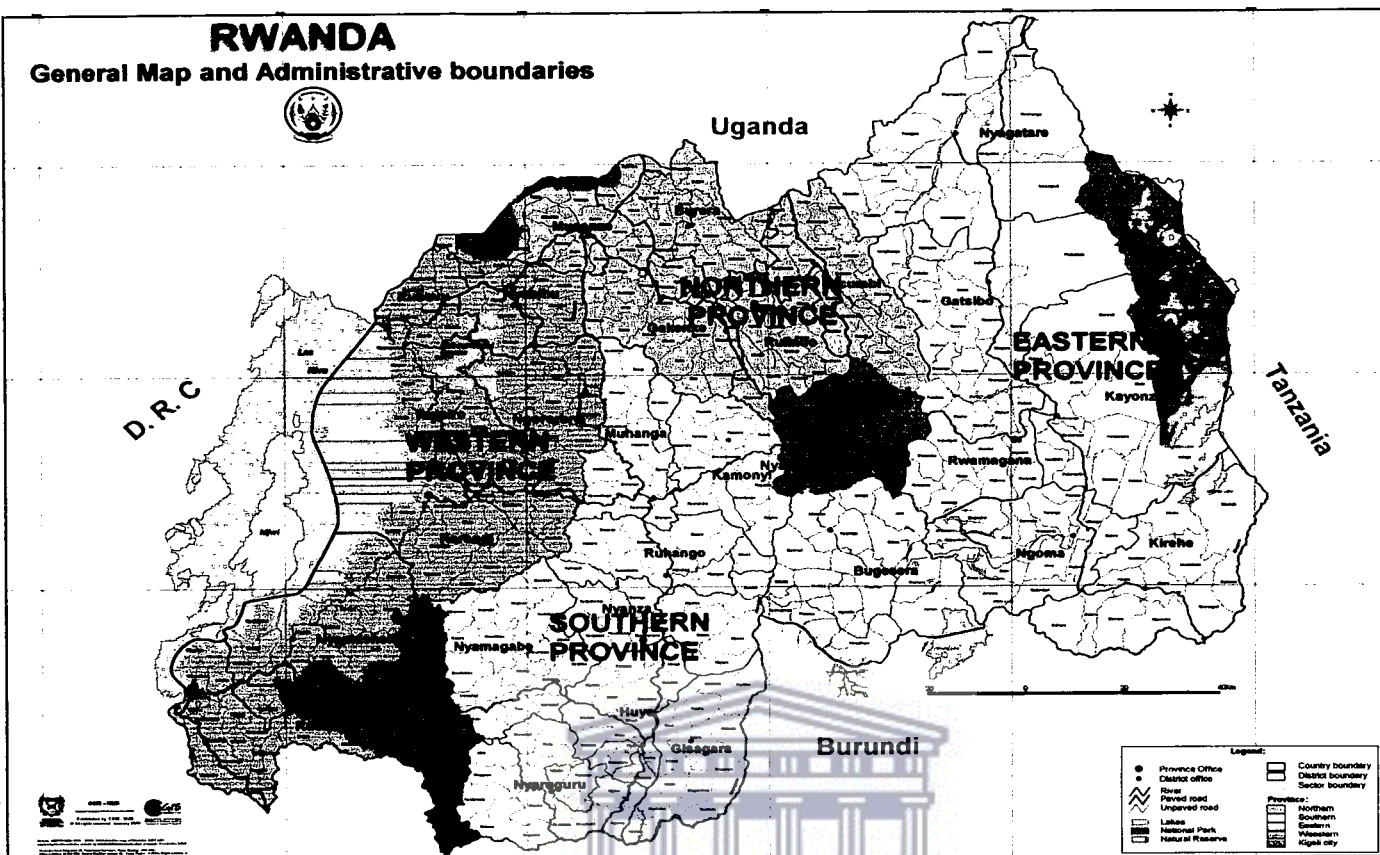
Currently, Kigali city has an estimated population of 603,049 inhabitants. The city has experienced high population growth in the post 1994 genocide period. High population growth rates for the city are a result of rural-urban migration and the fact that most of the Rwandans who returned to the country after 1994 war preferred to stay in the city where there was considerable security (KEDS, 2002).

1.6 Limitations of the study

The limitations of this research were in the first instance to do with the lack of knowledge of research within the Rwandan community. This limited the researcher in the sense that it wasted a lot of time because the researcher would have to explain again and again before getting the respondents to fill in the questionnaires. Others, who seemed to understand the need for research, claimed that they had no time to fill the questionnaire because it is too long and detailed.

Secondly, tourism being a new industry with prospects for growth in the near future, owners of the hotels and other tourism establishments who are also managers of these establishments had no knowledge of the industry and hence this limited the researcher in that they know little about their businesses.

³ More information on Kigali City can be found on this website
http://www.rwandagateway.org/article.php3?id_article=1646



Source: CGIS-NUR (Centre for Geographical Information Systems), National University of Rwanda.

Figure 1.1: The location of Kigali within the rest of Rwanda.

Thirdly, despite reading the introductory letter from the supervisor to the researcher that the information collected in the questionnaire would be used for only research purposes and that it would not be divulged to any person, group or organization, some of the hotel owners and managers refused to fill the questionnaire under the pretext that the researcher might use the information for other purposes.

Lastly, the other limitation that was encountered while doing this research was more to do with language barrier, in essence, although French and English are both official languages in Rwanda, majority of Rwandans speak French and yet the questionnaires were in English. This necessitated the researcher to intervene in order for the respondents to answer the questions.

1.7 Ethical consideration

The necessary ethical considerations in conducting interviews were respected and adhered to all the time. Sensitivity towards financial issues, interviewees' responses and official data was acknowledged and treated with confidentiality where appropriate. The researcher ensured that all participants were treated with respect and dignity. In this regard, participation of the identified respondents/interviewees was voluntary and participants were fully informed of the research process and purposes. The researcher committed herself to the research code of ethics of the Department of Geography and Environmental Studies at UWC.

1.8 Chapter outline

The study is made up of six chapters.

Chapter 1- The main aim of this chapter is to introduce the current study, it focuses on the background information on tourism investments in Africa and its potential to contributing to economic growth. The chapter further lays down the rationale and main aims of the study, research methods used in the study, research questions, scope of the study, limitations and ethical considerations.

Chapter 2- This chapter presents the literature on the tourism investments and development in Africa to provide a theoretical background to hotel investments in Kigali, Rwanda. It mainly focuses on the literature related to tourism investment trends, tourism and development, implications for tourism investments in developing countries, tourism investment climate and tourism policy issues in developing countries.

Chapter 3 – This chapter presents the overview of Rwanda's tourism policy and it sheds light on the current situation in Rwanda's tourism industry, the opportunities and constraints faced by this industry.

Chapter 4 – Overview of tourism investments in Rwanda is done in this chapter. It analyses the nature and extent of foreign and local investments in hotels in Kigali city.

Chapter 5 – This chapter provides the discussion of the findings as an attempt to answer the research questions.

Chapter 6 – This chapter presents the conclusion and the recommendations. It also identifies areas of research that could be undertaken in the future.



CHAPTER TWO: TOURISM INVESTMENT AND DEVELOPMENT IN THE DEVELOPING WORLD

The chapter firstly discusses the theoretical perspectives on tourism investments. It further discusses tourism policy issues in developing countries, drawing on the importance of these policies to tourism investment and development. The chapter also examines tourism investment climate in developing countries. The role of tourism in economic development for developing countries is also analysed. This is followed by looking at the extent of FDI in developing countries. Lastly is a discussion of the implications of tourism investments in terms of benefits and costs to developing countries.

2.1 Theoretical perspectives on tourism investment

Various theories were used to explain tourism development but for the purposes of this study, the main theories that have been identified are modernisation, dependency and neoliberalism.

2.1.1 Modernisation theory

The discourse on foreign tourism investment in the developing world is dominated by three perspectives: modernization theory, dependency theory and neoliberalism. Modernization theory coincided with Africa's independence decade of 1960 (Sidinga, 1999). It was alleged that western culture is 'a world culture'. Western culture would diffuse to Africa and the rest of the world through tourism. This would induce psychological, social, and cultural change to produce a modern society from a traditional one. In that way, tourism was viewed as a modernizing force through which new ways of life would diffuse to developing countries. It was also assumed that tourism would transfer technology, increase employment opportunities, generate foreign exchange, increase GDP, and attract development capital (Telfer, 2002).

Tourism development has always been seen as a symbol of 'westernisation, progress and modernisation' (Sharpley, 2002). This therefore explains why a number of newly independent states pursued tourism development such as the creation of domestic hotel

chains. For example, in Tunisia, 40% of accommodation was built between 1960 and 1965. Many of the African countries started recognizing tourism as a catalyst for economic development. However, modernisation was criticised for lack of local control of the tourism industry and capital flight which would eventually lead to neo-colonialism (Telfer, 2002). What followed was the intellectual challenge of this theory in 1970's to be replaced by dependency theory (which is also referred to as the development of underdevelopment or World System Theory) (Sindiga, 1999).

2.1.2 Dependency theory

Dinbabo (2003) argues that dependency theory emerged after the failure of modernization theory to solve inequalities that existed between the developed and the undeveloped countries. He also noted that the spread of capitalism and western imperialism were the causes of the above mentioned inequalities. It is further argued that the underdevelopment of the Third World countries was a result of the exploitative nature of the capitalist countries. Developed countries developed at the expense of the Third World countries and that capitalist development itself leads to underdevelopment of the underdeveloped. Tourism is an industry that is used by developed countries to reinforce dependency of developing countries (Mbaiwa, 2005; Oppermann and Chon, 1997). In order for Third World countries to develop they should then do away with the hardships of centre-periphery relationship (Telfer, 2002).

Weaver (1998) suggests that the core-periphery model when approached from the dependency perspective provides an understanding of the spatial disparities that exist in the more developed countries (MDCs) and less developed countries (LDCs) in terms of power and levels of development. Tourism from the dependency theory point of view is interpreted as the 'plantation economy'. This shows the extent of the exploitation by the international core of new resources and space such as beaches and coastal areas. Third World tourism studies have used the dependency model extensively at international scale. Tourists are said to originate from developed countries and developing countries are tourist receivers. This results into the creation of enclave tourism (Mbaiwa, 2005; Brohman, 1996).

Similarly, Kusluvan and Karamustaafa (2001) point out that tourist receiving countries are in a dependent, vulnerable and a disadvantageous position because international tourism demand is determined externally.

Telfer (2002) argues that the main focus of dependency theory was domestic industrialisation and self reliance. Dinbabo (2003) also shares the same argument by stating that dependency theory emerged from Latin American structuralism which also believed in domestic industrialization, import substitution and protectionism. Much as dependency theory in tourism has stimulated the growth of large scale tourism industry in the Third World countries, it has also created dependency on export markets, increased the degree of foreign ownership and control of the tourism sector (Maryam, 1997: 988).

Clancy (1999) argues that wealth and poverty were linked on a global scale, under development in the South and development in the North were said to be 'two sides of the same coin'. Development of the metropole came at the expense of the periphery. He further argues that international trade and foreign investment are structures and agents of dependency and both are responsible for threatening national control over the development process.

Dependency theory faced a lot of criticisms. It was blamed first of all for being abstract, pessimistic, and rhetorical. Secondly, it was criticised for emphasizing external conditions over internal factors. Lastly, it was actually considered to be vague in terms concrete plans and policy recommendations for newly independent states (Telfer, 2002: 44). Similarly, Oppermann and Chon (1997: 40) argue that the most significant limitation for dependency theory was its failure to suggest 'alternative prescriptions' for tourism development into developing countries.

2.1.3 Neoliberalism

Although international funding for tourism dates to the 1960's, the importance of tourism as a strategy designed to increase foreign exchange increased after the shift towards economic neoliberalism. Important aspects of this development paradigm include an emphasis on competitive exports and privatisation of state enterprises. In order for

tourism to contribute to growth, developing countries were encouraged to welcome private investors from developed countries (Telfer, 2002).

With the rise of neoliberalism there was emphasis of outward oriented economic development strategies such as encouragement of new growth sectors which are believed to stimulate much growth based on the comparative advantages of Third World countries. These include for instance, international tourism, export oriented industries and non traditional exports (NTE's) (Brohman, 1996; Torres and Momsen, 2004). The IMF and World Bank have found their way in the Third World policy making through structural adjustment lending. Such lending is made conditional on adoption of policies such as reduction of state monopolies by selling state assets to private companies and liberalizing the economy. This has made Third World countries shift from a development strategy away from inward to outward orientation. Overall, the above measures that were inspired by World Bank and IMF have paved a way for foreign investments and the private sector involvement in tourism development (Brohman, 1996; Telfer, 2002: 58).

Neoliberalism like other paradigms was criticised for focusing on increasing international tourism trade without considering other developmental goals such as raising the standard of living of the popular majority and promotion of more balanced growth among different economic sectors. Without developed linkages between external sectors and the rest of the economy, neoliberalism can lead to a polarised form of development (Brohman, 1996).

More alternative approach to tourism development was adopted. Alternative tourism development was seen to be a more 'pragmatic' paradigm to both developing and developed countries. This is because it is broad-based and it addresses the concept of sustainability. Alternative strategies emphasises indigenous tourism development, such as small scale locally owned developments, community participation and decision making, the role of women in tourism, cultural and environmental sustainability (Telfer, 2002). The above measures changed the whole perception behind international tourism being an industry for foreign investors and it empowered communities in terms of ownership and management. The successes of some countries such as South Africa, Tunisia, Morocco

and Mauritius that have used tourism as part of their economic development strategies is an indication in itself that tourism is significant in terms of development ((NEPAD, 2004).

2.2 Tourism policy and investment in developing countries

While a number of African countries have developed tourism master plans, only a few plans have managed to address the reality that tourism can develop in a sustainable manner, only if its requirements and impacts are included in the country's economic and physical planning frameworks (NEPAD, 2004).

2.2.1 Tourism policy

According to Jenkins (2000: 63) a tourism policy is defined as a strategic declaration of intent within which tourism is expected to develop. In developing countries, planning of tourism is done by the central government, which is contrary to the developed world, where tourism planning is left in the hands of the private sector. The existence of the tourism policy is enough indication that the tourism sector has major roles to play in the country's objectives.

Policy documents are very essential for tourism development and investment in developing countries. Government commitment and tourism objectives to the tourism industry can only be expressed through the tourism policy (Jenkins, 2000). It is also through tourism policy that governments are able to control and guide development of tourism ensuring that there are less negative effects of tourism development to the communities (Qui, Chong and Ap, 1999). The role of government in tourism planning in developing countries is essential since many developing countries are characterized by lack of resources, lack of expertise and limited involvement by the private sector (Jenkins, 2000).

The growth of tourism and its support to the world economies has raised interests of politicians, planners, academics and international organizations. As a result most

countries have agencies that perform planning and policy formulation at the highest level of government in order to protect the social and economic well being of their countries. For example, countries such as Uganda, Tanzania, and Kenya have effective tourism organisations responsible for planning and development of their tourism industry (Brown, 2000).

According to Poirier (1995) proper tourism planning can contribute to the general development of the tourism industry and investment opportunities. For instance, the rapid growth of the tourism industry in Tunisia is a result of its tourism development policies, which are designed to encourage foreign private investment in tourism accommodation. This explains why policies are important for tourism investments in different countries. Similarly, countries such as China and Kenya that have adopted an open door policy to international tourists and foreign investors in the hotel sector have also realized increased investments in the hotel sector, increased number of overseas tourists and tourism receipts (Qui, Chong and Ap, 1999). The other example is South Africa, through its GEAR (Growth Equity and Redistribution) program, which is noted for its incentives to increase FDI; this has had important implications for the hotel industry that needed equity for expansion. The South African White Paper on the Development and Promotion of tourism called for changes in allocation of government incentives for the hotel industry and to the disadvantaged entrepreneurs. This was done through budget subsidies and grants to hoteliers (Ahmed, Heller and Hughes, 1999: 75).

Despite the continued role tourism has played in developing countries, Third World countries have not always given tourism planning a high priority. The main impediment to tourism development in Third World countries is caused by lack of effective tourism planning and implementation of plans (Scheyvens, 2002). Lack of emphasis on tourism planning has led to fragmented tourism developments in developing countries and inconsistency in policy issues such as corruption among government officials and lack of long-term vision in terms of tourism services (Brown, 2000; Dieke, 2000).

Tourism should be planned and promoted like other economic development strategies based on its social and economic benefits to developing countries. Sindiga (1999) also emphasised that there is lack of proper tourism planning in all African countries apart from Tunisia. Tourism as an area of economic development is often poorly understood by economic analysts of national governments and as such the expectations and potentials associated with tourism are often not integrated with national economic policies and plans. This is however true for both developed and developing countries (WTO, 2005).

For countries seeking economic development through tourism and high FDI levels, it is important to create enabling policies and regulatory environment to support tourism investments.

2.2.2 Tourism investment climate in developing countries

Any investor, foreign or local, in the tourism or any other sector looks first for a stable macro-economic framework, fostering stability, confidence and predictability (Christie, 2005). Factors responsible for attraction of investments to a destination were identified as economic, social and political factors (Gauci, Gerosa and Mwalwanda, 2002). Economic factors include inflation free economy, with no large fiscal deficits, balance of payments with no restrictions on imports, free movement of profits and incentives to encourage investments. Developing countries have however, continued to suffer from inadequate and inefficient financial institutions such as banks that can support investments. Weak economies with high inflation rates, fiscal deficits and high interest rates have discouraged investors in the tourism industry because they are not sure that their investments in such infested countries will payoff (DBSA, 2003). For example, high interest rates and reluctance of banks to offer favourable lending conditions halted the Hilton and J.W Marriott hotel on Cape Town's foreshore in South Africa (Ahmed, Heller and Hughes, 1999).

In addition, availability of tourism infrastructure is one of the determinants of FDI in tourism in developing countries. Infrastructure in terms of transportation is used as a link to the global economy and support of investments (Wu and Radbone, 2005). It is further observed that most hotels are located close to the prevailing travel technology such as

airports, railways and roads, without infrastructure in place it is hard to attract hotel investments (Oppermann, Kadir and Siti Amri, 1996).

However, tourism infrastructure has remained poor in developing countries. Lack of infrastructure in terms of telecommunication, transport networks such as poor roads, primitive conditions at the airports and lack of other facilitating infrastructures has increased the costs of investing in developing countries (Brown, 2000; Gerose, 2003).

Access to land is also one of the determinants of investor's decisions (Wu and Radbone, 2005). It is further argued that indeed complex procedures of acquiring land for investment deter new investors. Poor land ownership policies in developing countries has affected investors in the tourism industry. For instance, land ownership problems in Vietnam, Madagascar, and South Africa have affected investments in the hotel industry (Oppermann and Chon, 1997; Christie and Crompton, 2001).

Labour quality is another main determinant of FDI in developing countries. It is argued that investors in the tourism sector require international standard labour, which is capable of competing in international tourism market. However, lack of training in service related issues such as unfriendliness to tourists; inability to give directions and answer questions, demanding bribes and difficulties in obtaining visas has discouraged foreign investment particularly in African countries.

The size of the domestic market is also considered to be one of FDI determinants for both manufacturing and service sectors. Market size is a crucial determinant factor for FDI in hotels; this is because hotel services have to be offered on site (Kundu and Contractor, 1999). Previous studies on the FDI determinants linked this factor with the population size and the existing GDP. The idea was that high population size signifies large internal markets. But this does not apply for developing countries because of the existing income inequalities. Although most developing countries are densely populated, only a small proportion of this population is able to consume hotel services (Kundu and Contractor, 1999). The existing tiny market and the small annual GDP in developing countries, more especially in African countries affects investors in the tourism sector (Brown, 2000).

Limited size of domestic markets in developing countries has not only affected investors but also the visitor numbers (Brown, 2000). There are various market entry strategies for foreign tourism firms. These include license agreement, franchise, management contracts, strategic alliances and joint ventures (Dunning and Maqueen, 1981; Rodriguez, 2002).

Political stability is yet another precondition of attracting foreign investments to a destination. Africa as a whole has suffered continuous civil wars, military regimes, rampant corruptions and administrative interventions in economic decisions. This has magnified the risks of investing particularly in African countries. Political risks have contributed to the poor image abroad and reduced investor's confidence (DBSA, 2003; Brown, 2000). Investors must be able to know that their investments are safe from civil strife and expropriation. Lack of development for the continent and unattractiveness to global investors is explained largely by the continent's poor image and continuing disconnection (Tsheola, 2002). In the case of South Africa, for example, the changing political situation in South Africa and reintegration of the global market place opened up opportunities for international investors. Before 1994, international hotel investment in South Africa was almost non-existent but after dismantling apartheid, FDI poured in more than ever (Ahmed; Heller and Hughes, 1999).

Olsen (1996) argues that stability of government is a very significant factor that affects the hospitality provider and that the degree of investment or divestment by hospitality firms in all places in the world relies heavily on the stability of the governments where the investments are made.

It is further argued that the higher the degree of political risk and uncertainty the lower will be investment in fixed capital (DBSA, 2003). There are numerous illustrations of political risks. These include war, expropriation, rampant corruptions, riots and assassinations. Considering the fundamental role-played by images in tourism marketing and promotion. Political stability is a prerequisite for investors in the tourism sector

(Brown, 2000). Because of the poor image of the continent, Africa has lagged behind in terms of investments and capital in flow.

Poirier (1997) suggests that sectors such as MNE hotels, banking, transport, extraction, agriculture, and tourism sectors are more vulnerable because of substantial investments in fixed assets. In case the political climate does not change in such a way that the firms can no longer make profits it becomes hard to move the physical assets especially for hotels. In that case an investor has nothing to do in terms of changing the contractual terms. The hotels risk of expropriation becomes higher because a government will only expropriate firms if it can run them reasonably on its own. Another consideration is that risks of unpredictable political environment also affect the tourism sector in general. A good example is the coups and terrorist attacks in most countries, which have continued to discourage tourist's decision to visit many countries and yet travellers of today are more cautious of situations that could pose potential risk to personal safety (Poirier, 1997; Olsen, 1996).

Not only does the level of risk prevailing in a country affect investments in the hotel industry but it also affects the kind of commitment of resources. If there is uncertainty about the political situation in a country, it is better to invest in a franchise than other kinds of participation (Rodriguez, 2002).

Lastly, proper tourism planning coupled with consistence in government policies are major determinants of investor's decisions. Developing countries face major challenges in terms of designing policy packages that can be more attractive to investors and tourism service suppliers (Endo, 2006). Based on tourism's role in economic development, it is no wonder that most developing countries have turned to tourism expansion as an engine of economic growth.

2.3 Tourism and development

Various governments, international funding agencies and the business community have always seen tourism as an effective tool for economic development (Ghimire, 2001: 6). Indeed, Governments of the Third World countries encourage tourism investment because of its expected economic contribution to development (Mbaiwa, 2005; NEPAD, 2004; Sharpley, 2002; UNEP, 2002). Many developing countries have turned to tourism as a possible alternative source of growth in order to solve the problems of declining terms of trade from agricultural products and high levels of protection against manufacturing (Sindiga, 1999; Oppermann and Chon, 1997). The main argument for tourism as a development strategy is primarily economic, although there are also social benefits such as bringing increased understanding between people and cultural improvement. Some of the major economic factors for developing tourism are generation of foreign currency, government revenue, employment opportunities, and regional development (Sindiga, 1999; Dieke, 2000).

2.3.1 Government revenue

Tourism fosters economic growth through foreign exchange and government revenue (Dieke, 2000). Tourism also generates direct and indirect revenues to government (UNEP, 2002). Direct government revenues are generated in form of licensing fees levied on tourism enterprises, income tax levied on individual tourism businesses, and workers in these enterprises. Indirect revenues are acquired from excise and customs duty levied on tourism-imported products. These goods include capital equipment, vehicles and drinks (Sindiga, 1999). Government revenues can help the poor indirectly; once the money received from the taxes is reinvested in schools and health care centres (Gerosa, 2003). According to Scheyvens (2002) and Gerosa (2003) tourism is a significant economic factor in 11 of the 12 poorest countries, which represents 80% of the world's poor. Furthermore, tourism contributes to economic development by providing foreign currency to many Third World countries. Foreign exchange earnings reduce trade account deficits. It is argued that tourism is extremely a very important source of foreign exchange for many Third World countries. Other than, petroleum products, tourism is

considered to be the greatest source of foreign exchange earnings in 46 of the 49 poorest countries in the World (Benavides, 2001; WTO, 2002).

2.3.2 Employment

Oppermann and Chon (1997: 16) have referred to tourism as 'a panacea for economic malaise and unemployment in developing countries'. For many countries, tourism is a major source of employment and incomes. It is argued that as compared to other sectors such as manufacturing, tourism development creates more employment opportunities. By and large, this justifies the reason for investment in tourism. In addition, tourism generates direct and indirect jobs. Direct jobs are generated through hotels, restaurants, tour agencies, nightclubs, taxis, and souvenir sales. Indirect jobs are generated through the supply of goods and services needed by the tourism sector, from other sectors such as construction, agriculture and manufacturing (Christie, 2001; UNEP, 2002). For example, in the case of Gambia, tourism provides 7,000 jobs both directly and indirectly (Sharpley, 2002). While in the Caribbean, tourism generates 560, 000 jobs directly and indirectly (Lockwood and Medlik, 2001). However, tourism employment has been criticized for being seasonal and unskilled (Sindiga, 1999).

2.3.3 Infrastructure development

Tourism is good at stimulating infrastructure given the fact that it requires other facilitating infrastructures in place. Tourism development can therefore induce the government to make infrastructure improvements such as better water and sewage systems, roads, electricity, telephone and public transport networks, all of which can improve the quality of life for residents and tourists. Infrastructure development in terms of roads and airports helps to open up remote areas (Sharpley, 2002; Oppermann and Chon, 1997; Sindiga, 1999). Through the tourism infrastructural facilities mentioned above, tourism has contributed to regional development by opening up remote areas and hence facilitating development for the poor through these infrastructures.

2.3.4 Tourism and poverty alleviation

Poverty alleviation in developing countries has become a contemporary issue. It was identified at several global summits for instance; The World Summit on Sustainability Development in Johannesburg (2002). Poverty alleviation has moved to the top of the world agenda. It should be noted that among the eight UN Millennium Development Goals (MDGs) poverty alleviation is given the highest priority. It is believed that if tourism is planned properly it can be a key factor in poverty reduction (UNCTAD, 2004). As mentioned above, tourism is an important economic sector among the poorest in the world, least developed and developing countries with the highest numbers of people living below the poverty line of US \$1 per day.

Tourism creates employment opportunities for the poor and even for the vulnerable groups, such as the youth, women and unskilled rural residents. Tourism also seems to offer business potentials than any other activity and it can reach the poor in the rural areas, where poverty is harsher. This is mainly because tourism is built on the natural and cultural assets and it is consumed on site (Gerosé, 2003; Goodwin, Meyer, Roe and Ashley, 2004). For many developing countries and small island economies, tourism constitutes one of the few viable development options (UNCTAD, 2004).

Despite the enormous contributions of tourism to poverty in developing countries, tourism has not been included among poverty reduction strategies designed to achieve Millennium Development Goals (Torres and Momsen, 2004; Gerosé, 2003; Goodwin, Meyer, Roe and Ashley, 2004). In Africa, it is evident that growth alone is not enough to stop marginalisation of the continent and to improve the standard of living of its people. Thus there is a need for pro-poor growth. Pro-poor growth is growth that enables the poor to actively participate in tourism and benefit from it economically. However, because of the potential of tourism to be 'a form of pro poor growth' tourism is indeed identified as one of the most important ingredients to attaining sustainable poverty reduction levels and the MDGs. Tourism has the potential to be pro- poor based on its role in supporting

the poor. Much as tourism has always been considered to be an engine for economic growth rather than a strategy for poverty reduction, Figure 2.1 shows various ways in which tourism is linked to poverty reduction and how it can contribute to development challenges of the poor (Gerose, 2003; Goodwin, Meyer, Roe and Ashley, 2004).

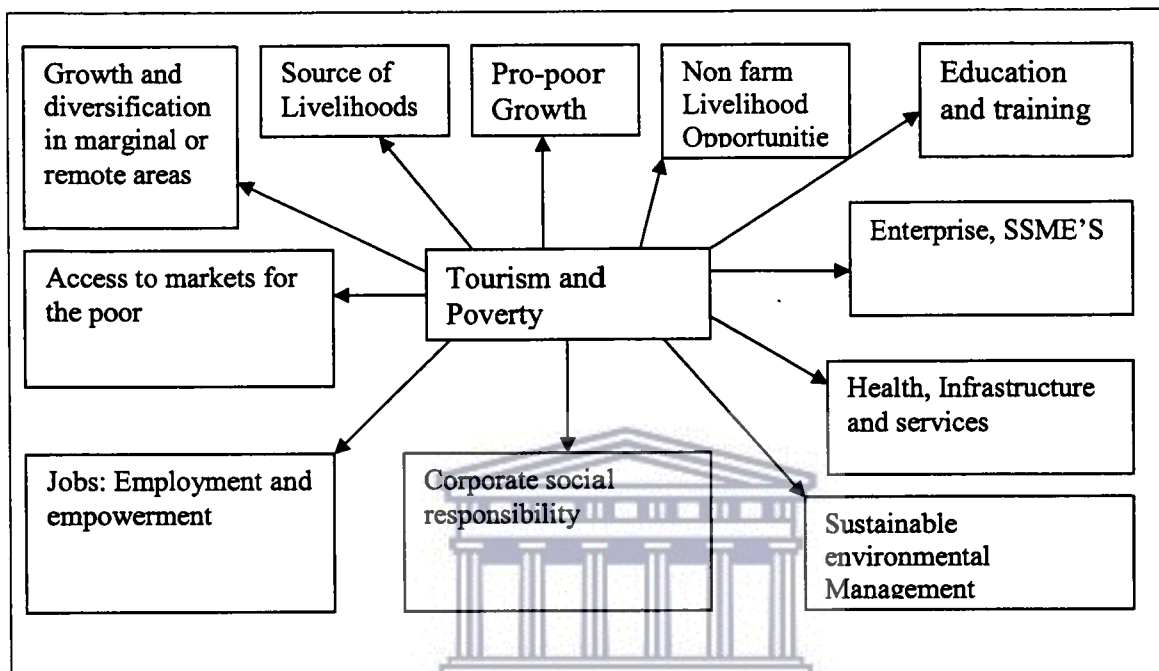


Figure 2.1: Linking tourism and poverty reduction (Goodwin, Meyer, Roe and Ashley, 2004: 2).

2.4 FDI trends in tourism

For over 25 years, the service sector has grown both within developed and developing countries (Kundu and Contractor, 1999). According to Gauci, Gerosa and Mwalwanda (2002) the world market for the service sector has been growing at an average rate of 5% per year in the last decade and it is projected to grow in this decade as well. The service sector has played an important role in contributing to overall development of many countries in terms of foreign earnings and GDP. Tourism is said to be one of the world's largest industries accounting for one third of the global service trade and yet the 'picture of FDI in tourism is unclear' and the percentage share of FDI in hotels has remained low

with 3% of inward stock and 1% of outward stock in 1990, 2% of inward stock and 2% of outward stock in 2002 (Endo, 2006). FDI has always concentrated in manufacturing but interestingly now is the fact that FDI has found its way into the service sector. Although FDI is considered to be less in hotels, overall, huge investments in most developing countries have been made in the hospitality and accommodation sector than any other sector in tourism (Benavides, 2001).

Concerning the direction of FDI flows between countries; developed countries have attracted more FDI than developing countries. In particular, tourism FDI is indicated to originate from developed countries. Developed countries are the main source of outward FDI stock. Kundu and Contractor (1999: 303) suggest that 65% of international investment in the hotel industry has taken place in developed countries. However, developing countries share of FDI in services is indicated to have increased from 1% in 1990 to 10% in 2002 (UNCTAD, 2005). Marta and Groizard (2004) also noted that FDI in the service sector in developing countries has increased by 100% from the last decade based on the fact that more than half of developing countries total FDI inward stock was in the service sector by 2000.

According to Broadman and Sun (1997) developing countries are now commanding a steady increase in the World FDI flows. FDI flows between developing countries are growing much faster than flows between developed countries and developing countries. It is estimated that by 2010, much of FDI flows will be originating from other developing countries such as India, China, Brazil and South Africa. 'South South FDI' is expanding rapidly' (Palmade and Anayiotas, 2004). Obviously the above shift in the direction of FDI has had implications to both the service sector and the recipient countries in terms of capital transfer, technology and managerial know how (UNCTAD, 2005). It is not only the direction of FDI flows that has changed but there has also been change in the FDI initial focus from natural resources, manufacturing and infrastructure to services such as banks, retail construction, insurance, tourism and telecommunication.

Rodriguez (2002) argues that tourism and leisure are being directed to less developed countries due to their lack of know how in management and financing of hotels and

tourist projects. Due to the above, developing countries are now in competition to attract FDI to their local hotel industry and as such many have already changed their policies on foreign investment in order to compete effectively in attracting international FDI to their local industries. For example, the steady growth of the tourism industry in recent years and development of the investor-friendly services in many African countries such as Zambia, Mozambique; Malawi has helped to attract more foreign investments in the tourism sector (Brown, 2000: 236).

The main reasons cited as to why FDI has shifted to services are: Increased role of services in the economic activity, because of the advantages that are derived from these services, competitive pressures, liberalisation, privatisation and the non tradable nature of these services (WAIPA, 2005). As mentioned above, one significant feature that has made the tourism sector more appealing in attracting FDI than other sectors is the non-tradability of the core services offered. Investors are compelled to invest their resources close to the market or the consumer in contrast to other services such as banking and insurance where advances in technology have made physical proximity less important. Service FDI is more prone than manufacturing to follow the client abroad (Kundu and Contractor, 1999: 302).

Unlike, Investment Promotion Agencies (IPA's) in developed countries whose main FDI target is computer and business services, 80% of all IPA's in Africa target FDI in tourism (UNCTAD, 2004). FDI in tourism is not abundant but many countries intend to attract it for tourism development. Brown (2000) noted that the percentage share of FDI in tourism is still low particularly in African countries compared to increasing business services, utilities and telecommunication services. Although hotels and restaurants represent the major portion of tourism, FDI evidence shows that there has not been much FDI in tourism especially in hotels and restaurants in developing countries (Endo, 2006). The only exception is in China where a lion's share of FDI is noticed in real estate sector especially in hotels and other tourism related services (Broadman and Sun, 1997).

The importance of FDI in the service sector is beginning to be realised now by developing countries more than ever. FDI combined with international cooperation have

found their way into global action plans such as the Johannesburg plan of action at the World summit on sustainable development. FDI is now considered to be among the key strategies for sustainable tourism development. Benell (1995) in relation to the above identified economic integration, increased exports and FDI to be the only way in which both developing countries and developed countries can achieve sustainable economic growth.

In order to increase investments and to attract more FDI in various sectors, tourism inclusive, Africa is trying to create a friendly investment environment. This follows the identification of tourism as the key engine of growth for African countries and the fact that tourism is the most recipient sector of FDI. Trade in tourism could build stronger supply capabilities, transfer of capital, generation of employment and technology transfer, support linkages with local enterprises and increase competition (WAIPA, 2005; DBSA, 2003). It is not therefore surprising that majority of countries in the world are trying to attract FDI in tourism so as to enjoy FDI led economic development.

African leaders through NEPAD have pledged good governance, peace and security in return for increased foreign investment. It is indicated that Africa has been marginalized due to its bad policies. It is also believed that the only possible way for Africa to become globally competitive is by attracting FDI. NEPAD has therefore pledged to build investor confidence and to challenge the negative image of Africa as a continent based on political instability, lack of infrastructure and rampant corruption (Tsheola, 2002).

2.5 Implications for tourism investments in developing countries

Tourism investments can bring both positive and negative effects to the host countries or destination areas. The positive aspects of foreign investments in tourism to developing countries include: Provision of financial capital investment, transfer of wealth, government revenues, technology transfer, human resources and managerial skills, creation of linkages and increased competition. Much as tourism investments can lead to positive effects to developing countries, there are also negative effects that are associated with it. Foreign investments come with costs such as foreign control of the tourism

industry, leakages of tourism earnings, transfer of payments, enclave type of tourism, investment risks and negative environmental and cultural consequences.

2.5.1 Provision of financial capital

Foreign direct investment in tourism has been referred to as 'a critical font for financial resources for tourism' (Gerose, 2003). Based on the fact that tourism investments require huge capital, it is very difficulty and risky for developing countries to invest in the hotels on their own without the support of multinationals. FDI could offset this problem by providing capital for tourism investment in developing countries (Endo, 2006; Brown, 2000; Kusluvan and Karamustafa, 2001).

2.5.2 Distribution of wealth

Financial capital is used as a means to transfer wealth and investment from richer countries to poor countries thus bridging the gap between these nations. The distribution of wealth is a result of tourist expenditures in the destination areas. Wealth is also distributed through investing in poorer countries tourism industries by richer countries. Developed countries contribute positively to the economic growth of poor nations through the tourism industry and thus wealth is redistributed through tourism investment development (Sharpley, 2002; Dieke, 2000).

2.5.3 Government revenues

Forsyth and Dwyer (1994) emphasizes that additional foreign and domestic investment could lead to increased foreign currency and hence better terms of trade. Tourism increases government revenue both directly and indirectly. The tourism sector can generate a lot of government revenues from investments such as hotels, restaurants and airports in form of taxes, sales, entrance fees and employee income tax. Governments can also acquire revenues from the purchase of privatized companies.

2.5.4 Linkages

Investment in hotels could stimulate linkages between tourism and agriculture in host countries. This is especially true with developing countries given the fact that a larger proportion of the populations in most developing countries depends upon farming. It is indeed, no wonder that government planners are keen at the extent of linkages that are created between tourism and agriculture. Tourism driven demand for food induce agricultural expansion and diversification of agriculture production. The strength of these linkages of course depends on other factors such as the level of tourism development, hotel industry, size and the class of hotels (Torres, 2003: 546).

However, several scholars have noted that tourism fails to create strong linkages with agriculture in that tourism tends to compete with agriculture for land and labour resources. It has also been noted that foreign owned or managed hotels cater for high-class tourists who prefer imported foods to locally grown products. This results in foreign exchange leakages. For example, most Caribbean resort hotels depend upon foreign imports (Torres, 2003). Botswana is also another good example, where tourism has created weaker linkages with agriculture because most food is imported from South Africa (Mbaiwa, 2002: 162).

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Multinational investments in hotels may stimulate domestic investment in host countries through competition and demonstration effect of local firms. In the case of China, FDI in the hotel sector led to significant contributions in terms of boosting local investments. In a period of ten years (1985-1995), foreign investments led to establishment of 3720 hotels, 3826 travel agencies and 34 airlines at the same time employing both directly 1 million people and indirectly 5 million (Qui, Chong and Ap, 1999).

In the case of hotels, it is argued that small locally owned hotels are more capable of maximizing hotel employment and net foreign receipts for developing countries because they make use of locally produced goods (Sindiga, 1999; Mbaiwa, 2005). Large-scale foreign owned tourism establishments are blamed for their impact on the environment.

They are usually associated with destruction of environment, loss of control of local resources and cultural alienation among the local population of developing countries (Brohman, 1996; Kusluvan and Karamustafa, 2001; Mbaiwa, 2005).

2.5.5 Human resource

One of the major important needs for development of tourism in developing countries is the development of human resources (Airey and Shackley, 1997). Lack of skilled personnel has become one of the main barriers for tourism development in many sub-Saharan African countries. Capacity building in tourism has become a necessary requirement for suitable tourism development. As a result of training skills offered by multinational companies, there is also a need to up-grade the skills of tourism employees (Marta and Groizard, 2004; Kusluvan and Karamustafa, 2001). Multinational companies have made a very significant contribution to providing training facilities of the workers because they possess well trained trainers and the training materials that are of international standards (Dieke, 2000).

2.5.6 Technology transfer and managerial skills

Multinational hotels provide technical and managerial expertise to developing countries. This is done both at pre-opening and during the operational stage of the hotel development. The pre-opening stage entails engineering, architecture interior design and staff training. While operation stage involves preparing of food, drinks, rooms, marketing, reservation systems, accounting and training. Technological adoption may take form of skilled workers. Multinationals have the ability to invest in direct staffing and resource costs (Dunning and McQueen, 1981). Technology also flows to indigenous firms through the movement of workers from one firm to another (Marta and Groizard, 2004). It is believed that managerial skills trickle down to local managers from expatriate staff. The existence of international hotels in many developing countries with no hotel and tourism institutions can facilitate training needs of workers. Hotels may act as practical training centres of workers in respective countries (Kusluvan and Karamustafa,

2001). It is also true to argue that technologically, MNCs in hotels are in a better position to transfer superior technology because of their trademark and quality reputation in the business world, but note should be made that the volume of technology transferred by multinationals is at times limited because MNCs try to protect their technological advantages (Marta and Groizard, 2004).

2.5.7 Superior promotional efforts and increased efficiency

Foreign investments in tourism may result in greater or superior promotional efforts in the home country of the investor, thus inducing higher visitor numbers from that country (Forsyth and Dwyer, 1994). However, it is important to note that foreign investments in tourism will only increase visitor numbers if only it can increase the attractiveness of the product. Dunning and McQueen (1981) suggests that international hotel chains possess superior marketing techniques, which are capable of entering new markets more easily than domestic hotels.

Local investors may also benefit from increased efficiency and improved quality of services that are brought by foreign investors (Forsyth and Dwyer, 1994; Kusluvan and Karamustafa, 2001). Foreign owned hotels are recognized for their high quality services brought about by their international management and business techniques. For example, in a study that was carried out on China's hotels, which compared the performance of hotels, indicated that high quality services, high profit levels and better performance were all found to be in overseas hotels owned by Hong Kong and Taiwan companies in China (Pine and Phillips, 2005).

2.5.8 Urban regeneration

Urban tourism investments are a strong factor for economic regeneration of the city. Several potential benefits have been sited to be associated with tourism regeneration such as economic benefits, improved image and improved quality of life for the residents (Rogerson and Kaplan, 2005; Sharma, 2006). Internationally, tourism investments can lead to global integration. In line with that Gerose (2003) purports that FDI in African

tourism can raise the chances of African destinations to be reorganized in the global tourism market, as is the case for North African countries.

Part of urban regeneration is the development of tourism related facilities and infrastructure that comes along with development of accommodation in the area. In terms of the tourism development, accommodation is a fundamental element of the tourism product (Sindiga, 1999; Sharpley, 2000). Accommodation is the largest and most ubiquitous sub sector within tourism economy, it also accounts for almost one third of the total trip expenditure and indeed it is regarded as an essential ingredient of the tourism experience. The total supply of the bed spaces in relation to the destination arrivals could have a powerful influence on occupancy levels, profitability and investment. While the physical location, density and the quality of accommodation could contribute to the development of infrastructure and tourism related facilities. All in all accommodation facilities have a powerful influence on the overall success and development of tourism in developing countries (Sharpley, 2000: 275-276).

2. 6 Potential costs of foreign investment in tourism

Despite the benefits that are associated with foreign investments, its potential costs to developing countries are several.

2.6.1 Foreign ownership, dependency and leakages

Foreign investment in tourism can lead to loss of control of the tourism sector and foreign dependency. For instance in Botswana, foreign companies and investors dominate the ownership of tourism facilities in Okavango Delta. About 79% of the tourism activities are foreign owned (Mbaiwa, 2005: 162). This contributes to overseas leakage of tourism earnings, lack of articulation with other economic sectors and lower multiplier and spread effects outside the tourism enclaves (Brohman, 1996; Christie and Crompton, 2001; Mbaiwa, 2005).

According to Oppermann and Chon (1997: 40) the tourism industry has been used by developing countries to 'perpetuate' the dependency of the developing countries. It is

further argued that developing countries are kept in a dependent position to the developed world. The dual relationship (centre and periphery) mainly benefits developed countries while developing countries are left to suffer. International tourism is dominated by industrialised world. Third World countries are said to exist in the state of underdevelopment as a result of the historical evolution of a highly unequal international system of the rich-poor country relationship (Sharpley and Telfer, 2002).

The sad reality about international tourism is not only that it is controlled by the wealthy spending countries but it is also conducted for the purposes of making profit to the companies based in the same wealthy countries (De Beer and Wheeler, 1997). Vertical integration through the combination of many agencies such as hotels, tour operators, airlines and ground agencies is designed in most cases for profit maximisation of different companies based in the same country. Forsyth and Dwyer (1994: 519) similarly argues that vertical integration cuts down on transaction costs between firms thus this benefits the mother companies in developed countries. Local elites have also been blamed for serving the interests of multinational corporations and agencies (Sharpley, 2002).

Tourism investment like in many other service sectors has got a high import intensity, which leads to leakage problems especially from the luxury tourism in low-income countries. Capital and consumption goods not available in the country are imported and profits are remitted thus reducing earnings generated from tourism. It is further argued from the dependency theorist's view that mass tourism development is more beneficial to capitalist-tourism generating countries. Goods and services needed are imported from developed countries and international companies are made use of in transporting tourists to various places. As a result it creates the development of enclave type of tourism leading to a lot of leakages, loss of control over foreign investment and ownership (Maryam, 1997: 989).

Brohman (1996) also argues that excessive foreign exchange leakage in developing countries is caused by lack of articulation of tourism with other parts of the local economy such as agriculture.

Foreign earnings are lost to developing countries due to the structural dependency that is created through foreign ownership, control and management control of tourism industry in the Third World countries. Tourism earnings leak to the outside through remittance of profits to the mother companies; payment of expatriate staff salaries and through the use of imported goods to supply the tourism industry. This in the end puts a heavy burden on the country's balance of payments (Brohman, 1996). For example, countries such as Gambia with a less diversified economy has suffered most from such leakages and hence reducing the economic benefits of tourism (Sindinga, 1999).

2.6.2 Transfer payments

In sum, foreign tourism investment is usually associated with transfer payments. This is done when services that are to be offered in the destination area are paid for in the country of the tourist origin thus reducing profits in the destination country (Mill and Morrison, 1998). When tourists are on package tours, they are usually transported from international terminal points to hotels, lodges and resort enclaves. In the actual sense, tourists are found of travelling between resort clusters and primary urban centres. The effect of paying for tourist's services in the country of origin is that tourist's expenditure has less economic effect on the host country (Mbaiwa, 2005). Take for instance, the case of Maldives whose economy entirely depends on tourism, 91% of the tourists in 1991 who visited were on package tours, this meant that a small number of tourists were to be served by the local tour operators hence less tourism expenditure within the Maldives economy.

2.6.3 Enclave type of tourism

Enclave tourism has been referred to 'as a kind of internal colonialism' (Mbaiwa, 2005). This type of tourism development is blamed for not only serving the interests of the few elites and the tourists but also leaving the majority of the populace with a small proportion of benefits thus leading to economic disparities and social polarization (Oppermann and Chon, 1997). Brohman (1996: 51) notes that enclave type of development leads to 'a truncated' type of development that excludes the majority of the people in participating in their developmental issues. Tourists are confined in their hotels,

coaches or inside sites and the community members wishing to sell goods to tourists are only reduced to hawking at the enclave entry and exit points (WTO, 2002).

In the case of Botswana, foreign companies in tourism have not contributed to the development of the local communities since most of the companies are foreign owned as mentioned above (Mbaiwa, 2005). Tourists fly in from developed countries upon arrival and they are soon taken to exclusive camps in the Okavango Delta. They only come back after some days on their way home. This shows that there are no minimal chances of interacting with the local communities and spending money within the local economy.

In terms of linkages, Tilman (1994) argues that the enclave type of development leads to the promotion of a few economic and cultural linkages at the local and the regional level. With growth of 'all inclusive packages' whereby after initial payments, tourists do not pay for anything while at the resorts the management of the resort enclaves only caters for the interests of the tourists and a few elite. It is further argued that financial benefits that are received from luxury tourism developments in the Third World countries are not beneficial to the people at the grass root level for they do not trickle down to the local communities (Scheyvens, 2002).

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2.6.4 Negative environmental and cultural consequences

Tourism has both negative and positive effects on the environment. Large scale and foreign owned enterprises have in most cases been associated with environmental destruction and cultural alienation among the local population (Brohman, 1996; Kusluvan and Karamustaafa, 2001). It is has also been observed that more tourism leads to environmental degradation and overcrowding of the tourism infrastructures. Tourism degrades the natural resources on which it is based due to over use and unsound environmental practices on natural resources such as coral reefs, beaches, forests and seas. However, much as tourism degrades the environment, tourism is motivated by a desire to visit environmentally attractive areas such as natural reserves (Forsyth and Dwyer, 1994).

In cultural terms, multinational hotels are often accused of transforming the developing world towards westernisation in terms of value systems, beliefs, lifestyles and consumption patterns (Kusluvan and Karamustaafa, 2001). It should also be noted that large scale foreign owned enclave resorts have been associated with cultural alienation, loss of control of resources, declining quality of life and rising feelings of loss of control (Brohman, 1996; Kusluvan and Karamustaafa, 2001; Mbaiwa, 2005). Particular advantages and disadvantages of hotel investments to host countries in relation to the kind of involvements undertaken by the investors are summarized in Table 2.1.

2.7 Conclusion

In conclusion, tourism was developed by developing countries in the first instance for its potential in bringing about regional balance. After the Second World War, many developing countries in the South were still considered to be backward when compared to the Northern countries. Tourism was then developed to benefit peripheral regions in the South (Oppermann and Chon, 1997). Tourism was also perceived to be a modernising force. Tourism development would bring about new ways of life as opposed to the traditional ways of life that most developing countries were experiencing at the time. Western culture was considered to be 'a world culture'. Tourism was assumed to bring about increase in technology, employment opportunities, generate foreign exchange and attract development capital from the North (Telfer, 2002).

Tourism was linked to development through different theories such as modernization, dependency and neoliberalism. Modernisation theory was replaced by dependency theory after realising that tourism developed based on modernisation theory could lead to lack of control of the tourism industry, high capital flight and eventually neo-colonialism (Telfer, 2002).

Table 2.1: Advantages and Disadvantages of Hotel Investments to Host Countries

Form of investment	Benefits to host country	Costs to host country
<u><i>Total ownership</i></u> 100% of equity by a foreign subsidiary; may be for an unlimited time or a specified period.	No financial risk to host economy	Large outflow of income ('leakage') Difficulty to reflect government policy for tourism
<u><i>Joint venture</i></u> Partial ownership by foreign capital; an unlimited time or a specified period.	Access to capital Access to international marketing Reduced income leakages	Requirement for the level of base capital Risk more widely spread Possibly unfavourable contracts due to limited bargaining power
<u><i>Franchising</i></u> The right to do business in a prescribed manner under an existing brand name sold to a local firm	Transfer of managerial and marketing skills Assured standard of quality Brand image	Management risk is with host country's firms
<u><i>Management contracts</i></u> Business is controlled and managed by a foreign firm, but without ownership	Possible transfer of knowledge, skills, and technology (e. g , GDS) through a co-operation agreement	No control over finance, management, or planning of firm
<u><i>Hotel consortia</i></u> Independent hotels pool resources to compete with integrated and franchise chains	Joint national and international marketing efforts	Small hotels may not be considered attractive to consortium Initial lack of brand recognition
<u><i>Full national ownership</i></u> Domestic investment without foreign links	Reduced international leakage Independence in corporate strategies	Lack of International reputation Higher marketing costs

Source: UNCTAD (1998: 9-10) Tourism Statistics and International Trade Statistics: Challenges and Research Needs.

Like modernism theory, dependency was also criticised. Tourism from the dependency theory point of view was seen to benefit developed countries than developing countries. It

was criticised for emphasising external conditions such as international mass tourism. Tourism demand originated from developed countries, multiplier effects in developing countries were less than expected and tourism led to high dependency on foreign capital and management personnel. Based on the above, tourism was therefore considered not to be a powerful development agent in developing countries (Mbaiwa, 2005). Dependency was then replaced by Neoliberalism.

Neoliberalism emphasised outward oriented development strategy. This strategy encouraged the growth of new sectors such as international tourism, export oriented industries and non traditional exports, growth would be stimulated based on the comparative advantages of Third World Countries (Brohman, 1996; Torres and Momsen, 2004).

IMF and World Bank found their way into the foreign tourism investments in developing countries. Developing countries were forced to adopt policies such as privatisation of state enterprises and liberalisation of the economy in order to qualify for structural adjustment lending. Due to the fact that tourism investments are capital intensive, huge tourism companies are known to originate from developed countries which are wealthier. It became apparent that these loans were only benefiting the transnational companies in developed countries than developing countries. Tourism development in developing countries was characterised by all the negative aspects of loss of control of the tourism industry such as foreign exchange leakages, low multiplier effects and reinforcement of patterns of social-economic inequality. Neoliberalism also faced criticism for focusing on international trade without regard for developmental goals that can lead to a balanced growth and uplift the standard of living for the popular majority (Brohman, 1996).

Tourism investment policies based on the available literature are regarded to be essential for proper tourism planning and development. While planning, tourism should also be part of the broader economic frameworks of developing countries in order to achieve sustainable development from tourism (Jenkins, 2000; NEPAD, 2004).

Tourism investment environment in developing countries has been constrained by many factors. These include poor infrastructure in terms of roads and airports, inconsistent government tourism policies and stringent regulations, small markets for tourism services, lack of human resource, constant political instabilities, poor image abroad and lack of adequate financial institutions to support investments (Brown, 2000).

Currently, there is not much FDI in tourism and hotel investments in developing countries but there is a clear indication that there will be more investments in the tourism sector particularly in Africa after the implementation of several strategies that were designed for the promotion of tourism on the continental level.

Tourism is widely endorsed by governments for its economic benefits (Sharpley, 2002; WTO, 2002). It has the potential to contribute to economic development by generating foreign exchange, creating employment opportunities, improving the existing infrastructure, alleviating poverty and bringing about regional development.

Although foreign tourism investments in developing countries are not much, we cannot ignore their positive implications to the host countries. In sum, foreign tourism investments benefit host countries in many ways. These include:

- Provision of investment capital.
- Generation of employment and government revenues.
- Transfer of technology and management skills to the workers.
- Increased efficiency and superior promotional efforts.

Despite the above mentioned benefits of foreign tourism investments, foreign investments are associated with negative effects to host countries such as foreign ownership and dependency. Foreign ownership of the tourism industry is characterised by high leakages in terms of incomes, low multiplier effects outside tourism enclaves and it reinforces social economic disparities. Foreign investments are always associated with negative environmental negative impacts such as overcrowding of tourism infrastructures and pollution (Brohman, 1996; Mbaiwa, 2005). The next chapter is the overview of Rwanda National Tourism Policy.



CHAPTER 3: RWANDA TOURISM POLICY

This chapter provides the background information that guided the formulation of Rwanda National Tourism Policy. In addition, it presents an overview of Rwanda's tourism potential, current situation, and constraints. Lastly, it discusses Rwanda's tourism policy main objectives and strategies as stipulated in the policy.

3.1 Background information to the formulation of the tourism policy

Tourism is one way in which Rwanda can achieve its development goals as stated in Vision 2020.⁴ Tourism development in Rwanda is not only aimed at achieving economic gains that are associated with tourism but it is also another way towards achieving other long-term development objectives such as those sited in Vision 2020. Some of its objectives include: job creation, strengthening of professional competencies, participation of local communities in the tourism sector, improved use of information communication and technology, strengthening of public-private sector partnership and development of agro-tourism.

Tourism has the potential to do a lot of things. In Rwanda's case, it is viewed by many as a way of diversifying its economy and promoting investments hence creating more jobs. With the above in mind, tourism is considered as a profitable venture for Rwanda's economy worth the attention in formulation of strategies.

Part of the national objective is also to attain the MDGs for instance, poverty reduction, environmental sustainability and promotion of gender equality. Tourism has a major role to play in as far as eradicating extreme poverty and hunger is concerned in Rwanda. It is also capable of increasing the service share of GDP through the creation of jobs and incomes to the poor and thus a better life for all Rwandans. If managed properly, Rwanda's tourism can contribute to environmental sustainability through conservation (MINICOM, 2006).

⁴ It is the long term development plan for Rwanda, identifying principle goals to be reached so that Rwanda may become a middle income country by the year 2020 (ILO,2004).

Without a tourism policy in place it is hard to coordinate all stakeholders in the tourism industry. Tourism being a multisectoral activity, it was found necessary to have a policy in order to govern and coordinate tourism activities in Rwanda. The multisectoral nature of tourism has always posed a problem to policy makers (Jenkins, 2000). For instance, in the case of Rwanda, The National Tourism Policy has to cater for tourism promotion, the improvement of the tourist's sites, development of tourist infrastructure, as well as development of entrepreneurship spirit in the hotel and hospitality industry. All these activities have to be coordinated through the policy.

Based on the crucial role the private sector is expected to play in tourism development in Rwanda more especially in developing the hotel and hospitality sector, it was vital to consider the role of the private sector in tourism development through the policy document. The public sector will be in charge of administration and putting in place strategies, policies and development of the basic tourism infrastructure.

According to Jenkins (2000) tourism policy provides a framework for tourism planning. As far as tourism is concerned in Rwanda, there was no accurate legal framework supporting the current issues facing tourism. It therefore necessitated the need for a tourism policy. The only available plan was the tourism master plan developed in 1989 (MINICOM, 2006). However, the World Tourism Organization (WTO) is working in close cooperation with the Ministry of Commerce, Industry and Tourism (MINICOM), in order to develop an action plan for the rehabilitation of tourism.

3.2 Institutional framework

Implementation of Rwanda's tourism policy can only be achieved if there is close cooperation between public and the private sectors, financial institutions and non-government organizations. Following are the institutions that will see the implementation of Rwanda's tourism policy.

- ORTPN is in charge of tourism promotion, development and conservation.
- MINICOM is the main government body in charge of tourism development.

- Local authorities have got a role to play as far as planning for community projects are concerned and ensuring proper use of resources.
- All private sector stakeholders have a role to play in ensuring the implementation of the policy, for instance, in the case of tourism investments, the private sector is supposed to invest in tourism experiences and amenities such as hotels and restaurants as well as offering high quality services. Overall, there should be coordination between the private sector, government and the communities in order to promote the tourism industry.
- NGO's are expected to play a vital role more especially in community-based tourism and protection of the environment, through provision of technical skills and know how to the communities (MINICOM, 2006).

In order to provide a better understanding of Rwanda's tourism policy, an overview of the tourism sector is provided below, before the actual discussion of the main objectives and strategies of the national tourism policy.

3.3 Overview of Rwanda's tourism industry

Like any other sectors of the economy, Rwanda's tourism was gravely affected by the 1994 genocide and war. Rwanda's tourism sector was once at its peak in 1980's. Tourism receipts were increasing year after year. Due to this, the tourism sector was ranked the third largest earner of foreign exchange next to tea and coffee. Rwanda is looking forward to returning to those old days when tourism was a principle engine of economic growth (Gerose, 2003; AIPA, 2002). As said above, tourism was affected seriously by the war. For instance, tourist numbers decreased from 39,000 tourists in 1984 to none in 1994. For more details on tourism arrivals to Rwanda between the years 1984-2001, please see Figure 3.1.

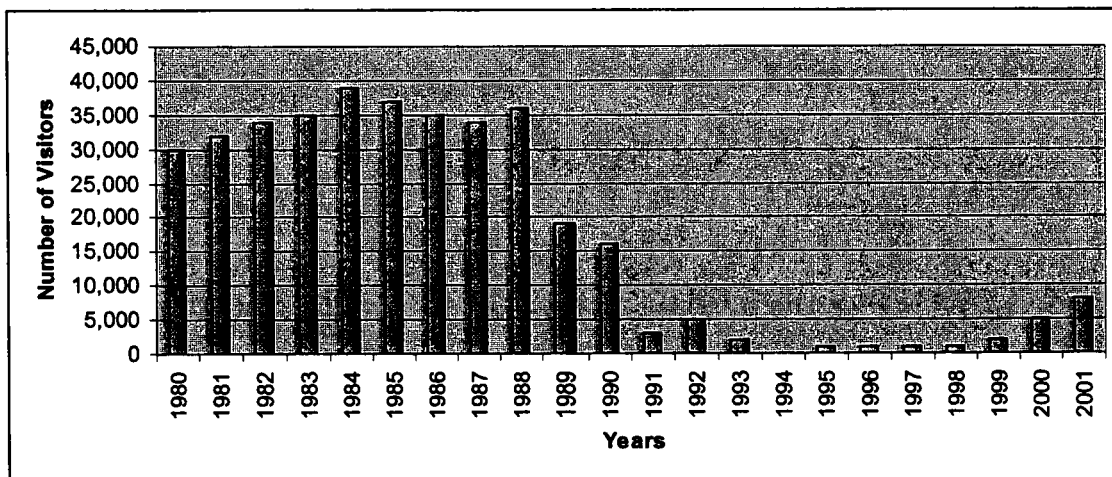


Figure 3.1: Tourist Arrivals in Rwanda 1980-2001.

Source: Adapted from Tourism Strategy (2002: 10).

With regard to tourism attractions, Rwanda is endowed with a lot of tourism attractions. Rwanda's principal international attraction is found in its natural environment, specifically within the country's natural parks. Given the unique appeal of mountain gorillas in Rwanda, it is no wonder that the overwhelming majority of international tourists who visited Rwanda during the past decade were mainly those who wanted to engage in gorilla trekking (AIPA, 2002: 53). The rainforest-covered slopes of central Africa's highlands of Rwanda and its neighbours Democratic Republic of Congo (DRC) and Uganda are home to endangered mountain gorillas (Scheyvens, 2002). Rwanda's attractiveness in terms of wildlife and unspoiled wilderness lies in its national parks, namely: Volcano National Park, Nyungwe Forest and Akagera National Park.

Rwandans like many other East African people have a unique culture and history that is made up of diverse people with fascinating artist's culture. Rwanda is also known for its expressive and beautiful dance. As far as Rwanda's history is concerned, the museum has a story to tell about Rwanda's history and culture. The second Rwanda's biggest city, Butare houses the museum where tourists are able to see and have a feel at the available

artefacts. The king's palace is also situated in the same direction which also allows tourists to know about Rwanda's past (MINICOM, 2006).

Other tourist attractions in Rwanda are Lake Kivu which is renowned for its beautiful scenery and sports attractions, Lake Muhazi, Bolera, Ruhondo and Rusumo water falls. In Kigali there are several attractions such as Gisozi genocide memorial and several hotels and restaurants.

Rwanda's tourism industry has experienced a revival since 2002. Both domestic and international tourism receipts increased. This strong growth was a result of the adoption of Rwanda's Tourism Strategy and the designation of tourism as a priority sector (MINICOM, 2006). Based on the statistics from MINECOFIN (2005) tourism was one of the best performing sectors in the economy in 2004. Tourists to the national parks increased by 63% with tourist numbers rising from 15,000 in 2003 to 26,900 in 2004. This year saw the increase of both international and domestic tourists. Domestic tourists increased from 5,880 to 12,061 while international tourists increased from 10,658 to 14,397 (MINECOFIN, 2005). Detailed information concerning the increase in the number of tourists is explained in Table 3.1.

Table 3.1 Selected tourism indicators

Visitors to national parks	2003	2004	% Change
Foreign	10,658	14,397	35.10%
Rwandan	5,880	12,601	114.30%
Total	16,538	26,998	63.20%
Air passengers			
Rwanda Air	27,360	48,484	77.20%
All airlines	116,638	132,504	13.60%
Tourism receipts			
USD (Millions)	30.1	43.5	44.50%

Source: MINECOFIN (2005).

Despite significant progress in Rwanda's tourism sector, Rwanda's tourism is faced with a lot of limitations that deter its development. Following are the constraints that Rwanda's tourism faces: Perception that Rwanda is not a safe destination, political instability in the region, limited tourism accommodation at key tourist sites, limited air lifts to her main tourism markets, limited range of tourism experiences, lack of reliable statistics on tourism and a low pool of specialized tourism skills.

3.4 Rwanda national tourism policy objectives and strategies

Rwanda National Tourism Policy was adopted from the Rwanda Tourism Strategy which was also adopted in 2002. The Strategy was first approved by the Rwandan cabinet and later adopted as the official National Policy on tourism in 2006.

3.4.1 Vision

Rwanda's vision of the tourism industry is aimed at diversifying the economy in order to create more opportunities for the Rwandan population; the private sector and the community at large. This can only be achieved through sustainable tourism promotion by all stakeholders in order to benefit the communities surrounding the parks and to improve the quality of life for all Rwandans.

3.4.2 Objectives

Rwanda's tourism policy objectives have been classified into four sections: Economical, social, environmental and cultural. Economically, Rwanda's tourism policy is focused at increasing foreign exchange earnings and government revenues through longer lengths of stay and high daily expenditure. Overall, the government's target is to attract 70,000 visitors by 2010, who can spend US 1,400 dollar each during a seven-day stay in the country. This can enable them achieve their set objectives and goals by 2020 (MINICOM, 2004). Detailed policy objectives are presented in Table 3.2.

Table 3.2: National Tourism Policy objectives

Economic objectives	Social objectives	Environmental objectives	Cultural objectives
Increase foreign exchange earnings and generate government revenues	Promote favorable image to the outside world	Promote tourism that is ecologically friendly	Emphasize development of tourism based on Rwanda's cultural diversity
Generate employment opportunities	Increase awareness of responsible tourism	Develop facilities in national parks in accordance with park management plans	Develop cultural attractions
Promote rural economic development	Provide and maintain a legal framework according to international norms	Provide and maintain a legal framework according to international norms	Develop cultural values
Stimulate infrastructure			
Enhance regional and international tourism linkages			

Source: Constructed by the author based on the information from the National Tourism Policy, 2006.

3.5 Specific policy objectives

Specific strategies need to be developed and implemented in specific areas in order to be able to achieve the objectives that are indicated in the policy. The following section discusses specific policy objectives in Rwanda's National Tourism.

3.5.1 Marketing

Rwanda should in the first instance be marketed as an open tourism destination by passing on information that rejects the perception that Rwanda is not safe. In terms of image building, The National Tourism Policy seeks to improve Rwanda's image internationally. Rwanda's tourism action priorities are centred on improving her image through extensive marketing activities, enhancing Rwanda's tourism product and rebuilding of the agency responsible for tourism and conservation in the country. According to Grosspietsch (2006) Rwanda's image in relation to its neighbours; Kenya, Tanzania and Uganda; is appalling. Rwanda was perceived to be of a less quality destination. Most of the international visitors had neither heard or knew little about Rwanda. While others believed that Rwanda was an unsafe destination. Image building could therefore help to open up the country to both tourists and investors.

At the moment Rwanda has been established as an open destination and a lot has been done to reject the perceptions of insecurity in Rwanda. A lot of resources have also been allocated towards rebuilding her image. For instance, Rwanda was officially launched as a tourism destination at World Travel Market (WTM) in London in 2003 (MINICOM, 20006). At the WTM in 2003 the country's tourism aggressive growth was presented to the United Kingdom (UK) travel trade. This move explains the government's commitment to ensure that tourism plays a central role in rebuilding of the country's economy. The government has committed itself to ensuring tourist safety and creating of a stable political economic climate to facilitate tourism growth. A strong investment commitment was also echoed at the investment seminar (Rwanda News, 2003).

Rwanda has also opened up a tourism public relations office in London. As a result of this, tourists have started to have a positive attitude towards Rwanda as a tourism destination unlike those past days when there was no such an office in London. It is ORTPN's wish to open up similar offices in other places such as France and Asia. However, because they are limited by lack of funds, they are unable to have offices in different regions like other neighbouring countries which have been able to boost their countries images abroad (Mulisa, 2005).

The other marketing aspect that is equally important is to understand customer needs and to deliver the products that meet their needs with adequate and skilled staff. The policy's marketing strategies include identifying and targeting the markets with potential, for instance, promotion of Rwanda's natural attraction, diverse cultural tourist attractions and Rwanda's position as a high end eco-tourism destination, supporting of promotional activities of other operations such as hoteliers, tour operators, travel agents, transport companies and providing pre and post vacation information to ensure customer satisfaction (MINICOM, 2006).

3.5.2 Product development

Rwanda's tourism product needs to be upgraded both in terms of physical products and services in order to meet the targeted market segments. In terms of the product, tourism in Rwanda has mainly concentrated on gorilla tourism (MINICOM, 2002; Mazimhaka, in press). There is need to diversify tourism attractions so as to achieve a balanced growth. This can be done by developing cultural attractions and upgrading of tourist facilities in areas such as accommodation and service infrastructure.

With regard to regional balance, there is need to implement tourism in five regions of Rwanda, Kigali, Butare, Akagera, Kivu, Nyungwe and Ruhengeri. This is mainly because most of the tourist's attractions are situated in other towns, Kigali has nothing much to offer to tourists. Focus should then be put on increasing city attractions such as botanical

gardens, shopping centres, theatres, nightclubs and improving the packaging of tours, hotels and amenities. Overall, there is need to encourage urban tourism development. Urban tourism development has its own advantages such as portraying of a positive image of the city, attracting visitors, stimulating urban economy and improving the quality of life of the residents (Rogerson and Kaplan, 2005). At the moment in Kigali, hospitality attractions are not well packaged and marketed which results in few numbers of tourists to Rwanda and yet this sector presents great opportunities for growth and economic spin-offs in terms of jobs, incomes, government revenues and contribution to economic development (KEDS, 2002).

3.5.3 History, culture and natural environment

Cultural tourism is one of the pillars of diversification. For instance, in Rwanda's case, cultural tourism would serve to diversify the country's tourism product from nature based tourism. The main guiding principles in the aspect of culture are development and promotion of cultural performances and products that are locally manufactured. Cultural performances include: Festivals, exhibitions and dance performers, handicrafts, visits to the museums and other historical sites. There is also need to ensure existence of cultural and community guidelines prior to any investments in cultural tourism related projects.

Tourism in Rwanda has been dependent on natural tourist attractions and the environment such as national parks. For the continued existence of these attractions there must be proper conservation and sustainable management of the environment. This can be achieved through developing environmentally friendly tourism guidelines, putting in place mechanisms that can ensure tourist's respect for activities such as wildlife biodiversity, beaches and creating sustainable environment awareness among tourists and local population and sensitizing them on the need to respect nature and conserve the environment.

3.5.4 Domestic tourism

Like in many developing countries, domestic tourism in Rwanda has not received much attention as their prime focus is on wealthy international tourists (Ghimire, 2001: 2; Jenkins, 2000). Though the importance of domestic tourism in developing countries has grown, tourism policies in developing countries have in most cases tended to concentrate on expanding international tourism arrivals from the North ignoring the benefits of domestic and regional tourism. For instance, in the case of Nigeria, although domestic tourism in 1980s was seen as an important nationalist factor, the government policy on tourism emphasized promotion of international tourism in order to generate more foreign exchange (Ghimire, 2001).

It is argued that although Rwanda's Tourism Strategy has directed much of its efforts on the development of international tourism for significant foreign earnings, she should not ignore the potential of domestic tourism (Mazimhaka, in press). Some of the arguments advanced in favour of domestic tourism development in Rwanda are first of all, its potential to contribute to a more sustainable tourism industry. Secondly, development of domestic tourism can contribute to national development by reducing poverty levels. Lastly, and most important contribution of domestic tourism development is its potential to contribute to the rebuilding of post-war Rwanda in terms of unity and reconstruction. Similarly, *The Economist* (20th June, 2006) suggests that tourism can help 'heal the wounds inflicted by the genocide'.

Apart from lack of government emphasis on domestic tourism, there are other stumbling blocks in Rwandan tourism industry such as lack of tourism culture, insufficient information on tourism attractions, expensive accommodation costs and other financial limitations that lead to less spending on tourism by nationals. Based on the above, very few Rwandan citizens have had the chance to experience Rwanda's tourist attractions. In order to promote domestic tourism specific programs have been put in place such as establishing special rates for both citizens and foreign residents to different tourist

attractions, encouraging public and private institutions to hold conferences in tourism areas and setting up tailor made programs during low season and festival periods.

3.5.5 Investments and financing

For investors interested in the development of quality tourism, Rwanda is a very attractive place in terms of investments. There is much potential for investments in the tourism sector. As mentioned earlier, the government has created conducive investment environment, which is aimed at attracting both local and foreign investment finance. Much emphasis will be made on investment and finance that is able to develop and promote quality and sustainable tourism products. Following are the strategies for investment and finance:

- Disseminating information on the tourism investment opportunities available in the industry to potential investors within and outside the country.
- Promoting tourism as 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 the effective development and marketing
- Facilitating in loans, equity and technical assistance for medium and long term tourism financing.
- 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).

3.5.6 Community participation and the role of women

Based on the fact that most tourist attractions are found in rural areas and about 90% of Rwanda's population live in rural areas. In most cases you find communities living side by side with the tourist attractions. It is therefore important that communities living within and around these facilities are fully involved in the development and management of these attractions in order to benefit from them economically. The policy strategies for community participation are first of all focused on educating and sensitizing the communities to appreciate and value the tourism attractions. Secondly, they are aimed at educating and sensitizing developers and investors to value and respect local community's rights, traditions and customs.

On the other hand, tourism developers should also ensure that local communities are fully involved in the development and management of the tourism attractions and to get a share of the income from national parks. So far, according to the Director of the tourism board office, Rwanda has managed to contribute to communities living around the parks in revenue sharing schemes an annual amount of FRW 42 million (Musoni, 2005). Similarly, *The Economist* (20th June, 2006) suggests that 5% of the income that is generated from state owned national parks is given to local communities to spend on their own projects.

The role of women in tourism development in rural areas cannot be ignored. Women have important roles to play in the development of responsible tourism. It is clear that most women in Rwanda are involved in making of tourist's souvenirs, which include pottery, weaving cloth and they are also vendors of local foods and active members in cultural tourism activities. Based on the above reasons, it is important to ensure respect for women in development, marketing and promotion of tourism. Women's role is to reorganize themselves by being more actively involved in community tourism projects that will have positive environmental, social and economic impacts and to create awareness among community members of the potential of tourism to generate growth and

development to the community. Overall, they should assume more roles in the development of sustainable tourism as policy makers (MINICOM, 2006).

3.5.7 Human resource

Rwanda recognizes tourism's capacity to create employment. In view of this, capacity building is essential for Rwanda's tourism development. In order to meet the set objectives in the tourism policy, it is essential that those involved in the tourism industry ensure that customers obtain good value for their money and quality services. This can be done through skills and service training and investing in training of local personnel at all levels for the industry, introducing tourism as a subject in institutions of higher learning and establishing adequate tourism training facilities. Without this, it will be difficult for Rwanda's tourism industry to provide quality services that tourists expect (MINICOM, 2006).

3.5.8 Infrastructure development

Rwanda is aware of the importance of tourism infrastructure such as transportation, telecommunication, existence of high end accommodation facilities, restaurants, supply of water and energy. Policy strategies are therefore aimed at providing well maintained roads that can provide access to tourist attractions and are also geared at supporting the renewal, upgrading as well as development of accommodation facilities bearing in mind that inadequate infrastructure is one of the constraints for tourism growth in Rwanda (MINICOM, 2006).

3.5.9 Land

Tourism activities and investments depend on land as a major resource and it is upon the land that all natural tourism attractions are based. It is crucial that there are clearly defined procedures for proper management of land for tourism related investments to ensure the quality of tourism services. Policy strategies for tourism on land include the following: To develop tourism plans for areas set aside for tourism and ensuring that an environmental impact assessment is done, work in partnership with relevant authorities

on issues of land in ensuring that areas identified for tourism investment and activities are developed in an environmentally sustainable manner.

3.6 Conclusion

Tourism is indeed an important sector for Rwanda. It contributes to employment opportunities, incomes and diversification of the economy. Tourism development could also help Rwanda to achieve other long term development goals such as Vision 2020 objectives and the realization of the MDG's. Tourism being an economic activity with a lot of potential, Rwanda deemed it necessary to have an accurate legal framework or policy in place to guide its development.

Although tourism in Rwanda was seen to have been affected so much by the 1994 war and genocide, based on the progress to-date in terms of numbers, tourism still has the potential to grow and contribute to Rwanda's economy. Tourist numbers have been increasing yearly since 2002.

Despite increasing tourist numbers, a number of other factors have undermined Rwanda's tourism sector. These are the nation's poor image, political instability, and limited number of accommodation, lack of infrastructure and lack of skilled personnel. Implementation of various policy strategies mentioned in this chapter can be very useful in terms of promoting the hotel and accommodation sector in Kigali city and Rwanda in general.

The following Policy issues are fundamental for the development of the hotel sector:

- Marketing Rwanda as an open tourist destination would allow Rwanda to attract more foreign tourists within the country and this would mean more use of accommodation facilities.
- Product development is essential for holiday makers in terms of where to stay.

- Hotels like other investments require conducive investment environment. If the government can be able to provide information on investment opportunities that are available in the country, attract finances and avail loans to investors; promote tourism as a priority sector and allocate public funds for the tourism development and marketing. It would lure more investors into the hotel sector and this would meet with the tourism strategy projection of increasing investments in this sector by 2010 (MINICOM, 2002).
- Promotion of domestic tourism would allow more Rwandan people to make use of the existing hotel facilities without having to rely on foreign tourists as the main source of market.
- Establishment of tourism institutions and investment in training of local personnel would help to alleviate the existing lack of qualified personnel in the hotel and hospitality sector. This would as well improve the quality of services in this sector.
- Infrastructure development in terms of putting up new hotels would reduce the cost of accommodation in Kigali hotels.
- Proper land management for tourism activities would attract more investors in the hotel sector, without proper land titling large investments such as those in hotels cannot take place. Chapter four will provide the overview of tourism investments in Rwanda.

CHAPTER 4: OVERVIEW OF TOURISM INVESTMENT IN RWANDA

The chapter starts by reviewing tourism investment policy in Rwanda with emphasis on hotel investments. Furthermore, it discusses the existing investment opportunities, constraints and challenges in the tourism sector. Lastly, it discusses the role of government in providing a conducive investment climate for investors in the tourism sector.

4.1 Overview of tourism investment policy

In Rwanda's context, investment is defined as the creation or acquisition of new business assets and the expansion, restructuring or rehabilitation of an existing business enterprise (AIPA, 2002). It is evident that investment climate in Rwanda has improved and the economic performance has been increasingly promising after 1994 genocide. Inflation reduced from 64% in 1994 to 3% in 2000-2002 (World Bank, 2004). Rates of about 4% have been targeted for 2006 and 2007 by the National Bank of Rwanda (OECD, 2006).

Tourism is one of the many primary areas in the country that has potential to attract FDI (AIPA, 2002). Although tourist arrivals decreased from 40,000 in 1990 to 8000 in 2002 and 16,000 in 2003 there is a positive trend. Due to this trend and the fact that tourism is one of the priority sectors in Rwanda's economy, the government of Rwanda is committed to increasing investments in the tourism sector. The government targets to have invested US \$100 million by 2010 (MINICOM, 2002; *The Economist* (20th June, 2006), this explains their commitment towards improving the tourism sector. According to Forsyth and Dwyer (1994) additional foreign investment in tourism could support inbound tourist flows thus leading to additional tourism contribution.

RIEPA's investment projections in the tourism sector by 2010 in terms of receipts are US \$ 345 million while investment requirements are US \$ 103 million. Other than tourism, coffee and tea are the main foreign exchange earners for Rwanda. But because of the fluctuation in prices internationally, the government has decided to diversify the exports. With reference to Table 4.1, receipts and investments required from coffee by 2010 are

US \$ 580 million and US \$ 80 million respectively. While tea's requirements in terms of receipts and investment by 2010 are US \$ 373 million and US \$ 109 million. For detailed information on Rwanda's investment projections in priority sectors by 2010, see Table 4.1.

Table 4.1 Export receipts and investment requirements for priority sectors

Sectors	Receipts (\$M)	Investments Requirements (\$M)
Coffee	580	80
Tourism	345	103
Tea	373	109

Source: RIEPA Strategic Action Plan (2005-2007: 23).

After considering the number of available investment projects both local and foreign, it was established that investments in manufacturing take a lead of all the investments. These are followed by investments in other services other than tourism such as Banking, finance and insurance, telecommunication and ICT. While investments in agro-industry and tourism, hotels and restaurants take the third and fourth positions respectively, investments in the mining and energy sector come last. Although tourism investments are few at the moment, Rwanda's tourism industry has great potential for investments. Figure 4.1 indicates the number of investment projects in different sectors of the economy.

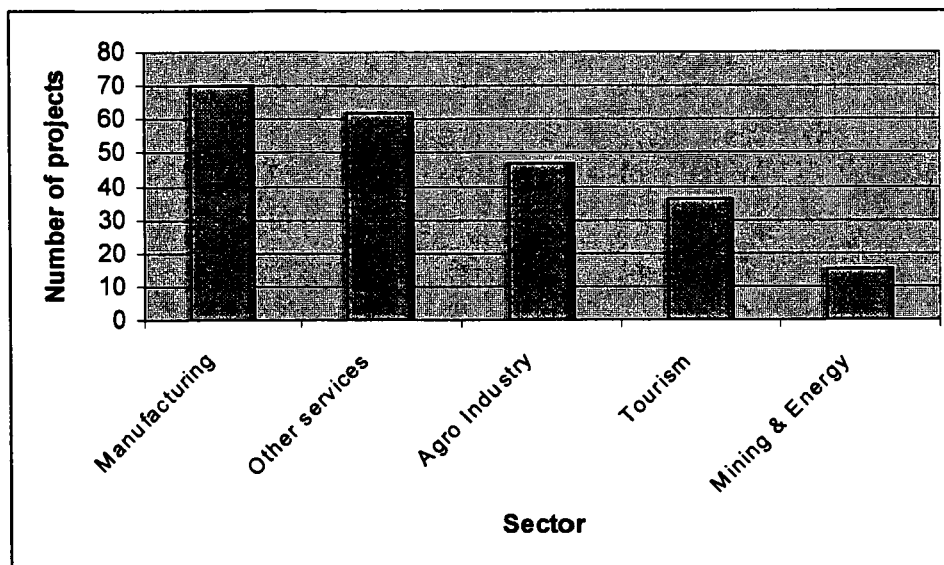


Figure 4.1 Number of investment projects in different sectors of the economy.

Source: Compiled by the author based on the Investment report⁵.

4.2 Investments in the hotel sector

According to Christie and Crompton (2001: 3) one of the essential conditions for international tourism is the fact that international tourism must be built on fundamental tourism assets that can compete internationally. Such assets can be coastal, wildlife, nature, cultural or city-based. In order for these attractions to attract tourists, they must have a distinctive quality that draws tourists to them. For instance, the natural assets must be accompanied and packaged with appropriate and competitive built assets such as accommodation, tourist services and infrastructure as well as a safe and a healthy environment for tourists.

In relation to the above, Rwanda is trying to improve its tourism facilities in order to boost tourism by improving the build-up environment and developing its tourism and hospitality sector. Apparently, investments in hotels and lodges have accelerated, following increased privatisation and injection of funds to improve the standards of hotels in all categories. For example, the government has privatized a number of hotels to the

⁵ RIEPA, Investment Report 1999-2005, March.

private sector as away of increasing the role of the private sector in the development of tourism. Furthermore, there has been construction of a five and four star hotel, Intercontinental in Kigali and Kivu Sun in Gisenyi respectively (Nsekanabo, 2005).

Investments in the hotel and restaurant sub-sector of tourism are indicated to have attracted more investments than other sub-sectors such as travel agencies and tour operators. It is no wonder one of the rapidly growing sectors of the Rwandan economy (Jeyakumar, 2005). In terms of distribution, almost all top range rooms and hotels are situated within Kigali and these form 65% of all the hotels in the country (OTF Group⁶, 2002).

4.2.1 Nature of investment

According to the Investment Report⁷, investments are in the first instance classified into two categories namely: 'new investment' and 'restructuring' or 'rehabilitation'. On the analysis of this report, most of the investments were found to fall in the type of 'new investment' this means that these hotels are quite new establishments, more especially the 2 and 1 star hotels. Of the 32 hotel projects both operational and not operational, new investments account for 24 (75%) projects. Hotels that fall in the 'new investment type' are all seen to have been built between the years 2001-2004.

With regard to 5, 4 and 3 star hotels⁸, they fall into restructuring, rehabilitation or expansion. These hotels were built before the 1990's, though the renovations and reconstruction are more recent.

As far as the source of the investment in the hotel sector is concerned, most of the hotels are sourced from within Rwanda. So far, since 1999, South Africa and India are the only countries that have invested in the hotel sector from outside. Rwanda is considered to be one of the countries in Africa with the lowest FDI inflows (OECD, 2006: 435). This can be attributed to the fact that it is a land-locked country, with a poor image internationally,

⁶ OTF Group is an international consultancy firm that was commissioned to over see the progress of priority sectors in Rwanda such as coffee and tourism to mention but a few.

⁷ RIEPA, Investment Report 1999-2005, March.

⁸ Hotel des Milles Collines, Hotel Intercontinental and Novotel

especially where security is concerned, poor infrastructure and the transaction costs especially where transport and energy are concerned. Details of the constraints to investment are discussed later in the chapter.

Other than the two categories of investments that have been mentioned above “New investments and Rehabilitation”, hotel investments are further categorized into operational and non-operational. Majority of the hotels are operational. A lot of money has been invested in the hotel sector for instance; the total invested amount by operational hotels in Table 4.2 is US \$ 32,889,449.11 million. In terms of jobs created, operational hotels have created 1509 jobs. Table 4.2 shows some of the operational hotels in Rwanda that were registered with RIEPA at the time, source of investment; type of investment, date established, jobs created and invested amounts of hotel investments.



Table: 4.2. Operational hotels in Rwanda

Source of Investment	Name of Project	Investment type	Year Established	Jobs	Nature of investment	Est. invest in (US \$) 1 US Dollar = 570 Rwf
South Africa	Hotel des Milles Collines SA	Rehabilitation	2001	150	FDI	2,964,912.28
India	Indian Khazan Limited	New Investment	2004	48	FDI	289,421.05
Rwanda	Hotel le Bervedere	Expansion	2004	49	Local	673,463.43
Rwanda	Hotel Credo	New Investment	1999	40	Local	482,456.14
Rwanda	Gorillas Hotel	New Investment	2000	50	Local	438,596.49
Rwanda	Novotel	Rehabilitation	2000	169	Local	406,504.59
Rwanda	Muhazi Beach Resorts	New Investment	2001	65	Local	315,789.47
Rwanda	Alma Mater Lodge	New Investment	2001	26	Local	152,213.68
Rwanda	Hotel Alpha Palace	New investment	2001	78	Local	329,824.56

Rwanda	Golden Head/Intercontinental	Restructuring	2001	250	Local	17,879,473.68
Rwanda	Hotel Castel	New Investment	2001	23	Local	403,508.77
Rwanda	Hotel Paradise Ten to Ten	New Investment	2001	50	Local	526,315.78
Rwanda	Okapi Hotel	New Investment	2001	8	Local	177,094.49
Rwanda	Guest House 'Chez Rose'	New Investment	2002	10	Local	87,719.29
Rwanda	Hotel Chez Lando	Restructuring	2002	100	Local	1,026,652.77
Rwanda	Trust House Building	New Investment	2002	20	Local	1,749,879.22
Rwanda	Akagera Game Lodge Sarl	New Investment	2003	78	Local	1,515,789.47
Rwanda	Imorex Chez Robert	New Investment	2003	18	Local	243,396.49
Rwanda	Le Petit Prince Hotel	New Investment	2003	38	Local	600,175.43
Rwanda	Lighthouse Resort	New Investment	2003	20	Local	477,192.98

Rwanda	Mountain Gorilla Nest Hotel	New Investment	2003	28	Local	410,526.31
Rwanda	New Blue Sky Hotel	Expansion	2004	31	Local	144,720.05
Rwanda	Sky Hotel	Expansion	2004	50	Local	74,024.56
Rwanda	La Palisse Club	Expansion	2004	29	2004	963,731.57
Rwanda	Le Printemps Hotel	New Investment	2004	35	Local	380,627.97
Rwanda	Amigo restaurant	Expansion	2005	46	Local	175,438.59
Total				1509		32,889,449.11

Source: Compiled by the author based on the Investment Report 1999-2005⁹.

⁹ Investment Report that was obtained from Rwanda Investment and Export Agency (RIEPA)

Table 4.3 shows hotels that are not in operation. At this stage, they have already invested a total of US \$ 16,055,472.17 million and created 130 jobs in the hotel sector. Based on their status 'not-operational' it is clear that majority of the hotels are still in the construction phase, which implies that on completion of these hotels more benefits are likely to be achieved in this sector.

Table 4.3 Non-Operational hotels

Source of Investment	Name of Project	Investment Type	Year Established	Jobs	Nature of investment	Est. invest in (US \$) 1US Dollar = 570 Rwf
Rwanda	Oasis Hotel	New Investment	2000		Local	3,076,578.94
Rwanda	Dreamland Towers "DT"	New investment	2000	60	Local	1,540,296.77
Rwanda	Royal Prince Hotel	New investment	2000	30	Local	736,842.10
Rwanda	Te Deum Apartments	New investment	2001	8	Local	526,315.78
Rwanda	Hotel Olympia	New investment	2002		Local	1,052,631.57
South Africa	Mickor Hotel Holding	New Investment	2002	130	FDI	9,122,807.01
Total not operational				130		16,055,472.17

Source: Compiled by the author based on the Investment Report 1999-2005.

Based on the information in Figure 4.2, there is a sharp increase in the number of jobs that were created by hotels in Rwanda in 1999 from less than 100 jobs to more than 600 jobs in 2001. The subsequent two years saw a decrease in the number of jobs. While there was yet another increase in the number of jobs that were created in 2004. It is clear from Figure 4.2 that very few jobs were created in 2005. Detailed information on the number of jobs created by the hotels from 1999-2005 is provided in Figure 4.2.

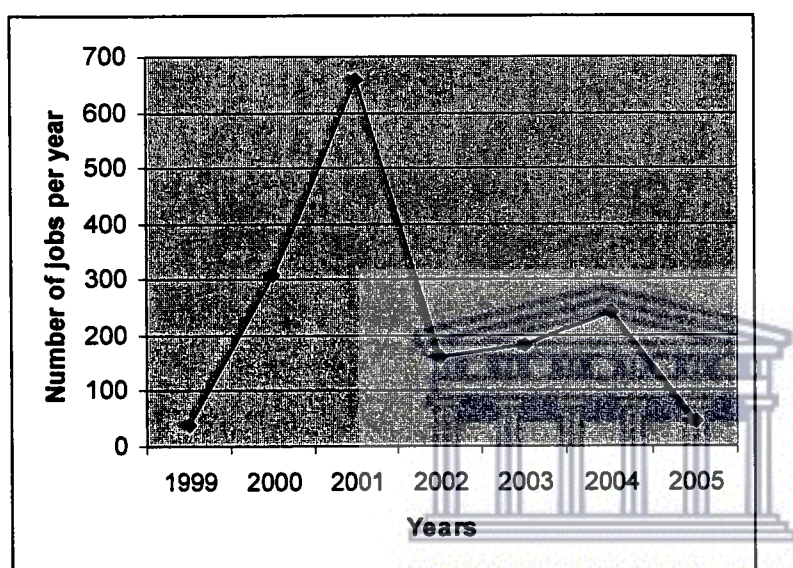


Figure 4.2 Jobs created by hotels 1999-2001.

Source: Author's estimates based on information from Investment Report 1999-2005.

4.3 Opportunities

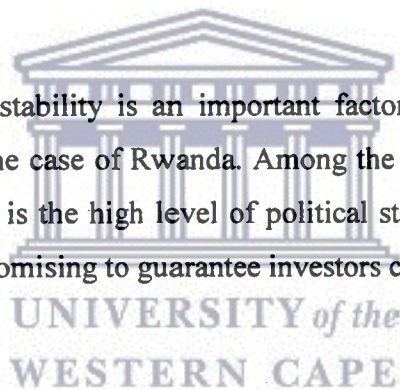
A number of investment opportunities have been identified to favour investments in the Rwandan tourism sector. Among these opportunities are progress in economic performance of the country, political stability, the geographical location of the country and the existence of low levels of corruption in Rwanda.

After the 1994 genocide, there were a lot of reforms such as reconstruction and rehabilitation aimed at rebuilding the country after the 1994 war and genocide. In order to

restore tourism to the 1980's position, the Rwandan government identified three main investment types. Firstly, there is need for investment in transport facilities so as to be able to transport tourists to various places in the country. Secondly, investments in hotels and restaurants are required to provide accommodation for the expected growth in tourism. Finally, investments in the tourism infrastructure are needed in order to meet the increasing number of tourists (UNCTAD, 2006b).

Related to the above, the government of Rwanda made some initiatives to improve investment climate and efficiency in public utilities (AIPA, 2002). Privatization and liberalization process in Rwanda have favoured investors in different sectors, tourism inclusive. According to OECD (2006) by the end of October 2005, 53 state enterprises had been privatised, 7 were in the final stages of being privatised and 23 were not yet privatised.

It is argued that government stability is an important factor for hospitality providers Olsen (1997). This is true in the case of Rwanda. Among the factors that have favoured investors in the tourism sector is the high level of political stability in the country. The existing political situation is promising to guarantee investors confidence.



Investments in this sector have not only been favoured by the political situation in the country but also by economic performance. Rwanda's economic performance has been increasingly promising after 1994 genocide. Several authors have noted improvements in the Rwanda's economic performance (World Bank, 2004; OECD, 2006; *The Economist*, 20th June, 2006; World Bank, 2006). For example, as mentioned earlier inflation reduced from 64% in 1994 to 3% in 2000-2002. There is also more recent evidence based on the Minister of Finance's budget speech in which he stated that economically, Rwanda has been performing well, he noted that Rwanda's economy had grown at 6% of the GDP during 2005 financial year. He was also optimistic that this performance would be maintained during 2006 financial year. Inflation was said to have reduced from 13.6 per cent to 11.1 per cent (Munyaneza, Kakimba and Nuwamanya, 2005). It is further

suggested that the economy of Rwanda has been growing at 4% a year (*The Economist*, 20th June, 2006: 61).

Although Rwanda's economy is still small and predominantly agricultural, economically there has been progress. Rwanda's conducive business environment has improved tremendously. Based on the World Bank report¹⁰, Rwanda was ranked to be 11th among the group of countries that were most active in enacting economic reforms, although globally, it was ranked 139th out of 155 countries covered (World Bank, 2005). Rwanda was ranked as one of the top reformers among African countries. Some of the reforms that were made in order to improve the business environment are streamlined customs procedures, judicial procedures, labour laws and land titling reforms.

Rwanda is also among the 16 African countries that conceded to the African Peer Review Mechanism (APRM) that was initiated by NEPAD with the intention of fostering proper laws and policies that can lead to political stability, economic growth and sustainable development. Generally, Rwanda has performed well in respect to good governance. Corruption is also said to be at low levels in Rwanda compared to other African countries (MINECOFIN, 2004; UNCTAD, 2006a).

The fact that Rwanda is strategically located between East Africa and Central Africa is a great potential for Rwanda's tourism sector. It is considered as one of the new leading business destinations in the Central African region. This presents various opportunities for Rwanda. Firstly, it provides the potential of promoting Rwanda with the neighbouring countries such as Uganda and Kenya as a single package instead of promoting Rwanda as a single tourist destination. This can promote Rwanda's tourism as well as regional tourism. Secondly, Rwanda could benefit from this situation if she can position its tourism product as a complement to the other countries tourism products. Lastly, Rwanda's strategic location is advantageous in terms of trade accessibility within the region (MINICOM, 2002).

Rwanda's membership to some of the economic blocks has widened its market and export opportunities. Rwanda has access to European and American markets in line with the provision of African Growth Opportunity Act (AGOA) and Cotonou Partnership Agreement (CPA) arrangements respectively. It is also a member of the Common Market for Eastern and Southern Africa (COMESA)¹¹, and has recently joined the East African Community (EAC).¹² In terms of tourism products, handicrafts were the first products to benefit from AGOA (Manjyambere, 2005).

4.4 Constraints

Despite the investment opportunities presented above, Rwanda's tourism industry faces many constraints such as the continued poor image of the country, reliance on gorilla tourism, Rwanda's geographical position, lack of adequate tourism infrastructure, lack of skilled labour and lack of proper tourism information.

Investors in Rwanda have mainly been hindered by two major factors. First, Rwanda is only known by its dark side of the genocide. While there is significant progress that has been made in terms of internal and external political reconciliation, regional insecurity remains a threat to the country (OECD, 2006; Rwanda, 2006). Secondly, the country is still associated with insecurity due to the on-going wars in the neighbouring countries and its past history. Overall, the existence of political instability in the country has affected the flow of visitors as well as investments into Rwanda (UNCTAD, 2006a).

It is argued that political instability can reinforce negative images of human misery and tragedy which is incompatible with safe and relaxing destinations desired by the majority of leisure visitors. Rwanda is still listed among other countries which are considered to be unsafe such as DRC, Sierra Leone, Somalia, and Sudan. Political conflicts in different countries threaten the security of visitors and residents (Lockwood and Medlik, 2001).

¹⁰ 'Doing Business in 2006.'

¹¹ See Gahigana, 2005; MINECOFIN, 2004.

¹² <http://www.monitor.co.ug/news/news12012.php> .

Although there is no genocide or war in Rwanda currently, there has been a tendency to perceive local events in Africa in a more continent scale (Lockwood and Medlik, 2001: 129) and this explains why investors are still hesitant to come to Rwanda after 12 years since the genocide and war.

Lack of skilled labour is another factor that has hindered investors in the tourism sector. Rwanda generally suffers from a shortage of human capital but shortage of skills is mainly noticed in the service sector, marketing and manufacturing. For the tourism sector to play its role in the development of the economy there is need to improve the workforce in order for the workers to provide friendly and efficient services to tourists (KEDS, 2002). More investments in the tourism sector would translate into more employees being trained.

The other major problem that has affected investors in Rwanda is situated in the geographical nature of its position. Rwanda's position as a land-locked country has subjected it to heavy reliance on road transport. Railway transport is non-existent. This has increased operational and transactional costs that are incurred by investors due to high costs of transport (OECD, 2006). Plans are however underway to link Rwanda to the sea by the construction of a railway line from Isaka in Northern Tanzania to Kigali.

It is also apparent that the infrastructure in place is not adequate to guarantee increased investments in the tourism sector. Rwanda is only served by one airport with very few flights to Rwanda which makes travelling to Rwanda expensive. Rwanda does not have any direct link to its tourism markets abroad. For more tourism receipts, Rwanda's airport should be able to handle higher travel volumes than it does now.

Infrastructure in terms of electricity and water has not been sufficient. The year 2004 was characterized by acute electricity shortage which has pushed up the cost of electricity and this has obviously affected both consumers and business people (MINECOFIN, 2005). Water supply has also not been adequately supplied in various areas of Kigali and worse

in the rural areas of Rwanda. However, the situation is going to be rectified soon. The Minister of Lands and Environment was quoted saying that ' the water shortage issue around Kigali city has become alarming in that it has necessitated the government to take an immediate action' by increasing the water reservoirs and this would end the water shortage soon (Gahigana, 2006). For Rwanda to compete effectively in the global economy water and energy supplies are critical for investors (KED, 2002).

Other than the infrastructural constraint, investors in Rwanda's tourism sector lack finances for tourism development. Access to finance is not easy for every potential investor. Getting credit for business has proven to be difficult. There are no long term loans and hence low level of investments in the tourism industry (MINICOM, 2002).

Rwanda like many other developing countries needs to attract FDI and expand its trade links with the rest of the world if she is to achieve sustainable growth. Some of the problems that have been identified to affect investment level in Rwanda are lack of savings. The gap between savings and investments is wide (savings- investment gap), Rwanda's investment needs far exceed its savings. This suggests that there is need for imported capital. FDI can help countries to close these gaps (AIPA, 2002).

Lack of proper statistics on tourism receipts is not only a problem to tourism investors but it is also a problem for tourism planners and marketers. It is argued that without proper statistics on tourism receipts, it becomes hard for investors wishing to develop strategies and plans (Amok and Lam, 1997). It is also hard to distinguish between tourists and to identify potential market segments without proper tourism statistics. Lack of proper statistics consequently makes planning and marketing almost impossible. The challenge for the tourism industry is to develop a proper data collection system that is reliable. However, plans are underway to develop a proper and reliable data base collection system (MINICOM, 2006).

Reliance on a few tourist attractions can also be a problem to investors in the tourism industry. In terms of tourist attractions; Rwanda has less to offer to tourists based on the fact that Rwanda's main tourism attraction is concentrated on mountain gorillas. Recent

research indicated that reliance on mountain gorillas alone for tourism earnings cannot lead to a sustainable and a balanced growth. The challenge for Rwanda's tourism industry is to move away from 'gorilla monoculture' by diversifying the tourism product (Mazimhaka, in press).

Access to land is a critical issue in Rwanda because of the severe land scarcity and population pressures (Musahara and Huggins, 2004). In addition, acquisition of land and site for investors is still a problem in Rwanda (FIAS, 2005). As far as tourism investments are concerned, land is a very essential element for the tourism industry and investment activities. For tourism to grow there should be proper ways of managing land for tourism related investments to guarantee quality of tourism services. Currently, there are no defined procedures for the proper management of land for tourism investments (MINICOM, 2006).

4.5 Role of government in providing conducive investment climate

The Rwandan government adopted a number of investment programmes that are designed to attract both foreign and local capital into the country based on investment opportunities that are available in the country. These programmes include: Improving the countries images abroad, supporting and financing tourism projects, development of infrastructures, imposing environmental restrictions to hotel development, improvement of human resources and keeping economic, social and political stability. Depending on the role of tourism in the economy, local governments in many tourism countries have always played a great role in developing tourism (Rodriguez, 2002).

In this context, the main player behind the success of the hotel investors in Rwanda more especially after the 1994 genocide is the government of Rwanda which has put much emphasis on the tourism industry. Tourism is among the sectors that have been accorded a high priority due to its role in the development of the country. Recognition of tourism as one of the leading sectors in the economy has led to an increase in the tourism receipts up to US \$ 26 million in 2005 (MINICOM, 2006).

With the political decision to uplift the tourism sector, the government has ensured political stability, which is a very important factor for both local and foreign investors. Investors are assured of safety for their property in and outside the capital city Kigali, the government has provided security in all the tourism areas to ensure safety for tourists.

In line with the government policy of promoting tourism, the government of Rwanda branded the image of the country abroad by launching Rwanda as a tourist destination at the WTM in London in November 2003. The aim of this re-launch was firstly to promote Rwanda throughout Europe and to boost the image of the country that had been tarnished by its tragic history. Secondly, it was to show that Rwanda is back into business and it is ready to offer world –class experiences. Lastly, it was to act as an indication that Rwanda is ready to offer unique tourism experiences to all tourists (MINICOM, 2002; Mazimhaka, in press). Rwanda's branding at the WTM in Europe was done through its various offices. In order to promote Rwanda as a tourist destination different offices have been opened up in other countries. The other significant policy issue that has favoured investors in the tourism sector is the government economic policy.

The government of Rwanda changed its economic direction by opening up its economy to both domestic and foreign investors. All investors in Rwanda are favoured by the existing government policies such as a stable and enabling political and economic environment, liberalized trade and privatization. Privatisation of public enterprises took effect in 1998 with 90 public enterprises earmarked for privatization. While privatization was carried out in all the sectors, current efforts have been directed to tourism. All formerly government owned hotels have been either renovated or privatized. This could increase the role of the private sector and foreign investments in the tourism industry (OECD, 2006: 438).

The Rwandan government has also contributed in providing tourism infrastructure more especially in government owned hotels. In order to develop a tourism sector according to international standards, the government of Rwanda has engaged foreign renowned companies in the management of some of the hotels in order to transfer hotel management skills to the tourism industry. The government does the provision of a

favourable investment climate together with other offices such as RPSF, RIEPA and ORTPN.

4.5.1 Rwanda Office of Tourism and National Parks (ORTPN)

Rwanda Tourism Board is divided into two agencies, The Conservation Agency namely Rwanda Wildlife Agency (RWA) and Rwanda Tourism Agency (RTA) (MINICOM, 2002, 2006). Rwanda Tourism Board performs several roles. These include:

- ORTPN is charged with tourism promotion and development as well as conservation.
- ORTPN is also in charge of the development of Rwanda Tourism Strategy so as to ensure that the country's tourism objectives are achieved.
- ORTPN is responsible for the promotion of Rwanda's tourism both within and outside the country.
- It also ensures proper management of natural resources and cultural products by enhancing conservation and awareness of activities in order to protect natural assets.
- ORTPN is also in charge of coordinating priority investments with Rwanda Investment and Export Agency.
- Overall, it is in charge of dissemination, monitoring and coordination of tourism activities.

4.5.2 Rwanda Private Sector Federation (RPSF)

RPSF office was formed in 1999 replacing the former Rwandan Chamber of Commerce and Industry. Some of its main responsibilities are promoting and development of businesses. It also represents the interests of the business community and discusses with the government on matters concerning business improvements.

Other services that are offered by RPSF are training of business people by giving them business information, consultancy and helping them to access loans through provincial Business Development Services (BDS) centres. The BDS target micro and Small Medium Enterprises (SME's) enterprises¹³.

According to Kalisa, J. B (2005, personal communication, 7th December) RPSF office does the advertising and promotion of individual business services nationally and internationally. Nationally, it promotes community involvement in tourism projects. For instance, tourism projects in Ruhengeri are among the projects that have benefited from business development services. As far as coordination is concerned, RPSF office organises meetings and workshops where ideas and views are exchanged on how to improve the existing investments and also to attract new investments in the sector.

Though Rwanda's private sector is still weak, it is important to note their critical role in the development of the tourism industry in Rwanda particularly in hotels. Given that majority of the hotels in Kigali are privately-owned, the Private Sector Federation Office has helped to encourage both local and foreign investors in the tourism sector. As mentioned above, most of the government hotels in Rwanda are listed for privatization; some have been privatized though it is on a slow pace. Obviously the change of ownership and management of these hotels will assist in improving the quality of tourism services and increasing the contribution of tourism to the national economy.

4.5.3 Rwanda Investment and Export Promotion (RIEPA)

RIEPA is responsible for investment promotion in Rwanda. As far as investment opportunities are concerned in Rwanda, tourism is one of the many sectors in Rwanda with potential investment opportunities.

Tourism is also among the sectors that have benefited from the services of RIEPA. The agency has disseminated investment opportunities to both local and foreign investors in the tourism sector. And according to Kamanzi, J (2005, personal communication, 5th

¹³ For more information on the services that are offered to business people through BDS refer to <http://www.rpsf.org.rw/bds/general.html>.

December) it only takes a maximum of three days for an investor to acquire all certificates and approvals required for setting up a business. The start up procedures for investors in Rwanda seems to be well designed. The licensing procedures at the municipal level does not appear to be a problem to investors in Rwanda since it is seen as a business tax to contribute to the municipal budget.

Furthermore, obtaining work permits for foreign workers is straight forward and assistance in this regard is provided by RIEPA. A work permit can be obtained within a couple of days (FIAS, 2005).

Regarding the provision of incentives, investors in the tourism industry and particularly hotels are offered concessions on hotel-imported equipments for example, building materials, television sets and kitchen stoves.

Asked about how investors are protected against risks such as commercial risks, political risks and technical risks, RIEPA's responses were as follows:

...With regard to political risks such as expropriation and war it was made clear that Rwanda is a member of Multilateral Investment Guarantee Agency (MIGA), which suggests that such risks are covered under the MIGA agreement. For commercial risks, investors themselves can insure their businesses for local commercial risks with local insurance companies in Rwanda. However, there is no insurance for technical risks.

4.6 Conclusion

Though Rwanda has remained one of the poorest countries in the world with high poverty levels, Rwanda's economy has shown a lot of progress after 1994 war and genocide. Inflation has been contained to some extent and there has been significant progress in terms of security.

The government of Rwanda recognizes the role of increased investments towards the country's development and thus it is committed to providing favourable investment environment. Rwanda has attracted few investments in the tourism sector, more especially foreign investments. The hotel sector among the other sub sectors of the tourism industry in Rwanda has attracted most investors. It has made substantial investments in terms of invested amounts and has at the same time created both direct and indirect jobs.

Some of the investment opportunities that have favoured tourism investments in Rwanda are the government's policies such as liberalization and privatization, the existing political stability, low corruption rates, Rwanda's central location in the Great Lakes region and the country's membership to some of the economic blocks such as COMESA and EAC.

Despite investment opportunities presented above, investments in Rwanda have been hampered by a number of constraints. These include: Rwanda's poor image abroad, perception of insecurity in the country, lack of adequate infrastructure in terms of water, electricity and road network, the geographical nature of Rwanda's position (land-locked), lack of proper statistics on tourism receipts and lack of financial resources.

Finally, it has been observed that the government together with other bodies such as RIEPA, RPSF and ORTPN have played a great role in promoting both local and foreign investments in the country. Some of their roles have been to boost the country's image abroad by promoting Rwanda as a tourist destination. Investments in Rwanda have also been promoted by provision of security in the country, access to investment incentives and proper coordination of private sector activities within the tourism industry. Chapter five will analyse hotel investments in Kigali.

CHAPTER 5: ANALYSIS OF HOTEL INVESTORS IN KIGALI

This chapter presents an analysis and interpretation of the data collected from the survey conducted in Kigali. The analysis sought general background information on the hotels, investment opportunities, constraints, perceived investment risks and the possible contributions of hotel investments to Rwanda's tourism sector. The analysis of this chapter is made on the responses of twelve hotels in Kigali.

This chapter is sub-divided into three sections. The first section presents the background information on hotels while the second section deals with investment opportunities, constraints and risks that investors in the hotel sector face. The third section presents the discussion of the impact of hotel investments to Rwanda's tourism industry.

5.1 Background information on hotel investments

The following section presents a detailed analysis of the background information on hotels in Kigali. Background information on hotels relates to issues such as ownership and mode of entry into business, date of establishment, the grade of the hotels, the number of tourists that visit the hotels, employment opportunities that are created, occupancy rates and use of imported products as opposed to locally bought products by the hotels.

5.1.1 Ownership type and the grade of hotels

Based on the survey, 75% of the hotels in Kigali are owned by Rwandan local based investors. The government's ownership of hotels accounts for 16.7%. Only about 8.3 % of the hotels in Kigali are foreign owned. For example, out of the 12 hotels in which the survey was carried, only one hotel is foreign owned. More explanation on this is made in Table 5.1.

It is clear from Table 5.1 that most of the hotels in the survey are privately-run businesses. These are followed by hotels which fall under the business partnership with government. These hotels are at the same time under management contracts. In particular, Hotel Intercontinental was at first under the South African management before they

withdrew from the management of the hotel. It is currently under the management of the government investment arm “Prime Holdings” while Hotel Novotel is managed by the Libyans.

Hotel grades are explained also in Table 5.1. Some of the hotels seem to assume roles for which they are not. What is clear is that proper grading of hotels in Kigali has not been done. It is shocking to note that some of the hotel managers were not even sure of the grades of their hotels.

Table 5.1 Ownership type and hotel grades

Name of the hotel	Ownership	Grading
Intercontinental Hotel	A franchise/Government (Formally managed by South Africa).	5 *
Mille Collines	FDI/Government owns only 2.5% of shares	4*
Novotel	Libyan Arab Republic 60% and the Government 40 % (Managed by Libyans)	4*
Okapi	Private	3*
Ninzi	Private	3*
Sky Hotel	Private	3*
Alpha Palace	Business partnership	3*
Chez Lando	Family business	2*
Isimbi	Family business	3*
Castel	Private	
Baubar	Private	1*
Hotel Gorillas	Private	3*

Based on the information in Table 5.1 above, below are photographs of some of the hotels that participated in the survey, arranged according to their grades.

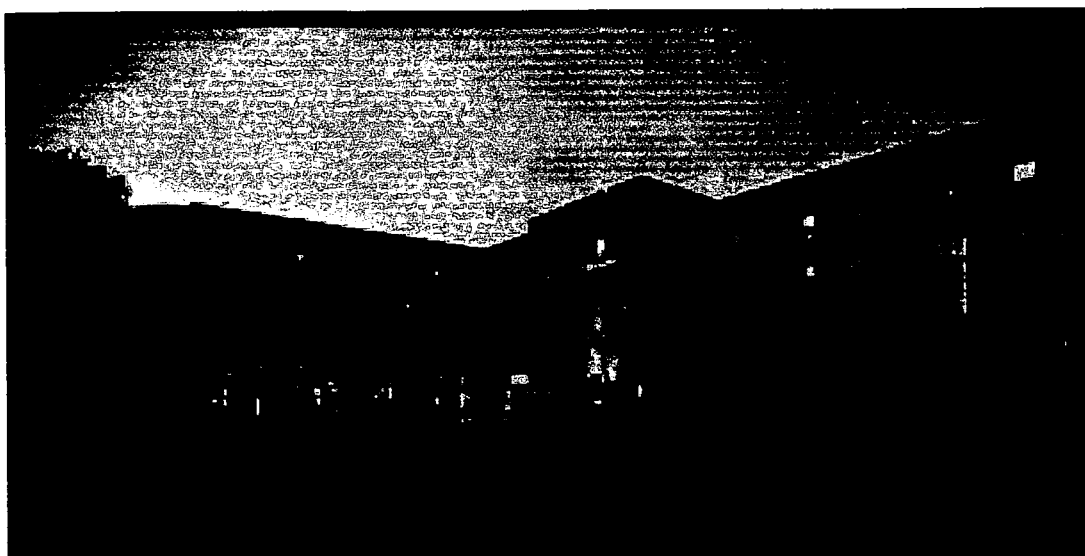


Photo 1: Intercontinental Hotel



Photo 2: Mille Collines Hotel



Photo 3: Swimming pool at Mille Colline Hotel

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Photo 4: Novotel Hotel

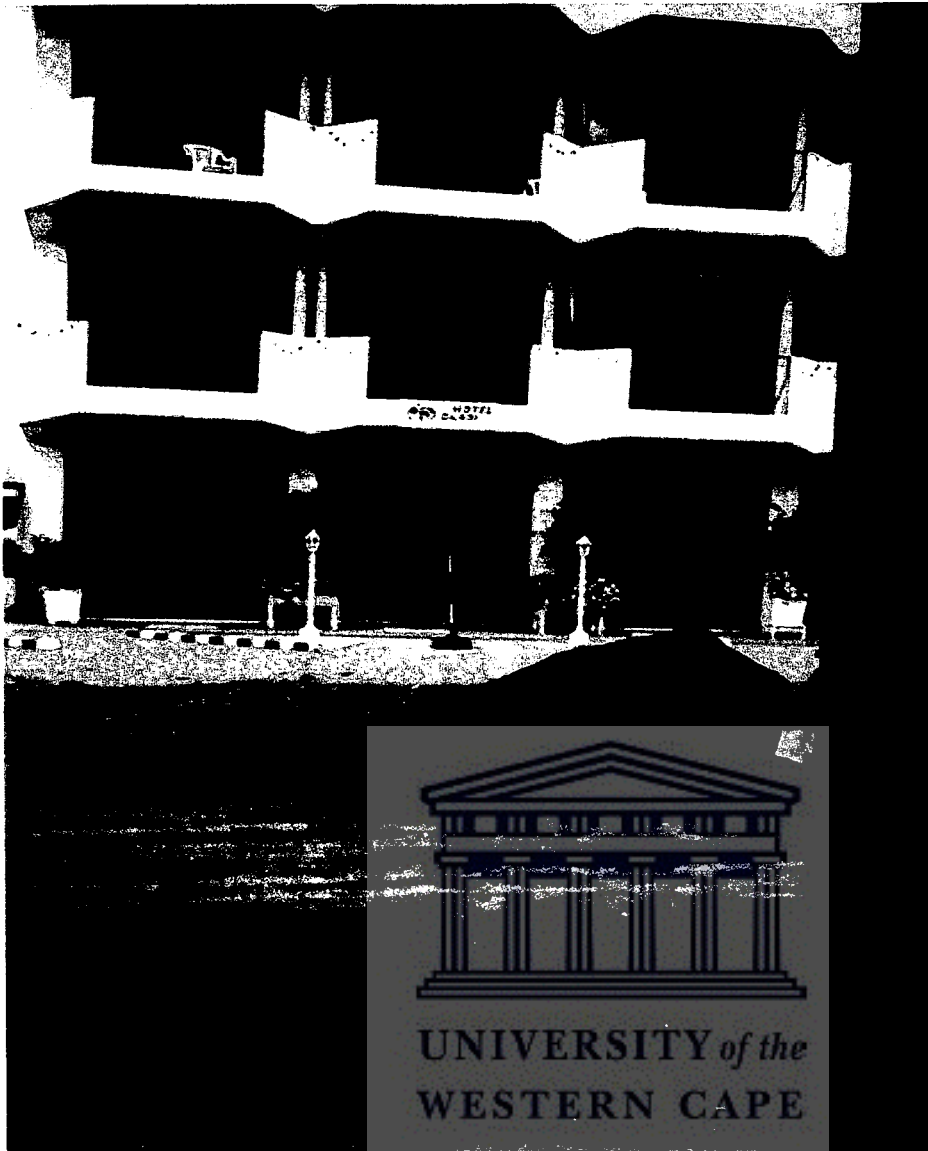


Photo 5: Okapi Hotel



Photo 6: Alpha Palace Hotel



Photo 7: Baubar Hotel

Regarding the mode of market entry into the hotel industry, majority of the respondents stated that it was because of the economical and financial conditions that existed in the country at the time that encouraged them to enter the hotel industry. These were followed by those who decided to enter into the hotel industry because of the experience of the company in international business together with those who chose to own such business due to availability of funds. The other minor influencing reasons that were mentioned to have determined the mode of entry are strategic reasons and influence of family members who were already involved in the industry, exploiting economies of scale and those with a passion for the hotel industry.

5.1.2 Tourist numbers and customer type

As mentioned earlier in the previous chapters, the Rwandan tourism sector is faced with a lack of statistical data on tourism receipts. Due to the same reason of not keeping proper records of in-coming tourists by hotel managers, it was not possible to get information on visitors that visited the hotels since 1995. But what is obvious is that the number of visitors to the hotel has been increasing with each year that comes.



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Information regarding the nationalities that mostly visit the hotels is mixed. Five and four star hotel visitors are mainly seen to be coming from America and from some European countries such as Britain, Belgium, France, Germany, Sweden and Italy. Nevertheless, this is not the case always, because of the high prices charged by big hotels for accommodation, some of these high-income clients if they are to stay for long periods they opt to stay in small hotels where the rates are half those of big hotels. With regard to visitors received by smaller hotels, most of the visitors are from nearby countries in the region such as Kenya, Uganda, Tanzania, DRC and a few from other African countries.

Regarding the question whether the release of the Hollywood movie 'Hotel Rwanda' in 2004 could have sparked an increase in the tourist numbers to Rwanda the responses were mixed. Majority of the respondents were of the view that there was an obvious increase in the number of foreign tourists after the release of this movie. A smaller number of the respondents were not sure if the increase of tourists was brought about by the release of the movie or other factors prevailing in the country.

Other than attracting tourists to the country, the obvious contribution of the screening of the movie 'Hotel Rwanda' was to expose the horrors of genocide to the whole world. On the other hand, it also brought about the controversy behind the 'real life hero of the movie, Paul Rusesabagina'. It is alleged that he used Rwandan genocide to earn himself medals and to become a hero (Terry, 2006).

Concerning the type of customers the hotels receive, the survey indicated that there are two main customer types namely: Foreign business people and government conference users and NGO's. One hotel manager was of the view that 90% of the business was from the corporate or government segment, indeed it was ranked most important by the majority of the managers. Tourists were ranked third by almost a half of the hotels in which the survey was carried. The least ranked customer type was the local Rwandan travellers. This can be attributed to lack of disposable incomes by the people.

5.1.3 Employment and hotels

Hotels in Kigali have created many jobs and the majority of people employed at these hotels are Rwandan. For example, according to the survey of selected hotels in Kigali out of 732 jobs created by hotels only 10 jobs are occupied by foreigners. Foreigners are mainly employed in managerial positions for four and five star hotels. It is also clear that the majority of the employees at these hotels are full-time workers and an equal spread in terms of gender.

More employment is created through outsourcing of hotel work. Of the 12 hotels included in the survey 7 hotels confirmed to outsourcing of some of their services such as catering, laundry and transport. The reason given for outsourcing was that some of the services are not available at particular hotels but in order to satisfy their customer's needs, they opt to having the services done by other companies. Outsourcing is also done at times in order to cope with the high number of customers. The remaining 5 hotels indicated that they did not outsource their services because it is not necessary. Outsourcing of services by some of the hotels suggests that more indirect jobs are created by these hotels in the process of outsourcing services to other companies.

5.1.4 Percentage of products that are imported or bought locally

The survey revealed that 76% of food and drinks is bought locally. Of the 24% of imported food and drinks, the biggest share is imported by international hotel chains¹⁴ that serve international clientele. Based on the above observation, it suggests that hotels in Kigali are capable of generating demand of other locally produced commodities mainly in the agricultural sector. There is also less leakage of tourism incomes to the outside in terms of food and drinks importation. With regard to other hotel equipment, such as furniture and fixtures about 45% is imported. A bigger proportion of electrical equipment used by the hotels such as television sets, stoves and telephone switch boards are imported for most of the hotels.

¹⁴ Hotels such as Novotel and Intercontinental

5.1.5 Occupancy rates

Getting detailed information on occupancy rate for particular hotels was not possible due to lack of proper management of the hotels. In a different interview¹⁵ with one of the hotel managers, the occupancy rates for the four star and five star hotels was at 50%, while three, two and one star hotels are said to be at times running at 30% occupancy rate.

With regard to the overall growth of the number of hotel rooms in Kigali, there has been about 50% growth rate in the overall number of hotel rooms over time. According to the OTF group (2002) Plan to Unleash Rwanda's Tourism Potential, after totalling up all the hotel rooms ranging from lower range to top range in 2001, Kigali had a total of 396 hotel rooms. This has changed over time with the construction and rehabilitation of other hotels.

As far as growth opportunities are concerned, the majority of the respondents were of the view that in the next decade the mid-range market segment is likely to offer the most growth opportunities for their hotels.



¹⁵ World Investment News (2002), May, 27. Interview with Mr. Herve Barre

Before moving to the next section of this chapter, it is important to show the suburbs where most of the inner-city hotels are located.¹⁶ Figure 5.1 is the map of Kigali and some of its suburbs.

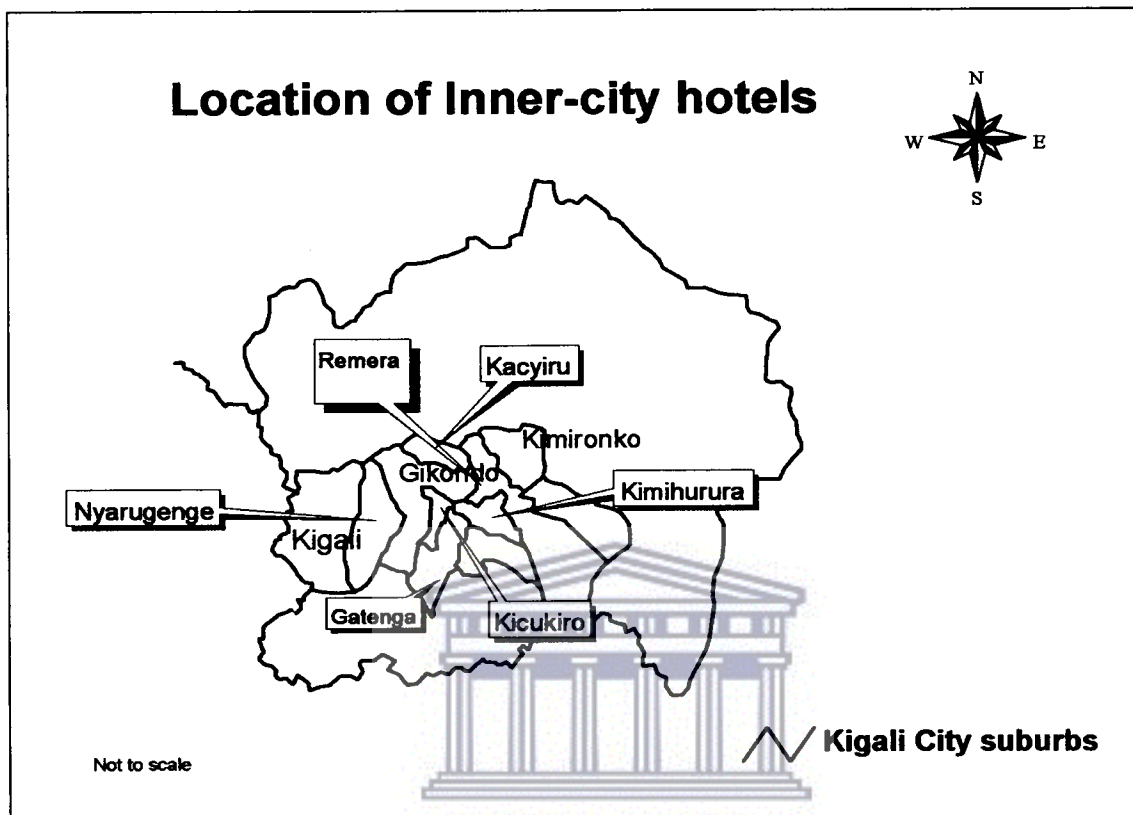


Figure 5.1 Location of Inner-city hotels

5.2 Investment opportunities and constraints

There are a number of investment opportunities and constraints that have in one way or another affected the hotels in Kigali.

¹⁶ Hotels within Kigali/Nyarugenge include Intercontinental, Mille Collines, Gorillas, Isimbi, Okapi, Sky and Castel. In Kacyiru you find Novotel and Ninzi. While Chez Lando and Alpha Palace are found in Remera. Baubar is also found in Nyamirambo.

5.2.1 Marketing strategies

The common marketing strategies that are used by the hotels in Kigali to attract new customers to the hotel are various. These include providing quality services that cannot be found elsewhere, promotion through the television, newspapers, word of mouth and the Internet.

Majority of the hotels provide information on their hotels through the national television, newspapers and brochures. Most of the locally owned hotels have smaller budgets for marketing and as such depend more on word of mouth. For bigger hotels, there was an indication that marketing is budgeted for though it was not easy to establish the exact amounts that are budgeted for particular departments. It is also apparent that hotels in Kigali do not do a lot of marketing because the competition between the hotels is not stiff at the moment. Although there are efforts by the Rwandan tourism industry to encourage more investments in the hotel sector, it is also cautious of the likely over-supply of hotel rooms in relation to the demand for rooms, which if unchecked, can result in a price war amongst hotels (MINICOM, 2006).

5.2.2 Competition among hotels

In terms of competition, all the respondents were of the same view that there is no stiff competition for clients amongst the hotels. The competition appears to be stiff only when there are international conferences taking place in Kigali and this only happens among hotels of the same star category. Hotels such as Novotel, Intercontinental and Mille Colline are in the same competing range, while medium hotels such as Alpha Palace, Okapi, Sky and Gorilla Nest can also compete amongst each other. Lack of competition among hotels is a result of the current low occupancy rates.

5.2.3 Investment incentives

The main incentives that are received by hotel investors are tax concessions on hotel-imported equipment such as building materials and other equipments that are used within the hotels such as stoves and television sets. 90% of the respondents indicated that they are aware of RIEPA's incentives more especially in regard to hotel investors. About the

easiness of acquiring these incentives, only one hotel manager stated that it is a difficult process to get the incentives due to a lot of bureaucracy involved. It appears that the general level of incentives to investors in the hotel sector is very low to encourage investors in this particular sector.

5.2.4 Pro-poor strategies

Pro-poor tourism has been defined as tourism that generates net benefits for the poor; these benefits may be economic, social, environmental or cultural (Ashley, Roe and Goodwin, 2001). For tourism to be more meaningful, hotel investors have a role to play in extending benefits to the poor. 75% of the respondents indicated that they were aware of pro-poor tourism strategies. Hotels that are not aware of pro-poor strategies are 2 and 1 star hotels.

Some of the pro-poor strategies that were indicated to have been put in place by investors in the hotel sector include the following:

- Provision of employment opportunities to the community, not only within the hotel but also when hotels outsource some of the hotel services.
- 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 at the hotel premises.
- Elsewhere in Rwanda, tourism pro-poor strategies are practiced in and around the national parks. ORTPN officials have of recent increased involvement of the local communities in the tourism projects. They have as well redistributed some of the income from tourism to the people living near the national parks which has empowered them economically. Socially, the communities have been provided with schools and health centres near the national parks.

5.2.5 Returns on investment

As it can be seen from Figure 5.2, the majority of the hotels have performed fairly well in terms of returns on investment, 75% indicated that their returns were fair. These were followed by those who indicated that their returns on investment were good, 17%. Only 8% indicated that the returns on the investment are very good. While none of the respondents indicated that the returns on the investment are excellent.

Although none of the hotel managers indicated that they were making losses, it is evident based on the newspaper¹⁷ article that the hotel was making huge losses and that could even be one of the reasons why they want to privatize it to any potential buyer (Nuwamanya, 2006).

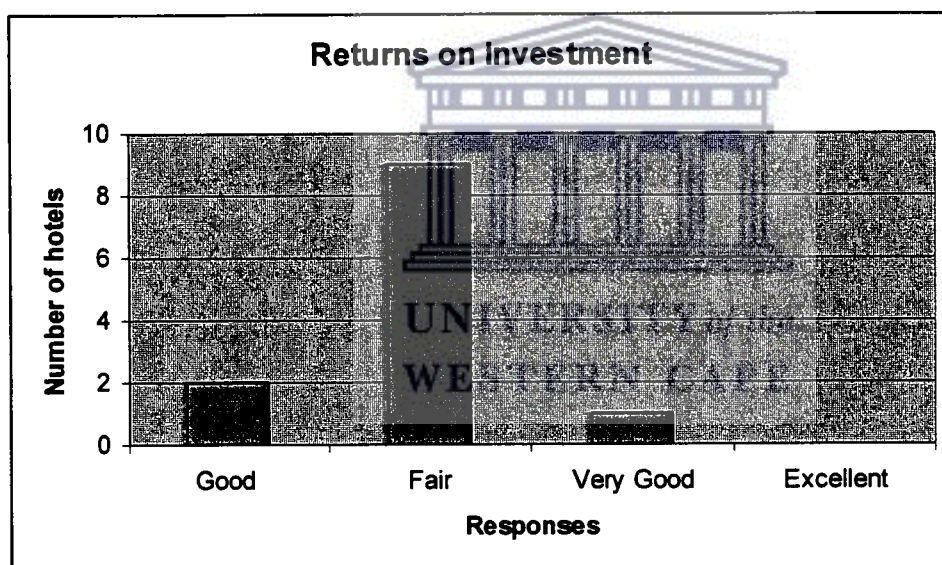


Figure 5.2: Returns on investment.

5.2.6 Factors that motivated investors to invest in the hotel sector

The prevailing high level of political and economic stability in Rwanda has motivated investors to invest in tourism related projects particularly in the hotel sector. All the

¹⁷ *The Newtimes*, 12th April 2006.

respondents were of the view that the political situation is more promising to guarantee investors confidence.

Investors in the hotel sector were motivated by the fact that there were few hotels in Rwanda at the time; the industry was still a virgin territory. The market is not saturated, so this is enough motivation to investors in this particular sector. In line with this, there was also an increasing need for decent hotels.

It is clear that the main motivating factor for the government to invest in 4 and 5 star hotels was first of all to encourage the development of tourism through these hotels. Secondly, it was a way of attracting international standards of service to Rwanda. International hotel chains are usually known for better services since they invest substantial sums in training hotel staffs (Dunning and Mcqueen, 1981).

The other motivating factor for doing this kind of business was more to do with family influence and the passion for this industry. One of the respondents indicated that it was because of the influence of family members who were already in the hotel business. More information on the factors that have motivated or discouraged investors to invest in hotels is provided below.

- The majority of the respondents were of the view that the existing political and economic environment is stable. The political situation in Rwanda is more promising than ever before.
- Perception on Rwanda as a tourist destination in recent years has been very negative, but of now it has improved greatly and it is more promising.
- About the standard of Rwanda's tourist attractions they are still of a low standard. As regards to the availability of tourist attractions, currently there are few tourist attractions and even the few that exist are more focused on mountain gorillas.
- Almost all the respondents were of the view that there is lack of basic infrastructure in terms of water, electricity, roads and airports in Rwanda. Lack of sufficient energy has continued to affect the countries competitiveness.

- Infrastructure in terms of transport is not adequate in that Rwanda is a land locked country, which is currently served by one airport. In the case of tourism, travelling to Rwanda is very expensive which discourages potential tourists to Rwanda. With road networks, there has been rehabilitation of important national roads but nevertheless; the roads are still poor mainly in the rural areas (OECD, 2006).
- Infrastructure in terms of telecommunication is very expensive for an ordinary person to afford.
- All the respondents were of the view that the government recognizes the significance of tourism in the economy. Tourism is one of the engines of economic growth for Rwanda; tourism has been placed among the priority sectors in order for it to play a more meaningful role in the economy. It is anticipated that in the near future tourism will be the leading economic sector.
- Information on investment opportunities is provided to potential tourism investors adequately through the one stop centre (RIEPA).
- Positive steps have been taken towards liberalization of the economy and privatization. There has been privatization of many sectors of the economy, tourism inclusive has taken place since 1995 and this is in line with promoting investments. Some hotels have been privatized.
- Rwanda's strategic location has facilitated movement within the Great Lakes region. Not only has it facilitated movement within the Great Lakes region but it has also helped to tap into the East and Central African markets.
- About the extent of streamlined bureaucracy, bureaucracy is not yet streamlined as such; it is just to a small extent in some places, while in others there is too much bureaucracy such that plans can take long to be implemented.
- Promotional efforts in terms of incentives and government policy towards foreign direct investment have mainly been noticed in terms of import duties. Not much has been given to investors in the hotel sector.
- Views about the availability of land were mixed. Some of the respondents were of the view that land for investment is available depending on where you want to put your investment. Others were of the view that getting a site for investment is hard based on the fact that all the land belongs to the government.

- 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).
- About the market size for hotel development, the existing hotels are adequate for current needs in Kigali. The market for hotel development is still limited but it has been increasing.

5.2.7 Perceived strength of investing in Rwanda's tourism industry

As mentioned above, the main perceived strength of investing in the tourism sector lies in the government's involvement in the tourism industry. In order for tourism to play a better role in the economic development of the country emphasis has been focused on the sector. For example, tourism was designated as a priority sector in October 2002 (MINICOM, 2006). The government has in addition provided financial support for the improvement of the tourism infrastructure and development.

Following the political decision to uplift the tourism sector, the government has ensured political stability, which is a very important factor for both local and foreign investors. Rwanda is said to have achieved remarkable social and political progress after 1994 genocide. She is one of the countries in Africa with the highest degree of personal safety and low levels of corruption (UNCTAD, 2006b; OECD, 2006)

Some of the strategies that have been used by the current government in Rwanda in order to achieve peace and stability in the country are as follows:

- For instance, the formation of transitional government and parliament of national unity in July, 1994, the RPF government together with other political parties that did not participate in genocide formed a transitional government including all parties (UNDAF, 2001; Gasana, Butera, Byanafashe and Karekezi, 1999).
- Integration of ex-combatants into the Rwanda Patriotic Army. Thousands of ex-Rwandan soldiers have been integrated into the RPA at all levels and this can reduce the likelihood of the recurrence of the conflict in Rwanda (UNDAF, 2001; Gasana, Butera, Byanafashe and Karekezi, 1999).

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 (Manzi, 2004). For instance, tourists who visit the mountain gorillas are guarded by the army to avoid death of tourists. The government of Rwanda is committed to building a peaceful and a stable environment in order to increase investments.

According to the survey, the only tangible incentives that are offered to hotel investors are on imported hotel equipment. Based on the fact that a big percentage of the hotel electronic equipment, furniture and fixtures are imported it is clear that incentives in terms of tax concessions on these equipments are very crucial for hotel investors.

The government of Rwanda has changed its economic direction by opening up its economy to both domestic and foreign investors. The findings suggest that majority of the hotel investors in Rwanda are motivated by government policies such as a stable and enabling political and economic environment, liberalised trade and privatisation. The government is trying to privatise all formerly government owned hotels. This has increased the role of the private sector in the tourism industry and it has facilitated both foreign investors and domestic investments in the hotel sector. The other opportunity for hotel investors lies in the fact that investments in the hotel sector are not yet many to create stiff competition. This suggests that there is still room for more investments in this sector.

Investors also find Rwanda's central location as an added advantage. Rwanda is strategically located in that investors in this sector can benefit from easy movement of people from one location to another. In terms of the market potential, Rwanda stands a chance of capturing a bigger market in the region. Much as there are perceived strength in investing in Rwanda's tourism industry there are also perceived weaknesses.

5.2.8 Location - specific advantages

Location- specific advantages have been defined as those factors that make the location attractive to international hotel companies (Johnson, 2002). For purposes of clarity on the factors that determine international investor's decision in Kigali hotels, respondents were

asked to rank perceived advantages and disadvantages of operating hotels in Kigali and in other areas of Rwanda. As it can be seen the highly ranked perceived advantages in this regard were the importance of the country's infrastructure, government recognition of the significance of tourism in the development of the economy, size and the growth rate of the economy and the size and nature of the city.

The importance of a country's infrastructure was perceived to be an advantage for operating hotels in Kigali unlike in other areas of Rwanda. 23% of the respondents suggested that infrastructural network in terms of roads, water, electricity and accessibility to other services such as telecommunication, banking services are better distributed within Kigali.

All the hotels operating within Kigali and outside Kigali confirmed the government's recognition and the importance of tourism in the development of the economy which accounted for 22%. It is in connection with this recognition that the government is encouraging tourism development as well as improving of investments in the sector. The size and the growth rate of the economy emerged to be the third most perceived locational advantage with 21%. Rwanda's economy is small but there has been tremendous growth since the 1994 genocide and there are more prospects for more growth. This is an added advantage to investors wishing to invest in Rwanda.

The size and the nature of the city was the fourth mentioned locational advantage for all the hotels within and outside Kigali. The size and the nature of the city in which the hotel is located matters so much in terms of investments. A hotel's location is in most cases linked to the level of development of that particular city. Other factors that were least mentioned as locational advantages that are also explained in Figure 5.3 are the nature of the tourist attractions in Rwanda and the growth in domestic tourism.

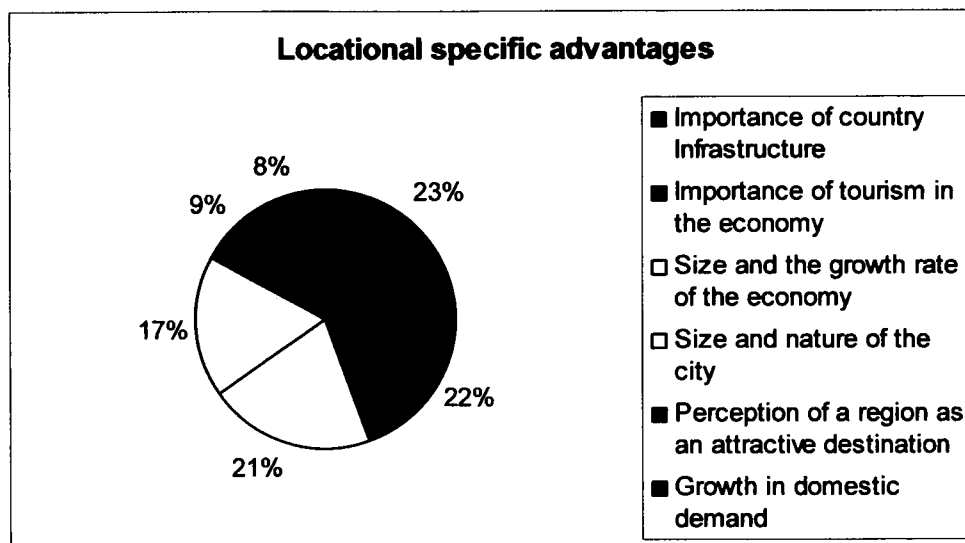


Figure 5.3: Importance of locational advantages.

Source: Constructed by the author from the information gathered in the questionnaires.

5.3 Investment risks

The section that follows explores perceived investment risks that are likely to influence investor's decisions on investing in Kigali hotels given that risk is crucial in influencing investor's decisions.

5.3.1 Constraints within the hotel sector in Kigali

Although Rwanda seems to have done a lot to boost tourism and hotel investors, there remain considerable obstacles and constraints that have hindered its hotel and tourism development. The negative image of the Rwanda caused by its past history has affected both foreign and local investors in all sectors of the economy. Investors are still scared to invest in Rwanda and this has also affected the number of potential tourists to the country. The effect of Rwanda's Image to investments can be more explained by the words of Khalil Hamdam (The Director of UNCTAD Investment Division) who said that

...Investors are still shy to invest in Rwanda based on the statistics of foreign direct investment coming into Rwanda; ... It is now a decade since the tragedy and still foreign direct investment on an annual basis amounts to only one dollar per person, per year. This is a very low figure. UNCTAD study shows the world's 50 least developed countries last year attracted US \$ 11 billion in foreign direct investment. Rwanda's share of that came to about \$100 million.

It is also apparent that the infrastructure in place is not adequate to guarantee increased investments in the hotel sector. Due to few flights to Rwanda, travelling to Rwanda is very costly and this has obviously impacted negatively on the flow of tourists to the country.

Investors in the hotel sector like other investors in Rwanda have been affected by rampant electricity shortages and this has resulted in the increase of the cost of the hotel services. Shortage in water supply within Kigali has as well affected investors in the hotel sector.

Another potential weakness in investing in tourism and particularly in the hotel sector is lack of skilled personnel. Not only does Rwanda lack skilled personnel but it also has no tourism and hospitality schools to offer training for employees in this field. Even the few employees in this sector have very basic or no skills in this industry. It is obvious that there is need to develop training facilities for the tourism industry in Rwanda (AIPA, 2002). Currently, a vast majority of employees at management levels for five and four star hotels are foreign or expatriates. As for the locally owned hotels, the management positions are occupied by owners but without expertise in this field.

5.3.2 Perceived weaknesses of investing in Rwanda's tourism industry

Many factors have been perceived as risks to hotel investors in Kigali: Lack of infrastructure was the most perceived investment risk for all the investors. Almost all the respondents ranked it 6 on the scale of 1-6, six as the most important and one as the least important.

A small market was ranked second most perceived risk. The existing market for hotel facilities in Kigali is still small. According to one of the managers, the five and four star hotels are said to be running at an occupancy rate between 45% and 60 % while three to one star hotels run at an occupancy rate of 30%. Indeed with this size of the market, investors in this sector have the grounds to perceive this factor as a potential risk that is likely to affect their business performance in future.

Political risk and lack of skilled labour were ranked third. Though there is political stability at the moment in the country, there is still insecurity in other countries in the region and yet tourism can only flourish in conditions of safety and security.

As indicated above, lack of skilled labour in hospitality is one of the main perceived risks. This can be a set-back in the sense that international visitors expect high standard services. Unstable macro economic policies such as inflation and balance of payments, uncoordinated policies and corruption were among the least investment perceived risks.

In terms of laws that govern the tourism industry and its activities. There is no specific law and policies to govern the tourism investors. Policy issues under law and regulation that were raised were as follows:

- From the rankings it made it appear that there is a great need for an independent association that can represent the travel industry.
- Setting standards for the safety of guests also appeared to be one of the priorities.
- The variables that were least important include limits of convertibility into foreign currency, restriction on repatriation of capital and management fees, tax credits for creating new jobs or providing training and education, price controls for rooms, limits on the number of foreign employees who may be employed in a hotel, labour laws being restrictive regarding hiring employees (ethnic or gender quotas) and high corporation tax and legalizing casino gambling.

Probably due to the above constraints, investors have decided to concentrate in one place without expanding to other areas of the country. Below are the reasons why investors in the hotel sector in Kigali have not expanded to other areas of Rwanda.

5.3.3 Factors that have prevented hotel investors from expanding to other areas in Rwanda

Three factors have been highlighted to be the main reasons as to why investors do not intend to expand to other areas of Rwanda outside Kigali. These include political instability, lack of adequate transport network in rural areas, and lack of local demand in tourism.

Political instability was the most perceived risk as to why investors do not develop the other areas of Rwanda apart from Kigali. Despite the fact that political stability was earlier mentioned to be one of the motivators for investors in this sector. Due to the perceptions of political instability in the country, foreign and local investors are scarred to invest in Rwanda and more so in rural areas. For example, in the late 1990's there was still insecurity in most up-country areas and this obviously impacts negatively not only on the hotel development but also on any other business in the area. Generally there is still fear of political instability in the Great Lakes region which has continued to make investors reluctant to invest in this region (UNCTAD, 2006a).

Poor infrastructure in terms of transport is ranked second as a perceived risk and it is because of this that potential investors cannot expand their trade in rural areas. Lack of adequate infrastructure has not only hindered the tourism investors in the country, all investors in Rwanda end up incurring high operational costs due to the fact that Rwanda is land locked. Rwanda heavily relies on road transport; other modes of transport such as air and water are barely used. With the rail transport, there is no railway transport in Rwanda. Although between Kigali and other major cities the basic road network exists, there are still gaps in the rural areas which hamper agricultural growth (OECD, 2006). This has prevented rural communities in participating in tourism as suppliers to the industry and as tourists themselves.

Lack of local demand was ranked the third most important factor that has contributed to investors not expanding to other areas of Rwanda. It is apparent that tourism demand is more pronounced in urban areas of Rwanda. This is explained by the fact that the clientele for hotel owners is dominated mainly by business people and conference users.

Both business and international conferences take place in urban areas. The domestic tourism market is still minimal to attract investors in the rural areas of Rwanda. Without enough demand for hotel services in the capital, the situation in rural areas is even worse.

The lack of international demand is obviously another factor that has hindered investors from investing in hotels in other areas of Rwanda apart from Kigali. Rwanda lacks international tourism demand as a tourism destination. Tourism services in rural Rwanda are very poor and even the local demand for tourism services are low due to high poverty levels in rural Rwanda.

The lack of local capital was also among the impediments to doing business in other areas of Rwanda. Local investors in most cases lack enough capital to invest in more than one hotel. Due to the same problem even the existing hotel owners in Kigali have failed to carry out major extensions and rehabilitation on their hotels in Kigali.

The other factors that were least important in preventing investors to develop to other areas of Rwanda are high operating costs, difficulty in maintaining quality, lack of local partners and pervasive corruption. Much as there are a lot of factors that have limited investors to expand to other areas of Rwanda outside Kigali there are locational advantages for hotels in Rwanda.

5.3.4 Perceived disadvantages of operating hotels in Rwanda

The major perceived disadvantages that were mentioned by the survey respondents for all the hotels in Rwanda are: Perception of the region as an attractive tourist business/leisure destination, the significance of tourist attractions that are of international standards and the growth of the domestic demand.

Rwanda as a tourist destination is perceived as a competitive disadvantage for all the hotels in Kigali. Given Rwanda's violent past, the perception on Rwanda as a tourist destination has remained poor. Rwanda is perceived as unsafe and a lesser quality destination in the region which discourages tourists to travel to Rwanda (Grosspietsch, 2006). It is also clear that Rwanda's tourist attractions are still lagging behind in terms of

international standards. Although the government has tried to uplift the standard of Rwanda's tourist attractions, a lot is still required for them to be internationally competitive.

Lastly, lack of significant growth in domestic demand was also considered as a disadvantage for all the hotel investors in Kigali and outside Kigali. Increased domestic travel can be a good stimulus for increased investment in the destination area. For instance, in Egypt, increased domestic travel acted as stimulus to economic investment and development of tourism resorts in the Mediterranean and Red sea coastal areas (Ghimire, 2001). But as it stands in Rwanda, domestic growth is still minimal to encourage more investments in the hotel sector.

5.4 Impact of the hotel sector on tourism development in Rwanda

Tourism together with transport, communication and other services are the sectors in Rwanda that witnessed strong growth in the year 2004 (MINECOFIN, 2005). According to the respondents, the hotel sector as apart of the tourism industry is said to generate revenues to the government through taxes that are paid by hotel investors. Revenues that are generated by each sector are shown in Table 5.2. The information in the table is based on the revenue that was declared at Rwanda Revenue Authority (RRA). For the year 2003 and 2004, the hotel and snack bars contributed RWF 8.06 and 8.60 billion respectively with a percentage change of 6.7%. However, compared to other sectors tourism had the weakest performance.

Apart from the revenue that is generated, hotel investments have contributed to the development of the tourism infrastructure in Kigali. For every hotel that is established there is creation of other tourist related infrastructure such as conference facilities and sport and other recreational facilities. Hotels are part of the tourism product as a whole. The existence of hotels has also helped to uplift infrastructure around the hotel such as roads, electricity, piped water and communication. It is important to note that improved basic infrastructure can contribute to the welfare of the country.

Table 5.2: Revenue that was declared at Rwanda Revenue Authority (RRA) for selected sectors

Rwf billion (1 US dollar=570 Rwf)	2003	2004	% Change
Banking & insurance	22	25.39	15.40%
General Commerce	93.43	105.62	13%
Transport	6.46	7.31	13.10%
Posts & Telecommunications	21.8	26	19.20%
Hotel & Snack bar	8.06	8.6	6.70%
Total	151.75	172.92	67.4%

Source: Compiled by the author based on PRSP¹⁸, 2005.

The other contribution that is made by investment in hotels is the provision of direct employment opportunities in both blue and white collar jobs. By providing employment opportunities to the local communities, their incomes are raised and hence improved quality of their lives. It is worth noting that the impact of tourism is greater than the initial expenditure by the tourists. Tourism can also stimulate multiplier effects in the economy through additional spending. In the case of Rwanda, it is suggested that for every tourist that enters Rwanda, an extra seven jobs are created both directly and indirectly (MINECOFIN, 2005).

It is argued that linking tourism demand for food to local agricultural production can stimulate local agricultural production and it can channel tourism benefits to the farmers and at the same time reduce economic leakages to the outside (Torres and Momsen, 2004). In this study, hotels are said to have generated local demand in other industries such as agriculture, furniture and fisheries. It is also clear that majority of the hotels consume locally made products especially food stuffs for instance, 76% of the food and drinks used by the hotels in Kigali are bought locally. This has helped to create new markets for agricultural products in the country and to provide income to the suppliers,

¹⁸ Poverty Reduction Strategy- Annual Progress Report, 2005.

bearing in mind that 90% of Rwandan population depends on agriculture for their livelihood.

Other than food and drinks, a bigger percentage of furniture and fittings is also bought locally (55%). This is an indication enough to show that the hotel sector is good at generating demand for locally produced products. However, 79% of electrical equipments that are used by the hotels in Kigali are imported.

It is postulated that when pro-poor employment strategies are pursued hotels can contribute to poverty alleviation (WTO, 2002). In this case, hotels in Kigali that practice pro-poor strategies have managed to eradicate poverty through the creation of direct employment in the hotels and indirect employment in the taxis, bars, restaurants and suppliers to the hotels. And this has uplifted the incomes of the poor and it has created demand for locally produced products.

Tourism investments in hotels have also contributed to the general tourism image of Rwanda and its competitiveness in international tourism markets. The presence of international well known hotel chains such as Intercontinental and Novotel in Kigali has helped to attract high end tourists that are already associated with these hotels elsewhere because of their reputation. International hotels have more profound knowledge on international guest requirements (Kusluvan and Karamustafa, 2001). This, has obviously brought with it improvements in the quality of services that are offered generally by the hotels in Kigali.

The general opinion of hotel investors on Rwanda's tourism industry is that tourism is booming and that there is huge potential for tourism development in Rwanda in the next few years to come although there are a number of obstacles that Rwanda's tourism still faces. On the other hand, respondents were of the view that Rwanda's tourism industry is still small compared to the neighbouring countries in the region. Quite a lot is still lacking for it to take off.

5.5 Conclusion

The chapter presents the findings from the study. Major findings include the following:

- Regarding hotel investment issues in Kigali, the biggest percentage of hotels in Kigali are privately-owned by Rwandan investors, residing in Rwanda.
- Survey findings revealed that the major reasons that motivated investors to invest in the hotel sector were mainly the economic and financial conditions that existed in the country and the need for international experience and availability of funds.
- It was also clear that the tourist numbers visiting the hotels in Kigali are increasing year by year, though it was not possible to establish the exact increase in the number of the tourists due to poor statistical records.
- With regard to linkages, it was observed that hotels in Kigali were capable of creating linkages in other economic sectors such as agriculture and transport. In that way, hotels have been able to provide jobs directly and indirectly to both male and female without gender bias. The hotel industry has prospects for growth but it is still small; no competition and occupancy rates are still low.
- There are both opportunities and constraints to hotel investors in Kigali. Opportunities for investors lie in the favourable political and economic situation in Rwanda, tourism being one of the priority sectors meant to contribute highly in terms of government foreign currency, the fact that the hotel sector is still virgin and the strategic location of Rwanda are advantageous.
- Although there are opportunities for investors in the hotel sector, there are also constraints and risks which the sector faces that need to be addressed for it to be developed. These constraints include: The poor image of the country due to its past history, lack of supporting infrastructure, lack of tourism skills, lack of international demand, lack of finance and lack of sufficient market.

- Investments in hotels were found to be contributing to Rwanda's tourism development in terms of government revenues, creation of employment opportunities, uplifting the people's standard of living and improvement in the general tourism infrastructure and the image of the city. The following chapter will deal with the overall conclusion of the study.



CHAPTER 6: CONCLUSION AND RECOMMENDATIONS

The overall objective of this chapter is to present the summary of the findings of this study and conclusions reached based on the research questions. It will also suggest recommendations to hotel investors and policy makers on how to improve investments in the tourism sector.

The main research questions were to provide a detailed literature account of the tourism investment environment in the developing world, examine opportunities, constraints and challenges of hotel investors in Kigali and to examine the role of government in providing conducive investment climate for hotel investors in Kigali.

6.1 Conclusions

Following are the major conclusions that were observed in the previous chapters.

6.1.1 Background

Tourism has become one of the integral components of economic development to countries in the developing world. This is based on its potential to contribute to economic benefits such as generating foreign exchange earnings, creating employment opportunities, increasing tax revenues, contributing to tourism infrastructure and investments (Torres and Momsen, 2004; Mbaiwa, 2005; Sharpley, 2002; UNEP, 2002; NEPAD; 2004).

The study revealed that increased investments in the hotel sector in particular can have positive impacts to the destination area. These include increased job opportunities, government revenue, infrastructural development, forward and backward linkages, transfer of technology, increased competition and improved quality of services.

Many factors were identified to be very important for attracting tourism investments in developing countries. These include: Economic, political and social stability, availability

of tourism infrastructure, access to land and quality services. It is however unfortunate to note that all the factors mentioned above are still lacking in most developing countries.

With respect to Rwanda's tourism sector, it is clear that the tourism sector is generally recovering from the shock that was caused by the 1994 war and genocide. Improvement in the sector is said to have come after 2002 (MINICOM, 2006). This can also be explained by the recent increase in the tourism arrivals and tourism receipts.

Increased investments in Rwanda's tourism industry can lead to greater economic benefits for the country. Rwanda remains one of the poorest countries in the world with an economy which over relies on agriculture, 90% of its population depends on subsistence agriculture (OECD, 2006). Given the fact that tourism was recognised as one of the priority sectors, a policy framework was put in place in order to improve tourism planning. Without which it would be hard to reach consistent development decisions that would lead to achieving of designated objectives (Jenkins, 2000). In this case, tourism is expected to contribute to poverty reduction, diversification of the economy and contributing to overall attainment of the UN MDGs to mention but a few. Tourism has also been sited as one of the sectors in Rwanda that has a potential to attract investments both local and FDI (AIPA, 2002). There are many opportunities for investors in Rwanda's tourism sector. 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. Despite the above opportunities, Rwanda's tourism sector faces a lot of problems such as poor international tourism image, lack of adequate infrastructure, lack of reliable data on tourism receipts and lack of skilled labour.

6.1.2 Hotel sector

With respect to the background information on the hotels in the survey, it is apparent that 65% of all the hotels in Rwanda are located in Kigali. Overall, investments in the hotel sector are not many though the hotel sector has attracted more investments than other tourism sectors in the country. Majority of the hotels were indicated to be locally owned, comprising of 75%.

Regarding the nature of the hotel businesses in Kigali, majority of the hotels are privately-owned businesses. These are followed by hotels under the management contract and least are foreign owned hotels.

Factors that were mentioned to have influenced investor's entry into the hotel sector are mainly the economic and financial conditions within the country, availability of investment funds, experience of the company in international business and passion for doing hotel business.

Most of the hotel managers were of the view that the tourism numbers are increasing year after year based on the visitors they receive at their hotels. The increase in the number of tourists to the hotels has generally coincided with the increase in tourist's numbers into the country. Tourist numbers to Rwanda have been increasing tremendously. It was also indicated that the main customers for the hotels are business people, government officials and the NGO's. The least customers are the local Rwandan travellers.

Due to lack of proper records on the number of tourists that visit the hotel it was not possible to get the exact number of visitors to the hotels for all the years since 1995 from some hotels. Visitors to the hotels were said to originate from various places. Majority come from countries within the Great Lakes region such as Kenya, Tanzania, DRC, Uganda and Burundi and few from other African countries. Other than the visitors from African countries, hotels in Kigali mainly receive visitors from America, Britain, France Germany and Belgium.

Respondents were of the view that hotels in Kigali have created both full time and part time jobs. Most of the employment created is full-time and majority employed are nationals. A small number of foreigners are employed in management positions and mainly in the four and five star hotels. In connection to the above, it was also clear that some hotels create other jobs through outsourcing of services to other companies.

A big percentage of the products that are used within Kigali hotels, mainly food and drinks are bought locally which accounts for 76%. Same applies to the furniture and fixtures; a bigger percentage is bought locally comprising of 55 %. Contrary to the above, electrical equipments used in Kigali hotels are mainly imported and these constitute 79%.

Occupancy rates for hotels in Kigali are low, the average occupancy rates are said to be at 50% for five and four star hotels while the occupancy rate for three, two and one star hotels is always between 30-40%. This can be attributed to the low demand for hotel facilities and high accommodation fares.

6.1.3 Investment challenges

With regard to investment opportunities and constraints for hotel investors in Kigali, the perceived strength of investing in Kigali hotel sector is situated in the government policy on tourism; investors in the hotel sector are encouraged by the government's move to boost its tourism sector as one of her engine's of economic growth.

The current political stability in the country is another motivation for investors in this sector. After 1994 war and genocide in the country, the government of Rwanda started rebuilding what was destroyed. Political stability became a critical issue. Then the government made it a point to provide security in all the areas in order to prevent any other occurrence of genocide and to improve the image of the country.

In a bid to improve tourism investments, hotel investors are provided with enough information on tourism investment opportunities and few incentives are given in terms of tax concessions on imported hotel equipments.

The government is also indicated to have provided infrastructure irrespective of its budget constraints, there has been improvements in the transport networks and rehabilitation of other tourism infrastructures. The government has managed to improve electricity and water services. Electricity shortages are not as acute as they were in the previous years (OECD, 2006).

Perceived weaknesses of investing in the hotel sector are similar to the usual problems that are faced by Rwandan tourism sector. Following are the perceived weaknesses and constraints that have continued to affect the development of Rwanda's 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 terms of loans to the potential investors in the hotel sector.
- Lack of adequate tourism infrastructure.
- Lack of adequate market for hotel services.

6.1.4 Value of Kigali urban tourism

National capitals have been regarded as the 'gateways' to many countries due to improved tourism infrastructure such as airports, roads and hotels within the city (Oppermann, Kadir, Din and Siti Amri, 1996). This is true in Rwanda. Kigali is well facilitated in terms of infrastructure networks compared to the other areas of Rwanda. Lack of well developed infrastructure together with other problems mentioned above illustrates the failure for investors in Kigali hotels to expand to other areas of Rwanda outside Kigali.

Hotel investments in Kigali have also contributed to the improvement in the tourism image of the city and the general tourism infrastructure. The presence of international hotel chains has contributed to the quality of tourism services in Rwandan hotels.

Implications for hotel investments to tourism development in Kigali are many. The study revealed that investments in the hotel sector contribute to the government revenues through the taxes that are paid by these investments. It is apparent that hotels and restaurants are among the sectors that witnessed strong growth in revenue generation¹⁹.

¹⁹ More information on this can be found in the Poverty Reduction strategy- Annual Progress Report (2005).

Other than the three sectors: Banking and insurance, the general commercial activities, posts and telecommunication, tourism comes fourth best (MINECOFIN, 2005).

Both skilled and unskilled employment has been created by hotels to Rwandans. Majority of the people employed by hotels in Kigali are nationals, which indicates that there are minimal tourism leakages to the outside in terms of employment of expatriate staffs. Obviously incomes from the hotel sector have in the process improved peoples living conditions greatly.

Another positive contribution by the hotel sector is the fact that the hotel sector has managed to create backward linkages in other economic sectors. Through the supply chain of commodities from the farmers, furniture shops and craft shops to hotel owners, backward linkages to other economic sectors such as agriculture and construction are created. Outsourcing of hotel work to other services was also seen to stimulate employment in other sectors of the economy for instance, transport.

Pro-poor strategies by hotel investors have contributed to poverty alleviation in Rwanda in the communities near where the hotels are situated. The communities have benefited from employment opportunities from the hotels, access to infrastructural facilities such as electricity and water in their areas.

Rwanda's tourism sector has generally improved greatly; there are growth potentials in this sector though a lot needs to be done for Rwanda's tourism sector to grow steadily.

6.2 Recommendations

Rwanda has a lot of challenges, if she has to meet its target of increasing hotel investments by 2010 and welcoming 70,000 tourists.

The following recommendations are suggested.

- The overriding factor among the constraints faced by tourism investors in Rwanda in chapter three, four and five of this study has been the negative image

of the country as a tourist destination. The 1994 genocide that took place in Rwanda destroyed the image of the country in such a way that there are still perceptions that Rwanda is not safe and a less quality destination. In order to improve the country's image internationally, there is need to position the country in a better way. Use of aggressive strategic marketing planning and promotion activities can also counter the negative image.

- Much as Rwanda has been ranked among the top reformers by the World Bank in terms of improving business environment, investors in Rwanda are still faced with bureaucratic structures such as taking long to enforce contracts and delays in customs procedures. This has discouraged investors in all the sectors. For tourism to attract many investors more especially in the hotel sector, government bureaucracy and red-tape procedures must be simplified so as to speed up the development of the investors' projects as well as their financial returns.
- Given the fact that tourism is one of the priority sectors in Rwanda, tourism investment promotion should also be given priority. For example, tourism investment issues should have a specific law to guide them. This could lure more investors in this sector.
- If only the government of Rwanda could provide incentives in terms of financial loans and more tax concessions to hotel investors, this would attract new investors in the sector and it could help those already in the businesses to uplift the standards of their hotels.
- Investors in the hotel sector like other investors in Rwanda indicated lack of adequate skills as one of the many problems they are faced with. The remedy to the shortage of tourism skills is to establish training centres and to introduce tourism as a subject in higher institutions of learning in order to improve the service standards that are currently not sufficient. Skills can also be attracted from other countries.

- As already mentioned in chapter four and five of this study, infrastructure in terms of electricity and water has been an area of much concern for investors in the hotel sector. In order for investors not to incur extra costs, there is need to improve infrastructure in terms of water and energy. In terms of energy, the government should aim at using existing resources such as solar and methane gas to produce cheaper energy.
- Policy makers should ensure that appropriate policy frameworks are put in place and implemented as well.

6.3 Future research

This research has concentrated on examination of opportunities, constraints and challenges of hotel investors and the role of government in providing favourable investment climate for hotel investors in Kigali but did not manage to cover the entire country and the entire Rwandan tourism industry. This has therefore paved away for future researchers to investigate the opportunities, constraints, challenges and government's role in providing favourable investment opportunities for investors in the Rwandan tourism industry. It is hoped that the information generated in this study can be of further help for researchers, investors, tourism developers and planners, and government officials.

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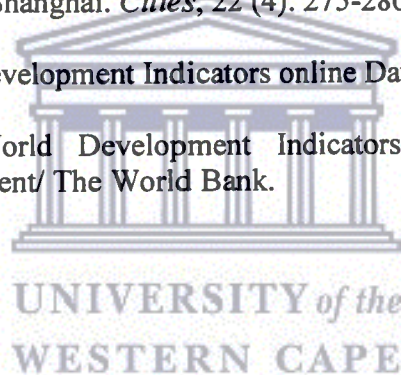
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APPENDIX A: QUESTIONS TO GOVERNMENT OFFICIALS

1. How many applications have you received for hotel investors since 1995?
 - 1.1 How many of the hotels were successful and how many failed?
 - 1.2 Who are the successful hotel investors and how much was invested in these hotels?
 - 1.3 For those that failed, what do you think was the cause of the failure?
 - 1.4 How long does it normally take an investor to acquire all certificates and approvals required for setting up a business?
2. Rwanda's vision 2020, recognises tourism as one of the priority service sectors next to ICT, what strategies have you put in place to increase tourism investments in order for tourism to play a key role in the development of the country?
3. Is there any specific law on tourism investments such as hotels?
4. Are investors in hotels offered any particular incentives? Please explain
5. Some of the concerns for the investors are the nature and the degree of risks that investors encounter in host countries such as commercial risks, political risks and technological risks. How are investors and their investments protected against the above risks especially seen against the recent political turmoil in the country?
6. What synergy is there between foreign investors and domestic investors?
7. One of the major problems that has affected both local and foreign investors in Rwanda is her negative image abroad, what marketing strategies have you put in place in order to improve the countries image?
8. What do you think are the other problems investors in Rwanda face?
9. Now that Rwanda is holding the presidency of COMESA, how has this facilitated investors in the tourism sector?
10. What would you consider to be the real benefits of investing in Rwanda than investing in any other country in the region?
12. Please comment on investment environment in Rwanda?

APPENDIX B: AN EXAMPLE OF A QUESTIONNAIRE



Dear Hotel Manager/Owner/Respondent

I am a registered MA student in Tourism Studies at the University of the western Cape, South Africa. I am investigating the impact of the hotel sector on tourism development in Kigali.

The information collected in this questionnaire will be treated in the strictest confidence, and will not be divulged to another person, group or organization. The data will form part of collated information only, which will be used solely for educational industry research. Your hotel's name will not appear in the data analysis other than stating that you were one of the respondents.

If you are interested in a copy of the final report please indicate yes/ No

If yes, to which address must it be posted

Email address

Thank you

Josephine Gatsinzi

Contact number in Kigali.....

Contact number in South Africa 0728854863

Email address: 2120510@uwc.ac.za or josegatsi@hotmail.com

Email address: rdonaldson@uwc.ac.za (Professor Donaldson Ronnie) Tel:

QUESTIONNAIRE TO THE HOTEL OWNERS/INVESTORS

SECTION 1: BACKGROUND COMPANY INFORMATION

1. Name and position of the person completing the questionnaire:

Name

Position.....

2. Name of the hotel.....

3. In what year did you commence operations?

4. Who are the investors (major shareholders) of the hotel?

.....
.....

4.1 In which country are they based?

.....
.....

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5. Who are the management company of the hotel?

.....
.....

6. What were the major reasons determining whether your company chose to own, manage or franchise hotels in the region? Listed below are some possible reasons why companies choose certain methods of market entry and ownership. Please check the box that corresponds with **the dominant influencing factor** that determined your Company's mode of market entry and involvement in Kigali. Only tick **one reason**. The most important reason.

Reason	Kigali
To maintain desired levels of quality	
Because of economic and financial conditions within the host country	
Due to the experience of the company in international business	
Due to the availability of investment funds	
To minimize regulation and day-to day transaction costs	
To exploit economies of scale	
Due to the perceived need for diversification	
To utilize parent company expertise, (e.g. marketing, property development or related services)	
Another criteria that is considered important (please specify)	

7. Please indicate the number of the following facilities and services at the hotel

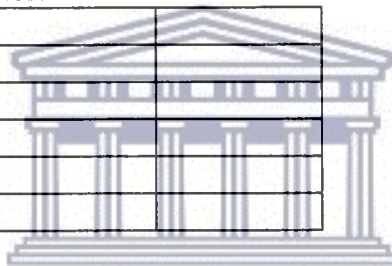
Rooms	Number	Facilities	Tick which are available
Guest rooms		Internet access	
Presidential Suite		International LCD TV	
Diplomatic Suite		Multilingual Voicemail	
Executive Suites		Tea and Coffee	
Deluxe Rooms		24-hour room service	
other		Laundry / dry cleaning	
		Shoe-shine service	
		Other	

Hotel services	Tick which are available
Butler service	
Private club	
Business centre	
Translation services	
Health and beauty spa	

Car rental	
Emergency services	
Limousine service	
Travel agent	
Security parking	
Hairdressing salon	
Florist	
Shops and boutiques	
Foreign currency exchange	
Restaurants and bars	
Luggage storage	
24-hour concierge service	
Conference facility	
Other	

8. What is the grade of your hotel?

One star	
Two star	
Three star	
Four star	
Five star	
Other	



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9. How many visitors have you received since 1995? (if no figure available give an estimate)

.....

9.1 Which nationality visits the hotel most? (If there is no data, please take a guess). (E.g. Germans)

.....

9.2 Have you observed an increase in foreign tourists after the Hollywood movie Hotel Rwanda was released in 2004? Yes/no

10. Please provide detailed information on the occupancy rate of this hotel since 1995 (Respondent to get a copy of table with all detail)

11. How many people are employed by you at the hotel?

	Rwandan		Non Rwandan	
	Full Time	Part Time	Full Time	Part Time
Male				
Female				

12. Please indicate the nature of the hotel business? (More than one option possible)

Business partnership with government	
Business partnership with other Rwandan companies	
Leasing agreement	
Franchise agreement	
Personal business	
Other	

13. How much capital (in US Dollar) was invested by this hotel in the following (since 1995 or since your company owned the hotel)

Categories

Construction	Renovation	Marketing	Training

14. Indicate approximately what percentage of products are imported or bought locally.

Item	Imported (%)	Bought locally (%)
Food and drink		
Furniture and fixtures		
Electrical equipment (e.g. TV, Stoves, etc)		

15. Do you outsource some of the hotel services e.g. catering, gardening and transport?

Yes

No

15.1 If yes, which services are outsourced and why

.....

15.2 If not, why not?

.....
.....

16. Who are your main customer types? (Please rank from 1-5) (1= most customers, 5=Least customers)

Foreign Business people	
Tourists	
Conference users	
Local (Rwandan) travellers	
Government officials	
Other	

SECTION 2: INVESTMENT OPPORTUNITIES AND CONSTRAINTS

17. What marketing strategies do you put in place/apply to attract new customers to the hotel?

.....
.....


18. Given the fact that most hotels in Rwanda are located in Kigali and they offer clients the same services, would you say that the competition is stiff amongst these hotels? Explain. Also, please name the hotels you consider to be your major competitors.

.....
.....

19. What was the main motivating factor for you to invest in this hotel? (If you are not the owner what do you think were the motivating factors?)

.....
.....

20. Please comment on the of the following aspects in Rwanda

Statement	Your comment
Stable and enabling economic and political environment	
Perception on Rwanda as an attractive tourist business and leisure destination	
Standard of Rwanda's tourist attractions	
Availability of infrastructure (e.g. electricity, water, roads and airports) and modern telecommunication network	 <p data-bbox="586 1190 971 1291">UNIVERSITY of the WESTERN CAPE</p>
Government recognises the significance of tourism in the economy	
Favourable information on investment opportunities available	
Liberalised trade regime and the on going privatisation process	
Rwanda's strategic location	
Streamlined bureaucracy	
Promotional efforts in terms of incentives and government policy towards foreign direct investment	
Availability of land	

Cheap labour	
Size of the market for hotel development	
Other (Please specify)	

21. In your own opinion what are the perceived strength and weaknesses of investing in Rwanda's tourism industry, specifically in the hotel sector?

Strength.....

.....

Weaknesses.....

.....



22. Considering the fact that tourism is one of the engines of Rwanda's economic growth, what opportunities are you aware of the government has put in place to encourage tourism investments, particularly in hotels?

.....

.....

23. Are you aware of RIEPA's incentives? Explain what you know

.....

.....

24. Did your hotel receive any specific incentives from the Rwanda government/investment agency? Yes No

Explain

.....

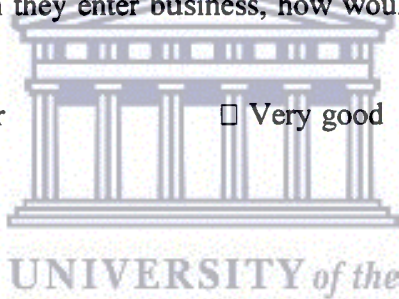
 25. Pro-poor tourism is referred to as tourism, which generates net benefits for the poor. Strategies for making tourism pro-poor focus on unlocking opportunities for the poor within the tourism sector. On the other hand, Fair trade refers to making tourism more responsible and more rewarding for the communities. e.g. local residences and tourism workers. Are you aware of any policy instruments in place to encourage pro-poor tourism and fair trade oriented practices?

Yes No

25.1. If yes, what strategies have you put in place as investors/manager?

26. Given that the objective of the firm is to maximise profit and profit is a reward to investors who take risks when they enter business, how would you rate your returns on investment since opening up?

Good Fair Very good Excellent
 Other



SECTION 3: RISKS

27. The degree of business or investment risk is crucial in influencing investor's decisions. Please indicate if you perceive the following to be a risk on a scale from 1- 6 in investing in Kigali and explain your perceived ranking.

On scale from 1 (very important) to 6 (not important)

Investment Risks	Scale	Explain your Answer
Unstable macroeconomic policies e.g. inflation and balance of payment issues	1 2 3 4 5 6	
Lack of finance and capital	1 2 3 4 5 6	
Small market size	1 2 3 4 5 6	

Skilled labour	1 2 3 4 5 6	
High operating costs	1 2 3 4 5 6	
Lack of sufficient infrastructure in terms of roads, airports, electricity and telecommunications	1 2 3 4 5 6	
Political risk (e.g. Unpredictable political climate, civil wars, and government and administrative intervention in economic decision	1 2 3 4 5 6	
Legal and regulatory risk (e.g. corruption, and weak management and failure to respect contractual obligations by the government	1 2 3 4 5 6	
Public sector institutional risks such as untrained and incompetent public servants which result in delays in getting the projects off the ground	1 2 3 4 5 6	
Uncoordinated policies	1 2 3 4 5 6	
Other (Please specify)	1 2 3 4 5 6	

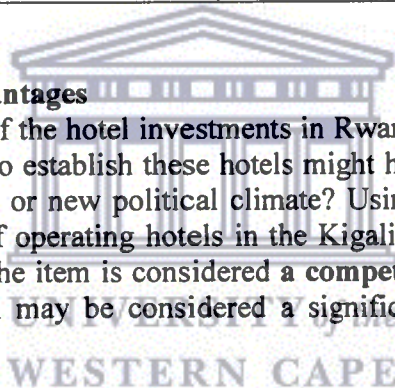


28. What do you perceive as being the major factors preventing you or other investors to develop in other areas of Rwanda – i.e outside Kigali? Please rank the following from 1 - 5 (a 5 score is most important, a 1 score is least important)

Unclear property rights	5	4	3	2	1
Lack of local capital	5	4	3	2	1
Difficulty in maintaining quality	5	4	3	2	1
Lack of local demand	5	4	3	2	1
Lack of international demand	5	4	3	2	1
High operating costs	5	4	3	2	1
Political instability	5	4	3	2	1
Pervasive corruption	5	4	3	2	1
Lack of local partners	5	4	3	2	1
Lack of infrastructure	5	4	3	2	1
Other (please specify)	5	4	3	2	1

29. Location - Specific Advantages

Based on the fact that most of the hotel investments in Rwanda are relatively new would you say that the eagerness to establish these hotels might have been due to the inherent attractiveness of the location or new political climate? Using the scale, please quantify the **perceived advantages** of operating hotels in the Kigali and other areas in Rwanda. (Ranking: - 5 indicates that the item is considered a **competitive disadvantage**, through to neutral (0), to + 5 which may be considered a significant competitive advantage). **Please circle one for each.**



Source of Perceived Advantage	Operating hotels in Kigali					Operating hotels in Other areas in Rwanda (outside Kigali)																
	Significant disadvantage			Significant advantage		Significant disadvantage			Significant advantage													
a) Size and growth rate of the economy	-5	-4	-3	-2	-1	0	1	2	3	4	5	-5	-4	-3	-2	-1	0	1	2	3	4	5
b) Government policy towards foreign investment in terms of incentives and regulations	-5	-4	-3	-2	-1	0	1	2	3	4	5	-5	-4	-3	-2	-1	0	1	2	3	4	5
c) Degree of market economy	-5	-4	-3	-2	-1	0	1	2	3	4	5	-5	-4	-3	-2	-1	0	1	2	3	4	5
d) Perception of region as an attractive tourist leisure destination	-5	-4	-3	-2	-1	0	1	2	3	4	5	-5	-4	-3	-2	-1	0	1	2	3	4	5

e) Perception of region as an attractive tourist business destination	-5 -4 -3 -2 -1 0 1 2 3 4 5	-5 -4 -3 -2 -1 0 1 2 3 4 5
f) There is significant growth in domestic demand	-5 -4 -3 -2 -1 0 1 2 3 4 5	-5 -4 -3 -2 -1 0 1 2 3 4 5
g) Areas have significant tourist attractions that are of international standards	-5 -4 -3 -2 -1 0 1 2 3 4 5	-5 -4 -3 -2 -1 0 1 2 3 4 5
h) Government recognises significance of tourism in the development of the economy.	-5 -4 -3 -2 -1 0 1 2 3 4 5	-5 -4 -3 -2 -1 0 1 2 3 4 5
i) Size and nature of the city or other areas	-5 -4 -3 -2 -1 0 1 2 3 4 5	-5 -4 -3 -2 -1 0 1 2 3 4 5
j) Importance of country infrastructure	-5 -4 -3 -2 -1 0 1 2 3 4 5	-5 -4 -3 -2 -1 0 1 2 3 4 5
k) Geographical proximity to host country (if hotel is foreign owned)	-5 -4 -3 -2 -1 0 1 2 3 4 5	-5 -4 -3 -2 -1 0 1 2 3 4 5

30. The concept of risk is very crucial to investor's performance. In respect of the above (question 29), what strategies have you put in place to guard against the possible risks that may affect the hotel performance?

.....

31. Please rank important political events or constraints in your investment decision making and assign different weights along the five-point scale according to perceived importance of the following variables. Please rank the following from 1 - 5 (a 5 score is most important, a 1 score is least important)

<u>Law and Regulation</u>					
	Least important		Most		
	important				
Limits on convertibility of local currency into foreign currency	1	2	3	4	5
Restrictions on repatriation of capital, profit, and management fees	1	2	3	4	5
Price controls for rooms and other charges in a hotel	1	2	3	4	5

High corporation tax on hotel firms	1	2	3	4	5
Taxation laws intended to attract foreign capital for investment in hotel projects	1	2	3	4	5
Tax credits for creating new jobs or providing training and education	1	2	3	4	5
Licensing restaurants, swimming pools, barber shops, night clubs, bars, etc., in a hotel	1	2	3	4	5
Labour law being restrictive regarding hiring employees (e.g. ethnic or gender quotas)	1	2	3	4	5
Labour laws protecting employees by establishing an employee welfare fund	1	2	3	4	5
Minimum standards required for registering with the government to be officially recognised as a high standard hotel	1	2	3	4	5
Labour law protecting employees by setting a minimum wage	1	2	3	4	5
A hotel project should be approved by the government before the construction is started	1	2	3	4	5
Legalising casino gambling	1	2	3	4	5
Limits on the number of foreign employees who may be employed in a hotel	1	2	3	4	5
Setting standards for safety of guests, especially fire safety	1	2	3	4	5
Need for a truly independent association that looks out for the travel industry	1	2	3	4	5

32. In your opinion, what would you consider to be the main constraints of investing in Rwanda's tourism industry particularly in the hotel sector?

.....
.....
.....

33. In which ways do you think this hotel contributes to the tourism sector and to the community in general? Please explain

.....
.....

34. Over the next decade, which segments appear to offer the most growth opportunity to your Company?

luxury	
mid-range	
budget	
Other, (please specify)	

Thank you for your cooperation.

